Brief on the Banking and Financial Services Bill, N.A.B. No. 36 of 2025

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Contents

1. Introduction

This Brief provides an analysis of the major reforms introduced by the Banking and Financial Services Bill, N.A.B No. 36 of 2025[1]. If enacted, the Bill will repeal and replace the Banking and Financial Services Act, 2017, as amended. It will also repeal and consolidate the Money-Lenders Act, Cap. 398 into a single modern framework for regulating banking and financial services in Zambia.

The objectives of the Bill are to strengthen financial stability, enhance prudential supervision, modernise crisis management and bank resolution, improve consumer protection, support financial innovation and inclusion, and align Zambia's regulatory framework with international standards.

2. Background of the Financial Services Sector

This section provides an overview of the structure, recent developments, and key vulnerabilities in Zambia's financial services sector that underpin the proposed reforms.

2.1. Structure of the Financial System

Zambia's financial system comprises commercial banks, deposit-taking non-bank financial institutions, and non-deposit taking financial institutions. As of 2024, the country had fifteen (15) licensed commercial banks and ten (10) deposit-taking non-bank financial institutions, consisting of seven (7) microfinance institutions, two (2) building societies, and one (1) savings and credit institution. The non-deposit taking financial institutions segment comprised ninety-nine (99) licensed institutions.[2]

2.2. Recent Developments Requiring Regulatory Intervention

In 2016, the Bank of Zambia took possession of Intermarket Banking Corporation (Intermarket Bank), the first bank failure since 2002. The Bank of Zambia subsequently restructured Intermarket Bank into the Zambia Industrial Commercial Bank (ZICB), which began operations in 2018. In April 2024, the Bank of Zambia took possession of Investrust Bank Plc, citing the

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[1] The Banking and Financial Services Bill,2025 | National Assembly of Zambia

[2] boz.zm/Bank_of_Zambia_2024_Annual_Report.pdf

failure by shareholders to recapitalise the institution and the need to safeguard depositors and financial stability[3]. These interventions highlight persistent weaknesses in capital adequacy and crisis preparedness, reinforcing the case for stronger prudential regulation and resolution tools under the new Bill.

Reports of the Auditor-General highlight governance and financial weaknesses in state-owned financial institutions. For example, the Report of the Auditor-General on Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December 2021 found that the Development Bank of Zambia, where the Government of the Republic of Zambia has majority ownership with 63.5 per cent shareholding, had fifty-six clients with non-performing loans amounting to K1.1 billion, representing about 98 per cent of its total loan portfolio. The report also noted that the Bank's total capital stood at only K136.17 million, far below the regulatory minimum capital requirement of K750 million[4]. Across multiple Parastatal Reports (2020–2024), the Auditor-General has consistently raised concerns relating to delayed audited accounts, weak internal controls, poor debt recovery, and continued losses in public entities. The Bank of Zambia subsequently took possession of the Development Bank of Zambia in July 2023[5].

2.3. Weaknesses in the Legal and Regulatory Framework

The broader financial sector has demonstrated resilience, reflected in strong overall capitalisation and declining non-performing loans. However, important weaknesses persist. The International Monetary Fund's 2017 Financial System Stability Assessment[6] noted gaps in crisis preparedness, including the absence of a fully operational deposit insurance scheme and limited resolution funding mechanisms, which contributed to an overreliance on regulatory tolerance.

Similarly, the IMF Governance Diagnostic Assessment[7] conducted in early 2022 highlighted persistent vulnerabilities in the oversight of the financial sector, particularly in relation to banks

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[3] Investrust_Notice.pdf
[4] ago.gov.zm/wp-content/uploads/2025/03/Parastatal-Report-2021.pdf
[5] Public_Notice_DBZ.pdf
[6] Zambia: Financial Sector Assessment Program: Financial System Stability Assessment: IMF Country Report No. 17/349, September 25, 2017
[7] Zambia:Technical Assistance Report-Diagnostic Report on Governance and Corruption; IMF Country Report No. 23/3; July 2022

and specialised institutions with Government ownership, where risks of political interference and weak enforcement remain elevated.

2.4. Rationale for the Banking and Financial Services Bill, N.A.B. No. 36 of 2025

The Banking and Financial Services Bill, N.A.B. No. 36 of 2025 has been introduced to modernise the legal and supervisory framework, address existing weaknesses, and respond to recommendations from the International Monetary Fund assessments.

Additionally, the Executive has presented to the National Assembly the Zambia Deposit Insurance Corporation Bill, N.A.B. No. 38 of 2025, aimed at establishing a formal deposit insurance scheme to protect depositors in the event of bank failure. Together, the Bills seek to strengthen supervision and resolution capacity, and reinforce confidence and stability in Zambia's financial system.

In comparison with the Banking and Financial Services Act, 2017 and the Money-Lenders Act, Cap. 398, the Bill introduces a more consolidated and comprehensive regulatory approach. Under the previous legal framework, banking institutions and moneylenders were regulated under separate Acts, resulting in fragmented oversight, uneven consumer protection standards, and opportunities for regulatory arbitrage, particularly in the non-bank and digital lending segments.

The Bill addresses these gaps by repealing both Acts and bringing banks, non-bank financial institutions, financial businesses, and moneylenders under a single supervisory framework administered by the Bank of Zambia. This consolidation is intended to enhance consistency in licensing, prudential standards, consumer protection, and enforcement across the financial sector.

3. Salient Provisions of the Banking and Financial Services Bill, N.A.B. No. 36 of 2025

Given that the Bill seeks to repeal and replace the Banking and Financial Services Act, 2017, this Brief only highlights the key reforms and material changes introduced, together with their implications for regulation, supervision, and financial stability.

a) Expanded Licensing Framework (Clause 9)

The Bill expands the categories of financial service licences that may be issued by the Bank of Zambia beyond those provided under the Banking and Financial Services Act, 2017. Under the current Act, the Bank may only issue three types of licences: (a) a banking licence, (b) a financial business licence, and (c) a financial institution licence.

The Bill introduces additional licence categories, including a community banking licence, an alternative financial service licence, a licence to provide virtual financial services or banking services, and any other licence that the Bank of Zambia may determine.

This reform is significant because Zambia's financial sector has evolved considerably, with increased activity in financial technology (fintech), Islamic finance, and digital lending. By explicitly bringing these emerging institutions and services within the licensing framework, the Bill closes regulatory gaps and ensures that financial innovation develops under appropriate oversight. This is expected to strengthen supervision and reduce the risk of unregulated financial activities.

b) Ownership, Control and Beneficial Ownership (Clauses 29–30 and 172)

The Bill significantly strengthens the regulation of ownership and control of financial service providers. Clause 29(1) prohibits any person from acquiring shares or a controlling interest in a financial service provider without the prior approval of the Bank of Zambia. This represents a stricter approach than the Banking and Financial Services Act, 2017, which focuses mainly on significant shareholdings and left potential gaps for indirect or concealed control arrangements.

In addition, the Bill requires financial service providers to maintain registers of beneficial owners under clause 172. Beneficial ownership refers to the natural persons who ultimately own or control an institution, even where shares are held through intermediaries or corporate structures. These requirements align with Financial Action Task Force standards on combating money laundering and terrorist financing. The Task Force recommends that countries ensure "adequate, accurate and up-to-date information on the beneficial ownership and control of legal persons" is available and can be accessed rapidly by competent authorities through a register or similar mechanism.[8]

c) Prudential Capital and Liquidity Requirements (Clauses 59–71)

The Bill strengthens prudential regulation by providing clearer statutory requirements on capital and liquidity. Clauses 59–64 mandate minimum capital levels, capital conservation buffers, countercyclical buffers, and systemic importance buffers. These measures ensure that banks hold additional capital during periods of economic strength so they can absorb losses during downturns.

Clauses 64–66 introduce explicit dividend and capital distribution restrictions. Banks may not pay dividends where this would weaken their regulatory capital position. This is important because distributing profits when capital is low reduces resilience and increases the risk of bank failure.

Clause 71 further embeds modern liquidity standards, such as liquidity coverage ratios and net stable funding ratios, to ensure banks can meet both short-term and long-term obligations.

d) Lending Limits and Macroprudential Tools (Clauses 68–69)

The Bill introduces loan-to-deposit and loan-to-income limits as explicit macroprudential tools, which are not clearly provided for in the Banking and Financial Services Act, 2017. Loan-to-deposit limits restrict excessive lending beyond stable deposit funding, reducing reliance on volatile borrowing. Loan-to-income limits cap loan sizes relative to borrower income, helping to prevent over-indebtedness in consumer credit markets.

The Bill provides the legal authority for these ratios, while the Bank of Zambia will prescribe specific thresholds through subsidiary legislation. This strengthens regulatory capacity to prevent credit booms and systemic risk.

[8] FATF Recommendations 2012.pdf.coredownload.inline.pdf

e) Independent Non-Executive Directors to form Majority of the Board (Clause 44)

Clause 44 of the Bill goes further than the current Act by requiring independent non-executive directors to form the majority of boards. Under the Banking and Financial Services Act, 2017, only non-executive directors are required to constitute the majority. However, non-executive directors may still represent significant shareholder interests or maintain other material relationships with the institution, which may limit impartial oversight.

The OECD Principles of Corporate Governance[9] note that independence is commonly assessed by the absence of relationships with the institution, its management, substantial shareholders, or external auditors, and the absence of remuneration other than directorship fees.

However, while the Bill introduces this requirement, it does not specify the criteria for determining independence. This may create ambiguity in implementation and may require clarification through subsidiary legislation or Bank of Zambia governance guidelines.

f) Environmental, Social and Governance Standards (Clause 53)

Clause 53 introduces environmental, social and governance (ESG) standards. It requires financial service providers to develop and implement policies integrating ESG practices into their operations, and to disclose and report ESG matters to the Bank of Zambia as prescribed. ESG refers to how institutions manage environmental risks (such as climate impacts), social responsibilities, and governance practices. These requirements align with global best practice supported by World Bank and IFC research[10], which emphasises the integration of environmental and social risks into financial regulation and supervision.

g) Modern Bank Resolution and Bail-in Framework (Part XI, Clauses 130–143)

A major reform in the Bill is the introduction of a modern bank resolution framework. Under the Banking and Financial Services Act, 2017, the main approach to dealing with failing banks is liquidation, which can be slow, disruptive, and damaging to financial stability.

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[9] G20/OECD Principles of Corporate Governance 2023 (EN)

[10] IFC ESG Guidebook

The Bill, therefore, establishes the Bank of Zambia as the resolution authority (clause 130) and, under clause 139, provides a range of resolution options. These include restructuring or reorganising the institution, selling it, winding it up, disposing of assets, or transferring all or part of its business to a bridge institution. A bridge institution is a temporary entity established to take over the critical operations of a failing bank in order to maintain essential services while a long-term solution is arranged.

The Bill also introduces purchase and assumption transactions and bail-in powers. Bail-in allows losses to be absorbed by shareholders and certain creditors through the conversion or write-down of their claims, rather than relying on taxpayer-funded bailouts. This strengthens market discipline, reduces fiscal exposure, and helps protect depositors and financial stability.

h) Close-out Netting and Financial Contract Certainty (Clauses 185–186)

The Bill provides explicit protection for contractual netting and close-out netting under clauses 185–186. Close-out netting allows financial counterparties to terminate contracts and net obligations immediately if a bank enters insolvency or resolution. The current Act does not provide clear statutory certainty on netting, creating legal risk in derivatives and interbank markets. By protecting netting arrangements, the Bill, if enacted, will reduce systemic contagion risk and aligns Zambia with international financial market standards.

i) Consumer Protection and Market Conduct (Part X, Clauses 102–116)

The Bill consolidates consumer protection rules in Part X. Clause 102 explicitly mandates the Bank of Zambia to supervise consumer rights. Clause 104 prohibits unfair, deceptive, or abusive practices. Clauses 114–116 address unfair contract terms and strengthen disclosure requirements. Compared to the scattered provisions of the current Act, the Bill provides clearer protections against predatory lending and improves transparency in financial contracts. The implication is greater public confidence and stronger borrower protection.

j) Anti-Money Laundering and Financial Integrity (Part XIII, Clauses 170–171)

Part XIII embeds a risk-based anti-money laundering (AML) and combating the financing of terrorism framework. Banks must assess and manage money laundering risks in their products and operations, while the Bank of Zambia must integrate AML checks into supervision. Under the current Act, AML obligations are largely implied rather than explicit. The Bill, therefore, strengthens enforceability and reduces corruption vulnerabilities.

4. Consolidation of the Money-Lenders Act

The Bill repeals and consolidates the Money-Lenders Act into the broader banking and financial services framework. This is important because micro-lending and digital credit markets have expanded significantly. Consolidation ensures that consumer protection, licensing, and supervision apply consistently across all lenders, reducing fragmentation and regulatory arbitrage.

5. Regulatory Scope and Institutional Arrangements

Under the Bill, the Bank of Zambia remains the sole regulator, with expanded powers over prudential supervision, market conduct, consumer protection, and financial inclusion. While this centralised model promotes coordination and efficiency, it places significant responsibilities within a single authority. The Bill does not establish a separate market conduct regulator or an independent ombuds mechanism for financial disputes, which may limit specialised oversight and structured consumer redress.

By contrast, South Africa's Financial Sector Regulation Act, 2017[11] separates prudential regulation and market conduct supervision into two distinct institutions. It also establishes a Deposit Insurance Corporation, an Ombud Council, and a Financial Sector Tribunal to strengthen accountability and consumer protection.

6. Implementation Considerations

Effective implementation of the proposed reforms will require adequate institutional capacity at the Central Bank, supporting regulations, and strong enforcement. In addition, the transition from the repealed legislation to the new framework will require clear transitional provisions, phased implementation timelines, and detailed guidance from the Bank of Zambia to ensure regulatory certainty and continuity of operations.

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[11] Financial Sector Regulation Act 2017

7. Conclusion

In conclusion, the Banking and Financial Services Bill, N.A.B. No. 36 of 2025 represents a comprehensive modernisation of Zambia's financial sector framework. It expands licensing coverage, strengthens ownership transparency, enhances prudential standards, introduces modern crisis resolution tools, protects consumers, embeds financial integrity safeguards, and consolidates fragmented legislation. While the Bill significantly strengthens financial stability and reduces potential fiscal exposure arising from bank failures, its successful implementation will depend on proportional regulation, adequate supervisory capacity, and effective coordination with complementary reforms such as the establishment of a deposit insurance scheme. These factors will be critical to ensuring that the Bill achieves its objectives of stability, inclusion, and public confidence without unduly constraining access to finance.