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Expanding Financial Inclusion

Making Access Possible

Zambia

DEMAND, SUPPLY, POLICY AND REGULATION

Financial Inclusion Summary Report

2018

ABOUT MAP Zambia

Contribution to the MAP methodology

FMT FINMARK TRUST

UNCDF

The MAP diagnostic presents a comprehensive analysis of the financial inclusion environment in Zambia as part of the Making Access Possible (MAP) Zambia initiative. This Summary report is derived from the complete diagnostic report and should be read together with that report. FSD Zambia requested and funded MAP in Zambia and will take the lead in implementing the priorities identified.

The MAP Diagnostic comprises a comprehensive country context, demand-side, supply-side and regulatory analysis. The supply-side analysis covers the markets for payments, savings, credit and insurance, respectively. Hence the report provides an understanding of access to financial services in a broad context. The demand-side component includes an analysis of access, uptake, usage, perceptions and attitudes of financial services by different target groups. The demand-side analysis draws from quantitative data provided by the Zambia FinScope Consumer Surveys conducted in 2009 and 2015, the Zambia FinScope MSME Survey in 2009 and qualitative research in the form of individual immersive interviews. The Zambia Geospatial (GIS) mapping dataset collected by FSD Zambia and the Zambia Financial Diaries were also used to inform an understanding of Zambian consumers.

The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust (FMT) and the Centre for Financial Regulation and Inclusion (Cenfri) to improve financial inclusion, improve individual welfare and support inclusive growth. For the MAP Zambia, Cenfri undertook all activities and analysis, as well as the final reports.

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We would like to thank the various stakeholders we met with from government, financial services providers, industry bodies, technology providers, telecommunications operators and donor agencies for their time and the insights that guided this research and their efforts to extend financial services to the excluded.

Finally, we would like to thank the people of Zambia, particularly our qualitative interviewees, who were unfailingly friendly and helpful and provided us with indispensable insights into the financial lives of Zambians.

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Abbreviations and Acronyms

ARC	African Risk Capacity
ASCA	Accumulated Savings and Credit Associations
ATM	Automated Teller Machine
BAZ	Association of Zambia
BoZ	Bank of Zambia
Cenfri	Centre for Financial Regulation and Inclusion
CHAZ	Churches Health Association of Zambia
CIA	Central Intelligence Agency
CPCC	Competition and Consumer Protection Commission
EFT	Electronic Funds Transfer
FMT	FinMark Trust
FSDZ	Financial Sector Deepening Zambia
FSP	Financial Service Providers
G2P	Government-to-Person
GDP	Gross Domestic Product
GIS	Geographic Information Systems
IAZ	Insurance Association of Zambia
ID	Identification Document
IEA	International Energy Agency
ILO	International Labour Organization
IMF	International Monetary Fund
KPI	Key Performance Indicator
MAP	Making Access Possible
MFI	Micro Finance Institution
MI	MicroInsurance
MMO	Mobile Money Operators
MNO	Mobile Network Operator
MoJ	Ministry of Justice
MSME	Micro, Small and Medium Enterprises
MTO	Money Transfer Operator
NBFI	Non-Bank Financial Institution
NFIS	National Financial Inclusion Strategy
PIA	Pensions and Insurance Authority
PIN	Personal Identification Number
POS	Point of Sale
RIA	Regulatory Impact Assessments
ROSCA	Rotating Savings and Credit Associations
SMS	Short Message Service
TV	Television
UK	United Kingdom
UNCDF	United Nations Capital Development Fund
USA	United States of America
VSLA	Village Savings and Loan Association

USD/ZMW Exchange Rate

Foreign exchange. The local currency in Zambia is the Zambian Kwacha (ZMW). The United Stated Dollar (USD) equivalent shown throughout this document was calculated using a 6-month average exchange rate (between 1 July 2016 to 31 December 2016) of ZMW 9.90/USD.

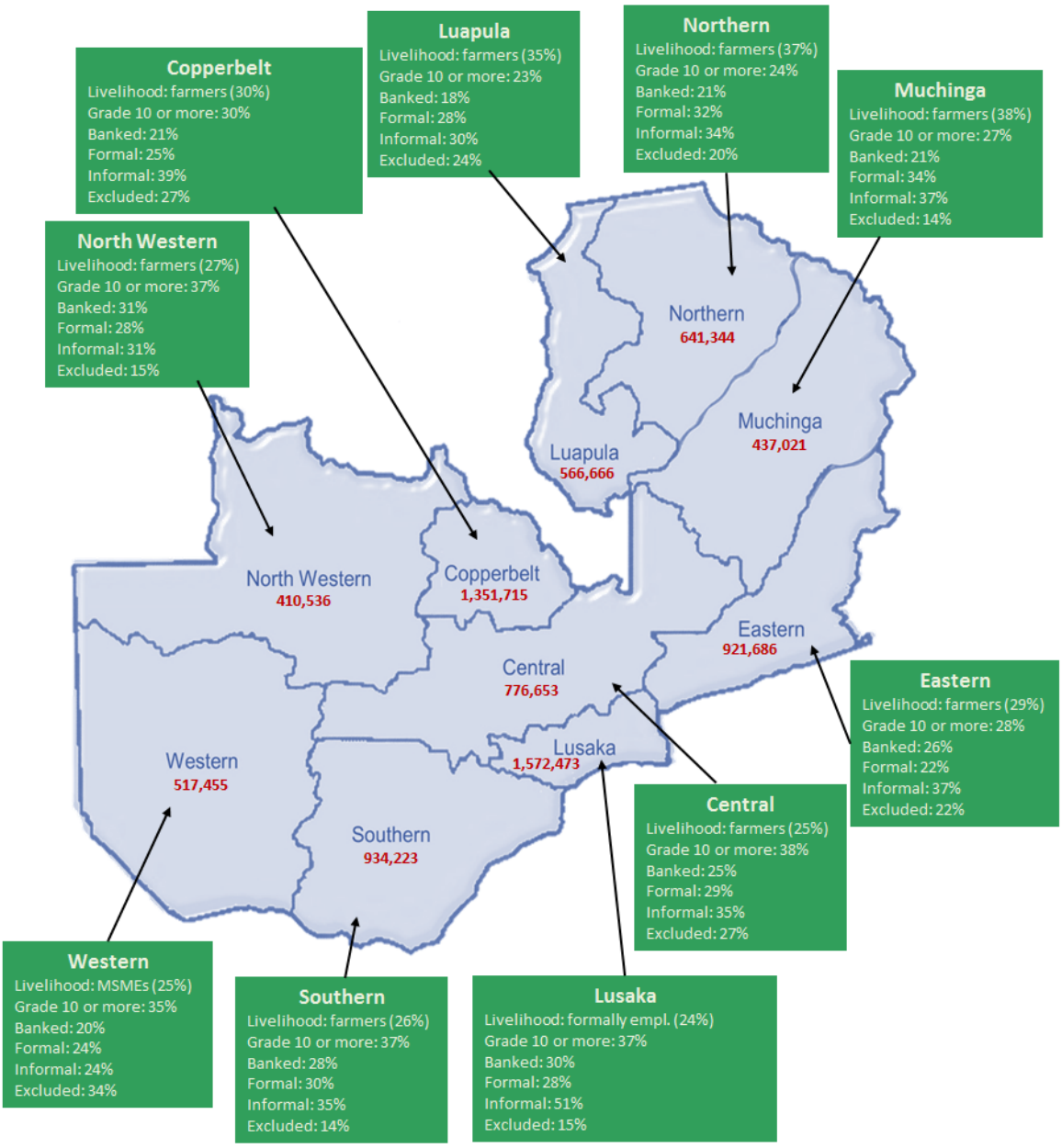

Figure 1: Map of Zambia, with core demographic information by province

Source: FinScope, 2015

Executive Summary

Making Access Possible (MAP) is an evidence-based multi-country initiative to support financial inclusion, developed by the United Nations Capital Development Fund (UNCDF), FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri). MAP Zambia is funded and implemented by FSD Zambia, in consultation with the Ministry of Finance, the Bank of Zambia, and other Zambian stakeholders.

Financial inclusion plays an important role in improving individual welfare and achieving more inclusive economic growth. MAP identifies priority areas to address barriers and leverage opportunities to improve financial inclusion. This is done through a comprehensive analysis of the country context, demand, supply and regulation of financial services[1]. Given the different needs of diverse types of consumers in Zambia, adults are segmented into five target markets[2] to better inform how financial services can meet individuals' financial needs[3].

The urban-rural divide shapes the current and potential landscape of financial inclusion. Public infrastructure development in Zambia historically focused more on urban areas, where population density as well as return on economic productivity is far higher. As a result, Zambia's relatively large urbanised population can be easily reached with financial and non-financial services by establishing limited distribution channels in the major urban centres. In contrast to urban areas, rural areas are characterised by very low population density and limited infrastructure, resulting in high distribution costs and low returns on investment. For most financial providers, the business model to serve non-urban customers is therefore limited or non-existent.

Macroeconomic conditions influence financial service provision. Zambia, as a landlocked country, has an unstable macro-economic environment inextricably linked to its heavy reliance on copper exports and weather patterns. Although periodically stable, periods of turbulence in Zambia's exchange rate and inflation, and the resultant impact on interest rates, contribute to general market uncertainty and increased risk for financial service providers. Recent declines in the copper price, combined with committed infrastructure and social spending, contributed to a substantial budget deficit. The Government's historic and ongoing patterns of fiscal financing have important implications for the financial sector. Internally, regular treasury bill auctions with high returns attract capital investment from banks, insurers and pension funds, which crowds out retail lending. Externally, two Eurobonds have been issued and the Government is in the process of applying for a loan from the International Monetary Fund (IMF). The external funding, particularly from the IMF, comes with policy change conditions. The impact of such changes is already visible with the relatively rapid eradication of government subsidies on fuel and electricity, and a move towards austerity in the 2017 budget.

Priority financial needs relate to reliable payments, liquidity management and tools that facilitate productive investment. Across the target markets, access to reliable and accessible

[1] MAP Zambia relies on demand-side data from three FinScope surveys (The FinScope Zambia Consumer Surveys, 2009 and 2015, and the FinScope Zambia MSME Survey, 2009), the Zambia Geospatial (GIS) mapping dataset (FSDZ, 2016), the Zambia Financial Diaries, 55 qualitative immersive interviews, supply-side data from 59 stakeholder interviews with financial service providers, regulators and policymakers, and published annual or interim financial statements and reports and data collected by supervisors.

[2] Five target markets were selected based on income source: formal employees, MSMEs, farmers, informal employees and dependents. Analysis of the different demographics and needs of adults based on geographical area (rural or urban), gender and age (the youth – aged 25 and below) was also conducted.

[3] Financial services typically serve four functions: to pay somebody else (transfer of value), to meet expenses on an ongoing basis (liquidity); to meet large expenses resulting from shocks or other unpredictable events (resilience); or to put together larger amounts of money to achieve objectives that cannot be funded from regular income (meeting goals). These four are universal functional needs for financial services, termed financial needs.

payments and liquidity management are the key emerging financial needs for Zambians. Many MSMEs and farmers would also benefit from access to a lump sum of capital to invest in productive assets and inputs to enhance their productivity.

Financial services providers (dominated by banks) mostly compete for small pool of already-served clients. Zambian banks control most financial assets (84%), and have the broadest reach of formal providers, but they still only serve 25% of Zambians (mostly limited to transactions and savings). They are not likely to expand access rapidly beyond this pool. NBFIs focus on credit and have a substantial client pool, but mostly serve a defined target market that largely overlaps with existing bank clients. Competition between insurers for a market that is growing very slowly (and overlaps with that of banks) means that they are at the mercy of powerful aggregators, as voluntary retail sales of insurance remain extremely limited. Similarly, payments providers like MMOs and MTOs, though having redefined the way that people send remittances over distance, have so far not extended their geographic reach significantly beyond that of the banking and MFI sector. Most Zambians therefore remain difficult to reach. Even those who are formally served still use informal services. This shows that not just the reach, but also the value proposition of the formal sector is not yet attuned to consumer realities and the full suite of target market needs.

Three priority actions emerge from the analysis of consumer needs and provider realities within the Zambia-specific context:

Improve the ease with which customers send and receive payments. The overwhelming majority of payments made in Zambia are still in cash. FinScope (2015) reports that 97% of adults indicate using cash to pay bills and for other purchases. Switching to digital payments holds significant potential for cost savings and efficiency gains. However, the switch to digital should only be pursued in areas with the requisite cell service, power, and liquidity infrastructure in place. Making digital payments to rural recipients that live their lives entirely in cash would simply shift the cost burden onto these vulnerable individuals, as they would be forced to travel substantial distances and wait long periods at high personal cost to receive their cash payment. Different areas of the country have very different levels of digital payments infrastructure and usage. A single blanket strategy for the whole country is therefore inappropriate. The sequencing of interventions to the level of payments development is critical to effectively develop trust in, and ultimately widespread use of, a digital payments ecosystem.

Introduce savings products that better meet the needs of savers and providers. Savings are a key financial mechanism with which Zambians meet their financial needs, including liquidity management, risk management and achieving goals (including housing needs). Credit is extremely constrained as well as expensive. Formal savings have achieved substantial scale, but most Zambians in both urban and rural areas still save informally or at home. A recent success in the informal space is savings groups, which also extend credit services and informal insurance to members. As many as 500,000 Zambians have participated in these groups by 2017, and almost 376,000 members were actively saving in one in 2017. However, a lot can be done to support the sustainability and replication of these groups, as well as exploring formal sector linkages. Developing a formal policy on savings groups which provides recognition and guidelines as well as recognition of self-supervision is an important first step to support longer-term development of this key subsector.

Enhance regulation and policy to prioritize financial service market development that deepens service access to more Zambians. Underlying the major regulatory challenges in Zambia is a general lack of emphasis on financial regulation by both politicians and administrators within the Zambian Government. Financial regulation is not generally a primary political priority. Moreover, it is complicated to understand, and therefore draft, financial sector legislation. Few in the electorate are concerned with, or even aware of, financial regulation. However, the financial system is central to the

development of the entire economy. Efficient mechanisms to transfer value, manage financial risk and to intermediate capital are critical to the functioning of all real sectors. The current sub-standard regulatory framework stymies most development within the financial sector, and by extension the entire economy. The delays in passing new financial sector regulation over the last ten years have set back the development of the financial sector, while a lack of regulatory impact assessments means that some regulatory changes have been actively harmful to the industry. Additionally, the lack of a clearly defined framework for consumer recourse undermines consumers' trust in the industry, which is crucial for better financial inclusion.

In addition to the three key priorities above, longer-term financial inclusion opportunities in Zambia include the following.

Enhance credit market development over the long term. Zambia's credit market generally has a long history of underdevelopment. Solving these challenges requires a long-term strategy to address the key underlying enabling environment constraints, including credit market rules, information sharing and credit market reporting, and consideration of overarching credit regulation.

Developing a voluntary retail insurance market. Zambia's insurance market is both small and founded on compulsory and embedded products. A focus on illustrating value to existing consumers may be the first step to the development of a growing voluntary retail insurance market. The November 2017 introduction of weather-based crop insurance for the over 1 million smallholder farmers under the Farmer Input Support Programme is a new development in public-private arrangements for small scale insurance.

Prioritise appropriate product design and consumer communication, and carefully tailor generic consumer education and financial literacy initiatives. The World Bank financial capability survey (2017) shows that there are gaps in client understanding of financial issues. However, the widespread and sophisticated use of informal financial products by Zambians illustrate that they are savvy users of financial products. Citizens will use the mechanism, whether formal or informal, that best meets their needs and offers them the greatest perceived value. While consumer education should not be completely ignored, any approach or intervention should be carefully designed and appropriately targeted. The inclusion of financial education in the national education curricula, and well-designed and effectively targeted learning for adults, can address gaps in understanding of how to compare and select products on offer, and to manage funding flows and emergencies. Additionally, the onus should be primarily on formal providers to design and communicate products in a way in which their consumers understand and value.

1. Rationale for MAP in Zambia

Strong policy focus on extending financial inclusion. Led by the Ministry of Finance, the Zambian government released in late November 2017 a national strategy to guide policymakers, regulators and the private sector to extend financial inclusion in Zambia. Usage of financial services not only has the potential to enhance individuals' welfare but also helps to deliver on fundamental policy objectives, including economic growth and employment generation. This is achieved by better facilitating the growth of MSMEs and farmers, improving human capital, and providing Zambians with the tools to purchase education, healthcare and appropriate nutrition, and assets to build incomes.

Large unserved and underserved population. The World Bank's vision for the National Financial Inclusion Strategy (NFIS) is "universal access and usage of a broad range of quality and affordable financial products and services." FinScope (2015) indicates that 40.7% of all Zambian adults remain without any type of formal or informal financial service. Further, amongst those who are formally or informally served the average number of products taken up is only 1.54. Therefore even amongst Zambians considered as financially included, few use a broad range of financial products.

Prioritisation and sequencing of financial inclusion activities and interventions important. The need for quality and for affordable financial services is clear among Zambians, and the policy commitment to financial inclusion is illustrated by the NFIS and the Bank of Zambia Strategy 2016-2019. However, the government faces revenue and capacity constraints which may challenge the broad set of activities needed to extend financial inclusion as outlined in the NFIS. A critical component of a successful strategy will be to prioritise those activities and interventions likely to have the greatest impact. Cross-country evidence indicates that sequencing of interventions is critical to enable sustainable market development, illustrate value to consumers and ultimately achieve the stated objectives. MAP provides a broad, robust evidence base, starting with the needs of the consumer, to support both the development and implementation of the NFIS. The approach suggests integration within Zambia's overall policy objectives, including household welfare, growth and employment, and human capital development. Critically, MAP also identifies the opportunities for greatest impact and discusses the importance of sequencing interventions.

This summary document sets out the findings from the detailed diagnostic analysis. It highlights the underlying drivers of and constraints to financial inclusion, discusses the key needs of the different target markets, and maps this against the current provider and regulatory landscape. Three core priority areas are identified:

- Improve the ease with which customers send and receive payments;
- Deliver more innovative savings products that better meet the needs of savers and providers; and
- Enhance regulation and policy to prioritize financial service market development that deepens service access to more Zambians.

2. Drivers of financial inclusion

What drives financial inclusion in any environment is determined by what consumers need and what providers are able and willing to provide. The nexus between supply and demand is the central foundation of any market, but supply and demand exist within an overarching environment which shapes the needs of consumers and influences and constrains provision. This section looks at the

demand and supply for financial services in Zambia within the contextual environment in which they coexist. Such analysis allows the identification of unmet needs which can feasibly be addressed within the Zambian environment - the key potential opportunities to increase financial inclusion.

2.1. Target market needs

The *a priori* needs of consumers form the basis for the prioritisation of interventions, balanced against the impact the intervention will have on the real economy and taking account of current market constraints.

Disaggregation enables focus. The Zambian adult population is not a homogenous group. Needs and circumstances differ across various segments of the population. Figure 2 below indicates the demographic and financial inclusion profile of the five financial services target markets in Zambia that were identified by MAP.

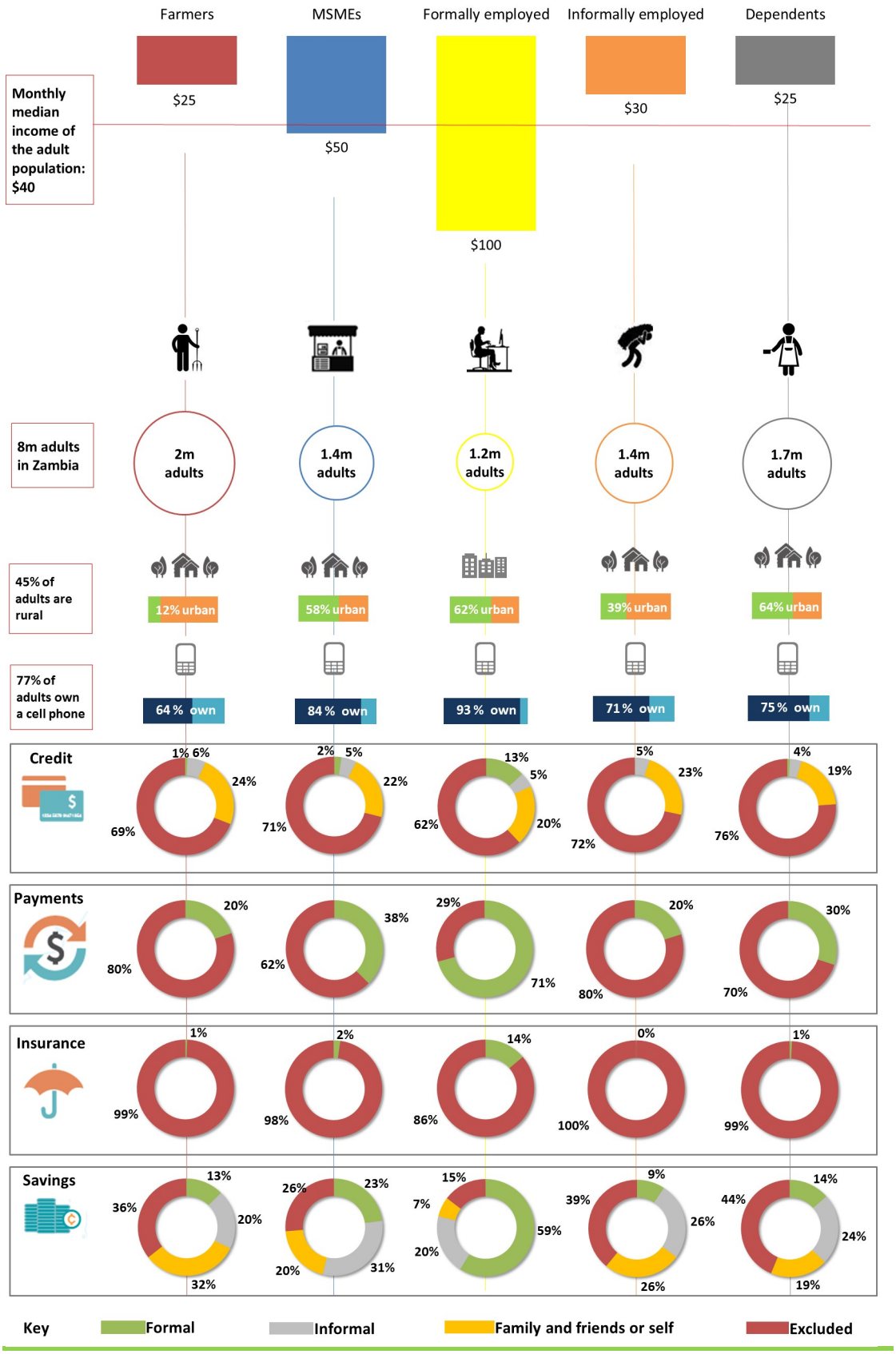

Figure 2: Target market infographic

Source: FinScope, 2015

- **Farmers** (2m adults) – are adults that obtain the majority of their income from farming or fishing activities. They are the biggest target market (25% of adults) and mainly consist of small-scale, non-commercial farmers. More farmers are male (59%) than female (41%). The farmers have lower average incomes than the formally employed and MSMEs, but many supplement their subsistence through commercial farming activities, retaining some of their produce for their own consumption. For many Zambian farmers the receipt of income only once a year at harvest season constitutes a major challenge, as they are required to match expenses incurred over the entire year with income earned once a year.
- **MSMEs** (1.4m adults) – are adults that derive their main source of income from owning and running their own business, including traders and street vendors. They are the target market with the second highest average income. A large percentage of this target market (57%) are women. Together, they make up 17% of the population.
- **Salaried employees** (1.2m adults) – are adults whose main source of income is a salary from a private or public institution. They are the wealthiest target market and live mostly in urban areas. This target market has the highest levels of education and is the smallest in size, constituting 14.9% of the adult population. The composition of this group is biased towards men, who make up 61% of the total group.
- **Informally employed** (1.4m adults) – are adults that engage in piecework for their main source of income, by earning a wage from an individual employer or as part-time farm labour. The informally employed are the second most rural target market, with slightly more than 60% of these individuals residing in rural areas. This target market accounts for 18% of the population and includes more men (63%) than women (37%).
- **Dependents** (1.7m adults) – are adults whose main source of income is from family and friends. This group consists mainly of adults who are dependent on a household member to pay their expenses or give them money. This target market includes adults that receive their income from members of their own household or from friends or family living elsewhere, both inside and outside of Zambia. The dependents constitute a relatively large group, accounting for 21% of the population. The majority are female (79%).

Distinct needs. This disaggregation allows us to identify different likely needs per target market, as follows:

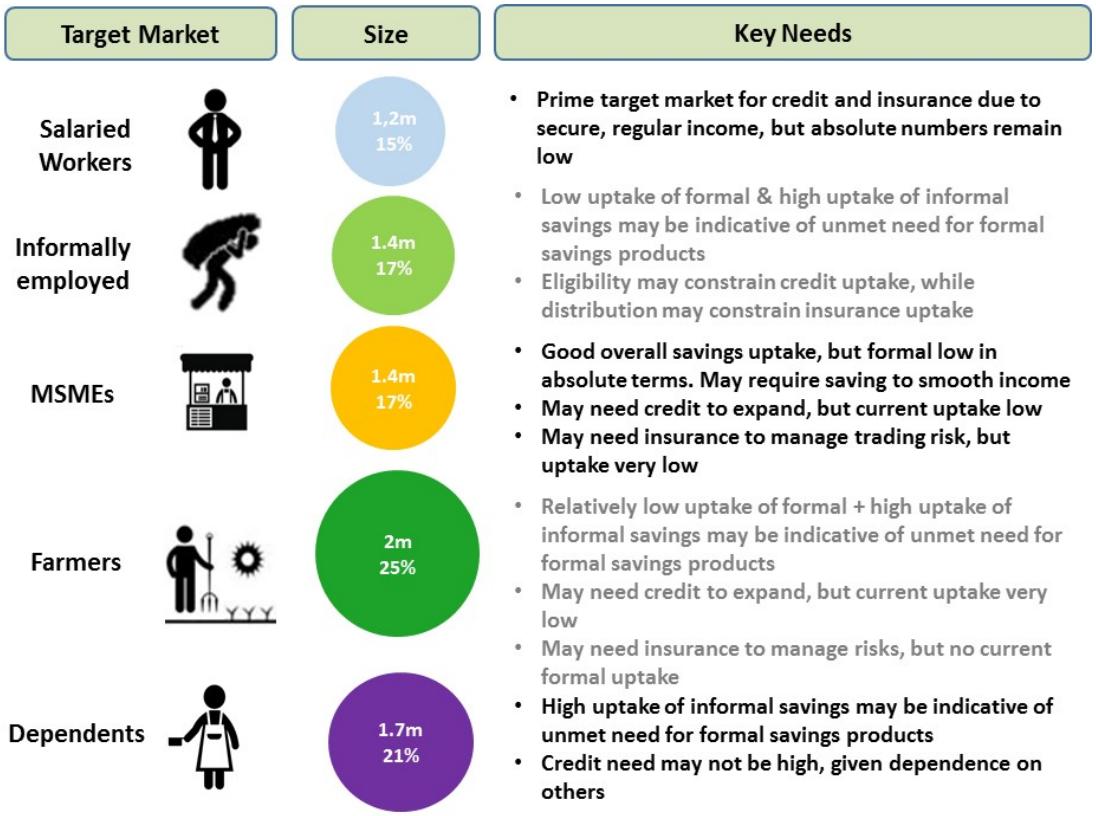

Figure 3: Key target market needs

Source: Authors' own, derived from FinScope 2015 data

Baseline of shared needs. Figure 3 indicates specific niche opportunities for each target market. However, it also highlights three key needs for many Zambians:

- **Reliable payments.** All five target markets need reliable, affordable and accessible payment mechanisms to receive salaries and other income, pay suppliers or pay employees.

- **Managing liquidity.** Farmers and the informally employed require tools to smooth consumption between irregular or seasonal income. Many members of other target markets, such as dependents and MSMEs, would likely also benefit from consumption smoothing tools, such as savings tools, particularly in cases where remittances are irregularly received or business or household revenues are seasonal.

- **Making productive investments.** Many MSMEs and farmers would benefit from access to a lump sum of capital to invest in productive assets and inputs, thus enhancing productivity and income. Financial tools like long-term savings or credit can help these Zambians gain access to a lump sum of capital.

Needs serve macroeconomic imperatives. In addition to addressing specific target market realities, these three shared needs, when met, promote macroeconomic objectives by boosting employment generation and productivity. Where the financial tools highlighted are used to invest in education, it also contributes towards the important national objective of human capital development.

2.2. Financial provider realities

Banks dominate the financial services landscape. There are 19 banks in Zambia, and over 2 million adults (just under 25%) report having taken up[4] a banking service. Banks directly provide savings, credit and payment services, and offer some insurance products in partnership with insurers. Banks account for 84% of the total institutional financial assets and credit by value in the market (across banks, non-bank financial institutions, pension funds and insurers), and have an even higher share of all deposits. They have the most formal branches of any financial provider category, and their ATMs extend their reach even further. Banks therefore dominate the financial services market in Zambia. The structure, characteristics and operations of the banking industry impact the provision of all financial services.

Banks focus on low-risk, high-value services to a limited number of clients. Although interest income from loans and advances are the single largest income source for banks, it accounts for less than 45% of bank income[5]. Within this, interest from government securities play a prominent role: almost 20% of bank income in 2015 was from interest on government securities – a low-risk, high-value investment strategy. The remainder of bank income is comprised of commissions, fees and service charges (mostly on savings and insurance), interest income from securities, and foreign exchange income. The prominence of other revenue sources over interest income is reflected in the client base. The number of deposit clients far outstrips the number of credit clients (more than 10 to 1). In addition, bank loans and deposits are highly concentrated. A small number of accounts represent most of the value of deposits and loans. Since 2006, the largest 20 deposits of each bank on average represented around 40% of total deposits (a figure that jumped to over 80% in 2015). Similarly, bank loans to large businesses, large farmers and central government represent more than 60% of the total bank loan value, but less than 5% of the number of bank loans. It would seem that banks in Zambia have limited incentive to reach out to mass-market retail clients. However, while banks overall have limited incentives to expand access to excluded individuals, increasing competition in the market is causing some banks to target this sector more directly as part of their expansion strategies.

Non-bank financial institutions (NBFIs) do little to expand access. NBFIs regulated by the Bank of Zambia (BoZ) include building societies, leasing companies, MFIs, and state-owned financial institutions such as the National Savings and Credit Bank, or joint ventures between the state, public sector institutions and private sector, such as the Development Bank of Zambia. Although limited deposit-taking exists, most focus on the provision of credit, with some NBFIs acting as agents for insurers. By far the biggest NBFI sub-group is consumer credit MFIs, accounting for almost half of NBFI assets. These MFIs focus mostly on payroll loans to formal employees. Other NBFIs also mimic this business model to some extent. NBFIs are mostly limited to the same geographic areas and client groups as banks[6]. Although enterprise MFIs, NatSave and the Development Bank have mandates to serve more rural and excluded groups, their combined client pool and reach is too small to extend credit access to any significant degree.

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[4] Uptake is defined as the act of meeting the requirements and/or completing the procedures that confer on a customer the right to use a financial device.
Access is defined as appropriate products available to consumers to use if they choose.
Usage is defined as a person deploying a financial device to meet a specific financial need.

[5] By our calculations, income from net advances made up 59% of total commercial bank income in Kenya in 2016. In Namibia, the figure was 75% in 2015, while that of Uganda was 49% in 2015. Internationally, these figures tend to be higher, but as can be seen from these examples, interest income from loans and advances makes up an unusually small part of commercial bank income in Zambia even compared to the country's peers.

[6] Although some MFIs, such as Agora Microfinance Zambia and FINCA, do reach more rural consumers.

Mobile money and money transfer operators have seen rapid growth, but are still reliant on bank infrastructure. There has been a notable recent shift in remittance-sending behaviour in Zambia away from cash to digital means, particularly for domestic funds transfers. This can be ascribed to the efforts of the two mobile network operators who have created mobile money subsidiary operations (MMOs), Airtel and MTN, and the major money transfer operators (MTOs), Zoona, ZamPost and Shoprite. Cash remains the overwhelmingly predominant payments mechanism for all other payments; 97% of adults indicate using cash to pay bills and for other purchases (FinScope, 2015). However, only 17% of remittance-senders indicate that they send in cash (FinScope, 2015). Qualitative interviews also showed digital transfers to be highly popular for sending money over a distance, due to the speed, reliability and security offered. However, nearly all remittance payments still begin and end in cash. The sender takes cash to the agent and the recipient cashes out from the agent. Agents must continuously manage their liquidity to ensure that they have sufficient electronic value on hand when senders cash-in, and sufficient cash on hand when receivers cash-out. Most agents therefore rely on proximate bank infrastructure to rebalance when required. GIS data indicates that 97.3% of mobile money agents are situated within 15kms of a bank branch or ATM. These agents are therefore increasing the density of available cash-out points for consumers, but are not substantially increasing the physical reach of banking infrastructure.

Lack of interoperability and the high density of exclusive agents place severe limitations on the reach of the payments network, although the new national switch can reduce costs and improve access. The lack of interoperability between all banks limits the effective reach of banking infrastructure. When banks are not interoperable, account holders are only able to use the infrastructure of their own bank. In an environment where the availability of infrastructure is a major constraint, this further restricts the ability of consumers to use banks. The exclusivity of most agents in Zambia similarly reduces the effective reach of the agent network in Zambia, as users can only use agents from the same provider as the person to whom they are paying or from whom they are receiving a payment. This not only reduces the effective reach of the agent network, but also harms the business case of agents. The new national switch has the potential to reduce the cost of payments and enable full interoperability between banks. A major existing barrier to digital merchant payments is the cost of switching card payments through Visa and MasterCard. These fees are so high that even large multinational retailers find the cost of dealing with cash lower than digital alternatives. Phase two of the switch will allow interoperability with MNOs, but the specifics are still being worked out.

Crowded insurance market founded on compulsion. Recent entry has meant that the number of insurance licenses has grown from 12 in 2009 to 34 in 2015. This has led to an increasingly crowded marketplace with no comparable increase in revenues and premiums. Most currently active insurance policies are sold as embedded products through aggregator groups[7] (such as credit life through banks and MFIs, and embedded loyalty benefits on bank accounts) or are compelled by legislation (such as third-party vehicle insurance). Most consumers see little value in the insurance products offered, and a substantial number are unaware of the cover they are buying. Insurers also face the challenge of selling and administering policies sold through third-party aggregators to customers. The aggregator, such as a bank or MNO, is the primary entry-point for the insurance policy for their mobile subscribers or bank account holders. This aggregator is therefore frequently seen by consumers as the provider of the insurance policy. The direct relationship with the consumer is held by the aggregator, rather than the insurer. The lack of a direct relationship with the consumer largely limits insurers' ability to monitor or access their clients directly. The November 2017 introduction of

[7] Client aggregators are entities, for example, retailers, service providers, membership-based organisations or civil society organisations; that bring together people for non-insurance purposes and are then utilised by insurers, with or without the intervention of agents or brokers, to distribute insurance.

weather-based crop insurance for the over 1 million smallholder farmers under the Farmer Input Support Programme is a new development in public-private arrangements for small scale insurance.

Informal financial services popular, even amongst those with formal products. Thirty-eight percent of Zambian adults indicate that they use at least one informal financial service. The services used are mostly savings products, including membership of informal savings groups[8] and *Chilimbas*[9]. Many Zambians also indicate that they are saving with a church, and buying farming or business inputs in advance as a form of savings. Additionally, 2.2m Zambian adults save at home and 1.5 million borrow from family and friends. The total value of informal savings is estimated at ZMW 3.3 billion (USD 333 million[10]). The widespread use of informal financial services is not limited to those without access to formal alternatives - 44% of adults with formal products also use informal products. The formally-employed target market – the group in the best position to access formal services – has the highest use of informal savings. This illustrates that many Zambians choose to use informal services as complementary or in preference to formal products.

2.3. Key environmental conditioning factors

The development path for financial inclusion – and its ability to achieve the broader policy objectives – is not only shaped by target market needs and provider realities, but also by the distinct socio-economic conditions, regulatory environment and macroeconomic realities facing Zambia.

High level of urbanisation with sparsely populated rural area, confines most formal providers to urban areas. Zambia has a relatively urbanised population (41% of the population reside in urban areas) with an urbanisation rate of 4.3% (CIA World Factbook, 2017). This means that a sizable portion of the population could be reached with services, financial and non-financial, just by establishing distribution channels in the major urban centres. In contrast to the urban areas, the population density in rural areas is very low. Thus public infrastructure development is centred on the urban areas, as it benefits a larger number of people and has a far greater impact on economic productivity. However, infrastructure remains limited outside of urban areas. This has repercussions for financial service provision. For most financial providers, the business model to serve non-urban customers is limited or non-existent, due to the cost of distribution to areas with limited infrastructure and the low return-on-investment in areas with low consumer density and lower income levels of most rural dwellers. It is therefore not surprising that 79% of POS devices, 69% of ATMs and 65% of bank branches are in Lusaka or the Copperbelt.

A lack of quality infrastructure, particularly outside of urban areas. The World Economic Forum (2016) ranked the overall quality of Zambia's infrastructure at 125th out of 138 countries. The road and railway networks are limited outside of urban areas. Only 26% of Zambians have access to electricity. For rural areas, this percentage drops to 14% (IEA, 2015). Though 67% of Zambians own mobile phones (FinScope, 2015), the telecommunications network outside of urban areas is frequently unreliable. The lack of infrastructure drives up the cost of operations for financial service providers

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[8] The rising popularity of savings groups is a direct result of donor-funded, NGO-led facilitation. Although many savings groups have achieved multiple cycles of savings, some savings groups struggle to continue functioning effectively once donor support has been withdrawn. The VSLA and SILC models which incorporate systems of private service providers and village agents paid by groups over time, and the Master Trainer system of independent creation of savings groups, are still in the early stages but preliminary results are promising; they may prove able to independently support group formation.

[9] *Chilimbas* are rotating savings and credit associations (ROSCAS) and are loosely associated groups amongst friends mostly aimed at savings. They have been in existence in Zambia for a long time, and are currently more popular than savings groups.

[10] The exchange rate of 0.100970 USD/ZMW is used in all conversions and is based on the average USD/ZMW exchange rate between June and December 2016.

(FSPs) and makes it challenging to reach potential customers, particularly those living outside urban areas.

Reliance on copper exports and weather patterns contribute to macroeconomic challenges and uncertainty. Copper accounts for 77% of Zambia's total exports, making the economy vulnerable to globally determined copper price fluctuations. The slowdown of the Chinese economy contributed to a 38% drop in the price of copper between 2011 and 2015, although in 2017 prices have risen substantially. Low copper prices have made the operating costs of mines unsustainable and some have closed during low price periods, resulting in increased unemployment. The decline in foreign exchange revenue earned from copper exports has also led historically to a depreciation of the Zambian Kwacha, increasing the cost of imports and contributing to higher inflation, with interest rates following suit. The frequent fluctuations in the Zambian economy, led by the copper price changes but also affected by weather patterns which strongly affect agricultural output/exports and power generation, contribute to a macro-environment of uncertainty and therefore risk for FSPs. The higher inflation rates also undermine the value of savings, and the high lending rates make credit unaffordable for most Zambians.

Rising government debt limits potential for public investment and crowds out private sector lending. Reduced government revenue, partially driven by the decline in copper revenues and variations in weather-driven agricultural and power outputs, combined with significant commitments to infrastructure and social spending and government operations, mean that the government is unable to maintain a balanced budget. Debt-financing costs are currently 19% of GDP and are set to continue rising. To cover the budget shortfall, government has been forced to borrow from both internal and external sources. Internally, regular treasury bill auctions with high returns attract capital investment from banks, insurers and pension funds, which partially crowds out retail lending. Externally, three Eurobonds have been issued, and the government is in the process of applying for a loan from the International Monetary Fund (IMF). The external funding, particularly from the IMF, comes with conditions for policy changes. The impact of such changes is already visible, with the eradication of government subsidies on fuel and electricity and a move towards austerity in the 2017 budget.

Delays in the regulatory process inhibit sector development. The process of drafting legislation and passing Bills in Zambia has been shown to take a considerable and disproportionate amount of time, ranging from several months to more than ten years. The unnecessary delay in redrafting legislation for constitutional compliance, and the legislative backlog, are damaging. This has had a significant negative effect on the effective tools at the disposal of regulators and legal frameworks for financial services industry development. The impact of delaying key legislation, sometimes by a decade, has resulted in the reduced effectiveness and sophistication of financial services, with material impact on coordination of resources in the economy and broader society.

Large informal economy. While much of the value in the Zambian economy is within the formal sector, most adults interact more frequently in the informal sector. Traders in informal markets account for a substantial proportion of MSMEs in Zambia and a large proportion of any Zambians' day-to-day purchases. As discussed in section 2.2, cash transactions are the order of the day in the informal and formal sectors alike; savings is also done largely informally. Use of informal financial services prevail across target market segments. The formally-employed, the target market with the highest incomes and highest uptake of formal products, also have the highest prevalence of informal financial services of all the target markets. This reinforces the finding that the use of informal products is not a result of lack of access to formal products, but rather because these products offer users value.

Well-established social safety nets. Many low-income Zambians rely on a cohesive social safety net to mitigate at least some of their risks, provided by a combination of the state, church and community. Primary health care is provided largely free-of-charge by the state, and facilities are widely distributed throughout the country. Despite the large distances and poor transport infrastructure in the rural areas, 76% of FinScope (2015) respondents indicated that they live within one hour's travel of the closest health care centre. However, informal charges are commonplace and transport costs to and from these healthcare facilities can still be a challenge for many Zambians.

> *"INT: Do you have medical insurance in case you get sick?*
> *RES: No, because we have a government clinic and there are no charges required."*
> Formal Government Employee, semi-rural area

The church, too, plays an important role in the provision of health care. The Churches Health Association of Zambia (CHAZ) supports many health care centres, accounting for about 35% of formal healthcare nationally and 50% of formal health care in rural areas.

> *"INT: What if things go completely bad and you have nobody to run to, what do you do?*
> *RES: The church comes in and helps out and some relatives can help out too."*
> Formal Private Sector Employee, urban area

The church and the local community also play a central role in supporting affected households in case of a death, contributing towards funeral costs.

> *"The community at large also intervenes. When there is a funeral in the community, the women mobilise themselves and move door-to-door to ask for help and anyone gives what they have be it money, food or anything."*
> Formal Government Employee, urban area

What does this mean?

Strong opportunity to extend financial inclusion in urban areas. The stark contrast between urban and rural areas means that urban populations currently constitute the primary target market for private financial service providers. Despite this, a large proportion of the urban population remains unserved or underserved by financial service providers. Urban dwellers tend to have higher incomes and are already proximate to financial service distribution points. This group therefore constitutes a major opportunity to extend and deepen the reach of financial inclusion, as well as for growth for financial service providers looking for new clients, provided financial institutions can offer products that meet the needs of consumers and offer them value. FinScope (2015) estimates that 1.77m (48%) of urban adults do not use any formal financial services. 600,000 (16%) of these urban adults are excluded from any form of financial service and 1.17m (32%) only use non-formal financial mechanisms (either informal or family and friends). The number of formally employed adults in urban areas who use informal services is 386,520. That amounts to 4.75% of all adults, 32% of formally employed adults, and 51% of formally employed[11] adults living in urban areas.

Market-based formal financial solutions to serve rural Zambians are generally unfeasible in the short and medium-term. The dual challenges of high costs (due to infrastructure deficiencies) and low revenues (due to the low population density and poverty levels in rural areas) make rural markets unattractive – and in many cases, unsustainable – to formal financial services providers. Although

[11] It should be noted that only 16% (1.2 million) of all Zambian adults are formally employed (FinScope, 2015)

mobile money agents have the potential to expand the reach of financial services providers to more remote, rural areas, the need for agents to rebalance float and the near universal demand for cash out payments means that agents are limited by the reach of bank branches and ATMs. Achieving significant penetration into rural areas will require a far longer-term approach, focusing initially on developing the requisite infrastructure. Subsidy from the state and/or donors will also likely be required in many cases to make this market viable for formal sector financial services. The macroeconomic uncertainties and government's current funding constraints limit the capacity to support financial inclusion policies with major public funding, so the process will take time. However, the importance of extending financial inclusion to lower-income households means that strong investment in rural financial access is critical for low income households.

Informal mechanisms should not be undermined, as they do a good job reaching unserved households. Thirty-eight percent of Zambians use informal financial services, even if they have access to formal financial services. The fact that many Zambians with access still choose to use informal mechanisms suggests that in many cases these informal alternatives are preferred to formal products. Further, these products can reach those rural Zambians that are currently infeasible for formal providers to serve. Informal financial services are crucial to the ongoing welfare of many Zambians as they enable them to manage their liquidity, prepare for and cope with shocks, and access a lump sum of capital to meet goals.

Priority focus areas offer the greatest potential within the environmental constraints. The macroeconomic conditions, including the large informal economy, the dependence on copper and weather, and the open nature of the economy, combined with weak public finances and the regulatory delays, constrain the environment in which financial services can be provided and may prevent the investment decisions required to extend financial inclusion. The answer to expanding access to financial services therefore does not only lie at the retail level, but also in addressing the macro-level, enabling environment constraints to the provision of financial services. Much of this is beyond the scope of a financial inclusion policy. Therefore, this diagnostic identifies those areas that can return the greatest impact on consumer welfare and the real economy, based on consumers' needs and the provider environment, working within these constraints.

3. Financial inclusion priorities

This section identifies three priority focus areas that the researchers believe will have the greatest potential impact on Zambians' welfare and the broader Zambian economy, given the consumer needs, provider realities and environmental constraints identified in Section 2. These are:

1. Improve the ease with which customers send and receive payments.

2. Introduce savings products that better meet the needs of savers and providers.

3. Enhance regulation and policy to prioritize financial service market development that deepens service access to more Zambians.

These three priority areas are not the only opportunities for financial inclusion. However, the three areas are likely to have the most far-reaching impact, given the environmental constraints and the nature and needs of the target markets. Below we unpack each of these three areas in more detail, considering the nature of the opportunity, the main challenges to be overcome and potential actions to realise the opportunity.

3.1. Improve the ease with which customers send and receive payments

Digitising cash payments holds the potential for major cost savings and efficiency gains. Policies to digitise payments must, however, consider the role of cash in facilitating digital payments and the vastly different time horizons that apply in digitising diverse types of payments. A pragmatic and appropriately sequenced policy is required to ensure that the move towards digital payments is not undermined.

Rationale for improving transfer of value instruments. The need to transfer value, i.e. make payments, is a universal need. FinScope (2015) analysis, shown below in Figure 4, indicates that the need to transfer value is a demonstrated need for all Zambian adults. Access to transfer of value instruments is fundamental to the usage of all other services, both financial and non-financial. Figure 4, illustrates that most adults use cash for virtually all types of payments. Even adults that use digital payments still conduct most of their daily transactions in cash.

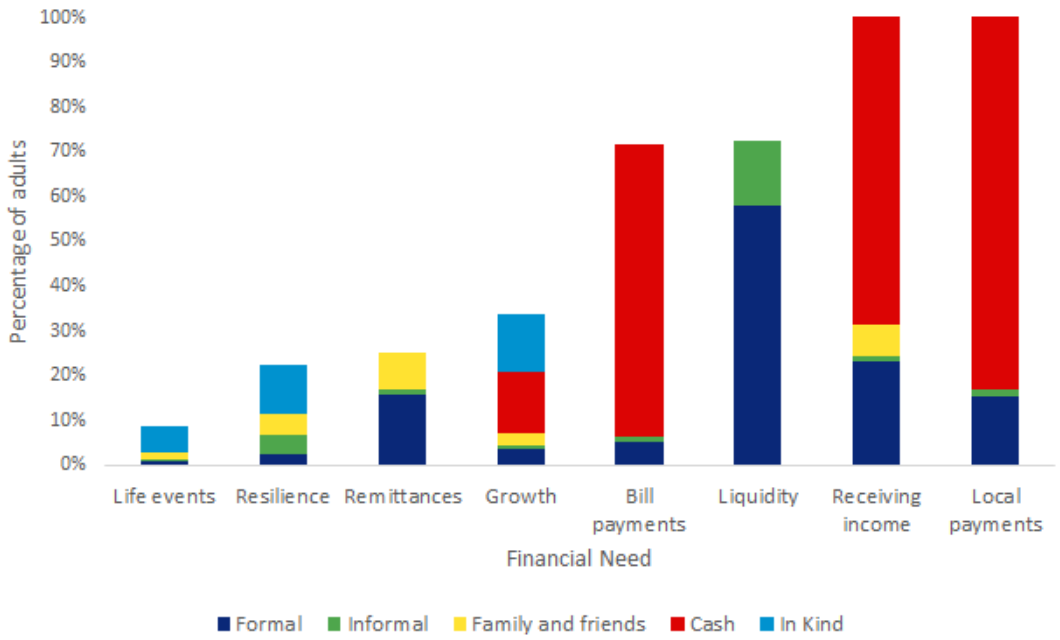

Figure 4: Proportion of adults that reported using financial services to meet a specific financial use case segmented by type of provider used

Source: FinScope, 2015

Digitisation of payments has major potential benefits – but it will take some time to achieve. At the national level, the digitisation of government payments can result in efficiency gains to the state as the cost of distributing government-to-person (G2P) payments is reduced. Furthermore, the digitisation of these payments often reduces the leakages in the system that invariably accompany cash payments. For merchants that handle numerous payments, digital instruments can reduce the costs of handling cash and improve their ability to track inflows and outflows. At an individual level, digital payments offer convenience, security, immediacy, reliability and cost savings over cash for payments over distance. But low physical cell phone and power systems coverage, weak public understanding and trust of mobile money, and lack of access to transfer from digital money to cash means the process will be very slow and uneven.

Different types of payments require different time horizons and comprise different levels of complexity and trust to digitise. For these digital payments benefits to manifest, the relevant infrastructure needs to be in place and payers and recipients need to see the benefit in using digital payments channels over their pre-existing option of cash. Changing social norms and individual habits does not happen overnight. Social change is gradual and takes place on a long time horizon. Therefore, even when digital payments offer consumers a better value proposition than cash (not currently the case for most payments types), changing behaviour across the population will only take place over a lengthy time-period. In Figure 5 below, three different types of payments are identified: bulk payments, individual payments over distance and merchant spot payments. We distinguish between these three payment types as each have a different set of incentives, the decision to digitise is taken by different types of consumers, and the switch from cash to digital will likely have substantially different timelines for each payment type.

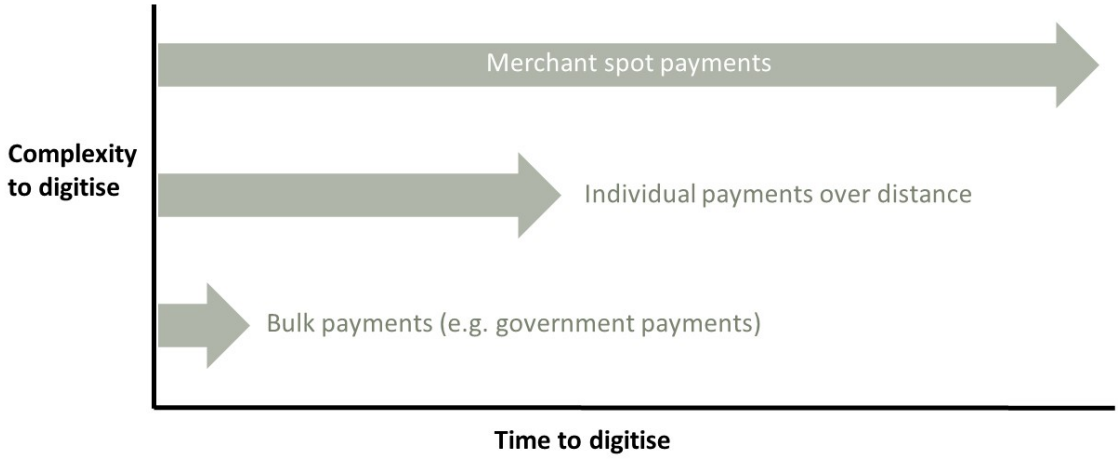

Figure 5: Relative time and complexity to digitise different payments types
Source: Authors' own

Bulk payments refer to payments made by a single large payer to multiple beneficiaries. Government is the largest bulk payer in Zambia through salary payments, grant payments and agricultural subsidies. Employers, in the form of salaries, agricultural aggregators paying farmers, and donors, in the form of welfare support payments, are also bulk payers. This type of payment constitutes the receipt of income for Zambian citizens. The switch from paying bulk payments in cash to digital is based on a decision made by a single party – the payer – and therefore switching bulk payments to digital channels can happen almost immediately. Although it is only the single payer that takes the decision, this will impact all the recipients of those payments and therefore places a responsibility on the payer to understand the repercussions for recipients before switching.

Individual payments over distance are defined as payments in which the payer and recipient are in geographically different locations. There are two main types of payments over a distance: remittances, and bill payments (both P2B and P2G[12]). These payments can be made in cash, but this requires the physical transportation of the cash either by the payer or a third-party service provider. The geographic distance between payer and recipient may be small, such as urban-based payers of electricity bills, but the critical distinction of this payment type is that the two parties do not need to be in the same location when the payment is made. The geographic distance between the two parties

[12] Common bill payments include school fees, airtime, rent, subscription TV and payment for municipal services like water, electricity and property rates.

fundamentally affects the payer's incentive structure for cash versus non-cash payments. Physically transporting cash, even relatively short distances, can be expensive, risky and inconvenient when compared to digital alternatives. Furthermore digital payments, unlike the physical transport of cash, are immediate – a major benefit, particularly for remittance payers when the recipient needs the money urgently. To digitise individual payments over distance, the value of the digital alternative over cash needs to be recognised by the individual payers of these type of payments. As this requires changing the behaviour of consumers, digitising payments over distance is more complex and will take substantially longer than digitising bulk payments. However, the use case for digital payments for this type of payment type is much stronger than for the next payment type: merchant spot payments. This is well illustrated by the large numbers of Zambians that have switched to digital payments for at least some of their payments over distance.

Merchant spot payments are payments in which both parties must be in the same location. For example, a consumer making a goods purchase at a shop must usually complete the payment before leaving the shop. Merchant spot payments are the most complex and will take the longest time to digitise of the three illustrated payment types. To successfully digitise merchant spot payments, both individual merchants and individual customers need to be incentivised to use digital payments. Developing these incentives is not easy. Where no physical transportation is required (as these payments must be completed at the location of sale), cash is perceived to offer a strong value proposition to both merchants and consumers relative to digital alternatives. Cash is cheaper, as no fee is charged by the payment provider or bank (like a merchant discount or card swipe fee); it is more convenient; it is simpler, with no need to remember PINs or balances for the consumer, or how to operate digital menus for the merchant; it does not rely on an unreliable ICT infrastructure; and it requires no trust in third-party payments providers, as the transfer of value is immediate[13]. Digitising merchant spot payments therefore requires the perceived value of digital services to be greater than an already effective default payment mechanism, cash, for individual merchants and individual customers. Furthermore, the network effect of payments means that while most payments in the economy are in cash, there is a large benefit to remaining entirely in cash.

3.1.1. Digitising G2P payments: A nuanced and sequenced approach required

Opportunities

G2P payments constitute the biggest proportion of bulk payments made in Zambia. UNCDF (2017) finds that the Zambian government makes 570,000 G2P payments each month, of which 56% are currently made digitally. Digitising the remainder of these payments may well offer cost savings to government. However, there is a risk that these cost savings will come directly at the expense of the recipients unless the requisite infrastructure is in place. The digitisation of G2P payments is identified in the NFIS, which calls for the "leveraging of G2P and payments to expand financial inclusion," and explicitly targets the percentage of "G2P payments delivered via digital channels" as a measured KPI (NFIS draft, 2017).

Zambians residing far from cash-out points incur significant costs to access digital payments. For Zambians that live close to a cash-out point, receiving payments digitally may incur some additional cost and inconvenience, for example, in cases where cash-out points may have restricted opening

[13] An electronic payment such as a POS card transaction may require an issuing bank, an acquiring bank and a centrally operated clearing and settlement system to complete. These entities need to have systems that work quickly and effectively to share the relevant information between each other. In contrast, a cash payment is cleared and settled in the instant that the physical instrument is transferred from one party to another.

hours or liquidity challenges, particularly at month-end. Nevertheless, the benefits and cost-savings derived from the switch to digital may well outweigh the costs, for those people living close to cash-out points. In many cases, these people would still have had to travel at least some distance to receive a cash payment. However, for Zambians living in remote areas the cost incurred to access a cash-out point will be substantial, and channels to accept digital value are not available in their local communities. Switching to digital G2P payments can cause hardship for recipients residing in areas where cash-out points are limited or non-existent.

Figure 6 below maps out the geographic areas that are within 15km of a cash-out point. The cash-out points included are bank branches, ATMs, MFIs, post offices, bank agents and mobile money agents. All Zambians residing within the red-shaded area are therefore within 15km of a cash-out point. The 15km radius is selected as an indicative distance beyond which the requirement to travel is likely to incur substantial costs and take a long time. The map shows that cash-out points are concentrated in Lusaka and Copperbelt provinces and that there are vast areas much farther than 15kms away from the closest cash-out point in the other provinces.

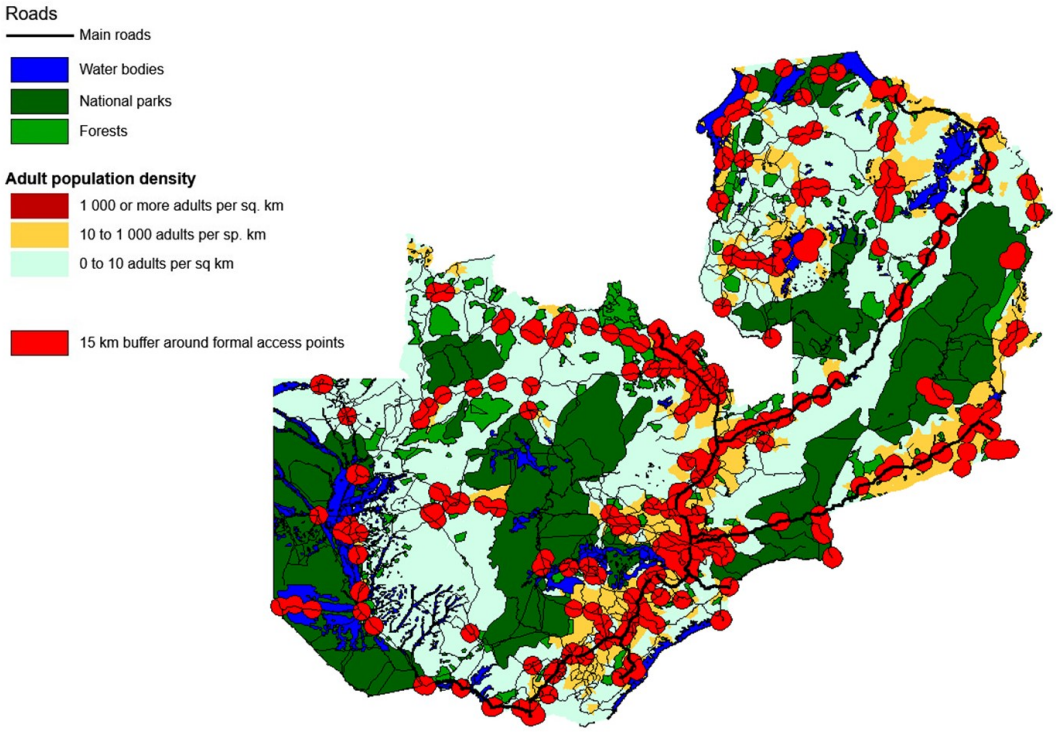

Figure 6: Mapping the geographic reach of cash-out points

Source: Constructed from FSDZ GIS data, 2015

Table 1 below quantifies what is visually apparent in the map above. It is estimated that 58% of all Zambians live within 15km of any cash-out point, and 42% do not[14]. The table also shows that while

[14] To calculate the proportion of adults within the 15km radius, the proportion of each of Zambia's 1,421 wards within the 15km radius was calculated. Assuming an equally distributed population within each ward, it was then possible to estimate the proportion of the population within the 15km radius per ward, based on Zambia's 2015 population census.

most people living in Lusaka (95%) and Copperbelt (84%) provinces live within 15kms[15] of a cash-out point, most residents in the other eight provinces do not.

Percentage of population with access to cash-out points by province and distance				Percentage of total population
Region	**5km radius**	**10km radius**	**15km radius**	
National	38	49	58	100%
Central	24	37	50	10%
Copperbelt	72	82	84	15%
Eastern	13	30	47	12%
Luapula	13	25	37	7%
Lusaka	85	91	95	18%
Muchinga	15	25	34	6%
Northern	13	25	37	8%
North-Western	15	22	28	5%
Southern	20	35	50	12%
Western	13	22	32	10%

Table 1: Proportion of the population with specific distances of cash-out points by province

Source: Authors' own calculated from FSD Zambia GIS data, 2016

Limited reach of digital payments infrastructure means that many Zambians have no option but to make payments in cash. The digitisation of payments more broadly throughout the economy will have much longer time horizons than digitising G2P payments and, therefore, cannot be considered as mitigating the need for cash-out infrastructure. Most Zambians do not have any other option than cash for their day-to-day payments, and most merchants only accept cash. For example, there are only 7,304 POS devices throughout the country, and 79% of these are in Lusaka and Copperbelt provinces (BoZ, 2016). Amongst Zambians that already have the option of electronic payments, many prefer cash because it is cheap, convenient, fast and trusted. There is also anecdotal evidence that Zambians prefer to manage their financial lives in cash, as they can parcel the cash out as they receive it, as opposed to paying with cards which creates the temptation to overspend on certain items. Similar behaviour has been observed among consumers in South Africa and Zimbabwe, and may reflect a pattern of behaviour among low income consumers (FinMark Trust, 2016). Amongst Zambians that already receive income payments through electronic channels, the majority cash out all their income. FinDex (2014) finds that only 39% of bank account holders use their account for more than a single deposit and withdrawal a month.

A nuanced approach is required to digitise G2P payments. The Zambian government must take a nuanced approach to the digitisation of payments. Simply aiming to digitise all G2P payments, or even as many as possible, has the potential to cause hardship for a sizable portion of the population by effectively shifting the cash distribution costs onto the recipients. Setting the target as simple as the "percentage of G2P payments delivered via digital channels" inevitably incentivises the maximisation of this target. Government should consider digitising payments only to those areas,

[15] 15kms is selected as a conservative estimate. 15kms may be a reasonable, though still inconvenient, distance for consumers with access to some form of transport. However, for those reliant on walking, 15kms would be too far to travel to regularly access cash-out points. The table below, therefore, also shows the proportion of Zambians within 5 and 10kms of cash-out points.

such as Lusaka and Copperbelt provinces, where consumers are near reliable cash-out points, followed by the sequencing of the rollout of digitisation in such a way that matches the cash-out points and effective cell phone outreach.

As the business case for cash-out service providers is illustrated in the more densely populated areas, there will be an increased incentive for them to extend their network to reap further benefits. Mobile money agents are the most ubiquitous type of cash-out point, and will likely form the farthest-reaching infrastructure frontier.

If a staggered, evolutionary approach is not taken, the risks are not simply the reduction to welfare, and even hardship for consumers, but also the undermining of trust in the system, making it more challenging to achieve future progress in digitisation. Box 1 below provides some valuable lessons from neighbouring Mozambique on the effect of digitising payments before the relevant infrastructure is in place.

Lack of interoperability and exclusive agents place severe limitation on reach of payments network. The lack of interoperability between banks limits the effective reach of banking infrastructure. When banks are not interoperable, account holders are only able to use the infrastructure of their own bank. In an environment where the availability of infrastructure is a major constraint, this further constrains the ability of consumers to use banks. The exclusivity of most agents in Zambia similarly reduces the effective reach of the agent network in Zambia, as users can only use agents from the same provider as the person they are paying or receiving a payment from. This not only reduces the effective reach of the agent network, but also harms the business case of agents.

Box 1: Digitising G2P payments: a case study from Mozambique

Like Zambia, Mozambique can be described as having a 'citadel economy'; Zambia has a total population of 16.4 million people, compared to 26.4 million in Mozambique (City Population, 2017) The capital Maputo, with a population of 1.8 million people, is densely populated and the location of the majority of the country's general and financial sector infrastructure, while the rural areas are vast with relatively low population density and a major lack of infrastructure, both general and finance-specific. 47% of all bank branches, 45% of ATMs and 60% of POS devices are concentrated in Maputo City and Maputo Province.

As a result, the digitisation of G2P payments in Mozambique required teachers and other civil servants residing outside of these major urban centres to travel long distances simply to collect their salary. In some cases, this required them to take leave to travel for as much as an entire day simply to access their salary which is paid into their bank account. Cash is the only means of exchange in their home villages, so the electronic value is worthless until converted into cash.

Challenges

Challenge for government to accurately identify geographic location of all beneficiaries. The mapping above illustrates the broad areas of the country within reach of cash-out points and then extrapolates from census data to estimate the proportion of the population living within that area. However, for government to determine which beneficiaries should be paid in cash rather than digitally, because they reside too far from a cash-out point, the beneficiary database needs to be

sufficiently detailed to determine precisely where these beneficiaries live. As cell phone services improve, locating people becomes a much easier task.

Business case for providers to extend cash distribution beyond major urban centres is limited. A lack of general infrastructure and low population density outside of urban centres means that providers' investment in infrastructure is both expensive and yields relatively low returns. This is a major challenge to sustainably extend digital G2P payments to Zambians living within the rural areas. While agents may be the most affordable option to extend the reach of cash-out points, they still require a sustainable business case to remain active. Managing liquidity is a major challenge for agents situated beyond bank infrastructure, as illustrated by the fact that 97.3% of mobile money agents are currently situated within 15kms of a bank branch or ATM. In addition to this, low levels of cell service coverage outside of urban areas and further away from the line of rail also limits the potential of mobile money to increase financial inclusion. ZICTA has shown its commitment to expand coverage in rural areas through the installation of cell towers in rural areas, and this should continue in order to extend the reach of digital financial services (Tech Trends Zambia, 2014).

Interoperability important to maximise available cash-out points for consumers. The mapping of cash-out points in Table 1 implicitly assumes that recipients of G2P payments are able to access their funds from all available cash-out points. In reality, few of the providers are interoperable, meaning that recipients can only access their income in cash from the institution with which they have an account. Once the national switch becomes interoperable, this will make all the banks interoperable, allowing recipients to withdraw from any bank. However, other payments providers will not be part of the switch initially. It is therefore very important that recipients are able to choose through which institution they would like to receive their incomes, including mobile money providers, so that they can access their incomes from the closest and most convenient point to them.

3.1.2. Individual payments over distance: Opportunity to digitise bill payments

Opportunities

Many Zambians have switched to digital payments instruments to pay remittances. Figure 7 below shows that most Zambian adults sending remittances already use payment instruments other than cash to pay remittances. The relative value of digital options over cash has already been recognised by most Zambian remitters who have switched to digital alternatives including the post office, mobile money, banks and money transfer providers like Zoona and Shoprite. As with G2P payments, recipients of remittances will also require a local cash-out point and so, in the short-term, it is likely that a portion of remitters and recipients living far away from cash-in or cash-out points will continue to remit and receive in cash.

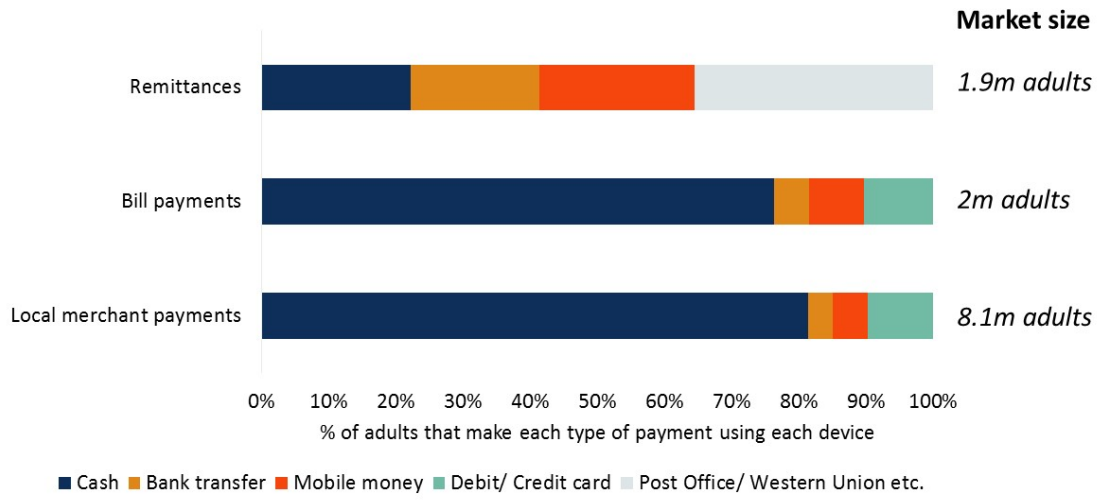

Figure 7: Proportion of adults that use different payment instruments for each type of payment

Source: FinScope, 2015

Bill payments remain largely in cash despite a similar digital value proposition as remittances – this indicates an opportunity. Figure 7 also shows that the other form of payments over distance, bill payments (both P2B and P2G), are still made primarily in cash. The payment of bills using digital channels, including water, school fees, taxes, electricity, property rates and subscription TV, offer similar benefits over cash to remittances. The low use of digital payments instruments to pay bills therefore constitutes a major opportunity. FinScope estimates that 2 million Zambian adults pay bills, most on a monthly basis. Digital bill payment providers can potentially significantly grow their market by incentivising customers to switch away from cash, while the recipients of bill payments can substantially reduce their cash handling costs by incentivising digital alternatives. This has been an area largely unexploited, with the focus of digital payments providers being more on remittances.

Challenges

Overcoming status quo bias. Inertia in decision-making is a much-studied behavioural phenomenon. People tend to remain in *status quo* due to the transaction costs involved to switch, even when these are relatively small (Madrian & Shea, 2001). Additionally, consumers are not fully aware of the benefits (and costs) of using a product until they actually use it. Therefore, a specific event, circumstance, initiative, or personal encouragement is often required to *trigger* the initial adoption of the digital alternative (Hortaçsu, et al., 2015). Common triggers include short-term promotions and discounted fees accompanied by advertising to encourage people to try a new product. A similar approach may be required to initially encourage bill payers to switch to digital instruments.

3.1.3. Merchant spot payments: A structured long-term strategy to yield long-term efficiency gains

Opportunities

A considered and well-sequenced set of interventions is required to develop the digital payments ecosystem. The digitisation of merchant payments is a long-term and complex process. However, the efficiency gains from shifting away from cash payments to the broader economy may be substantial. Moody's Analytics (2016), for example, found that across 70 countries, each 1% increase in usage of

electronic payments produced, on average, an annual increase of approximately USD 104 billion in the consumption of goods and services, or a 0.04% increase in GDP, assuming all other factors remain the same. Increasing the adoption of digital payments, however, requires well-considered sequencing to ensure that the adoption of digital payments is incentivised without undermining trust in the system. This includes careful consideration of how payment system policies and rules are set, to ensure aligned incentives of all players within the market.

Figure 8 below lays out a simplified vision of the sequencing of interventions to effectively shift merchants and consumers away from cash towards digital payments over time. Merchant and consumer education is an important part of this process, but it must be sequenced with incentives and targeted at "teachable moments." Merchants, particularly shop assistants or tellers, need to be well educated on how to use the digital payments methods. At the point of use consumers need to be incentivised to take up the digital payment in order to effectively illustrate the use case.

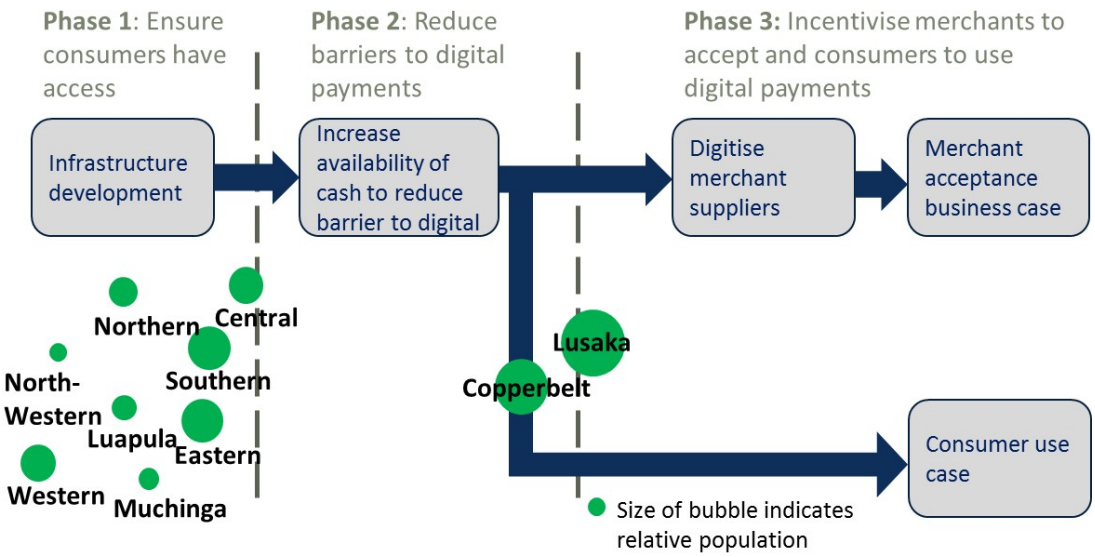

Figure 8: Phases of interventions towards digitising merchant spot payments

Source: Authors' own

Phase 1: Ensure consumers have access. Before consumers can be encouraged and incentivised to use digital payments instruments, the requisite infrastructure needs to be in place that enables them to pay digitally if they choose to do so. This includes the consumer-facing infrastructure that enables digital payments like POS devices, as well as the back-end payments processing systems. The digital payments infrastructure within Zambia is largely situated within the major urban centres: 79% of POS devices are situated within the Lusaka and Copperbelt provinces. The current costs of switching EFT and, particularly, card payments are also exceedingly high, discouraging even large retailers with high cash-handling costs to accept digital payments due to these fees. For example, the estimated cost of switching via VISA is between ZMW 9.40 and ZMW 13.17 (USD 0.95 and USD 1.33) (Dermish, et al., 2012). If one assumes an average merchant discount fee of 2%, average POS transactions would need be at least between ZMW 470 (USD 47) and ZMW 659 (USD 67) in order to cover costs. The launch of the national switch will enable a significant reduction of these fees, if financial institutions become more actively competitive in this area.

Phase 2: **Reduce barriers to digital payments**. The next phase focuses on increasing the availability and accessibility of encashment points to customers. Encashment refers to the ability to convert electronic value into cash. The fundamental reason for increasing access to cash as an interim step to

encouraging greater usage of digital payments – which may seem a counter-intuitive approach – is to lower the entry barriers to digital payments for consumers. To make digital payments (beyond over-the-counter money transfers), consumers first need to store value electronically, usually in an account. Storing value in an account requires a high level of trust in the institution. The easier it is for them to access their money in cash, the lower this barrier becomes. Secondly, the move to widespread use of digital payments is a long-term shift and so even as consumers make the transition to digital payments, they will continue to need access to cash to make many of their payments. Cash will always be an accepted form of tender, so if the conversion from electronic value to cash is too onerous or costly, these consumers will simply opt to store their value in cash and make all payments using cash rather than using digital alternatives.

Increasing the availability and broadening the distribution of cash-out infrastructure is therefore critical in effecting Phase 2. This requires investment in cash infrastructure which is currently centred within the major urban centres. For example, 69% of ATMs are situated within Lusaka and Copperbelt provinces. Additionally, two specific interventions may be considered to improve availability of cash in Zambia.

- *Reduce cash handling costs for banks.* The Bank of Zambia requires banks to deposit physical instruments within BoZ vaults to meet their liquidity requirements overnight. This means that physical cash must be brought into BoZ vaults each evening and then taken out in the morning by banks that need to distribute the physical cash. This practice increases cash handling costs for the banks and reduces their incentive to distribute cash to consumers, as it is easier and cheaper to simply store excess cash in the BoZ vaults rather than transport it in and out each day. The regulatory requirements could be equally well met by requiring banks to maintain a separate ledger tracking the cash they have with the central bank, without physically storing the cash in BoZ vaults.
- *Cash advance at POS.* Enabling and encouraging retailers to offer consumers the opportunity to withdraw cash has the potential to extend the reach and depth of cash-out points throughout the country. For larger retailers, cash advances to customers helps to reduce the volume of cash they have on hand and so reduces their cash-handling costs. Furthermore, this service constitutes an additional revenue stream from the withdrawal fees charged to consumers.

Phase 3: Create incentives for merchants to accept and consumers to use digital payments. Once the requisite infrastructure is in place, only then should the focus shift towards directly incentivising merchants and consumers to use digital instruments more broadly for merchant spot payments. If merchants and consumers are pushed to use digital instruments before the supporting infrastructure and environment is in place, it will lead to frustration, inconvenience and ultimately mistrust in the system, making it more challenging to encourage those people to switch away from cash.

The digitisation of merchant spot payments requires both merchants to accept digital payments and consumers to use digital payments. Both parties therefore need incentives to use digital options:

- *Merchants.* For the purposes of this note, a merchant is considered as any legal person that sells goods or services to individual consumers on more than an *ad hoc* basis. Merchants can range from individual traders and hawkers through to large, multinational retailers like Shoprite or Choppies. One would expect that large retailers will be the first to accept digital payments to mitigate their cash-handling costs, while at the other end of the spectrum small, informal traders may be very difficult to encourage to use digital payments, at least for the foreseeable future.

Like other consumers, merchants prefer cash because the direct cost is lower[16], it is quicker to process, trusted, and they make most of their other payments in cash.

Currently in Zambia the cost incurred to process card payments is very high. The lack of a national switch means that most card payments are processed through Visa or MasterCard at high cost, levied as a merchant discount fee. This means that even large retailers, which carry relatively higher cash-handling costs, discourage consumers from using cards. For smaller merchants, even if the processing costs are reduced, cash still offers better value, as when goods are sold in cash the merchant receives 100% of the value. When suppliers are also paid in cash, it is more convenient as well as cheaper to receive cash. Receiving digital payments not only incurs the merchant discount cost but may also require additional fees and inconvenience to convert the electronic value into cash to pay suppliers and, particularly for small merchants, to pay ordinary day-to-day living expenses.

To encourage merchants to accept digital payments and encourage their consumers to pay using digital instruments, the first step may be to focus on digitising supplier payments. If merchants are required to pay suppliers, or repay capital financing in electronic value, they will be more motivated to accept electronic value from customers, thus creating an opportunity for banks and other FSPs to intermediate between suppliers and merchants. To reduce the cost of financing the value chain, good credit scoring criteria will need to be applied, and donors may need to step in to bear some of the risk by putting up returnable capital and liquidity. Suppliers, like wholesalers, dealing with multiple merchants may incur high cash management costs and risks if payments are made to them primarily to them in cash. There may, therefore, also be an incentive for larger suppliers to offer discounts to merchants that pay them through digital channels.

However, these will only change behaviour if the relative value of digital payments exceeds that of cash. This may require some subsidy, at least initially, to incentivise merchants to overcome the *status quo* bias and try digital payments. Secondly, increasing the cost of cash deposits for merchants may also be considered a way to increase the cost of cash relative to digital. However, this should only be considered once other incentives are in place and some level of switching to digital has already taken place, otherwise merchants will be incentivised to remain completely in cash, never depositing any value in formal institutions to avoid the fees.

- *Consumers*. As with merchants, for consumers to switch away from cash, the relative net value offered by digital instruments needs to exceed that of cash. A short-term promotion or similar incentive may be important to trigger initial trial of digital mechanisms. I2i (2017) explains that these short-term incentives can trigger a person to trial a financial service. However, once they are familiar with the product and the value they can derive from it, they will only continue to use the product if it offers them greater value than alternatives. For instance, FNB Zambia created a promotional product which gave consumers "cash back" for using FNB Visa cards to make purchases (FNB Zambia, 2016). The FNB promotional material included use cases where one could pay with their Visa card. This creates an incentive for trials of the digital product. Users that found the product effectively met their use case continued to use the product even after the

[16] The direct cost of cash for merchants is close to zero, compared with the merchant discount fees charged for digital payment acceptance. Smaller merchants, in particular, perceive cash as far cheaper, as the cash-handling costs are largely hidden. For smaller retailers, these cash-handling costs may not be high -- as they make all payments, including to suppliers, in cash, receiving cash is convenient.

promotion ended. In this example, it was the commercial bank which created the incentive for consumers to transact digitally.

A consumer needs to store value in an account to make digital payments from it, and it is easier and cheaper to make payments digitally if you store your surplus income in an account. To incentivise digital payments, it is therefore equally important to incentivise consumers' formal deposits. The existing cost structure of bank accounts in Zambia is a significant disincentive for Zambians to store savings in accounts. The weighted average cost of monthly entry-level transaction accounts across the banks is ZMW 43.79, which equates to 7.2% of median income[17]. Add to that the access costs (travel and opportunity costs to access the account), then even for urban customers who do not travel far to access the bank the total account cost equates to 11% of median monthly income. This is compared to the cost of storing value in cash, which has no explicit costs. The relatively low levels of crime in Zambia also mean that the primary implicit cost for individuals to store value in cash -- theft -- is fairly low. FinScope (2015) shows that the largest portion of savers (33% of adults) save at home.

Bank fees are structured such that 80% of the typical bank fees as estimated above are for the monthly fee (ZMW 34.80). Low-income consumers much prefer per-transaction fees over fixed flat fees (FinMark Trust, 2016; Bester et al., 2016). It is generally understood that a transaction service incurs a charge, but when monthly fees are simply deducted it is often considered stealing and undermines trust in the institution. Mobile money accounts' fee structures are entirely based on transaction fees, with no monthly fee.

A final step to incentivise the use of digital instruments over cash may be to increase the cost of cash withdrawals so that consumers bear the true cost of cash, without subsidy from providers. However, as with increasing cash deposits to incentivise merchants, this should only be considered once other incentives are in place and some level of switching to digital has already taken place, otherwise consumers will be incentivised to remain completely in cash with no deposits in formal providers to avoid the withdrawal fees for payments that they still must make in cash.

A targeted approach required to address differences between provinces. Figure 8 above also indicatively maps out the level of digital payments development across the 10 provinces. Different provinces have differing levels of digital payments infrastructure in place and differing levels of existing usage. A single strategy for the whole country will therefore be inappropriate. While some areas, particularly Lusaka and the Copperbelt, may already have some of the basic infrastructure in place and therefore may soon be able to move into Phase 3, many of the other areas lack even basic infrastructure. Thus, the sequencing of the interventions is a critical element of the approach: Luapula and Muchinga, for instance, will require different interventions than Lusaka and the Copperbelt.

Challenges

The lack of cell phone coverage, no interoperability, and high switching costs for many digital payments in the current Zambian environment means that the cost of processing digital payments is simply far too high to be considered a viable alternative to cash by most merchants and consumers. The effective introduction of the national switch and a corresponding reduction in fees is critical.

[17] Based on basic consumer usage profile – two ATM withdrawals and one deposit on a basic transactional account.

Behavioural studies show that changing social norms and individual habits is a long-term challenge. Shifting a large portion of Zambians away from cash, a mechanism they are entirely comfortable with and which everyone already uses, will be a long-term objective. The types and sequencing of interventions are critical to ensure that client trust is not undermined in the process.

3.1.4. Potential actions for improving the ease of making and receiving payments

Three areas of action are identified within this priority. Payments, or the need to transfer value, is a virtually universal need. Therefore, enhancing the efficiency and ease of making and receiving payments will impact the entire population. More efficient payment channels also reduce friction and cost in the economy as a whole. Table 2 below lays out the potential actions to improve payments arrangements for the country.

Stakeholder	Time horizon	Stakeholder	Potential actions
G2P payments	Short-term	Government	• Digitise payments only to those recipients residing close to an existing, reliable cash-out point. • Enable interoperability and beneficiary choice, so that recipients can receive their payments through the provider that offers them the best value, including proximity. • Support and incentivise providers to extend the reach of cash infrastructure beyond urban areas. • Invest in and support the development of key infrastructure, including ICT network expansion and electricity provision. • Ensure there are both financial education and consumer protection mechanisms in place to enable customers to understand the services and to address problems.
		Government and donors	• Enable regular and ongoing mapping of cash-out points to ensure payees remain within the reach of infrastructure and to understand opportunities to further extend to G2P payments as new cash-out points are developed.
		BoZ and FSPs	• Ensure that account fees are appropriately structured to incentivise provider investment in infrastructure through transaction fees, but with limitations on monthly fees that erode the value recipients receive. • Provide incentives for targeted savings schemes to keep deposits in non-cash.
		FSPs	• Leverage alternative cash-out points, in particular where cash is aggregated, like retailers, petrol stations, and restaurants. • Since payments are often made monthly, ensure that cashpoints are adequately stocked with cash so the ATMs and agents do not run out.
Bill payments		FSPs and bill recipients	• Increase availability of digital bill payment options and number and types of bills that can be paid digitally.

Stakeholder	Time horizon	Stakeholder	Potential actions	
	Short to medium-term			• Offer promotions and short-term incentives to encourage bill payers to trial non-cash alternatives. • Ensure effective systems are in place between bill payment provider and service provider to ensure that customers are correctly credited when they pay bills digitally. Failure to do this will undermine trust in the mechanism. • Ensure that payers receive confirmation of bill payment, such as an SMS, that can be used as proof of payment.
		BoZ and FSPs		• Develop and publicise easily accessible recourse channels in case of any problems.
Merchant spot payments	Long-term[18]	National switch and BoZ	Phase 1	• Reduce switching costs.
		Government		• Incentivise investment in and roll-out of digital payments infrastructure.
		BoZ	Phase 2	• Reduce cash handling costs for the banks, particularly the requirement to deposit cash in physical central bank vaults each day.
		FSPs and large retailers		• Cash advance at POS, with revenue incentive from consumer.
		FSPs	Phase 3	• Digitise merchant value chain. • Offer merchant finance in electronic value. • Increase cash deposit costs. • Reduce cost of digital payments to merchants. • Increase cost of cash withdrawal except at merchants (ATMs, agents). • Incentivise consumer deposits, including ensuring appropriate fee structure for accounts.

Table 2: Potential actions to expand the reach of payments per stakeholder

Source: Authors' own

3.2. Deliver more innovative savings products that better meet the needs of savers and providers

After payments, savings is the financial service that Zambians use most widely to meet their financial needs. Contrary to popular belief, Zambians have a healthy savings culture. They save broadly and for a range of needs, including liquidity, resilience, meeting goals and life events. However, most savers do not save with formal savings providers, because savings products are not designed or priced to meet their needs.

Rationale for introducing better savings products. With capital constrained in the market, and particularly with a lack of longer term financing options, the savings culture in Zambia is an asset that should be better leveraged to attract deposits. Over the short term, this can be achieved through a better understanding of the functional needs of clients, and better product design.

[18] The objective to digitise merchant payments broadly will be a long-term objective, however, some of the potential actions outlined, particularly in the earlier phases may be implemented in the short-medium term.

Zambia has a strong savings culture. Although this has not always been the case, Zambians have a strong culture of savings. In 2015, 45% of Zambians indicated that they save, either formally or informally, and 33% of adults save at home or with family and friends. Only 33% of Zambians do not save. In recent years, formal and, just as importantly, informal savings have also been one of the primary drivers of financial inclusion in Zambia, and was one of the main reasons for increased access to finance between 2009 and 2015[19]. Zambia's gross domestic savings (as a percentage of GDP) is high compared to other middle-income and lower-income countries, at 32.8% in 2015[20]. It only increased to this level from around mid-2000 onwards[21].

People save most to meet liquidity needs and for emergencies. After payments, most Zambians rely on savings to meet their financial needs. Figure 9 below, shows that non-payment related needs are met mostly by savings. Zambians use savings most commonly to manage liquidity and resilience. This holds across target markets. Substantial further use cases include farmers and MSMEs who save to meet productive liquidity needs, such as buying farming inputs like seed and fertiliser, or to finance business expenses such as stock[22]. People also save to meet medium-term goals or planned expenses, most prominent of which is saving for educational or school fees, but also to cover planned medical expenses. These are highest for formal employees, but remain significant across all target markets. Lastly, people save to obtain assets (land, housing etc.) or to meet longer-term goals like retirement.

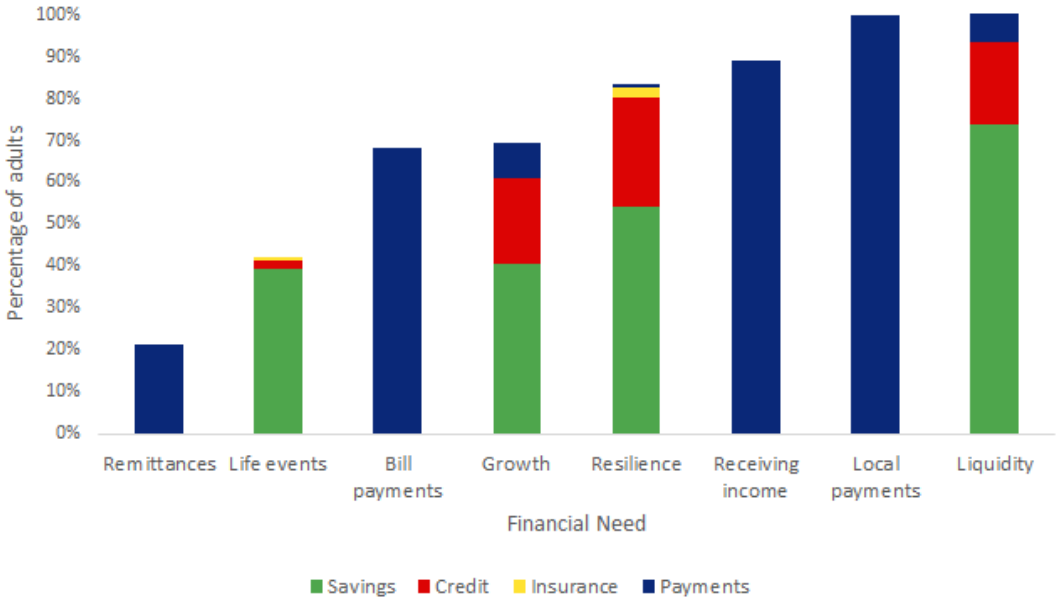

Figure 9: Financial needs met by savings

Source: Zambia FinScope 2015

Most people do not save formally. Although formal savings constitute one of the largest components of formal inclusion, and over 1.5 million adults save with a bank, formal savings is not the most used mechanism for saving in Zambia. In fact, more than two thirds of the 77% of Zambians who save do so informally or at home. In addition, almost half of those who save formally also save in informal mechanisms or at home or in assets (see Section 2.2). Most of those who save with formal

[19] Formal savings increased from 13% to 21%, while formal and informal savings increased from 31% to 45%.
[20] For instance, the average for lower middle-income countries in 2015 was 23.2%, and many regional African countries have lower rates than Zambia: Mozambique (5.9%), Kenya (7.9%), Namibia (10.4%), South Africa (19.7%), and Tanzania (23.8%).
[21] Previously, Zambians only saved between 5% and 15% of GDP (from the 1980s to mid-2000).
[22] However, this is far exceeded by saving to manage household liquidity and resilience for both farmers and SMEs.

providers are formal employees. For instance, 55% of formal employees save with a bank, while only 19% of MSMEs and 10% of farmers save with a bank. Those who use formal savings save relatively higher amounts, on a less frequent basis (monthly, rather than daily or weekly), and they save relatively more for longer term goals. On the other hand, FinScope finds that people who save informally or at home save in smaller amounts and on a more frequent basis, and place greater value on quick, easy and low-cost access[23] to their savings. They also save more for short-term goals like liquidity management or resilience.

Formal products do not meet shorter term needs. The fact that most Zambians save informally is closely linked to the preference to save for short-term needs. Short-term needs relate to unforeseen expenses or shortfalls in income that arise on a daily, weekly and monthly basis. Because a level of uncertainty is involved in estimating future liquidity, funds saved for these needs should be easily accessible at short notice and at a low cost (including transactional cost, opportunity cost and the cost of physical access – travelling). However, formal products do not meet these requirements, especially for small deposits. For instance, someone who deposits ZMW 50-100 per month with a bank (a typical amount for informal savers) will lose between 23% and 46% of the value of the deposit if they only do one balance check and one withdrawal that month. This is mostly due to high monthly maintenance fees[24] (see Figure 10 below). In addition, access points are limited, and it takes time for most adults to travel to one, plus branches can only be accessed during working hours.

> *"The bank isn't working all the time, so if there is an emergency I can't get the money."*
>
> Informal trader

Formal products do not adequately cater to longer term goals. Despite formal products being used more by savers who want to meet longer term goals, most people who save for goals do not save with formal providers. This is true across all major longer-term savings goals, including buying a house or land. Even for education (the largest medium-term reason for savings), almost half of adults who save for this reason do not do so with formal providers. The reasons are similar to that of short-term savings. Formal savings do not meet the functional requirements for longer term savers, and are too costly for the level at which most save[25]. Someone who saves ZMW 50-100 per month for 12 months in a bank deposit account, for instance, will lose between 40% and 20% of the value of their deposit to bank charges – again mostly due to monthly fees[26] (see Figure 10 below). Fixed deposit accounts are not costly on a monthly basis (and offer positive real interest rates under low inflation conditions), but require high opening balances, which excludes most people who want to save for longer term goals. Discipline and flexibility are also important functional requirements for longer term savings. People want to be sure that they will not spend the money needlessly (or when pressured by relatives), but they also need the flexibility to access money if they need to. Fixed term savings accounts do not offer flexibility, while short-term savings accounts do not provide discipline. In addition, there are limited contractual savings options other than pensions.

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[23] Including transactional cost, opportunity cost and the cost of physical access – travelling.

[24] However, banks also charge for balance checks and withdrawal fees which affects the value of savings over time, and they charge account closure fees when closing an account. Lastly, banks have minimum balance requirements which could be a barrier if too high, as well as penalty fees if minimum balances are not maintained.

[25] Deposit accounts are too costly in terms of monthly fees, whilst fixed term accounts have high opening balances.

[26] This assumes only one withdrawal (and one balance check) at the end of 12 months. Please note, there are some exceptions between banks in terms of the cost of savings, with some banks offering better value than others – particularly those with low, or no monthly administration fee.

"Yes, I do save. I have a bank account in Kabwe, two hours away. It keeps me disciplined! I know that if I have to travel two hours to make a withdrawal from my bank account, I will not squander the money."

Female farmer

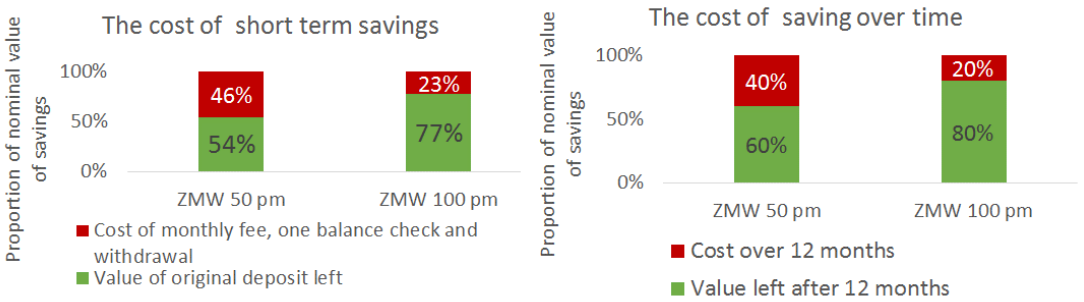

Figure 10: The cost of saving in a bank deposit account

Source: Authors' calculation using the weighted average costs for 19 banks. Costs for individual banks published by BoZ, Sept 2016.

MNOs offer negative nominal returns, but better value than banks. Although MNOs have received criticism for their high withdrawal fees (ZMW 12-22 versus weighted average for banks of ZMW 6.27), MNOs still offer better value than banks, because they do not charge a monthly service fee, and only charge a fee for withdrawal of money. This is despite the fact they are not allowed to raise interest on mobile money accounts. A typical small saver that deposits ZMW 50-100 per month for 12 months in a MNO will receive 98% of the value of the savings back from the MNO after 12 months[28]. Although MNOs therefore also offer negative nominal returns, the value offered is better than those from banks (on average – individual bank returns vary).

Savings groups are the only mechanism which realises positive real returns on small savings amounts. The interest rates raised on savings group deposits vary from group to group, but qualitative research suggests that interest rates of at least 10% per annum would be normal[29]. Furthermore, savings groups do not charge any monthly maintenance fees or withdrawal fees. The nominal return on saving with a savings group for 12 months is therefore 110%, although savers need to deposit the same amount every month, or face penalty fees. This makes savings groups the only mechanism through which to realise positive nominal returns at low values of savings. Although savings groups offer negative real returns under high inflation conditions, they are the only mechanism through which to realise positive real returns when inflation has normalised (to below 10%, as in 2017).

Formal providers are not leveraging Zambia's saving culture sufficiently. It is clear that Zambians save. For example, one of the preferred savings methods for low income households is to save at home, and calculations based on FinScope (2015) data indicate that the total value of savings held at home is approximately ZMW 3.3 billion. However, the current product offering and business models of formal providers are not attracting most savers, who save using informal mechanisms and at home

[27] MNO withdrawal fees calculated as average of MTN and Airtel fee structures.

[28] The only cost for saving in a mobile money product is withdrawal fees, which is tiered for different amounts, so it works out to about the same for both ZMW50 and ZMW 100 savings per month for 12 months, assuming one withdrawal at the end of 12 months.

[29] Savings groups generate a return on member deposits by extending loans to members over the savings cycle, using member deposits.

instead. At the same time providers are capital constrained, especially given recent regulatory impacts and macroeconomic conditions (see Section 3.3 and Section 2.3). Providers also suffer from a mismatch on their balance sheets. There is a general lack of long-term funding available, partly due to the high risk of lending, but also due to a lack of longer term capital (both from investors and from the capital market). The term and structure of deposits therefore has an increased impact on the balance sheet structure of providers, and ultimately on the term of loans provided. While there is a desperate housing shortage in Zambia, very few mortgages are available, and the few that exist are generally shorter term than what is required to buy property. The two main supply-side issues are a lack of understanding of the main customer needs and product requirements, and the revenue model of deposit-taking providers, which is structured to rely on non-credit income as a source of revenue[30] and therefore is higher cost for depositors wanting to save using formal mechanisms.

Opportunities

Supporting informal savings mechanisms provides the largest opportunity for impact. The most important opportunity to support savings behaviour in Zambia is to recognise the value and magnitude of informal savings providers like *Chilimbas*, savings groups and other community-based groups, and to provide support to such groups as required. Informal savings are currently meeting the broadest set of needs for the majority of adults, and it is therefore critical to develop this sector over time and ensure that informal savings structures can operate under certainty and within a conducive environment. While *Chilimbas* are more loosely associated groups and do not accumulate value, savings groups and other community-based groups offer an opportunity for the grassroots development of more permanent structures and possibly institutions over the longer term. This can be achieved as follows:

- *Support sustainability and replication.* The first key priority is to focus on the sustainability and replication of these groups.
- *Over the long term, support aggregation and progression to large structures.* Once sustainable groups emerge, with multiple cycles and perhaps longer term investment strategies with higher accumulations of savings, government should ensure that a favourable environment for the mutualisation of such successful groups is in place. Mutualisation has been the pathway to longer term formalisation in several countries[31], and can be a mechanism whereby both institutions and clients obtain upward mobility and develop to greater financial sophistication over time. However, this is not a quick process, and may even happen over the course of decades. Given Zambia's history with credit unions and SACCOs, it is very important to deal with this in a stepwise process, and only proceed with additional steps if the right conditions have been achieved in the current step. The first step would be to provide formal recognition to informal groups, without placing any onerous requirements (especially taxation or supervision) on these groups during their infancy, to encourage the development of the industry, and foster longer term progression into larger structures. The second step is to develop a policy approach over the medium term, to provide more certainty to the industry and other stakeholders. This can start with guidelines for use. If the industry is observed to grow and bigger groups develop, a legal identity and framework for informal savings groups can be considered, which only larger groups with formal ambitions can voluntarily adopt if they so choose. This step should still minimize the burden on groups (for instance tax), but a longer-term graduation path to full formalization

[30] The latter include fees, charges on deposit accounts, and alternative revenue streams like investments (including T-Bills and government bonds) and deposits with overseas financial institutions.
[31] For instance, Bester *et al.* (2016) describes how savings banks in Germany, the UK, the USA and Japan all developed from local grassroots level structures.

should also be developed. Over the long term, when groups have mutualised and achieved sufficient scale on an individual level, options can be explored to identify and manage prudential and consumer risks.

- *Continue to explore formal sector linkages, but leverage linkages over the longer term.* The NFIS strategy acknowledges the need for expanding linkages between savings groups or *Chilimbas* and the formal financial sector. FSD Zambia and other organisations have also explored formal sector linkages. However, there are various issues with creating formal sector linkages in general – both for formal providers and for the members of informal groups. The amount of capital available for formal intermediation within informal savings groups is also comparatively low, due to (i) the small size of individual groups, (ii) the size of the industry at this stage, and (iii) the fact that savings is intermediated by informal groups during the savings cycle and that little capital is retained at any particular point in time[32]. In addition, formal sector linkages do not address the issue of formal sector products delivering value compared to informal products in a way that could meet identified needs. Although providers and donors should continue to explore formal sector linkages, the priority is therefore to focus on sustainability, replication and achieving scale, followed by the longer-term aggregation and progression of informal groups into larger structures. Once this has been achieved, formal sector linkages would be a natural part of the evolution of these groups.

Formal providers can play an important role in the medium term to serve existing needs better. There is plenty that formal sector providers (both financial providers and non-financial providers like retailers and MNOs) can do to leverage savings better, which they can pursue over the medium-term. If formal providers are successful in attracting more formal deposits, this can alleviate the mismatch on their balance sheets, which in turn can lead to increased revenue from more appropriate revenue sources (like credit), and can also help to address the cost-of-savings problem. The following should therefore be considered by formal providers over the medium term:

- *Develop targeted and flexible savings products.* Developing targeted but flexible, low cost commitment savings products[33] for particular and prominent needs can also serve to address savings needs for resilience and goal setting. The largest existing needs for medium or longer-term savings is educational expenses, but housing construction and productive expenses and investment for MSMEs and farmers are also substantial.
- *Develop products that suit the most critical customer needs.* The first is to design products tailored to the most prominent consumer demands, namely savings for liquidity management and mitigating risks. Most Zambians save (and many borrow) to manage expenses for daily living needs – like buying food or clothing. However, there is limited use of retailer savings products, which is currently mostly limited to December savings cards. For instance, loyalty cards and gift cards can be leveraged better, and have proved to improve the purchasing behaviour of customers in other countries[34]. Employment and farmer sales payment savings deduction systems can also help to reinforce income smoothing to investments.
- *Adopt more suitable product naming and fee structures.* Naming a product after the reason for saving improves saving behaviour and discipline, while charging lower income clients for

[32] Except during the last 3 months of the cycle, during which members do not borrow because there is insufficient time to repay, which allows for time-based deposits.
[33] Products that are not easy to access except in an emergency, and are named after the purpose of saving.
[34] It is also a source of customer data, which could be leveraged for better marketing, as well as potential credit provision over the longer term (once credit market constraints have been addressed).

transactions, rather than monthly fees have also been successful in terms of increasing usage, and should be explored in relation to the needs identified above.

Challenges

Longer term development perspective also required for savings, in combination with credit market development. Despite the lower hanging fruit mentioned above, effectively addressing the biggest constraint in the market for formal savings requires a longer-term approach. This relates to the link between credit and savings, and the current structure of the revenue and pricing models of deposit-taking institutions. Most savings providers also provide credit, and these providers rely on both as key components of their business and revenue models. However, the credit market in Zambia is suffering from serious constraints which will require longer term market development to address (see Section 4.1). These credit market constraints are hampering the ability of providers to leverage credit as an effective revenue stream, which in turn forces them to rely on alternative revenue streams (like fees in deposits) to supplement income and profitability. To lower the cost of savings over time, the key issues in terms of credit market development therefore also have to be addressed. In other words, unless the risk premium on lending can be decreased, and credit as a source of revenue can increase, providers will continue to rely on deposit fees for a substantial portion of their income.

Longer term development also requires innovation. Changed credit market conditions will be necessary but not sufficient for longer term development. Providers can also remain comfortable within current business models even when conditions change. Longer term market development will therefore require innovative providers which are willing to adapt their pricing and revenue models to attract more savings and generate more revenue from credit activities, once fundamentals in the credit market have changed.

3.2.1. Potential actions for introducing better savings products

To achieve the opportunities discussed above there are certain key actions required from specific stakeholder groups or market segments (first column in Table 3 below). These actions are presented in order of the ease with which opportunities can be developed and the time horizon required to do so (second column). Short and medium-term priorities relate to supporting the development of the informal market, as well as pursuing low hanging fruit for formal savings provision, like better product design. Longer term priorities are dependent on the realisation of shorter term priorities (for instance exploring formal-informal linkages once informal structures have achieved scale), or on resolving issues in the credit market[35].

Stakeholder	Time horizon	Potential action
Leveraging the informal sector: Donors and government	Short and medium-term	• Encourage the usage of informal savings mechanisms like savings groups and community based structures. • Support the sustainability and replication of savings groups – potential for training.
Informal savings policy: Government and regulators	Short, medium and long-term	• Develop informal savings policy approach to: ○ Provide guidelines for use. ○ Develop a legal identity and framework for informal savings and community savings groups. ○ Develop a graduation path for informal savings groups.

[35] The MAP Zambia summary report only provides an overview of credit market issues. For actions related to achieving opportunities in the credit market, please see the main MAP Zambia Diagnostic document.

Stakeholder	Time horizon	Potential action
		○ Avoid legislating small groups to encourage use. ○ Encourage and support the development of larger, more permanent informal savings structures.
Other formal institutions	Short and medium-term	• Explore the potential of retailer savings products for monthly living expenses • Targeted savings products that help farm households manage to smooth funding over time to address mismatches between income and expenditures
Banks, NBFIs and mobile money providers	Short and medium-term	• Better product design to meet the largest existing medium and longer term consumer needs, including the use of purpose named products, and the use of transaction-based charges. • Product development for targeted savings products (e.g. through savings wallets), including contractual savings and flexible targeted savings which mimic the functionality of saving with a savings group.
	Medium and long-term	• Link informal savings structures to formal system to mobilise formal savings, provide graduation path and improve security (banks or mobile, training and simplicity key), especially once larger, more permanent structures emerge.
	Long-term	• Restructuring business, revenue and pricing models to attract more deposits.

Table 3: Potential actions to leverage savings and develop the savings market by stakeholder

Source: Authors' own

3.3. Enhance regulation and policy to prioritize financial service market development that deepens service access to more Zambians

Rationale for refocusing regulation and policy. Delays in passing key financial bills and sudden changes to regulatory requirements have stalled the development of the financial sector in Zambia. This situation has created an environment of uncertainty and risk for providers which impacts the development and provision of appropriate products and services to broader categories of consumers. Sustained political will and emphasis on consistent, updated financial sector regulation and regulatory processes is critical to enable economic development and financial inclusion.

Regulation is fundamental to the operations of any financial sector. Inappropriate and/or outdated regulation can cause enormous, sometimes irreparable harm to a country's financial sector and can act as a brake to innovation of development of the sector. In Zambia, delays in regulation and a lack of consistent regulatory impact assessments prior to regulatory changes are two regulatory issues that have inhibited the development of the sector. Third, the lack of an effective and coherent regulatory framework for consumer protection and recourse in the sector has contributed to the general lack of trust displayed by Zambians towards financial sector providers.

Lack of political consideration affects ability to introduce new regulation. Underlying the major regulatory challenges in Zambia is a general lack of emphasis on financial regulation by both politicians and administrators within the Zambian government. Financial regulation is not generally a primary political priority. Moreover, it is complicated to understand, and therefore draft, financial sector legislation. Few in the electorate are concerned with, or even aware of, financial regulation.

However, the financial system is central to the development of the entire economy. Efficient mechanisms to transfer value, manage financial risk and to intermediate capital are critical to the functioning of all sectors of the economy. A sub-standard regulatory framework stymies most development within the financial sector and by extension the entire economy.

Opportunities

Limit delays in passing new financial sector regulation

Major delays in passing financial sector regulation. One symptom of the general lack of political will is a large number of delayed financial sector regulations. The National Assembly of Zambia website shows a major backlog of bills across sectors, with some dating back to 2009. Other bills dating even further back have simply been dropped off the list (stakeholder interviews, 2016). In the absence of new and updated legislation, financial sector regulators promulgated ancillary regulations and guidelines over the years to attempt to keep the regulatory framework relevant and effective. However, in many instances these reached the limit of delegated legislative authority to adapt the regulatory framework to the requirements of the financial services industry, and therefore had reached a point of development stagnation.

The impact of these delays in legislation is in many cases severe. The Pensions and Insurance Authority (PIA), for example, has been severely hamstrung in its ability to regulate the insurance industry due to the delayed insurance bill. Existing legislation provides PIA with limited enforcement mechanisms short of non-renewal of licenses, something built into the proposed new bill. PIA, in order to incentivise insurers to offer products suited to lower income consumers, also intends to issue microinsurance regulations to create a regulatory space with reduced prudential and market conduct requirements for insurers offering low-value insurance policies. However, these regulations have been similarly delayed with the overarching legislation, as the current act does not define microinsurance.

Recent passing of financial legislation positive, but underlying challenges must still be addressed. In recent months, several long-pending bills have been passed into legislation including The Movable Property (Security Interest) Act (2016), the Financial Intelligence Centre Act (2016), the Securities Act (2016) and the Banking and Financial Services Act (as revised, 2017). This recent political push to pass financial sector legislation is unequivocally positive for the development of the industry and will enable regulators to more effectively regulate market players. However, the risk remains that this recent push is a short-term fix for a structural problem. While this new legislation will enable the development and effective regulation of the industry in the short-term, new technologies, business models and techniques means that legislation needs to be amended and updated on a regular basis. Hence, if the structural challenges are not solved, Zambia will once again find itself in a similar position with a backlog of much needed financial sector bills within five years.

Backlog mostly attributed to delays within the Ministry of Justice (MoJ). Stakeholder engagement (2016) indicated that the recent backlog was primarily as a result of delays within the MoJ. The bills were conceptualised and processed by the financial regulators and ministries in a timeframe which is reasonable when compared to other countries. Most of the bills and instruments are delayed in the MoJ which has drafting and legal compliance functions. Those bills that eventually proceed from the MoJ can be further delayed during the legislative process, particularly when amendments are prescribed by the legislature. The Ministry of Justice faces severe systemic impediments in effecting its functions, including:

- The drafting and compliance team has capacity constraints both in staff complement and in terms of ability to deal with large variations in legislative content in accommodating the entire spectrum of subject matter handled by the legislature.
- Financial services legislation has a high degree of technical complexity which requires specialist knowledge to successfully draft.
- Financial services legislation also requires content experts on hand during the legislative process, particularly where provisions are not clear to legislators and where amendments to bills are required.
- The process of prioritising which bills get preference is not understood, but it is very likely that urgent state business and strongly motivated legislation receives precedence and financial services bills, due to their specialist complexity, are not easily preferred above other fields of legislation.
- Some of the bills and instruments in the backlog become obsolete before passing due to the delays. Regulators are sometimes unwilling to revise these bills for fear of them going to the back of the queue.

The most fundamental solution to ensure that financial sector legislation is not as badly affected by delays in future is to generate both government and public awareness of the impact of legislative delays on the financial system, growth and related employment. More specific research into these impacts is one mechanism to build this awareness.

Additionally, there is a dire need for capacity and financial services technical assistance in the MoJ to draft and process financial legislation. The delayed regulation is by no means limited to financial services. To reduce the risk of delays passing financial sector bills in future, the following steps may be considered for each financial services bill by the founding Ministry and MoJ jointly:

- The MoJ and founding Ministry appoints or seconds a drafting unit comprising of at least one skilled legal drafter and at least one content expert to draft and test the legislation for wider legal compliance, while ensuring the bill is in line with the requisite ministry's framework and drafting instructions.
- The unit liaises with the legislative technical committee and promotes the appointment of financial services technical advisors to the committee.
- The drafting units are managed by deadline, and quality control review is undertaken by external experts before it is submitted to the MoJ.
- The completed bill is walked through the legislative process, particularly with the MoJ and the drafting unit attending committee hearings on the bill and clarifying any misconceptions. The drafting units are to draft any amendments in accordance with the legislature's instructions and to agree on such amendments with the MoJ.
- Investigate potential for donors to extend the normal legislative sessions based on sharing of legislature sitting costs for dedicated sessions to catch up on the backlog. Assess the impact that this has had in other jurisdictions; determine what is causing the delays and how to address them.
- Investigate any process of introducing a private members bill to help in catching up on delayed and critical legislation.

Conduct Regulatory Impact Assessments (RIAs) prior to regulatory changes

Snap changes to regulation have created additional risk for financial service providers. Financial sector regulators have illustrated a tendency to impose snap, broad-ranging regulatory changes without consultation with the industry nor appropriate transitionary periods. The impact of these sudden changes is to create an environment of regulatory uncertainty for financial service providers, thus reducing their willingness to take on additional risk, including expanding to reach new target markets. Furthermore, the dramatic adjustments encapsulated within some of these regulatory changes combined with limited transitionary periods has led to severe harm caused to both financial service providers and the development of the industry more broadly.

Three recent snap regulatory changes illustrate the effect:

- *Increase in capital requirements*. Banks, MFIs, leasing companies and savings and credit facilities' capital requirements were increased substantially. In 2012, BoZ announced that the minimum capital requirements for locally owned and internationally owned banks would increase to ZMW 104 million and ZMW 520 million respectively, implying an increase of 800% for locally-owned banks. Banks were given a total of 12 months to meet the new requirements, but needed to have met 30% of the target within 6 months, and 60% in 9 months. In 2014, capital requirements for non-bank financial institutions were also raised substantially. The Development Bank of Zambia increased the most (9900%), while building societies and deposit-taking MFIs increased by 900%. Institutions were given 18 months to meet the requirements, but had to meet part of the requirement every six months. This sudden increase left a number of these institutions in a dire situation as they could not meet the sudden high capital requirements or were not given sufficient time to adjust, and their provision of financial services had to be substantially curtailed. The fact that capital requirements were raised so significantly, and that institutions were given such a short period of time to adjust, created an extremely challenging business environment and damaged the industry.
- *Changes in maximum effective annual lending rates.* In 2012, Boz implemented regulations to cap bank lending rates in an effort to provide more affordable credit. Under the new regulations, bank interest rates could not exceed the BoZ policy rate by more than 9%, which, at the time, limited the bank interest rate to 18.25%. Microfinance institutions and other non-bank financial institutions were limited to interest rate caps of 42% and 30% respectively. The snap implementation of interest rate caps against advice materially eroded the capital of a significant number of financial institutions and their ability to expand market access. Smaller institutions were most severely impacted, particularly those with a niche focus, and therefore a higher potential to enable access to medium to lower income consumers. Although the decision was reversed and the caps removed in November 2015, institutions have been severely weakened and it will take a considerable amount of consolidation and rebuilding of capital to effect broader access to credit. Although only in place for 3 years, the effect of the caps is likely to be felt for a far longer period, especially when considering that the caps were implemented in conjunction with other adverse regulations, such as the increase in minimum capital requirements.

Regulatory Impact Assessments (RIAs) can reduce risk for financial sector providers and increase trust between industry and regulators. Implementing a policy that mandates Regulatory Impact Assessments (RIAs) before all major regulatory changes can help to reduce uncertainty and risk for financial sector players as well as reduce the likelihood of harmful policies. The RIA international best practice provides guidance and principles on how to implement RIAs. A critical component of implementing effective RIAs is to include industry consultation and consider industry feedback. This cooperative approach can help to develop trust between regulators and providers and is more likely to result in effective compliance. When providers feel they are part of the regulatory process they are

more likely to comply with the spirit of the law rather than trying to undermine the legislation by looking for loopholes within the letter of the law. As such, RIAs are used as guides to making better political and administrative decisions, while also serving as an important mechanism for public involvement and accountability. In March 1995, the OECD adopted a recommendation on improving the quality of government regulation. The systematic use of RIAs emerged as a key part of this recommendation, as member countries experiences show that a systemic analytical approach is important for ensuring that quality legislation is passed. RIAs should be driven by the central bank and other financial regulatory bodies together with industry associations under the auspice of the Finance Ministry as appropriate to Zambia. To assist with implementation of the recommendation, The Organisation for Economic Cooperation and Development (1997) lists key measures for ensuring maximum success of RIA based on best practice.

- *Political commitment to RIA process*: RIA should be supported and endorsed at the highest levels of government.
- *Trained regulators*: Ensure that programmes exist to upskill regulators with the ability to perform RIAs.
- *Integrate RIA with policymaking pr0cess, beginning as early as possible:* RIAs should form an integral part of policymaking decisions, and not simply an addition to the process. Their involvement of RIAs should therefore form part of the policymaking process from the very beginning of the process, and should continue to inform the process throughout.
- *Communication of results:* Results of the RIAs should be openly communicated to stakeholders and the public, who should be involved extensively in the dissemination of the report and what it means for the industry.
- *Apply RIA to existing as well as new regulation:* RIAs should also be used, and there should be a defined schedule of review of current legislation/regulation and its effectiveness. This can be driven by the Finance Ministry in conjunction with the supervisory authorities.

Consumer protection

BoZ, the Bankers Association of Zambia (BAZ), Insurance Association of Zambia (IAZ), Pensions and Insurance Authority (PIA) and the Competition and Consumer Protection Commission (CPCC) all field complaints from consumers, but these institutions face major challenges in effectively addressing financial service user complaints. It is not always clear to consumers where to go for recourse when dealing with the financial sector. When they make complaints, customers are met with inadequately equipped regulators, and this undermines trust in the financial sector. However, regulators should only be intervening at the last instance. Consumers should be aware of an overarching consumer protection framework in which the financial service provider should be required to resolve the matter or provide consumers with effective answers. There should be a defined pathway for complaints from financial institutions to industry bodies or other consumer protection bodies and then to regulators, and there should be financial incentives for FSPs to resolve the bulk of the matters at the retail level. It is also the case that the presence of so many regulators in the consumer protection space means that there are overlapping jurisdictions. This often happens with legalisation relating to particular financial sector regulators, such as BoZ and PIA, and the Competition and Consumer Protection Act (World Bank, 2012).

Although regulators have the power to punish providers, they generally lack the capacity. Their focus is naturally on regulating the overall market and its institutions, rather than dealing with individual consumer complaints. Financial regulators are not designed to deal with individual retail complaints. Civil society consumer protection agencies (like the Consumer Unity and Trust Society) are also

approached by consumers for redress, but generally lack both the technical skills and authority to deal with complaints. The lack of effective recourse mechanisms undermines consumer trust in providers in the industry, therefore inhibiting market development. It is not just the need for effective abuse and recourse mechanisms, but it is also critical that consumer complaints are not only effectively addressed, but are publicly seen to be addressed. The ineffectiveness of the current recourse channels is indicated by the fact that the CPCC has only handled a total of 923 consumer protection-related cases between 1998 and 2010. This constitutes far too few incidents of consumer redress for the size of the financial services sector and the population.

An industry ombudsman, with specialists focusing on different product markets, together with clear guidance on how consumer complaints should be handled and escalated by all parties can help improve consumer redress mechanisms and consumer education. Requirements for how consumer complaints must be handled through providers' internal dispute mechanisms within financial institutions should be made clear. The process should be publicised and the lists made public. It should also be clear at what point these complaints can be escalated to the relevant external institution with the necessary skill and legal mandate to resolve the complaint (World Bank, 2012). Such an industry ombudsman can be created under new legislation passed by parliament. However, given the existing legislative backlog, this would not be an easy or quick solution in Zambia. An ombud can therefore be created by the financial regulators based on the powers bestowed upon them by existing legislation, thereby, sidestepping the need for new legislation. Alternatively, an ombud can be established independently by industry as an industry arbitration mechanism. The incentive for industry to establish such a body is that it helps to manage and streamline more serious complaints and creating clear complaints mechanisms are important to build consumer trust in the industry and individual players. Additionally, charging providers a flat fee for the adjudication of matters accepted by the ombudsman can help to screen out trivial matters. Provided that appropriate rules are put in place that mitigate against providers delaying complaints excessively and the fee is sufficiently large, providers are incentivised to resolve these issues themselves, in turn building consumer trust in the institution. Provisions should also be considered that require providers to inform all consumers of the recourse process and ensure clear and easy channels of complaint are available to consumers.

Challenges

The primary challenge to ensuring the passage of future financial sector bills is political will. As political priorities shift with electoral realities, there is a risk that financial sector legislation is neglected in favour of more populist policies and legislation.

A lack of available resources and requisite skills are the major drivers of the existing backlog in legislation. Until these are resolved, MoJ will continue to struggle to address the total backlog of pending bills, which in turn means that the passage of financial sector bills is reliant on political prioritisation.

Adjusting the regulatory process and norms can be a major challenge, as would be required for Zambia to implement RIAs effectively. Zambian regulators need to recognise the value of conducting RIAs which include industry and stakeholder engagement before implementing changes. Additionally, RIAs require available resources to implement, and may also extend the time required to pass new legislation. Donors may be willing to fund RIAs that affect their programmes.

4. Longer term financial inclusion opportunities

The three financial inclusion priorities identified and discussed in Section 3 constitute the most immediate and significant opportunities to improve the reach and value of financial services to individual Zambians and for retail financial services to contribute to policymakers' overarching policy objectives. However, there are further areas which require longer term market development. These are discussed below.

4.1. Credit market development over the long-term

Long term structural approach required for credit market development. Zambia's credit market generally has a long history of underdevelopment and constraints. The financial sector reforms from the early 1990s, as well as the regulatory reforms during the 2000s, have not done much to change this[36]. The introduction of a credit information bureau, although a positive development, has also not unlocked broad-based access to credit. Although recently increasing, Zambia's domestic credit to GDP ratio is still low, and access to credit remains similarly constrained. FinScope (2015) reports that just 230,000 adults have credit from formal providers. The continued small size of the retail credit market is the result of several structural shortcomings in the Zambian credit market. Overcoming these challenges require a long-term market development approach, which will require concerted effort across multiple stakeholders to address. The key issues are outlined below.

Insufficient enabling environment and credit market infrastructure. Longer term credit market development is crucially dependent on the underlying rules, enforcement and process of credit granting and collection, as well as the information available to credit providers. Without a sound underlying enabling environment, providers face increased information asymmetry, uncertainty and higher costs, and lending therefore decreases or remains constrained. Contract enforceability, resolving solvency, judicial involvement and the judicial process, and quality are all key factors that underpin successful credit market development. However, each of these factors pose challenges for credit providers in Zambia, and require improvement to unlock credit market development.

Although Zambia has a credit bureau, and a movable collateral registry is being implemented, serious deficiencies remain in the credit information market in Zambia. These include the degree to which relevant institutions are mandated to submit information, the frequency of submissions for participatory institutions, the capacity of smaller institutions to participate, the quality of submissions, lack of regulatory repercussions for non-participation, omissions or errors, lack of validated identity information, income information, and consistent affordability checks and measures. Lastly, consumer redress mechanisms and enforcement for borrowers in Zambia is seriously deficient, which undermines longer term trust and credit market development.

Fragmented regulatory environment for credit. Zambia's credit regulation is not overarching. It is encapsulated under various pieces of legislation, and enforced under multiple regulatory authorities or regulatory departments. This is problematic for two reasons: 1) the fragmented regulatory approach has led to gaps in credit regulation. For instance, major traditional credit providers like retailers, value chain providers, MNOs and utility companies are not specifically regulated, and therefore face uncertainty in terms of providing credit, but also do not submit relevant information

[36] The financial sector liberalisation in the 90's was not accompanied by a sound regulatory framework, and therefore led to subsequent issues and bank closures. The regulatory reform in the mid-2000's, although a positive step, is only the start of a longer-term development process. Several key factors still required needs further development. These are listed in the conclusions (at the end of the section), and discussed in greater detail the diagnostic report.

for credit provision to the credit bureau, which constraints the ability of credit providers to accurately assess risk and affordability; and 2) Fragmented credit regulation makes it more onerous for current providers to operate, particularly smaller or newer providers. These providers grapple with multiple pieces of regulation and regulators in order to comply, leading to the discouragement of new entrants, delays in setting up operations or in conducting normal business, and increased costs of complying.

Negative impact of regulatory actions on credit market. Regulatory implementation and enforcement is also a major constraint to credit market development in Zambia. Zambia has experienced at least three major financial market regulatory changes since 2012, all of which had serious impacts on credit market development. These include the implementation of credit interest rate caps (subsequently lifted), the implementation of increased regulatory capital requirements, and the implementation of an affordability threshold for payroll-deducted loans. In addition, the lack of deposit insurance in the market has yet to be addressed. The growing mobile money market and concomitant increasing deposits in trust accounts is also at risk because it can't be effectively ring-fenced from the bank's intermediation function. Bespoke insurance may be required to guard against this risk.

While the merit of some of these measures can be debated, the way they were implemented arguably was more detrimental. For instance, the timelines for implementation was very short, given the magnitude of the changes. Providers face constraints which are not easy to adjust at short notice, both in terms of the source and cost of funding, as well as the composition and structure of their loan books and overall balance sheet. There also seems to be either a lack of regulatory impact assessments to inform regulatory changes and implementation, or a disregard of such assessments if they were conducted. Lastly, the strict enforcement of non-compliance by the regulator has led to the closure of multiple financial providers over a period of three years, including one bank.

Given Zambia's history of financial crisis and bank closures, and the long-term impact that this had on both borrower and lender behavior, the spate of recent financial provider closures risks undermining any regained consumer and provider trust in the credit market.

Insufficient domestic capital and the impact of macro-economic shocks. In addition to the above, Zambia's capital market is still at an early stage of development, and lacks sufficient scale and liquidity to act as a source of funding for credit providers. Insurance and pensions providers are similarly not at the stage of development where they can act as a sufficient source of longer term domestic capital. In order to fund the fiscal deficit, the Zambian government participates extensively in local credit markets through the sale of T-Bills and government bonds. While government participation in these markets can help to develop local capital markets, over-participation can constrain market development by crowding out commercial and retail borrowing, and by entrenching provider business and revenue models in lower risk activities (like borrowing to government). At the same time, Zambia suffers from high exposure to macroeconomic shocks, which affects the exchange rate, inflation rate and investor sentiment, all of which can destabilise or constrain the credit market over time.

The above constraints have several impacts on the characteristics of the credit market, hampering the development of the credit market over time by making it more expensive for borrowers to lend, or discouraging providers from lending more. In a way, these are the symptoms of underlying constraints. Unfortunately, these symptoms may only be alleviated once the constraints discussed

above are addressed sufficiently. It is therefore imperative to focus on the underlying constraints causing these symptoms:

- A history of, and continued high NPL ratios.
- High cost of capital, and limited availability of capital.
- Mismatched balance sheets, and lack of longer term funding and loans.
- High risk premiums and increased cost of borrowing.
- Credit rationing by providers (to limit exposure to risk).
- Low loan-to-deposit ratios, and leveraging liabilities to obtain lower risk assets like government borrowing or deposits with overseas financial institutions.

Credit market development requires concerted efforts on multiple fronts and a long-term focus. Without a sound regulatory and enabling environment, credit market development can lag significantly behind general market development. Given the low domestic credit to GDP ratio in Zambia, compared to its peer countries, we believe this is the case in Zambia. Overcoming these challenges require a long-term market development approach, which will require concerted effort across multiple stakeholders to address. The development of overarching credit regulation is just the first step. Working together to improve underlying credit market rules and enforcement procedures and mechanisms, as well as further developing the credit information market and infrastructure and improving the state of consumer redress is also key. Importantly, it also requires greater sensitivity by regulators regarding the impact of regulatory implementation on market development, and more explicit recognition of the importance of credit market development to inform the normal operations of regulators and supervisors.

4.2. Voluntary retail insurance market development starting with existing customers

Insurance uptake very low, with alternative coping mechanisms preferred to deal with the impact of risks. FinScope (2015) reports that only 2.8% of Zambian adults are covered by formal insurance policies. The low uptake of formal insurance is not because Zambians do not have a need for financial tools that enable them to manage major risks. According to FinScope (2015), within the prior 12 months, 55% of adults had experienced an illness in the household that required medical expenses, 32% the death of a household or family member resulting in unexpected costs, 31% harvest or crop failure or loss of livestock, and 24% loss of the salary of an income-earner of the household. Figure 11, below shows that the majority of adults use savings, credit or alternative mechanisms to deal with these risks, rather than insurance.

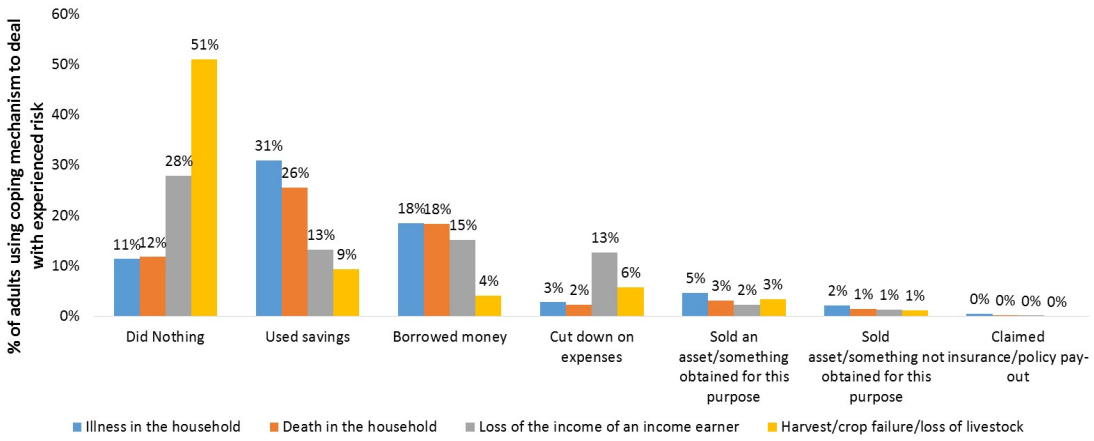

Figure 11: Coping mechanisms used by adults to deal with primary four insurable risks identified

Source: FinScope, 2015

Supply-side data suggests that insurance penetration may be higher, but some policyholders are unaware of cover. The FinScope data does not necessarily tell the full story. As a consumer survey, FinScope captures self-reported data, so only those adults that are aware they have insurance are captured. The prevalence of compulsory and embedded products means that actual lives covered is higher. Table 4 below shows the number of microinsurance policies in force as reported by providers in the Africa Microinsurance Landscape Survey (2014). This is compared to the figures reported by consumers via FinScope (2015). The mismatch is partly due to the different samples, as the providers report coverage of the entire population. However, the mismatch also suggests that some adults do not know that they have insurance. Many of the products that providers report is compulsory, embedded or group policies. This may lead to consumers not being aware, and thus not reporting, that they are covered. This also means that consumers are unaware that they can claim and benefit from their premium contributions, should they experience a risk.

Provider-reported

Microinsurance[37] products	No. of policies
Credit life	746,447
Funeral and Life	210,680
Weather index + Life	51,827
Weather index only	7,193
Personal accident	6,136
Total	**1,022,283**

Consumer-reported

Insurance products	No. of adults reporting they are covered
Life assurance	91,609
Motor vehicle insurance	89,313
Funeral insurance	74,984
Medical insurance	56,969
Health cover	39,244
Credit life insurance	22,168
Personal injury Insurance	15,458
Property insurance	14,936
Total	**473,969**

Table 4: Mismatch between the number of insurance policies reported by consumers vs. providers

Source: Africa Microinsurance Landscape Survey, 2014; FinScope, 2015

This highlights two of the major challenges to the long-term development of the Zambian insurance industry:

- **Lack of direct access to clients.** Most insurance in Zambia is distributed through aggregators, which means that insurers do not have direct access to their customers. This often makes it challenging for insurers to communicate with their existing clients to build awareness, as access to clients is controlled by the aggregators.
- **Insurers maximise short-term profits by offering limited value.** Many insurers are content to continue to collect premiums without worrying about being called to pay claims. A further indication of this is the low claims ratio. However, this approach comes at the expense of long-term growth as consumers see no value in the product and mistrust the provider, resulting in the market potential continuing to be largely limited to compulsory, group and embedded products.

Thinly served, existing clients constitute opportunity for insurance market growth. While the number of clients unaware of their insurance cover is illustrative of the major challenges to the development of the market, they also constitute the greatest immediate opportunity. To further develop the Zambian insurance market, it will be necessary to expand beyond a primary focus on compulsory and embedded products to the sale of voluntary retail policies. The only way to build this market is for potential consumers to see greater value in insurance products to meet their underlying risk-coping needs, than using alternative available strategies. There is no better way for someone to learn about the value of a product than to use it themselves. Therefore, insurers have a major opportunity to begin with those clients they have already reached. This captive audience already has insurance cover, even though the customers are often not aware of it. If insurers can illustrate the value of these products to their existing compulsory and embedded customers, these same adults can constitute the initial market for voluntary retail products. Furthermore, their experience of the product will naturally spread through social groups.

[37] The provider survey only covered products defined by the survey as microinsurance.

To illustrate value to consumers, three priorities are recommended for insurers: (i) effectively communicate directly with policyholders, (ii) design products that effectively meet primary consumer needs and (iii) focus on paying claims.

Communicate with policyholders. As explained above, many existing policyholders and beneficiaries are not aware of the cover for which they are paying. The first step, therefore, is to more effectively and frequently communicate with customers to make them aware of their cover and how they can benefit -- i.e. claims. Ongoing communication is also a means to build trust with consumers. Frequent interaction helps customers trust that the insurer will not simply 'disappear' when it is time to pay out, and helps to add tangibility. Some of the specific opportunities to enable direct communication may include:

- Developing guidelines stipulating minimum data-sharing requirements, and rights and obligations between insurers and aggregators. A major challenge will be enforcing these requirements, as the aggregators are not regulated directly by the PIA (unless the PIA can mandate a push of these rules from insurance firms to aggregators, who are in fact performing broker functions) and so would require coordination between regulators.
- Allowing and encouraging new distribution channels enabled by newer technology, such as outbound call centres.
- Exploring alternative channels for direct communication with clients. At least one insurer is planning a social media campaign to communicate with clients more directly. Communicating and selling products using social media platforms is challenging, but the move towards more direct communication with current and potential clients is positive.
- Allowing for reduced agent requirements for low-value insurance, such as through the proposed microinsurance guidelines, and encouraging efficiencies such as enabling paperless registration of clients remotely. The proposed microinsurance (MI) regulations create a space for proportionally lower prudential requirements for MI providers. However, proportional requirements for market conduct regulation are also an important component to consider. Regulations should consider the need to incentivise providers and intermediaries to serve the underserved, but still ensure sufficient levels of policyholder protection.
- Improving disclosure and comparability across microinsurance products can aid consumers to make better informed insurance purchase decisions. Disclosure does not necessarily mean providing more information to consumers but should rather focus on encouraging, and enforcing through regulation, simple and clear language to make policy details more easily accessible and understandable to consumers. The objective is to ensure that key information necessary to facilitate an informed decision must be appropriately disclosed by the insurer and intermediary to the client. Policy documents should therefore be in plain language, avoid uncertainty or confusion and not be misleading.

Design products that meet a need. Of the four major risks identified within FinScope (2015), two of them - loss of the income of an income-earner, and harvest or crop failure or loss of livestock - are not well met by existing mechanisms. A large portion of adults did nothing in response to one or both of these risks. Insurance products that allow consumers to effectively manage these risks will therefore address a currently unmet need, at least for these consumers.

- **Credit life plus life.** Loss of the income of an income-earner i.e. life and disability insurance emerges as a major need, but the largest group of existing and unaware customers are credit life policyholders. Therefore, adding additional value to credit life products may be a good place to start to illustrate value to existing customers, particularly as the product is already tied to an

identified need. For example, firms could offer a credit life product that offers an additional pay-out to the policyholders' beneficiaries. Once clients are shown value, this can form the basis for the cross-selling of other voluntary insurance products.

- **Agricultural risk.** The second major risk largely unmet by Zambian adults is agricultural-related risks. The success of the index weather insurance product offered by Focus and Mayfair insurance (more than 60,000 policies just three years after launch) is illustrative of the need for this type of risk cover amongst Zambian farmers. Climate change means that challenges from climate variability, manifested mainly as droughts and floods, is expected to continue and worsen over time. However, the viability of agricultural insurance for insurers remains unproven. The index product suffered loss ratios in excess of 150% each year prior to 2017. Solving the business model challenge may require a combination of interventions, including:

    - *Improved technology and data* to more accurately, and cost effectively, identify affected farmers and pricing.
    - *Coverage over a larger area.* To date index insurance has been largely limited to the south-eastern parts of the country, which has been particularly affected by drought. Covering farmers over a larger area helps reduce concentration risk[38].
    - *Direct Government and donor support.* Agricultural insurance has struggled to illustrate commercial viability anywhere in the world. Some level of subsidy may be required to ensure the ongoing provision of the product. To date, FSD Zambia and the ILO's impact insurance facility have provided some support to the insurers.
    - *Government risk cover.* The ongoing, and increasing risk of climate-related disasters may additionally require a broader cross-country approach. The African Risk Capacity (ARC) provides risk pooling and risk management across African countries "to create pan-African climate response systems that enable African countries to meet the needs of people harmed by natural disasters." Zambia is not currently a member of ARC.

Pay claims. The best way to illustrate value to consumers is to pay claims. If policyholders cannot be sure that insurers will pay their claims, then the product offers no value to them. Paying claims refers not only to basic measures of the claims ratio, but also to the claims experience of claimants. Claims pay-outs not only illustrate value to the beneficiaries but also to the broader community, while refused claims have a similar broad impact on the perceived value of the product and trust in the insurer.

- **Improve claims ratios.** This is the most easily quantifiable measure of value in insurance. Claims ratios of 40% constitute poor value to consumers, making alternatives better options. As a general guideline, Wipf and Garand (2008) cite 60% as the minimum claims ratio, below which a consideration of consumer benefits should be questioned. Publication of claims ratios across the industry, by the regulator or industry association, may be one mechanism to encourage better claims pay-outs and to better inform customers.
- **Improve claims experience.** Anecdotal evidence and stakeholder interviews (2016) suggests that many insurers make claims as difficult as possible to improve short-term profits, but by doing so they undermine the long-term trust in the provider and product. Changing this requires a fundamental paradigm shift within insurance providers away from looking for any excuse not to pay claims towards looking for an excuse to pay out claims. At the core, this requires a recognition of the long-term benefits from achieving customer loyalty and the growth potential

[38] For the 2017-18 crop year, the Zambian government has introduced weather-based crop insurance for the over 1 million smallholder farmers under the Farmer Input Support Programme (FISP), which will help to reduce concentration risk.

by building trust and illustrating value to potential clients even at the expense of increasing short-term expense ratios. Practically, the key steps that insurers should take to improve the claims experience is to make the claims application process as simple as possible for consumers, increase the speed of claims pay-outs, and publicize payouts to customers.

- **Improve the tangibility of insurance products.** Stakeholder interviews indicated that a lack of tangibility of insurance products is a challenge in illustrating value to customers. Insurance is a credence product. Insurers in other markets sometimes offer in-life benefits to policyholders to add tangibility to their insurance policy, something not currently prevalent in Zambia. In-life benefits[39] also enable providers to maintain an ongoing relationship with the consumer. Traditionally, a consumer will only engage with the insurer when they purchase the policy and when they claim, which may be many years later. In-life benefits facilitate an ongoing interaction, making it easier for the provider to maintain a relationship with a consumer.
- **Improve available consumer recourse.** Further development of the insurance market towards voluntary retail sales ultimately relies on perceived value and trust. The lack of effective recourse mechanisms undermines this long-term goal. It is not just the need for effective mechanisms to deal with abuse and recourse, but also that consumer complaints are not only addressed, but are publicly seen to be addressed.

4.3. Prioritise appropriate product design consumer communication over generic consumer education and financial literacy initiatives

The World Bank's Financial Capability Survey (2016) found that while most Zambians understand and can conduct basic financial terms and tasks, the majority struggle with more complex financial terms and tasks, such as calculating compound interest. These findings are illustrated by Figure 12 below. A lack of familiarity with the more complex formal financial terms, such as those tested by the survey, inhibit adults' ability to interact with formal financial providers.

[39] In-life benefits refer to benefits offered by life insurers to policyholders prior to them claiming. Similar benefits may also be offered on general insurance products. A common example is 'cash-back' whereby the insurer pays the policyholder back a set amount (often a proportion of premiums paid) after a specified period of unbroken maintenance of the policy by the consumer. This helps to build the value proposition for consumers as they then see benefits from their premium payments more regularly and helps to build loyalty.

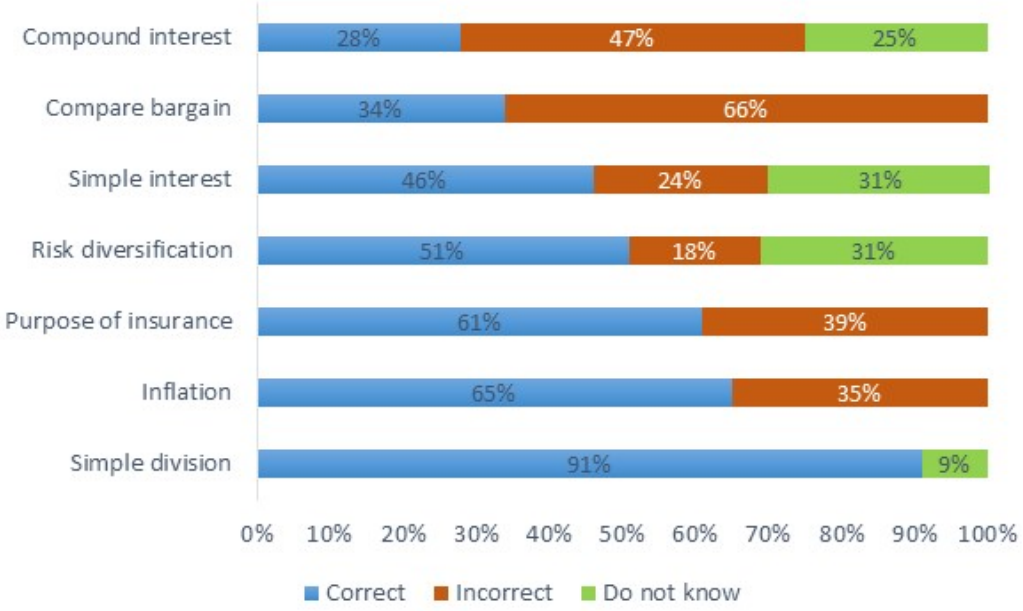

Figure 12: Proportion of Zambian adults that understand and can calculate these seven financial concepts

Source: World Bank Financial Capability Survey, 2017

However, the widespread use of informal financial tools by Zambians to manage their financial needs indicates a sophisticated understanding of the core concepts. It is clear from the extensive use of informal, often community-developed mechanisms, like saving with *Chilimbas* and at home, that Zambians are astute at using a variety of financial tools to effectively meet their financial needs.

Rather than a lack of awareness or understanding of financial products, it is issues of trust and value that are more frequently cited by Zambians as to why they do not use formal providers, and frequently use informal providers instead. Through their actions, Zambians illustrate that they are savvy users of financial products and will use the mechanism, be it formal or informal, that best meets their needs and offers them the greatest perceived value.

Targeted consumer education can play a role in improving financial behaviour and financial outcomes if it helps consumers to better assess options. Consumer education has been found to be effective at improving behaviour where consumers can exert greater control such as saving and record keeping, but less effective at preventing negative outcomes such as loan defaults. To justify the cost of consumer education and to ensure positive outcomes, it important that the intervention is targeted and takes into consideration the country context, delivery channel, messenger[40] and content and duration of the message. For example, in South Africa, financial messages delivered through a mainstream TV soap opera increased borrowing from formal financial institutions rather than higher-cost options like retailers (Berg & Zia, 2013). It is important to remember that there is not a one size fits all solution and that when designing consumer education programmes, a number of factors need to be taken into consideration.

[40] Dolan et al. (2012) explains that the weight we give to information depends greatly on the automatic reactions we have to the perceived authority of the source of that information i.e. the messenger. There is also evidence that people are more likely to act on information when the messenger has similar characteristics to themselves (Durantini et al., 2006). This has important implications for the delivery of effective consumer education.

While ongoing consumer education may have a role, a lack of overall financial capability is not the primary problem, and this argument is used as a convenient excuse by providers. The onus is on the formal providers to tailor their products and communications to tap into what consumers already understand, or design products of value to them. To increase formal financial services inclusion, financial services providers should design and offer products that offer greater value and better meet consumers' needs than the pre-existing informal alternatives.

The implication is that while consumer education should not be completely ignored, for it to be effective it needs to be well designed and targeted. Additionally, the responsibility should be primarily on formal providers to design and communicate products in a way in which consumers understand.

5. Conclusion

The lives of Zambians have changed drastically over the last two and a half decades, following economic and regulatory reforms, and an almost decade-long period of high economic growth. As a result, Zambia emerged as a new player among lower middle-income countries. However, rising prosperity did not rid Zambia of many of its existing problems. Zambia is still heavily reliant on copper, vulnerable to weather-related risks given the reliance on agriculture by many Zambians and on hydro-electric generating capacity for electricity, and continues to struggle to balance fiscal requirements with macro-economic realities. Most Zambians have stayed poor. Although Zambia's financial sector played a key role in the country's transition and emergence over this period, the industry is still entangled in historic constraints. Concerted efforts to address the three listed key priority areas, as well as working on some longer-term development needs, can bring Zambia much closer to crucially needed financial service delivery to a broader portion of the Zambian population.

The three priority areas that will make the greatest (and most immediate) contribution to Zambians' welfare and the government's policy objectives are:

1. **Carefully sequenced switching to digital payments holds significant potential for cost savings and efficiency gains.** However, the switch to digital must only be pursued in areas with the requisite cell phone coverage and payments infrastructure in place. Making digital payments to rural recipients that live their lives entirely in cash would simply shift the cost burden onto these vulnerable individuals, as they are forced to travel substantial distances at high personal cost to receive their payment. This would undermine the nascent and fragile trust in digital payments.

   The sequencing of interventions is therefore critical to effectively develop trust in and ultimately widespread use of a digital payments ecosystem. Different areas of the country have very different levels of digital payments infrastructure and usage. A single blanket strategy for the whole country is therefore inappropriate and may cause harm. Bulk payments to large groups should only be digitised for those recipients residing close to reliable cash infrastructure. The focus therefore shifts away from digitising payments first and then building the requisite cash infrastructure to first ensuring reliable infrastructure is in place before digitising payments. Enabling interoperability and beneficiary choice combined with incentives for providers may be core to growing the requisite reach of cash infrastructure beyond the major urban centres. Regular and ongoing mapping of cash and cash-out points throughout the country will likely be a critical information input to guide this strategy.

   Analysis of consumers' use cases suggest that bill payments (both P2B and P2G) may offer the greatest immediate potential to shift away from cash. Like remittances, which are now made

primarily through digital mechanisms, bill payments are made over distance and hence there is a far stronger relative use case for digital over cash for users than there is for in-person payments. However, limited focus has been placed on bill payments in Zambia to date. Increasing the availability and ease of use of reliable digital bill payment options combined with short-term promotions or incentives and cost reductions, to encourage users to trial the digital alternative, may constitute a significant opportunity towards the use of non-cash instruments. However, as with all payments instruments, ongoing reliability of the digital option is critical to build trust.

Shifting merchant payments away from cash and towards digital mechanisms should be considered a far longer-term objective than switching G2P and bill payments. Sequencing is again of critical importance. The initial focus must be on enabling cost-effective payments infrastructure. The focus thereafter is to increase the availability of cash. While this may seem counterintuitive, users will only be willing to take the risk to try digital payments if they are confident that they can swiftly, cheaply and easily convert that electronic value back into cash, the medium of exchange that remains prevalent. Finally, effective incentives to merchants and consumers to use digital payments must be in place to achieve any switch.

Across these different payments use cases, interventions should be sequenced appropriate to level of infrastructure in place. Practically this means that the payments ecosystem in urban centres is more developed than in the rural areas. It is therefore, crucial that policy approaches and interventions are tailored accordingly for different areas based on level of existing infrastructure.

2. **Zambia's savings culture constitutes a national asset which remains largely served by non-formal mechanisms, and this can be corrected**. The cost and inappropriate product design mean that most formal deposit takers have failed to tap into this opportunity. To meet the savings needs of Zambians and develop the savings market, regulators, industry and development partners should focus on a combination of short, medium and long-term actions required. Short-term priorities relate to supporting the development of the informal market, as well as pursuing low-hanging fruit for formal savings provision, such as better product design. This includes officially endorsing and encouraging the usage of informal savings mechanisms such as savings groups and community-based structures (regulator), supporting the sustainability and replication of savings groups (development community), and better product design to meet the largest existing medium and longer-term consumer needs, including the use of purpose-named products, transaction-based charges and targeted savings products. Over the medium term, the regulator should develop an informal savings policy approach to facilitate the growth and evolution of informal savings structures over the long term, while private sector should continue to explore the best or most appropriate way to link with these mechanisms. Over the long term, the development of the savings market will be dependent on resolving the issues in the credit market, and on restructuring business, revenue and pricing models to attract more deposits.

3. **Finally, an efficient and transparent regulatory environment is critical to the ongoing development of the financial sector.** The lengthy recent delays in new financial sector regulation and the lack of appropriate regulatory impact assessments have created market uncertainty and risk for providers and have set back the development of the industry several years, in turn impeding the development of all other sectors of the economy.

   A lack of available resources and requisite skills are the major drivers of the existing backlog in legislation. Resolving these challenges are therefore a priority to ensure that the passage of bills do not continue to be reliant on political prioritisation. Additionally, building awareness and

recognition of the value of conducting RIAs, which include industry and stakeholder engagement before implementing changes is a priority.

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