SADC PAYMENT SYSTEMS PROJECT
ZAMBIA PROGRESS REPORT
FOR THE PERIOD APRIL 2008 TO MARCH 2009
1 INTRODUCTION

This report reviews developments that took place in the Zambian National Payment Systems between April 2008 and March 2009. The report also highlights the initiatives that the Bank of Zambia undertook in collaboration with payment systems stakeholders as well as the efforts to implement fully functional oversight over the payment system.

During the period under review, the Bank of Zambia continued to implement some initiatives intended to enhance efficiency, safety and soundness of the payment systems. In undertaking these programmes, the Bank involved a wide spectrum of stakeholders.

2 OPERATIONAL ISSUES

Although the Zambian Inter-bank Payment and Settlement System (ZIPSS) operated satisfactorily during the year under review, there were incidents of connectivity disruptions between the SWIFT service network provider and the SWIFT bureau that had little or no effect on the overall system. All commercial banks actively participated in ZIPSS.

The volume of transactions processed in ZIPSS increased by 49.48% to 136,720 transactions (2007: 91,462) with the transaction volumes peaking in December 2008. The value of transactions similarly increased by 39.15% to K228,613 billion (2007: K164,295 billion). Access Bank Zambia limited was yet to be included on ZIPSS as at December 2008.

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<tbody>
<tr>
<td>Jan</td>
<td>5,487</td>
<td>6,126</td>
<td>10,624</td>
<td>73.42%</td>
<td>10,425.00</td>
<td>13,926.00</td>
<td>18,281.00</td>
<td>31.27%</td>
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<tr>
<td>Feb</td>
<td>4,871</td>
<td>5,287</td>
<td>9,877</td>
<td>86.82%</td>
<td>7,552.00</td>
<td>10,579.00</td>
<td>17,158.00</td>
<td>62.19%</td>
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<tr>
<td>Mar</td>
<td>5,492</td>
<td>6,394</td>
<td>9,689</td>
<td>51.53%</td>
<td>10,178.00</td>
<td>14,123.00</td>
<td>14,214.00</td>
<td>0.64%</td>
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<tr>
<td>Apr</td>
<td>4,592</td>
<td>6,474</td>
<td>11,015</td>
<td>70.14%</td>
<td>7,927.00</td>
<td>16,414.00</td>
<td>14,344.00</td>
<td>-12.61%</td>
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<tr>
<td>May</td>
<td>5,313</td>
<td>7,581</td>
<td>11,227</td>
<td>48.09%</td>
<td>6,406.00</td>
<td>17,696.00</td>
<td>16,912.00</td>
<td>-4.43%</td>
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<tr>
<td>Jun</td>
<td>5,373</td>
<td>7,064</td>
<td>11,013</td>
<td>55.90%</td>
<td>7,712.00</td>
<td>11,360.00</td>
<td>20,014.00</td>
<td>76.18%</td>
</tr>
<tr>
<td>Jul</td>
<td>4,735</td>
<td>7,105</td>
<td>12,645</td>
<td>77.97%</td>
<td>8,564.00</td>
<td>13,862.00</td>
<td>18,908.00</td>
<td>36.40%</td>
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<tr>
<td>Aug</td>
<td>5,678</td>
<td>7,687</td>
<td>11,020</td>
<td>43.36%</td>
<td>9,741.00</td>
<td>13,524.00</td>
<td>20,518.00</td>
<td>51.72%</td>
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<tr>
<td>Sep</td>
<td>5,857</td>
<td>7,734</td>
<td>11,316</td>
<td>46.31%</td>
<td>13,814.00</td>
<td>12,001.00</td>
<td>20,160.00</td>
<td>67.99%</td>
</tr>
<tr>
<td>Oct</td>
<td>5,661</td>
<td>9,997</td>
<td>13,043</td>
<td>30.47%</td>
<td>13,243.00</td>
<td>12,679.00</td>
<td>26,926.00</td>
<td>112.37%</td>
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<tr>
<td>Nov</td>
<td>5,979</td>
<td>10,246</td>
<td>12,118</td>
<td>18.27%</td>
<td>13,229.00</td>
<td>13,426.00</td>
<td>21,855.00</td>
<td>62.78%</td>
</tr>
<tr>
<td>Dec</td>
<td>6,028</td>
<td>9,767</td>
<td>13,133</td>
<td>34.46%</td>
<td>13,162.00</td>
<td>14,705.00</td>
<td>19,323.00</td>
<td>31.40%</td>
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<tr>
<td>Totals</td>
<td>65,066</td>
<td>91,462</td>
<td>136,720</td>
<td>49.48%</td>
<td>121,953.00</td>
<td>164,295.00</td>
<td>228,613.00</td>
<td>39.15%</td>
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The increase in volume and value of transactions can be attributed to Government migrating its payments to ZIPSS in compliance with the Item Value Limits (IVL). Prior to June 2008, Government was allowed to process payments above the IVL threshold on alternative payment streams mainly cheques. This was with a view of allowing a smooth changeover.
3 SETTLEMENT SYSTEM DEVELOPMENTS AND PROJECTS

3.1 LINKING OF LUSAKA STOCK EXCHANGE TO ZIPSS/RTGS

During the period under review, progress was made in linking the Lusaka Stock Exchange to the Zambia Interbank Payment and Settlement System (ZIPSS). A memorandum of understanding was agreed and signed-off by all the parties to the agreement during the period under review.

The project is motivated by a desire to implement international best practices in settling security trade transactions by the achievement of delivery versus payment.

3.2 COMESA REGIONAL PAYMENT AND SETTLEMENT SYSTEM

Although the implementation of the COMESA Regional Payment and Settlement System (REPSS) made limited progress, the Bank of Zambia participated in the Project during the period under review.

The major milestone achieved was successful completion of tests by central banks of various member countries. However, the tests were not extended to commercial banks due to a number of technical problems experienced. It is expected that the implementing agency of COMESA REPSS, the COMESA Clearing House, will resolve these technical problems in 2009 allowing the project to progress.

3.3 ZAMBIA REVENUE AUTHORITY-BANK OF ZAMBIA RTGS INTERFACE PROJECT

During the year under review, agreement was reached between the Bank of Zambia and the Zambia Revenue Authority on enhancing the Tax Payment Stream. This would result in the deployment of a technology solution that would eliminate manual processing of tax payments and improve service delivery particularly at border points.

4 RETAIL SYSTEM DEVELOPMENTS AND PROJECTS

4.1 NATIONAL SWITCH PROJECT

During the period under review, Bank of Zambia and the Bankers Association of Zambia resolved to set-up a National Switch in partial fulfilment of the National Payment Systems Vision and Strategy 2007-2011. Towards this end, a vendor for the solution was selected following an open tender process and negotiations. It is anticipated that the implementation will commence in the second quarter of 2009.

4.2 CHEQUE TRUNCATION PROJECT

During the period under review, the Bank of Zambia and the Bankers Association of Zambia agreed to initiate the Cheque Truncation Project in 2009. The National Payment Systems Vision and Strategy 2007-2011 identifies cheque truncation as a key strategy to streamline cheque processing in Zambia. It is envisaged that this will be achieved through resulting improvements in service delivery and reduction in costs and payment systems risks arising from the implementation of truncation.
Bank of Zambia and the Bankers Association of Zambia are expected to develop an appropriate model during the first quarter of 2009 and the implementation to commence after identification of an appropriate solution. The expected rollout date is first quarter 2010.

5.0  E-MONEY AND MOBILE BANKING INITIATIVES

5.1  MOBILE PAYMENT INITIATIVES

During the period under review, two mobile payments services providers were designated to provide services. One of the services is targeted at both the banked and the unbanked who receive payments in cash. The product is suited to high volume but relatively low-value transactions.

The other service provider will provide a product to customers who hold bank accounts with a bank which is a member of VISA. The product allows business to business payments, retail payments between customers and merchants, payment of utility bills and transfer of funds.

6.0  OVERSIGHT DEVELOPMENT INITIATIVES

6.1  OPERATIONALISATION OF THE NATIONAL PAYMENT SYSTEMS ACT, 2007

During the year 2008, Bank of Zambia commenced implementation of the National Payment System Act No.1 of 2007 (NPSA) which came into effect in 2007. Under this Act, any person intending to operate a payment system or payment system business shall apply to the Bank of Zambia for designation of the system.

As a result, the Bank of Zambia successfully designated fourteen (14) Payment Systems\(^1\) Participants\(^2\), fourteen (14) Payment Systems Business\(^3\) and two (2) Payment Systems.

6.2  DISHONOURED CHEQUES CIRCULAR

During the period under review, the Bank of Zambia issued a Commercial Bank Circular on Dishonoured Cheques on account of insufficiently funded accounts. The circular details measures for implementing section 33 of the National Payment Systems Act No.1 of 2007 which criminalises bouncing of cheques on account of insufficiently funded accounts were this is done wilfully or with intent to defraud.

6.3  MONEY TRANSMISSION GUIDELINES

During the period, the Bank developed and issued guidelines for Money Transmission service providers to facilitate oversight of these institutions. These guidelines were agreed with the money transmission businesses and effected in the course of 2008.

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\(^1\) A payment system is defined by the NPSA as a clearing and settlement system
\(^2\) A participant is defined by the NPSA as a member of a payment system
\(^3\) A payment system business is defined by the NPSA as the business of providing money transfer or transmission services or any other business that the Bank of Zambia may prescribe as a payment system business