



Bank of Zambia

P.O. Box 30080, LUSAKA
10101

Tel. 228888/ 228903-20

2 December 1998

CB Circular No. 11/98

TO : All Commercial Banks and Financial Institutions

Dear Sirs

DIRECTIVES ON CUSTOMER IDENTIFICATION AND FOREIGN CURRENCY CASH TRANSACTIONS

I refer to the meeting that the Governor had with yourselves on Wednesday 18 November 1998. Following the concerns regarding the possibility of banks and financial institutions being abused by criminal elements, the Bank of Zambia has issued the attached directives, with a view to minimize this possibility.

As you will note, the directives are with immediate effect.

Yours faithfully

A handwritten signature in dark ink, appearing to be "Chilufya Mbalashi".

Chilufya Mbalashi
DEPUTY GOVERNOR – ADMINISTRATION

c c Governor
Deputy Governor - Operations

Encl:



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Bank of Zambia Directives

The Banking and Financial Services Act, Cap 387 (Customer Identification and Foreign Currency Cash Transactions) Directives, 1998

IN EXERCISE of the powers contained in section one hundred and twenty five of the Banking and Financial Services Act, Cap 387 the following Directives, which take immediate effect, are hereby made:

Title

1. These Directives may be cited as the Banking and Financial Services Act (Customer Identification and Foreign Currency Cash Transactions) Directives, 1998.

Purpose

2. Banks and other financial institutions may be used as intermediaries for the transfer or deposit of money derived from criminal activities. The intention behind such transactions is often to hide the beneficial ownership of funds. The use of the financial system in this way is of direct concern to the Bank as supervisors since public confidence in banks and financial institutions may be undermined through their association with persons engaged in criminal activities.

To minimise the possible abuse of banks and financial institutions, the BASLE Committee on Bank Supervision included, as one of its minimum standards, the need for Supervisory authorities to cause banks and financial institutions under their authority to have in place firm know your customer policies. These Directives outline basic procedures that banks' management should ensure are in place within their institutions with a view to assisting in suppression of unwanted vices through the banking system, national and international. The Directives, are set out to reinforce existing best practices among banks and, specifically, to encourage vigilance against criminal use of the payments system, implementation by banks of effective preventive safeguards, and co-operation with law enforcement agencies.

Application

3. These Directives shall apply to all banks and financial institutions licensed under the Banking and Financial Services Act, Cap 387 of 1994.

Customer Identification

4. With a view to ensuring that the financial system is not used as a channel for funds derived from criminal activities, banks should make reasonable efforts to determine the true identity of all customers requesting the institutions services. Particular attention should be taken to identify the ownership of all accounts and those using safe-custody facilities. All banks should institute effective procedures for obtaining identification from new customers. Every bank should have an explicit policy that significant business transactions will not be conducted with customers who fail to provide evidence of their identity and those whose transactions are not in line with their known business.
5. Banks and financial institutions should not keep anonymous accounts or accounts in obvious fictitious names. These directives hereby require all banks and financial institutions to identify, on the basis of an official or other reliable identifying document such as National Registration Card, Passport or Drivers Licence, and record the identity of their clients, either occasional or usual, when establishing business relations or conducting transactions (in particular opening of accounts or passbooks, entering into fiduciary transactions, renting of safe deposit boxes, performing large cash transactions).

In order to fulfil identification requirements concerning legal entities, banks and financial institutions should, when necessary take measures:

- i. to verify the legal existence and structure of the customer by obtaining either from a public register or from the customer or both, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity;
 - ii. to verify that any person purporting to act on behalf of the customer is so authorised and identify that person.
6. Banks and financial institutions should take reasonable measures to obtain information about the true identity of persons on whose behalf an account is opened or a transaction conducted if there are any doubts as to whether these clients or customers are acting on their own behalf. In particular, this should apply in the case of domiciliary companies (i.e. institutions, corporations, foundations, trusts, etc. that do not conduct any commercial or manufacturing business or any other form of commercial operation in the country where their registered office is located).

7. In the case of bank accounts and security deposits which have been opened, and safe deposit boxes which have been opened, and where the true identity of the customer has not been satisfactorily established, at the coming into force of these directives, the bank concerned shall, by writing to the customer in question or otherwise, take steps forthwith to establish his/her true identity.

Record Keeping

8. Banks and financial institutions should maintain, for a period not less than that prescribed in the BFSA, cap 387, all necessary records on transactions, both domestic or international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of criminal behaviour if legally required to do so.

Financial institutions should keep records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for a period not less than that prescribed in the BFSA, Cap 387 after the account is closed.

At the minimum every bank or financial institution licensed under the Act to carry out banking or financial service business, shall be required to maintain the following records about account holders:

- i) Name of account holder
- ii) Address
- iii) Ownership and Directors in case of unnatural persons
- iv) Other banking relationships
- v) Business Type and Products
- vi) Financial statistics ; and
- vii) Amounts and currencies anticipated to be transacted on a monthly basis

Such records should have evidence of verification with appropriate authorities and shall be held for a period not less than that prescribed in the Banking and Financial Services Act, Cap387.

9. Banks and financial institutions should pay special attention to all complex, unusual large transactions and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

10. Banks and financial institutions should develop programs against money laundering. These programs should include, as a minimum:
- (i) the development of internal policies, procedures and controls, including the designation of compliance officers at management level, and adequate screening procedures to ensure high standards when hiring employees;
 - (ii) an ongoing employee training programme;
 - (iii) an audit function to test the system.
11. Every bank and financial institution shall designate an officer to ensure that requirements in (10) above are strictly adhered to.
12. The Board of Directors shall approve the programs in (10) above annually and a copy submitted to the Bank of Zambia.

Cash Transactions

13. Every bank and financial institution authorised to deal in foreign currency shall ensure that over the counter foreign currency cash transactions do not exceed the equivalent of US\$5,000 in any currency for non-customers and the equivalent of US\$7,500 in any currency for customers i.e. account holders.

Dated this 27th day of December, 1998

Bank of Zambia
PO Box 30080
LUSAKA


Dr Jacob Mwanza
GOVERNOR