

PRIVATE ASSETS AND NBFIs: OPPORTUNITIES AND CHALLENGES



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Private assets and non-bank lending: a macroprudential perspective

In the European Union, lending has traditionally been provided by banks. Today, a growing share of credit intermediation is conducted by non-bank financial intermediaries (NBFIs). For example, the share of total credit to NFCs provided by euro area investment funds and OFIs increased from 18% at the end of 2014 to nearly 23% at the end of 2024. This shift reflects competition in lending activities, with new entrants specialising in segments and funding models. Unlike deposit taking banks, for which maturity transformation is a core part of the business model, NBFIs can issue liabilities with maturities that more closely match those of their assets. Many NBFIs issue liabilities whose value is tied to the performance of the assets they invest in, allowing losses to be absorbed by investors. This structure makes NBFIs better placed to provide certain types of credit, including to borrowers that fall outside the risk appetite of traditional banks.

Regulatory frameworks have concentrated on banks and other well-understood entities. For these lenders, authorities have a good grasp of how vulnerabilities, such as unsustainable credit growth, counterparty and concentration risk, excessive leverage, and liquidity and maturity mismatches, can interact and how contagion spreads through the wider system. And they have developed tools to monitor and mitigate these risks. By contrast, for many NBFIs the build-up and transmission of lending-related vulnerabilities are poorly understood, because business models, funding structures and risk management practices are more diverse and less transparent. This is particularly true for private credit, where banks and non-bank lenders have developed a symbiotic relationship: banks provide funding, leverage, structuring and risk management services to private credit funds. Such mutually reinforcing business models deepen interconnections and create channels through which stress is transmitted in both directions. Those funds increasingly compete with banks in lending markets. Recent ESRB/ECB analysis shows that in the euro area NBFIs now fund about 15% of bank balance sheets, while banks' asset-side exposures to NBFIs amount to around 10% of their total assets. The latter correspond to roughly €1.66 trillion of identifiable exposures, about €432 billion of which are to potentially leveraged NBFIs. This highlights the need to strengthen monitoring and analysis of lending activities outside the banking sector, including their links to banks and key markets.

**As lending moves
beyond banks, resilience
must follow.**

Focusing on specific entities is not sufficient. Ensuring the resilience of an interconnected and diversified financial system requires a system-wide perspective that combines an entity-based with an activity-based approach. This means analysing how key functions, such as lending and capital market financing, are performed across banks and NBFIs and ensuring that when activities generate similar risks, they are subject to consistent regulation.

It also means developing system-wide stress tests that capture interactions and feedback loops between different types of entities and markets. In the context of private credit, this includes tracing how layered lending structures, bank funding of private credit vehicles and overlapping collateral claims could amplify shocks across bank and non-bank balance sheets.

As this system-wide perspective is developed, data availability and quality are important constraint. To monitor the lending market across entities and interconnections, and to capture reactions to shocks and substitution effects, authorities need granular, consistent and timely information. Yet data gaps are substantial in parts of the non-bank financial system, especially for private assets, where exposures, leverage and liquidity terms are often less transparent. For example, euro area supervisory data capture only around €4 billion of direct bank exposures to private equity and private credit funds, far below the levels suggested by supervisory intelligence. The ESRB/ECB report calls for targeted legislative changes to improve data access and sharing, and for an amendment of ESMA's AIFMD guidelines to introduce a specific AIF type for private credit funds. Improving data-sharing frameworks, closing reporting gaps and enhancing transparency will be essential to understanding and addressing the systemic risks associated with the evolving landscape of lending and private asset markets.



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Banking supervision in a fragmented credit market: interconnections matter

Non-bank credit growth has redistributed risk without excluding banks

The financing of the economy has never been a monopoly of the banking sector. Over the past decade, however, banks' share of total lending has declined.¹ This diversification appears to have distributed risk more broadly across the financial system. But the reality is more complex. While other financial actors have become increasingly active in credit markets, banks have not been excluded. On the contrary, banks and other financial actors have become more interconnected, spreading risks in ways that are less transparent and difficult to monitor.

Banks participate in private markets through multiple channels: lending to private equity and private credit funds, providing credit lines to portfolio companies alongside these funds, offering prime brokerage services and maintaining derivative exposures. Banks consequently retain substantial direct exposures while simultaneously acting as intermediaries and service providers to non-bank entities. This business

model coexists with traditional lending rather than replacing it.

The ECB's 2024 exploratory review² revealed that banks cannot systematically identify transactions where they lend alongside private credit funds to the same company. This means banks may not always have a full picture of their total exposure to a single borrower or group. As a result, concentration risks can be underestimated and mismanaged. When a bank lends both to a private credit fund and directly to companies in that fund's portfolio, the combined exposure may be substantially higher than when either position is viewed in isolation.

Supervisory tools face challenges in addressing bank-NBFI risks

Existing frameworks struggle to capture complex instruments in which risk is layered across multiple entities and legal structures.

Data gaps prevent comprehensive risk assessment, although this is improving. The ECB has launched several initiatives to close these gaps. A dedicated monitoring exercise on banks' exposures to private markets highlighted the challenge of capturing layered leverage structures where borrowing occurs at multiple points along investment chains, from fund investors to portfolio companies. An exploratory scenario analysis on counterparty credit risk focusing on NBFI-related vulnerabilities revealed significant variation in banks' risk profiles, with differences in collateral practices having considerable influence on stress outcomes.

Existing supervisory data do not yet provide a sufficiently consolidated and forward-looking view of banks' exposures to NBFIs and private assets. Information on fund-level leverage, portfolio composition and redemption structures is often limited. This makes it difficult to assess how shocks could propagate through the system or to conduct stress tests that capture second-round effects.

The temptation to distribute risk to retail investors requires vigilance on conduct standards

There may be a temptation to broaden the circle of risk holders by distributing private market products to retail investors. This requires caution. If conflicts of interest lead to mis-selling, as occurred in the 2008 financial crisis, the consequences can extend beyond financial stability, affecting social and political domains.

To mitigate these risks, regulatory frameworks must ensure adequate

disclosure and conduct standards, particularly with regard to conflicts of interest. The complexity, illiquidity and opacity of private credit structures make them particularly ill-suited for investors who lack the resources to conduct proper due diligence or the financial capacity to absorb losses.

The ECB monitors interconnections within its mandate

The oversight and regulation of NBFIs, particularly the largest ones with global operations, fall under the responsibility of authorities outside European banking supervision. However, we monitor the connections between banks and NBFIs to assess risks from a banking perspective. Our focus is on banks' risk management practices regarding exposures between banks and NBFIs, including identification and monitoring, concentration limits and stress-testing capabilities. This approach allows banking supervision to contribute to containing systemic risks linked to the non-bank sector without extending bank-style regulation to market-based finance. Instead, we ensure that banks maintain robust risk management standards in their NBFI-related activities.

Non-bank credit growth has redistributed risk without excluding banks.

European banking supervision cannot cover all non-bank systemic risks alone. The macroprudential framework for NBFIs needs to be strengthened through improved data sharing, enhanced coordination among authorities and the development of system-wide stress testing. This requires both entity and activity-based approaches to ensure that regulatory frameworks capture risks wherever they arise and remain adaptable to financial innovation. International cooperation is essential, given the global nature of NBFI activities, diverse legal statuses and cross-border spillovers.

1. Financial Stability Board (2025), *Global Monitoring Report on Nonbank Financial Intermediation*, 16 December.
2. ECB (2024), "Complex exposures to private equity and credit funds require sophisticated risk management", *Supervision newsletter*, 13 November.



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Understanding private markets through a system-wide approach

Private markets have become an increasingly important source of long-term finance for UK businesses, driven by the rapid expansion of private equity (PE) and private credit (PC) globally and domestically. The Bank of England's second System-Wide Exploratory Scenario (SWES), launched in December 2025, reflects the financial system's growing reliance on these markets and the need to better understand how they behave under stress.

The scale and interconnectedness of private markets underscores the need for this analysis. Globally, private market funds now manage around \$16 trillion, with PE and PC expanding from roughly \$3 trillion to \$11 trillion over the past decade. In the UK, PE-backed firms account for up to 15% of corporate debt and around 10% of private-sector employment, supporting more than two million jobs across a wide spectrum of the economy.

Private markets provide valuable diversification and long-term capital, often through closed-ended structures that can help firms grow and support much needed economic growth. However potential vulnerabilities exist. These include the use of leverage across funds and portfolio companies,

challenges in valuing illiquid assets, reliance on credit rating agencies, and deep interconnections with banks, insurers and other credit markets. Combined with substantial data gaps, these factors make it difficult for authorities to assess systemic risks holistically and ensure private markets can contribute to economic growth on a sustainable basis.

The private markets SWES aims to address these gaps by analysing how banks and non-bank financial institutions (NBFIs) behave under a severe but plausible global downturn, and how their actions may interact to amplify stress. Building on lessons from the first SWES - focused primarily on gilt, repo and sterling corporate bond markets - the second exercise extends this system-wide approach to a broader, more complex ecosystem that has not yet been tested through a full economic cycle. Rather than evaluating the resilience of individual firms, the SWES seeks to understand how behaviours, incentives and interdependencies might produce system-wide effects.

At the heart of the SWES is its innovative design. The first exercise engaged around 50 major financial institutions, including banks, insurers, pension funds, hedge funds and asset managers. This firm-level engagement allowed the Bank to explore behaviours that traditional modelling or isolated stress tests cannot capture. The second SWES, focusing on private markets, will take a similarly collaborative approach and the participating firms represent a substantial share of UK private-markets activity: approximately one third of UK PE leveraged buyout activity, around half of UK PC activity to the corporate sector, and roughly 40% of employment in UK PE-sponsored corporates over the past three years.

Understanding the behaviour of private markets is essential for safeguarding financial stability.

By incorporating insights from a wide range of participants, the exercise will enable the BoE to explore issues such as liquidity management during stress, changes in risk appetite, interactions with counterparties and funding markets, and the potential for herding behaviours. Mismatches in expectations - where firms assume others will act differently to how they do in practice -

can themselves be sources of instability. Understanding these behavioural dynamics is therefore essential for strengthening resilience.

The exercise will also examine how system-wide feedback loops could emerge. For example, simultaneous de-risking by NBFIs, constrained intermediation capacity among banks, or widespread adjustments to private-asset valuations could all interact to magnify market dysfunction. Such dynamics could impair financing conditions for UK corporates, widening credit spreads or limiting the availability of long-term capital at precisely the moment it is most needed.

The BoE's work forms part of a broader effort among international regulators - coordinated through bodies such as the Financial Stability Board - to address vulnerabilities in market-based finance. The insights generated are intended not as firm-level pass/fail assessments, but as a foundation for policy development, improved risk management and greater market resilience.

As private markets continue to expand, understanding their behaviour under stress is essential for safeguarding financial stability. The BoE's private markets SWES represents an important step in mapping these dynamics and ensuring that the benefits of private capital can be realised without compromising the resilience of the UK financial system.



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Toward overcoming cross-border NBFi data challenges

Japan has faced major structural challenges -- an aging population, weak corporate borrowing demand, and a prolonged low-rate environment. Unlike in the United States, where Nonbank Financial Intermediaries (NBFi) actively invest in high-growth sectors, Japanese banks have played a central role in supplying risk money. To improve profitability, banks have pursued middle-risk opportunities such as mezzanine financing and subordinated loans for M&A and business succession purposes among SMEs. They have also invested in funds as limited partners, indirectly providing risk capital for regional revitalization. This bank-centric funding model may gradually shift as rapid technological innovation, including AI, creates new business opportunities also in Japan. Deeper collaboration with overseas NBFIs that have expertise in the growth areas may enable Japanese banks to allocate risk more efficiently and support economic growth.

With Japan's improved economic outlook and changing inflation and interest-rate dynamics, the presence of overseas NBFIs is increasing. Bank of Japan (BOJ) research shows that overseas NBFIs' investments in the Japanese stock

and bond markets have nearly tripled since 2008, while loans and investments by Japanese institutions in overseas NBFIs have grown more than tenfold. The presence of overseas investment funds in Japan's real estate market is also expanding. Such increased interlinkages between Japanese financial institutions and overseas NBFIs pose financial stability challenges; for instance, large-scale rebalancing by overseas NBFIs could significantly affect asset prices.

While we have a big stake in identifying and assessing the potential risk emanated from the increased interlinkages, data availability is limited as many NBFIs are foreign-domiciled and outside the domestic supervisory scope. Japan is the only jurisdiction that has developed Securities Financing Transaction statistics in line with FSB recommendations, yet the overall picture of cross-border repo especially remains unclear. Japan's repo statistics only cover transactions where at least one of counterparty is Japan-based, leaving out activities such as transactions between London dealers and US funds. Several pragmatic steps could help to overcome such NBFi data challenges.

First, leveraging internationally coordinated initiatives to identify the obtainable cross-border NBFi data. One such initiative, in which the BOJ participates, is the FSB's Nonbank Data Task Force (NDTF). As a test case, the NDTF is examining leveraged trading strategies in sovereign bond markets to identify data deficiencies and evaluate potential countermeasures. While stock-take studies reveal wide variation in data granularity, reporting frequency and legal constraints in data sharing across jurisdictions, they also shed light on the NBFi entity or transaction level data obtainable in certain member jurisdictions.

Pragmatic approaches to narrow down critical NBFi data.

Second, narrowing down the critical cross-border transactional data. One such approach is the Bank of England's System Wide Exploratory Scenario (SWES) exercise which identified NBFi derivative transactional data as critical towards understanding how spikes in margin calls on NBFIs amplify shocks to the financial system. An alternative approach, as pursued in Japan, is the use of "fire drill exercises" that request banks to identify, in a hypothetical stress scenario, critical NBFi transaction

data, leveraging their existing risk management frameworks. This is a lighter touch approach compared to SWES, but it has proved to be effective in identifying the current state of the data challenges. Identifying the critical NBFi data may in turn facilitate the dialogue between banks, NBFIs and authorities regarding data sharing cooperation and vulnerability analysis. Narrowing down the data truly necessary for risk analysis would deepen our understanding of hidden risks and benefit everyone. In such cases, stakeholders including NBFIs may be more willing to share it. Collaboration among banks, NBFIs and financial authorities is indispensable to overcome data challenges.

Third, tagging NBFi entities in the obtainable transaction data. While this may take time, authorities could explore whether Legal Entity Identifiers (LEIs) could be used to identify and assess the significance of key cross-border NBFi entities operating in major financial markets. The use of such LEIs as a common tool across jurisdictions may also facilitate information exchange among relevant supervisors analyzing excessive cross-border NBFi risk taking activities under early warning frameworks. Wider adoption across jurisdictions may also improve the ability to trace NBFIs as ultimate investors and map their cross-border linkages, allowing more timely vulnerability assessments.



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Market-based finance and private market expansion: implications for supervision

Market-based finance channels savings to borrowers through markets and securities rather than banks. Historically it was dominated by public equity and bond markets, offering access, transparency, liquidity and price discovery, while private markets were smaller. Since the early 2000s, in the U.S, listings have fallen and more funding is raised via private equity, venture capital and private credit instead of public issuance.

The European market is seeing a similar, but smaller, shift. Also, EEA insurers' private credit exposure remains limited, ranging from around 2% to 5% of total assets, depending on the definition applied (i.e. whether mortgages are excluded or included) – a level that does not yet raise supervisory concern but requires monitoring.

As finance becomes increasingly market-based and private markets expand, prudential supervision grows more important. Risks are disciplined less by market transparency; instead, they accumulate on the balance sheets of

institutional investors, making their resilience central to financial stability.

From a micro-prudential perspective, Solvency II provides tools to address the risks associated with asset classes characterised by illiquidity and valuation uncertainty. Capital requirements capture major risks, notably credit and issuer-level concentration risk, but do not cover all potential vulnerabilities. Supervisors can fill this gap through the Prudent Person Principle (PPP), challenging excessive exposures to illiquid assets and requiring robust valuation practices.

Solvency II, with its market-consistent valuation of assets and liabilities, has promoted transparency and risk sensitivity. However, growing allocation to private assets creates new challenges. Unlike publicly traded instruments, these lack observable market prices and are often complex, opaque, and difficult to value reliably, increasing uncertainty in balance-sheet assessments. The PPP approach is principle based and allows flexibility but requires greater supervisory judgement, particularly as insurers and pension funds expand into less traditional and more illiquid investments.

When it comes to pension markets, the IORP II Directive provides for the implementation of the PPR to investments of IORPs, and a risk-based supervisory approach. And the Commission's proposal from November 2025 for the review of the Directive takes it one step forward to more principle based, aiming to facilitate IORP's investment diversification by ensuring better access to alternative investments and encouraging economies of scale and cross-border consolidation. However, the proposal also promotes more rigorous governance and supervision as an essential pre-requisite for greater investment autonomy.

Rising private-market opacity shifts risk monitoring from market discipline to supervisors.

As finance becomes more market-based and lending increasingly takes place outside the banking sector, insurance companies and pension funds (ICPFs) also play, among other institutions, a larger role in credit provision. Against this backdrop, the question emerges of whether they are becoming macro-prudentially relevant actors, whose actions can meaningfully influence

overall financial stability. However, the scale of these activities by EEA ICPFs remains limited so far.

ICPFs are traditionally regarded as stable, long-term investors. Their real-money status, business models and investment strategies distinguish them from more leveraged or run-prone financial intermediaries and make them well placed to hold illiquid assets through market cycles.

ICPFs can play a stabilising role by providing long-term, loss-absorbing capital. However, this effect is conditional and nuanced. It is most likely to hold when exposures are well diversified across sectors and geographies, when assets and liabilities are aligned, including in terms of liquidity, and when capital buffers are comfortable. Absent these conditions, the illiquidity and opacity of private markets can instead create channels through which insurers and/or pension funds may amplify and transmit financial stress, particularly in niche market segments where they may constitute the dominant investor base.

This dual role, both stabilizing and potentially procyclical, underscores the need for supervision to evolve alongside the expansion of private markets within market-based finance. In its last revision, Solvency II has been strengthened to better reflect the macro-prudential role of insurers. This includes the introduction of specific provisions for undertakings identified by risk-based criteria, particularly regarding liquidity management and investment strategies (ORSA and PPP), as well as enhanced supervisory powers to address liquidity vulnerabilities in exceptional circumstances. The IORP II's proposed amendments also highlight a more substantial role on governance, transparency and the consolidation of supervision.

Finally, market-based finance also increases cross-sectoral interconnectedness, which calls for enhanced cooperation and coordination among supervisors from different regulatory domains.



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A Japanese life insurance company's view on reinsurance and private assets

Diversifying the investment base of insurance companies generally tends to have a positive impact on insurance company earnings as well as increasing resilience against secular economic shocks. The addition of private assets to the investment universe is just one example that should result in an overall positive impact to the economy. If there is borrower demand that is not being fully met, filling this gap increases the welfare of that economy, while diversification of funding sources should also contribute to the resilience of that economy. Insurance companies managing their risks through reinsurance or derivatives also need to be seen in a positive light. Risk reduction using these tools will allow insurance companies to take on additional risks, which should enable them to serve a larger portion of the economy and expand the availability of risk protection.

In the case of life insurance companies, with long dated liabilities spanning several decades, the challenge is usually in finding investment opportunities with long dated assets. Government bonds are commonly used to help match the long duration of liabilities, and

private assets are a valuable diversifier when added to the investment universe.

International organizations such as the IMF, BIS or the IAIS are focusing their attention on the increased use of reinsurance and/or investments in private assets by life insurance companies. The individual issues pointed out clearly deserve attention and need adequate monitoring. Liquidity risk associated with the use of derivatives is an obvious example of an issue that needs close monitoring and oversight; however, linking this to a need for a hardwired liquidity regulation is a jump in the logic. There is a need to grasp the effects of risk management by the companies and supervision by the authorities. (And of course we at Dai-ichi Life are conducting careful risk management with enhanced personnel, organizational structure and sustainable human resource development.) There is also a need to take into account the different liability structure of insurance companies and lower likelihood of a “run on assets” occurring as compared to banks. From such perspective, there may be room for better coordination between supervisors and researchers.

There have also been concerns raised about the use of private-letter ratings and/or internal credit modeling. While we acknowledge the need to carefully review these issues, we are of the view that allowing the use of such ratings with stronger governance frameworks is probably more beneficial overall than not allowing their use. For example, a requirement that in order for internal models to be allowed for regulatory use the underlying credit rating must be used for credit approvals and pricing (the so-called “use test”), together with mandatory supervisory review of the underlying credit rating process, should counter incentives to assign higher ratings. If ratings are higher than appropriate, insurance companies may make loans to borrowers to which they should not, and/or miss revenue opportunities given the creditworthiness of the borrowers. There should be internal forces restraining the front line from making undesirable lending decisions. Separately, allowing new entrants to the external rating market should be better than a monopolistic environment. Requiring disclosure of ratings and historic performance as a prerequisite for the regulatory use of external ratings seems to be a better way forward than disallowing smaller rating agencies. As for private-letter ratings, we may want to provide a choice between either going public or having a similar requirement as the one for internal ratings suggested above (the

so-called “use-test”). Our economies would be better off if those borrowers who are not rated by traditional rating companies can have access to lending with better risk differentiation.

**A more balanced
assessment of the
activities of insurance
companies is needed.**

Taken as a whole, recent discussions seem to place excessive focus on things that may go wrong, underappreciating the positive effects that these types of activities can have on the real economy. The benefits of having different types of players in a market also seems to be underappreciated. Insurance companies have different liability structures compared to banks, and will respond differently to interest rate shocks, for example. Japanese players, American players and European players will all have different reactions, for instance, to a European shock. Supervision and regulation should take more account of the diversification benefits for individual institutions, for the sector, and for the economy as a whole. They should also try to avoid the tendency to try to treat, and in some cases even compel, the different players to behave similarly. Business model differences and investment portfolio diversity should be welcomed and rewarded, rather than penalized.



VINCE MARRIOTT

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Private credit and the benefits of diverse financial markets

'Private credit' encompasses diverse financing activities and funding profiles. Today, private credit assets span the full breadth of the real economy, including corporate loans, asset-backed loans, infrastructure finance, and structured credit. We estimate the addressable market for private credit to be greater than \$40 trillion, of which ~95% is investment grade. The funding for private credit comes from deep, global investor pools representing a diverse array of investor profiles. However, policy discussions concerning private credit have increasingly focused on retail access to private assets and the use of semi-liquid vehicles. Semi-liquid structures provide a means for individual investors to access private assets. Despite recent media attention on the liquidity mechanisms of these structures, their use reinforces the critical role that these structures play in facilitating prudent access to private assets in a manner that protects investors and enhances financial stability.

Viewed holistically, private credit provision is complementary to bank financing. Banks play an essential role in financial markets, providing transaction services, liquidity, and

short-term credit predominantly backed by demand deposits. This funding base necessarily requires maturity transformation. By contrast, private credit is predominantly financed by investors with predictable, long-dated liabilities like insurers, pension funds, and sovereign wealth funds. These long-term funding bases are well-suited to finance long-term assets. In this way, the growth of private credit has strengthened system-wide asset-liability management, with banks increasingly providing short-term credit and private credit providers providing long-dated financing.

The long-dated liabilities of private credit providers, such as insurers with long-dated policyholder liabilities, allow them to act as countercyclical investors and critical sources of financing during economic downturns. For example, in the dot-com downturn of the early 2000s, insurer credit provision grew ~12% and private credit fund credit provision grew ~21% while bank lending contracted; likewise during the GFC, insurer credit provision grew ~14% and private credit fund credit provision grew ~37%. Since private credit investors in some cases do not need liquidity for even decades into the future, these investors can continue buying high-quality assets during downturns, resulting in continued credit provision and better overall price stability.

Given the differences in their funding bases, bank lending to private credit providers can enhance financial stability when structured appropriately. Bank loans to private credit providers are typically short-dated and structurally senior, including subscription facilities secured by diversified investor commitments, conservatively structured NAV facilities, and loans against diversified asset portfolios at high attachment points. In these arrangements, banks earn spread for providing senior financing, while first-loss risk resides with long-term, low-leverage investors. When prudently structured, such 'interconnections' can reduce, rather than amplify, systemic vulnerability. Put another way, supervisory focus should center on the 'quality' of interconnections (e.g., the quality of bank loans to asset managers) rather than the 'quantity' of interconnections.

The increasing availability of semi-liquid vehicles investing in private credit offers greater opportunity for individual investors to access private markets with rigorous safeguards commensurate with the risks of the corresponding assets. Such structures incorporate liquidity management tools

calibrated to the underlying asset base. When used appropriately, mechanisms such as gating prevent forced asset sales and mitigate procyclicality. The successful recent application of gating mechanisms reinforces the fact that today's product designs contribute to a system that is more resilient than it was in the past. That said, these products are still relatively new, so it is important that industry participants continue to educate investors and market observers on the utility of these features. Overall, these products represent an evolution in access built on conservative design principles, enabling individuals to prudently invest in diversified private assets spanning the full breadth of the real economy.

Private credit provision, including via semi-liquid structures, complements bank financing and enhances financial stability.

Given the breadth of assets and investors constituting the private credit ecosystem, a stability-oriented policy discussion should therefore begin with precision. 'Private credit provision' is not one thing—it encompasses diverse asset classes and funding sources outside of bank lending and public syndicated markets. As discussed, many of these funding sources are stable and long-dated. When banks and private credit operate as complements, each playing to their inherent strengths, the result is a financial system that allocates risk more effectively, supports long-term investment, and enhances systemic resiliency.



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Private credit: a call for greater clarity amid growing complexity

The growth in private credit generates both enthusiasm and scrutiny. For Fitch Ratings, three themes merit particular attention: the challenges of heterogeneity amid growing complexity; the debate over regulatory arbitrage; and enhanced transparency via the correction of information asymmetries.

Private Credit Spans a Wide Range of Structures, Parties and Purposes

The term "private credit" spans a diverse range of financing activities originated and held by NBFIs, financing companies and assets. In turn, products and structures vary by leverage, liquidity, collateral arrangements, covenant protections, borrower concentration, governance frameworks, size and maturity.

This sheer lack of coherent economic or structural attributes means that private credit is often defined by what it isn't: it is financing that is neither traditional bank lending nor publicly traded bonds.

This heterogeneity can lead to significant misunderstanding. When such diverse instruments are aggregated under a single taxonomy, market participants risk drawing inappropriate

comparisons. Performance narratives may over-generalise or fail to capture the channels via which stress might propagate. For investors, it complicates portfolio construction and risk management. For policymakers, it obscures systemic risk assessment. This makes enhanced taxonomies and systematic risk assessment using tools like credit ratings increasingly necessary to assess risks.

The Bank-NBFI Migration Is a Consequence of Risk and Regulatory Shifts

Non-bank lenders conduct a form of regulatory optimisation: operating outside prudential banking frameworks while performing similar economic functions. This reflects their ability to originate and hold credit without equivalent capital, liquidity, or resolution requirements. This has the potential to create opacity and risk beyond the regulatory perimeter, related not only to the financing activity itself but also asset-liability matching and potential liquidation-related spillover effects.

Some of the bank-to-NBFI migration is an intended consequence of post-crisis regulation to strengthen banks. This has reduced bank appetite for direct lending to 'B' or 'BB' category rated corporates, infrastructure and project finance facilities, novel collateral, and certain securitisation techniques.

End-capital owners such as insurers, sovereign wealth funds and pension-funds offer duration-matched funding aligned with short-, medium- or long-term financing solutions. This grouping in aggregate represents over USD100 trillion assets; very close to the global stock of loans on banks' balance sheets, according to FSB estimates. The disintermediation from banks can also be viewed as reflecting a deliberate policy trade-off: accepting migration to NBFIs as the price of a more resilient banking system.

Our credit ratings are intended to mean the same irrespective of the structure, features or parties.

It is critical to distinguish between migration because entities are appropriately constrained or freed from taking certain risks, versus migration specifically to exploit regulatory gaps that undermine policy objectives. The

migration of long-duration infrastructure financing to insurance companies from banks is not a risk arbitrage. Holding less insurance solvency capital for an entire CLO stack versus the underlying loan pool is, however.

This distinction requires granular examination of many aspects. Blanket characterisations of regulatory arbitrage risk obscuring legitimate structural evolution and missing genuine supervisory blind spots.

Private Credit Will Benefit from More Granular Disclosures and Improved Transparency

Greater transparency through improved information can materially strengthen private credit markets, particularly where instruments are bespoke, secondary liquidity is limited and there is no long track record for novel asset classes. Credit ratings based on detailed criteria can serve as an important transparency mechanism.

In the case of Fitch Ratings, our credit ratings, whether public or private, provide independent, comparable assessments grounded in consistent transparent analytical methodologies and supported by ongoing surveillance; our credit ratings are intended to mean the same irrespective of the structure, features or parties. We see private markets participants using our credit ratings to facilitate internal risk governance, support investment committee discipline by providing a benchmark for risk and pricing, and establish common reference points among borrowers, lenders and investors.

A broader improvement in information infrastructure and disclosures would also help reduce information asymmetries. We believe transparent benchmarks enable more informed pricing, facilitate secondary markets and strengthen market discipline.

Greater transparency does not eliminate risk but enables more informed risk management. As private credit continues expanding its role in financing the real economy, clarity becomes not merely a regulatory imperative but a foundation for sustainable market development and investor confidence.