

BANCO DE ESPAÑA ASSESSMENT PROGRAMME

TERMS OF REFERENCE FOR THE EXTERNAL EVALUATION OF THE USE OF TECHNOLOGICAL INNOVATION IN THE PRUDENTIAL SUPERVISORY FUNCTION

Banco de España



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OF THE USE OF TECHNOLOGICAL INNOVATION IN THE  
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## 1 Introduction

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In accordance with the established legal framework, the functions of the Banco de España, and of the Directorate General Banking Supervision specifically, notably include those relating to the prudential supervision of credit institutions and other supervised institutions. The exponential development of technology has created new opportunities for supervisory authorities to be more proactive and efficient in performing their function. In this connection, the term *suptech*, broadly defined as the use of innovative technology (e.g. artificial intelligence and big data) by supervisory agencies to support supervision,<sup>1</sup> has gained traction in recent years.

Indeed, the use of innovative technologies has been deemed part of the drive initially prompted by the Strategic Plan 2024 to achieve its five strategic objectives, specifically in the initiatives geared towards developing a digital transformation programme and being recognised as a leader in prudential supervision, particularly in credit and technology risk. This aspect has been bolstered by the guidance resulting from the mid-term review of the Strategic Plan to boost digitalisation in all areas of the Banco de España.

One of the Directorate General Banking Supervision's priorities has been to promote technological innovation within the directorate, coordinating the development of *suptech* tools and enhancing, through training, the traditional expertise of supervisors with new competencies such as data analysis. In addition, the Directorate General Banking Supervision participates in the digitalisation agenda initiatives of the Single Supervisory Mechanism (SSM) and forms part of the different working groups set up in this regard, in an environment where the importance of this area is growing rapidly.

In light of this, an external evaluation of the adequacy of the Directorate General Banking Supervision's technological expertise and resources for performing its functions is particularly interesting, given the contribution that any resulting recommendations may make towards the attainment of the Banco de España's strategic objectives.

The purpose of this document is to define the terms of reference for the external evaluation of the adequacy of the technological expertise and resources for the performance of the prudential supervisory functions.

## 2 Terms and conditions

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The External Evaluation will be conducted by an Evaluation Committee comprising two renowned independent *suptech* experts: Jermy Prenio and Helen Packard.

The conclusions of the External Evaluation will be set out in an evaluation report to be submitted to the decision-making bodies of the Banco de España. The Evaluation Committee may be asked to appear before the decision-making body to which the conclusions of the External Evaluation are to be submitted,

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<sup>1</sup> See S. di Castri, S. Hohl, A. Kulenkampff and Jermy Prenio (2019). "The *suptech* generations", FSI Insights on Policy Management No 19, Financial Stability Institute, October.

in order to present its main conclusions and clarify any doubts.

The Evaluation Committee will conduct its work on the following terms and conditions:

1. **Independence and impartiality.** The Committee members will carry out their work independently and objectively.
2. **Timetable and deliverables.** The Evaluation Committee will begin its work in early 2023 and will deliver its report within nine months of acceptance of these terms of reference.
3. **Cooperation.** The Directorate General Banking Supervision of the Banco de España will provide the Evaluation Committee with all the necessary support and information. The Committee members may conduct online or face-to-face interviews with all Banco de España senior management and staff members whom they believe may be able to help them perform their tasks. They may also request information from other external sources if they consider it appropriate.
4. **Confidentiality.** The Evaluation Committee members shall treat as confidential all material and information they may obtain in the fulfilment of their duties that is not available to the general public, and shall refrain from making any public statements on the outcome of the External Evaluation without the prior authorisation of the Banco de España. They shall remain bound by this obligation even after the evaluation has concluded.
5. **Publication.** The evaluation will be subject to the publication criteria established in the evaluation programme guidelines. Its prior and/or subsequent dissemination will solely be limited by the confidentiality considerations applicable in each case.

### 3 Goal

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The scope of the External Evaluation shall comprise the critical review of suptech for performing the prudential supervisory functions of the Directorate General Banking Supervision of the Banco de España and of the adequacy of the technological expertise and resources for the performance of such supervisory functions as part of the SSM.

More specifically, the main goals of the External Evaluation consist in assessing and documenting:

- a) The alignment of the “Banco de España Suptech Strategy” with the digitalisation objectives in the Strategic Plan 2024 and the systems strategy (ETI24).
- b) The governance of the processes to develop and incorporate suptech (internal arrangements, coordination, processes and controls), including the provision of resources and the incentives

to innovate.

- c) The process to introduce new technologies into supervisory processes (identification, development, implementation, use, etc.).
- d) The maturity of suptech at present and in the medium term, considering the expected developments.
- e) The development of supervisory capabilities in the suptech arena. The training provided to supervisors on suptech and large-scale data processing, and other learning opportunities. The strategies for hiring and retaining professionals with suptech profiles.
- f) The coordination and interaction with the SSM in the suptech arena (this facet would be evaluated specifically, on the basis of information available at the Banco de España).