



BANK OF ZAMBIA

**TALKING NOTES ON THE LAUNCH OF THE
ZAMBIA DIGITAL ECONOMY DIAGNOSTIC REPORT**

BY:

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Distinguished ladies and gentlemen

I am greatly honoured for this opportunity to speak at the launch of the Digital Economy Diagnostic Report for Zambia. Let me start by thanking the World Bank Group, through its Zambia office and specifically, the Country Manager, Mr. Sahr Kpundeh and his team, for the support provided to Zambia over the years. The digital economy diagnostic report being launched today represents the World Bank Group's commitment to its partners in Zambia and in moving the economy in the right direction.

The Digital Economy Diagnostic is a beneficial tool for assessing the impact of technology on our economy. We have no doubt that the report will provide policy direction to the Government through the financial sector regulators in order to achieve the shared vision of a digitally inclusive economy.

Colleagues, I understand the digital economy diagnostic assessed five key pillars, including the *Digital Financial Services*. I will focus on this specific pillar, and share some insights on the performance of digital financial services in Zambia.

In recent years, the Digital Financial Services landscape has changed quite dramatically, even here in Zambia. The usage of digital channels for the delivery of payment and financial services has grown considerably. The majority of commercial banks have developed and deployed mobile applications that their customers use to access financial services. Similarly,

e-money issuers are capitalising on smart and ordinary mobile phones to offer financial services.

The number of active *mobile money wallets* has increased over time. As at end-2016, a total of 6, 513, 725 mobile wallets were registered and of these, 521,098 were actively transacting (meaning on average a transaction being conducted in 90 days), representing 8% of the total registered wallets. As at end 2019, 14, 270, 705 *mobile money wallets* were registered and 4,852,040 were actively transacting, representing 34% of the total registered *mobile money wallets*.

On the whole, digital financial services have recorded significant growth, with mobile money payments posting an annual average growth of 126% in value from K2.07 billion processed in 2015 to K49.45 billion processed in 2019. Transactions through Point of Sale machines increased from K3.04 billion in 2015 to K20.09 billion in 2019. This represents a leap of 560% in values of transaction over a four-year period.

The performance of other electronic payment streams, such as, the Electronic Funds Transfer (EFT) equally recorded remarkable growth, posting annual average growth of 35% in value from K21.83 billion processed in 2015 to K67.81 billion processed in 2019.

From these statistics, it can clearly be demonstrated that there is great potential in Zambia to have more people financially included through digital channels and ultimately in the digital economy.

If there is one area where COVID-19 pandemic has had a positive impact is in the retail payment system. In our market, we have seen the values processed through the mobile channel peaking at K7.80 billion in April 2020. In the face of the pandemic the Bank, in collaboration with the mobile money service providers and mobile network operators (MNOs), took a number of measures including the following:

- Revised upwards the transaction and balance limits on the *e-wallet* and money transfer services;
- Temporarily (subject to review at end-June 2020) waived fees for person-to-person transfers for values of up to K150;
- Capped the Merchant Discount Rate (MDR) for transactions on the Point of Sale machines to no more than 2% of the value of the transaction; and
- Reduced transaction processing fees for the Real Time Gross Settlement (RTGS) and Electronic Funds Transfer (EFT) systems.

Invited guests

A safe and efficient payment system is a critical pillar for meaningful economic development. To this end, the Bank, in collaboration with other regulators, co-operating partners, such as, the World Bank Group, and industry players, is determined to optimise the Digital Financial Services landscape. Through this interaction the following key trends in the Digital Financial Services space have been observed.

1. **FinTechs** - the Bank has recorded an increase in the number of innovative products presented for licensing. In accordance with the State of the *Digital Financial Services Market in Zambia* survey conducted by the United Nations Capital Development Fund (UNCDF), in conjunction with the Bank of Zambia, there were more than 25 FinTechs operating in Zambia as at end-2018. In this regard, the Bank is in the process of developing Sandbox regulations. These regulations will facilitate testing of specific innovations in a controlled environment prior to the deployment of such products in the market.
2. **Service Provider Partnerships and Collaborations** - there has been enhanced collaboration and partnerships among financial service providers. These collaborations are bringing financial services closer to the people.
3. **Interoperability** –the National Financial Switch (NFS) is almost complete. The NFS is a key payment infrastructure that will enable interoperability of the various payment systems, such as, mobile money.
4. **Quick Reference (QR) Code** - there has been a growth in Quick Reference (QR) code based payments. The deployment of QR codes will help reduce the cost of digital payment acceptance, especially for small and mid-size enterprises (SMEs) and micro merchants. This will further spur the spread of DFS to individuals and businesses at various levels and transition them into the formal segment of the financial sector.

Ladies and gentlemen,

In order to realize the full potential of digital financial services and increased financial inclusion, it is imperative for stakeholders to continue working together to overcome emerging challenges, notably, cybersecurity risk, identity theft, and the financial and technology literacy gap. We therefore need to institute stringent measures to safeguard the digital space, protect customer identity, and implement fully the National Strategy on Financial Education 2019-2025.

As I conclude, I want to urge all stakeholders to focus on harnessing the potential of financial inclusion through scaling up the uptake of ICT. This offers immense opportunities for providing essential financial services to our people.

God bless us all.