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The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

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PART I : SECTION (I) — GENERAL

Central Bank of Sri Lanka Notices

THE MONETARY LAW ACT

REGULATIONS made by the Monetary Board under section 32E of the Monetary Law Act, (Chapter 422).

NIVARD AJITH LESLIE CABRAAL,
Chairman,
Monetary Board.

Central Bank of Sri Lanka,
Colombo,
27th September, 2010.

Sri Lanka Deposit Insurance Scheme Regulations

1.1 These Regulations shall be cited as “Sri Lanka Deposit Insurance Scheme Regulations, No. 1 of 2010”.

1. Citation

2.1 In terms of section 5 of the Monetary Law Act, the Central Bank of Sri Lanka is charged with the duty of securing, as far as possible by action authorized by such Act, the two objectives, namely, (a) economic and price stability and (b) financial system stability.

2. Objective of
the Scheme
& Enabling
Provisions

2.2 In terms of sections 32A to 32 E of the Monetary Law Act, the Central Bank may establish, maintain, manage and control, as determined by the Monetary Board from time to time, a scheme for insurance of deposits held by banking institutions.

2.3 In terms of sections 46(1) and 76J of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to licensed commercial banks and licensed specialized banks, regarding the manner in which any aspect of the business of such bank is to be conducted.

2.4 In terms of sections 27 to 29 of the Finance Companies Act, the Central Bank may operate a scheme for insurance of deposits held by registered finance companies and require such finance companies to insure their deposit liabilities under the scheme or under any other scheme as is specified by the Monetary Board.

2.5 Accordingly, this Deposit Insurance Scheme will be implemented in the interest of the overall financial system stability of the country, and it will initially outline a mechanism to protect small depositors from failure of financial institutions, thereby promoting the stability of financial institutions by maintaining small-depositor-confidence.

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| 3. Title of the Scheme and Effective Date | <p>3.1 This Scheme shall be titled Sri Lanka Deposit Insurance Scheme.</p> <p>3.2 The Scheme shall come into effect from 1st October, 2010.</p> |
| 4. Member Institutions to be governed by the Scheme | <p>4.1 All Licensed Commercial Banks, Licensed Specialised Banks and Registered Finance Companies shall be the members of the Scheme.</p> |
| 5. Eligible Deposits to be insured | <p>5.1 Deposits to be insured shall include demand, time and savings deposit liabilities of member institutions and exclude all borrowing instruments.</p> <p>5.2 The following deposit liabilities shall be excluded from the Scheme:—</p> <ul style="list-style-type: none"> (i) Deposit liabilities to member institutions. (ii) Deposit liabilities to the Government of Sri Lanka inclusive of Ministries, Departments and Local Governments. (iii) Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Banking Act Direction, No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, Banking Act Direction, No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks and the Finance Companies Act (Corporate Governance) Direction, No. 3 of 2008 for Registered Finance Companies. (iv) Deposit liabilities held as collateral against any accommodation granted. (v) Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board. <p>5.3 All eligible deposits shall be insured by member institutions.</p> |
| 6. Premium to be levied on insured deposit | <p>6.1 Member institutions shall pay a premium calculated on the total amount of deposits, excluding the deposit liabilities stated in 5.2 above, as at end of the quarter/month as may be determined by the Monetary Board from time to time, to the Deposit Insurance Fund stated in Regulation 7.</p> <p>6.2 The calculation of premia effective until further notice shall be as follows:—</p> <ul style="list-style-type: none"> (i) Licensed banks which maintained a capital adequacy ratio of 14 <i>per centum</i> or above at the end of the immediately preceding financial year as per its audited accounts as accepted by the Director of Bank Supervision - a premium of 0.10 <i>per centum</i> per annum payable quarterly calculated on total amount of all eligible deposits as at end of the quarter. |

- (ii) All other licensed banks - a premium of 0.125 *per centum* per annum payable quarterly calculated on total amount of all eligible deposits as at end of the quarter.
- (iii) Registered Finance Companies - a premium of 0.15 *per centum* per annum payable monthly calculated on total amount of all eligible deposits as at end of the month.

6.3 Member institutions shall remit the applicable amount of the premium to the account of the Deposit Insurance Fund within a period of 15 days from the end of the respective quarter/month and submit the details of deposits and calculation of premium in a format specified by the Director of Bank Supervision.

6.4 In the event of a delay in the payment of the premium inclusive of instances of under-payment, a penalty will be levied at the prevailing weighted average 91 days primary Treasury bill yield rate plus 200 basis points.

7.1 The Scheme shall have a fund titled “Deposit Insurance Fund” (hereafter referred to as “the Fund”), and it shall be operated and managed by the Monetary Board, which responsibility it may delegate to an officer or a Department of the Central Bank of Sri Lanka of its choice.

7. Deposit
Insurance
Fund

7.2 Credits to the Fund shall include Premia and penalties paid by member-institutions, all proceeds of profits, income and gains arising out of the investments of the moneys in the Fund, recovery of deposits paid as compensation, such sums as may be appropriated out of the abandoned property in the case of licensed banks and dormant deposits in the case of registered finance companies transferred to the Central Bank of Sri Lanka in terms Directions issued by the Monetary Board under Part IX - sections 72 and 76 of the Banking Act and sections 31(1) to 31(3) of the Finance Companies Act as applicable, borrowings and contributions from the Government and/or any other sources as may be approved by the Monetary Board.

7.3 Debits to the Fund shall be for Compensation payments to depositors, investments, repayment of abandoned property or dormant deposits, as the case may be, in the event of such property/dormant deposits lying in the fund and operating expenses of the Scheme as may be determined by the Monetary Board.

8.1 The moneys in the fund shall be invested as hereinafter provided :—

8. Investments
of moneys
in the Funds

- (i) *Government securities.*— Government securities will include Treasury bills, Treasury bonds and other marketable securities issued by the Government of Sri Lanka.
- (ii) Secured advances or loans to any member institution in the instance of a severe liquidity crisis in such member institution, if, in the opinion of the Monetary Board (after considering an assessment report on the liquidity position submitted by the Director of Bank Supervision in the case of a licensed bank or the Director of Department of Supervision of Non-Bank Financial Institutions in the case of a registered finance company), such an advance/loan will help avoid an imminent financial panic in the particular institution or in the financial system as a whole.

8.2 Such advances or loans to member institutions shall be provided on the security of re-saleable collaterals and/or Government/Central Bank of Sri Lanka Guarantees and at rates of interest as may be determined by the Monetary Board.

8.3 The repayment period of such loans or advances shall be as determined by the Monetary Board.

9. Compensation on Insured Deposits

9.1 Compensation to depositors on insured deposits will be paid as per regulations issued by the Monetary Board from time to time, or as hereinafter provided.

9.2 Compensation on insured deposit liabilities of a member institution will be paid only when the licence/registration of the member institution is suspended /cancelled by the Monetary Board in terms of the relevant statutory provisions.

9.3 Within a week from the announcement of Monetary Board decision to suspend/cancel the licence/registration of the member institution, the Director of Bank Supervision in the case of a licensed bank or the Director of Department of Supervision of Non-Bank Financial Institutions in the case of a registered finance company, shall prepare a list of depositors with the details of deposit accounts setting out the amounts due from the institution to such depositors as at the date of the Monetary Board Order of suspension/cancellation.

9.4 The compensation within the limits as specified will be paid within six months from the date of the suspension/cancellation. No interest will be paid in the ensuing period.

9.5 The compensation payable in respect of insured deposits of a member institution will be computed on a "per-depositor" basis, consolidating all insured deposit liabilities to each depositor inclusive of any interest accrued and net of any dues from the depositor to the member institution as at the date of the suspension/cancellation of licence/registration.

9.6 The amount of compensation payable to a depositor shall be limited to the total insured deposits computed as above, subject to a maximum of Rs. 200,000 or its equivalent in the case of foreign currency deposits, if such amount exceeds Rs. 200,000.

9.7 Any compensation paid to depositors of a member institution by the Deposit Insurance Fund shall be accounted in the books of the member institution as its deposit liability to the Deposit Insurance Scheme, while redeeming the deposit liabilities due to the respective depositors by an equivalent amount.

9.8 In the event that any depositor is unable to receive the entitled compensation at the time of payment of compensation, the legal beneficiaries of the depositor shall be paid the compensation in terms of the applicable legal provisions and procedures.

9.9 The payment of compensation shall not be a liability of the Monetary Board or the Central Bank of Sri Lanka, and shall be limited to funds available or raised in the Deposit Insurance Fund including any borrowings permitted and contributions received. The Monetary Board and the Central Bank of Sri Lanka shall not be responsible for any liability that exceeds the total amount lying to the credit of the Fund.

9.10 The payment of compensation shall come into effect in the case of a suspension/cancellation as ordered by the Monetary Board on or after 1st January, 2012.

10. Books and Accounts of the Scheme

10.1 There shall be an established Deposit Insurance Unit in the Bank Supervision Department (The Unit) which shall be responsible for the operational and management arrangements, under the instructions and supervision of the Director of Bank Supervision in terms of Directions/Regulations and policies as approved by the Monetary Board from time to time.

10.2 The Unit shall maintain books, accounts and statements relating to financial transactions of the Scheme in terms of the applicable Sri Lanka Accounting Standards.

10.3 The financial year of the Scheme shall be the calendar year and the Auditor General shall be the Auditor.

10.4 The Unit shall prepare financial statements on income and expenses, assets and liabilities, cash flows and investments for each financial year and submit the audited financial statements to the Monetary Board on or before 31st March of the following year and disclose such statements for the information of the member institutions and the public.

10.5 The financial statements of the Sri Lanka Deposit Insurance Scheme shall be distinctly separate from the financial statements of the Central Bank of Sri Lanka and accordingly, no consolidation of the Unit's financial statements shall be made with that of the Central Bank of Sri Lanka.

11.1 Deposit Insurance Scheme Regulations/ No. 1 of 1987 dated 27th February, 1987 and *Gazette*, No. 443/17 dated 6th March, 1987 issued under section 32E of the Monetary Law Act, (Chapter 422) and subsequent amendments shall be repealed and cease to operate with effect from 1st October, 2010 and the Deposit Insurance Fund operated under these Regulations as at 30th September, 2010 shall be vested with the Sri Lanka Deposit Insurance Scheme with effect from 1st October, 2010.

11. Repeal of Regulations dated 27 February, 1987 and *Gazette*, No. 443/17 dated 6 March, 1987

11.2 As such, all commitments or contingencies arising from the Scheme operated under Deposit Insurance Scheme Regulations, No. 1 of 1987 as at 30th September, 2010 shall be extinguished as on 1st October, 2010.

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