

Workshop 3

Understanding and managing bank-NBFI interlinkages

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Non-bank financial intermediaries (NBFIs) have grown rapidly since the global financial crisis (GFC) and can include a broad range of entities like investment funds, insurance companies, pension funds and other financial intermediaries, some of which may be owned by banks. International organisations and national authorities have warned about the build-up of vulnerabilities related to liquidity mismatches, elevated leverage and high interconnectedness in the sector. More broadly, these developments highlight the need to better understand the interlinkages and spillover effects between banks and NBFIs. The Basel Committee investigated the links between banks and NBFIs in *Banks' interconnections with non-bank financial intermediaries* (BCBS (2025)) and dug deeper on specific interconnections in *Synthetic risk transfers* (BCBS (2026)).

Trends shaping bank-NBFI linkages

NBFIs have grown rapidly since the GFC, with NBFI growth outpacing the growth of bank balance sheets since 2008, which has led to NBFIs now holding a greater share of financial assets than banks. Growth in NBFIs has been driven by the macroeconomic environment and by changes in regulation. For instance, regulatory reforms since the GFC have made banks more resilient; however, they may also have created regulatory arbitrage opportunities by generating incentives to shift certain activities from the bank to the NBFI sector. Additionally, the expansion of central clearing transformed the liquidity linkages between NBFIs and banks. Furthermore, future regulatory, demographic and technology changes may continue to reshape the relationships between banks and NBFIs.

Banks' interconnections with NBFIs

Bank and NBFI sectors are interconnected in various ways and are mutually dependent on each other, although an NBFI would usually be involved in only a subset of these activities:

- **Lending.** Banks help NBFIs leverage their balance sheets via a wide range of services involving credit extension. This increased leverage can amplify systemic risk, particularly if multiple NBFIs rely on the same banks for leverage, or if banks lend to multiple NBFIs to fund the same activity.
- **Liquidity management.** Banks help NBFIs place spare cash by accepting deposits, borrowing cash through repurchase agreements (repo), and selling debt instruments such as commercial paper, covered and unsecured bonds and asset-backed securities. They also help NBFIs raise cash through the opposite activities. Banks may also provide contingent credit facilities to NBFIs. With these activities, banks face liquidity risks which would materialise if NBFIs withdraw cash or approach them with buy-back requests.
- **Clearing services in centrally cleared markets.** When NBFIs want to access centrally cleared products but are unable to interact directly with central clearing counterparties, they can do so through banks which act as clearers. Depending on the clearing model, banks can incur a mix of

counterparty and contingent liquidity risk which will crystallise if the NBFI fails to meet margin calls.

- **Market making and underwriting.** Banks operate as market-makers, facilitating trading by NBFIs in debt and equity securities and OTC derivatives. Through these activities, banks incur market risk and/or credit or counterparty credit risk, which would materialise if NBFIs face losses on their trades or are not able to raise market funding. Separately, banks' market making obligations might make it difficult for them to reduce exposures to certain markets, including when those markets are volatile because of actions by NBFIs.
- **Insuring creditworthiness and asset values.** By providing guarantees or other forms of security, banks help NBFIs enhance their creditworthiness. In the opposite direction, banks transfer risks to NBFIs by buying credit protection, either via credit derivatives or synthetic securitisations (see below for more detail).
- **Managing assets.** Some NBFIs (for example mutual funds) outsource asset management activities to banks. This creates a dependency on banks' asset management performance and expertise.
- **Ownership and sponsorship.** Some NBFIs are owned by banks (these are entities that are part of banking groups, but which would be classified as NBFIs if they were stand-alone entities). If large enough, a bank-owned NBFI can create income volatility for the bank. Banks might also be exposed to legal and conduct risks arising from the activities of bank-owned NBFIs or face step-in risk when an NBFI fails.¹
- **Portfolio similarities or correlations in investment strategies.**

Linkages can stem from many sources and expose banks and their NBFI counterparties to a range of risks. Moreover, bank and NBFI interlinkages can be significant, tend to be concentrated among the largest banks and exhibit some regional differences.

Q1. Which of these interlinkages are particularly relevant for the banks in your jurisdiction?

Risks arising from interlinkages between banks and NBFIs

Activities connecting banks and NBFIs give rise to a full range of risks: credit, counterparty, liquidity, operational and market risks. Some of these risks are merely transformations of existing risks. For instance, to meet potential investor redemptions, investment funds are encouraged to maintain sufficient liquidity buffers by depositing cash with banks. This practice intensifies the link between the two sectors, transforming liquidity risk in the NBFI sector into liquidity risk in the banking sector.

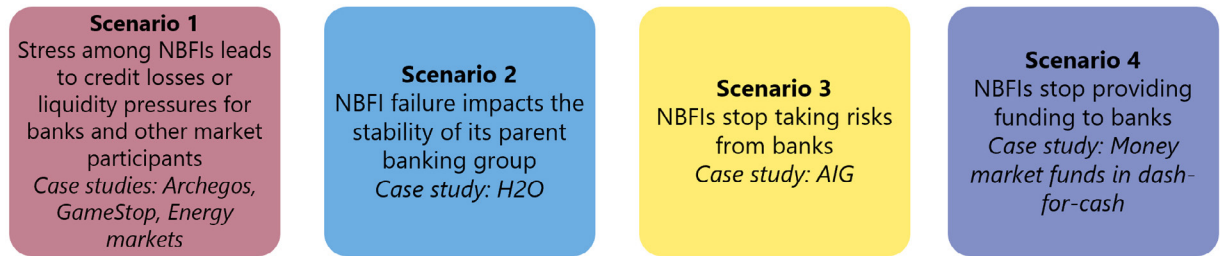
When large and interconnected NBFIs fail, these risks may lead to losses among the banks exposed to such NBFIs, as well as to a broader market instability impacting other banks. If the impacted banks have weaknesses in their capital or liquidity buffers, they may amplify stress, transmitting it to other banks and NBFIs. To explore potential longer-term trends and related potential supervisory responses and preventive measures, Graph 1 sets out four stylised scenarios of NBFI failure. The Committee reviewed historical examples to identify those which could have a large impact on financial stability. The scenarios build on a number of case studies; however, they are non-exhaustive and do not aim to provide a complete list of mechanisms through which banks can be exposed to NBFI failures. Scenarios 1 and 2 explore risks

¹ In 2017, the Basel Committee on Banking Supervision issued guidelines to mitigate step-in risk, see BCBS (2017).

that arise from existing links between banks and NBFIs. Scenarios 3 and 4 explore risks that could arise if NBFIs changed the way they interact with banks.

Stylised scenarios of NBFI failure

Graph 1



See BCBS (2025), p 2 for more detail.

Q2. Have any of these scenarios already materialised in your jurisdiction?

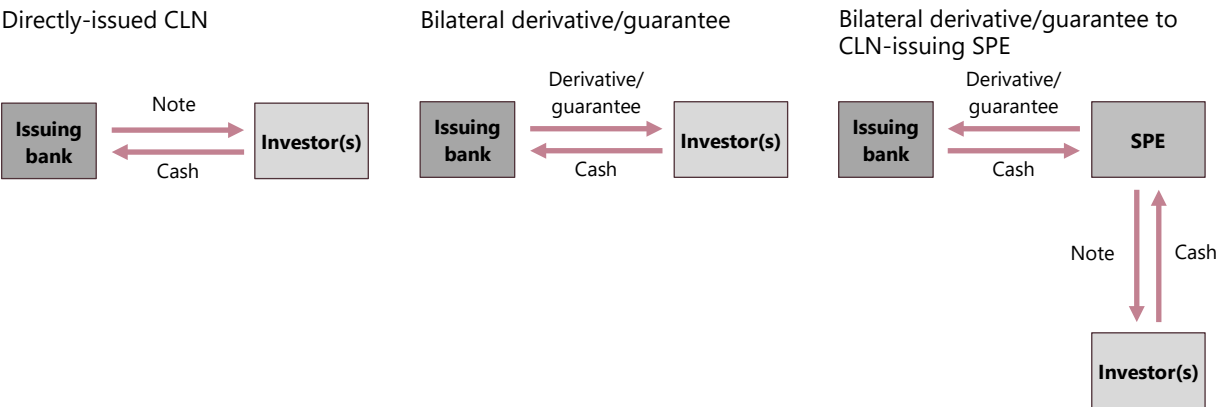
Q3. Are you concerned about any other scenarios that could materialise?

Synthetic risk transfers

One example of bank-NBFI interlinkages are synthetic risk transfer (SRT) transactions. These transactions involve a bank transferring all or a portion of the credit risk of a pool of assets to a counterparty while it retains ownership of the underlying assets. The investor base in SRTs is dominated by private investment funds, such as credit funds and hedge funds, pension funds and insurance companies. In some jurisdictions, public sector entities also play an important role as SRT investors. SRT transactions are usually fully funded: investors provide high-quality collateral upfront for the full amount of credit protection to mitigate counterparty credit risk. While the complexity of SRTs continues to evolve and there are limitations to the transparency of the market, in general the SRT structures in use today are less complex than those used prior to the GFC. Graph 2 shows typical SRT transaction structures.

Typical SRT transaction structures

Graph 2



Source: Basel Committee on Banking Supervision.

On the one hand, banks’ main motivations to engage in SRTs are capital and credit risk management. On the other hand, investors are attracted to SRTs because these transactions provide access to credit risk originated by banks in accordance with bank lending standards, while not requiring the

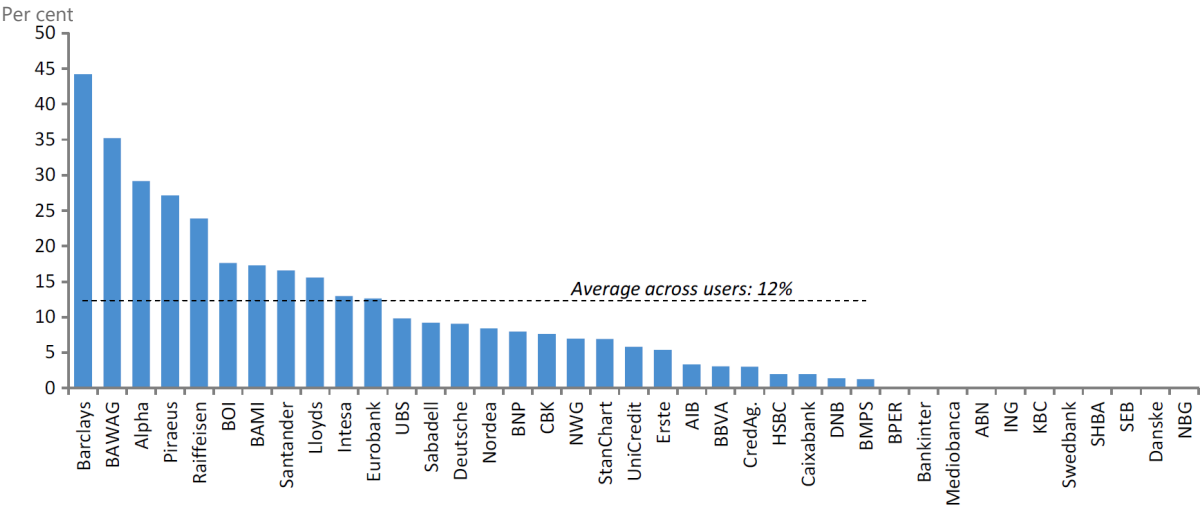
investor to take ownership, fund or service the loan pool. Some SRT investors seek enhanced returns by leveraging their SRT positions in the repo market, in which banks provide the necessary secured finance. SRT transactions are privately placed, often on a bilateral basis, and are not always rated by external agencies.

The economic importance of SRT markets has grown rapidly over the last decade, and SRT investors have become an important source of capital relief. Assets protected by SRTs as a percentage of consolidated total assets of banks in individual jurisdictions range between 0.9 and 1.8% with an average of about 1.1%. The SRT market is dominated by large banks, although smaller banks have recently become more active.

Corporate loans are the largest asset class protected by SRTs; 12% of the corporate book of an average large and medium-sized European bank benefits from SRT protection, with a wide dispersion as some outlier banks receive protection for more than a third of the corporate book. There is a wide range among individual banks for the capital relief provided by SRT transactions (see Graph 3).

SRT protection as a share of banks’ corporate loan books

European Union, United Kingdom and Swiss listed banks, Q4 2024, in percent of exposure at default Graph 3



Source: Cant et al (2025), p 4, chart 6. Reproduced with permission of the authors.

Regulatory and supervisory reforms implemented since the GFC make SRTs simpler and result in more scrutiny relative to credit risk transfer transactions in use before the GFC. Nevertheless, some jurisdictions and market participants are of the view that blind spots related to disclosure and SRT financing activities remain. The Basel Framework sets out requirements for the recognition of synthetic securitisations for risk-based capital purposes.

Beyond the requirements in the Basel Framework, individual jurisdictions often implement explicit criteria for the amount of risk that must be transferred, complemented with case-by-case supervisory assessments. Supervisors may restrict the extent of capital relief, or not recognise it altogether, when they determine that capital relief is not commensurate with the actual risk transfer or does not comfortably fit under their capital regulations. Supervisors are in the early stages of understanding banks’ SRT financing activities and determining appropriate prudential approaches to address associated risks. Data on the scale of such financing activities are not available, and some supervisors have expressed concerns about insufficiently prudent practices by banks in this space. Furthermore, disclosure of SRT activities and their impact on bank capital remains limited.

Risks associated with SRT use are acknowledged and, to some extent, actively managed by market participants, but they merit continued monitoring as SRT markets continue to grow. While SRTs provide

an additional source of risk-bearing capacity, they may need to be replaced with new transactions if the bank intends to continue lending beyond the maturity date of the SRT. High dependence on SRTs may expose banks to spillovers from the NBFIs sector; this could potentially increase the procyclicality of aggregate credit provision, as SRT investors may be less willing or less able to provide protection in downturns.

Banks mitigate these risks by spacing out SRT maturities and matching the maturity of SRT protection to that of the underlying loans. Investors mitigate these risks with due diligence and by monitoring banks' origination and credit risk management practices. However, the efficacy of risk mitigants has not yet been tested by large-scale credit losses, and SRT markets are opaque to regulators and participants.

Supervisors who monitor the risk of banks' dependence on SRT transactions have been or could consider assessing a range of metrics, including the overall capital relief, scale of SRT use versus relevant loan portfolios, cost and maturities of SRTs.

Q4. Is SRT activity monitored or reported to the supervisor in your jurisdiction and if so, do banks in your jurisdiction use SRTs for a significant portion of their loan books? If yes, how do you monitor their dependence on such transactions?

Data needs and gaps

Granular, detailed and timely data are essential for assessing bank-NBFI linkages. These may include supervisory data collections (eg counterparty credit risk, deposit flow data), credit registers and trade repositories (eg derivatives and securities financing transactions) as well as supervisory NBFI data (eg monitoring leverage and liquidity). Potential improvements that supervisors could consider include the scope, granularity and frequency of data collections, for example for data on private and alternative investment vehicles. They could also consider collection and sharing of granular data at the international level for cross-country and cross-regional risk analysis.

Q5. Which data sources does your authority use to monitor bank-NBFI interlinkages more generally? Are there any gaps, and how are you planning to address them?

References

Basel Committee on Banking Supervision (BCBS) (2017), *Guidelines on identification and management of step-in risk*, October 2017, www.bis.org/bcbs/publ/d423.pdf.

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Cant, C, L Li and M Evison (2025), *European banks – SRT growth continues*, Autonomous Research, June.