

International Deposit Insurance Survey

Section 1: Background Information

1.1 Organization (deposit insurer) responsible for administering the deposit insurance system:

1.1.1 Organization Name:

Bulgarian Deposit Insurance Fund

1.1.2 Organization Address:

27 Vladaiska Street, 1606 Sofia, Bulgaria

1.1.3 Organization Telephone No:

+359-2-953-1217

1.1.4 Organization Fax No:

+359-2-952-1100

1.1.5 Organization Internet Address:

www.dif.bg; contact@dif.bg

1.2 Contact Person(s):

1.2.1 Contact Person(s) Name:

Roumyana Markova

1.2.2 Contact Person(s) Address:

27 Vladaiska Street, 1606 Sofia, Bulgaria

1.2.3 Contact Person(s) Telephone:

+359-2-917-2049

1.2.4 Contact Person(s) Fax:

+359-2-952-1100

1.2.5 Contact Person(s) E-mail address:

r.markova@dif.bg

1.2.6 Are there other deposit insurance systems operating in your country ? (i.e. applying to other types of non-bank or non-depository institutions e.g.. insurance, securities) Please state their name(s) and contact information:

No

1.3 Please provide information on other participants in your financial system safety-net:

1.3.1 Name of Central Bank:

Bulgarian National Bank

1.3.2 Central Bank Address:

1 Knyaz Alexander I Square, 1000 Sofia, Bulgaria

1.3.3 Central Bank Telephone:

+359-2-91-459 (Switchboard)

1.3.4 Central Bank Fax:

+359-2-980-2425

1.3.5 Central Bank Internet Address:

www.bnb.bg; press_office@bnbank.org

1.3.6 Central Bank Contact Person:

press_office@bnbank.org

1.4 Financial Supervisor:

1.4.1 Financial Supervisor Name:

Bulgarian National Bank (Banking Supervision Department)

1.4.2 Financial Supervisor Address:

1 Knyaz Alexander I Square, 1000 Sofia, Bulgaria

1.4.3 Financial Supervisor Telephone:

+359-2-9145-9 (Switchboard)

1.4.4 Financial Supervisor Fax:

+359-2-980-2425

1.4.5 Financial Supervisor Internet Address and contact:

www.bnb.bg; press_office@bnbank.org

1.5 Other related entities:

1.5.1 Other Related Entities Name:

Ministry of Finance

1.5.2 Other Related Entities Address:

102 G.S.Rakovski Street, 1040 Sofia, Bulgaria

1.5.3 Other Related Entities Telephone:

+359-2-9859-1 (Switchboard)

1.5.4 Other Related Entities Fax:

+359-2-9859-2079

1.5.5 Other Related Entities Internet Address:

www.minfin.bg; feedback@minfin.bg

Section 2: Objectives, Mandates & Powers

2.1.1 When and why was the DIS established (please provide details)?

The current deposit insurance system in Bulgaria was established by the Law on Bank Deposit Guaranty ("LBDG") adopted by the Parliament in 1998. Under the provisions of LBDG the Bulgarian Deposit Insurance Fund ("BDIF") was created and started operations in January 1999. Prior to the current deposit insurance system, in early 1996 the first deposit insurance scheme in Bulgaria was established. This scheme was based on Directive 94/19/EC on deposit-guarantee schemes. The scheme failed to start normal operations due to the outbreak of the dire 1996 financial crisis where 17 banks comprising 25% of the assets in the banking system failed. To curb the crisis extraordinary legislation was adopted, providing for 100% repayment of deposits to individuals and 50% repayment of deposits to companies in closed banks from the state budget. This deposit insurance scheme operated until the adoption of LBDG.

2.1.2 What are the stated public policy objectives or mandate for your country's DIS? When was the last time they were reviewed and changed?

BDIF activity aims at promoting stability and confidence in the banking system, thus contributing to the economic growth and prosperity in Bulgaria. Under the LBDG BDIF major functions include: determining and collecting premiums from member banks; investing its assets in accordance with the statutory provisions and repaying guaranteed amounts of deposits. Under the Law on Bank Bankruptcy ("LBB") enforced as of December 2002 the BDIF administers the bankruptcy proceedings of a failed bank by controlling the trustee, approving transactions and sanctioning the resolution method. Under the Law on Credit Institutions ("LCI") enforced as of 1 January 2007 BDIF may participate, subject to BNB decision, in the restructuring of an ailing bank by capital infusion.

2.1.3 What process was used to determine these objectives in your country?

BDIF's objectives and mandates have developed over time to reflect changes in the economic and political climate taking into consideration public interest.

2.1.4 What is the legal basis under which the DIS was established? Please provide a copy.

Legislation

Law on Bank Deposit Guaranty ("LBDG")

2.1.5 Is there a formal process for a periodic review of the policy objectives/mandates?

No

2.1.6 What sort of system do you have?

Government legislated and administered

The system is industry funded.

2.1.7 Who makes decisions to pay depositor claims?

DIS

Upon license revocation by the central bank.

2.2 Which of the following powers has been provided to the DIS in order to carry out its mandate?

2.3 Authority to

2.3.1 Enter into contracts

Yes

2.3.2 Set regulations or by-laws for conduct of its business

No

BDIF drafts ordinances which are subject to approval and issuance by the BNB and adopts its internal regulations.

2.4 Authority over entry and exit of member deposit taking institutions

2.4.1 Establish terms and conditions of membership

No

2.4.2 Authority to terminate the insured status of a member institution

No

2.5 Depositor reimbursement

2.5.1 Affect reimbursement of depositors claims

Yes

2.5.2 Access to depositor information

Yes

Access is provided by the conservator/trustee.

2.5.3 Use various methods of reimbursing depositors claims

No

Insured deposit transfer via a servicing bank.

2.6 Funding

2.6.1 How funding is provided

No

2.6.2 Terms and conditions of premiums or levies

No

Set in LBDG.

2.6.3 Borrowing authorities and limits

Yes

In the event of shortfall of resources.

2.7 Information Requirements

2.7.1 Access to information directly from member deposit taking institutions or its

auditors

Yes

In addition to the information provided by the supervisory authority, member banks submit information on eligible deposits.

2.7.2 Access to information through supervisory authorities

Yes

Provided for in LBDG.

2.8 Enforcement and intervention

2.8.1 Authority to conduct examinations and/or reviews

No

BDIF may ask BNB to conduct examinations in operating banks and present the findings under LBDG. BDIF may conduct examinations in failed banks under LBB.

2.8.2 Ability to set standards or guidelines for member institutions

No

2.8.3 Authority to take enforcement actions against members (i.e. such as the authority to require a change in institutional control and/or behaviour).

No

2.8.4 Authority to cancel deposit insurance of a member institution

No

2.8.5 Authority to hold officers and directors of failed institutions legally liable for the failure of the institution

No

2.9 Failure resolution

2.9.1 Authority to decide on appropriate form of failure resolution

No

2.9.2 Authority to provide financial assistance (e.g. in the form of a loan -- with or without security -- by purchasing assets from the institution or through some other process).

Yes

Under LCI where BNB orders a forced increase of capital BDIF may acquire the new shares.

2.9.3 Authority to guarantee deposits with member institutions or guarantee loans to an institution by other parties

No

2.10 Authority to:

2.10.1 Undertake formal liquidation

No

2.10.2 Purchase and assumption (sale and merger)

No

2.10.3 Open assistance (bridge bank)

No

Cf. 2.10.4.

2.10.4 Other forms of failure resolution

Under LBB, where BNB revokes a bank's licence, the court opens bankruptcy proceedings and trustee is appointed. BDIF administers the bankruptcy proceedings by overseeing the bankruptcy estate management (appoints the trustee, approves liquidation plan, budgets, transactions, etc.) and approving the failure resolution method - by public disposition of the bank's property or by selling the bank as an enterprise or both. So far, in the five resolutions BDIF has administered the failed banks have been sold as enterprise. Under LCI where a bank runs a risk of insolvency, the BNB may order a forced increase of capital and the BDIF may acquire the new shares.

2.11 Optimizing recoveries

2.11.1 Ability to act as a receiver

No

2.11.2 Ability to act as a liquidator

No

BDIF appoints and controls the trustee (two physical persons), e.g the liquidator of the failed bank.

Section 3: Governance Arrangements

3.1.1 Is the DIS a legally separate organization from other public or private bodies? (e.g. central bank, supervisor, industry association)

Yes

Bulgarian Deposit Insurance Fund ("BDIF") is an independant agency established under the Law on Bank Deposit Guaranty ("LBDG").

3.1.2 What is the form of governance used by the DIS organization?

Board or Committee

null|null|BDIF is managed by a Management Board.|null|null|

3.1.3 How is the governing body selected?

The members of BDIF Management Board are physical persons who are designated as follows: 1. The Chairman - by the Council of Ministers; 2. The Vice Chairman - by the Bulgarian National Bank Governing Council; 3. One member - by the Association of Banks in Bulgaria; 4. Two members - jointly by the Chairman and the Vice Chairman of the BDIF Management Board.

3.1.4 What is the composition of the governing body?

BDIF Management Board consists of five members who are physical persons: - Chairman; - Vice Chairman; - Three Board Members.

3.1.5 What are the duties and responsibilities of the governing body?

The Management Board is the policy making body, within the provisions of the respective legislation, of

BDIF regarding: investment activity, repayment of insured amounts of deposits, approval of annual reports, preliminary approval of budget; trustee's management of bankruptcy estate, manner of disposition of failed bank; participation in the rehabilitation of a distressed bank by capital infusion; drafting secondary legislation (issued by the central bank or state administration).

3.1.6 Is there any direct or indirect representation in the management of the DIS by member insured institutions?

Yes

One Board Member is designated by the Association of Banks in Bulgaria.

3.1.7 Is there any direct or indirect representation in the management of the DIS by the central bank?

Yes

The Vice Chairman is designated by the Bulgarian National Bank.

3.1.8 Is there any direct or indirect representation in the management of the DIS by the regulator?

Yes

The Vice Chairman is designated by the Bulgarian National Bank.

3.1.9 Is there any direct or indirect representation in the management of the DIS by the supervisor?

Yes

The Vice Chairman is designated by the Bulgarian National Bank.

3.1.10 Is there any direct or indirect representation in the management of the DIS by other?

No

3.1.11 Please provide a breakdown of the management structure of the DIS

BDIF is managed by a Management Board consisting of: - Chairman; - Vice Chairman; - Three Board Members. The Chairman manages BDIF's activity and its administrative staff.

3.1.12 Do you have an internal control and audit systems

Yes

3.1.13 Are directors and officers of the DIS and/or supervisors personally liable for their decisions in the normal course of their activities?

Yes

Management and staff are not legally protected in exercising their duties.

3.1.14 Is there an advisory committee to the DIS?

No

No permanent advisory committee. However, under LBDG the Management Board may recruit experts and form commissions to assist BDIF in its functions.

3.1.15 Has the DIS ever taken legal action against directors of failed member institutions? Or others? What position did the person(s) hold?

No

3.1.16 Please indicate which of the following tools are used as part of your

accountability regime.

Annual Reports, Audited Financial Statements, Other Reporting Requirements
BDIF Annual Report is presented to the Council of Ministers, the Bulgarian National Bank and the National Audit Office. Required under the Accountancy Law. Published in the State Gazette and posted on BDIF website. The annual budget for BDIF administrative expenses together with a report on its performance are presented for approval to the BNB Governing Council. The approved budget and report on its performance are presented to the National Audit Office.

Section 4: Human Resources & Infrastructure

4.1.1 What is the total number of employees at the DIS (e.g. full-time, part-time and contract) ?

The number of full-time employees is 22, incl. BDIF Chairman as of end-July 2008. People working on contract basis are 3 in 2008.

4.1.2 Are the majority of DIS employees dedicated staff or do they come from other organizations (i.e. government, central bank, private sector)?

Yes

The majority of BDIF employees are dedicated staff. For resolving specific issues the BDIF is assisted by highly qualified consultants and advisors.

4.1.3 Does the DIS train and develop its own staff? If so, briefly describe programs which have been put in place for training and development?

Yes

In order to ensure efficient operations BDIF management puts strong emphasis on continued training and development of the personnel. BDIF staff participates in various forms of training. BDIF have received TA under two USAID-sponsored projects and including in-house training on bank bankruptcy issues, risk-adjusted premiums, IFRS, PR, participation in the rehabilitation of an ailing bank and other topics of interest as well as study visits to DIS abroad.

4.1.4 Is there shared training and development between the staff of the DIS and other authorities involved in financial sector supervision or regulation? (i.e. central bank, supervisor, regulator, other)

Yes

Under the two USAID-sponsored projects.

4.1.5 Are compensation and incentives offered sufficient to attract and retain skilled staff? Please elaborate.

4

4.1.6 Are confidentiality provisions for employees provided for?

Yes

Set in LBDG, Code of Ethics and other internal documents.

4.1.7 Do employees of the DIS receive legal protection against lawsuits for their actions taken in good faith and acting in the best interests of the DIS?

No

4.1.8 What percentage of the budget is spent on training and development and information technology?

The training and development item accounted for 0.9% in 2007. Expenditure on software, maintenance and

subscription was over 6% in 2007; this figure does not include expenditure on hardware.

Section 5: Information Sharing & Interrelationship Among Safety-Net Players

5.1.1 Who performs examinations of DIS member institutions?

Central Bank

Examinations of DIS member institutions are performed by the BNB Banking Supervision Department.

5.1.2 Please describe the examination process that is used to evaluate member institution performance?

The Bulgarian National Bank reviews the rules, strategies, procedures and mechanisms which banks have introduced to comply with LCI and the acts on its implementation and assesses the risks to which banks are or may be exposed. On the basis of the review and the evaluation, the BNB determines whether the rules, strategies, procedures and mechanisms adopted by banks, the way they are applied, and their own funds ensure stable management and coverage of risks. The frequency and intensity of the supervisory review and evaluation depends on the size of the respective bank, its systemic importance and nature, the volume and complexity of its activities. Such review and evaluation shall be updated at least on an annual basis. For the purpose of the evaluation BNB carries out on- and off-site inspections and assigns CAMELS ratings to banks on the basis of the reviews. On demand by BDIF the Banking Supervision Department may require from banks any documents necessary to make an unbiased evaluation on the existence and status of claims on guaranteed deposits. BDIF may demand from the Banking Supervision Department to conduct limited examinations in banks and present the findings to BDIF.

5.1.3 What information is collected from member institutions for the DIS and other parties?

BDIF receives information on the assessment base (eligible deposits) from member institutions.

5.1.4 What arrangements (i.e. formal or informal) are in place between organizations responsible for deposit insurance and other parties comprising the safety-net (e.g. central bank, supervisor, regulator) regarding the sharing of information concerning member institutions? Please provide details of these agreements.

Under LBDG BNB provides information on the assessment base (eligible deposits) and on the financial status of banks in view of assessing the risk borne by the BDIF. On this basis a Memorandum of Understanding was signed with the BNB in 1999. Under this MoU the BNB provides banks' financial status monthly, and detailed analysis report on quarterly basis. Additional data (such as ad hoc reports, sanctions imposed on banks, results from on-site inspections, conclusions regarding assessment base calculation and premiums' determination) are also received. In view of forthcoming changes related to the introduction of risk adjusted premium system an update of the MoU is pending. A Letter of Cooperation with the Association of Banks in Bulgaria was signed in 2001.

5.2 On a scale from 1 to 5, 1 being low and 5 being high, please rate both the accessibility (i.e. access to all necessary information for the DIS to fulfill its mandate) and timeliness (i.e. information is received when needed) of information that is shared amongst members of the safety net.

5.2.1 accessibility

3

5.2.2 timeliness

3

5.2.3 Is there a consistent definition/classification across authorities of problem institutions

Yes
In LCI.

5.2.4 When policy regarding the DIS and financial sector is developed or amended, are other bodies consulted and/or advised (e.g. central bank, supervisor, regulator, government, industry associations) ? If you do consult and/or advise what bodies do you do it with?

Consult
The central bank, government (Ministry of Finance), banking industry, banking association. |null|null|

5.2.5 Is discussion with other bodies encouraged prior to the implementation of new policy?

Yes
E.g. for the introduction of a system for risk adjusted premiums.

5.2.6 How often do you contact other DIS?

Regularly

5.2.7 Is the DIS consulted when the regulator, supervisor or central bank enters into an agreement with a financial institution that is experiencing problems?

Sometimes
E.g. when the central bank orders a forced increase of capital, it may ask BDIF to acquire the new shares.

Section 6: Membership

6.1.1 What types of institutions are covered in your DIS?

BDIF member institutions are banks, which provide lending, deposit taking, investment services, etc. There are no savings banks, co-operative banks or credit unions operating in Bulgaria.

6.1.2 Is membership in the DIS mandatory for designated deposit taking institutions?

Yes
All banks licensed to operate in Bulgaria as well as non-EU branches not covered by their home country DIS shall participate in BDIF.

6.1.3 Do you have terms and conditions of membership? (i.e. laws, regulations or agreements which member institutions have to abide by) If so, please explain the application process used and any conditions of membership imposed on institutions by the DIS.

No

6.1.4 Is the membership of foreign institutions (i.e. foreign bank branches and/or subsidiaries) covered in the same way as domestic institutions? If not, please describe the difference.

Other
EU branches are covered by their home country scheme; non-EU branches shall participate in the scheme if

not covered by their home country scheme or if provided scope/level of coverage is lower. Subsidiaries are covered in the same way as domestic institutions.

6.1.5 If more than one safety-net organization is responsible for the application process for membership, how is the application process coordinated between the parties responsible?

N/A

6.1.6 Are deposit-taking institutions required to re-apply for membership after a certain period of time?

No

6.1.7 How many member institutions do you have?

26 member institutions, incl. 2 branches of foreign banks from non-EU states.

6.1.8 What is the total level of assets, deposits and insurable deposits of all DIS member institutions?

As of end-2007: - total level of assets was BGN 51.875 billion/EUR 25.523 billion; - deposits: BGN 45.153 billion/EUR 23.093 billion; - insurable deposits: BGN 32.179 billion/EUR 16.453 billion.

Section 7: Coverage

7.1.1 Is there a formal definition of a deposit and or insured deposit used by your DIS? If so what is it?

Yes (please explain)

LBDG, Additional Provision, Art.1: 'Deposit' shall be the funds kept on a bank account, irrespective of its type, opened in the name of one or more persons, or credit balances ensuing from temporary positions as the result of usual banking transactions, whereas the bank is obliged to repay such funds or balances to the depositors in pursuance of the statutory and contractual provisions applicable.

7.1.2 What types of deposits are eligible for coverage in your DIS?

Savings account,Chequing account,Annuity contracts,Money orders,Certified drafts of cheques,Foreign currency deposits

null|null|null|null|null|null|null|null|null|null

7.1.3 Is coverage

per depositor per institution

7.1.4 What is the coverage limit per depositor?

BGN 40,000 (EUR 20,452)

7.1.5 How was this figures arrived at?

With the accession to the EU Bulgaria undertook the commitment to harmonize its deposit guarantee legislation with the provisions of Directive 94/19/EC on deposit-guarantee schemes and implement the minimum required coverage of EUR 20,000. Coverage was raised as follows: 1998 - BGN 6,900/EUR 3,528 (co-insurance); 2002 - BGN 10,000/EUR 5,113 (co-insurance abolished); 2003 - BGN 15,000/EUR 7,670; 2005 - BGN 25,000/EUR 12,782; 2007 - BGN 40,000/EUR 20,452.

7.1.6 For eligible financial instruments with maturity dates, what is the longest contract term covered by the DIS?

Eligible financial products are covered regardless of their maturity.

7.1.7 What types of depositors are not eligible for coverage in your DIS?

Officers and directors of member institutions, Other
null|Spouses and close relatives up to second lateral degree. |null|null|Deposits of financial and insurance
institutions, pension funds, government, municipalities, guarantee funds (incl. BDIF); preferential rate
deposits; deposits associated with money laundering.|

7.1.8 Is the coverage amount indexed?

No

7.1.9 What is it indexed to?

N/A

7.1.10 Does your DIS use coinsurance? If coinsurance is used please describe the approach used.

No

7.1.11 Is the public widely aware of the presence of coinsurance?

other

N/A

7.1.12 Are coverage levels affected by resolution methods? If so, please explain.

No

7.1.13 To what extent, is there a public expectation that the DIS coverage limit would be extended to 100% coverage in the event of a banking crisis or the failure of a very large institution? Please provide recent examples, if applicable.

Other

N/A

7.1.14 How is a decision made on the insurance eligibility of new financial products?

New financial products are eligible for guarantee provided they fall within the scope of the definition of 'deposit' under LBDG.

7.1.15 When member institutions merge how are insured deposits treated?

In the event of merger insured deposits are treated separately for six months after the transformation.

7.2 Does your country offer the following?

7.2.1 Islamic banking

No

7.2.2 Islamic deposit insurance

No

Section 8: Funding & Fund Management

8.1.1 What type of funding is used by the DIS?

Ex-ante (defined as the accumulation of a reserve or fund to cover deposit insurance claims in anticipation of the failure of a member institution).

8.1.2 Is the DIS funded by levying insurance premium assessments against member institutions or, by some other means such as general tax revenues?

Premium assessment

8.1.3 If insurance premiums are assessed, are they assessed as a flat rate or are they differential in some way, please explain? (e.g. risk based)

Under LBDG premium contributions are assessed as a flat rate.

8.1.4 What is the current premium rate? If there have been changes to this rate, details would be appreciated.

Premium rate is set in LBDG at 0.5% of the eligible deposits for the previous year calculated on average daily basis.

8.1.5 How often is the premium assessed?

Once yearly: premiums are due by March 31 and banks are charged for delay.

8.1.6 Is the premium assessed on total deposits, insured deposits or something else?

Other

Eligible (insurable) deposits

8.1.7 Are premiums paid by member institutions tax deductible as a business expense?

Yes

8.1.8 For premiums that are differentiated please explain the risk assessment system that is used to ascertain a premium assessment.

8.1.9 Does the DIS have a target with respect to the optimal size of the DIS fund? (Yes is chosen go to question 8.10 otherwise Skip the next 2 questions)

Yes (Go to next question)

8.1.10 How is the optimum level (i.e. target) of the fund determined?

Under LBDG the target ratio of the fund is set at 5% of the eligible deposits.

8.1.11 What investment policies (i.e. safeguards against abuse) exist concerning the use of the fund?

Under LBDG funds may be invested in government securities issued or guaranteed by the state; short term deposits with banks which are authorised primary dealers of government securities and deposits with BNB. Under the investment policy and procedures adopted limits are set for deposits with banks as a safeguard against abuse.

8.1.12 If a fund is not maintained, is an assessment levied on institutions after the failure of a financial institution has occurred? If so, please explain how the levies are determined and losses distributed among institutions.

8.1.13 Which of the following sources of additional funding, for emergency or

liquidity purposes, does the DIS have access to?

Government funding, Access to private markets, Other please explain

After a decision by Parliament to this effect. |null|Increase of premium rate to 1.5% and advance collection of premiums. |

8.1.14 Are member institutions required by law to issue, on a regular basis, subordinated debt?

No

Section 9: Reimbursing Depositors

9.1.1 Please describe the procedure for reimbursing depositors used by your DIS?

Depositors are reimbursed via deposit transfer to a servicing bank. BDIF makes a lump sum payment to the agent bank of the amount of insured deposits less the encumbered ones, which are additionally repaid after the encumbrances have been lifted. Depositors can either withdraw their insured deposit amount or leave it with the servicing bank. In the bankruptcy proceedings BDIF subrogates into the rights of the insured depositors. Uninsured depositors, and BDIF rank equal in the distribution of the proceeds of the liquidated bankruptcy estate.

9.1.2 Are depositors required to file a claim when a member institution fails? If so, what is the process?

Yes

Depositors present a deposit contract or any other relevant document and an ID, and sign a declaration he/she is not a close relative to the management, supervisory bodies and auditors of the bank and obtain a certificate against which they receive their guaranteed amount in the servicing bank.

9.1.3 When is the DIS obligated to reimburse insured depositors?

BDIF is obligated to reimburse depositors upon license revocation of a bank by the central bank. Under LBDG repayment shall start no later than 45 days after license revocation.

9.1.4 Is there an established legal basis upon which to base the reimbursement process? Please explain.

Yes

LBDG and Ordinance No 23 on the Terms and Procedure for Payment of Insured Amounts on Deposits with Banks with Revoked Licenses

9.1.5 Is the DIS subject to explicit standards for prompt reimbursement? If so what are they?

Yes

Under LBDG reimbursement starts within 45 days of license revocation and is done via a servicing bank. The prescriptive period for claiming an insured amount is five years under the Law on Contracts and Obligations.

9.1.6 What methods of payment can be used and under what circumstances are they used?

Insured deposit transfer via a servicing bank is the only statutorily defined method of payment. BDIF makes a lump sum payment of the insured deposit amounts to the servicing bank where the depositors may dispose with their money.

9.1.7 Are the rules regarding clearing, set-off, trust accounts, and related issues well defined (through the legal system or formal agreement)? Please explain.

Yes

Set-off rules are provided for in the Law on Bank Deposit Guaranty and in the Law on Bank Bankruptcy.

9.1.8 What are financial institutions obligated to hold with respect to deposit records?

Banks are obligated to hold any information needed to identify the deposit holder and his accounts with the bank.

9.1.9 When is the DIS given access to an institutions financial and depositor records?

The conservator/trustee verifies deposit records and provides copies of those to BDIF within fifteen days of license revocation.

9.1.10 Does the DIS have the option of making advance payments to depositors in situations of dire need (i.e. in an emergency)?

No

9.1.11 Does the DIS make interest payments to depositors during the time taken for reimbursement? Please explain.

No

9.1.12 What information is communicated to depositors regarding the reimbursement process?

After license revocation BDIF sends a press release to the media giving details on the coverage and reimbursement procedure. Under LBDG BDIF is bound to announce in at least two major dailies the initial day of reimbursement and the servicing bank. BDIF PR Dept. sends a press release to the media to the same effect. Information is also posted on BDIF website, provided on BDIF premises and on the hot telephone line.

9.1.13 What process does the DIS use to ensure that depositor secrecy and confidentiality is maintained during the reimbursement process?

The failed bank and the servicing bank are responsible for observing bank secrecy. A tripartite contract between the failed bank, BDIF and the servicing bank is concluded, which contains confidentiality provisions.

9.1.14 What steps are taken to verify, reconcile and settle insured deposit accounts?

This is an obligation of the conservator/trustee.

9.1.15 What steps are taken to ensure that an institutions depositor records are accurate, up to date and accessible?

This is an obligation of the conservator/trustee.

9.1.16 Does the DIS document its experiences with respect to each reimbursement action (i.e. lessons learned) in order to allow for continuous improvement?

Yes

9.1.17 What technologies does the DIS use to facilitate the reimbursement process?

Software has been developed to process depositor data and transfer them from the failed to the servicing bank.

Section 10: Public Information & Awareness

10.1.1 What obligations are there to inform the public?

Since its inception BDIF has pursued the goal of regularly informing the public about the main features of the system and BDIF activities, as well as any other particular information by using various communication channels and techniques. Under LBDG BDIF is obligated to announce in at least two major dailies the initial day of reimbursement and the servicing bank within 30 days of license revocation. Under LCI a bank may accept deposits provided it has announced the terms and conditions, among which, the amount to which deposits are guaranteed in a clear and understandable manner.

10.1.2 Who is responsible for communicating information about the DIS to the general public?

DIS,Other

BDIF|null|null|null|null|banks, cf. to 10.1.1. |

10.1.3 Are these explicitly stated in policy or law?

Yes

10.1.4 Are the terms and conditions of DIS explained in a manner that the general public can understand fully?

Yes

Information materials and input on BDIF website are written in clear and understandable language in Bulgarian and English.

10.1.5 If so, what methods are utilized?

Brochures,Telephone call center,Website,Other

Q & A Brochure about Deposit Insurance, Introductory Leaflet to Depositors, BDIF Profile, Q & A Brochure on Financial Markets (jointly with the Bulgarian National Bank and the Financial Supervision Commission)|null|Hot telephone line serviced by the PR Dept.|www.dif.bg. In Bulgarian and English, launched 2001, revamped 2005.|Press releases and press conferences; interviews for the media; paid announcements in the press; information on BDIF premises and responses in writing to requests and complaints. |

10.1.6 At what point is information disclosed to the public about an institution that is having problems and how is information disclosed?

As a rule such information is confidential by the time a conservator is appointed by the central bank which announces it to the media. Upon license revocation BNB informs the public through the media. Next, the BDIF announces the terms and conditions of repayment, and following the legal requirements announces the initial day of reimbursement and the servicing bank.

10.1.7 Has a survey of public awareness about the DIS been conducted? If so/ what were the results? If not why not? Please include supporting documentation.

Yes

Surveys were conducted in 2002 (quantitative and qualitative assesment) and 2005 (qualitative). General conclusion of both was that public awareness about BDIF is low.

10.1.8 Has the DIS ever embarked on a public awareness campaign to increase awareness and knowledge? If yes, how many times has this been done and when was the last time?

Other

BDIF continuously undertakes PR activities but has never launched a massive PR campaign. Most recent activities were on the occasion of the Third International Week of Deposit Insurance, May 2008 (reprint of Q & A Brochure, press releases, interviews in the media, magazine articles, lecture of BDIF Chairman before students of the University of Economy, launch of student trainee programme).

10.1.9 Please describe the approach used; objectives, target audience, communication strategy, and timing results.

Section 11: Risk Assessment & Intervention

11.1.1 Does the DIS have a risk monitoring function to analyze and assess the risk of member financial institutions?

No

11.1.2 Does the DIS perform examinations of its member institutions? If not, who does?

No

BNB Banking Supervision Dept.

11.1.3 Does the DIS receive information/data/statistics directly from its member institutions or from a third party, such as a regulator or supervisor? If so what information is received and how often?

Yes

Information on assessment base (eligible deposits) from member banks quarterly and information on the amount and composition of assessment base by the central bank quarterly and information on the financial standing of banks.

11.1.4 What is the risk assessment approach used by the DIS to monitor financial institutions? Please describe. Please be sure to include the criteria used to determine member institution risk.

Banks are monitored by the BNB Banking Supervision Dept. BDIF is currently elaborating a system of risk-adjusted contributions, where qualitative and quantitative criteria will be used to define a member bank's profile.

11.1.5 Please list and describe the actions taken by the DIS in situations where member institutions are causing concern. Please indicate when coordination occurs with other supervisory/regulatory authorities and the mechanisms used.

Under the MoU between BNB and BDIF BNB informs BDIF of the appointment of a conservator. The conservator provides information on the amount of the insured deposits, and BDIF starts restructuring of its portfolio so as to ensure the funds necessary for reimbursement. In the event of risk of insolvency, where BNB orders forced increase of capital, BNB may request BDIF to acquire the new shares.

Section 12: Failure Resolution

12.1.1 Is your DIS involved in the failure resolution of member institutions?

Other

BDIF is in charge of administering bankruptcy proceedings after revocation of license.

12.1.2 Who determines whether a member institution has failed or is insolvent?

The BNB upon advice of its Banking Supervision Dept.

12.1.3 Under what conditions can the DIS cancel/terminate the deposit insurance of a member institution?

Deposit insurance is compulsory and BDIF cannot terminate it.

12.1.4 How is the failure/non viability of a member institution determined?

If the bank has failed to pay its obligation due for more than 7 days or the amount of its own funds is negative: the central bank mandatorily revokes a bank's license on these premises.

12.1.5 How many member institutions have failed in your country in the last 20 years?

Twenty. Seventeen of these (comprising 25% of the banking system assets) failed in the major banking crises of 1996-1997. There were individual failures of small banks in 1999, 2000 and 2005.

12.1.6 Do banks go through the regular corporate bankruptcy process? If no, what is the process used?

No

Failed banks are liquidated under the Law on Bank Bankruptcy.

12.1.7 Is the receiver of failed institutions also the one that disposes of the institutions? If not, who does?

Other

A failed bank is liquidated by a trustee, appointed and supervised by BDIF.

12.2 Which methods of failure resolution are used in your country to deal with failures. Also, please indicate the frequency of use of the various methods in the last 20 years.

12.2.1 Formal liquidation

Yes

Since the enforcement of the Law on Bank Bankruptcy in 2002 whereby the BDIF was empowered to administer bankruptcy proceedings, BDIF has administered the liquidation of 5 banks, all of which were sold as a whole enterprise to an operating bank. In the remaining cases banks, failed in the 1996-1997 crises, (some of which administered by the State Receivables Collection Agency) were either liquidated asset by asset or sold as an enterprise (7).

12.2.2 Purchase and assumption (sale and merger)

No

12.2.3 Open bank assistance (e.g. recapitalization)

Other

Cf. 12.2.5.

12.2.4 Bridge banks and other interim solutions

No

12.2.5 What criteria are used to determine the method of failure resolution?

So far the only legitimate method of failure resolution has been utilized, i.e. liquidation. With the enforcement of the Law on Credit Institutions in January 2007 the option of open bank assistance has been introduced. In the event where the central bank orders a forced increase of capital of a bank in risk of insolvency, the BDIF may acquire the new shares.

12.2.6 Is the deposit insurer required to resolve failed or failing insured depository institutions in a manner that is least costly to the DIS?

Other

Least-cost approach is applied by BDIF to determine whether to participate, after being approached by the BNB, in acquiring shares in a bank in danger of becoming insolvent.

12.2.7 Please indicate what kind of private companies, if any, are included in the failure resolution process?

The trustee/liquidator (performed by two physical persons) hires an appraiser company for the purpose of evaluating bank's assets, as well as other consultants - financial, legal, art, etc.

Section 13: Claims, Recoveries & Estate Management

13.1.1 Does the DIS play a role in the claims and recoveries process? If yes please describe this role

Yes

BDIF administers the bankruptcy proceedings, e.g. approves the liquidation plan, the monthly budgets and individual transactions over € 1,500 in value. BDIF also sanctions the sale of the bank.

13.1.2 What is the primary objective of the DIS when dealing with claims and recoveries (i.e.. maximization of nominal and present value recoveries, financial system stability, system discipline)?

Under the LBB: 'The goal of the bankruptcy proceedings for a bank is to secure in the shortest time practicable a fair satisfaction of the bank's depositors and other creditors.', and 'In the bankruptcy proceedings for a bank, due regard shall be had for the depositors and remaining creditors of the bank, as well as for the public interest in the stability of, and confidence in the banking system.'

13.1.3 What role does the private sector play in the claims, recovery process?

Consultant: financial consultants, accountants, legal advisors, appraisers are hired in the process of bankruptcy estate management.

13.1.4 What approaches and strategies are adopted by the deposit insurer to accomplish the objectives of claims and recovery activities?

BDIF appoints a liquidator/trustee, who in turn hires professionals for a better management of the bankruptcy estate, which can either be liquidated on asset by asset basis, or as an enterprise, or both.

13.1.5 By what standard is the DIS judged with respect to performing its function in claims and recoveries (e.g.x. Comparative private sector or DIS benchmarks, internal assessments, past experience)?

Internal assessment and past experience.

13.1.6 What assets have you found to be the hardest to recover? Why? What types of strategies have been used to recover different assets?

The hardest asset to recover have proven to be bad loans. Strategies used include portfolio sales, auctions, asset by asset sales.

13.1.7 Does the DIS have rights of subrogation (i.e. the subrogation of insurance entity to the rights of insured depositors) or an equivalent arrangement?

Yes

13.1.8 Is there depositor priority when banks fail? (i.e. Do depositor claims rank in priority above other unsecured creditors in the liquidation of a bank?)

Yes

Uninsured depositors rank above all other unsecured creditors.

13.1.9 Are rights of set-off available or imposed in your country's legal system?

Please describe the various forms set-off can take.

Yes

Under LBB: 'A creditor may set off its debt to the bank if, prior to the date of the judgment to open bankruptcy proceedings, the two debts were in existence and were counter-obligations and homogeneous and his debt had become due.'

Section 14: Other Issues

14.1.1 What is your view on recent trends and emerging issues in the financial sector in your country and the potential impact they might have on the DIS?

In view of the ongoing turmoil in the international financial markets and its domestic impact, and cross-border issues in general, the role of DIS in crisis prevention and crisis management should be further explored.

14.1.2 Are there any issues related to deposit insurance which you would like to see more research in?

Any issue that would contribute to enhancing DIS role in view of financial stability, e.g. scope of insured products, funding mechanisms, payment expedience, information exchange, burden sharing, public awareness.