

## BANCO DE ESPAÑA EVALUATION PROGRAMME

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# LETTER FROM THE GOVERNING COUNCIL ON THE EXTERNAL EVALUATION OF THE USE OF TECHNOLOGICAL INNOVATION IN THE PRUDENTIAL SUPERVISORY FUNCTION

### Banco de España

The report on the external evaluation of the use of technological innovation in the prudential supervisory function (suptech), conducted as part of the Banco de España's evaluation programme, was submitted to its decision-making bodies last November.

The external evaluation was conducted by an evaluation committee comprising two independent experts of recognised standing in the field of suptech: Jermy Prenio, Principal Advisor at the Financial Stability Institute of the Bank for International Settlements, and Helen Packard, Digital Transformation Strategist at the Financial Conduct Authority in the United Kingdom.

As part of the Banco de España's Strategic Plan 2024, in recent years the Directorate General Banking Supervision (DGBS) has been promoting technological innovation by developing suptech tools and enhancing supervisors' traditional expertise with new data science skills. In addition, the DGBS 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. The Banco de España was recently designated as an SSM suptech centre, enhancing its leadership and influence in this area. In this context, the external evaluation of the adequacy of the Banco de España's technological expertise and resources for developing and furthering the suptech function has proved especially useful.

In their report, the evaluators highlight the significant progress achieved in recent years. Among other aspects, they underline senior management's commitment to suptech and single out certain aspects that position the Banco de España ahead of other central banks and financial authorities, such as having in place an explicit suptech strategy and a formal process for identifying, exploring and developing suptech tools.

As for the main areas for improvement, the evaluators recommend greater coordination in the development of the tools and a more effective roll-out thereof, making them more accessible and integrating them into the supervisory process. In addition, they propose that the Banco de España explore other tools beyond those designed to manage credit risk, to address the changing landscape of the financial system. Similarly, they underscore the importance of sound data governance. They also suggest reinforcing training activities in

order to cultivate a digital mindset among supervision staff. Likewise, they recommend further enhancing coordination with the SSM in terms of the development and deployment of tools.

As part of the action plan to address these areas for improvement, the Banco de España will scale up actions to raise awareness of its suptech strategy and involve all relevant stakeholders in its forthcoming review. The new strategy will foster coordination across different Banco de España areas that have similar needs. It will also explore the possibility of developing tools designed to manage risks other than credit risk, although the latter will remain the main focus. In addition, it will continue to create communities geared towards the dissemination, learning and development of technological solutions that foster collaboration and information sharing across the different areas. Furthermore, a review of the current demand management process will be conducted, with a view to better identifying needs and prioritising deliverables. The use of suptech tools by supervisors will also be further encouraged by overhauling the access platform and including references to such tools in internal documents. In addition, indicators will be defined to measure the actual utility of the different suptech tools.

As for the recommendations to improve data management, the Banco de España has already designed a data governance model and set up a data office, which will review the existing data management policy to ensure the integrity of information sources and data flows, including those related to suptech tools.

In terms of developing supervisory capabilities, the Banco de España will strengthen the current suptech training and mentoring programme and include training activities in the induction programmes for new supervisors. In addition, the Bank will consider developing an executive coaching programme in digital knowledge and skills for senior management.

Lastly, the Banco de España will continue to promote the deployment and use of the tools developed by the Single Supervisory Mechanism.

**The Governing Council is grateful for the external evaluation and welcomes the action plan submitted by management of the Banco de España in response to the evaluation.**