

Banks and sustainable finance



Desislava Simeonova
Member of the Executive Board of the ABB
Executive Director of UBB AD

The sustainable finance and related to it responsible behavior as topics gradually gain top priority and clear focus in our agendas. In fact the development of innovative finance tools and instruments to address social and environmental problems is not exactly new. Historically, such finance has focused on concessionary finance, including grants, and mutual funds to support the “social economy”. Now in the focus of sustainable finance is the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities.

Many of the largest international finance groups have already launched their own dedicated Sustainable Finance Programs contributing through their core activities to mitigation of climate change and supporting the adaptation of their customers to these principles. Engaging on time in dialogue with the customers, helping them understand the ongoing changes, manage the risks, and use the opportunities, becomes of crucial importance. There is another key aspect related to the expected unprecedented volume of new green investments and the financial instruments to support them (at least 30% of EUR 1824 billion EU budget for 2021-2027 will support the Sustainability through Financial instruments and Grants). We are quite optimistic with regard to the Green Deal-related EU and Government-supported programs and instruments for businesses, as both the banks and their customers already have a strong track record in financing energy efficiency projects, including also elements of building renovation.

When discussing the Sustainable Finance topic logically comes the question - are we as banks prepared for all the upcoming challenges in this field? And the fair answer is – maybe not yet but steadily going in this direction. It is expected by us to drive and facilitate the necessary transition in the real economy through our client relationships, products and services. But first we need to start assessing the current impact of our activities, primarily the carbon footprints of our portfolios and the green assets financed. This means we have to gather the data necessary to do such evaluation and address the reporting requirements needed to quantify the impact. This will not be an easy exercise. The collected information will be used for setting clear targets for the impact of our activities and taking particular actions to achieve these targets such as to create green products, amend policies with regards to eligibility for lending, equity investments, and insurance. We can consider ourselves on the right track when join forces with the customers and work together towards the achievement of the common goals and grasping the opportunities. There are clear regulatory requirements on the topic we need to comply with:

- EBA's Implementing Technical Standards introduce structured approach to the Pillar 3 reporting, including on ESG topics. In practical terms, the standards provide the framework for disclosure of financed CO2 emissions linked to energy production and Green assets.
- EU Taxonomy Regulation – provides framework for classification of investments and activities. It effectively defines eligibility of green investments.
- Non-Financial Reporting Directive (NFRD), further extended (and to be replaced) by Corporate Sustainability Reporting Directive (CSRD) – imposes a formal reporting on ESG topics, including Climate action and Sustainable Finance. New elements in CSRD are the formalization of content requirements, structured reporting in a common electronic register, audit requirements and extended coverage to SMEs.

ECB Stress Test will be conducted in H1 of 2022, based on data and information as of the end of 2021 about income from the sectors expected to be affected by climate change and climate action, as well as data about top corporate exposures (on Group level) in these sectors.

In addition to their response and preparation towards the increasingly intensive regulatory agenda, the big banking and financial groups also intensify their efforts to counter climate change through undertaking voluntary commitments, such as the CCCA (Collective Commitment to Climate Action) and NZBA (Net Zero Banking Alliance).

It is obvious that the importance of the topic is growing and due to the scope and the relative complexity of the data required for sustainable finance reporting purposes, the need for establishment of formal governance regarding the data collection and validation process is quite visible and demanding for the banks. Positions like Corporate Sustainability Officer, Program Manager Sustainable Finance and EU Taxonomy Competence Officer will soon lose their exotic flavor and will become gradually more popular and even “must have” ones.

And last but not least is related to the role of state authorities in this challenge. Financial sector has a critical role to play in ensuring a truly sustainable recovery from the COVID-19 crisis but it can deliver better environmental, social or governance outcomes only if the banks and the investors have the tools and information they need. All the data that is needed for the regulatory assessment and is already available on state level should be accessible for objective and comparable ESG analysis. We as banks accept our role aiming at improvement the financial literacy of the clients on the topic but we should not burden them with administrative bureaucracy and documents collection related to centrally available data.

The banks cannot afford to carry out their activities as pure commercial enterprises. They are operating with attracted funds from the customers and have their mission in the name of society. The legislation and regulations assign them clear social responsibilities and commitments on climate and sustainability objectives. By channeling private investments into the transition to a climate-neutral, climate-resilient, resource-efficient and fair economy, as a complement to public money, we feel accountable for our and the next generation better future.



BASPSC: In the eve of its 25th Anniversary the Bulgarian Association of Supplementary Pension Security Companies had a successful start of the pay out phase of the supplementary pensions from the universal funds as of 1st of September 2021



Evelina Miltenova
Chairperson Bulgarian Association
of Supplementary Pension
Security Companies (BASPSC)

In 1997 the Association of Supplementary Pension Security Companies was established with the aim to unite the whole branch, namely for these years the new activity in Bulgaria – the supplementary pension security. Since then, we unite the efforts of all pension insurance companies and participate actively with own capacity, opportunities, expertise in the implementation of the pension reform, forming and improving the legislation in the sphere of the pension insurance. We strive to actively and successfully cooperate with regulators and key stakeholders for the pension industry – Financial Supervision

Commission, Ministry of Finance, Ministry of Labor and Social Policies, the relevant Committees in the National Assembly, with the major trade unions and employers' organizations. For the past years, the Association and its members are proud that we have performed these functions and the Pension Association was always an important factor in the implementation of the pension reform and the development of the three-pillar pension model in Bulgaria. Systematically we demonstrate and we had proved that this model is the only correct solution for the implementation of more adequate pension payments and higher income for the people in their golden pension ages. Over the quarter of a century the supplementary pension insurance established itself as an integral part of the Bulgarian pension model, which consists of three pillars:

First pillar - State social security (SSS) - covers the entire working population of the country. It operates on a cost-covering basis. The pensions of the current pensioners are currently paid with the contributions of the employees. It is implemented by the National Social Security Institute (NSSI) and in 2021 it is forecasted to register a gigantic deficit of over BGN 6 billion, already planned to be financed in the state budget through transfers.

Second pillar – supplementary mandatory pension insurance (SMPI) from private pension funds – operates and invests on the capital markets. Provides an early retirement pension for those working under the conditions of the first and second categories of work and/or a supplementary old-age pension for those born after 31st December 1959. Exactly this payment process began in September 2021.

Third pillar - supplementary voluntary pension insurance (SVPI) of a voluntary nature. It works on a capital principle. Allows the receipt of old-age, invalidity and survivors' pensions. It is carried out by private pension funds.

Unlike the insurance in the state solidarity pillar, the accounts of the insured in the capital pillar, the universal and voluntary pension funds, are inherited by law from the heirs in full. Upon transfer of the money from UPF to NSSI or Silver Fund, the heirs lose the right to receive this money. There is obviously a lack of information on how the solidarity pension fund managed by the National

Social Security Institute works and what exactly happens to the pension savings that some people transfer from the second to the first pillar. It is precisely the above described significant differences that will come to the surface now at the start of the payment of the second pensions from the capital pillar (universal funds) through inheritance, as well as on the manner of transparent and efficient management of funds.

Achievements of pension companies for the past period

As of June 2021, more than 4 million and 800 thousand people are insured in the four types of private pension funds. The assets of the pension funds exceed BGN 18.5 billion, and the pension insurance market has fully recovered after the high turbulence and temporary declines in 2020, marked by the Covid pandemic. The companies have been achieving good rates of return of over 4% for insured persons since the beginning of the year, despite the imposed policies of ultra-low and negative interest rates by the Central Banks. The funds managed to successfully position their portfolio investments in an environment of higher economic activity, improved market conditions and rising prices of financial instruments on international capital markets. Since the establishment of the pension funds, the average annual return in the period from 2002 to June 2021 for UPF /universal pension funds/ has reached 5.00%. For PPF /occupational pension funds/ it is close to 4.95%, and 5.30% for voluntary pension funds.

Upon the start of the pay out phase of the second pensions from the universal funds as of 1st of September, 2021 a new and important chapter in the development of national pension system has begun.

After almost three-years of efforts and intensive activity of the interdepartmental working group, led by the MLSP with the key participation of FSC, MF, unions and employers, in which BASPSC unwaveringly partnered and made a significant contribution for the necessary legal amendments in the Social Security Code approved by the National Assembly in March/April 2021. Those changes have been crucial to ensure the required regulation of pay out phase of the supplementary pensions from the universal funds.

The nine pension insurance companies were fully prepared to kick off and conclude new contracts and begin as of September after the implementation within ultra-short deadlines of the changes in the Social Security Code and the new updates by the FSC in the related ordinances. The pension companies invested in IT systems and modern technologies in order to serve the newly established funds for repayment and created necessary process to perform pay out of pensions to insured persons who have reached retirement age.

We considered that massively the insured persons are not properly informed and it is extremely important for them to know that the pension companies begin to guarantee at this stage with their own funds the accumulated gross installments in their special pension accounts in the phase of accumulation for the last almost twenty years. Practically with this decision the retirees are entirely protected from negative returns, the fees of the funds are fully set off before their funds are transferred to the new repayment funds, which by law are managed much more conservatively than the universal ones.

Depending on the individual needs the insured persons can now choose between three types of lifelong pensions such as: a) a lifelong pension without additional conditions, b) a lifelong pension with a guaranteed payment period or c) a lifelong pension with deferred payment of part of the funds until reaching the age chosen by the pensioner. The second main product is a pension with a pre-agreed deferred payment, while the third product for a single payment is for persons with small accounts below BGN 900, where it is possible to pay the entire amount to the person once.

At the moment, a large part of the clients of the funds, who do not postpone their retirement, sign contracts based on the selected product and in the next 1–2 months they will start receiving pension payments on their bank accounts in Bulgarian leva. As we had expected, they are driven to a different product than the lifetime pension, namely the deferred payment alternative. The preferred monthly amount is also not a surprise and amounts to BGN 300, which is the maximum allowed by law and corresponds to the minimum pension amount.

For the first month from the start of the phase is characterized by the fact that in case of interest in the lifelong pensions, the persons are oriented mainly to a lifelong pension with a period of deferred payment until reaching a certain age. In this case, too, there is a tendency to the desired amount, which is the maximum by law for this period, namely not less than BGN 300 per month, after which the pensioner will receive from the funds not less than the minimum amount of the monthly pension from the second pillar, which by law is 15% of the minimum pension from the National Social Security Institute - currently BGN 45.

In all pension companies there is a gradual but steady increase in interest, but the number of contracts is still relatively low. According to the data collected by the BASPSC for the pension companies, in the first month a total of over 250 contracts were concluded, of which 25 were lifelong pensions mainly by women who are also the first pensioners of the second pillar. The numbers will increase faster in the next year, when even more insured persons in the mandatory second pillar will reach retirement age. The report on the concluded contracts for supplementary pensions will be sent monthly by the pension companies to the Financial Supervision Commission, which will summarize and publish on its website, and can be monitored by all interested parties.

Along with the successful start of second pillar pension payments, BASPSC and employers' organizations will continue to insist that the remaining changes in Social Security Code be made in order to completely eliminate the injustice of reducing the state pension by a lower percentage, but not completely accurate coefficient of reduction yet. When determining the contribution to the Social Security Pensions Fund, all subsidies from the state budget should be taken into account in the calculations of the coefficient, regardless of the used formal name or definition in the law.

Participation in the institutional life of the financial sector and work with the members of the ABB

BASPSC actively cooperates with all organizations and institutions in the financial sector of Bulgaria, including the Association of Banks in Bulgaria and its members. We have been working together over the years and currently with

the banks being the main government securities market makers, who regularly submit to our Association a report on the market prices of the main government bonds used for the proper formation of the daily valuation of pension fund assets by our Price Information Center in support of all pension insurance companies. The Bulgarian depository banks are taking on an increasingly responsible role under the new regulations overseeing the activities of pension funds. They store and revalue investment instruments on a daily basis, as well as available liquid assets of the funds on the basis of previously concluded contracts for custody services.

The investment units/departments of the pension companies have been regular counterparties of banks for years for securities trading, foreign exchange transactions and hedging strategies. With the registration of the new specialized repayment funds and the expected growth of their assets, this joint collaboration will increase, and will continue to deepen in search of different investment solutions that meet the more conservative investment policy of these specific funds.

A very recent example of cooperation with the ABB's members is the fact that pension companies have again turned to the commercial banks licensed by the BNB for servicing and custodial services for the newly created under the new changes in Social Insurance Code Lifetime Pension Repayment Funds and Deferred Payment Funds and both they have welcomed and addressed with the needed professional attitude, cooperation approach and observance of high standards.

Within the payout phase, we expect even more fruitful joint collaboration of the pension companies, members of the BASPSC, with the Bulgarian commercial banks in connection with the legal obligation to pay pensions to bank accounts only in Bulgaria and in BGN to persons who have reached retirement age only, restricting the repayment of pensions abroad.

There are quite a few other examples of common actions that help and strengthen the development of the financial instruments markets in Bulgaria and the capital market in general. In December 2020, the ABB supported the development of the second pension pillar and the pension insurance companies as institutions with a high contribution to the economic stability in the country and the development of the Bulgarian capital market, by giving its official comments and guidelines in an official positive opinion on the bill during the public consultation of the proposed changes to amend the Social Security Code (CSC) in order to ensure the start of the second pensions.

The timely adoption of these amendments to the Code was a corner stone for the creation of a detailed legal framework regulating the process of payment of the pensions from the universal pension funds, letting the Bulgarian pension companies today to acclaim with the successful start of the payment of supplementary pensions from the capital pillar.



The Covid crisis necessitates to move from mandatory to voluntary enforcement



Ivan Hadjiivanov
Chairperson of the Council
of the Bulgarian Chamber of
Private Enforcement Agents

The new Council of the Bulgarian Chamber of Private Enforcement Agents (BCPEA) and I, as newly elected Chairperson, are taking over the leadership in a difficult situation in the country. On one hand, there is already a new wave of the COVID pandemic, and on the other hand, an economic crisis is looming. These are serious challenges that will affect the work of the colleagues. Last year, many law firms were forced to lay off staff due to poor financial health. And the training of any specialist is very expensive and lasts for years. I dismissed 5 people in my office because I didn't have the financial means to keep them. I do not expect next year to be easier for our work.

In the crisis year 2020 private bailiffs were the only profession that itself demanded restrictions on its activities. While some economically active entities were forced to stop working, private bailiffs did so deliberately. Restrictions on public sales, inventories, seizures of bank accounts continued for 4 months. Due to the emergency situation, we registered the weakest year in terms of results for private enforcement. However, I am convinced that the decision to freeze some of the activities was the right one. We have shown exceptional maturity - as a community and as an institution.

If we had chosen to act as debt collectors, we would have violated the fair balance that we are called to keep. At the same time, we have publicly demanded, in response to the crisis, for a solution to the problem of small debts to be found by introducing voluntary enforcement as an out-of-court procedure. As an institution, we also stood behind the introduction of the absolute ten-year limitation period for the individual debts.

Last year, the amount collected from private bailiffs was only BGN 655 million, of which BGN 151 million in favour of citizens, which accounted for 23% of all cases, and respectively, from alimony – BGN 5 million, from labour disputes – BGN 3 million. The cases in favour of banks were already less than 10% of all cases. Behind these numbers stood the receivables from unpaid salaries, alimony, rents, unpaid loans and other amounts under contracts, compensation for traffic accidents, serious crimes and others, extremely important to people.

Our activity is directly related to the economy of families, municipalities and the state. People who have been awarded receivables want to collect them because they have the right to do so and they need the money. The slowdown in our activity will affect the speed of overcoming the crisis. Therefore, we believe that for the private and public sector it is vital to restore the full scope of our activities, in compliance with social requirements.

It is a fact that private bailiffs often work in an insecure and unfriendly environment. The figure of the debtor is presented almost as a victim and this populist imposition of such an image in the minds of society has been going on for years. In the economically developed states where the rule of law is respected, there is intolerance towards defaulting debtors and the malicious violation of public justice.

One of the main priorities of the new management of the BCPEA is to continue the process of electronic enforcement of judicial enforcement. It is extremely necessary during a pandemic, because it will better preserve people's lives and health.

We closely follow the good practices of our colleagues in the European Union, as we receive information from the International Union of Bailiffs. We have proposals that, if accepted, would have positive effects on society.

The platform for electronic auctions is ready, we expect the Ordinance to be finalized in order to start work. We have electronic access to the Register of bank accounts and safe deposit boxes of debtors.

The RegiX system we have joined is an initial success, but it is not enough. It is good to be able to make inquiries without fees, so as not to burden the parties to the enforcement proceedings with the costs for them. However, we do not yet have access to information about cars from traffic police.

The unprecedented global situation, complicated by the proliferation of COVID-19, shows that the emphasis must be shifted from mandatory enforcement to voluntary enforcement - even before the court intervenes. Voluntary collection of debts from a bailiff and voluntary sales are widely discussed and accepted in European countries. Apart from the fact that it is many times cheaper for the debtors, this method allows them to control and solve their problems by rescheduling the debts. Unfortunately, so far, the National Assembly does not recognize this idea that we have.

Meanwhile, extending the opportunities for the collection of public claims is needed. There is still much to be achieved on this issue, as there is a long-standing policy of the Chamber that must be continued. By assigning the collection to us, the state pays nothing, and the costs are finally covered by the debtor who has not paid his debt to the state.

With regard to the Ministry of Interior, we believe that we should ask to collect the costs in the pre-trial proceedings and the traffic police fines. This is very important for prevention and, in our opinion, there will be great public interest in collecting fines for persistent offenders committing traffic violations.

The directions for expanding our powers, in which we are currently working, are:

- voluntary sales,
- fact-finding,
- voluntary collection of small debts out of court.

Among our priorities for future activities is to increase the number of public creditors who assign their claims for collection to private bailiffs – the National Revenue Agency (NRA), state institutions, ministries, agencies and others.

Private bailiffs have always been an engine of change aimed at improving our work, but we have also aimed that they are in the public interest and for the benefit of the business and citizens.



IN BRIEF

■ In August the Executive Board of the ABB took a decision to establish a Working Group on Sustainable Finance at the Executive Board of the ABB. The establishment of the Working Group is due to the increase in the intensity of topics in the field of sustainable finance, which implies higher interest in the matters in this area. It is mainly caused by the initiatives of the European Commission (EC) and related the regulations and other legal acts, which are already applied or are expected to be applied in the future. As part of the activities in this area, representatives of the ABB and other associations dealing with financial services are already participating in the Sustainable Finance Subgroup of Working Group 26 “Financial Services” at the Ministry of Finance, which was created in view of the need for a mechanism for effective and timely coordination of the positions at national level.

■ In September the ABB nominated Mrs. Desislava Simeonova - Member of the Executive Board of the ABB, Executive Director and Member of the Management Board of United Bulgarian Bank AD, as a representative of the ABB in the Advisory Board of the Fund Manager of Financial Instruments in Bulgaria EAD. Mrs. Simeonova was appointed by the Executive Board of the ABB in response to an invitation addressed by the Ministry of Finance to the ABB to nominate such a representative.

■ In September the annual General Meeting of the International Banking Institute (IBI) Ltd., which is practically owned by ABB, was held. It adopted the report on the activities of the organization for 2020, as well as the financial plan for 2021. The IBI Ltd. continues to organize distant trainings and seminars on the most current and important topics for the banks, in active cooperation with the ABB.