

THE SINGLE SUPERVISORY MECHANISM IS TEN YEARS OLD

The tenth anniversary of the Single Supervisory Mechanism (SSM) is on 4 November 2024, so it is a good time to take stock of what has been achieved so far and reflect on what lies ahead.

The creation of the SSM was a major challenge, not least because of the need to implement the new supervisory scheme in just one year, which required major transformations at the European Central Bank (ECB) and the National Competent Authorities (NCAs), and because of the difficult context in which it had to be tackled, following the major financial crisis that erupted in 2008. It has been a period of intense work and continuous improvement, which has enabled the SSM to become a robust, credible banking supervisor, able to adapt to a rapidly changing environment, and respected in the international financial community.

In this period, the Supervisory Board has played a key role, setting standards and defining priority areas for the entire organisation.

Some of the main achievements during this phase have been:

- Progress has been made in the consistent application of supervisory regulations and policies, through common guidelines and criteria on the implementation of national options and discretions.
- Supervisory practices and working methodologies have been harmonised, with the development of a supervisory manual and progress made in building a common supervisory culture.
- Risk-based supervision has been fostered, supported by a process of identifying and assessing key risks and setting supervisory priorities.
- In-depth knowledge of the supervised institutions has been achieved, through the ongoing supervision of the joint supervisory teams, specific on-sites and various cross-institutional activities.

To mark the tenth anniversary, a series of commemorative events will be organised throughout 2024, at both the ECB and the NCAs, and posters illustrating the main features of the ECB's and NCAs' supervisory systems will be displayed at the premises of each member state.

In this context, the Banco de España is organising various events:

- Public event commemorating the tenth anniversary, as part of the SSM Chair's annual visit to Spain.
- Internal seminar to discuss with staff from across the SSM what the integration of the various supervisory cultures has been like over the last ten years, the difficulties that have faced and the lessons learned from these difficulties.
- Exchange of a group of employees with other SSM institutions, with the aim of sharing experiences and fostering joint work.
- High-level discussion on the main challenges facing SSM supervision going forward.

As shown by the features of the activities planned, this anniversary is a good opportunity to give further impetus to the continuous improvement of the SSM and thus be in a position to adequately address future challenges. Some work is underway:

An expert group report on the SREP process published in April 2023 has defined a comprehensive set of recommendations, including strengthening the supervisory culture and its processes and methodologies; improving the procedures for defining quantitative requirements; and making more ambitious use of qualitative measures and the supervisor's toolkit. The concrete implementation of these recommendations will progress over the course of 2024. Also, the experience of the banking crises of early 2023 highlighted some weaknesses in supervisory frameworks (see Box 2.2) and the recent increase in geopolitical instability makes it advisable to analyse in depth how to capture the impact of certain developments on banking risks. Lastly, the debate on future supervision should take into account the impact of technological developments on risks and the competitive environment in which banks operate.

In any case, the changes to be implemented must make our supervisory process more integrated and risk-sensitive, and should pursue the following objectives:

- Increase effectiveness: developing supervision that is more sensitive to risk and geared towards attaining

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results that ensure compliance with an increasingly complex regulatory and operational framework. This is particularly relevant in relation to certain risks, such as governance risks, where progress has been slower.

- Improve consistency: progressing in the integration of the various components of the organisation and the harmonisation of supervisory activities.
- Increase efficiency: harnessing new technologies (most notably SupTech) to streamline and improve procedures and methodology, and generating additional space for higher value-added activities based on supervisory expert judgement.

In an economic, technological and geopolitical environment that is very different from that of ten years ago, future supervision must also be equipped with the necessary

flexibility to respond swiftly to the increasingly dynamic environment. This will allow for effective action-oriented supervisory measures to be taken with a tangible impact on banking activity. The supervisor's transparency and communication with supervised entities, other related authorities and the general public should also be further strengthened.

Ten years go a long way and it seems clear that the SSM has so far been a successful experience. In this period, it has developed into a mature and increasingly integrated institution, which has contributed to preserving the solidity of the European banking sector in a highly uncertain environment. But there is still room for improvement and the new challenges of the future will need to be tackled ambitiously in a changing economic and technological context.