

GAZETTE NOTICE No. 351 OF 2021

BANK OF ZAMBIA GUIDELINES FOR CONDUCTING REGULATORY SANDBOX, 2021

WHEREAS, the Bank is mandated to regulate the financial sector under the provisions of Article 213 of the Constitution (Amendment Act) No. 2 of 2016, Section 4 of the Bank of Zambia Act, Chapter 360 of the Laws of Zambia as well the provisions of the Banking and Financial Services Act No. 7 of 2017;

WHEREAS, the Bank is also entrusted with the responsibility of regulating, overseeing and maintaining an efficient and safe payment system in Zambia under the provisions of the National Payment Systems Act No. 1 of 2007; and

WHEREAS, it is the intention of the Bank to promote innovation in the regulated sectors under its mandate while protecting the stability and integrity of the financial system.

NOW THEREFORE, in exercise of the powers contained in Sections 38 and 43 of the National Payment Systems Act and Sections 162 and 167 of the Banking and Financial Services Act, the following guidelines are hereby made.

PART I**PRELIMINARY**

- Short title
Application
1. These Guidelines may be cited as the Bank of Zambia Guidelines for conducting Regulatory Sandbox, 2021.
 2. These guidelines shall apply to any person whether already holding a regulatory license issued by the Bank of Zambia or prospective applicant of such a regulatory license seeking to subject a novel product or service to the market using this Regulatory Sandbox.
 3. Participation in the Regulatory Sandbox shall be overseen by the Bank of Zambia but such oversight shall not guarantee a regulatory license being subsequently issued nor guarantee approval of the product by the Bank of Zambia.

PART I**PRELIMINARY**

- Objective
4. These guidelines are aimed at establishing a regulatory framework for the deployment of a variety of innovative products and services and other emerging financial technologies that have the potential to benefit stakeholders and promote financial inclusion.
- Authority of the Bank
5. The guidelines are also aimed at providing an opportunity for the Bank of Zambia to build internal capacity while safeguarding consumer interests.
 6. (a) The Bank of Zambia shall be the regulatory authority for the purpose of giving effect to these Guidelines.
(b) The Bank of Zambia may, subject to such conditions as it may consider necessary, delegate to any person the performance of any of the powers conferred upon it in these Guidelines.
- Interpretation
7. In these Directives, unless the context otherwise requires:
 - “Bank” means the Bank of Zambia established under Article 213 (1) of the Constitution and Section 3 of the Bank of Zambia Act;
 - “Designation” means the authorization granted by the Bank to enable an entity to conduct payment system services in Zambia;
 - “Participant” means a person that has been admitted by the Bank to participate in the Regulatory Sandbox;
 - “Person” includes a company, a partnership, an association and a group of persons acting in concert, whether incorporated or not;
 - “Regulatory Sandbox” means framework set up by the Bank to allow small scale, live testing of payment system innovations and innovations in a controlled environment operating under a special exemption, allowance, or other limited, time-bound exception under the Bank’s supervision.
 - “Regulatory licence” includes any appropriate licence issued or designation by the Bank under any of its lawful mandate.
 - “Test Plan” means a document describing the scope, approach, objectives, resources, and schedule to be used by a Participant in the Regulatory Sandbox.

PART II**REQUIREMENTS FOR AUTHORIZATION TO PARTICIPATE IN THE REGULATORY SANDBOX**

- Eligibility Criteria
8. Only products and services which meet the following eligibility criteria shall be considered in the Regulatory Sandbox:
 - (1) The product or service must be ready for live testing;
 - (2) The product or service must be a genuine innovation or be markedly different from what is being offered by other players on the market;
 - (3) The applicant must show cause why the normal licensing or authorization requirements should not be applied for the product or service;
 - (4) The applicant must stipulate which regulations should not be applicable or should be relaxed and why;
 - (5) The applicant must have clearly defined deliverables and/or key performance indicators to measure the outcome;

- (6) The product or service must be of benefit to consumers and must promote financial inclusion;
- (7) The product or service, if implemented would bring more convenient, safer and cheaper financial services or other identifiable benefits to consumers;
- (8) The applicant should beforehand identify the potential risks that may arise from the testing of the product or service and must propose appropriate safeguards to address the identified risks;
- (9) The applicant must have an exit strategy; and
- (10) The Bank may require the applicant to meet any other criteria that would be deemed necessary.
- Application to participate in the Regulatory Sandbox
9. (1) Any person intending to participate in the Regulatory Sandbox shall apply to the Bank for authorization. The application shall be addressed to Director – Banking, Currency and Payment Systems:
- (2) The application shall be in the form of the attached Application Form A1 below; and
- (3) The application shall be accompanied by such authorization fee as determined by the Bank.
- (4) Where the participant does not already have a regulatory license, the application form shall be accompanied by the following –
- (i) Certified copies of the Certificate of Incorporation;
- (ii) Detailed Curriculum Vitae of each of the significant Shareholders, Directors and senior management;
- (iii) Directors questionnaires for significant shareholders, Directors and senior management;
- (iv) Vital Statistics forms for each of the significant Shareholders, Directors and senior management;
- (v) Where a significant shareholder, senior manager or Director is a non-Zambian, results of security screening from their country of origin;
- (vi) Any other information that the Bank may require.
- (5) The Bank shall determine an application for participation in the Regulatory Sandbox within a period of 30 days from the date of receipt of a duly completed application.
- Authorization letter
10. (1) Where the Bank is satisfied that the applicant has met the requirements for admission into the Regulatory Sandbox, the Bank shall approve the application.
- (2) The Bank shall, where an application is approved, issue the applicant with an authorization letter.
- (3) An authorization letter may be issued subject to such terms and conditions including scope (geographical, client reach, etc.) as the Bank may impose.
- (4) An authorization letter shall only allow a successful applicant to participate in the Regulatory Sandbox for a maximum period of one year.
- (5) Notwithstanding 10(4) above, a Participant may apply to the Bank for an extension of the duration of its participation in the Regulatory Sandbox.
- (6) The Bank may approve an application for extension of the duration of an entity's participation in the Regulatory Sandbox, if it is satisfied with reasons given by the Participant. However, any such extension shall not result in a Participant taking part in the Regulatory Sandbox for a cumulative period exceeding two years consecutively.
- Test Plan
11. (1) An applicant shall submit to the Bank, as part of their application, a test plan, containing the following information:
- (i) The key objectives of the test;
- (ii) Selection of appropriate customers for the test;
- (iii) Scope of the test (e.g. size of the target market, geographical area, transaction volumes and values,);
- (iv) Test period which shall not exceed one year; and
- (v) Safeguards for customers especially in the event of failure;
- (2) The Bank may require adjustments to the test plan.
- Risk management
12. (1) Participants shall be required to implement a risk management framework that addresses various risks such as Anti-Money Laundering and Counter Terrorist Financing risk, operational risk, credit risk and liquidity risk associated with the proposed product or service under the Regulatory Sandbox.
- (2) All potential risks associated with Regulatory Sandbox and the related products services should be clearly and adequately communicated to customers, and their consent for participation obtained.
- Participant's liability for participation
13. Participation in the Regulatory Sandbox does not limit the liability of the Participant to customers and does not provide any legal waivers. Any customer or business risk relating to products and services offered under the Regulatory Sandbox shall be borne by the Participant, and not the Bank.
- Exit from the Regulatory Sandbox
14. (1) A Participant may exit the Regulatory Sandbox successfully by obtaining a relevant license or unsuccessfully through a failed test/ early withdrawal.
- (2) The Bank may at any time require a Participant to exit the Regulatory Sandbox if the Participant fails to

comply with the requirements or conditions prescribed by the Bank or where the risk of continuing has potential to cause harm to customers or the payment systems environment. Where the Bank requires a Participant to exit the Regulatory Sandbox, it shall state its reasons for the decision, in writing to the Participant.

Reporting
Requirements

- (3) Exit from the Regulatory Sandbox shall not relieve a Participant of its obligations entered into during its participation in the Regulatory Sandbox.
15. (1) A Participant shall submit a report to the Bank on the results of the test.
- (2) The contents and frequency of the reports shall be determined by the Bank on a case by case basis but unless stated otherwise shall be monthly.
- (3) The reports shall include information such as progress on milestones, key findings and risk management.
- (4) After completion of the Regulatory Sandbox, Participants shall be required to submit a final written report to the Bank on the results of the test.
- (5) The Bank may publish results of the Regulatory Sandbox to the public.

F. CHIPIMO (PHD),
Deputy Governor - Operations

LUSAKA

26th March, 2021

APPLICATION FORM (FORM A1)

PART A

BUSINESS/CONTACT DETAILS

Name of Applicant (Corporate Name): :	
Business Address:	
Name of Main Contact Person:	
Contact Number:	
Email Address:	
Description of the entity and its financial status:	
Sector of Business or Main Business Activity (tick appropriately):	<input type="checkbox"/> Financial Service Provider <input type="checkbox"/> Payment Service Provider <input type="checkbox"/> FinTech <input type="checkbox"/> Other (specify: _____)
Business Website URL:	

PART B

ELIGIBILITY OF APPLICATION

Is the product or service a genuine innovation?	
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Is the product or service ready for live testing?

Is there a test plan in place? Give a summary of the test plan

What are the key deliverables/ Key Performance Indicators of the test?

What benefit will the product or service provide to the ecosystem, the consumers and other stakeholders?

How will the product or service promote financial inclusion?

Identify potential risks to be faced and state the safeguards that will be implemented? This should be in the form of a risk management framework for management of risks, including Anti-Money Laundering and Counter Terrorist Financing risk, operational risk, credit risk and liquidity risk associated with the proposed products and services.

Are agreements with key stakeholders relating to the novel product or service in place?

What is the exit strategy?

PART C

TEST PLAN

What are the key objectives of the test?

State the target market?

What is the scope (e.g. size of the target market, geographical area, transaction volumes and values, etc.) of the test?

What is the test period? The test period shall not exceed one year.

What safeguards will be put in place to safeguard customers especially in the event of a failed test?

PART D

This part is to be filled in where the participant does not already have a regulatory license issued by the Bank of Zambia.

SHAREHOLDING

Name	Shareholding	Contact details	Signature

BOARD OF DIRECTORS

Name	Contact details	Signature

MANAGEMENT

Name	Position	Qualification	Contact details	Signature

Notes:

Applicants who do not already have a regulatory license issued by the Bank of Zambia should attach:

- (a) (a) Certified copies of the Certificate of Incorporation;
- (b) Detailed Curriculum Vitae of each of the significant Shareholders, Directors and senior management;
- (c) Directors questionnaires for significant shareholders, Directors and senior management;
- (d) Vital Statistics forms for each of the significant Shareholders, Directors and senior management;
- (e) Where a significant shareholder, senior manager or Director is a non-Zambian, results of security screening from their country of origin;

Name (Chief Executive Officer of applicant):

Signature:

Date:

