



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

18 March 2022

FINANCE BUSINESS ACT DIRECTIONS

No. 02 of 2022

Mobile Phone Based E-Money Services

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| 1. Legal provisions | 1.1. In terms of the powers conferred by Section 12 of the Finance Business Act, No. 42 of 2011, the Monetary Board of the Central Bank of Sri Lanka issues directions on mobile phone based e-money services obtained by Licensed Finance Companies (LFCs) through Licensed Service Providers (LSPs) and their merchants. |
| 2. Objective of the directions | 2.1. The existing physical branch network of the banking and LFC sector across the country provides only a limited access to financial services for the customers. Therefore, the mobile phone based e-money services would be a solution for easy access to finance by enabling convenient banking and to improve efficiency of the operations of LFCs. |
| 3. Applicability and scope | <p>3.1. These directions shall be applicable to mobile phone based e-money services given in direction 4.1 offered by LSPs and their merchants for LFCs.</p> <p>3.2. These directions shall be exempted from the requirements in the following directions.</p> <p style="margin-left: 40px;">a) Direction '2.1 a', '2.1 h' and '2.1 k' of the Finance Business Act (Outsourcing of Business Operations) Direction No.07 of 2018, and</p> <p style="margin-left: 40px;">b) Direction '6.2' of the Finance Business Act (Business Expansion and Operations) Direction No.06 of 2020.</p> |
| 4. Permitted services through mobile phone based e-money system | <p>4.1. The LFC may carry out the following through the mobile phone based e-money systems of LSPs and their merchants.</p> <p style="margin-left: 40px;">a) Deposit acceptance.</p> <p style="margin-left: 40px;">b) Deposit withdrawal.</p> <p style="margin-left: 40px;">c) Loan disbursement.</p> <p style="margin-left: 40px;">d) Receiving loan repayment.</p> <p style="margin-left: 40px;">e) Fees and charges applicable for sections 4.1 a) to d), and</p> <p style="margin-left: 40px;">f) Any other activity as approved by the Director.</p> |



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5. Responsibility
of an LFC

5.1. Board of Directors

- a) Board of Directors shall be responsible to formulate the strategy on the mobile phone based e-money services offered by LSPs and their merchants in line with the business strategy.
- b) The mobile phone based e-money service strategy shall be supported by the Board approved policies, sound and robust risk management frameworks with appropriate Board oversight, adequate technical resources and an independent audit covering merchants.
- c) Clearly understand the potential risks posed by mobile phone based e-money services of LSPs and their merchants and manage all relevant risks including credit risk, operational risk, liquidity risk, reputation risk, technology risk, legal and compliance risk. Such risks need to be reviewed by the Board at least on an annual basis.

5.2. Chief Executive Officer

- a) Assess mobile phone based e-money services obtained through LSPs and their merchants continuously on their viability, risk emanating to the LFC and make informed decisions on the continuation.
- b) Undertake a due assessment of limit structures (transactions limits, day limits, customer limits, service provider limits, merchant limits) for mobile phone based e-money services commensurate with the risk profile of the LFC.
- c) Assess the adequacy of controls by conducting internal audits and external audits.
- d) Ensure implementation of systems and procedures to strengthen the customer protection.



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- e) Ensure the provisions in the agreement between the LFC and the LSP are compliant with the provisions of these directions.
6. Notification and submissions to the Director
- 6.1. An LFC shall notify the Director prior to commencement, discontinuation or any modification of mobile phone based e-money services offered by the LSPs and their merchants.
- 6.2. An LFC shall submit the following to the Director prior to commencing the mobile phone based e-money services offered by LSPs and their merchants.
- a) An approval of the Board of Directors of the LFC on the proposed mobile phone based e-money service.
 - b) A confirmation of the Board of Directors of the LFC with regard to the compliance with the minimum requirements of the proposed mobile phone based e-money service given at Schedule I.
 - c) A confirmation of the Chief Executive Officer of the LFC with regard to the compliance with the minimum requirements of the proposed mobile phone based e-money services given at Schedule II.
 - d) The details of the merchants involved in the proposed mobile phone based e-money service as given in Schedule III.
 - e) A brief report on the proposed mobile phone based e-money service and its business impact assessment including the key risk types and the mitigants as given in Schedule IV.
 - f) Any other information relevant to the proposed mobile phone based e-money service required by the Director.
7. Consumer protection
- 7.1. An LFC shall ensure the provisions of the Finance Business Act (Financial Customer Protection Framework) Direction No.1 of 2018 are in compliance for mobile phone based e-money services offered by LSPs and their merchants for LFCs.



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| 8. Central Bank oversight | 8.1. The Director will monitor compliance by an LFC with these directions and may: <ul style="list-style-type: none">a) Request for any information relevant to the mobile phone based e-money services offered by LSPs and their merchants for LFCs at any time as may be deemed necessary.b) Carry out inspection of the books and premises of LSPs and their merchants involved in the mobile phone based e-money services, if required.c) Direct an LFC to cease and discontinue the mobile phone-based e-money service arrangement with LSPs and their merchants, if deemed necessary.d) Direct an LFC to take any action or measure against the LSPs and their merchants as appropriate.e) Direct an LFC to take any remedial action arising from the conduct of LSPs and their merchants on the mobile phone based e-money services.f) Direct an LFC to suspend the mobile phone based e-money service offered by LSPs and their merchants until the Board of Directors of an LFC assures of the rectification of the non-compliance. |
| 9. Other conditions | <ul style="list-style-type: none">9.1. LFCs shall comply with the prudential requirements, including, but not limited to, directions on minimum capital adequacy ratios, minimum core capital and liquid assets in order conduct mobile phone based e-money services offered by LSPs and their merchants.9.2. The maximum transaction limits and fees charged on the mobile phone based e-money services offered by LSPs and their merchants shall not exceed the transaction limits and fees imposed by the Payment and Settlement Department of the Central Bank of Sri Lanka or the Director. |



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9.3. Mobile phone based e-money services offered by LSPs and their merchants already commenced prior to implementation of these directions shall comply with the requirements of these directions within 6 months from the implementation of these directions and notify the Director on compliance.

10. Effective date 10.1 These directions shall come into effect from the date of this direction.

11. Interpretations 11.1. ‘Director’ shall mean Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

11.2. ‘E-money’ shall mean the monetary value issued upon receipt of funds and stored electronically for the purpose of using as a mean of payment or to settle financial obligations.

11.3. ‘Merchant’ shall mean the institutions/persons appointed by LSPs to carryout mobile payment services.

11.4. ‘Licensed Service Provider’ shall mean a service provider licensed in terms of Payment Cards and Mobile Payment Systems Regulation No. 1 of 2013 or as amended.

Nivard Ajith Leslie Cabraal
*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*



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Schedule I

Confirmation of the Board of Directors

Confirmation of the Board of Directors of an LFC shall at minimum cover the following requirements with respect to the proposed mobile phone based e-money services offered by LSPs and their merchants.

- a) Compliance and adherence to these directions on mobile phone based e-money services.
- b) Compliance and adherence to the Board approved,
 - i. LSP and their merchant selection policy.
 - ii. Risk management framework.
 - iii. Consumer protection mechanism.
 - iv. Mobile phone based e-money service management, control and monitoring mechanism;
and
 - v. Operating procedures and manuals.
- c) Availability of necessary provisions in the agreement entered into with LFC and LSPs and their merchants and such provisions are in compliance with these directions.
- d) Ensure LSPs and their merchants are compliant with the Payment Cards and Mobile Payment Systems Regulations No.1 of 2013 or as amended or any regulations issued by the Central Bank of Sri Lanka.
- e) LFCs availability of adequate resources and expertise to perform the mobile phone based e-money services.
- f) All risks associated with the mobile phone based e-money services offered by LSPs and their merchants are identified, documented and established appropriate steps to mitigate or transfer.
- g) Systems and procedures are established for consumer protection with regard to complaint measures and relief mechanism with the use of the mobile phone based e-money services offered by LSPs and their merchants.
- h) Adequate internal controls, systems and personnel to monitor and control mobile phone based e-money services offered by LSPs and their merchants on an ongoing basis and adequate oversight to address instances of non-compliance or omissions by LSPs and their merchants with the stipulated obligations.



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- i) Adherence to provisions of the Financial Transactions Reporting Act, No.6 of 2006 and regulatory requirements as set out in the rules, regulations and guidelines issued thereunder to combat money laundering and terrorist finance activities.
- j) Establish systems and procedures to ensure the maintenance of confidentiality and the protection of LFC customers' information.
- k) Availability of business continuity plan to ensure uninterrupted mobile phone based e-money services offered by the LSPs and their merchants.
- l) Assessment of the suitability of LSPs and their merchants prior to commencing the mobile phone based e-money service on the following minimum criteria.
 - i. Demonstrate integrity and professional standards in its business conduct.
 - ii. Possess adequate resources to support effective implementation of anti-money laundering and combating financing of terrorism measures, record keeping, internal controls and consumer protection measures.
 - iii. Not been involved in any illegal/unethical activities.
 - iv. Possess knowledge and competency to deliver high quality mobile phone-based e-money services.
 - v. Demonstrate the ability to control all risks related to mobile phone based e-money transactions.

Schedule II

Confirmation of the Chief Executive Officer

Confirmation of the Chief Executive Officer of an LFC shall at minimum cover the following requirements with respect to the proposed mobile phone based e-money services offered by LSPs and their merchants.

- a) Make an explicit, informed and documented decision through awareness campaigns on the use of proposed mobile phone based e-money services offered by LSPs and their merchants to LFCs' customers.
- b) The beneficiary LFC account holder shall be notified of the mobile phone based e-money transaction on a real time basis through a SMS and/or email sent by an LFC.
- c) Availability of processes of mobile phone based e-money services offered by LSPs and their merchants as reflected in the operational manuals of LFCs.



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- d) Availability of systems and procedures to ensure the mobile phone based e-money services offered by LSPs and their merchants are reconciled between LSP, LFC and the LFC customer account.
- e) Maintenance of an up-to-date list /database of LSPs and their merchants involving in mobile phone based e-money service including name, contact number and physical location/address.
- f) Ensure the LSPs and their merchants have proper security controls to safeguard the information from both internal and external threats.
- g) Availability of a dedicated hotline number for customer to raise complaints or grievances with respect to the proposed mobile phone based e-money services offered by LSPs and their merchants.

Schedule III

The details of merchants of LSP (but not limited to the below).

- a) Name of the merchant
- b) Business registration number
- c) Registered address and contact details (including postal address if different from the registered address)
- d) Core business activities
- e) Financial soundness

Schedule IV

A brief feasibility report on the proposed mobile phone based e-money services offered by LSPs and their merchants.

- a) Scope of the business proposal
- b) Parties involved
- c) Cost/benefit analysis
- d) Charges/fees to the customers