NEW REALITIES, MYTHS & FANTASIES OF THE INDUSTRY CALLED "BANKING"

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Beyond the London Coffee Houses

Today, archaeological revelations have brought out much evidence that Asian, Babylonian and other civilizations had experienced a glimpse of a sophisticated banking mechanism in ancient societies many thousand years before the birth of the "Coffee Houses" in modern Western banking,. It is said that the first bankers were probably religious institutions, and the development of Agro based economies grew in time into a distinctive form of grio–banking based on the deposit of grains. As the British historian Paul Johnson said, "***Food money in the shape of Olives, Dates, Seeds or Animals was lent out as early as 5,000 B.C, if not earlier..... Among the Mesopotamians, Hitties, Phoenicians and Egyptians, interest was Legal and often fixed by the state***".

Undoubtedly, the invention of money as a medium of exchange had influenced the banking Industry at large and some evidence even point that money originated in the Asian region. The modern economist Keynes wrote in his *Treatise of Money* that, "***Money like certain other essential elements in civilization, is a far more ancient institution than we were taught to believe. Its origins are lost in the mists when the ice was melting and may well stretch back in to the paradisiacal interval in the human history of the inter – glacial periods, when weather was delightful and the mind free to fertile of new ideas in some Eden of Central Asia***". Today, the industry called banking has evolved from the coffee houses of London to United States based world financial centres and to global banking industries without geographical demarcations; the model of universal banking.

Today everyone talks of a "new" economy that faces new challenges as well as opportunities through globalization, deregulation and advancement in Information telecommunication (ITC) and Kotler in his Marketing Management says, "***Today it is fashionable to talk about the new economy. We hear that businesses are operating in a globalized economy that things are moving at a nano-second pace; that our markets are characterized by hyper competition; that disruptive technologies are challenging every business and that businesses must adopt to empowered consumers***."

It is obvious the industry we call banking faces these challenges at a much higher pace than any other industry in the world. But an undisputable fact remains that the core concept of banking, that is borrowing and Lending (Intermediation) has not changed from the centuries old industry. Yet new economic realities of the world change the structures of many industries from even its original DNA.

Kotler has identified four major specific drivers that underpin "The New Economy".

- Digitalization and connectivity
- Disintermediation and re – intermediation
- Customization and customerization
- Industry convergence

These drivers obviously have changed the rules of the game with new technology and modern ways of achieving winning results being introduced. Growth of any industry as well as the survival is largely dependent on how quickly one understands these modern realities and how creatively responds to them.

Growth, Myths & Fantasies

There are many who believe that the growth of banking industry is restricted by two major constraints.

- The limit on growth caused by limited monetary growth
- Need for capital to support risk on assets

The limit on growth caused by limited monetary growth

It is said that monetary growth is a matter of grave concern for any government since excess money supply leads to uncontrollable inflation in the country. Of course exponential inflation can create much socio economic chaos in any state and no government which has least accountability would dare to create such a situation. Hence traditionally it is assumed that restriction in money supply is an impediment to growth in financial sector. But do not forget the context of the economy where high economic growth can swallow higher inflationary situations and create more dynamism in economic activities. This introvert perspective purposely ignores present global economic outlook and unbelievable space of cross boarder investments flowing across the globe.

Need for capital to support of risk on Assets

In conventional organic growth perspective, an answer has to be found to the fundamental question" ***How much growth is solely dependent on how much capital is available in the banking system***" It is assumed that to have higher growth or acquire higher asset value, requires higher capital availability since it creates more risk. The simple rationale is to have a higher risk weighted asset under the present Basel 2 compliance; bankers ought to have a higher capital base.

As a solution to overcome these constraints, some professionals argue that bankers should look at asset less & riskless banking systems as alternatives. The rationale of this kind of proposition is purely based on the theoretical possibility of shifting the fund based banking activities towards fee based activities and create more tradable assets. Is this proposition a practical approach to meet the new realities? Is the world's banking industry moving towards such business models with leaner asset base with lower risk situations?

How thin the world bankers

A few academics who subscribe to this ideology neglect the context of where new businesses are operating and have not fully understood the key drivers of the new economy. The Economist (May 2006 edition) published that "***Banks the world over are scrambling to became larger, whether by organic growth or by mergers or acquisition***." During the last two decades it has proved to be the true and irrefutable fact that almost everywhere the world over, large Banks have been growing bigger in size through mergers and acquisition as well as through organic growth.

World Top Ten Banks, by size of Assets Base (values in USD Billions)

2004		1995		1985	
UBS	1,533	Deutsche Bank	503	Citigroup	167
Citigroup	1,484	Sanwa Bank	501	Dai - Ichi Kangyo Bank	158
Mizuho Financial Group	1,296	Sumitomo Bank	500	Fuji Bank	142
HSBC Holdings	1,277	Dai - Ichi Kangyo Bank	499	Sumitomo Bank	135
Credit Agricole	1,243	Fuji Bank	487	Mitsubishi Bank	133
BNP Paribas	1,234	Sakura Bank	478	Banque Nationale de Paris	123
JP Morgan Chase	1,157	Mitsubishi Bank	475	Sanwa Bank	123
Deutsche Bank	1,144	Norinchukin Bank	430	Credit Agricole	123
Royal Bank of Scotland	1,119	Credit Agricole	386	BankAmerica	115
Bank of America	1,110	ICBC	374	Credit Lyonnais	111

Sources: The Banker and The Economist May 2006

International Convergence of capital measure and capital standards, widely known as the "Basel 2" introduced new code of rules to mitigate risks by allocating capital for different risk components; Credit, Market and Operational risks. Most conventional academics and practitioners have compelled themselves to see these new rules as constraints that limit growth.

However the reality is contrary to this conventional stream of thought. It is not meant to be mere compliance after compliance from one Basel to another. What it does is to give a better rule book on how to mitigate banker's risk. It provides a healthy environment for strong species in the jungle of business to become more competitive & stronger players. And undoubtedly the weaker and smaller species may pay a price unless they proactively adopt new strategies to face the new challenges and new economic realities in a digitalized world. Research has revealed that as Banks get bigger they also become smarter!

According to the survey of International Banking May 2006 in the *Economist*, an average American Bank applying the Basle 2 rules would help them to decrease their regulatory capital by 15%. The dilemma of United States regulators is that new risk weighted compliances for most of the big bankers inherently produce larger reduction in risk based capital requirements, implying a far lower standards of capital adequacy than they used to have. Of course smaller banks in United States too, face disadvantages in complying with Basel 2 in comparison to their bigger counterparts with sophisticated Internal Rate Base systems, adjusting their Asset on less capital concentrated areas every second. This has not harmed the profitability of US Banks either, considering the present 4% minimum equity capital for US banks - regardless of risk weighting, which are comparatively higher than international standards.

With the fall of communism in Eastern Europe and former USSR, the motto of Big Banks became "Love, thy neighbour", and since then especially in Central Europe, foreign banks have acquired or built 80% of the top local banks. Between 1990 and 2004, the market share of the top five banks in Europe rose, in Italy from 26% to 54%, in Spain from 35% to 46%, in France from 52% to 66%, in Britain from 66% to 82%, and in Netherlands from 78% to 89% based on the findings of the Boston Consulting Group.

Top 10 European cross-border Bank mergers & acquisitions since 1995

Target	Acquirer	Year	Deal Value $ Bn.
HVB Group	Unicredit	2005	22.3
Abbey National	Banco Satander Central Hispano	2004	16.8
Generale de Banque	Fortis Group	1998	12.7
Banca Nationale del Lavoro	BNP Paribas	2006	11.0
Credit Commercial de France	HSBC Holdings	2000	10.7
Banca Antonveneta	ABN AMRO	2005	7.2
Bank Australia	HVB Group	2000	6.7
Merita	Nordbanken	1997	4.7
Banque Bruxelles Lambert	ING	1997	4.7
Unidanmark	Nordic Baltic Holding	2000	4.6

Source: Dealogic, The Economist May 2006

Astonishingly it is very clear that growth of bankers have not been restricted by either limited monetary growth or the regulatory capital required for Risk Weighted Assets. These banking giants have diversified their income streams not only in fund based sources but also in fee based sources. More apparently these bankers are more focused on understanding the new economic and social realities and aggressively sailing to new territories where more wealth can be created. These bankers have not dwelled on leaner asset-less, risk-less banking models; instead they are strategically focusing to become bigger and stronger, understanding that opportunities ahead of them can be grabbed only by such creatures.

Reality of the Future

One of the contemporary marketing gurus, Kotler once said "***The future is not ahead of us. It has already happened. Unfortunately it is unequally distributed among companies, industries and nations***". Even in the World Development Report of 2006, the World Bank realized this issue of inequality within countries as well as nations. It recognized that the distribution of opportunities matters more than the distribution of outcome, as opportunities are the potential rather than the actual, and are hard to observe and measure than the outcome.

Any industry or company that aspires to become competitive in the market place ought to understand the new economic realities. In the 21st century business realities do not guarantee anyone's survival by just being a domestic market leader or competitive in the domestic market place. The new order of 21st century business realities blur the demarcation of boundaries of different industries; accelerate the pace of opening up national markets and information & telecommunication innovations shrink the importance of geographic distance. It is essential to craft bold offensive strategies to carve out new market positions, if bankers do strive in this globalised world.

The Beauty of becoming "BIG"

As revealed, big banks have been getting bigger all over the world. Some by organic growth and others by mergers and acquisition. In America the ten biggest commercial banks control 49% of the country's banking assets, up from 29% a decade ago.

Top ten bank M&A since 1995

Target	Acquirer	Year	Deal Value $Bn
UJF Holdings	Mitsubishi Tokyo Financial Group	2005	59.1
Bank One	JP Morgan Chase	2004	56.9
Fleet Boston Financial	Bank of America	2003	47.7
Bank America	Nations Bank	1998	43.1
Citigroup	Travelers Group	1998	36.3
MBNA	Bank of America	2005	35.2
Nat-West	Royal Bank of Scotland	1999	32.4
Wells Fargo	Norwest	1998	31.7
JP Morgan	Chase Manhattan	2000	29.5
Sakura Bank	Sumitomo Bank	2000	25.8

Source: Dealogic, The Economist May 2006

"The Big B reality" continues in the Asian part of the world without any distinction of whether it is a developed or emerging market. In Japan, three new "***Mega Banks***" have "eaten up" 11 "old" banks to become three giant sumo fighters in the Japanese banking industry as well as the world. These are Mitsubishi-UFJ Financial Group (MUFG) with a balance sheet total of $1.7 trillion, Mizuho with $1.46 trillion and Sumitomo Mitsui Financial Group $900 Billion.

The Asian Dragon, the Chinese banking industry has already begun to blow flames of fire. Four big state owned banks, Bank of China, China Construction Bank, Industrial and Commercial Bank of China and the Agriculture Bank of China have been forced to put on a radical restructuring track. In this radical approach China has collected more than $20 Bn. for a stake in government owned banks. This new infusion of foreign investments and the new technology are yet to fire all its flame! It is obvious that this kind of larger acquisition or restructuring needs time to digest different business cultures, systems and procedures and none can expect the synergies to mushroom within a few months.

Top ten recent foreign investments in Chinese Banks

Date	Target	% Purchased	Acquirer (Nationality)	Deal Value $Mn.
Aug-05	Bank of China	10	Royal Bank of Scotland (Britain), Merrill Lynch (US), Li Ka-Shing (HK)	3,100
Jun-05	China Construction Bank Corp	9	Bank of America (US)	3,000
Dec-05	Guangdong Development Bank	85	Citi Group (US) and others	3,000
Jan-06	Industrial & Commercial Bank of China	7	Goldman Sachs (US)	2,580
Jun-05	China Construction Bank Corp	5.1	Tenasek Holdings (Singapore)	2,466
Aug-04	Bank of Communications	19.9	HSBC Holdings (Britain)	1,745
Sep-05	Bank of China	5	Tenasek Holdings (Singapore)	1,550
Jan-06	Industrial & Commercial Bank of China	2.5	Allianz (Germany)	1,000
Mar-06	China CITIC Bank	19.9	CITIC (Hong Kong)	714
Sep-05	Bank of China	1.6	UBS (Switzerland)	500

Source: Dealogic, The Economist May 2006

Despite the government's reluctance to open wide its door, India is the fastest growing consumer credit market in Asia. It is predicted that by 2010 India will have the world largest numbers of English speaking affluent middle class over 300mn. One should not forget that in contrast to Chinese state driven growth, Indian growth is coming from the micro level to the private sector. Even though slow pace of Indian reforms has already created hype in their growth. In the predominantly state owned Indian Commercial Bank market, the ICICI Bank has emerged as a big winner in the private sector banks, and has expanded its operations to over 12 countries. Considering the competition coming from its neighbouring Dragon, China, the Indian government could be forced to consolidate its state owned banks to a few or single, yet big, stable and strong banks. Subsequently India may then relax its barriers to foreign entry.

GDP Growth rate of China & India

	2008 (F)	2007	2006	2005
China	12.1%	11.7%	11.5%	10.5%
India	N/A	9.4%	9.0%	7.5%

Source: People's Bank of China, Reserve Bank of India

Today world's economic growth is mainly driven by Chinese and Indian economies. In this context it is obvious that rapid growth in financial sector is essential in the region. Hence the big banking showdown is yet to come in Asia!

Convergence of Industries

It is becoming clearer that different industry boundaries are blurring at an unbelievable speed and pace. The new experiences and knowledge created with the integration of two or more industries will definitely create business opportunities and capabilities with synergies, but converting these capabilities will be more challenging.

The fashionable industrial conglomerate is a decade old strategic approach for many industries. The "***One Stop Financial Shop"*** concept bred new energy to these decade old concepts, and today financial conglomerates have become a reality. Today, consumer and retail banking, investment banking, corporate banking, asset management, personal banking, insurance business and credit card processing, all come under one roof. Many mergers and acquisitions are based on the rationale that brings these new synergies under one roof. These kinds of well managed financial conglomerates bring economies of scale and scope. The basic economies of scope common to almost all banks are the acceptance of deposits and lending. The expertise and information useful on one side of the business tends to be useful to the other side too.

Some surveys suggest that creating financial conglomerates is not really focused on creating shareholder value, but to gratify top business managers who want to build empires or to avoid being acquired due to the size. The latest news in the global financial market is the Citi Group venture into Japan. According to ***Fierce Finance,*** "Citigroup was expected to make some kind of foray in to Japan mainly to tap what many expected to be a goldmine in boomer retirement funds. Not to disappoint, the bank announced that it has struck an alliance with troubled Nikko Cordial to support a takeover offer. Through Citigroup Japan investments, the bank will seek to buy all outstanding shares of Nikko, a move that could cost more than $ 10 billion."

Bigger banks today, are more likely to be totally different from what it was ten years ago, because of structural changes, new systems adopted, and synergies created by different industries. J P Morgan-Chase is a financial conglomerate that resulted with the merging of 550 banks and 20 other financial industries in the past 15 years. Yet, today, JP Morgan is the 3rd biggest bank in America.

The new world order of business allows totally different industries to be converged. True, there are many concerns that over-converged banking and commerce would drain the general public deposits and manipulate lending. But converging of different industries with the banking industry should not be restricted purely because of these moral hazardous issues and it should be the prime duty of regulators to prevent these kinds of irregularities from occurring.

The world renowned Retailer, Wal-Mart is already in to industrial loans and the big banks in

America are already on alert mode while the small banks have faced an additional challenge to deal with. The future of the industry called banking is shaping, perhaps "***Re - incarnating***" - itself with different forms of banking. It is already happening today - **Be prepared for it**!

Digitalizing the World

The rapid advancement in Information Telecommunication (ITC) has digitalized many applications and systems, which convert text, data, sounds and images into a stream of zeros and ones that can be combined to bits transmitted from appliance to appliance. The Bankers are standing right in front of the "***Information Highway***". They can't *just* keep standing forever, because doing so they will be smashed with high-speed digitized vehicles! Standing still will pave for Bill Gate's prediction of "Bankers are dinosaurs" to become a prophecy!

The fear of disintermediation is only a half truth. Although in many industries middle men lose their business, new ways of intermediation have sprung up in this galaxy of informational highway. Kotler named it –"***Re-intermediation***" in his book – "*Marketing Management*" and predicts that, "many brick and click" competitors will become stronger contenders than the pure click firms since; they had a larger pool of resources to work with and well established brand names.

Bankers are adapting quickly to the challenges of the digital economy starting from ATM to virtual banking, process automation to innovative delivery channels and customer convenience; being well managed by the banking industry at large. It is observed that bankers are developing sophisticated supply chain system to create efficiency and cash flow option to cater new requirements of the market. The traditional documentary credit system creates inefficiencies and according to the World Trade Organization (WTO) 80% of the world trade is done using the open account system. Today banks such as Citi group already provide state of the art integrated Supply Management Solution for open account transaction for world trade.

However, the threat may come with competition from telephone companies in the future. It is reported that less than 1 Bn people have bank accounts worldwide but close to 3Bn have mobile phones! Further over 200 Mn. international migrant workers need to send money back to their homes and many of them do not have a bank account. The IMF estimated that to send $ 200 back to relatives in the migrant worker's home country costs $15 - $26 on average in 2005. It is believed that mobile systems could drastically reduce this "***intermediation cost***" of bankers.

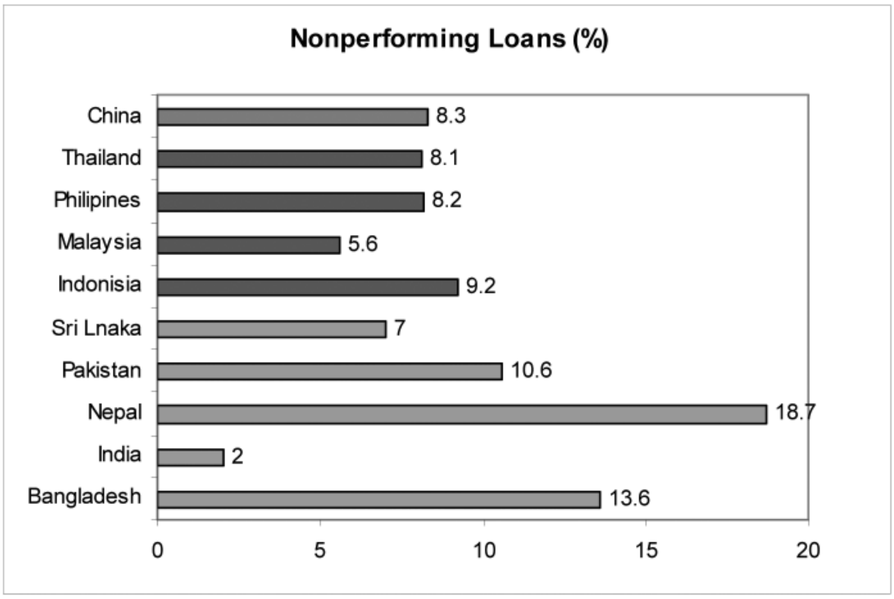
It is significant to note that according to the World Bank estimations, the current global remittance market has a total annual worldwide value of $268Bn. ***See the possibilities of business opportunities for Bankers and of course for the telephone companies!*** It is too early to predict that mobile phones might open the way for telephone companies to compete with banks in holding balances and running payment systems or they will have some strategic alliances with banks to do the job. But one thing is predictable, more and more industry convergence will happen in the very near future, which will result in mergers and acquisitions as well as the making of bigger banks - much bigger banks!

Paradise of Eden

A few decades ago it was said that South Asian economies were connected to the developed world, as a foetus to its mother through the placenta, and even the smallest vibrations of the mother were felt in magnitude as rippling effects and shocks. However, the South Asians have been able to develop "shock- absorbers" during the last decade to overcome these socio–economic shocks generated by the Developed part of the world. The Asian Development Bank, South Asian Economic Report (SAER) says, "South Asia's economy performed well in the 1990s and during the past 5 years it has done even better. The growth rate has improved steadily, and is today among the highest in Asia. Similar improvements have taken place in the macroeconomic fundamentals, (lower inflation, smaller current account deficits, and declining fiscal deficits in the last 5 years), in the savings and investments rates, and in the integration with global economy".

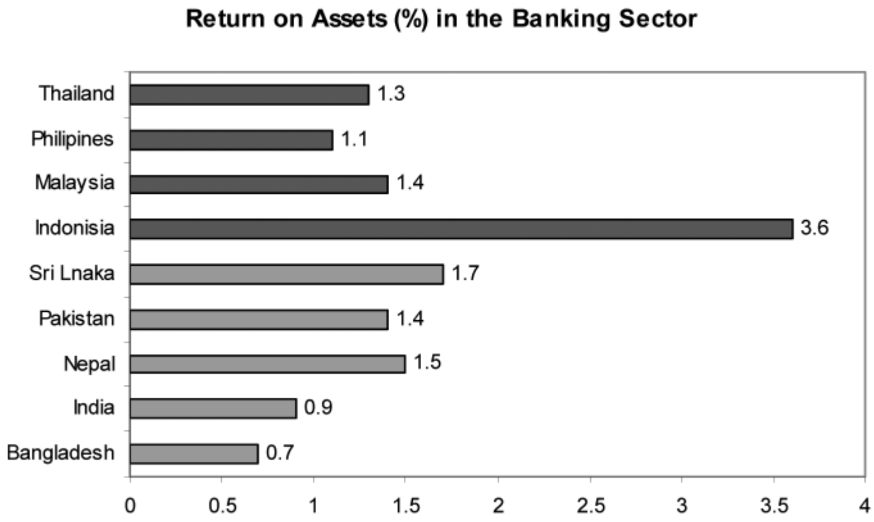
There are many theories suggesting financial sector development leads to economic development as well as vice versa. However, the purpose of this article is not to debate on these academic theories. Nevertheless, the Financial Sector; more specifically the commercial banking sector has played a vital role in these achievements. In the context of under developed capital markets, a healthy banking sector is particularly important in channelling funds to productive investments and in promoting economic efficiency.

Asset Quality and Profitability of Asian Banking Industry



Notes: Latest available data (as of end); Bangladesh, Pakistan, and Sri Lanka - 2005; India - FY 2004; Nepal - FY 2005; Indonesia and Philippines - April 2006; Malaysia and Thailand May 2006; PRC - March 2006.

Source: Central Bank Annual Report of various countries; Asia Economic Monitor (July 2006). available: http//www.aric.adb.org



Notes: Latest available data (as of end); Bangladesh - 2004, Pakistan -FY 2005; India - FY 2004; Nepal - FY 2005; Sri Lanka, Indonesia and Philippines,- Malaysia and Thailand - 2005.

Source: Central Bank Annual Report of various countries; Asia Economic Monitor (July 2006). available : http//www.aric.adb.org

Source: South Asian Economic Report (SAER)

In this global banking and economic context, where would Sri Lankan Bankers stand? Do we have at least the appropriate size to capitalize Indian Markets or other Asian emerging markets? No doubt the Sri Lankan financial industry, especially the commercial Banking sector is one of the fastest growing and most lucrative businesses. Even with their Asian counterparts, Sri Lankan banks are in good shape both in asset quality and profitability.

Growth of Assets of Commercial Banking Sector in Sri Lanka (Values in Rs. Mn.)

	2003	2004	2005	2006	2007
Tot. Deposits Of Commercial. Banks (Rs. Mn.)	651,223	792,518	945,575	1,121,402	1,307,362
Tot. Advances of Commercial. Banks (Rs. Mn.)	432,683	528,677	672,561	880,878	1,030,737
Total Assets of Commercial. Banks Rs. Mn.)	885,050	1,028,060	1,275,516	1,560,020	1,790,700
Total Assets Increased as a Percentage	12%	16%	24%	22%	15%
Total Assets as a % of GDP (Current Price)	50%	51%	54%	56%	50%

Source: Central Bank of Sri Lanka

Even though the two state owned banks controlled a substantial amount of banking assets, during the last decade they have been continuously losing the market share to local and foreign private banks. However local private banks cannot be complaisant in their achievements due to new economic realities before them. All four major private banks, Commercial, HNB, Sampath and Seylan are going to build financial conglomerates by driving their business in to other Financial Businesses such as leasing and factoring, bank assurance, share brokering and other support services. However, do these strategies give them any advantage? Even the four major private banks are too small to enter neighboring India where a huge potential is laying in front of their eyes. Therefore it is not desirable to be carried away thinking that Sri Lankan Bankers are in the paradise of Eden! Competition has already come from its big brother and multinational giants like HSBC – "The world's Local Bank", despite the growth in total asset base of Sri Lankan Banking sector.

It is a reality that venturing into the banking business in the Indian market demands substantial capital and at present there are regulatory constraints from the Indian corner. However, these regulatory constraints would have to soften in the near future, and the million dollar question is not whether our banking community will be able to digest the capital requirements essential to enter Indian soil; but does our banking community have the much needed mindset to go beyond the Sri Lankan shore. Are the Sri Lankan bankers having a focused strategy to tap the Asian growth fortune available in the region? They have to rethink their conventional strategic approach, focused on domestic markets and trying to be content by becoming the best among the few!

Considering the new economic order, and possible reforms undertaken by her neighbouring big brother, the Indian financial industry, Sri Lankan bankers should definitely question their ability to face the new Indian invasions, as well as digital realities in their own soil.

Total Asset Base of Commercial Banks, 2007

Bank	Asset Value in Rs. Bn.	Asset base as a % of total Commercial Bank's Assets	Profit after tax in Rs. Bn.	World Rank
Bank of Ceylon	437.90	24%	2.84	1204
People's Bank	380.91	21%	2.37	1385
Commercial Bank	267.94	15%	4.10	1520
HNB	232.91	13%	3.02	1587
Seylan Bank	144.25	8%	0.80	1885
Sampath Bank	133.20	7%	1.05	2030

Source: Central Bank report 2007, annual reports of respective banks, *Bankers Almanac*

Acquisitions or Mergers among the remaining local banks may give some economies of scale in the local context but is that enough to be competitive in the regional and global markets. Either these major local banks would then have to consolidate with each other or form a "***financial cartel***" with a new business model to pool required capital, at least in order to step into foreign soils. Time will tell the destiny of Sri Lankan commercial banks in the next few years!

Despite the claim that Sri Lanka Financial sector is strong and stable at least in the domestic context, do they have courage and foresight to understand the new challenges posed by the new businesses in their own territories? The mobile operators in the island are rapidly penetrating the market with immense success. Most of these companies penetrate outside the western province and are expanding their clientele rapidly. These companies have a new breed of strategic alliances with small boutiques in towns and in rural areas to offer re-load facilities to their mobile customers. These have given them the new efficient and effective business model with the least cost and access to the bottom of pyramid customer! Dialog has already exceeded the 4.5 million customer base and they have ventured into satellite TV business. Who can deny that within the next few years' new business models for banking will pop-up with convergence of the mobile industry and the financial industry. There are indeed many opportunities as well as challenges in front of the Sri Lankan bankers.

Rapid Development of Telecommunication in Sri Lanka

	Years				Growth Rate (%)			
Item	2004	2005	2006	2007	2004	2005	2006	2007
SLT Telephone lines in service (No.) ('000)	860	954	910	932	5.9	10.9	-4.6	2.4
Wireless local loop Telephone ('000)	131	290	974	1810	12.9	121.4	235.9	85.8
Telephone density (Tel. Per 100 persons)	5.1	6.3	9.5	13.7	4.1	23.5	50.8	44.2
Cellular Phones ('000)	2,211	3,393	5,412	7,983	58.7	53.5	59.5	47.5
Public pay phones	6,095	6,285	7,561	8,526	-5.4	3.1	20.3	12.8
Internet and e-mail	93,300	115,072	130,000	202,000	9.1	23.3	13.0	55.4

Source: Annual reports CBSL

Creative Destruction

Sri Lankan bankers should understand that globalization of the economy is a market imperative that urges them to have creative and aggressive strategies to be a winning player. The banking industry of Sri Lanka should take bold initiatives to consolidate and at least benefit from the economies of scale by possible mergers among local commercial banks. If local banks dwell in their egocentric approach, it would provide short term psychological security but definitely will become vulnerable in the long term. Further it is important to build alliances and partnerships locally as well as regionally to enhance the efficiency of the banking system.

Convergence of communication industries would provide much needed accessibility at cheaper cost. These kinds of creative convergence are essential to penetrate the untapped markets in the region in a dynamic manner. It is imperative to create new business models to bring the non-banking community in Sri Lanka as well as a larger population in the Asian region in to the formal banking sector. It is said that ***Structure follows Strategy***! Unless Sri Lankan bankers strategically focus on these business realities, it is not possible to create successful new business structures to capture the opportunities available for them.

Before global realities force the Sri Lankan banking community to change, it is prudent to change for the success. If the banking community continues to dwell in their comfort zones with myths, sexier leaner asset-less and risk-less banking; it will be more likely that stronger telephone operators in the domestic market may rob their entire apple pie in the near future, long before global and regional banks do!

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