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Zimbabwe: Technical Assistance Report—Financial Sector Stability Review Consolidated Supervision

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ZIMBABWE

TECHNICAL ASSISTANCE REPORT-FINANCIAL SECTOR STABILITY REVIEW CONSOLIDATED SUPERVISION

December 2022

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TECHNICAL ASSISTANCE REPORT

ZIMBABWE

FSSR Follow Up Technical Assistance Consolidated Supervision

AUGUST 2022

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Glossary

AFRITAC	Africa Regional Technical Assistance Center
AML	Anti-Money Laundry
BCP	[Basel] Core Principle for an Effective Banking Supervision
BSD	Banking Supervision Division
CFT	Combat against Financing Terrorism
CS-1	Consolidated Supervision Report
FSSR	Financial Sector Stability Review
Guidelines	Guidelines No. 92-2007/BSD: Consolidated Supervision Policy Framework
ICAAP	Internal Capital Adequacy Assessment Process
ID-code	Identification Code
IMF	International Monetary Fund
LCR	Liquidity Coverage Ratio
LEG	IMF's Legal Department
MCM	IMF's Monetary and Capital Markets Department
MIS	Management Information System
NPL	Nonperforming Loan
NSFR	Net Stable Funding Ratio
RAS	Risk Assessment System
RBS Guidelines	Guideline No. 2 – 2006/BSD: Risk-based Supervision Policy Framework
RBZ	Reserve Bank of Zimbabwe
RBZ Act	Reserve Bank of Zimbabwe Act
Recovery Plan Guidelines	Guideline No. 1-2018/BSD: Prudential Standard on Recovery Planning
RFI/C(D)	(R) Risk Management; (F) Financial Condition; (I) Impact of non-banking entities on the banking institutions; (C) Composite

	Rating; and (D) Summary rating of banking institutions in the group
SEC	Securities Exchange Commission
TA	Technical Assistance

Preface

At the request of the Reserve Bank of Zimbabwe (RBZ), the Monetary and Capital Markets (MCM) Department conducted a virtual mission from May 3 to June 10, 2022 to assist the RBZ on strengthening consolidated supervision framework. The main focus was to support the RBZ in updating the RBZ consolidated supervision framework, enhancing prudential reporting on a consolidated basis, strengthening the assessment of banking group's risks, and intensifying cross-border and interagency cooperation.

The mission had virtual meetings with Mr. Philip Madamombe Director of the RBZ Banking Supervision Division (BSD), Mr. Ruzayi Chiviri, Ms. Norah Mukura, Ms. Rachel Mushosho, Ms. Susan Kabungaidze, Ms. Violet Ndoro (all RBZ Deputy Directors of the BSD) and supervisors responsible for consolidated supervision. The mission also had virtual meetings with representatives of a banking group to gain their perspective on consolidated supervision in Zimbabwe and present the requirements of international standards in this area.

The mission team would like to express its gratitude to the RBZ and its staff, particularly to Mr. Philip Madamombe, Mr. Ruzayi Chiviri, and Ms. Violet Ndoro, for the excellent arrangements made to facilitate the work, as well as for their openness, productive discussions, and excellent cooperation.

As a follow-up to the Financial Sector Stability Review (FSSR), the Technical Assistance (TA) was financed by the Financial Sector Stability Fund.

EXECUTIVE SUMMARY

As a follow-up to the 2019 FSSR, a remote TA mission supported the RBZ on strengthening consolidated supervision. The mission reviewed Zimbabwe's consolidated supervision framework (regulation, prudential returns, and supervisory approach) and identified areas for improvement, thoroughly discussed supervisory approaches to consolidated supervision with the management of the RBZ and provided recommendations on enhancing the RBZ consolidated supervision framework.

The RBZ is taking steps to enhance its risk-based supervision which will work to support effective consolidated supervision. Several TA missions have supported various aspects of RBZ's program to improve risk-based supervision for solo banks. These improvements to RBZ's risk-based supervision will also work to enhance consolidated supervision going forward.

The RBZ has established Guidelines for consolidated supervision[1] (Guidelines) and is seeking to move forward with their implementation. The Guidelines were approved in 2007 and provide a good foundation for the consolidated supervision, though areas for improvement were identified. The Guidelines address a broad range of prudential standards applicable to banking groups,[2] including minimum requirements such as capital adequacy ratio and limits on large exposures, as well as supervisory approach and process in relation to consolidated supervision in a wider perspective. The RBZ has partially implemented the Guidelines. The mission recommended to review and update the Guidelines in line with recent updates in the legislation, in order to harmonize RBZ's powers and its supervisory approach for non-bank financial institutions and non-financial commercial subsidiaries of bank holding companies and improve prudential requirements' methodologies for banking groups.

The RBZ has developed reporting requirements for banking groups subject to the Guidelines and is moving to enhance these requirements. The RBZ has developed a reporting template for consolidated supervision information (CS-1 template) that comprehends a broad range of banking groups' financial and related information. The RBZ is collecting quarterly data but is not presently utilizing this information. In this regard RBZ is seeking to enhance and update its reporting requirements as it moves forward with commencing consolidated supervision activities. The mission recommended to review and enhance the reporting requirements to capture developments, which arose since the reporting template was first developed.

The banking groups' compliance with prudential requirements need to be analyzed, monitored, and enforced. Although the Guidelines prescribe minimum requirements and operational limits (e.g., capital ratio, large exposures) on a consolidated basis, the consolidated ratios and exposures informed in the CS-1 report are not subject of analysis. The mission recommended to develop a detailed understanding of the banking group structure, activities, and risks through analysis of collected data and other supervisory activities and monitor the consolidated position of banking groups and their compliance with prudential requirements on consolidated basis.

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[1] Guidelines No. 92-2007/BSD: Consolidated Supervision Policy Framework.

[2] According to the Guidelines, "banking group" means a group of financial entities headed by a licensed banking institution or bank holding company one of whose subsidiaries is engaged in banking business; and the remainder of the subsidiary companies are engaged in financial activities.

The RBZ has issued requirements that financial institutions develop recovery plans to support orderly and timely management of crisis situations and avoid contagion and spill-over effects. Guidelines setting out recovery plan requirements for banks were issued in 2018[3] (Recovery Plan Guidelines) and extend to 'financial institutions' and where financial institutions are part of banking groups, a 'group-wide recovery plan will be required'. The Recovery Plan Guidelines establish requirements for the plans, including governance, key elements and components, and the RBZ supervisory assessment and approach. For complex banking groups, group-wide recovery plans would provide in depth information and insight into group operations and structure. Recovery plans are a useful tool in conducting effective consolidated supervision.

The mission discussed the international standards and best practices related to consolidated supervision with the BSD management and relevant supervisors. In particular, the mission focused on sharing international best practices and practical examples of supervisory tools, techniques, and structures for consolidated supervision. The discussions covered the main challenges faced by the BSD team in the implementation of a consolidated supervision framework, highlighting: a comprehensive understanding of a banking group and the scope of consolidation, onsite and offsite supervision approaches, strategies to collect data on a consolidated basis, and home-host supervisors' relationship. Relevant issues regarding the supervisory approach for a consolidated supervision, like consolidated capital calculation, intragroup transactions, related party exposures, concentration risk, large exposures, contagion risk and interconnectedness, particularities of corporate governance were discussed.

The RBZ should develop a comprehensive consolidated supervision manual for supervisory purposes. The mission recommended to segregate the internal supervisory procedures for banking groups from the prudential requirements set forth in the Guidelines, and to develop a comprehensive consolidated supervision manual.

The RBZ should review and modify BSD's current organization and supervisory processes. The review should ensure adequate human resources in numbers and capacity necessary for ensuring effective consolidated supervision. Training program for supervisors, responsible for consolidated supervision, should be a high priority. The RBZ may need follow up technical assistance to implement recommendations on strengthening consolidated supervision.

During the meeting, the senior management of the banking group presented the main structure, corporate governance, and business lines of the group. This direct contact with a banking group framework was very important to exemplify the main challenges faced by the RBZ for the implementation of consolidated supervision in Zimbabwe and helped to align the discussions towards concrete objectives.

The mission included two days of training. About 50 supervisors from the BSD participated in the training. Topics covered fundamentals of consolidated supervision and main issues discussed with the BSD management and relevant supervisors during the mission.

[3] Guidance on Recovery Planning, Prudential Standard no. 1-2018/BSD

Table 1. Zimbabwe: Key Recommendations

Key Recommendations	Priority	Timeline[4]
1. The RBZ should review and update the Guidelines on Consolidated Supervision in line with recent updates in the legislation, in order to harmonize RBZ's powers and its supervisory approach for non-bank financial institutions and non-financial commercial subsidiaries of bank holding companies and improve prudential requirements' methodologies for banking groups.	High	ST
2. The RBZ should review the criteria for the identification of 'connected counterparties' in banking groups and ensure that they must be included in large exposures minimum requirements for banking groups.	High	ST
3. The RBZ should develop prudential limits on intra-group exposures targeted at banking groups.	High	ST
4. The RBZ should review the CS-1 reporting template and requirements to capture developments, which arose since the template was first developed to collect data for consolidated supervision.	High	ST
5. The RBZ should segregate the internal supervisory procedures from the prudential requirements for banking groups set forth in the Guidelines and develop a comprehensive consolidated supervision manual.	High	MT
6. The RBZ should develop a group-level 'Institution Profile' that sets forth a comprehensive description and an analysis of banking group; a deeper understanding of the banking group's structure, corporate governance, activities, and risks should be developed.	High	MT
7. The RBZ should review and modify as needed its current organization, processes, and staffing to support consolidated supervisory activities.	High	MT
8. The RBZ should ensure that the specialist supervisors, responsible for consolidated supervision, should have access to training programs and peer learning attachments.	High	ST
9. The RBZ should update the consolidated supervision guidelines and develop supervisory procedures to facilitate effective monitoring and assessment of banking groups' compliance with prudential requirements on a consolidated basis.	High	MT
10. The RBZ should update enforcement measures to address any weaknesses or vulnerabilities at the level of the banking group or in case of violation of prudential requirements on consolidated basis.	High	MT

[4] **ST**, short-term, with results less than 12 months; **MT**, medium term, with results from 12 to 24 months.

I. INTRODUCTION

1. **MCM conducted a virtual mission from May 3, 2022 to June 10, 2022 to assist the RBZ in strengthening consolidated supervision framework.** The mission held numerous virtual meetings with management and supervisors of the BSD. Targeted training sessions were delivered to banking supervisors on fundamentals of consolidated supervision and on identified areas for further improvement. The mission also had meetings with representatives of one banking group.

2. **In the 2019 FSSR follow-up TA roadmap, it was agreed with the authorities to address identified weaknesses in Zimbabwe's banking supervision, resolution, and crisis-management arrangements.** Subsequently, the RBZ requested TA to support implementation of the reforms outlined in the TA Roadmap and Project Plan. This TA is expected to support the RBZ's efforts to safeguard financial stability by strengthening its regulatory and supervisory framework, institutional capacity, as well as the technical capacity of its staff.

3. **Several TA missions supported the RBZ in strengthening the legislative framework, enhancing risk-based supervision and implementing Basel III liquidity standards.** In 2019, the IMF provided a joint Legal Department (LEG)/MCM TA to assist the RBZ in the enhancement of the RBZ Act, Banking Act, and the Deposit Protection Corporation Act. In 2019-2020, the IMF provided two TAs on strengthening risk-based supervision. Recently, two TAs supported the RBZ in implementing Basel III liquidity standards. In 2021, AFRITAC South also delivered two virtual TAs to the RBZ on remote onsite examination and offsite supervision. All these missions have taken into consideration the RBZ's priorities and needs against the background of the challenging macroeconomic circumstances.

4. **The FSSR's report highlighted the importance of strengthening consolidated supervision in Zimbabwe, given the extent of the bank holding company structures in banking sector and interconnectedness of activities within banking groups.** Although the RBZ collects some prudential information on consolidated basis, there is need to broaden the monitoring of important prudential elements and assessing banking group's risks incorporating comprehensive analysis of the financial health of both the bank holding company and entities in the banking group.

5. **This report is divided into four sections.** After this introductory section, Section II provides an overview of the banking sector, Section III presents the status of consolidated supervision in Zimbabwe and Section IV discusses the TA recommendations to improve the consolidated supervision approach, regarding two perspectives: the harmonization and enhancement of laws, regulation, and guidelines; and the implementation of a supervisory approach and procedures.

II. BANKING SECTOR OVERVIEW

6. **The banking sector of Zimbabwe consists of 13 commercial banks, five building societies, and one savings bank that, in total, account for ZW\$969.24[5] billion in assets (March 31, 2022).[6]** Of the 19 banks, nine banks have foreign shareholding, with a market share of over 60

[5] Exchange rate 1 US\$= 140.4237 ZWL\$ (March 31, 2022; Reserve Bank of Zimbabwe).

[6] Total banking sector assets was about 36 percent of GDP.

percent. Other banks are local, or state owned, in part or whole (the structure of the banking sector and its indicators are presented in Appendices I and II).

7. **The top ten institutions in Zimbabwe are banks operating within banking groups (foreign or domestic) and include both non-bank financial entities and non-financial commercial entities.** The banking sector in Zimbabwe is concentrated in the top five banks (almost 60 percent of total assets) and two of the top ten banks are identified as members of "mixed conglomerates", which are banking groups that contain commercial enterprises as affiliated subsidiaries of a parent or bank holding company. Foreign-owned banking groups are required to establish local subsidiaries for local banking, non-bank and other operations. Overall, the vast majority of banking assets are housed within group structures that contain entities which are also subject to non-bank regulation[7] (e.g., insurance and securities firms). These groups should be subject to consolidated supervision, by RBZ and/or by foreign regulatory bodies as the home supervisor.

III. Consolidated Supervision Framework in Zimbabwe

8. **The RBZ derives its supervisory authority from the Reserve Bank of Zimbabwe Act (RBZ Act) and the Banking Act.** The RBZ Act in Section 6 (1)(e) empowers the Reserve Bank of Zimbabwe to "supervise banking institutions and to promote the smooth operation of the payment system." The Banking Act [Chapter 24:20] provides for the registration, regulation, continuous monitoring, and supervision of persons conducting banking business in Zimbabwe. The Banking Act [Part 45(1)(a)] provides that RBZ is responsible for "continuously monitoring and supervising banking institutions, controlling companies and associates of banking institutions to ensure that they comply with this Act."

9. **The RBZ has established Guidelines for consolidated supervision and is seeking to move forward with their implementation.** The Guidelines were approved in 2007. They provide a good foundation for the consolidated supervision, though areas for improvement are identified below. The Guidelines address a broad range of prudential standards to the banking groups,[8] including minimum requirements such as capital adequacy ratio and limits on large exposures, as well as supervisory approach and process in relation to consolidated supervision in a wider perspective. The RBZ has not yet fully implemented the Guidelines.

10. **The RBZ has developed a reporting requirement for banking groups subject to the Guidelines and is moving to enhance these reporting requirements** The RBZ has developed a report for consolidated supervision information (CS-1 template) requiring a broad range of banking groups' financial and related information. The RBZ receives the financial information but does not adequately analyze CS-1 data and information. It is seeking to update its reporting requirements to

[7] In Zimbabwe, five agencies are responsible for financial regulation and supervision. These are the Reserve Bank of Zimbabwe (RBZ), The Ministry of Finance, The Deposit Protection Corporation, The Securities Exchange Commission (SEC) and The Insurance and Pensions commission.

[8] According to the Guidelines, "banking group" means a group of financial entities headed by a licensed banking institution or bank holding company one of whose subsidiaries is engaged in banking business; and the remainder of the subsidiary companies are engaged in financial activities.

capture developments, which arose since the template was first developed, and move forward with commencing consolidated supervision activities.

11. **The banking groups' compliance with prudential requirements need to be analyzed, monitored and enforced.** Although the Guidelines prescribe minimum prudential requirements (e.g., capital ratio, large exposures) on a consolidated basis, the consolidated ratios and exposures in the CS-1 report are not subject to analysis.

12. **The methodology for measuring large exposures for banking groups established in the Guidelines needs to be reviewed.** The Guidelines define large exposures as commitments to any single person, common enterprise or corporate exceeding 10 percent of the banking group's capital base and establishes a 25 percent limit towards the exposure of a single counterparty.[9] This position be compared to the BCBS standards,[10] in terms of which a single counterparty may represent a group of connected ones[11] and the definition of 'connected counterparties' involves not only control relationship, but economic interdependency as well.

13. **The scope of the Guidelines and RBZ's supervisory powers extend to banking institutions, bank subsidiaries, bank holding companies, and to subsidiaries of bank holding companies and broadly to 'any person' that has direct or indirect control of the banking institution.** The Guidelines provide a scope of application to "every banking institution, bank holding company, financial conglomerate, mixed activity group, and their associates as defined in section 2 of the Banking Act [Chapter 24:20]." The term "associate" is defined in the Banking Act and extends to bank holding companies and entities that are also subsidiaries of such bank holding companies. The Guidelines define "financial conglomerate" to mean "any group of companies under common control whose exclusive or predominant activities consist of providing significant services in at least two financial services sectors." And the Guidelines define "mixed activity group'' to mean "a group which controls at least one banking institution as well as commercial and industrial companies." Since issuance of the Guidelines, the Banking Act was amended to clarify that RBZ supervisory powers extend to 'controlling companies', which clarifies the meaning of bank holding company.[12]

[9] Consolidated Supervision Guidelines 6.54: "The maximum amount of exposure which a banking group may incur towards a single counterparty shall be 25% of the group's capital."

[10] BCBS Supervisory framework for measuring and controlling large exposures (April 2014).

[11] The BCBS Supervisory framework for measuring and controlling large exposures defines as connected counterparties "a group of counterparties with specific relationships or dependencies such that, were one of the counterparties to fail, all of the counterparties would very likely fail. A group of this sort must be treated as a single counterparty."

[12] Section 15F of the Banking Act establishes that "a person shall be deemed to exercise control over a banking institution if (a) where the person is a body corporate, the banking institution is its subsidiary; or (b) whether the person is an individual or a body corporate, the person together with any associates or close relatives (i) is entitled to exercise more than fifty per centum of the voting rights in respect of any class of issued shares of the banking institution; or (ii) is entitled or has the power to determine the appointment of a majority of the directors of the banking institution; or (iii) holds shares in the banking institution whose total nominal value represents more than fifty per centum of the nominal value of all the issued shares of the banking institution unless, due to limitations on the voting rights attached to the shares, the person and any associates or close relatives, voting together, cannot decisively influence the outcome of the voting at any general institution's shareholders."

14. **The Guidelines establish an 'RFI/C(D)'[13] approach to consolidated supervisory review and rating.** The RFI/C(D) rating system (RFI rating system) provides an assessment of certain risk management and financial condition factors that are common to group parents or holding companies, as well as an assessment of the potential impact of the parent holding company and its non-depository subsidiaries on the holding company's subsidiary depository institutions. Under the RFI rating system, each group holding company is assigned a composite rating based on an overall evaluation of its managerial and financial condition and an assessment of future potential risk to its subsidiary depository institutions. The authorities indicated that they might require TA to effectively apply the RFI and other rating approaches for consolidated supervision in the future.

15. **For solo bank supervision and oversight, RBZ employs a CAMELS-based[14] ratings approach supplemented with a Risk Assessment System (RAS).** The RBZ introduced a new RAS to complement the existing CAMELS model in 2012 through the issuance of an Enhanced Risk-Based Supervision Policy Framework. The RAS involves the completion of a risk matrix which determines the direction of overall composite risk by each type of inherent risk across the institution, with indications of decreasing, stable, or increasing risk. Enhancements of ratings methodologies for solo banks are ongoing.

16. **The RBZ is taking steps to enhance its risk-based supervision framework which will work to support effective consolidated supervision.** The RBZ's risk-based guidelines[15] (RBS Guidelines) were initially issued in 2006 and updated in 2012. Several TA missions have supported various aspects of RBZ's program to improve risk-based supervision for solo banks. Multiple recommendations have been made and actions have been taken by RBZ. These improvements to RBZ's risk-based supervision will also work to enhance consolidated supervision going forward.

17. **The supervision of banking groups on a consolidated level is properly viewed by RBZ as being supplemented by the solo supervision and supervisory rating of the individual banking institutions within the group.** Therefore, the supervisory framework and activities developed to assess consolidated banking groups are intended to build upon the quality of RBZ's existing risk-based supervision framework applied to solo banks.

18. **The implementation of consolidated supervision approaches will build upon the risk-based supervision and CAMELS/RAS ratings approaches.** RFI Rating system necessarily builds upon and reflects input from the CAMELS/RAS ratings and risk-based supervision approaches. The overall standalone rating of the banking entities is considered within the D component of the RFI

[13]Guidelines, paragraph 8.1: In terms of Consolidated Supervision, the RBZ uses, the RFI/C(D) rating system to assess the condition of the group. Each banking holding company is assigned a composite rating on the basis of the RFI/C(D) rating system; where; R is Risk Management, F stands for Financial Condition, I represents Impact of non-banking entities on the banking institutions, C is the Composite Rating, and D denotes a summary rating of banking institutions in the group.

[14] The CAMELS-based ratings system (CAMEL rating system) provides an overall rating that is based upon individual component analysis for (C) Capital Adequacy; (A) Asset Quality; (M) Management capability: (E) Earning quantity and quality; (L) Liquidity adequacy; and (S) Sensitivity to Market Risk. These are rated on a 1 to 5 scale, where 1 is strong, and 5 is critical.

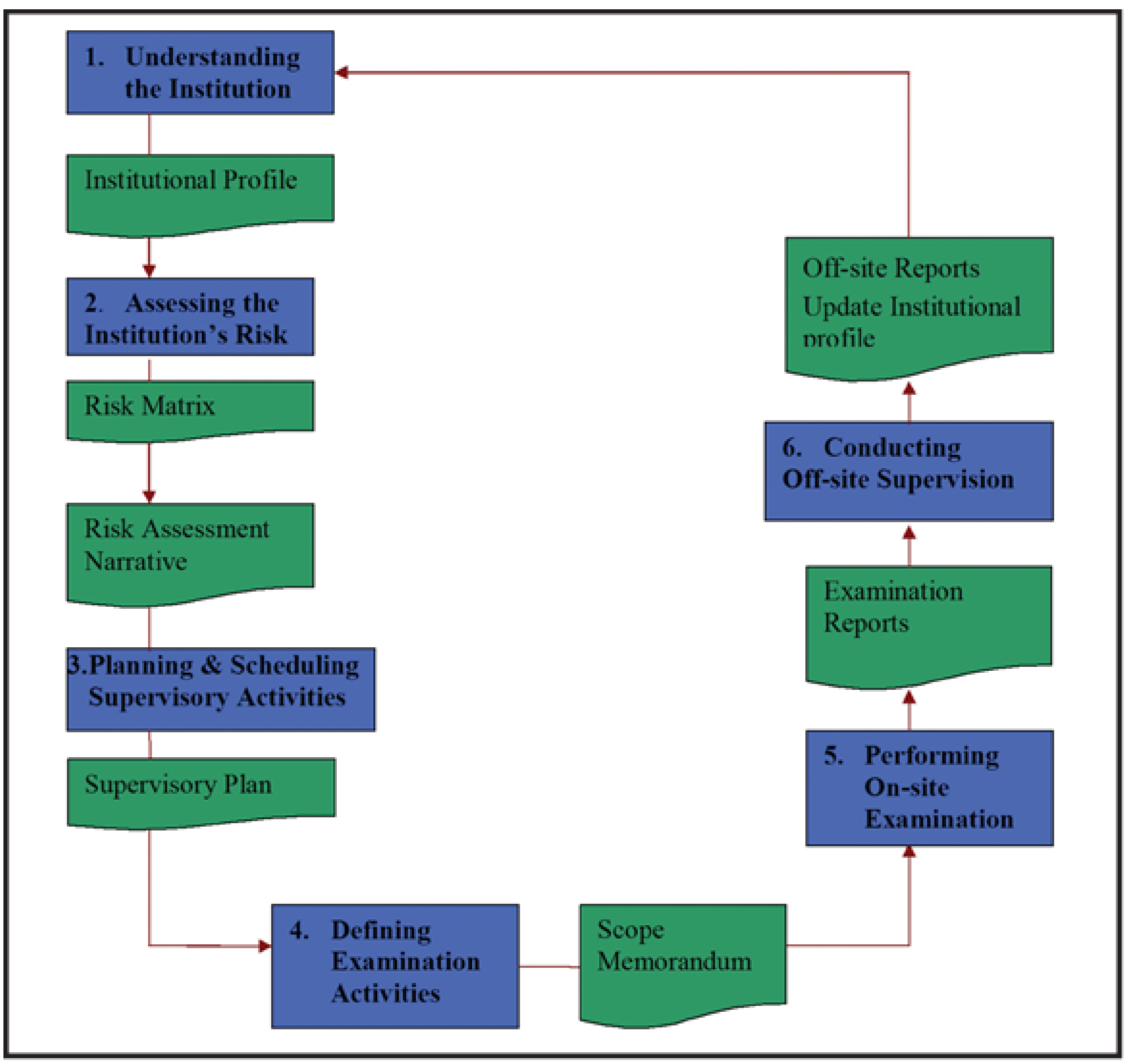
[15] Guideline No. 2 – 2006/BSD, "Risk-based Supervision Policy Framework".

system. And the analysis of CAMELS elements within the RFI ratings approach (F) Financial Condition component mirrors that employed under CAMELS.

19. **Both RFI rating system and CAMELS/RAS rating systems are to be employed by RBZ within an overall Supervisory Review and Evaluation Process that contains similar features.** These include processes such as annual planning cycles, with interim steps considering emerging risks, preparation of comprehensive institution risk profiles, the conduct of on- and offsite supervision that are supplemented by targeted reviews as needed, among other supervisory procedures and activities.

20. **The overall conceptual framework for solo and consolidated supervision involves a similar cycle of supervisory steps.** Similar supervisory needs include: (1) understanding the institution (on a solo and also on a consolidated and group-wide basis) and developing a comprehensive institution profile, (2) risk assessment, (3) supervisory planning and scoping exam activities, (4) conducting on- and offsite supervision; (5) and generating supervisory findings and taking action to remediate identified issues.

Figure 1. RBZ Risk-based Supervision Framework in Zimbabwe



Source: Reserve Bank of Zimbabwe, Guideline No. 2 - 2006/BSD - Risk-Based Supervision Policy Framework.

21. **The RBZ has issued requirements that financial institutions develop recovery plans to support orderly and timely management of crisis situations and avoid contagion and spill-over effects.** The Recovery Plan Guidelines extend to 'financial institutions' and where financial institutions are part of banking groups, a 'group-wide recovery plan will be required'. The Guidelines establish requirements for the plans, including governance, key elements and components, and the RBZ supervisory assessment and approach. Recovery plans can be a helpful tool in conducting effective consolidated supervision, as the plans are expected to provide a detailed institutional profile, setting out material legal entities and core business lines, and detailing key inter-dependencies, among other items. For complex banking groups, group-wide recovery plans would provide in depth information and insight into group operations and structure.

IV. Key Recommendations to Strengthen Consolidated Supervision

A. Laws, Regulations, and Guidelines

22. **The RBZ should review and update the 2007 Guidelines on consolidated supervision to reflect recent legislative changes and clarify prudential requirements and expectations for banking groups.** The Guidelines provide a good foundation and address most issues presented by consolidated supervision. However, the Guidelines should reflect any recent legislative changes to the Banking Act and to recent changes to any applicable related standards or reporting requirements (e.g., corporate governance guidelines, large exposure rules, related party transaction rules).

23. **The RBZ's Guidelines should be rooted firmly and connected plainly with the Banking Act definitions.** The Banking Act affords RBZ the power to monitor and supervise 'banking institutions', 'associates' of banking institutions and 'controlling companies' – each with a related definition in the legislation. Under the current Guidelines, RBZ extends qualitative and quantitative prudential standards to non-bank financial institutions that are members of a 'financial conglomerate' and applies only qualitative standards to non-financial entities operating within a 'mixed activity group'. There is scope for further amendment to the Banking Act and/or Banking Regulations to incorporate terms such as 'financial conglomerate' and 'mixed activity group' which are currently used in the Guidelines but not employed in the Banking Act.

24. **The RBZ should review and update its prudential requirements and supervisory procedures to clearly define the scope of RBZ authority and its supervisory approach for non-bank financial institutions and non-financial commercial subsidiaries of bank holding companies.** RBZ's prudential approach and internal supervisory procedures need to more fully elaborate how supervisors should exercise RBZ supervisory authorities while accommodating the role of primary regulators of non-bank financial institutions (e.g., insurance and securities regulators). It is also necessary to clarify the extent to which commercial enterprises operating as a subsidiary of a bank holding company are excluded from RBZ investigatory and enforcement powers, while

remaining subject to RBZ's power to monitor and supervise such commercial businesses.[16] It should be clear to what extent RBZ is empowered to gather information, conduct onsite inspections, take enforcement actions, and 'monitor or supervise' the non-bank, non-financial and unregulated entities that operate as subsidiaries of a bank holding company or controlling company.

25. **The RBZ should clarify the prudential standard related to the requirement that banking groups focus on 'core' banking activities.** Under the Guidelines, a banking group is required to concentrate on core banking business, which sets a threshold as a proportion of regulated financial activities to the balance sheet total of a mixed activity group of 70 percent. This requirement appears to seek to minimize the extent to which non-banking commercial activities can grow to such levels that concentrated commercial risks may be presented to the banking institution or bank holding company. The meaning of 'financial activities' and of 'core banking business', the scope of 'ancillary activities', the measurement methodology and its application beyond 'mixed activity groups' would need to be articulated clearly in Banking Regulations and the Guidelines related reporting requirements, and eventual enforcement steps and tools also need more detailed elaboration.

26. **The RBZ should review the concepts of 'connected counterparties', 'related parties' and apply them accordingly in the Guidelines.** The Guidelines should also benefit from incorporating the BCBS guidance[17] in the methodology for the identification of 'connected counterparties' for large exposures' requirements for banking groups. The Guidelines should also include the definition of related parties as provided in Banking Regulations and use the concept in the requirements for transactions with related parties and concentration risk.[18]

27. **The RBZ should develop prudential limits on intra-group exposures targeted at banking groups.** Intra-group transactions are a primary source of risk transmission (financial, contagion, operational) among and between banking group members and affiliated banking institutions. Given the breadth and complexity of intra-group transactions and exposures in banking groups, it is recommended that the RBZ review current requirements and guidelines that are directed to address and establish prudential limits upon intra-group transactions.

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[16] Section 45(1)(a) provides that RBZ is responsible for 'continuously monitoring and supervising banking institutions, controlling companies and associates of banking institutions and controlling companies' – a scope which appears to extend to commercial enterprises that are subsidiaries of a banking holding company (i.e., an 'associate of a controlling company'). The following section of the Banking Act (45(1)(b)) provides that RBZ's responsibility for 'conducting investigations' extends to 'any particular banking institution or controlling company or class of such institutions or companies…' – a scope which does not include 'associates' and appears to exclude commercial enterprises operating as a subsidiary of bank holding company from such investigatory powers. Similarly, the 'powers of supervisors' under Section 47 (that sets out specific supervisory actions that RBZ may take such as entering premises, examining records) also does not extend to 'associates.' Nor are 'associates' included within the description of RBZ's powers to take action to address contraventions of the Act that are set out in Section 48.

[17] Section 'E – Definition of Connected Counterparties' from the document 'BCBS Supervisory framework for measuring and controlling large exposures 'provides thorough guidance for the establishment of connected counterparties' scope.

[18] Section 6.45 of the Guidelines provides that "In identifying risk concentrations, the Reserve Bank shall consider exposures against; (a) a client or groups of related clients; (b) clients in a certain economic sector; (c) directors, managers, shareholders of the group and their related parties."

28. **The RBZ should reinforce its Guidelines and legal authority to require banking groups to make material changes to their structure or operations to ensure that effective consolidated supervision is not hindered by opaque or complex structures.** Large and complex banking organizations can present organizational structures or operations that are not transparent and do not allow for effective identification, monitoring and oversight. Complex layers of ownership and intra-group exposures or dependencies can create channels of risk transmission or operational dependencies that challenge effective supervision. The Banking Act requires the RBZ to consider whether the structure or governance of a banking group 'hinders effective supervision' in deciding to license a banking institution.[19] The RBZ's powers to require operational or structure changes to address equal hindrances to supervision presented by group structures should be made prominent in the banking laws and the Guidelines to address challenge presented by financial conglomerates and mixed activity groups.

B. Supervisory Approach and Procedures

29. **The RBZ internal supervisory procedures should be segregated from the prudential requirements for banking groups set forth in the Guidelines.** The current Guidelines mix internal RBZ supervisory processes (e.g., RFI ratings approach, regulatory cooperation) with prudential requirements for banking groups (e.g., corporate governance, fit and proper requirements). Separating the RBZ internal supervisory procedures from the prudential requirements imposed on banking groups will allow RBZ to modify and update its internal procedures on a regular and more detailed basis as needed.

30. **The RBZ should implement updated Guidelines and supervisory procedures to monitor and assess the banking groups' compliance with prudential standards on a consolidated basis.** The RBZ should i) update the Guidelines' (and other prudential regulations relevant to banking groups) to include methodologies applied in the calculation of standard e.g. capital ratios, large exposures limits, LCR, NSFR, leverage ratios; ii) review the relevant reporting templates to ensure that the information needed will be adequately provided; iii) enhance current systems and adapt monitoring tools to receive data on a consolidated basis; iv) establish a monitoring process focused on the compliance of the prudential requirements on a consolidated basis; and v) update the application mechanism of enforcement measures in case of vulnerabilities or violation of prudential requirements on consolidated basis.

31. **RBZ should develop a comprehensive consolidated supervision manual.** The consolidated supervision manual would be a compilation of formalized procedures and RBZ supervisory policies that supervisors should follow for the supervision of banking groups. It would discuss the relevant laws, regulations or guidelines, and interpretations. The manual would enhance staff's ability to implement the RBZ's onsite examination, supervisory, and monitoring activities. The manual should be periodically updated to reflect the latest supervisory policy and procedures and to address changes

[19] Section 8(3)(d)(2) of the Banking Act provides: "...where the applicant is part of a group of companies, the structure and governance of the group does not hinder effective supervision of the applicant or endanger the stability of the financial system..."

in industry risk-management practices. In line with best practices, the manual could be made publicly available consistent with the RBZ policies.

32. **The comprehensive consolidated supervision manual should build upon and enhance the current internal supervisory procedures set forth in the Guidelines.** The current Guidelines and RBS Guidelines provide a solid foundation upon which to build more descriptive and effective internal supervisory procedures for consolidated supervision. The Guidelines discuss the types of organizations subject to consolidated groups and address most supervisory procedures that will need to be considered and conducted. The overall process and 'main steps' described in the Guidelines, together with the tying to the RBS supervision cycle, represent a good first step. Table 2 contains suggested areas of coverage for the consolidated supervision internal procedures/manual.

Table 2. Recommended Minimum Coverage of Consolidated Supervision Internal Procedures

Consolidated Supervision Internal Procedures [20]
• Integrate risk-based supervision framework in consolidated supervision.
• Incorporate consolidated supervision into annual supervisory review cycle.
• Describe supervisory planning process for banking groups on a consolidated basis.
• Harmonize definitions and terms across laws, regulations, guidelines.
• Define the scope of consolidated supervision and cooperation with other supervisory authorities.[21]
• Describe how and whether Levels 1-4 identifying type of group entity structure should be employed.
• Describe roles and responsibilities of the RBZ in relation to primary supervisors of non-bank financial subsidiaries and mixed activity groups operating within the bank holding company.
• Describe the financial analysis required to be included in the overall risk assessment process; consolidated statements analysis and comparison.
• Provide guidance towards the improvement of RFI/C(D) rating.
• Provide guidance and instruction towards analysis of key major components of quantitative and qualitative assessments for banking groups: Risk Management, Financial Strength, Impact, Capital Adequacy, Earnings, Asset Quality, Liquidity. Include key elements essential to supervisory issues pertinent to the RBZ (e.g., fraud, AML/CFT, cyber, FinTech, Climate, other emerging risks).
• Provide guidance and instruction towards evaluation of shared services, critical functions, and outsourcing at banking group level.
• Provide guidance and instruction towards employing group-level ICAAP reports and analysis.

[20] These reflect certain key areas that the mission identified for consideration and improvement. The list should be considered as a minimum checklist, not exhaustive. Other areas are likely to arise as work progresses on an updated and comprehensive supervision manual and the procedures will necessarily need to be tailored to RBZ's operational environment.

[21] The RBZ, The Ministry of Finance, The Deposit Protection Corporation, The Securities Exchange Commission (SEC) and The Insurance and Pensions commission.

• Provide guidance and instruction towards group-level analysis of liquidity risk, profile, and intra-group funding dependencies.
• Provide detailed requirements for development of a banking group level Institutional Profile.
• Cross-reference to all relevant supervisory guidelines or standards and include descriptions of related supervisory activities.
• Provide report preparation guidance and templates, financial analysis tools and forms.
• Provide expectations for examination frequency, meetings with boards and senior management, coordination, and communication with domestic and foreign supervisors.
• Provide expectations for internal and external coordination and communication regarding change in control, ownership, mergers and acquisitions or significant events.
• Set out standards and requirements for communication of supervisory findings.
• Describe enhanced consolidated supervision reporting requirements and expectations for validation, review, and analysis.

33. **As a first step and as a foundation to consolidated supervision, RBZ should build upon the current Institutional Profile developed for solo banks and develop a group-level Institutional Profile that sets forth a comprehensive description and analysis reflecting a deep understanding of the banking group.** The information necessary to gain a comprehensive understanding of banking groups should be tailored to the scope and complexity of the group's operations, and typically may be obtained from the organization's management, public reports, regulatory reports, third-party sources (e.g., credit rating agency and market analyst reports), and other relevant primary supervisors or functional regulators. RBZ Guidelines and Risk-based Guidelines both reflect a need – as a first step to effective supervision – to develop a comprehensive understanding of the institution.[22] Reporting requirements are established to obtain information regarding corporate structure, business lines, risk management structures and other group elements.[23] These should be coordinated with information being received from banks and banking groups as an element of their recovery plans.[24]

34. **The in-depth understanding of banking groups offered by the Institutional Profile would support RBZ's supervisory planning and allocation of resources.** At present, RBZ assigns supervisory staff to an identified bank for on- and offsite supervision. These bank-specific teams are supported by specialists in a 'matrix' management approach that would assign staff with identified

[22] Guidelines at para. 3.4: "The Risk-Based Supervision Policy Framework has six steps as detailed in the said guideline, namely: Step 1 - Understanding the Institution; Step 2 - Assessing the Institution's Risk; Step 3 - Planning / Scheduling Supervisory Work; Step 4 - Defining Examination Activities; Step 5 - Performing On-site Examination; and Step 6 – On-going Off-site Supervision."

[23] Guidelines at para. 7.3: "Information on each member shall contain, at a minimum, (i) The group corporate structure; (ii) Business line organizational chart; (iii) Senior management / divisional heads; (iv) Shareholder's profile; (v) Principal board and board committees; (vi) Strategic plans; (vii) Risk management structures; (viii) Group capitalization; (ix) Group policies and procedures; (x) Information Systems; and (xi) External Auditors."

[24] As noted above, group-wide recovery plans submitted under the Recovery Plan Guidelines should provide a similar institution profile for banking groups.

expertise to work within another bank team to support targeted analysis. Resources are allocated based upon the RAS and conducted as part of the annual supervisory planning cycle. Developing a group-level institutional profile will support the conduct of risk assessment at the group-level and support allocation of RBZ resources to consolidated supervision.

35. **The RBZ should ensure that the specialist supervisors, responsible for consolidated supervision, should have access to training programs and peer learning attachments.** The specialist examiners need to be aligned with international concepts and best practices. In this sense, they should have access to regional and international training programs, as well as peer learning attachments, focused on their respective specialties and emerging issues, in order to be able to contribute with the continuous update on the RBZ's supervisory activities and procedures, as well as provide training for the BSD staff.

36. **Specialists should expand their range of responsibilities, by incorporating the macroprudential perspective.** In the micro perspective, BSD specialists are required to conduct the assessment of the issues under their respective scope of action for the supervisory assessment of each banking institution. Expanding their scope to an macroprudential approach, will allow them to plan and perform horizontal assessments on the risks under their umbrella, emerging risks, relevant markets or specific issues. The macro perspective will improve their ability to identify emerging concerns and vulnerabilities, and better contribute with the establishment of priorities to the BSD's annual supervision planning.

37. **The supervision of complex banking groups expands supervisory responsibilities and requires extensive supervisory knowledge, skills and abilities that build upon but go beyond the oversight of solo banks.** While many of the underlying financial analysis mirrors that required of banks (e.g., capital adequacy, asset quality, liquidity measures, corporate governance, risk management), these supervisory concerns are expanded to the banking group as a whole and its non-banking elements (the wider group). Consolidated supervision requires consideration of distinct and additional supervisory areas such as complex, intra-group transactions, critical shared services, enterprise-wide risk management (governance and controls) and the operations and supervisory oversight of non-bank financial entities and non-financial entities. Risk profiles, capital and liquidity management issues across the group require a full understanding how group operations might impact the safety net entities, especially the banking entities.

Figure 2. How Consolidated Supervision Adds Complexity to Supervision

Complex, cross-border structure and operations	Business line and legal entity structure Domestic and foreign regulatory responsibilities for legal entities and business lines Key interrelationships and dependences between institution subsidiaries and non-bank affiliates Material business lines operated across multiple legal entities for accounting or risk management purposes

Broad-ranging corporate strategy and significant activities	Primary business lines, strategies and risk tolerance Changes in strategic direction, risk profile or new business, mergers or acquisitions Area of growth and emerging areas with potential to become primary drivers of risk or revenue Key revenue and risk drivers, product mix Internal capital allocations Key external trends, including competitive pressures
Inter-relationship and dependencies across multiple legal entities	Capital and liquidity flows Intragroup transactions Operational dependencies
Corporate Governance, Risk Management and Internal Controls	Group level board and committee requirements, interaction with subsidiary boards Centralized or shared risk management and internal controls; associated MIS and data aggregation
Critical functions or services	Systemic risk concerns Role in payment system, clearing and correspondent banking Obstacles to resolvability

Source: Federal Reserve Bank Holding Company Examination Manual; Federal Reserve Supervisory Guidance on RFI/D Supervisory Rating System (SR 08-09); Comptroller's Handbook: Related Organizations.

38. **The RBZ should review and modify as needed its current organization, processes, staffing, and training to support consolidated supervisory activities.** With this expansion in scope of supervisory activities, new and additional supervisory resources, training, and staff will need to be brought to the fore. Staffing, organization, processes and training will need to reflect that consolidated supervision expands the supervisory perimeter and increases areas for review and evaluation.

39. **The updated prudential Guidelines should be issued consistent with RBZ's regular policy-making approaches and be supported by strong outreach and engagement with industry.** The RBZ should conduct a consultative process on content and scope of the updated Guidelines (among other issues) in line with its practices on the new supervisory procedures. The focused outreach to the industry should emphasize the initiative to upscale implementation of guidelines issued in 2007, updated for current application.

40. **The RBZ should continue to enhance its coordination activities with domestic and foreign regulators and leverage their risk assessments in conducting consolidated supervision.** Many banking groups supervised by RBZ have foreign-ownership or participation, and domestic banking groups maintain cross-border operations. The inter-connections among and across foreign and domestic financial and non-financial institutions presents an especial challenge to supervisors. It is incumbent upon RBZ to develop and maintain an understanding of the quality of consolidated supervision by foreign regulators over banking groups that operate subsidiaries within Zimbabwe. It is an equal responsibility to assess the safety and soundness of a group operations in foreign jurisdictions. As RBZ expands its supervisory activities into group-level operations, the frequency

and depth of contact and interactions with foreign and domestic sister regulatory agencies should increase. Joint inspections and supervisory colleges should be continued, and regular contact maintained sufficient to allow RBZ to leverage the supervisory assessments of relevant regulators.

41. **The consolidated supervision manual would provide necessary guidance to supervisors and establish documentation requirements.** The RBZ should develop detailed internal procedures set forth in a comprehensive supervision manual that is updated regularly to provide direction on supervisory responsibilities and activities related to consolidated supervision. It is recommended that the procedures document should cover the key elements of a fulsome supervision report as well as guidance on financial analysis, related formulas, and reporting templates.

42. **The RBZ should review the CS-1 reporting template[25] and requirements to capture developments which arose since the template was created.** At present, the RBZ requires banking groups to submit a form CS-1 that provides a good foundation for relevant supervisory information pertaining to banking groups needed for consolidated supervision. It also is important to highlight, however, that the report will need adjustments to incorporate data for the assessment of compliance with the liquidity minimum standards (LCR and NSFR) and the implementation of the liquidity monitoring tools, simultaneously with their implementation in Zimbabwe. Appendix III also presents a check list for the improvement of data collection to supervisory purposes, regarding report templates, offsite processes, and monitoring tools that RBZ may use as reference.

[25] RBZ's data collection strategy segregates solo basis reports from consolidated report, which may bring some duplicity (similar documents requiring standards, establishing templates, describing instructions), as well as more complexity to integrate information and to develop monitoring tools able to provide information on the single and aggregate perspectives of the banking sector. A review on the reporting strategy could address these issues appropriately, as well as incorporate improvements on data quality process, as suggested in the Appendix III.

APPENDIX I. STRUCTURE OF THE BANKING SECTOR AS OF MARCH 31, 2022

No	BANK NAME	TOTAL ASSETS (ZW$)	MARKET SHARE (%)	CONTROL	COUNTRY OF HOME SUPERVISION	BANKS ARE INVOLVED IN CONSOLIDATED SUPERVISION (home/host)
1	CBZ	175,633,885,756.09	18.98%	Mixed	Zimbabwe	+
2	STANBIC	150,177,972,814.49	16.97%	Foreign	South Africa	+
3	ECOBANK	161,139,173,563.37	15.80%	Foreign	Togo	+
4	CABS	75,781,308,479.11	7.19%	Foreign	Zimbabwe	+
5	FBC	69,170,325,958.83	7.09%	Mixed	Zimbabwe	+
6	FIRST CAPITAL BANK	38,083,433,967.11	4.22%	Foreign	Malawi	+
7	ZB BANK	46,022,463,695.02	4.10%	Local Private	Zimbabwe	+
8	BANC ABC	46,792,654,101.12	4.03%	Foreign	Zimbabwe	+
9	STANDARD CHARTERED	38,864,612,414.73	3.96%	Foreign	England	+
10	NEDBANK	33,231,330,204.48	3.72%	Foreign	South Africa	+
11	NMB BANK	32,557,280,518.34	3.37%	Foreign	Zimbabwe	+
12	STEWARD BANK	26,153,694,050.49	3.10%	Local Private	Zimbabwe	+
13	METBANK	26,549,595,381.09	2.73%	Local Private	Zimbabwe	+
14	AFC	20,752,183,031.58	1.84%	State	Zimbabwe	
15	POSB	9,757,272,001.16	1.00%	State	Zimbabwe	
16	FBC BS	9,008,959,527.03	1.00%	Mixed	Zimbabwe	
17	CBZ BS	8,829,141,199.42	0.71%	Mixed	Zimbabwe	
18	NBS	6,344,415,202.97	0.63%	State	Zimbabwe	
19	ZB BS	3,216,926,999.62	0.26%	Local Private	Zimbabwe	
	Total	969,237,487,666.63	100.00%			

Source: Reserve Bank of Zimbabwe.

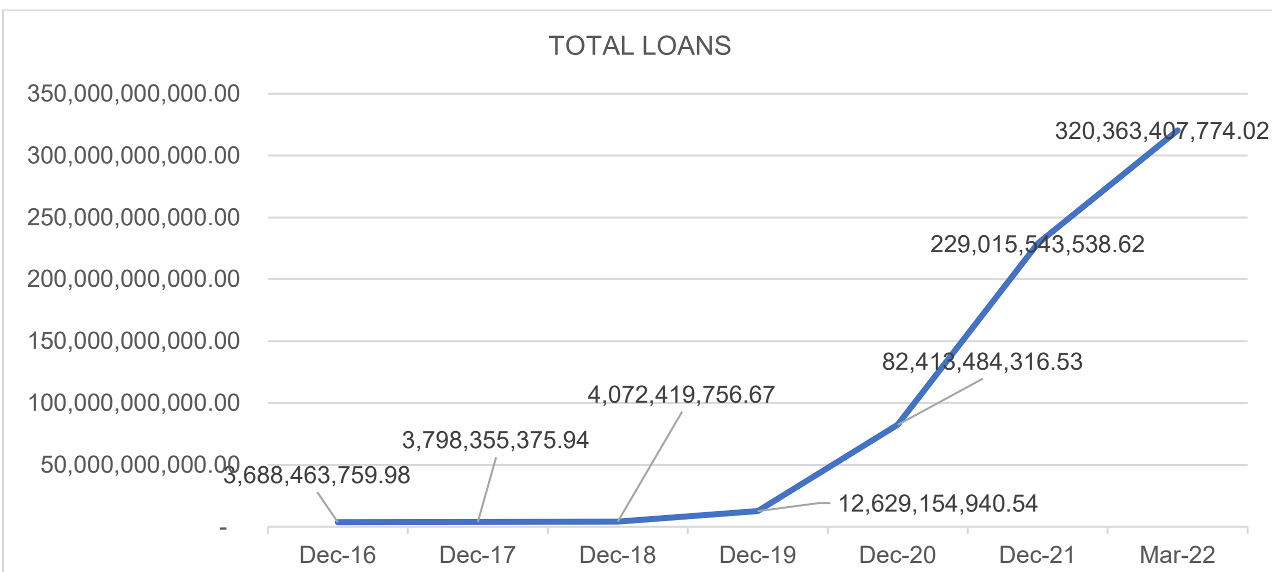
APPENDIX II. BANKING SECTOR INDICATORS

Table 3. Key Metrics for the Banking Sector

KEY INDICATORS	BENCHMARK	Dec-20	Jun-21	Sep-21	Dec-21	March-22
Total Assets (ZW$ Billion)	-	349.59	482.28	569.03	763.02	969.24
Total Loans (ZW$ Billion)	-	82.41	142.79	175.6	229.02	320.36
Net Capital Base (ZW$ Billion)	-	53.8	72.89	84.58	123.07	169.99
Total Deposits (ZW$ Billion)	-	208.9	311.5	374.64	476.35	582.26
Net Profit (ZW$ Billion)	-	34.24	15.09	25.39	59.59	27.05
Return On Assets %	-	13.55	18.71	8.23	11.38	3.39
Return On Equity %	-	45.54	18.71	31.87	41.93	12.43
Capital Adequacy Ratio %	12	34.62	35.32	35.34	32.89	35.16
Tier 1 Ratio %	8	22.65	25.05	26.78	26.44	26.97
Loans To Deposits %	70	39.45	59.1	46.87	48.08	55.02
Non-Performing Loans Ratio %	5	0.31	0.55	0.61	0.94	1.57
Liquidity Ratio %	30	73.06	66.89	62.87	64.41	61.38

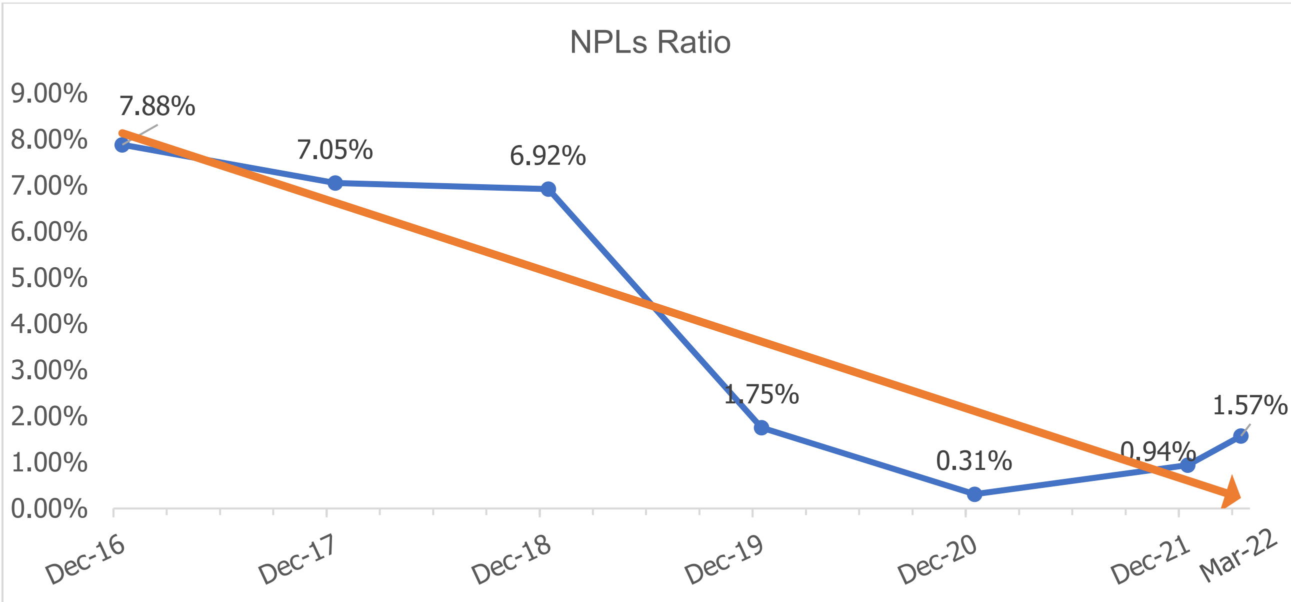
Source: Reserve Bank of Zimbabwe.

Figure 3. Banking Sector Loans and Advances



Source: Reserve Bank of Zimbabwe.

Figure 4. Nonperforming Loans



Source: Reserve Bank of Zimbabwe.

APPENDIX III. A REFERENCE CHECK LIST FOR THE IMPROVEMENT OF DATA QUALITY

The following suggestions are presented as a reference check list for data collection for supervisory purposes, regarding report templates, offsite processes and monitoring tools:

- Reporting frequency should be adequate to allow trends and behavior assessments.
- Detailed instructions are the first prerequisite to data quality: templates must be supported by detailed and comprehensive instructions. A communication channel with reporting entities should be established to answer questions and clarify eventual misinterpretations.
- Instructions should be reviewed in a regular basis to incorporate the relevant issues clarified to the reporting entities and any changes in the template.
- A data base should be established to register and aggregate the historical information of group and every entity that belongs to a banking group. This database should work as a hub of all existing information regarding the supervised entities. Merges, acquisitions, incorporations, fusions which may change the group composition over time should be captured.
- Every banking group needs a 'reporting entity': the reporting entity is the entity responsible for the information of the banking group both on a solo and a consolidated basis.
- Information on a solo basis shall always identify the entity to whom it belongs: this is the primary step to construct information systems based on granular data. No matter if the supervisory tool will present the data in aggregate, in the database, every record needs a clear identification.
- Information on a consolidated basis shall refer to a banking group's ID-code: It is recommended the use of existing identification numbers/codes (preferably broadly used by the financial market), like the fiscal number, to identify single entities. Banking groups, however, are defined by regulation. Thus, the central bank should also create an identification code for them, if not existent.
- Balance sheet consolidated information should avoid double counting: rules for the consolidation of accounting statements of a banking group should be clear and supported by specific regulation.
- Exposures should be informed on a consolidated and solo basis: the consolidated exposure of a banking group may aggregate exposures from different entities of the group. Thus, information should be provided segregated by each holder entity and its respective exposure, for the purpose of identifying the exposures' originators, and in aggregate (banking group ID-code), in case of verifying the compliance with minimum standards.
- Counterparties (entities and natural persons), when required, should be identified: The identification of counterparty by the name is not effective in an integrated database. It is recommended the use of existing identification numbers/codes (preferably broadly used by the financial market), like the fiscal number, to identify them. In case of counterparties that

represent a group of more than one single person/entity, it is recommended to require the information of the 'type of counterparty', selected in a pre-defined list.

- Qualitative information should be standardized in a list of options, according to their purposes: information on the 'nature of exposure' or 'type of security', for example, should be standardized in a list of options, according to their purposes. The option 'other' may exist to provide for additional information which may not be listed.

- Data quality processes should encompass different strategies: data quality is key for an effective offsite supervisory process. Offsite teams may apply a range of different strategies to achieve the improvement of data quality (some are listed below). However, onsite activities planning should always include the verification of reported data, when not possible to verify by other means. Offsite strategies and procedures to improve data quality may include:

    - elaborating detailed and comprehensive template instructions;
    - creating a communication channel with reporting entities;
    - having a representative from senior management [26] of the reporting entity as the responsible for regulatory reporting and information (penalties on reports' substitutions or delays can work as incentive);
    - cross checking data solo X consolidated (aggregate solo basis reported information and cross check with consolidated reported information);
    - cross checking information from different sources (credit operations from the credit register X accounting information, liquid assets from LCR report X accounting information etc.).

[26] Depending on the characteristics of the information, different members of senior management may be responsible, for example, accounting information and liquidity risk information do not need to have the same official as responsible.