NBFIs
Comprehensive Approach to Designing Regulatory Framework
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What are NBFIs?

- All the financial institutions that are not central banks, banks, insurance companies, pension funds, public financial institutions or financial auxiliaries.

- They intermediate credit, facilitate alternative financial services, such as investment (both collective and individual), risk pooling, financial consulting, brokering, money transmission, and check cashing.

- They are also sometimes called OFIs (Other financial Institutions) for instance in the monitoring report from the Financial Stability Board.
Examples of NBFIs

- Broad variety institutions
  - credit unions and credit cooperatives
  - consumer loans providers
  - mortgage lenders
  - digital credit providers
  - various fund-type-institutions
  - microcredit institutions
  - peer-to-peer lenders, etc.
Why do supervisors care?

OFI assets\(^1\)

21+EA-Group

Financial assets of OFIs

<table>
<thead>
<tr>
<th>USD trillion</th>
<th>Per cent</th>
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<tbody>
<tr>
<td>0</td>
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<td>10</td>
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<td>110</td>
<td>100</td>
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<tr>
<td>120</td>
<td>110</td>
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</tbody>
</table>

Growth rate in 2017

LHS: USD trillion  
RHS: % of total financial assets

\(^1\) Some exchange rate effects have been netted out by using a constant exchange rate (from 2017).
Sources: Jurisdictions’ 2018 submissions (national sectoral balance sheet and other data); IMF *World Economic Outlook*; FSB calculations.
"Global cooperation is needed to safeguard the significant gains achieved over the past decade in strengthening the financial system and to resist pressure to roll back portions of the reform. Examples include... mitigating systemic risk from nonbank financial institutions through continued vigilance on the regulatory perimeter and filling data gaps."

"Regarding financial sector policies, the current risk-based approach to regulation, supervision, and resolution should be preserved (and strengthened in the case of nonbank financial institutions)"

"Further safeguarding financial systems - including... enhancing macroprudential oversight of nonbank financial institutions... remains vital in the context of continued monetary policy accommodation."
Credit Assets: Steady Growth of Investment Funds

Credit assets held by banks, ICPFs and OFIs

Credit assets held by selected OFI sub-sectors

Sources: Jurisdictions’ 2018 submissions (national sectoral balance sheet and other data); FSB calculations.
Selected Reasons for Regulation

- Impact on financial stability
  (taking into account all channels of possible contagion)
- Involvement of general public
- Position vis-à-vis banking sector
- Level playing field argument
IMF Activities towards NBFIs

- Mapping impact on global financial stability
- Providing guidance on activities in regulation and supervision
- Populating good practices through technical assistance
- Focusing FSAPs in direction of NBFIs
NBFIs & Regulation: Primary Scope

- Non-banking entities intermediating credit, using banking type products of lending and deposit taking and/or their close substitutes
- Funded directly or indirectly by general public
- Individually or collectively have potential to influence trust in the financial system in a particular jurisdiction
- Proprietary providers & funds structures
What are basic factors that should be taken into account?

- Significance for economy
- Share on credit intermediation
- Potential to influence lending and deposit taking activities
- Specific roles in money supply and demand
- Cross-market and cross-jurisdiction aspect
- Social and environmental impact
What types of regulation and systemic measures should be considered?

- Enhanced cooperation of supervisors
- Microprudential
- Crisis preparedness
- AML-CFT
- (Central) Credit registry, other cross sectoral registries
- Macroprudential
- Cyber security and data protection
- Sustainability framework
Development of Regulatory Framework

**Collection of Data**
- Regulatory reporting
- Regulatory surveys
- Macroeconomic data
- Registries
- Public databases

**Assessment**
- Market position
- Role in economy
- Source of funding
- Sustainability of business model
- Social and environmental impact

**Framework Design**
- Macroprudential
- Microprudential
- AML-CFT
- Cyber security and data protection
- Crisis preparedness
- Credit registry
- Sustainability

**Evaluation**
- Appropriateness of selected approaches
- Calibration of systemic measures
- Data robustness
So, how does your NBFIs sector look like?

..or supervisors? 😊

Defeat the Experts.
Market-level Assessment

- **Market position**
  - Market share
  - Growth rates
  - Exclusivity, etc.

- **Role in economy**
  - Retail: Short-term consumption or long-term needs
  - Corporates: Specialized/project or general lending

- **Source of funding**
  - Interconnectedness with banking system
  - Involvement of general public
  - Stability of funding, etc.

- **Sustainability of business model**
  - Ability to generate acceptable returns over forward-looking period of more than three years, in context of specific market situations

- **Social and environmental impact**
  - Social and environmental risks seen as source of financial risks
  - Direct and indirect transmission
Macroprudential: Approaches and Tools

- General public
- Industry professionals
- Product parameters
- Institutions structures and sizes
- Cross-sectoral approaches
- Qualitative
- Quantitative

Communication

Limits

Buffers and Surcharges

Sustainability Framework

Public warnings, blogs, reports... different media formats... timing...

Top managements, specific business lines... soft massages... setting hard lines...
NBFI prudential regulation \approx bank prudential regulation?

Simplified/specific framework

Bank-type regulation
### Microprudential: Approaches and Tools (i)

<table>
<thead>
<tr>
<th>Licensing, permissible activities</th>
<th>Prudential requirements</th>
<th>Market conduct and consumer protection</th>
<th>Consolidated supervision</th>
<th>Reporting and disclosure</th>
</tr>
</thead>
</table>
| • (i) Suitability and financial strength of major shareholders and suitability of ownership structure  
(ii) Minimum initial capital requirement  
(iii) Fit and proper requirements for the board members and senior management  
(iv) Appropriateness of the system of governance  
(v) Strategic and operating plan | • (i) Corporate governance and internal controls  
• (ii) Risk management  
• (iii) Capital and liquidity requirements | • Acting honestly and fairly towards clients supports long term sustainability of their businesses and contributes to financial stability | • (i) Multi-tier structures  
• (ii) Mixed activity groups  
• (iii) Cross-boarder activities | • (i) Adjusted banks prudential reporting templates  
• (ii) Transaction-based reporting  
• (iii) Disclosure |
Microprudential: Approaches and Tools (ii)

Proprietary provider

- (i) Independence
- (ii) Accountability
- (iii) Credibility
- (iv) Adequate resources
- (v) Strong regulatory capacity
- (vi) Balance between complexity and effectiveness of the structure

Fund structure

- (i) Good understanding of NBFI’s risk profiles and market conditions
- (ii) Flexibility and efficiency of supervisory tools
- (iii) Strong, consistent and transparent enforcement

Supervisory structure

- Supervisory approaches and enforcement

- Communication policy

RISK BASED SUPERVISION
Risk Based Supervision: Challenges

- Methodological alignment with other institutions (specifically banks), in common risk areas
- Capturing specific risks
- Calibrating modified risk matrix
- Availability of data
Other Areas of Fostering Frameworks: Priorities?

- AML-CFT
- Cyber security and data protection
- Crisis preparedness
- Central bank operations
  - (i) Payment system access
  - (ii) Liquidity support
  - (iii) ELA
- (Central) Credit registry
- Other cross sectoral data reporting
- Sustainability Framework
- Fintech
Fintech Challenges

- Regulation: • Relation to existing regulatory framework
- Supervision: • Capacity building, new tools and approaches
- Technology: • Integration readiness of existing systems
- Investment: • Money and resources need to be invested
- Business: • New business models
Selected Fintech Risks

- Cyber security risks
- AML/CFT risks
- Technological chaining (IT) services risk
- Concentration/fragmentation risk
- Market systemic risk (new system integrators)
- Market fragmentation risk
### Additional Fintech Layer

<table>
<thead>
<tr>
<th>Microprudential</th>
<th>AML/CFT</th>
<th>Macroprudential</th>
</tr>
</thead>
</table>
| **Authorization** | • New activities  
• New providers  
• Modifications in current practices | | |
| **Business models, prudential risks** | • Impact on viability of current business models  
• Governance issues  
• Frequency and severity of prudential risks  
• New forms of prudential risks | | |
| **Consumer and conduct issues** | • New typology of issues  
• Fast propagation of issues  
• Cross-boarder dimension | | |
| **Cybersecurity** | • Increased significance  
• Systemic nature | | |
| **AML/CFT** | • News channels for ML and FT  
• Risks in weakening regulatory safeguards | | |
| **Macroprudential** | | • Increase in complexity of risks  
• Predictability of effects | |

INTERNATIONAL COOPERATION
Your views and experiences?

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Thank you for your kind attention!

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