



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

16 July 2020

FINANCE BUSINESS ACT DIRECTIONS

No.06 of 2020

BUSINESS EXPANSION AND OPERATIONS

In terms of powers conferred by Section 12 of the Finance Business Act No. 42 of 2011, the Monetary Board hereby issues the following Directions on the business expansion and operations of Licensed Finance Companies (LFCs).

1. Applicability of the Direction
 - 1.1 No LFC shall be authorized to open business places other than the fully-fledged branch and Automated Teller Machine (ATM)/ Cash Deposit Machine (CDM)/ Cash Recycling Machine (CRM). LFCs may operate mobile banking units and such mobile banking units shall be affiliated to a branch of such LFC. LFCs shall follow the Guidelines set out for opening, closure and relocation of business places, and operation of mobile banking units as in Appendix A.
 - 1.2 LFCs shall inform the Director at least ten (10) working days prior to opening a business place or close any existing business place or effect a change in the location of any existing business place, in any part of Sri Lanka; and in setting-up mobile banking units.
 - 1.3 No LFC shall open, close or relocate a business place in any place outside Sri Lanka, without the prior approval of the Monetary Board
2. Minimum criteria in opening of new branches
 - 2.1 LFCs shall ensure compliance with the following, at a minimum, when opening a new branch:
 - (i) Complied with the minimum capital adequacy ratios as specified in the Direction No. 03 of 2018 on Capital Adequacy Requirements, or as amended.
 - (ii) Complied with the minimum core capital requirement as specified in the Direction No. 02 of 2017 on Minimum Core Capital, or as amended.
 - (iii) Complied with the minimum liquid assets requirements as specified in the Direction No. 04 of 2013 on Finance Companies (Liquid Assets), or as amended.

- (iv) Maintained Non-Performing Advances (NPA) ratios at a manageable level.
 - (v) Has not been subject to imposition of any caps/restrictions on deposits or lending.
3. Board of Directors approvals
- 3.1 Every LFC shall establish Board of Directors' approved prudent policy on business expansion largely considering the potential for business at the new branches, ability of providing adequate resources to branches (physical assets, human resources, etc.), efficiency of the internal control systems, defining responsibilities of key officers with regard to branch operations, extension of prompt and cost-effective customer service to the clientele, etc.
 - 3.2 LFCs shall ensure to obtain prior approval of the Board of Directors before opening of new branches and ATMs/CDMs/CRMs, closure of a business place, or relocation of any existing business place.
4. Annual Business Expansion Plan
- 4.1 Every LFC shall submit the company's board approved Annual Business Expansion Plan (ABEP) to the Director for approval, on or before 31st December each year for the next calendar year.
 - 4.2 LFCs shall indicate the details of business places proposed to be opened, business places proposed to be closed or relocated within the year, in the ABEP, as set out in Appendix B.
 - 4.3 LFCs shall not open, close or relocate a business place that was initially not included in the ABEP submitted to the Director.
 - 4.4 The approved ABEP is valid only for one year (the calendar year) and the approval for any openings, closures or relocations which are not completed within the year deemed to be lapsed.
5. Risk Management
- 5.1 Board of Directors shall be responsible to ensure;
 - (i) Maintain an effective system of internal control and oversight of branch operations.
 - (ii) Maintain proper controls to safeguard the information, communication and IT systems and data from both internal and external threats.

- (iii) Provide branch officers operational manuals to ensure efficient services to their customers.
 - (iv) Ensure branch employees are made aware and well trained to prevent, detect and manage risks arising from branch operations.
 - (v) Maintain a business continuity plan to mitigate any significant disruption, discontinuity or gaps in the operations conducted at branches and other business places.
- 5.2 Board of Directors or Integrated Risk Management Committee, as applicable, shall review the overall and individual branch level risk reports, at least on a quarterly basis.
6. Standardization of existing other outlets
- 6.1 Every LFC shall submit board of directors approved 'Other Outlets Standardization Plan' for existing other outlets to the Director prior to 30.09.2020, and such plan shall be implemented on or before 31.12.2022.
 - 6.2 No LFC shall mobilize deposits at any of the existing other outlets.
 - 6.3 LFC shall inform Director on the completion of standardizing of an existing other outlet within ten (10) working days after such standardizing.
7. Powers of the Director
- 7.1 The Director has the authority to inform the LFC objecting opening, closing, relocating, of any business place with specific reasons stated in writing.
 - 7.2 Further, the Director has the authority to restrict an LFC in further business expansion at any point of time.
8. Closure of business places for business
- 8.1 No LFC shall close any business place for business on any day of the week from Monday to Friday, except for a holiday declared by the Ceylon Chamber of Commerce.
 - 8.2 LFCs may be granted two (02) additional holidays except the holidays specified in Direction 8.1 above, as required, with prior approval in writing of the Director. In granting such approval, the Director may impose conditions as may deem necessary.

8.3 However, LFCs shall not close any business places for business for five consecutive days, including holidays declared by Ceylon Chamber of Commerce and additional holidays approved by the Director.

8.4 LFCs shall give notice to its customers of such closure of business places.

8.5 In the event of any special circumstances such as flood, riot or any other abnormal incident, which necessitates closure of a branch or any business place for business, LFC may decide to do so with the approval of a relevant authority internally, and inform the Director accordingly, without delay.

9. Reporting requirements

9.1 LFCs shall submit a certificate on a quarterly basis, confirming that they are in full compliance with the requirements of this Direction, by fifteenth (15th) of the following month, from the end of each quarter.

9.2 LFC shall submit the web-based returns on business places by fifteenth (15th) of the following month, from the end of each quarter.

10. Regulatory Measures in the event of non-compliance

In the event of non-compliance by an LFC with these Directions, the Director shall act on any one or more of the following:

- (i) Impose restrictions on branch operations/expansion.
- (ii) Impose monetary penalties as determined by the Monetary Board.
- (iii) Impose disclosure requirements on non-compliances.
- (iv) Determine the responsible Key Management Personnel as not fit and proper immediately.

11. Interpretations

In these Directions,

- (i) **Business place** shall mean, branches and ATMs/CDMs/CRMs.
- (ii) **Director** shall mean, the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- (iii) **Key Management Personnel** shall have the same meaning as defined in the Direction No. 03 of 2008 on Finance Companies (Corporate Governance), or as amended.

(iv) **Other outlets** shall mean, service centers, pawning centers, gold loan centers, collection centers, school savings centers, service windows, or any other outlets in operation.

12. Revocation of
Previous
Directions

The Finance Business Act Direction No.1 of 2016 on Opening, Closure and Relocation of Business Places and Finance Companies (Closure of Office/s for business) Direction No.4 of 2005 are hereby revoked.



Prof. W D Lakshman
*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

Guidelines to LFCs in Opening, Closure and Relocation of Business Places

1. Opening of New Branches/ ATMs/ CDMs/ CRMs

- 1.1. LFCs shall submit the information regarding the opening of new branches or ATMs/CDMs/CRMs to the Director at least ten (10) business days prior to such opening. Information regarding the new branches shall be submitted in accordance with the format given in Appendix C.
- 1.2. LFCs shall prepare and document an economic feasibility study for each branch to be opened, analyzing the need for financial services in the area where the LFC is planning to open a branch. Such a study shall cover, at least, the following areas;
 - (a) The need of financial services in the proposed area based on the financial institutions' density (Population in the Divisional Secretariat divided by Number of Branches of Financial Institutions in the Divisional Secretariat).
 - (b) The geographical and economic service areas to be served and overview of the market to be served.
 - (c) Expected increase in the demand for financial services in that area, and the period within which the activity of the branch will become profitable.
 - (d) The financial assumptions of the applied branch, based on its anticipated business size, business development, establishment cost and operating cost and results over an adequate period of not less than three years.
- 1.3. Board of Directors shall ensure LFCs have obtained necessary approvals/clearance from the respective Government Authorities and a police clearance certificate before opening of new branches or ATMs/CDMs/CRMs.
- 1.4. ATMs/CDMs/CRMs opened shall be affiliated to a particular branch of the LFC.
- 1.5. LFC shall ensure to notify the Director on the date of new branch or ATM/CDM/CRM opened within ten (10) business days after opening.

2. Closure of Business Places

- 2.1. LFCs shall inform Director at least prior to ten (10) business days of closing of existing business places in accordance with the format given in Appendix D.
- 2.2. LFCs shall exhibit a notice of the closure to the customers and the public who are generally served by that business place prior to such closure.

- 2.3. LFCs shall ensure that no further finance business activities would thereafter be carried out at the location of the business place by the LFC after the date of closure.
- 2.4. LFCs shall ensure to notify the Director on the date of business place closed within ten (10) business days after the closure.

3. Relocation of Business Places

- 3.1. Relocation is considered as changing the business location within the same Divisional Secretariat.
- 3.2. LFCs shall inform the Director at least prior to ten (10) business days of changing the location of any existing business place to the Director in accordance with the format given in Appendix E.
- 3.3. Board of Directors shall ensure LFCs have obtained necessary approvals/clearance from the respective Government Authorities and a police clearance certificate before relocating a business place.
- 3.4. LFCs shall exhibit a notice of the relocation to the customers and the public who are generally served by that business place prior to such relocation.
- 3.5. LFCs shall ensure that no further finance business activities by the LFC would thereafter be carried out at the original location of the business place after the relocation.
- 3.6. LFCs are not encouraged to relocate a business place frequently, to ensure customer convenience and continual service. LFCs shall be established at one location, at least for a continuous period of three (3) years.

4. Guidelines to LFCs in setting up Mobile Banking Units

- 4.1. Mobile banking units and its operations shall be affiliated to a particular branch of the LFC.
- 4.2. The operations of mobile banking units shall only be carried out by the employees of the LFCs.
- 4.3. Mobile banking units may serve the customers at regularly scheduled locations on specific days/hours or be open at various times and locations. However, LFCs shall ensure the local customers are informed suitably of the details including specified days and working hours ensuring customer convenience.

- 4.4. Mobile banking units shall have online connectivity to the core-system and any transactions that would be done through the mobile banking units shall be updated real-time.
- 4.5. The customers transacting through the mobile banking units shall be given a reliable proof of transaction, preferably a notification on a real time basis, such as a Short Message Service (SMS) via the LFCs' central system.
- 4.6. Mobile banking units shall have adequate physical and information security measures to protect any collected cash and confidential customer data while transporting or transmitting to the affiliated branch.

Annual Business Expansion Plan (ABEP)

1	General:	
1.1	Name of Licensed Finance Company:	
1.2	Date of approval of the Board of Directors for the ABEP:	
2	Number of Existing Branches and Other Outlets (as at the year-end):	
2.1	Branches	
	a. All branches	
	b. Loss making branches	
2.2	Automated Teller Machines/ Cash Deposit Machines/ Cash Recycling Machines	
	a. Located at branch premises	
	b. Located at other places	
2.3	Other Outlets (if any)	
	a. Service Centers	
	b. Pawning Centers	
	c. Collection Centers	
	d. Others (service windows, school savings centers, vehicle yards, etc.)	
3	Details of Openings, Closures or Relocations approved with previous year's ABEP, but not completed as proposed:	
3.1	Openings of Branches and ATMs/CDMs/CRMs not completed:	
	Locations:	Reasons:
3.2	Closure of Business places not completed:	
	Locations:	Reasons:
3.3	Relocation of Business places not completed:	
	Locations:	Reasons:

4 Details of New Branches and ATMs/CDMs/CRMs proposed to be opened:					
4.1 Branches:					
		Administrative District	Name of Town	Local Government Authority	Divisional Secretariat
	1				
	2				
	3				
	4				
	5				
	6				
	7				
	8				
	9				
	10				
	(add rows)				
4.2 Projected Financial Information: Please provide the financial projections for next three (3) year period of company operations, including the proposed branches.					
			Year 1	Year 2	Year 3
4.2.1	Tier I Ratio, %				
4.2.2	Total Capital Ratio, %				
4.2.3	Gross Non-Performing Ratio, %				
4.2.4	Net Non-Performing Ratio, %				
4.2.5	Total Deposits, Rs. Bn				
4.2.6	Total Loans and Advances, Rs. bn				
4.2.7	Core Capital, Rs. Bn				
4.2.8	Total Capital Base, Rs. Bn				
4.2.9	Profit/ Loss, Rs.bn				
4.3 ATMs/ CDMs/CRMs:					
		Location		Affiliated Branch	
	1				
	2				
	3				
	4				
	5				
	6				
	7				
	8				
	9				
	10				
	(add rows)				

5 Details of Business Places proposed to be closed:								
		Type of Business Place	Reason for Closure	Administrative District	Name of Town	Local Government Authority	Divisional Secretariat	Postal Address
	1							
	2							
	3							
	4							
	5							
	(add rows)							

6 Details of Business Places proposed to be relocated:							
		Type of Business Place	Administrative District	Name of Town	Local Government Authority	Divisional Secretariat	Present Location's Postal Address
	1						
	2						
	3						
	4						
	5						
	(add rows)						

7 Certification	
The undersigned have the authority to submit this information on behalf of the company and the information provided herein is true and correct to the best of my knowledge and belief.	
Name:	Name:
Title: Chief Executive Officer	Title: Compliance Officer
Signature:	Signature:
Date:	Date:

Form 1: Opening of a New Branch/ ATM/ CDM/ CRM

1	General			
1.1	Name of Licensed Finance Company:			
1.2	Date of approval of the Board of Directors for the proposed opening:			
2	Details of the New Branch: (submit separate information sheet for each branch)			
2.1	Official name to be used by the branch			
2.2	Location			
	a. Administrative District			
	b. Name of Town			
	c. Local Government Authority			
	d. Divisional Secretariat			
	e. Postal Address			
2.3	If an economic feasibility study has been conducted for opening of the branch and documented?	Yes / No		
2.4	If a police clearance certificate and necessary approvals/clearance have been obtained from the relevant government authorities for opening of the branch at the proposed location?	Yes / No		
2.5	Projected Financial Information: Please provide branch-only projections for next three-year period of operations.			
		Year 1	Year 2	Year 3
2.5.1	Profit/ Loss, Rs. Bn			
2.5.2	Impact on Tier I Ratio, %			
2.5.3	Impact on Total Capital Ratio, %			
2.6	Staff Requirements			
	Staff Grade	Clerical	Minor Staff	Security
				Total
	Provide the staff profiles of the proposed branch indicating their qualification, experience and job description (submit the details on a separate annexure).			
3	Details of the New Automated Teller Machines (ATMs/CDMs/CRMs):			
3.1	Number of proposed ATMs/CDMs/CRMs:			
3.2	Location of proposed ATMs/CDMs/CRMs and Affiliated branches:			
	1.			
	2.			
	3.(add rows)			
4	Certification			
	The undersigned have the authority to submit this information on behalf of the company and the information provided herein is true and correct to the best of my knowledge and belief.			
	Name:	Name:		
	Title: Chief Executive Officer	Title: Compliance Officer		
	Signature:	Signature:		
	Date:	Date:		

Form 2: Closure of a Business Place

1	General	
1.1	Name of Licensed Finance Company:	
1.2	Category of the proposed business place to be closed (X):	
	Branch	ATM/ CDM/ CRM Others (specify)
1.3	Date of approval of the Board of Directors for the proposed closure:	
1.4	Reasons for the closure of business place:	
2	Location	
2.1	Administrative District	
2.2	Name of Town	
2.3	Local Government Authority	
2.4	Divisional Secretariat	
2.5	Postal Address	
3	Key information of the proposed closure (Rs.mn)	
3.1	Total Assets	
3.2	Loans and advances	
3.3	Other assets	
3.4	Deposits	
3.5	Total borrowings	
3.6	Other Liabilities	
3.7	Number of Depositors	
3.8	Number of Borrowers	
3.9	Number of Employees	
4	Describe the actions to be taken on assets, liabilities and employees of proposed closure of business place:	
5	Certification	
	The undersigned have the authority to submit this information on behalf of the company and the information provided herein is true and correct to the best of my knowledge and belief.	
	Name:	Name:
	Title: Chief Executive Officer	Title: Compliance Officer
	Signature:	Signature:
	Date:	Date:

Form 3: Relocation of a Business Place

1	General				
1.1	Name of Licensed Finance Company:				
1.2	Category of the proposed business place to be relocated (X):				
	Branch		ATM/ CDM/ CRM		Others (specify)
1.3	Date of approval of the Board of Directors for the proposed relocation:				
1.4	Reasons for the relocation of business place:				
2	Location				
2.1	Existing				
	a. Administrative District				
	b. Name of Town				
	c. Local Government Authority				
	d. Divisional Secretariat				
	e. Postal Address				
2.2	New (Proposed)				
	a. Administrative District				
	b. Name of Town				
	c. Local Government Authority				
	d. Divisional Secretariat				
	e. Postal Address				
3	If an economic feasibility study has been conducted for relocation of the business place and documented?				Yes / No
4	If a police clearance certificate and necessary approvals/clearance have been obtained from the relevant government authorities to establish the business places at the proposed location?				Yes / No
5	Certification				
	The undersigned has the authority to submit this information on behalf of the company and the information provided herein is true and correct to the best of my knowledge and belief.				
	Name:		Name:		
	Title: Chief Executive Officer		Title: Compliance Officer		
	Signature:		Signature:		
	Date:		Date:		
	Name:		Name:		

