

Enhancing the NBFI resilience

Europe's non-banking financial industry (NBFI) has become a key source of financing for the European economy, complementing the banking sector and supporting long-term investment. Yet its rapid expansion and growing interconnectedness have introduced new challenges for supervisors and policymakers. Persistent fragmentation, uneven regulation and limited data availability continue to undermine the consistency and resilience of the European financial framework. This session examined how Europe can strengthen the oversight of non-bank financial institutions, enhance system-wide resilience through proportionate and risk-based supervision and build greater trust through improved data sharing, technological innovation and enhanced international cooperation.

1. Fragmentation and emerging risks in Europe's non-banking financial sector

1.1 Four structural challenges facing Europe's non-bank financial sector: fragmentation, market dynamics, stress testing and data

The Chair noted that the panel would focus on four main issues. The first concerns the challenges posed by regulatory fragmentation. The second relates to the interaction between public and private markets. The third addresses the role of stress testing in supporting the smooth functioning of Europe's integrated markets. The fourth examines whether sufficient data are available to assess risks effectively.

1.2 Regulatory fragmentation increases risk and weakens responses to a crisis

An industry representative stressed that, from the perspective of a global asset manager, regulatory fragmentation amplifies risks and costs and may undermine the ability to respond effectively to future financial crises. However, despite the fragmented regulatory landscape, no major fragmentation has been observed regarding market flows or activity: driven by new technologies, markets are evolving faster and in a more interconnected way, which contrasts with the persistence of fragmented regulatory frameworks.

The initiatives undertaken by IOSCO and other international bodies to promote regulatory convergence are therefore highly valuable. Yet responsibility also lies with jurisdictions to align with IOSCO recommendations. Some, such as the EU, tend to introduce stricter requirements, while others, notably the US, often fail to meet even the minimum standards as recommended by IOSCO, further deepening harmful regulatory divergence.

1.3 Non-bank financial institutions: understanding transmission channels and regulatory challenges

Supervisors must identify and assess the complex network of links between banks and private market activities. Regular supervisory exercises aim to ensure that risk management of banks evolves in line with these growing interconnections.

A central bank official remarked that the term NBFI may create a misleading divide between banks and other financial institutions, whereas their business models and risk profiles often overlap. All these financial entities differ in legal form, activities and risk exposure, but banking supervisors remains to get a comprehensive picture of interconnections to understand the risks faced by the banking system itself.

The sharp rise in private credit illustrates this interdependence: banks now participate at various levels to this activity, via e.g. directly financing vehicles, providing derivatives or financing investors seeking leverage in private credit funds. This creates a so-called multi-layered exposure to private credit. Supervisors must gain a full understanding of these exposures and track all potential interconnections, even where data remain limited.

To support this, the ECB has requested for example a comprehensive overview of private market loans and hedging positions from major EU banks. In 2025, in parallel with the EBA's main stress test, the ECB conducted a dedicated exercise on counterparty credit risks arising from NBFI linkages. It must be acknowledged that most of these financial actors are not regulated to the same standards as banks.

The Chair added that, while regulation may not soon address all NBFI-related issues, stress testing offers a useful means to identify vulnerabilities and inform policy responses.

1.4 Understanding emerging risks: transparency, valuation and interconnectedness

A regulator underlined that the term NBFI covers a wide spectrum of entities, often perceived not as "non-banks" but as insurers, for example. In light of major developments in private credit and private equity – particularly in the US and UK – the International Association of Insurance Supervisors (IAIS) has issued a paper outlining how supervisors should adapt to this structural shift. Although the rapid growth of private equity and private credit is not yet fully captured in data, early evidence shows that certain private equity firms are acquiring insurers. Preliminary findings indicate that insurers owned by private equity tend to invest more heavily in riskier and less liquid assets, such as private credit. Insurers' private credit exposures range from 2% to around 5%, depending on how broad definition is used (for example, including or excluding mortgages) of total assets, a level that does not yet raise supervisory concern but requires monitoring – also for potential concentrations.

Addressing these evolving risks requires a coherent and forward-looking European framework. The growing complexity and interconnectedness of NBFIs call for consistent rules, stronger supervision and better cross-jurisdictional coordination to safeguard both financial stability and competitiveness.

Against this background, the discussion turned to how Europe can build a more coherent and proportionate framework for non-bank finance, capable of supporting resilience while fostering market integration

2. Building a coherent and resilient European framework

2.1 Towards a more coherent EU framework for effective supervision of private credit and non-bank finance

An industry representative suggested that if international convergence through IOSCO recommendations cannot be achieved, the EU should draw on best practices from other jurisdictions. In the United States, for instance, mutual funds report to a single regulator, the Securities and Exchange Commission (SEC), whereas European asset managers must submit parallel fund reports to several national authorities in the EU depending on related funds' domiciles. Adopting a single reporting framework at the European level, with the European Securities and Markets Authority (ESMA) as the central point of fund reporting, would reduce fund reporting costs and hurdles, thus enhance the competitiveness of EU-based fund managers and contribute to giving a greater role to ESMA – through such practical “bottom-up” regulatory improvements.

The Chair noted that the growing link between private equity and insurance is becoming an increasingly important feature of market structures.

A regulator observed that effective supervision of private credit requires consideration of multiple elements. From a financial stability perspective, credit and liquidity risks, hidden leverage and concentration risks must be carefully assessed, as NBFIs often invest in each other. Valuation uncertainty may also arise due to limited transparency. From a consumer protection standpoint, conflicts can emerge between the pursuit of shareholder returns and the long-term commitments of insurers, such as guaranteeing secure retirement income. Supervisors therefore seek to monitor these risks closely without constraining market development.

2.2 Private markets as a stable source of long-term financing: ensuring transparency, oversight and coordination in a diversified financial system

Private credit plays an essential role in channelling long-term savings into productive investment, complementing banks and helping to diversify sources of financing. As activities shift between market segments, regulators and industry must collaborate to maintain confidence, transparency and financial stability.

An industry representative suggested that regulatory fragmentation can also be viewed positively, as differing

frameworks may be appropriate for distinct investor categories. Financing activity has become increasingly diverse and is therefore crucial to ensure that each regulatory framework remains fit for purpose.

Private credit has expanded rapidly, reflecting the strength of the single investment universe and the capacity to mobilise long-term capital, including pension and insurance funds, towards the real economy. When supported by an appropriate framework, private credit can be a risk-diffusing structure. Private markets are particularly well suited to financing long-term, illiquid assets that are less accessible to banks or public markets. As an originate-to-hold model with typically low leverage, private capital can continue to operate even during periods of market stress. This diversity of capital sources contributes to overall financial resilience.

As banks increasingly lend to NBFIs rather than directly financing long-duration assets, they are becoming structurally shorter and more senior, focusing on liquidity provision, cash management, hedging and repo activities where they have a comparative advantage. This shift reduces overall systemic risk within the banking sector.

In this context of credit migration from banks and public markets towards insurers and asset managers, transparency and coordination between the industry and supervisors will be critical. Large private credit firms themselves are concerned about contagion from potential bad actors. Designing appropriate policy measures therefore requires a long-term, coordinated perspective. Convergence between the EU and the US is likely over time: while the US market remains more mature, Europe's significant financing needs will increasingly attract private capital.

2.3 Towards system-wide, collaborative and proportional stress testing to strengthen financial resilience

A regulator underlined that system-wide stress testing remains limited, although initial exercises have been launched by the Bank of England and similar work is underway in Paris. To understand how shocks might propagate through the financial system, cooperation between supervisors and the financial industry – banks, asset managers and insurers – is essential. This collective approach would complement existing sectoral stress tests, help identify data gaps and define future data needs.

At this stage, system-wide stress testing should be conceived as a learning exercise and a dialogue between the industry and the authorities, rather than as a basis for new regulation. It is a key tool to prepare the financial sector for future crises. Beyond national initiatives, stress testing should also be developed at least at the euro-area level, even if implementation would be complex. Tests should be realistic, proportionate, and designed with active industry input. Open, data-driven exercises would foster a valuable feedback loop between firms and supervisors, strengthening preparedness and trust.

An industry representative stressed the importance of stress testing from a business perspective. As primary risk takers, large firms must integrate stress testing into their decision-making. While firm-level stress tests are costly and complex, they provide essential insights for both the business and the broader financial system. Industry

participation in designing scenarios—based on plausible and data-supported assumptions—is vital to ensure relevance.

2.4 Strengthening NBFI oversight: applying the 'same risks, same rules' principle and improving cross-border data sharing

A central bank official emphasised that enhanced disclosure, data collection and regulatory coordination are essential to address the financial stability risks associated with the opacity of NBFIs. This involves three key elements. First, the principle of "same risks, same rules" should be applied across institutions. Second, supervision should focus on activities rather than legal form. Third, since entity-specific vulnerabilities still matter, measures addressing structural fragilities should be targeted at individual entities where necessary.

An industry representative highlighted the distinction between regulated NBFIs—such as licensed asset managers—and those subject to minimal or no regulation. Regulated asset managers already provide comprehensive data to clients, the public and supervisors; regulatory focus should therefore be directed toward less transparent actors. Improved cross-border data sharing among regulators will be critical to enable them to obtain a better holistic view of emerging risks and to manage the next financial crisis effectively.

Ultimately, stronger supervision and resilience depend on effective cooperation among authorities, enhanced data exchange and the smart use of technology. Building trust and transparency through improved information flows and governance mechanisms among regulators and supervisors at cross-border level will be central to developing a more integrated European framework.

Beyond regulatory coherence, panellists agreed that strengthening resilience will also depend on better data, smarter technology and deeper international cooperation to build trust and effective governance.

3. Leveraging data, technology and cooperation to strengthen trust and governance

3.1 Bridging data gaps and strengthening EU cooperation for more targeted and integrated financial supervision

A central bank official observed that while the ECB, in its capacity as a banking supervisor, can request detailed information from banks, a broader perspective is required in its role as a micro-prudential authority. EU initiatives aimed at building more integrated and comprehensive reporting frameworks are therefore strongly supported. At the EU level, data sharing and collection between member states must be improved rapidly. Micro-supervisors need to understand not only the position of individual banks, but also the interconnections between them and how shocks might propagate through these linkages.

An official added that regulators often fear the worst, which can lead to an overly broad and heavy-handed

approach to regulating the NBFI sector. A more targeted and proportionate approach is necessary, but this requires high-quality data. Collaborative work with the Financial Stability Board (FSB) on leverage and margin preparedness in the wake of the pandemic has highlighted significant data gaps in the NBFI sector. The FSB's non-bank data taskforce is currently conducting its first pilot on leveraged trading strategies in government bond markets. IOSCO, for its part, is developing new recommendations on valuations in collective investment schemes that include private assets. An investment fund statistics dashboard has been launched on the IOSCO website, providing the first publicly available overview that consolidates public and regulatory data on investment funds. It offers both a global and jurisdictional view, highlighting where data coverage is robust and where gaps remain.

A regulator noted that despite ongoing efforts to simplify reporting requirements, large volumes of relevant data are already available, including balance sheets, capital ratios and solvency indicators. Look-through data in investment funds is currently under review and should become available shortly, as will additional liquidity data from the Solvency II review. Property and casualty (P&C) data would also be useful. Data sharing across the EU remains challenging, as companies generally report to national authorities and are reluctant to accept additional legal obligations.

Given that the EU insurance sector has around 12% exposure to banks, insurance supervisors must either have access to relevant banking data or be able to rely on strong cooperation with banking supervisors. Encouragingly, dialogue between the ECB and ESMA is already well established. In the context of stress testing, this coordination is primarily an operational rather than a structural issue.

3.2 Harnessing technology responsibly to strengthen transparency, supervision and trust in financial services

A central bank official highlighted that while advanced technologies have great potential in regulation and supervision, their use must be accompanied by sound risk management, ethical safeguards and appropriate oversight. The fragmented regulatory landscape remains a major obstacle, limiting the competitiveness, resilience and credibility of the financial system.

Technological innovation can significantly enhance transparency, resilience and supervisory efficiency. Artificial intelligence, blockchain and big data analytics enable real-time monitoring and automated reporting. AI-driven algorithms can improve decision-making and efficiency, while automation and advanced analytics facilitate personalised investment solutions. RegTech tools can strengthen compliance for asset managers and help supervisors monitor institutions more effectively.

However, the growing use of technology also brings new risks. The opaque nature of AI and machine-learning models raises concerns about accountability, transparency and ethics. Data privacy and cybersecurity threats are intensifying, and algorithmic discrimination must be avoided to ensure fair access to services. Rapid technological change may also cause regulatory and

industry standards to lag behind innovation, underscoring the need for continuous dialogue and adaptive governance.

3.3 Building trust and coordination across European frameworks

A regulator emphasised that Europe must remain ambitious in promoting cooperation and integration, particularly in key projects such as digitalisation, the digital euro, the banking union and the Single Resolution Fund (SRF). NBFIs form an integral part of this broader agenda. Within the simplification process, better coordination between European and national levels is essential—not only in banking regulation but also in the NBFIs framework. The prioritisation of work should be reviewed, including how levels 1, 2 and 3 of the EU's legislative framework interact in practice. Ultimately, regardless of the detailed rules and standards, the framework must inspire trust. The objective should be to strengthen Europe's attractiveness and ensure that it remains a leading player in global cooperation and standard-setting.

3.4 Bridging global fragmentation through cooperation and common standards

IOSCO's monitoring reviews, transparency initiatives and capacity-building efforts are helping to bridge the gap between policy design and practical implementation. A collaborative, principles-based approach—supported by industry participation and operational guidance—promotes stronger alignment across jurisdictions.

An official acknowledged that regulatory fragmentation persists globally but stressed that IOSCO's priority is to foster convergence. IOSCO monitors jurisdictions' progress in implementing international recommendations, and the time lag between the issuance of recommendations and the monitoring of their implementation is steadily narrowing. This process enhances transparency and incentivises jurisdictions to comply. For example, IOSCO's recommendations on crypto-assets were published in 2023, and a monitoring report on their implementation is expected next month. Despite persistent fragmentation, most jurisdictions are adopting or preparing to adopt

these measures, though gaps remain in emerging markets, cross-border cooperation and data aggregation.

Three factors underpin progress in implementation: first, consensual policymaking that identifies common ground and sets clear priorities; second, systematic consultation of industry stakeholders and follow-up on their feedback; and third, practical guidance accompanying key recommendations to facilitate adoption. Although fragmentation endures, it can be progressively mitigated through such cooperative approaches.

3.5 Europe's leadership in global financial governance: from multilateralism to coalitions of the willing

A regulator noted that recent geopolitical and technological developments have created a more volatile and uncertain environment, posing new sovereignty challenges for Europe. These must be addressed collectively by central banks, supervisors, standard setters and policymakers. A central question is whether the current framework of cooperation is sufficient to manage a major financial crisis today.

The shift from a multilateral to a more transactional global order has increased risks of fragmentation. In this context, coalitions of the willing must emerge to defend and reinforce the integrity of the international financial architecture. The Network for Greening the Financial System (NGFS), among others, demonstrates how voluntary cooperation among like-minded actors can advance shared objectives. Europe should continue to play a leading role in shaping such coalitions, upholding open dialogue, coordinated governance and global financial stability.

The discussions highlighted that building a resilient non-bank financial sector is not only a regulatory challenge but also a test of Europe's ability to act collectively, to share data transparently and to coordinate effectively at global level. Achieving this will be essential to preserve financial stability while enabling Europe to remain both stable and competitive in a rapidly changing global financial landscape.