

Caleb M Fundanga: The role of Bank of Zambia in sensitising and protection of consumers regarding banking and financial services

Opening remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the Commemoration of the Worlds Consumer Rights Day, Lusaka, 15 March 2010.

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***The Minister of Commerce Trade and Industry, Hon Felix Mutati M.P.
The Permanent Secretary, Ministry of Commerce Trade and Industry, Dr Buleti Nsemukila
The Chairperson Bankers Association of Zambia, Mr Saviour Chibiya
Representatives from Zambia Competition Commission
Distinguished Invited Guests
Members of the Press
Ladies and Gentlemen***

I am honoured and thankful to the Ministry of Commerce, Trade and Industry for inviting me to participate on this very important day when we commemorate the “World Consumer Rights Day”. The theme for this year is certainly an interesting and important one especially for us in the financial sector.

As the authority that formulates and implements, monetary and supervisory policies, the Bank of Zambia places great importance on the welfare of consumers. This is because effective implementation of monetary and supervisory policies promotes price stability as well as financial system stability which in turn creates a favourable investment climate necessary for economic growth. This entails achieving and maintaining a low inflation rate which is key in attaining low cost of credit as well as low levels of prices for goods and services in the economy.

Ladies and Gentlemen, as most of you would recall, high levels of inflation and interest rates as well as bank failures were a central feature of the Zambian economy during the early 1980’s and the mid-1990s. However, since then strides have been made in achieving low levels of inflation and interest rates and a stable financial sector. As a result, inflation has fallen from 138.3 percent at the end of December 1993 to 9.9 percent in December 2009. The lower levels of inflation have had a direct bearing on consumers as their incomes are not significantly eroded.

Furthermore, the Bank of Zambia has strengthened its supervisory framework by amending legislation and capacity building in the supervisory process. This process has allowed the Bank to ensure that only fit and proper persons are allowed to enter the financial sector in order to ensure that banks are run professionally and that depositors’ funds are not abused. In order to further cushion depositors in case of bank failures, the Bank is in the process of introducing a Deposit Protection Act and a Deposit Protection Scheme. This will not only create a safety net for depositors but will enhance confidence in the banking sector.

Notwithstanding these positive developments, there has been a marked increase in customer complaints, mostly emanating from the banks’ pricing structure, especially on commissions, fees and service charges. Given the prevailing liberalised economic environment, interest rates are determined by the market. Although we have seen significant improvements in the macroeconomic indicators, the levels of interest rates still remain high. This is a major concern to the Bank of Zambia and we have continued to engage banks through the Bankers Association of Zambia on this issue.

Ladies and Gentlemen, it is worth mentioning here that one of the challenges that banks continue to face is the high levels of non-performing loans due to poor credit culture amongst some borrowers. It is therefore important that credit worthy customers are distinguished from

high risky borrowers in the banking sector. The Bank of Zambia through the Financial Sector Development Plan has in this regard established the credit reference bureau. The credit reference bureau will enable lenders to make decision based on information specific to each borrower ensuring that risk assessments of potential borrowers are not affected by the habits of other borrowers. Therefore, the pricing of risk will be more reflective of borrower's particular circumstances.

Further, the Bank of Zambia has made it mandatory for banks and other financial service providers to use the credit reference bureau before a loan is provided to any customer. Consequently any loans approved without passing through the Credit Reference Bureau will attract regulatory action.

The Bank of Zambia also places great importance on the need to have knowledgeable consumers who play a key role in creating a competitive and fair business environment. To this end, the Bank promotes consumer awareness and financial literacy by disseminating information through quarterly media briefs, road shows, and attendance at annual agricultural shows and trade fairs.

The Bank of Zambia also consolidates tariff guides of all deposit taking financial institutions and publishes this information in a form suitable to make immediate and easy comparisons. The purpose of this quarterly publication is to enable customers shop around in order to get value for money from services provided by banks and to cause banks to be competitive in the manner they set fees and charges.

Further, through the activities of the Financial Sector Development Plan, the BoZ intends to spearhead the development of a national financial education strategy in order to galvanise the efforts of various stakeholders in the delivery of financial services.

The Bank also publishes a lot of information on the banking sector and the economy in general on its website www.boz.zm. I wish to urge all consumers who may have access to the internet, to make it a habit to visit the Bank of Zambia website on a regular basis. Further, the Bank will provide excerpts from the Banking and Financial Services Act to provide some highlights on some of the consumer protection provisions in the Law.

I thank you.