



BANK OF ZAMBIA

OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

April 29, 2003

CB Circular No. 05/2003

To : All Commercial Banks

BANK OF ZAMBIA MEASURES ON UNPAID CHEQUES

Background

Further to CB Circular No.13/2002 dated 19 September 2002, and closure of the pilot exercise, which lasted three months, i.e. from 1 November 2002 to 31 January 2003, the Bank of Zambia is hereby prescribing new measures on unpaid cheques.

Measures

To minimise the incidence of unpaid cheques, the Bank of Zambia prescribes revised measures on unpaid cheques as indicated below.

At a minimum, every bank is required to put in place the following:

1. Customer Acceptance Policies, Practices and Control Procedures

Every bank should improve its customer due diligence process through tighter "cheque book customer" acceptance and identification practices.

Every bank providing chequing accounts must have a well-articulated customer acceptance policy as part of its customer due diligence and risk management strategy that is commensurate to its size and complexity of operations. At a minimum this strategy must include:

- a) A systematic procedure for identifying new customers and the appropriateness of the product or service offered by the bank to each customer or category of customers;

- b) Adequate management information system to provide managers, auditors and compliance officers with timely information needed to identify, analyse and effectively monitor customer chequing accounts; and
- c) Adequate measures to receive, keep and make reference to all advice from other banks on bad, withdrawn cheque facility or closed accounts. For corporate customers, particular attention should be given to the owners and the authorised signatories (controllers) of the account(s).

Such policies should not be so restrictive as to result in denial of access to banking services to the general public, especially for people who are financially or socially disadvantaged but need to get some form of banking service like receipt of salaries.

2. Prudential Chequing Account Relationship Management

Every bank should identify and advise any customer that is not reasonably expected to comply with its customer acceptance policy on chequing accounts and offer alternative and appropriate products and services, which do not require a cheque book. At a minimum, every bank is expected to comply with the following:

a) Personal Customers

Every bank must withdraw cheque books from any personal customer who issues cheques three times a year that are subsequently returned unpaid (marked "Refer to Drawer") on account of insufficient funds. All banks must be advised of the action taken as soon as this is done.

b) Non-personal customers

Every bank must withdraw cheque books from any non-personal customer who issues cheques that are subsequently returned unpaid (marked "Refer to Drawer") on account of insufficient funds on three incidences per year (where each incidence refers to a day's transactions), at the most. All banks must be advised of the action taken as soon as this is done.

Every bank must take due care to establish the identity of the account controller(s), particularly in the case of accounts held on behalf of minors, trusts, nominees, associations or companies.

For purposes of these measures, "*withdraw of cheque book*" refers to the bank taking every reasonable step to ensure collection of all unused cheques from the customer. Where a bank has taken reasonable steps to collect unused cheques and the customer has failed to comply, the bank should close the account.

3. Standard minimum charge for all cheques returned unpaid on account of insufficient funds

Banks must continue with the minimum three hundred thousand kwacha (K300,000) charge applicable to all unpaid cheques on account of insufficient funds.

4. Effects not cleared

The practice and use of “**Effects Not Cleared**” is considered to be unsound and unsafe banking practice. Therefore, it is henceforth removed from the standard answers in the Zambia Electronic Clearing House Rules and any other rules or arrangements.

All cheques drawn on insufficiently funded accounts (without cleared balances) must be returned unpaid with the answer “Refer to Drawer” and appropriate action taken.

5. Notice to customers

These measures must be clearly communicated to all customers in simple and plain language by every bank and every bank should also display a warning in a conspicuous area of every branch to the effect that:

- a. Any customer bouncing a cheque will be subject to a stipulated financial penalty;
- b. The bank will close the account of any customer in the habit (three times) of issuing such cheques; and
- c. Once such an account is closed, the bank will notify all other banks in Zambia of the customer’s improper conduct.

6. Maintenance of Records

Every bank should maintain records on unpaid cheques as set out in attached **Schedules I and II**.

These records shall be subject to routine Bank of Zambia, Bank Supervision Department inspections. The records shall provide a basis for ascertaining the effectiveness of that particular bank’s customer acceptance policies, practices and control procedures.

7. Submission of Returns

Every bank shall submit to the Bank of Zambia (Payment Systems Division) a monthly return of all “Refer to Drawer” unpaid cheques within ten business days following the reference month, in the form set out in the attached **Schedule III**.

8. Penalties

Any bank that fails to comply with these measures shall incur a penalty of three million kwacha (K3,000,000). In addition, a penalty of one hundred thousand kwacha (K100,000) per return will be incurred for each day that the return is delayed or an incorrect return remains outstanding.

Notwithstanding the above, the Bank of Zambia may prescribe additional disciplinary measures.

9. Effective Date

These measures become effective immediately. Therefore, the first returns will be submitted to the Bank of Zambia in May 2003.

However, for purposes of these measures, the first year (i.e. 2003) shall run for eight months, while subsequent years (2004 and beyond) will run for twelve months (1 January to December 31).

This circular supersedes CB Circular 13/2002 dated 19 September 2002 and the pilot run is terminated.

Please bring the contents of this circular to the attention of all your customers.



Denny H Kalyalya (Dr)
DEPUTY GOVERNOR - OPERATIONS

Attach/

Schedule 1 – Government Accounts (Not to be submitted to Bank of Zambia. To be used to maintain internal records by every bank with immediate effect)

Government Accounts Cheques Returned Unpaid – Paying Bank

Name of Paying Bank/Branch: _____

For the month ended: _____

Serial No	Date	Drawer		Account No.		Amount			Payee			Times This Year	Times Last Year	Account Status	
		Name	Name	Name	No.				Name	Bank	Branch				
1															
2															
3															
4															
...															
...															
...															
...															
Total															

Authorised Signatory: _____

Authorised Signatory: _____

Date: _____

Date: _____

Schedule II – Non-Government Accounts (Not to be submitted to Bank of Zambia. To be used to maintain internal records by every bank with immediate effect)

Non-Government Accounts Cheques Returned Unpaid – Paying Bank

Name of Paying Bank/Branch: _____

For the month ended: _____

Serial No	Date	Drawer	Account No.		Amount	Payee			Times This Year	Times Last Year	Account Status
			Name			Name	Bank	Branch			
1											
2											
3											
4											
...											
...											
...											
...											
Total											

Authorised Signatory: _____

Authorised Signatory: _____

Date: _____

Date: _____

Schedule III – Cheques Returned Unpaid Summary Statistics

(To be submitted to Bank of Zambia within ten business days following the reference month)

Summary of Cheques Returned Unpaid – Paying Bank

Name of Paying Bank: _____

For the month ended: _____

	Number of Unpaid Cheques	Value (K)
Government Accounts		
Non-Government Accounts		

Chief Executive Officer : _____ Date: _____

Chief Compliance Officer _____ Date: _____