Discussion of “Growth of Non-Bank Financial Intermediaries, Monetary Policy, and Financial Stability”, by Loriana Pelizzon, Riccardo Mattiello and Jonas Schlegel

By Nicola Cetorelli[1]

1 Introduction

I would like to commend Loriana and her co-authors for producing a paper that tackles an objectively challenging topic. Their task was to analyze the growth of non-bank financial intermediaries (NBFIs) while simultaneously addressing the implications for financial stability and monetary policy. The authors have succeeded in delivering a contribution with such broad scope, yet exhibiting considerable analytical depth. This is a paper I intend to revisit frequently, and I wholeheartedly recommend it to scholars of financial intermediation as well as policymakers.

Given the wealth of material presented, I will offer a curated summary, highlighting elements of the paper that particularly resonated with me, in light of my own readings on the evolution of NBFIs. Loriana and her co-authors document a comparable growth trend for nonbanks in both the U.S. and the Euro Area while also emphasizing important structural differences. One notable distinction is Europe's comparatively stronger reliance on banks. This more bank-centric system results in a considerable number of nonbanks operating as subsidiaries within banking groups, a point I will revisit later in my remarks.

The authors compellingly also argue that the growth of NBFIs in Europe presents an opportunity to enhance both financial stability and monetary policy. In this regard, NBFIs can serve as a vehicle to mitigate an over-reliance on banks and to address the endemic market fragmentation present within the system.

Specifically concerning monetary policy, the authors highlight that the increasing complexity of the financial intermediation ecosystem brings a proliferation of transmission channels—many of which remain inadequately analyzed. However, the emergence of a set of more market-oriented intermediaries should provide an opportunity for achieving a more seamless transmission of monetary policy across the union. Further, by emphasizing the potentially critical role of NBFIs, the authors raise the significant question of whether these nonbank entities should be granted

[1] Nicola Cetorelli is Head of Financial Intermediation at the Federal Reserve Bank of New York. The views expressed in this discussion are those of the author and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.

access to central bank liquidity. The rationale behind this proposition is that such access could bolster their overall stability and enhance their capacity to act as effective conduits for a cohesive monetary policy transmission. I appreciate the authors for addressing this crucial issue, which undoubtedly represents a central concern in discussions surrounding NBFIs—a point I will revisit in my discussion.

2 Looking for common principles

As I contemplated how to structure my remarks, a recurring thought emerged: there is an inherent intellectual dissatisfaction with the term "Nonbank Financial Intermediaries." While the acronym NBFIs conveniently encapsulates a diverse array of entities, it defines an economic concept negatively—essentially categorizing any financial intermediary that is *not* a chartered banking institution. This creates a set that lacks well-defined boundaries, making it challenging to identify commonalities. I appreciate Loriana and her co-authors for their ability to maintain coherence and deliver insightful analysis despite this challenge.

With this in mind, I believe it is beneficial for an audience interested in this inherently complex system to approach my comments from a complementary perspective before returning to the primary areas covered by the paper. Specifically, I propose that we step back and start from the most basic, yet fundamental questions: Why do NBFIs emerge in the first place? What sustains their growth? While these may initially appear to be trivial inquiries, my goal is to demonstrate that they underpin significant economic principles. And thus the hope is that by starting by identifying common economic forces driving the existence and growth of NBFIs, we might be able to develop a unified, and in fact jurisdiction-neutral perspective to help us interpret the observed evolution in both Europe and the United States – and the rest of the world for that matter - ultimately yielding coherent implications for financial stability and monetary policy.

2.1 NBFIs are naturally dependent on banks

With this premise established, I would like to propose one such guiding principles for this discussion: *Non-Bank Financial Intermediaries are inherently dependent on banks*. Let me elaborate on this point. We focus on financial institutions that are not banks but engage in intermediation activities. Financial intermediation, by definition, involves providing services that entail maturity and liquidity transformation (Financial Stability Board, 2011). Consequently, managing liquidity risk becomes a core aspect of an intermediary's business model, and we know that because of these features, intermediation activity is intrinsically fragile and unstable.

How do we know this? We can draw upon the experience of traditional banks. We have approximately 150 years of history of modern banking, indicating that banks have achieved relative stability largely due to their access to stable funding sources, primarily deposit accounts. Importantly, this stability is bolstered by societal guarantees, including insurance on a portion of that deposit funding. However, such guarantees typically prove insufficient on their own, necessitating integration with privileged access to emergency liquidity, through lender-of-last-resort facilities.

These observations, while straightforward, are critical for understanding the observed growth of NBFIs—financial institutions that engage in intermediation but lack access – at least from an ex-ante perspective - to liability guarantees or emergency liquidity facilities. This brings us back to our initial questions: How is this growth feasible? What facilitates this trend in the absence of essential stability components? The answer lies in the fact that NBFIs can buy the liquidity services necessary for their intermediation activities, and banks are ideally positioned to provide those services due to their stable business model.

This reasoning thus suggests a natural dependence of nonbank intermediaries on banks, leading to clear empirical predictions that should be testable in the data. Specifically, as NBFIs expand, we should also observe a corresponding increase in funding from banks to NBFIs, along with a relative shift in banks' focus from their traditional clients—non-financial economic agents—towards NBFIs themselves. Data supports these expectations; for example, in the United States, banks' liquidity support to NBFIs, in the form of committed lines of credit, has surged by over 300% since 2013, rising from approximately $500 billion to upwards of $1.5 trillion. This growth is not confined to a specific type of nonbank institution but appears consistent across the diverse entities encompassed by the NBFI acronym. Similarly, credit lines extended to NBFIs have accounted for an increasing share of total credit line provisions by banks (Acharya, Cetorelli, and Tuckman, 2024). Evidence of the growing significance of banks' support to NBFIs is also emerging in Europe, as reported, e.g., by the European Banking Authority (2024).

2.2 Revisiting growth trends and its implications

We can leverage this principle to return to the primary observations made by Loriana and her co-authors, providing useful complementary perspectives. Regarding growth trends, an important observation is that asset growth alone may not convey the full narrative. This growth, particularly in relation to banks, should not be interpreted necessarily as a substitution effect, where NBFIs replace banks as providers of intermediation services. Instead, if we concede that banks are at least in part behind that growth, then it follows that we might need to interpret growth patterns in a more holistic, integrated fashion. We might even consider the hypothetical counterfactual: in the absence of banks' support, would we witness the same growth trajectory?

Furthermore, acknowledging this interconnection allows us to expand on the implications for financial stability. One critical consideration is that overlooking this relationship may lead to an underestimation of banks' true risk exposures. A common argument posits that the growth of NBFIs, particularly in credit provision, reduces banks' exposure to high-risk activities. However, the reality may be that risks are actually transforming, with bank exposures shifting away from credit risk and increasingly towards liquidity risk (Acharya, Cetorelli, and Tuckman, 2025). Additionally, this interconnection introduces more channels for risk propagation and amplifies potential fire-sale dynamics (Cetorelli, Landoni, and Lu, 2023; Darmouni, Siani, and Xiao, 2025). In fact, banks themselves can become vectors of instability to the extent that they represent significant sources of liabilities for nonbanks.

Finally, I would like to return to the monetary policy considerations, particularly regarding the question of granting NBFIs access to central bank liquidity. Loriana and her co-authors meticulously weigh the benefits of enhancing NBFI stability—reducing market fragmentation and fostering a more homogeneous monetary policy transmission—against the well-recognized risks of incentivizing excessive risk-taking. However, let us even assume that it is possible to design a facility that provides emergency liquidity access while minimizing moral hazard. I would submit that invoking the principle highlighted earlier—that NBFIs are naturally dependent on banks—direct access to central bank liquidity would potentially trigger a series of unintended consequences. To start, this access may effectively sever the existing dependence on banks. While this outcome may appear beneficial, removing what is currently an exclusive privilege of banking institutions could at the same time undermine their uniqueness and special status, thus potentially leading to their debasement.

Yet, this may not be the end point. Banks would likely not remain passive observers in this scenario; instead, they might aggressively advocate for a *level playing field*, highlighting the burgeoning competition from institutions—like themselves now granted access to the same lender-of-last-resort privileges, yet not subjected to the same stringent prudential oversight and regulatory standards. As a result, the granting of NBFIs to central bank liquidity, for the purpose of achieving monetary policy objectives, may lead to an equilibrium resembling a race to the (regulatory) bottom, with potentially far more reaching implications, which may negate at least some of the original intended benefits.

Perhaps an alternative approach could be viable, and I return to my very first observation. If it is indeed true that a significant component of NBFIs exists within banking groups in Europe, we might leverage this prevalent model to enhance the nonbank footprint of Euro Area banking groups. This strategy could facilitate the best of both worlds: fostering the growth of specialized intermediaries that, as Loriana and her co-authors suggest, would support capital market development and promote EA-wide market integration, while simultaneously we would be ensuring that these intermediaries adhere to uniform prudential standards, which would be applied by virtue of their affiliation with banks. Such an approach would therefore address the observed, current situation in which NBFIs operate in Europe without consistent supervisory standards. Moreover, their liquidity needs could be internalized within the banking conglomerate. Notably, in the United States, for decades leading up to the global financial crisis, a significant nonbank presence existed within bank holding companies (BHCs), and interestingly, intermediaries that were subsidiaries of these BHCs were less reliant on central bank liquidity during periods of stress, due to their ability to exploit internal liquidity synergies (Cetorelli and Prazad, 2025).

In conclusion, I would like to clarify that my remarks do not purport a Ptolemaic view of the intermediation universe, with banks at the center and everything else revolving around them; rather, I recognize that the system is far more complex, but we must, however, prioritize the undeniably symbiotic relationship between banks and nonbanks. This relationship is not incidental; it constitutes a fundamental structural feature of an intermediation system. By focusing on this interplay, we may develop more insightful understandings of the dynamics at play.

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