



BANK of ZAMBIA

OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

October 10, 2008

CB Circular No: 08/2008

To : All Commercial Banks

RISK MANAGEMENT GUIDELINES

Background

The Bank of Zambia has revised and enhanced its risk-based supervision approach in fulfilling its mandate of regulating and supervising banks in order to ensure and promote a safe and sound financial system. The enhancement of the risk-based supervision has been necessitated by global developments in the financial sector, such as, advancement in technology, financial innovations, and increased competition which results in rapid and substantial changes in the risk profiles of most financial institutions. Another challenge that has necessitated the enhancement of the risk-based supervision approach is the New Capital Accord (Basel II), which calls for strong risk management frameworks in financial institutions.

Enhanced Approach to Risk Based-Supervision

A risk-based approach to supervision seeks to enhance interaction with banks, giving an opportunity to supervisors to better understand and monitor banks' activities, the inherent risks in those activities and the effectiveness of the risk management systems, on a continuous basis. This facilitates a prompt and timely response to emerging problems. The enhanced risk-based approach to supervision will, therefore, involve a lot more contact and interaction with management of the banks, with particular focus on validating management's ability to identify, measure, monitor and manage risk.

As part of the enhancement process of the risk-based approach to supervision, the Bank of Zambia has issued these guidelines to serve as a guide for banks in their design, implementation and up-date of risk management systems.

These guidelines are to be treated as the barest minimum in the range of measures/instruments banks should have to guide their operations.

Effective Date

This circular supercedes CB Circulars No. 1/99 and 2/2000 and takes effect immediately.

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