

BOC: Important Features of the Seventy Five Year Journey

Dr. D.P.S. Chandrakumara
Senior Lecturer in Economics
Department of Economics
University of Sri Jayewardenepura
Chandrakumara62@gmail.com

2014

Bank of Ceylon (BOC) was established before independence in 1939 on the recommendation of the Banking Commission appointed by the Governor in 1934 (Bank of Ceylon, 2012). This was the first local owned, modern and organized sector bank of the country. The bank, starting from its Colombo City branch, gradually expanded the network of branches throughout the country. The Bank has made a tremendous contribution to the economy and the nation over the past 75 years of service.

It is generally accepted that the financial inclusion is one of the key determinants of socio-economic development. Outreach of the financial services through BOC in the form of expansion of bank branches to the rural sector is very crucial since it specially serves the poor people (Demirguc-Kunt and Klapper, 2012; Beck, T., Demirguc-Kunt and Perera, M.: 2005). Access to finance contributes to technological progress, inventions and innovations and facilitates entrepreneurs in the business sector and the consumers in the household sector. BOC, which started in Colombo in 1939, commenced its operations in Kandy in 1941 and proceeded on to other parts of the country like Galle, Jaffna and Trincomalee (Bank of Ceylon, 2012). By 2013, the total number of bank branches in the country has exceeded 300 while the total number of service points has reached 1000, showing a greater expansion of its services in independent Sri Lanka. All these branches and service centers have been distributed throughout the country as a good financial service network. The outreach of BOC has been especially beneficial for the poor and the peasants who are engaged in agricultural and other related activities in the rural economy of Sri Lanka

BOC established its foreign department in 1946 (Bank of Ceylon, 2012), since then, the bank has been involved in almost all kinds of external transactions related to export, import, currency exchange and investments that directly or indirectly contribute to the national development of the country. Opening of its first overseas branch in London in 1949, after ten years of the establishment of the bank, marked the initial step in the expansion of bank branches in the global economy. At present, the bank is widely engaged in a diverse range of external transactions with a wide network of bank branches.

The enhancing of authorized capital in 1959 up to Rs. 50 million by an Act of Parliament was also important since it increased the volume of capital that can be issued to the general public (Bank of Ceylon, 2012). The broad-based and pro-poor service of the bank tremendously increased with the nationalization in 1961. Since then, the Government of Sri Lanka became the sole owner of Bank of Ceylon. The government or state ownership of the bank has been very important for the country due to several reasons. First, being a state bank, it ensures the safety and wellbeing of financial transactions of the economy, which leads to the stability of the financial system even during times of financial crises in the global economy. Second, as a public sector bank, BOC has the capacity to contribute to the national

development since it is based on very broad goals required for socio-economic development. The contribution to the domestic agriculture, especially for the paddy sector, through various rural credit schemes is evident for the commitment and the dedication of the bank in terms of the needs of the nation. The service provided by 350 Agricultural Service Centre Branches with the implementation of the *Comprehensive Rural Credits Scheme* is especially commendable. Third, the prevalence of BOC as a strong public sector bank makes financial business more competitive with the growing private sector banking. This situation helps to create a pro-investment background in the economy. The low interest rates of the Bank compel the other banks too to keep their rates close to the rates of BOC. Finally, BOC has played a strong role in order to save the rural peasants and the urban poor from indebtedness and the grips of the informal money lenders. During the early period of independent Sri Lanka, the majority of loans were granted to the people by private money lenders whose service was harmful to the poor and the economy as well (Chandrakumara, 2012). However, BOC has, to a substantial extent, contributed to curtail such informal activities through the attraction of a part of such customers. The expansion of service centers all over the island contributed to the attraction of customers in the informal sector thereby curtailing the role of informal money lenders who are harmful to the borrowers.

The launching of a *Non-Resident Foreign Currency (NRFC)* deposit scheme in 1978 is an important step taken by the Bank. Sri Lankan citizens employed overseas, persons who are Sri Lankans by birth but possess foreign passports and selected other customers were permitted to deposit their earnings made overseas in these accounts and in order to receive special privileges.

Market friendly policies introduced in 1978 and later developed into an important turning point of BOC when its role and market competition are considered. The expansion of the banking service of the private sector under new economic policies created a more competitive environment for BOC and transferred the Bank from the traditional to modern techniques, procedures and more innovative attempts. The Bank pioneered in adopting Information Technology into the banking system in Sri Lanka and through which it increased the efficiency of the service thereby increasing its competitiveness with the private sector. The establishment of the Foreign Currency Banking Unit (FCBU) in 1979 was in line with the liberalization of economic activities and off-shore banking activities expanded with this new program. The Bank also expanded its capacity and role in other businesses by way of establishing subsidiary and associate companies like 'Merchant Bank of Sri Lanka' and 'Property Development Limited'. The expansion and the development of BOC are well symbolized by the construction of the 32 storied new head office in 1987 as the single location for all its administrative affairs.

Commencing the electronic banking era, BOC installed the first Automated Teller Machine (ATM) in 1988. The Bank introduced the 'Ceybank VISA' credit card in collaboration with 'VISA International' in 1989. It was expected to increase of the market transactions and the velocity of money with the opening up of this facility for the customers. The increase in the velocity of money can finally contribute to the accelerating the economic growth (Chen and Guo, 2006: Akinlo, 2012). The Bank was a great supporter to the market expansion even if it continuously remained in the public sector.

The bank branch network extended beyond its national boundaries and opened a branch in Male in the Republic of Maldives, in 1981 and further expanded with two more branches in Madras and Karachi in 1995. Moreover, a joint venture with Nepal Bank under the name, Nepal Bank of Ceylon Ltd was also

launched in 1996 The conversion of the London branch to a subsidiary of BOC was also an important step since it was intended to use that branch as a gate way to European Union. The European Union, being the largest trade partner of Sri Lanka for a long time, account for nearly 30 percent of Sri Lanka's total exports (Central Bank of Sri Lanka, 2013, 2012). The highest percentage of imports of Sri Lanka is from India, as such, the expansion of banking activities and branches in such countries is especially important. Furthermore, this process of bank branch expansion went hand in hand with the globalization attempt. Meanwhile, the entry of foreign banks into the local market in different ways also forced the Bank to implement more efficient and customer attractive strategies that improve their service quality. The enhancement of authorized capital to Rs. 50 billion by an Act of Parliament in 2000 was a timely decision that helped to facilitate the expansion process.

As a reflection of the understanding of the national obligation of a state owned institute, the bank made a tremendous contribution to rehabilitate the country after enormous damage caused by the Tsunami in December of 2004. The bank donated Rs. 25 million to the Government's Tsunami Assistance Fund as the initial step, in addition to the assistance extended to the general public. The Bank introduced 'Susahana' credit scheme in order to assist and restore the livelihood of Tsunami affected entrepreneurs and the local business population. The Bank's helpful hand has been very advantageous for the people facing any disastrous situation whether it is Tsunami, floods, droughts or other civil matters like the ethnic problems.

The Bank won the top 'IBM/FISERV award' for the fastest implementation of an online core banking system in the Asia Pacific region. This prestigious award was due to the combined effort of Fiserv and Bank of Ceylon for implementing and successfully functioning the online core banking system, networking the majority of island-wide branches of Bank of Ceylon. This is a perfect example of the possibility for public sector organizations to be developed in order to be able to compete with the private sector if proper management and market strategies are adopted.

BOC is the first bank which started operating an Islamic banking unit throughout its island-wide network. Islamic banking is a system that does not deal with transactions involving interest. The aim was to attract international attention for investment in Islamic finance in order to play a major role as the main financial facilitator in the SAARC region. This unit offers financial products based on Islamic principles and provides the Sri Lankan Muslim community with the opportunity to invest or deposit their money at a time when everybody recognized that ethnic harmony is essential for inclusive growth.

The Bank has contributed in diverse ways to the society in general throughout the seventy five year period. . Introducing 'Kantha Ran Ginum' savings, special credit schemes for the Mahaweli farmers, 'Ran Kekulu' savings account for children, 'Ran Mithuru' leasing system, 'Apsara' credit card for women, '18-plus' accounts for the youth, special cheque books for left-handers, 'Kantha Ran Diriya' credit scheme, saving schemes for Buddhist pilgrimage visits India, etc. are some of the services provided for the society by the Bank. The Bank has also been helpful to micro entrepreneurs and low-income earners. The provision of micro credit has been identified as one of the activities implemented for the low income communities. Furthermore, a part of remittances of the Sri Lankan workers employed in Middle East and other countries were absorbed to the economy through the banking network of BOC. Being the pioneer of inward remittance business for 75 years, BOC provides an excellent service for the customers through

more than 800 correspondents while the recipients have the facility to receive their remittances through more than 600 payment locations which are scattered all over the Island.

Almost all modern economies are such that they have optimally utilized the available credit in order to combine other resources for production. BOC effectively mobilizes savings in every nook and corner of the country and make it available as credit for those who need it. By and large, the Bank caters to a large range of needs of the society which vary from consumption to production.

The current situation of the Bank can be identified by analyzing the basic statistics with regard to the year 2013. BOC is the largest commercial bank in Sri Lanka. Almost all performance indicators of this bank show a very sound position which can generate beneficial effects for a long period of time. The total income of the Bank in 2013 was Rs. 127 billion while the profit before tax was Rs. 15.7 billion. Loans and advances have been granted for 755 billion while the deposit amounted to Rs. 843 billion. The Bank has contributed to employment by recruiting 1,706 within 2013 whilst the total contribution to employment throughout the BOC network stands at 10,045 as of the end of 2013 (Bank of Ceylon, 2014). The Bank has been able to achieve this status due to its high-quality management, market domination in the volume of assets and maintaining the trust of the customers. The Bank has attracted more than 10 million customers which is nearly half of the population of Sri Lanka bearing an assets level exceeding Rs. 1000 billion. Another important indicator that shows the contribution to the economy is the value added generated by the Bank. The value added through the banking service itself in 2013 has amounted to Rs. 59,460 million while the value added by non-banking services was at Rs. 3,902 millions (Bank of Ceylon, 2014). Espinoza et al (2009) reveals that the financial variables have the potential to predict economic activity. Similarly, these statistics are also sufficient to understand the role of BOC as a public sector institution in the Sri Lankan economy.

The role of BOC is going to be even more important in the future. The expectations on expansion of the economy through manufacturing and services can be realized only if the banking sector is strong enough to cater to the needs of the entrepreneurs. Development of infrastructure such as harbours, airports, highways, road systems, etc. provides the prerequisites for economic expansion. At present, an environment has been created for the people to actively participate in economic affairs due to the end of separatist acts in the Northern and Eastern Provinces of Sri Lanka. Since tourism is also expected to grow in the years to come, hotel facilities and other necessary service infrastructures are to be expanded. Strengthening of regional integration, especially among the South Asian countries would increase different kinds of trade creation and trade diversion transactions which cannot be activated without the interference of banks. The increasing number of students engaged in higher education should also be provided with education loans to be recovered after obtaining a job while the aging population should also be provided with the necessary services.. Banks have to play a significant role in all these changes that are expected to happen in the future. BOC as one of the leading banks in the country has to play a great role in this regard..

Finally, it seems that BOC has become one of the strong pillars on which the Sri Lankan economy has been built. This bank, remaining as a state bank, strengthens the financial stability of Sri Lanka while contributing to the economic growth and social development. In order to gain the maximum contribution

from this bank in the future, it should be protected as a public bank that caters to every financial need of the different sectors in the country in particular and the world in general.

References

Akinlo, A.E. (2012). Financial Development and the Velocity of Money in Nigeria: An Empirical Analysis. *The Review of Finance and Banking*, Vol. 4 (2): 97-113.

Bank of Ceylon. (2014). *Annual Report 2013*. Colombo.

Bank of Ceylon. (2013). *Annual Report 2012*. Colombo.

Beck, T., Dermirguc-Kunt and Perera, M. (2005). Reaching out: Access to and use of banking services across countries. Available from <http://siteresources.worldbank.org/INTFR/Resources/ReachingOutAssesstoandusebankingservicesandacrosscountries.pdf>.

Central Bank of Sri Lanka. (2014). *Annual Report 2013*. Colombo.

----- (2013). *Annual Report 2012*, Colombo

Chandrakumara, D.P.S. (2012). Credit for Rural Development: Trends of Formal and Informal Credit Sources in Sri Lanka. *Issues in Development*. Herath Madana Bandara (ed.), A Stamford Lake Publication, Colombo.

Chen, S.H. and Guo, J.(2006). Velocity of Money, Equilibrium (In)determinacy and Endogenous Growth. Available from <http://economics.ucr.edu/papers/papers06/06-01.pdf>

Demirguc-Kunt, A. and Klapper, L. (2012). Financial Inclusion in Africa: An Overview. *Policy Research Working Paper 6088*, The World Bank.

Espinoza, R., Fornari, F. and Lombardi, M.J. (2009). *The Role of Financial Variables in Predicting Economic Activity*. European Central Bank, Germany.