

Bank of Zambia



VISION AND STRATEGY 2023-2027

NATIONAL PAYMENT SYSTEMS

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Bank of Zambia



BANK OF ZAMBIA

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ACRONYMS

8NDP	Eighth National Development Plan
AFI	Alliance for Financial Inclusion
AML-CFTP	Anti-Money Laundering and Countering the Financing of Terrorism and Proliferation
APIs	Application Programming Interfaces
BoZ	Bank of Zambia
BIS	Bank for International Settlement
CBDC	Central Bank Digital Currency
COMESA	Common Market for Eastern and Southern Africa
DDACC	Direct Debit and Credit Clearing
DFS	Digital Financial Services
EMV	Europay, Mastercard and Visa
GSB	Government Services Bus
IFMIS	Integrated Financial Management Information System
INRIS	Integrated National Registration Information System
ISO	International Standards Organization
KYC	Know-Your-Customer
MSME	Micro, Small and Medium Enterprises
NPS	National Payment System
NFIS	National Financial Inclusion Strategy
NPSA	National Payment Systems Act
NSFE	National Strategy on Financial Education
PAPSS	The Pan-African Payment and Settlement System
PoS	Point of Sale
PSP	Payment Service Provider
PFMIs	Principles for Financial Markets Infrastructures
RTGS	Real-Time Gross Settlement System
SADC	Southern African Development Community
SME	Small and Medium sized Enterprise
TCIB	Transactions Cleared on an Immediate Basis
TSA	Treasury Single Account
ZECHL	Zambia Electronic Clearing House Limited
ZICTA	Zambia Information and Communications Technology Authority
ZIPSS	Zambia Interbank Payment and Settlement System

GLOSSARY OF TERMS

Term	Definition
<i>Open Finance</i>	Open Finance is a practice that provides third-party access to financial data housed by banks and financial service providers using APIs.
<i>Cryptocurrencies</i>	A cryptocurrency is a form of digital asset based on a network that is distributed across a large number of computers. This decentralised structure allows them to exist outside the control of governments and central authorities.
<i>Central Bank Digital Currencies</i>	These are digital versions of cash that are issued and regulated by central banks. As such, they are central bank liability, denominated in an existing unit of account, which serves both as a medium of exchange and a store of value.
<i>Digital Assets</i>	Anything that is stored in a digital form that is uniquely identifiable and can be used to realise value.
<i>Interoperability</i>	The ability realise for different systems to communicate together effectively without extra effort from the end user.

GOVERNOR'S FOREWORD

A well-functioning national payment system is crucial to a country's economic development as most activities between economic agents involve some form of payment. To modernise the National Payment System (NPS), the Bank of Zambia (the Bank) has collaborated with various stakeholders in formulating and executing five-year National Payment Systems Vision and Strategies since 2002.

The aim of these strategic documents has been to develop and modernise payments systems in Zambia while ensuring safety and efficiency of payments. A safe, reliable, efficient and well-functioning NPS contributes to the stability of the financial system as a whole. Through the execution of these strategies, significant milestones have been achieved. These include, among others: the implementation of the National Financial Switch (NFS) which facilitates for instant payments; the issuance of the Regulatory Sandbox guidelines to promote innovation; enhanced Consumer Protection and Awareness; increased adoption of Digital Financial Services (DFS) and the revision of several payment system regulations to advance the payment systems regulatory landscape.

The Bank launched the 'Go-Cashless' campaign to promote DFS and create awareness on the safeguards for using DFS. This has seen an exponential growth in mobile payments, which grew by 819% in volume to 1,581 million in 2022 from 172 million in 2017. In terms of values, mobile payments grew by 3,952% to K295.8 billion in 2022 from K7.3 billion in 2017.

During the period covered by the 2018 - 2022 Vision and Strategy, the world faced the COVID-19 pandemic which had significant and widespread negative impact on both domestic and global economies. DFS played a key role in cushioning the negative impact of COVID-19 by ensuring that people could make payments remotely. The Bank took several measures to ensure that it created a more enabling environment for payments during the COVID-19 pandemic. These measures included increasing the transaction limits for electronic money and reducing some fees on DFS.

Further, the Bank and key stakeholders such as the Zambia Electronic Clearing House Limited and the financial/payment service providers expedited the implementation of instant mobile payments in Zambia. The implementation was completed within a month after the first case of COVID-19 was reported in Zambia. This allowed individuals, businesses and other stakeholders to continue transacting safely and efficiently through contactless payment methods.

The payment systems industry is fast paced, with new initiatives emerging on a regular basis. The NPS, therefore, needs to be able to adapt to new developments in a way that does not stifle innovation. The industry will continue to be faced with new challenges that require new and updated strategies to overcome them. One of the key challenges faced with the increase in the adoption of DFS is that of cyber and social engineered frauds. In this regard, the Bank, among others, undertook country-wide awareness campaigns on the safe use of DFS by consumers, issued Cyber and Information Risk Management guidelines for all financial/payments service providers and commenced work to implement the financial sector cyber incident response team.

The National Payment System Vision and Strategy 2023 – 2027 will thus build on the achievements of the previous National Payment System Vision and Strategy (2018 – 2022) and place key focus on issues such as enhancing cybersecurity, supporting a 24/7 digital economy through interoperable/seamless payments, enhancing customer experience and complaints handling, universal access to payment services for all consumer categories through digitising the on-boarding process and continued support to innovation. As technology advances, customers are likely to continue demanding for safer, faster, more convenient payment options and seamless payment experience. Vision 2027 will seek to consolidate efforts and bring together all relevant stakeholders in pursuing clear objectives that contribute to the growth and modernisation of the payments landscape in Zambia.

Our call is for all stakeholders to join the Bank contribute to the 'Go-Cashless' campaign and to work together towards the successful implementation of the objectives and strategies in the Vision 2027.



Dr. Denny H. Kalyalya
GOVERNOR



EXECUTIVE SUMMARY

The Bank of Zambia, in collaboration with various stakeholders has made significant strides in modernising the National Payment System in Zambia. Over the last 10 years, the payment system landscape has undergone considerable transformation. The Vision and Strategy 2023 – 2027 (Vision 2027) thus builds on achievements that were recorded in previous strategies.

Significant strides were made in the previous Vision and Strategy covering 2018 - 2022 to modernize the regulatory environment. The National Payment System Bill, which seeks to revise the legal framework for payment systems, taking into account current developments, international best practices and regional initiatives, was drafted. Other developments in the regulatory environment included revision of the electronic money (e-money) directives allowing open and fair access to network infrastructure by all players and issuance of consumer protection regulations. Further, the Bank signed a collaborative framework with Zambia Information and Communications Technology Authority (ZICTA) for the oversight of Digital Financial Services.

One of the key developments in the market was the implementation of the National Financial Switch (NFS), which has enabled the processing of ATM and POS transactions in-country (these transactions were previously processed outside the country) and facilitated for instant payments between commercial banks, non-bank financial institutions and payment service providers (PSPs), including fintechs. The Bank also commenced work on the upgrade of the Real-Time Gross Settlement System (RTGS) namely the Zambia Interbank Payment and Settlement System (ZIPSS). As part of this upgrade, the ZIPSS adopted the ISO 20022 messaging standard.

Another key development under the previous strategy was the increased adoption and usage of DFS. The FinScope survey of 2020 showed that the level of financial inclusion had increased to 69.4% in 2020 from 59.3% recorded in 2015. The survey results showed that the biggest contributor to the increased financial inclusion was mobile money. The percentage of adults using mobile money grew to 58.0% in 2020 from 14.2% in 2015. As at 31 December 2022, the number of active mobile money customers stood at 11,229,737 compared with 1,450,533 as at 31 December 2017.

The development of the National Payment System Vision and Strategy 2023 – 2027 was conducted in consultation with various key stakeholders and took into account other national strategies such as the Vision 2030, the Eighth National Development Plan (8NDP), National Financial Inclusion Strategy (NFIS) and National Strategy on Financial Education (NSFE II) among others.

Vision 2023 will thus be anchored on the following vision statement: – *'To transform the national payment system to support the development of a 24/7 digital economy through interoperability, innovation, adoption of international standards and seamless processing of payments'*.

Vision 2027, which strives to align the Zambia National Payment System with global trends and international best practices, has outlined the following objectives:

- i. Develop and Enhance Payment Systems to Support a 24/7 Digital Economy:** With the developments in information and communications technologies, economic activities will no longer need to be restricted to traditional working hours. Goods, services and capital should be able to move at any time of day. To facilitate this, it is critical that underlying payment channels are available to support such economic advancements.
- ii. Implement a Centralised Know-Your-Customers (KYC) platform:** Customer onboarding plays a critical role in access and usage of digital payments. However, manual onboarding can lead to frustrating customer experiences. Additionally, it poses a challenge of verifying customer details, which can contribute to fraud and non-compliance with Anti-Money Laundering/Combating the Financing of Terrorism and Proliferation (AML/CFTP) and Know Your Customer (KYC) regulations. The centralised KYC platform will be a repository for a single source of primary data for customer due diligence checks by all financial and payment service providers. This will streamline customer verification to facilitate compliance with AML/CFTP and KYC regulations.

iii. **Cyber Security Resilience and Fraud Prevention:** The exposure to cybersecurity risks has increased with the uptake of digital financial services in recent years. A cyber risk exposure by a player may easily be transmitted to the entire financial system and cause disruptions. It is therefore important to establish cyber threats monitoring and information sharing mechanisms through a Cyber Incident Response Team (CIRT). Additionally, the industry should implement robust cyber and fraud monitoring mechanisms and must ensure timely business recovery and continuity in the event of a cyber incident.

iv. **Increase Merchant Acceptance of Electronic Payment Channels:** SMEs are crucial in creating jobs and driving economic development. In Africa, SMEs represent approximately 90% of all businesses. They create between 60% and 80% of jobs and contribute 40% of Gross Domestic Product (GDP)¹. In Zambia, SMEs make up 97 percent of all businesses in the economy². This entails that a significant portion of payments, especially those in the retail payment streams relate to the SME sector. These payments continue to be largely cash, despite growth in the accessibility of electronic payment channels such as Point of Sale and mobile payments. Acceptance of electronic payments for small-sized retailers remains relatively low due to lack of awareness, high costs of commissions, inadequate infrastructure and low digital literacy.

Vision 2027 envisages that deliberate measures will be put in place by all relevant stakeholders to promote acceptance of electronic payment methods by the MSMEs.

v. **Adoption of International Interoperability Payment Standards:** There is need for standardisation and development of supporting frameworks in the payment ecosystem in order to build trust, foster efficiency and address security concerns that may arise from fragmented systems. The payment messaging standard that is envisaged to facilitate interoperability for most payment platforms across the country, region and the globe is the ISO 20022. The ISO 20022 messaging standard was developed by the International Organization for Standardization (ISO) as an open global standard for electronic data interchange between financial institutions. ISO 20022 was conceived to harmonise the fragmented financial messaging standards landscape.

vi. **Explore the application of Digital Currencies/Assets in both the Public and Private sectors to promote financial inclusion:** The emergence of central bank digital currencies (CBDCs) and crypto assets marks a transformative era in global finance. CBDCs, issued and backed by central banks, represent a digital form of fiat currency, while cryptocurrencies are decentralised digital assets that operate on blockchain technology. Vision 2023 will explore potential use cases of CBDCs and potential regulatory framework for crypto assets.

vii. **Review and develop regulatory framework to support Open Finance:** This will provide third-party access to financial data housed by financial and payment service providers using APIs. Data sharing under open finance initiatives makes it possible for specifically tailored financial products depending on an individual or entity's historical financial behaviour.

viii. **Phasing Out of Cheques:** With developments in Digital Financial Services (DFS), the benefits of the cheque have begun to wane. Several jurisdictions have thus discontinued cheques, while others are in the process of doing so.

To achieve the objectives of Vision 2027, there are four (4) strategic enablers that need to be in place. Firstly, there is need for an *enabling regulatory environment* which allows for safe and secure innovation of payment services. Secondly, *adequate infrastructure* which speaks to availability of telecommunications, reliable energy, affordable devices and digital financial service access points on which delivery of efficient payment services relies on. Thirdly, there is need for *safe and secure payments services* which entails taking a 'zero tolerance' approach to issues such as fraud and cyber-threats. Finally, the critical role of *Government* as a catalyst for digitizing payment processes for both pay outs and receipts is recognised.

Vision 2027 will require collaboration by the regulators, the regulated entities, the end users and the Government for the country to achieve positive outcomes for its citizens.

¹LSEG Africa Advisory Group, "The challenges and opportunities of SME financing in Africa", 2018.

²2008 Micro, Small and Medium Enterprise Development Policy



BANK OF ZAMBIA

1.0 INTRODUCTION

An efficient National Payment System (NPS) is a cornerstone for economic development. Payment systems are the rails that facilitate financial and economic activity. The Bank of Zambia Act and the National Payment Systems Act (NPSA) provide the legal mandate for the Bank to supervise, oversee and regulate the operations of various payment mechanisms in Zambia. One of the goals of developing the NPS is to ensure the provision of safe and efficient transfer of funds in the economy. This is a priority not only for the public sector but for the private sector as well.

The Vision and Strategy 2023 – 2027 (Vision 2027) builds on the achievements that were recorded in the previous strategy for the period 2018 – 2022 (Vision 2022). During Vision 2022, several key objectives were achieved including the implementation of the National Financial Switch (NFS) to enable interoperability of commercial banks, non-bank financial institutions, payment service providers, fintechs and mobile money service providers. In addition to this, payment system laws and regulations were reviewed, including a review of the NPSA with the aim of creating a more enabling regulatory environment.

Further, awareness campaigns to promote Digital Financial Services (DFS) were intensified. The results of these efforts can be noted through several indicators such as increased transactions processed on digital payment streams and the number of electronic wallet holders. For example, during the period 2017 – 2022, the number of active electronic wallets increased from 1,450,533 wallets to 11,229,737 wallets. Other digital payment channels such as mobile payments grew by 819 percent in volume from 172 million in 2017 to 1,581 million in 2022. In terms of values, mobile payments grew by 3,952 percent from K7.3 billion in 2018 to K295.8 billion in 2022. Point of Sale (POS) transactions during the same period also grew significantly by 425 percent in volume from 12 million to 63 million. In terms of value, POS transactions increased by 1,300 percent from K8 billion to K112 billion. Another key indicator resulting from the successful implementation Vision 2022 was the increase in financial inclusion from 59.3 percent in 2015 to 69.4 percent in 2020 as reported in the 2020 FinScope Survey³. The increase in financial inclusion was mainly attributed to the growth in DFS, particularly mobile money.

The key focus for Vision 2027 is to support the country's move to a digital economy while at the same time ensuring that Zambia also keeps up with regional and global developments. Further, the Vision aims to enhance customer experience/confidence in existing payment platforms by increased interoperability, availability of systems, awareness and faster resolution of customer complaints. This will be done through the provision of appropriate policy guidance that will also ensure that market players are able to adequately address emerging risks such as those related to cyber threats and fraud. Further, during the strategy period, it is expected that businesses, government as well as financial sector players will continue to exploit advancements in technology to achieve higher levels of efficiencies in the provision of payment services. This will ultimately lead to inclusive growth in the usage of DFS resulting in tangible benefits to consumers.

Vision 2027 will complement other key strategic plans developed by various stakeholders such as the digitisation agenda by government, Vision 2030, the Eighth National Development Plan (8NDP), National Financial Inclusion Strategy (NFIS) and National Strategy on Financial Education (NSFE II), among others.

Vision 2027 aims *'To transform the national payment system to support the development of a 24/7 digital economy through interoperability, innovation, adoption of international standards and seamless processing of payments'*.

2.0 NATIONAL PAYMENT SYSTEM REFORMS

Reforms in the national payment system begun in the early 1990s with the Bank and various stakeholders undertaking initiatives to modernise the payment systems landscape in Zambia.

Some of the key milestones achieved included the following:

FIGURE 1 - ACHIEVEMENTS IN THE ZAMBIAN NATIONAL PAYMENT SYSTEM





3.0 OVERVIEW OF ACHIEVEMENTS UNDER VISION AND STRATEGY 2018 – 2022

Vision and Strategy 2018 – 2022 aimed to establish an inclusive National Payment System to support sustainable economic development and safeguarding the interest of all relevant stakeholders. Some of the key notable achievements made under Vision 2018 – 2022 are detailed below.

3.1 Review of the Regulatory Landscape

The Bank undertook a review of the current NPSA, No. 1 of 2007 to address new developments, align the Act with international best practices and regional payment system initiatives. With sixteen (16) years having elapsed since the enactment of the NPSA, 2007, it was imperative that a review of the law be made to take stock of the numerous developments and innovations that have occurred in payment systems.

Further, other subsidiary legislation such as the National Payment System Directives for Electronic Money Issuance and the National Payment Systems Money Transfer Services Directive were equally revised and formulated respectively to align with the developments in the NPS.

Under the 2018 - 2022 NPS strategy period, the 'access regulations' were revised by Zambia Information and Communications Technology Authority (ZICTA) to enable open and fair access to network infrastructure by all players.

3.2 Retail Payment Systems

In the course of Vision and Strategy 2018 – 2022, deliberate measures were taken to promote the usage of electronic payment channels. These included awareness campaigns undertaken by the Bank in collaboration with industry players and the upward revision of balance and transaction limits on electronic money and money transfer services. During the period, the COVID-19 pandemic also played a catalytic role in the uptake and usage of DFS by consumers. As a result, the volumes and values processed through digital payment channels such as EFT, PoS and mobile payments recorded significant increases as reflected in the figures below.

FIGURE 2 - VALUES OF RETAIL PAYMENT CHANNELS

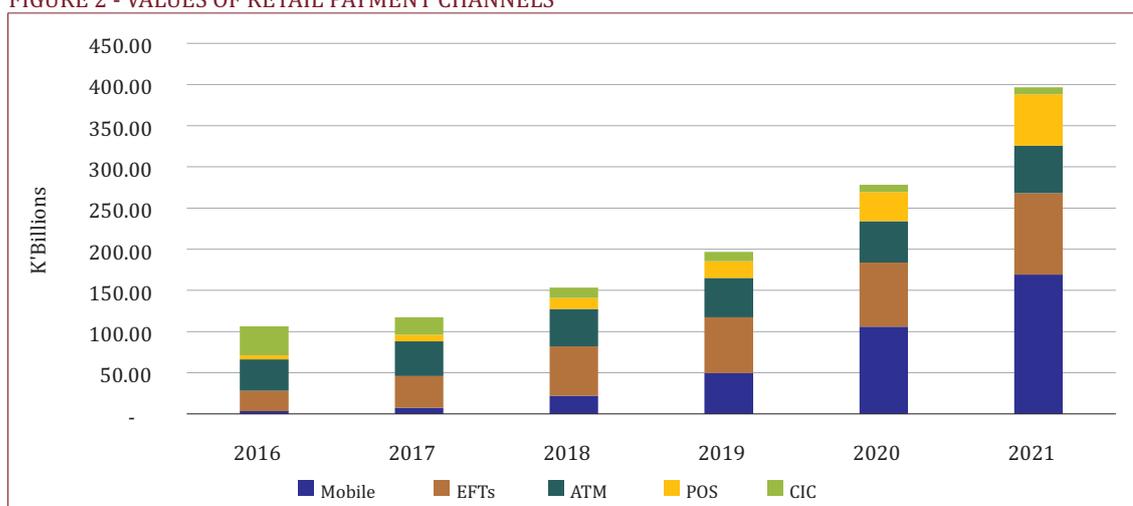
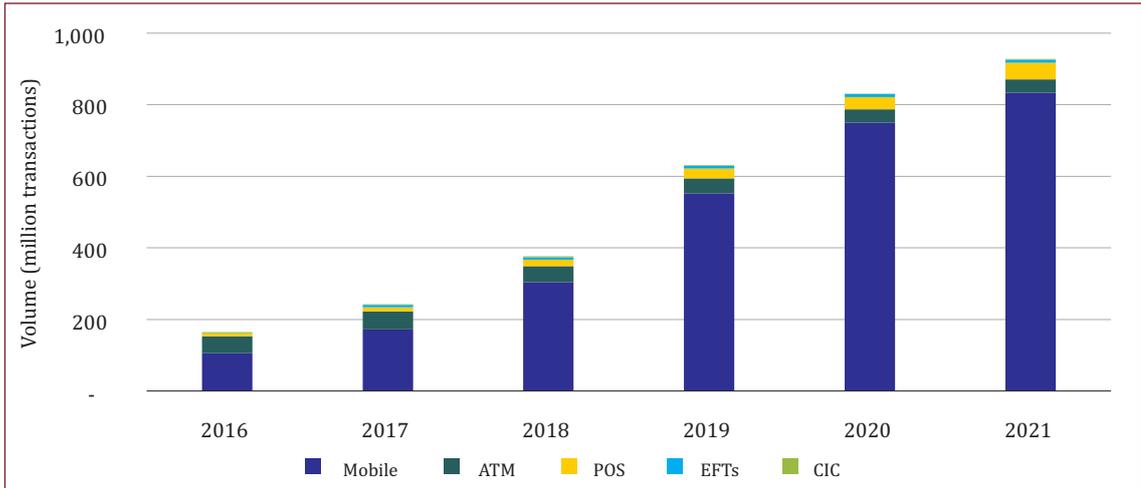


FIGURE 3 - VOLUMES OF RETAIL PAYMENT CHANNELS



3.3 Consumer Protection and Awareness

In an effort to expand access to financial services, the Bank continued its efforts in creating awareness and promoting the use of DFS among different consumer categories such as youths, women and in multiple demographics including rural areas. DFS comprise a broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance and can thus contribute to increased financial inclusion. To promote access and usage of DFS, sensitisation campaigns were undertaken to cover all the districts of the country. These were executed in collaboration with key stakeholders such as government, other regulators, financial and payments service providers and cooperating partners. The consumer awareness campaigns emphasised aspects of fraud prevention.

3.4 Cybersecurity

With the delivery of financial services continuing to rely heavily on technology and related information systems, cyber risk has become even more critical. Several organisations have adopted work-from-home arrangements and increased the usage of mobile workstations in response to the COVID-19 pandemic. This required organisations to re-consider their information system security controls. To curb cyber security threats and provide a regulatory framework on cyber security related matters, the Cyber Security and Cyber Crimes Act, the Electronic Communications and Transactions Act and the Data Protection Act were enacted by parliament in 2021. In addition, the Bank issued the Cyber and Information Risk Management guidelines for its regulated entities with the aim of improving cyber resilience in the financial sector.



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4.0 VISION 2027

As highlighted previously, Vision 2027 will build on achievements that were recorded in the previous strategy i.e., Vision 2022. Therefore, Vision 2027 has adopted the following vision statement:

'To transform the national payment system to support the development of a 24/7 digital economy through interoperability, innovation, adoption of international standards and seamless processing of payments in a safe environment'.

The main goal of Vision 2027 is to leverage technological advancements to drive payment systems that will support the development of a 24/7 digital economy. Technology is enabling significant changes across the globe and Zambia is no exception. As the world evolves to a new digital era, Zambia should not be left behind and must position itself to take advantage of the opportunities that come with this new wave of change. Therefore, there is need to ensure that the national payment system transforms to support faster trade not only domestically but at regional, continental and global levels while maintaining safety and efficiency. The Vision will require collaborative efforts by all key stakeholders to achieve its main goal.

Vision 2027 will place specific emphasis on the following attributes:

1. Inclusivity and Universal Access

The national payment system will continue to promote fair and open access to services for all and will target more specifically women, the elderly, differently abled persons, forcibly displaced persons (e.g., refugees and victims of climate change) and micro, small and medium-size enterprises. Further, Vision 2027 will aim to facilitate universal access of payment services across all relevant sectors of the economy and rural areas as far as possible through digital onboarding.

2. Convenience

Payment Services will be more efficient, easily accessible and able to provide customers with instant value as and when needed. Customers should be able to complete transactions from end-to-end within minimal timeframes and at any time of day. This will entail among others, reduced downtimes and increased availability of payment services by providers. This should support seamless domestic and cross border payments. This will also require quicker resolution of customer complaints.

3. Enhance Interoperability and Innovation

Payment service providers will continue to explore innovations that enhance the capabilities of shared infrastructure by leveraging existing platforms such as the National Financial Switch (NFS), Integrated National Registration Information System (INRIS), Government Service Bus (GSB) and National Data Centre among others to drive interoperability. The industry should continue to explore opportunities and benefits that come with streamlining and digitalising the Know-Your-Customer (KYC) processes.

4. Safety and Security

Payment service providers will strive to ensure the safety and security of their environments against internal and external risks. Financial sector regulators will continue to facilitate an enabling environment for innovation while ensuring that products from the payment service providers are offered in a safe and secure environment to instil confidence in the use of digital payment systems by the public.



5.0 STRATEGIC ENABLERS

The successful implementation of the strategic objectives set out in this vision will rely on the following key strategic enablers:

5.1 Enabling Regulatory Environment

Enhance the legal framework for payment systems and provide a legal basis upon which policies can be formulated and implemented to ensure stability and safety of the Zambian financial system. To this effect the Bank of Zambia is in the process of repealing and replacing the National Payment Systems Act, 2007. This is to ensure that the Act is consistent with developments in the national payment systems. The draft bill has thus been developed in consultation with various stakeholder and has been submitted to the Ministry of Finance and National Planning. The new act is expected to be enacted within the course of this strategy. The regulatory framework should harness innovation and leverage technology to promote safe and efficient growth of the sector.

5.2 Adequate Infrastructure

The Vision will require improved quality of service, quality of experience, availability of telecommunications, reliable energy, affordable devices and increased digital financial service access points. Further, stakeholders should promote sharing of infrastructure to benefit from economies of scale.

5.3 Safe and Secure Payments Services

Consumer confidence in the NPS remains a priority for the Bank and other key stakeholders. To build consumer trust, all stakeholders in the NPS ecosystem should continue to promote measures that ensure end-to-end security of payment services. This will entail taking a 'zero tolerance' approach to issues such as fraud and cyber-threats. This will also include enhancing customer protection and redress channels.

5.4 Government Support

The government is one of the largest payers and receivers of payments. Digitising all important payments presents an opportunity for transitioning consumers to digital payments and thus contributing to financial inclusion at a large scale. The government should continue its thrust for digitising its payment processes for both pay outs and receipts.



6.0 STRATEGIC OBJECTIVES

In order to achieve Vision 2027, the Bank in collaboration with key stakeholders agreed to pursue and implement the following strategic objectives:

6.1 Develop and Enhance Payment Systems to Support a 24/7 Digital Economy

With the developments in information and communications technologies, economic activities will no longer need to be restricted to traditional working hours. Goods, services and capital should be able to move at any time of day. To facilitate this, it is critical that underlying payment channels are available to support such economic advancements.

Resilient payment systems provide the rails on which economic activities can ride. To this end, the Bank has categorised specific payment systems namely the ZIPSS and the electronic funds transfers as being of importance and whose access and availability must be enhanced to support 24/7 economic activities. While the NFS core system has high availability, the availability of the participants needs to be enhanced.

To support the digital transformation agenda, the 8NDP recognises information technology and innovation as an underpinning enabler for achieving this key objective. Payment systems should therefore be modelled to support this government agenda that will not only improve efficiencies in economic activities but contribute to economic development.

Critical Success Factors

1. *Extend the operating hours of the ZIPSS.* This will allow for more frequent settlement of transactions thereby reducing risk in the overall national payment system;
2. *Include non-banks as participants on the ZIPSS.* This will allow for fair and open access to payment systems. There is need to give non-bank financial institutions and payment service providers access to the ZIPSS. The new participants will have to meet all the requirements under the ZIPSS rules. The Bank of Zambia Act, 2022, provides for the inclusion of the new participants on the ZIPSS;
3. *Increase availability of participants on the NFS and implement the remaining use cases.* This will ensure that transactions are processed end-to-end successfully. Implementing the remaining use cases for the NFS will result in increased interoperability and enhanced customer experience;
4. *Increase the clearing sessions for the EFT payment stream.* This will facilitate for faster settlement.
5. *Go cashless' campaigns to continue.* 'Go Cashless' theme should be adopted by all stakeholders. Efforts must be made to ensure that this theme is owned by all stakeholders including the general public.

6.2 Implement a Centralised Know-Your-Customers (KYC) platform

Customer onboarding plays a critical role in access and usage of digital payments. The onboarding process paves way for customers to access and use financial services. It sets the tone for the relationship that will exist between the financial service provider and the customer. Even though every customer's onboarding journey is different, there are common aspects that every customer desires i.e., speed and convenience.

The manual onboarding process can lead to frustrating experiences with multiple friction points. Additionally, it results in high costs for financial service providers and adds to the challenge of verifying customer details which can contribute to fraud. These issues may lead to non-compliance with Anti-Money Laundering/Combating the Financing of Terrorism and Proliferation (AML/CFTP) and Know Your Customer (KYC) regulations.

The establishment of a centralised KYC platform can significantly address these challenges. The centralised KYC platform is envisaged to be a repository for a single source of primary data for customer due diligence checks by all financial and payment service providers. The platform will also help in supporting various developments and innovation in the financial sector.

Establishing a Centralised KYC would result in streamlined KYC verification to facilitate compliance with AML/CFTP and KYC regulations. Under this objective, the Bank will seek to leverage the progress made by the Ministry of Home Affairs in the implementation of a digital national identity system for all citizens under the Integrated National Registration Information System (INRIS) project. This will provide verification mechanisms for customer (natural person) identification. Such verification mechanisms will help address issues of AML/CFTP, fraud and identity theft. Further, the industry will develop a register for dishonest/fraud suspicious persons.

Further, the centralised KYC system will facilitate for increased access to financial services by the women, differently abled and forcibly displaced people.

Critical Success Factor

1. *Governance* – establish multi-sectoral governance arrangements for the implementation of the electronic KYC platform.
2. *Identification of operator* – designating an entity that will be responsible for the operations of the Centralised KYC platform.
3. *Technical Assistance and peer learning from other jurisdictions that have implemented this.*
4. *Develop requirement specifications.* This should be done in consultation with all relevant stakeholders.
5. *Develop regulation and rules to support the implementation of the centralised KYC platform.* Develop rules and regulations to guide the operation of the Centralised KYC platform.

6.3 Cyber Security Resilience and Fraud Prevention

The exposure to cyber risk has increased with the uptake of digital financial services in the recent years. This has been further exacerbated by the interconnectedness and the increased use of technology for delivering financial services. A cyber risk exposure by a player may easily be transmitted to the entire financial system and cause disruptions. Financial and payment service providers are typically a high target for cyber-attacks.

It is therefore important to establish cyber threats monitoring and information sharing mechanisms through a Cyber Incident Response Team (CIRT). Additionally, the industry should implement robust cybersecurity and fraud monitoring mechanisms and must ensure timely business recovery and continuity in the event of a cyber incident.

Critical Success Factors

1. *Issue industry guidelines and standards on Cybersecurity* – development and issuance of Cybersecurity Guidelines for all Bank of Zambia regulated entities;
2. *Robust fraud monitoring systems and recovery mechanisms.* Financial and payments service providers to put in place robust fraud monitoring tools and to carry out regular resilience/penetration testing. Robust recovery mechanisms should be put in place by participants to ensure prompt recovery in the event of a cyber or operational incident;
3. *Develop and implement a Cybersecurity Incidence Response Team;*

4. *Formation of Taskforce* – constitute a task force comprising of regulators, law enforcement agencies, payment service providers, financial service providers and judicial arms to consider among others a fast-track court for cyber frauds;
5. *Develop a register for persons/agents involved in fraud or dishonest activities* – develop centralised industry accessible database/registry for persons with a view for blacklisting persons and/or agents that are non-compliant with relevant laws and regulations or are involved in fraudulent or dishonest activities.

6.4 Increase Merchant Acceptance of Electronic Payment Channels

SMEs are crucial in creating jobs and driving economic development. In Africa, SMEs represent approximately 90% of all businesses. They create between 60% and 80% of jobs and contribute 40% of Gross Domestic Product (GDP)⁴. In Zambia, SMEs make up 97 percent of all businesses in the economy⁵. This entails that a significant portion of payments, especially those in the retail payment streams relate to the SME sector. These payments continue to be largely cash, despite growth in the accessibility of electronic payment channels such as Point of Sale and mobile payments. Acceptance of electronic payments for small-sized retailers remains relatively low due to lack of awareness, high costs of commissions, inadequate infrastructure and low digital literacy.

Vision 2027 envisages that deliberate measures will be put in place by all relevant stakeholders to promote acceptance of electronic payment methods by the MSMEs. This will include scaling up awareness campaigns on DFS with increased focus on merchants on-boarding, fair charges and transaction fees and proportionate regulations among others. This should include payments to businesses of varying sizes including micro-merchants (corner stores and vendors) and cover several sectors such as the transport (taxis, buses), health and education among others.

Critical Success Factors

1. *Develop Pricing Structures that make DFS more affordable for merchants* – to encourage the uptake of electronic payment methods;
2. *Awareness and acceptance* – enhanced awareness campaigns to promote adoption of acceptance of electronic payments by merchants. This needs to be done in collaboration with various stakeholders
3. *Policy and regulation* – develop supportive policies and regulations to encourage adoption and usage of electronic payments by marginalised groups such as women, youth, differently abled people and forcibly displaced people; and
4. *Incentivise merchant uptake of electronic payments;*
5. *Develop and implement a National Quick Reference (QR) Code* – industry should work on the development of a National Quick Reference (QR) Code payment model as part of the NFS, which should be interoperable across different financial and payment service providers.

6.5 Adoption of International Interoperability Payment Standards

There is need for standardisation and supporting frameworks in many areas of the payment ecosystem to build trust, foster efficiency and address security concerns that may arise from fragmented systems.

The standard that will facilitate interoperability across the country, region and the globe is the ISO 20022 messaging standard for most payment platforms. ISO 20022 is a widely accepted messaging standard to be used to create consistent messaging across all business domains and processes including payment, clearing and settlement. The standard is envisioned to harmonise fragmented

⁴LSEG Africa Advisory Group, “The challenges and opportunities of SME financing in Africa”, 2018.

⁵2008 Micro, Small and Medium Enterprise Development Policy

financial messaging standards and simplify Application Programming Interfaces (APIs) integration into existing systems and processes due to its platform and network agnostic features as well as being an open and global standard.

The Bank has adopted ISO 20022 as the messaging standard to be used and implemented market wide. To successfully implement the ISO 20022 standard, a phased approach has been taken to migrate payment streams starting with the Zambia Interbank Payment and Settlement System (ZIPSS). The Bank will take a lead on the implementation of ISO 20022 message standard on the ZIPSS. Vision 2027 anticipates that subsequently, other domestic payment systems should commence the migration programme to ISO 20022 on a needs basis.

Adoption of the ISO 20022 messaging standard will also facilitate for the implementation of regional, continental and global payment system initiatives such as those under Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA) and the African Union (AU).

Critical Success Factors

1. *ISO 20022 Usage Guidelines for ZIPSS* – undertake industry consultation to develop and publish HVPS+ Accelerator message usage guidelines to support the implementation of the ISO 20022 on the ZIPSS;
2. *Regulatory Guidance on ISO 20022* – the Bank shall issue directives to all relevant participants on the ZIPSS on the implementation of the messaging standard, which will also highlight the implementation approach of the standard by the industry.
3. *Upgrade the ZIPSS to be ISO 20022 compliant*;
4. *Develop an Implementation Approach for other Payment Streams in Zambia* – this should be done with all relevant stakeholders;
5. *Implement regional payment systems initiatives* – these include the Pan-African Payment and Settlement System (PAPSS) under the AU, the SADC-Transactions Cleared on Immediate Basis (TCIB) and the COMESA retail payment system for Small and Medium-sized Enterprises (SMEs).

6.6 Explore the Application of Digital Currencies/Assets in Both the Public and Private sectors

Central Bank Digital Currencies (CBDCs)

A survey conducted by the Bank for International Settlements (BIS) revealed that about 90% of the countries were considering CBDCs. In some instances, such as in the case of the Bahamas Sand Dollar and Nigeria's eNaira, retail versions of the respective CBDCs⁶ have been fully implemented. As such, the Bank seeks to actively explore potential use cases for a CBDC within the Zambian local context.

Private digital currencies/assets

Public and private digital currencies usually function outside of the central bank system and are commonly known as cryptocurrencies. Zambia, like many other countries, has seen an influx of FinTechs offering products and services premised on digital assets such as cryptocurrencies. Concern has been raised by international bodies that digital currencies if left unregulated may pose a threat to financial stability. Therefore, there is a global move to regulate and monitor digital currencies/assets. As such, the Vision 2027 envisions the formulation of an appropriate framework for monitoring activities related to digital assets/currencies.

⁶Anneke Kose and Ilaria Mattei, Bank for International Settlement (BIS) Paper 125, Gaining Momentum – Results of the 2021 BIS Survey on Central Bank Digital Currencies
<https://www.bis.org/publ/bppdf/bispap125.pdf>

Critical Success Factors for CBDC

1. *Continue research on CBDC and the possible use cases for Zambia*
2. *Pilot test.* To better understand CBDC implementation and the possible use cases, Zambia like many other countries have done, should run a pilot test;
3. *Make decision on approach to be taken for CBDC implementation* – wide consultation should be undertaken in deciding on how to proceed with the CBDC;
4. *Implement the decision.*

Critical Success Factors for Digital assets, e.g. Cryptocurrencies

1. *Capacity Building on digital assets* – build capacity among staff of relevant regulatory authorities on Digital Asset and related technologies;
2. *Stakeholder Engagement.* Stakeholder engagement will be necessary;
3. *Test some of the service providers of digital currency in the regulatory sandbox*
4. *Develop and implement Appropriate Regulation on digital assets.*
5. *Multi-sectoral Approach to be taken.* Collaboration in the regulation and oversight of digital asset will be necessary.

6.7 Review and develop regulatory framework to support Open Finance

Open finance is a practice that provides third-party access to financial data housed by financial and payment service providers using APIs. This is done with the consent of the data owners. The opening up of consumer data comes with security and data privacy issues but can still be done in a responsible and secure manner. Data sharing under open finance initiatives makes it possible for specifically tailored financial products depending on an individual or entity's historical financial behaviour. Open finance allows for consumer profiling.

Open finance is being driven by the fact that personal finance has gone digital. Individuals or entities will have their money in different bank accounts and wallets. This creates an opportunity to harmonise these arrangements and provide efficient and seamless access to financial services customer data. Payments data particularly sheds light on the financial standing, behaviours, interests and patterns of individuals and businesses alike. This type of data can enable service providers to tailor products and services that meet specific needs and help with managing risk.

The Zambian financial landscape is expanding especially in the case of payments. Most of the financial service providers and other stakeholders are digitising their processes and service delivery. There is, therefore, need to explore the possibilities and benefits/opportunities of open finance in the Zambian market. Open finance will encourage creativity and promote innovations with use cases that cater for financial needs of different sectors of the Zambian public including healthcare, education, agriculture and personal finance. Vision 2027 therefore envisions that a regulatory environment that supports open finance will be put in place.

Critical Success Factors

1. *Undertake Research on open finance* – Undertake research on open finance, neo-banking and digital banking to assess applicability and practices of these new banking initiatives in Zambia;
2. *Stakeholder engagement.* This will be necessary for determining the needs and coming up with appropriate systems and regulations;
3. *Explore and decide on a possible open finance solution suitable for Zambia*
4. *Develop appropriate regulation* – develop open standards for sharing of data among commercial banks, payment service providers and FinTechs; and
5. *Issuance of open finance solution and regulations*

6.8 Phasing Out of Cheques

Cheques in Zambia have been used for more than 116 years. With developments in Digital Financial Services (DFS), the benefits of the cheque have begun to wane. Several jurisdictions have thus discontinued cheques, while others are in the process of doing so. Within the SADC region the instrument was discontinued in Namibia in June 2019⁷, while steps are being taken by South Africa, Lesotho, Eswatini and Botswana to discontinue the use of Cheques.

Some of the challenges presented by cheques as a payment instrument include the following:

- **Inefficiencies** due to delayed and lengthy processing periods. This is despite efforts by the Bank and the industry to truncate the clearing process of cheques.
- **Fraud**, being a paper-based payment method, a cheque is highly prone to fraud such as forgery of account holder's signature and theft of cheque books.
- **Dishonoured cheques**, which are issued cheques that are not fulfilled during the processing cycle due to insufficient funds on the account holder and invalid signatures among other things.
- **Cost** of payment processing infrastructure and cost to banks for printing of cheque books and associated material.
- **Delay in delivery of goods and services** by businesses when a cheque is used as a payment instrument until the clearing process is completed.
- **Inconvenient** and **time-consuming** as the payment instrument may require physical presentments between the drawer, drawee and the respective commercial banks.

In view of some of the reasons advanced above, the Bank of Zambia undertook a review of the item value limits on cheque payments and other digital payment options. This led to an increase in the use of digital payments and a reduction in cheque payments since 2017⁸. Therefore, the industry should pursue activities that will lead to the ultimate discontinuation of the cheque as a payment instrument in Zambia.

Critical Success Factors

1. *Develop a strategy for phasing out the cheques.* Ample time and notice should be given to the public for phasing out of the cheques
2. *Country-wide Awareness on Discontinuation of Cheques.* Create awareness to members of the public of the intended phasing out of cheque payments;
3. *Develop regulation for phasing out the cheques*
4. *Cheques phased out at an appropriate time*

⁷Bank of Namibia, Payment Association of Namibia, Namclear - Media Statement on the Phasing Out of the Cheques as a Payment Instrument within the National Payment System

<https://www.bon.com.na/CMSTemplates/Bon/Files/bon.com.na/40/40a55571-c29f-4abf-a196-41febb34ce99.pdf>

⁸Bank of Zambia – Revision of Revised Item Value Limits

<https://www.boz.zm/Circular2016-06RevisionofItemValueLimitsonChequesandEFTs.pdf>

https://www.boz.zm/Circular2017_02ExtensionoftheImplementationoftheItemValueLimit.pdf



7.0 IMPLEMENTATION AND MONITORING APPROACH

7.1 Stakeholder Collaboration

Vision 2027 was developed through a consultative process involving payment service providers, commercial banks, non-bank financial institutions, regulatory authorities and co-operating partners in the financial sector. It therefore entails that the successful implementation of the key objectives in this strategic document will require concerted effort from all relevant stakeholders.

7.2 Financial Resource Allocation

The achievement of initiatives under Vision 2027 will require adequate human and financial resource allocation by all relevant stakeholders. This will require budgetary allocation during the budgeting cycles. Further, specific initiatives will be incorporated into the respective strategic and operational plans of the respective entities.

7.3 Prioritisation

Vision 2027 will require efficient utilisation of resources during the implementation of the key initiatives. Therefore, focus will be placed on initiatives that have great positive impact on the overall objective of the vision. This will require prioritisation of the key considerations and activities under each respective strategic objective.



ANNEXES

Annex 1 – Implementation Matrix for Vision 2027

Strategic Areas and Key Strategic Activities		Lead Institutions	Timeframe
Develop and Enhance Payment Systems to Support a 24/7 Digital Economy			Reference 6.1
1.	Review the operating hours of the ZIPSS and EFT with a possibility of being extended to support economic activity	ZECHL, BOZ	2025
2.	Review clearing arrangements for the electronic funds transfer (EFT) stream to ensure that customer accounts are credited in a timely manner	ZECHL, BOZ	2025
3.	Review value limits on the EFT payment stream and revise upwards while considering risks that may arise	BOZ	2026
Implement a Centralised Know-Your-Customers (KYC) platform			Reference 6.2
4.	Establish multi-sectoral governance arrangements for the implementation of the platform.	ZECHL	2023
5.	Development of the requirements specification documentation to be done in consultation with all relevant stakeholders	ZECHL, BOZ	2024
6.	Develop rules, policies and regulations to guide the operation of the Centralised KYC platform	ZECHL, BOZ, PAYZ & BAZ	2024-27
7.	Implementation of the Centralised KYC platform to enhance digital on-boarding	ZECHL	2024-27
8.	Development of a register for dishonest/fraud suspicious persons	ZECHL	2024-27
Cyber Security Resilience and Fraud Prevention			Reference 6.3
9.	Establish the Cyber Incident Response Team (CIRT) for the financial sector that will facilitate enhanced information sharing on cyber security incidences and promote industry best practice	BOZ, ZICTA, BAZ, PAYZ	2025
10.	Issue guidelines on cyber and information system security to financial sector players to enhance cyber security controls and recovery mechanisms	BOZ	2023
11.	Facilitate for public and industry player awareness on cyber security matters	BOZ, ZICTA, BAZ, PAYZ	2023-27
Increase Merchant Acceptance of Electronic Payment Channels			Reference 6.4
12.	Development framework for cost-effective pricing of merchant payment products and services that support the uptake and usage of mobile payments by Micro, Small and Medium Enterprises	PAYZ, BAZ	2024
13.	Develop mechanisms for public sharing of pricing information on the various available merchant payment products and services	BOZ	20234
14.	Standardise Merchant Payment Processes through the development of industry-wide Quick Response Code or other similar initiatives, which should also support mobile money as a payment option	PAYZ, BAZ	2024-27
15.	Waiver of taxes for point-of-sale and other devices that facilitate merchant acceptance of digital payments and incentivising acceptance of digital payments by merchants through tax rebates or other similar mechanisms	ZRA, BAZ	2024-25
Adoption of International Interoperability Payment Standards			Reference 6.5
16.	Ensure appropriate regulatory framework is in place to facilitate for the implementation of the ISO 20022 for both large-value domestic and large-value cross-border payments	BOZ	2024
17.	Ensure necessary technological adaption to support the ISO 20022 and take advantage of the rich data capabilities of the messaging standard by commercial banks and the Bank	BAZ, BOZ	2024-25
18.	Develop a roadmap for the implementation of the ISO 20022 messaging standard on other payment stream in Zambia	ZECHL	2025-26
19.	Implement regional payment systems initiatives (TCIB, PAPSS, Develop a roadmap for the implementation of the ISO 20022 messaging standard on other payment	BOZ, ZECHL	2024

Annex 1 – Implementation Matrix for Vision 2027 (Cont'd)

#	Strategic Areas and Key Strategic Activities	Lead Institutions	Timeframe
Explore the Application of Digital Currencies/Assets in Both the Public and Private sectors			Reference 6.6
20.	Governance Arrangements – establish governance structures and frameworks to guide the CBDC implementation process	BOZ, MOF	2024-25
21.	Enabling Regulation – ensure relevant regulations are in place to support the implementation, supervision and oversight of the CBDC	BOZ, MOF	2024-25
22.	Stakeholder Engagement –to obtain buy-in, support and widespread adoption from all relevant stakeholders	BOZ, MOF	2024-25
23.	Infrastructure and technology – ensure relevant infrastructure is in place to support CBDC	BOZ, MOF, ZICTA	2025-26
24.	Deliberate initiatives for capacity building for regulatory authorities as well as public and private sector actors on digital assets, distributed ledger technologies and other similar technologies	BOZ, SEC, PIA	2024-2025
25.	Explore and undertake country assessment on the practices in the Zambian digital assets, crypto currencies and related developments	BOZ, SEC, PIA	2024-2025
26.	Formulate and Develop the Regulatory Framework on Digital Asset in collaboration with all relevant stakeholders to protect on consumers	BOZ, SEC, PIA	2025
Review and develop regulatory framework to support Open Finance			Reference 6.7
27.	Undertake research on open finance, neo-banking and digital banking to assess applicability and practices of these new banking initiatives in Zambia	BOZ	2025
28.	Develop open standards for sharing of data among commercial banks, payment service providers and FinTechs	BOZ	2025-27
29.	Issuance of open finance regulations	BOZ	2025-27
Phasing Out of Cheque			Reference 6.8
30.	Develop and execute roadmap for the eventual phasing out and discontinuation of the cheque as a payment stream in Zambia with minimal impact on businesses/consumers	BOZ, ZECHL, BAZ	2023-24
31.	Creation of awareness to members of the public of the intended phase out of cheque payments and promotion alternate digital payment mechanisms	BOZ, ZECHL, BAZ	2024-25
32.	Phase out the cheques	BOZ, ZECHL, BAZ	2025

Annex 2 – Regulatory Landscape

The table below further highlights the regulatory environment as it pertains to the Payment System in Zambia.

Regulatory Agency	Laws	Regulations
Bank of Zambia (BoZ)	<ul style="list-style-type: none"> Bank of Zambia Act 2022 National Payment Systems Act 2007 Banking and Financial Services Act 2017 	<ul style="list-style-type: none"> Directives for Electronic Money Issuance, 2018 Directives on Automated Teller Machines, Point of Sale, Internet Transactions and Mobile Payments Directives for Money Transfer Services, 2021 Directives on National Financial Switch (NFS) Implementation Directives on Unwarranted Fees, 2020 Directives on Complaints Handling and Resolution, 2020 Directives on Processing of DDACC and Funds on the ZIPSS Directives on Anti-Money Laundering and Combating the Financing of Terrorism or Proliferation Circular on Transaction and Balance Limits Circular on Item Value Limits Circular on the Issuance of Principles for Financial Market Infrastructures (PFMIs) Circular on EuroPay, MasterCard and VISA (EMV) Standard Compliance Circular on Collateral Computation
Zambia Information and Communications Technology Authority	<ul style="list-style-type: none"> ICT Act no. 15 of 2009 Cyber Security and Cyber Crimes Act No. 1 of 2021 Electronic Communications and Transactions Act No. 4 of 2021 	
Competition & Consumer Protection Commission	<ul style="list-style-type: none"> Competition and Consumer Competition and Consumer Protection Act No. 24 for 2010 	
Pension Insurance Authority	<ul style="list-style-type: none"> Insurance Act No 38 of 2021 Pension Scheme Regulation Act 	

Annex 3 – List of Stakeholders Engaged

Government

1. Ministry of Finance and National Development
2. Ministry of Technology and Science

Regulatory Agencies

1. Bank of Zambia
2. Pensions and Insurance Authority (PIA)
3. Zambia Information and Communications Technology Authority (ZICTA)

Cooperating Partners

1. Financial Sector Deepening Zambia
2. Bankers Association of Zambia
3. Payments Association of Zambia
4. United Nations Capital Development Fund
5. World Bank

Banks

1. AB Bank Zambia
2. ABSA Bank
3. Access Bank
4. Atlas Mara Bank
5. Citibank
6. First Alliance Bank
7. First Capital Bank
8. First National Bank
9. Indo Zambia Bank
10. Stanbic Bank
11. Standard Chartered Bank
12. United Bank of Africa
13. Zambia National Commercial Bank

Payment Service Providers

1. Airtel Money Commerce Zambia
2. Bayport
3. cGrate 543 Konse Konse
4. Digital PayGo
5. Express Credit
6. Finca Zambia
7. Instapay Africorp
8. Kazang Zambia
9. Lendmepay Zambia Limited
10. MTN Mobile Money Limited

11. Mukuru Money Transfer
12. MyPay Financial Services
13. National Savings and Credit Bank
14. Paycode Zambia Limited
15. PostDotNet
16. PrimeNet Solutions Limited
17. Redstone Zambia
18. Zambia Electronic Clearing House
19. Zambia National Building Society
20. Zambia Postal Service Corporation
21. Zamlink eSwitch Zambia
22. Zamtel Mobile Money
23. Zoona Zambia

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