ESRB
European Systemic Risk Board
European System of Financial Supervision

Press release

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ESRB publishes EU Non-bank Financial Intermediation Risk Monitor 2021

The European Systemic Risk Board (ESRB) has today published the EU Non-bank Financial Intermediation Risk Monitor 2021 (NBFI Monitor). This is the sixth issue in an annual series monitoring non-bank financial intermediation, an area which has grown in recent years and now accounts for around 40% of the EU financial system.

This issue of the NBFI Monitor focuses on data up to end-2020 and includes three special features on the following topics:

1) the vulnerabilities of commercial real estate (CRE) funds; data are used to analyse the leverage and liquidity of real estate funds in view of the outbreak of the coronavirus (COVID-19) pandemic;
2) the role of insurers in credit intermediation, their interconnectedness with funds and the derivatives they hold;
3) the Gamestop, Greensill and Archegos incidents, which highlight search for yield behaviour, interconnectedness and the use of derivatives to increase leverage positions.

The NBFI Monitor also identifies cyclical risks and structural risks and vulnerabilities affecting the non-bank sector.

Cyclical risks are:

- uncertainty about the pace of economic recovery;
- rising indebtedness, increased credit risk and risks from associated rating downgrades;
- decoupling of the real economy and financial markets;
- the fragile nature of liquidity in some markets.

And the key structural risks and vulnerabilities are:

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- excessive risk-taking, liquidity transformation, and risks associated with the use of excessive leverage among some types of investment funds and other non-bank financial institutions;
- domestic and cross-border interconnectedness and the risk of contagion across sectors and within the non-bank financial system;
- risks related to the low interest rate environment.

These risks and vulnerabilities are assessed with the help of an entity-based monitoring framework, which considers both investment funds and other financial institutions such as financial vehicle corporations, security and derivative dealers and financial corporations engaged in lending. The analysis is complemented by an activity-based assessment considering risks and vulnerabilities in securities financing transactions, derivatives and securitisations, which are used across entities and where risks can arise from the use and reuse of financial collateral.

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