

**CENTRAL BANK OF SOLOMON ISLANDS**  
**Financial Market Supervision Department**

**Prudential Guideline No. 8**  
Disclosure on Interest Rates, Fees & Charges

**Applicability**

1. This Prudential Guideline is applicable to commercial banks and credit institutions<sup>1</sup> licensed by the Central Bank of Solomon Islands (CBSI) and is applicable to all new contracts for loan and deposit products entered into, on or after the issuance of this Prudential Guideline and all existing contracts for loan and deposit products whose terms are renewed, extended or otherwise modified on or after the issuance of this Prudential Guideline.

**Background**

2. The Prudential Guideline sets out the minimum requirements for the disclosure of interest rates, fees and charges of all financial institutions' and credit institutions' products and services in Solomon Islands.
3. In addition to its function to promote a sound financial structure, the guideline has been developed to strengthen consumer protection as well as improving the level of financial literacy.
4. It shall be the responsibility of the board of directors and managing officers of each financial institution to ensure full disclosure of the pricing of their financial products, which must be readily available to the public so that they can make informed financial decisions on the use of the products and services offered.

**Disclosure Requirements to the public**

5. Each financial institution is required to publicly disclose their interest rates and fees and other charges on all loan and deposit products, and any other fees and charges relating to banking services.
6. The interest rates, fees and other charges shall be publicly displayed in a conspicuous manner in each office, branch, and agency<sup>2</sup> of the financial institution in Solomon Islands in written format through brochures, leaflets, booklets, or displays.

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<sup>1</sup> For the purposes of this prudential guideline, we use the term "financial institutions" to refer to commercial banks and credit institutions operating in the Solomon Islands.

<sup>2</sup> The term 'agency' refers specifically to the use of agents whom act as an intermediary for processing the opening of new deposit accounts for financial institutions; hence, information to the consumer needs to be disseminated at this point.

7. Any change or introduction of new interest rates, fees and other charges shall be disclosed by the financial institution to the public by notice at least 30 (thirty) calendar days prior to the effective date of the proposed change in the following formats:
  - (1) posting in a conspicuous place in all offices, branches and agencies of the financial institution in the Solomon Islands, a notice detailing the proposed change in interest rates, fees or other charges;
  - (2) publishing in a newspaper in general circulation in Solomon Islands, in plain English once a week for four (4) weeks a notice detailing the proposed changes in interest rates, fees and other charges on loan or deposit products.
8. In addition to the notification procedures above, any changes made to interest rates, fees and charges should result in an update of all written format as described in Paragraph 6 with immediate effect as of the proposed date of change.

### **Pre-Contractual Conduct**

9. Financial institutions shall fully disclose in writing and discuss, in plain English, to a customer before entering into a contract for a loan or deposit product:
  - the effective interest rate<sup>3</sup>;
  - the annual percentage rate;
  - terms and conditions;
  - the manner in which interest is calculated (i.e., simple interest or Rule of 78) and the effect it has on the interest rate in the event the loan is paid off early;
  - for variable rate loan and deposit products, a reference should be included that highlights the possibility for potential recalculations of interest rates at a later date over the term of the contract given the variable nature of the product and;
  - a reference that emphasises the possibility of potential additional costs in the form of third party fees such as insurance fees, charges and premium; valuation fees; solicitor's fees; etc; and;
  - a reference that clearly outlines the possibility of incurring penalties and forfeitures including (i) for non-payment of loans; and (ii) for withdrawal of savings deposits or early termination of time deposits.

### **Contractual Requirements**

10. All contracts shall be in writing in plain English and customers must be provided with a copy of the contract free of charge. Any additional copies requested by the customer

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<sup>3</sup> The effective interest rate is the rate that represents the actual annual cost of credit over the term of the loan. It includes any fees or additional costs directly associated with a loan providing the borrower with a cost that can be easily compared with similar products offered by other lenders. In other words, it is the total amount of interest payments on a loan or deposit product plus the amount of any interest paid at closing plus any establishment or loan origination fees plus any other fees and charges over the term of the loan as a percentage of the Principal amount borrowed. For example, a \$50,000 loan for 2 years. Total interest payments of \$5,000 per annum, loan origination fee of \$2,000, \$600 in fees charges per annum. The effective interest rate would be 13.2% per annum.

may be charged by the financial institution, which the customer must be informed prior to purchase.

11. Financial institutions shall only apply interest rates, fees, and other charges that are disclosed in loan contracts and deposit terms and conditions. Charging of an undisclosed fee or charge is a contravention of this prudential guideline under Section 8 (4) & (5) of the Financial Institutions Act 1998 (FIA).
12. No interest rates, fees, or other charges shall be effected by a financial institution after a customer enters into a contract for a loan or deposit product without prior notification to the public as outlined in Paragraph 7.
13. Loan contracts and deposit terms and conditions, which provide for variable interest rates, must state within the contract the possibility that interest rates may be subject to change.
14. For loan contracts specifically, customers should be provided with information of a loan repayment schedule that outlines the principal amount, interest payments, and total cost of borrowing over the term of the loan prior to the completion of the contract. Where factors alter the agreed interest payment, the financier has the discretion to amend repayments to keep the loan within original term or to keep repayments at same amount and an extension of term would apply. In the instance that amendments have been made to the terms of the contract, written documentation outlining the changes will be provided to the consumer upon request and free of charge. Notifications to the public, as outlined in Paragraph 7, should state that customers can request this written documentation, if it applies to their case.
15. Financial institutions shall state in the contract or other contractual documentation with the customer that the financial institution will provide, free of charge, at least one quarterly statement of account on each customer account upon request of the customer. It shall disclose the customer's account conduct detailing separately the balance and each debit and credit to the account for each day, including any interest charges, fees, penalties or other charges. Thereafter, financial institutions may, at their discretion, charge for additional statements requested by the customer.
16. All written communications by a financial institution with a customer must be in plain English which, wherever possible, avoids the use of technical or legal language. Where it is unavoidable, the phrases or terms should be explained in plain English.

### **Reporting Requirements to CBSI**

17. Each financial institution is required to submit to the CBSI **not later than 30 (thirty) calendar days** following the implementation of this guideline, the information on all banking products and services with the applicable interest rates, fees, and other charges in the standard template, CBSI Financial Institutions Prudential Return on interest rates, fees, and other charges.
18. Thereafter, financial institutions must notify the CBSI, using the standard template, of any variation in or the introduction of new interest rates, fees and other charges on loan

and deposit products at least 30 (thirty) calendar days prior to effective date of the change. An explanation for the change or introduction of the new interest rates, fees or other charges must be provided in the relevant sections of the standard template.

### **Enforcement and Corrective Measures**

18. A financial institution, which fails to comply with the requirements contained in this Prudential Guideline or to submit reports to the Central Bank of Solomon Islands, which are materially inaccurate will be considered as following unsound and unsafe practices as provided in Section 16(1) (a) of the FIA.
  
19. The Central Bank of Solomon Islands may pursue any or all corrective measures as provided in Section 16 of the FIA to enforce the provisions of this Prudential Guideline including:
  - (a) issuance of an order to cease and desist from the unsound and unsafe practices and
  - (b) action to replace or strengthen the management of the financial institution.

### **Effective Date**

20. The effective date of this Prudential Guideline is 1<sup>st</sup> November 2013.

Issued this **4th** day of **September**, 2013.

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Governor Denton Rarawa  
Central Bank of Solomon Islands