

GUIDE TO BANKING IN SRI LANKA



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CENTRAL BANK OF CEYLON



Preface

The banking system in Sri Lanka has been greatly expanded and strengthened in the last few years. Several foreign banks have been permitted to establish branches in Colombo. As the economy develops, the demand for banking services grows faster. Banking is becoming more sophisticated particularly with the openness of the economy, and the need to increase exports to other parts of the world. The business of banking has spread to the rural areas where it has helped to stimulate economic growth and rural development. The facilities available to the public are being streamlined daily. However, the public are not aware of all the opportunities offered to them by the banks.

This booklet explains in brief, the information required by people who wish to utilise the facilities offered by the banks. "Guide to Banking in Sri Lanka", is meant to publicise these new developments in banking and to inform them of the availability of all the services the banks provide, so that they will be in a position to make full use of the new and expanding opportunities.

December 31, 1982.



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What are the types of Banks in Sri Lanka?

Banks in Sri Lanka can be classified into:—

Commercial Banks
Savings Banks
Development Banks
Merchant Banks

WHAT IS A COMMERCIAL BANK?

A commercial bank is an institution which accepts money from the public for non-interest bearing current accounts and interest bearing savings and deposit accounts. A customer may withdraw on demand, by cheque, the monies in his current account. A commercial bank also makes advances either by way of overdrafts or in the form of loans. In addition, it finances exports and imports and processes the documentation involved in international trade. A list of commercial banks operating in Sri Lanka is at page 2 & 3

WHAT IS A SAVINGS BANK?

A savings bank is an institution which accepts money from the public for deposit in savings and fixed deposit accounts. Interest is paid on such deposits. The National Savings Bank is the only savings bank in Sri Lanka. (See Page 15).

WHAT IS A DEVELOPMENT BANK?

A development bank is an institution established for providing medium-term and long-term finance for the purpose of economic development. It also has the responsibility of mobilising funds from both internal and external sources for investment.

The following institutions can be described as development banks:

Development Finance Corporation of Ceylon

National Development Bank of Sri Lanka

State Mortgage and Investment Bank.

WHAT IS A MERCHANT BANK?

A merchant bank is an institution which specialises in corporate financing, advisory, and related services. It undertakes the management and underwriting of public share issues, the arranging of corporate finance and the negotiation of mergers and takeovers. The Merchant Bank of Sri Lanka Limited is the only merchant bank in Sri Lanka.

Commercial Banks

WHAT ARE THE COMMERCIAL BANKS OPERATING IN SRI LANKA?

There were 25 commercial banks operating as at December 1982. A list of commercial banks together with the year of establishment, number of branches and the type of ownership is given below :

Name	Year of establishment	Number of branches	Ownership
1. Grindlays Bank PLC	1881	2	Foreign private
2. The Chartered Bank	1892	1	Foreign private
3. Hongkong & Shanghai Banking Corporation	1892	1	Foreign private
4. Bank of Ceylon	1939	653*	Government of Sri Lanka
5. Indian Overseas Bank	1946	1	Government of India
6. Indian Bank	1948	1	Government of India
7. Habib Bank Ltd.	1951	1	Government of Pakistan
8. State Bank of India	1955	3	Government of India
9. People's Bank	1961	301	Government of Sri Lanka and co-operative Societies
10. Commercial Bank of Ceylon Ltd.	1969	11	Sri Lanka - private
11. Hatton National Bank Ltd.	1970	30	Sri Lanka - private
12. Banque Indosuez	1979	1	Government of the Republic of France
13. Bank of Credit & Commerce International (Overseas) Ltd.	1979	1	Foreign private
14. Citibank N.A.	1979	1	Foreign private
15. American Express International Banking Corporation	1980	1	Foreign private
16. Bank of Oman Ltd.	1980	1	Foreign private

Name	Year of establishment	No. of branches	Ownership
17. Overseas Trust Bank Ltd.	1980	1	Foreign private
18. Bank of America NT & SA	1980	1	Foreign private
19. European Asian Bank	1980	1	Foreign private
20. Habib Bank A.G. Zurich	1980	1	Foreign private
21. Algemene Bank Nederland N.V.	1980	1	Foreign private
22. Dubai Bank Ltd.	1981	1	Foreign private
23. Union Bank of the Middle East Ltd.	1981	1	Foreign private
24. Amsterdam-Rotterdam Bank N.V.	1981	1	Foreign private
25. Middle East Bank Ltd.	1982	1	Foreign private

* Includes Agrarian Service Centre Branches, Extension Offices, Kachcheri Branches and Pay Offices.

What are the Banking Services provided by a Commercial Bank?

ACCEPTANCE OF DEPOSITS

A commercial bank accepts money from the public in the form of:—

Demand Deposits (Current Accounts)
Savings Deposits (Savings Accounts)
Fixed or Time Deposits
Certificates of Deposits

DEMAND DEPOSITS (CURRENT ACCOUNTS)

- * Bank requires a prospective customer to be introduced to it by a person known to the Bank.
- * A minimum initial deposit is required for opening a Current

Account; the amount varies from bank to bank.

- * No interest is paid on balances in current accounts.
- * Account holder is given a cheque book.
- * Cheque leaves are used for withdrawing money from the account or for making payments. (There are other ways of making payment — See pages 13 & 14).
- * Periodical (usually monthly) statements of transactions in the account are sent to customers.
- * Accounts could be maintained either individually or jointly.

SAVINGS DEPOSITS (SAVINGS ACCOUNTS)

- * A minimum initial deposit is required for opening an account; the amount varies from bank to bank.
- * Account holder is given a Pass Book which should be presented for deposits as well as for withdrawals.
- * The Pass Book is a record of transactions and indicates how much is held in the account at any given time.
- * Withdrawals are restricted. However, in practice, banks permit easy withdrawals.
- * Monies may be transferred from Current Account to Savings Account and vice versa.
- * Accounts could be opened either individually or jointly.
- * Rates of interest can vary from bank to bank.

FIXED DEPOSITS

- * Accepted for periods of 3, 6, 9, 12 and 24 months. Such periods can be varied by a bank from time to time.
- * These deposits earn interest at a rate higher than that for savings deposits.
- * Interest paid monthly or on maturity as agreed.
- * Withdrawals may be allowed before maturity subject to forfeiture of interest or an agreed lower rate of interest.
- * Such deposits enable customers to borrow from the bank in an emergency — by offering the Fixed Deposit as security.

CERTIFICATES OF DEPOSITS

- * A certificate of deposit (CD) is a document issued by a bank certifying that the amount indicated on it has been deposited with the bank.
- * Most commercial banks in Sri Lanka issue CDs.
- * At present, CDs are issued only in the denomination of Rs. 100,000/- with maturity periods of 6 months, 9 months and 12 months.
- * CDs are freely transferable from one person to another by mere delivery. This means that the holder of a CD, at any given time, is deemed to be its owner. The bank will pay the value of the CD to the person who surrenders it to the Bank on or after the date of maturity.
- * A CD does not bear the name of the owner and, therefore, complete anonymity of the owner is maintained.
- * Since CDs are issued on a discount basis, interest is deemed to have been paid when the CD is issued, i.e. the face value less interest payable is the purchase price.

NON-RESIDENT FOREIGN CURRENCY (NRFC) ACCOUNTS

- * Sri Lankans who have been resident abroad for a period of not less than 6 months may open SAVINGS or FIXED DEPOSIT accounts in foreign currency, while they are resident abroad or within 90 days of their return to Sri Lanka.
- * Such an account holder may continue to operate the account for a period of 10 years after his return to Sri Lanka.
- * Operations in the NRFC accounts are exempt from Exchange Control requirements.

- * Interest at prevailing rates is paid in foreign currency.
- * Interest earned while the account holder is resident abroad and during the 3 years immediately succeeding the date on which he commences to be resident in Sri Lanka, is free from Sri Lanka income tax.
- * Balances are free of wealth tax upto three years from the date of the account holder's return to Sri Lanka for permanent residence.
- * Some commercial banks provide loan and overdraft facilities to Non-Resident Foreign Currency Account holders against their deposits in NRFC accounts.

BANKS, HOWEVER, RESERVE THE RIGHT TO VARY, FROM TIME TO TIME, THE RATES OF INTEREST PAYABLE ON SAVINGS AND DEPOSIT ACCOUNTS.

LENDING

A commercial bank makes advances to its customers who, in its opinion, are creditworthy. Advances are largely granted in the form of loans or by way of overdrafts. Advances are generally made against some form of security, (See page 6). However, in some cases, clean (or unsecured) advances are also granted.

WHAT IS A LOAN?

- * A loan is an advance granted to a customer on the understanding that he repays it with interest in agreed instalments over a specified period of time, or in a lump sum at an agreed date.
- * A seasonal loan, such as a cultivation loan, is granted for periods of 3 to 6 months, repayment being usually at the end of the season.
- * Trust receipt loans for imports are usually extended for periods ranging from 30 to 90 days.
- * Pledge loans are granted for periods generally upto 180 days against the deposit and pledge of goods in bank stores. These are generally used to finance carrying of industrial raw materials.

WHAT IS AN OVERDRAFT?

- * An overdraft is a facility where a customer is permitted to draw cheques in excess of the balance in his current account, upto a previously agreed limit.
- * An overdraft is generally granted for periods not exceeding one year. Lending banks, however, reserve the right to recall such advances on demand.



- * Temporary overdrafts for periods generally not exceeding one month are also granted.
- * Overdrafts are periodically reviewed and may or may not be extended.

FOR WHAT PURPOSES ARE ADVANCES GRANTED?

- * Commercial
- * Financial
- * Industrial
- * Agricultural
- * Housing; and
- * Consumption.

WHO IS ELIGIBLE TO OBTAIN AN ADVANCE?

- * A customer who can prove to the satisfaction of the bank, his credit-worthiness and capacity to repay, is eligible to obtain an advance.

AGAINST WHAT SECURITIES ARE ADVANCES GRANTED?

- * Savings and Fixed Deposits
- * Cash value of insurance policies
- * Government Securities
- * Stocks and Shares
- * Stock-in-trade
- * Immovable property—land and buildings
- * Plant and machinery
- * Motor vehicles
- * Personal guarantees

WHAT IS THE REPAYMENT PERIOD?

- * Repayment period of an advance usually depends on the purpose for which the advance is granted.
- * Import and Export advances are granted for short periods of 1–3 months.
- * Cultivation loans are granted for each season and extend over 3–6 months.
- * Other advances are usually granted upto a maximum period of 5 years.

WHAT ARE THE RATES OF INTEREST?

- * Interest charged on an advance depends on the purpose for which

it was obtained and the type of security offered.

- * Rates of interest charged on advances which are secured by first class securities—e.g. savings or fixed deposits, cash value of insurance policies, Government securities etc. are generally lower than those against other securities.
- * Advances granted for development purposes and exports for which refinance is provided by the Central Bank of Ceylon also carry low rates of interest.
- * Higher rates of interest are charged on unsecured advances and temporary overdrafts.

BANKS RESERVE THE RIGHT TO VARY, FROM TIME TO TIME, THE RATES OF INTEREST CHARGED ON ADVANCES.

HOW TO OBTAIN AN ADVANCE

- * The customer makes an application with supporting documents etc. to the bank in which he maintains an account.
- * The bank will evaluate the application and if satisfied with the applicant's creditworthiness, capacity to repay etc., will make the advance either in the form of a loan or by way of an overdraft.

PAWNING LOANS

- * A loan may be obtained from the People's Bank by pledging jewellery to the bank.
- * A sovereign is valued at Rs. 1,250/- for purposes of pawning. This amount varies from time to time according to the market value of gold.
- * Any person over 21 years of age, irrespective of whether he has an account with the bank or not, may obtain a pawning loan. However, the bank generally encourages pawning borrowers to maintain at least a savings account.

- * No restriction on purposes for which loans are granted. However, the maximum amount allowable depends on the purpose of the loan.
- * Pawning loans are usually repayable within one year. However, a loan may be renewed for a further period by paying only the interest accrued.

Foreign Exchange Operations

International Divisions and Departments of commercial banks engage in foreign exchange transactions which fall into two broad categories – inward and outward. All foreign exchange transactions are subject to Exchange Control.

WHAT IS AN INWARD REMITTANCE?

An inward remittance is a payment received by a resident in Sri Lanka from a party resident overseas.

- * Payment is made usually through a bank, can be effected by –

- (a) Mail Transfer
- (b) Telegraphic Transfer
- (c) Banker's Draft
- (d) Personal Cheque

(a), (b) & (c) See page 8

- * In the case of a personal cheque the person receiving it should present it to a bank which will collect the proceeds on his behalf. This may take 3 to 4 weeks.

WHAT IS AN OUTWARD REMITTANCE?

This is a payment made by a person resident in Sri Lanka to a party overseas. This involves the purchase

by the customer of foreign exchange from a bank.

- * For day to day transactions, commercial banks can decide whether such payments can be made under current Exchange Control Regulations, without reference to the Controller of Exchange.
- * In special circumstances, the specific approval of the Controller of Exchange should be obtained.

FOR WHAT PURPOSES CAN FOREIGN EXCHANGE BE BOUGHT?

Foreign exchange can be bought to make payment for any purpose subject to restrictions imposed by the Controller of Exchange.

- * For travel to countries other than those in the "Indian Group", a person is allowed in foreign exchange, the cost of passage (both ways) plus £ 500/- to cover living and incidental expenses. For travel to countries in the "Indian Group", in addition to the cost of passage, Indian Rupees 2,000/- is allowed.
- * Examination fees and membership subscriptions for professional societies and institutions – no restriction of amount if there is documentary proof of the amount required by the foreign examining authority.
- * For payment for imports (See page 9).
- * For medical purposes, emigration, repatriation of assets.

HOW TO PURCHASE FOREIGN EXCHANGE

- * The application form available at the bank should be completed.
- * The necessary documentary evidence should be furnished and the rupee equivalent of the foreign currency required should be paid to the bank.

HOW TO MAKE AN OUTWARD REMITTANCE

- * An outward remittance, made usually through a bank, can be made by:—
 - (a) Mail Transfer
 - (b) Telegraphic Transfer
 - (c) Banker's Draft

WHAT IS A MAIL TRANSFER?

- * This is the transfer of an amount of money by post from a bank to another bank or between branches of the same bank.
- * The remitter requests his bank to transfer the amount, giving the name and address of the recipient. The bank will then inform its correspondent bank in the recipient's country, by post, to inform and pay the recipient.
- * The time taken for remittance to reach the recipient abroad, depends on the distance between the two countries and the efficiency of the postal services. Normally it takes one to two weeks.

WHAT IS A TELEGRAPHIC TRANSFER?

- * This is the transfer of an amount of money by telegraph from one bank to another or between branches of the same bank.
- * Remittance will usually be received at the overseas centre within a day or two. It is the quickest way of making payment to a person in any part of the world.
- * The charge for a Telegraphic Transfer is higher than that for an ordinary (mail) transfer.
- * The banker would send a coded telegram to the branch or bank in which the payee maintains his account, to effect payment.
- * Such transfer is convenient if the person receiving payment holds an account at a bank.

WHAT IS A BANKER'S DRAFT?

- * This is an instrument drawn by a commercial bank on another bank or on one of its own branches requesting such bank or branch to pay a sum of money on demand to a named payee.
- * The purchaser of the draft sends it to the payee who can encash it at a bank in his country.
- * The bank which issues the draft guarantees its payment.
- * Mail Transfers, Telegraphic Transfers and Banker's Drafts can be used to make remittances within a country as well (See page 13).

WHAT IS A FOREIGN CURRENCY TRAVELLER'S CHEQUE?

- * This is an instrument issued by a bank or other travel related institution to a traveller for safe and convenient transportation of money while travelling abroad.
- * Traveller's Cheques should be signed by the purchaser in the presence of the issuing banker on purchase, as well as in the presence of the paying banker or agent at the time of encashment.

HOW TO PURCHASE FOREIGN CURRENCY TRAVELLER'S CHEQUES

- * The Passport, Exchange Permit etc. should be furnished and the rupee equivalent of the Traveller's Cheques required should be paid to the bank.

The bank charges a commission for its services.
- * If a Traveller's Cheque is lost, the issuing bank may after investigation, issue another cheque of equal value.

Financing of Import & Export Trade

When business is conducted internationally, it is not always possible for importers to make payment direct to the exporters. In such circumstances,

a bank acts between importers and exporters, and on their behalf, effects payments or receives remittances. Payment for imports and receipt of proceeds of exports have to be channelled through a bank in Sri Lanka under current Exchange Control procedures. Importers and exporters could use a variety of methods offered by banks for the financing of transactions relating to international trade.



What are the facilities available to Importers?

BILLS FOR COLLECTION

The importer receives through his bank, a bill of exchange drawn on him by the exporter together with the shipping documents, viz. invoice, bill of lading, etc. The exporter will specify whether the documents which entitle the importer to the goods are to be released to him on payment of the value of the bill (Documents on Payment, or D/P terms), or on acceptance of the bill (Documents on Acceptance, or D/A terms). In the case of D/A terms, the importers should pay the bill on maturity. If the importer is not in a position to pay the bill, the bank may grant him a loan to do so. (See page 10).

LETTERS OF CREDIT

This is an instrument by which a bank undertakes to pay an exporter for goods despatched to an importer, provided that the former complies with the terms and conditions of that instrument (LC).

- * Importer instructs his bank to establish a LC in favour of the supplier.
- * Importer specifies the conditions under which shipment should be made. These conditions must be indicated in the LC.
- * Importer's bank would then advise the supplier through a correspondent bank in the supplier's country, of the establishment of the LC in his favour.
- * Importer's bank authorises the supplier to draw drafts on importer to the value of the LC.

- * Such drawings will be honoured by the Importer's bank if the documents asked for in the LC are submitted to the bank in accordance with the terms of the credit.
- * Bank may request the Importer to deposit a certain percentage of the value of the LC as security, at the time of opening the LC.
- * The LC gives the buyer the prestige and the financial backup of the bank which issues the LC on his behalf.
- * The LC gives the seller the assurance of payment and the ability to receive payment immediately the goods have been shipped.
- * Banks deal in documents and not goods. They are not concerned with any deficiency in the goods. Therefore, an Importer should satisfy himself of the bona fides of the supplier by, for instance, obtaining status reports on him through the Importer's bank.
- * Banks do not issue LCs as a matter of course, but only when they are satisfied with the creditworthiness of the applicant.

There are three types of Letters of Credit.

* **Revocable Credit :**

This is a credit which can be modified or cancelled without the consent of the supplier.

If, however, the bank pays drafts drawn under a revocable credit before receiving notice of modification, or cancellation, it has a right to claim reimbursement from the issuing bank.

Revocable credits are seldom used.

* **Irrevocable Credit :**

This is a definite undertaking on the part of the issuing bank to accept or pay drafts drawn under and complying with the terms of the LC.

Conditions of such a LC cannot be modified or cancelled without the consent of all parties concerned.

Irrevocable Credits are widely used.

* **Confirmed Irrevocable Credit :**

This is a credit where the advising bank adds its confirmation to the issuing bank's own irrevocable undertaking at the request of the issuing bank.

Such confirmation is required when the issuing bank is not well-known to the supplier or when economic and political conditions in the buyer's country are in doubt. When a LC is confirmed, the confirming bank (which is generally the bank in the supplier's country) undertakes to make payment under the LC.

WHAT ARE THE CREDIT FACILITIES AVAILABLE TO IMPORTERS?

- * Importer may not be able to pay his bank at the time of receipt of the documents which entitle him to the goods.
- * In such a situation the bank may grant him a Pledge Loan/Trust Receipt Loan to enable the goods to be cleared from the port of arrival.
- * When a Pledge Loan is granted, the goods are in the possession of the bank but the title passes to the importer. When the Trust Receipt Loan is granted, the title to the goods and possession both pass to the importer, subject to the goods being held in trust for the bank.
- * When goods are held under pledge, they may be removed by part payments or by payment of the whole amount.

WHAT ARE THE FACILITIES AVAILABLE TO EXPORTERS?

- * Exporter receives advices of LCs issued in his favour by an overseas bank through the medium of a local bank which may, in certain circumstances, add its confirmation to these LCs.
- * Exporter ships the goods specified in the LC and presents documents

drawn strictly in conformity with the LC to his bank or to the advising bank, as the case may be.

- * Exporter's bank or the advising bank, as the case may be, will purchase the documents if they comply strictly with the terms of the LC. These documents are thereafter dealt with, as instructed in the LC.
- * A bank may also purchase export bills which are drawn on D/A and/or D/P terms though they may not be covered by a LC. These purchases are generally made when a bank is satisfied about the creditworthiness of the exporter as well as the party on whom the bill is drawn.
- * Bills purchased from an exporter are forwarded to correspondent banks in overseas centres for collection of proceeds.

WHAT ARE THE CREDIT FACILITIES AVAILABLE TO EXPORTERS?

- * Exporter can obtain pre-shipment finance in the form of a Packing Credit which enables him to purchase, process, pack and ship the required goods in accordance with the export order.
- * Packing Credits are facilitated if — there is a confirmed Irrevocable Letter of Credit;

guarantees and other facilities given by the Sri Lanka Export Credit Insurance Corporation (SLECIC) are obtained by the exporter.

- * Packing Credits are usually not granted for periods in excess of 180 days.
- * These credits are also granted under the pledge of goods or on Export Trust Receipts.
- * Bank also provides advances to an exporter to pay freight and customs duty.
- * Bank may provide medium term loans to an exporter for setting up factories, warehouses and for similar export development activities.

BOOKING OF FORWARD EXCHANGE BY IMPORTERS AND EXPORTERS

- * Importer or exporter can enter into Forward Exchange Contracts with a bank for the purchase and sale respectively of foreign exchange, to avoid risks arising from fluctuating exchange rates.
- * When a Forward Contract is entered into, the transaction is effected at the rate of exchange agreed upon on the date of contract irrespective of the rate of exchange prevailing on the date of actual transaction.
- * Forward Exchange Contracts can be booked upto a period of 6 months.



Foreign Currency Banking Units (F.C.B.U s)

WHAT IS A FOREIGN CURRENCY BANKING UNIT?

- * A FCBU is a unit of a commercial bank established specifically for accepting foreign currency deposits and granting loans in foreign currency. Ten currencies are at present designated. (See page 13). Generally, only non-residents are eligible to do business with FCBU's.
- * GCEC enterprises and other residents approved by the Central Bank are also eligible to do business with FCBU's.

WHAT ARE THE DEPOSITS ACCEPTED BY FCBU's?

- * Time deposits
- * Demand deposits
- * Savings accounts, or accounts from which funds are withdrawable by cheque are not allowed.

WHAT ARE THE OTHER SERVICES AVAILABLE AT FCBU's?

- * Grant of loans denominated in foreign currency.

- * Establishing and opening Letters of Credit on behalf of customers.
- * Issuing or re-issuing guarantees, indemnities or similar undertakings.
- * Discounting of bills and acceptances.

WHAT ARE THE BANKS IN WHICH FCBU's HAVE BEEN ESTABLISHED?

- (1) Algemene Bank Nederland N.V.
- (2) American Express International Banking Corporation
- (3) Amsterdam-Rotterdam Bank N.V.
- (4) Bank of America NT & SA
- (5) Bank of Ceylon
- (6) Bank of Credit & Commerce International (Overseas) Ltd.
- (7) Bank of Oman Ltd.
- (8) Banque Indosuez
- (9) The Chartered Bank
- (10) Citibank N.A.
- (11) Commercial Bank of Ceylon Ltd.
- (12) Dubai Bank Ltd.
- (13) European Asian Bank
- (14) Grindlays Bank PLC
- (15) Habib Bank A.G.Zurich
- (16) Habib Bank Ltd.
- (17) Hatton National Bank Ltd.
- (18) Hongkong & Shanghai Banking Corporation
- (19) Indian Bank
- (20) Indian Overseas Bank
- (21) Overseas Trust Bank Ltd.



- (22) People's Bank
- (23) State Bank of India
- (24) Union Bank of the Middle East Ltd.

WHAT ARE THE FOREIGN CURRENCIES DESIGNATED FOR TRANSACTIONS IN FCBUS?

- (1) Deutsche Mark
- (2) French Franc
- (3) Hongkong Dollar
- (4) Japanese Yen
- (5) Netherland Guilder
- (6) Pound Sterling
- (7) Singapore Dollar
- (8) Swedish Kroner
- (9) Swiss Franc
- (10) US Dollar

Domestic Transfers

WHAT ARE DOMESTIC TRANSFERS?

A domestic transfer is made when money is paid within the country:

- * by a person holding an account in one branch of a bank to a person holding an account in another branch of the same bank;
- OR
- * by a person holding an account in one bank to a person holding an account in another bank or in the same bank;
- OR
- * by a person holding an account, to a person who does not hold an account.
- * A bank offers several convenient and safe methods of effecting and receiving payments within the country.
- * A person who has a current account or a savings account can instruct his bank to pay or receive money on his behalf.
- * The banker's word that the payments have been received or made is accepted without question.

- * The choice of a particular method of transfer would depend on the urgency and safety of the payment or on the need for assurance that the payment has been made.

WHAT ARE THE METHODS OF DOMESTIC TRANSFERS?

The following methods may be used for the purpose of effecting domestic transfers:—

- * Cheque
- * Banker's Draft
- * Mail Transfer
- * Telegraphic Transfer
- * Inland Traveller's Cheques
- * Money Order or Postal Order
- * Bank Pay Order

CHEQUE

- * A cheque is an order given by an account holder to the bank (in which he maintains his account) to pay on demand, a specified sum of money to a named payee (or to the bearer of a cheque).
- * It is a safe and convenient methods of receiving or making payment; in making a payment, the account holder draws the cheque and merely delivers it to the payee.
- * Special safety precautions enable it to be despatched by post.
- * A Cheque costs very much less than a Money Order or Postal Order.
- * The account of the person issuing the cheque is not debited until the cheque is paid.
- * The person issuing a cheque must have a current account with a bank.

BANKER'S DRAFT—

MAIL TRANSFER—

TELEGRAPHIC TRANSFER— (See page 8)

INLAND TRAVELLER'S CHEQUES

- * A person visiting a distant place locally on sightseeing, pilgrimage, business etc. who does not wish to carry cash, can use Inland Traveller's Cheques.
- * The rules etc. regarding the purchase and encashment of Inland Traveller's Cheques are the same as in the case of foreign Traveller's Cheques.
- * This facility is at present available only with the Bank of Ceylon.

MONEY ORDERS AND POSTAL ORDERS

- * Money Orders (MOs) and Postal Orders (POs) issued by a Post Office can be presented for collection at a bank where a person has his account. The bank may, in certain instances, give immediate credit for such instruments.
- * The bank will later collect the proceeds of the MO or PO from the Post Office.

BANK PAY ORDER

- * A Bank Pay Order is a cheque drawn by a bank on itself. It declares that the bank will pay a specified sum of money to a named payee on presentation of the Order.
- * A Pay Order can be obtained from a bank by paying the relevant amount plus the bank's commission.
- * A payee would prefer a Bank Pay Order to a personal cheque as he is assured that it will not be dishonoured due to want of funds.

Other Services

Banks offer several other services to their customers.

COLLECTION OF PROCEEDS OF CHEQUES, MONEY ORDERS ETC.

A bank collects, on behalf of its customers, proceeds of cheques, money orders, postal orders, interest warrants and dividend warrants, to the credit of their accounts with it.

STANDING ORDERS

- * A customer who has to make payments of fixed amounts at regular intervals can request his bank to make such payments on his behalf.
- * An order is made to his bank giving names of persons, the amounts and dates on which such payments should be made.
- * The customer has to ensure that there are sufficient funds in his account to enable the bank to effect such payments.
- * Payments such as rent, subscriptions to magazines or newspapers etc. may be made in this way.

CLEARING

- * Banks accept cheques drawn on various other banks, issued in favour of their customers, for collection.
- * A customer need not go to the bank on which the cheque is drawn to collect the proceeds. Instead, he endorses the cheque and deposits it to the credit of his account at his bank.
- * Cheques of different banks accepted from customers are sent to the Clearing House at the Central Bank which is attended by all commercial banks.

SAFE DEPOSIT VAULTS

- * Banks maintain safe deposit lockers in which its customers may safe-keep their valuables.
- * The bank charges a nominal fee for this service.
- * These lockers have two locks each. The key to one of the locks is kept with the customer and the other with a responsible officer of the bank. The locker cannot be opened by the customer alone or by the bank officer alone.

STATUS OPINIONS

- * A customer (engaged in trade etc.) can request his bank for a report concerning the status of another person who has an account with a bank.

LETTERS OF INTRODUCTION

- * A bank can give a letter of introduction to a local businessman going abroad on business.
- * This enables the businessman to obtain the services of a branch of the bank or the agent of the bank in the country he is visiting, to obtain "on the spot" information on his business associates in that country.

ISSUE OF GUARANTEES

- * A guarantee is a written undertaking given by one person to another to be answerable for a debt or a loss sustained by the person to whom it was issued, upon default of a third person (on whose behalf the guarantee is issued).
- * A bank issues such guarantees on behalf of its customers at their request, e.g. Shipping Guarantees, Customs Guarantees, Paddy Milling Guarantees.
- * The commission charged on guarantees varies from bank to bank.
- * A guarantee is usually issued against security.

Savings Banks

THE NATIONAL SAVINGS BANK

- * The National Savings Bank was established in 1971 by amalgamating the Ceylon Savings Bank, the Post Office Savings Bank and the National Savings Movement. The main object in setting up the new bank was to provide an effective institutional framework to mobilise domestic savings.
- * With this end in view, the National Savings Bank has provided new incentives and inaugurated various new savings schemes to encourage domestic savings.
- * Repayment of moneys deposited in the bank together with interest is guaranteed by Government.

SAVINGS ACCOUNTS

- * Ordinary savings accounts carry an interest rate of 12 per cent per annum, at present.
- * Money deposited can be withdrawn at any time.

FIXED DEPOSIT ACCOUNTS

- * Fixed deposits are accepted for periods of 6, 12, and 24 months.
- * The interest rate varies from 15–22 per cent per annum, depending on the period and amount of deposit.
- * Premature withdrawals are allowed subject to a reduction in the rate of interest paid.
- * Interest can be collected monthly or on maturity.

GIFT VOUCHER SCHEME

- * A person wishing to make a gift can purchase gift vouchers in convenient values of Rs. 5/-, Rs. 10/- and Rs. 25/-.
- * A person receiving a gift voucher can open a savings account in his name using this voucher.

SAVE AS YOU EARN SCHEME (S.A.Y.E.)

- * A wage earner can request his employer to deduct an amount from his monthly salary and to remit it to the credit of his (the wage earner's) savings account with the National Savings Bank.

PREMIUM SAVINGS BOND

- * The purchase of a bond for Rs. 10/- enables a person to take part in a lottery every month, till such time he withdraws this money.
- * Prizes offered are one each of Rs. 10,000/- and Rs. 5,000/- and thirty of Rs. 500/- each, monthly.

LOANS

- * The National Savings Bank extends loans to the public against the mortgage of immovable property for the purchase or construction of residential houses and for repayment of debts incurred for such purposes.

PENSION SCHEME

- * This Scheme was designed with a view to providing a regular income to persons presently self-employed, in their old age.
- * A person who deposits a fixed sum (in multiples of Rs. 50/-) for 54 consecutive months will be entitled to receive after the 54th month, a monthly pension equivalent to the monthly deposit he made until such time the deposit is withdrawn.
- * If the depositor opts to postpone the drawing of the pension for a period of a further 54 months, the pension will suitably enhanced.

Development Banks

STATE MORTGAGE AND INVESTMENT BANK

The State Mortgage and Investment Bank was established in 1979 by amalgamating the Ceylon State Mortgage Bank and the Agricultural and Industrial Credit Corporation of Ceylon.

The Bank grants long-term loans to the public against primary mortgage over immovable property, for the following purposes:—

- * Construction of houses
- * Extension of houses
- * Purchase of land for construction of houses
- * Agricultural purposes
 - Bee Keeping
 - Poultry Farming
 - Dairy Farming
 - Floriculture
 - Cultivation of other crops
- * Repayment of loans obtained for the above purposes.

THE DEVELOPMENT FINANCE CORPORATION OF CEYLON

- * The Development Finance Corporation of Ceylon was established in 1956 primarily to grant medium-term and long-term loans to the private sector.
- * Loans are granted for industrial, agricultural and commercial purposes, for purchase of machinery and equipment, and for construction of factories, hotels, office buildings etc.
- * Applicants should have a substantial stake in the business for which the loan is requested.

NATIONAL DEVELOPMENT BANK OF SRI LANKA

- * The National Development Bank of Sri Lanka was established in 1979 to engage in and promote industry, plantation, agriculture, fisheries, tourism etc. through medium and long-term lending and capital participation.
- * The bank provides refinance facilities to the four indigenous Commercial Banks and to the Development Finance Corporation of Ceylon (DFCC) to enable them to extend loans for development.
- * The bank also engages in co-financing and syndicating loans that are too large for a single institution to finance.

Merchant Banks

MERCHANT BANK OF SRI LANKA LIMITED

The Merchant Bank of Sri Lanka Limited was established in March 1982. The Bank which is a subsidiary of the Bank of Ceylon offers a wide range of services including the following:—

- * Identification of projects and preparation of feasibility reports on them for potential entrepreneurs.
- * Arranging and syndication of loans from financial institutions.
- * Management and underwriting of public share issues.
- * Management consultancy.
- * Electronic data processing services.



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