

XV ENCUENTRO FINANCIERO EXPANSIÓN KPMG

THE BANCO DE ESPAÑA'S ROLE IN ADDRESSING THE CHALLENGES POSED BY THE TECHNOLOGICAL REVOLUTION*

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* ENGLISH TRANSLATION FROM THE ORIGINAL IN SPANISH

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THE BANCO DE ESPAÑA'S ROLE IN ADDRESSING THE CHALLENGES POSED BY THE TECHNOLOGICAL REVOLUTION

1

Encouraging and helping banks to capitalise on their advantageous starting position to develop and invest in new technologies, all while upholding their commitment to financial inclusion



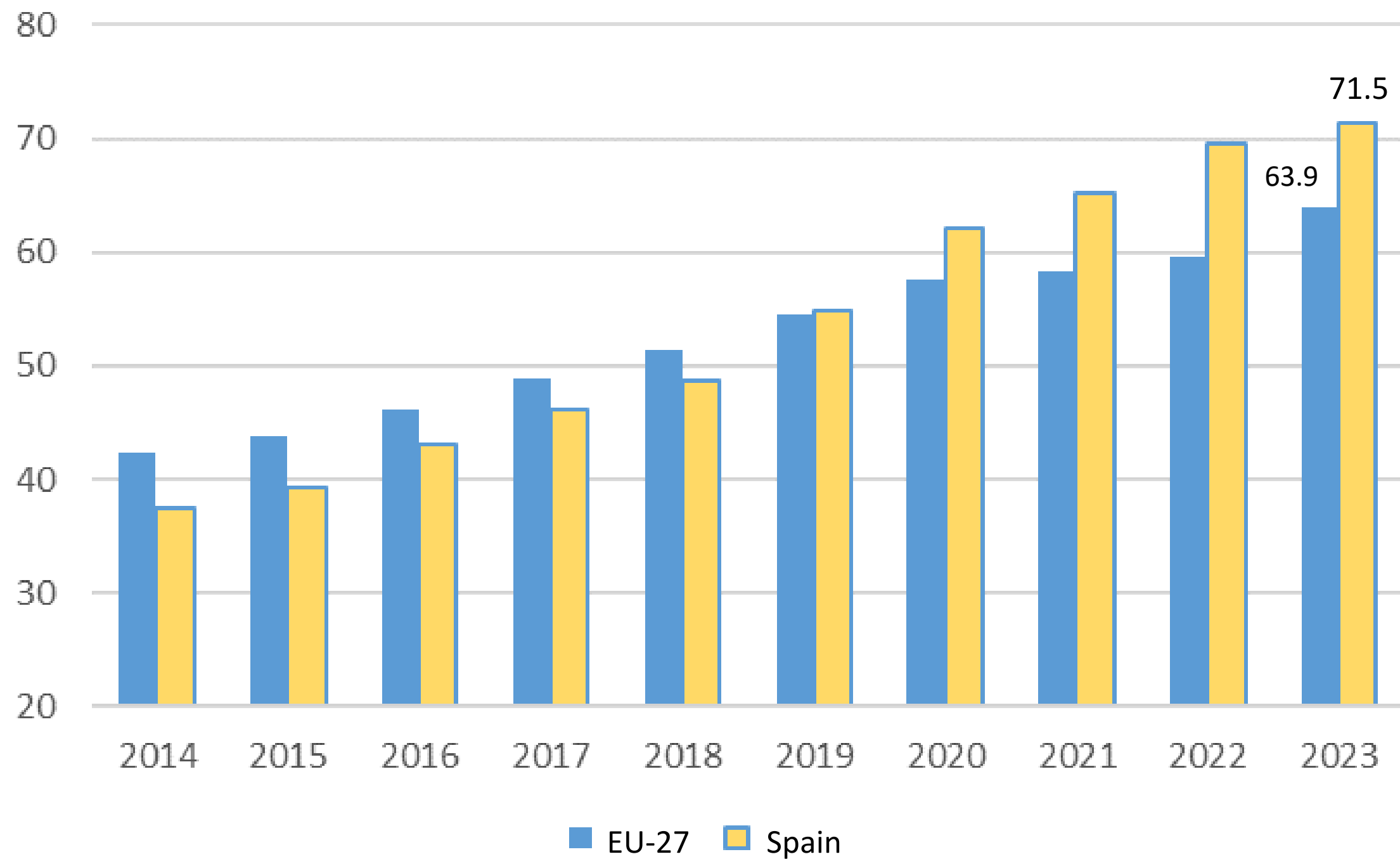
1. BANKS HAVE A VERY FAVOURABLE STARTING POSITION IN TERMS OF PROFITABILITY, SOLVENCY AND EFFICIENCY

	Last 10 years	2021-2023	2024 (first half)
CET1 ratio (%)	12.6	13.1	13.2
Cost/income ratio (%)	48.6	47.1	40.8
NPL ratio (%)	6.5	3.8	3.4
ROE (%)	8.1	11.5	13.1

SOURCE: Banco de España, consolidated data. NPL ratio data are for operations in Spain.

1. BANKS CAN USE THIS ADVANTAGE TO DRIVE DIGITALISATION AND PREPARE FOR THE EMERGENCE OF NEW COMPETITORS ...

Percentage of Internet banking users

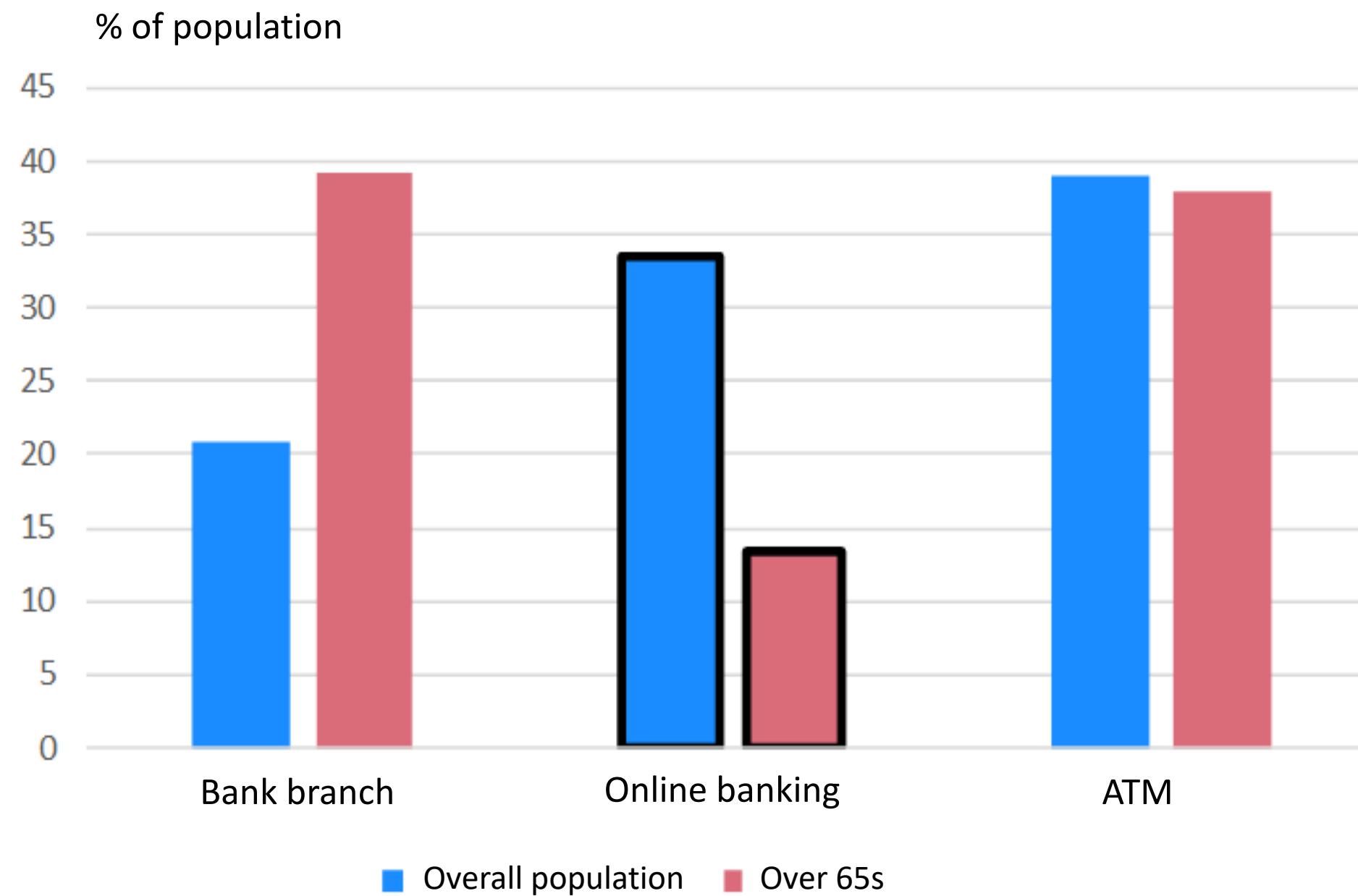


In Spain, the percentage of Internet banking users has nearly doubled in the last decade

SOURCE: Eurostat.

1. ... BUT SHOULD NOT LOSE SIGHT OF FINANCIAL INCLUSION

Most frequently used banking channel



SOURCE: Study on Cash Use Habits, Banco de España.

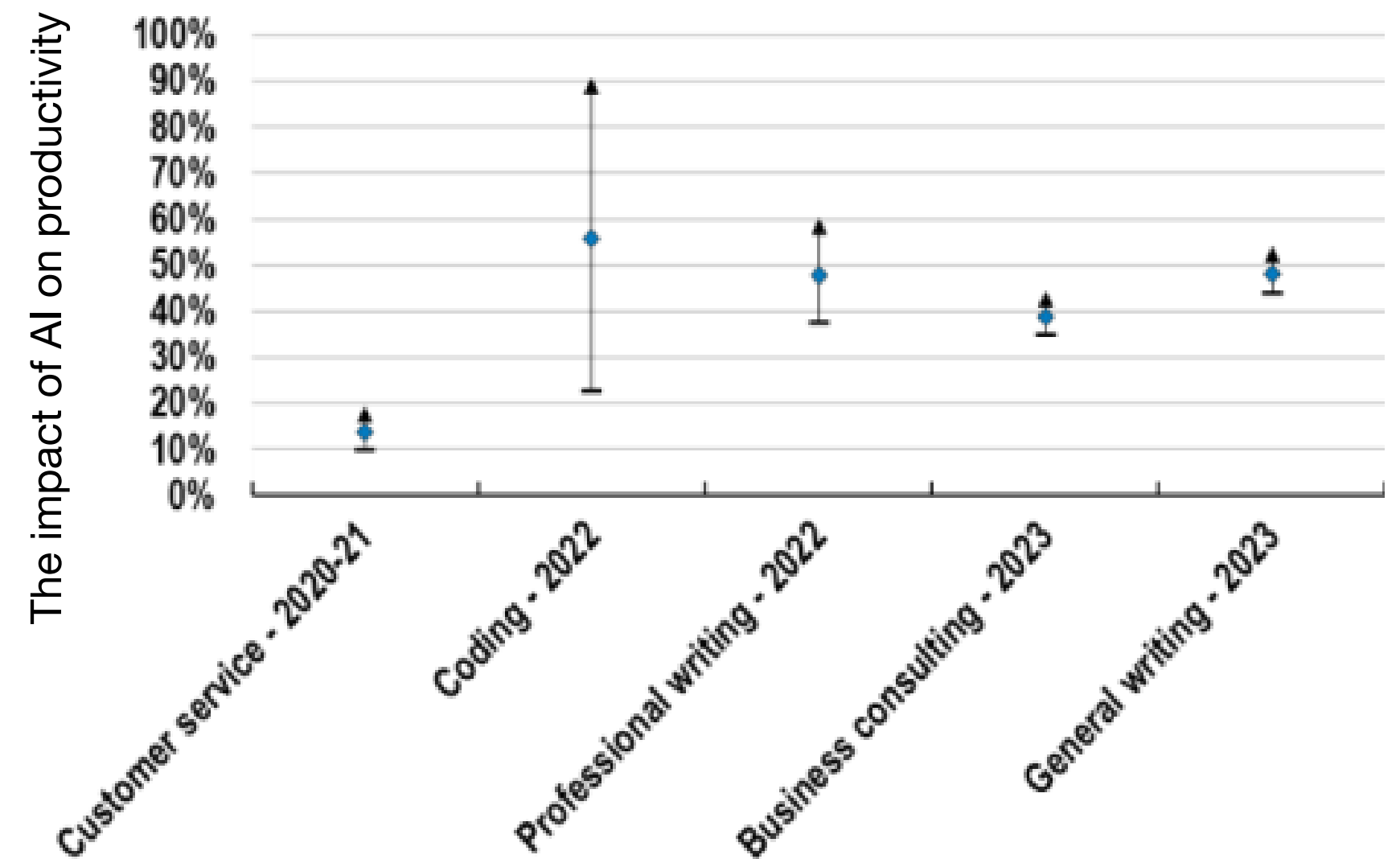
1. NEW TECHNOLOGIES SUCH AS AI COULD HAVE A SIGNIFICANT IMPACT

AI is a true disruptor, capable of generating synergies between existing technologies



- Impact on productivity
- Capacity to drive economic and social change
- Potential to reach multiple sectors

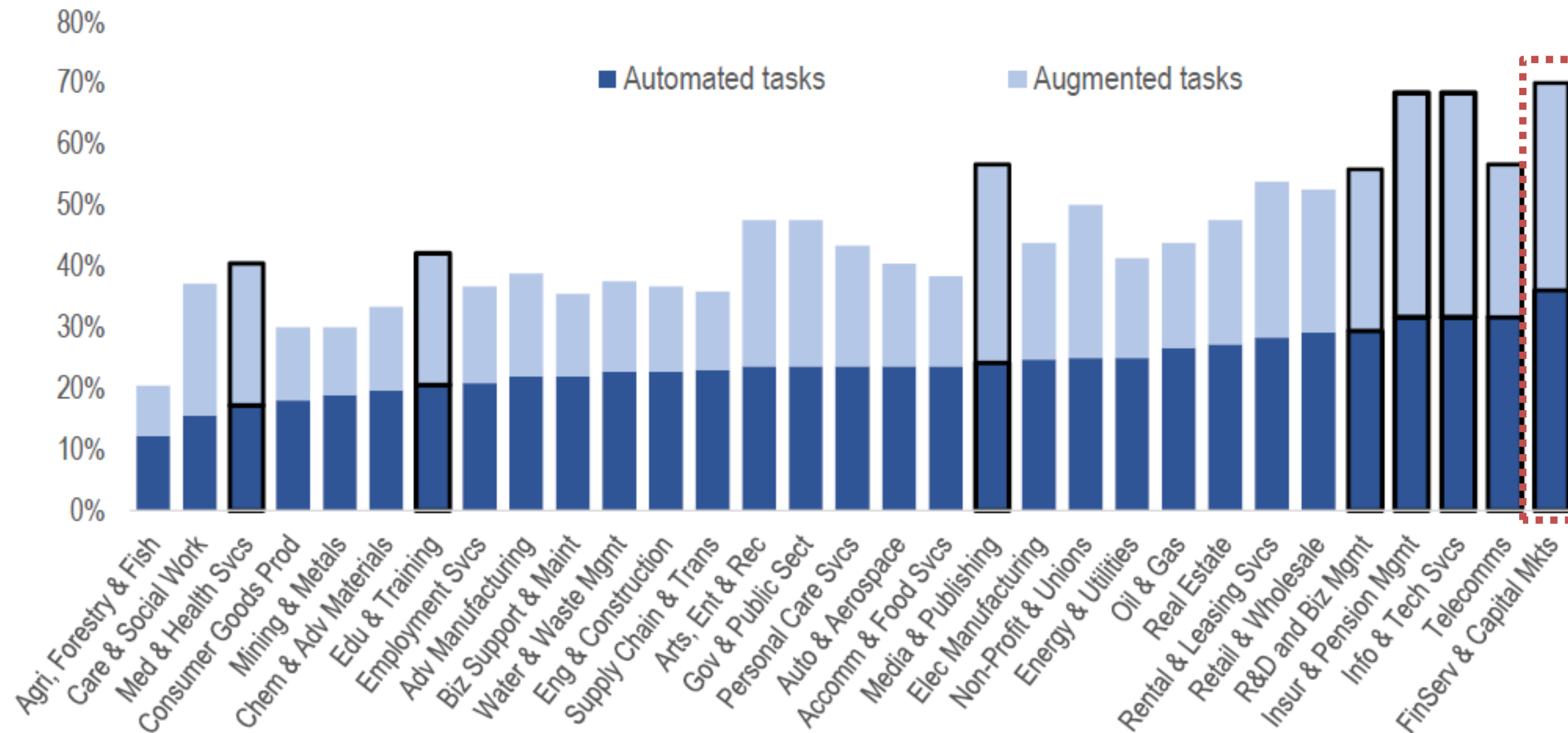
Generative AI
Worker-level studies



SOURCE: OECD (2024).

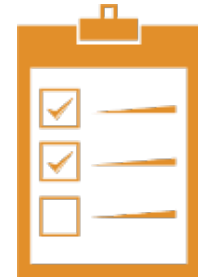
1. WITH VERY HIGH-QUALITY DATA, THE FINANCIAL SECTOR IS VERY WELL PLACED TO CAPTURE THE BENEFITS OF AI

Tasks that can be automated and augmented with generative AI, by sector
Percentage of total work time



SOURCE: WEF (2023).

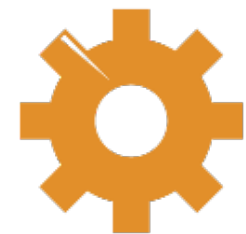
1. AI HAS POTENTIAL BENEFITS BOTH FOR THE FINANCIAL INDUSTRY AND, THROUGH IT, FOR OTHER SECTORS TOO



More efficient risk management, pricing improvements and improved capital and liquidity planning



Enhanced ability to detect and address cyber threats



Cost reductions and efficiency gains

In turn, banks can leverage AI in their relationships with customers



Personalisation and enhancement of the customer experience



Support in providing AI services and reducing costs for SMEs

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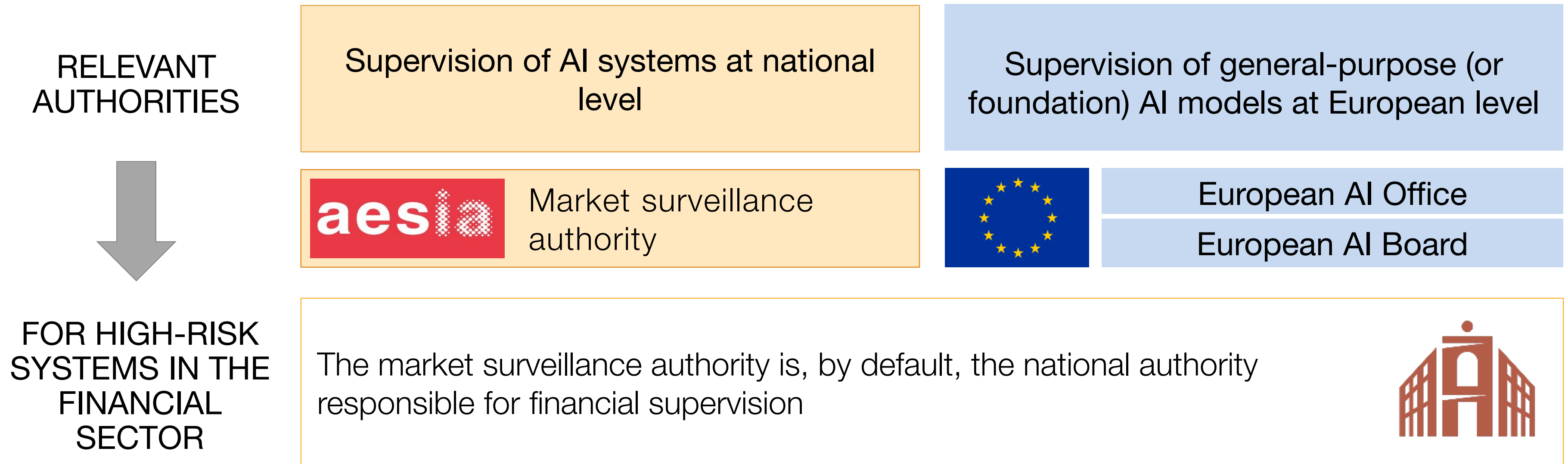
Encouraging and helping banks to capitalise on their advantageous starting position to develop and invest in new technologies, all while upholding their commitment to financial inclusion



2

Assisting in dispelling uncertainties in the regulatory framework, to allow banks to develop new technologies with every confidence

2. THE EU'S AI ACT GRANTS SUPERVISORY COMPETENCE FOR HIGH-RISK FINANCIAL MODELS TO THE NATIONAL AUTHORITY



From August 2024, the Act allows for one year to designate the relevant authorities and enters into force after two years

2. BANKS AND AUTHORITIES MUST PREPARE FOR THE WORKLOAD CREATED BY THE AI ACT RELATING TO CREDIT MODELLING SYSTEMS

High-risk AI systems: models that evaluate the creditworthiness of natural persons or establish their credit score

<p>Requirements prior to placing them into market</p>	<p>Self-assessment or third-party conformity assessment</p>	<ul style="list-style-type: none"> • Risk management • Data and data governance • Technical documentation • Record keeping • Data transparency and sharing • Human supervision • Accuracy, robustness and cybersecurity
<p>Surveillance once on the market</p>	<p>Banco de España</p> 	<ul style="list-style-type: none"> • Risk and incident monitoring, ad hoc reporting of any information of interest to the ECB

Limited or minimal risk systems: other AI systems developed in the financial sector

<p>Transparency requirements</p>	<ul style="list-style-type: none"> • Move towards foundation models and AI systems that comply with the Act's transparency requirements
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Ensuring that AI development is carried out in an ethical and risk-free way



3. AI ALSO ENTAILS RISKS, WHICH MUST BE MANAGED BY BANKS AND SUPERVISED BY THE AUTHORITIES UNDER THIS NEW FRAMEWORK

Potential risks (whether individual or systemic)

- Risk of herding behaviour owing to algorithmic convergence
- Misuse of or bias in models
- User data protection
- Models' lack of transparency and explainability
- Growth in cyberattacks

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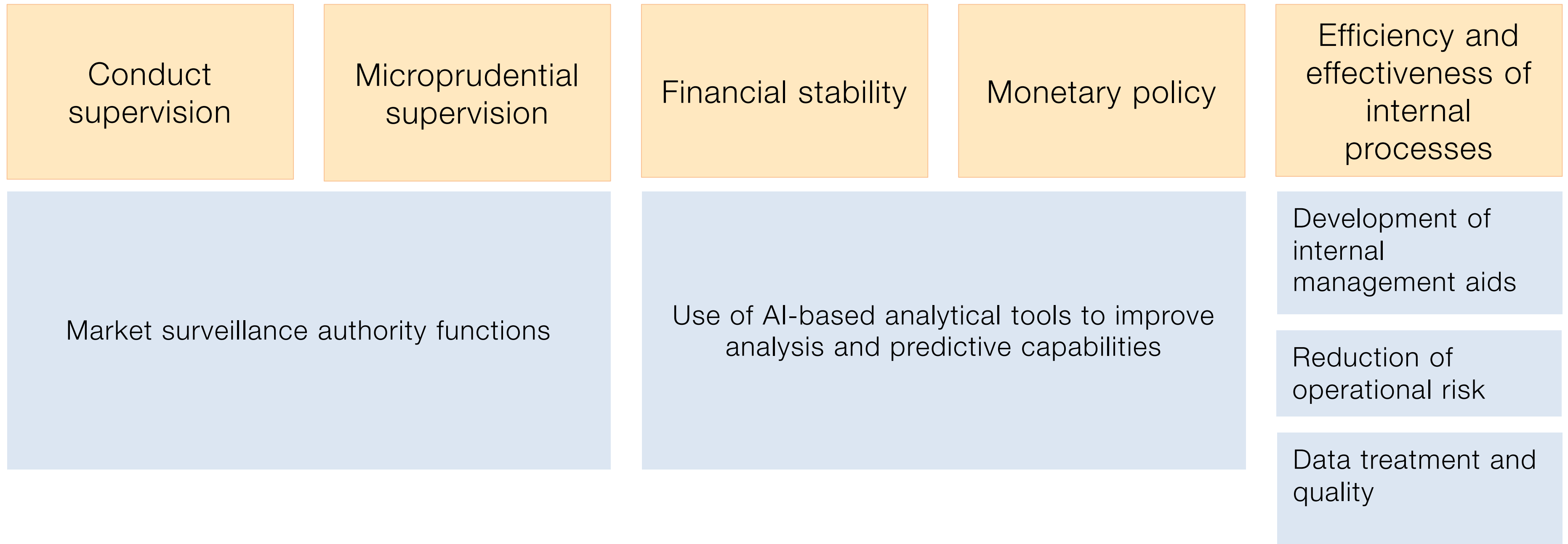
How can we do this?

- 4 Creating a cross-cutting group to develop the tools needed in various areas, including those for the market surveillance authority



4. THE BANCO DE ESPAÑA IS GOING TO CREATE A CROSS-CUTTING GROUP TO ADDRESS THE VARIOUS ASPECTS OF AI

Banco de España activities affected by AI



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- 4 Creating a cross-cutting group to develop the tools needed in various areas, including those for the market surveillance authority
- 5 Bolstering computational and human capital capabilities through agreements with key AI institutions



5. WE MUST WORK IN COORDINATION WITH THE INSTITUTIONS THAT HAVE THE MOST ADVANCED CAPABILITIES

Push to strike agreements with institutions that have computational and human capital capabilities and are able to develop ethical AI

Barcelona Supercomputing Center (Centro Nacional de Supercomputación)

Spanish Supercomputing Network

Spanish Artificial Intelligence Oversight Agency (AESIA)

Thank you
