

Bank of Zambia

REQUIREMENTS FOR DESIGNATING A PAYMENT SYSTEM

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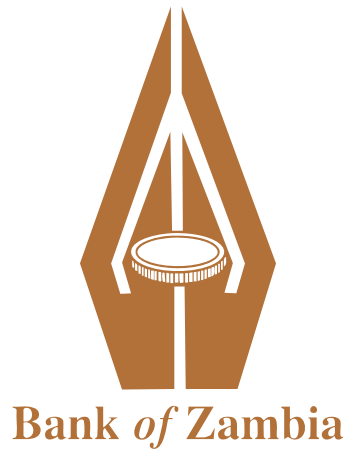
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REQUIREMENTS FOR DESIGNATION OF A PAYMENT SYSTEM

The National Payment System Act 1 2007 (NPSA) defines a Payment System as ‘a clearing and settlement system operating under clearing house rules.’

Section 5 (1) of the NPSA stipulates that ‘The Bank of Zambia shall regulate and oversee the operations of payment systems in order to ensure the integrity, effectiveness, efficiency, competitiveness and security of the payment system so as to promote the stability and safety of the Zambian financial system’.

Section 5 (2) further stipulates that ‘the Bank of Zambia may, for the effective performance of its functions, under subsection (1), designate a particular payment system or such other payment systems as it considers necessary for the purpose of this Act.’

The NPSA in Section 6 indicates that ‘The Bank of Zambia shall prescribe the requirements to be complied with by an applicant who intends to operate a payment system that is to be designated under the Act.’ The Act also provides under Section 7 (1) that any person who intends to operate a payment system shall apply to the Bank of Zambia in the prescribed manner and form.

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Bank of Zambia

1. APPLICATION REQUIREMENTS

1.1. Stage 1: Pre-engagement for product understanding

- 1.1.1. Prospective applicants to contact the Bank of Zambia's Payment Systems Department to arrange a preliminary meeting to:
 - a. Discuss licensing requirements; and
 - b. Introduce the proposed product proposition. (Applicant to make PowerPoint presentation on proposed product description, process flows, system architecture, integration, security measures, settlement processes, cybersecurity measures and any other relevant information); and
- 1.1.2. Enquiries and pre-engagement arrangements should be sent to psd@boz.zm

1.2. Stage 2: Name Clearance

- 1.2.1. Any Applicant that intends to offer or conduct payment system business shall be required to check for the suitability of the proposed company name and or product name with the Bank. The Applicant shall submit the proposed name of the company and where applicable, the name of the product for clearance.
- 1.2.2. The proposed name shall:
 - 1.2.2.1. Suggests that the company shall be offering payment services;
 - 1.2.2.2. Is not identical with that of another payment service provider;
 - 1.2.2.3. Does not resemble the name of another payment service provider in a way that the proposed company name can deceive the public; and
 - 1.2.2.4. Is not considered inappropriate by the Bank.
- 1.2.3. The applicant shall submit three names for the company or product in order of preference. The Name Clearance application should be addressed to:

Director – Payment Systems
Bank of Zambia
Bank Square
Cairo Road
P. O. Box 30080
Lusaka
ZAMBIA

- 1.2.4. Once the name is cleared, the applicant intending to operate payment system services shall proceed to register the entity with the Patents and Companies Registration Agency (PACRA). Should the company already be registered with PACRA, the name will be considered in line with the procedures for name clearance and if the name is acceptable, the applicant can proceed to submit an application for licensing. Where the company name registered at PACRA is not acceptable to the Bank, the applicant will be guided to perform a name change at PACRA with a Bank approved name.

An approved name shall be valid for a period of six (6) months subject to submission of an application for licensing. However, an applicant may request for an extension of the approval prior to its expiration.

1.3. Stage 3: Submission of Application

- 1.3.1. The applicant who proposes to operate a payment system shall fill in an application form, which can be obtained from the Bank of Zambia website (<https://www.boz.zm/designation->

of-payment-systems.htm). An application made for designation as a payment system shall be accompanied by documentation and will include information as may be prescribed by the Bank of Zambia.

1.3.2. The Application should be addressed to:

Deputy Governor
Bank of Zambia
Bank Square
Cairo Road
P. O. Box 30080
Lusaka
ZAMBIA

1.4. Documentation for the Application

The documentation and information shall include but not limited to the following:

- 1.4.1. The legal name, trade name or any name to be used by the applicant in conducting its business and business address of the applicant;
- 1.4.2. Address of the head office of the applicant including all branches at which it intends to conduct business;
- 1.4.3. Certified copies of its Articles of Association and Certificate of Incorporation of the company from PACRA;
- 1.4.4. The name and address of the applicant's auditors, who shall be registered under the Zambia Institute of Chartered Accountants (ZICA);
- 1.4.5. The names and addresses of the applicant's bankers in Zambia;
- 1.4.6. A detailed description of the system/platform and its operations. This should include but not limited to:
 - a. Diagrammatic presentation of the System architecture;
 - b. Consumer on-boarding process including Customer Due Diligence (CDD) procedures supported with process flow diagrams;
 - c. Settlement process supported with process flow diagrams; and
 - d. Integration of the system with other third-party support systems (i.e. electronic money issuers, banks and other technology providers where applicable).
- 1.4.7. Detailed description of the security features of the system including user access control mechanisms, data encryption in transit and at rest, firewalls, physical security, database and records management among others;
- 1.4.8. Details of the proposed product pricing and fee structure for the services to be offered;
- 1.4.9. Business plan with three year projected financial statements which demonstrate that the applicant is able to employ appropriate and proportionate systems, resources and procedures to operate as a viable entity. Further, the business plan must contain the projected volumes and values of transactions and the expected customer base over a three-year period. The projected financials should clearly highlight the underlying assumptions and include notes to support the projections. The financial projections should be denominated in Zambian Kwacha;
- 1.4.10. Evidence that the applicant holds initial capital, the sources of funds and state the amount to be invested as capital:
 - a. The evidence of the capital in the form of cash should be reflected in a bank statement or any other relevant traceable documentation of a licensed bank or financial institution indicating the isolated funds;
 - b. The documentation above may be in the name of the company, the promoters or shareholders of the company;

- c. The evidence should be confirmed by a certified auditor or legal practitioner or confirmed by the licensed bank or financial institution in which the funds are held;
 - d. The Bank of Zambia shall verify the authenticity of the bank statement directly from the licensed bank or financial institution.
- 1.4.11. A description of the internal control mechanisms which the applicant has established in order to comply with the Bank of Zambia Anti Money Laundering Directives and the Financial Intelligence Centre Act;
 - 1.4.12. A description of the applicant's organisational structure, including, where applicable, a description of the intended use of branches and a description of outsourcing arrangements and of its participation in a national or international payment system;
 - 1.4.13. Policies and procedures for transacting with a customer; and
 - 1.4.14. A description of the measures implemented for safeguarding funds for money transmission services, the arrangements the applicant has set up with a view of taking all reasonable steps to protect the interests of its payment system business users and to ensure continuity and reliability in the performance of the payment system.

1.5. Governance Structure

- 1.5.1. An applicant shall describe the governance arrangements and internal control mechanisms of the entity, which demonstrates that such arrangements, mechanisms and procedures are proportionate, appropriate, sound and adequate to ensure the safety and efficiency of the payment services.
- 1.5.2. The applicant shall conduct due diligence in relation to the appointment of directors who shall be appropriately skilled and experienced to execute their responsibilities. The role of the directors shall include but not limited to monitoring and overseeing the implementation of the strategic objectives, management of risk, financial performance, good governance practices and corporate values, and culture and compliance of the entity with all relevant regulatory requirements.
- 1.5.3. The applicant shall provide details of direct or indirect shareholding of the entity. This shall include the name of ultimate beneficial owners (shareholders) and number of shares held by each shareholder; evidence of their suitability taking into account the need to ensure the sound and prudent management of a payment system.
- 1.5.4. The applicant shall provide details and identity of board of directors, which board shall comply with the following requirements:
 - a. The entity shall have a minimum of three (3) board members. The Bank reserves the right to prescribe a higher number of board members;
 - b. The majority of appointed directors shall be held in the non-executive capacity; and
 - c. Majority of the number of appointed directors shall be resident in Zambia.
- 1.5.5. The applicant shall provide details of senior management of the entity who will be responsible for the management of the payment system. Senior management officers of the entity shall at the minimum include the following positions:
 - a. Chief Executive Officer
 - b. Chief Financial Officer
 - c. Chief Compliance Officer
 - d. Chief Information Technology Officer

An officer of the payment service provider shall not hold more than one position at any particular time. The applicant shall provide evidence that the officers selected to hold the senior management positions possess the appropriate knowledge and experience to effectively undertake the functions in their respective roles. The applicant must provide evidence of senior management staff taking into account the need to ensure the sound and prudent management of a payment system.

The officers of an applicant shall be engaged in compliance with the Employment Act and other relevant labour laws.

- 1.5.6. Where the proposed officer is an expatriate, part of the fit and proper test will require the applicant to fulfil all the applicable immigration requirements before their appointment. The Bank will require an applicant to submit for consideration a certified permit issued by the Zambian Department of Immigration.
- 1.5.7. The applicant shall submit certified photocopies of identity document (i.e. Zambian National Registration Card or the first four pages of the passport) for all significant shareholders, Directors' and senior management.
- 1.5.8. Where the ultimate beneficial shareholder, director or senior management officer is not Zambian, the applicant shall provide security screening results from the country of origin or residence. In the case of the senior management officers, the applicant shall provide certified copies of immigration and non-resident work permit.
- 1.5.9. The applicant shall submit a Director's Questionnaire for its significant shareholders, directors and senior management officers in the format prescribed by the Bank of Zambia.
- 1.5.10. The applicant shall submit detailed curriculum vitae with three (3) traceable references including reachable phone number for each of the significant Shareholders, Directors and senior management.
- 1.5.11. The applicant shall submit duly completed vital statistics form for significant Shareholders, Directors and senior management in a format prescribed by the Bank of Zambia.
- 1.5.12. A person shall not be a director of more than one payment system without prior written approval of the Bank of Zambia.
- 1.5.13. Where the applicant is an established business, the applicant shall submit audited financial statements for the previous two years.
- 1.5.14. The applicant shall submit a list of countries in which it is licensed to provide payment services together with accompanying copies of licences.
- 1.5.15. Where applicable, the applicant shall submit details of any regulatory sanctions such as license/designation revocations, suspensions, or other disciplinary action taken against the applicant in Zambia and in other countries.
- 1.5.16. The applicant shall provide information concerning any bankruptcy or receivership proceedings affecting the applicant.
- 1.5.17. The applicant must satisfy the Bank of Zambia that:
 - a. Any persons holding shares in it are fit and proper persons having regard to the need to ensure the sound and prudent conduct of the affairs of a designated payment system;
 - b. The directors and persons responsible for the management of payment system are of good repute and possess appropriate knowledge and experience to provide payment system services;
 - c. It has taken adequate measures for the purpose of safeguarding customer funds;
 - d. It has procedures in place to prevent potential conflict of interest arising in the conduct of different types of activities; and
 - e. International payment systems should submit details of the supervisory authority in the country of origin.
- 1.5.18. Any other information the Bank of Zambia may require.

1.6. Legal Basis

- 1.6.1. The application shall be submitted in line with the requirements of the National Payment Systems Act. An entity applying for a payment system license and intends to partner with other third parties shall submit the following documents where applicable:
 - a. Draft agreements with all third-party technology providers including relevant service level

- agreements (SLAs);
- b. Draft agreement with other financial service providers (FSPs) or payment service providers (PSPs);
- c. Draft Merchant agreements that will integrate into the system;
- d. Draft agreements with settlement agents i.e. commercial banks and/or electronic money issuers;
- e. Payment System Rules including failure to settle arrangements; and
- f. Any other relevant agreements or contracts pertaining to provision of the proposed payment services.

1.7. Risk Management Framework

- 1.7.1. Any person who proposes to operate a payment system shall put in place a comprehensive risk management framework, which shall be submitted to the Bank of Zambia. The risk management framework shall at a minimum address the following risks, among others:
 - a. Cybersecurity risk;
 - b. Operational risk;
 - c. Credit risk;
 - d. Liquidity risk;
 - e. Money Laundering/ Terrorism Financing and Proliferation risk.
- 1.7.2. The applicant shall be required to undertake a detailed risk assessment to identify key risk pertaining to its operations and proposed payment services and provide mitigation measures in terms of policies, controls, product and infrastructure design to address identified risks.
- 1.7.3. As part of its risk management processes, the applicant shall be required to develop appropriate organizational policies to manage different types of risks. These shall include the following policies;
 - a. Information and Cyber Security;
 - b. Anti-money laundering and countering the financing of terrorism (AML/CFT);
 - c. Business Continuity Management Plan;
 - d. Complaints Handling and Resolution; and
 - e. Any other policy that the Bank may require from the applicant.

1.8. Disaster Recovery Plan

- 1.8.1. An applicant who proposes to operate a payment system shall submit to the Bank of Zambia a framework for business continuity management. The framework should, among other things, clearly state the Recovery Time Objective (RTO) and Recovery Point Objective (RPO).

1.9. Anti-money Laundering

- 1.9.1. The applicant must satisfy the Bank of Zambia that it has Know Your Customer (KYC) and client verification procedures in place that ensure the payment system exercises care and caution and avoids entering into transactions, that may involve or facilitate money laundering and terrorist or proliferation financing; and
- 1.9.2. The applicant must ensure that it complies with all applicable Anti-money Laundering regulations or directives and that its employees and/or Agents receive appropriate training to enable them to operate the payment services in line with Anti-money Laundering regulation/ directives.

I PART II

2. APPLICANTS LICENSED UNDER THE BANKING & FINANCIAL SERVICES ACT

2.1. Requirements

- 2.1.1. For applicants that are licensed under the Banking and Financial Services Act (BFSA) the following will be required:
- a. A copy of the license obtained from the Bank of Zambia;
 - b. Detailed business plan for the payment system that will include:
 - i. Detailed description of the payment system;
 - ii. Details of structure and partnerships with draft Agreements;
 - iii. Detailed product pricing and fee structure;
 - iv. Description of the system and the security around it;
 - v. Details of internal controls for the payment system;
 - vi. Details of anti-money laundering procedures;
 - vii. Details of the charges to be levied for transactions;
 - viii. Three year projected audited financial statements;
 - ix. Forecasted volumes and values of transactions and the expected customer base over a three-year period;
 - x. Information and Cyber Security Policy
 - xi. Policy on anti-money laundering and countering of terrorism finance (AML/CFT)
 - xii. Business Continuity Management Plan clearly stating the Recovery Time Objective (RTO) and Recovery Point Objective (RPO); and
 - xiii. Risk management framework to address the risks related to the proposed system including but not limited to Cybersecurity risk, Operational risk, Credit risk, Liquidity risk and other relevant risks;
 - c. Updated list of shareholders, Directors or senior management
 - d. The names and addresses of the applicant's bankers where applicable;
 - e. A description of any payment system services previously provided by the applicant and any other services that the applicant seeks to provide;
 - f. Any license/designation revocations, suspensions, or other disciplinary action taken against the applicant in another Jurisdiction;
 - g. Information concerning any bankruptcy or receivership proceedings affecting the applicant;
 - h. A list of countries in which the applicant is licensed to engage in or provide payment services; and
 - i. Any other information the Bank of Zambia may require with respect to the applicant.

I PART III

3. INFORMATION REQUESTS

3.1. Additional Information the Bank of Zambia may Require

- 3.1.1. The Bank of Zambia may also require the following information in facilitating the designation process of a Payment System:
- a. Any adverse information available on the promoters from the Credit Reference Bureau and law enforcement agencies;
 - b. Details of supervisory authority and regulatory status for a payment system designated in another country;
 - c. Police Clearance from the Zambia Police Service for all Non-Zambian Directors who have

- lived in Zambia for over six months; and
- d. Any other information the Bank of Zambia may require with respect to the applicant.

I PART IV

4. DETERMINATION OF APPLICATION

4.1. Determination

- 4.1.1. The Bank of Zambia shall determine an application for designation for a payment system within a period of ninety (90) days from the date of receipt of the duly completed application. An application shall be deemed complete only after the Bank of Zambia gives written notice to that effect. The Notice of completion shall mean all required documents highlighted in Part I above have been submitted.
- 4.1.2. Where the application submitted is incomplete, the Bank shall request the applicant to collect the application. The applicant shall be required to incorporate any missing information prior to making a re-submission of the application.
- 4.1.3. At any time after receiving an application during its assessment, the Bank of Zambia may require the applicant to provide it with such additional information as it may consider necessary to enable it to determine the application. The applicant will provide the required information within thirty (30) days failure to which the Bank of Zambia may reject the application due to insufficient information.

4.2. Designating an Applicant

- 4.2.1. Where the Bank of Zambia is satisfied that the applicant has met the requirements for designation, the Bank of Zambia shall approve the application for designation.
- 4.2.2. The Bank of Zambia will, where an application is approved and upon payment of the annual designation fee by the applicant, issue the applicant with a designation certificate.
- 4.2.3. The designation certificate authorizes its holder to conduct the payment system at the place or places of business authorized by the Bank of Zambia.
- 4.2.4. A designation certificate may be issued subject to such terms and conditions as the Bank of Zambia may impose in accordance with the National Payment Systems Act and other relevant Regulations.
- 4.2.5. Provided an annual designation fee is paid, a designation certificate shall remain valid until it is revoked or surrendered to the Bank of Zambia.
- 4.2.6. The Bank of Zambia may, before granting designation cause an inspection of the place proposed for the business to be conducted. Further, the Bank of Zambia reserves every right to inspect the premises after designation has been granted.

I PART V

5. WITHDRAWAL OF APPLICATION

5.1. Withdrawal

- 5.1.1. The applicant may withdraw its application, by giving the Bank of Zambia notice, at any time before the Bank of Zambia application is determined.

5.2. Declining an Application

- 5.2.1. The Bank may decline an application where the applicant fails to meet the requirements for designation or where the Bank deems it necessary not to grant designation.
- 5.2.2. If the Bank of Zambia decides to reject the application or to impose a requirement, the applicant may appeal against the decision in accordance with Section forty-one of the National Payment Systems Act 01 of 2007.

6. CONTACT DETAILS

Further queries relating to requirements, application for and conducting of a designated payment system should be addressed to:

Director - Payment Systems
Bank of Zambia
Bank Square
Cairo Road
P. O. Box 30080
Lusaka
ZAMBIA

Telephone +260- 211-399300
e-mail – psd@boz.zm

Information on the requirements for designation of a payment system is also available on the Bank of Zambia website: www.boz.zm



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