

Cabinet approves \$ 75 m WB loan to upgrade financial sector including restructure of National Insurance Trust Fund by separating the underwriting and reinsurance business. –Daily FT (2017-02-23)

Cabinet yesterday approved a \$ 75 million loan from the International Development Association (IDA) of the World Bank to fund a financial sector modernisation project. The Cabinet paper presented by Prime Minister Ranil Wickremesinghe was given approval, allowing the implementation of the Financial Sector Modernisation Project, which will run from 2017-2022 and is based on a study done by the World Bank in 2015 on the request of the Government.

The project development objective is to contribute to increasing financial market efficiency and use of financial services among micro, small and medium enterprises and individuals which will be achieved through modernising financial market infrastructure, upgrading the legal and regulatory framework for financial system aid and strengthening the institutional capacity of financial sector regulators.

Under the loan agreement, the Government will authorise the Treasury to establish a Central Project Coordination Unit at the Finance Ministry and appoint a project steering committee under the Treasury Secretary and the Governor of the Central Bank or their representatives to oversee the implementation of the project.

Three project implementation units will also be established under the Central Bank, Securities and Exchange Commission (SEC) and Insurance Board of Sri Lanka to coordinate with the Central Project Coordinating Unit. All three organisations will also be required to enter into project agreements with IDA.

Under the project the Finance Ministry will enter into agreements with the Central Bank, SEC and Insurance Board to disseminate the IDA funds as grants during the implementation process.

The project, which is to be implemented under three components, will initially concentrate on a consolidated risk-based approach to supervision of financial institutions, the establishment of a Financial Consumer Protection Authority. The project will also establish an information system for holistic management of the Employees Provident Fund assets, its liabilities, adopt a diversified investment strategy and establish a delivery versus payment mode of settlement for corporate securities to minimise possible risks to financial stability. It will also restructure the National Insurance Trust Fund by separating the underwriting and reinsurance business.

Under the second component the project will attempt to increase the supervisory and institutional capacity of the Central Bank at a cost of \$ 31 million, SEC for \$ 19 million and Insurance Board for \$ 9 million. The project also carries an implementation and monitoring front-end fee of \$ 1 million.