



ZIMBABWE: DIAGNOSTIC REVIEW OF CONSUMER PROTECTION AND FINANCIAL LITERACY

Volume I: Key Findings and Recommendations

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Abbreviations and Acronyms

CPC	proposed Consumer Protection Commission
CCZ	Consumer Council of Zimbabwe
COOPA	Co-operative Societies Act (6/1990)
CPFL	Consumer Protection and Financial Literacy
CTC	Competition and Tariff Commission
DIC	Deposit Insurance Corporation
Econet	Econet Wireless Zimbabwe
FCB	Financial Credit Bureau
GDP	Gross Domestic Product
ICZ	Insurance Council of Zimbabwe
IIZ	Insurance Institute of Zimbabwe
IPEC	Insurance and Private Pension Commission
NFLS	National Financial Literacy Strategy
MFI	Micro-Finance Institution
MNO	Mobile Network Operator and/or its subsidiary offering digital financial services
MoF	Ministry of Finance
MoIC	Ministry of Industry and Commerce
MoJ	Ministry of Justice
NAV	Net Asset Value
NBCI	Non-Bank Credit Institution
NGO	Non-Governmental Organization
NPS Act	National Payment System Act (21/2001)
POTRAZ	Postal & Telecommunications Regulatory Authority of Zimbabwe
RBZ	Reserve Bank of Zimbabwe
SECZ	Securities and Exchange Commission of Zimbabwe
SLA	Service Level Agreement
SME Ministry	Ministry for SMEs and Cooperatives
USSEC	Federal Securities and Exchange Commission of the United States of America
WB	World Bank
ZSE	Zimbabwe Stock Exchange

Acknowledgements

This report contains the findings and recommendations from a World Bank mission to Zimbabwe between July 14 and July 25, 2014, which took place for the purposes of a diagnostic review of the Consumer Protection and Financial Literacy (CPFL) laws, institutions and practices applicable to regulated financial services in Zimbabwe (CPFL Review). The banking, non-bank credit institutions, insurance, securities and pensions sectors were considered along with financial literacy programs in Zimbabwe. Four consumer focus group discussions were also conducted with the view of gaining quick and deep insights into people's knowledge and understanding of financial concepts and products and their attitudes, financial behaviors, and experience in accessing and using financial products and services. The CPFL Review was undertaken in response to a request from the Reserve Bank of Zimbabwe (RBZ) with the support of the Ministry of Finance and Economic Development (MoF), the Securities and Exchange Commission of Zimbabwe (SECZ) and the Insurance and Pensions Commission of Zimbabwe (IPEC).

The CPFL review was produced by a team led by Ros Grady (Co-Task Team Leader, Senior Financial Specialist, GFMDR) and Siegfried Zottel (Co-Task Team Leader and Financial Capability Expert, Financial Sector Specialist, GFMDR). Other members of the team included Jennifer Chien (Banking Expert, Senior Financial Sector Specialist, GFMDR), Ivo Jenik (Consultant, Non-bank Financial Institutions Expert, GFMDR), Fiona Stewart (Pensions Expert, Senior Financial Sector Specialist, GFMDR), Richard Symonds (Consultant, Securities Expert), Manuel Peraita (Consultant, Insurance Expert), Crispin Mauta Mawadza (Finance and Private Sector Development Specialist, GFMDR) and Seedwell Hove (Economist, GFMDR). The team was also supported by Marco Traversa (Analyst, Consultant, GFMDR), Janet Chido Bvumbe Chiweshe (Program Assistant, Harare, AFMZW) and Suran Kc Shrestha (Program Assistant, DC, GFMDR).

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Preface

The existence of a sound financial consumer protection framework is fundamental to increasing access to and usage of financial services, and the quality of those financial services, along with supporting further financial sector deepening. Financial consumer protection is a necessary precursor to building trust in the formal financial sector and thus in encouraging financial inclusion (see Annex 1). Further, consumer protection helps ensure that expanded access benefits consumers and the economy as a whole. While increased access can result in significant economic and societal benefits, it can be neutral or even harmful if consumers: (i) cannot exercise their rights as consumers, (ii) cannot select the financial products that suit them best; and (iii) are not protected from mis-selling, fraud and other market abuses.

A sound financial consumer protection regime needs to be complemented with prudential regulation and supervision and a stable macroeconomic environment. Prudential requirements are intended to ensure that the financial system remains sound and stable, while the financial promises made by financial institutions are met. Proper supervisory oversight and adequate resources are essential to ensure adherence to these standards. Further, even the soundest legal, regulatory and supervisory framework for financial consumer protection will not be effective in an unstable macroeconomic environment.

The World Bank's *Good Practices for Financial Consumer Protection* are an assessment tool for diagnostic reviews of a country's consumer protection and financial literacy framework (Good Practices).¹ More than 30 such reviews have been conducted worldwide. The Good Practices were developed using international benchmarks and take account of the legal and regulatory frameworks in developed and developing countries.²

The main objective of a CPFL Review is to assess the legal, regulatory and institutional frameworks for financial consumer protection in a country, with reference to the Good Practices. The following areas are addressed: (i) Institutional Arrangements, (ii) the Legal and Regulatory framework, (iii) Transparency and Disclosure, (iv) Business Practices, (v) Complaints Handling and Dispute Resolution Mechanisms and (vi) Financial Literacy/Capability. All parts of a financial sector can be considered including banking, non-bank credit institutions, insurance, securities, private pensions and credit reporting.

There is an increased international focus on consumer protection in the financial sector. As shown by the World Bank's *2013 Global Survey on Financial Consumer Protection*, a legal framework for financial consumer protection exists in 112 out of the 114 countries surveyed. The most common approach is to have a financial sector – specific consumer protection regulatory framework (as exists in 103 countries). The Global Survey also showed that the number of regulatory agencies with a specific responsibility for financial consumer protection increased from 74 in 2010 to 97 in 2013.

¹ Good Practices for Financial Consumer Protection (World Bank, 2012), available at <http://responsiblefinance.worldbank.org/~media/GIAWB/FL/Documents/Misc/Good-practices-for-financial-consumer-protection.pdf> (last visited on December 11, 2014).

² Relevant international standards include the principles released by the Basel Committee, IOSCO and IAIS and OECD recommendations for financial literacy and awareness on pensions, insurance and credit products.

EXECUTIVE SUMMARY

- 1. Key Findings and Recommendations presented in this report are based on the World Bank's *Good Practices for Financial Consumer Protection* and consider all parts of Zimbabwe's consumer financial sector.** Banking, digital financial services,³ non-bank credit institutions, insurance, securities, private pensions and credit reporting aspects of the financial sector were covered. For the avoidance of doubt, it is noted that in the future a broader analysis of some aspects of the financial sector might be undertaken (for example in relation to payments services). The report reflects the legal and regulatory framework and relevant aspects of the financial sector at the time of the CPFL Review, with limited reference to existing and proposed significant changes the authors of the report were aware of at the time of writing.

KEY FINDINGS

- 2. The Zimbabwe authorities have demonstrated a deep interest in consumer protection and financial literacy (CPFL).** This has been shown by (amongst other things): (i) the request for the CPFL Review and ongoing implementation support; (ii) the proposals for new consumer – oriented laws and regulations in the banking, mobile banking, insurance, pensions and securities sectors; (iii) the launch of the Government Inquiry into Pensions and Insurance Conversions; (iv) the introduction of the Microfinance Act; and (v) the creation of the Investor Protection Fund for the securities market.
- 3. The fundamental importance of a sound CPFL framework is particularly relevant in Zimbabwe, given the relatively low levels of financial inclusion and historic financial sector fragility.** According to the FinScope Consumer Survey 2011, 38 percent of the adult population in Zimbabwe was formally served, including both banking and other formal products and services. Only around a quarter of adults were banked, while 41 percent had or used informal mechanisms for managing their finances. These numbers were recently updated by the Ministry of Finance and Economic Development and Zimstat in cooperation with Finmark Trust. Based on a survey they conducted (FinScope Consumer Survey 2014), 78 percent of the population is financially included, 31 percent is served by banks, 38 percent by other formal financial institutions and 9 percent by an informal financial service provider.⁴ Financial consumer protection is a necessary precursor to building trust in the formal financial sector and in encouraging responsible financial inclusion (see figure 4, Annex 1).
- 4. Zimbabwe is experiencing rapid innovation in mobile financial services.** Relevant services include payment products and micro-credit, bank account savings and insurance products. Such services can help fulfil important financial inclusion objectives but can add a further degree of complexity and risk to the payments system and the financial system generally, as well as to consumers with low levels of financial literacy. At the same time there is a need to develop a proportionate regulatory and supervisory regime for new service providers such as telecommunication companies, mobile phone providers and agent network managers.

³ The term “*digital financial services*” can be interpreted broadly to mean, in summary, situations where digital services are used to access an existing account with a financial institution (the additive model) and where they are used to enable the unbanked to access financial services such as e-payment and value storage services (the transformative model). For more detail please see Annex I, Vol. II. The focus of this report is on additive financial services which are provided via mobile phones (mobile financial services).

⁴ FinScope Consumer Survey Zimbabwe 2014 (forthcoming).

5. The main consumer protection and financial literacy/capability challenges are as follows with the related high priority recommendations in Table 1 below:

- **The increased availability of mobile financial services raises important consumer protection issues.** Relevant risks include the significant take-up of the services (even if the amounts involved are small), the fact MNOs are regulated by POTRAZ rather than financial sector regulators, the important role of unregulated intermediaries, the rapidity of innovation, and the limited written disclosures and records of accounts and transactions. If any of these risks eventuate, the potential for a significant loss of trust in the Zimbabwe financial sector cannot be underestimated, especially given the country's history of financial fragility and the EcoLife failure⁵. The mission acknowledges the significant steps taken by RBZ to supervise this sector but there remains an urgent need to establish a sound legal and regulatory environment for the protection of consumers of such services.
- **Whilst the new Microfinance Act, and other proposed reforms are impressive in their scope, there remain other significant gaps in the overall consumer protection legal and regulatory framework.** For example, apart from the Microfinance Act, there are virtually no legally binding transparency or business conduct consumer protection provisions for the financial sector and no laws on the licensing and conduct of credit bureaus, data protection or requiring debt collectors to be registered and to refrain from abusive collection practices. It is understood, however, that there are relevant proposed laws being considered for the banking, pensions, securities and insurance sectors as well as a general Consumer Protection Law which would apply to all services (including financial services).
- **The Microfinance Act contains important consumer protection provisions for the microfinance sector but there are concerns about its scope of application and implementation.** In particular, it needs to be actively supervised and enforced and it is not clear why the Act does not apply to financial co-operatives and only applies in a limited way to banks and building societies.
- **Although there appears to be a high level of commitment to CPFL reforms, the capacity and resources of regulators to supervise and enforce new CPFL laws are limited.** If the mission's recommendations are accepted, there will be a consequential need to develop consumer/investor protection supervisory arrangements, tools and capacity within the financial sector supervisors. In doing so it will be important to bear in mind the need to focus on the areas of highest risk and limited supervisory resources.
- **Bundling of insurance and credit products occurs in the banking and NBCI sectors.** Issues to be considered include: (i) disclosure of policy terms and exclusions and the identity of the insurer in a standardized, comprehensible format; (ii) the circumstances in which bundling can be required by the lender; and (iii) whether consumers should have a choice of insurer.

⁵ See further below more information regarding the EcoLife failure.

- **There is an important need to protect pension and insurance assets of consumers.** Pension and insurance schemes in the country were severely, adversely affected by the hyperinflationary period and the switch to the multi-currency economy. On-going concerns relate to issues such as failure of some employers to transmit pension contributions to the fund manager, the need to ensure that pension fund assets are held with independent custodians, the lack of standardized training requirements for fund trustees, and the need to ensure the market conduct provisions in the proposed new pensions and insurance laws meet international best practice standards. The mission also notes the July 2014 launch of the Government Inquiry on Pensions and Insurance Conversions, which focuses on the transition to the multi-currency economy and its impact on pensioners and policyholders in general and the conversion issues in particular. As a matter of high priority the Inquiry should be run in a transparent manner and its recommendations should be implemented in a timely manner in order to address any failures and restore consumers' trust in the sector.
 - **Important measures are being taken to improve investor protection in the securities market.** The creation of the SECZ, the Central Depository and the Investor Protection Fund have all added to the ability of market institutions to provide increased investor protection. The upgrade of the Zimbabwe Stock Exchange's (ZSE) trading system will also provide for a more transparent market for the benefit of investors. Other initiatives include the proposed SECZ Securities Rules and the preparation of new ZSE rules. These need to be completed in a timely fashion and fine-tuned to bring them into line with international practice.
 - **Consumers of financial services have limited recourse rights.** The fragmented requirements for internal complaint resolution procedures are not enforced and there are very limited avenues for third party dispute resolution.
 - **Zimbabwe does not have a coordinated financial literacy strategy and no assessment has been made of financial capability levels.** Figure 1 (see Annex 2) provides an overview of the main challenges faced by participants in the focus group discussions conducted by the mission with regard to various important concepts for financial decision-taking.
6. **A summary of the High Priority Recommendations is outlined in Table 1 below. These are recommendations in respect of which it is considered implementation activities should commence as soon as possible, whilst acknowledging that some may take longer than others to implement (see the reference to the relevant Term). All recommendations are summarized in Annex 2 to this Volume I. Further detail is provided in the Vol. II of this report.**

TABLE 1: SUMMARY OF HIGH PRIORITY RECOMMENDATIONS⁶

SECTOR	RECOMMENDATION	RESPONSIBILITY	TERM*
Institutional Arrangements			
Cross-cutting	Develop consumer / investor protection specific supervisory arrangements, tools and capacity, focusing on highest risk activities.	RBZ, IPEC, SECZ, ZSE, SME Ministry	ST
Cross-cutting	Establish coordination and consultation arrangements between key consumer protection regulators and develop MoUs.	RBZ, IPEC, SECZ, ZSE, SME Ministry	ST
Legal and Regulatory Framework			
Banking	Revise and reinstate the Code of Banking Practice to provide clear industry standards for banking institutions pending the introduction of binding laws.	RBZ, BAZ	ST
Digital Financial Services	Develop consumer protection laws for digital financial services in general and mobile financial services in particular, e.g. regarding safeguarding e-wallet funds, disclosures, security, limitations of liability, data protection and unauthorized transactions.	MoF, RBZ, IPEC, POTRAZ	ST
	Develop rules for the licensing of providers of digital financial services.	MoF, RBZ, POTRAZ	LT
Insurance and Pensions	Ensure that Government Inquiry on Pensions and Insurance Conversions is conducted in a transparent and independent manner, with clear conclusions and recommendations which are made and acted on in a reasonable timeframe.	MoF	ST
Pensions	Develop standardized training requirements for pension fund trustees and intermediaries.	MoF, IPEC	ST
Securities	Finalize draft investor protection rules and market conduct rules for brokers.	MoF, SECZ, ZSE	ST
Pensions	Ensure Pension and Provident Fund Bill meets international good practices and covers issues such as disclosures, cross selling, confidentiality and dispute resolution. ⁷	IPEC/MoF	MT
Securities	Develop licensing and minimum competency requirements for all persons providing investment services.	MoF, SECZ	MT
Cross-cutting	Develop a comprehensive financial consumer protection law covering e.g. disclosures, sales practices, responsible lending, product suitability, insurance contracts, staff and intermediary training, restrictions on rights, account handling, data protection, cooling off periods, advertising, customer records and dispute resolution.	MoF, RBZ, IPEC, SECZ, ZSE, SME Ministry	LT

⁶ A reference to "laws" includes a reference to Acts, regulations and other forms of subordinate legislation.

⁷ International good practices refer to the World Bank Good Practices for Financial Consumer Protection (World Bank, 2012), which this diagnostic is based upon, and also more detailed, pension specific standards which have been issued by the OECD as part of the Core Principles of Occupational Pension Regulation - <http://www.oecd.org/daf/fin/private-pensions/33619987.pdf>.

SECTOR	RECOMMENDATION	RESPONSIBILITY	TERM*
Cross-cutting	Clarify application of Consumer Protection Bill to financial services.	MoF, MoIC	LT
Cross-cutting	Finalize credit bureau licensing and operational rules, develop public awareness campaign and consider providing access to a central database of registered national IDs.	MoF, RBZ, SME Ministry	LT
Transparency and Consumer Disclosure			
Banking and Digital Financial Services	Develop comprehensive product disclosure requirements for fees, charges, interest rates, terms and conditions, total cost of credit, advertising, mandatory risk warnings and for notice of changes.	MoF, RBZ	ST
Insurance	Develop comprehensive disclosure requirements for policy holders including as to key policy terms, premiums, exclusions and risks.	MoF, IPEC	ST
Securities	Ensure new investor protection rules include specific disclosure requirements, including as to disclosures by investment advisers, uniform Key Facts Statements, contract notes and statements.	SECZ	ST
Pensions	Develop specific requirements on disclosures to members of pension funds, including on choice of retirement income products.	IPEC	MT
Securities	Develop disclosure and operational rules for unit trusts.	SECZ	MT
Business Conduct			
NBCIs	Enforce rules relating to abusive collection practices.	RBZ	ST
Pensions	Take action to recover non-remitted, employee contributions from plan sponsors.	IPEC	ST
Pensions	Develop separate custodian arrangements for pension assets.	IPEC	ST
Cross-cutting	Develop rules to limit unreasonable practices relating to bundling and tying of credit and insurance products.	MoF, RBZ, IPEC	MT
Dispute Resolution Mechanisms			
Cross-cutting	Develop standard requirements for complaints handling by all financial institutions and require complaints statistics to be reported to relevant regulator.	MoF, RBZ, SECZ, IPEC, SME Ministry	ST
Cross-cutting	Establish within financial sector regulators a dedicated unit to consider consumer complaints and analyze complaints statistics.	MoF, RBZ, SECZ, IPEC, SME Ministry	MT
Cross-cutting	Consider development of a single financial services ombudsman or equivalent scheme which provides an independent, transparent, free dispute resolution service for consumers and which can make binding decisions.	MoF, RBZ, SECZ, IPEC, SME Ministry	LT
Financial Literacy/Capability			

SECTOR	RECOMMENDATION	RESPONSIBILITY	TERM*
<i>Cross-cutting</i>	Establish a public, private sector and NGO National Financial Literacy Coordinating body chaired by MoF.	MoF	ST
<i>Cross-cutting</i>	Conduct a National Financial Capability Survey.	MoF	ST
<i>Cross-cutting</i>	Develop a National Financial Literacy Strategy.	MoF, and wide range of public / private sector / not for profit stakeholders	MT
<i>Cross-cutting</i>	Provide school-based financial education programs	Ministry of Primary and Secondary Education, MoF	LT

ST: Short-term (say 1 year); MT: Medium-Term (say 2 years); LT: Long-Term (say 3 years)

FINANCIAL SECTOR CONTEXT FOR CONSUMER FINANCIAL SERVICES AND FINANCIAL LITERACY

SUPPLY OF FINANCIAL SERVICES

- 7. Zimbabwe's financial sector has been subject to several distress periods in the last decade including periods of hyperinflation and the collapse of the national currency which lead to the adoption of a multi-currency system in early 2009.** Consequently, financial sector activity in Zimbabwe has shrunk considerably. For instance, while domestic credit provided by the financial sector as a percentage of GDP peaked at 164 percent in 2002, it dropped to 75.5 percent in 2006, which is the last year for which this indicator is available.⁸ This value of the given indicator is still higher than the average of lower middle income countries (50 percent) but lower than the average of the rest of Sub-Saharan Africa (79 percent). The following parts of this section of the report give an overview of the different parts of the financial sector, followed by information about the demand for financial services. Further details of the supply of financial services are in Volume II. For the avoidance of doubt, it is noted that in the future a broader analysis of some aspects of the financial sector might be undertaken (for example in relation to payments services).

BANKING SECTOR

- 8. The financial sector in Zimbabwe is dominated by 18 commercial banks, 2 merchant banks, and a state-owned savings bank (People's Own Savings Bank).**⁹ As of March 2014, banking sector deposits totaled USD 4.82 billion, while loans and advances totaled USD 3.64 billion.¹⁰ Banking sector assets as a percentage of GDP equaled 51.7 percent in 2012, compared to 67.4 percent in Kenya, 33.2 percent in Uganda, and 29.2 percent in Rwanda in 2013.¹¹ The banking sector is concentrated, with the deposits of five banks constituting a market share of 61.2 percent.¹² The banking sector is mainly driven by transactional and savings products, with lending primarily consisting of consumer loans (not production loans). Effective lending rates in the banking sector allegedly ranged from 13 to 38 percent per annum in January 2014.¹³
- 9. While the banking sector is considered to be stable, banks face several systemic challenges.** These challenges include the general illiquidity in the market, the lack of long-term capital, the high cost of funds which are only partially mobilized internally and thus still heavily rely on external, often more expensive sources, low capitalization, and a high level of non-performing loans (NPLs).¹⁴ Credit risk is a significant concern for banks, increasing the reluctance to lend.

⁸ See World Bank Data available at <http://data.worldbank.org/indicator/FS.AST.DOMS.GD.ZS> (last visited on October 19, 2014). The current ratio for the banking sector is circa 28.43 percent GDP. Given the predominance of the banking sector this means that the numbers have not improved since 2006.

⁹ The RBZ's list of licensed and registered financial institutions. Available at <http://www.rbz.co.zw/publications/banksurveillance.asp> (last visited on December 9, 2014).

¹⁰ Banking Sector Report for Quarter Ended 31 March 2014, 2 (Reserve Bank of Zimbabwe, 2014).

¹¹ See Zimbabwe IMF Country Report No. 12/279, 44 (International Monetary Fund, 2012) and Banking in Sub-Saharan Africa – Challenges and Opportunities, 46 (European Investment Bank, 2013).

¹² African Economic Outlook Zimbabwe, 6 (AfDB, 2014), available at www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Zimbabwe.pdf (last visited on December 9, 2014).

¹³ African Economic Outlook Zimbabwe, 6 (AfDB, 2014), available at www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Zimbabwe.pdf (last visited on December 9, 2014).

¹⁴ The average ratio of non-performing loans to total loans was 15.9 percent as of December 2013. See African Economic Outlook Zimbabwe, 9 (AfDB, 2013).

DIGITAL FINANCIAL SERVICES

10. The Zimbabwe digital financial services market, and especially the mobile phone based payments market, is extremely dynamic and appears to be growing rapidly. There are 3 mobile network operators (MNOs) offering mobile financial services, with the EcoCash payment service being dominant. At the time of the mission, EcoCash, which was launched in September 2011, had around 3.5 million customers and around 90 percent of the market by number of subscribers and 98 percent by value and number of transactions.¹⁵ The average amount held on an EcoCash wallet is USD 20, although this amount is likely to vary substantially between customers in urban areas and those in rural areas. EcoCash is serviced by around 14,000 agents, which number is increasing by around 100 per week (the mission team was advised that there were around 18,000 agents in Zimbabwe). EcoCash can be used throughout Zimbabwe to make and receive payments, pay bills, pay merchants and receive a salary. It can also be used overseas to remit funds to Zimbabwe. Other relatively new e-wallet services are TeleCash (provided by TeleCel Zimbabwe and launched in February 2014) with around 600,000 customers and OneWallet (provided by NetOne, a 100 percent Government owned organization, from November 2013 with around 70,000 customers).

11. Various new digital financial services were launched around the time of the CPFL Review. They include:

- **MasterCard linked EcoCash Debit Card.** This card was launched on 31 July 2014¹⁶ and will enable EcoCash customers to access their EcoCash e-wallet funds wherever a MasterCard can be used anywhere in the world.¹⁷
- **Telecel Gold Card.** This card, which was launched on 18 July 2014, is linked to the customer's e-wallet and can also be used as a debit card to send and receive money from any bank account where the relevant bank is linked to ZimSwitch (21 banks and building societies and 5000 points of sale are linked).¹⁸
- **EcoCash has also recently launched a mobile phone linked savings product (EcoCash \$ave), an EcoCash Loan facility and an EcoFarmer crop insurance product and are also considering a life insurance product.** Applications and transactions can be made via a mobile phone (with no face to face contact), with prices, terms and conditions being available on-line, from agents, from Steward Bank branches and, to a limited extent, on the phone itself. For example, for the EcoCash \$ave and the EcoCash Loan products, a customer is deemed to have accepted the 4 page terms and conditions by clicking on the "Accept" option on the phone menu.¹⁹ The EcoCash \$ave and EcoCash Loan are provided by Steward Bank, which is 100% owned by Econet Wireless Zimbabwe Limited.²⁰

¹⁵ As advised to mission team. See also <https://www.econet.co.zw/ecocash/> (last visited on December 30, 2014).

¹⁶ This is the first time that MasterCard debit cards have been linked to a mobile money service in Africa.

¹⁷ There are, however, apparently limitations to using the card for online payments: see <http://www.techzim.co.zw/2014/08/ecocash-mastercard-online-payments/>.

¹⁸ <http://www.techzim.co.zw/wp-content/uploads/2014/07/Telecash-Gold-Card-Press-Release.pdf>.

¹⁹ <https://www.econet.co.zw/save/terms-and-conditions.pdf>.

²⁰ <https://www.stewardbank.co.zw/about-steward-bank>

- **Services allowing remittances to be sent directly to e-wallets have also been launched.** They include the Telecel – Mukuru arrangement for remittances from South Africa²¹ and the recently announced EcoCash arrangements with WorldRemit and Western Union.²²

TABLE 2: SUMMARY DIGITAL FINANCIAL SERVICES DATA²³

MNO	SERVICES	E-VALUE as at 30 June 2014*	NUMBER OF CUSTOMERS as at 30 June 2014*	SERVICE FEATURES
EcoNet²⁴	EcoCash e-wallet	USD 45.17m ²⁵	3.5 million as at 30 June 2014	Funds transfer to other EcoNet customers, bill payment (e.g. utilities, school fees, DSTV), cash deposits and withdrawals, pay merchants for goods and services, receive salary, receive remittances from diaspora, online payments, link ewallet to bank accounts and purchase airtime.
	MasterCard linked EcoCash Debit Card	N/A	N/A	MasterCard linked to EcoCash e-wallet which can be used locally and internationally to pay for goods and services (including on line payments) wherever a MasterCard can be used.
	EcoSave	N/A although it is understood that around USD 20,000 per day is being deposited	1,180,000 around July 23 rd 2014 (total bank deposit accounts estimated at around 824,000)	Savings account with Steward Bank which is made available to EcoCash users and which is applied for and operated via the customer's mobile phone ("Your phone is like your bank").
	EcoCash Loan	N/A	N/A	EcoCash \$ave customers for over 3 months are also eligible for the relatively new EcoCash Loan product from Steward Bank of between \$5 to \$500 for up to 30 days. The average amount lent at the time of the mission was \$80. There is not a specific interest rate although there is a 5% handling fee which is deducted when the loan is provided. There is also a default interest rate of 8%. The amount lent is based on activity on EcoCash \$ave, EcoCash usage and airtime usage.
	EcoFarmer	N/A	N/A	A micro insurance product available to EcoCash users designed to insure inputs and crops against drought or excessive rainfall.
Telecel	Telecash e-wallet ²⁶	USD 1.89m	0.6 million	Funds transfers to recipient on any mobile phone network, bill payments (e.g. DSTV and local councils), cash deposits and withdrawals, pay merchants for goods and services and

²¹ <http://www.techzim.co.zw/wp-content/uploads/2014/09/Telecash-and-Mukuru-partner-in-remittances.pdf>.

²² <http://www.bh24.co.zw/ecocash-taps-into-diaspora-remittances/> and <http://www.techzim.co.zw/2014/10/ecocash-introducing-service-western-union-can-expect/>.

²³ Details of the abovementioned remittance services were made available after the abovementioned mission and data is not available.

²⁴ See <https://www.econet.co.zw/ecocash/> and <https://www.econet.co.zw/ecofarmer> for further details of EcoNet / EcoCash services.

²⁵ Total deposits in bank accounts at 30 June, 2014 were USD 659 million

²⁶ <http://www.telecel.co.zw/telecash>

				purchase airtime. The card is also linked to ZimSwitch so that funds can be transferred between any ZIPIT certified bank account and the e-wallet.
	Telecash Gold Card (debit card) ²⁷	N/A	1,300 within 7 days of launch on 16 July 2014	Available to Telecash customers and can be used to pay for goods and services at any of the more than 5,000 ZimSwitch points of Sale (POS) and to withdraw cash at ZimSwitch branded ATMs.
NetOne²⁸	Onewallet	USD 0.22m	0.4 million	Funds transfers to recipient on any mobile phone network, limited bill payments (e.g. electricity), cash deposits and withdrawals, and purchase airtime.

Source: RBZ and MNOs * unless otherwise indicated

12. RBZ requires that mobile phone based e-wallet services are offered by a subsidiary of the relevant MNO.²⁹ RBZ recognizes three main mobile payment system models, while it keeps an option to recognize any other model deemed suitable for mobile payments.³⁰ For more details see Annex I, Vol. II.

13. Further, each MNO is required to have an arrangement with one or more prudentially regulated banks (the number depends on the amount involved) in order to protect customers' funds. Under such an arrangement the MNO must ensure an amount equivalent to the outstanding e-wallet balances at any time is held in a trust accounts in the relevant bank(s). The requirement for multiple banks is to avoid concentration of risk. The trust accounts are non-interest bearing.

14. The mobile insurance market also seems to be developing, notwithstanding the failure of the EcoLife product. These issues are discussed below under Insurance.

²⁷ For further details see <http://www.techzim.co.zw/wp-content/uploads/2014/07/Telecash-Gold-Card-Press-Release.pdf>

²⁸ For further details see <http://www.netone.co.zw/onewallet/>

²⁹ MNO is used in this report to describe both the actual MNO and its subsidiary, which offers digital financial services.

³⁰ Section 8.18.1. of the RBZ Electronic Payment Systems Guideline.

NON-BANK CREDIT INSTITUTIONS (NBCI) SECTOR

15. The NBCI sector consists of multiple categories of NBCIs operating under different regulatory and supervisory regimes. Zimbabwean NBCIs can be categorized based on different criteria such as: (i) the type of activity performed (credit-only microfinance business, deposit-taking microfinance business, moneylending business); (ii) the law primarily governing establishment and operations of specific types of NBCIs (microfinanciers³¹, building societies, co-operative societies); or (iii) the supervisor responsible for regulation and supervision of the NBCIs (MoF, RBZ and the Ministry of Small and Medium Enterprises and Cooperatives (**SME Ministry**)).

16. Although detailed statistics are not available, it is clear that there has been a significant decline in the number of NBCIs since the hyperinflation period. According to data from the Zimbabwean Association of Microfinance Institutions (ZAMFI), in 2003 the number of licensed MFIs exceeded 1600 whereas there were only 147 MFIs as of February 28, 2014 and the number further dropped to 130 registered microfinance institutions at 30 June 2014.³²

17. The formal NBCI sector in Zimbabwe is primarily composed of three categories of non-bank credit institutions (NBCIs): (i) microfinanciers;³³ (ii) building societies; and (iii) cooperative societies. While building societies and SACCOs may take deposits, currently there is no licensed deposit taking MFI. Asset-wise, building societies dominate the NBCI sector with assets totaling USD717.14 million in 2012 (see the comparison between banks, building societies and microfinance credit providers in Volume II of this report). The building societies are also the most concentrated sector with only 4 players³⁴ one of which (specifically CABS) has a market share of almost 90%.³⁵ Building societies also accounted for 12% of total bank deposits in December 2012³⁶ and the industry seems to be gradually converging with the banking sector.

18. All types of co-operatives including savings and credit cooperatives (SACCOs) fall under the regulatory framework established by the Co-operatives Act and are exclusively supervised by the Ministry of Small and Medium Enterprises and Cooperatives (SME Ministry). No specific distinction has yet been made between SACCOs and other types of co-operatives, although the SME Ministry acknowledged to the mission team the necessity for a specific regulatory and supervisory regime regarding SACCOs. Currently, there are around 6000 co-operative societies operating nationwide.³⁷ In 2013, there were 72 SACCOs active in Zimbabwe, associating 153,000 members with savings and shares of USD 4,250,000, loans of USD 1,200,000 and the total assets of USD 5,300,000.³⁸

19. The mission team was also told that there is a large informal sector in Zimbabwe which is served by informal providers such as ROSCAs and short-term money lenders.

³¹ The category of microfinanciers further includes microfinance institutions, corporate microfinanciers and moneylenders.

³² Quarterly Microfinance Industry Report, 2 (RBZ, June 2014), available at www.rbz.co.zw/pdfs/MFI%20Industry%20Report%2030%20JUNE%202014....pdf (last visited on December 11, 2014).

³³ The MFA uses the term microfinanciers to cover, as explained further below in this report, all types of non-bank credit institutions including moneylenders and MFIs in the traditional meaning of the word.

³⁴ The RBZ's list of registered and licensed institutions available at www.rbz.co.zw/publications/banksurveillance.asp (last visited on December 12, 2014).

³⁵ Interview with CABS.

³⁶ Annual Report 2012, 48 (RBZ, 2012).

³⁷ Interview with the SME Ministry.

³⁸ Statistical Report 2013 (World Council of Credit Unions, 2013), available at www.woccu.org/publications/statreport (last visited on August 15, 2014). The statistical reports issued by the World Council of Credit Unions offer an interesting comparison: in 2006, which means before the economic meltdown, in Zimbabwe there were 53 SACCOs, associating 88,000 members, however, with the total deposits/shares of 5,020,856 USD, total loans of 2,915,959 and total assets of 8,110,613. In other words, as compared to 2013/2014 less SACCOs provided for higher economic performance in 2006.

However, data on the size of this sector is not available. For the summary of the NBCI sector see table 3 below.

TABLE 3: OVERVIEW OF NBCIs SECTOR

Type of NBCI	Number of NBCIs	Primary supervisor
Microfinanciers	130	RBZ
Building societies	4	RBZ
SACCOs	70+	SME Ministry
Informal moneylenders	N/A	None

INSURANCE SECTOR

20. The insurance sector in Zimbabwe is diverse yet highly concentrated. Pursuant to the list of the registered companies available on IPEC's website, there are 9 life assurers, 2 life reassures, 11 funeral assurers, 27 short-term/non-life insurers, 10 short-term reinsurers, and 30 brokers.³⁹ The three largest life companies accounted for 82.7 percent of the premiums; the three largest funeral insurers for 86.4 percent; and the top 4 short-term insurers accounted for 50 percent of premiums.^{40 41}

21. In terms of premiums, the insurance market in Zimbabwe is small but growing fast.

The insurance sector has to some extent moved on from the severe adverse effect on policy values of Zimbabwe's hyperinflation and subsequent dollarization period.⁴² In 2013, premiums for life and funeral insurance grew by 34.8 percent and for short-term insurance by 9.3 percent, leading to an overall growth of total insurance premiums of 22.2 percent. As of December 2013 Zimbabwe reached USD 38 insurance premiums per capita. In contrast, South Africa had USD 1,025 insurance per capita, Kenya had USD35 per capita and Nigeria had USD 11 per capita.⁴³ The insurance penetration ratio is currently claimed to be around 5 percent⁴⁴ (as compared to 1.70 percent in 2012⁴⁵), slightly above the average for the African continent which is 3.56 percent.⁴⁶

22. There is evidence of innovation in the insurance market in Zimbabwe, including development of the mobile phone based insurance market. Examples include distributing insurance products through banks and other financial institutions (such as credit life insurance products)⁴⁷ and, significantly, the sale of insurance through mobile phones. Two examples of the

³⁹ The IPEC's list of registered companies, available at www.ipec.co.zw/images/stories/pdf/files/registered%20companies.pdf (last visited on December 9, 2014).

⁴⁰ Source: IPEC December, 2013 reports: <http://www.ipec.co.zw/>

⁴¹ The mission team was also told anecdotally that another area of rapid growth is the health insurance / medical aid sector and that there are concerns about the administration and supervision of these schemes, which are not prudentially regulated (although this is proposed). However such schemes are not the focus of this report, which considers consumer protection issues relevant to products and services issued by the financial sector.

⁴² See paragraph 20 below for a discussion of the effects of the dollarization on the pension industry. These effects were also relevant to the value of insurance policies and their impact on this sector will also be considered in the recently announced Government Inquiry into Pensions and Insurance Conversions.

⁴³ Source: SIGMA publication of SwissRe

⁴⁴ Zimbabwe: Insurance Penetration Rate to Increase (Herald, 2014), available at allafrica.com/stories/201405261202.html (last visited on December 11, 2014).

⁴⁵ Sector Report: Insurance in Africa, 2 (KMPG, 2014), available at www.kpmg.com/Africa/en/IssuesAndInsights/Articles-Publications/Documents/Insurance%20in%20Africa.pdf (last visited on December 11, 2014).

⁴⁶ Sector Report: Insurance in Africa, 1 (KMPG, 2014) available at www.kpmg.com/Africa/en/IssuesAndInsights/Articles-Publications/Documents/Insurance%20in%20Africa.pdf (last visited on December 11, 2014).

⁴⁷ See <http://www.newsday.co.zw/2013/02/14/banking-meets-insurance/>

mobile insurance market of note are the recently launched e-FML Mobile Funeral Cash Plan⁴⁸ and the EcoFarmer product⁴⁹.

23.The failure of the EcoLife mobile insurance product is a reminder of the consumer issues relevant to the mobile insurance market. EcoLife was a free life insurance product made available by Econet as part of a loyalty program. The product scaled up rapidly but was withdrawn after 7 months as a result of a dispute over royalties. The result was that around 1.6 million Zimbabweans lost coverage and were not compensated.⁵⁰ As noted in one of the consumer focus groups conducted during the mission: *"I joined EcoLife, but up to now I don't understand what happened to it, I was never refunded...It is so painful..."* (Urban, Low Income).

SECURITIES SECTOR

24.Stock market capitalization as a percentage of GDP has improved over the last several years, while the number of listed shares and account holders has remained stable since dollarization. The market has played a significant role in the economy over the last several years with stock market capitalization almost doubling from around 50 percent to 95 percent of GDP (see table 4), although this may be due to a weak economy and strong foreign demand for a few of the top ten performers at the Zimbabwean stock exchange, particularly Delta and Econet. As further indicated in table 4, the number of shares listed on the stock exchange has been relatively stable over the last several years. Likewise, the number of account holders hardly changed since 2009. Retail investors have, however, been basically inactive.

TABLE 4: STOCK MARKET INDICATORS

Year	2012	2011	2010	2009
Capitalization (USD)	11,816,165,408	10,902,845,012	11,476,483,244	3,829,925,096
% of GDP	94.7	99.5	121.4	47.0
Listed equities	76	75	76	76
Brokerage accounts	429,735	430,040	414,776	423,067

Source: WB, ZSE and SECZ 2014

⁴⁸ http://www.fmlzim.co.zw/?page_id=126

⁴⁹ <https://www.econet.co.zw/ecofarmer>

⁵⁰ See http://www.finmark.org.za/wp-content/uploads/pubs/Rep_M_insurance_Zimbabwe_20142.pdf and <http://www.southerneye.co.zw/2013/12/01/first-mutual-life-clients-limbo/>

PENSIONS SECTOR

25. In total around one in ten elderly Zimbabweans aged 60 years and above receive a monthly pension.⁵¹ Coverage of pension schemes is limited to formal sector workers in the private and public sectors via mandatory social security schemes - the National Pension Fund (NPF) for private sector workers and the Public Service Pension Fund (PSPF). These are in a precarious financial position and are in need of reform, with the PSPF currently costing the government around 4 percent of GDP.⁵² In addition, around 1250 voluntary, occupational pension schemes are in existence (now mostly defined contribution funds, a few run in-house but most managed by pension administrators and insurance companies). These are the focus of this diagnostic, being closer to 'consumer' products. Fund membership is estimated at around 700,000 members,⁵³ with the funds holding assets estimated at USD 2 billion (approximately 20 percent of GDP).⁵⁴ Informal sector workers have no pension coverage and there is no age-based social protection for the most vulnerable elderly in Zimbabwe.

26. All pension schemes in the country were severely, adversely affected by the hyperinflationary period and the switch to the multi-currency economy. The 2009 dollarization saw pension fund liabilities being drastically reduced with some members ending up with no pensions at all. Monetary assets were wiped out and real assets were severely marked down. There has been much criticism (by activist groups representing pensioners and trade unions, amongst others) over how the conversion from Zimbabwe to US dollars was handled.⁵⁵ For example, no central guidance was given, no mandatory conversion formula was required to be used and the date at which the conversion process was undertaken was not mandated or required to be made public.⁵⁶ Overall the lack of requirements to make public the basis of the conversion has been criticized as not being 'inter-generationally' fair. The MoF commissioned an independent actuarial report on the conversion issue in 2012, which is yet to be published. However, a recently announced Government Inquiry into Pensions and Insurance Conversions was launched on Wednesday July 23rd, 2014 which will undertake a public investigation into the issue.

⁵¹ ZIMSTAT (2012) 2012 Labor Force Survey, Harare.

⁵² World Bank (2014) draft report 'Zimbabwe: Crafting a Coherent Social Protection System.' See also International Labour Organization (2012), 'Zimbabwe – Report to the Government: Actuarial Study on the National Pension Scheme'

⁵³ Members of these voluntary schemes are formal sector workers and are therefore also members of the mandatory, social security NPS scheme.

⁵⁴ See Insurance and Pension Commission Annual Report: Pensions 2012

⁵⁵ See Mazviona, B., W., (2013), 'Managing Pension Funds in Zimbabwe: Ethical Issues and Challenges', Chinese Business Review, ISSN 1537-1506 July 2013, Vol. 12, No. 7, 449-458;

Tarusenga, M., (2014), 'Porting long-term pension and insurance contracts from an inflation-hit environment to a stable hard currency environment: A perception of revaluation methods applicable in Zimbabwe's case'.

⁵⁶ Circular No. 5 of 2010 issued by IPEC simply states the deadline for conversion exercise.

DEMAND FOR FINANCIAL SERVICES

27. On access to accounts and saving services measures, Zimbabwe compares favorably to lower middle income countries and regional peers, but lacks behind more developed countries in the region. According to the 2011 Global Findex database, as set out in table 5, 40 percent of the adult population aged 15 and more hold an account at a formal financial institution. Similarly, the 2011 FinScope consumer survey indicates that 38 percent of the adult population has an account at a formal financial institution, of which around two thirds are at bank. The majority of adults still prefer to keep their savings at home.

28. The Ministry of Finance and Zimstat in cooperation with Finmark Trust recently presented updated FinScope Data. Pursuant to the latest data, the percentage of the formally served population increased to 69 percent. 31 percent of the population is served by banks, 66 percent is served by non-bank financial institution and 41 percent is served by informal financial service providers, thus leaving 22 percent of the population unserved. The main contributing factor to the substantial increase in financial inclusion has been digital financial services.⁵⁷

TABLE 5: USE OF FINANCIAL PRODUCTS BY ZIMBABWEAN ADULTS (15 + YEARS)

Number of adults... (%)	Finscope 2011			Global Findex 2011		
	Total	Banks	Non-bank formal	Zimbabwe	Sub-Saharan Africa	Lower middle income countries
... with an account at formal financial institution	38	24	14	40	24	24
... with a loan in the last year	5	3	2	5	5	11
... who saved in past year	26	17	9	17	14	11
... using mobile phones to send or receive money	N/A	N/A	N/A	3	16	5

Source: Finscope, 2011 and Global Findex, 2011.

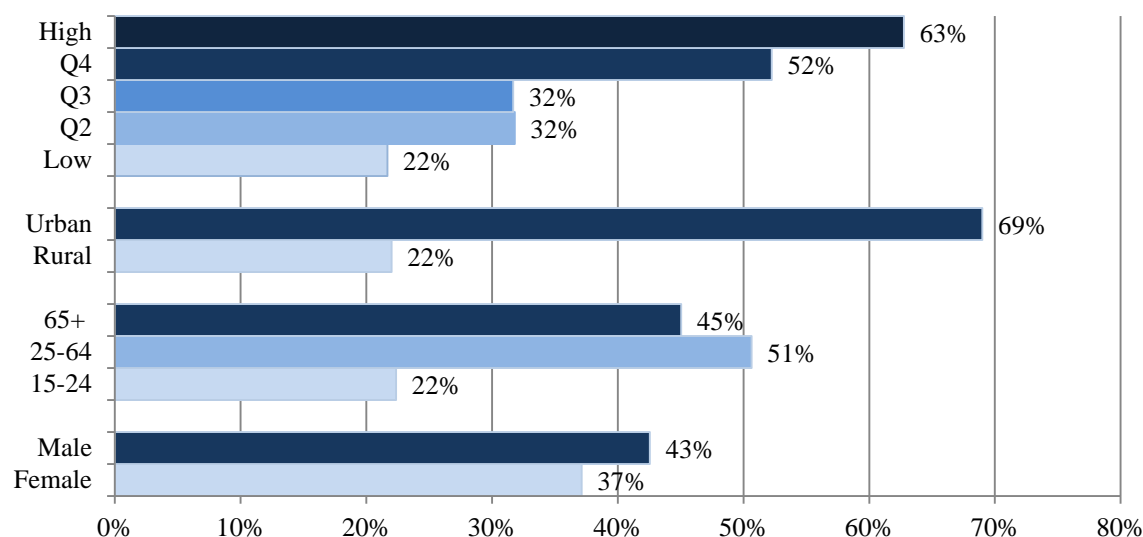
29. The degree of financial inclusion as measured by account penetration conceals larger inequalities between income groups, age, area of residence, and gender. Figure 2 below contains relevant details.

30. By far the most frequently cited barrier to account ownership is lack of money, followed by cost, lack of required documents and trust; the latter reason for not owning an account has been reported more often than other developing economies. According to Global Findex, lack of trust has been cited by 20 percent of non-account holders which is higher than the average of the rest of Sub-Saharan Africa (16 percent) and the group of lower middle income countries (11 percent). As in the rest of Sub-Saharan Africa, adults in Zimbabwe rely primarily on family and friends for credit (31 percent), with just 5 percent of adults

⁵⁷ <http://www.finmark.org.za/publication/finscope-zimbabwe-consumer-survey-2014>

reported having borrowed from a formal financial institution including banks, NCBI, etc. (see figure 5, Annex 1).

FIGURE 1: ACCOUNT PENETRATION BY INDIVIDUAL CHARACTERISTICS (2011)



Source: Global Findex, 2011

31. Low use of formal financial services may also be partly explained by low levels of financial literacy/capability of the population. Although there is limited evidence, financial capability levels in Zimbabwe appear to be low. The FinScope Consumer Survey 2011 suggests that the majority of Zimbabweans (74 percent) lack knowledge and understanding of financial market terms. Given its implications for Zimbabweans long-term well-being, of particular concern may be the lack of substantial long-term orientation as revealed by the same FinScope Consumer Survey. Similarly, the results of the focus group discussions which were conducted as a part of the CPFL review show that the majority of participants lack long-term orientation and struggle to understand financial concepts such as compound interest (see Box 1).

BOX 1: KEY FINDINGS OF THE 2014 WB FOCUS GROUP DISCUSSIONS

In order to obtain an insight into consumer's financial capability levels, the World Bank commissioned rapid assessments on consumer's ability to take sound financial decisions, in particular to choose and use financial products that fit their needs best. To this end, World Bank commissioned the consulting firm Research Bureau International (RBI) to conduct a qualitative study, so called focus group discussions. The assessment methodology was designed to enable rich and detailed discussions of the factors and processes shaping financial decisions, and to provide a basis for comparative analysis across rural and urban locations as well as socio-demographic criteria including gender and income. Although extensive quantitative data and analysis on the status of financial literacy/capability is needed to identify areas for improvement and target populations on a national level, the World Bank, at this point, aimed to conduct rather focused surveys to gain quick and deep insights into the financial knowledge, skills, attitudes, and behaviors of the selected respondents. It should therefore be noted that due to the non-random selection procedure, the results of the focus group discussions cannot be extrapolated to the overall population in Zimbabwe. They may be indicative, however, of the most pressing needs for policy action.

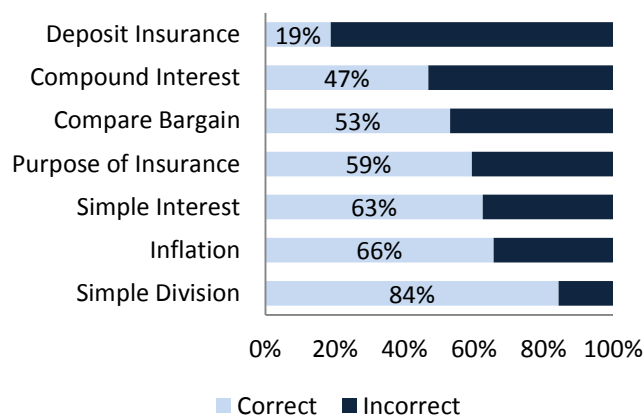
On average, the participants in the focus group discussions were able to answer around 4 financial literacy-related questions out of 7 correctly. In order to get a better understanding of respondent's financial knowledge and their basic numeracy skills, a short financial literacy quiz comprising 7 questions was delivered at the end of the focus group discussions. Based on the number of correct responses provided by each focus group participant to the seven financial literacy questions we constructed a financial literacy index. This index ranges from 0 to 7, whereby 0 indicates respondents who struggle the most with correctly answering any of these questions, while a score of 7 indicates survey participants with good numeracy skills and understanding of fundamental financial concepts.

A deeper exploration into the type of financial concepts being assessed reveals that respondents master the task of basic calculus but struggle to understand more complex concepts such as compound interest, etc. The participants are most comfortable with performing simple divisions as revealed in figure 2. This finding is consistent with what we found in the similar assessments in other countries. Two thirds of the sample demonstrated good understanding of the concept of inflation which is notably high as compared to other countries, and can be explained by the period of hyperinflation experienced in Zimbabwe and its adverse impacts on the economy. More complex concepts and numeracy tasks on the other hand posed a challenge to a substantial proportion of the sample.

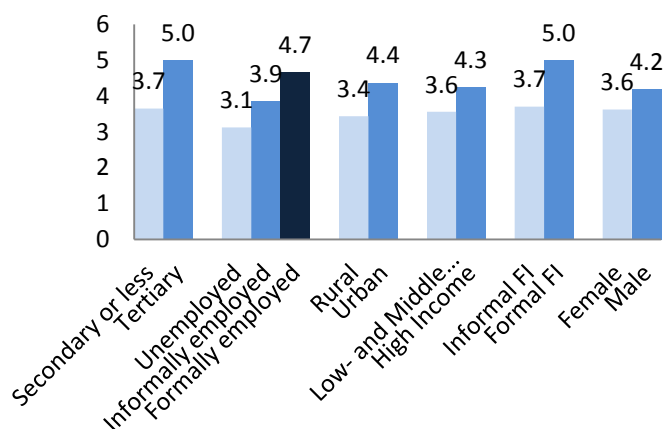
Respondents that scored the lowest on the financial literacy quiz include women, rural dwellers, unemployed, low income populations, groups with lower educational attainment and those who are more likely to use informal financial products and services. Findings from the focus group discussions further suggest that awareness and understanding of the concept of inflation and the main purpose of insurance products is especially lacking among the poor, women and those with low educational attainment (see Figure 3). This result suggests there is room for policies to target these segments, given that the adverse effects of high inflation may take the highest toll among these groups and that they may benefit the most from any financial instruments that help them to manage the risks they are facing, both the risks associated with their personal health and their livelihoods.

The focus group discussions further revealed that there is a lack of long-term orientation, a low complaints culture and little or no awareness amongst respondents with regards to existing systems of redress in the event of a financial service provider conflict. Regarding respondent's financial behaviors, the findings suggest that saving or setting aside some money for unexpected and old age expenses poses a challenge for most respondents in the low and middle income groups. Another major finding is that only very few respondents indicated that they experienced a conflict with a financial service provider. In terms of actions taken in the event of a dispute most respondents did not lodge a complaint with the relevant financial institution or a third party (such as a regulator), as they were not aware of internal channels to take redress or any government agencies they can approach for help. Moreover, they lacked confidence that conflicts with providers of financial services could be resolved to their satisfaction.

**FIGURE 2: FINANCIAL LITERACY QUIZ OVERVIEW
SOCIO- DEMOGRAPHIC GROUPS**



**FIGURE 3: FINANCIAL LITERACY SCORES, BY
SOCIO- DEMOGRAPHIC GROUPS**



FINANCIAL CONSUMER PROTECTION IN ZIMBABWE

INSTITUTIONAL ARRANGEMENTS

32. The institutional arrangements for regulation and supervision of each part of the financial sector merit careful review. Of particular importance are the following issues: who is responsible for consumer protection in each sector? Are there gaps/overlaps/capacity/resource issues to be considered? Is there an appropriate allocation between prudential supervision and consumer protection supervision? Is there co-ordination between multiple agencies? Is the private sector involved e.g. through self-regulatory codes of conduct? Does the supervisor concerned have adequate resources, skills and expertise? There is, however, no “best practice” on how to structure financial consumer protection institutionally. The appropriate model in any country depends on the country-specific characteristics such as size and structure of the financial system and existing regulatory and supervisory arrangements.

GENERAL OVERVIEW

TABLE 6: FINANCIAL CONSUMER PROTECTION REGULATORS AND SUPERVISORS

REGULATOR / MINISTRY	REGULATED INDUSTRY / RESPONSIBILITY	KEY LAWS (<i>not including regulations and guidelines</i>)
RBZ	<ol style="list-style-type: none"> 1. Banking institutions (including banks, building societies, People’s Own Savings Bank, microfinanciers) and payment systems 2. Regulation, monitoring, supervision and enforcement 	<ul style="list-style-type: none"> • Banking Act • Building Societies Act • Microfinance Act • National Payment Systems Act • RBZ Act
SECZ	<ol style="list-style-type: none"> 1. Stock Exchanges (partially), Brokers, Asset Management Companies, Collective Investment Schemes, Investment Protection Fund, Central Depository 2. Day to day monitoring and supervision of the securities market, licensing of securities business, supervision and enforcement 	<ul style="list-style-type: none"> • Securities and Exchange Act • Asset Management Act • Collective Investment Scheme Act
IPEC	<ol style="list-style-type: none"> 1. Non-Life Insurance Companies, Life Assurance Companies, Funeral Assurers, Re-Assurers, Brokers, Reinsurance 	<ul style="list-style-type: none"> • Insurance Act • Insurance and Pension Commission Act • Pension and Provident Funds Act

	Companies, Brokers and Pension Funds 2. Regulation, monitoring, supervision and enforcement	
Ministry of Small and Medium Enterprises and Cooperatives	1. Savings and Credit Cooperatives 2. Regulation, monitoring, supervision and enforcement	<ul style="list-style-type: none"> Co-operatives Act
MoF	1. All sectors 2. Policy, regulation and high-level oversight for all sectors 3. Oversight of supervisory agencies and a point of appeals against their decisions	<ul style="list-style-type: none"> Microfinance Act Banking Act Insurance Act Pension and Provident Funds Act Asset Management Act Collective Investment Schemes Act Securities Act Zimbabwe Stock Exchange Act
Ministry of Industry and Commerce	1. All sectors 2. General regulatory and supervisory responsibilities in relation to consumer contracts	<ul style="list-style-type: none"> Consumer Contracts Act
Competition and Tariff Commission	1. All sectors (current focus on mobile banking) 2. Monitoring and promotion of competition	<ul style="list-style-type: none"> Competition Act
Postal and Telecommunications Regulatory Authority of Zimbabwe	1. Mobile Network Operators 2. Licensing, regulation, supervision and enforcement	<ul style="list-style-type: none"> Telecommunications Act

33. The multiple sectorial regulators and supervisors have limited capacity and resources to focus on financial consumer protection issues and do not have an explicit mandate in relation to consumer protection matters (or financial inclusion more generally).

Supervisory staff are responsible for both prudential and consumer protection supervision and do not appear to have a specific focus on the latter. These arrangements can in principle give rise to conflicts between prudential supervision objectives and market conduct supervision objectives. Consumer protection and prudential supervision also require different types of supervisory profiles, skills and approaches, with the latter focusing more on quantitative skills and analysis of an institution's financial soundness, and the former on qualitative skills and assessment of how an institution deals with consumers. Further, staff do not use, in any systematic way, many of the specific tools relevant to this area (such as mystery shopping, customer focus groups and surveys, review of advertising materials or a systematic analysis of customer complaints made to the various mediation services on offer). There are also concerns as to whether the relevant regulators have the required resources (including skills and capacity) for the consumer protection functions they may have to carry out. These issues will become more serious in the future as Zimbabwe develops its consumer protection legal and regulatory framework.

34. The need for supervisors to develop consumer protection specific supervisory resources, tools and capacity is especially important given the range of new laws and regulations that are being, or have been, developed to cover financial sector consumer protection issues. Examples include: (i) the proposed new Consumer Protection Law; (ii) the proposed banking sector rules covering disclosure of business conditions and dispute resolution mechanisms; (iii) the proposed new Electronic Banking Regulations; (iv) the ongoing reforms proposed to market conduct rules relevant to the pensions and insurance sectors; (v) the enactment of the Microfinance Act; and (vi) the proposed new market conduct rules for securities brokers.

35. There is potential for overlap between the responsibilities of the various regulators in relation to consumer protection policies and other initiatives. Specific issues in this context include (i) the need for a consistent approach to consumer protection issues which are common to the different parts of the financial sector (such as transparency of terms and conditions, unfair terms and dispute resolution) so as to provide consumers with similar rights and responsibilities where relevant and to minimize the risk of regulatory arbitrage; (ii) the increasing convergence of the different parts of the financial sector (for example, in relation to the distribution of insurance and securities products through banks and the sale of insurance policies through mobile phone networks); (iii) the need to deal with issues affecting corporate conglomerates which have entities dealing in different parts of the financial sector; (iv) the increasing need for cooperation and clear delineation of powers between financial sector supervisors and other agencies whose supervised entities are making forays into the financial market (such as POTRAZ); and (v) the potential for overlap between the functions of the specific financial sector regulators and the general powers of the proposed new Consumer Protection Commission under the draft Consumer Protection Bill 2014.⁵⁸

36. Currently, there is only one consumer protection association operating in Zimbabwe, however it lacks resources and does not deal directly with financial consumer protection matters. The relevant organization is the Consumer Council of Zimbabwe (CCZ) which was formed in 1975. CCZ has five primary objectives: (i) consumer education; (ii) information dissemination; (iii) complaints handling; (iv) lobbying and advocacy; and (v) research. The current focus of the CCZ's activities is on the first objective, consumer education. However, due to a lack of resources (CCZ currently has less than 20 staff members) and specialized training, CCZ does not have a particular focus on financial sector issues.

Key Recommendation(s)

37. Consumer/investor protection specific supervisory arrangements, resources, tools and capacity should be developed within the financial sector regulators and supervisors. This includes RBZ for banking (including mobile banking), payments and microfinance; IPEC for insurance and pensions; SECZ and ZSE for the capital markets; and the SME Ministry for Co-operatives. Specific issues to focus on in this context include: (i) as noted above, the desirability of separating prudential and consumer protection; and (ii) ensuring regulators have adequate consumer protection – specific resources, tools and capacity and training so that they can focus

⁵⁸ The Commission's functions and powers are likely to include promoting fair business practices, protecting consumers from unconscionable and unjust trade practices and deceptive or unfair conduct, improving consumer awareness, and providing an accessible and efficient dispute resolution system. The Commission is also proposed to have power to "regulate the formation of some consumer protection bodies for specific sectors" (section 6(h)) and to "have oversight on sector specific bodies established under the Commission" (section 6(i)).

on the areas of highest risk (which could be particular types of products, services, providers or market segments) and on developing a proportionate, scalable approach to supervision.

38.Coordination and consultation arrangements should be established between the various consumer protection regulators. Such arrangements could involve, for example, consultations on policy development on common issues, exchanges of information about issues arising from consumer complaints and discussions on issues relevant to financial sector conglomerates. The arrangements might also usefully be formalized through a Memorandum of Understanding or a coordination committee.

39.Assuming the Consumer Protection Bill becomes law and a Consumer Protection Commission is created, it will be necessary to clarify the Consumer Protection Commission's role in relation to consumer protection in the financial sector. The optimal role of the Consumer Protection Commission will depend on its level of resources and capacity. However, it would most likely be preferable for the financial sector regulators to have sole responsibility for financial consumer protection, independent of both the Consumer Protection Bill and the Consumer Protection Commission. These regulators are most likely to have the technical knowledge and supervisory experience to undertake such activities. If, however, this approach is adopted then it will be important that a coordinated approach is taken between the different regulators, as proposed above.

40.Consideration should be given to strengthening the role of consumer organizations such as CCZ in financial consumer protection. Consumer associations can play an important role in raising awareness of financial consumers' rights, monitoring business practices (for example by mystery shopping), and giving advice to consumers, among other activities. CCZ should receive sustainable annual grant funding so as to enable it to develop a more effective financial consumer protection role. Training programs should be instituted for CCZ's staff and members so that they better understand financial services, and mutual cooperation between CCZ and financial supervisors should be promoted.

41.The following paragraphs address issues specific to the different parts of the financial sector. Unless otherwise stated, the above mentioned recommendations apply to each regulator and supervisor in the financial sector.

BANKING SECTOR

42.Currently, there are no regulatory bodies specifically tasked with supervising financial consumer protection in the banking sector. The functions of RBZ, as stated in section 6 of the RBZ Act,⁵⁹ primarily focus on fiscal and monetary stability, though clause (6)(1)(c) refers to the RBZ's function "*to foster the liquidity, solvency, stability and proper functioning of Zimbabwe's financial system,*" clause (6)(1)(d) refers to the RBZ's function "*to advance the general economic policies of the Government,*" and clause (6)(1)(e) refers to the RBZ's function "*to supervise banking institutions and to promote the smooth operation of the payment system.*" These clauses could be broadly interpreted to include financial consumer protection given its importance for financial stability (as evidenced by the lack of responsible lending standards that contributed to the global financial crisis in 2008). However, in the long-term, it would be preferable for RBZ to have a clearer and more direct mandate with respect to both financial consumer protection and financial inclusion.

⁵⁹ Act No. 5 of 1999, as amended by Act No. 22 of 2001, Act No. 16 of 2004, and Act No. 29 of 2005.

Key Recommendation(s)

- 43. The mandate of RBZ should be clarified in the long-term to specifically include financial consumer protection and financial inclusion.** Ideally there would be no ambiguity as to RBZ's legal mandate to develop and enforce a comprehensive financial consumer protection framework. It would also be helpful to specifically incorporate a financial inclusion mandate as well, given the low levels of financial inclusion noted previously.

DIGITAL FINANCIAL SERVICES

- 44. RBZ has functions and powers in relation to the payments system but does not have direct regulatory or supervisory powers in relation to MNOs who provide mobile phone based payments services (this is the responsibility of POTRAZ).** RBZ is able to regulate mobile phone based payments in reliance on its functions in relation to payments systems and its powers under the Payments Act and having regard to internal non-binding guidelines to regulate mobile banking. Specifically, the RBZ's functions include *"to supervise banking institutions and to promote the smooth operation of the payment system"*⁶⁰ and, under the Payments System Act, RBZ has broad powers in relation to payment systems. The latter powers extend to institutions other than financial institutions which provide services in relation to deposits, money transmission services and issuing and administering means of payment.⁶¹ In reliance on these powers RBZ is also developing Electronic Payments Regulations which are likely to address a number of the topics raised in this report. However, RBZ does not have express power to regulate consumer protection issues relevant to digital financial services, including mobile banking services.
- 45. IPEC similarly does not have a clear and comprehensive mandate to regulate financial consumer protection issues in relation to insurance products that are sold, serviced or made available via mobile phones.**
- 46. The Competition and Tariffs Commission is currently conducting an enquiry into mobile phone based payments services.** The mission team was told their particular focus is on fees and on arrangements with agents, and that they are being supported by South African competition regulators.⁶² It is also understood that the Commission plans to review competition in the financial sector more generally, subject to available resources (which are very limited – at the time of the CPFL Review mission there was only one person in the Research Department of the Commission).

Key Recommendation(s)

- 47. The power of RBZ and IPEC to regulate financial consumer protection issues in relation to digital financial services should be made express.** There should be no doubt as to the powers of RBZ and IPEC in this regard. Consideration should also be given to developing the capacity of RBZ and IPEC to regulate and supervise the consumer protection issues which are specific to this context.
- 48. The proposed MoU between RBZ and POTRAZ should be finalized and extended so that IPEC and the Competition and Tariffs Commission are also a party.** In particular the MoU should cover consultation and coordination arrangements between the regulators in relation

⁶⁰ Section 6(1) (e) of the RBZ Act.

⁶¹ Sections 2(b) and 3 of the National Payments System Act.

⁶² See also http://www.zimbabwesiituation.com/news/zimsit_m_sa-experts-roped-into-econet-inquiry-the-herald/

to matters such as new policy initiatives, approvals of new products and service providers and investigations, the establishment of a Coordination Committee and confidentiality. It is understood that many of these issues are proposed to be covered in the draft MoU that has been prepared for RBZ and POTRAZ.

49. RBZ should closely monitor the current inquiry into mobile phone based payments services by the Competition and Tariffs Commission and consult and collaborate as required. In the longer-term, consideration could be given to formalizing consultation arrangements under a MoU (see above). Consideration should also be given to expanding the research resources of the Commission and their capacity to investigate financial sector issues which are likely to have an adverse effect on consumers.

NBCI SECTOR

50. Continuous efforts have been made to establish cooperation between relevant authorities responsible for regulation and supervision of the NBCI sector. RBZ and the SME Ministry are the principal sector-specific regulators and supervisors in the NBCI sector. They include: (i) RBZ in relation to the new Microfinance Act;⁶³ (ii) the RBZ is similarly responsible for supervision of building societies under the Building Societies Act;⁶⁴ and (iii) the SME Ministry of supervises savings and credit cooperatives (SACCOs) under the Co-operative Societies Act.⁶⁵ To facilitate coordination between RBZ and the SME Ministry a MoU has been signed and it has been proposed to form a joint commission. However these arrangements have not yet been implemented.

51. The NBCI sector gives rise to specific capacity issues for RBZ. Under the new Microfinance Act, RBZ is responsible for market conduct supervision of all formal NBCIs except for SACCOs. There are multiple challenges for RBZ with this role: (i) the number of NBCIs is relatively high; (ii) they operate in both rural and remote areas of the country; (iii) they substantially differ one from each other in terms of size, client base, funding, products offered and modes of; and (iv) the mission team was told that there are significant numbers of NBCIs operating informally or in the shadow zone. It is also not clear whether RBZ has the skills, tools and resources to supervise microfinance institutions, especially as the Microfinance Act only came into operation in 2013 and RBZ had not previously exercised market conduct supervision.

52. The SME Ministry also faces capacity challenges in relation to its supervision of SACCOs. The total number of co-operative societies is high thus making it challenging for the SME Ministry to effectively oversee all of them and SACCOs in particular.⁶⁶ On one view, this challenge might be partially addressed by shifting a part of the supervisory burden to a self-regulatory organization. However care would need to be taken to ensure that any such organization had the resources, skills and capacity, as well as the enforcement powers to take on such a role. It is also not clear that there is the regulatory power to make such a delegation of powers. For instance, pursuant to section 89 and section 90 of the COOPA registered apex organizations may form a National Co-operative Federation to represent the industry at national and international level⁶⁷ and exercise other functions listed under the section 90(2) of the COOPA. However, the COOPA does not list self-regulation among the roles to be played by the National Co-operative Federation. Moreover, there is no such federation currently active in Zimbabwe.

⁶³ Section 4 of the Microfinance Act

⁶⁴ Section 5 of the Microfinance Act

⁶⁵ Section 4 of the Microfinance Act

⁶⁶ See paragraph 12 above re the total number of SACCOs

⁶⁷ Section 90(1) of the COOP Act.

Further, the COOPA does not distinguish between prudential and market conduct aspects of supervision and regulation. The emphasis is more on the overall stability of co-operatives, their accounting and governance principles rather than on market conduct issues.

53. One option would be for the RBZ to take over responsibility for supervising SACCOs.

The objective would be to ensure a harmonized approach to the regulation and supervision of SACCOs and other types of NBCIs, a level playing field and to minimize the risk of regulatory arbitrage. Non – financial cooperatives should however remain under the jurisdiction of the SME Ministry.

Key Recommendation(s)

54. Formal consultation and cooperation arrangements should be developed between NBCI supervisors.

This might be done through the proposed MoU and the related joint commission. Such arrangements could cover detailed rules of cooperation and coordination that would guide the stakeholders in different instances where mutual interaction is either inevitable or highly desirable (e.g. regulation, supervision, enforcement and education). Ideally a lead agency would be designated to be responsible for leading and monitoring cooperation efforts and reporting to a body such as the joint commission or another designated governance body (e.g. the MoF or a Parliamentary Committee).

55. RBZ should focus on developing its capacity to monitor and enforce the Microfinance Act.

A proportional approach towards supervision and enforcement should be taken so the focus is on activities and NBCIs considered as being of the highest risk to consumers.

56. The responsibility for supervision of SACCOs should be clarified.

The law should provide for a clear regulatory and supervisory mandate regarding prudential and market conduct regulation of SACCOs. The current responsibility of the SME Ministry should be reviewed and in the mid- to long-term consideration should be given to giving RBZ responsibility for supervising SACCOs. In the interim, close consultation and cooperation arrangements should be established between RBZ and the SME Ministry.

SECURITIES SECTOR

57. Activity in the securities sector in Zimbabwe over the last several years has demonstrated a commitment by the government and industry to develop the securities market and improve and create investor protection institutions and legal structures.

The Securities Act No. 17 of 2004 (Securities Act) created the Securities Exchange Commission Zimbabwe (SECZ) with its first mentioned goal being “to provide high levels of investor protection”.⁶⁸ Until the SECZ became operational, the Zimbabwe Stock Exchange regulated securities markets. Further amendments in 2013 concentrated the regulation of the entire securities sector in the SECZ. Additional protection for investors were provided by the requirement that securities accounts be held in investors’ names and by the creation of a Central Depository to hold dematerialized securities, with the Central Depository being almost ready for operations at the time of the mission. The recent creation of an Investors Protection Fund also provides investors with a mechanism for safeguarding their investments in the event of the failure of a broker.⁶⁹ The Investor Protection Fund is operational, but in its early stages and has not had to make any payments to investors to date. Finally, the planned automation of ZSE should provide a more efficient and transparent mechanism for trading securities by investors.

⁶⁸ Section 4 (1)(a) of the Securities Act.

⁶⁹ Securities Act, as amended, Article IXA, sections 86A-86I.

58. Although statutorily created in 2004, the SECZ did not become operational until 2008 with a mandate to oversee registered stock exchanges, brokers and a registered Central Depository. The mandate was extended in 2013 to include collective investments, asset managers and oversight over an Investor Protection Fund. The Central Depository will be operational in 2014. The SECZ is funded by the industry in the form of fees and charges for licenses, and levies imposed by the SECZ on licensed entities. Due to the low amount of current activity in the securities market, this has resulted in limited funds for the SECZ which has limited its ability to carry out its responsibilities. Nonetheless, the SECZ has examined all of the brokers every year through on-site and off-site examinations. The additional responsibility of examining asset managers and unit trusts will stretch its resources. New training will also be needed for its staff to handle its new responsibilities.

Key Recommendation(s)

59. SECZ's capacity needs to be enhanced by the government, at least until it is able to be self-funded so as to enable it to fully carry out its mission. Further, additional training for the SECZ's staff will be needed to increase their capacity to handle their new responsibilities and the developments in established responsibilities such as automated stock markets operations and Central Depository activities.

INSURANCE AND PENSIONS SECTORS

60. The Insurance and Pensions Commission (IPEC) is responsible for the supervision of the insurance and pension sectors, with the MoF having policy responsibility for insurance and pension's legislation. The scope of the IPEC's supervisory activities is primarily determined by the principal legislation relevant to the insurance sector: the Insurance Act and IPEC Act. The Insurance Act governs the organization and operation of insurance business, and auxiliary professions and includes very limited provisions dealing with consumer protection issues.⁷⁰ However, section 87 gives the power to IPEC to declare a specified practice or method of conducting business an irregular or undesirable practice or an undesirable method of conducting business.

61. Thus, IPEC has an overall responsibility for consumer protection and market conduct. The IPEC's objectives under the Insurance Act include "*the protection of the rights, benefits and other interests of policy owners and of any beneficiaries of policies*" as well as "*the monitoring of the solvency of insurers and the maintenance of sound insurance principles and practices in the conduct of insurance business in Zimbabwe*".⁷¹ However, the IPEC's mandate regarding consumer protection and market conduct is rather vague. Moreover, the capacity of IPEC is currently stretched, with only 24 staff in total for both the insurance and pensions sectors, thus making it difficult for IPEC to fully meet the statutory objectives. IPEC also lacks much needed specialists, such as staff with an actuarial or legal training.

Key Recommendation(s)

62. A comprehensive analysis should be undertaken of the roles and responsibilities of IPEC's current functions and those that are proposed in relation to market conduct and the related required skills and resources. Moreover, the hiring of a trained actuary is recommended in the short-term for IPEC, with general capacity building over the medium-term.

⁷⁰ For instance, provisions dealing with court actions by policy holders against insurers (section 75); requirements for the display of information at business premises (section 78) and requirements for life and funeral policies to be printed in no less than 8 point font and other policies to be in clearly legible letters (section 83).

⁷¹ Sections 5(b) and (c).

Joining and active participation in regional and international supervisory organizations (such as the International Association of Insurance Supervisors, the Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA is part of SADC) and the International Organization of Pension Supervisors) could help IPEC build knowledge of international, supervision related good practice.⁷² In the longer-term, specific training on consumer protection issues and related supervisory tools will be needed as contemplated in the General Overview above. The need for such capacity building is more urgent at present for consumer protection rules relevant to the insurance market, but will also become necessary for pensions as the retail market develops.

⁷² CISNA- Committee of Insurance, Securities and Non-bank Financial Authorities – is part of the Southern Africa Development Community (SADC). IOPS stands for the [International Organisation of Pension Supervisors](#).

LEGAL AND REGULATORY FRAMEWORK

63. A strong legal and regulatory framework for financial consumer protection is crucial to protect financial consumers and proactively prevent market abuses. Market conduct regulation should at a minimum ensure that consumers: (i) receive information to allow them to make informed decisions; (ii) are not subject to unfair or deceptive practices; and (iii) have access to recourse mechanisms to resolve disputes. All laws and subordinate legislation relating to consumer protection in the financial sector should be considered in this context with a view to assessing their scope and sphere of application, any related gaps and overlaps and with a particular focus on issues such as licensing, transparency and disclosure, business conduct, recourse mechanisms, data protection and credit reporting. The legal and regulatory framework should also be supported by supervisory agencies which have the capacity to ensure effective implementation (see Institutional Arrangements above).

GENERAL OVERVIEW

64. There are very limited consumer protection rules specifically applicable to the financial sector, with the exception of the Microfinance Act which is not yet being actively supervised or enforced. Details of the few laws that exist are described below in the sector – specific sections.

65. There are, however, scattered laws of general application with limited provisions on issues relevant to consumer protection. They include the Consumer Contracts Act (which primarily deals with unfair terms and conduct and contains a requirement for plain language) and the Contractual Penalties Act (which allows courts to provide relief to debtors when penalties are considered excessive). However the mission team was told that consumers do not often seek to rely on these acts. Also relevant is the anti- money laundering legislation in Zimbabwe which includes rules relating to data collection and record keeping.⁷³ Further, the Competition Act contains provisions on unfair business practices such as misleading advertising⁷⁴ as well as concerning anti-competitive practice more generally.

66. The proposed Consumer Protection Bill provides for an overarching consumer protection framework. The Bill, which was released for public comment in October 2014 after several years in development, includes provisions providing for: (i) establishment of the Consumer Protection Commission (there is no provision for either the MoF or RBZ to be represented on the Board) and its enforcement powers; (ii) fundamental consumer rights such as rights to plain and understandable language; to be heard and obtain redress; and to consumer education; (iii) relief against unfair contract terms and unfair contracts and (iv) the establishment of a Consumer Court (a special court to enforce consumer rights). The Bill applies generally to all sectors, and does not refer specifically to the financial sector.

67. Other new consumer protection laws and regulations are being, or have been, developed to cover financial sector consumer protection issues. Examples include: (i) the proposed banking sector rules covering disclosure of business conditions and dispute resolution mechanisms; (ii) the proposed new Electronic Banking Regulations; (iii) the ongoing reforms proposed to market conduct rules relevant to the pensions and insurance sectors; (iv) the enactment of the new Microfinance Act; and (v) the proposed new market conduct rules for securities brokers.

⁷³ Bank Use Promotion and Suppression of Money Laundering Act (2004).

⁷⁴ First Schedule of the Microfinance Act.

68. However there remain significant gaps in the overall financial consumer protection legal and regulatory framework. For example, despite the Microfinance Act, there are virtually no legally binding transparency or business conduct/consumer protection provisions for the financial sector and no laws on the licensing and conduct of credit bureaus, data protection or requiring debt collectors to be registered and to refrain from abusive collection practices.

Key Recommendation(s)

69. In the near to medium-term it is recommended that: (i) the proposed new laws be reviewed against international best practice standards and finalized and implemented as a priority; and (ii) the role of the proposed Consumer Protection Commission in relation to financial products and services be clarified.

70. A comprehensive financial consumer protection law should be developed in the long term to cover all parts of the financial sector. This law should establish clear rules on disclosure and sales practices, business conduct, account handling and maintenance, advertising, privacy and data protection and dispute resolution mechanisms, among other topics. Ideally it would cover all parts of the financial sector, with regulations being made for the purposes of specific products (such as for credit cards and insurance contracts). However, it is appreciated that the development of such a law can only be a long term objective, given the likely complexity of its provisions and the need for widespread industry and public consultations as well as the parliamentary process.

71. A pragmatic approach in the short-term would be for the relevant regulators to issue regulations on key topics. Examples include disclosure and transparency and complaints handling mechanisms. Proceeding in such an incremental manner would provide the added benefit of also allowing for supervisors to gradually build capacity for implementation and for providers to adjust their internal systems accordingly. This would not, however, be necessary in the microfinance sector given the comprehensive provisions in the Microfinance Act.

72. The role of the proposed Consumer Protection Commission in relation to the financial sector needs to be clarified. This issue is discussed above under Institutional Arrangements. In summary, the recommendation is to specifically carve out financial services from the Consumer Protection Bill and to make it clear that the financial sector regulators have responsibility for consumer protection in the financial sector.

BANKING SECTOR

73. There are currently very few laws or regulations with respect to financial consumer protection which specifically apply to the banking sector.⁷⁵ There are however informal requirements from RBZ regarding complaints handling mechanisms and disclosure of “*business conditions*” in bank branches and websites and in newspapers, for which compliance appears to be based primarily on moral suasion. Further, the mission team was advised that amendments to the Banking Act currently being drafted by the Attorney General will include provisions on enhanced internal dispute resolution mechanisms and enhanced disclosure of business conditions for banks, as well as provisions on the creation of an Office of the Public Financial Protector for banking sector customers. The RBZ has also published the Minimum Disclosure Requirements for

⁷⁵The Microfinance Act No. 3 of 2013 includes provisions on financial consumer protection and does technically apply to any subsidiary or division of a banking institution engaging in microfinance business. It is discussed in the NBCI context.

Financial institutions⁷⁶ concerning disclosure of financial statements and other information about the financial condition and health of financial institutions.

Key Recommendation(s)

74. The recommendations in the General Overview above are especially relevant to the banking sector. Pending their implementation the Code of Banking Practice should be revised and implemented (see Business Conduct below).

DIGITAL FINANCIAL SERVICES

75. RBZ has comprehensive internal guidelines relating to new electronic payment systems, but there is currently no legislation which specifically applies to consumer protection issues relevant to digital financial services in Zimbabwe. The RBZ Electronic Payments Guidelines cover important consumer issues such as the need for approval of new electronic payments systems and requirements for: risk management systems, security measures, capacity for interoperability, finality of payments, ongoing availability of services, full disclosures, audit trails, transaction authentication, dispute resolution procedures and the requirement to hold an amount equivalent to e-money balances in a trust account. They also have general obligations for “*comprehensive*” policies on complaints handling, disclosure, transparency, displays of fees and charges and an obligation “*to continuously adopt international best practices as guided by Central Bank*”.⁷⁷ The Guidelines, however, apply only to payment systems and payment system participants, that is “*systems that enable the transfer, payment and cash withdrawal of funds between a payer and payee, utilizing instruments and procedures that relate to such payment systems like auto teller machine and point of sale cards, mobile phones, and computers among other electronic instruments.*”⁷⁸ Thus, the Guidelines do not cover specifically other types of financial products and services offered through digital means.

76. RBZ exerts further influence over payment system participants by requiring that each MNO partner with a bank. Specifically, each MNO is required to enter into a Service Level Agreement which covers various matters relevant to market conduct, as well as more general obligations. Relevant areas covered include the applicable tariff schedule, customer terms and conditions and confidentiality and dispute resolution. Although these requirements are important, they lack detail and, importantly, they do not clearly have the force of law, are not transparent to the general public, are uncertain as they can be changed at any time and do not provide consumers with any rights. Further, they apply only to payment systems and not other types of digital financial services (such as insurance products provided through mobile phones).

Key Recommendation(s)

77. There is a need to clarify the consumer protection rules relating to digital financial services and to actively supervise those rules. In particular, there is a need for binding laws or regulations relating to: (i) safeguarding client’s funds (and especially a requirement to hold an amount equivalent to outstanding e-money wallets in a trust account which cannot be used for operational purposes); (ii) customer – specific disclosures relating to product features and limitations, relevant interest rates, fees and terms and conditions and the identity of the service provider; (iii) the confidentiality of client data and appropriate limits on its use and disclosure for marketing purposes; (iv) the ability to form electronic contracts and make electronic disclosures;

⁷⁶ Guideline No. 03-2004/BSB.

⁷⁷ RBZ Electronic Payment Guidelines, section 10.

⁷⁸ RBZ Electronic Payment Guidelines, Purpose.

(v) liability for unauthorized and mistaken payments, system malfunctions, and lost or stolen devices; and (vi) complaint resolution. Financial sector supervisors should also be able to actively supervise MNO's compliance with these laws, in consultation with POTRAZ.

NBCI SECTOR

78. There are strong consumer protection measures in place for microfinanciers, but there are important gaps in the scope of application of the Microfinance Act. The principal sector – specific legislation for NBCIs is the Microfinance Act, which requires registration of microfinanciers; certain disclosure requirements to be met;⁷⁹ responsible lending standards;⁸⁰ and, importantly, requires compliance with a statutory code of conduct (Microfinance Code). The Microfinance Code deals with issues such as fair treatment of clients; maximum collateral values; transparency; over indebtedness standards; debt collection practices; privacy; complaint resolution, and client education and financial literacy.

79. The Microfinance Act does not apply to SACCOs⁸¹ and applies only to some activities of banks and building societies.⁸² Thus, there exists an uneven level playing field, which is not clearly justified by the different types of NBCIs. Further, particularly with regard to the limited application of the Microfinance Act to banks and building societies, the risk of regulatory arbitrage exists. This is a concern as while the Microfinance Act provides for a comprehensive market conduct and consumer protection framework, banking regulation is less complex, and the COOPA includes only scattered and often minimalistic market conduct and consumer protection provisions.

Key Recommendation(s)

80. The regulatory framework should be enhanced in order to establish a level playing field and prevent regulatory arbitrage. Similar types of activities and products/services should be subject to the same rules, notwithstanding differences in the type of the service provider. Specifically, the Microfinance Act should apply to SACCOs. Further the provisions should apply to all relevant microfinance activities carried out by banks and building societies. The continued application of the Moneylending and Rates of Interest Act also needs to be clarified.

SECURITIES SECTOR

81. SECZ has the authority to license all major participants in the securities market, but has limited power to sanction entities that contravene the law. Further, in certain areas, such as the sales of unit trusts through banks, the SECZ does not qualify, license or supervise the relevant sales personnel. This is a significant gap in the regulatory structure for protection of retail investors in unit trusts.

82. A number of investor protection initiatives to fully implement the Securities Act have either yet to be completed or are missing and are necessary in order to put in place a comprehensive investor protection regime. Draft rules for market conduct by brokers have been drafted and are still in review. Regulations for the creation of a Brokers' Institute are also under review. Some regulations authorized by the Securities Act, such as regulations for sales practices by brokers and Unit Trusts, have not been prepared, nor have the regulations for the unit trust subsector as a whole. For example, the Collective Investments Act and the Securities Act

⁷⁹ Section 15 of the Microfinance Act.

⁸⁰ Section 26 of the Microfinance Act.

⁸¹ Section 3(2) of the Microfinance Act.

⁸² Sections 2 and 3(1) of the Microfinance Act.

both provide for a prohibition of unsolicited calls unless they are made in conformity with regulations prepared by the SECZ and issued by the Minister. These regulations have not been prepared. Proposed new regulations for the ZSE which contain significant investor protection provisions are also on hold. Many areas covered by the ZSE rules need to be transferred to SECZ rules, such as broker conduct and disclosure. In the interim the ZSE is operating under old rules prepared under the Securities Exchange Act and deemed to be currently effective. All of these will need to be put in place in order to fully establish an effective and transparent investor protection regime.

83. During the transition to the full SECZ regulation of the securities market, a number of the ZSE rules will need to migrate to the SECZ, such as the rules applying to broker conduct with its clients, disclosure rules and dispute resolution of client complaints. This process has already begun and should continue as quickly as possible under current market and regulatory conditions and priorities.

Key Recommendation(s)

84. In order to extend the enforcement powers of the SECZ beyond registration and deregistration, the government should permit the SECZ to impose fines. Although the ability to do so varies from country to country, the US SEC and the UK Financial Conduct Authority have the authority to impose fines on licensed entities and it has proven to be an effective tool.

85. The prepared draft market conduct rules need to be finalized and put in place as quickly as possible. Regulations regarding broker conduct and disclosure should also be prepared and implemented. It is also urgent that bank employees selling unit trusts should be required to be licensed, educated and supervised in their activities and it should be clear to potential investors that the relevant bank is not in any way responsible for investments in the unit trust. Finally, the SECZ also needs to prepare regulations for unsolicited calls, although they may not be urgent under current market conditions.

INSURANCE SECTOR

86. The Insurance Act contains only very limited provisions concerning consumer protection but IPEC is preparing amendments to the Insurance Act which may address some of the issues. There are general provisions concerning licensing, actions against insurers, registration of brokers, the legible printing of policies, the display of information at business premises (if the Commissioner so requires), and the Commissioner has power to declare “*a specified practice or method of conducting business an irregular or undesirable practice or an undesirable method of conducting business*”.⁸³ It is understood that IPEC is in the process of preparing proposed amendments to the existing laws which will provide for significantly expanded consumer protection provisions.

87. Third party motor insurance is compulsory in Zimbabwe but there is no arrangement in place to deal with situations where the guilty party in an accident is not insured. The Insurance Council of Zimbabwe (ICZ) in the past used to run a pool created among all motor insurers to take care of these claims, by paying the corresponding indemnity, but the mission team was advised that the scheme is no longer operating.

⁸³ Section 87 of the Insurance Act.

88. Insurance products are increasingly being sold by third parties at the premises of the banks or other financial institutions under the “bank-assurance” model and through the internet and by mail. Third parties selling such products should be subject to the same training, ethical standards and financial guarantee requirements that apply to a registered broker or insurance agent as established by the regulation. Further, consumer protection rules need to be developed applying to the case of a sale through Internet or by mail if there is not a “visible” intermediary.

Key Recommendation(s)

89. The regulatory framework for consumer protection in insurance should be reviewed as a matter of urgency with a view to providing comprehensive consumer protection.

As well as provisions concerning transparency, time limits for the transmission of premiums and claims settlement and dispute resolution mechanisms, there should be specific rules to deal with insurance contracts generally (including in relation to the duty of disclosure, when liability arises and the basis for indemnity and avoidance and termination). The sale of insurance products via mobile phones should also be covered. See above under “*Digital Financial Services*” for the consumer protection issues which are specific to digital financial services.

90. Consideration should be given to introducing a nominal defendant scheme or an equivalent indemnity arrangement (third party motor insurance). Options could include re-introduction of the abovementioned scheme or a variation of it or a more formal statutory nominal defendant arrangement as exists in some countries (e.g. South Africa). A public awareness campaign should accompany any new rules.

91. There should be formal standards of practice to deal with the sale of insurance products by third parties. These standards should contain the minimum disclosures and product suitability assessments required.

PENSIONS SECTOR

92. The current pension legislation provides little by way of direct guidance in terms of consumer protection. For example, no specific function is articulated in relation to IPEC having to protect the rights of members of pension funds in the Insurance and Pensions Commission Act. Likewise, the fiduciary duty of trustees is not explicitly outlined in the Pension and Provident Fund Act. The Pensions and Provident Fund Regulations 1991 are silent on issues such as member disclosure, selling and advertising procedures etc.

93. In addition to the general application of consumer protection laws, the rights of pension fund members should be protected by a board of trustees, which includes their representatives. However, few of these representatives have any knowledge of pension issues as only basic qualifications are specified (such a minimum education levels) and no training is required.⁸⁴

94. When it comes to legal challenges related to pensions, cases (in particular relating to the conversion issue) have been launched, but have not come to trial. The Public Inquiry will be an important source of information and redress relating to these on-going disputes.

⁸⁴ See for example (Mazviona 2013) quotes a study that revealed that trustees lack investment expertise to manage pension funds, and this has impacted negatively on the pension funds (60 percent of the respondents blamed the behavior of trustees for low levels of retirement income).

95. One key legislative protection for pension fund members is that their pension assets should be separated from the plan sponsor and /or plan administrator and held by a custodian. Although the Pension and Provident Fund Regulations 1991 requires insurance companies to establish a separate and distinct fund - 'The Pensions Fund' – the appointment of a custodian is not required. This is a concern even though appointment of custodians is gradually becoming industry practice.

Key Recommendation(s)

96. It is recommended that the revised Pension and Provident Fund Act (2014) include specific requirements on consumer protection. The draft Bill (version as of July 2014) contains some such clauses (for example on communication with stakeholders), but should be reviewed when in due course in light of the World Bank Good Practices and other international pension related standards. For instance, mandatory custodian requirements are urgently needed for all funds as this is a key protection mechanism for the assets owned by pension fund members. The requirement for pension fund assets to be held by a custodian should be included in the revised Pension and Provident Fund Bill (2014) and the regulator should require that custodian functions are introduced for all funds urgently in new rules reflecting the World Bank's *Good Practices for Financial Consumer Protection* and the OECD pension standards.⁸⁵

97. Further training is required to support employee appointed trustees in particular and allow them to fulfill their key role in providing protection for pension fund members. This should cover issues such as fund management issues relating to investments, the nature of trust law, the role of trustees, what questions to ask service providers etc. A standard on-line training course could be provided by IPEC (adapted from existing international material, such as that provided by the UK Pension Regulator).⁸⁶ All trustees should be required to take the course upon appointment.

98. It is further strongly advised that the recommendations from the Public Inquiry should be implemented in a timely manner (as noted above).

⁸⁵ OECD Guidelines on Pension Fund Governance No. 8 Custodian.

⁸⁶ <https://trusteetoolkit.thepensionsregulator.gov.uk/>

TRANSPARENCY AND DISCLOSURE

99. Specific disclosure requirements can help create an informed consumer marketplace, enable product comparisons and encourage competition. It is, however, important that any new requirements in this regard are proportionate in the sense of reflecting the risks of the relevant activity, the literacy/capability level of the relevant consumers and do not impose costs which outweigh the benefits. A further consideration in drafting disclosure requirements for an economy with low levels of financial inclusion is the likely low levels of understanding of the nature of some financial products (such as mobile banking and insurance products).

GENERAL OVERVIEW

100. Whilst there are some provisions requiring disclosure of terms and conditions of financial products (especially in the Microfinance Act), there are significant gaps. In particular, there is a need to enhance the legal and regulatory framework to provide for further transparency in relation to: (i) the specific items of information which should be included for the different types of financial products; (ii) the availability of summary information about common financial products which highlights the most important information and features of a product and encourages comparability; (iii) periodic account statements; and (iv) electronic disclosures and contracts.

Key Recommendation(s)

101. In the short-term, it is recommended that the relevant regulators focus on the following activities (subject to the comments below concerning the Microfinance Act):

- **Contractual disclosures:** Each financial sector account holder should receive a copy of their contract which should contain all relevant terms and conditions, interest rates and applicable fees. For example, a loan contract should include the interest rate and how interest is calculated, all fees, charges and commission amounts, repayment amounts and frequency, details of any insurance related to the contract (such as credit life insurance), details of the credit provider, as well as information on the consequences of late payment of debt by customers, information about any security which must be provided (for example, in the case of a housing loan secured by real estate) and information about complaints handling mechanisms available in the case of a complaint or dispute. Further, for SACCOs there could be a need to specify the minimum membership related information that should be provided.
- **Key Facts Statements:** It would be helpful for consumers' understanding of financial products and would assist comparability if financial institutions were required to publish, and give to consumers, a short form (one page), clearly expressed Key Facts Statements for commonly used debit, credit and insurance products. By way of example, such a statement should include for a loan contract: the interest rate, fees and charges, the total amount to be repaid, the term of the loan and repayment details. Examples of countries which have requirements for such statements of this type include Australia, Ghana, Mexico, Peru, the United States and various European countries.
- **Total cost of credit interest rate:** Consideration should be given to including a requirement to disclose a total cost of credit interest rate which shows as a single rate the

applicable interest rate and mandatory fees (such as a loan application fee) and charges (such as for a credit- life insurance premium);

- **Statements of account and receipts:** There should be a requirement to provide periodic statements of account free of charge for debit, credit and investment products and also for transaction records;
- **Electronic disclosures and contracts:** There is a need for clearer rules as to the circumstances in which contractual and transaction information can be provided electronically and as to the electronic formation of contracts;
- **Legibility:** All disclosures should be required to be simply and clearly expressed and in a minimum font size (for example, 11 point font); and
- **Consumer testing of proposed new disclosure requirements:** The aim is to ensure the disclosed information is easily understood and useful.

102. In the longer-term these issues might be covered by the proposed overarching financial consumer protection law.

BANKING SECTOR

103. Few rules exist regarding the consistent, standardized disclosure of banking product terms and conditions, fees and charges. The Monetary Policy Statement issued by RBZ in January 2014 (which is not clearly enforceable) requires that all banks “*display their conditions of service (charges and interest rates) in banking halls and also publish them periodically in circulating newspapers*” (section 102(e)). “*Business conditions*” observed to be disclosed by some sample banks include information on interest rates, certain fees and charges and maximum and minimum balances. Information about complaints handling mechanisms, deposit insurance and the consequences of default is not typically included and it is not clear that all fees and charges are disclosed. The lack of transparency as to fees and charges, and their high cost, was an issue frequently raised by stakeholders. There are also differences between banks as to the content and format of the information disclosed and not all banks appear to make the required disclosures.

104. There is no requirement for consumers to be given a copy of their contract for a banking product. Consumers are infrequently given a copy of their entire customer contract. Rather, customer-specific facility or offer letters are provided that include certain product-specific terms, but make reference to general “*business conditions*” published elsewhere (in newspapers, branch posters, and bank websites).

105. Many banking institutions do not provide periodic statements automatically. It is common practice to only provide them on request and to charge a fee for a hard copy.

Key Recommendation(s)

106. In the short-term, comprehensive guidelines should be issued by RBZ on disclosure and transparency. These guidelines should include the matters described above under the General Overview. At a minimum, the requirement for disclosure of “*business conditions*” should be formalized (ideally in regulations), clarified and enforced. RBZ should clearly specify details of the “*business conditions*” that must be disclosed and the format of disclosure. Banks should also

be required to add a notation that additional fees and charges may apply and to provide information on where consumers can obtain further information.

107. Consideration should be given to requiring banks to automatically provide periodic statements to customers free of charge for all types of bank products and services.

Information in statements could include, for example, details of opening and closing balances, debits and credits and especially of interest charges and fees and charges in the statement period. Fees charged for dormant accounts should be highlighted. Such statements should be provided by mail or, where that is not reasonably practicable, from a bank branch. Electronic copies should only be provided with the customer's consent.

DIGITAL FINANCIAL SERVICES

108. The abovementioned issues concerning disclosure generally also apply in the digital context with some exceptions.

The RBZ Electronic Payment Guidelines, which apply to all payment systems participants and providers, have general obligations for "*comprehensive*" policies on complaints handling, disclosure, transparency, displays of fees and charges. Presumably because of these requirements, the mission team observed that, as a matter of practice, consumers do receive a copy of the terms and conditions applicable to e-wallet services and information about fees and charges are generally displayed on MNOs' websites and at agents' premises. However, the sample terms and conditions reviewed had many limitations. For example, they were in a font size which was so small that it was virtually unreadable, make provision for unilateral changes by the MNO (including as to fees and charges), provide that statements are available on request and contain broad limitations of liability for the benefit of the MNO.

109. The insurance sector, unlike digital payments, does not seem to have the benefit of any regulatory guidelines or regulations dealing with transparency issues in relation to insurance products which are provided digitally.

In particular, it does not seem to be standard practice that insured persons are provided with clear, comprehensive disclosures in a form they can keep as to the terms of a mobile phone based insurance product including details of any exclusions and claims procedures and limitations on liability. However, it is understood that premiums and a general description of the benefits under the policy is provided, in some cases via a mobile phone.

110. There are no mandatory laws concerning the electronic disclosure of terms and conditions, statement of accounts, transaction records, policy terms and prices or in relation to electronic contracting.

Significant issues in this context include: (i) the need for consumers to obtain disclosure of contractual and transaction information in a form which is clear, legible and in a form they can keep; and (ii) the legal efficacy of electronic contracts. Currently there appears to be a legal vacuum on these issues in Zimbabwe, which is of concern given the rapid innovations which are taking place in the delivery of financial products through mobile phones.

Key Recommendation(s)

111. In the short-term, comprehensive mandatory regulations should be issued by the relevant regulator on disclosure and transparency. These guidelines should include the matters described above under the General Overview.

112. There should be provision made for the conditions on which contractual information may be disclosed electronically and on which a contract may be formed electronically. At a minimum, there would be provisions to the effect that disclosures may be made electronically provided that: (i) the consumer consents; (ii) the information provided is in a

minimum of an 11 point font, in clear, simply expressed terms and in a language that the consumer can understand; (iii) the consumer obtains the relevant information in a form they can keep; and (iv) written copies of contractual information are available through sources such as branches and agents premises and on request. There are a number of jurisdictions which have laws concerning electronic transactions, including Rwanda and Kenya.⁸⁷

SECURITIES SECTOR

113. Draft rules have been prepared to implement the disclosure provisions in the Securities Act (Disclosure Rules), but have not been implemented. The Disclosure Rules contain a number of relevant provisions such as Know Your Customer rules; however, they do not contain provisions regarding the disclosure in writing of specific facts to potential customers, such as fees, risks, customer complaint procedures and account termination policies. Such disclosures are left to the discretion of individual brokers. Further, although the Disclosure Rules deal with some issues related to Unit Trusts, such as disclosures about past performance, they do not provide for a comprehensive regulatory regime for unit trusts. Such a regime should cover such areas as Net Asset Value (NAV) calculations; the rights of unit holders; redemption rights and circumstances when redemptions may be suspended; obligations to disclose broker commissions and other financial inducements by brokers who work for the unit trust; and policies with regard to frequent trading which allow investors to purchase and sell units of the unit trust during the day or other calculation period but prior to the calculation of the NAV at the end of the period.

Key Recommendation(s)

114. The above mentioned Disclosure Rules should be finalized and implemented as quickly as possible. In addition, the rules need to include more specific provisions as to requirements for disclosure of the terms and conditions of securities accounts in order to make such disclosure more uniform among brokers. Disclosure and operation rules for unit trusts also need to be drafted in order to have comprehensive, uniformly applied provisions for all unit trusts.

INSURANCE SECTOR

115. There are no provisions in the Insurance Act which explicitly require disclosure of policy terms and conditions and premiums or the provision of a Key Facts Statement which might facilitate product comparability and competition more generally. There is neither a specific provision in the Insurance Act or other insurance regulation, requiring disclosure of the fact that an insurance product sold by a bank is not a product of the bank or guaranteed by the bank.

Key Recommendation(s)

116. Comprehensive disclosure requirements for policy holders should be introduced as a matter of urgency. They should include disclosure of key policy terms, premiums, exclusions and risks. Moreover, a requirement should be introduced, in relevant cases, requiring disclosure of the fact that an insurance product sold by a bank is not a product of the bank, or guaranteed by the bank. Consideration should also be given to introducing Key Facts Statement requirements for commonly sold insurance products, such as simple life and funeral policies.

⁸⁷ See Law relating to Electronic Messages, Electronic Signatures and Electronic Transactions (Nº 18/2010 of 12/05/2010) and the Kenya Information and Communications Act Chapter 411A 2011.

PENSIONS SECTOR

117. Though individual plan members have few choices to make in terms of their pension provisioning, the current pension legislation provides little by way of direct guidance in terms of member disclosure. For example, the Pension and Provident Fund Regulations 1991 contains requirements for the reporting of financial statements by pension fund and pension administrators and insurance companies. However, there are no sections regarding disclosure of information to fund members. This is particularly a problem in relation to the selection of a fund to cover income on retirement, which is the key decision individual fund members have to make.

Key Recommendation(s)

118. The revised Pension and Provident Fund Act (2014) should include specific requirements on disclosure to members of pension funds, including in relation to the choice of retirement income products. The draft Bill (version as of July 2014) contains such clauses, which will need to be reviewed in light of the World Bank Good Practices and other international pension related standards and with due consideration of the potential for a retail market for pension products to develop in the future.

119. In future, IPEC could become a source of central, comparable information on pension administrators, as is the case in countries such as Hong Kong, Chile and Mexico. Comparable information on performance, costs and products will be needed if a retail market develops.

BUSINESS CONDUCT

120. A key consumer protection concern is that financial service providers, and their staff and other intermediaries, do not engage in fair business practices. Specific issues in this context include proper training of retail sales officers and other intermediaries, product suitability advice, responsible lending standards, misleading and deceptive advertising and sales practices, tying and bundling of different types of financial services and products, unfair contract terms, cooling – off periods and debt collection practices.

GENERAL OVERVIEW

121. There are various business practices of concern in Zimbabwe’s financial sector, some of which exist notwithstanding relevant regulations and some of which apply in the absence of a applicable law. The examples of most concern are described below.

- **Staff training.** Although (mostly larger) financial institutions commonly train their staff in how to communicate and deal with clients, there are no minimum competency and training requirements so far as the banking, NBCI and the securities sector are concerned.
- **There are only limited obligations to assess the suitability of products for consumers.** This is a particular concern in the securities and insurance industries, where products are likely to be complex, with little understood levels of risk and potential for large-scale losses. A further concern is the lack of product suitability standards for non-credit products sold or distributed by a bank or an NBCI. Issues relating to affordability of credit products are discussed below under *Banking and NBCIs*.
- **Unilateral changes to contracts.** The Micorfinance Act prohibits any change in an interest rate under a contract. Further, the Consumer Contracts Act contains generally expressed provisions dealing with broadly defined unfair terms. However, otherwise there are not any specific provisions dealing with unilateral changes to financial sector provisions and there is no requirement to notify consumers of such changes. Ideally there would be clarity as to when a unilateral change is permitted and the notice which should be given of any such change.
- **There are only limited requirements relating to “cooling-off” periods.** Mandated cooling off periods allow consumers a limited time to withdraw from contracts for financial products and services without penalties. They can help consumers deal with the consequences of high pressure selling and mis-selling, as well as give them time to reconsider contracts for financial services which are becoming increasingly complex and may have long-term implications.

Key Recommendation(s)

122. The following reforms are proposed to deal with the various business practices of most concern:

- **Financial institutions should be required to periodically train all the staff and intermediaries that deal with consumers (including marketing, compliance, complaints or sales).** The training should, in particular, ensure that staff and other

intermediaries dealing with consumers: (i) understand the legal obligations of the relevant product or service provider; (ii) have updated information about products and can clearly explain their features, risks and prices to consumers; (iii) appropriately assess the customer's financial needs, objectives and understanding; and (iv) have adequate knowledge of internal procedures (especially concerning complaint resolution).

- **Product suitability requirements should be reviewed.** This is especially important for non-credit products sold or distributed in banks and NBCIs and in the securities and insurance sectors (such as a term deposit). It is important to ensure that new standards result in appropriately detailed analyses being undertaken, and that records are retained for lengthy periods to enable the facts of the analysis to be available to identify mis-selling and for dispute handling. Affordability assessments for credit products are discussed below.
- **Provisions regarding unilateral changes of consumer contracts and their application to financial consumer contracts should be clarified.** Although there may be circumstances where unilateral changes should be allowed (such as in contracts which are clearly expressed as variable rate contracts), it is recommended that, consideration should be given to requiring advance notice of any unilateral change in a contract's terms and conditions. At a minimum, notice of changes in interest charges, repayments and fees and charges should be given as follows: (i) notice of a change in interest rates should be given before the change takes effect, either personally or by newspaper notice (in the latter case, the notice should be also given in the next statement of account); (ii) there should be at least 20 days advance, personalized notice of a change in the amount of a repayment (but if it is a reduction, it could be notified in the next statement of account); and (iii) 20 days advance, personalised notice of a change in the amount of a fee, or a new fee should also be given.
- **Consideration should be given to mandating a cooling-off period (e.g. for 14 days) for more complex financial products (such as those with a long-term savings or investment component).** An explicit provision banning financial institutions from charging unreasonable termination fees, penalties or unreasonable additional costs in the case of early termination during the cooling-off period should be included. However, there could be a right to retain reasonable administrative fees relating to the cancellation of the contract or for the application for the facility. Further, it may be that the right should not apply where there has been a drawdown of a credit facility and a bank should be able to recover any loss arising from an early withdrawal of a fixed rate term deposit which loss arises because of a difference in interest rates.

BANKING AND NBCI SECTORS

123. The only specific legal requirements in Zimbabwe to assess a consumer's creditworthiness are for entities covered by the Microfinance Act.⁸⁸ Although entities such as banks and SACCOs may typically conduct creditworthiness assessments as a general business practice, it is considered that the requirements should be formalized.

124. Several credit bureaus exist in Zimbabwe, but they are not officially licensed or formally overseen by RBZ or any other authority. One credit bureau in particular, Financial Clearing Bureau (FCB), includes as its members, and collects information from, all banks as well

⁸⁸ Section 26 of the Microfinance Act and section 5 of the Microfinance Code.

as a number of non-banks. FCB reports that all banks are relatively active users of its services and that it has informal communications with RBZ on its operations. However, credit bureaus are operating without any formal rules covering important consumer topics such as debtor consent to the inclusion of information on credit reporting files and the type of information that can be included, the right of consumers to be informed regarding adverse actions in credit decisions, access and correction rights, security, use and disclosure of credit sensitive information, data retention periods, dispute resolution, security of systems and confidentiality of debtor information. However, the Credit Reference Bureau Association of Zimbabwe produced its own code of conduct in 2013 as a means of self-regulation. The mission team also understands that RBZ and MoF are in the process of finalizing a legal and accreditation framework for the credit reference bureaus.

125. The only provisions relating to advertising of banking and NBCI facilities are the general prohibitions on misleading advertising in the Competition Act. However, there is a need for more specific provisions concerning effective and transparent disclosures relating to financial facilities. For example, there could usefully be a requirement to always disclose the issuer of the relevant product and details of relevant interest rates (including an effective interest rate) and fees and charges when there is a reference in the advertisement to the cost of the product.

126. There is a statutory code of conduct applicable to the NBCI industry, but there is currently no active code of conduct for the banking sector. All microfinanciers and relevant building societies and banks are bound by a principles-based code of conduct ('Microfinanciers' Code of Conduct) that is prescribed by the Microfinance Act⁸⁹. The Code is binding and compliance with the Code is subject to the RBZ's supervision and enforcement. In addition, ZAMFI has adopted a ZAMFI Members Code of Ethics – a code of conduct binding on all of its 70 members. However, it is not clear that the ZAMFI Code adds to the consumer protection provisions in the Microfinance Act. Regarding the banking sector, a Code of Banking Practice was in place up until the period of hyperinflation and dollarization experienced by Zimbabwe in 2008. However, attempts to revise and update the Code of Banking Practice have not clearly moved forward.

127. Although aggressive or abusive collection practices have been prohibited by the Microfinanciers' Code of Conduct, illegal collection practices remain an issue. The mission team was told of abusive collection practices including threats and physical violence in the microfinance industry (including informal credit providers). Moreover, in order to speed-up the recovery process in the case of the borrower's default, some moneylenders, instead of requiring a proper collateral that would be registered in the Registry of Deeds, request borrowers to transfer ownership of an asset (such as a car for instance) to the moneylender at the moment of signing of the loan contract.

Key Recommendation(s)

128. Responsible lending standards should be introduced for all credit providers (i.e. not just microfinanciers). In the long-term such provisions could be included in the proposed comprehensive financial consumer protection law. The rules should specify that the relevant entities are required to collect and independently verify information to assess a customer's ability to repay a loan without substantial hardship and to assess whether a loan (or other financial product or service) meets a customer's requirements and needs. There should also be provision for relief to be provided to debtors when the rules are breached (for example, by extending repayment periods or reducing repayment obligations).

⁸⁹ SACCOs that are excluded from the application of the Microfinance Act are currently not bound by any industry-wide and principles-based code of conduct.

- 129. Collection of debtor information from NBCIs should be improved.** A regulatory framework and licensing regime should be developed covering the operation of private credit bureaus and made the subject of a public awareness campaign. The new law should cover the consumer protection issues mentioned above. Further, re-consideration might also be given to the proposal to create a public credit registry housed at RBZ. Such an undertaking would require a significant financial investment, would be limited to credit information from banks (and not data from other sources such as retailers or utilities), and would create a risk of duplication with the services provided by private credit bureaus if the focus and content of the respective databases significantly overlap.
- 130. In the short-term, consideration should be given to the development of advertising rules and the prohibition of misleading and deceptive conduct and false and misleading statements in relation to the sale, distribution, and management of financial products and services.** Over the long-term, the aforementioned provisions on advertising and sales materials should be included and expanded upon where necessary in the proposed comprehensive financial consumer protection law.
- 131. The development and further strengthening of industry Codes of Conduct for banks and NBCIs would benefit consumers.** The Code of Banking Practice could usefully be reviewed and revised while a comprehensive financial consumer protection law is being developed. Although the Code of Banking Practice should not be considered a substitute for a comprehensive financial consumer protection law, it can be helpful to spell out voluntary standards agreed upon by all banks. Moreover, it is recommended to further promote the adoption of the Code of Ethics within the NBCI sector on consumer protection matters, which could build on the general principles already included in the Microfinance Act, but accommodate differences that exist between different types of providers. All codes of conduct should be published and there should be public awareness campaigns to make consumers aware of their existence.
- 132. The prohibitions on abusive collection practices in the Microfinanciers' Code of Conduct should be actively enforced and similar provisions should apply to the banking sector.** Close cooperation needs to be established between RBZ and law enforcement authorities such as police in order to address the issue of unfair and abusive debt-collection practices. In the long-term a regulatory framework for the registration and operations of debt – collectors should be developed.

DIGITAL FINANCIAL SERVICES

- 133. There are no laws explicitly regulating the business conduct of MNOs in their mobile phone based financial services, although RBZ has in place the abovementioned RBZ Electronic Payments Guidelines.** For example, there is no mobile banking specific law dealing with responsible lending, product suitability, requirements for e-wallet customers to open bank accounts or take out insurance policies, debtor harassment or dealing with misleading and deceptive conduct.
- 134. There are also no laws relating to the conduct, skills or training of MNO agents, requiring that they be registered or identifiable to the public or making it clear that MNOs are liable to consumers for the actions of their agents (for example in relation to fraud or misleading or deceptive conduct).** RBZ leaves these matters up to the relevant MNO. The RBZ Electronic Payments Guidelines do, however, make it clear that agents have to be

recruited on a non – exclusive basis so that they can offer services to multiple payment system providers.⁹⁰

135. The RBZ Electronic Payments Guidelines “seeks to provide for the operation, regulation, oversight, supervision and monitoring of payment systems in Zimbabwe.”

The Guidelines apply to different types of entities, some of which may play multiple roles, including those of providing financial market infrastructures, payment systems providers, e-money services and mobile network operations. The Guidelines cover multiple areas including: (i) approval (registration) requirements; (ii) disclosure requirements; (iii) data security and confidentiality; (iv) consumer protection; (v) risk management; (vi) responsibility for agents; and (vii) regulatory reporting.

Key Recommendation(s)

136. The abovementioned issues should all be addressed in the medium-term. Of particular importance is the need for rules prohibiting misleading and deceptive conduct and requiring training of agents and responsible lending practices in relation to micro – credit facilities provided electronically.

SECURITIES SECTOR

137. The securities industry disclosure rules contain significant provisions regarding sales practices and advertising. As mentioned in the Legal and Regulatory Section, these rules need to be put in place. In addition, the disclosure rules should contain a detailed regulation for record keeping which sets forth all of the records that should be kept.

138. There is no comprehensive regime for the privacy of financial information. The Securities Act only deals with the duties and obligations of the SECZ in dealing with financial information. It does not set forth the duties of licensees in dealing with customer financial information which is necessary to strengthen investor confidence in the institutions and participants in the market regarding their handling of the investors’ confidential financial information.

Key Recommendation(s)

139. The Disclosure Rules should be implemented as quickly as possible and a detailed regulation prepared requiring record keeping which sets forth all of the records that should be kept. In the longer-term, a comprehensive regime for the privacy of investor information should be legislated and implemented.

INSURANCE SECTOR

140. The rules relating to bundling and tying of insurance and banking products are incomplete. This is a concern as the mission team was told that the practice of bundling and tying credit and insurance products is becoming prevalent and consumers, especially where there are low levels of financial literacy, may not fully understand that the bundled product requires additional payments, the commissions that may be payable or the nature of the related insurance product.

⁹⁰ RBZ Electronic Banking Guidelines, section 1.12.

141. A failure to pay a claim is likely to be based on an insured's failure to comply with a duty of disclosure at the time the policy was taken out. Although an insurer may have the right to apply an averaging principle in the case of underinsurance or to adjust the sum assured, this result could be easily avoided by improving the consumer's awareness of their duty of disclosure.

Key Recommendation(s)

142. In the short-term, when a product or service is bundled with different components, among which one is insurance, the amount of the insurance premium charged and related commissions should be disclosed to the consumer, along with key features of the policy. In the longer-term there should also be a clear prohibition on insurance forcing practices, coupled with disclosure and rebate provisions. However, there could be an exception to such a prohibition in certain cases – for example, where the requirement is for insurance over mortgaged property or where insurance is required by law. Further, where there is a tied insurance contract, credit providers should be required to give a proportionate refund of the applicable premium if the consumer pays out a loan early. Consumers should also be given a choice of at least 3 insurers (where such a number operates in the relevant area).

143. Insurance proposals should be accompanied by clear and prominent warnings as to the duty of disclosure and the possible consequences of any error in the information provided. It would be helpful to include simple examples.

PENSIONS SECTOR

144. One of the key issues currently affecting pension funds in Zimbabwe is the non-payment of contributions. Contributions are in arrears at many funds. Critically, the mission team was advised that employee contributions are not being remitted to pension funds, as well as employer contributions not being paid.

145. Pensions are by and large not currently sold as retail products, hence there are no regulations specifically relating to advertising and selling of such products. Pension products are normally handled by licensed life insurance brokers and/or pension consultants employed by administrators, and such staff generally have a suitable background to make them sufficiently knowledgeable. Personnel departments, at least at the larger plan sponsors, do generally have staff training in pension issues.

146. There are currently no regulatory requirements around confidentiality of member information. Industry good practice currently and trustee and provider codes of conduct currently prevent occupational fund members' information from being disclosed or sold to third parties, but this could be challenged in future if a retail market were to develop.

Key Recommendation(s)

147. In order to improve the protection of pension fund members, IPEC should launch actions to recover non-remitted, employee contributions from plan sponsors.

148. The future development of a retail pensions market could necessitate the introduction of regulations guiding these areas - either as part of the revised draft Pension and Provident Fund Bill (2014) or as separate, secondary regulations. For

example, such regulations could address issues such as: Key Facts Statements explaining pension products which should be provided to consumers on purchase; and Know Your Customer Rules, which pension providers would have to apply to ensure that the products purchased are suitable for the individual's circumstance and needs. Qualification requirements for pension consultants interacting with pension fund trustees could be introduced, and IPEC could recommend training for HR staff at pension plan sponsors (the training requirements should depend on the size of employer, size and nature of the pension fund).

- 149. Confidentiality of information needs to be formally recognized, and how member information can be used within the same financial service provider group clarified.** Requirements on confidentiality of member information could be included in a revised Pension and Provident Fund Bill (2014) or drafted as separate regulations. Basic standards on the protection of member data could also be included in the Bill.

COMPLAINTS HANDLING AND DISPUTE RESOLUTION

150. One of the key pillars of a robust system of financial consumer protection is to provide easily accessible, well-known and free recourse mechanisms for consumers who have a complaint about a financial product or service. Similarly, there is a need for an independent, transparent, accessible and, ideally free, external dispute resolution body.

GENERAL OVERVIEW

151. There are gaps and inconsistencies relating to the procedures that are required to be followed by financial institutions in dealing with consumer complaints and it is also not clear that the relevant rules are actively supervised and enforced. There are some requirements for internal complaints resolutions systems in some sectors (especially under the Microfinance Act). Details of the current position in the various parts of the financial sector are provided below. Although most of the larger financial institutions interviewed do have some complaints handling procedures in place, the lack of standardization of the arrangements is a concern. Further, the availability of complaints handling and dispute resolution mechanisms is not clearly conveyed to consumers. Finally, details of complaint statistics are not routinely given to the relevant regulators who accordingly do not have the opportunity to analyze the complaints with a view of identifying systemic issues of concern or to warn consumers about issues they should be aware of.

152. There is also no formal third party dispute resolution service available to consumers. Although this gap is to some extent filled by the relevant financial sector regulators, they have limited resources available to fulfill this important function and in any event do not appear to have any power to make a binding decision. Further, there is little evidence that consumers are aware that they might approach the relevant regulator and expect any relief. The mission team was also advised that Zimbabwe's Small Claims Court does not, as a matter of practice, handle cases concerning financial services and that although the Civil Court may do so, such actions are brought by financial institutions rather than consumers. Finally, although CCZ is active in many areas, it does not have the resources to deal with complaints about financial services or, indeed, the mandate to make binding decisions. The result is that retail consumers do not have access to an alternative dispute resolution mechanism such as an ombudsman or equivalent that provides timely, affordable and predictable redress from an independent third party.

Key Recommendation(s)

153. Standard requirements for complaints handling by all types of financial services providers should be developed, implemented and consistently supervised by the relevant regulator (RBZ, IPEC, SSC, SME Ministry and ZSE). They should include requirements for: an easily accessible avenue for making a complaint (such as a hot line, via email or in writing or to an officer at any branch of a bank or MNO outlet or agent); written acknowledgement of receipt of the complaint; time limits for resolution; record keeping; management reporting and regular assessment of root causes and systemic issues. There should also be a requirement that the availability of the relevant service be widely publicized through various fora (e.g. by being highlighted in account applications, agreements and statements, in branch and agent posters, and on the websites of the relevant providers including the websites of a financial service provider and, in the case of e-wallet services, any website of an agent or agent network and the website of an MNO). This will enable the consumers to be informed about the

complaint resolution mechanisms and know how to utilize them. Such requirements might be scaled to take into account the scope and size of the relevant institution's operations. For example, the requirements might be less onerous for smaller NBCIs or SACCOs. The requirement to implement these procedures might be imposed as a licensing or registration condition for the relevant financial institution.

154. In the long-term, consideration should be given to the development of a single financial services ombudsman scheme. There is already discussion around creating an Office of the Public Financial Protector to enable bank customers to seek redress. The significant investment to set up a body should be leveraged to broadly cover as much of the financial sector as possible, especially given the similarity in products provided in some sectors (such as banking, NBCIs and mobile banking) and the multiple – sector nature of some products (such as credit-life insurance). If resources and capacity allow, it would be preferable to set up a financial ombudsman that covers all sectors, including banking, non-bank financial institutions, securities, pensions, insurance, and other relevant financial sectors. Such a scheme should provide an independent, transparent, free dispute resolution service for consumers which can make binding decisions. Different models might be explored to find an institutional arrangement which suits the Zimbabwe context. It is also recommended that it be a licensing condition that each institution concerned be a member of the ombudsman scheme. Further, the overseeing body should include consumer as well as industry representatives.⁹¹

155. Pending the establishment of a financial services ombudsman scheme, all financial sector regulators should be required to establish a dedicated unit to consider, monitor and analyze complaints. They should publicize the processes and procedures for making complaints and the timelines for dealing with them. They should also provide on their websites detailed and consolidated data regarding complaints on a regular basis; set up a complaints hotline and have power to make binding decisions. Financial sector regulators should also analyze the complaints data they receive (both from providers as well as directly from consumers) with a view to identifying, and acting on, issues of particular concern. The regulators could also usefully publicize details of systemic complaints as a consumer awareness initiative (without necessarily identifying the financial institutions involved).

156. The above recommendations apply to all parts of the financial sector. However, further background information in relation to specific parts is provided in the following paragraphs.

BANKING SECTOR

157. Most banks appear to have internal complaints handling and dispute resolution mechanisms in place, as required informally by RBZ. However, no specific details regarding this requirement appear to be in place, leading to inconsistencies across providers.

DIGITAL FINANCIAL SERVICES

158. MNOs are not formally required to have internal systems to deal with complaints about the digital financial services they provide and there is no independent third party to whom consumers can turn if an MNO does not satisfactorily deal with a complaint. However, the mission team was advised that RBZ requires banks participating in these services to

⁹¹ Guidance may be obtained from the World Bank's 2011 publication on Resolving Disputes between Consumers and Financial Businesses: Fundamentals for a Financial Ombudsman: <http://www.networkfso.org/Resolving-disputes-between-consumers-and-financial-businesses-Fundamentals-for-a-financial-ombudsman-The-World-Bank-January2012.pdf>

in turn require MNOs to set up arrangements for dealing with complaints. Details of these arrangements were not provided to the mission team although it was noted that a reference to a Customer Service Center is routinely included in terms and conditions (in very small font and without the phone number being included).

NBCI SECTOR

159. Despite the existence of statutory requirements regarding internal complaints handling, there remain significant gaps in the regulatory framework that need to be addressed. Specific requirements have been prescribed only for corporate microfinanciers⁹² who must have formal procedures for dealing with consumer complaints, including disclosure of the right to complain to the Registrar and keep records of complaints.⁹³ In practice large institutionalized microcredit providers have written complaints handling policies including requirements for: written acknowledgement of receipt of the complaint; time limits for resolution; disclosure of contact information; record keeping; management reporting and regular assessment of root causes and systemic issues.

160. There are avenues for consumers to seek redress if dissatisfied with a microfinancier's business conduct. Most importantly the Microfinance Act makes provisions for a disciplinary committee to be established for the purpose of investigating a complaint received from a consumer.⁹⁴ The committee has broad inspection powers and may impose fines, vary or cancel the registration of the microfinancier, or caution or reprimand the microfinancier. However, the committee does not have power to order the microfinancier to compensate the complainant and, as the Microfinance Act is still new, it is not possible at this stage to say how effective these provisions will be in practice.

SECURITIES SECTOR

161. The statutory provisions for complaints handling and dispute resolution vary in the different statutes covering different subsectors of the securities market. The Asset Management Act provides for a complaint procedure and dispute resolution system to be overseen by the Chief Executive Officer of the SECZ. However, there are no such provisions in the Securities Act or the Collective Investments Act for the internal or external handling of customer complaints. In practice, licensees have internal procedures that vary from firm to firm, but there is not uniform framework for handling complaints. There is no external procedure for dispute resolution, other than taking a matter to court. Rule 48 of the draft Securities Rules provides that each license holder must have "*effective, efficient and transparent procedures for reasonable and prompt handling of complaints received from retail customers or potential retail customers.*" However, the manner in which this is done is left up to each licensee.

Key Recommendation(s)

162. The statutory provisions need to be harmonized with a standard procedure for complaint handling and dispute resolution that applies to all licensees. In addition, an industry wide dispute mechanism should be put in place for investor disputes, such as exists in the statutory instruments for disputes between market institutions made under the Statutory Instrument 100 of 2010, Securities (Registration, Licensing and Corporate Governance) Rules 2010

⁹² Section 9(1) of the First Schedule of the Microfinance Act.

⁹³ A microfinancier established in the form of either partnership or a company.

⁹⁴ Sections 45 – 48 of the Microfinance Act.

and in the Asset Management Act for investor complaints. In the longer-term, if a financial ombudsman service is developed as recommended above, it should cover complaints about the securities sector.

INSURANCE SECTOR

163. Currently there are not any formal requirements specifically relating to insurers handling of complaints from policy holders or beneficiaries and IPEC does not collect statistics as to such complaints and how they are dealt with. Although it is understood that IPEC requires that a prospective insurer provides a description of the proposed internal complaint resolution processes, there do not appear to be any follow up supervisory activities on the part of IPEC. Further, there is no requirement that policy holders be informed of the possibility of recourse to IPEC in relation to a dispute. IPEC currently receives around two disputes per month but there are no statistics available as to how these disputes are dealt with or systemic issues of concern.

Key Recommendation(s)

164. IPEC should put in place a formal procedure for handling those complaints and disputes that will reach it as a second stage recourse. Policyholders should be informed by the insurers of their right to recur to IPEC. IPEC should publish every year a summary with statistics and details of any systemic concerns arising from complaints reported to them.

PENSIONS SECTOR

165. Pension funds are required by the Pension and Provident Fund Regulations 1991 to provide for an internal dispute mechanism in their fund rules, but there are not any mandated processes and procedures for complaint resolution. In practice, an aggrieved employee is more likely to contact the HR department of the relevant fund, the Principal Officer of the fund and ultimately their representatives on the Board of Trustees. If disputes cannot be solved internally, they are taken to IPEC and could potentially then be taken to the courts.

Key Recommendation(s)

166. The revised Pension and Provident Fund Bill (2014) should make further provision for both internal and external dispute resolution mechanisms for pension fund members. IPEC should be involved in any discussions in the future to establish a financial sector ombudsman, with a view to complaints about pensions being able to be brought before the ombudsman. In the interim IPEC should continue to fulfill its current role in relation to disputes, whilst building the necessary procedures and capacity to do so in a more formal and transparent way (including publicizing the relevant procedures and, importantly, the number and nature of the disputes handled each year).

FINANCIAL LITERACY/CAPABILITY

167. As a complement to a strong financial consumer protection framework, it is important to have high levels of financial literacy/capability so consumers have the necessary knowledge and understanding to make informed decisions and to help meet financial inclusion targets by building trust in the financial sector. For instance, any regulations which require financial institutions to disclose, clearly and fairly, the key information on terms and conditions associated with their products and service will not affect a consumer's behavior if the consumer does not understand why it is important to read disclosure documents or if they fail to understand the information contained in these documents. Likewise, any requirement for financial institutions to have standardized procedures for dealing with consumer complaints will be ineffective if consumers are not aware of their rights and the available complaints mechanisms or if they prefer not to take action to deal with a complaint. Financial literacy is especially important in an environment where there are high levels of innovation in the design and delivery of financial products.

GENERAL OVERVIEW

168. Results of focus groups discussions with adults in Zimbabwe suggest a number of areas for improvement, mainly relating to lack of understanding of financial concepts, lack of long-term orientation and a low complaints culture. Further, the focus group discussions revealed the need for certain segments of the population to be specifically targeted with financial capability enhancing programs, including women, rural dwellers, unemployed, low income populations, groups with lower educational attainment (for details see Box 1 and Appendix II). It is important to note that these results cannot be interpreted as being nationally representative. They are, however, indicative of pressing areas which deserve policy attention.

169. A range of stakeholders in the public and private sector are undertaking several scattered financial capability enhancing initiatives, creating the risk of gaps, overlaps and an inefficient use of limited resources. RBZ conducted several public education campaigns through mass media outlets, in particular through newspaper articles and press releases directed at the general public to raise awareness of issues related to the microfinance industry. Other topics covered by RBZ's outreach activities are relating to consumers' rights and responsibilities such as the right to complain or the responsibility to meet their financial commitments. The SECZ and the SZE have been focusing on particular groups of people with an immediate or potential interest in the securities market. ZSE has lately been emphasizing training for policy makers and this last week conducted a general educational workshop for parliamentarians. The SECZ generally focuses on individual investors by engaging in programs in the workplace, as well as schools.

170. Financial institutions and industry associations have also been active in initiating financial capability programs, even though the division between marketing activities and financial capability is not always clear. For instance, Barclays Bank of Zimbabwe's corporate social responsibility engagements with a NGO resulted in the provision of financial capability training courses to 500 women in agriculture focusing on such issues as budgeting, saving and borrowing. The Bankers Association of Zimbabwe publishes articles in major newspapers and on its website every week, mainly focusing on the importance of saving and using formal financial systems. MFIs such as Microking provide business training courses to their clients to improve their ability of proper record keeping and accounting. Other financial institutions are to some extent engaged in financial capability initiatives, although the division between marketing activities and financial capability is not always clear.

171. School curricula currently do not reflect the importance of the formation of sound financial habits at an early age. The Ministry of Primary and Secondary Education is about to assess existing curricula for gaps and will explore the opportunity of providing school based financial education programs for primary and secondary level students, starting at the age of five.

Key Recommendation(s)

172. To minimize gaps and overlaps in addressing the financial capability needs of the Zimbabweans, a national financial literacy strategy (NFLS) should be developed under the leadership of the MoF. Such a document should outline a set of essential priorities. Priorities could be set based on a number of criteria, including the need, goals (e.g. fostering access to finance through formal financial institutions), costs and availability of resources. Other essential elements of such a document include the roles and responsibilities of all involved stakeholders, the main groups which shall be targeted, a framework for monitoring and evaluation of planned financial capability enhancing strategies and most importantly the resources. For more information about the process of developing a NFLS see the OECD/INFE High Level Principles on National Financial Education Strategies.⁹⁵

173. The development of a NFLS requires a wide consultation process and the establishment of a coordination body whose members include a wide range of public, private sector and non-profit stakeholders. The wide range of stakeholders is important for consensus building about the importance of financial literacy. To the extent possible all potentially relevant public stakeholders should be involved, including ministries (despite the MOF in particular the Ministry of Primary and Secondary Education), RBZ, all other financial regulators and supervisors, as well as other public, region, and local authorities. The public sector has a crucial role to play in developing the NFLS by taking on responsibilities related to the public authorities' main areas of expertise, interest and resources. For instance, RBZ could focus on financial capability enhancing initiatives in the banking and non-banking sector, while the SECZ and ZSE could continue to focus on initiatives in the securities sector. The private sector is also very important since it can supplement available public resources and given the potential for broad outreach. Further, participation in designing and implementing a NFLS can be attractive to the private sector as a means of demonstrating a commitment to corporate social responsibility goals. However, it is important that the private sector understands the distinction between financial literacy programs and marketing initiatives.

174. Further, small pilots for targeted groups should be organized to assess the effectiveness of the proposed NFLS and/or specific educational activities before more resources are allocated to specific activities. Such an assessment would also help maintain momentum in the short term while a NFLS is being developed.

175. A nationally representative survey should be conducted to inform the design of a NFLS and create a baseline against which the impact of financial capability enhancing initiatives can be measured. Conducting a survey can be a complex, timely, and expensive task. Rather than conducting a standalone financial capability survey, it may therefore make sense to assess the population's level of financial capability by adding a relevant survey module to the earmarked FinScope Consumer Survey 2014. Potential topics to be covered include the awareness and understanding of basic financial concepts and products. However, since knowledge does not

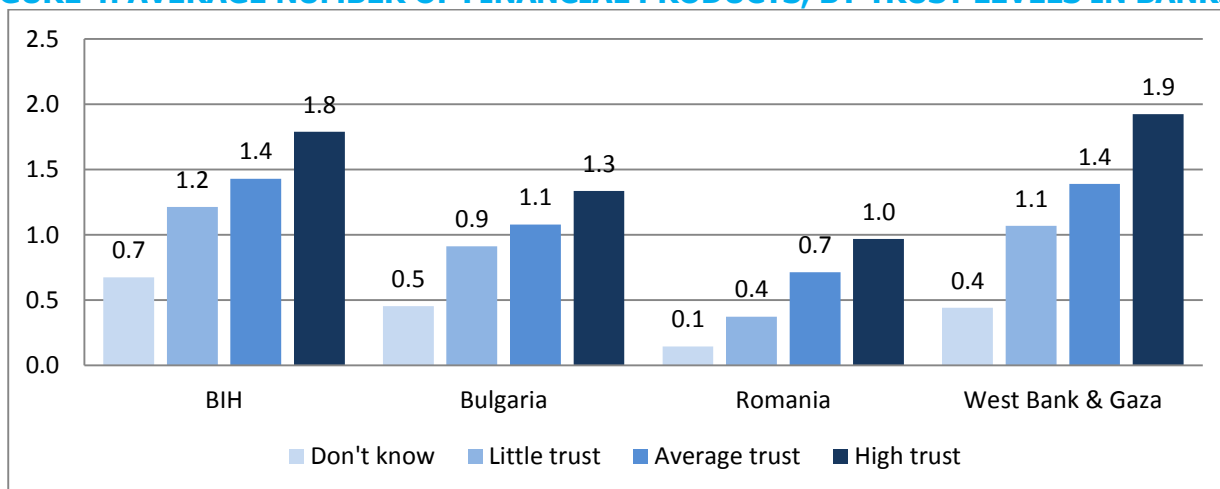
⁹⁵ Online available at: http://www.oecd.org/finance/financial-education/OECD_INFE_High_Level_Principles_National_Strategies_Financial_Education_APEC.pdf.

always translate into proper action, it would be beneficial to capture attitudes, such as impulsiveness, farsightedness and action orientation as well as behaviors related to day-to-day money management, planning for unexpected and old age expenses, choosing and using financial products and using information and advice. To get a better understanding if consumers in Zimbabwe benefit from the financial products they use, additional questions could relate to their reported incidences of conflicts with financial service providers and their levels of satisfaction with different types of financial products.

176. Over the long-term it is recommended that school-based financial education programs be provided as international evidence suggests that basic principles of financial decision taking (such as developing a savings culture or making provisions for old age) should be acquired at a young age. If children form habits on how to manage their money from a young age, they are more likely to adhere to them throughout their lives. Success has been observed for school based financial education programs, when providing financial education in ways in which students find relevant to their lives either currently or in the near future, and if it is interactive. High quality material or textbooks are required, and teachers need to be well trained on the content and techniques. In addition, as existing curricula may already be saturated, it is advisable to integrate financial education into a variety of existing subjects rather than adding a new subject into the curriculum. In case resources to train teachers and develop and provide teaching materials are scarce, it may be best to focus at the onset, on incorporating education into one or two subjects over three or four consecutive semesters.

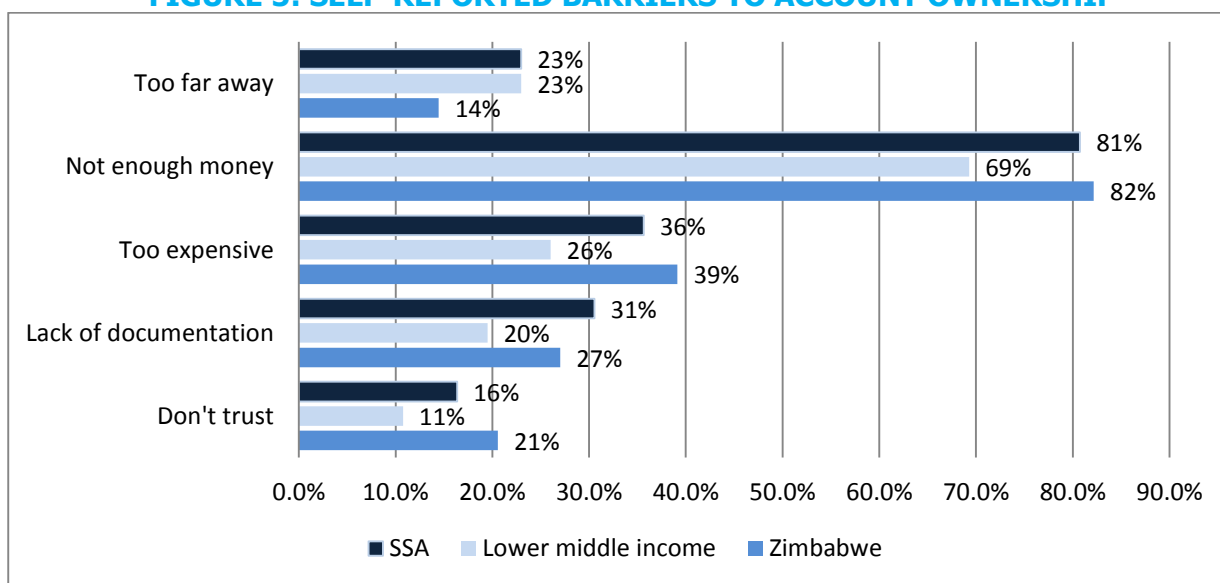
ANNEX 1: Consumer Trust and Financial Literacy

FIGURE 4: AVERAGE NUMBER OF FINANCIAL PRODUCTS, BY TRUST LEVELS IN BANKS



Source: World Bank Financial Capability Surveys

FIGURE 5: SELF-REPORTED BARRIERS TO ACCOUNT OWNERSHIP



Source: Global Findex, 2011

ANNEX 2: List of Overall Recommendations

(This is a high level summary list of all recommendations resulting from the Zimbabwe CPFL review (i.e. not just the High Priority recommendations contained in Volume I). See Volume II for details of these recommendations.

TABLE 7: LIST OF OVERALL RECOMMENDATIONS

SECTOR	RECOMMENDATION	RESPONSIBILITY	TERM*
Institutional Arrangements			
Cross-cutting	Develop consumer / investor protection specific supervisory arrangements, tools and capacity focusing on highest risk activities.	RBZ, IPEC, SECZ, ZSE, SME Ministry	ST
	Establish coordination and consultation arrangements between key consumer protection regulators and develop MoUs.	RBZ, IPEC, SECZ, ZSE, SME Ministry, POTRAZ	ST
	Strengthen consumer organizations (especially CCZ) through funding and capacity building.	MoF	LT
	Develop MoU between RBZ and DPC and increase public awareness of deposit insurance.	DPC, RBZ	LT
	Establish coordination and consultation arrangements on competition issues.	CTC, RBZ, POTRAZ, MoIC	LT
	Expand CTC financial sector research resources.	MoF, CTC	LT
Insurance and Pensions	Join regional and international supervisory organization (CISNA and IOPS)	IPEC	MT
	Increase consumer representation on IPEC Advisory Committee	IPEC	MT
Legal and Regulatory Framework			
Cross-cutting	Develop a comprehensive financial consumer protection law covering e.g. disclosures, sales practices, responsible lending, product suitability, insurance contracts, staff and intermediary training, restrictions on rights, account handling, data protection, cooling off periods, advertising, customer records and dispute resolution.	MoF, RBZ, IPEC, SECZ, ZSE, SME Ministry	LT
	Clarify application of Consumer Protection Bill to financial services.	MoF, MoIC	LT
	Finalize credit bureau licensing and operational rules, develop public awareness campaign and consider providing access to a central database of registered national IDs.	MoF, RBZ, SME Ministry	LT
	Develop licensing and operational rules for debt collectors.	MoF, RBZ	LT
	Develop rules re foreclosures.	MoF, RBZ	LT
	Review rules concerning notice of bankruptcy proceedings and related insolvency issues.	MoF, RBZ	LT
	Develop overarching data privacy law.	MoF	LT
	Clarify consumer protection mandate and consider financial inclusion mandate for key regulators.	MoF, RBZ, IPEC	LT

SECTOR	RECOMMENDATION	RESPONSIBILITY	TERM*
Banks	Make compliance with consumer protection laws a responsibility of directors of banks.	MoF, RBZ	LT
	Develop rules for winding up of banks.	MoF, RBZ	LT
Digital Financial Services	Develop consumer protection laws for digital financial services e.g. re safeguarding e-wallet funds, disclosures, security, limitations of liability, data protection and unauthorized transactions.	MoF, RBZ, IPEC, POTRAZ	ST
NBCIs	Clarify scope of application of MFA.	MoF, RBZ, SME Ministry	MT
NBCIs	Clarify continued application of Moneylending and Rates of Interest Act and the Pawnbrokers Act.	MoF, RBZ	LT
Insurance	Finalize draft market conduct rules, including for the establishment of a carefully considered Policy Protection Fund.	MoF, IPEC	ST
	Consider establishing a nominal defendant scheme for uninsured motor vehicle accidents.	MoF, IPEC	LT
Insurance and Pensions	Ensure that Government Inquiry on Pensions and Insurance Conversions is conducted in a transparent and independent manner, with clear conclusions and recommendations which are made and acted on in a reasonable timeframe.	MoF	ST
Insurance and Securities	Develop rules for the licensing, education and supervision of bank employees selling insurance and securities products (e.g. unit trusts).	MoF, SECZ, IPEC	ST
Securities	Finalize draft investor protection rules and market conduct rules for brokers.	MoF, SECZ, ZSE	ST
	Enhance enforcement powers of SECZ.	MoF, SECZ	MT
	Develop licensing and minimum competency requirements for all persons providing investment services.	MoF, SECZ	MT
	Harmonize investor protection laws.	MoF, SECZ	LT
Pensions	Develop standardized training requirements for pension fund trustees and intermediaries.	MoF, IPEC	ST
Pensions	Ensure Pension and Provident Fund Bill meets international best practice and covers issues such as disclosures, cross selling, confidentiality and dispute resolution. ⁹⁶	IPEC/MoF	MT
Transparency and Consumer Disclosure			
Cross-cutting	Require Key Facts Statements for common credit, insurance and pensions products.	MoF, RBA and IPEC	MT
	Consumer test new disclosures as they are developed.	MoF, RBA and IPEC	ST - LT

⁹⁶ International Good Practices refer to the World Bank Good Practices for Financial Consumer Protection (World Bank, 2012), which this diagnostic is based upon, and also more detailed, pension specific standards which have been issued by the OECD as part of the Core Principles of Occupational Pension Regulation - <http://www.oecd.org/daf/fin/private-pensions/33619987.pdf>

SECTOR	RECOMMENDATION	RESPONSIBILITY	TERM*
Banking and Digital Financial Services	Develop comprehensive product disclosure requirements for fees, charges, interest rates, terms and conditions, total cost of credit, advertising, mandatory risk warnings and for notice of changes.	MoF, RBZ	ST
	Provide clear loan pre-payment and account closure rights, subject only to reasonable fees.	MoF, RBZ	MT
	Publish comparative interest rates, fees and charges.	RBZ	MT
	Require periodic statements of account.	MoF, RBZ	MT
Insurance	Develop comprehensive disclosure requirements for policy holders including as to key policy terms, premiums, exclusions and risks.	MoF, IPEC	ST
	Require insurance intermediaries to disclose commissions, status and any conflict of interest.	MoF, IPEC	MT
	Require banks to disclose that they do not guarantee insurance products they distribute.	MoF, IPEC, RBZ	MT
Securities	Ensure new investor protection rules include specific disclosure requirements, including as to disclosures by investment advisers, uniform Key Facts Statements, contract notes and statements.	SECZ	ST
Securities	Develop disclosure and operational rules for unit trusts.	SECZ	MT
Securities	Require securities industry participants to display license.	SECZ	MT
Pensions	Develop specific requirements on disclosures to members of pension funds, including on choice of retirement income products and on payouts.	IPEC	MT
Business Conduct			
Cross-cutting	Encourage development of industry codes of conduct for banks, NBCIs, securities and insurance industries, building on existing law / codes.	Industry associations, MoF, RBZ, IPEC, SECZ, ZSE	LT
	Develop rules to limit unreasonable bundling and tying of credit and insurance products.	MoF, RBZ, IPEC	MT
	Encourage media coverage of CPFL issues.	MoF, RBZ, IPEC, SECZ, ZSE, SME Ministry	MT
	Publish consumer friendly information on a quarterly basis about the financial position of key financial institutions to facilitate comparisons.	RBZ, IPEC, SECZ	MT
	Take action on unfair and abusive debt-collection practices.	RBZ, law enforcement	MT
	Require all credit providers to be subject to responsible lending standards, whilst taking into account MFA requirements and warn guarantors about consequences of default.	RBZ	MT
Digital Financial Services	Monitor current inquiry into mobile phone based payments services by the CTC.	RBZ, CTC	ST

SECTOR	RECOMMENDATION	RESPONSIBILITY	TERM*
NBCIs	Enforce rules relating to abusive collection practices.	RBZ	ST
Insurance	Make available continuous professional development courses for brokers and agents.	IIZ, IPEC	
	Require a customer needs assessment.	MoF, IPEC	MT
Securities	Ensure new investor protection rules include specific rules re payments on account closures and customer records.	SECZ	ST
Securities	Include conflicts rules in new fund protection rules.	SECZ	MT
Pensions	Take action to recover non-remitted, employee contributions from plan sponsors.	IPEC	ST
	Develop separate custodian arrangements for pension assets.	IPEC	ST
	Provide guidance on choice of investment portfolio for defined contribution pension fund members.	IPEC	MT
	Provide guidance on form and content of annual benefit fund statements.	IPEC	MT
Dispute Resolution Mechanisms			
Cross-cutting	Develop standard requirements for complaints handling by financial institutions and require complaints statistics to be reported to regulator.	MoF, RBZ, SECZ, IPEC, SME Ministry	ST
	Establish within financial sector regulators a dedicated unit to consider consumer complaints and analyze and publish complaints statistics.	MoF, RBZ, SECZ, IPEC, SME Ministry	MT
	Consider development of a single financial services ombudsman or equivalent scheme which provides an independent, transparent, free dispute resolution service for consumers and which can make binding decisions.	MoF, RBZ, SECZ, IPEC, SME Ministry	LT
NBCIs	Include a consumer representative on MFA disciplinary committee	RBZ	MT
Financial Literacy/Capability			
Cross-cutting	Establish a public, private sector and NGO National Financial Education Coordinating body chaired by MoF.	MoF	ST
	Conduct a national financial capability survey (potentially by adding questions to proposed FinScope Consumer Survey 2014).	MoF	ST
	Develop a National Financial Literacy Strategy.	MoF, and wide range of public / private sector / not for profit stakeholders	MT
	Provide school-based financial education programs	Ministry of Primary and Secondary Education, MoF	LT

ST: Short-term (say 1 year); MT: Medium-Term (say 2 years); LT: Long-Term (say 3 years)

