

Deposit Insurance Fund and the Management of the Insolvency of Corporate Commercial Bank AD (in bankruptcy)



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Despite the protection of the depositors' funds in the banks, members of the deposit insurance scheme in Bulgaria, another main function of the Bulgarian Deposit Insurance Fund (BDIF, the Fund) is to provide maximum protection of the creditors' interests in the bankruptcy process. In performing the control imputed by the Law on Bank Bankruptcy (LBB) for the proper and legally compliant exercising of the trustee's powers, the Fund provides the maximum and in the possible shortest period the payments to the creditors of the bankrupted bank by keeping the principles for proportionality and equality as they are set in the LBB.

Apart from the experience gathered in the years in winding up five bankruptcy procedures in the period 2003-2007, the revoke of the license of Corporate Commercial Bank AD – the fourth biggest bank in terms of assets in 2014 and its subsequent declaring in bankruptcy on the 22nd of April 2015 imposed a new challenge before the BDIF. The management of the Fund and its experts work actively for achieving the administrative and control powers of the Fund, implied by the LBB, mainly regarding the collected funds by the trustee of KTB AD (b) in the performance of the approved by the Fund Liquidation Plan for the Assets in the Bankruptcy Estate of KTB (in bankruptcy) and the distribution of the funds among the creditors with approved claims.

As of the end of March 2021 the funds approved by the Management Board of the Fund for distribution on the prepared by the trustee four partial account for distribution of the collected cash among the KTB (b) creditors with accepted claims amounted totally to 1,25 billion BGN which is a significantly higher amount than the forecasted one of 800 million BGN in the report of the special investigating company AlixPartners Services UK LLP in September 2015. In this relation we should not miss the fact that the collected funds from the bank's debtors are in the above amount thanks to the timely amendments in the LBB, initiated after announcing KTB (b) in bankruptcy. Despite being disputed, including before the Constitutional Court of Republic of Bulgaria the amendments in the law provided possibility to the trustee of KTB AD (b) to achieve that result. Without those amendments the collected and distributed funds to the creditors would be probably the ones forecasted by the investigating company AlixPartners Services UK LLP.

However, the Fund's efforts are also directed to the quick distribution of the funds collected in the bankruptcy estate. Even at reaching the legal threshold

for making the first distribution of the collected amount the Management Board of DIF in 2017 approved the first partial account for distribution of the collected claims among the creditors of KTB AD (b) prepared by the trustee. After legal amendments in 2019 setting rights to the creditors which have not claimed the account approved by the DIF to receive the amounts due, in 2020 two partial accounts were prepared by the trustee and approved by the Management Board of the Fund. In 2021 another partial account for distribution was approved. Thus, the creditors received very quickly everything that was due according to the law.

Considering the above, the payments on the due funds from the first partial account for distribution among the creditors of KTB AD (b) started in May 2019. As of 31st of December 2020 from the total amount of 570 million BGN 535.4 million BGN were paid.

In September 2020 the payment of the amounts due on the second partial account started as the total amount for distribution among the creditors of KTB AD (b) was 430 million BGN. As of the end of 2020 384.9 million BGN were paid.

In 2020 the Management Board of the Fund approved the third partial account for distribution at the amount of 5.6 million BGN. An amount to a secured creditor was paid from that account, as the payment was done in October 2020.

In 2021 the Management Board of the Fund approved the fourth partial account for distribution at the total amount of 250 million BGN. The payment of the funds due started on the 30th of March 2021.

By the Fund's estimation till the end of the 5-year Liquidation Plan for the Assets in the Bankruptcy Estate of KTB (in bankruptcy) approved by the DIF in November 2016 the funds that could be reimbursed to the creditors are expected to be more than 1,3 billion BGN.

The amounts received by the Fund, the biggest creditor, after subrogation, from the first, second and the fourth partial accounts for distribution are respectively 418,3 million BGN, 320,6 million BGN and 189.1 million BGN, totaling 928 million BGN.

Thus, as a result of the received funds through the subrogation the Fund increased its assets and took more stable financial position. As of the end of March 2021 the assets in the Fund's investment portfolio were at the amount of 1.162 billion BGN. The improved financial result allowed DIF to decrease the expected payments from the annual contributions from the banks – members of the deposit insurance scheme. Thus, the total amount of the annual premium contributions for 2021 and 2020 compared to 2019 decreases in total by 11.6 million BGN or by 7%.

The increase of DIF's financial resources and the decrease of the financial burden to the banks – members of the deposit guarantee scheme have a positive effect on the banking system, especially in the conditions of economic problems related to the COVID-19 pandemic. They also contribute to strengthening the stability and confidence of the financial system in the country.



We are Going to Provide Banks a New Level of Servicing in Payments



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Readiness of the national payment infrastructure for instant payments in BGN

The possibility for development of new business models, implementation of new banking services and increasing banks' competitiveness on the market of financial and fintech services were part of the factors that determined the necessity of starting this large-scale project in which the whole banking community is involved.

Instant payments are offered in almost all European countries. In the last few years, we actively observed these processes as our participation in different European financial associations provided us the possibility to get sufficient experience in the area. What I could say is that two things determined the successful and timely realization of that project: on the one hand, the support of the central bank, on the other hand, the active participation of all payment service providers as the good coordination between the players had a key role. We implemented quite successfully that approach as one year after the start of the project we have already built the national payment infrastructure which is being tested by several pilot banks.

An important prerequisite for the successful start of the service is the preparation of the legislative framework. BISERA 6 rules as well as their annexes were agreed with the banking community and approved by BORICA's board of directors at the end of the previous year. Amendments in the Law on Payment Services and Payments Systems were done as well as in the subordinate legal acts in order to regulate the processes related to the settlement of instant payments in BGN.

Due to that large-scale project for instant payments the activities of the national card and payment scheme were expended with the management and development of rules for products and services for instant payments made through an account. The scheme also started its program Blink for instant payments in BGN initiated from an account and for mobile payments.

All these initially done activities allowed the date 1st of April 2021 to be announced as the official start of the instant payments in Bulgaria.

Next steps in the plan for the realization of the project for instant payments

The next important step is instant payments to reach the end client and the end merchant. The project is not just a fast way banks to exchange messages and to make payments between each other. It involves payments within 10 seconds made only on the basis of a mobile number – an innovation that leads the client to a new experience.

In order to realize that, BORICA should maintain a central database which is going to provide correspondence between the telephone number and the creditor's IBAN. If consumers are included in the instant payments system, they are going to be able to make payments among themselves in that way. The link between the telephone number and the IBAN is a precedent per se for Bulgaria. There is a European standard how this service to be maintained. In the process of implementing the platform for instant payments in a partnership with several banks we are also going to offer that functionality. It is planned to happen in the next year – in the second quarter instant payments are going to be active and in the second half of the year the link between the telephone number and the IBAN is expected to be realized which is the next step in the project. It is important to note here that there is an approved European standard for that process and it is foreseen in the future that type of payments to be possible everywhere in Europe based on euro instant payments. What we prepare at the moment is based on such technical interfaces, standards and manners of work allowing easy transferring to the European usage in the future.

The possibility for the client to pay through a mobile solution at the point of sale in a manner similar to contactless card payments but financially much more favorable to the parties is going to be realized through the implementation of the national standard Blink in the next year.

The direct application of the four-party model for instant payments is in a manner as it is in payments with a bank card at the merchant's POS. By analogy with the card payments after confirming the successful payment, the merchant can conclude the transaction quickly enough which is a serious advantage.

There are various ways in which the process can be initiated – by the merchant or by the client. Respectively, there are also different types of confirmation, static and dynamic QR codes, NFC technologies and different technical options as a whole. With certainty, that infrastructure is better for the banks and payment service providers financially as well as a model.

In support to the payment service providers for the realization of the project for instant payments

Including additional services in the scope of the project facilitates significantly the payment service providers. They could respond the requirements more quickly with optimal resources from their side. For instance, the payment service will be available 24 hours a day and in all calendar days in the year. One serious challenge for the banks is to provide functionality that is going to guarantee continuity of the process. That is the main reason for the slow adherence of the participants to the instant payment schemes, which we observe in other European countries. In our country the banks that do not have such functionality can use BORICA Stand-In module, which will allow making an instant payment in BGN in accordance with the SCT Inst. Scheme of the European Payment Council 24 hours a day, 365 days in the year. Other additional services which we are going to offer the banks are related with the prevention of fraud and money laundering – these services are also a part of the instant payment project.

Forthcoming changes related with the package payments

We are going to offer a new level of servicing with the transfer of the package payments from the current infrastructure to the new one which will allow improving significantly the services to the end clients. Benefits as speed and reliability in response with the today's behavior and expectations of the clients as well as for the small and medium companies could be of significant importance. The practice shows that payments between companies that are instant and close to instant improve money transfers, facilitate funds' management, decrease overdue payments and speed up invoice settlement.

The migration of package payments is a project which also requires serious efforts and preparation by the payment service providers. Proper budgeting and planning of systems' redesign following the technical specifications published at the beginning of the year is a prerequisite to use the benefits from the changes in the way of work at their maximum. Certainly, the banks could keep their regime of receiving package payments but the benefits for the business and the clients as well as the improved quality of servicing are valid when the payments are instant.

The migration of package payments should be performed in one working day from all participants as our plans are that to happen in the third quarter of the current year.

If the challenge for the instant payments is 50% of the market to be ready this year as 100% reachability for instant payments should be provided within 2 years since the start of the service, we have planned as an initial date of the migration of package payments 15th of October 2021. We believe that the banks are going to have the necessary technical preparation for this.

In support to the payment service providers regarding the migration of package payments

The migration of package payments is related both with the form of the messages to ISO 20022 XML and with the new model of processing of the current client payments (non budget payments). We have at our disposal centralized and fully integrated platform PGate, which could respond the needs of every participant in the payments system by providing personal developments or in the need of designing and implementing efficient, complete solution or in the need of preparing financial and statistical reports. PGate is a product with history of 18 years as its functionalities are module oriented, thus fully responding clients' needs.



International Banking Institute – Let's turn challenges into opportunities!



Maria Georgieva
Executive director International
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Professional qualification like all other spheres of life did not stay unaffected by the unfavourable conditions resulting from the pandemic. Over the past months the International Banking Institute faced a lot of challenges and tried to cope in the best possible way with the situation as did most of the other economic subjects. The effort to offset losses was put into several directions: cut down on expenditures, participation in international projects and applying for the SME support programmes.

With the very start of the epidemic emergency the in-class seminars and courses were replaced by online events that would most probably be the choice of preference for a longer scope of time than initially expected. They proved to be a great opportunity for promoting banking professionals' knowledge and skills in periods of social distancing. A considerable withdrawal of participants from all the forms of qualification initiatives was observed during the first few months of the so called "new reality", which could be attributed not as much to the lack of trust in the benefits of virtual classroom training as to the problems arising from the reorganisation of the working environment in banks, the major client for the educational services provided by International Banking Institute. Meanwhile, IBI's team continued to work from home thus contributing to the cutting down on rental and overheads expenses.

In line with the agreement signed with BORICA for cooperation in the field of banking professionals' qualification, International Banking Institute conducted online trainings that were attended as expected by a large number of banking experts. Another initiative that could only be realised with the support of the Association of Banks in Bulgaria was the online seminar-discussion with the participation of experts from the Bulgarian National Bank on the accession of Bulgaria to the Single Resolution Mechanism. According to the contract concluded with one bank, cashiers of the bank were trained through the Online Distance Learning Academy of the IBI.

The participation of the International Banking Institute together with representatives of six other European countries in the two-year Project "Curriculum und Challenge zum Lernen und Anwenden Finanzieller Grundbildung/FIBIC – Let's talk about money", funded under the ERASMUS+ Programme with a goal to develop and introduce educational programmes on financial literacy, could be assessed as extremely beneficial and not only from a financial point of view.

The Institute, like many other business entities in the country, had benefitted from the opportunities provided by the programmes and schemes for compensation for the economic effects of the pandemic. IBI applied and received financial

support under the popular “60/40” measure – Decree N°151/2020 for laying down the terms and conditions for payment of wage subsidies for maintaining the employment of workers and employees after the period of the state of emergency declared by a Decision of the National Assembly of 13 March 2020 and the epidemic emergence declared by a Decision N°325 and extended with Decision N°378 of the Council of Ministers of 2020. In addition, the International Banking Institute was eligible to apply and receive grants under the “Innovation and Competitiveness” 2014-2020 EU Programme, Procedure BG16RFOP002-2.073 “Support for micro and small enterprises for overcoming the economical impact of the COVID-19 pandemic” as well as under the “Innovation and Competitiveness” 2014-2020 EU Programme, Procedure BG16RFOP002-2.095 “Working capital support for SMEs affected by temporary anti-epidemic measures”.

In a period of challenges and financial obstacles for everyone, the IBI had been supported in its goals and activities by the Association of banks in Bulgaria as a major shareholder and to work for the improvement of the professional qualification of banking sector employees in the country.

