



BANK OF ZAMBIA SUPERVISION EXPERIENCE

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WORLD BANK GROUP

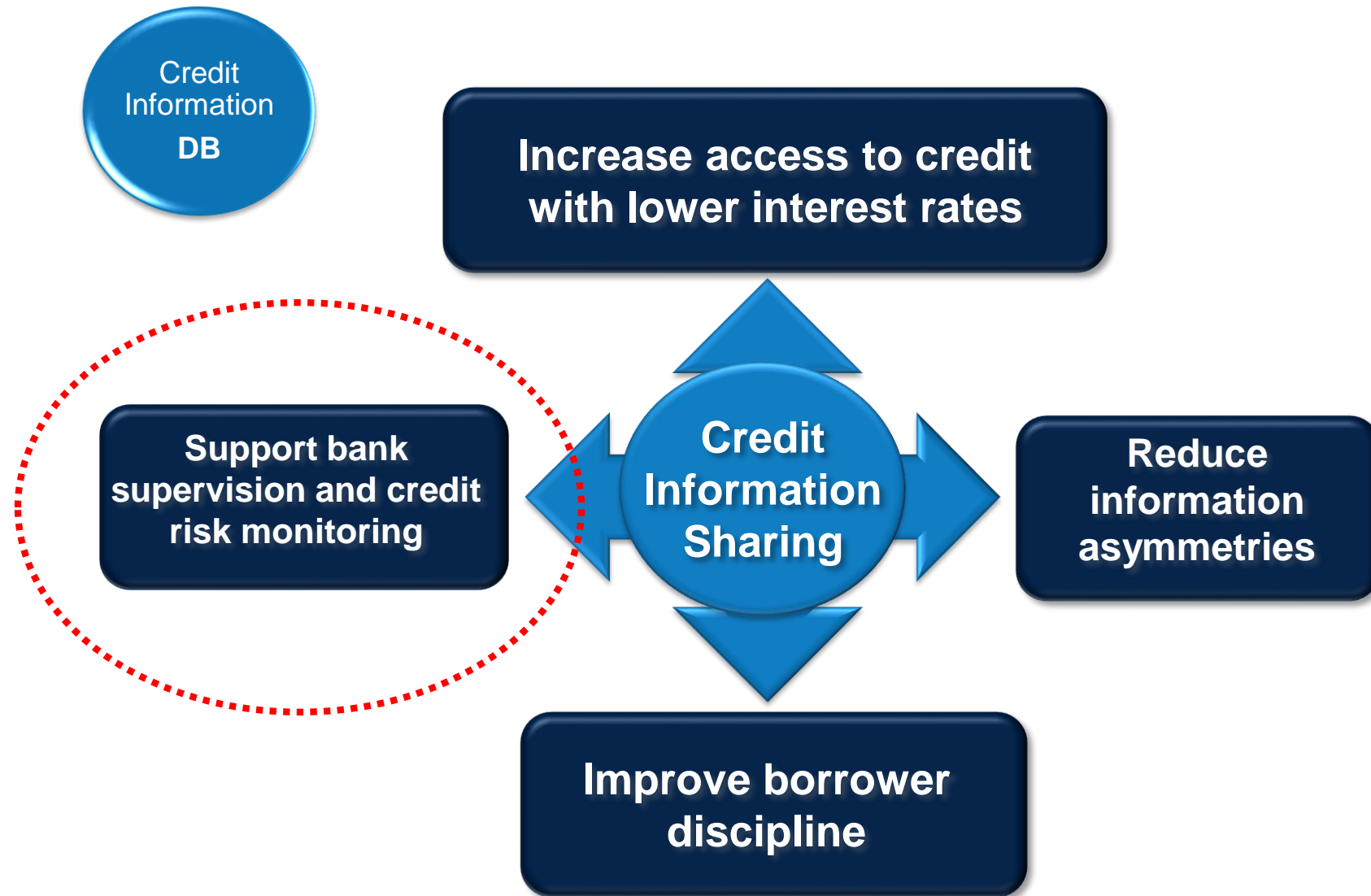
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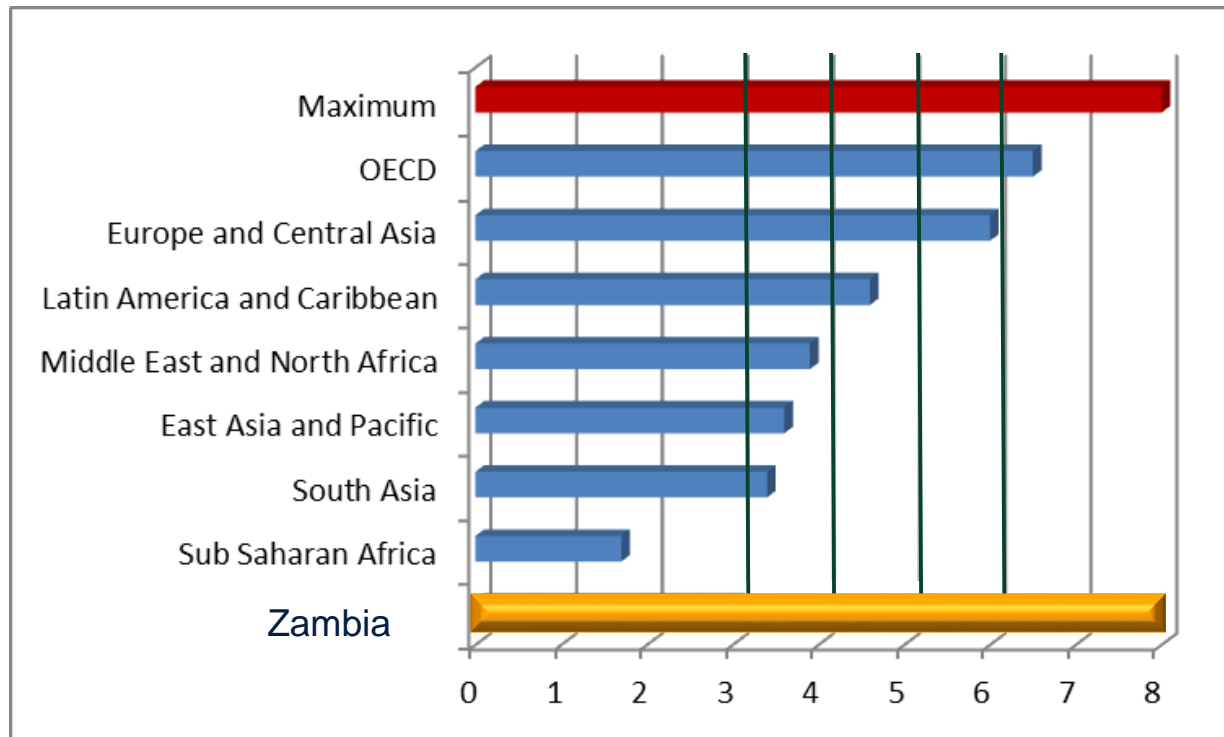
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Credit System Success factors



Depth of Credit Information Index Across Regions and Zambia



DOING BUSINESS INDICATORS

1. The law establishes that borrowers can inspect their data in the bureau.
2. On line access to credit information
3. Information on consumers and companies
4. Information of all types of data (includes retailers, telcos, MFIs, etc.)
5. Positive and negative information
6. Historical Data for more than 2 years
7. Credits of all amounts
8. Credit Scoring

1. Sub-Saharan Africa has the lowest index, but Zambia ranks 8/8

STRUCTURE OF THE FINANCIAL SECTOR

Supervision and Regulation

BoZ - FSPs except capital markets, insurance and pension sectors.

PIA – pensions and insurance service providers

SEC – capital Markets

- Characteristics of Zambia's Financial system is the dominant role of commercial banks
- To the bank assets and liabilities amounted to K64.7 billion (51.7% of GDP).
- Besides 19 commercial banks, there are 122 financial institutions, financial businesses classified into 7 categories according to the business activities.
- Combined balance sheets of the institutions amounts to about one tenth of aggregate balance sheet of commercial banks.
- Sector dominated by commercial banks

Background to Credit Reporting

- In recognition of the importance of credit reporting and information sharing to the information asymmetry problem that exists in Zambia, the FSDP had, as one of its recommendations, the establishment of a private sector led credit reporting system.
- The BoZ considers CRAs as an essential part of the financial infrastructure that facilitate effective and efficient access to formal finance.
- By providing timely and accurate information on borrowers' debt profile and repayment history, they reduce information asymmetry between borrowers and lenders; increase access to credit for SMEs; improve borrower discipline and reduce default probabilities of borrowers.

Zambia legal framework

CRS is governed by the ***Credit Reference Services Licensing Guidelines*** and the ***Credit Data Privacy Code*** both of which were gazetted on 30 March 2006. They are subsidiary pieces legislation drawn from the Banking and Financial Services Act (BFSA).

Credit Reference Services (Licensing) Guidelines

Provides for the eligibility for licensing and prohibit any person, unless duly licensed, from carrying on the business of credit reference services.

Banking and Financial Services Credit Data (Privacy) Code

Provides for the manner in which data should be handled by credit data providers and the CRBs. The Code prescribes, amongst other things:

- the scope of data to be provided by credit providers and collected by CRBs;
- matters relating to security and integrity of the data and the use of the data;
- outlines the rights of borrowers with respect to their data in the CRB database.

Banking and Financial Services Act (Provision of Credit Data and Utilisation of Credit Reference Services) Directive of 2008

To attain critical mass of data, the BoZ issued the Banking and Financial Services (Provision of Data and Utilisation of Credit Reference Services) Directive, on 10 December 2008. The Directive requires all FSP to submit credit data to a CRA and to use the services of a CRA before extending a loan to any person.

Development of Credit Reporting Bill

The development of credit reporting has been limited by, amongst other things, the absence of a legislative framework that adequately protects non-financial sector credit providers that divulge information about their creditors and customers. It is in this regard that a comprehensive Credit Reporting Law is being developed.

Credit Reporting Bill:

- Compels credit providers not supervised by BoZ to submit credit data and search the databases of CRAs before transacting with clients
- **Confidentiality:** requires FSPs, directors, CEO's, CFO's managers and employees of FSPs to maintain the confidentiality of all confidential information, except where;
 - There is express consent of the data subject or order of a court;
 - The interest of the FSP so requires;
 - The BoZ in carrying out its fn's so requests.
- **Accuracy of data:** Credit Provider shall take reasonably practical steps to check for data for accuracy.
- **Provision of disputed data:** When data disputed by the consumer is reported to the CRA, the Credit Provider shall include an indication of the existence of the dispute. Once the dispute is resolved, the CP shall update the data held by the CRA
- **Deletion of default data:** Data remains at the CRA for 7 years after which it will be deleted.

One important challenge for BoZ is to properly supervise a Credit Reporting operation that is run from Kenya.

ZAMBIA CREDIT
REPORTING MODEL
“Hub and Spoke”
Is an evolution of
the Outsourcing Model
and is commonly used.

HUB and SPOKE Models in Africa

- Transunion
- Creditinfo



Benefits of the Hub and spoke model

- Cost efficiency
- Faster implementation of technology
- Leverage high priced and skilled resources.
- Faster product development and time to market.
- Leverage complex computer infrastructure.
- Centralized security infrastructure.
- Training and capacity building on best practices.
- Standardize operational processes and procedures
- Enforcement of uniform standards and quality of service
- Flexibility and scalability of operation

Hub and Spoke operating model

RISKS	MITIGANT
<p>CRB in Zambia does not have operational ownership and control of the data. Lack of transparency impacts regulator and stakeholder confidence in governance.</p>	<p>A formal agreement between CRB (spoke) and the Hub on the terms and conditions of the services provided by the operator, including a clear definition of data ownership by the CRB spoke Zambia.</p>
<p>Lack of efficient communication and remote access between the service provider (hub in Kenya) and the data owner (spoke in Zambia) slows the process of enhancing the data quality.</p>	<p>Clear strategy and process to allow for remote access by the relevant staff CRB in Zambia of the data base to produce reports for the regulator and respond to queries from clients.</p>
<p>Compliance to the law and data privacy framework is difficult when the operation is run abroad.</p>	<p>Clear documented process and evidence of compliance to Zambia law and data privacy framework.</p>
<p>Timely and efficient consumer dispute resolution</p>	<p>A customized process for dispute resolution for Zambia is necessary to enhance customer service.</p>

Another challenge
BoZ faces is keeping
NPLs low.

Credit reporting helps
understand the risk
and make better
decisions.

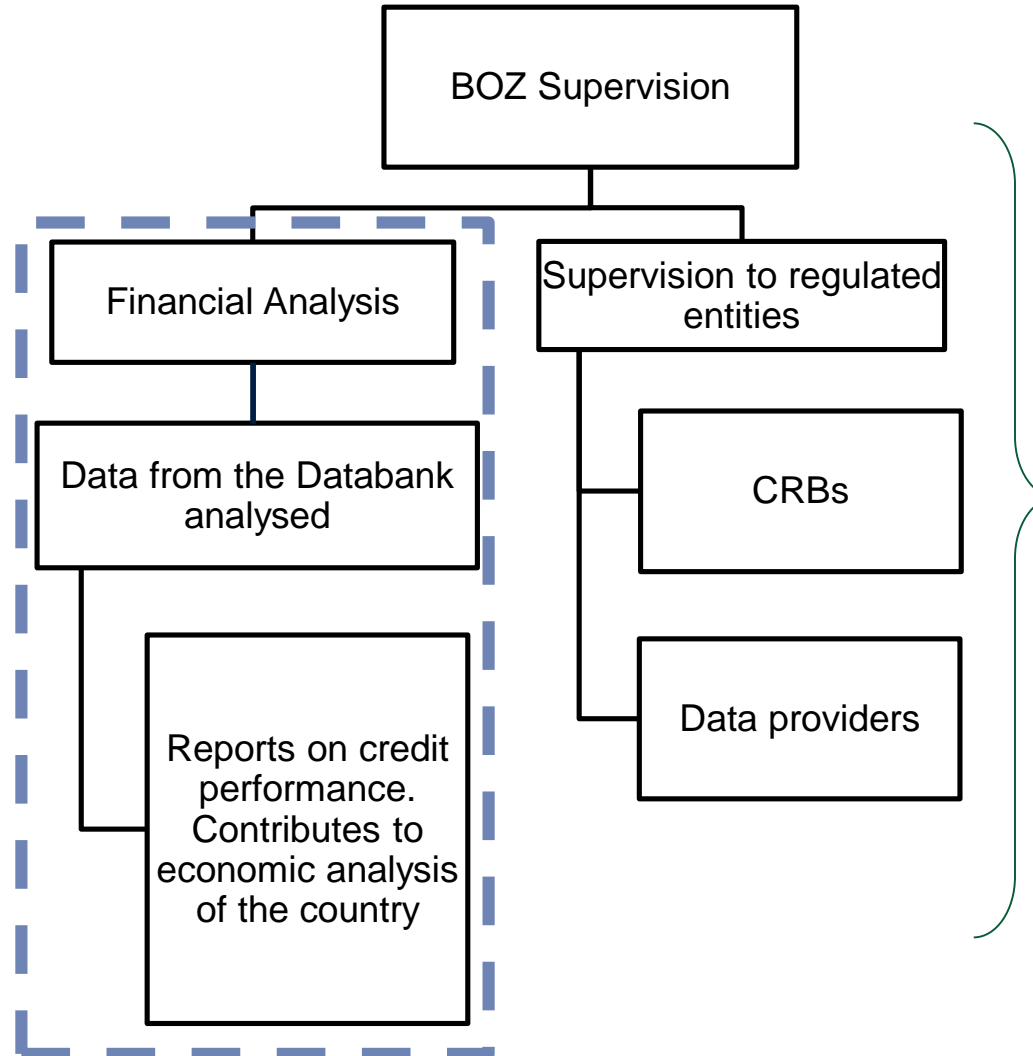
**Bank supervisors must
ensure that **Credit
Providers adopt the use of
credit information in their
credit policies**, in order to
have real impact.**

**THIS IS ONE OF THE MOST
IMPORTANT TASKS WHEN
PERFORMING ON-SITE
EXAMINATIONS ON CREDIT
PROVIDERS**

BoZ Credit Reporting Supervision organizational structure: Regulatory function and Market monitoring and analysis function.

Market monitoring function

- Information from the Credit bureau to be used for macro and microeconomic analysis.
- To derive or reform policies.
- To analyze consumer indebtedness.
- To analyze the health of the credit system.



Supervisory function

- CRB:
 - Ensure compliance with the law
 - On-site examinations
 - Off-site reporting
- Data providers:
 - Ensure compliance with the law:
 - Providing data
 - Making queries
 - Dispute process

Credit Bureau Supervision

Licensing

Off-site compliance monitoring

On-site inspections

Lender compliance

Complaints Resolution

Statistical returns

BoZ Credit Reporting on-site and off-site examination take aways

ON-SITE	OFF-SITE
<p>On-site teams must include persons with ICT competence</p> <ul style="list-style-type: none"> • data integrity, controls, quality 	<p>Design template returns that reflect objectives of use of data (financial inclusion/ credit market monitoring etc)</p>
<p>Develop framework that enables collaboration with external supervisory authorities</p>	<p>Have mechanism for validation of submissions (including alternative data sources)</p>
<p>Develop common definitions for technical terms</p>	<p>Develop common definitions for technical terms</p>
<p>Conduct on-sight regularly (average: once a year)</p>	<p>Design templates for different periodic returns i.e. monthly/ quarterly/ annual</p>
<p>Regulatory Framework should not impede innovation</p>	

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