

Client Alert: The New Egyptian Consumer Financing Law

By Laila Rizk

After lengthy deliberations, Law No. 18 for 2020, known as the Egyptian Consumer Financing Law (“Law”) has been issued. The Financial Regulatory Authority (“FRA”) has also issued its implementing regulations (“Regulations”). The Law and the Regulations aim to establish a proper regulatory framework for consumer financing companies and providers of goods and services that extend financing to their end consumers.

Regulation by the FRA

As per the Law and the Regulations, providing financing to consumers to purchase goods and services is a non-banking financial service and is regulated by the FRA. “Consumer financing” includes financing for a time period the duration of which is at least as long as the period determined by the FRA and in all cases, is not be less than six months.

The Law differentiates between consumer financing companies, which are licensed to engage in consumer financing through a network of sellers and goods and services providers, and accept card payments or other payment methods approved by the Central Bank of Egypt, and consumer financing providers, which are the manufacturers or distributors of goods that also offer consumer financing.

General Regulations

As providers of a non-banking financial service, both consumer financing companies and consumer financing providers are prohibited from receiving deposits.

They may, however, take a security interest in the financed movable goods subject to consumer financing contracts and register that interest in the Electronic Collateral Register. They must also abide by the FRA’s regulations regarding marketing, advertising, and disclosures.

Both types of entities must use a standard contract form, to be issued by the FRA, when providing consumer financing. The information provided on the form must include:

- A diligent description of the goods or services subject to financing,
- The sale price and any down-payment advanced by the consumer,
- The total amount of the financing extended by the entity,
- The duration of the repayment term,
- The number, amount, and conditions provided for the repayment installments,
- The interest rate,
- The entity’s security interest (if applicable),

- The consumer's authorization to disclose information relating to the financing to the FRA and credit rating companies,
- The consumer's right to prepay and related conditions, and
- The entity's right to sell or discount the amounts receivable.

It is noteworthy that the entity may determine the applicable interest rate, notwithstanding the limits stipulated under any other law.

Said entities must also abide by the FRA's regulations regarding governance, creditworthiness, opening, relocating, and closing branches; and combating money laundering and terrorism finance.

They must have the technical and information systems required to carry out their activities as per the FRA's requirements and have internal regulations governing the parameters and conditions for extending financing, inquiring about the consumer's credit rating, risk and creditworthiness mechanisms, and dealing with consumer complaints.

Consumer Financing Companies

The Law provides that consumer financing companies may finance the following goods and services:

- Vehicles and cars,
- Durable products, including electronics,
- Educational services,
- Medical services,
- Travel and tourism, and
- Any other goods and services approved by the FRA.

Consumer financing companies must be structured as joint stock companies with an issued and paid up capital of not less than EGP 10 million. Unless the FRA approves otherwise, the sole object of the company must be consumer financing. The company's founders must include juristic persons representing at least 50% of the capital, and 25% of the capital must represent participation by a financial institution.

Additionally, the company's managing director and financial manager must satisfy the FRA's requirements regarding these positions.

Consumer financing companies that were active prior to the Law's issuance are exempt from the above-mentioned requirements, unless and until at least one third of their shareholding is restructured.

Consumer Financing Providers

Consumer financing providers may offer financing only for vehicles and cars, and durable products, including electronics.

Such providers must first obtain a license from the FRA, if their financing volume exceeds the FRA's limit of EGP 25 million. They must have a corporate company structure, other than a sole owner company, *e.g.*, a joint stock or limited liability company, or a partnership limited by shares. The company must allocate an amount of not less than the FRA's minimum of EGP 10 million for consumer financing. Also, the executive manager in charge of consumer financing must meet the FRA's specific requirements. The provider must also keep separate accounts and financial statements for its consumer financing activity.

Egyptian Federation for Entities Working in the Field of Consumer Financing

Under the Law, a federation (“**Federation**”) under the supervision of the FRA shall be established for consumer financing companies and consumer financing providers. The Federation will provide recommendations about developing and increasing awareness of consumer financing, adopting supporting initiatives, building an active workforce, and providing opinions and feedback on consumer financing legislation.

Penalties

Without prejudice to stricter penalties under any other law, the Law specifies penalties for entities that violate the Law or the Regulations. The penalties include, but are not limited to:

- Imprisonment and/or a fine of not less than EGP 200,000 and not more than EGP 1,000,000 for engaging in consumer financing as set out under the Law without a license.
- Imprisonment and/or a fine of not less than EGP 200,000 and not more than EGP 1,000,000 for any breach of confidentiality without written consent regarding consumer information by consumer financing companies or consumer financing providers, or their managers, consultants, or employees.
- A fine of not less than EGP 10,000 and not more than EGP 100,000 for any breach of consumer contracting requirements or the marketing and advertising regulations governing consumer financing.

If a company commits a violation, the penalties will be applied to the person in charge of actual management, provided that the violations were known, or if they were committed due to the manager's negligence in performing any applicable duties.

If you would like more information about this topic, please contact us.

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