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Press and Communications

Press release

European Supervisory Authorities highlight cross-sectoral risks

The Joint Committee of the European Supervisory Authorities (ESAs) published today its third bi-annual report on risks and vulnerabilities in the European Union's (EU) financial system.

The report has identified a number of potential vulnerabilities and cross-sectoral risks to the stability of the European financial system including:

- weak and uneven economic recovery;
- uncertain outlook in a number of global emerging economies;
- asset price imbalances and risks of a sharp adjustment;
- increased search for yield in a protracted low interest rate environment;
- conduct of business risks;
- IT-related operational risks.

Andrea Enria, Chairman of the EBA and current Chairman of the Joint Committee, said:

“The cross-sectoral risks identified in this report will help focus the scenarios of the stress tests for banks and insurance companies. Concerns about conduct of business are growing and will also require more coordinated attention by the three ESAs”.

The report highlights a fragile economic outlook in a number of EU Member States, with uncertainties about asset quality in the banking sector as well as in other institutional investor segments, and reduced growth potential in the insurance sector. Moreover, concerns have also emerged in relation to the uncertain political and economic outlook in a number of global emerging economies and, more recently, to the evolving situation in Ukraine and Russia, which may impact the EU through direct and indirect transmission channels, as well as expose institutions to FX risks.

In addition, the report focuses on risks associated with search for yield behaviour, which is incentivised by a low interest rate environment. Such behaviour has intensified concerns related to the build-up of imbalances and exacerbated risks linked to sudden interest rate changes, which may result in a disorderly unwinding of financial positions.

Furthermore, the report highlights risks linked to the conduct of business and points to series of cases related to financial institutions' conduct of business, which risk undermining public confidence in financial institutions and markets and which have been associated with significant

redress costs. In the report the ESAs recommend supervisors to place greater emphasis on management bodies' responsibilities to address conduct risks and ensure the appropriate protection of consumers and investors.

Notes for editors

The Joint Committee is a forum for cooperation that was established on 1st January 2011, with the goal of strengthening cooperation between the European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA), collectively known as the three European Supervisory Authorities (ESAs).

Through the Joint Committee, the three ESAs cooperate regularly and closely and ensure consistency in their practices. In particular, the Joint Committee works in the areas of supervision of financial conglomerates, accounting and auditing, micro-prudential analyses of cross-sectoral developments, risks and vulnerabilities for financial stability, retail investment products and measures combating money laundering. In addition to being a forum for cooperation, the Joint Committee also plays an important role in the exchange of information with the European Systemic Risk Board (ESRB).

The full text of the report can be viewed here: Report – [April 2014](#)