EXECUTIVE SUMMARY

Financial system of an economy is being considered as a critical function in any country as entire economic actives are done through the finance sector. Thus, increased research has focused on finding reasons for failures in banks. Yet fewer researches focus on failure of Licensed Finance Companies (LFC) in Sri Lanka. Therefore, it arises the need of understanding factors, which can cause collapse in finance companies in Sri Lanka. Accordingly, this survey was designed to identify such factors in the Sri Lankan contest. The study has conducted based on the banking sector.

In the present scenario, the competition between finance companies can be considered as very high. There are many reputed and small finance companies who serve to the same target market without having proper action plans to survive long term. Top managers are concern is mainly on self-benefits while employees of finance companies think about their career achievements. Nevertheless, innovations and technology of the era has increased the level of pressure and the competitiveness of the industry, making finance companies to compete without having proper vision for their survival in the market. On the other hand, failure of finance companies can create multi-level effect to the economy where it gets impacted to the rest of the finance system and ultimately to the society.

Directors actions can be marked as a major factor for failures in finance companies happened in recent past. Directors do not follow good governance policies making integrity issues in their behavior and practices. As these finance companies are family owned entities; it is well noted that directors of finance companies are most of the times close friends or well-known relatives. Therefore, collectively they involve in malpractices and mismanage depositors' funds. It should be code of best practices to govern the directors' practices in finance company. Regulations, audit requirements, risk assessment plays a major role in governing finance companies.

The study framework was developed based on eight variables through literature. Study was then carried out based on the operationalization on each variable. The sample compromise 1012 respondents in executives and above grade employees from five leading privately owned Licensed Commercial Banks (LCB) in Sri Lanka. Primary data was collected by hard copy printed questionnaires measuring banking employees' viewpoint on failures of finance companies. All data was in questionnaires were entered

into SPSS software to analyze. Using primary data graphs were generated to understand the output of the survey. Sample size of three focus in-depth interviews were conducted to fold secondary data with 12 participants who are in executive and above grade employees at private Licensed Commercial Banks in Sri Lanka.

Findings revealed several reasons for failures in finance companies such as integrity issues of directors, lack of risk assessment, non-diversified product portfolio, deficiencies in regulatory framework, highly target driven employees. However, it was found out the survival of the finance companies are being challenged in future as there are many number of finance companies existing in the market with high competition level. According to the survey it is found out that there is a significant gap in regulations, risk assessment, product portfolio and directors' professionalism.