

BULGARIAN COMPETITION PROTECTION COMMISSION LAUNCHES A SECTOR INQUIRY INTO THE BANKING SECTOR

On 7 March 2018 the Bulgarian Competition Protection Commission ("**CPC**") announced a sector inquiry into the banking sector in Bulgaria covering the period from 2015 to end of 2017.

The sector inquiry will focus on the competitiveness and transparency in the banking sector and the conditions of banking services in Bulgaria. The CPC will review any existing barriers preventing customers to switch to another bank for provision of a specific service, the possible product tying (i.e. binding / bundled sales), and other practices potentially harmful to competition.

A previous sector inquiry in the retail banking in Bulgaria was conducted back in 2008 when a number of recommendations for improving the competitive environment in retail banking as well as improving communication between credit institutions and customers were provided. The main competition concerns which were identified relate to pricing conditions preventing customers' mobility, unclear and misleading advertising of bank services and products, non-transparent information on bank services and products.

In 2007 the EU Commission published the final report on its sector inquiry into retail banking, where it found a number of competition concerns in the markets for payment cards, payment systems and retail banking products, in particular large variations in merchant and interchange fees for payment cards, barriers to entry the markets for payment systems and credit registers, obstacles to customer mobility, product tying. In CEE/SEE region a similar sector inquiry was launched by the Romanian Competition Council in 2015 but its results have not yet been published. The Hungarian Competition Authority also conducted a couple of sector inquiries concerning the barriers to changing banks, practices related to the use and payment with credit cards, as well loans in foreign currencies.

The sector inquiry comes in a period of significant ongoing regulatory changes in the banking sector. The consolidation process in the banking sector in Bulgaria since the last sector inquiry triggered a need for a new investigation of the state of the competitive environment in the banking sector. The CPC has carried out in advance a review of the publically available information on the websites of the respective banks concerning the applicable interest rates, fees and commissions applied by banks members of the Association of Banks in Bulgaria in the provision of services to customers.

The sector inquiry serves as a tool for competition authorities to identify existing

competition concerns such as anticompetitive practices, barriers for entry into the market as result from anticompetitive behavior, reduced price competition, switching costs discouraging consumers from leaving their current provider, behavior that results in substantial competition restrictions among the participants and on the market. Should there be evidence identified as a result of the sector inquiry that particular practices or arrangements violate EU or national competition law, they could be addressed by individual antitrust proceedings. A similar sector inquiry was launched by the Romanian Competition Council in 2015 but its results have not yet been published.

The sector inquiry carried out by the CPC into the insurance sector in 2016 resulted in a number of antitrust proceedings for alleged prohibited vertical restraints. The sector inquiry in the energy market in 2013 resulted in investigations for abuse of dominant position by electricity distribution companies and fines up to EUR 3 million were imposed.

The CPC is expected to send out questionnaires to the banks and the Association of Banks in Bulgaria in the coming weeks, which should allow the CPC to obtain a comprehensive picture of the Bulgarian banking markets. Considering the thorough approach of the CPC and based on our experience from sector inquiries in other sectors over the past few years, it will be critical for all stakeholders to undertake internal analysis to address the questionnaires from the CPC. There is a number of examples where answers by stakeholders in the course of such inquiries were not carefully considered and raised competition concerns leading to formal breach investigations.

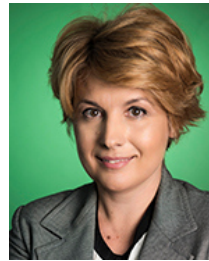
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