



Bank of Zambia

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CB CIRCULAR NO. 1/99

TO: ALL COMMERCIAL BANKS

Dear Sirs

RISK BASED APPROACH TO INSPECTION

The Bank of Zambia is in the process of introducing the risk based approach to inspection for this year. This is aimed at enhancing the effectiveness of the supervising process for banks. The new approach aims to identify risks inherent in the banks and assessing the management's process to identify, measure, monitor and control risk. This new approach will lead to a more focussed approach to inspection of banks.

The introduction of the risk based approach to inspection is in response to the new technologies, product innovations size and speed of financial transactions that have changed the nature of the banking market in Zambia.

The new approach will involve the collection of additional information from banks, constant contact between on-site officers and bank management and discussions with the external and internal auditors. The information that will be collected will be used by the Bank of Zambia to develop an Institutional Overview of each bank highlighting the risks inherent in each institution. The following is the type of information that will be collected:

- a brief description of the organisation structure, including legal and business units as well as a description of any related operations;
- a summary of business strategies, competitive challenges, key business lines, product mix, marketing emphasis, growth areas, acquisition or divestiture plans, and new products;
- internal reports;

- a brief summary of the institutions operations including the degree to which internal controls are built into activities, the level and sophistication of technology and whether new management information system have been implemented in the recent past;
- A narrative on material events affecting the institution during the last one year.

This information requirement does not in any way affect the returns banks are currently required to make to the Bank of Zambia for Off-site monitoring. These will continue to be submitted as usual.

The on-site officers will be collecting information as at 31 December 1998 during the month of January. There after the information will be collected on a need basis in order to up date the institutional overview. The inspections will commence after the institutional overviews for each bank have been completed. Please accord our officers your usual co-operation.

You may contact the Director, Financial System Supervision for any clarification.

Yours faithfully



Dr Abraham Mwenda
DEPUTY GOVERNOR – OPERATIONS