



RESERVE BANK OF MALAWI

**DIRECTIVE
NO.DO1-2008/PID**

PREMISES INSPECTIONS

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PREMISES INSPECTIONS DIRECTIVE (PID)

PART 1: SHORT TITLE, AUTHORISATION, APPLICATION AND INTERPRETATION

Sec 1 Short Title- Premises Inspections

Sec 2 Authorization

This Directive is issued by the Reserve Bank of Malaŵi (“RBM”) pursuant to the authority granted in Sections 25(d) and 26 of the Banking Act, 1989.

Sec 3 Application

This Directive applies to all institutions licensed under the Banking Act, 1989, whether existing or unopened, wishing to open a new branch, agency, kiosk or mobile van, move an existing branch into new premises, or change status of existing premises (e.g. upgrading an agency into a branch). The Directive shall also apply in respect of routine premises inspection exercises conducted at the discretion of the RBM.

Sec 4 Interpretations: In this Directive unless the context otherwise requires:

- 1) **“bank”** is as defined in Section 2 of the Banking Act of 1989.
- 2) **“banking business”** is as defined in Section 2 of the Banking Act of 1989.

“licensed institution” means a bank or other financial institution holding a valid license, issued by the Reserve Bank, authorizing it to engage in banking business in Malaŵi.

- 3) **“banking premises”** is defined as premises from which a licensed bank or financial institution conducts or desires to conduct banking business. These include head office, branch, agency, kiosk, mobile unit, and such other places as the RBM shall determine from time to time.
- 4) **“non-bank deposit taking institution”** means a licensed institution offering specialised or only a part of banking business products including the taking of deposits. These shall include but not limited to discount houses, finance houses, leasing companies and such other institutions as the RBM may determine.

- 5) **“Registered office shall be called head office”** and means the headquarters of the licensed institution, i.e., the registered office of a branch, agency, or other non-independent facility.
- 6) **“branch”** is defined as a full time office carrying on all or most activities of the licensed institution, where applicable. It issues its own cheques and is not obliged to pay cheques drawn upon another branch. The Branch is headed by a manager, with different categories of staff under him and is only responsible to the head office.
- 7) **“agency”** is defined as an outlet of the licensed institution which offers a limited range of banking facilities, (e.g. receiving cash, cheques, payments to depositors and cashing traveller’s cheques). It will normally be headed by a senior clerk or supervisor depending on the volume of business. For administrative purposes, it is under close supervision of its parent branch.
- 8) **“kiosk”** is an office located in a place which cannot support a branch or agency economically. It offers a limited range of banking facilities (e.g. receiving cash, cheques, and payments to depositors) daily or on selected days and times of the week. It will normally be headed by a senior clerk and for administrative purposes; it will be under close supervision of a parent branch.
- 9) **“mobile van”** is a licensed institution’s motor vehicle that takes banking facilities to centres where it is logistically unrealistic to establish a branch or agency, but where there are many customers living in a locality far from the centre of operation of the nearest branch or agency. A licensed institution makes arrangements by which customers gather under a particular place on selected days and times of the week to receive banking facilities from mobile bank vans. A cashier and clerk in the van collect and pay out money to customers. Each such centre will have a ledger at the respective branch.

PART II: STATEMENT OF POLICY

Sec. 1: Objectives

- 1) To ensure that necessary security arrangements and operational infrastructure have been installed in banking premises prior to conducting banking business.

- 2) To ensure that banking premises are of a modern and high standard to command the trust and confidence of both the public and the bank's own members of staff.
- 3) To ensure that security arrangements, operational infrastructure, and standard of banking premises are maintained up-to-date commensurate with the changing times and environment.

Sec. 2:

Rationale

- 1) The global nature of banking business requires that the banking sector in Malawi should keep pace with its counterparts in order to remain competitive and command trust and confidence of the local and foreign customers. Customers feel confident when they enter banking premises where there is an appropriate ambience and adequate security.
- 2) Banks contract various risks in their business operations. Good premises with adequate infrastructure and security arrangements enhance the protection of the bank's assets and employees thereby minimising the risk of loss through accidents such as fire outbreaks, armed robberies, etc.
- 3) Basle II demands capital allocation for operational risk by banks in assessing capital adequacy. Banks that mitigate their risks properly enjoy a capital relief. Banks that meet minimum standards in their premises mitigate a reasonable part of their operational risk which could result in a lower capital allocation requirement when compared to banks that do not meet the standards. These guidelines are therefore meant to encourage banks to maintain their banking premises up-to-date at all times as one way of mitigating part of their operational risk.
- 4) Creating a level playing field is one of the responsibilities of the RBM. It is therefore necessary that the standard of banking premises of all licensed banks be reasonable enough commensurate with the status of a licensed institution. Every licensed institution must therefore provide a certain level of security and infrastructure commensurate with its status by meeting the stipulated minimum requirements. This will command public trust and confidence in the banking system as a whole.

PART III: REQUIREMENTS

Sec 1 Prior Written Approval

- 1) A bank or deposit taking institution shall seek prior written approval from the RBM in respect of:
 - a. A new branch, agency, kiosk, or mobile van that it wishes to establish and shall indicate reasons for such a business decision.
 - b. Upgrading an agency into a branch, and shall indicate reasons justifying such a business decision.
 - c. Closure of a branch or agency, and shall justify such a business decision.
- 2) The Reserve Bank of Malawi will make a determination on the matter after having considered the most recent performance indicators and condition of the institution and whether such an institution is not under any administrative or remedial sanctions, and shall render its decision within 30 days of receiving a complete application.
- 3) Licensed institutions shall not incur expenses on acquisition, renovations or any construction works in respect of premises meant to be a new branch, agency, kiosk, or mobile van unless prior written approval of the Reserve Bank of Malawi to open such branch, agency, kiosk, or mobile van in the particular location has been obtained.

Sec 2 New Banking Premises

- 1) Before occupying any banking premises the licensed institution shall inform the RBM of its intention at least two weeks prior to occupying the premises. Such notification must include:
 - ◆ A copy of a letter from the RBM in which prior written approval was granted in terms of Section 1 above;
 - ◆ Specific date on which the premises are expected to open for business to the public;
 - ◆ Preferable date(s) on which the RBM could conduct an inspection of the premises,
 - ◆ Precise location of the premises,
 - ◆ The details of the person(s) (i.e. representatives of the licensed institution) who will accompany RBM staff to

the premises including names, telephone numbers, fax numbers, or email addresses.

- 2) The RBM Supervisors will assess the suitability of the premises in line with the general framework set out in Appendix 1 of this Directive.
 - a. The inspection procedure shall involve visiting the premises in case of branch, agency, or kiosk, inspecting and completing the checklist. The procedures are set out as Appendix 2 to this Directive.
 - b. In case of mobile van, the RBM will inspect the van to ensure that security specifications are in place before the van is deployed for service.
- 3) Should the premises be found to fall short of minimum standards, the RBM will communicate to the representatives as well as head office of the bank the areas that need to be addressed. When such areas are adequately addressed, the head office of the bank shall advise the RBM to arrange for a re-inspection of the premises.
- 4) When the premises are found suitable, the RBM shall issue a premises inspection certificate to the bank. This certificate must be displayed conspicuously in the banking hall at all times.
- 5) Minimum requirements for agencies, kiosks, mobile units and other deposit taking institutions are lower than those of branches of banks due to the nature of their operations. However, Management must exercise discretion depending on the environment and levels of business conducted to put in place infrastructure and security arrangements that exceed the minimum requirements.
- 6) For security reasons, banking premises must not be in a storey building where the upper floor or vice-versa is residential.
- 7) Licensed institutions shall not commence conducting banking business from new premises until the premises are certified suitable by the RBM.

Sec 3 Routine Premises Inspections

- 1) The RBM will conduct routine premises inspection exercises at its discretion to ensure that licensed institutions are maintaining their premises up-to-date, and section 2(2) of this Part shall apply.
- 2) If premises are found falling short of minimum requirements upon inspection, (i.e. the licensed institution failed to maintain the premises up-to-date), the RBM will require the licensed institution to take necessary measures to ensure that the premises are maintained up to the required standard and shall provide a deadline to this effect.
- 3) When the premises are restored to the required standard, the head office shall notify the RBM and request for a re-inspection of the premises at the licensed institution's expense. The RBM shall arrange to re-inspect the premises at its convenience preferably within one week of notification.
- 4) If upon re-inspection, the premises are found suitable, the RBM will communicate the same to the representative as well as head office of the bank.

Sec 4: Procedures for Opening New Premises/

Licensed institutions shall follow procedures set out in Appendix 3 of this Directive when they desire to open a new head office, branch, agency, kiosk, or mobile van.

PART IV: PENALTIES

Sec 1 1) Penalty Charges

If upon a re-inspection, or expiry of deadline provided (whichever comes first), the new or existing premises are still deemed unsuitable, the RBM shall apply penalties at MK10,000 per calendar day per premises from the date of the re-inspection or expiry of deadline until the date on which the premises meet the requirements of this Directive. *This amount will be subject to review by the RBM from time to time.*

2) Method of Payment

All penalty charges will be debited to the licensed institution's main account maintained at the Reserve Bank of Malawi after appropriate proper written notification to the institution in question. In case of institutions that do not have an account with the RBM, an invoice will be raised which should be settled within 30 days.

PART V: REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

Sec. 1: Remedial Measures

- 1) When the Reserve Bank determines that a bank is not in compliance with this directive; it may impose remedial measures as specified under Section 31 of the Banking Act, 1989.
- 2) When the Reserve Bank determines that a bank's non-compliance with this directive has resulted in such undue risk that its capital is impaired or solvency is otherwise threatened, it may petition the High Court to sanction procedures as called for under Section 32 of the Banking Act, 1989.

Sec. 2: Administrative Sanctions

In addition to the remedial measures available to it as given above in Part IV Section 1, the Reserve Bank may impose any or all of the following administrative sanctions with regards to a bank that fails to comply with this directive:

- 1) Suspension from conducting banking business from the subject premises.
- 2) Closure of the subject premises.
- 3) Prohibition from declaring and/or paying dividends;
- 4) Suspension of the establishment of new branches and/or expansion into new banking or financial activities;
- 5) Suspension of access to Reserve Bank credit facilities;
- 6) Suspension of lending operations;

- 7) Suspension of the opening of letters of credit;
- 8) Suspension of the acceptance of new deposits;
- 9) Suspension of the acquisition of fixed assets.

PART VI: EFFECTIVE DATE AND TRANSITIONAL ARRANGEMENTS

This Directive shall come into force with effect from **01 September 2008**

All banks and non-bank deposit taking financial institutions whose premises do not meet the minimum standards of this Directive as at the effective date shall be given a grace period of six (6) months to correct all deficiencies in their premises and ensure they meet the above minimum standards. Penalty charges shall apply on all non-complying premises after the expiry of this transitional period.

Questions relating to this Directive should be addressed to the Director, Bank Supervision Department of the RBM.

Victor Mbewe
GOVERNOR

MINIMUM REQUIREMENTS FOR BANKING PREMISES

Below are the features that banks and financial institutions must ensure are installed in their business premises. Some are mandatory (designated *M*), while others are optional (*O*) depending on whether the premises are a licensed institution head office (Head Office), bank branch (Branch), bank agency (Agency), bank kiosks (Kiosk), bank mobile van (Mobile Van) or a non-bank deposit taking institution branch/agency, (NBDTI). Where a feature is not applicable, the designation (*N/A*) has been used. Many of the requirements are either optional or not applicable for all head offices of banks and NBDTI. However, banks and financial institutions need to take all necessary precautions to ensure that there is adequate security and operational infrastructure commensurate with all their head office operations in their head office premises.

CHARACTERISTICS	Head Office	Branch	Agency	Kiosk	Mobile Van	NBDTI
<u>a. General Outside Surroundings</u>						
<ul style="list-style-type: none"> • Ensure that the outer walls are of strong reinforcement materials (e.g. brick, concrete etc). 	M	M	M	M	M	M
<ul style="list-style-type: none"> • Windows must have blinds or tinted to obscure outsiders from observing transactions conducted in the banking hall. • Backyard windows must be reinforced 	O	M	M	M	M	M
	M	M	M	M	M	M
<ul style="list-style-type: none"> • The surrounding perimeter must have all the necessary security features to cater for the day and night. Such security features to include:- 						
<ul style="list-style-type: none"> ✓ alarm or satellite communication system that must be connected to bank management for speedy communication to security agent or police, 	M	M	M	M	M	M
<ul style="list-style-type: none"> ✓ security lights, and 	M	M	M	M	M	M
<ul style="list-style-type: none"> ✓ a fence. 	O	M	M	O	M	M
	O	M	M	O	N/A	O

<ul style="list-style-type: none"> ✓ Security guards/commissionaires for day and night who should have access to alarm system ✓ Signage post showing the name of the bank that must be conspicuously displayed. 	M	M	M	M	M	M
<p>In addition to the above, a mobile van must have:</p> <ul style="list-style-type: none"> ✓ Satellite tracking system ✓ Some mode of communication with the controlling station which should include secret distress buttons. ✓ Instructions on reaction to threat for both the crew and the controlling station. ✓ Standby arrangements with some capable security force while the vans are mobile. 	N/A	N/A	N/A	N/A	M	N/A
<ul style="list-style-type: none"> • Entrance/exit doors must be protected (e.g. with intruder alarm, strong steel trellis bars or burglar bars). 	M	M	M	M	M	M
<ul style="list-style-type: none"> • The premises should at least have a customers' car park, and • Space at the back to allow vehicles that come with large deposits. 	M	M	O	O	N/A	M
<ul style="list-style-type: none"> • Availability of ATM's • Auto Teller Machines (ATM) if available should be: 	O	O	O	O	O	O
<ul style="list-style-type: none"> ✓ Securely located convenient to customers, ✓ In a place open enough making it inconvenient for crooks to play around with it, 	M	M	M	M	M	M
	M	M	M	M	M	M

✓ There must be at least one person in the branch/ agency trained to carry out simple maintenance of the machines.	M	M	M	M	M	M
<u>b. General Inside Surroundings</u>						
• Ensure that the banking hall if available is roomy and comfortable to customers.	N/A	M	M	O	N/A	M
• At least chairs should be provided in case of long waiting periods.	M	M	M	O	N/A	M
• Ensure counters are well elevated, and reasonably wide.	N/A	M	M	M	M	O
• Cashier counters must be protected with bullet proof glasses.	N/A	M	M	O	O	O
• All counters should be well labelled to guide customers.	N/A	M	M	O	O	M
• There must be a special provision for large deposits, securely located away from the sight of customers.	N/A	M	M	M	N/A	O
• The safes must be strong enough as to ensure security.	M	M	M	M	M	M
• Availability of strong room and/or vault cash room	O	M	M	O	N/A	O
• The strong room or vault cash room if available must be dual controlled, securely located out of customers' sight, made of heavy iron, and preferably fire proof.	M	M	M	M	N/A	M
• The teller's cubicle must have panic buttons that are connected to bank management for speedy communication to the Police or security agent.	N/A	M	M	M	M	M
• Time response when panic button is pressed must be quick enough to suppress any theft or burglary e.g. 5 to 10 minutes.	M	M	M	M	M	M
• The manager's position must have direct and speedy communication with the police or security agent.	M	M	M	M	M	M

<ul style="list-style-type: none"> Generally, the banking premises/infrastructure must have an alarm system that is effective and connected to police or security agent for timely response. 	M	M	M	M	M	M
<ul style="list-style-type: none"> Ensure that the front office has reliable, fast, efficient computers for better customer service. 	M	M	M	M	O	O
<ul style="list-style-type: none"> Ensure that there are monitoring cameras (closed circuit television system) in all the strategic areas, e.g. entrance/exit doors, banking hall, corridors, and front/back yard. These cameras must be connected to a dedicated person with appropriate seniority office screen who shall regularly monitor the activities/operations in the banking hall and/or premises. 	M	M	M	M	M	M
<p>All strategic areas must have</p> <ul style="list-style-type: none"> smoke detectors Fire extinguishers that must be regularly tested for functionality Ensure that there are emergency exit doors (e.g. one way opening from inside) and an Emergency Evacuation Plan The roof must be properly secured e.g. intruder alarm system 	M	M	M	M	M	M
	M	M	M	M	M	M
<ul style="list-style-type: none"> For speedy communication, ensure that reliable telephone and Telefax facilities are installed and functional. 	M	M	M	M	M	M
	M	M	O	O	O	M
<p><u>c. Other Features</u></p> <ul style="list-style-type: none"> Utilities such as electricity, water, etc. must be available and 						
	M	M	M	O	N/A	M

<ul style="list-style-type: none"> in working order. In view of frequent blackouts, it is necessary to have a standby power generator or uninterruptible power supply (UPS) to cater for periods of power failures. The premises must have an off-site back-up centre for their data and systems. 	M	M	M	O	N/A	M
	M	M	M	M	M	M
<ul style="list-style-type: none"> Ensure that operational policies and procedural guidelines of the bank are in place, and that These are made available and known by relevant users. 	M	M	M	M	M	M
	M	M	M	M	M	M

PREMISES INSPECTION PROCEDURES

The following procedures shall be complied with in respect of premises inspections:

- 1.a) For routine premises inspections, the RBM shall write a letter notifying a licensed institution about a routine premises inspection programme at its premises.
- b) For new premises, the licensed institution shall notify the RBM at least two weeks in advance specifying the date at which its premises will be ready for inspection. The institution shall also specify all required information as set out in Part III Section 2 (1) of this Directive. Upon receipt of the notice, the RBM will confirm the date and time of inspection to the licensed institution.
2. Upon receipt of such notification, or confirmation from the RBM, the licensed institution shall designate staff who will work with the inspectors in each of its premises and shall communicate their names and contact details to the RBM.
3. Upon receipt of these details, the RBM shall get in touch with the leader of the designated team and discuss logistics. (The RBM may request the licensed institution to meet the cost of inspection). In instances where re-inspections are necessary, the licensed institution shall meet all the costs of re-inspection.
4. Upon arrival at the agreed date and time, the RBM inspectors will introduce themselves to the designated team. They will also introduce a

premises inspection form which the members of the team will be required to sign.

5. The team shall take the inspectors around the surroundings of the premises. Thereafter, the team shall take the inspectors inside the building in which the licensed institution intends to conduct its banking business, and walk them through every room and area as necessary.
6. During this time, the inspectors will be taking note of the condition of infrastructure which is considered critical to operations of banking business. The inspectors will be required to test some infrastructure, such as alarm system, telephones, panic buttons, e.t.c. as necessary to confirm that they are in working order, at the expense of the licensed institution.
7. At the end of the inspection, the inspectors will produce a summary of shortfalls noted on the last page of the premises inspection form, and ask the team representing the licensed institution to take note and make sure that those matters are addressed. For routine inspections, and new premises of existing branches, agencies, kiosks, mobile vans, NBDTIs or upgraded branches, the RBM inspectors will provide a deadline for addressing the shortfalls. In the case of new premises, no deadline will be provided by the RBM but the licensed institution shall not commence conducting banking business from the premises until a re-inspection is done and the premises are certified suitable.
8. If the premises are considered suitable by the RBM, the inspector will communicate his recommendation to the team verbally but subject to formal written confirmation from the RBM to the Head Office of the licensed institution. Such a recommendation shall also be endorsed on the last page of the Premises Inspection Form.

9. The inspectors shall sign the last page of the form. A copy of this page could be made available to the team representing the licensed institution upon request.
10. In the event that the premises were found unsuitable, the inspectors will be required to re-inspect the premises after the shortfalls have been rectified. If they are found unsuitable again upon re-inspection, the RBM will begin to charge civil money penalties to the licensed institution if the premises are those of an existing branch, agency, kiosk, mobile van or NBDTI. The penalty charges will run until the day that the licensed institution informs the RBM that the shortfalls have been addressed and requesting the RBM for another inspection. In the case of premises of new branch, agency, kiosk, or mobile van, penalties will not apply, but the licensed institution will not be allowed to commence conducting business from those premises until the premises are certified suitable by the RBM.
11. Upon return to RBM, the inspectors shall produce a report to RBM Senior Management, who will write a letter to the Head Office of the licensed institution confirming the status of the inspected premises. In the event that the premises were found suitable for banking business, the RBM will attach a premises inspection certificate which the licensed institution will be required to display in the banking hall of the relevant premises at all times.
12. The RBM shall reserve the right of re-inspection of premises of existing branches, agencies, kiosks, or mobile vans depending on the seriousness of the shortfalls noted or other reasons.

**PROCEDURES TO BE FOLLOWED BY LICENSED INSTITUTIONS IN
OPENING A NEW BRANCH, AGENCY, KIOSK, OR MOBILE VAN**

In opening new premises the following procedures shall be followed by licensed institutions:

1. Work out a business proposal and obtain the approval of its relevant authorities to open a branch, agency, kiosk, or mobile van in the proposed location.
2. Seek RBM prior written approval in accordance with Section 25 (d) of the Banking Act 1989 and/or relevant section of this Directive to open such branch, agency, kiosk, or mobile van enclosing:
 - (a) copy of the business proposal as submitted and approved by the relevant authority,
 - (b) copy of the resolution of the Board duly authenticated to this effect,
or
 - (c) feasibility study authenticated by management if opening of such branch, agency, kiosk, or mobile van is within management discretion..
3. When approval is received from RBM to open the branch/agency, construction/acquisition/or renovations of the premises for the new branch/agency should commence taking care that the premises comply with the requirements of this Directive.

4. When all the work on the premises is completed in compliance with the requirements of this directive, the Head Office of the licensed institution shall write the RBM giving at least 2 weeks advance notice advising the same and requesting the RBM to inspect the premises as per Section 2 of Part II of this Directive.

5. When the premises are certified suitable by the RBM, the licensed institution can commence conducting banking business from those premises.

**BANK SUPERVISION DEPARTMENT
2008**