



**BANK OF ZAMBIA**  
**OFFICE OF THE DEPUTY GOVERNOR – OPERATIONS**

19 September 2002

CB Circular: No. 13/2002

**TO: ALL COMMERCIAL BANKS**

**BANK OF ZAMBIA DIRECTIVES ON UNPAID CHEQUES**

**Background**

The Bank of Zambia has observed with concern that despite the many measures that have been taken to make the National Payment System secure and efficient, the number of cheques drawn against insufficiently funded accounts have remained unacceptably high.

The result of this has been loss of confidence in the cheque as a reliable means of settlement and dependence on the use of cash, at a considerable cost to the nation.

**Purpose**

The Bank of Zambia therefore directs every bank to put in place measures aimed to ensure that the incidence of unpaid cheques is kept to a minimum.

At a minimum, the measures put in place by banks should provide for but not be limited to the following:

**1. Opening of accounts**

Every bank must take reasonable care to ascertain the integrity of customers before allowing them access to the banking system. The account opening procedures must be tightened as it is at this point that potential abusers of the system are controlled.

**2. Chequing accounts**

Every bank must provide chequing accounts to customers after a prudent evaluation and determination of the appropriateness of the account to the customer and the ability of the account holder to manage a chequing account.

However, the evaluation must not be so restrictive that it results in a denial of the general public access to banking services by the bank, especially for people who are financially or socially disadvantaged but need to get some form of banking service like receipt of salaries.

### **3. Closing of accounts**

Every bank must close the chequing account of any customer who issues cheques that are subsequently returned unpaid (marked "Refer to Drawer") on account of insufficient funds three times within a calendar year, at the most.

In the event of closing accounts held on behalf of minors, trusts, nominees, associations or companies, particular attention/care must be taken to establish the identity of account controllers who actually sign on those accounts.

Immediately after closing an account, the bank must do all that is reasonable to retrieve all unused cheques from the customer and ensure that there is an orderly wind down of that particular account.

Notwithstanding the above, a bank may suggest alternative or other appropriate products and services it offers that may suite the customer with minimal possibility of introducing risk to the Payment System.

### **4. Standard minimum charge for all cheques returned unpaid on account of insufficient funds**

The banking industry must come up with and agree a minimum charge that will be applicable to all unpaid cheques on account of insufficient funds. This charge must be punitive enough to deter the drawers of cheques from the practice, and should be applicable to all other debit pull payment instruments.

### **5. Uncleared Effects**

All cheques drawn on insufficiently funded accounts (including inadequate cleared balances) must be returned unpaid with the answer "Refer to Drawer" and appropriate action taken. The standard answer of "Effects Not Cleared" in the Zambia Electronic Clearing House Rules and any other rules or arrangements should therefore be removed with immediate effect.

### **6. Notice to customers**

The above measures must be clearly communicated to all customers in simple and plain language before they become effective.

## **7. Submission of Returns**

Every bank must submit to the Bank of Zambia 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 schedules. A paying bank shall submit details of all cheques unpaid on *Schedule I*, while a collecting bank shall submit details of all cheques returned unpaid on *Schedule II*.

The Bank of Zambia further wishes to advise banks of the following additional measures that shall be put in place:

### **I. On-site Inspections**

The Bank of Zambia will from time to time conduct routine inspections in order to ensure compliance with these directives.

### **II. Penalties**

Any bank that fails to comply with the directive to close an account as specified in 3 (Closing of Accounts) will incur a penalty of K3,000,000.00 per account.

In addition, a penalty of K100,000.00 per return will be incurred for each day that the return is delayed or an incorrect return remains outstanding.

### **Effective Date**

In order to allow banks sufficient time to adequately notify their customers of these directives and to update their internal practices, reporting systems and control procedures, these directives shall become effective on 1 November 2002. The penalties for non-compliance also take effect on 1 November 2002.

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



**Dr Abraham Mwenda**  
**DEPUTY GOVERNOR - OPERATIONS**



# Schedule I

## Cheques Returned Unpaid – Paying Bank

Name of Bank: \_\_\_\_\_

For the month ended: \_\_\_\_\_

Date	Drawer			Amount	Payee			Times This Year	Times Last Year	Account Status
	Name	Branch	Account Number		Name	Bank	Branch			

Chief Executive Officer: \_\_\_\_\_  
Date: \_\_\_\_\_

Chief Financial/Compliance Officer: \_\_\_\_\_  
Date: \_\_\_\_\_

Date = date when the cheque is unpaid by the bank

Times This Year/Times Last Year = the cumulative number of times the drawer has issued a cheque that has subsequently been unpaid due to insufficient funds.

Account Status = Open or Closed

