

**Speech made by the Chairman, IBSL, at its 21st Convocation
held on January 27, 2017 at BMICH**

Honourable Governor

My Colleagues of the IBSL Governing Board

Distinguished Invitees

All Award Recipients

Ladies and Gentlemen

Good Evening to all of you

I feel greatly privileged to associate in the 21st convocation of the IBSL today along with this distinguished audience.

First, let me welcome the Governor, Members of the Governing Board of the IBSL, Award Recipients and all other well-wishers to this convocation and I am grateful to all of you for taking-part in the convocation. This convocation could not have been possible today without your contribution and participation.

Now, let me begin to share with you few thoughts why we should learn about money, banking and finance and why the IBSL is important in this context. I feel free to express my thoughts technically since this is the audience of professionals of this industry.

This world is run by various inventions. Not to mention about the greatest and unbelievable invention of human beings by whomever did it. There are well-known great inventions that have shaped the current world. If not for those great inventions, particularly atomic bombs, air planes, telephone, television, internet, Microsoft, Apple and Samsung, the current world we live today would have been different. But all these inventions have both good and bad outcomes.

Money and banking of money are also among the greatest inventions in this world. Without money, all other inventions would not have been possible because those inventors could not have been motivated and remunerated so conveniently without money. Money runs all of our

lives unbelievably. It is the money that created markets and trades of all sorts. It creates income, employment, assets, consumption and investment.

What is this money? It is a means or measurement of non-existing value in our minds. We use money in cash and other ways, not because of its face value, but because of its value. If you have 500 Rupee currency note, you can tear it into exactly two equal pieces, but you cannot claim the value of each piece as Rs. 250. Similarly, you don't keep Rs. 500 currency note because the note's material or intrinsic value is Rs. 500, but because you can hold worth or value or price denominated in Rs. 500. Is this underlying worth or value is fixed and existing? No. It is an imaginary and non-existing value. If so, why we hold money? Because we have confidence in this value shown or stated by money units.

Our Chief Guest Dr. Coomaraswamy is the noblest person who is legally and professionally capable of keeping this confidence in this value of money in Sri Lanka because he is none other than the Governor of the Central Bank of Sri Lanka and the Chairman of the Monetary Board governed by the Monetary Law Act. The Central Bank and Monetary Board are the sole authorities to protect the value of money. The Central Bank has to protect the value of money in two ways. Protecting the purchasing power of money – economic and price stability - and safety of money transactions or usage of money – banking/financial system stability. The two types of value are interconnected. Therefore, we all have to face risks in value of money – inflation or macroeconomic risk and default risk. All other risks are various facets of these risks.

In finance we learn standard risks such as liquidity risk, market risk and operational risk. For example, if a person deposits money in a bank, the bank is happy because it gets money to do the business. However, the bank runs the liquidity risks in the event the depositor unexpectedly demand his deposit back. This risk is liquidity risk form the point of view of the bank, but it is the credit risk from the point of view of the depositor. The bank faces liquidity risk because money is lent. Therefore, the eventual risk the bank encounters is the credit risk due to the borrower. If there is an operational risk by way of fraud, the bank loses money and cannot payback liabilities to that amount. We all try to make gains by accepting these risks to different degrees depending on our risk appetite.

Money or monetary system creates financial assets and liabilities which do not have underlying assets. Some one's asset is someone else's liability where the net assets is zero when aggregated. Total financial assets or liabilities are many times the currency or hard money in circulation. The Central Bank is legally responsible for hard money, but Central Bank can never payback currency out of real assets. So, who will pay for financial assets or liabilities we hold if we want to encash them into hard currency? The Central Bank cannot do it. No one else can do it. Should we turn to the God and seek relief?

But we have confidence in our money or financial assets and liabilities. However, the confidence behaves in bubbles run by the greed and moral hazard. When the bubble builds up, the financial value we hold goes up. When the bubble shrinks, our value is lost. In the case of the bubble burst, what we called financial crises, the value is lost overnight. In certain instances, bubbles can occur in certain segments. We all are responsible for these monetary and financial bubbles. Excessive leverage, excessive risk-taking and moral hazard are the corner stones of these bubbles.

Therefore, the prudence that safeguards all of us is the stability. In this regard, although the Central Bank is responsible for price and financial system stability, all stakeholders in the financial system have a role to play. The stakeholders are the regulators, market participants (you and I) and all other service providers and they all have to behave prudently and bear both fruits and risks of their decisions rather than blaming the Governor and the Central Bank and the Government. For example, there are legally permitted banks and financial institutions all around the country within the walking distance. Still, some participants including highly educated professionals and retired senior citizen deposit or invest in unauthorized institutions because of the greed on high returns offered. Once those institutions go bust, they blame the Central Bank citing its failure to regulate.

In this regard, we all need to learn risks and manage them to the degree we like. We need to know the degree of risk we are able to bear. In this context, the IBSL has been in the forefront of providing learning opportunities. It could not survive 53 years if it were not effective in the market. The members to the Governing Board of the IBSL are statutorily appointed and capable

to run this education institute. They are CEOs and leading professionals of high rise banks. I do not think any business organization has a board of such professionals.

The IBSL's new academic model is to train professionals to understand their role and play their part prudently. The academic programme in Applied Banking and Finance which was launched in 2014 has been specifically designed to train professionals on fundamentals of risk management in all fronts I stated above. Five examinations have been conducted so far and nearly 90,000 members have sat for the subjects. Already, nearly 800 Diploma holders (DABF) have been produced. The academic programme now can be upgraded to the degree status.

We have launched a new membership policy to promote our Associate Members and Fellow Members to Senior Associates and Senior Fellows after assessing their carrier successes and capacity building. Outstanding Associates can be promoted to Senior Fellowship if they have become leading professionals. We would invite high esteemed leaders of other professions by offering distinguished fellowship and leverage on their knowledge. The IBSL will be moving to its brand new building in few months to come and house its all training and education activities under one roof with modern facilities. This will pave the way for the IBSL to a regional center for banking and finance education. This is our immediate vision.

Finally I take the opportunity to thank all of you for your association with the IBSL. I am very grateful to the Governor for adding a spectacular colour to the Convocation by being the Chief Guest and giving a thoughtful message to the Convocation Supplement published in press. I thank all well-wishers for helping us in the today's Convocation.

I wish all award-recipients success in all their future endeavors.

Enjoy the Convocation and have a good night.