



CENTRAL BANK OF SRI LANKA

22 January 2018

FINANCE LEASING ACT DIRECTIONS

No. 01 of 2018

FINANCIAL CUSTOMER PROTECTION FRAMEWORK

In terms of the powers conferred by section 34 of the Finance Leasing Act, No. 56 of 2000, the Director of the Department of Supervision of Non-Bank Financial Institutions (hereinafter referred to as “Director”) issues Directions to all Specialized Leasing Companies (SLCs) to ensure the protection of rights and interests of the financial customers.

1. Applicability and scope
 - 1.1. Every SLC shall ensure the adherence to the Financial Customer Protection Framework sets out in these Directions. The objectives of these Directions are to safeguard the interests of the customers, maintaining a healthy relationship with customers and strengthening the customer confidence in the sector to ensure the stability and soundness of the sector.
 - 1.2. Every SLC shall follow the minimum standards of customer protection sets out in Direction 3 below and detailed guidelines annexed to this Direction.
2. Role and responsibility of the Board of Directors
 - 2.1. Financial customer protection shall be an integral part of the corporate governance, culture and strategic decision making of the Board.
 - 2.2. Board shall ensure that the all employees and appointed agents are adhering to the minimum standards on customer protection sets out in these Directions. For this purpose, Board shall ensure that an appropriate monitoring mechanism is in place to ensure compliance with these Directions.
3. Minimum standards on Customer Protection
 - 3.1. **Disclosure and Transparency**

Customers shall be given complete, clear, concise, accurate and not misleading information about financial products/services and have the right to access and fully understand the terms and conditions of the products/services which enable them to make informed decisions.
 - 3.2. **Customer Education and Awareness**

Appropriate mechanisms shall be developed to improve the customer knowledge and understanding on the financial products/services which help them to make informed decisions.

3.3. Responsible Business Conduct

Employees and appointed agents shall act professionally with due skill, care and diligence when dealing with customers.

3.4. Complaint Handling and Redress

The customers shall have access to adequate complaint handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient.

3.5. Equitable and Fair Treatment

All customers shall be treated equitably, honestly and fairly at all stages of their relationship with the entity.

3.6. Protection of Customer Data and Privacy

All SLCs shall take necessary steps to protect customer data and privacy.

4. Implementation

4.1. All SLCs shall ensure the implementation of these Directions within 3 months from the date of the Direction.

4.2. All SLCs shall obtain written confirmation from all existing and new employees (prior to taking up their employment) and appointed agents on the adherence to the Financial Customer Protection Framework.

4.3. All SLCs shall publish the Financial Customer Protection Framework in their websites and make copies available for customers on request in their preferred language and educate them when necessary.



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Detailed Guidelines on the Financial Customer Protection Framework of the Specialized Leasing Companies

Introduction

This provides guidelines to comply with the minimum standards of Financial Customer Protection Framework introduced in the view of protecting customer rights and interests by the Specialized Leasing Companies (SLCs).

1. Disclosure and Transparency

1.1. Customers shall be given complete, clear, concise, accurate and not misleading information about financial products/services. The information provided shall be available in languages preferred by the customers, i.e., Sinhala, Tamil and English.

1.2. Key Information about the Product/Service

1.2.1. Advertisements Stage

- a. All advertisements made by SLCs, in any form shall be accurate, understandable and contain factual information on products/services offered in view of not misleading the customers. SLCs shall also provide clarification on any advertisements published on request.
- b. Further, SLCs shall comply with the general and product-specific advertising regulation and guidelines issued by the Central Bank of Sri Lanka from time to time.

1.2.2. Pre-contractual Stage

- a. Every SLC shall have a standardized document in the form of “Key Facts Document” in either printed or electronic form for its products/services written in simple language, which shall be available to the prospective customers and shall be displayed in the corporate website.
- b. This document shall contain the following basic information with regard to loan products:
 - i. Key features of the product/service including the nature of the product, interest rates, penalties, other charges and fees and commissions.
 - ii. Procedures to be followed to obtain the product/service.
 - iii. Main terms and conditions.
 - iv. Applicable legal provisions related to the product/service.
 - v. Complaint handling procedure.

- b. This document shall contain the following basic information with regard to debt instruments:
 - i. Financial and other benefits to customers including any incentives and promotions.
 - ii. Other applicable terms and conditions related to the debt instrument such as conditions on early redemption, etc.
- c. Prospective customers shall not be forced to enter into a contract and shall be allowed a reasonable period to make an informed decision about the product/service.

1.2.3. Contractual Stage

- a. All SLCs shall disclose the information on products/services as required by the relevant Acts/Directions, where applicable.
- b. SLC shall clearly explain to the customer of the terms and conditions and features of the products/services covering the following:
 - i. The details of the general charges such as interest rates, fees and commissions, if any, required to be paid by the customer including the method of computing interest charges.
 - ii. The SLC procedure for receiving complaints and the resolution mechanism.
 - iii. The course of recovery actions the SLC may follow in the event of any default by the customer on his/her obligations and expenses of the SLC that will be reimbursed from the customer.
 - iv. Terms and conditions relating to investments such as early redemption of the debt instruments.
 - v. Penalties and early settlement charges to be paid by the relevant customer in case of early redemption/termination of participation in a product/service by the customers.
 - vi. The rules regarding, reporting of suspicious transactions and above-the-threshold transactions to the Financial Intelligence Unit.
 - vii. The reporting procedures that the customer shall follow in the case of misplaced financial instruments and liability of the SLC and the customer.
 - viii. The disclosure of customer information to a party legally authorised to obtain such information.

- c. For loan products, every customer shall be provided with an “Offer Letter/product statement” and shall, at minimum, contain the following basic information:
- i. Name of the borrower.
 - ii. Contract number. (Loan reference No.)
 - iii. Amount granted.
 - iv. Date granted and the period of the loan.
 - v. Rate of interest and its basis. (Nominal or Effective)
 - vi. Repayment terms and frequency of the instalment. (Daily, weekly, monthly or any other basis)
 - vii. Details of the security offered.
 - viii. Breakdown of the additional charges such as insurance, valuation, documentation, registration, etc. (if applicable)
 - ix. Penal rate (per annum) in the event of delayed payment.
 - x. The recovery procedure in the event of default of the customer. (repossession of assets, the costs involved in the process, procedure after repossession, the other charges applicable, etc.)
 - xi. The conditions applicable for early settlement of loans.
 - xii. In the case of micro finance loans, the recovery procedure such as the days and the time that the field officer visits the group members and the details of the collection centres should be specified. If the initial collection schedule changes due to natural disasters or any unforeseen events, customers should be informed accordingly
- d. With regard to Debt Instruments, all SLCs shall disclose required information stipulated in the relevant Acts/ Directions where applicable.

1.2.4. Upon Request

A product statement shall be provided for loan products upon request and shall cover the following information:

- i. Detailed transactional information for the reporting period. (e.g. itemized credits and debits to the customer account)
- ii. Effective interest rate and the interest charged for the period.
- iii. Fees charged for the period.
- iv. Due date and the outstanding balance.

- 1.2.5. A written confirmation shall be obtained from the customer that the details of the products/services and their terms and conditions were received, explained and understood.
- 1.2.6. All the documents pertaining to the product/service shall be duly completed and signed by the customer. Accepting incomplete documents and obtaining signatures on blank papers/documents is prohibited.
- 1.2.7. Any changes made by the SLC to the agreed terms and conditions on products/services shall be informed to the customers before the changes are made.

1.3. General Disclosures

- a. The information displayed in the Business Places of the SLC shall include the following:
 - i. Finance Leasing License issued by Central Bank of Sri Lanka.
 - ii. Set of latest audited financial statements of the SLC.
 - iii. Credit rating of the SLC with underlying specifications. (if available)
 - iv. Key contact details of person handling customer complaints as per Section 4.1 of the guideline.
 - v. The contact details of the Financial Ombudsman.
 - vi. Business hours and holiday notices.
- b. Including the above, following information shall be displayed in the corporate website:
 - i. Current base interest rates and other charges on loan products. (wherever possible)
 - ii. Disclosure requirement under Section 1.2.2(a).

2. Customer Education and Awareness

2.1. Deliver Effective Financial Education Programmes

- a. SLCs either on their own or in partnership with industry associations shall develop specific financial literacy programs to improve the customer awareness on financial products/services. Financial education programs should be designed to meet the needs and financial literacy of the target audience.
- b. Financial education tools might include printed brochures, flyers, posters, training videos, (e.g. money management, debt management, inculcating savings habits) interactive loan calculators, key messages (e.g. protect your money, know your

product, read and understand terms & conditions, check your statements, pay your loan instalment on time, understand fees and charges, safeguard your personal identification numbers)

- c. SLCs shall educate the customers on the applicable legal provisions related to the product/service, e.g. Finance Leasing Act, Mortgage Act, Pawning Ordinance, etc.

2.2. Promote Financial Discipline

Financial education and information provision should be enhanced to deepen the capability and the financial knowledge of the customer, especially for the vulnerable groups. Customers shall be provided with the specific warnings related to over indebtedness, consequences of multiple borrowing and late repayments, etc.

3. Responsible Business Conduct

3.1. Knowing the Customer and Suitability: SLC and appointed agents shall have the necessary resources and procedures in place for safeguarding the best interests of the customers and to cater the product to meet the appropriate financial and non-financial need of the customer. In this regard SLC and appointed agents shall:

a. Know the Customer: gather and record sufficient information prior to recommending, offering or providing appropriate product/service to the customer. The level of information gathered shall be appropriate to the nature of the complexity of product/service being sought by the customer.

b. Assess the Suitability: SLC or appointed agents shall consider whether product/service meet the customer's needs and objectives and customer is financially able to bear the risk associated with the product/service.

c. Prevention of Over-indebtedness

i. When offering a new credit product/service the customer's credit worthiness should be properly assessed and conduct appropriate customer repayment capacity analysis to ensure that customer is likely to meet the financial obligation associated with the product.

ii. Board and Senior management of the SLC shall be aware and concerned about the risk of over-indebtedness of the customer. A maximum Debt service/Income Ratio (i.e. a maximum percentage of customer's disposable income that can be applied to service debt) should be identified.

- iii. SLCs shall limit in providing new loans to settle the existing loan facilities given by another financial institution in order to prevent the over exposure beyond the existing credit worthiness of the customer.
- iv. SLCs should use the credit risk management systems that support prevention of over-indebtedness such as Credit Information Bureau (CRIB).

3.2. Personal Visits and Contacts with Customers

Employees of SLCs or appointed agents shall;

- a. visit the customer by giving reasonable notice and such visits shall be made during the daytime,
- b. maintain separate record of the visit including the purpose, date and time of the visit and the customer's response in brief, and
- c. when making a telephone contact with the existing or prospective customer, the person shall identify himself or herself by name, name of the SLC on whose behalf customer is contacted and the commercial purpose of the contact.

3.3. Monitoring of the Employees and Appointed Agents: SLCs shall have a mechanism of rigorous and regular monitoring of the conduct of employees, who directly interact with the customers to prevent inappropriate business conduct and unreasonable risk taking.

3.4. Employee Training: Employees of the SLCs and appointed agents (especially those who interact directly with customers such as credit officers, recovery officers, marketing officers, complaint handling officers, customer service representatives) shall be properly trained and qualified.

3.5. Remuneration Policy

- a. Board approved remuneration policy shall be designed for employees and appointed agents, those who interact directly with customers to encourage responsible business conduct and to discourage unreasonable risk taking.
- b. Employees shall be given sales targets which are realistic and shall be within the personal capacity of such employees.
- c. SLCs shall ensure that employees and appointed agents are not remunerated solely on sales performance but include factors such as customer's satisfaction, loan repayment performance, customer retention, compliance with regulatory requirements/best practices guidelines and codes of conduct which are related to best interests of the customers.

3.6. Responsibility of the Employees and Agents Appointed by SLCs

The employees and appointed agents shall avoid the following practices:

- a. Harassing customers.
- b. Using abusive debt collection practices.
- c. Disclosing customer information to others.
- d. Giving false or misleading information about products/services.
- e. Unduly influence customers or the general public to buy or get involved in the SLC's products/services.
- f. Signing security documents outside the SLC. However, if a situation arises that the agreement has to be signed outside the business place of the SLC, due to reasonable circumstances, an authorized officer must be present.

3.7. Compensation from withdrawal/cancellation of products/services by SLCs

In the event of an SLC seeks to withdraw/terminate a product/service already in operation, especially investments in debt instruments, customers have the right to receive a reasonable time with an exit mechanism and compensation scheme and if necessary such withdrawal/termination shall be disclosed in advance.

3.8. Levying Penal Rates

Policy on penal interest shall be governed by fairness, incentive to service the debt and due regard to genuine difficulties of customers.

4. Complaint Handling and Redress

4.1. Internal Complaint Handling Mechanism

- a. SLCs shall have a Complaint Handling Policy to address the grievances and complaints of its customers.
- b. Customers should be encouraged to seek recourse through the internal complaints handling process of the company before opting for external support.
- c. Assign an officer in each business place, with the responsibility of handling and facilitating the resolution of complaints lodged by customers. If it is unresolved it is the responsibility of such officer/s to escalate it to the next decision-making authority until it is resolved.
- d. Establish a database to record all customer complaints and assign an officer in charge of the database. Such officer shall be responsible to report unresolved customer complaints periodically to the senior management of the company. Senior management should take prompt corrective action on the unresolved matters.

- e. At the business place, customer should be directed to the officer assigned to resolve such complaints.
- f. Customer complaints forwarded by regulatory authorities shall be directed to relevant decision-making authority.
- g. Acknowledge the receipt of any complaint in writing within a reasonably short period of time and inform the complainant of the procedure that will be followed by the SLC for the resolution of the complaint and the contact details of the officer/officers handling the complaint. (For this purpose, company can have a suitably worded printed form).
- h. Facilitate receiving complaints verbally or in writing and the SLC shall not insist that complaints be necessarily made only in writing.
- i. At any point of the complaint handling process, customers should not be treated unjustly.

5. Equitable and Fair Treatment of Customers

5.1. Equitable and Fair Treatment

All customers shall be treated equitably and fairly at all stages of their relationship with SLC irrespective of their cast, religion, language, gender, age, etc.

5.2. Special Attention and Care

The customers such as elderly, disabled or customers with low financial literacy have the right to receive special attention to facilitate them to have a fair access to financial services.

6. Protection of Customer Data and Privacy

6.1. Protection of Personal Data

All SLCs shall take necessary steps to protect customer data and privacy in line with the applicable laws and regulations.

6.2. CRIB Reporting System and Data Sharing

Customers shall be appropriately/fully informed regarding the sharing of personal data related to them with CRIB and the exact purpose and conditions of collection, processing and distribution of data held about them and on the related confidentiality rules adopted.