

## The challenges the non-banking financial sector faces in times of crisis conditions



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Undoubtedly, the last three months were challenging in global aspect both for the healthcare sector and for the economic and financial sector. The unprecedented crisis, which in some regions grew in a humanitarian one, forced the leaders to undertake quick and effective measures in order to minimize its negative consequences. The disruption in the economies in a number of countries provoked reactions towards fast changes affecting directly not only citizens and small and medium businesses but also systems on a larger scale. The critical moment was on one hand the creation of measures applicable to different sectors, organizations and clients, including services and manufacturing sectors and on the other hand, from a financial perspective, synchronization of measures between the banking and non-banking financial areas. Regardless of the field of activities and the type of business, the efforts were and are still focused in three main directions: stabilization, optimization of processes and recovery.

Essential actions were undertaken in a number of areas but there is still an aspect which remains unaddressed – the psychological effect of the crisis. It influences the way of thinking of a particular employee to the overall attitude of the large target groups. The critical situation has been going on for more than 3 months now – a period long enough for changes in stereotypes, habits and behavioral strategies. On one hand, positives are observed in the development of alternative approaches for actions on behalf of both the businesses and the state, and also in more flexibility in the operational management. On the other hand, there is a less favorable effect – the restructuring of entire sectors like the tourist one for example as well as the causal relations in the insurance sector.

The measures that have been undertaken on a national level by the Bulgarian National Bank /BNB/ and the Financial Supervision Commission /FSC/ covered the whole financial spectrum due to the specific relations between both sectors – almost all banks are investment intermediaries, and banks, pension and insurance companies are the biggest institutional investors on the stock exchange. Therefore, the efforts are focused directly and indirectly to the entire financial sector and the consumers of financial services.

In Bulgaria the volume of the stock exchange, the number of investments and the type of investors do not suppose the scale of the crisis which we observe in the USA, in other major European countries as well as on the leading stock exchanges. There are speculations on Wall Street that significant institutional

investors such as pension funds may redirect the investors' interest from the stock market to the bond market. In the last week of June, the USA corporate pension funds are expected to change over from shares to fixed income instruments worth more than 35 billion dollars. If this trend becomes a fact and it spreads worldwide, the forecast is for rebalancing of more than 170 billion dollars.

The registration of the first Covid-19 cases in Bulgaria was followed by quick sales on the BSE at the start of the stock exchange session. The blue chip SOFIX index fell to a new three-and-a half-year low losing more than 25 points or 4.9%. The next few months were marked with even more turbulent moments in the capital markets sector as well as in the insurance sector with refusals to conclude certain types of insurances and terminate contracts with some clients. An interesting moment worth mentioning in this period was the presentation and approval by the FSC of 3 proposals for IPOs and respectively, the subsequent transactions on the stock exchange.

The future of the non-banking financial sector in Bulgaria and more specifically, the vision for the development of the capital market after the crisis is a question that does not have an explicit and tangible answer given the ambiguity of the medical dimension of Covid-19 and the estimation of its prolonged effect in time. I am convinced that the FSC's efforts to stabilize the sector, to minimize losses and to support the processes for optimization will lead to quality results, security and certainty both for the people employed in the financial sector as well as for the consumers of financial services.

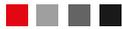
In the second quarter of 2020 the Financial Supervision Commission has been actively engaged in the transposition of the adequate measures for Bulgaria that had been undertaken by the European regulatory authorities – European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). The FSC as a part of the European System for Financial Regulation (ESFS) also participates in the adoption of a number of measures to establish a common European practice regarding market participants and equal protection for the consumers of financial services in times of crisis.

The Commission also proactively monitors the activities of its supervised entities both in terms of their financial situation and their operational functioning. We required information from the market participants for their risk management plans, their emergency actions and the measures undertaken and planned in connection to the pandemic. The information has been analyzed and concrete measures were actively applied to minimize the negative consequences of the emergency situation, to reduce the administrative burden for all supervised entities by the three departments – capital markets, insurance sector and pension insurance sector. The FSC supported ESMA's decision that individual and legal entities with net short positions should inform the supervisory authority in cases of lower thresholds as well as the recommendation to the asset management companies and investment intermediaries, realizing profits, not to distribute dividends. The Commission also conducts short-term monitoring of

the redemption process of units of collective investment schemes in relation to liquidity requirements, respectively the liquidity risk management.

Today we are in a situation of equation without solution. Some people call it “black swan” – an unexpected event, but the facts show that even for the inventor of the term “black swan” the pandemic is an expected event. The question “why countries, business sectors and organizations were not prepared for it” still remains open despite the simulations of crisis responses during global economic forums such as Davos. At the same time, an interesting fact is that the hedge fund in which Nassim Taleb is an advisor has a return of more than 4000 % during the crisis. Its philosophy, however, is that the wind can blow the candle but it also ignites the fire.

The leaders face the conclusion that the best reaction during a critical period is to prepare for it in calm times. In this aspect, in my position as a Chairman of the Financial Supervision Commission, it is of great importance to me that our team was prepared and provided with all necessary resources. I have always believed and I will keep believing that people, in their professional and personal capacity come first and the attitude towards them is the most essential skill of a leader.



## BDIF – Effective Protection for Depositors and Creditors



**Matey Matev**  
Chairman of BDIF  
Management Board

The Bulgarian Deposit Insurance Fund (BDIF), set up in January 1999, has established itself over the years as an institution in line with the good practices for deposit insurance systems. By effectively performing its legal functions the BDIF protects the rights of depositors and the interests of creditors in bank bankruptcy proceedings, thus contributing to the stability of and confidence in the financial system in the country.

As of date BDIF protects depositors' funds with 19 banks operating on the territory of the Republic of Bulgaria, and some of them - in other Member States of the European Union. With a view to deposit protection the funds collected with BDIF reached BGN 864.75 million at the end of May 2020.

On 4 December 2019 the payout of the depositors' guaranteed amounts of deposits with Corporate Commercial Bank AD (in bankruptcy) – KTB AD (in bankruptcy) was completed. Within the five-year period from the commencement of the payout – 4 December 2014, during which depositors were entitled to receive and dispose of their guaranteed amounts, a total of BGN 3,687.173 million, or 99.76 per cent of the total amount of covered deposits, was paid through the branch network of the servicing banks to 112,021 depositors with the bank.

Against this background, it should be noted that on 27 December 2019 BDIF fully repaid the target loan from the Republic of Bulgaria of 3 December 2014 utilised to repay the covered deposits of depositors with KTB AD by paying the outstanding principal in the amount of BGN 500 million together with interest accrued in the amount of BGN 10.317 million. This was the third early repayment after those performed in December 2016 and July 2017 in the amount of BGN 1.145 billion and BGN 30 million respectively. Of the agreed loan of up to BGN 2 billion, BDIF utilised a total of BGN 1.675 billion, which ensured the smooth payment of the covered deposits with KTB AD, where for the principal used, the interest paid amounted to BGN 134.28 million for the 2015–2019 period.

Along with that, in the bankruptcy proceedings of KTB AD (in bankruptcy) the five-year Liquidation Plan for monetizing the bank's assets has been successfully implemented, as well as the collection of its receivables, the realisation of which increases the amount of funds in the bankruptcy estate, and respectively - the amount to be distributed to each of the creditors.

On 9 May 2019 the trustee of KTB AD (in bankruptcy) started the payment of the amounts to the creditors included in the first partial account for distribution of accepted claims to KTB AD (in bankruptcy) in the amount of BGN 570 million, of which as the largest creditor BDIF received BGN 418.226 million. From the special account of the trustee intended for the distribution of amounts as per the first partial distribution account approved by the BDIF Management Board between May 2019 – May 2020 a total of BGN 531.766 million were paid to the

bankrupt bank creditors, which represents 93.29 per cent of the approved sum for payment in the amount of BGN 570 million. On 9 July 2020 in the Commercial Register was announced the second partial account for distribution of accepted claims to KTB AD (in bankruptcy) in the amount of BGN 430 million, of which, after its approval, BDIF expects to receive funds in the amount of about BGN 321 million in August 2020.

Together with the BGN 1 billion already allocated to the creditors on these two accounts, after long years of litigation, on 7 May 2020 the account of the trustee of KTB AD (in bankruptcy) received EUR 125 million. This amount, whereby in 2012 KTB AD financed the acquisition of a controlling stake in the capital of the Bulgarian Telecommunication Company, was collected only due to the unique for the bank bankruptcy legal tools such as action for revocation and claim for enforcement, which enabled the bankrupt bank trustee to return to the bankruptcy estate amounts originating in the bank used to acquire assets without them being pledged in favor of or belonging to the bank itself. The received amount significantly increased the funds raised in the bankruptcy estate of KTB AD (in bankruptcy), which thus reached its maximum amount set at the beginning of the bankruptcy proceedings. Thus, of course, the amount that is to be distributed soonest among all creditors with accepted claims to KTB AD (in bankruptcy) with a third partial distribution account has also increased. Together with the amount of the second partial distribution account, the part of this third account to be received by the Fund will provide additional guarantees for BDIF financial stability.

As a financial safety net player BDIF will be relying on the good cooperation with its institutional partners – the Ministry of Finance, the Bulgarian National Bank, the Association of Banks in Bulgaria and the banking industry, for the successful implementation of its mandate. The above is further enhanced by the forthcoming accession of the Republic of Bulgaria to the Banking Union.

The established internal rules and procedures, the operational capacity built and BDIF financial stability allow it to continue successfully performing its functions in the conditions of the complicated situation of the COVID-19 epidemic.



## How Cash Counting Turns into an Atomized and Highly Technological Process – the Experience of Cash Service Company AD



Lyuben Ivanov  
Executive Director  
Cash Service Company AD

Cash Service Company AD (CSC) was created in 2007 by the BNB, UBB, UniCredit Bulbank and DSK Bank. Raiffeisenbank (Bulgaria) has become a shareholder since 2009 as it terminated its participation as a shareholder in 2019.

The CSC is created with the task to decrease banks' costs in servicing cash circulation as simultaneously increasing its purity.

Initially, counting and sorting banknotes was performed with banknote processing machines which were not connected with the IT system of the company and after accomplishing the process of money counting and sorting the data was entered in the system by a cashier. The analyses of the process showed, on the one hand, that in the manual entering of the data technical mistakes are done and, on the other hand, the time for entering the information equals the time for money processing. The first step in the automation in money counting in the CSC was done in that process itself. New banknote sorting machines were bought, which were connected with the IT system of the company and even after counting the money from the valuable consignments, the machines automatically transfer the data about the number and the nominal structure of the banknotes in the system. Owing to that automation a staff reduction was achieved as well as a decrease in the tariffs of the company, which consequently led to a decrease in the banks' expenses for money counting.

The next process that the CSC atomized was the process of endorsing and announcing valuable consignments. In that activity an employee from the company endorses the valuable consignment from a collector and announces the detailed individual information on it – the importer, the amount, the grounds for importing, the nominal structure. Thus, the announced data is transferred to the banks' IT systems and it is used for the clients' account verification. Due to its importance and the constantly increasing number of valuable consignments a significant human resource is involved. The company undertakes the following steps in order to achieve economies of the costs and to provide simultaneously the submission of the correct information to the banks:

- Web application (eCash) was initially developed and it was offered to the clients. In the application the client submits all the data for the valuable consignment and they are entered in the system of the company. When the consignment is endorsed an employee from CSC enters the number of the valuable consignment and he/she has all the information about it visualized. The employee only checks the data and confirms it. By the development of the application double decrease in the time for endorsing and announcing of the consignments is achieved;
- Information exchange between the systems of the encashments companies

and the CSC's systems was subsequently developed. When the consignment is endorsed by a collector at the client's premises, its data are transferred to the IT system of the CSC and the announcement of the consignments is done only by the confirmation of the data.

The automation of the process on the endorsement of consignments covers almost 80% of the incoming clients' consignments in the company as the number of the processed valuable consignments increased three times by keeping the number of the involved employees.

As far as servicing of the ATM cassettes is one of the main business processes in the CSC, it was the next component in its activities, which was thoroughly analyzed and where a number of innovations were implemented. Banknote sorting machines were bought which allowed the ATM cassettes to be loaded directly at the time of cash counting. Practically, instead of counting the cash, placing it in vaults, withdrawing from vaults and subsequently loading the ATM cassettes the same effect is achieved when at the direct counting of the valuable consignments the cassettes are loaded. By this automation a decrease in the time for loading the ATM cassettes is achieved as well as higher economy of the production materials.

The high automation also allowed the company to keep all healthy and sanitary requirements in the conditions of epidemic circumstances and to provide continuity of work as in no time since the beginning of the year the company has no delay in the cash processing.



## IN BRIEF

■ At the Annual General Assembly of the ABB, held on July 2<sup>nd</sup>, 2020, new members of the Executive Board of the Association were elected. They are: Mr. Dimitar Shumarov - Executive Director and Member of the Management Board of Eurobank Bulgaria AD and Mr. Georgi Konstantinov - Executive Director and Member of the Management Board of Central Cooperative Bank AD.

The General Assembly of the ABB dismissed, as members of the Executive Board of the ABB, Ms. Petya Dimitrova, due to the expiry of her second three-year mandate at the ABB executive body, as well as Mr. Georgi Kostov, who expressed his wish to be dismissed as a member of the Executive Board. Ms. Dimitrova and Mr. Kostov were thanked for their commitment and contribution to the work of the executive body of the Association.

■ In April, the ABB prepared and proposed to the BNB Governing Council for approval the “Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions in relation to the state of emergency enforced by the National Assembly on 13 March 2020 as a result of the COVID-19 pandemic” /Procedure for deferral/. The Procedure for deferral is based on the Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02) adopted by the European Banking Authority (EBA). The document was prepared by a specially established Working Group at the ABB and approved by the BNB Governing Council. It offers banks’ customers three options for deferring their liabilities to banks and their subsidiaries.

In the Procedure for deferral initially approved by the BNB, clients who meet the requirements for deferral of liabilities had the opportunity to state that they want to benefit from the proposed conditions until June 22<sup>nd</sup>, 2020, as they deferred their liabilities for a period of up to 6 months, no later than December 31<sup>st</sup> 2020.

At the suggestion of the ABB, which was approved by a decision of the Governing Council of the BNB, the deadlines initially set in the Procedure for its implementation were extended by three months, respectively.

More than 80,000 bank customers affected by the COVID-19 pandemic have benefited from the deferral of their obligations under the Procedure for deferral during the first three months of its implementation. Official data in connection with the number of deferred liabilities of bank customers are disclosed by the BNB.

The full text of the Procedure for deferral can be found on the websites of the ABB and the BNB.

■ During the first six months of this year, new Chairpersons of two Working Groups at the ABB Executive Board were elected.

Mr. Anton Todorov, Data protection officer at UniCredit Bulbank AD, was elected as a Chairperson of the Working Group on the GDPR and Mr. Dimitar Mutafchiev, Data Protection Officer at DSK Bank AD, was elected as a Deputy Chairperson.

Ms. Mila Razsolkova, Head of Compliance Department at UniCredit Bulbank AD, was elected as a Chairperson of the Working Group on the Prevention of Money Laundering and Terrorism Financing at the Executive Board of the ABB. Ms. Vesela Stefanova, Deputy Head of the Compliance Division at Eurobank Bulgaria AD, was elected as a Deputy Chairperson.

The election of the new chairmanship was unanimous, considering their high competence and their contribution to the ABB's work in the respective areas so far.