



Framework for Contingency Planning and Systemic Crisis Management



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ACRONYMS

CEO	-	Chief Executive Officer
CMU	-	Crisis Management Unit
DPC	-	Deposit Protection Corporation
D-SIFI	-	Domestic Systemically Important Financial Institution
IPEC	-	Insurance and Pensions Commission
RBZ	-	Reserve Bank of Zimbabwe
SCMC	-	Systemic Crisis Management Committee
SEC	-	Securities and Exchange Commission

Definition of terms

Critically distressed institution- an institution whose financial, operational, or governance condition has deteriorated to a point where it poses an imminent threat to its continued viability and potentially to the broader financial system. Such an institution is characterized by severe capital inadequacy, acute liquidity shortages, significant asset quality deterioration, or pervasive operational failures that render it incapable of sustaining critical functions without immediate regulatory intervention.

Domestic Systemically Important Financial Institution- a financial institution whose failure or distress could significantly disrupt the financial system and wider economy of the country, due to its size, complexity, and interconnectedness with other financial institutions.

Financial institutions – Financial institutions include banks, non-bank financial institutions, fintechs and payment system providers under the supervision of the Reserve Bank (RBZ), Insurance and Pensions Commission (IPEC), and Securities and Exchange Commission of Zimbabwe (SECZ).

Lead regulator/supervisor- primary authority tasked with the oversight and coordination of systemic risk identification, monitoring, and mitigation.

Financial Market infrastructure- systems and entities that facilitate payment, clearing, and securities settlement, including derivatives. These infrastructures are crucial for the efficient and stable functioning of financial markets.

Non-viability- the point at which a bank or financial institution is assessed to be failing or likely to fail, such that it can no longer meet its obligations as they fall due, maintain adequate capital or liquidity levels, or function without public sector support—thus posing a threat to financial stability.

Systemic Distress - the potential for “disruption to the flow of financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences for the real economy.

*Systemic risks*¹- possibility that the failure of a financial institution/s, market or sector could trigger a widespread collapse across the entire financial system or economy.

Threatened- in relation to financial stability, signifies a condition where the financial system faces potential harm or damage that could disrupt its normal functioning and negatively impact economic activity. This means that various factors can disrupt the ability of the financial system to efficiently provide financial services, leading to potential economic consequences.

Viability - refers to a financial institution’s ability to continue operating as a going concern, meaning it can meet its obligations, maintain regulatory capital requirements, and avoid insolvency or resolution.

¹ IMF, FSB, & BIS (2009). Guidance to Assess the Systemic Importance of Financial Institutions, Markets, and Instruments: Initial Considerations. Report to the G-20 Finance Ministers and Central Bank Governors, International Monetary Fund, Financial Stability Board, and Bank for International Settlements.
<https://www.bis.org/publ/othp07.pdf>

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1. PREAMBLE

- 1.1. This Framework for Contingency Planning and Systemic Crisis Management (hereafter referred to as the Framework) is developed in alignment with the mandate of the Multi-Disciplinary Financial Stability Committee to maintain financial stability and safeguard the integrity of the financial sectors.
- 1.2. The Framework seeks to provide a structured, coordinated, and proactive approach to identifying vulnerabilities, mitigating risks, and ensuring timely, least cost, effective response and recovery in the event of disruptions. By fostering collaboration among regulatory authorities, supervised institutions, and key stakeholders, the framework enhances preparedness and reinforces the sector's ability to withstand and recover from adverse scenarios.
- 1.3. In the Zimbabwean context, the banking sector and other financial services providers such as mobile money operators play a pivotal role in supporting economic activity and national development through financial intermediation. Given the country's evolving macroeconomic landscape and the need to bolster public confidence in the financial system, it is imperative that crisis preparedness and management be strengthened to ensure resilience against potential systemic shocks.

2. RATIONALE

- 2.1. The need for contingency planning and systemic crisis preparedness emanates from the vital role the financial system (comprising *financial institutions, financial markets and financial infrastructure*) plays in the economy, based on the understanding that problems may erupt from any of these segments, with far reaching ramifications on the economy through various micro and macro-financial linkages. Because of its complexities and interconnectedness, the financial system is vulnerable to internal and external shocks that can lead to extensive economic and social costs. Historical precedents, such as the 2007-2009 global financial crisis, demonstrate systemic crises that were resolved using public funds at great cost. Zimbabwe also experienced some level of financial turbulence when 10 banking institutions failed in 2004.
- 2.2. The Framework is thus designed to enhance the preparedness of Government and regulatory authorities in the face of systemic financial stress. Engaging in contingency planning prior to a crisis will help the safety net players to identify the types of actions that may be necessary during a crisis, as well as the skills, policies and processes that would be required to support these actions. The multidisciplinary approach contained herein is designed to address the weaknesses associated with a narrow focus that fails to adequately incorporate all the significant segments of the financial system.
- 2.3. This document outlines the framework for financial sector regulators' policy responses in preventing and resolving systemic crises. The framework is aimed at enhancing Zimbabwean financial safety nets and limiting losses to taxpayers resulting from resolution of troubled financial institutions.
- 2.4. The framework for Contingency Planning and Systemic Crisis Management consists of a set of policies, actions and processes necessary for the identification of emerging vulnerabilities, management and containment of financial sector systemic distress and crisis.
- 2.5. In determining the occurrence of systemic distress, consideration will be given to sharp and sustained declines in major stock indices, financial institutions insolvencies and bailouts, liquidity shortages within financial institutions, rapid fall in the value of local currency, and real estate market collapse.

3. INTRODUCTION

- 3.1. The key components of contingency planning and systemic crisis management include techniques and sound institutional arrangements with explicit inter-agency coordination mechanisms and powers that allow for the resolution of financial institutions, as well as addressing threats to financial markets and financial infrastructures.
- 3.2. Crisis management will be achieved through a high degree of coordination amongst regulatory authorities, as well as certainty in relation to the authorities' responsibilities to support effective planning, execution, and other preparatory steps. The role of the deposit guarantee scheme and requirements for the provision of government financial support are also outlined in the Framework.
- 3.3. The Framework is based on the following principles:
 - a) sound and prudent management and board oversight at the individual financial institutions, serving as the first line of defence;
 - b) crisis prevention and resolution policies in the areas of regulation, supervision and financial stability monitoring make up the second line of defense;
 - c) intervention by public authorities constitute the third line of defence to mitigate the effects of crises on the real economy in the event first and second lines of defence fail, and should this be deemed necessary; and
 - d) the interventions should carefully weigh the need to preserve stability of the financial system against an often-inevitable risk of moral hazard.
- 3.4. The Framework seeks to reassure depositors, policy holders, investors and other creditors that authorities can address failures in the financial system to minimize systemic disruption in the provision of financial services.
- 3.5. The Framework leverages on best practices adopted from, inter alia, Key Attributes of Effective Resolution Regimes of Financial Institutions (Financial Stability Board, 2011)², and the COMESA Framework for Financial Stability.
- 3.6. The Framework considers a systemic crisis to have occurred when at least two of the following situations arise:

² https://www.fsb.org/uploads/r_111104cc.pdf

- a) where financial institutions that are critically distressed³ control at least 5% of the total assets in the financial sector;
- b) 15% or more of total banking sector deposits are threatened⁴;
- c) 15% or more of liabilities in the insurance, pension fund are threatened;
- d) 15% or more of liabilities in the securities sector are threatened; and
- e) 25% or more of banking sector total loans are not performing.

3.7. The above-noted metrics will be complemented by supervisory judgement, taking cognizance of cross-sectional analysis underpinned by tools that include financial system network analysis (interconnectedness).

³ To be informed by definition in the Bank Resolution Framework trigger metrics.

⁴ There is a likelihood that the financial institution/s holding the deposits is no longer viable and likely to fail resulting in depositors suffering losses.

4. SCOPE OF APPLICATION

- 4.1. The Contingency Planning and Systemic Crisis Management Framework encompasses resolution of any financial institution and market infrastructures which meet the definition set in the definition of terms.

5. OBJECTIVES

5.1. The Framework outlines measures to:

- a) Provide measures to contain systemic failures through adequate pre-crisis preparation;
- b) Ensure continuity of systemically important financial institutions and financial market infrastructure, including payments, clearing and settlement systems in the event of a crisis;
- c) Provide for speed, transparency, effective internal and inter-agency coordination and communication, predictability through legal certainty and procedural clarity, coupled with advanced planning for orderly resolution;
- d) Enable timely and decisive action to ensure that non-viable financial institutions are resolved or can exit the market in an orderly fashion;
- e) Promote credible resolution tools which ensure competitive neutrality and limit distortions of competition;
- f) Facilitate cooperation, information exchange and coordination locally and with relevant foreign resolution authorities before, during and after a crisis;
- g) Ensure availability of emergency liquidity support should this be deemed necessary;
- h) Promote market discipline and provide incentives for market-based solutions;
- i) Enhance the credibility of resolution processes;
- j) Minimise overall costs of resolution;
- k) Protect, where applicable and in coordination with the relevant insurance schemes and arrangements such depositors, insurance policy holders, pension & provident fund members and investors as are covered by such schemes and arrangements, and ensure the rapid return of segregated client assets;
- l) Ensure that losses are first absorbed by shareholders, unsecured, and uninsured creditors in a manner that respects the hierarchy of claims; and
- m) Reduce moral hazard problems by desisting from relying on public solvency support and dispelling the expectation that such support will be available in the event of a crisis which ultimately reduces the social costs of financial institution failures.

6. INSTITUTIONAL ARRANGEMENTS

Resolution Powers

- 6.1. Powers and mandate to execute the Contingency Planning and Systemic Crisis Management Framework (CPSCMF) shall be vested in individual regulatory agencies leveraging on respective legislation to provide for effective resolution of financial institutions and financial infrastructure failures.
- 6.2. The resolution framework includes resolution planning, resolution options, and essential prerequisites such as appropriate robust legal safeguards, and important details in relation to points of coordination at critical junctures of the resolution lifecycle. These include:
- a) a clear mandate for all aspects of resolution;
 - b) well-specified resolution objectives that are anchored to the maintenance of financial stability, continuity of critical financial functions and services, and protection of depositors within the terms of established deposit insurance arrangements;
 - c) a comprehensive set of resolution powers exercisable by the resolution authority and associated safeguards;
 - d) a suite of resolution options for application to different categories of financial institutions;
 - e) a clear point of entry into resolution, at which the institution is likely to be non-viable well before the point of insolvency has been reached, supported by well-defined triggers;
 - f) robust cooperation and coordination arrangements among relevant domestic agencies (notably the Reserve Bank, Deposit Protection Corporation, Insurance and Pensions Commission, Securities & Exchange Commission and Ministry of Finance, Economic Development and Investment Promotion), and cross-border cooperation and coordination arrangements; and
 - g) a source of resolution funding to facilitate each type of resolution, with most of the funding desirably being drawn from the balance sheet of financial institutions, but with external funding also being available (including deposit insurance and other resolution funding, and temporary liquidity support for financial institutions in resolution).

6.3. The legislative provisions are contained in the laws governing banking institutions, building societies, microfinance institutions, insurance companies, capital markets, and pension funds. These are; the Banking Act [Chapter 24:20], the Building Societies Act (Chapter 24:02), the Microfinance Act [Chapter 24:30], the Reserve Bank Act [Chapter 22:15], National Payment Systems Act [Chapter 24:23], the Deposit Protection Corporation Act [Chapter 24:29], the Securities Exchange Act [Chapter 24:25], the Insurance and Pensions Commissions Act [Chapter 24:21], the Pension and Provident Funds Act [Chapter 24:32], Companies & Other Business Entities Act [Chapter 24:31]; as well as the Insolvency Act [Chapter 6:07].

Multidisciplinary Financial Stability Committee (MDFSC) ⁵

- 6.4. The MDFSC shall provide oversight, facilitate information sharing, and conduct financial stability assessments on a quarterly and annual basis, using input from the various regulators.
- 6.5. The Committee shall ensure that, through appropriate Memoranda of Understanding:
- a) sharing of all information relevant for recovery and resolution planning and for resolution is possible in normal times and during a crisis at a domestic and a cross-border level; and
 - b) where appropriate and necessary to respect the sensitive nature of information, information sharing may be restricted but should be possible among the top officials of the relevant home and host authorities.
- 6.6. Regulatory authorities shall require institutions to maintain Management Information Systems (MIS) that are able to produce information on a timely basis, both in normal times for recovery and resolution planning and in resolution.
- 6.7. Information shall be available at the group level and the legal entity level (considering information needs under different resolution scenarios, including the separation of individual entities from the group).
- 6.8. Institutions shall be required, in particular, to:

⁵ The Committee is made up of the Reserve Bank of Zimbabwe [which supervises banking institutions, microfinance institutions (MFIs) and development institutions], Deposit Protection Corporation (which provides deposit insurance for banking institutions and MFIs) Securities Exchange Commission of Zimbabwe (responsible for supervision of the securities exchanges, stock-broking firms, transfer secretaries, financial advisors, trustees, custodians and asset management companies), and the Insurance and Pensions Commission (responsible for supervision of insurance companies and pension funds), and the Ministry of Finance, Economic Development & Investment Promotion

- a) maintain a detailed inventory, including a description and the location of the key MIS used in their material legal entities, mapped to their core services and critical functions;
- b) identify and address exogenous legal constraints on the exchange of management information among the constituent entities of a financial group (for example, as regards the information flow from individual entities of the group to the parent);
- c) demonstrate, as part of the recovery and resolution planning process, that they are able to produce the essential information needed to implement such plans within a short period of time (for example, 24 hours); and
- d) maintain specific information at a legal entity level, including, for example, information on intra-group guarantees and intra-group trades booked on a back-to-back basis.

Systemic Crisis Management Committee

Scope and objective

- 6.9. To ensure effective oversight of contingency planning and systemic crisis management, a Systemic Crisis Management Committee (hereafter referred to as the **SCMC**/the Committee) shall be established. The Committee's key mandate shall be to coordinate crisis resolution activities.

Membership

- 6.10. The Committee shall comprise the Governor of the Reserve Bank of Zimbabwe (RBZ), CEO of the Deposit Protection Corporation (DPC), Commissioner of the Insurance and Pensions Commission (IPEC) and the CEO of the Securities Exchange Commission of Zimbabwe (SEC), and the Permanent Secretary of the Ministry of Finance, Economic Development and Investment Promotion/ Treasury.⁶

Terms of Reference

- 6.11. The SCMC shall meet at least annually or more frequently should circumstances warrant.
- 6.12. SCMC members shall be kept informed of financial institutions -specific and regulatory resolution planning, as well as related developments in relevant home and host jurisdictions.

⁶ Inclusion of Ministry of Finance & Economic Development and Investment Promotion is premised on the fiscal role it plays in the Resolution framework.

- 6.13. The SCMC serves as a forum for coordinating resolvability assessments, sharing findings and discuss any remaining barriers to resolvability and plans to remove them.
- 6.14. SCMC serves as a forum for an identified financial institution to present its progress on resolvability, and for SCMC members to ask questions in order to facilitate their review and monitoring.
- 6.15. SCMC will review the financial institution's capabilities to support a resolution with a view to obtaining comfort over their operationalisation and reliability both at group and local level.
- 6.16. SCMC should have a clear understanding of the data that is needed and can be generated by the financial institution to inform authorities' decisions in a crisis and in resolution.
- 6.17. SCMC should understand financial institution's capabilities for calculating resolution capital and liquidity, data capabilities to support resolution valuation, bail-in execution, trading book wind-down, continuity of access to financial market infrastructures (FMIs) and operational continuity.
- 6.18. SCMC members should have a clear understanding of each other's internal decision-making and execution processes, information needs to support their respective decisions, and communication protocols across the crisis continuum in recovery, the run up to and during resolution.
- 6.19. SCMC members should have in place practical and secure arrangements to exchange sensitive and confidential information as needed, both for purposes of resolution planning and for the exchange of information during a crisis.

Mandate /Tasks

- 6.20. The SCMC shall ensure that crisis simulations are conducted every two years in order to test the robustness of the crisis management and resolution Framework.
- 6.21. The SCMC shall ensure that regulatory authorities put in place adequate policies and operational procedures for the effective execution of their mandates. These shall be guided by the following best practice standards:
 - a. Effective careful coordination during a crisis to avoid overburdening financial institutions, the various agencies and their staff, as well as circumvent conveying incoherent messages to the public;
 - b. Internal and inter-agency coordination should include consideration of resolution

options among resolution authorities in respect of affected institutions;

- c. Adequate and timely communication among financial safety net players to allow authorities greater ability to distinguish the unfolding crisis scenarios and seriousness of threats to financial stability;
- d. Decisions on escalating crisis situations, especially those concerning liquidity must be made expeditiously after an accurate assessment of the real liquidity or solvency of an institution;
- e. Emergency Liquidity Assistance or Lender of Last Resort assistance should be provided in a timely manner; and
- f. Emergency resolution funding arrangements, including deposit insurer should be in place to cater for shortfalls in the event of failure of a big banking institution and/or a systemic banking failure.

6.22. To ensure its decisions are well informed, the SCMU shall engage the Multidisciplinary Financial Stability Committee as deemed necessary.

Crisis Management Unit

6.23. To promote the effective resolution of financial crises, the Systemic Crisis Management Committee shall delegate its mandate to a Crisis Management Unit (CMU) which shall provide operational oversight on systemic crisis resolution. Membership of the CMU shall comprise nominated representatives from the SCMC, and senior officers of the Ministry of Justice, Legal and Parliamentary Affairs and any other Ministry or Government Department deemed necessary.

6.24. Every member of the CMU shall have the power to make decisions on behalf of institutions they are representing.

6.25. The Committee shall operate in normal and in crisis situations, and shall meet semi-annually, and on an ad-hoc basis as and when necessary to resolve the crisis, and all proceedings should be documented.

6.26. The key mandate of the CMU shall be to coordinate operations of regulatory authorities in respect of the following:

- a) Implementation of the Contingency Planning and Systemic Crisis Management Framework;

- b) Crisis management actions and procedures;
- c) Effective communication with the relevant stakeholders, including domestic and foreign supervisory authorities and the press, during and immediately post the crisis period;
- d) Re-establishment of credibility, restoration of confidence and return the operations of financial institutions, financial markets and financial infrastructure to normalcy, at the minimum possible cost to the real economy and the fiscus within a reasonably short period of time;
- e) In the case of cross border Systemically Important Financial Institutions, enhance preparedness for, and facilitate the management and resolution through close cooperation with authorities in other jurisdictions where institutions have a systemic presence; and
- f) Take any actions as may be deemed necessary to achieve the objectives of this Framework.

Supervisory Cooperation and Exchange of Information

6.27. Memoranda of Understanding (MOUs) between regulatory authorities, both domestic and foreign, shall provide for the following:

- a) cross-border arrangements to facilitate home and host cooperation;
- b) active supervisory colleges, resolution colleges or crisis management groups that should focus on arrangements for parent company support, early intervention, recovery and resolution planning and crisis management;
- c) arrangements that facilitate adequate access to information on the group resolution strategy, early intervention, orderly group recovery and resolution, as well as crisis management processes. This is premised on the fact that home resolution strategies typically rely on actions by host country authorities, or their forbearance from initiating resolution;
- d) multilateral MOUs between Zimbabwe and other countries, covering all relevant authorities in each country, and setting out the responsibilities on cross-border financial institution recovery and resolution, designed to support coordination with home authorities on recovery plans and resolution plans; and

- e) procedures that will form an annexure to the MOUs.

Financial Institutions Resolution Manual

- 6.28. Each Regulatory Agency shall facilitate the development of comprehensive internal guidance on resolution (a resolution 'manual'), incorporating resolution planning and resolvability assessment framework. A resolution manual is an essential component in the operationalization of the resolution regime which provides detailed guidance needed to implement any form of resolution.
- 6.29. Resolution planning and resolvability assessments are critical for identifying impediments to the resolution process and for implementation of specific resolution options. In addition, preparation of resolution plans for each financial institution is critical and may need to be accompanied by requirements for the institution in question to make operational and structural changes required to enable the resolution plans to be implementable. In the case of systemically important financial institutions that are subsidiaries of foreign financial institutions, resolvability assessment and resolution planning will be undertaken in coordination with the respective home resolution authorities.
- 6.30. The Resolution Manual sets out key elements of financial crisis management, including:
 - a) relevant indicators that may assist in alerting the authorities to emerging stress;
 - b) preventative actions to be taken to seek to reduce the risk of a financial crisis emerging from stress; and
 - c) the strategies for responding to financial crises when they do occur. The strategies should include scenario analysis to provide for strategies that are tailored to indicative scenarios (e.g., systemic bank failure, multiple bank failures, contagion across the financial sector, financial conglomerate stress, and operational dysfunction in the financial system, (such as in payment systems and financial market infrastructure).
- 6.31. The Resolution Manual should identify the responsibilities and potential actions of each regulatory agency for each type of crisis scenario, as well as provide for the conduct of different levels and frequencies of crisis simulation exercises.

7. CONTINGENCY PLANNING REQUIREMENTS FOR REGULATED FINANCIAL INSTITUTIONS

Recovery Plans

- 7.1. All specified⁷ institutions are required to have board approved recovery plans.
- 7.2. The recovery plan shall be expected to cover, at a minimum, governance arrangements, institutional overview, stress scenarios, triggers, recovery options, and communication plan, and must reflect the complexity of operations of the institution.
- 7.3. Detailed requirements for a banking institution's recovery plan are contained in Prudential Standard No.1- 2018/BSD: Guideline on Recovery Planning (GRP).
- 7.4. Domestic financial groups comprising multiple financial institutions are required to prepare and submit to the lead resolution authority, one consolidated group recovery plan that captures recovery options and scenarios for all regulated financial institutions within the financial group. The cross-border plans should be predicated on discussions and agreements within supervisory colleges.
- 7.5. The recovery plans shall ensure that the main dependencies and risks of implementing recovery options at the subsidiary level are captured in the group plan, particularly where the subsidiary relies on the parent for financial support as a recovery option. The recovery plans, with respect to specified financial institutions and financial market infrastructures, should provide for business continuity and survival, protection of systems and assets, as well as provide for control of risks and exposures, and preventative measures where appropriate.

Resolution Planning and Resolvability Assessments

- 7.6. The Systemic Crisis Management Committee shall provide adequate oversight by ensuring that regulatory authorities put in place frameworks that incorporate resolution planning, including cross border planning, regional and international cooperation, and resolvability assessments, as well as resolution strategies. Resolution requirements for financial institutions shall be determined by relevant regulatory authorities from time to time.
- 7.7. Respective resolution authorities, in coordination with other authorities as necessary, shall ensure that resolution plans are developed for D-SIFIs and any large financial institutions that

⁷ Each regulatory agency will specify categories of institutions required to comply with this requirement

could have an impact on financial stability and the economy in the event of failure. The resolution plans will be guided by resolvability assessments, consider the specific circumstances of the institution and reflect its size, complexity, interconnectedness, and level of substitutability.

- 7.8. Resolvability assessments will be undertaken regularly to evaluate the feasibility of resolution strategies and their credibility considering the likely impact of an institution's failure on the financial system and the overall economy. Resolvability assessment should be undertaken based on a resolvability assessment framework and applied consistently across institutions.
- 7.9. The assessments provide for the feasibility of each resolution option, identification of potential impediments to resolution implementation, and evaluation of possible solutions to overcome the impediments. Accordingly, the resolvability assessment framework will include a data template for the institutions to complete.
- 7.10. Resolvability assessments will culminate in the development of a resolution plan for a financial institution or group. In the process, changes that might be required to the institution or group structure and operations to enable the resolution plan to be implemented will be identified.
- 7.11. Resolvability assessments will include periodic crisis simulation exercises involving all relevant stakeholders.
- 7.12. The SCMC shall ensure that regulatory authorities assess:
 - a) the extent to which critical financial services, and payment, clearing and settlement functions can continue to be performed;
 - b) the nature and extent of intra-group exposures and their impact on resolution if they need to be unwound; and
 - c) the capacity of the institution to deliver sufficiently detailed accurate and timely information to support resolution.

8. RESOLUTION MECHANISM, TECHNIQUES & STRATEGIES

- 8.1. Resolution shall be initiated when a financial institution is no longer viable or likely to be no longer viable, and has no reasonable prospect of becoming viable⁸, or when there are disruptions to the functioning of financial markets and financial infrastructure, with systemic consequences.
- 8.2. Resolution strategies will be guided by timely and early intervention before the institution's capital solvency is threatened or all equity has been fully wiped out, in line with the respective Resolution Frameworks. Appropriate strategies will also be crafted when there is a threat to the smooth, effective and efficient operation of payment systems.
- 8.3. For purposes of ensuring finality and timely resolution of an identified weak, troubled, problem or insolvent financial institution in a financial crisis, as the case may be, the CMU shall put in place mechanisms to ensure regulatory authorities cause implementation of, a plan of resolution based upon any one or a combination of the following, in line with Section 52 D of the Banking Act [Chapter 24:20], Section 36(1), Reserve Bank of Zimbabwe Act [Chapter 22:15], National Payment Systems Act [Chapter 24:23] the Public Finance Management Act [Chapter 22:19], Deposit Protection Corporation Act [Chapter 24:29], and Section 110 of the Securities Act [Chapter 24:25]:
 - a) Merge a financial institution with another financial institution;
 - b) Acquisition of a financial institution by another financial institution;
 - c) Purchase and assumption of any asset or liability of a financial institution, including assets held in trust;
 - d) Transfer any asset or liability of a financial institution, including assets held in trust;
 - e) Establish and own temporarily, a bridge financial institution which may acquire part, or all the assets and liabilities of the subject financial institution based on the resolution plan;
 - f) Bail-in, entailing write down of equity, unsecured and uninsured creditor claims to the extent necessary to absorb the losses, and recapitalize a financial institution and enable it to continue functioning without disruption to critical services.

⁸ To be informed by definition in Bank Resolution Framework

Consideration shall be given to “safeguards”⁹ in relation to creditors and shareholders in line with international best practice;

- g) Take possession, control of an identified weak, troubled, problem or insolvent institution with specific powers to establish and institute a definitive and timely plan of resolution;
- h) Take any action necessary to give effect to the plan of resolution in respect of the concerned institution, including the sale or closure of any branch, agency, or other office of the institution and, subject to any other law, the dismissal of any of its officers or employees;
- i) Operate and resolve the institution, including powers to terminate contracts, continue or assign contracts, purchase or sell assets, write down debt and take any other action necessary to restructure or wind down the institution’s operations;
- j) Override rights of shareholders of the institution in resolution, including requirements for approval by shareholders of particular transactions, in order to permit a merger, acquisition, sale of substantial business operations, recapitalization or other measures to restructure and dispose of the firm’s business or its liabilities and assets;
- k) Transfer or sell assets and liabilities, legal rights and obligations, including deposit liabilities and ownership in shares, to a solvent third party, notwithstanding any requirements for consent or novation that would otherwise apply;
- l) Establish a separate asset management vehicle (for example, as a subsidiary of the distressed institution, an entity with a separate licence, or as a trust or asset management company) and transfer to the vehicle for management and run-down non-performing loans or difficult-to-value assets; and
- m) Implement a plan of resolution that ensures adequate competition, fair and consistent treatment of bidders or offerors that seek to acquire assets of the subject banking institution; and / or

⁹ Respect of creditor hierarchy and “no creditors worse off” principle, wherein creditors should not be worse off in resolution than they would have been in a liquidation scenario.

n) Liquidation, in the case of insolvent financial institutions that are not systemically important. An insolvent banking institution will be handed over to the DPC for deposit compensation in terms of the Deposit Protection Act.

- 8.4. As part of the resolution strategies, restructuring and funding arrangements may be undertaken to the extent necessary to address the causes of institutional failure and to restore viability.
- 8.5. The regulatory authorities may apply one or a combination of resolution powers, with resolution actions being either combined or applied sequentially or different types of resolution powers to different parts of the institution's business (for example, retail and commercial banking, trading operations, insurance); and initiate a wind-down for those operations that, in the particular circumstances, are judged by the authorities to be not critical to the financial system or the economy.
- 8.6. In applying resolution powers to individual components of a financial group, the regulatory authorities shall take into account the impact on the group as a whole and on financial stability in other affected jurisdictions and undertake best efforts to avoid taking actions that could reasonably be expected to trigger instability elsewhere in the group or in the financial system.
- 8.7. In all cases, resolution measures will be implemented in a manner that ensures timely execution.

Lender of Last Resort

- 8.8. Emergency Liquidity Assistance or Lender of Last Resort assistance by the **Reserve Bank** shall be provided to banking institutions in a timely manner, in terms of **Section 6 (a)(c)¹⁰ and of Section 11 (c)(i)(ii)¹¹** of the Reserve Bank of Zimbabwe Act [*Chapter 24:15*]. The Lender of Last Resort facility shall be guided by criteria that recognize the importance of minimizing moral hazard while avoiding the provision of liquidity to borrowers with no prospects of recovery or where there is scope for expropriation by borrowers' insiders, of the liquidity provided.

¹⁰ Provides for regulation of Zimbabwe's monetary system to foster the liquidity, solvency, stability and proper functioning of Zimbabwe's financial system.

¹¹ The Act provides for lending or advancing money to statutory bodies subject to approval by the Minister, and that the facility is repayable within twelve months from the date on which it was made.

- 8.9. For healthy (solvent) banking institutions with temporary liquidity problems, cognizance shall be taken that any delays in rendering liquidity support could lead to failure and trigger far-reaching systemic consequences.
- 8.10. The provision of the temporary liquidity support shall be subject to acceptable collateral.
- 8.11. Conditions for temporary funding shall include the following:
- a) determination that the provision of temporary funding is necessary to foster financial stability and will permit implementation of a resolution option that is best able to achieve the resolution objectives, and that private sources of funding have been exhausted or cannot achieve these objectives; and
 - b) the allocation of losses to equity holders and residual costs, as appropriate, to unsecured and uninsured creditors and the industry through ex-post assessments, insurance premium or other mechanisms.

Funding of Institutions in Resolution

- 8.12. For purposes of resolution strategy, the first line of defence in insolvency shall be private sector or individual institution's driven initiatives. These include recapitalization initiatives, non-performing loans resolution where, in the case of disposal, the authorities will facilitate involvement of private sector asset management companies.
- 8.13. Subject to availability of resources, the second line of defence in turning around the fortunes of financial institution shall be public sector support which may be in the form of public ownership or bail-out funds which may be relied upon as a means of resolving troubled financial institutions.
- 8.14. In instances where, as a last resort and for the overarching purpose of maintaining financial stability, there is need to place an institution under temporary public ownership and control; or avail temporary funding, in order to continue critical operations, while seeking to arrange a permanent solution such as a sale or merger with another financial institution, provision shall be made to recover any losses incurred by the state from unsecured creditors or, if necessary, the financial system more widely.
- 8.15. The losses incurred shall be recovered from:
- a) shareholders and unsecured creditors subject to the "no creditor worse off than in liquidation" safeguard; or

b) if necessary, from the financial system more widely.

8.16. The financial sector authorities including the Reserve Bank, and the Ministry of Finance, Economic Development and Investment Promotion (MOFEDIP), shall develop a resolution funding framework to cater for cases where public ex-post funding is required. The framework arrangements that would need to be considered in this context include:

- a) ***Objectives of the funding arrangement:*** with a clear specification of the objectives of the provision of publicly sourced funding in a bank resolution. The objectives will be anchored to the promotion of financial system stability by facilitating the continuity of critical functions and services of a bank in resolution.
- b) ***Preconditions for funding:*** specifying the preconditions for publicly sourced funding being made available. This will include the need for loss absorption within the nonviable bank to have been applied to the maximum extent possible (including, at a minimum, the write-down of equity and conversion or write-down of subordinated debt) and the full utilization of other funding sources, including 'least cost'¹² contributions from the Deposit Insurance Fund.
- c) ***Procedures for obtaining funds:*** including identification of how publicly sourced funding can be made available in the timeframe needed, including whether further budget legislation would be needed, the government approval process required, and public disclosure requirements.
- d) ***Terms and conditions of funding:*** entailing proposed terms and conditions applicable to any publicly sourced funding arrangements, including: (a) the framework for pricing equity injections; (b) the collateral, pricing, maturity and repayment conditions attaching to debt-based funding of a bank in resolution; and (c) the pricing and maturity of guarantees and indemnities.
- e) ***The risk management requirements:*** taking cognizance of risks associated with funds or guarantees provided to a bank in resolution. This includes development of procedures for identification, monitoring and management of risks, including through appropriate terms and conditions of any funding support, the exercise of shareholder

¹² A least cost ensures that the resources of the deposit insurance fund are used in a manner least costly to the fund, relative to all other resolution options. There are possible exceptions for failures deemed to be a systemic risk (BIS).

powers, and restrictions on risk-taking by the bank in resolution until all resolution funding has been repaid.

- f) ***Exit arrangements***: the means by which public funding is terminated and repaid in a resolution. This will include the termination of guarantees and indemnities, the repayment of loans, and the sale of government-owned shares in a bridge bank. All public funding should be repaid in full net present value terms through recoveries from the assets and cash flows of the failed bank/bank in resolution, while any residual amounts may be repaid through levies on banks. There should also be a clarification of the ranking of claims in the recovery of funding outlays.
- g) ***Ex post levy arrangements***: to ensure that any funds provided by the government that are not repaid through the cash flows of the resolved bank are repaid via levies on systemic banks or all banks.

Problem Loan Resolution

8.17. Resolution strategies that may be employed include the following:

- a) **Private sector asset management company approach**, in which private AMCs purchase Non-Performing Loans (NPLs) from distressed banks using own capital.
- b) **The centralized approach** based on a public sector Special Purpose Vehicle (SPV): Under this arrangement, government creates and capitalizes an AMC to purchase NPLs from institutions concerned. NPLs are exchanged with government issued or backed bonds or cash. This process is typically facilitated by a full diagnostic audit and forward-looking assessment of banks' assets and capital. The process enables banks to restart lending activities, while the SPV disposes of or restructures the NPLs for future sale.
- c) **The decentralized public sector SPV**, for a single bank or group of banks: In this case, the authorities create and capitalize an SPV to purchase NPLs from a single large bank or a selected group of banks. The processes and underlying conditions and standards to support the SPV are similar to those discussed under the centralized approach.
- d) **The bank-centric approach**, in which private banks manage their own NPLs through various means, including internal SPVs or work out units.

Set-off, Netting, Collateralisation, Segregation of Client Assets

- 8.18. Resolution shall take cognizance of set-off rights, contractual netting and collateralisation agreements and the segregation of client assets guided by relevant legal provisions and in a manner that does not hamper the effective implementation of resolution measures.
- 8.19. Subject to adequate safeguards, entry into resolution and the exercise of any resolution powers shall not trigger statutory or contractual set-off rights or constitute an event that entitles any counterparty of the institution in resolution to exercise contractual acceleration or early termination rights provided the substantive obligations under the contract continue to be performed.
- 8.20. Where contractual acceleration or early termination rights are exercisable, the resolution authority shall have the power to stay temporarily such rights.
- 8.21. Where the termination rights arise by reason of entry into resolution or in connection with the exercise of any resolution powers, they shall:
- a) be strictly limited in time; and
 - b) be subject to adequate safeguards that protect the integrity of financial contracts and provide certainty to counterparties.

Safeguards

- 8.22. Regulatory authorities, the directors, employees and officers of the institution under resolution shall be protected in law for all actions taken in good faith, while complying with the decision of the resolution authority.
- 8.23. To maintain financial stability and to restore post-crisis confidence, the CMU shall ensure that processes are in place to ensure clarity and certainty in the treatment of shareholders and creditors and the allocation of losses among them during the resolution process.
- 8.24. At a minimum, the CMU shall have an oversight function in ensuring that respective regulators put in place mechanisms / processes that ensure that creditors at least recover amounts equal to what is due to them in the liquidation of the financial institution, following the resolution of the institution. This includes ensuring that equity absorbs the first loss, and that no loss is imposed on senior debt holders until all subordinated debt has been entirely written off.

Cross-Border Cooperation

8.25. Crisis resolution involving cross border operations shall be guided by legislative provisions and Memoranda of Understanding (MOU).

8.26. The **SCMC** shall play an oversight role in ensuring the adequacy of these provisions which must clearly:

- a) define the roles and responsibilities of the authorities involved pre-crisis (that is, in the recovery and resolution planning phases) and during a crisis;
- b) set out the process for information sharing before and during a crisis;
- c) set out the processes for coordination in the development of the Recovery and Resolution Plans for financial entities involved, including parent or holding company and significant subsidiaries, branches and affiliates that are within the scope of the agreement, and for engagement with the regulated institution as part of this process;
- d) include agreed procedures for the home authority to inform and consult host authorities in a timely manner when there are material adverse developments affecting the institution and before taking any significant action or crisis measures; and
- e) include agreed procedures for the host authority to inform and consult the home authority in a timely manner when there are material adverse developments affecting the institution and before taking any discretionary action or crisis measure.

9. KEY LESSONS FROM FINANCIAL CRISES AND THE COVID 19 PANDEMIC

- 9.1. Past financial crises, including the 2007/8 global financial crisis, as well as the COVID 19 pandemic provide useful learning points for the operationalization of the framework as highlighted below.

Digital Transformation

- 9.2. COVID 19 pandemic experiences as well as the accelerated digital transformation that has hitherto taken place, underscore the importance that reconfigured business models can play in ensuring financial services continue without major disruption in the event traditional operating models are disrupted.
- 9.3. Digital technology underscored the importance of having a robust ICT infrastructure to facilitate remote working arrangements. The introduction of remote examinations of financial institutions, backed by digital-based remote services and data driven decisions, was a critical dynamic capability that the crisis management framework will leverage on.
- 9.4. Supervisory agencies and regulated entities should therefore establish detailed protocols and policies that ensure continuity of work, underpinned by clear identification processes for critical staff, as well as putting in place mechanisms that ensure employee health and safety.
- 9.5. Notwithstanding positive spinoffs from digital transformations, it is critical to ensure that attendant downside risks that include cyber risk and accelerated contagion risk are effectively managed.

Importance of Preparedness and Scenario Planning

- 9.6. Past experiences have demonstrated the need for the MDFSC to prioritise contingency planning based on scenario planning, underpinned by risk assessments that include low probability but high impact events such as pandemics. It is, therefore, imperative that the Committee develops and regularly updates comprehensive scenario planning, at institutional and inter-sectoral levels. The scenario analyses should include crisis simulation exercises incorporating systemically important financial institutions, financial market infrastructures failure, and cyber-attacks, to ensure adequate preparedness on the part of all stakeholders, including Government, regulatory agencies and the press.

- 9.7. Experiential knowledge gained by regulatory agencies from the 2017 World Bank simulation exercise enabled more effective response to the challenges posed by the COVID 19 pandemic.
- 9.8. The COVID 19 pandemic served as a real test for business continuity plans of regulated entities, which revealed failure by some institutions to demonstrate the effectiveness of their plans in a crisis, highlighting areas for improvement.

Agility and Flexibility in Response.

- 9.9. The importance of agility, flexibility, adaptative capacity and real time decision making was evident during the COVID 19 pandemic, including reconfiguration of work arrangements and communication strategies. In this regard, all stakeholders who are part of this framework, including regulatory agencies, SCMC, and CMU, must put in place organisational arrangements and systems that ensure timely response and decision making. This includes ease of access to members who need to make critical decisions during crisis situations.
- 9.10. Regulatory agencies demonstrated agility and flexibility during the COVID-19 pandemic by adjusting usual regulatory deadlines and, in some instances, granting exemptions. Swift implementation of supervisory arrangements becomes paramount, depending on the severity of the crisis and the preparedness of regulated entities to resume normal operations.

Integrated and Coordinated Approaches

- 9.11. Crisis situations require integrated and coordinated approaches to ensure containment of disruptions and other downside risks. To the extent that regulation and supervision of financial institutions, financial markets and financial infrastructure is a multi-faceted approach involving domestic agencies, regional and international supervisory and resolution authorities, crisis preparedness and management requires sound integrated and coordinated approaches.
- 9.12. The need for coordination with policymakers also became evident during the COVID-19 pandemic wherein participation in regular national consultative meetings of the Inter-Ministerial Taskforce on COVID-19 ensured alignment and provided essential policy guidance. For instance, the insurance industry, particularly the funeral assurance sector, had to be classified as essential services to facilitate the burial of the deceased.

- 9.13. Integrated and coordinated approaches in the context of this Framework should, thus be backed by appropriately configured MOUs, effective supervisory colleges and requisite legislation on the back of global interconnectedness.
- 9.14. The strengthening of interagency, regional and international supervisory cooperation, knowledge sharing and joint preparedness becomes critical. Crisis preparedness and management, therefore, requires sound integrated and coordinated approaches.

Effective Communication and Transparency

- 9.15. To support integrated and coordinated approaches, there must be effective communication and transparency between the MDFSC, SCMU, CMU, and regulated entities. Clear, consistent, and effective communication strategies must thus be critical elements of crisis planning and management, as ambiguous and distorted information breeds confusion while delaying resolution of financial institutions and financial architecture.

Governance and Risk Management

- 9.16. Past financial crises and the COVID 19 pandemic demonstrated that Governance and Risk Management, are critical elements of organizational capabilities required to deal with crisis situations. It is, therefore, important that this Framework be anchored on effective structures and risk management capabilities that facilitate crisis preparedness and resolution. This includes comprehensive systemic crisis early warning systems, stress testing, and crisis simulation exercises.
- 9.17. To ensure effective crisis preparedness and management, operationalization of the SCMU, CMU, as well as resolution framework-underpinned by resolution planning, resolvability assessments, safeguards, and resolution funding, is critical. Another pre-requisite is ongoing capacity building at institutional and inter agency levels. Effective inter-agency and cross border supervisory and resolution cooperation and coordination arrangements must also be put in place.

10. EFFECTIVE DATE

- 10.1. The effective date of the Framework shall be **1 November 2025**.
- 10.2. This framework shall be reviewed every two (2) years.
- 10.3. Questions relating to the Framework should be addressed, as applicable, to:
 - a. Director, Bank Supervision, Surveillance, and Financial Stability Division, Reserve Bank of Zimbabwe;
 - b. Commissioner, Insurance & Pensions Commission;
 - c. Chief Executive Officer, Securities & Exchange Commission of Zimbabwe; or
 - d. Chief Executive Officer, Deposit Protection Corporation.

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