Private credit and NBFI: combining financial innovation and systemic resilience

The growing role of private markets and non-bank financial institutions (NBFIs) in financing the economy raises questions about their contribution to investment, the sustainability of their business models and the implications for financial stability.

The discussion first explored how private markets and NBFIs can complement bank financing, diversify sources of capital and mobilise long-term investment. It then examined the transparency, liquidity and interconnectedness risks before considering the supervisory and regulatory responses needed to strengthen financial resilience and support the development of the Savings and Investments Union (SIU).

1. Private markets and NBFIs

1.1 The economic additionality of private markets and NBFIs

1.1.1 Complementary financing models

An industry representative argued that private markets are a structural necessity given the scale of global financing needs. The Draghi report estimates that €800 billion in additional annual investment is needed, which banks cannot meet alone. These needs include the energy transition, infrastructure and project finance. The industry representative also cited partnerships involving Air France, Vonovia and EDF Energy as examples of the model developing in Europe.

Private markets complement banks rather than replacing them. Banks excel at short-term lending, cash management, liquidity provision, hedging, repurchase agreements (repo) and mergers and acquisitions (M&A) services; they are less suited to holding long-term illiquid assets. Insurers, by contrast, can provide long-term investment-grade credit rated BBB to AA, enabling banks, asset managers and insurers to combine their respective strengths and mobilise capital for long-term financing. Policy discussions focus disproportionately on sub-investment-grade direct lending. Investment-grade financing, meanwhile, represents around 95% of the broader $40 trillion credit market.

1.1.2 The Japanese experience

A Central Bank official observed that private markets and NBFI innovations can strengthen financial resilience by providing flexible, long-term capital to sectors that are underserved by traditional banks. Their economic additionality extends beyond replacing bank loans; they offer customised financing for growing companies, complex financing structures and long-term infrastructure projects.

Banks benefit from low-cost deposits and established local networks, but regulatory constraints can limit their ability to hold higher-risk debt and equity exposures over long periods. Private credit funds help to fill this gap through mezzanine and subordinated financing, improving the distribution of risk across the financial system.

This complementary model is also developing in Japan. Major Japanese banking groups are partnering with global private credit funds that connect domestic institutional investors with international direct lending markets. Meanwhile, specialised Japanese asset managers are establishing private debt funds that mobilise pension fund and insurance capital to provide mezzanine financing for business successions and private equity transactions.

1.1.3 The development of non-bank finance in Europe

A regulator observed that credit provision remains predominantly bank-based in the EU, unlike in other markets, where non-bank financing is expanding and generating additional investment. That development raises supervisory concerns, particularly given weaker market discipline, limited transparency and the illiquidity risks faced by institutional investors.

The question of whether a comparable model can emerge in Europe, independent of foreign players or domestic banking groups, remains uncertain. Developing non-bank financing within banking groups is not inherently problematic since banks remain the natural starting point for credit provision in Europe. That does not mean that the expansion of non-bank finance must remain confined to banking groups. The insurance and pension sectors illustrate different approaches, with some institutions adapting established models and others exploring new ones.

The discussion also highlighted the role of private markets in diversifying financing sources and distributing credit risk across the financial system.

1.2 Diversifying financing sources and credit risk

1.2.1 Mobilising capital and diversifying credit risk

An industry representative argued that the expansion of NBFIs can help meet substantial financing needs, including nearly $7 trillion for digital infrastructure by 2030 and the €800 billion of existing corporate debt worldwide maturing over the next three years. These needs call for financing sources beyond public balance sheets alone.

The key question is not which financing model is most sustainable, but how effectively credit risk is distributed across the financial system. Different business models can contribute to closing the funding gap, provided that risks are appropriately dispersed. In Europe, the SIU is essential to developing integrated capital markets and channelling retail and traditional savings into the real economy.

1.2.2 The diversification and growing complexity of private credit

An industry representative observed that private credit already plays an important role in financing the European economy. Large European utility groups and other businesses with long-term cash flows increasingly rely on alternative financing structures. These structures include complex capital joint ventures, long-term utility financing, real asset-based finance, and the securitisation and sale of intellectual property rights. Their diversity and complexity underline the need for greater transparency and clarity in assessing private market exposures. The expansion of these financing activities also depends on the capacity of long-term investors to allocate capital to private markets.

1.3 Mobilising institutional capital for long-term investment

1.3.1 Insurance and pension funds

A regulator emphasised that insurers and pension funds, although classified as NBFIs, are distinct liability-driven institutions with long-term investment horizons that make them well suited to long-term financing.

In Q1 2026, EU insurers held €10.7 trillion in assets under management, of which €9.8 trillion was invested, while pension funds managed almost €3 trillion. These substantial asset pools offer considerable potential to finance the economy.

Private credit accounts for 5% of insurers' assets, a share that has remained stable over the past two and a half years. Of total insurance assets, 3% is invested in traditional real estate and mortgage exposures, while 2% is allocated to newer forms of private credit. Despite growing interest in AI and data centres, insurers' exposures to these sectors remain limited, leaving room for expansion, subject to appropriate supervision.

1.3.2 Institutional investors

An industry representative observed that the investor base for private credit and other private assets has broadened. Institutional investors have traditionally invested through closed-end funds, with alternative assets now accounting for at least a quarter of asset owners' total allocations. Their main challenge is obtaining a consolidated portfolio view that allows exposures to be consistently measured and compared across asset classes.

1.3.3 Wealth investors

An industry representative commented that wealth investors have driven much of the recent growth in private markets. The main challenges are the reliability of fund managers' valuations and the frequency with which they are updated. The expansion of private market investment opportunities also raises questions about transparency, valuation practices and the management of liquidity risks. This growth has been supported particularly by evergreen funds using point-in-time net asset value (NAV) estimates.

2. Private market resilience

2.1 Improving transparency, data consistency and valuation practices

2.1.1 Consistent definitions, standardisation and greater transparency

An industry representative noted that his firm had identified around 30 different definitions of private credit used by supervisors, rating agencies and market participants. A more granular taxonomy based on underlying assets is essential. Without consistent definitions and sufficiently detailed data, attention risks being dispersed across too many potential vulnerabilities. The industry is working to improve disclosures through data providers and identifiers, firms' own reporting and advocacy for greater consistency across jurisdictions. Some definitions include mortgages, calling into question estimates of a $3 trillion private credit market; residential mortgages, auto loans and commercial loans have different risk characteristics.

2.1.2 From disclosure to visibility

An industry representative emphasised that more reporting does not necessarily improve system-wide understanding without a common basis for comparison. Funds can report their holdings using different or jurisdiction-specific definitions without revealing underlying exposures, overlaps or concentrations across the financial system.

Consistent classification of underlying holdings is therefore essential. This requires standardised definitions of private asset subclasses, independent of individual managers or investors. Such a framework would make differences and overlaps visible. Funds labelled as senior direct lending may have substantially different exposures, risk profiles and concentrations, while funds in different categories may share common exposures.

The extension of the Global Industry Classification Standard (GICS) framework to private assets illustrates this approach by enabling sector exposures to be compared with public market equivalents. Investments linked to AI infrastructure and data centres, for example, can be aggregated across infrastructure, real estate, buyout and venture capital funds. Looking through to underlying holdings also reveals overlapping exposures to the same companies across asset classes. At the end of Q1 2026, the value of the data centre ecosystem index was approximately $150 billion. Diversification across asset classes does not necessarily imply diversification of underlying economic risks.

Valuation practices need to be timelier and more reliable. Independent benchmarks based primarily on limited partners' own data, rather than fund managers' reported valuations, can reduce reporting selection bias. As these benchmarks are only updated quarterly, a daily private credit index can complement them. The growing secondary market also provides more frequent valuation signals through actual transaction prices. Nowcasting techniques can match public bond market signals with the sectoral and geographical characteristics of private credit holdings.

These tools do not remove the structural illiquidity of private assets or determine optimal product design. However, more timely and comparable valuations can strengthen investor confidence during market volatility and improve transparency across newer investment structures. The same data and analytical tools could also help supervisors improve system-wide visibility and risk assessments.

2.1.3 Transparency on leverage, credit quality and interconnectedness

An industry representative identified two priorities: greater transparency and clearer information on liquidity constraints. Although no systemic risk is currently apparent, the growth of private capital calls for more comprehensive disclosure of leverage at the asset, fund, manager and investor levels, as well as of the credit quality of private credit instruments.

Greater visibility is also needed on the interconnections between private markets and banks, which may create concentration risks and transmit shocks to the banking system. Standardised regulatory reporting and greater transparency would enable investors to conduct due diligence and assess risks independently. Credit ratings, credit assessments and rating-agency data can also contribute to independent risk assessment.

2.1.4 NBFI heterogeneity, data aggregation challenges and concentration risks

A regulator noted that the term 'NBFI' encompasses highly heterogeneous institutions, making it difficult to assess the sector as a whole. Some of these institutions are relatively well understood by supervisors, which facilitates access to information. Banks, however, still struggle to aggregate exposures across business lines and affiliates. Meanwhile, private credit is expanding beyond banking groups. Synthetic securitisation presents an emerging concentration risk, as the provision of credit protection is becoming increasingly concentrated.

Improving transparency and data consistency is an essential step toward identifying vulnerabilities. However, resilience also depends on how liquidity constraints, asset-liability mismatches and interconnected exposures are managed in practice.

2.2 Managing liquidity and risks across private markets

2.2.1 Clarity on fund liquidity and redemption restrictions

An industry representative stated that fund managers must more clearly communicate the actual limits on liquidity and withdrawals. Private markets are inherently less liquid than public markets, and some funds have restricted redemptions to prevent runs and protect the value of underlying assets.

Clearer disclosure of redemption constraints would help investors to anticipate how funds may behave under stress, avoid unexpected restrictions and facilitate the management of liquidity pressures. When combined with greater transparency, this could help limit contagion risks.

2.2.2 Liquidity management and system-wide resilience

An industry representative observed that the central asset liability management risk is the mismatch between short-term liquidity commitments and long-term illiquid assets. In Q1, business development companies (BDCs) received $22 billion in liquidity requests, of which $11 billion were met. After accounting for capital inflows, however, net outflows amounted to only $2.6 billion, compared with $42 billion withdrawn from Silicon Valley Bank (SVB) in one week. He viewed the BDC figures as evidence that private credit investors were providing funding suited to the underlying assets. He stressed that the comparison with SVB concerned fundamentally different situations and called for greater transparency on gross and net flows at the system-wide level.

The availability of credit throughout the economic cycle is another important consideration. Diversified funding sources can strengthen resilience, as private credit may remain available when banks retrench, and vice versa.

2.2.3 Liquidity, interconnectedness and supervisory challenges

A Central Bank official stressed that the benefits of non-bank financing must be balanced against inherent vulnerabilities. Unlike banks, NBFIs generally lack access to central bank liquidity facilities and deposit insurance, leaving them exposed to liquidity mismatches and rising defaults during economic downturns. Their growing interconnectedness with banks through fund investments and credit facilities also creates channels for transmitting financial stress.

Greater transparency and effective regulatory oversight are essential for containing systemic risks and ensuring that private credit continues to channel risk capital towards productive investment.

2.2.4 Understanding bank-NBFI exposures

A regulator highlighted persistent difficulties for banks to aggregate internal data and look through investment structures to identify underlying exposures and assess their valuations. Banks may rely excessively on fund-provided valuations. This also raises questions about banks' independent assessment of leverage, margining practices and liquidity risks.

Legal provisions governing credit protection can create additional vulnerabilities. One example is a credit protection agreement that allowed the structure to be wound down if the supervisor initiated early intervention measures against the bank. Risk management practices in repo markets also warrant attention, particularly

zero or negative margining arrangements and their implications for banks' collateral-related exposures.

Institution-level vulnerabilities also raise broader questions about the transmission of shocks across financial sectors and the ability of supervisors to assess risks at the system-wide level.

2.3 Assessing interconnectedness and system-wide resilience

2.3.1 Transparency, standardisation and system-wide resilience

An industry representative emphasised that developing resilient and sustainable private markets requires consistent standards, greater transparency and robust stress testing. System-wide stress-testing initiatives, like the System-Wide Exploratory Scenario (SWES), are beneficial. Combined with consistent definitions and standardised disclosures, these exercises can help supervisors and market participants distinguish material vulnerabilities from less significant concerns, so they can focus their attention on the risks that matter most. He also noted that his firm had undertaken extensive stress testing before it became mandatory and cited updates to Form Private Fund (Form PF), the Financial Conduct Authority (FCA) process and other transparency initiatives.

2.3.2 Assessing contagion through cross-sectoral supervision

A regulator stated that the broader challenge is developing a system-wide understanding of financial interconnections and potential second-round effects. Supervisory approaches are evolving toward cross-sectoral stress testing and scenario analysis, to better capture how shocks may propagate between banks, insurers and other financial institutions.

Closer cooperation between supervisory authorities, including the sharing and combination of relevant datasets, is essential for assessing these transmission channels and improving the identification of system-wide vulnerabilities.

The identification of system-wide vulnerabilities leads to a broader policy question: whether existing supervisory tools, prudential safeguards and cooperation arrangements are sufficient to address the risks associated with the expansion of non-bank finance.

3. Strengthening supervision and delivering the SIU

3.1 Addressing emerging risks and strengthening prudential frameworks

3.1.1 Emerging market risks and key policy questions

The Chair noted that markets remained open and functioning well, with no generalised risk-off environment. However, strong public- and private-sector funding demand is pushing up financing costs, which is a trend that is likely to persist. Despite the absence of major incidents in the markets under discussion, developments elsewhere warrant caution. In Turkey, a market collapse led the government to liquidate 130 funds, while the central bank encouraged commercial banks to help address the disruption. South Korea also experienced a significant shock linked to excessive leverage in exchange-traded fund investments.

3.1.2 Regulatory incentives and prudential safeguards

A regulator reported that regulatory reforms aim to facilitate greater investment in alternative assets. Ongoing discussions on the Institutions for Occupational Retirement Provision (IORP) II Directive seek to ease investment restrictions that currently vary across member states. The Solvency II review, taking effect on 30 January 2027, is expected to reduce certain capital requirements and release capital for investment, including in equities and other assets. Policymakers expect insurers to increase their investment activity.

However, the objective of expanding investment must be balanced against prudential risks. Private market assets can have limited transparency, valuation uncertainty, credit and liquidity risks, and potentially difficult-to-assess concentrations. Supervisory oversight is essential to manage these vulnerabilities and build the confidence required for greater investment. Regulatory changes may create opportunities for expansion, but their effectiveness will depend on adequate risk management.

3.1.3 Solvency II

A regulator stressed that the Solvency II review strengthens the supervisory framework for insurers. Liquidity risk requires particular attention, with additional reporting requirements providing European Insurance and Occupational Pensions Authority (EIOPA) with more information through supervisory channels, alongside mandatory liquidity risk management plans.

The review also strengthens liquidity stress testing and macroprudential analysis within insurers' Own Risk and Solvency Assessments (ORSAs). The prudent person principle will become increasingly important. Effective supervision must encompass risk management, access to information and continuous supervisory dialogue. These measures fall under Pillar 2, covering governance, risk management and supervisory review.

3.2 Enhancing international supervisory cooperation

3.2.1 Regulatory arbitrage

A regulator stated that growing private credit investment and private equity involvement in insurance increase the importance of cross-border supervision, particularly as capital and insurance activities may be structured outside the EU. EIOPA can engage directly with foreign supervisory authorities, which makes bilateral and international cooperation vital, especially with jurisdictions whose regimes are recognised as equivalent. The issue is the effectiveness of supervisory cooperation rather than a simple distinction between acceptable and unacceptable jurisdictions. The regulator cited Bermuda as an example of established cooperation through regular supervisory contacts, in

contrast to less developed relationships with some other offshore jurisdictions.

Cooperation must extend to banking and central banking authorities to assess cross-sectoral developments and their implications for financial stability. Supervisors should share and combine available datasets, identify information gaps and avoid duplicating efforts.

3.2.2 Offshore capital regimes and idiosyncratic risks

An industry representative highlighted weaknesses in certain offshore capital regimes and idiosyncratic risks arising from firms whose practices differ from those of the wider industry. Such situations can have reputational consequences beyond the firms concerned. He noted that these risks remained a focus of his firm's policy advocacy, even without widespread market risk aversion.

While effective supervision and international cooperation are essential to financial stability, the regulatory framework must also support the development of European capital markets and the mobilisation of private savings towards productive investment.

3.3 Making the SIU a reality

A regulator noted that regulatory arbitrage contributes to capital outflows, as firms respond to differences in regulatory requirements when choosing where to structure their activities.

The SIU should deliver better pensions for Europeans and channel more investment into the European economy. The EU already has a substantial market and strong investor interest, but the potential remains underexploited. Policy should seek to retain capital in Europe, finance European businesses and projects, and ensure that citizens benefit from the resulting investment returns, while maintaining appropriate prudential safeguards.

The Chair asked how non-bank financial institutions could contribute to the development of the SIU in Europe, and whether greater emphasis should be placed on equity financing rather than lending. An industry representative suggested that success would ultimately depend on political will and sustained commitment to implementation.

The Chair questioned whether there was sufficient demand from market participants to make the SIU a reality. Political leadership alone would not be enough: financial institutions and investors need to commit substantial resources. An industry representative identified public engagement as one of the SIU's most difficult challenges. Explaining its relevance to younger generations is particularly difficult. The wider public does not necessarily understand its relevance or benefits. Building broader awareness and support is essential.

The Chair concluded that the SIU's success would require political will, an appropriate regulatory framework and meaningful simplification, alongside genuine market demand. Financial institutions and investors must see commercially viable opportunities and credible prospects of profitability. Europe needs to foster new entrepreneurial players capable of developing these opportunities. Referring to a group convened by Mario Draghi, he welcomed the involvement of new entrepreneurs and start-up founders who could build and scale European financial institutions.

Europe is effective at developing prototypes but less successful at scaling them into major industrial and commercial businesses. Draghi estimated that around 80% of the investment needed to achieve Europe's ambitions would have to come from the private sector. Mobilising that capital will ultimately depend on offering private investors credible opportunities to generate returns.

Concluding remarks

The discussion highlighted the growing role of private markets and NBFIs in complementing bank financing, diversifying sources of capital and supporting long-term investment in the European economy. Their expansion also brings challenges relating to transparency, asset valuations, liquidity management and interconnectedness across the financial system.

The discussion underscored the importance of more consistent data, effective risk management, system-wide analysis and supervisory cooperation in addressing these vulnerabilities. At the same time, the development of non-bank finance raises broader questions about Europe's capacity to mobilise savings, deepen its capital markets and create investment opportunities.

The challenge is to translate the growing financing potential of private markets and NBFIs into sustainable investment opportunities while preserving the resilience of the financial system.