

## 11. FINANCIAL CONSUMER RELATIONS

The Financial Consumer Relations Department (FCRD) was established in August 2020 with a view to strengthen the financial consumer protection framework within the financial entities regulated by the Central Bank to promote the rights and interests of financial consumers and ensure fairness and transparency of financial products and services offered to financial consumers.

In 2022, FCRD functioned as the single point of contact for financial consumers of the entities regulated by the Central Bank to send their complaints and grievances on delivery of services or business conduct of such entities. During the year the department handled a total of 5,149 complaints and grievances, averaging to around 430 complaints per month. The main categories of the complaints/ grievances received were on requests for concessions on the financing facilities obtained from such entities, charging of high-interest rates, matters related to moratoria, non-provision of information/ documents by financial institutions on consumer requests, and charging of high fees and commissions. Around 75 per cent of complaints received by the department during 2022 were completed/ resolved within two months from the date of receipt of such complaints, even after allowing a reasonable period of time for the respective financial institutions to submit their responses to the complaints made.

As a part of its activities, FCRD oversees the Contact Centre operations of the Central Bank. During 2022, the Contact Centre answered more than 60,000 telephone inquiries and verbal complaints received by the Central Bank. Furthermore, as part of its campaign for creating consumer awareness, FCRD published a web poster on the Central Bank website explaining financial consumers about the avenues available and steps to be taken by them when seeking assistance from FCRD/ the Central Bank. In addition, the department also conducted several seminars and programs on financial consumer protection at the national and regional levels to reach a wider audience. FCRD, with the assistance of the International Finance Corporation, through a professional advertising firm, is developing a media campaign focusing on financial consumer awareness, to be launched in early 2023.

Furthermore, with a view of institutionalising consumer protection in the delivery of services/ conduct of businesses by financial institutions, a comprehensive set of new regulations was developed, enabling the introduction of an integrated financial consumer protection framework for entities regulated by the Central Bank. These regulations will define specific regulatory powers for supervisors to facilitate market conduct supervision while providing clarity to both service providers and recipients on the areas to be considered in delivering or obtaining financial services aimed at minimising the need for financial consumers to make subsequent complaints. The draft of the Regulations has been made available to the industry and public for stakeholder consultation and the final regulations will be issued in mid-2023.

## 12. FINANCIAL INTELLIGENCE UNIT

The Financial Intelligence Unit of Sri Lanka (FIU) was established in March 2006 with the objective of facilitating prevention of Money Laundering (ML) and countering Terrorist Financing (TF). Accordingly, FIU is responsible for facilitating and coordinating the establishment of an effective Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework in the country, primarily based on three main pieces of legislation, namely, the Convention on the Suppression of Terrorist Financing Act No. 25 of 2005 (CSTFA), Prevention of Money Laundering Act No. 5 of 2006 (PMLA), and Financial Transactions Reporting Act No. 6 of 2006 (FTRA).

### 12.1 Receiving, Analysing, and Disseminating Financial Intelligence

As per Section 15 of the FTRA, FIU performed its key role of receiving, analysing, and disseminating information on suspicious financial transactions relating to Money Laundering/ Terrorist Financing (ML/TF) and other unlawful activities during 2022. Further, Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs), Licensed Finance Companies (LFCs), insurance companies, stock brokers, and money or value transfer service providers continued to report cash transactions and Electronic Funds Transfers (EFTs) above Rs. 1 million, or its equivalent in foreign currencies, both domestic and international to FIU. During 2022, Reporting Institutions (RIs) reported 7.6 million (provisional) cash transactions and 10.8 million (provisional) EFTs (inwards and outwards) to FIU through the 'LankaFin' reporting system as well as the newly introduced 'goAML' reporting system. With effect from 01st January 2023, FIU discontinued the 'LankaFin' system for LCBs and LSBs for all types of reporting.

Furthermore, RIs submitted 1,481 Suspicious Transactions Reports (STRs) to FIU as per Section 7 of the FTRA. After analysing the STRs received, 419 STRs were disseminated to Law Enforcement Authorities (LEAs) and Regulatory Authorities (RAs) for further investigations. FIU kept 605 STRs under surveillance and 453 STRs for further studies and analysis. The remaining STRs were categorised as no further action required.

### 12.2 Legal Framework and Institutional Framework

During the year 2022, FIU took various actions to bring legislative amendments to the legal framework on AML/CFT with the objective of improving the effectiveness of the AML/CFT regime of the country in compliance with international AML/CFT standards. These amendments are expected to be finalised during 2023.

By virtue of the powers vested in terms of Section 15 (2) of the FTRA, during the year 2022, FIU took measures to suspend transactions of 136 accounts belonging to 38 individuals and 5 entities pertaining to 14 incidents/cases, based on the suspicions of ML/TF. Accordingly, a balance of

Rs. 96 million was suspended during the year. In addition, around 1,000 accounts relating to 78 cases, which were suspended in the previous years, were extended in two month intervals during the year as LEAs requested further time to conduct investigations. In order to strengthen the AML/CFT compliance of RIs, FIU issued 4 Circulars during 2022, which can be referenced in Part III of this Report.

Further, FIU took continuous measures to enhance compliance of FIs and Designated Non-Finance Businesses and Professions (DNFBPs) by effective monitoring and enforcement, onsite and offsite surveillance, and conducting compliance review meetings. Accordingly, in 2022, FIU conducted 22 joint risk based examinations, 3 risk based onsite examinations, and 22 spot examinations of FIs. In addition, 17 risk based onsite examinations were conducted on DNFBPs. Apart from the above examinations, 5 thematic reviews were also conducted on FIs and DNFBPs.

Based on the onsite examinations conducted in 2022, financial penalties amounting to Rs. 11.75 million were imposed on 6 Licensed Banks on violations of the FTRA and CDD Rules. Also, 8 show cause letters and 9 warning letters were issued during the year to FIs on instances of non-compliance with the provisions of the FTRA and the CDD Rules and Regulations issued there under. Moreover, FIU took measures to inform identified deficiencies to 17 DNFBP institutions during 2022. The AML/CFT supervision of DNFBPs was further strengthened by implementing continuous measures to enhance the number of DNFBP institutions for AML/CFT compliance.

### **12.3 Strengthening the Domestic Coordination and International Cooperation on AML/CFT Related Matters**

The FTRA empowers FIU to enter into Memoranda of Understanding (MOUs) to exchange information with any institution or agency domestically or in a foreign state. During 2022, FIU initiated signing MOUs with the Financial Intelligence Unit of the Kingdom of Lesotho, the Unidade de Informação Financeira de Timor-Leste (FIU of Timor-Leste) and the Financial Intelligence Authority of Uganda.

The Annual Plenary of the Asia Pacific Group on Money Laundering (APG), the regional monitoring body of the Financial Action Task Force was held as a hybrid plenary in July 2022, and the officers of FIU participated in the plenary meetings virtually. Further, the officers of FIU participated in several virtual Mutual Evaluation Committee (MEC) meetings held during the year, mainly to discuss the members' Mutual Evaluation Reports and Follow-Up Reports (FURs). The 7th FUR of Sri Lanka was endorsed at the virtual MEC held in July 2022, where Sri Lanka did not request for upgrades to any recommendation. Accordingly, by the end of 2022, out of 40 Financial Action Task Force (FATF) recommendations, Sri Lanka's compliance status stood as 7 Compliant, 25 Largely Compliant, 7 Partially Compliant and 1 Non-Compliant. During the Plenary,

FIU Sri Lanka was elected as the South Asia Sub-Regional representative of the APG Governance Committee for a one year period.

FIU obtains assistance from members of the Egmont Group, i.e., the Association of global FIUs consisting of 166 members, through the Egmont Secure Web to carry out investigations and to collaborate with member countries to gather intelligence on their investigations. During 2022, FIU responded to 27 requests from counterpart FIUs and made 35 requests to counterpart FIUs to share information related to ongoing investigations. The Egmont Plenary for 2022 was held as an in-person meeting. However, the officials of FIU were unable to participate in the plenary meetings due to external circumstances.

### **12.4 National Risk Assessment (NRA) on Money Laundering and Terrorist Financing**

FIU continued the conduct of National Risk Assessment (NRA) on ML/TF with technical assistance from the World Bank, in compliance with Recommendation 1 of the FATF Recommendations. The outcome of the NRA is expected to be published in the first half of 2023 and the next National AML/CFT Policy will be formulated in line with the NRA outcome.

### **12.5 Conducting Awareness Programs for Stakeholders**

Continuing the efforts to enhance the awareness on AML/CFT, FIU organised and provided resource assistance for altogether 24 awareness/training programs during the year 2022, accommodating nearly 2,250 participants from FIs, DNFBPs, LEAs, and RAs. These programs were conducted face-to-face as well as through online platforms.

## **13. FOREIGN EXCHANGE**

The Department of Foreign Exchange (DFE), which was established on 20 November 2017, continued to carry out the responsibility vested in the Central Bank as the agent of the Government for implementing the provisions of the Foreign Exchange Act No. 12 of 2017 (FEA) to ensure proper promotion and regulation of foreign exchange in Sri Lanka. DFE consists of four Divisions, namely, Policy, Capital Transactions, Investigations and Statistics, and Monitoring and Corporate Services, to execute the assigned duties.

The main functions of DFE are as follows:

- a) Facilitating the issuance of Regulations and Orders by the Minister under the provisions of the FEA.
- b) Appointing Restricted Dealers (RDs) and other persons to deal in foreign exchange as prescribed by the Hon. Minister of Finance (the Minister) in terms of the FEA.
- c) Issuing Directions under the FEA to Authorised Dealers (ADs) and monitoring their compliance in terms of the Regulations, Orders and Directions issued under the FEA.