



REPUBLIC OF ZAMBIA

FINANCIAL INCLUSION RISK ASSESSMENT REPORT

NOVEMBER, 2016



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1.0. FINANCIAL INCLUSION RISK ASSESSMENT

1.1. What is Financial Inclusion?

Financial inclusion is the process of ensuring access to financial services on a timely manner at an affordable cost by low income and underserved groups. In other words, financial inclusion is the process of facilitating those sectors and segments of the population that are outside the formal financial system, to become a part of the system. Financial inclusion should be accompanied with financial literacy and financial discipline to make it more sustainable.

1.2. Legal and Regulatory Framework of the Financial Sector in Zambia

The Zambian financial system comprises three sectors which are regulated and supervised by the Bank of Zambia (BOZ) in terms of banking¹, the Pensions and Insurance Authority (PIA) in terms of pensions and insurance businesses, the Securities and Exchange Commission of Zambia (SEC) in terms of financial markets.

The following are the pieces of legislation in the financial sector:

- (a) the Banking and Financial Services Act, Cap. 387 (for the banking sector);
- (b) the Securities Act, Cap. 354 (for the securities sector);
- (c) the Pension Scheme Regulation Act, No. 28 of 1996 (as amended by Act No. 27 of 2005) (for the private occupational pension schemes);
- (d) the Insurance Act, No. 27 of 1997 (as amended by Act No. 26 of 2005);
- (e) the National Payment Systems Act, No. 1 of 2007; and
- (f) The Financial Intelligence Centre Act, No. 46 of 2010

¹ The Bank of Zambia also regulates and supervises non-bank financial Institutions and businesses in accordance with the Banking and Financial Services Act, Cap. 387 of the Laws of Zambia.

1.3. Application of Risk Based Supervision and of simplified Customer Due Diligence (CDD)

The three sector regulators have broadly adopted risk based approach (RBA) in their undertaking of both prudential and AML/CFT supervision. It is notable that in terms of prudential supervision, the supervisory authorities administer their respective pieces of legislation on matters of undertaking risk-based prudential supervision of the reporting entities. In terms AML/CFT supervision, all the three (3) supervisory authorities are designated as supervisory authorities under Section 2 of the Financial Intelligence Centre Act, No. 46 of 2010. This is amplified further in Sections 5(2)(g)² and 36(2) of the same Act which requires the supervisory authorities to ensure that their various reporting entities comply with the obligations set under the Act.

Pursuant to the provisions under the Financial Intelligence Centre Act, subsidiary legislation has been developed to enable the supervisory authorities to apply simplified Customer Due Diligence (CDD) measures. For instance, Statutory Instrument No. 9 of 2016, the Financial Intelligence Centre (General) Regulations provide in regulations 8 and 9 that:

“8. A reporting entity may adapt the nature and extent of application of the customer due diligence measures specified in regulation 7 commensurate with the level of money laundering and terrorist financing risk associated with the customer, business relationship or transaction.

9. (1) A reporting entity may apply the simplified customer due diligence measures specified in the Second Schedule where the reporting entity determines that the risk of money laundering or terrorist financing is low.

(2) Where a reporting entity applies simplified customer due diligence measures, the reporting entity shall prove the low risk to the satisfaction of the Centre or the supervisory authority.”

² Section 5(2) of the Amendment Act, No. 4 of 2016

The Schedule referred to in sub-regulation (1) of regulation nine provides for customer risk, product, service, transaction or delivery channel risks as well as country risk as factors to be taken into account in applying customer due diligence measures.

Prior to the enactment of the FIC Act and the promulgation of relevant subsidiary legislation, supervisory authorities were obliged to develop and issue AML directives pursuant to section 12 (4) of the Prohibition and Prevention of Money Laundering Act number 14 of 2001. For example, the Pensions and Insurance Authority AML directives provide for the application of simplified measures to certain types of businesses such as life Insurance Policies where the annual premium is not more than K5000.00 or a single premium of not more than K13,000.00 or a pension, superannuation or similar scheme providing retirement benefits to employees in which contributions are made by way of deductions from the employee's wages or salaries.

The current legal and regulatory framework is undergoing reforms with a view to adequately accommodate financial inclusion development. For instance, the PIA commenced its development of micro-insurance regulations to provide a framework for the development of financial inclusion products in the insurance sector and indicated that measures were also being considered to develop regulations on micro-pensions to foster financial inclusion in the pensions sector.

Alongside the need to generally encourage product innovation and services in the financial sector, supervisory authorities have developed various measures in which financial inclusion products and services are gaining the benefits therefrom in terms of development and supervisory oversight. Examples of these measures are the Bank of Zambia Guidelines for Money Transmission Services, Fit and Proper Test for potential and existing service

providers³, product approval guidelines and policies and on-site inspection manuals.

In 2011, Zambia's financial inclusion rate was 37.3%⁴. Through the Bank of Zambia, Zambia signed the Maya Declaration to raise financial inclusion from 30% to 50% within 5 years and to ensure that various areas of the country especially rural areas gain access to different formal financial products and services.

Development of the National Strategy on Financial Inclusion for the country is underway and taking into account the outcomes of this Risk Assessment, it is envisaged that, once completed, the strategy will contribute towards further enhancement of financial sector legislation fostering a much clear enabling environment for reporting (financial) entities and other ancillary sector players to continue formulating financial inclusion products and services.

2.0. OBJECTIVES OF RISK ASSESSMENT OF FINANCIAL INCLUSION PRODUCTS

Risk Assessment of financial inclusion products was undertaken by the country with a view to understand money laundering (ML) and terrorist financing (TF) risks that may arise from both existing and any emerging products and services being offered in Zambia and exploring the room for simplifications in AML/CFT measures in low risk situations.

The country's desire in undertaking risk assessment of financial inclusion products is also aimed at ensuring that the outcomes of the assessment assist financial regulators and various market players in undertaking the following:

- (a) designing or redesigning products or services as the case may be;
- (b) putting in place necessary mitigating measures and
- (c) reviewing of existing policies and practices including legislation.

The country's achievement in effectively undertaking these parameters as informed by the outcomes of the risk assessment will ensure that financial

³ These guidelines have been put in place respectively by the three financial sector regulators, BoZ, PIA and SEC

⁴ www.finclusionlab.org/country/zambia (accessed on 3rd April, 2016)

inclusion products contribute to the safety and integrity of the financial systems.

3.0. METHODOLOGY

The financial inclusion risk assessment covered the financial institutions and money value transfer services that were offering respective financial inclusion products or services. These are banks, microfinance institutions, insurance companies, mobile service providers, postal services, retail shops, securities exchanges, brokers and fund managers of capital markets.

The assessment was made through questionnaires, onsite interviews with various key persons from the entities as well as field visits to other outlying areas of the country where most of these providers had established branches or agencies. This is explained in the sections below.

3.1. Questionnaires

The design of the questionnaire was based on the World Bank, Financial Inclusion Product Risk Assessment Tool. The tool is designed to identify the features of current or potential financial inclusion products, overall operating risk assessments as well consideration of any appropriate mitigation measures that are in place for each product. The questionnaire also assisted in obtaining a general understanding of the names of the financial inclusion products or services that are currently in existence. The questionnaires that were deigned and distributed to the respondents are attached in annex 1 and 2.

From the responses received, and on further interaction with the respondents through interviews or field visits, it was duly noted that some of the products submitted for consideration did not have the features generically and reasonably accorded of F.I. products.

The table below indicates this scenario:

Institution	Reponses from Institutions	FI Products available from respondents	FI Products not-available from respondents
Licensed Commercial Banks(LCBs)	8 (42%)	62%	38%
Licensed Insurance Companies	5 (50%)	28%	72%
Licensed Capital Market Companies	6 (86%)	50%	50%
Licensed Mobile Money	4 (100%)		
Licensed Micro Finance Companies	1 (33%)	50%	50%
Supervisory Entities	2 (67%)	N/A	N/A
TOTAL	67%	58%	42%

3.2. Interviews

Follow-up interviews were made with the entities that provided their responses to the questionnaire for purposes of obtaining further understanding and clarifications on the parts of the questionnaires where responses were either not provided, were unclear or inadequate in their context.

Onsite interviews also provided the opportunity for the Working Group to sensitise the entities on the objectives and the benefits of undertaking a national risk assessment (NRA).

The persons interviewed comprised mostly of branch managers, Chief Executives and risk managers.

3.3. Field Visits

Field visits were undertaken in areas that were away from the line of rail where service providers had established branches or agencies. This assisted in the assessment of the respective branches or agencies in gauging the extent to which the relevant staff had undergone AML/CFT training and implementation of AML/CFT requirements. It was observed from these visits that staff that have been deployed to work in the branches of some of the financial institutions or agencies were not fully conversant with AML/CFT matters and the effects that such have or could potentially in the provision of financial inclusion. In these field visits, the team mostly interacted with branch managers, customer services staff and agents of mobile money transfer services.

In the outlying areas that were visited, mobile money transfer services were reasonably widespread followed by online money transfer services by Zampost⁵ as well as the branch network of various commercial banks. Other services such as insurance and securities were not widespread in these outlying areas.

3.4. Desk Research

In order to augment the above processes, the Working Group also undertook independent desk-research on the various types of Financial Inclusion products and services that were in the scope of the data collection and analysis scope.

Financial education and consumer awareness programs have necessitated the need for various providers of financial products and services to develop detailed information on their products or services and provide that information on their respective websites to assist consumers and other stakeholders to understand the rights and benefits. Most service providers

⁵ This is due to the expanded branch network of the service provider across the country

have also been publishing various articles in newspapers, magazines and brochures on the products and services that are being offered. And as a regulatory requirement, providers of financial inclusion products or services also submitted information to supervisory authorities for purposes of obtaining approval as well as at the point of launching those products or services on the market. These sources assisted in undertaking the desk research on various financial inclusion products or services.

4.0. FINANCIAL INCLUSION PRODUCT ANALYSIS

4.1. Risk Assessment Tool

The Financial Inclusion Risk Assessment Tool assists the country in evaluating money laundering and terrorist financing risks arising from both existing and emerging financial inclusion products. The tool can be used by financial supervisory authorities in the design of risk-based approach framework.

The first part of the tool includes all the key questions mainly focusing on specific features of the financial inclusion product.

The second part of the tool covers the overall ML/TF risk environment in the country. Thus, taking these answers into account, the potential threats of ML/TF in the country and the associated control measures in place have been evaluated.

The third and final parts of the tool provide the country with the initial ML/TF risk level for each specific product feature. The tool offers guidance questions on mitigating potential high risks.

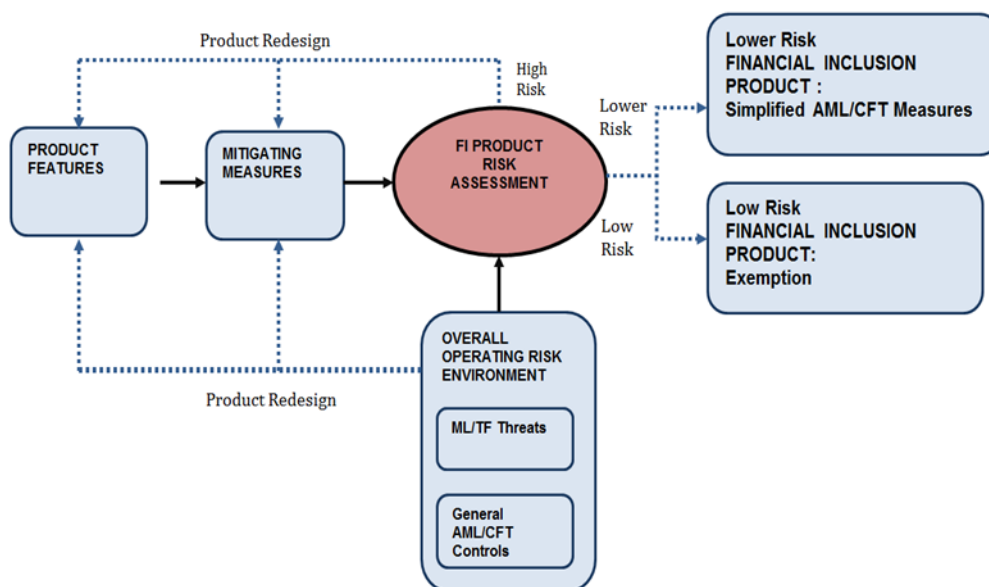


Table 2: Four scenarios for using the FIRM (Financial Inclusion Risk Management)

	Regulatory Framework for Financial Inclusion Products	A Particular Financial Inclusion Product/Service
CURRENT	<ul style="list-style-type: none"> • Review and test • Revise (as necessary) • Justify 	<ul style="list-style-type: none"> • Review and test • Revise (as necessary) • Justify
PLANNED	<ul style="list-style-type: none"> • Review and test • Design • Redesign (as necessary) • Justify • Launch 	<ul style="list-style-type: none"> • Review and test • Design • Redesign (as necessary) • Justify • Launch

The two scenarios under the current framework in the above table was used in undertaking the assessment. The Risk Assessment was limited in its scope in that some possible key stakeholders were not considered as respondents. These included Non-Governmental Organizations (NGO) and users of Financial Inclusion Products.

4.2. Product Groups

The Working Group received 25 out of the total number of 43 questionnaires that were sent to the entities.

From the assessment undertaken, financial inclusion products fall in either of the following categories:

- (i) deposit products- normal savings and fixed deposit accounts;
- (ii) local money remittances;
- (iii) mobile money accounts and remittances;
- (iv) group-based savings and credit accounts
- (v) micro insurance products;
- (vi) unit trusts;
- (vii) E-Wallets.

4.2.1. Banking Sector

Questionnaires were sent to 19 commercial banks listed as in the table below. Follow ups were made to 18 commercial banks and responses were received from 8 banks only. Interviews were conducted with 10 banks as captured in the table below.

List of Entities in the Banking Sector

No	Name	Followed up on questionnaire response.	Responded?	Interviewed
1	ZANACO	Yes	Yes	Yes
2	First National Bank	Yes	Yes	Yes
3	United Bank for Africa	Yes	Yes	Yes
4	AB Bank	Yes	Yes	Yes
5	Access Bank	Yes	No	No
6	Cavmont Bank	Yes	No	No
7	Stanbic Bank	Yes	No	No
8	Investrust Bank	Yes	Yes	Yes
9	Citi Bank	No	No	No

10	Intermarket Bank	Yes	No	No
11	Barclays Bank	Yes	Yes	Yes
12	Standard Chartered Bank	Yes	Yes	Yes
13	First Capital Bank	Yes	No	No
14	National Savings & Credit Bank	Yes	No	yes
15	First Alliance Bank	Yes	No	No
16	Indo Zambia Bank	Yes	Yes	Yes
17	Eco Bank	Yes	No	No
18	Finance Bank Zambia	Yes	No	Yes
19	Bank ABC	Yes	No	No

4.2.2. Insurance Sector

A total of 10 questionnaires were sent out to various Insurance entities as in the table below. Follow ups were made to 8 entities. However, responses were only received from 5 entities. The table shows the entities where the questionnaires were sent and the ones that were interviewed.

No	Name	Followed Up?	Responded?	Interviewed
1	Madison Life	Yes	No	Yes
2	Madison General	Yes	Yes	Yes
3	ZSIC Life	Yes	Yes	Yes
4	ZSIC General	Yes	No	No
5	Professional Life	Yes	Yes	Yes
6	Professional General	Yes	Yes	Yes
7	Focus Life	Yes	Yes	Yes
8	Focus General	Yes	No	No
9	African Life	No	No	No

10	MicroEnsure	No	No	No
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4.2.3. Capital Market Sector

Questionnaires were sent to seven entities as indicated in the table below:

No	Name	Followed Up?	Responded?	Interviewed
1	Kukula Capital	Yes	Yes	Yes
2	Focus Capital	Yes	Yes	Yes
3	Laurence Paul Investments	Yes	Yes	Yes
4	GroFin Zambia	Yes	Yes	Yes
5	Lusaka Stock Exchange	Yes	Yes	Yes
6	Bond & Derivatives Brokers	No	No	No
7	Madison Assets Mgt. Co.	Yes	Yes	Yes

Mobile Money Services

Questionnaires were sent to four entities as indicated in the table below:

No	Name	Followed Up?	Responded?	Interviewed
1	Airtel Money	Yes	Yes	Yes
2	MTN Money	Yes	Yes	Yes
3	Zoona Mobile Money	Yes	Yes	Yes
4	ZamPost SWIFT Cash	Yes	Yes	Yes

4.2.4. Micro-Finance Sector

In this sector, questionnaires were sent out to three (3) entities as indicated in the table below:

No	Name	Followed Up?	Responded?	Interviewed
1	Madison Finance	Yes	No	No
2	BayPort Financial Services	Yes	No	Yes
3	FINCA	Yes	Yes	Yes

4.2.5. Supervisory Authorities

Three questionnaires were distributed to the Supervisory Authorities.

No	Name	Followed Up?	Responded?	Interviewed
1	Bank of Zambia	Yes	No	No ⁶
2	Pensions and Insurance Authority	Yes	Yes	Yes
3	Securities and Exchange Commission	Yes	Yes	Yes

4.3. Guiding Parameters

In augmenting further understanding of the characteristics/ features of the products, the Working Group was guided by the following parameters:

- (a) threshold for value and number of transactions
- (b) simplified due diligence
- (c) accessibility
- (d) customer risk
- (e) affordability

⁶ Clarifications and other guidance was however provided by the supervisory authority through its representative on the Working Group which assisted in understanding the issues appropriately.

5.0. PRODUCT FEATURES

5.1. ZAMPOST Money Transfer

ZAMPOST Money Transfer is a product designed mainly for low income earners and caters for people in rural areas as well. Due to the well-established branch-network, the service is widely accessed through post offices across the country.

The service enables parties to send and receive money within a relatively short time through use of real-time transmission.

Although the facility has no threshold on the number of transactions, it has a threshold on the value of the transaction that can be carried on a daily basis. The product has a daily limit of equivalent to USD1,000.00. The product does not permit anonymous usage as the customer has to produce an identification card when transacting. The product does not allow sending or receiving transfers to other foreign jurisdictions as its use is limited to the Zambian borders (no cross border transactions). Usage of the product by non-resident and non-citizens is allowed subject to the thresholds for the value of transactions set therein.

Identification documents such as such as a National Registration Card, Driver's licence or Employment Identity Card (if one is in formal employment) are allowed. The identification process is further complimented by the mobile-sim registration numbers for the sender and recipient. The product does not require the provider to carry out address verification. The product also allows usage by legal persons and businesses and also allows agents to participate in the business.

The assessment tool indicates that, in terms of usage by legal persons/businesses, the product should be restricted to micro-businesses only. The ML/TF risk of the product was assessed as low.

The product qualifies for simplified AML/CFT measures because of the following:

- (i) the product is used mostly by low income earners
- (ii) the product has a daily limit of equivalent to USD1,000.00
- (iii) geographical use of the product is limited; it cannot be used across borders.

5.2. ZAMPOST Salary Payment Service

ZAMPOST Salary Payment Service is a product designed mainly for low income earners without bank accounts or based in places that do not have banking facilities. The service enables employers to pay salaries mainly to staff in the public service who are saving in the rural areas⁷. This payment facility does not allow cross-border transactions and therefore does not have transfers to and from high risk jurisdiction countries.

The assessment indicated no ML/TF cases arising from the use of the service. This is mainly because the transactions are initiated by the third party (i.e. the employer) vis-à-vis their recipients (i.e. employees).

The ML/TF risk for the product was assessed as low.

The product qualifies for simplified AML/CFT measures because of the following:

- (i) the transactions are initiated by the employer who is a registered company or business.
- (ii) the employer is able to identify its clients; hence part of KYC is done by the employer.
- (iii) information on the employer can be gotten from other government institutions like, Zambia Revenue Authority (ZRA), Patents and Companies Registration Agency (PACRA).
- (iv) the geographical use of the product is limited; it cannot be used across borders.

⁷ www.zampost.com.zm/agency.html

5.3. MTN Mobile Money

MTN Mobile Money is designed for MTN customers to send and or receive money from anywhere in Zambia on their phones in real-time. The service is used also for purposes of paying utility bills and purchase of airtime.

In addition to individual customers, corporate customers can use the facility for bulk payments such as salary payments. The facility has thresholds in both value of transaction and number of transactions that can be carried out and cannot be used by anonymous persons both within the country and cross-borders.

Although the product permits non-face-to-face transactions, CDD requirements with regard to such transactions is augmented by the details of the parties to the transactions maintained on the data-base for sim-card registration for the parties.

The product assessment indicated that the services are not vulnerable to significant ML/TF and mainly attributed to effective monitoring mechanisms and controls.

The ML/TF risk for the product was assessed as low.

The product qualifies for simplified AML/CFT measures because of the following;

- (i) daily transactional limits of equivalent to USD1,000.00.
- (ii) the product is used by low income earners.
- (iii) mobile provider itself does the registration of the phone sim card. They have a data base for the records of calls and messages of its customers and track the customer.

5.4. AIRTEL Money

AIRTEL Money is designed for AIRTEL registered customers to send and or receive money across networks. Other services include buying of Airtel airtime, paying of utility bills, goods and services, linking one's bank account to Airtel money wallet and make card-less withdraws from partner ATMs.

Identification requirements for the service are mainly the customer's Identity Card such as NRC or Drivers' licence.

The facility has value of transactions limited to K 5,000.00 for basic account and the facility allows a customer to upgrade to a higher threshold of K 10,000.00 which is referred to as a premier account. This upgrade to a higher tier is subject to internal approvals within the service provider. The service does not authorise anonymous use though non-face-to face transactions are permitted.

The product allows cross-border transactions to countries in which sister-networks or businesses have been established. The product can be used by non-resident or non-citizens subject to the set limits.

The product assessment revealed that there is no evidence of ML/TF cases arising from the use of the product. This is mainly on account of the monitoring controls put in place by the service provider.

The assessment tool indicates that, in terms of usage by legal persons/businesses, the product should be restricted to micro-businesses only.

The ML/TF risk for the product was assessed as low. The product qualifies for simplified AML/CFT measures because of the following;

- (i) daily transactional limits of equivalent to USD1,000.00
- (ii) the product is for low income earners and
- (iii) mobile provider itself does the registration of the phone sim card. They have

a data base for the records of calls and messages of its customers and can track the customer.

5.5. Muende Bwino Travel Insurance

Muende Bwino (which essentially means “travel well”) is a travel insurance product provided by Professional Insurance Corporation (Z) Limited. It is a micro insurance product aimed at protecting members of the travelling public in an event of an accident. The product is a monthly insurance cover and can be activated by way of monthly coupons via a mobile phone and other platforms such as Kazang Point of sale machines. The compensation includes funeral, injury and medical expenses arising from road traffic accident. The product provides accident-cover of up to K 5, 000.00 in the event of injury, disability or loss of life. Total medical expense payout is limited to K 1,000 per person. Before a claim is paid out, the insurance will demand for the identification documents for the beneficiary and proof of death in the event of loss of life. The facility has a threshold on the value of transactions that can be carried out and does not have a threshold on the number of transactions that can be carried out. Although the product is offered to non-citizens as well, its usage is restricted to providing insurance travel cover within the Zambian jurisdiction. The non-face to face usage permitted on the product does not pose any ML/ TF threat due to the reliance on the details on mobile sim-card registration platform.

Assessment revealed no evidence of ML/TF cases arising from the use of the product. The ML/TF risk for the product was assessed as low.

The product qualifies for simplified AML/CFT measures because of the following:

- (i) the amounts involved are not very significant in that the product provides accident-cover of up to K 5, 000.00 in the event of injury, disability or loss of life. Total medical expense payout is limited to K 1,000 per person,
- (ii) proof of benefit to the insurance cover by the beneficiary includes copies of National Registration Cards for beneficiary and policyholder as well as proof of death in the event of loss of life and copy of National Registration Card in the event of occurrence of other events

(iii) the usage of the product is restricted to travel cover within the Zambian jurisdiction and identification is complimented by the mobile sim card registration.

5.6. FNB E-wallet Bulk send

FNB offers a service which allows individuals to receive funds (from FNB Account holders) on their registered and active Zambian cellphone numbers. The recipients need not be FNB Account holders and therefore no KYC is carried out on these persons and they can be in any part of Zambia provided they have a cellphone. The cellphone number is used as an account number and the customer can then withdraw part of or the whole amount off an FNB ATM in Zambia. To ensure security, the person is required to generate a PIN code which they will feed into respective details prompted by ATM machine after entering their phone number. Funds can be kept on the phone number as long as the customer chooses and they are able to receive additional payments. The product is not exclusive to any network or location in Zambia, and does not require any account opening documentation. The product opens the unbanked up to the world of banking as they can start operating a virtual bank account off this platform with ease. FNB has made this e-wallet bulk send option available to not only individuals, but also organisations that wish to pay their employees who might not be able to meet full KYC criteria. The only restriction however, is that there is no card issued on this product and customers are required to transact (i.e. withdraw cash) from FNB ATMs and daily transaction limit is K10, 000 and K25, 000 is the monthly transaction limit. K9.50 is charged per transaction for the sender making it affordable.

The ML/TF risk for the product was assessed as low.

The product qualifies for simplified AML/CFT measures because of the following:

- (i) the cellphone number is used as an account number. Mobile sim cards are registered with mobile communication providers. Customer can easily be identified,
- (ii) organisations that use this product to pay their employees in a way carry out KYC on the employees and

- (iii) the product has a daily transaction limit of K10, 000 and a monthly limit of K25,000. Which are not very significant.

5.7. FNB Easy Card

The Easy Card is a card based product currently in development and is a remedy to the card restriction currently on e-wallet. It is aimed at the mass market segment with particular focus on individuals that are unable to provide full KYC. This card only requires the customer to provide identity and passport photos then a card/account number will be generated and linked to the card that will be issued. Owing to the relaxed KYC requirements, the card is restricted to a credit limit of K5, 000 at any one particular time and a monthly credit limit of K10, 000. The e-wallet can only hold up to K10, 000 at time and the income bracket that is being targeted is the unskilled clients who earn less than K18, 000 per annum. In the event that the customer graduates to a higher income bracket, the bank upgrades the customer to another account-setting that may require full KYC requirements.

The ML/TF risk for the product was assessed as low.

The product qualifies for simplified AML/CFT measures because of the following:

- (i) the customer provides an identification document and passport photos before a card/account number is generated. Therefore, making it easy for the bank to verify the customer's identification.
- (ii) The product is limited to income earners of less than K18, 000.00 per annum and are considered to be low risk due to the level of account activity. The product is limited to holding a credit of K10, 000.00 per month.

5.8. ZANACO Xapit Account

ZANACO Xapit Account is a bank account aimed at encouraging the unbanked people to join the banking sector and is, therefore, targeted at the informal sector and individuals who do not have regular or steady flow of income. It is an entry level low cost transactional account.

The account has thresholds on the value of transactions that can be carried and has no threshold on the number of transactions that can be carried out. The account cannot be used by anonymous persons and account opening has to be done on face to face although non-face to face usage is possible.

The account is not used for cross-border transfers even though withdraws can be done while in other jurisdictions through the VISA enabled card. The card can also be used for paying bills, goods and services.

Identification requirements for account opening are only the National Registration Card, valid passport or valid driving license and no proof of residence is required.

The product assessment revealed that no significance of ML/TF cases arising from the use of the product. This is attributed to the monitoring mechanisms put in place by the service-provider, by way of an automated AML system, and product operational procedures.

The ML/TF risks for the product were considered as low.

The product qualifies for simplified AML/CFT measures because of the following:

- (i) daily withdrawal limit of K5,000.00.
- (ii) cross border transfers are not possible though the account comes with a Visa debit card which can be used to transact on Visa Enabled Platforms both locally and cross-border;
- (iii) transactions are conducted through the mobile phone banking feature. Sim cards are registered by mobile network providers hence making customer identification relatively easy.

6.0. OVERALL OPERATING RISK ENVIRONMENT

6.1. Money Laundering/ Terrorist Financing Threats

The assessment of F.I. products undertaken indicate that there is no significant use of the products in the generation of proceeds of crime or any significant use to perpetrate terrorist activities in the country.

7.0. GENERAL AML/CFT CONTROLS

7.1. Market Entry Controls

From the Assessments made on the responses to the questionnaire and interviews, it was noted that there are market entry controls such as “Fit and Proper” test requirements for the providers of financial inclusion products.

7.2. Establishment of Monitoring Mechanisms

The assessment indicates that potential and existing are, as a legal and supervisory compliance requirement, obliged to establish monitoring mechanisms to detect unusual and suspicious transactions.

On further assessment through interviews however, it was noted that some institutions especially in the insurance sector need to put in place robust mechanisms for detecting unusual and suspicious transactions as relates to financial inclusion products.

7.3. Policies, Procedures and Guidelines to examine and/ or Monitor risks arising from Financial Inclusion Products

It was noted that the framework as relates to supervision of financial inclusion products is still undergoing some developments. Supervisory authorities have however, in lieu of the current legislative framework, embedded matters of monitoring risks arising from financial inclusion products within the respective general prudential framework currently being implemented for oversight of other products and services being provided in the market.

The assessment indicated the existence of policies, procedures and guidelines in the entities providing financial inclusion products as guided by the existing legislation and guidelines from supervisory authorities.

7.4. AML/CFT Training/ Management Commitment

The Assessment indicates that most staff in financial institutions had undergone adequate training that enables them distinguish and report

unusual or suspicious customers and transactions when dealing with F.I. products and that management is committed to enhance awareness on matters of AML/CFT.

While this was generally considered based on the responses provided in the questionnaires, follow-up interviews and field visits indicated that deliberate efforts were needed by some sectors such as insurance and microfinance institutions to provide regular AML/CFT training especially to staff operating in the branch offices for such entities in various parts of the country.

8.0. LIMITATIONS

The following limitations were noted:

- (i) resource constraint in terms of personnel, staff involved were committed to other duties.
- (ii) key stakeholders such as the Non-Governmental Organisations, users of FI products and the Financial Intelligence Centre were not part of the scope.

9.0. RECOMMENDATIONS

- (1) There is need to develop legislation in the financial sector to adequately promote the development of financial inclusion.
- (2) The National Policy on Financial Inclusion for the country should be expeditiously finalised and stakeholders should ensure that the outcomes of the risk assessment duly inform and contribute to the strategies that will be considered in the Policy in order to attain the desirable outcomes;
- (3) There is need for various players in the financial sector and other ancillary entities to plan and undertake financial literacy outreach on the types of financial inclusion products and services that are being offered or planned.
- (4) Mitigating measures should be considered by the providers of F.I. products and services in the design of products as relates to cross-border transactions, non-face-to-face transactions and cross-border and restrictions on usage by legal/ businesses.
- (5) AML/CFT training should be provided by the sectors providing financial inclusion products or services to their staff especially in branches and agencies on compliance requirements and controls.

- (6) Deliberate efforts are needed to address technological challenges that some parts of the country are facing in the provision of financial inclusion products or services.
- (7) There is need for the country to devise biometric systems that will ease customer identification so as to compensate any challenges or actual or potential failures faced by the current national identification system.
- (8) Providers of mobile money transfer services should create interagency connectivity to foster the possibilities of customers on different networks to receive money sent from other networks with relative ease.

ANNEX 1: Sample questionnaire for reporting entities

This questionnaire aims to gather information on financial inclusion products/services.

1. Does the current framework adequately accommodate financial inclusion?

2. What policies and procedures are in place for the launch of any financial inclusion products and services?

3. Are there any pre authorization processes and what is the involvement of the regulatory authority?

4. Are there financial inclusion products and services being planned by your institution?

5. What simplifications /exemptions are associated with the existing financial inclusion products and services?

Financial Inclusion Products and their features

1. What types of financial inclusion products are offered by your institution and why do you consider them to be financial inclusion products?

2. Which categories of your clientele is accessing the financial inclusion products? Give a breakdown of your customer base in terms of percentages.

3. Are there any limitations in the customer's uptake of such products?

4. Is there any threshold for the value of transactions that can be carried out through the product?

5. Is there any threshold for the number of transactions that can be carried out through the product?

6. Can the product be used by anyone on whom you have not carried out due diligence?

7. Is it permitted to establish a business relationship (e.g accounting opening, purchasing insurance policy) on a non-face-to face basis?

8. Are non-face-to-face transactions permitted?

9. Have any suspected financial crimes been perpetrated using the product?

10. Are cross-border transactions allowed on the product?

11. If cross-border transfers are allowed, are they sent to high-risk jurisdictions (or if they are new products, are they expected to be sent to high-risk jurisdictions)

12. If cross-border transfers are allowed, are they received from high-risk jurisdictions*(refer to FAFT link on high-risk jurisdictions) (or if they are new products, are they expected to be received from high-risk jurisdictions)?

13. Is the product offered to, and used by, non-resident and/or non-citizen customers?

14. Is the use of the product by non-resident and/or non-citizen customers significant (volumes and amounts)?

15. Are legal persons/businesses allowed to use financial inclusion products and services?

16. Does this product use banking correspondents, intermediaries or agents?

17. Are there market entry barriers/controls (including "fit and proper") for the providers of financial inclusion (FI) products? If yes, please provide details.

18. Is your institution obliged to establish monitoring mechanisms to detect unusual and suspicious transactions for financial inclusion products?

19. Does your institution have appropriate monitoring mechanisms to detect unusual and suspicious transactions for financial inclusion products?

20. Does relevant staff in your institution receive adequate training to distinguish and report unusual/suspicious customers or transactions when dealing with financial inclusion products?

21. Is your management aware of AML/CFT? If yes does it have commitment regarding AML/CFT?

22. Are there any internal or regulatory guidelines to assist your institution with distinguishing and reporting unusual/suspicious customers or transactions when dealing with Financial Inclusions products?

ANNEX 2: Sample Questionnaire for Supervisory Authorities

1. Which laws/regulations/directives/ guidelines are in place to support financial inclusion?

2. Does the regulatory framework recognize simplified customer due diligence for low risk financial products and services? Under what conditions and what kind of simplifications?

3. Does the current framework adequately accommodate financial inclusion?

4. Are there regulatory requirements for approving new products and services?

5. How many micro-finance institutions (MFIs) offering micro-credit are registered with your institution.

6. What categorize of the micro-credit providers are registered with your institution?

- (i) Microcredit Agencies -only issue credit;
- (ii) Non Deposit Taking micro-finance institutions-issue credit plus other microfinance services but cannot mobilize deposits; or
- (iii) Deposit Taking micro-finance institutions - can mobilize credit and provide other micro-finance services

7. Do potential/existing providers of FI products have appropriate monitoring mechanisms to detect unusual and suspicious transactions?

8. Are there any guidelines to assist financial institutions with distinguishing and reporting unusual/suspicious customers or transactions when dealing with FI products?

ACTION PLAN FOR THE FINANCIAL INCLUSION WORKING GROUP

Number	Deficiencies / Weaknesses	Action Required	Responsible Institutions	Period		
				Year 1	Year 2	Year 3
1.	Lack of biometric systems in the current national identification system that can assist in the identification of customers in order to overcome the challenges faced.	Establish a biometric identification system	Ministry of Home Affairs	Project planning	Lobbying for resources	Implementation
2.	Insufficient AML/CFT Knowledge of Staff in branches that interact with users of FI products	Enhance AML/CFT training of staff providing FI products and services	Providers of FI products/services Supervisors of providers of FI products/services FIC	Conduct training and awareness with relevant staff of providers of FI products/services	Conduct training and awareness with relevant staff of providers of FI products/services	Review
3.						Implementation

	Lack of legislation in the financial sector to adequately promote the development of financial inclusion	To review and incorporate provisions that promote the development of Financial Inclusion in the sector legislation	Regulators- Bank of Zambia, Pensions and Insurance Authority, Securities and Exchange Commission	To identify the relevant provisions to be incorporated in the laws.	Enactment of legislation	
4	Inadequacies in the National Financial Inclusion Strategy	Develop and implement the National Financial Inclusion Strategy.	Regulators- Bank of Zambia, Pensions and Insurance Authority, Securities and Exchange Commission and Consumer and Competition Protection Commission.	<p>Draft & adopt:</p> <ul style="list-style-type: none"> • Risk-based AML/CFT Compliance strategy • Off/On-Site AML/CFT Examination Procedures 	Develop AML/CFT examination plans	To carry out reviews
				Recruitment of additional Examiners AML/CFT training of examiners	Conduct AML/CFT Examinations	