

**PROGRAMME FOR PROTECTION OF CONSUMERS OF NON-BANKING FINANCIAL SERVICES AND PRODUCTS
2021 – 2024**

Financial Supervision Commission

**PROGRAMME
FOR
PROTECTION OF CONSUMERS OF NON-BANKING FINANCIAL SERVICES
AND PRODUCTS
(2021 - 2024)**

CONTENTS

I. Analysis of the environment in the field of consumer protection	
1. Main priorities of European policy	page 3
2. EU Consumer Protection Strategy	page 4
3. International aspects of consumer protection	page 5
4. OECD	page 5
5. Trends in the development of financial markets	page 6
6. European System of Financial Supervision	page 9
7. Measures and actions taken by FSC in connection with consumer protection	page 11
8. Information disclosure and transparency	page 13
9. Complaints	page 14
10. Out-of-court dispute resolution	page 16
11. Professional organizations	page 17
II. Regulation and supervision of compliance therewith - a major factor in effective consumer protection	page 17
1. European regulatory framework	page 18
2. Legislative framework effective in Bulgaria	page 26
3. Protection of consumers against unfair commercial practices	page 27
4. Protection of personal data of consumers of non-banking financial services	page 27
5. Analysis of consumer complaints by the regulator	page 27
6. European legislative initiatives	page 28
III. Financial literacy - an essential condition for raising the level of effective consumer protection	page 29
IV	
. Goals for protection of consumers of non-banking financial services raising the level of financial literacy	page 30
Final provisions	page 33

I. ANALYSIS OF THE ENVIRONMENT IN THE FIELD OF CONSUMER PROTECTION

Main priorities of European policy

A main strategic goal of the EU is the consumer protection policy related to improving the quality of life of European citizens. In essence, it is a crucial element aimed at the proper functioning of the single internal market, while effectively protecting the financial interests of consumers. An essential element in this regard is the provision of the right to information to consumers about the persons providing the services, about the products they offer, as well as about the risks related to the provided services and products. A particularly important point is the creation of better programs to improve the financial literacy of consumers, including their implementation, which will contribute to increasing confidence in markets, market participants and thus stimulate market development. At European level, the Consumer Protection Program for the period 2020-2025 is currently in force. The new program aims to meet the needs of consumers during the COVID-19 pandemic and beyond.

The European initiative “Capital Markets Union” is also underway, which aims to deepen and further integrate the capital markets of the 28 EU Member States, providing new sources of financing for companies, reducing the cost of raising capital, to facilitate cross-border investment, to attract new investments to the EU, to increase the opportunities for EU investors and to make the EU financial system more stable, sustainable and competitive. In particular, the Capital Markets Union aims to create an effective single capital market across the EU in order to ensure the possibility of investing and saving in all Member States, which will benefit citizens, companies, and investors. The Capital Markets Union is essential for the EU's economic growth, the implementation of key EU policies and the recovery from the COVID-19 crisis. In September 2021, the EC also approved a new plan for the initiative, including measures to make the EU a safer place to save and invest, requiring Member States to support financial education.

The supply of services and products on the financial markets is developing in an environment of increasing digitalization of the economy. This raises the question of the place of regulators in the process of protecting the interests of consumers in this new environment. In this regard, a Digital Single Market strategy has been developed, which aims to improve access to goods for consumers and build an environment in which digital networks and services can thrive.

Ensuring the protection of consumers' interests is one of the leading factors that contribute to the effective functioning of financial markets and reduce the risks associated with financial stability. Pursuing an effective consumer protection policy contributes to building consumers' confidence while stimulating market growth.

The protection of investors, socially insured and insured persons (consumers of financial products and services in the non-banking financial sector) is one of the statutory objectives of the Financial Supervision Commission (FSC). This objective is also realized through the functions of the member of FSC under Art. 3, item 5 of the Financial Supervision Commission Act (FSCA), supporting the policy on analysis and assessment of risks on the financial markets, improvement of the supervisory practice and protection of the interests of investors, insured and insured persons.

EU Consumer Protection Strategy

Ensuring a high level of consumer protection is one of the objectives of the European Union, which is central to the internal market, by supporting and complementing the policies of individual Member States (MS). The aim is to create conditions that guarantee citizens the opportunity to take full advantage of the benefits of the internal market by effectively protecting their legitimate interests through specific actions.

One of the European Commission's objectives is to improve the way the Single Market in Financial Products works and, in particular, to provide citizens with access to cross-border financial services and products. To achieve this goal, in December 2015 the European Commission published a Green Paper on Retail Financial Services, entitled “better products, more choice, and greater opportunities for consumers and businesses”. This initiative aimed to help consumers within the EU make the best deals for financial services, with more appropriate products and more choices, due to increased competitiveness.

In accordance with Article 12 of the Treaty on the Functioning of the European Union (TFEU), the inclusion of consumers’ interests is a priority in all EU policies. To date, several strategic documents have been developed and are in force concerning the protection of consumers of all goods and services offered on the single market.

The New Consumer Agenda presents a vision for the EU's consumer protection policy from 2020 to 2025, based on the Consumer Agenda 2012 (which expires in 2020) and the new trade mechanism for consumers from 2018. It also aims to respond to the immediate needs of consumers in the context of the ongoing COVID-19 pandemic and to increase their resilience.

In order to protect consumers and enable them to play an active role, specific actions are being introduced in five key areas, namely: green transition, digital transformation, effective law enforcement and redress, including in the field of digital technologies, raising consumer awareness according to consumer groups and ensuring consumers’ protection outside the EU, worldwide.

The aim of the agenda is to increase confidence among consumers, whose spending generate 54% of the EU GDP, by stimulating measures for a greener, more digitalized, and fairer single market, thus stimulating economic recovery, on the demand side. This emphasizes the need to ensure the effective protection of consumers' interests while supporting businesses.

The agenda adopts a comprehensive approach covering various Union policies that are of particular importance to consumers. It reflects the need to take into account consumer protection requirements when formulating and implementing other policies and activities. The program complements other EU initiatives, such as the European Green Pact, the Circular Economy Action Plan, and the Communication on Shaping Europe's Digital Future. It also supports relevant international frameworks, such as the UN 2030 Agenda for Sustainable Development and the UN Convention on the Rights of Persons with Disabilities.

In order to respond effectively to all these priorities, there is a need for a long-term cooperation between the EU and all Member States and for the appropriate transposition, implementation and enforcement of the long-standing consumer protection framework developed over many years.

The agenda is a product of intensive preparation and discussions with stakeholders. An open public consultation showed widespread support for its main priorities, including the need to respond to the COVID-19 pandemic.

International aspects of consumer protection

In its practice, in order to protect consumers, the World Bank conducts numerous studies and analyses. The World Bank issues documents that review established good consumer protection practices and they can be enforced by regulators. The 2017 Good Practices include novel approaches to digital channels, innovative products and business models and new types of financial service providers.

Protecting consumers of financial services ensures that increased access to financial services will benefit consumers by enabling them to make well-informed decisions on what is the best way to use financial services, to build confidence in the financial sector and to contribute for stable and competitive financial markets in the conditions of increased risk, due to the rapid development of information technologies.

OECD

The Organization for Economic Co-operation and Development (OECD) is working to address consumer protection and financial education. Together with the Financial Training Network, it conducts researches and develops tools to support public institutions and to create and implement national financial literacy strategies.

In 2015, the OECD published a Policy Handbook on National Strategies for Financial Education. It focuses on the answers to the following practical and political questions: developing an impact assessment to help shape the national strategy; establishing institutional and management measures; defining and achieving goals, evaluating and financing the national strategy and ensuring effective and innovative provisions of financial education.

According to the handbook, the financial exclusion affects about two billion adults worldwide. Factors that contribute to this are regulatory constraints, availability of competing financial services with no or limited financial consumer protection requirements, prohibitive market factors, as well as barriers stemming from geography and infrastructure/connectivity. In addition to these elements, side factors can also contribute to financial exclusion, and in particular financial vulnerability caused by personal circumstances, low levels of financial literacy, reduced social and technological inclusion, and cultural barriers.

The handbook states that the majority of respondents to the OECD survey have undertaken assessments of the levels of financial literacy across their population. Countries that participated in the survey stress that it is beneficial to set the objectives of the national strategy based on compelling evidence. This also allows public authorities to set realistic targets and to have well-defined benchmarks against which progress can be measured.

In this regard, it is necessary to conduct an up-to-date survey in Bulgaria in order to prepare a new assessment of the level of financial literacy of consumers of financial services in the non-banking financial sector.

Attention should also be paid to the document “Application of Behavioural Insights to Financial Literacy and Investor Education Programs and Initiatives,” a joint project of the International Organization of Securities Commissions and the Organization for Economic Co-operation and Development. The document draws attention to the need to educate and increase the financial literacy of all investors. There is a view that a higher level of financial literacy can help consumers by giving them the opportunity to make informed decisions and better financial planning.

Trends in the development of financial markets

Globalization of the world economy and digitalization are a necessity for business.

Technological innovation has led to new types of financial assets, such as cryptocurrencies. They, as well as the blockchain technology on which they are based are promising for the future development of financial markets and infrastructures. Their use is also associated with risks, as evidenced by the high instability of cryptocurrencies, fraud, as well as operational weaknesses and vulnerabilities of cryptocurrency exchange platforms.

With the development of information technology, the circle of consumers of non-bank financial services is expanding, and hence the supply of financial products is increasing. In this regard, it is essential for the development of financial markets in Bulgaria to pay special attention to the development of financial innovation and, accordingly, the role of regulations in order to protect consumers effectively.

Financial technology (FinTech) is a term used to describe technological innovations in financial services that may give rise to new business models, applications, processes, or products that may indirectly have a significant impact on financial markets and institutions, and on the ways of providing financial services.

FSC has developed its new strategy for the period 2021-2024, which outlines the main objectives with regard to the digitalization of financial services, the widespread use of cloud services, the rapid development of cryptocurrencies and the challenge of supervision to ensure the integrity of financial markets and protect consumers from the resulting risks. The Strategy for Monitoring Financial Innovations of FSC for the period 2021 - 2024 continues, but also builds on the tradition of the previous one, outlining in the long run the directions in which FSC would commit to develop its supervisory activities and seek harmonization of national regulatory frameworks and practices in the field of financial innovation at European Union level.

The European Commission (EC) has developed a project to develop a European Digital Innovation Hub. It is a whole or a coordinated group of entities that have additional non-profit experience in supporting the digital transformation of public sector companies / organizations on a large scale. The project includes access to services such as technology testing, financial advice, and market information. We work in collaboration with partners whose experience lies in business development / innovation or public sector training, as well as with partners who can help build networks and develop and implement high-tech solutions for financial regulation and supervision. The aim of the project is to expand the use of digital financial services for consumers and businesses, as well as their benefits. Wider use of digital financial services would foster innovation and create opportunities to develop better financial products for consumers, including people who do not currently have access to financial services. The widespread use of digital financial services implements Artificial Intelligence (AI). It offers many benefits to citizens, companies, and the public. Individual-oriented, ethical, sustainable, and respectful of fundamental rights and values, it offers a significant increase in efficiency and productivity, which can strengthen the competitiveness of European industry and improve the well-being of citizens.

FSC adheres to and supports the European approach to AI, which aims to promote Europe's innovation capacity in the field. This includes both policy tools to stimulate investment in research and innovation, improve skills development and support the uptake of AI by small and medium-sized enterprises (SMEs), and proposals for key elements of the future regulatory framework. Given the significant impact that AI can have on our society and the need to build trust, it is vital that it be based on values and fundamental rights, such as human dignity and the protection of privacy. Implementing its

AI strategy, adopted in April 2018, on 16 December 2018, the EC presented a coordinated plan, prepared jointly with the Member States, to promote the development and use of AI in Europe. FSC considers it a challenge in the near future to ensure clarity on supervisory expectations about the way in which financial services legislation should be applied in relation to AI.

Consumer security in the use of digital financial services is directly dependent on cybersecurity. It is required to be guaranteed by the stability of information systems and technologies when we talk about cryptocurrencies. Cybersecurity is widely used to cover the range of strategies used to protect institutions, governments and individuals from information technology (IT) risks and threats. Cybersecurity, on the other hand, involves digital asset-specific technologies, IT platforms and information and communication security. Cybersecurity includes measures to dissuade potential perpetrators through robust systems, sanctions mechanisms and cyber diplomacy. Providing a constantly up-to-date regulatory framework is necessary to prevent the growing risk of cyber incidents. According to the European Parliament (EP), the financial sector is already three times more vulnerable to cyber-attacks than any other sector. Therefore, legislative improvements in this area are needed to ensure a sustainable digital environment that contributes to the development of cryptocurrencies.

FSC takes very seriously the challenge facing supervisors as a result of the dissemination of financial products and services through the use of financial innovation, it requires analysis and assessment of potential risks to the financial services market for consumers with the emergence of innovative business models and possible measures to deal with the risks in the fast-growing FinTech industry. FSC will focus on four areas of action in relation to the specific resolution tasks facing the regulator, namely:

Analysis of the need to introduce requirements for licensing or registration regime of persons offering innovative financial products and / or services and technologies in the non-banking financial sector, as well as development of specific requirements - the purpose of this task is to achieve a deeper understanding of the nature of the various FinTech enterprises through participation in the established channel of cooperation at European level and through participation in task forces of the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) (the task forces FISC and InsurTech), FSC is to take steps to ensure a secure and measurable regulatory environment in which FinTech companies offering financial products and services or offering products to FSC's supervised entities may operate. In this regard, FSC envisages the issuance of a standard for the so-called White Paper, which is a document describing how to implement a particular financial innovation, market offering, to legitimize its performers to the public, target group - potential investors and indicates the legal requirements it complies with, if any. The White Paper Standard will also take into account the developed content and form of the crypto-asset white paper in Art. 5 of the Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-Assets and amending Directive (EU) 2019/1937;

Analysis of the need for a regulatory framework in relation to outsourcing services, incl. cloud services and taking appropriate regulatory measures to ensure security, stability of the financial services market and protection of consumers of financial services. Cloud space is radically changing the way data storage is used so far, allowing storage and access to information remotely without the need for significant hardware devices on site. This reduces the cost of storing data and processes, making it easier to store and process large databases. Using cloud services can bring significant benefits, and some risks cannot be ruled out as well. The security and integrity of information systems using cloud services depends on the proper identification and management of these risks and the implementation and maintenance of appropriate security measures that limit the risks to the consumer. FSC will adjust its regulatory and supervisory activities in view of the prevailing trends for widespread use of cloud

services by consumers of financial services, taking into account the need for appropriate supervisory mechanisms to manage operational risks arising from the lack of regulatory framework for service providers from third countries for non-bank financial institutions. For example, in cloud computing and high-volume data processing services, as well as the concentration of service provided by a particular third-country provider. The need to improve the quality of the global coordination process between regulators and information security authorities will be considered.

The guidelines of the European Supervisory Authorities for Financial Markets - EIOPA and ESMA regarding the requirements for outsourcing to cloud service providers will also be taken into account. In connection with ESMA's guidelines, a change in the regulatory framework is forthcoming in the next year and a half by FSC.

Innovation hub - In 2018 FSC established an innovation hub with the purpose to provide a link and exchange of experience and information between companies using financial innovations and the regulator, in order to clarify the regulatory framework and its development to protect consumers of non-banking financial services. This provided a channel of interaction between the supervised persons and the FSC's bodies, as well as a wider range of users and persons offering innovative products and services, as well as easy access to communication and exchange of information with the regulator. FSC has developed and implemented a standardized form for inquiry to the regulator, facilitating communication and cooperation, which allows for feedback from companies offering financial innovations, in order to ensure the right direction for the regulatory framework that minimizes the likely risks posed by the emergence of financially innovative products and / or services without unnecessarily burdening the licensing and supervisory regime for FinTech companies. In the future the FSC will continue to actively develop this form of communication and interaction with business and consumers through the web-based form of communication, as well as holding direct meetings. The development in the offering of products and services online envisages an ever-wider supply of digital financial services on the Bulgarian market as well. There is a need for supervisors to assess business models in terms of the security of financial services and the risks to consumers. The form for communication with the Innovation hub is available on the FSC's website and the special section of this page will be further developed, where explanatory materials about the work of similar innovation hubs in other Member States are uploaded.

European System of Financial Supervision

The European supervisory structure includes the European System of Financial Supervision (ESFS), which consists of the European Systemic Risk Board (ESRB) and the three European Supervisory Authorities - the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA), European Banking Authority (EBA).

Among the strategic priorities of ESMA and EIOPA, referred to in Art. 9 of the applicable regulations governing their establishment is to ensure effective protection of consumers of financial services. For the implementation of the activities, Standing Committees have been established with a special focus - consumer protection.

According to the regulation establishing ESMA, the role of the European Supervisory Authority for Financial Literacy is to study and coordinate financial education initiatives carried out by the relevant national competent supervisory authorities.

This role must be seen in the broader context of ESMA's legal objectives, among which investor

protection plays a key role.

Based on this scope, ESMA focuses mainly on two aspects:

- actively encouraging national competent authorities to implement policies and initiatives to improve citizens' financial literacy, including providing feedback and sharing experiences and results;
- prioritizing actions aimed at achieving investor protection.

In its annual program for 2022, ESMA identifies its priority work areas for the next 12 months in order to fulfil its main mission - to improve investor protection and promote the stability of financial markets.

To achieve its objectives, ESMA will focus on common EU priorities, including:

- Capital Markets Union - developing regulatory and supervisory frameworks to support the development of European capital markets, in particular through work on the European Single Access Point (ESAP), the Retail Strategy and initiatives to facilitate access for small and medium-sized enterprises to public markets;
- sustainable finance - development of disclosure rules regarding environmental, social and governance (ESG) factors and a methodology for identifying risk for ESG factors;
- innovation and digitalization - contribute to the introduction of digital technologies;
- Supervisory convergence - priorities include contributing to a risk-based, consistent, and coordinated approach to results-based EU supervision and a review of supervisory convergence tools;
- Risk assessment - strengthening risk identification work and cooperation with national competent authorities, the EU, and international bodies.

Pursuant to Article 9 (1) (b) of the regulation establishing EIOPA, the Authority has a leading role to play in promoting transparency, simplicity, and fairness in the market for consumer financial products or services in the internal market, including by reviewing and coordinating initiatives for financial literacy and education by the competent authorities.

In the two bodies of which FSC is a member - ESMA and EIOPA, committees have been established that work actively in the field of consumer protection. These are: ESMA's Investor Protection and Intermediaries Committee and Financial Innovation Committee, the Consumer Protection and Financial Innovation Committee and EIOPA's Insurtech Committee.

The EIOPA work programme for the period 2021-2023 focuses on digitalisation and sustainable finance, on contributing to consistent and high-quality supervision, and consumer protection.

With regard to digitalisation and cyber insurance, the purpose of EIOPA is to establish a supervisory approach to support the benefits of digitalisation while maintaining a high level of consumer protection. EIOPA aims to promote a stable and transparent cyber insurance market to ensure a digital economy and support the exchange of information on cybersecurity and cyber-attacks.

Further strengthening the consistent and uniform application of risk assessments related to sustainable finance, promoting the provision of standardized information to identify sustainable investments.

Stimulating regulation and supervision of market behaviour by expanding the set of tools for monitoring and reporting consumer trends and risk management in order to ensure a risk-based approach to supervision.

EIOPA has specific objectives related to the new pan-European pension product (PEPP) as well as the monitoring of its supervision.

The EIOPA Programming Document 2022-2024 states that consumer protection will be a key objective of the European regulator, as it has been so far. EIOPA will continue to work with national competent authorities to better monitor possible adverse effects on consumers, increasingly guided by specific data for risk assessment and mitigation. EIOPA will seek to take effective measures to address these adverse effects based on the lessons learned from the COVID-19 pandemic.

The document also emphasizes that EIOPA will continue to work on the tasks and powers arising from the revised ESA Regulation (European Supervisory Authorities), which is already in force. The outcome of the review addresses a number of areas of EIOPA's work that are expected to grow, such as FinTech - to support EIOPA's work in establishing a supervisory approach to financial innovation that mitigates potential risks, especially for consumers. The European Authority will also focus on supervising business governance - helping to build a more coordinated and effective framework for consumer protection and speeding up its practical and coherent implementation.

The ESAs, in accordance with their founding regulations, play a leading role in promoting transparency, clarity and fair conditions in the market for consumer financial products or services within the internal market, including through:

- (a) collecting and analysing data and preparing reports on consumer trends;
- (b) reviewing and coordinating educational and financial literacy initiatives of the competent authorities;
- (c) developing training standards for the sector; and
- (d) contributing to the development of common disclosure rules.

Measures and actions taken by FSC in connection with consumer protection

In order to ensure continuous access to information for consumers of financial products and services in the non-banking financial sector, as well as for the persons supervised by the Commission and their activities, one of the measures taken by FSC to protect consumers is to maintain and publish up-to-date information related to its regulatory and supervisory activities. On the institutional website of the Commission there is up-to-date information available on all persons supervised by FSC, regulatory and administrative documents, possibility for inquiries, etc., which provide complete information on the activities of participants in the non-banking financial sector, the activity of FSC and the supervision over participants in non-bank financial markets.

On its website, FSC regularly updates all sections aimed at consumers, its supervised entities, and all stakeholders in the country and abroad, incl. news, administrative documents, statistics, regulations, etc.

The Commission's website has a key role to play in raising consumer awareness. The published information helps to inform all stakeholders not only in the country but also abroad, as the site also publishes up-to-date information in English.

A critical point in the actions of FSC for consumer protection is the online form for filing complaints in Bulgarian and English in the section "For the consumer" - "Complaints". In this way, all stakeholders can quickly and easily report to the Commission, regardless of which of the three non-banking sectors it concerns.

The “e-Portals” section has been renamed “e-Services,” where a detailed list of administrative services that the Commission offers to citizens and businesses has been added.

The regulatory documents from the European legislation, directives of the European Parliament and the Council of the European Union, regulations and decisions of the Council and the European Parliament are published in the section “European matters”. In this section, consumers can quickly and easily find the topic they are interested in.

Conducting awareness campaigns published on the official website of the Financial Supervision Commission is an activity that is essential for informing the persons supervised by the Commission, as well as the public. An active communication policy was implemented to mitigate the impact of COVID-19 on the supervised entities and the FSC’s employees, together with the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA) and other international institutions.

The “News” section published warnings from international organizations to the supervised persons to mitigate the impact of COVID-19, as well as the measures taken by FSC to facilitate business in the difficult international epidemiological situation.

Through the e-portals on the FSC’s website, the participants in the non-banking financial sector submit the information required by the Commission - reports, references, etc., signed with an electronic signature. The information submitted through e-modules is provided to the general public through the public register, which is available on the website in the sections “Electronic Register and File (ERiK)” and “News from e-Register.”

The Financial Supervision Commission conducts long-term educational programs aimed at different age groups, tailored to their specific needs. The traditional training for students from economic and financial high schools from all over Bulgaria was held online on three Fridays of October 2021, 8, 15 and 22. The 19th edition of the educational program for students and teachers “Non-banking financial sector in Bulgaria”, organized by FSC, Atanas Burov Foundation and the Ministry of Education and Science (MES), was attended by 44 participants, of which 13 teachers and 31 students. For the first time, three new and important topics were included in the program - Consumer Protection, Cybersecurity and Cryptocurrencies and Fintech Business Models.

High appreciated experts from FSC and the business presented various and interesting presentations related to the capital, social insurance, and insurance market. Apart from theoretical knowledge, the program also had a practical part. The participants in the training were virtually “guests” of the Pension Insurance Company UBB EAD, where they were acquainted with the complex analyses and forecasts that are performed to invest social security contributions under the “second pillar” of pension insurance. They were virtual guests of the insurance company Uniqa, AD, the Bulgarian Stock Exchange and the investment intermediary - Alaric Security OOD. In connection with the educational initiatives, good cooperation has been established with business and state institutions such as the Ministry of Education and Science, which is the basis for future activities in this direction.

Another key point in the FSC's work on consumer protection is the development of a mobile application for faster and easier connection of citizens and supervised entities with the Commission. Through it, any interested person will be able to make a quick reference to the license issued to a company of interest.

The site “Your finances” maintained by FSC was created for the purpose of more accessible explanations for servicing the consumers of financial services, as well as acquainting them with the main specifics in the three sectors of supervision carried out by FSC. It describes in detail the various financial products, divided into insurance, pension and investment. Consumer rights information and

advice that would be of interest to visitors on various cases has also been published. The materials have an educational focus, and for this purpose a test has been developed that checks the level of financial literacy, as well as a financial dictionary. In 2020, the information on the site was completely updated and up-to-date materials were published in order to better inform and protect consumers of financial services

FSC takes an active part in various forums - conferences, seminars, workshops, and educational initiatives aimed at protecting consumers and increasing the financial literacy of various social groups. It organizes a series of seminars and trainings for its supervisors to assist them in their activities in terms of implementation of European legislation, as well as organizes a series of trainings for pupils and students.

The Information Centre of the Financial Supervision Commission is also available to the citizens, which is also a means for convenient and effective access to information useful for every consumer. Through it, citizens and companies can receive information on specific inquiries from the competence of FSC, sent by mail, e-mail, toll-free telephone at the centre and on site.

Information disclosure and transparency

Improving consumer awareness is one of the main activities of FSC to protect consumer rights within the non-banking financial sector.

The Financial Supervision Commission ensures the provision of up-to-date public financial information to investors or potential investors through the publication of regulated information regarding public companies.

With regard to the supplementary pension insurance, consumers can find information about the pension fund they are interested in, as well as information about the pension company that manages the respective pension fund, including through its website. The regulations for the structure and activity of the funds managed by the pension companies are published on the FSC's website.

Pension companies calculate and publish information on the value of one unit of the respective pension funds on a daily basis. Data on the value of the units of all pension funds are published on the FSC's website.

The Financial Supervision Commission maintains a wide range of information for consumers of insurance products and services. Information about insurers, insurance brokers and agents is published in the electronic register and file. It maintains up-to-date information on the financial situation and other essential information for consumers, such as members of the governing bodies, fines imposed and other information. On the website of FSC through a link to the website of the Guarantee Fund you can check for concluded Motor Third Party Liability Insurance, check for available Green Card certificate, for concluded border Motor Third Party Liability Insurance. In order to provide up-to-date information to consumers of insurance services and products for persons from Member States offering these products and services on the Bulgarian market, the Financial Supervision Commission publishes periodically updated lists of insurers and insurance intermediaries intending to operate across borders. European Union market.

Complaints

A main function of FSC under Art. 3, item 5 of the FSCA is the consideration of complaints filed against persons under the supervision of the Commission, as well as against persons who provide

financial products and services without obtaining permission. The protection of consumers of financial products and services is one of the statutory objectives of the Financial Supervision Commission.

Consumer complaints play a key role in disciplining the market. They are one of the channels for obtaining information from the regulator on compliance with the requirements of the regulations governing the activities of the financial markets supervised by FSC, as well as on the market conduct of market participants in financial markets. Consumers of financial services receive useful information for decision-making.

An important channel for receiving feedback from the market are complaints about the satisfaction of consumers of financial services and products with the actions of the regulator, the results of inspections and actions taken in response to their complaints.

A condition for creating and maintaining a high level of consumer confidence in financial products and services offered on the financial markets is the undertaking of corrective actions by the FSC's bodies as a result of complaints and creating a sense of security in consumers using products and the services offered on the non-banking financial market. Corrective actions help to preserve the stability of financial markets, the confidence in these markets, have a stimulating effect on the efficiency and transparency of financial markets.

Consumers who are dissatisfied with the provided financial services and products, as well as those who have claims against the persons providing financial products and services, have the right to file a complaint to both the persons providing the services and FSC. The persons supervised by FSC should have established mechanisms for reviewing consumer complaints, as well as appropriate deadlines for ruling on them.

According to the Insurance Code, insurers are obliged to review and respond to complainants within the time of receipt of the complaint. They should establish, implement, and maintain effective and transparent complaint management policies and procedures, and procedures for the timely handling of complaints by clients or potential clients, in compliance with the Guidelines on complaints handling developed by the European Insurance and Occupational Pensions Authority, which FSC has adopted for implementation.

Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive ("Delegated Regulation 565/2017") require investment firms to establish, implement and maintain effective and transparent complaints management and procedures and procedures for the timely handling of complaints from clients or potential clients. In addition, investment firms should set up a unit responsible for handling complaints. In their replies, the applicants must be informed of the possibility of out-of-court settlement of disputes.

If a decision of a non-bank financial institution is deemed unsatisfactory by the consumer, the person may apply to FSC for an investigation into the case. The Financial Supervision Commission shall register and consider any complaint, signal or inquiry received by the institution. During the examination of each specific case a detailed inspection is performed, the relevant documents on the cases are required from the persons, including additional documents and explanations. In case a violation of the legal provisions is established during the inspection, FSC shall take the necessary actions and measures. In relation to consumer complaints, in most cases FSC has powers related to the supervision of compliance with regulatory requirements by supervised entities and has limited powers to rule on consumer complaints on its merits.

FSC has developed an internal database for complaints of consumers of non-banking financial

services, on the basis of which various analyses can be performed both for management purposes and for public use.

The powers of FSC are regulated in the Financial Supervision Commission Act and other regulatory acts in the field of insurance, social insurance, and investment supervision. By their nature, the powers are related to the supervision of the legality of the activity of the supervised persons and the extent to which they do not allow the commission of administrative violations of the regulatory acts regulating the respective matters. In case an administrative violation is established, FSC, respectively the Deputy Chairmen of FSC have the right to impose administrative penalties in compliance with the provisions of the Administrative Violations and Penalties Act.

Along with the above, FSC also considers complaints of Bulgarian and foreign individuals against companies and electronic platforms providing investment services without a license, as well as against those who, by misleading individuals, collect money from a large number of consumers. In these cases, employees of the Supervision of Investment Firms, Markets in Financial Instruments and Investigation of Market Abuse Department at the Investment Supervision Directorate carry out an inspection, requesting information from the persons against whom the complaint is directed, send warnings about administrative sanctions for investment activities without a license, draw up acts to establish administrative violations, in cases where sufficient information and other evidence for this, and in the presence of reasonable suspicions of a crime, send information to the relevant competent authorities.

The Consumer Warnings section, available on the FSC's website, maintains and updates a list of companies that are not licensed by FSC and are not allowed to operate as an investment intermediary or management company in the Republic of Bulgaria. The list contains information about legal entities, the platforms through which they operate, their related parties, etc.

It should be noted that FSC is an administrative sanctioning body and has limited powers to rule on complaints of consumers of financial products and services on the merits, in view of which in case of unsatisfactory results people can seek their rights through conciliation or court proceedings.

Out-of-court dispute resolution

The European Commission maintains an Online Dispute Resolution platform (ODR), which enables consumers and traders within the EU, including Norway, Iceland, and Liechtenstein, to resolve disputes over online purchases of goods and services out of court. The platform is not affiliated with a trader, while consumers are given the opportunity to use it to request that their complaint be reviewed by an approved dispute resolution body. Dispute resolution bodies are impartial organizations or individuals that help consumers and traders reach an out-of-court settlement. The platform contains detailed information on the complaint settlement process.

The amendment of the Consumer Protection Act in 2015, which transposes the requirement of Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, introduced the possibility of out-of-court settlement of consumer disputes of non-bank financial services with the persons providing these services with the help of conciliation committees with the Consumer Protection Commission.

The Consumer Protection Act provides for the establishment of general and sectoral conciliation committees for resolving consumer disputes with the Consumer Protection Commission. Proceedings before general and sectoral conciliation committees or a mediator are not a mandatory prerequisite for

bringing a claim in court. Conciliation proceedings are free for consumers. The limitation period shall cease when proceedings have been brought before general and sectoral conciliation committee or a mediator.

The existence of out-of-court redress procedures for settling consumer disputes aims to protect consumers' rights by saving them time and financial resources for litigation, which in most cases takes years.

In the field of the non-banking financial sector, three conciliation committees have been formed - the Sectoral Conciliation Committee for Dispute Resolution in the field of insurance and insurance mediation, including the provision of remote financial services in this sector; Sectoral Conciliation Committee for Dispute Resolution in the field of supplementary social insurance, social insurance mediation, including the provision of remote financial services in this sector; Sectoral Conciliation Committee for Dispute Resolution in the field of activities and services under the Markets In Financial Instruments Act and activities and services act under Art. 86, para. 1 and 2 of the Collective Investment Schemes and Other Undertakings for Collective Investments Act, including in the provision of remote financial services in these sectors.

FSC experts participate in these committees.

The referral to the Sectoral Conciliation Committees is done by submitting an application in writing to the Consumer Protection Commission, and the application and the accompanying documents can also be submitted by e-mail or online through the website of the Consumer Protection Commission. Conciliation proceedings help to resolve disputes between consumers and traders through a conciliation proposal for the parties, which, once approved by them, has the force of an agreement between them.

Professional organizations

It is essential for increasing the effectiveness of consumer protection measures that professional organizations pursue a policy of voluntary (not regulatory) imposition of principles of good practices for treating customers and accepting their interest as paramount by their members. Fair treatment of consumers must be an integral part of good governance and corporate culture of all persons supervised by FSC.

The main professional organizations in the field of the non-banking sector are: Bulgarian Association of Licensed Investment Intermediaries (BALII), Association of Industrial Capital in Bulgaria (BICA), Bulgarian Association of Management Companies (BAMC), Special Investment Purpose Companies Association (SIPCA), Association of Bulgarian Investor Relations Directors (ABIRD), Bulgarian Association of Investor Relations (BAIR), Bulgarian Association of Supplementary Pension Insurance Companies (BASPSC), Association of Bulgarian Insurers (ABI), Association of Insurance Brokers (AIB), Bulgarian Association of Insurance Brokers (BAIB).

Membership in these associations is voluntary. They have developed and / or adopted rules (codes) for ethical conduct and their effective implementation is the responsibility of the management of the respective associations.

II. REGULATION AND SUPERVISION OF COMPLIANCE THEREWITH - A MAJOR FACTOR IN EFFECTIVE CONSUMER PROTECTION

The regulatory activity of the FSC is fully compliant with European legislation and reflects the efforts of the European Community to create a regulatory framework to ensure stable market development, to establish systems for anticipation and appropriate addressing of potential market risks, to strengthen consumer protection, including by improving the quality, accessibility and usefulness of financial information and other general information on the activities of supervised entities, and improving the dissemination practices of financial products.

Among the regulatory documents there are those directly applicable on the territory of the EU - those that derive from the EU legislative acts and their introduction into the Bulgarian legislation, as well as of local significance. In developing the legislation, FSC takes into account the characteristics and degree of development of the Bulgarian financial market and the specific problems of the Bulgarian consumer. This approach ensures the maximum degree of compliance of the regulatory provisions with the public needs.

In practice, all regulatory requirements governing the activities of persons supervised by FSC provide increased consumer protection. Conditionally, the measures can be defined as those that have an indirect impact and aim to ensure stability and transparency of the activities of FSC supervised entities and increase their financial efficiency and competitiveness. Direct measures can be defined as measures aimed at providing information about financial products, providing advice, facilitating the consumers' use of the product, and creating opportunities to increase the financial benefits associated with its use, increasing security and transparency (providing information) in the process of purchasing the product, as well as providing sufficient additional information for consumers to make an adequate decision.

European regulatory framework

The stable functioning of financial markets and the stimulation of their healthy growth are closely linked to the level of consumer confidence, which in turn is determined by the level of consumer protection.

In all European regulations in the field of financial markets, special attention is paid to consumer protection in relation to the products and services offered in these markets.

Basic regulatory packages have been adopted, such as Solvency II, CRD IV, MiFID II, Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution, which have significantly changed the conditions of financial markets towards higher protection of consumers of financial products and services, as well as delegated regulations for their implementation. Guidelines on the application of certain provisions of the main regulatory documents have been adopted by the European Supervisory Authorities.

Legislative framework effective in Bulgaria

The part of the financial markets overseen by FSC is strongly affected by European legislation. The following requirements have been introduced:

- **Capital markets**

Another European piece of legislation that has direct effect throughout the European Union, namely **Regulation (EU) No. 596/2014** of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Directives 2003/124/EC, 2003/125/EC, and Commission Directive 2004/72/EC.

The provisions of **Directive 2014/65/EU** of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (Directive 2014/65/EU), transposed into the Markets in Financial Instruments Act and Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (Delegated Regulation 565/2017) regulate a number of obligations for the persons to whom they apply, aimed at achieving a high level of protection of the interests of consumers of non-bank financial services, incl. obtaining correct, clear and non-misleading information about the relevant service, financial instruments and their risks, the investment firm, potential conflicts of interest, the costs that the consumer will incur, etc. In addition, investment firms assess the suitability or appropriateness of each client so as to ensure that the relevant service is relevant to the consumer. Serious requirements have been introduced regarding the safekeeping of client assets, their use by firms, etc. Delegated Regulation (EU) 565/2017 requires investment firms to establish, implement and maintain effective and transparent complaints management policies and procedures, as well as procedures for the timely handling of complaints from clients or potential clients. In addition, investment firms have a complaints management unit, which is responsible for dealing with complaints.

As of 03.01.2018, the provisions of Regulation (EU) 600/2014 apply in the EU. Said Regulation establishes uniform requirements for the disclosure of commercial data for investment firms and market operators, including trading venues; the reporting of transactions to the competent authorities and the trading of derivatives in organized places;

Along with the introduced regulatory requirements aimed at enhanced protection of the rights and interests of consumers of non-banking financial services, the European Securities and Markets Authority has formally adopted measures to provide contracts for differences and binary options to retail investors. The measures were applied from 2 July 2018 to binary options (from 1 August 2018 for contracts for differences) until 02.07.2019. Subsequently, FSC, as a national competent authority, considered that there was a need for continuation of the imposed restrictions, as this is in the interest of non-professional clients. In this regard, FSC issued Decision No. 841-III dated 02.07.2019, according to which as of 03.07.2019 the placing on the market, distribution, and sale to non-professional clients of derivative financial instruments, having certain characteristics (binary options) was suspended on and from the territory of Bulgaria.

The provisions of Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and the Directive amending it - Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration and sanctions policy, and Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC have been transposed into the Collective Investment Schemes and Other Undertakings for Collective Investments Act (CISOUCIA). That act guarantees the protection of investors in units of collective investment schemes through the

authorization granted to the management company, as well as to the collective investment scheme in its Member State.

S Directive (EU) 2016/2341 The EP and the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision introduced rules on institutions for occupational retirement provision (IORP) in order to contribute to more long-term investment.

The legislation is part of the EU's initiative to promote new and diverse ways to release long-term funding. The main objectives of the directive are three: to ensure that members of the pension scheme are adequately protected against risks; removing barriers to the cross-border provision of services so that occupational pension funds can reap the full benefits of the single market; to strengthen the ability of occupational pension funds to invest in financial assets with a long-term economic profile and thus support the financing of growth in the real economy.

Many regulatory acts with direct effect have also been adopted, which on the one hand regulate certain financial products, the ways of their distribution, the information that should be provided to investors or potential investors, the way of creating the instruments. All regulations create a more stable, predictable environment in the financial markets and thus help protect consumers. In the last few years, the following have been adopted:

-Regulation (EU) No. 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds: The funds provide a constant flow of income for pension scheme administrators, insurance companies, foundations, municipalities and other entities that face common and recurring liabilities and seek long-term returns within well-regulated structures and rules for their activities, ensure harmonization of requirements for portfolio composition, diversification and eligible assets, applied investment techniques such as eligible levels of borrowed funds, the use of financial derivative instruments, the rules applicable to short selling or securities financing transactions, which in turn helps to harmonize levels of investor protection.

-Regulation (EU) No. 346/2013 for European social entrepreneurship funds: It introduces uniform rules applicable to eligible social entrepreneurship funds in all Member States, which impose the corresponding obligations on their managers wishing to raise capital throughout the Union, using the "EuSEF" designation. These requirements are aimed at gaining the confidence of investors and, accordingly, at harmonizing the levels of investor protection at European level.

-Regulation (EU) No. 345/2013 for European venture capital funds: The Regulation establishes common rules at European level for European venture capital funds, in particular as regards the composition of the portfolio of funds operating under this designation, their eligible investment objectives and instruments, and the categories of investors to whom are allowed to invest in such funds. Differences in the requirements regarding the quality of portfolio composition, investment objectives and eligible investors can lead to various levels of investor protection and create confusion regarding the investment spectrum of an eligible venture capital fund.

-Regulation No. 236/2012 on short selling and some aspects of credit default swaps: The regulation establishes a protective regulatory framework to be used in exceptional circumstances. It is important that the potential risks arising from short sales and credit default swaps are regulated in a harmonized way. The regulatory framework covers all financial instruments and provides for proportionate measures against the risks that may arise from short sales of various instruments. It provides greater transparency of significant net short positions in certain financial instruments, which provides information of benefit to both the regulator and market participants.

-Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a

regulated market, and repealing Directive 2003/71/EC: The regulation aims to facilitate access to the financial markets of companies, in particular small and medium-sized enterprises (SMEs), by simplifying the rules and administrative procedures for them.

-Regulation (EU) No. 2021/337 of the European Parliament and of the Council of 16 February 2021 amending Regulation (EU) 2017/1129 as regards the EU Recovery prospectus and targeted adjustments for financial intermediaries and Directive 2004/109/EC as regards the use of the single electronic reporting format for annual financial reports, to support the recovery from the COVID-19 crisis Commission Regulation (EU) No 583/2010 of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper or by means of a website The regulation regulates the content of the basic information document for investors, which management companies should provide.

-Regulation (EU) No. 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014 The regulation establishes uniform rules for marketing communications.

-Regulation (EU) No. 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds: The regulation regulates money market funds (MMFs), which in terms of demand are instruments for short-term cash management, providing a high degree of liquidity, diversification, and stable value.

-Regulation (EU) No. 1286/2014 on key information documents for packaged retail and insurance-based investment products, effective from 01.01.2018. The Regulation on key information documents for packaged retail and insurance-based investment products introduces a number of information requirements for those offering financial products with the main objective of protecting retail investors. The emphasis is on improving the conditions under which decisions are made by investors and focuses on two principal areas:

- form and content of key information and related documentation that the client must have before making an investment decision.
- ethical rules for distributors; ways to avoid, manage and detect conflicts of interest related to sales or consulting (sales rules).

Obligated persons under this Regulation are all persons offering investment funds, life insurance policies with investment elements, structured products, structured deposits.

-Commission Delegated Directive (EU) 2017/593 of 07.04.2017 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits is essential for the protection of consumers and their assets.

The provisions of this Directive have been transposed into Ordinance No. 58 of FSC of 28.02.2018. The Ordinance introduces requirements in connection with the deposit of financial instruments and funds of clients, as well as for the use of financial instruments of clients. The requirements under which an investment firm has the right to conclude a contract for collateral with a transfer effect with a professional client have been settled. The investment firms are also required to appoint an employee who is responsible for complying with the firm's obligations related to the protection of financial instruments and clients' funds.

The Markets in Financial Instruments Act (MFIA) regulates the requirements for prior and subsequent provision of information to clients, disclosure of information on concluded transactions, which provides sufficient information to ensure the best execution of clients' orders by investment firms.

In the field of investment, there are measures to protect consumers of investment services in cases where the investment intermediary is unable to meet its obligations to clients due to reasons directly related to its financial condition. For this purpose, the Public Offering of Securities Act ("POSA") has established an Investor Compensation Fund ("ICF"), which in the cases regulated in Art. 77b, para. 1 of the Public Offering of Securities Act, pays compensations to the clients of the investment firm in the amount of 90% of the amount of the investment, but not more than BGN 40,000. ICF pays compensations to all clients who do not fall into one of the hypotheses of Art. 77d, para. 2 of the POSA. In this regard, Delegated Regulation 565/2017 regulates the obligation for investment firms to provide their clients with a brief description of the measures taken by the firm to ensure the protection of client assets, including summary data on any relevant investor compensation or deposit guarantee scheme which applies to the investment firm due to its activities in a Member State.

-Regulation (EU) No. 2019/2088 of the EP and the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. This Regulation establishes harmonized rules for financial market participants and financial advisers on transparency in relation to the integration of sustainability risks and the consideration of sustainability adverse impacts in their processes, and in relation to the provision of sustainability information with regard to financial products.

A Regulation of the European Parliament and of the Council on European green bonds is pending, which aims to establish a common framework of rules on the use of the name "European green bonds" or "EuGB" for bonds that have environmentally sustainable objectives within the meaning of the Regulation (EU) 2020/852 (Taxonomy Regulation). The regulation also aims to establish a system of registration and supervision of companies that will act as external verifiers of green bonds for compliance with the new framework.

• **Insurance market**

The Insurance Code (IC) in Bulgarian legislation introduces the provisions of the European legislation in the field of insurance, namely

Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). For insurers and reinsurers, requirements have been introduced concerning the capital requirements of the insurer and reinsurer, for the calculation of technical provisions, for investment of assets, as a guarantee of financial stability and fulfilment of obligations under insurance and reinsurance contracts. The functions of risk management, internal audit, compliance function and actuarial function are regulated. The obligation of each insurer or reinsurer to perform its own risk and solvency assessment as part of the risk management system is regulated. There are requirements for management systems, reporting, public disclosure of information, as well as ensuring protection of the interests of consumers of insurance services. In order to increase the protection of consumers of insurance services, the IC sets requirements for the procedure for settling insurance claims by insurers. The strict requirements to the document flow of the insurer, its information systems and the quality of the data generated by them guarantee a good internal organization.

The insurance claim according to the IC is filed in writing and contains accurate data on the bank account to which the insurance payment should be transferred.

This requirement is a guarantee for the timely fulfilment of the insurer's obligation and reduces the risk of third parties receiving the insurance payment on behalf of the authorized person and misusing

the funds.

There is a provision in the IC for concluding an insurance contract with retroactive coverage, which means that the coverage provided by the insurer is for a period before the date of concluding the contract.

In the interest of the consumers of insurance services with regard to the insurance contract, it is stated that it must clearly, unambiguously, and comprehensively set out the covered risks and exemptions from coverage. This rule ensures the prevention of bad practices in the market, where the terms of the contract are too general and can be misleading for insurance service consumers.

In the case of group insurance, the IC introduces an obligation for the insurer to provide in writing to the insured persons all information received from the insurer regarding the concluded insurance contract, including the general conditions or the insurance contract if it is not concluded under general conditions.

Under the contract for compulsory Motor Third Party Liability Insurance, the limit of liability for non-pecuniary damage and pecuniary damage due to bodily injury or death is BGN 10,420,000 for each event, regardless of the number of victims.

In order to protect the interests of consumers of insurance services, insurance intermediation is carried out under strict rules governing the requirements for market behaviour of distributors of insurance products. The IC has specific requirements for the information provided in advance to customers and potential customers, requirements in the case of providing advice in order to reduce the asymmetry in the information available to consumers and distributors of insurance products. These provisions transpose the requirements of **Directive (EU) 2016/97** of the European Parliament and of the Council of 20 January 2016 on insurance distribution - Insurance Distribution Directive (IDD). Product control and management rules play a key role in protecting consumers of insurance services by ensuring that insurance products meet the needs of the target market and thus reduce the risks of selling inappropriate insurance products to certain groups of consumers.

The detailed regulation of insurance distribution is applicable to both insurers and insurance intermediaries. Insurers and insurance intermediaries in the distribution of insurance products must act fairly, honestly, and professionally in the best interests of consumers of insurance services, and any information provided to consumers must be true, clear, and not misleading. Every insurer, respectively insurance broker, has an obligation to establish an organization for reviewing complaints of insurance consumers. Complaints must be registered, reviewed, and answered within a specified time. The obligation for the insurers, respectively the insurance brokers, to analyse the received complaints and to take measures for elimination of the weaknesses in their activity, established on the basis of the complaints is in the interest of the consumers of insurance services.

Uniform requirements for qualification and reliability of the employees of insurers and insurance intermediaries who are directly involved in the distribution of insurance products have been introduced in the IC, as well as a requirement for their training. Also, in order to protect consumers, requirements have been introduced for the information that must be provided to consumers of insurance services both before the conclusion of the insurance contract and during its validity, which will ensure an informed choice of insurer and insurance product.

In order to avoid the consequences of delaying the transfer of insurance premiums paid to an insurance intermediary to the insurer for whom they are intended, each insurance intermediary shall notify the insurer of the payment received on the same day by e-mail through the insurer's electronic system or as otherwise agreed between the insurer and the insurance intermediary.

According to the IC in connection with insurance contracts, the insurer is obliged to give the consumer of insurance services the general terms and conditions of insurance before concluding the insurance contract.

Insurers are also obliged to publish on their website the internal rules for settling claims under insurance contracts. The insurer is obliged to provide FSC with the rules together with their subsequent amendments and supplements within 7 days of their adoption.

With regard to the most popular insurance - Motor Third Party Liability - the measures taken by FSC guarantee the financial security and stability of insurance and increase transparency. There is an information system for electronic generation of policies, where in respect of all concluded and currently valid compulsory motor third party liability insurance for a specific motor vehicle, individualized with its registration number, a register is kept by the Information Centre to Guarantee Fund, whose data are publicly available through the website - www.guaranteefund.org.

In the cases of settling a claim presented to the insurer, the IC provides for deadlines within which the insurance companies may require additional evidence from the insured persons in order to limit unjustified procrastination for the payment of insurance indemnity. In the case of contracts for compulsory motor third party liability insurance, which is the most common insurance, this period is no later than 45 days after the date of filing the claim.

The law protects the consumers of insurance services by introducing a ban on requiring evidence that the consumer of the insurance service cannot obtain due to existing regulatory obstacles or due to the lack of legal possibility to provide them, as well as those for which it can be reasonably assumed that they are not essential for establishing the basis and amount of the claim and aim at unjustified delay and prolongation of the claim settlement procedure.

In order to protect the consumers of insurance services in cases where there is insolvency of an insurance company licensed by FSC, a Security Fund has been established - a fund for guaranteeing the claims in case of insolvency of an insurer. The Security Fund guarantees the claims of all persons arising from an insurance contract for compulsory motor third party liability insurance, compulsory Passenger Accident Insurance, and life insurance.

Obligations of the respective insurer to the consumers of insurance services are paid from the Security Fund after the entry into force of the decision for declaring the insolvency of the insurer.

• **Social Insurance market**

The protection of insured persons is regulated in the Social Insurance Code (SIC), which is dominated by local legislation. The requirements of Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision are also implemented in SIC.

Disclosure and transparency are an important element of consumer protection, as information enables informed decision-making.

Pension insurance companies (PICs) maintain up-to-date websites where consumers can find out about the pension fund they are interested in and receive other information in connection with the supplementary pension insurance. The regulations for the structure and activity of the funds managed by the pension companies are published on the FSC's website.

With the amendments to the SIC and with the adoption of ORDINANCE No. 61 of 27.09.2018 on the requirements for advertising and written information materials and Internet pages of pension insurance companies, a requirement was introduced to inform insured persons through advertising and

information materials for supplementary pension funds that the management of the fund's assets does not guarantee a positive return, but retains in full the funds contributed to the individual accounts in the universal pension fund (UPF). With the amendments to SIC, two new funds were created: lifelong pension payment fund and term payment funds. An obligation has been created for the pension insurance companies to set aside a reserve to guarantee the gross amount of the UPF contributions. An opportunity was created for the socially insured person who has acquired the right to a pension from UPF, to change their participation for the occasion of receiving benefit and to transfer the accumulated funds from their individual account or the amount supplemented by a reserve for guaranteeing the gross amount of UPF contributions, whichever is larger, in another UPF managed by another pension insurance company.

A person insured in an professional pension fund (PPF) who has not acquired or exercised their right to early retirement, may, upon granting a pension for length of service and age under Part One of the SIC or upon reaching the age under Art. 68, para. 3 of SIC to receive once or in instalments the accumulated funds from his/her individual account or to transfer them to UPF or VPF.

Pension companies calculate and publish information on the value of one unit of the respective pension funds on a daily basis. The data on the value of the units of all pension funds are published on the FSC's website. The portfolios of the companies are also published on a quarterly basis. The annual audited financial statements of PICs are published on the FSC's website.

The SIC regulates the requirement for pension companies to send a paper statement on the individual account of their clients once a year - until the end of May. When submitting an application, the consumer may opt out of the paper version of the individual account statement and receive it in electronic form. Socially insured persons can also check their personal account through the website of the respective pension funds, after receiving an individual code. Clients have the right to request additional statements. Some pension companies have developed procedures in cases where the accuracy of the data in the individual account statement is disputed.

In the field of pension insurance, the protection of client assets is ensured by separating the assets of the pension company from the assets of the managed funds. An additional guarantee for consumers is the obligation of the pension company to have a contract with a custodian bank.

According to the Social Insurance Code, the boards of trustees of pension insurance companies are obliged to consider and respond to the complainants in writing within 2 months from the date of receipt of the complaint.

Protection of consumers against unfair commercial practices

On 11 May 2005, the European Parliament and the Council of the European Union adopted **Directive 2005/29/EC** concerning unfair business-to-consumer commercial practices in the internal market and amending **Council Directive 84/450/EEC**, **Directives 97/7/EC**, **98/27/EC**, and **2002/65/EC** of the European Parliament and of the Council and **Regulation (EC) No 2006/2004** of the European Parliament and of the Council

Directive 2005/29/EC regulates commercial practices directly related to the impact on consumer decision-making related to products and directly protects the economic interests of consumers from unfair commercial practices by traders to consumers. The Directive is not intended to restrict the consumer's right of choice by imposing a ban on the promotion of goods resembling other goods unless that similarity confuses consumers as to the commercial origin of the goods and is therefore misleading.

A misleading commercial practice is one that contains false information or misses essential information and may in some way mislead the average consumer, even if the information contained in it is factually accurate and, in any case, encourages or may encourage the consumer to make transactional decision that he would not have taken otherwise.

Directive 2005/29/EC provides definition of what is misleading omission and aggressive commercial practice. Misleading omission is a commercial practice in which a trader hides or provides information in an unclear, unintelligible, ambiguous, or untimely manner. Aggressive is a commercial practice which, by harassment, coercion, including the use of physical force, or undue influence, significantly impairs or is likely to significantly impair the average consumer's freedom of choice or behaviour with regard to the product, and thereby causes him or is likely to cause him to make a transactional decision that he would not have taken otherwise.

Protection of personal data of consumers of non-banking financial services

Rapid technological development and globalization have created new challenges for personal data protection. The scale of the exchange and collection of personal data has increased significantly. Technology allows both private companies and public authorities to use personal data on an unprecedented scale to operate. Individuals are increasingly leaving personal information that is publicly available worldwide. Technology has transformed both the economy and social life and should further facilitate the free movement of personal data within the Union and the transfer of data to third countries and international organizations, while ensuring a high level of personal data protection.

On this occasion, on 27 April 2016 was adopted **Regulation (EU) 2016/679** of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing **Directive 95/46/EC** (General Data Protection Regulation). The Regulation lays down rules on the protection of natural persons with regard to the processing of personal data, as well as rules on the free movement of personal data. The Regulation is binding on all EU Member States, including Bulgaria, and has been in force since 25 May 2018, providing for the establishment of a European Data Protection Board, which is an EU body.

The regulation of this issue is also a measure for the protection of consumers of non-bank financial services. Otherwise, there is a risk of collecting personal data for certain purposes, which may jeopardize consumer rights. In addition, the use of personal data should be subject to the explicit consent of consumers, and the processing of such data should be used only for the needs of the non-banking financial services they use. The collection and storage of personal data is carried out under strict control and compliance with the rules for their protection. In this regard, the information provided by the consumer as confidential should be treated as such, and consumers should be informed of the cases explicitly established by law when and to whom such information may be disclosed.

Analysis of consumer complaints by the regulator

FSC analyses consumer complaints and signals in order to adequately resolve the problems related to the implementation of the legislation governing the activities of non-bank financial institutions.

FSC, as a supervisory body, in order to ensure compliance with consumer rights, conducts inspections for compliance with regulations, including in connection with complaints against supervised

entities and persons offering services and products on the financial markets. In case administrative violations are established in the course of the performed inspections, FSC initiates administrative penal proceedings, on the basis of which it imposes administrative penalties and refers to the law enforcement bodies.

European legislative initiatives

The main direction in the forthcoming activities in the field of protection of consumers of services in the sector of supplementary pension insurance, which result from the development of European legislation regulating the Community market of pension products, is the introduction in FSC supervisory practice of principles, means and instruments of consumers who are constituted with the Regulation on the establishment of a Pan-European pension product (PEPP) becoming effective. REGULATION (EU) 2019/1238 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 June 2019 on a pan-European personal pension product (PEPP). This regulatory document has a horizontal effect. The pan-European personal pension product can also be offered by insurance companies as well as by management companies.

By decision No. 502-H of 20.07.2021, the Commission decided that “FSC intends to comply in its supervisory practice with the Guidelines on Supervisory Reporting for PEPP, EIOPA-21/260/31.03.2021, issued by the European Insurance and Occupational Pension Authority, as of 22 March 2022. "Protection of users of PEPP derives from the texts of Chapter IV “REQUIREMENTS FOR DISTRIBUTION AND INFORMATION”. The main elements of the basic concept of the model of consumer protection of PEPP are as follows:

Provision of information before the conclusion of a contract for PEPP Section II “Pre-contractual information”:

Before concluding a PEPP contract, prospective PEPP savers should be given all the necessary information to make an informed choice. Prior to the conclusion of the PEPP contract, retirement-related demands and needs should be specified and advice should be provided. In order to ensure optimal transparency of the product, PEPP providers should draw up a PEPP key information document (PEPP KID) for the PEPPs that they offer before those PEPPs can be distributed to PEPP savers. They should also be responsible for the accuracy of the PEPP KID. The PEPP KID should replace and adapt the key information document for packaged retail and insurance-based investment products under Regulation (EU) No 1286/2014 of the European Parliament and of the Council (6) which, as a consequence, would not have to be provided for PEPPs. A stand-alone PEPP KID should be drawn up for the Basic PEPP. Where the PEPP provider offers alternative investment options, a generic KID for the alternative investment options which could also contain references to other documents should also be provided. Alternatively, where the information required on the alternative investment options cannot be provided within a single stand-alone key information document, a stand-alone key investment document for every alternative investment option should be provided.

Providing information during the contract: The provider must prepare a “benefit statement” which should contain the information under Art. 36, paragraph 1 of the regulation and additional information under Art. 37 of the Regulation.

Filing complaints: According to Art. 50 of the Regulation, procedures are in place to allow consumers and other stakeholders to lodge complaints with the competent authorities against PEPP suppliers and distributors. The applicants must receive a reply in all cases as soon as possible. In

addition, appropriate mechanisms have been put in place for impartial and independent out-of-court complaint and redress procedures aimed at resolving disputes between PEPP savers and PEP providers or distributors.

III. FINANCIAL LITERACY - AN ESSENTIAL CONDITION FOR INCREASING THE LEVEL OF EFFECTIVE CONSUMER PROTECTION

The variety of financial products and services, as well as their increasing use in the modern world, require additional knowledge from the population. Along with the increase in the use of financial products, the use of digital services by society is also growing. The combination of the two imposes the need for the population to increase their knowledge and competencies in relation to rapidly evolving technologies and the possibility to access financial services faster and easier. Along with the convenience provided by the digitalisation of financial products and services, there is a need for new knowledge about the risks to consumers when using these products and services.

The need to increase financial literacy affects the whole society, both children from the earliest age and the population throughout the life cycle. Given the pace at which digital services are evolving, as well as newer and more complex financial products, the need to constantly upgrade the financial literacy of the population is especially important.

A serious challenge to the development of financial literacy in Bulgaria are the vulnerable groups in society who are not financially and digitally literate. At the same time, innovative technologies provide many new and diverse opportunities and methods to improve the financial literacy of digitally active people. The digitalisation of financial products and services requires the improvement of financial literacy. There is a need to identify risk and promote initiatives to strengthen digital and financial literacy, taking into account the characteristics, benefits, but also the additional risks associated with digital services and products. In this regard, in February 2021 the National Strategy of the Republic of Bulgaria (the Strategy) was adopted. The strategy was adopted after the establishment of an interdepartmental working group with the active participation of a team from FSC, in which branch organizations also took part, with the Ministry of Finance as the leading institution. It outlines the main priorities and target groups identified as key to the development of financial literacy in Bulgaria.

The main priorities set in the Strategy are:

Priority 1: Development of a framework of key competencies in the field of financial literacy;

Priority 2: Development of content and providing an opportunity for free access to educational and information resources and their promotion, incl. through digitalization;

Priority 3: Increasing the financial literacy of students; Priority 4: Increasing financial literacy and stimulating the financial inclusion of vulnerable and other groups in society.

The main priorities set in the Strategy are aimed at: building knowledge and skills for short-term personal finance management and financial control; financial sustainability and risk management skills; financial planning in the medium and long term; prudent use of financial products and services; awareness of the risks involved in the use of a financial product, knowledge of the rights and obligations of consumers and the mechanisms for protecting these rights and obligations; creating knowledge and skills on the use of digital technologies to increase financial literacy.

Financial literacy is most often defined as the combination of financial awareness, knowledge, skills, attitudes, and behaviours that are needed to make sustainable financial decisions and to achieve,

ultimately, individual financial well-being. Financial literacy is increasingly recognized as an important individual skill in people's lives. In the OECD methodology for measuring financial literacy and financial inclusion, financial literacy is measured through three components: financial knowledge, financial behaviour, and financial attitudes. Initially, financial literacy policies focused on financial education.

The importance of financial literacy is well recognized by developed societies in Europe, as they understand the need for financially literate people to contribute to a more stable and balanced society.

The strategy considers elements of consumer protection, financial education, and financial literacy, along with the regulation of financial services and the control exercised by the relevant supervisory authorities.

Financial regulation aims to provide uniform and harmonized rules for the protection of consumers of financial services.

Financial supervisory institutions are important for the protection of consumers of financial services. In Bulgaria it is carried out by the Bulgarian National Bank for the banking sector and by the Financial Supervision Commission for the non-banking sector (including the capital markets, the insurance sector, the supplementary pension insurance, etc.). The consumer protection functions in Bulgaria are implemented through the Consumer Protection Commission.

IV. OBJECTIVES FOR PROTECTION OF CONSUMERS OF NON-BANK FINANCIAL SERVICES AND INCREASING THE LEVEL OF FINANCIAL LITERACY

The increased importance of the protection of consumers of financial services, as part of the FSC's priorities, predetermines the need to create and implement a targeted and consistent policy to protect the interests of consumers or potential consumers of services in the non-banking financial sector supervised by FSC. The strategic approach to the implementation of the policy in this regard ensures concentration of efforts by defining leading and secondary goals, measures, and necessary resources, taking into account the specifics of the non-banking financial sector, the legal framework, and the forecast for the development of financial innovations.

Main strategic objectives of the Programme for protection of consumers of non-banking financial services:

Strategic objective 1: Improving the regulatory framework in the field of consumer protection

1. Timely change in the regulatory framework in line with European legislation, as well as the introduction of local regulations in line with the specifics and market behaviour of local market participants.
2. Establish mechanisms to ensure equal treatment of consumers, ensuring access to sufficient, clear, and reliable information.
3. Monitoring and assessment of the best world practices regarding the protection of consumers of non-banking financial services. Consideration of the possibility for application in FSC.

Strategic objective 2: Effective enforcement of consumer law

1. Improving and adapting supervisory practices to the dynamically changing conditions of increasingly evolving digitalisation

2. Application of the legal powers of FSC, respectively of the Deputy Chairpersons of FSC for protection of consumer rights in the course of the supervisory activity with emphasis on supervision of the market behaviour of the participants in the financial markets supervised by FSC.
3. Maintaining and improving a coordinated and effective framework for consumer protection and ensuring introduction of supervision of market behaviour that is practical and aligned with common European supervisory practices.
4. Maintaining and improving the supervisory capacity to identify risks related to market behaviour and actively prevent negative outcomes for consumers

Strategic objective 3: Supporting the process of resolving consumer disputes by concluding out-of-court settlements

An alternative for resolving civil disputes arising between a consumer and a company providing services in the non-banking financial sector are the sectoral conciliation committees for dispute resolution, including the provision of remote financial services in the sectors - insurance, capital, insurance market. The Conciliation Committees act as a body for alternative dispute resolution, both national and cross-border. Conciliation proceedings help to resolve disputes between consumers and traders through a conciliation proposal for the parties, which, once approved by them, has the force of an agreement between them.

1. Participation of the FSC's employees in the Conciliation Committees in the three sectors of the non-banking financial market.
2. Providing more information to consumers on the possibilities of conciliation as a way of out-of-court settlement of disputes.

Strategic objective 4: Improving the efficiency of management of the process of protection of the consumer interests, stemming from the results of the conducted inspections in connection with consumer complaints and signals submitted to FSC

The process of preparing responses to complaints and signals submitted to FSC by consumers of services in the non-banking financial sector allows the regulator to receive current information on market behaviour of market participants through periodic analysis and updating of the system for registration of complaints and signals. The analysis of complaints helps to identify opportunities to improve the regulatory framework and public awareness, thereby contributing to increasing the effectiveness of FSC in protecting consumers' interests.

1. Preparation of proposals by the FSC member for taking actions regarding the improvement of the regulatory framework and the supervisory practice;
2. Public disclosure of analyses of the received complaints, signals, and inquiries, as well as of the actions and measures taken in connection with them;
3. Analysing the signals and inquiries of consumers of financial services received in the Information Centre;
4. Taking action to protect the personal data of the persons who have filed complaints or alerts and of the persons against whom they have been filed.

Strategic objective 5: Ensuring a prominent level of information and awareness of consumers of services in the non-banking financial sector for the development of the capital, insurance and insurance markets through:

1. Improving the quality and frequency of information provided to the public;

2. Timely updating of the publicly disclosed information by FSC, in accordance with the occurring changes in the market and incoming financial products and services.

Strategic objective 6: Improving consumer awareness of their rights by companies offering non-banking financial services and products

1. Implementing effective supervision of compliance with the requirement of supervised entities to provide key consumer information (detailed, clear, and reliable) regarding their non-banking financial products and services;
2. Providing easy access to clear, accurate and reliable information for consumers to make informed decisions.

Strategic objective 7: Development of a policy for increasing the financial literacy and culture of the consumers of services and products provided by the non-banking financial markets.

1. Analysis of the main target groups to which FSC should direct its efforts in connection with the development and implementation of programs for increasing financial literacy;
2. Identification of the group of active users to be provided with accurate and clear information about the supervised persons and the financial products offered;
3. Organising educational programmes for students at schools and universities
4. Organising seminars for the different professional groups
5. Participation in the preparation of the National Strategy for Financial Literacy.

Strategic objective 8: Monitoring the development of financial innovation in the non-banking financial sector and ensuring a high level of awareness of new products and technologies entering the market, including analysis of the current regulatory framework and supporting the transition to digital transformation of financial services.

1. Determining requirements for possible licensing or registration regime for companies offering financially innovative products and / or services and technologies in the non-banking financial sector;
2. Development of the Innovation hubs;
3. Management of the risk related to cybersecurity and arising from the introduction of innovations in the non-banking financial sector;
4. Disclosure of information on financial innovations in a separate section "FinTech" in the section "For the consumer";

Continuation of an initiative for interaction with business, aimed at identifying obstacles to the development of the FinTech industry and possible risks for consumers of financial innovation in the non-banking financial sector. FSC has prepared a new Strategy for Monitoring Financial Innovation for the period 2021-2024, as well as an Action Plan to it.

V. FINAL PROVISIONS

§ 1. Following the adoption of the programme, an Action Plan for 2021 will be prepared for the implementation with specified deadlines.

The document was adopted at a meeting of the Commission by a decision under Protocol No.