



Programme for Protection of Consumers of Non-bank Financial Services and Products 2025 – 2028

Financial Supervision Commission

**PROGRAMME
FOR
PROTECTION OF CONSUMERS OF NON-BANK
FINANCIAL SERVICES AND PRODUCTS
(2025 - 2028)**

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

Main priorities of European policy

Consumer protection is a main strategic goal of the European Union (EU, the Union), and an important instrument in the processes of ensuring the good functioning of the single internal market of financial products and services. An important element is making available information about businesses providing non-bank financial services and products and about the risks associated with their use. An important point is the creation of programs and policies 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, aiming to meet the needs of consumers during the COVID-19 pandemic and beyond.

The European initiative “Capital Markets Union” and its action plan are also underway, which aims to deepen and further integrate the capital markets of the 27 EU Member States, providing new sources of financing for companies, reducing the cost of raising capital, to facilitate cross-border investment, to attract new investment 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 initiative 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 offering of services and products in the financial markets is developing in an environment of ever wider digitization of the economy, which raises the question of the place of regulators in the process of protecting the interests of consumers. 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 consumer interests is one of the leading factors that contribute to the effective functioning of financial markets and decreasing the risks associated with financial stability. Pursuing an effective consumer protection policy contributes to building consumer confidence while stimulating market growth.

EU Consumer Protection Strategy

Ensuring a high level of consumer protection is one of the objectives of the EU, which is central to the internal market, by supporting and complementing the policies of individual Member States (MS), by enabling citizens to use the benefits of the internal market.

In accordance with Article 12 of the Treaty on the Functioning of the European Union (TFEU), the inclusion of consumer 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 current consumer program 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.

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 consumer protection outside the EU,

worldwide.

The program takes a holistic approach covering various Union policies of particular relevance to consumers, and complements other EU initiatives such as the European Green Deal, 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.

International aspects of consumer protection

In its practice, with the aim of protecting consumers, the World Bank carries out various studies and analyses, including issuing documents that consider established good practices for consumer protection and can be applied by regulators. The 2017 Good Practices include new 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 about how best to use financial services, build confidence in the financial sector and 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 actively to address consumer protection and financial education. Together with the Network on Financial Education, it conducts research and develops tools to support public institutions and to create and implement national financial literacy strategies.

The G20/OECD Principles for Financial Consumer Protection are set out in the OECD Recommendation, updated in 2022. It is intended to ensure that consumers of financial products and services are treated fairly and responsibly in their purchase and use of financial products and services and in their dealings with their providers.

The Principles are the leading international standard - developed and designed to be applicable to any jurisdiction and are cross-sectoral in nature (i.e. can be applied to the credit, banking, payments, insurance, pensions and investment sectors).

In addition, 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 provision of financial education.

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 OECD. The document states the 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

The development of technological innovation has led to new types of financial assets, such as cryptocurrencies. They, as well as the distributed ledger 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.

The increased supply of financial products is determined by the development of information technologies and the expansion of the circle of users of non-bank financial services. In this regard, it is essential for the stability of financial markets in Bulgaria to pay special attention to the development of financial innovation and, accordingly, the role of regulations in order to effectively protect consumers.

At this time the FSC is following the approved Strategy for monitoring the fintech sector 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 current Strategy for Monitoring the Financial Innovations of the FSC builds on the tradition of the previous strategy and outlines in the long run the directions in which the FSC would be committed to developing its supervisory activities and seeking the harmonization of national regulatory frameworks and practices in the field of financial innovation at European Union level.

FSC has adopted a Strategy for monitoring the FinTech sector for the new period 2025-2027, aimed at promoting a stable, dynamic and secure FinTech ecosystem. The fast pace of development of the financial innovation environment, as well as the mission of the FSC to ensure the stability, resilience and integrity of the financial sector are fundamental in consumer protection.

The main objectives of the new Strategy are:

- Activity planning with regard to regulatory changes to harmonise with European FinTech regulations;
- Culture of innovation;
- Inclusive financial innovation;
- Guidance information materials on emerging technologies;
- Digital Infrastructure;
- Sustainable finance.

The priorities in the Strategy are respectively: increasing consumer protection in the field of digital finance ; stimulating sustainable finance; promoting innovation and adaptability and ensuring market integrity and financial stability in the non-bank financial sector.

Fostering international cooperation is an important part of the Strategy for monitoring the FinTech sector 2025-2027. It includes: cooperation within the membership of European supervisory bodies; cooperation with international organisations and with member states of such organisations; participation in European innovation facilitator forums and project applications to the European Commission (EC) Technical Assistance Facility, DG Reform.

The European Commission has developed a project for a European Digital Innovations Hub, which is one 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. The aim of the project is to expand the use of digital financial services for consumers and businesses, as well as their benefits.

Consumer security in the use of digital financial services is directly dependent on cybersecurity. It must 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, relates to digital asset-specific technologies and IT platforms, and includes measures to deter potential perpetrators through robust systems, sanctions mechanisms and cyber diplomacy. The FSC takes seriously the challenge that supervisors face as a result of the proliferation of financial products and services through the use of financial innovation. It requires analysing and assessing potential risks to the consumer financial services market as innovative business models emerge and taking possible measures to address the risks

in a rapidly evolving FinTech industry.

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.

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.

ESMA's strategy for 2023-2028 has long-term focus and objectives and has been developed against a challenging economic and political backdrop (the effects of COVID-19, the war in Ukraine and rising inflation). ESMA fulfils its mission by focusing on its three strategic priorities and guided by the two identified thematic drivers (sustainable finance and technological innovation). The strategic priorities include promoting efficient markets and financial stability; strengthening the supervision of financial markets; and improving the protection of retail investors, the latter including the following activities:

- Together with the national competent authorities (NCAs), ESMA ensures that retail investors in the EU are effectively and equally protected, including from emerging risks arising from new distribution channels or innovative products;
- ESMA engages with retail investors through coordinated communication with NCAs, use of new communication tools and platforms;
- Ensuring that retail investors receive clear, reliable and understandable information about financial products;
- By contributing to the development of the EU regulatory framework, ESMA focuses on ensuring long-term direct and indirect retail participation in EU capital markets.

Current legislative efforts to improve permanence and consistency across sectors, particularly in the area of recovery and resolution, will allow EIOPA to further enhance consumer protection and strengthen financial stability. Above all, supervisors need to have the appropriate tools and powers to deepen their understanding of new challenges and be able to address them effectively.

The increase in cross-border business across the internal market will require greater attention to the supervisory relationship between host and home countries. EIOPA will do its utmost to further promote a robust and coherent approach to consumer protection in the EU, focusing on both prudential and business conduct issues.

In the coming years, EIOPA's work will focus on the supervision of emerging risks - those related to high inflationary trends, digitalisation, ensuring that the use of artificial intelligence leads to good outcomes and robustness on environmental, social and corporate governance

aspects.

With regard to digitalisation and cyber insurance, the purpose of EIOPA is still to establish a supervisory approach to support the benefits of digitalisation while maintaining a high level of consumer protection. EIOPA will work 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.

The EIOPA strategy for the period 2023-2026 focuses on sustainable finance, digital transformation, oversight, policies, financial stability and internal governance. The objectives are:

- strengthening market security, promoting sustainable finance, ensuring its efficiency, level playing field for business;
- ensuring strong and consistent protection of consumer interests across the EU.

The objectives of EIOPA are to contribute to the development/creation of sustainable insurance and pension products, including addressing consumer and business protection issues. In doing so, it will facilitate the transition to a more sustainable economy, recognising the essential role of social risk management, important long-term investors, including the risks associated with greenwashing.

Digital transformation is leading the way in today's world. In order to bridge the gap between developments in financial markets and regulators and supervisors, EIOPA will strive in the period 2023 - 2026 to keep abreast of the latest financial innovations and digital trends to continue to provide up-to-date supervisory guidance and best practices, taking into account ethical and financial health considerations.

To achieve an even higher and more effective level of oversight across the EU, EIOPA will apply consistent reviews and proportionate use of supervisory convergence tools. The aim is to contribute to the exchange of supervisory practices, providing additional value to supervisors and industry. As regards the supervision of new and emerging risks, such as cyber risk or resilience risks, EIOPA will seek to achieve convergence from the outset of the regulatory framework at EU level and, where possible, at international level outside the EU.

In terms of policy, EIOPA intends to provide high quality advice and other activities, taking into account the growing needs of society, including consumers, and the effects of new horizontal regulation.

EIOPA aims to create an ecosystem that supports financial sustainability and improves the financial well-being of consumers, taking into account the need for diversity and inclusion. A regulatory framework that ensures prudential stability is crucial and must be adapted as needed to reflect new developments.

The EIOPA strategy points out that the risks taken by consumers have steadily increased in recent years. In insurance, there has been a shift of consumers from insurance products with guarantees to products linked to investment funds, where investors' returns are determined solely by market conditions.

In its strategy, EIOPA envisages ensuring that supervisors have the appropriate tools to identify, assess and address any emerging risks.

It envisages improving the methodological framework, especially for more streamlined vulnerability assessments, while increasing capacity for emerging threats such as those of cyberspace and climate change.

EIOPA has developed a single programme document 2024-2026 based on the EIOPA strategy for the period 2023-2026. The FSC is a participant in the Board of Supervisors, which is the main decision-making body of EIOPA, and the Bulgarian regulator takes into account the documents of this European supervisory body in its policy and supervisory activities.

The main points in this document are:

1. To integrate sustainable finance considerations into all areas of EIOPA's activities;
2. To support the consumers, market and supervisory community through digital transformation;
3. To increase the quality and effectiveness of supervision;

4. To ensure a technically sound prudential and business policy;
5. To identify, assess, monitor and report risks to financial stability and the conduct of business and promote preventive policies and mitigating actions;
6. Ensuring good governance, flexible organization, cost-effective distribution of resources and a strong corporate culture.

Measures and actions taken by the FSC in connection with consumer protection

The FSC shall provide continuous access to information on its regulatory and supervisory activities, aimed at both consumers of financial products and services in the non-bank financial sector and the persons supervised by the Commission.

The Commission's updated website, in Bulgarian and English, plays a leading role in raising awareness among all stakeholders - the FSC regularly updates all sections, publishing news, administrative documents, regulations, statistics, etc. In addition, specially designed communication tools are also available to users - the consumer and educational website - www.tvoitefinansi.bg, the digital campaign #Invest safely and the mobile application FSC mobile - a proprietary mobile application for the most popular operating systems [Android](#) and [iOS](#).

The mobile application has innovations and is structured in such a way as to make it as easy as possible for users and companies from the non-bank financial sector in the country. The application is completely free of charge and provides innovation, extra convenience in accessing information that the FCS publishes for users and participants in the non-bank financial sector - insurance, social insurance and investment. Report submission by supervised entities, deadlines for payment of fees to the FSC, tracking a complaint from the moment it is submitted to the moment it is sent to the stakeholder, as well as submission of an application form in the innovative centre of for discussion of a Fintech project, all are part of the options in the application, where anyone can track the most current news from the activity of the FCS.

As part of the implementation of the Project “Building a Unified Information System (UIS) for the needs of the Financial Supervision Commission”, carried out with the financial support of the Operational Program Good Governance, co-financed by the European Union through the European Social Fund, from January 1, 2024 ., the FSC has completely switched to electronic administration when submitting applications, notifications, periodic information, as well as other documents. This enabled the review, tracking, control, validation and analysis of the incoming and processed information, the possibility of automated data transfer, including from and to external systems at the national and international level; the electronic administrative services (EAS) provided by the FSC were upgraded, and the Commission's registers were improved. The eighteen information access registers have been reorganized and there is now one register – easy and convenient to work with. The administrative burden has been reduced, which is an up-to-date response to the ongoing green transformation; the achieved level of regulatory and supervisory standards has been upgraded, with guaranteed transparent, fast and secure digital supervision.

Raising the financial literacy of the public is one of the priorities of the FSC and part of its activity is directed in this direction. Representatives of the Commission participate in a number of conferences, seminars, workshops and educational initiatives at national and international level. The experts and the management team are actively involved in the traditional initiatives - the one-week educational programme for students “The non-bank financial sector in Bulgaria”, organised in partnership with the Atanas Burov Foundation and the Ministry of Education and Science; participation in Global Money Week; participation in academies and university events, as well as in the implementation of general initiatives. Every year the FSC hosts an internship under the title “Regulation and Supervision of the Non-Bank Financial Sector”, its main objective is to build knowledge and skills for the prudent use of non-bank financial products and services, awareness of the risks and benefits of their consumption and improve communication with adolescent future

investors and consumers of financial services. It is attended by students from the final years of leading high schools.

The FSC supports the initiative “#For the euro in a nutshell: the answers we are looking for”, run by the Representation of the European Commission in Bulgaria. The series of 10 videos provides clear and practical information on the introduction of the euro in Bulgaria, and links to the videos are published on the FSC's LinkedIn page.

The Commission published on its website training videos and presentation materials to increase the financial literacy of the population on topical issues such as “Inflation”, “Investments in collective investment schemes”, “Civil liability insurance”, “Supplementary pension insurance”, “Complaints” “Use of insurance services”, etc.

Information disclosure and transparency

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

On its website, the Commission publishes decisions from its meetings, news, and other information concerning the investment, insurance and social insurance markets it regulates.

The website maintains information on companies licensed to carry out insurance, investment and supplementary pension insurance activities, including those authorised to do so. The FSC publishes up-to-date information on the financial situation of its supervisor entities and other important information for consumers, such as members of the governing bodies, fines imposed and other information.

On the website of the FSC through a link to the website of the Guarantee Fund one can check for concluded Motor Third Party Liability Insurance, check for available Green Card certificate, for concluded border Motor Third Party Liability Insurance, and check the representatives for claim settlement.

Common issues in the insurance, investment and supplementary pension sectors are also brought to the attention of non-bank financial services consumers, through which they can learn about some basic concepts, products and various useful information about the sector.

In order to facilitate consumers, useful links to various associations and institutions relevant to consumer protection in the non-bank financial sector are also published.

With a view to providing up-to-date information to consumers of non-bank services and products about the entities from Member States offering these products and services on the Bulgarian market, the FSC publishes periodic updated lists of foreign companies that have declared their intention to operate on the territory of the Republic of Bulgaria under the conditions of freedom to provide services or under the conditions of establishment.

Complaints and signals

One of the main objectives of the FSC, as defined in Art. 1, para. 1 of the Financial Supervision Commission Act (FSCA), is to protect the interests of investors, insured and socially insured parties.

In the event of dissatisfaction, consumers of insurance, investment and pension products and services have the opportunity to lodge a complaint and/or signal with the FSC in order to protect their rights as well as the legitimate interests of society.

Part of the powers of the member of the FSC under Art. 3, para. 5 of the FSC Act, supporting its policy of analysing and assessing the risks in financial markets, improving supervisory practice and protecting the interests of investors, insured and socially insured persons, is the examination of complaints and signals lodged against persons supervised by the FSC, as well as against persons who provide non-bank financial products and services without having obtained a licence to do so.

By carrying out inspections on complaints and signals received from consumers in the non-

bank financial sector, the FSC exercises control over the companies providing these services to ensure compliance with statutory provisions in order to protect the rights of consumers.

Feedback from consumers of insurance, investment and pension products and services is important for the regulator and contributes to the control of market conduct of participants in these markets.

Before approaching the FSC for assistance, dissatisfied consumers are advised to have made an enquiry or lodged a complaint about the specific case with the company with which they have a contractual relationship to request further information or provide additional evidence.

The analysis of the complaints received provides an opportunity for supervisory action by the FSC, as well as the organisation of various initiatives aimed at consumers in order to raise awareness and build knowledge of the functioning of the insurance, capital and supplementary pension markets, given the rapid penetration of new technologies in all three sectors. A condition for creating and maintaining a high level of consumer confidence in financial products and services offered on the financial markets are the supervisory activities by the FSC bodies as a result of complaints and creating a sense of security in consumers using products and the services offered on the non-bank financial sector. Supervisory actions help to preserve the stability of financial markets, the confidence of consumers in these markets, have a stimulating effect on the efficiency and transparency of financial markets. These actions consist of inspections by the supervisory authority of its supervised persons (scheduled inspections and inspections following complaints) and, in case of established violations, the preparation and delivery by the FSC of acts involving the administrative liability of the supervised persons (statements for established administrative violations - SEAVs), as well as of compulsory administrative measures (CAM), which oblige the supervised persons to perform a certain lawful act.

In cases of violation of consumers' rights in the non-bank financial sector, the intervention of the FSC creates confidence among consumers in the activities of the supervisory authority, and on the other hand is a prerequisite for discipline among its supervised persons.

The official website of the FSC has a "For the consumer" section, which contains useful information for consumers, including a dedicated "Complaints" subsection.

The "Complaints" section explains how users can lodge complaints with the FSC, and provides a link to directly access the FSC's online complaints/alerts/queries form.

Following the investigation of a complaint received from a consumer of non-bank financial services, the FSC provides information in its response to the complainant on the possible next steps that the consumer can take in case he/she continues to believe that his/her rights have been violated.

On the Commission's internet page, the "For the consumer" section contains a subsection "Warnings to consumers", which maintains and updates a list of companies that are not licensed by the 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.

Considering the limited powers of the Financial Supervision Commission to rule on complaints of consumers of financial products and services, in case of unsatisfactory results after the inspection, the person can seek their rights through conciliation or court proceedings.

Out-of-court dispute resolution

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.

The Consumer Protection Act (CPA) provides for the establishment of general and sectoral conciliation committees for resolving consumer disputes, and the conciliation proceedings are free of charge for the consumers..

In the field of the non-bank 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 these sectors; 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 also participate in these committees.

The referral to the Sectoral Conciliation Committees is done by submitting an application in writing to the Commission for Consumer Protection (CCP), and the application and the accompanying documents can also be submitted by e-mail or online through the website of the CCP. 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.

The European Consumer Centre has also been set up at the CCP to help consumers access an arbitration body in another EU Member State competent to handle cross-border disputes.

Unsatisfied consumers of non-bank financial services can also use the European Online Dispute Resolution platform / <http://ec.europa.eu/odr/> /. Through the platform, EU consumers and traders can settle their disputes related to cross-border and domestic online purchases.

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 the FSC.

The main professional organizations in the field of the non-bank 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), Bulgarian Public Relations Association (BPRA).

II. REGULATION AND SUPERVISION - 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.

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. The main regulatory packages that govern the activities of the entities supervised by the FSC, 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 (IDD), as well as the delegated regulations implementing them, significantly impact the conduct of business on financial markets in the direction of greater protection of consumers of financial products and services. The European Supervisory Authorities have continuously adopted Guidelines on the application of certain provisions of the basic legal instruments with a view to ensuring convergence of supervisory practices in financial markets.

Additionally, in 2023, the EC proposed a new legislative package called the "Retail Investor Strategy". The purpose of the proposed amendments is to enable retail investors to make investment decisions that are consistent with their needs and preferences, while ensuring that investors are protected and treated fairly. This aims to increase the trust and confidence of retail investors to invest safely in the long term and take full advantage of the EU Capital Markets Union.

The package includes wide-ranging measures to:

- Improving the way information is provided to retail investors about investment products and services in a more standardized and meaningful way by adapting disclosure rules to the digital age;
- Increase transparency and comparability of costs by requiring the use of standard presentation and terminology for costs. This will ensure that investment products bring real value to retail investors;
- Ensuring that all retail clients receive at least once a year a clear view of the investment performance of their portfolio;
- Resolving potential conflicts of interest in the distribution of investment products by prohibiting "execution-only" sales incentives (i.e. where no advice is provided) and ensuring that financial advice is best aligned with retail investors' interests. Stronger safeguards and transparency are introduced where incentives are permitted;

- Protecting retail investors from misleading marketing by ensuring that financial intermediaries take full responsibility for the use (and misuse) of their marketing communication, including when it is made via social media, celebrities or other third parties who the firms reward or incentivize;
- Encouraging Member States to implement national measures that can support the financial literacy of citizens, regardless of their age, social and educational background;
- Reducing the administrative burden and improving the accessibility of products and services for experienced retail investors, making the eligibility criteria for a professional investor more proportionate;
- Strengthening supervisory cooperation to make it easier for national competent authorities and European supervisory authorities to ensure that the rules are applied correctly and effectively in a consistent way across the EU and to jointly fight fraud and abuse.

Legislative framework effective in Bulgaria

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

• Capital markets

A European piece of legislation has a 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 (MFIA) 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-bank financial services, ESMA 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, the 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, the 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), as well as the directive on its amendment - 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 depository functions, remuneration policies and sanctions, as well as 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 and of Regulations (EC) No. 1060/2009 and (EU) No 1095/2010 Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on alternative investment fund managers and amending directives 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.

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 different 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. 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 (PRIIPs) introduces a number of information requirements for persons offering financial products with the primary objective of protecting retail investors. The regulation has horizontal application. Obligated persons under this Regulation are all persons offering investment funds, life insurance policies with investment elements, structured products, structured deposits.

The emphasis is on improving the conditions under which decisions are made by investors and focuses on two main areas:

- Introducing uniform transparency rules for the investment products covered by the regulation offered to retail investors. Determining the form and content of key information and related documentation that the client must have before making an investment decision.
- Introducing requirements for PRIIP manufacturers, for those advising on, or selling PRIIPs ways to avoid, manage and disclose conflicts of interest relevant to selling or consulting (selling rules).

-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 the 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 is 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 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.

Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds, laying down a common framework of rules on the use of the designation European Green Bonds or “EuGB” for bonds that have environmentally sustainable objectives within the meaning of Regulation (EU) 2020/852 (Taxonomy Regulation). The regulation establishes a system of registration and supervision of companies that will act as external verifiers of green bonds for compliance with the new framework.

Regulation (EU) of the EP and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 This Regulation lays down common rules on providing crowdfunding services; the organisation, authorisation and supervision of crowdfunding service providers; and the transparency and marketing of crowdfunding services. The investor protection measures set out in this Regulation require crowdfunding service providers to ensure that all information and marketing material to clients is accurate, clear and not misleading; to disclose annually the default rates of credit-based crowd funding projects on their platform for at least 3 previous years; and to publish a performance report within 4 months of the end of each financial year; consider whether any of their services would be suitable for potential retail clients ('inexperienced investors') and provide a 4-day cooling-off period before giving them full access to invest in crowdfunding projects; provide prospective investors with a detailed background document on the investment, including a warning of possible financial loss

Regulation (EU) 2022/2554 of the EP and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011. This regulation defines uniform rules for the security of the network and information systems of financial institutions, such as banks, insurance companies and investment firms. It covers a wide range of EU-regulated financial entities, requiring them to withstand, respond to and recover from any information and communication technology (ICT) disruption or threat. To protect consumers, the regulation contains provisions on ICT risk management.

Regulation (EU) 2023/1114 of the EP and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937 This regulation establishes uniform rules for issuers of crypto-assets not previously regulated by other EU acts in the field of financial services and for service providers related to such crypto-assets (crypto-asset service providers). In order to protect consumers, this Regulation imposes a number of obligations on all providers of crypto-assets, requiring them to act honestly, fairly and professionally in the best interests of their actual and

potential customers; to provide customers with honest, clear and non-misleading information; not to intentionally or negligently mislead customers about the real or perceived benefits of crypto assets and warn them of the risks involved; in a prominent place on their website, disclose the pricing, costs, charging policy and the effect of each crypto-asset on the climate and the environment; to have prudential safeguards; to guarantee that the members of their management body are of sufficiently good repute and possess the appropriate knowledge, skills and time to perform their duties; to implement policies and procedures to prevent money laundering, terrorist financing or other crimes; to keep crypto-assets and client funds separate from other assets and not use them for their own account; establish and maintain effective and transparent procedures for the prompt, fair and consistent handling of customer complaints; maintain and enforce effective policies to identify, prevent, manage and disclose conflicts of interest; take all reasonable steps to avoid any outsourcing risks; and develop a plan for orderly wind-down if necessary.

- **Commission Implementing Regulation (EU) 2018/1212** of 3 September 2018 laying down minimum requirements implementing the provisions of Directive 2007/36/EC of the European Parliament and of the Council as regards shareholder identification, the transmission of information and the facilitation of the exercise of shareholders rights This Regulation aims to prevent the diverging implementation of the provisions of Directive 2007/36/EC, which could result in the adoption of incompatible national standards, thereby increasing the risks and costs of cross-border operations and thus jeopardising their effectiveness and efficiency, and resulting in additional burdens for intermediaries. The use of common formats of data and message structures in transmissions should enable efficient and reliable processing and interoperability between intermediaries, the issuer and its shareholders, thus ensuring the efficient functioning of Union capital markets for shares.

• **Insurance market**

The Insurance Code (IC) regulates the requirements for licensing insurers and reinsurers, the requirements for their activities. These requirements arise from 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). 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. In the Payment Services and Payment Systems Act, payment service providers such as banks, payment institutions, electronic money companies may offer payment accounts held in the name of payment service users. Due to the introduction of this possibility in the interest of insurance service users, it is envisaged to allow insurance service users to have a choice of the type of account on which an insurance indemnity will be paid.

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.

The IC transposes Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability (Directive 2009/103/EC). 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 per occurrence, regardless of the number of victims, and for property damage (items) - BGN 2,100,000 per occurrence, regardless of the number of victims.

The texts in the IC that transpose Directive 2009/103/EC are to be amended. These provisions result from the introduction of the requirements of Directive (EU) 2021/2118 of the European Parliament and of the Council of 24 November 2021 amending Directive 2009/103/EC relating to insurance against civil liability in respect of the use of motor vehicles, and to the control of the obligation to take out such insurance (Directive (EU) 2021/2118).

In connection with Bulgaria's forthcoming accession to the euro area, the limits of liability for non-pecuniary damage and pecuniary damage due to bodily injury or death are changed to EUR 6 450 000 per occurrence and for damage to property (possessions) to EUR 1 300 000 per occurrence.

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 special 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 of Bulgarian legislation 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. 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. 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 the course of providing general information from the distributors of insurance products - the insurance intermediary or the insurer, they shall provide information on the procedures for lodging complaints by customers and other stakeholders against insurance intermediaries and the out-of-court complaint and redress procedures.

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. 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 obliged to publish on their website the internal rules for settling claims under insurance contracts. With regard to the most popular insurance - Motor Third Party Liability - the measures taken by the FSC guarantee the financial security and stability of insurance and increase transparency. There is an information system for electronic generation of policies, operated by the Guarantee Fund, 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 or chassis 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 the 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.

The requirements of the Directive on the distribution of insurance (Directive (EU) 2016/97) are supplemented by:

1. Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors

2. Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products The latest amendments to the delegated regulations have been introduced in relation to the consideration of sustainability requirements by taking into account customer preferences in relation to sustainability.

• **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 is 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 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, ensures that the funds contributed to the individual accounts in the universal pension fund (UPF) are retained in full. With the changes in the SIC, the payout phase from insurance in an UPF was set out in detail. According to the approach adopted with these regulatory amendments, the payment of the pension is not carried out from the individual account of the person in the universal pension fund in which they were insured, but from the payment funds created by each pension insurance company for making payments, namely a fund for programmed withdrawals (FPW) and a payment fund for payment of lifelong pensions (FPLP). Funds from FPW may be paid out as a lump sum or as programmed withdrawals. Pursuant to Art. 167a, para. 2 of the SIC, the funds are paid in one lump sum when they are less than three times the minimum retirement pension.

The conditions for programmed withdrawals are regulated in Art. 167a, para. 1 of the SIC, according to which, when the funds in the individual account are insufficient for the granting of the minimum supplementary old-age pension for life (not less than 15% of the minimum retirement pension under Art. 68, para. 1 of the SIC, determined in Art. 10, para. 2 of the State Social Insurance Budget Act for 2024, which as of 01.07.2024 is BGN 580.57, i.e. 15% of BGN 580.57 is BGN 87.09, but exceeds three minimum pensions (BGN 1,741.71 for the period i.e. for a programmed withdrawals to be granted by the PIC in the period 01.07. to 31.12.2024) the funds must be above BGN 1,741.71 but less than approximately BGN 16,836.24).

FPLPs shall pay a Supplementary lifelong retirement pension - a monthly payment of the amount provided for in the pension contract, payable from a specified date until the death of the pensioner (the amount of which may not be less than 15 per cent of the minimum pension under Art. 68, para. 1 at the date of its determination). Pursuant to Art. 169, para. 4 of SIC, when the amount of accumulated funds exceeds the gross amount of the contributions paid for the person, the PIC shall, if it so wishes, offer the payment of an additional old-age pension for life with a guaranteed amount equal to the first pension.

Pursuant to Art. 169, para. 1 of SIC the amount of the supplementary lifelong retirement pension shall be determined on the basis of the accumulated funds in the individual account, as well as the biometric tables of the National Statistical Institute and the technical interest rate approved by the Deputy Chair of the FSC. The amount of the lifelong pension shall be determined in accordance with the formulas in Ordinance No.69 of 15.06.2021 on the technical interest rates under Art. 169, para. 1, item 3 and para. 8, item 3 of the SIC and the formulas for the calculation of the supplementary lifelong retirement pensions.

This decision was made in order to minimize the risk of premature exhaustion of their funds before their death. It should be pointed out that survival risk is one of the most significant challenges facing all pension systems and pooling pensioners' funds in a common pool, which a FPLP essentially is, helps to achieve long-term stability of the pension system and higher pension payments. In this respect, by concluding the pension contract, the person agrees that the funds accumulated in their individual account with the UPF will be transferred to the FPLP and that their individual account will be closed, i.e. by retiring, the person relinquishes ownership of the funds. In return, the pension insurance company undertakes to pay the pensioner a lifetime pension according to the amount stipulated in the contract. In other words, by entering into the pension contract, the person exchanges the funds accumulated at the time of retirement for the right to receive a lifetime monthly payment, **regardless of whether those funds are exhausted prematurely**. This is actually the main type of pension, according to Art. 167, para. 4, item 1 of the SIC (lifelong pension without additional conditions, non-inheritable). Also, the regulation allows for the granting of pensions with additional conditions, namely a lifetime pension with a

guaranteed payment period (Art. 167, para. 4, item 2 of the SIC) and a lifetime pension including deferred payment of part of the funds (Art. 167, para. 4, item 3 of the SIC). Accordingly, in the case of the latter two types of life pensions, the law allows for the payment of part of the funds to the heirs (Art. 3 of the SIC *up to the guaranteed period, up to the deferred payment*). In addition, Art. 169, para. 4 of the SIC allows PICs to offer to the insured person who is entitled to a lifelong pension, if they so desire, the payment of an additional retirement pension with a guaranteed amount equal to the amount of the first pension calculated on the basis of the accumulated funds in the individual account, i.e. when the insured person chooses the option of a lifelong pension under Art. 167, para. 4 of the SIC, the pension is offered without a risk coefficient or with a risk coefficient. The risk coefficient ensures that the amount of the monthly contribution will not fall below the guaranteed amount.

An obligation has been created for the pension insurance companies to set aside a reserve to guarantee the gross amount of the UPF contributions. A mechanism was also established to guarantee the amount of gross contributions paid into the UPF. This mechanism shall apply in full at the time of retirement of the person concerned. If, at that time, the funds in the individual's account are less than the sum of all gross contributions (the contributions received by the Fund before deductions), the account shall be replenished to that amount from a specialised reserve set up and maintained by the pension insurance company to guarantee the gross contributions of individuals.

A mechanism was established to ensure a minimum rate of return in the management of the assets of supplementary mandatory pension funds. In the event that a fund realizes a lower than the specified minimum yield, the PIC is obliged to supplement the difference to the specified minimum yield within 10 days. An opportunity was created for the insured person who has acquired the right to a pension from UPF, to change their participation once and to transfer the accumulated funds to their individual account or the amount supplemented by a reserve for guaranteeing the gross amount of UPF insurance contributions, whichever is larger, in another fund managed by another pension insurance company.

A person insured in an occupational pension fund (OPF) 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 on the 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 website. The investment portfolios of the companies are also published on a quarterly basis. The annual audited financial statements of funds are published on the FSC 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. 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 SIC, 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.

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 observance in FSC supervisory practice of principles, means and instruments of consumers who are constituted with the Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP) becoming effective.

By Decision No 502-N of 20.07.2021, the Commission decided that “the FSC intends to comply in its supervisory practice with the Guidelines on PEPP Supervisory Reporting, EIOPA-21/260/31.03.2021, issued by the European Insurance and Occupational Pensions Authority, with effect from 22 March 2022”. The consumer protection requirements for PEPPs are set out in Chapter IV of Regulation (EU) 2019/1238 “DISTRIBUTION AND INFORMATION REQUIREMENTS”. The main elements of the basic concept of the PEPP consumer protection model boil down to:

Provision of information before the conclusion of a PEPP contract

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 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 manufacture before those PEPPs can be distributed to PEPP savers. Providers should also be responsible for the accuracy of the PEPP KID. This information document 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. In view of the fact that a PEPP provider can offer a basic PEPP and alternative investment options, the requirement to prepare a separate PEPP KID for the main product has been introduced. In cases 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 Regulation (EU) 2019/1238 and additional information under Art. 37 of the Regulation.

Filing complaints: According to Art. 50 of Regulation (EU) 2019/1238, 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.

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-bank 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 April 27, 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/BO** (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-bank 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.

European legislative initiatives

During the period of operation of the current program, a Directive of the EP and the Council, establishing a framework for resolution and recovery of insurance and reinsurance companies, is to be adopted and introduced into the Bulgarian legislation. It establishes rules for restoring the solvency of (re)insurers. These rules are in the interest of consumers of insurance services, as the measures lead to the restoration of the viability of companies. On the other hand, the resolution of (re)insurers also leads to the recovery of their activity.

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

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. 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.

Financial education, financial inclusion and financial consumer protection are priority policies both in the EU Member States, including Bulgaria, and for international organisations and institutions such as the OECD, the World Bank, the G20 and others.

The importance of financial literacy has been globally recognised for decades in a number of international forums, but it has received increasingly focused and systematic attention over the last ten to fifteen years. It has links to financial education, financial inclusion, financial well-being, financial sustainability and financial consumer protection.

Financially literate people are more responsible and better equipped to plan for their economic and financial future. If financially literate people predominate in a society, the society itself is more financially stable. But no matter how financially literate a society is, there will always be vulnerable groups which need targeted financial literacy outreach.

On the other hand, the continuous development of financial products and services and their digitisation give rise to the need for financially and digitally literate individuals to periodically upgrade their knowledge and skills. Thus, financial literacy and financial education should remain a priority throughout a person's life, in line with the principle of “lifelong learning”.

Financial literacy for children and the adolescent generation is also crucial. Improving financial skills encourages the development of self-reliance and discipline and, not least, a tendency towards entrepreneurial behaviour.

The financial literacy of consumers of non-bank financial services is directly linked to their protection, which is one of the core functions of the FSC. Through the Action Plan for the FSC Development Strategy 2022-2024, initiatives aimed at different groups of consumers in the non-bank financial sector are planned annually.

A serious challenge to the development of financial literacy in Bulgaria are the vulnerable groups in society who are not financially and digitally literate. In recent years, the FSC has undertaken several new initiatives aimed at young people in Bulgaria. With the assistance of the Ministry of Education, the FSC has launched and validated initiatives with high school students under the title “The Super Power of the Young Investor” and “Regulation and Supervision of the Non-Bank Financial Sector”. The initiatives among adolescents will continue in the coming years, as young people are the future generation of Bulgaria and the need to upgrade knowledge regarding the non-bank financial sector is always present.

In February 2021, the National Strategy for Financial Literacy 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 the FSC, professional organizations, and the Ministry of Finance (MF) 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.

In relation to Priority 2, the structure of the future e-portal for financial literacy of the Republic of Bulgaria was presented at the end of March 2024. The portal was created in connection with a technical support project by the EC, for which the MoF has applied and been approved.

The information in the portal will be divided by topics and the materials will be prepared, reviewed and coordinated by different competent institutions. The portal is expected to be available for users by the end of 2024.

The financial literacy strategy of the Republic of Bulgaria 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.

In relation to increasing the financial literacy of consumers, the FSC plans to implement a series of initiatives (2024 - 2027), seeking to continuously expand their scope and target groups.

For the young people - school and university students - who participate in the events organised by the FSC each year, the Commission draws on their feedback and plans to include new topics in the area of the markets in which it carries out regulatory and supervisory activities - investment, insurance and social insurance.

The FSC will establish contacts with professional interest clubs - e.g. Young Investor, Stock Exchange, Business Club, etc. - operating at leading schools and universities across the country. The lectures will be attended by both experts from the FSC and external speakers - financial analysts and investment consultants. The aim is to highlight the importance of smart investing to teenagers, encouraging them to remain interested in investment strategies and to seek guidance from professionals when necessary.

For this period, the FSC will continue to implement its well-established programme - "The Non-Bank Financial Sector in Bulgaria". It is conducted annually in partnership with the Atanas Burov Foundation and the Ministry of Education and Science. Students from all over the country - scholarship holders of the Foundation take part in it. In addition to the mandatory topics for the presentation of the three markets, each year new topics will be included in the training, dedicated to sustainable investing, cybersecurity online and the prevention of money laundering and terrorist financing.

In order to better reach the audience of young people, the FSC plans to implement a new educational campaign on the topic of "Social Insurance Rights". It will aim to educate students from leading universities about their rights as well as the three pillar model of pension insurance in Bulgaria.

To raise the financial culture of the entire society, the FSC will actively continue to promote its digital campaign "Invest Safely". For the period covered, it will be dedicated to "Protecting the Rights of Retail Investors" as the protection of their rights is essential to the integrity and stability of the market and to the promotion of good corporate governance practices.

Due to the dynamic nature of financial markets and the focus on digital financial services, the regulation of crypto-assets is of particular importance. In this direction, the FSC will conduct an information campaign dedicated to compliance with the introduction of the two new EU regulations - Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31

May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937 (MiCAR) and Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No. 1060/2009, (EU) No. 648/2012, (EU) No. 600/2014 and (EU) No. 909/2014 and (EU) 2016/1011 (DORA). Although the FSC is not clearly designated as the national competent authority in this area, its daily work with European regulators, namely ESMA and EIOPA, gives it reason to be directly involved in this process and to follow the legislative changes, still at an early stage, but with the expectation to change the overall regulatory financial framework in Europe.

IV. THE IMPACT OF ARTIFICIAL INTELLIGENCE (AI) AND CONSUMER PROTECTION. LEGAL FRAMEWORK AND RISKS.

On 13 March 2024 the European Parliament has voted and adopted the world's first AI Regulation Act, which aims to harmonize rules on the use of the technology within the EU. Regulation (EU) 2024/1689 of the European Parliament and of the Council of 13 June 2024 laying down harmonised rules on artificial intelligence and amending Regulations (EC) No 300/2008, (EU) No 167/2013, (EU) No 168/2013, (EU) 2018/858, (EU) 2018/1139 and (EU) 2019/2144 and Directives 2014/90/EU, (EU) 2016/797 and (EU) 2020/1828 (Artificial Intelligence Act) became effective from 1 August 2024.

The AI Regulation is part of a wider package of policy measures to support the development of reliable AI, which also includes the AI Innovation Package and the Coordinated AI Plan. Together, these measures ensure the safety and fundamental rights of people and businesses when it comes to AI. They will also help boost the uptake of AI investment and innovation across the EU. In one of its last sessions for this mandate, the European Parliament also adopted rules that restrict generative AI such as ChatGPT and the new Bulgarian AI BGGPT. Thus, in addition to safety on the web, the copyright of the texts that the artificial intelligence uses is also guaranteed.

AI is expected to play a central role in digital transformation across all industries and society as a whole.

➤ In the insurance sector, AI coupled with the internet provides a wide range of opportunities for future growth and development. From a survey conducted by EIOPA on the use of Big Data Analytics in motor and health insurance, as early as 2018, 31% of participating European insurance firms were using AI across the insurance value chain, and a further 24% were at the proof of concept stage. In a seminar on AI in 2023, industry participants further highlighted that the role of AI in the insurance industry is growing, but recent advances show that this is just the beginning of AI's potential for the sector. Widespread adoption of generative AI by insurance companies is still at an early stage, however, insurers are actively exploring its potential applications, such as providing consumer advice, guiding policyholders through claims procedures and improving pricing and underwriting processes.

The AI Act has specific implications for the insurance sector. First, it is “horizontal” and aims to cover all relevant sectors at once. Its cross-sectoral nature may pose challenges in integrating its provisions and supervision in each sector, especially in insurance, which is highly regulated and supervised. Secondly, the AI Regulation provides for the development of harmonised pan-European standards and the provision of guidance and compliance tools to assist providers and consumers. Third, following a risk-based approach, most of the requirements of the AI Regulation apply to high-risk AI systems.

In light of the specifics of the insurance sector, the development of standards and guidelines to facilitate the implementation of the AI Regulation will play a key role in ensuring smooth implementation and preventing potential conflicts with the insurance legislative and supervisory framework. If the use of AI in life and health insurance is considered high-risk, its use in other cases is only if certain transparency obligations and voluntary codes of conduct apply. Further efforts are needed to ensure consistency between sectoral requirements and standards under the AI Regulation while maintaining proportionality. Furthermore, the AI Regulation is not fully comprehensive in terms of the regulation and supervision of AI and sectoral legislation addressing conduct and prudential objectives continues to apply to AI when used in the insurance and occupational pensions sectors. The specific measures for the sustainability of the regulation are yet to be defined, especially with regard to the system of governance. Furthermore, the need to adapt to market changes has already been demonstrated as the Council and Parliament have introduced requirements for generative/core models that were not foreseen in the Commission's original proposal. Ultimately, the AI Regulation aims to provide a framework that will help the development of AI in line with the values of the European Union.

➤ In the investment sector globally, the use of AI is gaining increasing attention from regulators and supervisors who are monitoring its development and the potential risks associated with it. An increasing number of managers involved in asset management are using AI to determine a client's risk profile and the appropriate investment strategy for them. AI models allow currency dealers, brokers and financial institutions to optimise trading by reducing the impact of large orders on the market and minimising the inability to settle. AI models are also used in information gathering and data analytics. However, the increased use of AI systems and models also brings associated risks, including their concentration among the largest players in the market. These circumstances require further attention and monitoring by regulators to ensure that the development of AI and the potential risks associated with it are taken into account for both businesses and consumers of financial products and services.

Although not yet widespread in the trading lifecycle, AI also provides concrete benefits from trade order execution. In execution, machine learning (ML) allows brokers and large institutional investors to minimize the impact of large orders on the market by determining how to optimally split them across venues and periods. Studies conducted by ESMA shows that most central counterparties and central securities depositories do not currently rely on AI models. In other segments of the market, credit rating agencies and consulting firms are exploring AI tools primarily as a source of information, while experimentation with models that support key areas of their business still appears to be limited to a few entities.

Risks associated with the use of AI are identified in the securities markets, but appear to be still limited at present. Nevertheless, AI has the potential to make critical business and decision-making processes significantly faster, more complex and seemingly less transparent, all of which are major regulatory and supervisory concerns. Appropriate governance frameworks ensuring accountability and responsibility of both AI providers and end users are needed to mitigate the risks arising from the complexity of some AI systems and the often huge volumes of data involved. Other risks may arise in the future if AI-based models become increasingly successful in the capital market - for example from the concentration of AI systems in the hands of some of the larger players in the market.

The development of AI models for decision making raises questions about how to gain the trust of users and ensure that their interests are taken into account. When users come into contact with automated systems, they need to be well informed about exactly how the algorithm works.

The European Parliament has adopted a resolution which invites the European Commission to consider the necessary measures to ensure consumer rights, such as:

- ✓ providing mechanisms to protect consumers from unfair or discriminatory commercial practices and from the risks arising from services that use artificial intelligence;
- ✓ ensuring greater transparency of automated processes;
- ✓ enforcing the use of only high quality databases that do not discriminate.

V. CHALLENGES FOR CONSUMERS IN A DIGITAL WORLD

The fast-growing digital world imposes trends, especially among the younger generation, of decision-making influenced by social networks and influencers promoting investment strategies. Aggressive marketing campaigns on social platforms are gaining significant traction, contributing to increased levels of risk among users of non-bank financial services due to misleading them, misjudging their level of financial literacy or inappropriately providing investment services without assessing users' experience, knowledge and risk appetite.

At the level of European cooperation, discussions are underway between national competent authorities and ESMA to undertake coordinated follow-up actions to communicate more effectively with major social media platforms in order to identify and address fraudulent activities of unlicensed firms more successfully. The possibility of a voluntary cooperation agreement between ESMA and these social platforms to reduce the possibility for unlicensed firms to provide investment services or investment advice is being considered.

Examples of fraudulent schemes that often affect consumers in the digital world include:

- ✓ Clones of licensed non-bank financial services providers - fake websites and social media accounts that mimic licensed investment firms. Clone companies use clone profiles to attract investors and convince them of their legitimacy.
- ✓ Pump and dump schemes - companies use social media to artificially drive up share prices by spreading false or misleading information. Once the price is artificially high, they sell off their shares at a profit, leaving retail investors to suffer the consequences of the drop in price.
- ✓ Phishing scams - similar to cloned companies, they create fake profiles or social media pages that mimic licensed investment firms. These profiles are used to steal personal information, such as passwords and credit card numbers, under the guise of providing investment advice or services.
- ✓ Romance/Pig butchering scams - consumers are lured into relationships through social media or dating apps, ultimately convincing them to invest in fake or fraudulent investment schemes. Once the invested amount is transferred, the scammer disappears.
- ✓ Fake endorsements and influencers - influencers are paid or fake profiles of celebrities are created to establish credibility in specific fraudulent schemes e.g. unlicensed mutual funds. Images of trusted public figures or celebrities are used to persuade potential consumers to move to invest in specific funds.

To address the risks posed by digitalisation, the Commission is taking action to raise consumer awareness by publishing interactive warnings on:

- ✓ Investing in sustainable products and the disclosure obligations of non-bank financial service providers when providing investment advice and portfolio management services by explaining to the investor the concept of “sustainability preference”, the nature and key concepts used when referring to environmental, social and governance

factors, the differences between products that have, or do not have, sustainability features;

- ✓ Persons making investment recommendations and the consequences of non-compliance - the increased interest of the younger generation in advice provided by public figures (finfluencers) on investing in financial instruments calls for the need to raise financial literacy and awareness of the dangers arising from the influence of finfluencers;
- ✓ PROP trading through gamification - a company that presents its business model as dedicated to the educational and evolutionary advancement of traders who are offered a state-of-the-art simulation platform to assess their skills. Risks to participants arise from the cost of attending the training course, which is often high; a subscription contract is sometimes required for a financial data delivery service; the activities of the Prop companies are not regulated by non-bank financial legislation and in the event of a breach of consumer rights they can only seek redress through the courts; the challenges are designed in a way that does not allow them to be easily overcome and may have a gradation in difficulty, so they may require the commitment of financial resources by the trader.

In the context of the development of artificial intelligence and the possibility of investment recommendations being generated by such systems, the Commission plans to extend the campaign to inform users of non-bank financial services, especially among the younger generation, about the benefits and risks posed by the use of algorithms and machine-learning systems through initiatives and national seminars at vocational economic schools and universities.

VI. INTRODUCTION OF THE EURO AND THE IMPACT IT WILL HAVE ON CONSUMERS

Joining the Eurozone is the logical final phase of the European integration processes within the Economic and Monetary Union (EMU), the preparations for which began in parallel with the transition to a market economy. Joining the Eurozone and the Schengen area have been and remain the main priorities of all governments that have governed Bulgaria in the last 20 years.

Following the inclusion of the Bulgarian lev in the ERM II, preparations for Bulgaria's accession to the Eurozone are on target for 1 January 2025. In this context, the Bulgarian government has accelerated its work on several fronts - implementation of the follow-up commitments after our accession to the ERM II, fulfilment of the convergence criteria according to the findings of the Convergence Reports of the EC and the ECB and practical preparations for the replacement of the Bulgarian lev with the euro.

Achieving nominal and sustainable convergence is a condition for membership under the EU Treaty that our country has to fulfil. The achievement of such convergence is determined by the fulfilment of the euro area membership criteria defined in the Maastricht Treaty, namely:

- ✓ the price stability criterion, according to which the average inflation rate should not exceed by more than 1.5 percentage points the average inflation rate in the three best-performing Member States in terms of price stability;
- ✓ The budget deficit should not exceed 3% of GDP;
- ✓ Government debt should not exceed 60% of GDP;
- ✓ The average nominal long-term interest rate, as measured by 10-year government bond yields denominated in the national currency, over a one-year period prior to the assessment

shall not exceed by more than 2 percentage points the average of the three best performing Member States in terms of price stability;

- ✓ Participation in Exchange Rate Mechanism II for at least two years prior to the assessment, without devaluing against the central rate.

Along with the implementation of legal, economic and structural measures to strengthen the competitiveness and sustainability of the Bulgarian economy, the path towards a smooth adoption of the euro is also linked to thorough planning and practical preparations for the adoption of the single currency by the administration, business and citizens.

To be successful, the euro adoption process should run smoothly and with as little disruption as possible to the daily lives of citizens and businesses.

At the present time, the Euro Changeover Act the Republic of Bulgaria has been adopted, promulgated in the State Gazette by Decree No. 200 of 19.08.2024, which contains basic provisions, principles, rules and necessary actions that Bulgaria should comply with and pass in order to introduce the euro as the official currency.

In accordance with the Euro Changeover Act and the National Euro Changeover Plan in the Republic of Bulgaria, in the process of preparing our country for Eurozone membership, the public authorities shall strictly observe the following ***principles and rules***: the principle of consumer protection, the principle of information, the principle of efficiency and economy, the principle of transparency, the principle of continuity and the principle of automatic conversion of amounts from BGN into EUR; the rule for conversion from BGN into EUR and the rounding rule.

A team from the FSC visited Croatia in the period 15-18.04.2024 at the invitation of the Croatian supervisory authority (HANFA) in order to share their experience on the adoption of the euro and their transition to the euro area.

The Croatian supervisory authority shared their experience on the drafting of national legislation to introduce the single currency, the transition period they have gone through and the measures and rules they have put in place to protect consumers. From the meetings held it was evident that the approach of the FSC is similar.

The FSC chairs an inter-agency working group, the Non-Bank Financial Sector Working Group (WG), but also participates in the Consumer Protection WG of the Coordination Council for the preparation of the Republic of Bulgaria for the introduction of the euro. At a meeting of this working group on 18.03.2024, a Code of Good Commercial Practice was discussed, through which the modus operandi of traders /including those in the financial sector/ is defined in order to ensure a smooth and transparent introduction of the euro in the Republic of Bulgaria and to ensure the preservation of confidence and a safe environment for consumers.

In order to protect consumers and ensure their awareness, the National Euro Changeover Plan sets out different phases of the information and communication campaign. In this respect, representatives of the FSC also participate in the Communications WG.

The National Plan foresees that the campaign will be carried out in three phases - preparatory, substantive and de facto, with the second phase being the most intensive and the third phase being a phase-out.

The first phase of the campaign (starting approximately 12 months before adopting the euro and ending 6 months before the date of adopting the euro) will be aimed at providing information on the benefits and opportunities for Bulgaria from joining the Eurozone, thus answering the

important questions for people and cutting off opportunities for speculation and false claims on the subject. Within this phase, a variety of activities are foreseen to build the overall visual identity of the campaign and to carry out numerous initiatives.

To date, most of the activities to build the overall visual identity of the campaign have been completed and the campaign is moving into its second phase.

The second phase of the campaign - an intensive period (6 months before the introduction of the euro - 1 month after the introduction of the euro) - will focus mainly on more practical information on how the adoption of the new currency will affect all aspects of people's lives or informing stakeholders about the whole process of adopting the euro and its practical aspects - revaluation of loans and deposits, administrative steps of legal entities, where the money will be exchanged, identification of euro coins and banknotes, where to report issues. In this phase, the activities and initiatives launched in Phase 1 are continued, including a "Euro Day" - organised 100 days before the introduction of the euro and including a series of public events across the country. In this second phase, the activities of the information and communication campaign will be the most intensive and will focus mainly on practical and consumer issues.

The third phase of the campaign (which will start 1 month after the actual introduction of the euro in Bulgaria and will end 12 months after the introduction of the euro) will be very important for the strengthening of the new currency as well as for increasing citizens' trust in the institutions. During this phase it will be important to provide detailed information on price formation and inflation, monitoring against abuse, measures, consumer protection. This phase will continue with the public awareness initiatives and activities of Phase 1 and Phase 2. It will be important to identify in the media any inaccurate information about the course and effects of the replacement of the Bulgarian lev by the euro and to publish statements denying inaccurate information. After the sixth month of the introduction of the euro in Bulgaria, a major conference with international participation should be organised to exchange experiences and good practices in the adoption of the euro. At the end of the third phase, the euro adoption process, the communication campaign itself (through a final opinion poll) and the measures to protect consumer interests are evaluated.

The activities of the FSC in the process of adopting the euro will be aimed at protecting the interests and rights of consumers of financial products and services, by raising awareness and financial literacy of the population through information campaigns, and by monitoring how non-bank financial institutions apply the principles laid down in the law through inspections and controls.

VI. GOALS FOR PROTECTION OF CONSUMERS OF NON-BANK FINANCIAL SERVICES RAISING 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-bank financial sector supervised by the 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-bank 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-bank 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-bank financial services. Consideration of the possibility for application in the FSC.
4. Rationalization and balancing between the burden of the regulatory framework for business and ensuring stability for the financial system.

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 the FSC, respectively of the Deputy Chairpersons of the 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 the 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 associated with market behaviour, take account of consumer preferences in relation to resilience and proactively 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-bank 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. 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 FSC employees in the Conciliation Committees in the three sectors of the non-bank 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 the FSC

The process of preparing responses to complaints and signals submitted to the FSC by consumers of services in the non-bank 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 the 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 Hubs;
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: Increasing financial literacy and ensuring a high level of awareness of consumer in the non-bank financial services sector by:

1. Improving the quality and frequency of provided to information the public;
2. Timely updating of the publicly disclosed information by the FSC, in accordance with the occurring changes in the market and new financial products and services.
3. Analysis of the main target groups to which the FSC should direct its efforts in connection with the development and implementation of programs for increasing financial literacy;
4. Identification of the group of active users to be provided with accurate and clear information about the supervised persons and the financial products offered;
5. Organising educational programmes for students at schools and universities
6. Organising events for the different professional groups
7. Providing public information on new European legislation in the field of innovation, digitalisation, as well as EU trends and intentions in this area

Strategic objective 6: Ensuring the transparency of the information provided by the persons supervised by the FSC, through:

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

Strategic objective 7: Ensuring consumer protection in the non-bank financial sector in the course of adopting the euro.

1. Analysis of consumer satisfaction regarding the products and services used in the conditions of the adoption of the euro.
2. Undertaking supervisory actions to check on reports of violations in connection with the process of transition to the euro

Strategic objective 8: Monitoring the development of financial innovation in the non-bank financial sector.

1. Innovation Hubs activities;
2. Ensuring a high level of awareness of new products and technologies entering the market
3. Promote a proactive approach to financial technology and consumer engagement with digital financial solutions

Strategic objective 9: Ensuring consumer protection for sustainable financial products.

1. Evaluating consumer satisfaction with sustainable financial products;
2. Raising awareness of ESG products.
3. Conducting a supervisory review and issue recommendations on the use of clear and understandable language in disclosures about sustainable financial products;
4. Maintain investor confidence in sustainable investments by promoting high-quality sustainability disclosures and reducing the risk of greenwashing.

Strategic objective 10: Expanding the supervisory toolbox with new approaches to consumer protection by issuing warnings, recommendations and opinions on leading topics.

1. Assessing the impact of social media and influencers on consumer behaviour;
2. Issuing warnings addressing the risks of using AI systems that generate off-the-shelf solutions that do not take into account the relevance, knowledge and experience of users;

V. FINAL PROVISIONS

§ 1. Following the adoption of the programme, an Action Plan for 2025 will be prepared for the implementation with specified deadlines.

The document was adopted at a meeting of the Commission by a decision under Protocol No72/19.11.2024.