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Joint Committee of the ESAs

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## Press release

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### EU Supervisory Authorities update on risks in EU financial system

The Joint Committee of the European Supervisory Authorities (ESAs) published today its bi-annual [report](#) on risks and vulnerabilities in the European Union's (EU) financial system. The report identifies a number of risks to financial stability in the EU, including prolonged weak economic growth in an environment characterised by high indebtedness, intensified search for yield in a protracted low interest rate environment, and uncertainties in global emerging market economies. The report also highlights risks related to conduct of business and Information Technologies (IT).

Since the previous publication in April 2014, the report brings into focus the fragile nature of the economic recovery within the EU, reflected in generally weak balance sheets, both at private and public level. One main concern is that the present benign market conditions may hide fragilities in a weak economic environment. In particular, the ESAs see further challenges in high indebtedness and low private sector credit growth and highlight the importance of continuing with structural reforms in order to improve competitiveness and to revive the lending channel.

The report says that while ongoing asset quality reviews and stress tests in the banking and insurance sector will present a clearer picture of asset quality and help improve the reliability of balance sheets of EU financial institutions, ongoing balance sheet repair and debt restructuring should remain a key priority going forward.

In relation to operational and business-conduct risks, the ESAs believe that detrimental business conduct by financial institutions, such as the mis-selling of financial products and benchmark manipulation, remains of substantial concern.

Andrea Enria, Chairperson of the Joint Committee and the European Banking Authority (EBA) said: "The Joint Committee has seen an improvement in overall market conditions, however this should not be taken for granted as a number of issues persist, including high indebtedness, low interest rates and geopolitical issues, which have the potential to undermine the recovery if not addressed."

Enria continued: "Another key area of concern is related to inappropriate behaviour and misconduct in the financial sector, which pose risks from both a consumer and financial stability perspective".

The report also points at increasing concerns over new IT-related operational risks and cyber risks. Both market participants and competent authorities have increased efforts to address these, but in some cases further understanding and recognition by supervisors and institutions may be necessary.

Regarding financing conditions, the sustained accommodative monetary policy and further measures taken by central banks were found to have contributed to improvements, although low interest rates resulted in pressure for insurers, pension funds and asset managers. In particular, the protracted nature of the low-interest-rate environment has intensified a search-for-yield behaviour from investors, thus exacerbating risks to asset valuations generated by the potential for a sudden reversal.

Finally, the report highlights the risk that EU financial institutions may be affected by political and economic uncertainties in a number of global emerging market economies, with special reference to the potential geopolitical risks in Ukraine and Russia.