

Caleb M Fundanga: Improving financial inclusion in Zambia

Remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the Celpay Mobile Banking Conference, Lusaka, 16-17 September 2009.

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The Chairman of the Board, Celpay Zambia, Dr Jacob Mwanza;
The Chief executive Officer, Celpay International, Mr L. Muchenje;
Chief Executive Officers and Representatives of Banks and Financial Institutions present;
Distinguished Invited Guests and Resource Persons;
Members of the Press;
Ladies and Gentlemen

I wish to express my gratitude to Celpay Zambia Limited and in particular to Dr Jacob Mwanza, the Chairman of the Board, for inviting me to speak at this important conference. I am informed that the conference aims to pave the way for the future of mobile banking in the quest to improve financial inclusion in our country.

Mr Chairman, the need to promote wider access to financial services through innovative products by financial institutions and other market players cannot be overemphasized. Financial services are a critical tool to ensure that entrepreneurs step onto the economic growth ladder and create a brighter future by tapping their own creativity in income generating activities. The provision of financial services to the majority of our people especially the small and micro entrepreneurs who are financially excluded is a key element in alleviating poverty in the country. Improved access to financial services enables availability of funds for investment in income generating activities that ensure that the public lay a foundation for better standards of living. Indeed financial services are instrumental for broader human development, as people invest in themselves and seek protection from external shocks.

Distinguished Ladies and Gentlemen, as you are no doubt aware, the results arising from the 2005 FinScope demand side study which aimed at measuring access, usage, perceptions and the demand patterns on financial services offered in Zambia were not encouraging. The findings of the study indicated that only 33.7% of the adult population was financially served. This entailed that 66.3% of the Zambian population were financially excluded or not using banks or other financial institutions. Furthermore, the supply side study conducted in 2007 also highlighted a number of weaknesses in the financial sector including, limited outreach of banks and financial institutions to the general populace, high spreads between deposit and lending rates, excessive collateral requirements and poorly managed cost structures which contribute to limiting outreach.

As a consequence of the low levels of access to financial services, the Bank of Zambia adopted financial inclusiveness as one of its strategic objectives to ensure improved levels of access for all. In this regard, it is gratifying to note that following the survey, commercial banks and other non-bank financial institutions including Celpay have increasingly become receptive to the calls for increased provision of financial services. A number of banks and financial services providers have increased their branch networks, lending to small and medium-sized enterprises have been increased while financial products specifically designed to meet the financing needs of the lower end of the market in both rural and peri-urban areas have been introduced. One such product that banks and other institutions in the telecommunication sector have strived to promote in order to increase inclusion is mobile banking.

As you are no doubt aware, Distinguished Ladies and Gentlemen, mobile banking represents a significantly cheaper alternative to conventional branch based banking as it allows financial institutions and other commercial players to offer financial services outside the traditional

brick and mortar bank concept. Mobile banking uses channels such as retail agents and mobile phones to increase financial outreach to the un-banked communities. Mobile banking has revolutionised banking worldwide and I am glad to note that Zambia is playing a leading role in the development of the mobile banking industry in the SADC region. As you may be aware, there are three operational mobile payments companies that have successfully penetrated the market in the past seven years. While a number of banks now offer mobile banking solutions.

The British Broadcasting Corporation (BBC) website recently carried an article wherein, it was acknowledged that Africa has the fastest growing mobile banking market in the world. The significance of the article was not only the growth of the industry but the acknowledgement that most of the operators are local companies. However, in acknowledging this growth and the important contribution of mobile banking to extending financial services to the poor, consumer protection should be taken as an integral component of any business model that is developed. To this end, the Bank of Zambia working with other key stakeholders such as the Communications Authority will play its role in ensuring that the provision of an enabling regulatory environment is carefully balanced with the need to protect consumers.

Mr. Chairman, the Celpay conference on mobile banking could not have come at a more opportune time when the country is facing numerous challenges arising from the impact of the recent financial and economic crisis. Due to the underperformance of various sectors of the economy during the period of the crisis, provision of financial services was somehow curtailed while non-performing loans has been on the rise. In order to ameliorate the effects of this downturn and further improve financial inclusion, it is imperative to develop cost effective innovative products such as mobile banking. It is therefore expected that this conference will come up with solutions that will enhance the extension of banking services to the poor and at affordable rates.

Ladies and Gentlemen, recent statistics on telecommunications indicate that there are about three million subscribers across the three mobile networks currently licensed to operate in Zambia. This extensive coverage obviously offers a great opportunity to enhance the standards of living of our people. As we embrace mobile banking, the primary objective of Zambia's mobile banking framework should be to empower the millions of citizens who do not have access to conventional banking. The essential spirit of mobile banking should be financial inclusion. In this regard, facilitating mobile banking will contribute to the distribution of resources to productive activities such as farming as well as directing resources to areas where there are most needed. In addition the policy framework should be flexible enough to allow the industry players to explore various business models.

To this end the National Payment Systems Act of 2007 has provided a platform for businesses involved in mobile banking and money transmission to be designated. The need for effective regulation to ensure a stable financial sector and protection of consumers is vital. Nevertheless, regulation should facilitate and not impede development and must create an optimal, dynamic and agile banking environment. As Regulators we must therefore be open minded to new market solutions while the developers need to constantly engage the regulator in their product development. In stressing the need for effective regulation, I must emphasise the need for providers to observe the mandate and requirements of their licences. Mobile services providers must not perform banking services as this is the domain of licensed banks.

Finally, I also wish to stress that mobile service providers and mobile banking solutions developers need to have in place robust business continuity plans that will ensure minimum disruption to services in the event of disasters. It is not unusual for one to be turned away at customers counters on account of the lack of basic facilities due to for instance power failure or link failure when these can be mitigated where there are proper contingency plans in

place. The Bank of Zambia will therefore ensure that sound business continuity plans are in place when evaluating new applications.

Ladies and Gentlemen, as we develop these well meaning products, I wish to appeal to the service providers to ensure that investment in such infrastructure is complemented by investment in financial literacy. We need to ensure that we are providing individuals and communities with the level of financial education needed to grasp both the benefits and pitfalls of their easier access to financial services. This will in part minimize the risks associated with such innovative products as people will only make better judgments about their financial affairs if they understand the risks and returns associated with the product and services at their disposal. It is also apparent that financial illiteracy is more costly as people who make poor financial decisions will inevitably end up with a far lower standard of living than was otherwise achievable.

Mr. Chairman, I wish to conclude by applauding Celpay's initiative to host the first ever mobile conference in Zambia. The deliberations and recommendations of this conference will be keenly followed as the need to leverage access to financial services through the mobile phone is of paramount importance. Mobile banking will lead to increased outreach, increased efficiency and productivity as well as increased returns for businesses. Let me once again assure you, Mr. Chairman that, the Bank of Zambia is committed to providing an enabling environment through appropriate regulation for banks and financial businesses that wish to promote financial inclusion. We appreciate the Mobile Banking initiative by Celpay Zambia Limited and look forward to greater investment in financial inclusion in our beloved country.

I thank you.