

# IFC Mobile Money Scoping Country Report: Sri Lanka

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Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
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Swiss Confederation

Federal Department of Economic Affairs,  
Education and Research EAER  
State Secretariat for Economic Affairs SECO

# Sri Lanka Summary

Population:	21,675,648 (Jul 2013 est.)
Wireless Teledensity:	43.6%; 57.2% of adults***
Remittance % of GDP	8.7% (2011)
Percent Under Poverty Line	8.9% (2010 est.)
Adult Literacy	91.2% (2010)
Ease of doing business:	81 <sup>st</sup> of 185 countries (2013)
Main banks:	Bank of Ceylon, Commercial Bank of Ceylon, People's Bank, Sampath Bank, Hatton National Bank
Number of Domestic Banks*/Branches:	21/2,920**
Mobile Network Operators:	Dialog (Axiata), Etisalat, Hutch, Mobitel, Airtel



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## Overview of Mobile Banking in Sri Lanka:

Updates made to banking regulations in 2011, permitting custodian managed mobile wallets/payments, have produced results with the launch of mobile operator Dialog's ezCash mobile wallet product. In just 100 days, Dialog has activated 750,000 mobile wallets transacting Rs 10.3 Million daily in utility payments, cash in/out, and person-to-person transfers. Dialog is now pursuing use of the channel to receive inbound international remittances, having received approval from the central bank.

As roll-out ensues of the ezCash service, it will be important to monitor any potential risks of monopoly position limiting innovation in financial product diversification and cost reduction similar as in other markets with a large single player. Raising awareness among market participants on how they may build on the ezCash progress can catalyze innovation and financial inclusion deepening (i.e. moving beyond simple stored value account access and use for payments).

Sources: CIA World Fact book, Economic and Social Statistics of Sri Lanka 2012, Wireless Intelligence

\* Includes Commercial Banks (12) and Specialized Banks (9)

\*\* Does not include 219 Foreign Bank Branches

\*\*\* ITU 2012 data indicates a higher penetration rate of 87%. See: [http://www.itu.int/net/newsroom/GSR/2012/reports/stats\\_sri\\_lanka.aspx](http://www.itu.int/net/newsroom/GSR/2012/reports/stats_sri_lanka.aspx)

- Macro-economic Overview
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# Macro-Economic Overview

## Key Country Statistics

- Population: : 21,675,648 (Jul 2013 est.)
- Age Distribution (% population):
  - 0-14 years: 24.8%
  - 15-24 years: 15.1%
  - 25-54 years: 42.4%
  - 55-64 years: 9.3%
  - 65+ years: 8.4%
- Median Age: 31.1 years
- Urban/Rural split:
  - Urban: 14% (2010)
  - Rural: 76%
- GDP (PPP): USD 125.3 Billion (2012 est.)
- GDP per capita (PPP): USD 6,100 (2012)
- Literacy rate: 91.2% (2010)
- Total Wireless Subscribers: 9.3 Million
  - Urban penetration: 74.2% (households)
  - Rural penetration: 59% (households)
- Wireless Teledensity: 43.6%; 57.2% of adults
- Banking penetration:
  - 69% of adults
  - 58% of lower income (bottom 40%) adults
- Remittance (% of GDP): 8.7%

## Insights

- Need to address financial inclusion requires innovations in delivery of rural financial services; should look to agribusiness supply chains, government payments, and FMCG supply chains as rural has become greatest driver of FMCG growth despite stagnate overall growth in 2012
- According to World Food Program, 50% of households in Northern Province live on less than US\$1 a day
- Rural economy dominated by agriculture with growing small holder labor serving large scale agribusinesses
- AT Kearney ranks Sri Lanka as #15 most promising market for retail sector growth. Organized retail makes up only 3% of the US\$25-30 Billion market, suggesting opportunities for organizing and creating larger scale networks.
- Estimate of 18,000-20,000 businesses in Sri Lanka; 92% considered SME (Interview with Deputy CEO of NTB)
- Estimate of micro retail traders for Fast Moving Consumer Goods number 180,000; recently imposed VAT on FMCG wholesalers may induce incentive to explore cost reduction strategies that could spur adoption of mobile ordering and payment channels
- Inward workers' remittances increased by 17.1% in 2012

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# Regulatory Overview

- The Central Bank of Sri Lanka (CBSL) oversees all banking, payment and microfinance activities and operates the nation's RTGS. Operation of the Sri Lanka Interbank Payment System, SLIPS, is delegated to LankaClear Limited, an entity 47.19% owned by CBSL and the remainder of ownership held by the nation's commercial banks.
- Banking, payment and identification rules and guidelines are in place and many have been updated in the past five-eight years.
- Mobile Payment Guidelines No. 1 (Bank-led) and No. 2 (Non-bank custodian accounts) have been in force for a year. The second guideline has had an important effect in the resulting ezCash mobile wallet and payment service offered by mobile operator Dialog. These guidelines do not mandate interoperability with competing mobile networks on mobile payment products.

# Regulatory Bodies

## Roles & Responsibilities

### Central Bank

Overseer of all financial institutions and non-FI payment providers. Actively promoting electronic payments infrastructure and has expressed intention for the SLIPS interbank payment system to evolve to handle real-time retail payments, including mobile payments.

### Identity Protection

- Registration of Persons Act No.32 of 1968
- National identification policy requiring everyone over the age of 16 to register for identification; current initiative underway, Electronic National Identity Card Project (e-NIC Project ); may be coupled with fingerprint scans
- Act No. 11 of 1981 legislates issuance and usage of NIC

### Payment Coordinator

LankaClear Limited is a private entity, 47% owned by the central bank, the remainder owned by the country's commercial banks. It operates SLIPS. Guidance provided by Central Bank.

### Teleco Regulations

None relevant to payments

## Implications

- ❑ Central bank has exhibited a progressive approach to policy and relatively agnostic to market players (i.e. mobile operators v. banks) in its stewardship of the development of an inclusive and effective financial sector for Sri Lanka
- ❑ It is fair to anticipate notable progress in addressing financial inclusion
- ❑ Use of LankaClear collaboration between public and private sector bodes well for responsiveness to market developments



# Regulatory Framework & Requirements

## Mobile Money Issuers

### Current Regulations

- Mobile Payments Guidelines No. 1 of 2011 for the Bank-led Mobile Payment Services
- Mobile Payments Guidelines No. 2 of 2011 for Custodian Account Based Mobile Payment Services

## Deposit Taking

Banking Act No. 30 of 1988, the Monetary Law Act No. 58 of 1949 and the Companies Act No. 7 of 2007, as amended from time to time, and the Directions, Circulars and other regulations issued by the Central Bank of Sri Lanka from time to time. The amendments to the Banking Act as of date are by Acts No. 39 of 1990, No. 33 of 1995, No. 2 of 2005, No. 15 of 2006 and No. 46 of 2006.

## Retail Agents + Customer Acquisition

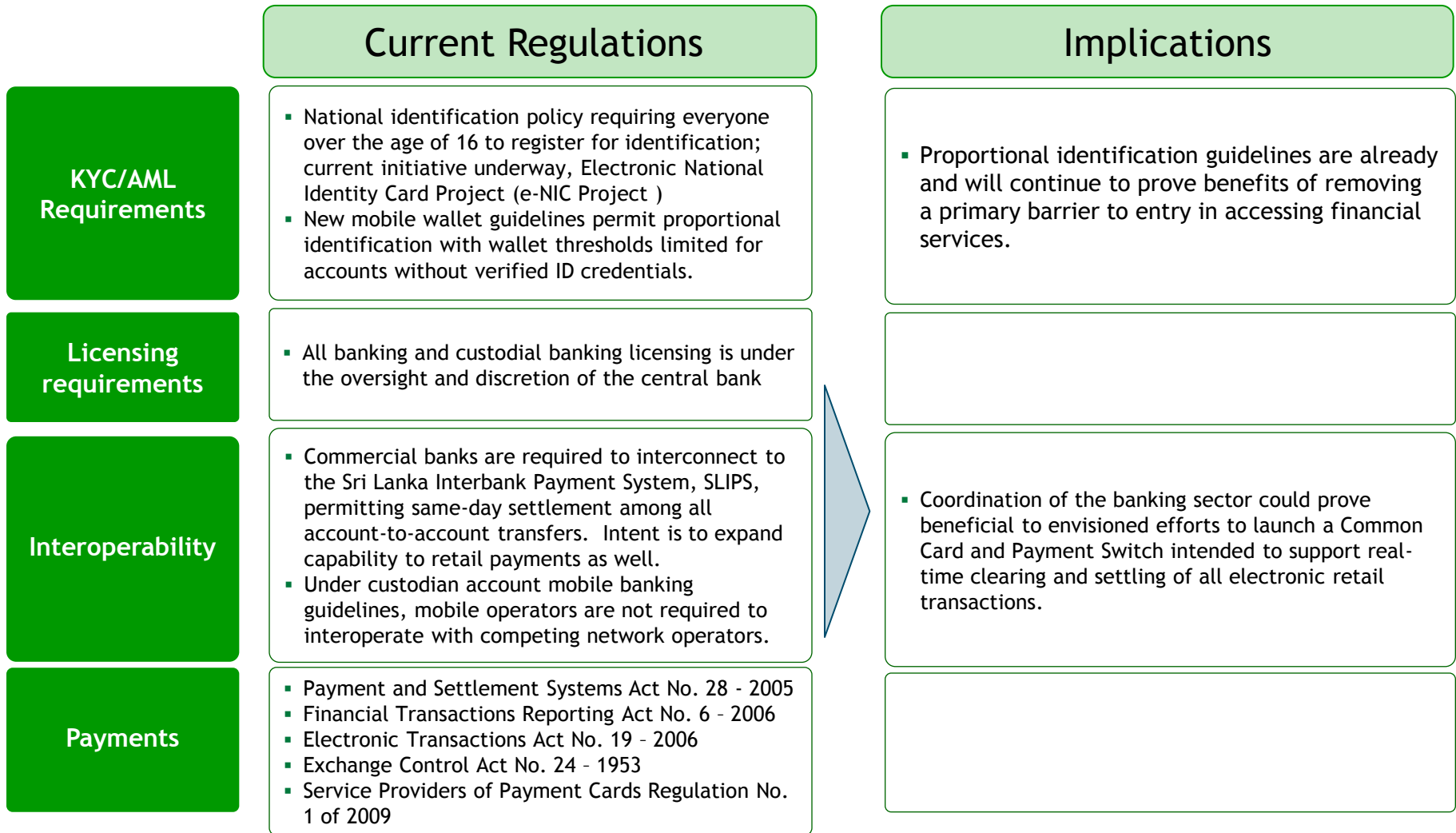
- Mobile Payments Guidelines No. 1 of 2011 for the Bank-led Mobile Payment Services
  - Banks are permitted to delegate to 3<sup>rd</sup> parties for cash in/out to only their accounts; customers must be acquired through existing bank channels (i.e. must have account first)
- Mobile Payments Guidelines No. 2 of 2011 for Custodian Account Based Mobile Payment Services
  - Non-banks can acquire for wallet-only services

### Implications

- Progress of the past year by Dialog is directly attributed to clear and progressive guidelines.
- Banks are now in a position of more arduous mobile service customer acquisition and proportional identification rules do not apply to bank customer acquisition.
- Will be important to monitor any unanticipated consequences such as a risk that mobile operators will only pursue features that promote transactional revenue, hindering progress towards introducing a deeper and more diverse set of financial instruments to address financial inclusion objectives.



# Regulatory Framework & Requirements



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# Financial Sector Overview

- According to the Sri Lanka Central Bank, The Bank for International Settlements, BIS, recognized Sri Lanka as the 16th country in the world to receive BIS-Red Book status for modernized payments systems. It occupies the third place in Asia in terms of payment reforms and has been the first country to operate RTGS/SSS system with SWIFT link in the SAARC region.
- Opportunity for improvement is highlighted by Standard & Poor 2012 assessment of the banking sector. S&P rating service assigned Sri Lanka to its Banking Industry Country Risk Assessment (BICRA) group '8'. At the same time, it assigned an economic risk score of '8' and an industry risk score of '7' (a '1' is considered relatively lowest risk and '10' is highest. Other countries in this risk category include Nigeria, Tunisia, and Kazakhstan. The industry risk score of '7' for Sri Lanka is based on S&P opinion that the country faces "very high risk" in its institutional framework, "high risk" in its competitive dynamics, and "intermediate risk" in its system-wide funding.
- Clear evidence of SLCB intent to shepherd continued progress for the sector is seen in terms of recently enacted guidelines that promote innovation and expansion of the sector through mobile banking. Future progress can also be anticipated given expressed intent by SLCB to advance financial sector infrastructure to accommodate real-time retail transactions through the interbank payment system, an achievement that would place Sri Lanka at the forefront of innovation in electronic banking and payments. More broadly, the business climate continues to make impressive strides with another lead in the World Bank Doing Business rankings from 96<sup>th</sup> to 81<sup>st</sup> in the 2013 ranking report.

Source

# Financial Sector Snapshot

Regulated Financial Institutions	2009	2010	2011	2012
<b>Banks</b>	36	31	33	33
Commercial Domestic	11	11	12	12
Commercial Foreign	11	11	12	12
Specialized	14	9	9	9
<b>Branches</b>	2,715	2,897	3,204	3,329
Commercial				
Branches	1,382	1,432	1,616	1,676
Extensions	832	898	989	1,041
Total	2,214	2,330	2,605	2,717
Specialized Banks				
Branches	465	500	515	527
Extensions	36	67	84	85
Total	501	567	599	612
<b>Electronic Points of Presence</b>				
ATMs	1,876	2,006	2,237	2,390
POS	24,977	27,588	27,073	27,689
Credit Cards	892,291	778,544	837,662	935,783
Debit Cards	5,097,616	6,520,891	8,337,502	10,071,192

Province	Western	Central	Southern	Northern	Eastern	North Western	North Central	Uva	Sabaragamuwa
Area (sq. km)	3,684	5,674	5,544	8,884	9,996	7,888	10,472	8,500	4,968
Population	5,919,000	2,719,000	2,519,000	1,203,000	1,584,000	2,366,000	1,255,000	1,342,000	1,962,000
Bank Branches	1,150	337	364	181	226	287	179	171	243
Pop/Branch	5,147	8,068	6,920	6,646	7,009	8,244	7,011	7,848	8,074
Branches/100,000 pop.	19.43	12.39	14.45	15.05	14.27	12.13	14.26	12.74	12.39
Branches/sq. km	0.31	0.06	0.07	0.02	0.02	0.04	0.02	0.02	0.05

Sources: Central Bank of Sri Lanka Annual Report 2012, 2010; CBSL Payment Bulletins

# Financial Infrastructure

## Clearing and Settling

LankaSettle System (RTGS + Central Depository System + Scripless Securities Settlement System)

Ownership: Central Bank

Banks using: 31

## Check Imaging and Truncation System

Ownership: LankaClear

Banks using: 31

## National Switches and Systems

### Common Card and Payment Switch (under development)

Ownership: LankaClear

Banks to use: 33 banks of the Sri Lanka Bank Association

### Sri Lanka Interbank Payment System (SLIPS) (small value bulk payments)

Ownership: LankaClear

Banks using switch: 31

### Sampath Interbank Link (ATM interconnect network)

Ownership: Sampath Bank

Banks using switch: 10

## Credit Bureaus

### Credit Information Bureau of Sri Lanka (CRIB)

**Ownership:** 94 financial institutions with lending authority are shareholders. Majority owned by central bank.

**Number banks/institutions involved:** 95

**Participating banks/institutions:** All licensed Commercial banks, Specialized banks, Finance companies, Leasing companies, few other institutions which have been declared as lending institutions for the purpose of the Act and the Central Bank

# Bank Snapshot

People's Bank	<ul style="list-style-type: none"> <li>• +13 Million Customers</li> <li>• 705 Branches</li> <li>• 382 ATMs</li> </ul>	
Bank of Ceylon	<ul style="list-style-type: none"> <li>• 10.1 Million accounts</li> <li>• 557 Branches</li> <li>• 350 ATMs</li> </ul>	<ul style="list-style-type: none"> <li>• 43% market share of in remittances</li> <li>• 85,000 credit cards/ +2M debit cards</li> <li>• 4,571 Merchants</li> </ul>
Commercial Bank of Ceylon	<ul style="list-style-type: none"> <li>• 210 Branches</li> <li>• 555 ATMs</li> </ul>	<ul style="list-style-type: none"> <li>• Goal to reach 100,000 through mobile banking in 2013</li> </ul>
Hatton National Bank	<ul style="list-style-type: none"> <li>• 2.5 Million Customers</li> <li>• 207 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• Custodian bank for Dialog ezCash</li> <li>• Wants to reach 300,000 customers in next 3 years with its mobile banking</li> </ul>
Sampath Bank	<ul style="list-style-type: none"> <li>• 209 Branches</li> <li>• 264 ATMs</li> </ul>	<ul style="list-style-type: none"> <li>• Leading issuer of cards in Sri Lanka (approx. 13% of market)</li> </ul>
DFCC Vardhana Bank	<ul style="list-style-type: none"> <li>• 128 Branches</li> </ul>	
Seylan Bank	<ul style="list-style-type: none"> <li>• 126 Branches</li> </ul>	

## Bank Snapshot continued

Pan Asia Banking Corp	<ul style="list-style-type: none"><li>• 62 Branches</li></ul>	
Nations Trust Bank	<ul style="list-style-type: none"><li>• 57 Branches</li><li>• 71 ATMs</li></ul>	<ul style="list-style-type: none"><li>• 1,200 POS Terminals</li></ul>
National Development Bank	<ul style="list-style-type: none"><li>• 69 Branches</li><li>• 41 ATMs</li></ul>	<ul style="list-style-type: none"><li>• Early mover in mobile payments; hindered by MNO lack of support</li></ul>
Union Bank of Colombo	<ul style="list-style-type: none"><li>• 19 Branches</li></ul>	
Amana Bank	<ul style="list-style-type: none"><li>• 14 Branches</li><li>• &lt; 14 ATMs</li></ul>	

## MFI Snapshot (largest MFIs by loan portfolio)

Regional Development Bank	<ul style="list-style-type: none"> <li>• 4 Million Borrowers</li> <li>• 253 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• \$409 Million Loans</li> <li>• \$400 Million Savings</li> </ul>
SBDL	<ul style="list-style-type: none"> <li>• 195,000 Customers</li> <li>• 79 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• \$143 Million Loans</li> <li>• \$132 Million Savings</li> </ul>
SEEDS	<ul style="list-style-type: none"> <li>• 140,000 Customers</li> <li>• 62 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• \$30 Million Loans</li> <li>• \$23.3 Million Savings</li> </ul>
BRAC-LKA	<ul style="list-style-type: none"> <li>• 73,000 Customers</li> <li>• 90 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• \$11.2 Million Loans</li> <li>• \$2.3 Million Savings</li> </ul>
Berendina Microfinance	<ul style="list-style-type: none"> <li>• 46,000 Customers</li> <li>• 17 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• \$7.1 Million Loans</li> <li>• n/a Savings</li> </ul>
Lak Jaya	<ul style="list-style-type: none"> <li>• 39,000 Customers</li> <li>• 44 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• \$4.4 Million Loans</li> <li>• \$2.1 Million Savings</li> </ul>
VFL	<ul style="list-style-type: none"> <li>• 16,000 Customers</li> <li>• 9 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• \$3.7 Million Loans</li> <li>• n/a Savings</li> </ul>
WDFH	<ul style="list-style-type: none"> <li>• 17,000 Customers</li> <li>• 149 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• \$3.7 Million Loans</li> <li>• \$3.5 Million Savings</li> </ul>
BDCB	<ul style="list-style-type: none"> <li>• 16,000 Customers</li> <li>• 9 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• \$3.7 Million portfolio</li> <li>• n/a Savings</li> </ul>
Lanka ORIX Micro Credit PLC	<ul style="list-style-type: none"> <li>• 150,000 Customers</li> <li>• 145 Branches</li> </ul>	<ul style="list-style-type: none"> <li>• n/a portfolio</li> <li>• n/a Savings</li> </ul>

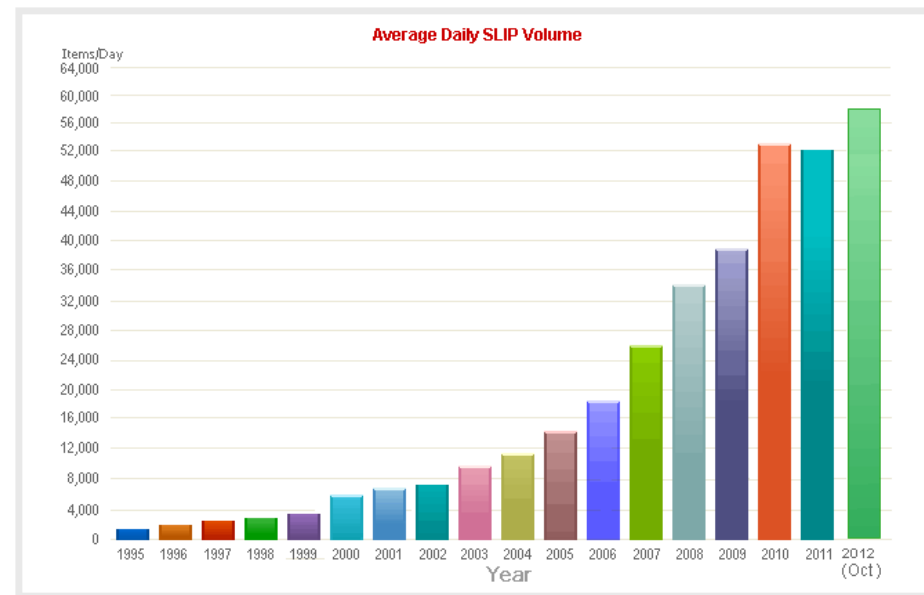
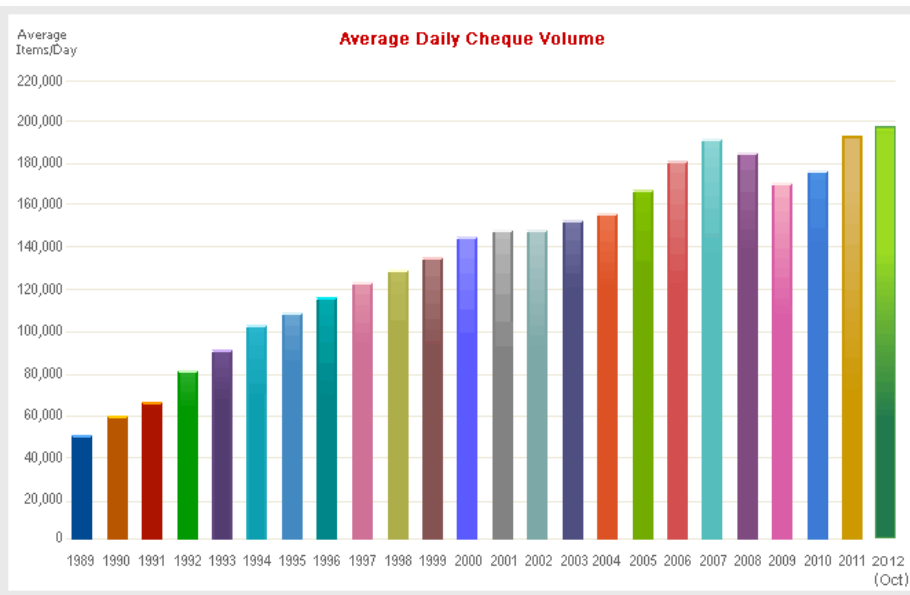


# Payment Service Provider Snapshot



LankaClear Ltd  
Established in 2002

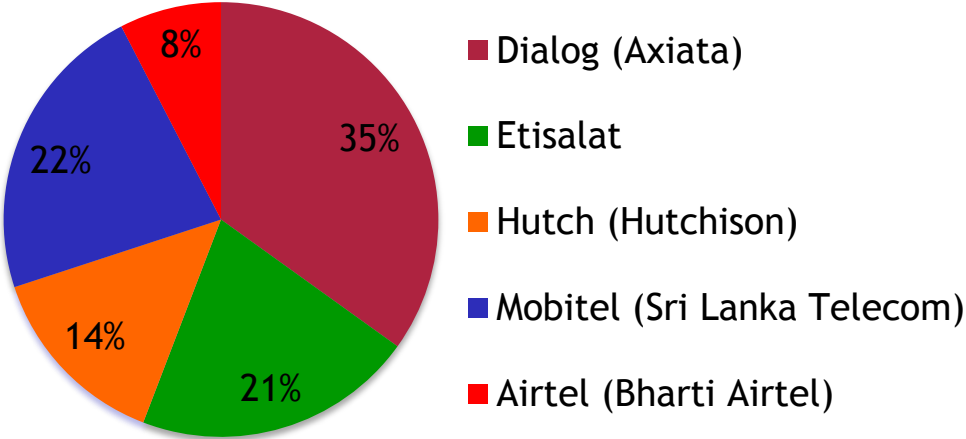
- Public-Private Joint Venture of the Sri Lanka Central Bank (47%) and commercial banks of Sri Lanka.
- Operates Sri Lanka Interbank Payment Switch, SLIPS, for interbank small value bulk payments.
- Operates Check Imaging and Truncation System, CITS, for digitizing and clearing checks.
- Slated to operate the Common Card and Payment Switch to facilitate real-time retail transactions



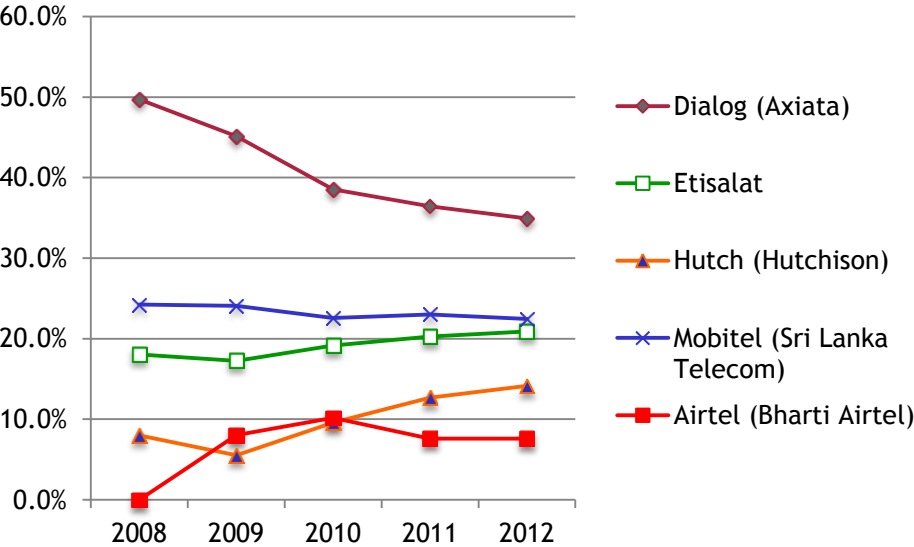
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# Mobile Overview

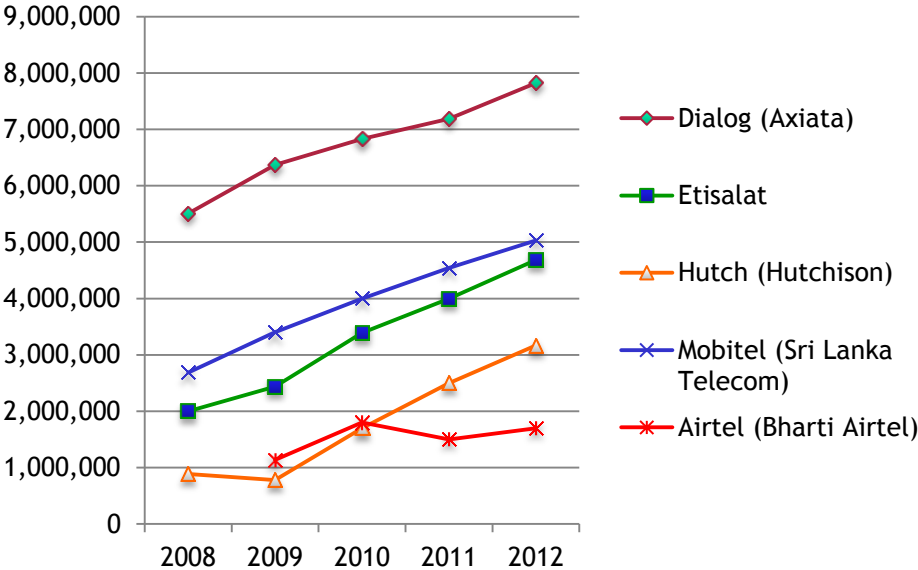
Mobile Profile	
Operators	Dialog Axiata, Mobitel, Airtel, Etisalat, Hutch
Coverage	96% (Dialog)
Unique subscribers	9,281,976*
SIMS	22,410,352
subscriber ARPU	\$6.23



## Market Share






## Activations





Sources: Wireless Intelligence

\* ITU 2012 data indicates a higher penetration rate of 87%, or 18.1 million unique subscribers. See: [http://www.itu.int/net/newsroom/GSR/2012/reports/stats\\_sri\\_lanka.aspx](http://www.itu.int/net/newsroom/GSR/2012/reports/stats_sri_lanka.aspx)

# Mobile Network Operators

Operator	Operator Information	Ownership, Partnership and other Information
	<ul style="list-style-type: none"> <li>Subscribers: 7,825,000</li> <li>Market Share: 35%</li> </ul>	<ul style="list-style-type: none"> <li>Established: July 07, 1995 as a Public Limited Company</li> <li>83% owned by Axiata Group Berhad and listed on the Colombo Stock Exchange</li> <li>HSBC - 2.3%, IFC 0.8%</li> <li>Partners Include:               <ul style="list-style-type: none"> <li>Hatton National Bank - Serving as Custodian account holder for ezCash mobile wallet</li> <li>Dedicated USSD string for bank access for People's Bank, People's Mobile Banking</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>Subscribers: 5,031,045</li> <li>Market Share: 22%</li> </ul>	<ul style="list-style-type: none"> <li>Wholly owned by Sri Lanka Telecom Ltd.</li> </ul>
	<ul style="list-style-type: none"> <li>Subscribers: 4,685,000</li> <li>Market Share: 21%</li> </ul>	<ul style="list-style-type: none"> <li>Wholly owned by Etisalat parent of UAE</li> </ul>

# Mobile Network Operators

Telco	Telco Information	Ownership, Partnership and other Information
	<ul style="list-style-type: none"> <li>Subscribers: 3,169,307</li> <li>Market Share: 14%</li> </ul>	<ul style="list-style-type: none"> <li>Owned by Hutchison Asia Telecommunications, subsidiary of Hutchison Whampoa Limited</li> <li>Partners:               <ul style="list-style-type: none"> <li>State Bank of India: USSD SMS mobile platform (mobile Wallet) that allows money transfer, P2P fund transfer, balance inquiry, etc.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>Subscribers: 1,700,000</li> <li>Market Share: 8%</li> </ul>	<ul style="list-style-type: none"> <li>Operations launched in 2009</li> <li>Reports are that it is an acquisition target and Dialog has expressed interest</li> </ul>

# Mobile Outlook

- **Current situation**
  - ❑ New subscriber growth rate is declining and will flatten in next few years according to Wireless Intelligence
  - ❑ Industry consolidation is possible and some reports suggest discussions are underway
- **Trends/expectations**
  - ❑ 11.9 million unique subscribers are anticipated by 2018, a penetration of about 52%.
  - ❑ Data enabled phones are already dominant but 4G penetration is anticipated to only reach 2.3 million subscribers by 2018, 19%.
- **Implications for mobile money**
  - ❑ Mobile money will only benefit from greater mobile penetration; greater adoption of mobile money service may in fact further increase growth and penetration rates
  - ❑ With a strong data-enabled phone penetration, consumers could enjoy richer and more intuitive mobile application experiences (in comparison to rudimentary SMS text string and USSD simple menu options); capability could also open door for phone to serve greater role as POS replacement.

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# Mobile Financial Services Overview

- Two types of mobile financial services are currently offered in the Sri Lanka Market:
  - (1) Non-bank led Mobile Wallets (2) Bank led Mobile Banking
- Mobile Wallets:
  - Dialog is the only current provider of a mobile wallet in Sri Lanka.
  - Proportional ID rules apply; no ID/registration required for a simple account with Rs 10,000 max. balance. Greater balance up to Rs. 25,000
  - Early uptake has been positive, 750,000 in 100 days
- Mobile Banking:
  - Several banks have offered simple account access and basic utility payment capabilities via a mobile application. Hatton National Bank most active effort currently.
  - Central bank requires that mobile banking users must first be a bank account holder and apply for account under existing rules
- Outlook
  - Central bank and bank association are actively pursuing development of the Common Card and Payment Switch with the expressed desire to support real-time mobile payments and transfers. If realized, would have significant impact on landscape.
  - Not clear yet if Dialog ezCash will lead towards greater bank penetration but logical path is available through support of institutional payments; Dialog has expressed interest to support micro-credit and micro-insurance solutions.



# MFS Implementations: Mobile Wallet



Product:  
Wallet

by  
Dialog Axiata  
(Launched in 2012)

- A wallet managing funds held in Dialog's custodian account at Hatton National Bank. Deutsche Bank AG serves as independent administrator of the custodian account.
- User can make purchases for 15 rupee fee
- Service supports bill payment, P2P, B2C payments (salary), B2B collections, retail payments, internet payments
- Support for "institutional payments" presents possibility for linking to formal financial services.
- 750,000 customers in first 100 days
- 13,000 retailers for purchases & cash in/out
- Daily transactions:
  - Utility Payments: Rs 7 Million
  - Cash In/Out: Rs 3 Million
  - P2P: Rs 0.3 Million
- Simple account can be opened through the phone without need for registration or credentials with a balance threshold of 10,000 rupees. An account with a higher balance threshold of 25,000 rupees requires additional identity verification at a Dialog store
- Central Bank granted permission in April 2013 for Dialog to accept inward international remittances to the ezCash wallet custodian account to then be redirected to customer's bank account.
- Support for ezCash announced for online classified website SmartMarket

# MFS Implementations: Mobile Banking



Sampath Bank  
Mobile Cash

Re-launched:  
2012

- Mobile Cash allows anyone, customer or non-customer, to send cash to anyone who has a mobile phone. enables anyone to send up to Rs. 200,000/- daily over any Mobile or CDMA network to anyone, anywhere in Sri Lanka! Beneficiaries/recipients are notified instantly on the transaction via Sampath SMS Alertz, There is no requirement of a pre-registration to send or receive money. Money can be collected instantly from any of Sampath Bank's island-wide branch network or from any Sampath Bank ATM island-wide, 24-hours a day, 365 days a year
- Bank also offers traditional mobile banking and SMS alert products that offer added convenience for existing account holders to access accounts, make transfers to their own accounts, and pay utility bills
- Annual report of 2012 acknowledges recent central bank guidelines that have opened competition to non-bank entities (Dialog's ezCash), have added pressure on the bank to continue innovations



Mobile Banking  
by  
Hatton National  
Bank

- Mobile banking relaunched in 2013, building upon preexisting SMS banking services.
- Supports smartphone and feature phones with its application
- Goal is to enlist 300,000 of its 7.5 million customers to use the application in 3 years.

# MFS Implementations: Mobile Banking



*People's Bank*

Launched: February  
2012

- People's Mobile Banking - USSD menu in collaboration with Dialog



*NDB Bank*  
Launched: 2007

- early NDB Bank collaboration with Dialog
- Based on MChek software
- 15,000 customers
- 25,000 ez retailer outlets
- 300+ outlets serve as mini-banking outlets as authorized by CBSL