Banking Under Fire: Creating Normalcy through Banking in Post-Conflict Settings

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Refugees, IDPs and Financial Services

Refugees and internally displaced people (IDPs) have long been the purview of international humanitarian agencies and non-governmental organizations. But with little potential for profit, refugees and IDPs remain one of the riskiest segments for banks.

No one serves them. Yet, they are one of the populations most in need of financial services.

Despite the social and ethical obligation of serving refugees and IDPs, both populations are routinely excluded from formal financial services. More often than not, exclusion is due to operational difficulties, such as security concerns and problems stemming from serving people without formal identification, a permanent address, immigration status, or any physical collateral.

Sri Lanka Case Study

While these problems may seem insurmountable, there is at least one pocket of success: A bank’s efforts in Sri Lanka demonstrate the potential economic and social benefits of providing formal financial services to IDPs. This case study is based on the five branches that the Bank of Ceylon (BOC) opened in “Menik Farm”, a “war camp” in northern Sri Lanka. The camp is reportedly the largest informal settlement in the history of Sri Lanka, with nearly 280,000 IDPs at the end of the war in 2009.

Since its Independence, Sri Lanka has suffered from protracted and violent conflict. During the 2008 hostilities, many people were displaced, often leaving their homes in a matter of hours. The mostly Tamil and Muslim populations fled to camps, bringing their liquid assets: gold and money and documents like property deeds and proof of land ownership.

From a traditional thali tied around a bride’s neck to a symbol of status and wealth, Gold is an important part of the Tamil culture (Tamils were the main ethnicity among the IDPs in the camp). Moreover, gold is a liquid alternative to cash for most Sri Lankans: they pawn their gold for cash, pay interest and repay loans.
In the aftermath of the conflict, the Menik Farm camp was a restricted settlement - IDPs were not allowed to leave the camp. After visiting Menik Farm, the Central Bank of Sri Lanka (CBSL) quickly recognized camp dweller demand for formal financial services. Camp residents urgently needed a safe place to store and protect their assets. They also lacked financing to begin rebuilding their lives, even as Sri Lanka undertook a large reconstruction and resettlement process in the northern and eastern parts of the country.

After visiting the camp, the CBSL appealed to commercial banks to step forward and serve the Menik Farm residents. The state-owned Bank of Ceylon (BOC) was the first (and initially the only) bank to respond to the government’s call. It began by opening five branches in Menik Farm, and continued to expand its branch network to reach all parts of the camp.

Serving this customer segment while remaining commercially viable proved challenging. The cash most IDPs brought with them carried traces of a hard journey: covered in mud, sand, waste or water, most bank notes were unsuitable for circulation. As a result, the BOC had to clean currency notes before reintroducing them into circulation. The bank was, quite literally, laundering its money.

**THE BANK OF CEYLON MODEL**

*The Central Bank of Sri Lanka (CBSL) and the Bank of Ceylon (BOC)*

The Bank of Ceylon (BOC) depended on the involvement of the Central Bank. To a large extent, the Central Bank created the conditions necessary for the BOC to succeed. First, CBSL allowed for independence: neither the CBSL headquarters, nor the Regional Development Department (RDD) meddled with how BOC operated in the camp. Second, BOC had the full backing of the central bank, not only financially and operationally, but logistically as well, thanks to RDD’s plans for the reconstruction and development of the northern and eastern regions.

Because they were unable to travel safely outside of the camps, former BOC employees lived among IDPs on Menik Farm. The decision to live in the camps had both operational and social implications: thanks to its presence, BOC was able to open branches and start serving IDPs within days of accepting the Central Bank proposal. Employee integration into camp society meant that they had already built a certain rapport with residents.

What started as branches in tents and temporary shelters soon developed to permanent structures: The BOC introduced air-conditioned freight containers. Employees contributed two-
days-worth of their salaries to purchase goods for IDPs who had to wait in line to do their banking.

However, customers did not immediately flood into bank branches upon their opening. Extensive outreach was necessary to overcome people’s reluctance. BOC employees from headquarters walked the camp in groups of three, introducing themselves and talking to residents, as did the bank employees who were living among the IDPs. In the beginning, the bank only offered a one service - a storage place for valuables.

As the campaign gained momentum, residents began lining up in front of BOC branches. When they made a deposit, they received a receipt with a number corresponding to their parcel. Individual gold deposits were physically stored in the name of the client. Cash was stored like any normal deposit, its physical properties unconnected to a particular depositor. Deposits were then transferred daily to a main bank branch outside the camp (once the number and value of deposits had increased enough to make daily transfers economical). Bank branches were connected to the main BOC network. Existing customers could deposit into their old accounts and others could open new ones.

Overall, between May 2008 and May 2011, BOC opened or topped up more than 140,000 accounts. At the end of the period, the bank held nearly 10 million USD in gold and cash deposits also valued at 10 million USD.

While services were offered to IDPs free-of-charge, the BOC viewed this as an investment in building trusting and long-lasting relationships with future bank clients. Today, most IDPs remain BOC clients after fully repaying their loans and retaining some of their valuables as cash savings.

In addition to working with IDPs, who were still living in Sri Lanka, the BOC also opened branches for refugees who had fled across the ocean border to Tamil Nadu, India. These
refugees expressed interest in receiving financial services from a local bank given their desire to return to Sri Lanka once the reconstruction and resettlement process started.

**CONCLUSION**

One may argue that the situation in Sri Lanka is unique, and that many of the factors that made BOC successful in working with IDPs cannot be replicated elsewhere. Nevertheless, the experience of BOC teaches us that by remaining patient and understanding the customer, providing financial services to IDPs and other vulnerable groups is possible. It also shows that government and central bank support is necessary to both increase incentives for the private sector to enter such high-risk situations, as well as to make financial inclusion part of a broader strategy for economic development.