



## **GOVERNOR'S STATEMENT**

**12 NOVEMBER 2008**

## **1. Introduction**

1.1 Persistent queues at most banking institutions call for urgent intervention in order to restore confidence in the banking sector and creditability of the national payment systems.

1.2 As such it has become necessary to come up with radical solutions to deal with the cash challenges once and for all in a holistic manner.

## **2. Foreign Currency Sales to RBZ by Foreign Exchange Licenced Shops**

2.1 The foreign currency sales to the Reserve Bank by Foreign Exchange Licenced shops is reduced from 15% to 7.5% with effect from 10 November, 2008.

2.2 The increase in the retention entitlement to 92.5% for Foreign Exchange Licenced shops

shall be applied in retrospect. Those institutions that had sold 15% of their gross foreign currency sales to the Reserve Bank since the commencement of their trading operations shall be credited with the 7.5% into the security deposit account held at the Reserve Bank in line with the refundable security deposit requirements stated in the Exchange Control, S.I. 131 of 2008.

2.3 Foreign Exchange licenced shops, both local and foreign owned, that are able to raise external lines of credit, supported by documentary evidence shall have their foreign currency sales to Reserve Bank pegged at 5%.

2.4 Local banking institutions who on-lend their own resources to Foreign Exchange Licenced shops shall be entitled to the 2.5% from Foreign Exchange Licenced shops' gross proceeds.

### **3. Local Transporters Engaged by Foliwars**

3.1 Local transporters registered to ferry goods for Foreign Exchange Licenced shops shall be deemed exporters, and shall be required to complete special Form CD3 formalities with Exchange Control.

### **4. Licencing of Building Societies, Property Developers and Real Estate Agents as Foliwars**

4.1 Building societies, property developers, and real estate agents shall be licenced as Foreign Exchange Lice entities to be eligible to sell housing units in foreign currency and shall have their foreign currency sales to Reserve Bank pegged at 10%.

## **5. Cash Withdrawal Requirements for Companies**

5.1 Cash withdrawal entitlements for companies that handle bulk cash shall be tied to 120% of the previous week's actual cash deposits at banking institutions.

## **6. Minimum Bank Capital Requirements**

6.1 All banking institutions are now required to keep their minimum capital requirements in foreign currency as tabulated below:

Type of Institution	Minimum Capital Requirement (USD)
Commercial Banks	12,5 million
Merchant Banks	10 million
Building Societies	10 million
Finance Houses	7,5 million
Discount Houses	7,5 million
Asset Management Companies	2,5 million

6.2 Every banking institution shall be required to **demonstrate**, at the request of the Reserve Bank, the adequacy of their foreign currency denominated capital bases on an on-going basis.

## **7. Return to Core Banking Business**

7.1 Every bank, asset management company and unit trust shall be required, with immediate effect, to reposition its balance sheet in line with its core activities.

## **8. Usage of RTGS & Internal Transfers**

8.1 Suspension of the usage of the Real Time Gross Settlement (RTGS) system and internal transfers was **motivated** by widespread abuse of the system by a breed of selfish and unrelenting money-launderers and speculators, who include individuals, corporate entities and some banking institutions.

- 8.2 Notwithstanding the clear regulatory Know Your Customer (KYC) requirements, some banking institutions continued to offer themselves as **conduits** in the transfer of huge volumes of funds with no meaningful underlying economic transactions,
- 8.3 The weak enforcement of KYC requirements by banking institutions, some of which were active participants in irregular transactions, abetted the abuse of RTGS and internal transfers to the detriment of financial stability and confidence in the banking system.
- 8.4 The blanket suspension of RTGS transactions and internal transfers has served its purpose, and time has come for policy instruments to punish the bad apples while rewarding those practicing good citizenship.

## 9. Reinstatement of RTGS Transactions

9.1 **With immediate effect**, individuals, corporate clients and financial institutions may effect transactions with a minimum value of **\$5 billion**, given that RTGS is meant for high value, high risk transactions. This threshold will be reviewed in line with economic trends.

9.2 The RTGS threshold stipulated herein shall not apply to salaries, settlement transactions, and Government payments.

9.3 With immediate effect, all customers may effect a maximum of **five** internal transfers per day to **third parties**. The limit, however, does not apply to inter-account transfers for the payment of salaries by corporates to their employees.

9.4 For avoidance of doubt, banking institutions shall continue to allow inter-account transfers among accounts bearing the **same names**

and/or for companies within the same group, up to a maximum of **three accounts per day**, to facilitate sweeping arrangements between accounts.

9.5 With immediate effect usage of the RTGS system shall strictly be **conditional** on total adherence to all applicable KYC requirements.

## **10. Enhancement of KYC Due Diligence**

10.1 In order to promote adherence to the letter and spirit of KYC principles, every banking institution is with immediate effect required to:

- a. ensure, on an on-going basis, that all its customers and bank employees fully adhere to KYC requirements, including maintenance of proper identification documents, as well as taking resolute remedial action where deficiencies are identified;

- b. ensure on an on-going basis that the entirety of their customer base is free of briefcase companies and customers involved in suspicious transactions;
- c. clean up customer database to eliminate cases of multiple account holders where activity on the accounts is not in line with the customer's declared nature of business. For avoidance of doubt, holders of **four or more accounts with the same banking institution** are required to justify the need thereof, to the institution's senior management.
- d. subject reactivation of all dormant account close scrutiny by bank senior management, internal and external auditors;
- e. subject tellers' and/or cash depot custodians' transactions to thorough

**independent verification** on an on-going basis by bank senior management, compliance and internal audit functions. Monthly exception reports on tellers and/or cash depot custodians transactions shall be submitted to the Reserve Bank;

- f. put in place appropriate policies and procedures to curtail irregular teller transactions, including but not limited to, the selling of cash, diversion of cash deposits and parallel market activities;
- g. maintain proper records of all deposits, withdrawals, and cash distribution done at all branches and cash depots;
- h. report to the Reserve Bank all agency agreements and “special” arrangements entered into with third parties for the

provision of banking business and consultancy services;

- i. specifically incorporate evaluation of compliance with KYC requirements in the internal audit plan;
- j. ensure external auditors evaluate and report on the status of compliance with KYC requirements;
- k. provide to the Reserve Bank copies of reports informing the institution's board of the bank's status of compliance with KYC requirements on an on-going basis; and
- l. report status of compliance with KYC requirements on a quarterly basis as part and parcel of the statutory reporting requirements.

## **11. Cheque Payments**

11.1 The banking public is reminded that cheques are still an acceptable means of effecting payments.

11.2 In this regard the banking institutions may facilitate the **special clearance of cheques** below the obtaining RTGS threshold, subject to compliance with KYC requirements.

## **12. Accessibility of Banking Services**

12.1 We note with concern that some banking institutions have suspended the opening of new accounts while others have astronomically increased minimum balances to be maintained in customer accounts.

12.2 Banking institutions should not penalize genuine current prospective customers, to the detriment of financial inclusion, via unrealistic

minimum balances as well as informal moratoriums on opening of new accounts.

### **13. Enhanced Board Oversight**

13.1 The board of every banking institution shall put in place adequate risk management policies and procedures to ensure adherence to the letter and spirit of KYC principles,

### **14. Penalties for Non-Compliance**

14.1 Banking institutions that are found abusing, facilitating the abuse of, or failing to take decisive action against customers abusing the RTGS system and/or internal transfers shall be suspended, in part or whole, from the RTGS system for a period of up to **three months**.

14.2 Repeat offenders shall be banned from direct participation on the RTGS system for an indefinite period at the discretion of the Reserve Bank.

14.3 Bank officials and/or employees found engaging in, or facilitating irregular transactions, shall be deemed not fit and proper to work in the financial sector.

**Be guided accordingly.**

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**DR. G. GONO**  
**GOVERNOR**

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