



DIS Implications On Financial Consumer Protection

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DIS – an Integral Part of FCP

(Theoretical Perspective)



BULGARIAN DEPOSIT
INSURANCE FUND

- Consumer protection by DIS -> redistribution of losses arising from the failure of a set of existing civil contracts through fulfillment of the social contract
- Civil Contracts
 - Between the depositor and the bank – liability-side liquidity promising contract of unconditional withdrawal right of depositors
 - Between the bank and the borrower on a loan in which the bank deploys depositors' funds – asset-side loan contract

DIS – an Integral Part of FCP

(Theoretical Perspective)



BULGARIAN DEPOSIT
INSURANCE FUND

- Social Contract:
 - a contract where the citizens expect that the state will protect individual property rights by enforcing the civil contracts through regulatory agencies
- The adoption of DIS is therefore to:
 - restore public confidence
 - preserve the sanctity of social contract
 - provide an opportunity to build a banking system that can better provide an efficient services necessary to enhance the development of the economy

=>DIS exists to form a second layer of protection for depositors and reinforces the efforts of the state in ensuring safety and soundness of the financial system



DIS - an Integral Part of FCP

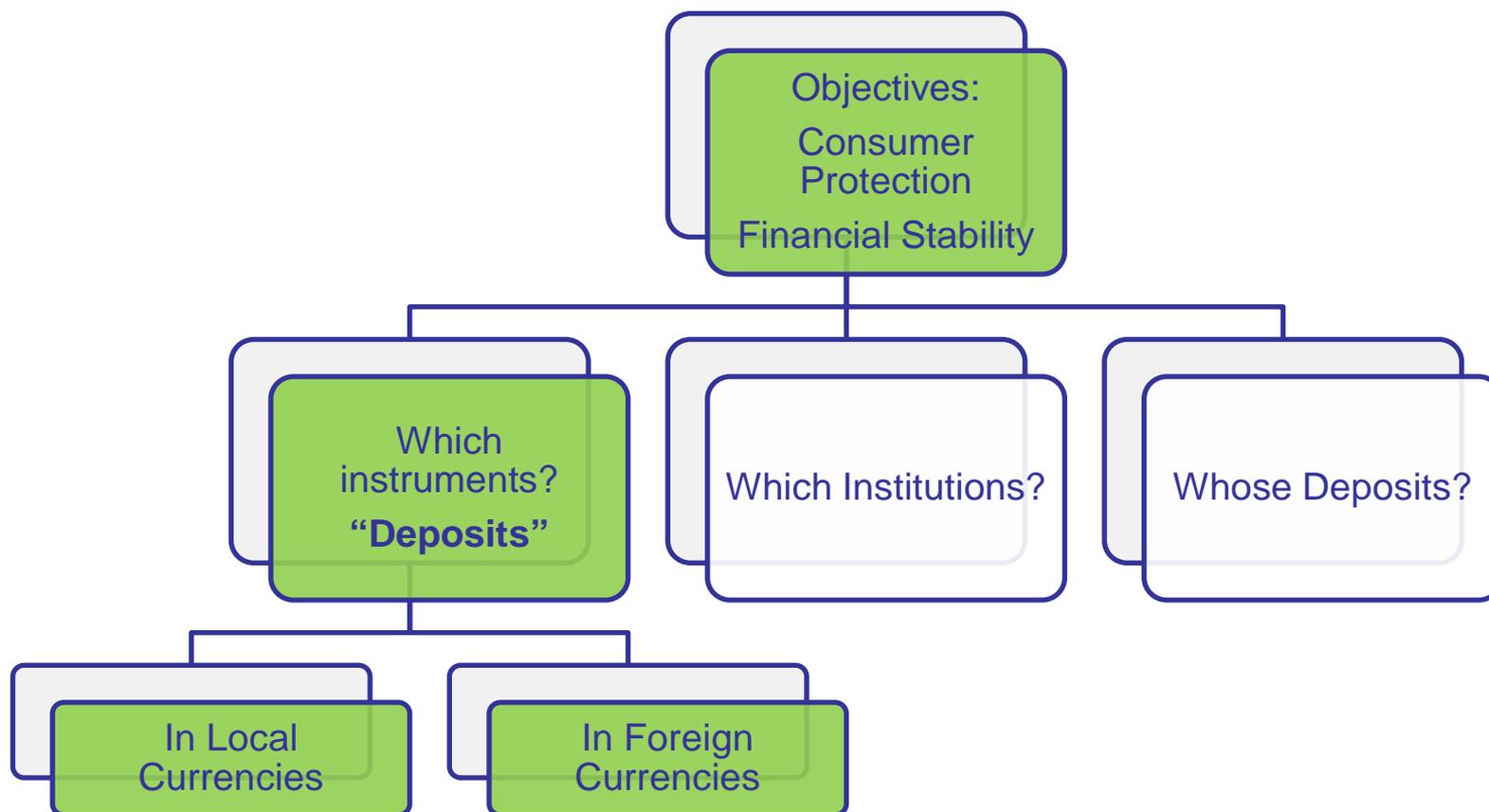
- Through fulfilling its public objectives:
 - To protect depositors in the event of a bank failure through orderly payout of covered deposits (narrow sense consumer protection)
 - To contribute to financial system and macroeconomic stability (broader sense consumer protection)
- The balance between objectives determines the structure and effectiveness of the DIS
 - Which deposit instruments are to be covered?
 - Which institutions are to be insured?
 - Whose deposits?

DIS - Balance between objectives

What?



- The objectives determine what should be guaranteed



DIS - Balance between objectives What?



BULGARIAN DEPOSIT
INSURANCE FUND

- What instruments - > **deposits** – banks' bread and butter

BUT

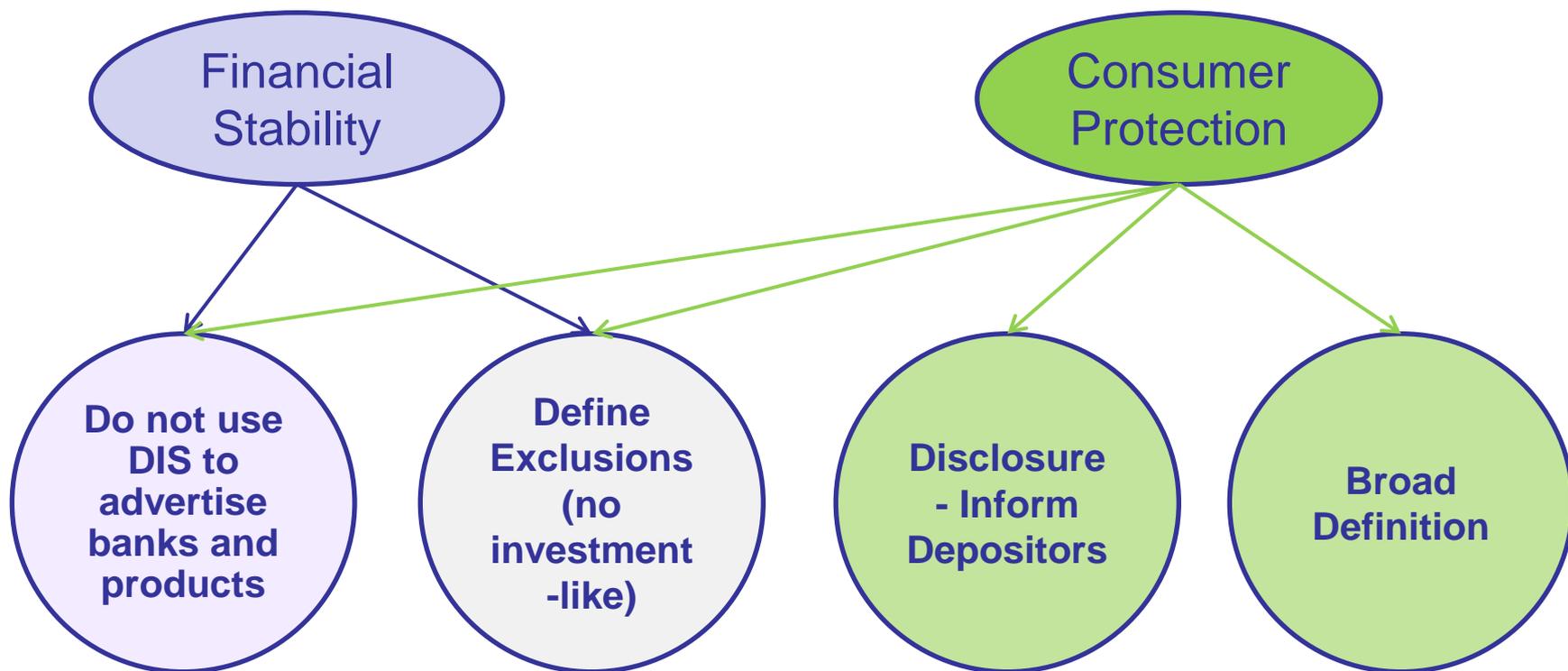
- All or some deposit instruments?
 - Need a definition of *deposit* that is flexible enough to encompass new products with deposit-like characteristics
 - Define exclusions – investment-like products
 - A public awareness campaign that keeps depositors informed of what is covered and what is not covered
 - Disclosure requirements vs advertising
- Coverage limit (if yes – what limit) or no limit?
 - Appropriate coverage limit

DIS - Balance between objectives

What?



- The balance of objectives determine what should be guaranteed



DIS – Balance between objectives What?

(Local and EU perspective)



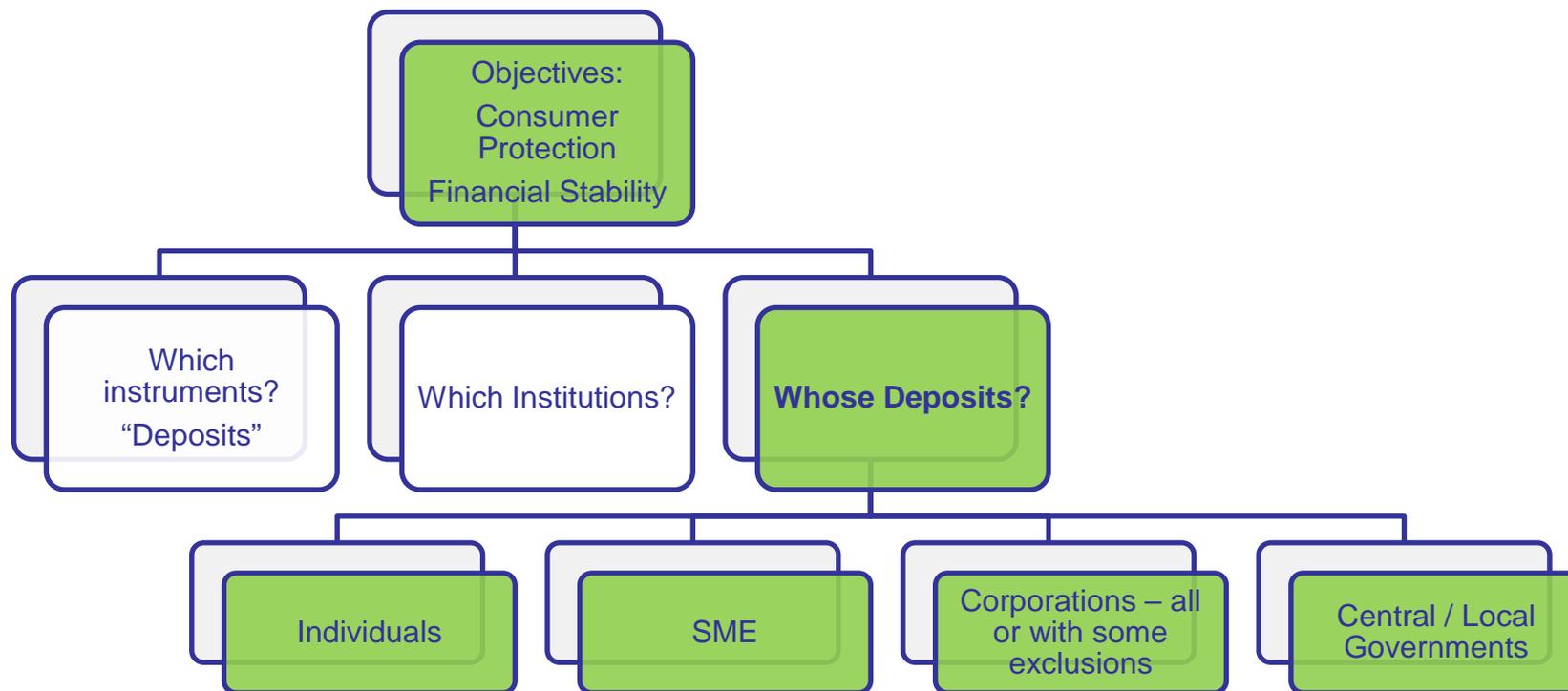
BULGARIAN DEPOSIT
INSURANCE FUND

- **All or some deposit instruments?**
 - definition – broad enough, does not specify particular products
 - exclusions, i.e. products that are not deposits – not explicit*
- **Coverage limit**
 - 100,000 Euro -> moral hazard – coverage too high for Bulgaria – harmonized on EU level
- **Information to depositors ****
 - obligation to inform depositors about applied DGS
 - obligation to inform if the deposit is not covered
 - combined deposit-investment products – misuse of information about DIS

DIS - Balance between objectives Whose Deposits?



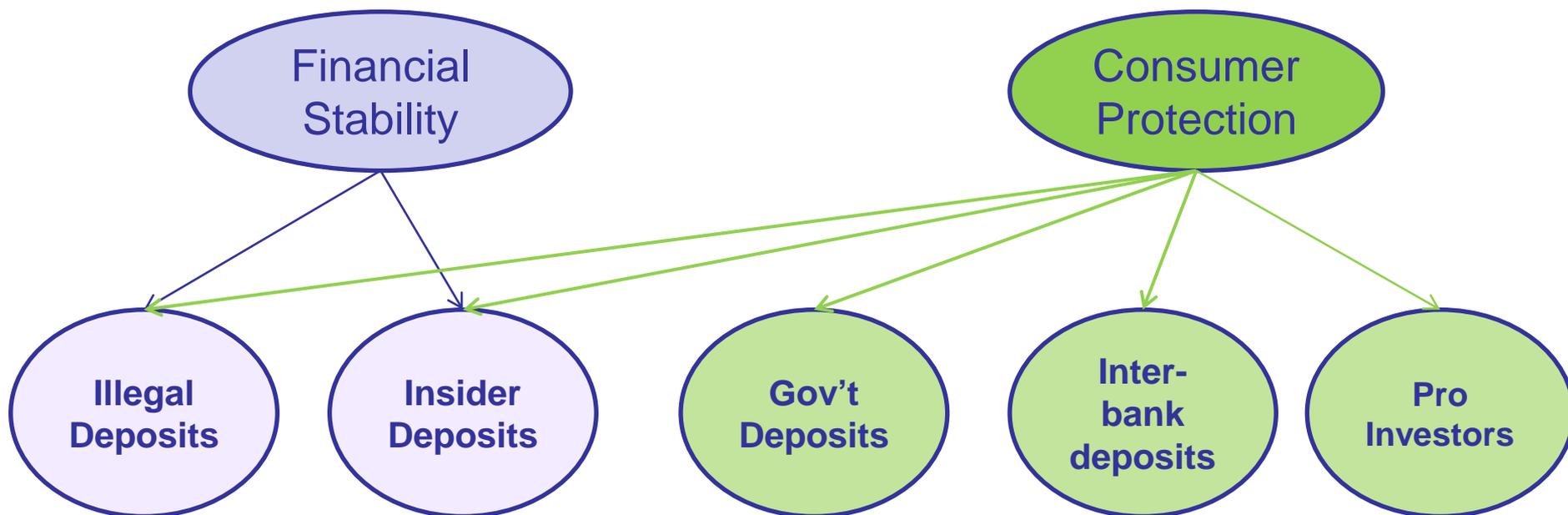
- The balance of objectives determine eligible depositors



DIS - Balance between objectives Whose Deposits?



- The balance of objectives determine exclusions



DIS - Balance between objectives Whose Deposits? (Local and EU perspective)



BULGARIAN DEPOSIT
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Current Bulgarian LBDG

- Both Individuals and legal entities
- Defined Exclusions – 14 groups of depositors excluded (art. 5 of LBDG) – 3 types of exclusions:
 - persons connected to or influencing the management and control of the bank
 - professional investors - banks, insurers, investment firms, collective investment undertakings, etc.
 - government

New EU DGSD

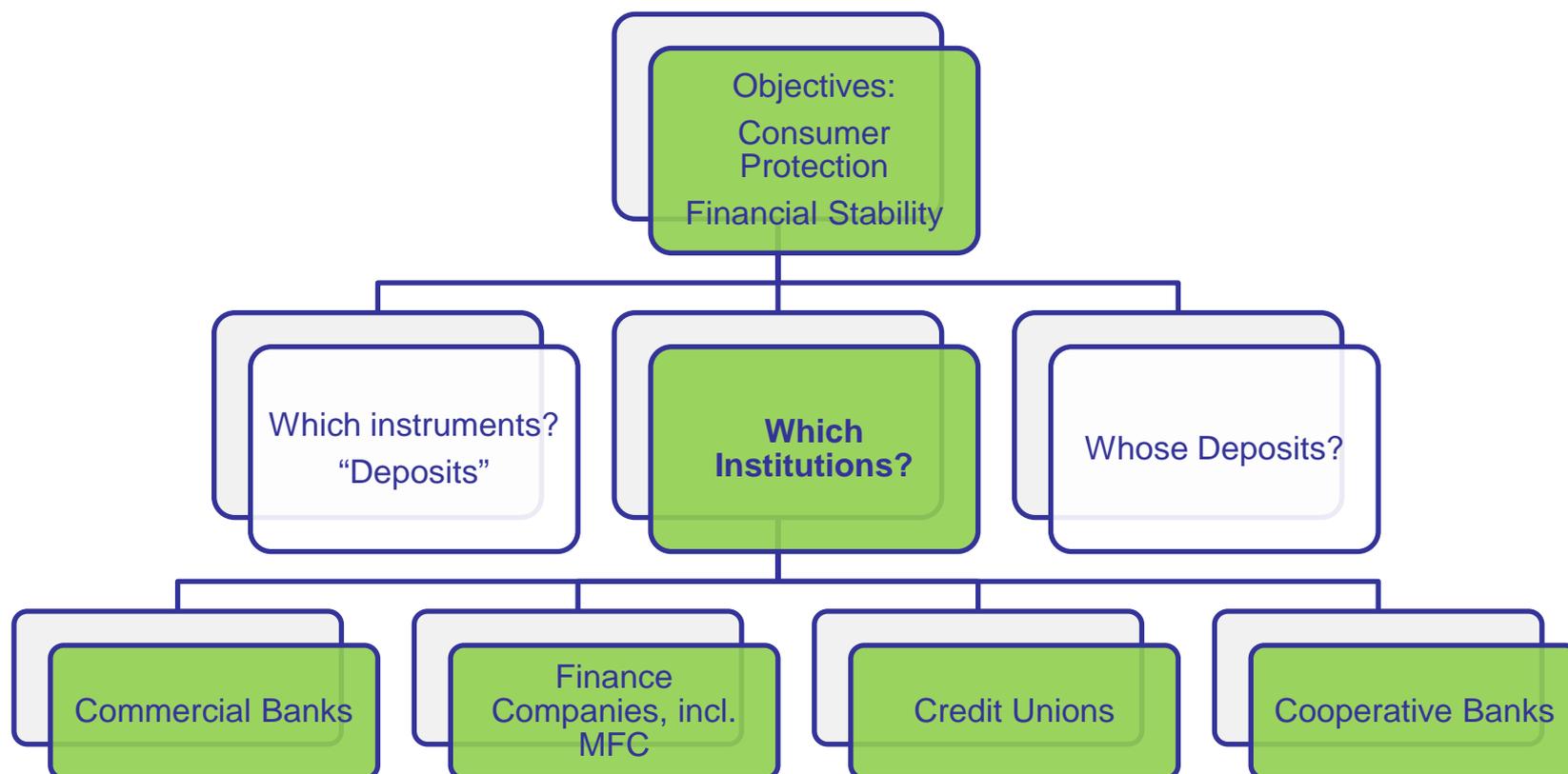
- Both Individuals and legal entities
- Defined Exclusions
- Optional exceptions to the exclusions (i.e. inclusions)

DIS - Balance between objectives

Which Institutions?



- The balance of objectives determine membership

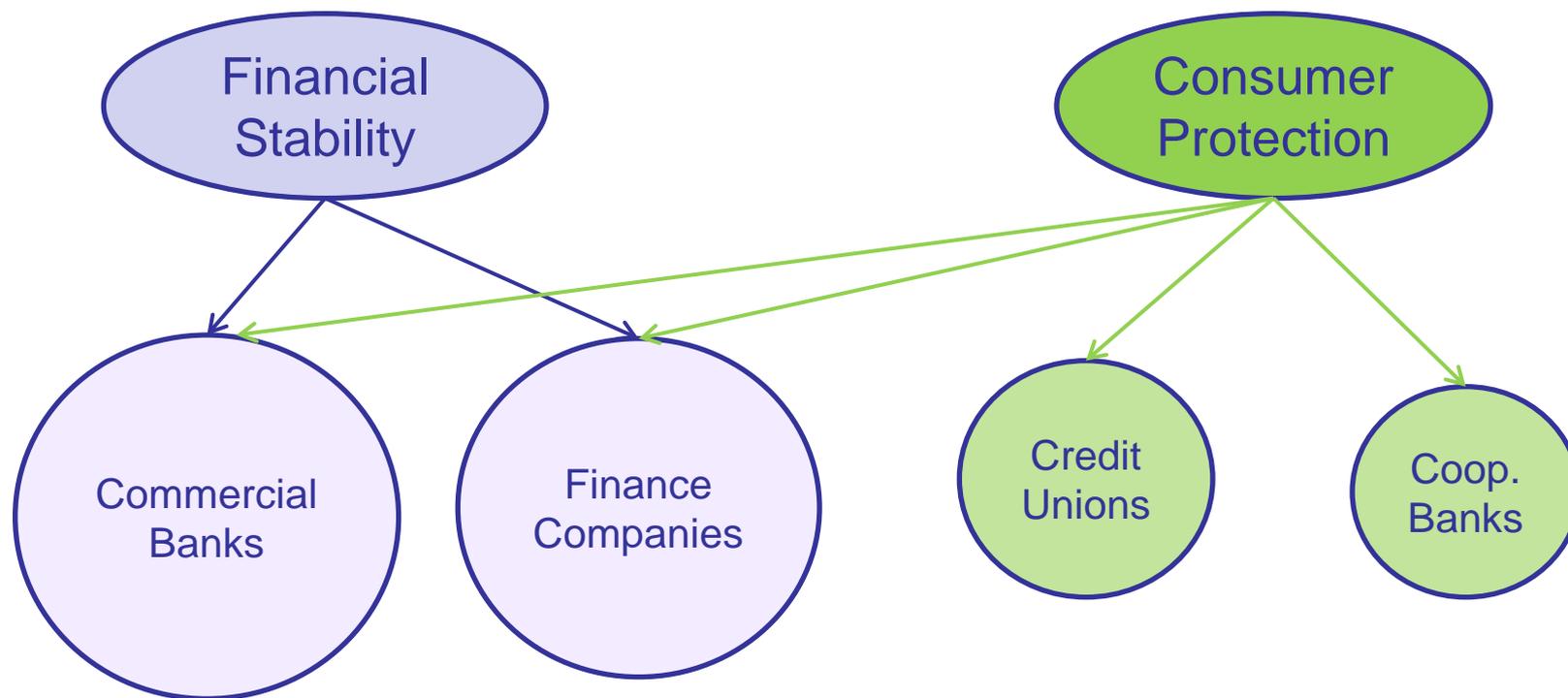


DIS - Balance between objectives

Which institutions?



- The balance of objectives determine membership



DIS – Balance between objectives

Which Institutions?

(Local perspective)



BULGARIAN DEPOSIT
INSURANCE FUND

- Only Commercial Banks – in Bulgaria only banks can attract deposits
 - banks registered and licensed in Bulgaria – 24 BANKS
 - 3rd country branches – 2 branches
- No Cooperative Banks (legal gap)
- No Credit Unions
- Finance Institutions cannot attract (retail) deposits

We seem to be too stable => limited competition – not good for consumers

Other forms of depositors protection

(How Information Asymmetry is Addressed?)



BULGARIAN DEPOSIT
INSURANCE FUND

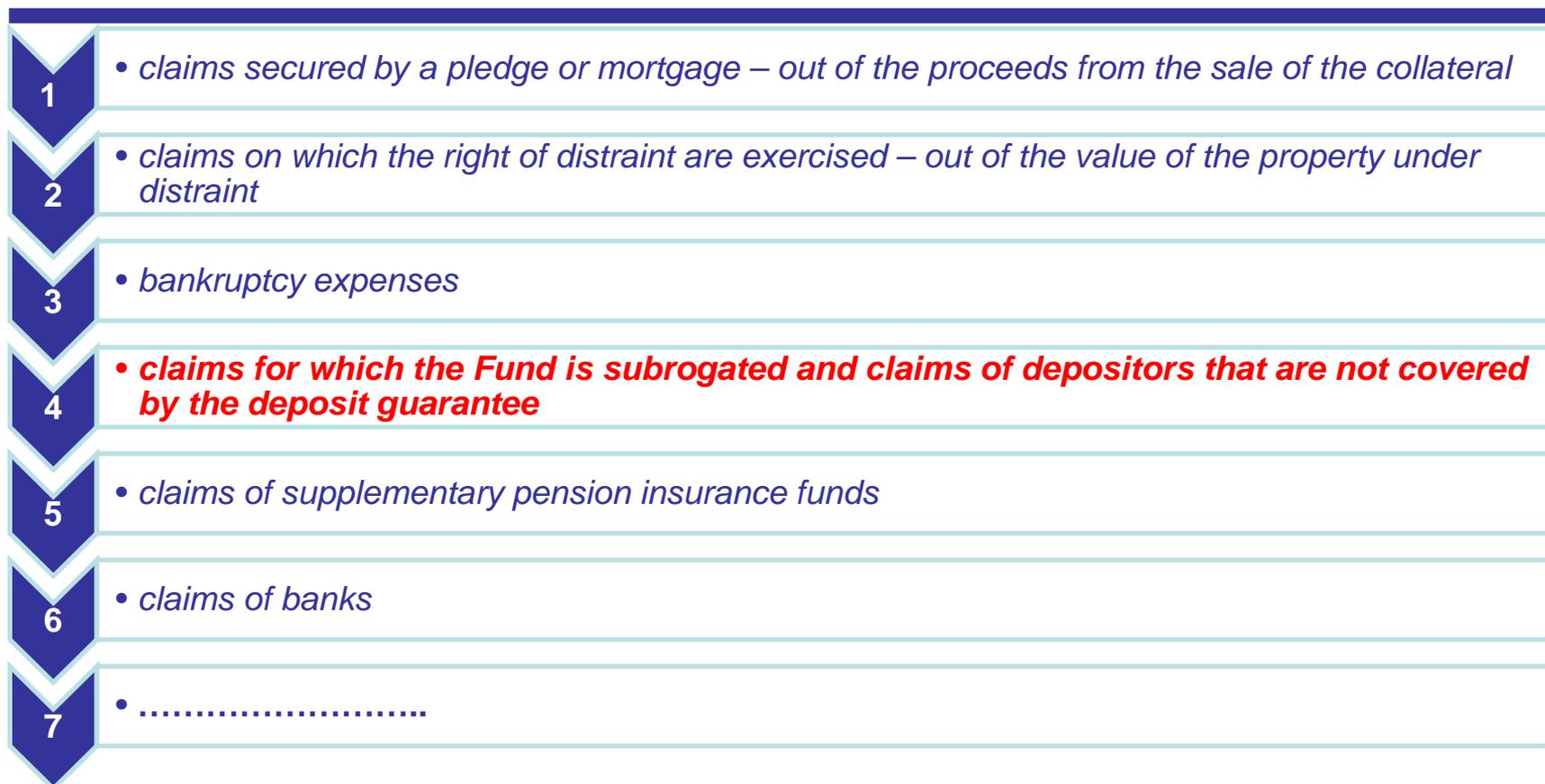
- Depositors are seldom in a position to make an informed analysis of the financial stability of the financial institutions with which they deal as a result of what is known as 'information asymmetry'
- **Depositors**, covered and uncovered, **are different from investors** – they are customers, looking for the banking services they need, and sometimes even forced to use, to be able to do their business or pay their bill

How to address this issues? -> DI + another form of depositors protection – **depositors priority in the hierarchy of creditors**



Hierarchy of Claims

Current Bulgarian Law on Bank Bankruptcy

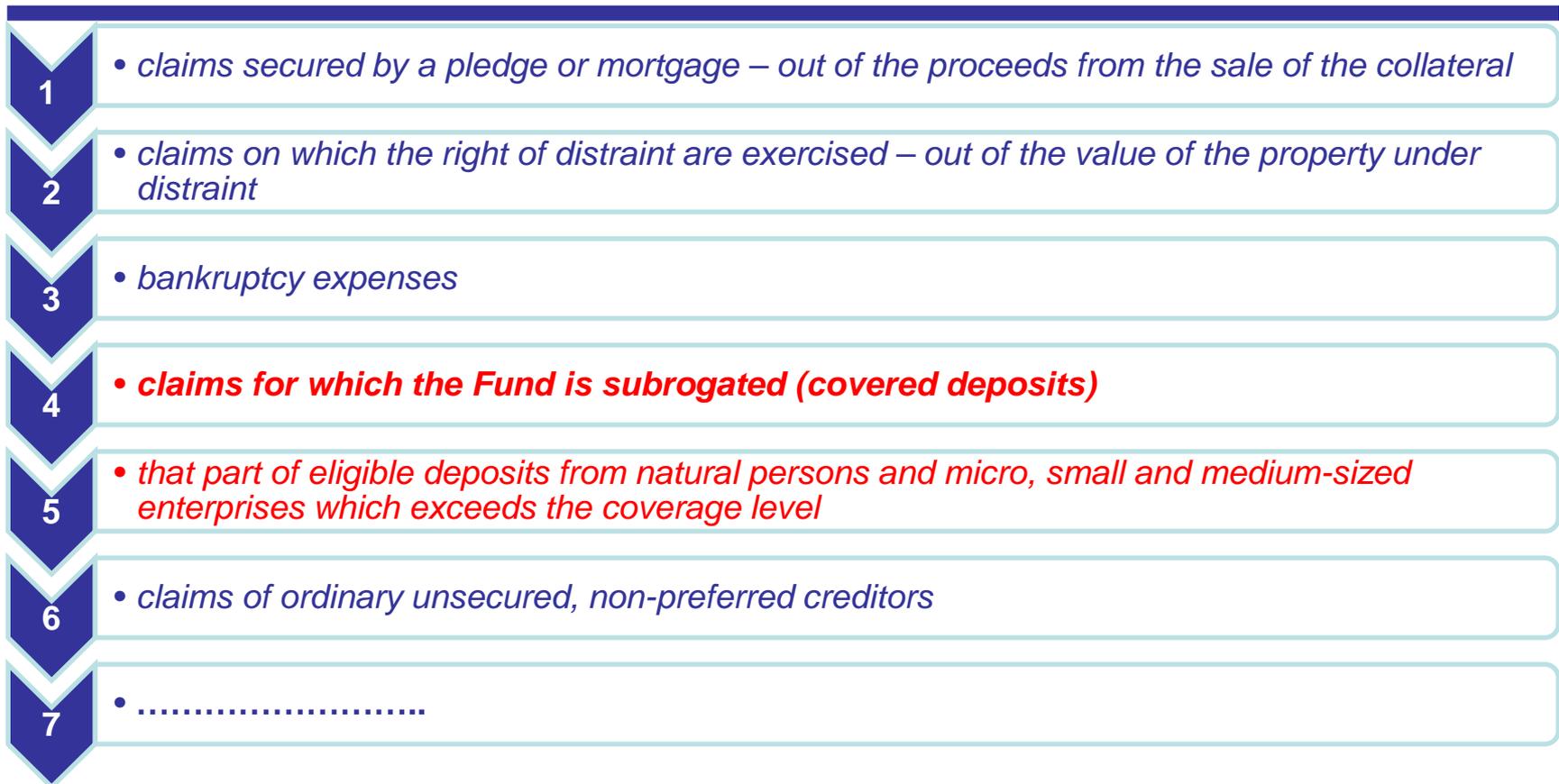


Hierarchy of Claims

New EU DGSD



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Thank you for your attention

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