



**BANK of ZAMBIA**

**OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS**

BOZ/EXEC/DGO/bcps/bp

January 15, 2020

CB Circular No. : 03/2020

To : All Heads of Commercial Banks

**UPGRADE OF THE REAL TIME GROSS SETTLEMENT AND CENTRAL SECURITIES DEPOSITORY SYSTEMS**

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The Real Time Gross Settlement System (RTGS), namely the Zambia Interbank Payment and Settlement System (ZIPSS), and the Central Securities Depository (CSD) system, are key financial market infrastructures for the Zambian payment systems which the Bank of Zambia (BoZ) has categorized as systemically important. A systemically important system, is a system whose failure has the potential to disrupt the financial system and the economy as a whole. In view of this, there is need to ensure that the RTGS and the CSD systems remain resilient against potential shocks or disruptions and that they are able to respond to market developments in a fast changing technological environment.

The current RTGS and the CSD systems were implemented five years ago in September 2014. Over this period, there have been a number of technological and market developments necessitating the upgrade of the systems. Additionally, the ZIPSS uses the Society for Worldwide Interbank Financial Telecommunications (SWIFT) messaging standards and formats and the SWIFT network for processing interbank payments. SWIFT is used as an internationally accepted best practice and standard for processing of financial transactions both domestically and across borders. The SWIFT is in the process of migrating from the current MT messaging standard to the new ISO 20022, with a deadline of November 2021 for incoming messages and 2025 for full compliance. The ZIPSS will thus need to have capacity to process messages in the new messaging format.

Operational risk on account of cybersecurity has also increased with escalating records of cyber security incidents occurring across the world. It is therefore imperative that capability is built into the operations of the system to safeguard against cyber and other related operational risks. Further, the BoZ is placing emphasis on crisis management and business continuity as a key component of its strategic plan for the period 2020 to 2023, which has financial stability and financial inclusion as its two main pillars. It is also critical that the system has capability to resume business operations within a very tight Recovery Time Objective (RTO) and Recovery Point Objective (RPO) in the event of a contingency event.

In summary, an upgrade of the systems is essential in order to achieve the following important objectives;

1. Migration/compliance with the ISO 20022 (Financial Services – Universal financial industry message scheme) standard for electronic data interchange standards resulting in greater efficiency;

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2. Improving operational resilience that will minimise disruptions in the financial system. The industry shall have increased ability to successfully connect to the business management continuity centres and be able to continue operations normally;
3. Cyber security enhancement that will result in better protection of customer funds;
4. Provision for Straight Through Processing (STP) for government securities transactions thereby enhancing efficiency in processing government securities transactions and increasing participants' confidence in investing in government securities and also in using the ZIPSS;
5. Revising the connectivity model, thereby increasing the choice of internet service providers (ISPs) for the participants which will contribute to higher competition, lower costs and enhanced efficiencies; and
6. Accommodating SWIFT Global payments innovation (GPI) initiatives and other payment use cases thereby introducing faster and more convenient payments.

The risks of not upgrading the RTGS and CSD systems may result in systemic risk that may be transmitted to the financial system and the economy as a whole. Further, failure to adopt the SWIFT ISO 20022 messaging standard would be catastrophic for the market as SWIFT will be decommissioning the current MT messaging standard on which the current RTGS system is anchored.

All institutions that participate in the two systems are hereby required to allocate adequate human and financial resources needed to comply with the systems upgrade requirements. All banks are expected to participate to ensure that preparatory works and implementation are undertaken in good time.

As the changeover process will have a large market impact, it is important that the implementation process is managed in a coordinated manner. To this effect, all commercial banks are required to assess all systems and determine how they will be impacted by the upgrade as well as the implementation of the ISO20022 and take appropriate measures that will ensure a smooth and successful changeover.

In this regard, your bank is requested to nominate three staff from the RTGS and CSD operations and payments as well as Information and Communications Technology to represent the institution on the ZIPSS/CSD upgrade project to be spearheaded by the BoZ.

Kindly submit the details of the nominees to the office of the Director – Banking Currency and Payment Systems no later than Friday, January 17, 2020. Should you need any clarifications, do not hesitate to contact the Director – Banking, Currency and Payment Systems.



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**DEPUTY GOVERNOR – OPERATIONS**

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Deputy Governor – Administration  
Director – Banking, Currency and Payment Systems  
Director – Financial Markets  
Director – Bank Supervision  
Director – Information and Communication Technology  
Director – Strategy and Risk Management  
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