



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Report on Financial Structures details structural changes in the euro area financial sector

- New ECB report covers banks as well as other financial intermediaries
- Banks, insurance companies and pension funds in largest euro area economies exposed primarily domestically
- Consolidation and rationalisation in the banking sector continued in 2014, and the median Tier 1 ratio increased to 14.4% from 13%
- Insurance companies and pension funds are starting to adjust structurally to low yield environment
- Shadow banking sector continues to grow mainly on account of an expanding investment fund sector

The European Central Bank has today published the Report on Financial Structures (RFS) 2015. The RFS succeeds the Banking Structures Report (BSR) and covers not only the banking sector, but also other financial intermediaries, such as insurance corporations and pension funds (ICPFs), as well as non-bank and non-insurance financial intermediaries.

Looking at interconnectedness across different parts of the financial sector, the report shows that banks and other financial intermediaries (OFIs) are the largest holders of loans. OFIs are also the largest counterparties. For debt securities, banks are both the largest holders and the largest counterparties. Banks and ICPFs in the largest euro area economies tend to be exposed primarily to banks and OFIs in their home countries with banks being particularly exposed to long-term debt, often issued domestically.

The on-going consolidation of the euro area banking system continued in 2014. This rationalisation process resulted in an overall improvement of efficiency in the system. The total number of credit institutions decreased further to 5,614 in 2014, down from 6,054 in 2013 and 6,774 in 2008, although this

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is partly explained by a reclassification of credit institutions in one big euro area country. Total assets of the euro area banking sector stood at €28.1 trillion on a consolidated basis at the end of 2014, reflecting a decline of 15.7% compared with 2008.

Concerning banks' liabilities and funding patterns, the gradual shift towards deposit funding came to a halt in 2014 and the use of wholesale funding stagnated in 2014. Banks nevertheless continued to reduce their reliance on central bank funding. Capital increases resulted in an increase in solvency and a reduction in leverage ratios. More specifically, the median Tier 1 ratio increased to 14.4% in 2014 from 13.0% in 2013.

These developments confirm the trend towards a more traditional banking business model. At the same time, several euro area countries need to take further steps to tackle the problem of increasing non-performing loans in order to free up bank capital and boost credit expansion.

Assets of euro area ICPFs have grown steadily in recent years, with a strong concentration of total assets in a relatively small number of countries. The high exposure to fixed income assets and the long-term nature of liabilities expose ICPFs to the current low yield environment. The structural adjustment to the low yield environment is starting with diversification into non-life and asset management businesses, lower guaranteed rates on new policies and the use of interest rate derivatives. The profitability of the insurance sector has been constrained by the low-yield environment and weak macroeconomic conditions. The solvency positions of the life and non-life insurance sectors are, however, well above the Solvency I requirements.

Regarding the euro area non-bank financial sector, often labelled the "shadow banking sector", the analysis shows that this sector has continued to grow over the past year, driven primarily by investment funds. Euro area money market funds expanded as well in volume terms, following a protracted period of decline which started in March 2009. By contrast, the number of euro area financial vehicle corporations has continued to decline over the past year owing to continued weak loan origination and securitisation activity by euro area credit institutions.

The report is available on the [ECB's website](#).

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