

**2023 Global Financial Stability Conference**

# **The Current Status and Risk Factors of Non-Bank Financial Intermediation**

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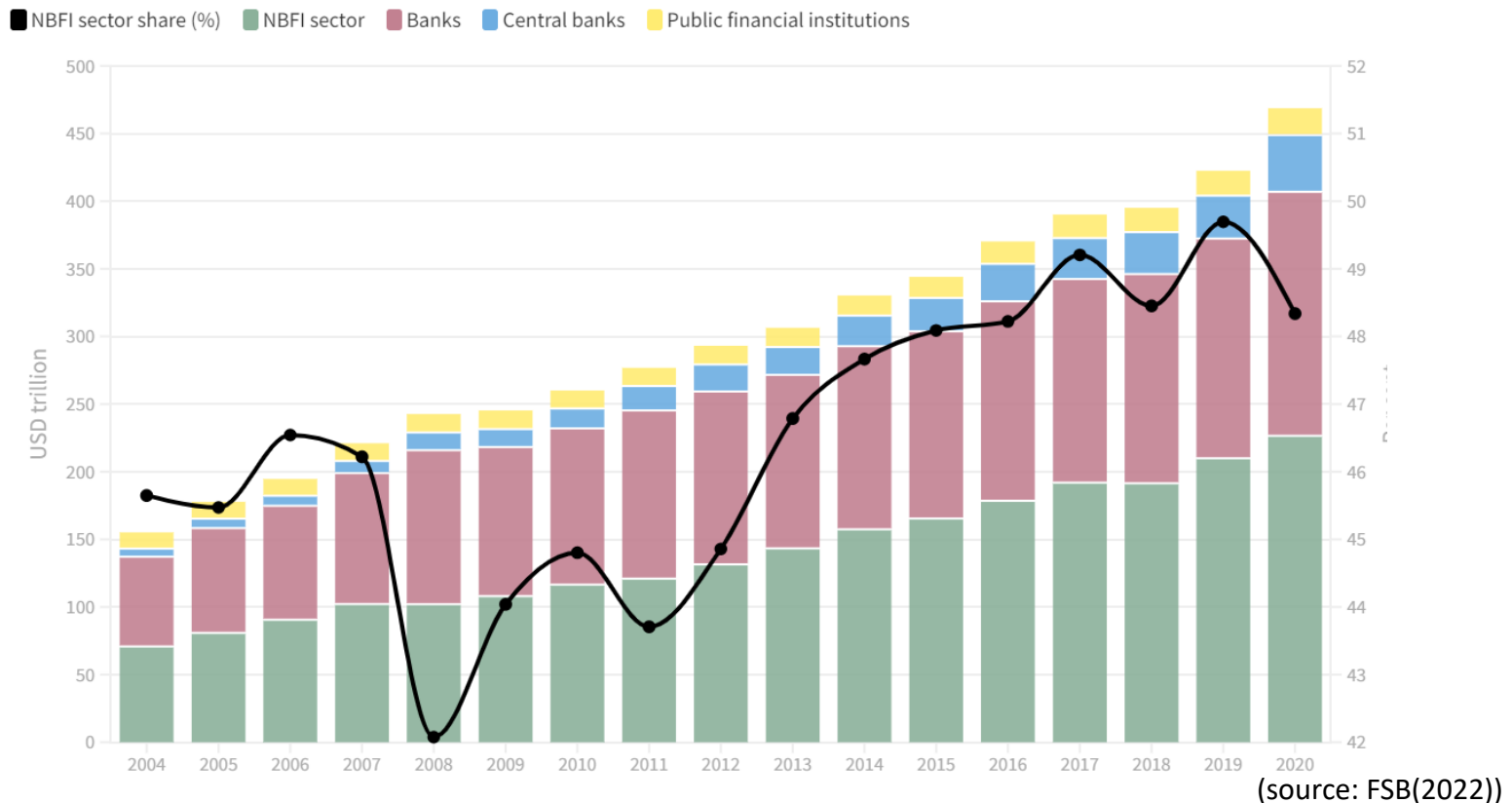
Seoul, September 20, 2023

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# The Growth of NBFIs sector after the GFC

- The financial assets of the NBFIs sector accounted for **49.2% of the global financial system in 2021**, compared to 42% in 2008
  - › The US treasury market turmoil in March 2020
  - › The Gilt market incident in September 2022



# Narrowing down to the narrow measure

- The NBFIs : a broad measure of all non-bank financial entities
- **Other financial intermediaries (OFIs)**: NBFIs except insurance companies and pension funds
- **The narrow measure of NBFIs**: NBFIs involved in credit intermediation

Composition of narrow measure	Size(\$ trn)	Share(%)
<b>EF1. collective investment vehicles</b>	51.6	<b>76.2</b>
EF2. lending dependent on short-term funding	4.6	6.8
EF3. market intermediation dependent on short-term funding	4.6	6.8
EF4. facilitation of credit intermediation, e.g. credit insurance companies	0.2	0.2
<b>EF5. securitisation-based credit intermediation, e.g. ABS</b>	5.1	<b>7.5</b>
Other financial auxiliaries	1.7	2.4
Total	67.8	100

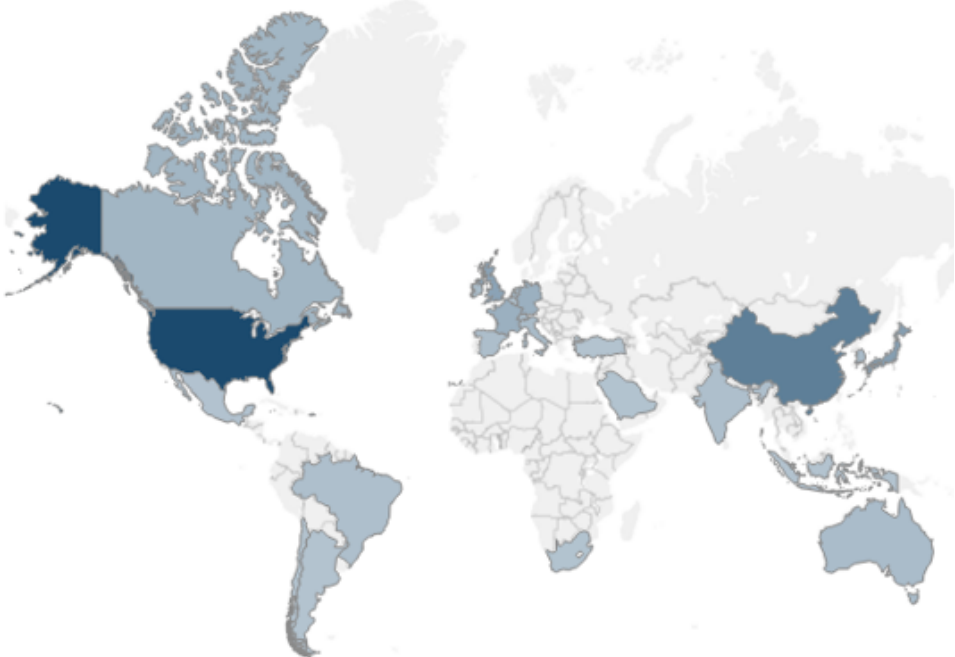
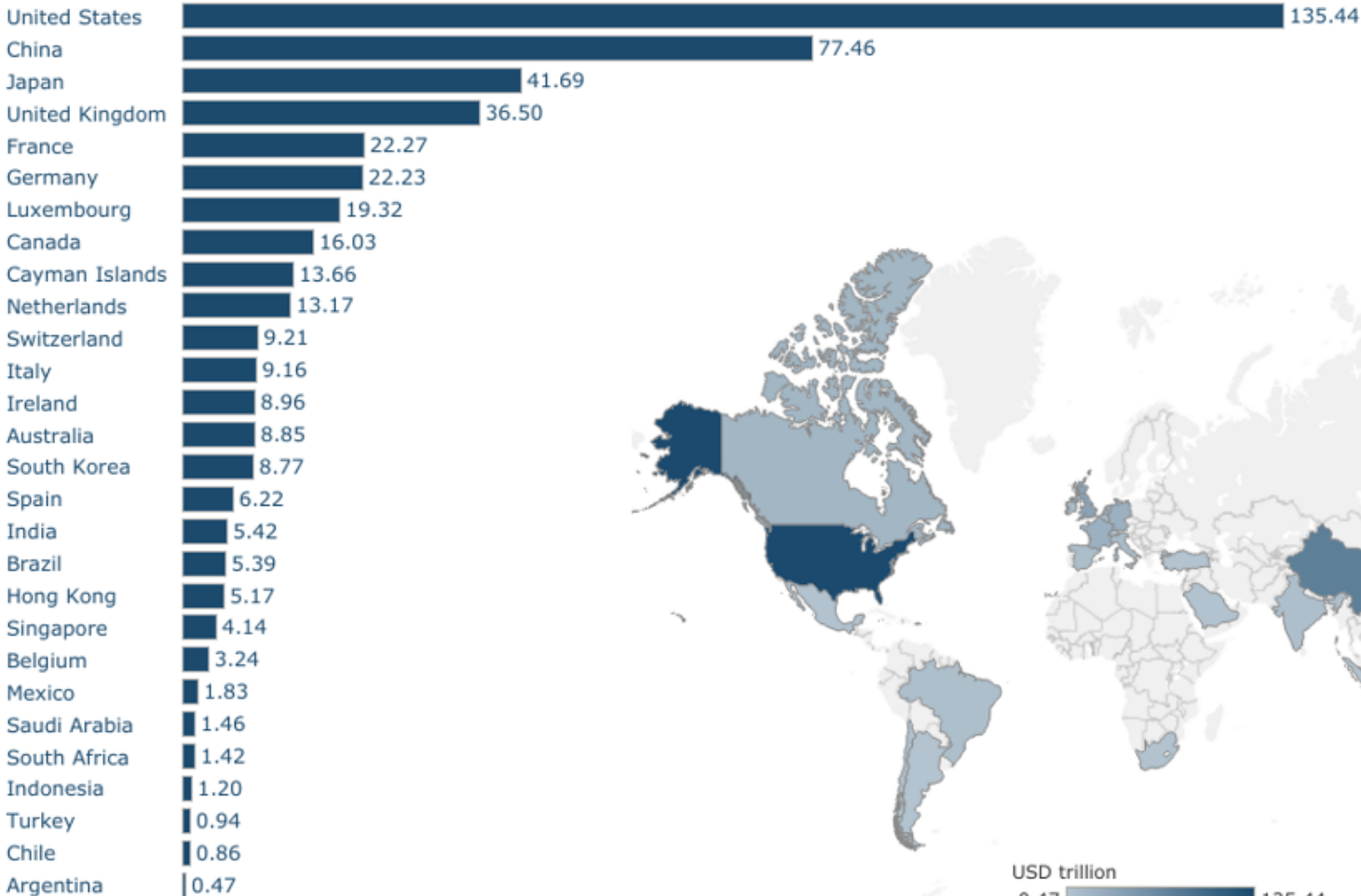


(source: FSB(2022))

# Total financial assets by jurisdiction

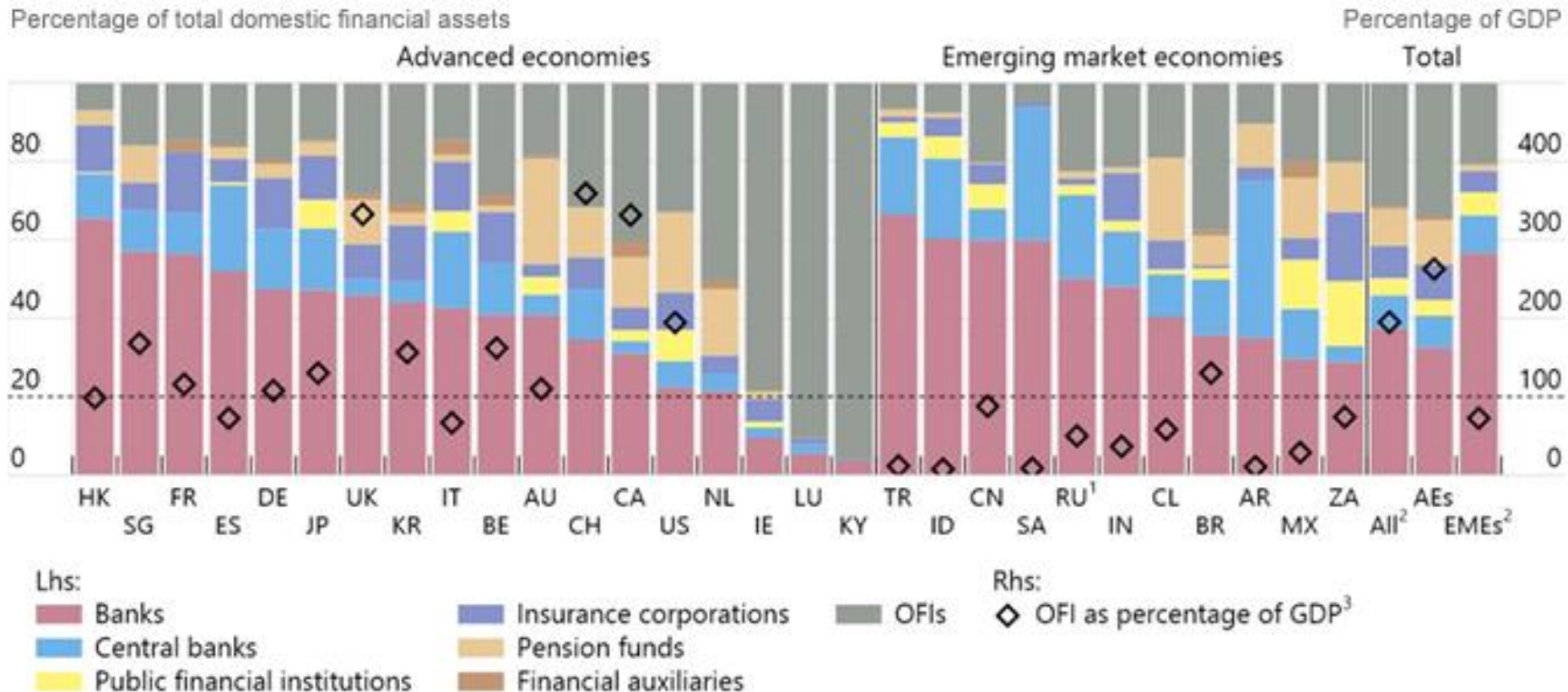
The share of **US(28%), China(16%), Japan(9%), U.K(8%), Korea(2%)**

Total Financial Assets for 2021 in USD trillion



# The structure of the financial system by jurisdiction

- Share of **banks**: US(22%), China(60%), UK(46%), Korea(44%)
- Share of **pension funds**: US(20%), China(0.3%), UK(11%), Korea(3%)
- Share of **NBFIs**: US(62%), China(26%), UK(50%), Korea(51%)



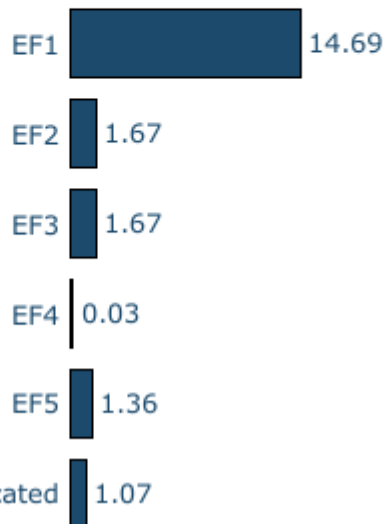
# The composition of narrow measure

- EF1(collective investment vehicle): US(71%), UK(60%), Korea(30%), Global(76%)
- EF3(market intermediation): US(8%), UK(9%), Korea(31%), Global(7%)
- EF5(securitization-based): US(7%), UK(8%), Korea(19%), Global(8%)

**United States**  
Narrow measure of NBF  
2021

**20.5**  
USD trillion

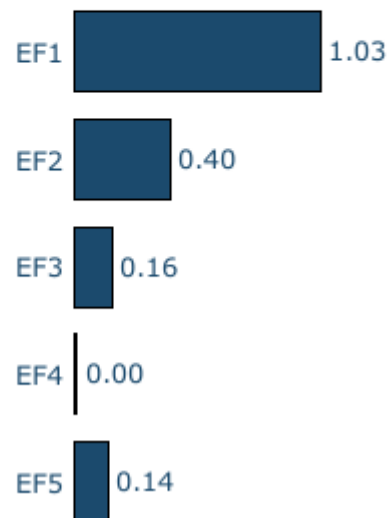
Economic Function breakdown



**United Kingdom**  
Narrow measure of NBF  
2021

**1.7**  
USD trillion

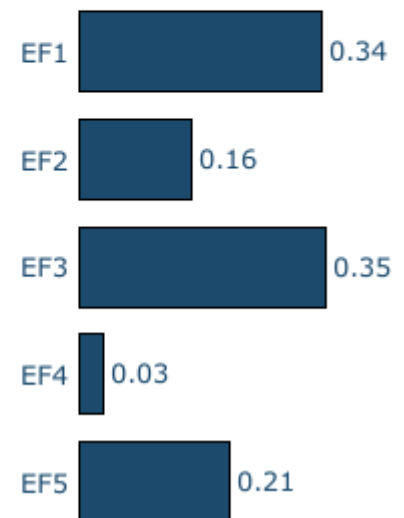
Economic Function breakdown



**South Korea**  
Narrow measure of NBF  
2021

**1.1**  
USD trillion

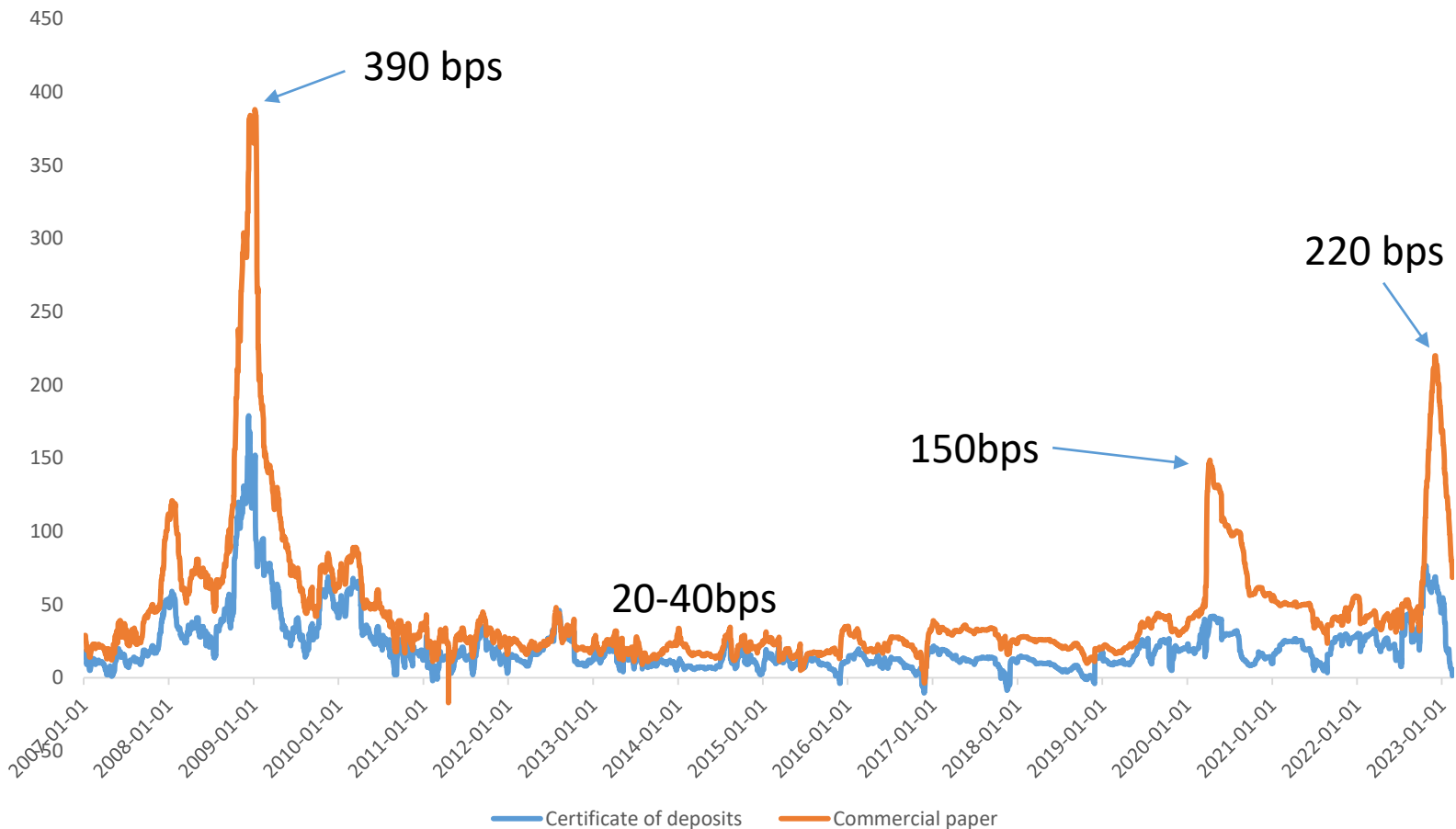
Economic Function breakdown



# The recent stress in NBFIs of Korea

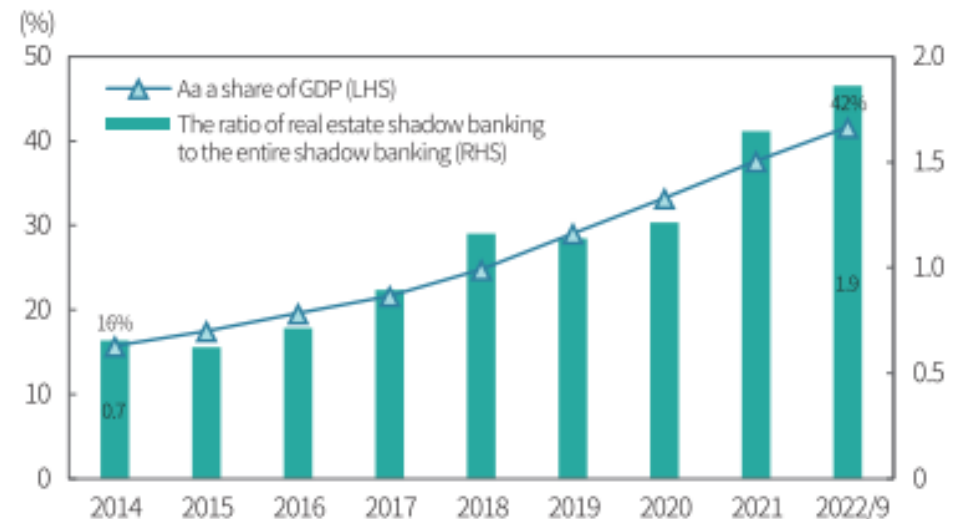
- Financial stress emerged in Korea's debt and money markets in October 2022 amid **tightening financial conditions** and **falling property prices**.

Three-month Money Market Spreads (bps)



# Korea real estate project financing(PF) and NBFIs

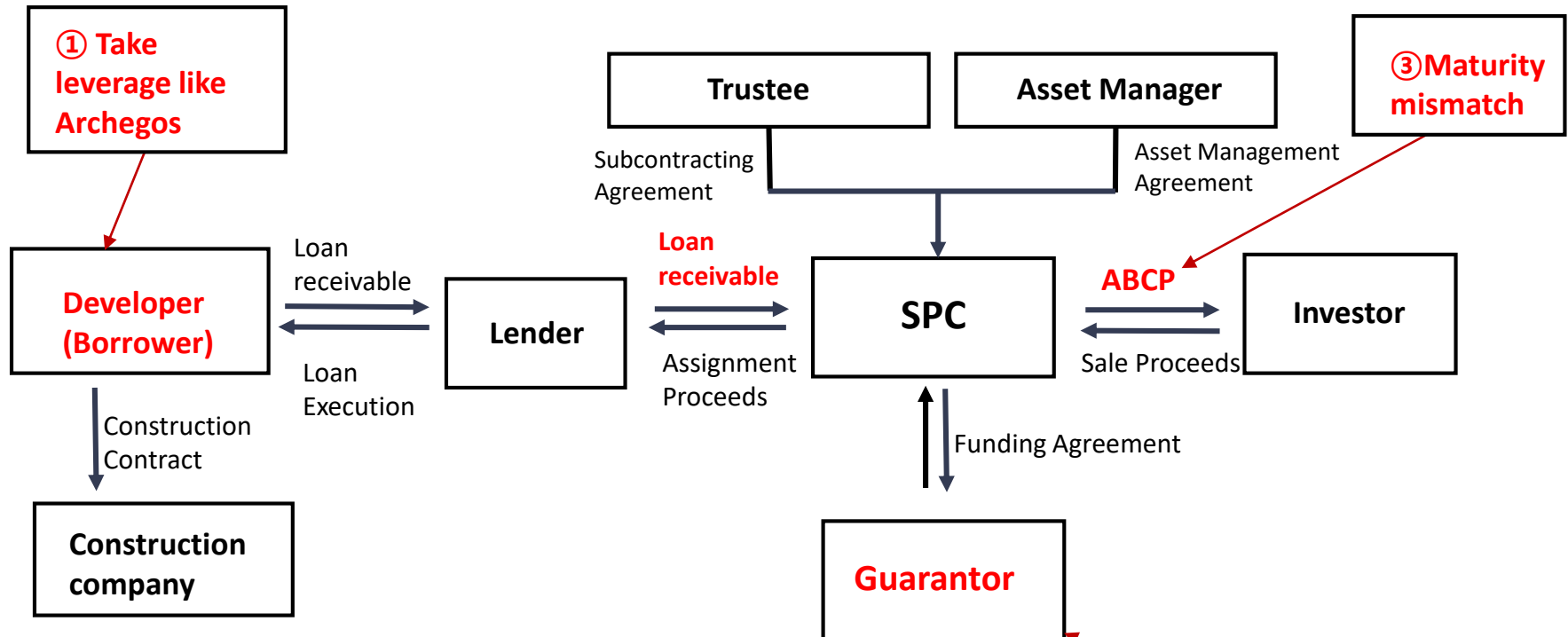
- At the end of 2014, **real estate related NBFIs** accounted for 16% of GDP, but by September 2022, it had risen to **42% of GDP**.
  - Real estate NBFIs accounted for **62%** of total NBFIs in Korea at the end of 2021.
1. **High profitability** of residential property development due to **high concentration of Seoul metropolitan area**
  2. **Low preference** for **collective investment vehicles**
  3. **Low demand** for **investment banking** in the **Chaebol-centered corporate structure**



(source: Korea Capital Market Institute)

# PF loan securitization process in Korea

## <Structural Vulnerabilities>



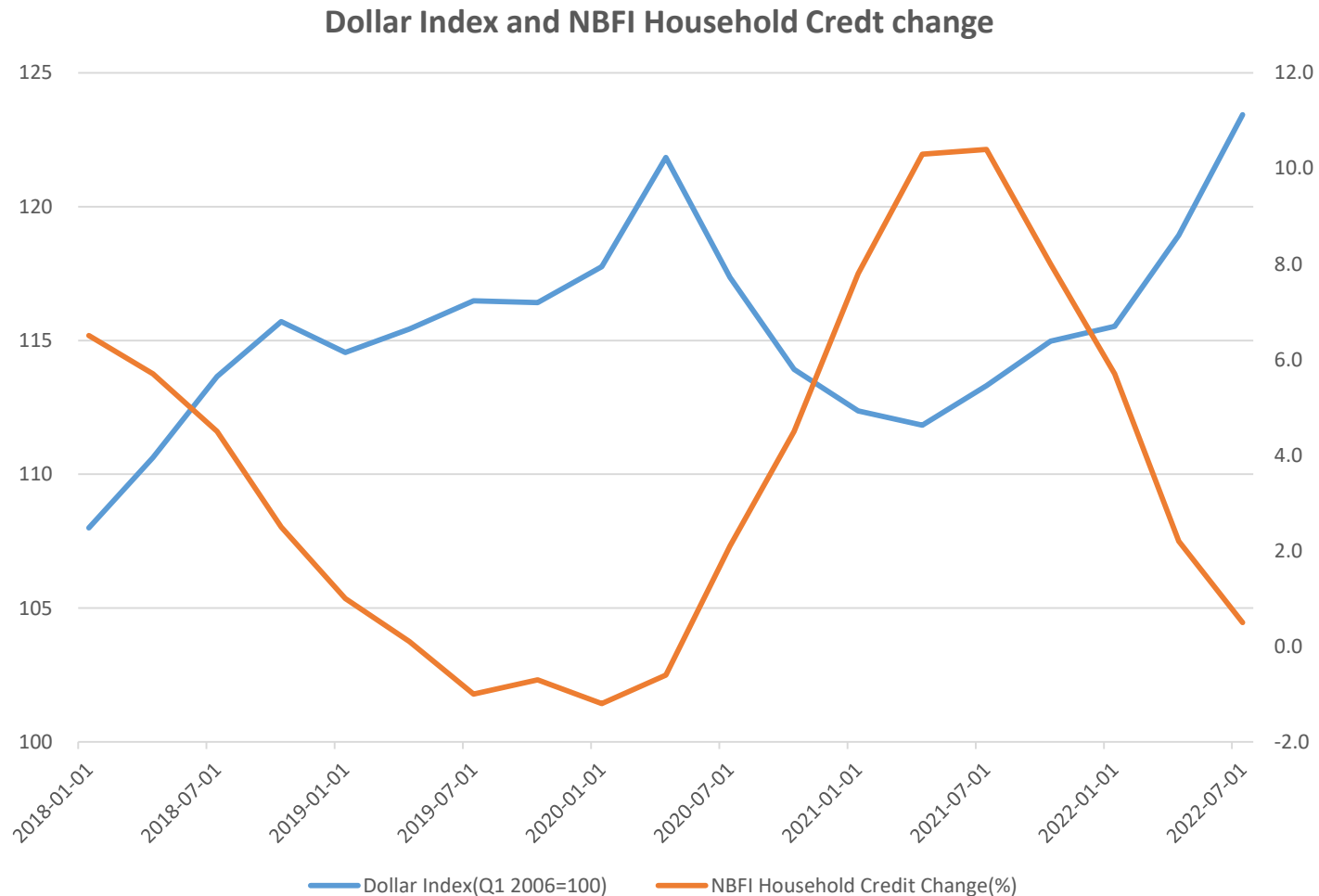
## <Triggers>

- ① Tightening global financial market
- ② Falling real estate price
- ③ The withdrawal of local government guarantees

② Sell guarantees like AIG

# Korea NBFIs activities and dollar index

- Korea NBFIs activities have fluctuated with **global financial conditions** as measured by the broad dollar index.



(source: Board of Governors of the Federal Reserve System, Bank of Korea)

# Key takeaways

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- The financial system is constantly changing in response to demand, innovation, and regulatory incentives.
- 1. NBFIs account for **almost half of global financial assets**, their behavior has evolved to **become more diverse** and **unpredictable**.  
**e.g.** leveraged short positions in US Treasury futures by hedge funds
- 2. Each country has **unique NBFIs ecosystem** and **structural vulnerabilities**. Regulators need to ensure that NBFIs are resilient through **effective intermediation**, even in times of **stress**.  
**e.g.** Korea's PF loan securitization market
- 3. Each country's financial situation is nevertheless affected by **global liquidity**. A contraction in global liquidity could trigger financial instability by undermining the structural vulnerabilities of each country.