

Caleb M Fundanga: Developments in the Zambian banking sector

Opening remarks by Mr Caleb M Fundanga, Governor of the Bank of Zambia, at the official opening of the Stanbic Bank Zambia Limited, Mulungushi branch, Lusaka, 24 November 2009.

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- **Members of the Board of Directors, Stanbic Bank Zambia Limited**
- **Stanbic Bank Zambia, Managing Director, Mr. Joseph Chikolwa**
- **Management and staff of Stanbic Bank Zambia**
- **Distinguished Invited Guests**
- **Members of the Press**
- **Ladies and Gentlemen**

Allow me to begin by thanking the Stanbic Bank Zambia Limited Managing Director Mr Joseph Chikolwa for inviting me to this occasion which marks the official opening of the Stanbic Bank Zambia Limited Mulungushi Branch.

As the regulatory authority for the banking sector, the Bank of Zambia is pleased to be associated with achievements of institutions that we regulate, particularly where these developments lead to increased access to banking services as well as convenience for the Zambian public. It is also encouraging to see banks expanding their services to areas outside the central business district in order to bring their products and services to their customers' door step. This is no doubt a strategic move that confirms that there are enormous opportunities here, which the bank can benefit from despite the stiff competition. The vast number of bank branches around this part of the city also confirms the stiff competition in the banking sector and we hope that the public will be the ultimate winner through affordable products and services.

Ladies and Gentlemen, it is a well known fact that bank branch expansion programs play an important role in increasing access to the unbanked. However, there is need to complement physical branch expansion with other product innovation programmes that will capture a lot more people in the remote areas of our country. The real challenge for all of us is how to enhance savings mobilisation, and effectively channel the public's savings to its most productive use. I therefore encourage banks to offer an expanded range of innovative banking products in order to mobilise savings to support financing of economic activities in all parts of the country.

Distinguished Guests, the banking sector in this country has, over the last few years, witnessed significant growth in consumer lending. As a matter of fact, on a sectoral basis the "personal loan" category has been the largest recipient of total credit and accounted for 24% of at end-October 2009. The resultant credit expansion has no doubt brought significant benefits to the economy. However, the secondary effects of the recent global economic crisis pose a real challenge to the banking sector through increased non-performing loans. For instance, non-performing loans were recorded at 7.2% as at December 2008 but has almost doubled as at September 2009 to 13.1%.

In order to mitigate the high credit risk noted in the banking sector, it is important for banks to address the risk posed by information asymmetries through a credit information sharing mechanism. To this end, the Bank of Zambia through NB Circular 3/2008 of December, 2008 made it mandatory for banks and other financial service providers in Zambia to go through the Credit Reference Bureau before a loan is provided. Consequently any loans approved without passing through the Credit Reference Bureau will attract Regulatory Action.

I must also mention here that in striving to increase credit, banks must always comply with the rules and regulations as stipulated in the Banking & Financial Services Act and other subsidiary regulations to ensure the safety of customers' deposits. Furthermore, much more credit needs to be directed to sustainable productive sectors like Agriculture, Manufacturing and Tourism in order to drive the economy forward and not lending for consumption only.

Ladies and Gentlemen, it is pleasing to note that despite the recent challenges facing the banking sector, Stanbic Bank Zambia Limited's commitment to growth and re-investment is unwavering. The bank continues to be adequately capitalised with its total assets accounting for 12.1% of the banking sector's total assets. Its deposit base remained strong at 12.9% of the total industry deposits while total loans accounted for 13.8% of the sector's total loans as at end-October 2009. The bank has a network of 12 branches including this Mulungushi branch and about 47 automated teller machines. In fact, on 10 July, 2009, I was privileged to participate at the "Foundation Stone Laying" ceremony for the multi-billion Stanbic Bank Zambia Limited new Head Office building. I therefore, commend the bank for its relentless effort in trying to modernise its facilities and expand its network.

Allow me to conclude by appealing to all banks and other financial institutions to explore ways of enhancing the efficiency in service delivery. By enhancing efficiency, banks will be capable of offering more affordable banking services. This has the potential of drawing a larger number of Zambians to the financial system resulting in an expanded banking clientele for the benefit of both the banks and the economy. This will go a long way in complementing the Government and the Bank of Zambia's efforts in addressing the various weaknesses in the financial sector as well as to guide efforts for realising the vision of a stable, sound and market based financial system that would support the efficient mobilisation and allocation of resources necessary for economic diversification and sustainable growth.

In the recent past, the Government has adopted prudent fiscal policies that enabled the private sector to access more credit from the financial system. In line with this, the yields on Government securities have drastically reduced with the 91 days Treasury bill rate dropping to 7.88% in the latest auction while inflation has also trended downwards to 12.3% in October. Some players have responded positively to these market movements by reducing their lending base rates. However, some are still dragging their feet and are yet to adjust their rates. While we commend the banks that have responded positively, we call upon those who have not done so to act in a positive and prompt manner in order to make credit more affordable to the majority of our people. This in turn will lead to the growth of the productive sector and in particular Agriculture and the SME sectors, which are the engine for economic growth of our country.

Finally, let me extend my gratitude to the Board of Directors and the Managing Director of Stanbic Bank for inviting me to be with you on this auspicious occasion of the opening of this branch. It now gives me great pleasure and honour to declare Mulungushi Branch of Stanbic Bank Zambia Limited officially open and I thank you for your attention.