

# Snapshot of pre- and post-pandemic analysis of alternate financial services growth in Sri Lanka



SRI LANKA

By Shiraz Refai

The Islamic banking and finance (IBF) industry, also referred to as the alternate financial services (AFS) industry in Sri Lanka, has been growing steadily over the past two decades. Its acceptance from a broader community is increasing with the knowledge-sharing deliberations of industry practitioners.

The AFS industry comprises seven licensed banks and six non-bank financial institutions (NBFIs) as major players, primarily servicing the retail needs of the IBF industry. Complementary Takaful services are provided by three main players and developing capital market service providers are at the infancy level. The services are offered either as dedicated operations or as window operations.

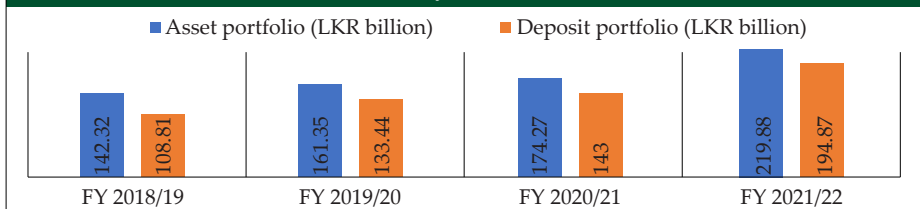
With an emphasis on licensed banking and the NBFIs segment, historically, the AFS industry in Sri Lanka has shown a steady year-on-year (YOY) growth averaging approximately +20% in terms of asset-base growth and an approximately +25% growth on deposits with its recorded history over the past two decades.

As per Figure 1, the YOY growth from 2018/19 to 2019/20 has been 13.37% for assets and 22.64% for deposits, depicting the industry averages. However, a slowed-down growth was recorded in the subsequent year with an 8.01% growth for assets and 7.16% growth for deposits, which was caused by the direct impact correlating to the effects of the COVID-19 pandemic.

With the resurgence of economic activities in the new normal, the industry has bounced back strongly with significant growth, recording a 26.17% growth in assets and 36.27% growth in deposits in the banking and financial services sector for 2021/22.

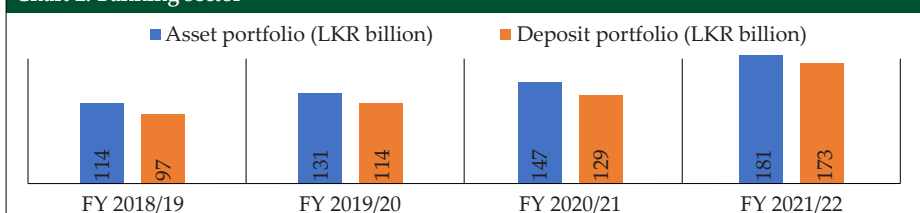
Probing further into the industry segments, as visualized in Chart 2, the banking sector was able to sustain its asset growth from 14.65% in 2019/20 and 12.09% in 2020/21 and bouncing back with a 23.69% growth in 2021/22.

Chart 1: Alternate financial services industry



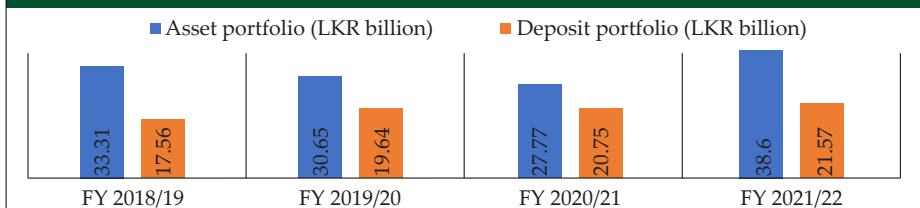
Source: The data on the graphs is collated as at the fourth quarter of 2021 (Q4 2021) for licensed banks and Q4 2021/22 for NBFIs by respective IBFS specialized annual reviews of entities (where available) and one-to-one discussions with representatives of IBF network of practitioners (where specialized annual reports are not published for public circulation).

Chart 2: Banking sector



Source: The data on the graphs is collated as at the fourth quarter of 2021 (Q4 2021) for licensed banks and Q4 2021/22 for NBFIs by respective IBFS specialized annual reviews of entities (where available) and one-to-one discussions with representatives of IBF network of practitioners (where specialized annual reports are not published for public circulation).

Chart 3: Non-bank financial institution sector



Source: The data on the graphs are collated as at the fourth quarter of 2021 (Q4 2021) for licensed banks and Q4 2021/22 for NBFIs by respective IBFS specialized annual reviews of entities (where available) and one-to-one discussions with representatives of IBF network of practitioners (where specialized annual reports are not published for public circulation).

This growth performance was also propelled by the reduction of policy rates by the central bank to bring in excess liquidity to the markets to support economic activity, which gave a significant edge to the banking segment in growing its portfolios over that of NBFIs, owing to lower cost funds.

A complementing parallel growth pattern in the deposits was also noted with a 17.93% growth in 2019/20 and 12.92% in 2020/21 to an encouraging increase of 34.86% in 2021/22.

The NBFIs sector growth as visualized in Chart 3 was severely affected with a double jeopardy due to ripple effects of the pandemic and also portfolio migration toward the banking segment due to the low-cost regime that prevailed

at the time and excess liquidity that favored the banks over NBFIs.

Therefore, the NBFIs sector asset growth dropped to a negative (7.99%) in 2019/20 and further (9.4%) in 2020/21. However, the sector capitalized on the low-policy rate regime quickly and recorded a robust 39% growth, outperforming the banking sector in 2021/22. On the contrary, there was a slow growth trend in the deposits with an 11.85% YOY growth in 2019/20, 5.65% in 2020/21 and 3.95% in 2021/22. ☹️

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