

Member Profile

Bulgarian Deposit Insurance Fund

A Founding Member of IADI



BULGARIAN DEPOSIT
INSURANCE FUND



The National Theatre, Sofia

The **Bulgarian Deposit Insurance Fund** (BDIF) is an independent public institution established in January 1999 under the Law on Bank Deposit Guaranty. That law provides for the Fund's basic functions: insuring bank deposits and repaying the insured amount of deposits in the event of a bank failure, determining and collecting premiums from banks and investing its assets. With the adoption of the Law on Bank Bankruptcy at the end of 2002, BDIF's mandate was broadened by new powers in the administration of bank bankruptcy proceedings.

Deposit insurance in Bulgaria has undergone several stages. In early 1996, the first deposit insurance scheme was created with the aim of replacing the implicit full state guarantee. Deposits of physical persons were insured and coverage was relatively low. As the DIS introduction coincided with the outbreak of a dire financial crisis, the scheme did not begin operating. In 1996-97 about 20 banks, comprising nearly one quarter of the banking system assets failed.

To curb the crisis, extraordinary legislation was adopted and the Government compensated depositors in closed banks from the budget (households were compensated in full and legal entities at 50%). Once the situation had stabilized, the Law on Bank Deposit Guaranty was adopted in 1998. The Law introduced an explicit DIS with limited coverage on deposits and established an independent deposit insurance institution – the BDIF.

At present, thirty-five commercial banks, including six foreign banks' branches, operate in Bulgaria and the participation of the banks in the system is mandatory. Under certain circumstances only branches of foreign banks operating in Bulgaria may be allowed not to participate in the system.

Currently, there are thirty-two member institutions. Three branches of Greek banks that are covered under the Greek DIS do not participate.

The system is industry funded by member institutions paying entry and annual premium contributions to the BDIF. The banks' entry premiums amount to one percent of the bank's registered capital but not less than BGN 100,000 (approx. EUR 51,100). Annual premiums paid by banks are 0.5 percent of the total amount of the previous year's deposit base determined on an average daily basis. Annual premiums are due not later than 31 March in the current year. The BDIF is considering the possibility of replacing the current flat-rate premiums system with a risk-based one.

BDIF may invest its funds in government securities, issued or guaranteed by the government, short-term deposits with commercial banks authorized to act as primary dealers of government securities and deposits with the Bulgarian National Bank (BNB). Currently BDIF funds amount to BGN 193 million (approx. EUR 100 million). The target ratio of the Fund, stipulated by law, is 5% of the total deposit base in the banking system. In the event of a shortfall of resources, the BDIF may borrow from the market with a government guarantee.

Deposits of physical persons and legal entities in national and foreign currency are currently insured in full up to BGN 15,000 (approx. EUR 7,600) per depositor, per bank. By end-2006, the coverage is to be gradually raised to BGN 39,200 (EUR 20,000) as part of the commitments related to Bulgaria's future accession to the European Union and in compliance with the minimum coverage required by EU Directive 94/19/EC.

Insured deposits are repaid in national currency. Disbursement is done *via* a commercial bank determined by the BDIF Management Board and it begins within 45 days from the date of the BNB revocation of a bank's license. The BDIF has successfully performed its insurance function in the two bank failures since its establishment (in 1999 and 2000).

With the adoption of the Law on Bank Bankruptcy, effective as of 28 December 2002, the BDIF controls how trustees exercise their powers by appointing and removing the trustee, determining their remuneration, controlling expenses and transactions, and by issuing instructions on how they exercise powers. The Fund drafted regulations, adopted by the BNB, on trustees' remuneration, BDIF inspections of banks in bankruptcy, trustee report format, as well as on tariff relating to bankruptcy proceedings. The BDIF performs off- and on-site inspections of failed banks.

The Fund is accountable to the Council of Ministers, the BNB and the National Audit Office by presenting them its Annual Report. The National Audit Office audits the BDIF financial activities.

BDIF is managed by a Management Board, consisting of five members. The Chairman is designated by the Council of Ministers; the Vice Chairman – by the BNB Managing Board; one member is a representative of the Association of Commercial Banks; and the two other members are appointed jointly by the BDIF Chairman and Vice Chairman. The Fund relies on its own resources. Thirteen dedicated experts work in the Banking, Legal, Investment Management, Accounting, International Cooperation and Public Relations departments. Outsourcing is used in resolving specific issues.



A strong emphasis is placed on international contacts. The Fund receives and provides assistance on deposit insurance issues through bilateral cooperation. The BDIF is a founding member of IADI and actively participates in its activities. The Fund is also a founding member of the **European Forum of Deposit Insurers**.

Picture: Bisser Manolov, Chairman of the Management Board, Bulgarian Deposit Insurance Fund and member of the Executive Council, IADI.

The BDIF is a major safety net player contributing to the stability and confidence in the Bulgarian banking system by insuring depositors' funds in banks and protecting the interests of creditors in bank bankruptcy proceedings.

Visit the Bulgarian Deposit Insurance Fund on its web site: www.dif.bg and learn more about them and deposit insurance in Bulgaria.