

Executive Summary

According to the CBSL (2013), Sri Lankan finance sector plays a major role in economy, which contributes 8.9 per cent to the GDP in year 2012. Further, the total asset base of the banking sector remained unchanged while the total asset base of the NBFIs sector grew by 22 per cent during 2012. Although, Sri Lanka has survived untouched from the global financial crisis, crashes of financial institutes were visible very prominently in the recent past. This was shaken the confidence of the depositors on financial institution. In this scenario stability of the financial institutions are important to keep depositor confidence with the institution. Stability of the institutions is affected by the stakeholders of the company. Therefore, Director board, senior management, regulator and external auditor have selected to study.

27 financial institutions from Licensed Commercial Banks, Licensed Specialised Banks and Licensed Finance Companies were taken to conduct the study. Mixed method approach used for the study and quantitative data collected through questionnaires. For the first stage of the study, researchers collected past six years data for all 27 financial institutions. In addition to that, 10 interviews were carried out to collect qualitative data to support quantitative findings. Second stage of the study was to find out the factors which are affect the depositor consider. For this, 10 interviews were carried out with the group of depositors from three different sectors, which are corporate customers, professionals and depositors.

Variables of the study were Accountability and independence of the director board, competencies and accountability of the senior management, regulators and independence and competencies of the external auditors. ROA, ROE, Capital Assets, Net non-performing advances to capital, Liquidity Ratio, NPL ratio, Loan Loss Provision to Net Interest Income and liquid Assets to total assets ratio were used to calculate the stability of the institution while total deposits to total assets ratio used to measure the depositor confidence. Multi collinear regressions were processed to analyse the two models.

It is observed that director board accountability, senior management accountability and external auditor competencies have positive association with the long term stability. In addition, quantitative results illustrate that depositor confidence strongly affected by the stability of the financial institution. Qualitative findings also supported this argument. Qualitative findings also backed these findings. Further, qualitative findings illustrates that regulator has a positive association with the stability. Moreover, behavioural skills of the management also have reasonable effect on the stability.

Even though, director board accountability, senior management accountability and external auditor competencies effected on stability of the financial institutions, it was observed correlation between variables are low. Although, stability affect by the stakeholders there are other macro-economic factors such as GDP, inflation, and political stability are available. Further, relationship between depositor confidence and long term stability is significant. Depositors are always staying alert on the stability of the financial institution. However, most of depositors are not concerned about the management or director board.

The results of this research have brought several important findings that are contributing to the theory. Most importantly, the study has shown with highly significant evidence that the depositor confidence of the Sri Lankan financial institutions varies with the long term financial stability of the institutions. Findings have been able to confirm these statements for the Sri Lankan context with significant evidences. Further findings have highlighted several important findings to fill this knowledge gap, specifically in the Sri Lankan context. The results showed that there is a significant relationship with the director board accountability and the stability and qualitative findings proved that role of regulator is one of the most important factors that influences the long term stability of the Sri Lankan financial institutions. Financial institution can use these findings to enhance their stability as well as depositor confidence. Most importantly regulator can use these findings to further improve the regulatory system and to increase the financial system stability in the country.