

FINANCIAL INSTITUTIONS – MERCHANTS AND THEIR MARKET PRESENCE

Under the current economic conditions, in times of financial difficulties, the population often resorts to borrowing money for a certain period against payment of a corresponding interest, i.e. credits. They are awarded by institutions that are licensed and registered by the Bulgarian National Bank (BNB) under the provisions of the Law on Credit Institutions (LCI) [1].

One institution that grants loans to both physical and legal entities is the **bank (the credit institution)**. It "is a legal entity that performs public attraction of deposits or other repayable funds and provides loans or other funding at its own expense and at its own risk" [1, Art. 2, para. 1]. In parallel, it may also carry out the activities referred to in Art. 2, para. (2) of the LCI, if included in its license (see Table 1). Another credit institution, which can be called innovative, due to its entry and sound market penetration in recent years, is the **financial institution (FI)**. It "is a person, other than a credit institution and an investment intermediary whose main activity is one or more of the activities" [1, Art. 3, para. 1] as defined in Art. 3, para. 1 of the LCI (see Table 1). In order to practice one or more of the activities legally regulated for them, the FI must be listed in a public register of the BNB. For this purpose, any of these activities should be (are) essential for the institution itself. The activity is significant when the relative share of these activities is over 30 per cent of the total activity of the legal entity according to the information in its financial statements [4, Art. 13 para. 1]. One of the following two approaches can be used to calculate this share [4, Art. 13 para. 2]:

- ✓ as the ratio of the net income from material activity to the income from all activities carried out;
- ✓ as a ratio of the carrying amount of the asset corresponding to the significant activity to the sum of all assets.

Table 1. Activities permitted for lending and finance institutions under the LCI

Activities	Cred it institution	Fina ncial institution
1	2	3
Publicly borrowed deposits or other repayable funds and granting credits or other funding at their own expense and at their own risk.	✓	
Execution of payment services under the Law on Payment Services and Payment Systems [3]	✓	✓
Issuance and administration of other payment instruments (travelers checks and credit letters)	✓	✓
Accepting valuables on deposits	✓	
An activity as a depository or custodian institution	✓	
Financial leasing	✓	✓ *
Warranty Transactions	✓	✓ *
Trading on own account or on account of clients with foreign currency and precious metals except for derivative financial instruments on foreign currency and precious metals	✓	✓
Provision of services and / or performance of activities under Art. 5, para. 2 and 3 of the Markets in Financial Instruments Act [2]	✓	✓
Money brokerage	✓	✓
1	2	3
Acquisition of credit claims and other forms of financing (factoring, forfeiting, etc.)	✓	✓ *
Issuance of electronic money	✓	✓
Acquisition and management of shareholdings	✓	
Rental of safes	✓	
Collection, provision of information and references on customer creditworthiness	✓	
Other similar activities determined by an ordinance of BNB	✓	
Acquisition of holdings in a credit institution or another financial institution		✓ *
Granting credits with funds not raised through the public take-up of deposits or other repayable funds		✓ *

Source: Developed by the author according to the legal text of the LCI

** Entry in a public register of the BNB is required*

In this study, attention is directed to FIs subject to entry in the public register of the BNB and, in particular, to those which grant loans by own funds. "The minimum required capital for entry in the register is BGN 1 000 000. The contributions ... must be cash and made with own funds." [4, Art. 4, para. 1 and 2] The amount of capital is substantial but is economically consistent with its scope of business. Loans granted by FIs in everyday life are known as fast loans. Their essence lies in the fact that, for a very short period of time, financial resources are provided to borrowers with and / or without proven earnings. For this service they also pay a significant amount of interest, which forms the revenues of the FIs, respectively its profit, which is part

of the equity. Rapid loans are granted with IF's own funds, which gives reason to be defined as a sale of money with a significant risk and a large overcharge, which is the accrued interest on the loan. Therefore, the granting of such loans by the FIs can be treated as a commercial sale transaction that is documented by a loan agreement (credit) in which the rights and obligations of the parties to the money transaction are regulated.

The purpose of the survey is to establish the market presence, the relative share and the dynamics of FIs, granting loans with own funds, in the period 07. 2009 - 09. 2017. The analysis uses data from the public register of the BNB. [5] By the end of the analyzed period, the actual and entered in the FI are 183. Of these, 144 allocate the so-called fast-paced loans in the public space, ie. are licensed to sell money. Figure 1 presents their number by years of the survey period.

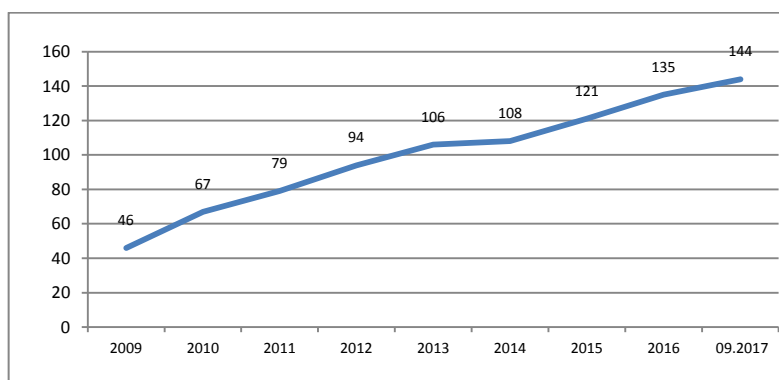


Figure 1. Market presence of financial institutions lending funds that are not raised through public attraction of deposits or other repayable funds

Source: the author (according to data from the public register of the BNB)

Following the trend in the market presence of these FIs, during the analyzed period, their significance for the financial provision of the population is recognized when there is need of not very large sums for a short period, despite the significantly higher interest rate than that of the credit institutions. In absolute terms towards the end of the period, FIs offering fast loans increased by 98, which is an increase of 313%.

As mentioned above, FIs are entered in the public register of the BNB only in the exercise of some of the activities regulated by them. At present, from all the existing and registered FIs(183), a significant part of them are registered and licensed by the BNB for lending with own funds, ie. for granting fast loans, which is a money-selling transaction. Figure 2 shows their relative share. They account for 79% of all FIs registries. It is significant that most of them (41%) only exercise this activity and are licensed only for it, that is, for the sale of money, which is most often the short-term provision of small amounts against proven and / or unproven income and a significantly higher interest rate than that of credit institutions.

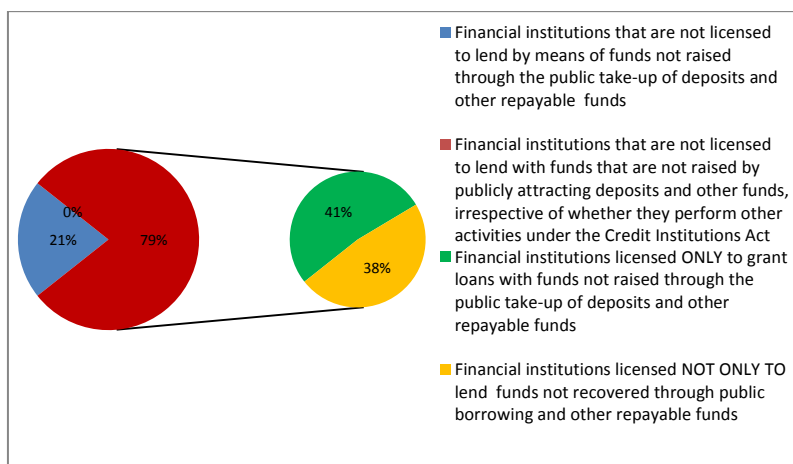


Figure 2. Relative share of financial institutions present in the market at the end of the survey period

Source: Author (according to the BNB public register)

In conclusion, it can be summarized that the market presence of FIs offering fast loans has increased over the years and is significant. On the one hand, this is a prerequisite for a greater supply of such credits and an increase in competition, and on the other hand, it may be dictated by an increased demand for quick loans. Behind all this there are certain reasons that will be the subject of research in future studies.

References:

1. Law on Credit Institutions, prom. SG No. 59/2006. am. and dop. SG No. 63/2017
2. Markets in Financial Instruments Act, prom. SG No. 52/2007, last amendment. SG No. 62/2017
3. Law on Payment Services and Payment Systems, prom. SG No. 23/2009, succeeded. am. and dop. SG No. 95/2016
4. Ordinance No. 26 of 23 April 2009 on financial institutions, SG No. 36/2009, last amendment SG No. 68/2014
5. http://www.bnb.bg/BankSupervision/BSFinansInstitution/BSFIReg_Introduction/index.htm, last log in 17.10.2017