

Adapting the supervision of credit institutions to the COVID-19 crisis

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Abstract

The Banco de España has had to adapt its supervisory priorities, methodologies and approaches to respond to the crisis triggered by the COVID-19 pandemic. This response has been coordinated with the European Central Bank (ECB) and the other regulatory and supervisory bodies with which it collaborates.

Ongoing off-site monitoring activities have mainly adapted by realigning supervisory priorities, reassigning tasks and resources and changing procedures. This has ensured, since the onset of the crisis, the availability of timely information on the pandemic's impact on institutions and the adoption of the measures required for them to continue providing banking services to the general public. Working from home has barely affected supervisory activity, since most of the teams already worked on a remote basis.

On-site supervision, usually conducted physically at institutions, has had to adapt its methodology and processes to remote working. Following the return of the inspection teams posted at institutions in Spain and abroad, and the introduction of remote working, on-site inspections were reorganised and replanned. As a result, a significant volume of inspections was maintained and completed in 2020.

In an adverse environment of heightened uncertainty, adapting the supervisory function to remote working has not only been successful, but it will also allow us to incorporate some of the lessons learned into our usual work procedures and methodologies.

1 Introduction

The effects of the outbreak of the COVID-19 pandemic have triggered an unprecedented shock across all areas, from healthcare to economic systems, not to mention private life and work. Naturally, this situation has also affected the Banco de España, particularly its supervisory function.

At the end of 2019, the first cases of COVID-19 were detected in China and we began to hear about a city called Wuhan. At that time, we watched the news from Asia from a safe distance, without much concern. But gradually things began to change and, at a certain point, events started to unfold at great speed, shaking the foundations on which our everyday lives were built.

For the Banco de España, and for the country as a whole, March 2020 marked a turning point in the way we went about our lives and interacted with others. In early March, the first restrictions on international travel were introduced, soon to be extended to national travel too, leading to the return and centralisation of all the teams working on-site. The Directorate General Banking Supervision was one of the most affected, mainly because of the many on-site inspections under way (with teams deployed at supervised institutions) in different parts of Spain and Europe. The health situation continued to worsen and on 11 March the Banco de España decided to implement remote working as the preferred option, maintaining on-site work only for essential tasks that were necessary to guarantee the continuity of the bank's critical processes. Finally, a state of alert was declared in Spain on 14 March.

At the Banco de España, making the change to remote working was not easy. Although a pilot project for remote working had been under way for a few years, it only included a small number of employees and the majority had not worked from home previously. The Directorate General Banking Supervision was in a privileged position compared with other areas, since practically all employees had laptops connected to the Bank's central systems, precisely because they frequently had to perform their work from the supervised institutions. Moreover, the Banco de España's services reacted very quickly to this situation, adapting systems in record time to enable all employees to work from home, connecting them to central data and platforms and establishing new collaborative communication systems.

In addition to the necessary development, expansion and implementation of the appropriate technological infrastructure, working arrangements also had to change since physical interaction between work colleagues and third parties was no longer possible.

Prominent among these third parties are the institutions and particularly the ECB. It is worth recalling here that microprudential supervision¹ in Spain is carried out jointly by the ECB and the Banco de España, within the framework of the Single Supervisory Mechanism (SSM). The ECB is tasked with the direct supervision of significant institutions (SIs), i.e. those that are larger or have a greater relative significance, which it performs in coordination with the national competent authorities, in our case, the Banco de España. Additionally, the Banco de España is responsible for the direct supervision of less significant institutions (LSIs) and actively participates in the working groups of the ECB and the European Banking Authority (EBA) and in other European and international fora.

The pandemic has also forced supervisory activity to be refocused, not only in terms of the way we work, but, more importantly, in terms of the content of that work, so

¹ Supervision of individual institutions, as opposed to macroprudential oversight, which entails the monitoring and analysis of the banking system as a whole.

that it addresses the most immediate risks arising from the crisis without interfering with the necessary operational adaptation by banks to the new situation.

The following sections describe the impact of the pandemic on operational aspects, owing to the implementation of remote working, and on the Banco de España's supervisory activity and processes, focusing on the two primary facets of the microprudential supervision function:

- **Ongoing off-site monitoring activities**, aimed at analysing the financial situation of banks and assessing their risk profile in order to define priorities and the scope for future supervisory tasks.
- **On-site supervision, centred on verifying**, in an independent, in-depth and timely manner, any risk areas requiring particular attention revealed during ongoing monitoring, and on assessing the models used to calculate capital requirements.

2 Impact of COVID-19 on ongoing off-site supervision

With the outbreak of the COVID-19 pandemic, the supervisory community has had to exercise flexibility to adapt its supervisory approaches and processes, including the following: i) balancing supervisory activities to avoid increasing the operational burden for banks; ii) making adjustments to the data collection process, and iii) having the adaptability to rapidly adjust supervisory planning, resources, processes and actions to counter the new risks arising from the crisis.

In the ongoing off-site supervision carried out by the Banco de España, this need for adaptation has affected both operational aspects and working arrangements internally and with institutions, and has led to the adoption of measures to temporarily relieve supervisory pressure. It has also significantly altered supervisory priorities, processes and activities.

Naturally, institutions have also had to adapt to ensure continuity in the provision of banking services to the general public.

This section describes how supervisors and institutions have adapted to the new situation.

Ongoing supervision of SIs is performed by joint supervisory teams comprising ECB and Banco de España staff.² Although the explanation below refers to SIs,

² When the banking group has subsidiaries in SSM countries, staff from the national supervisory authority also participate.

it can also be generally applied to LSIs, bearing in mind the principle of proportionality and the fact that supervisory functions are concentrated in the Banco de España.³

2.1 Operational measures

From an operational standpoint, all supervisory activity had to be carried out remotely, using collaborative technological tools enabling remote meetings to be held and information to be shared quickly and securely. Ongoing off-site supervision was not greatly affected, since the ECB and Banco de España joint supervisory teams already worked remotely and used means of remote communication in their daily interactions with institutions.

On the whole, these working arrangements have proved effective. However, the move to full online supervision and the reduced interaction and involvement owing to the lack of physical meetings has proved a challenge for team managers, who have had to learn to be “tele-managers”. This has entailed spending more time on ensuring team cohesion, productivity and coordination.

As regards institutions’ preparedness, on 3 March 2020, the ECB asked all SIs to review their business continuity plans and to consider what actions could be taken to enhance their preparedness so as to minimise the potential adverse effects of the spread of the coronavirus. The ECB recommended the following eight measures: i) infection control in the workplace, ii) assessing to what extent the contingency plans included a pandemic scenario with measures commensurate with the geographical location and business model; iii) assessing how quickly these measures could be implemented; iv) establishing alternative workplaces; v) urgently testing whether large-scale remote/flexible working arrangements could be activated to ensure business continuity; vi) testing the capacity of IT infrastructure and its cyber resilience; vii) assessing risks of increased cybersecurity-related fraud, and viii) ascertaining whether critical service providers would be able to ensure continuity in a pandemic. The Banco de España made the same recommendations to LSIs on 6 March.

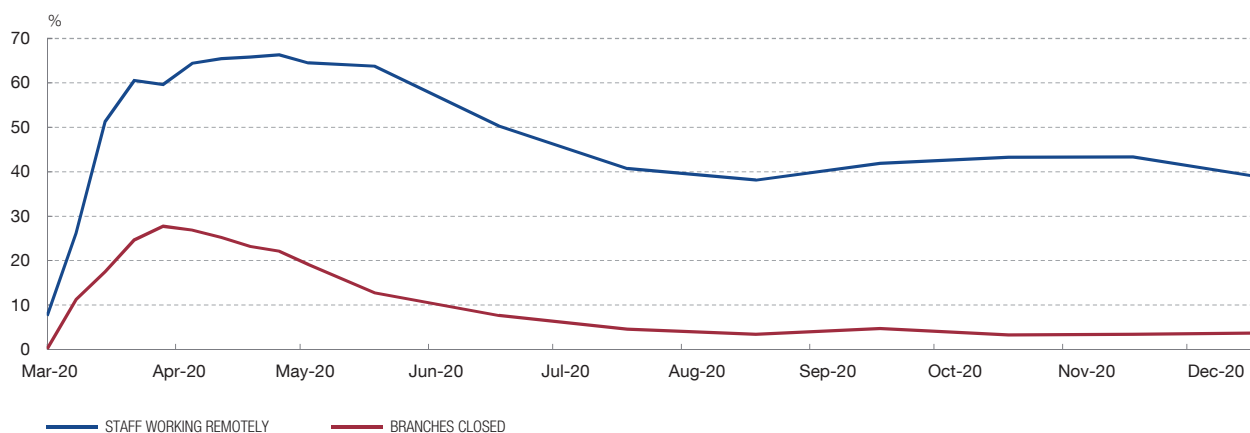
Overall, institutions were quick to react, implementing preventive measures similar to those adopted by the Banco de España and the ECB (cancelling or restricting travel, meetings and events), testing remote working mechanisms, in some cases moving staff to back-up sites, and ascertaining whether critical service providers had continuity plans. Indeed, except for a few minor incidents in the first few days, institutions were able to adapt quickly to the new situation and to continue

³ The teams monitoring LSIs comprise only Banco de España staff.

Chart 1

THE EFFECTS OF THE PANDEMIC ON BRANCH CLOSURES AND THE INCREASE IN REMOTE WORKING IN SPANISH SIs

The COVID-19 crisis has had a clear impact on the widespread implementation of remote working at Spanish credit institutions. Despite the return of a large part of the workforce from June 2020, the percentage of those who continued to work from home for the rest of the year remained fairly high. In addition, the declaration of the state of alert and lockdown led to the closure of nearly 30% of the branch network.



SOURCE: Banco de España (2021).

providing banking services, keeping a significant number of branches open to the general public and functioning normally during lockdown, despite the risks involved. Central services had, and to a large extent still have, the highest percentage of employees working remotely. Chart 1 shows the trends in remote working and branch closures.

Also in March 2020, the ECB adopted a series of measures to alleviate part of the operational burden of SSM supervision, enabling institutions to concentrate their efforts on continuing to operate, on assessing the impact of the pandemic and on ensuring the continuity of their core business. As regards ongoing monitoring, these measures notably included: i) extending the deadlines for complying with certain non-critical recommendations made by the supervisor; ii) postponing the deadline for submitting certain supervisory reports, and iii) supporting the EBA’s decision to postpone the EU-wide banking system stress test exercise to 2021. Box 1 lists the measures notified by the ECB to SIs.

Additionally, the EBA recommended that supervisors reduce data requests to what was strictly necessary for monitoring institutions in the context of COVID-19, and asked supervisors to exercise flexibility regarding institutions’ compliance with the deadlines for publication of their Pillar 3 disclosures.⁴

4 European Banking Authority (2020b).

RELIEF MEASURES PUBLISHED BY THE EUROPEAN CENTRAL BANK IN MARCH 2020 REGARDING THE OPERATIONAL ASPECTS OF SUPERVISION¹

- 1 Postpone, by six months, the existing deadline for remedial actions imposed in the context of on-site inspections and the internal capital model investigations.
- 2 Postpone, by six months, the verification of compliance with qualitative SREP measures.
- 3 Postpone, by six months, the issuance of on-site follow-up letters and internal model decisions not yet communicated to institutions, unless a decision is requested by the bank.
- 4 Regarding the 2020 recovery plans, permit banks to submit only the core elements (indicators, options, overall recovery capacity), focusing on the stress scenarios triggered by coronavirus, ensuring that the plans can be implemented effectively and in a timely manner if needed.

¹ European Central Bank (2020b and 2020c).

2.2 Adapting ongoing off-site monitoring activities: what should we supervise?

The exceptional situation brought about by the COVID-19 pandemic also led to a review of supervisory priorities in 2020, shifting the focus towards monitoring of the pandemic-related risks and their impact on institutions' risk profile. In parallel, routine monitoring tasks were scaled down.

2.2.1 Shift in supervisory priorities

Briefly, particular emphasis was initially placed on institutions' liquidity and contingency plans, primarily in relation to cybersecurity and business continuity. This was followed by monitoring of the application of moratoria and the use of public guarantee schemes, identifying the sectors hardest hit by the crisis, and of the management policies and provisioning for distressed debtors, which remain the main focus of the analysis of the pandemic's impact on asset quality. Lastly, the effects of the pandemic on institutions' activity, income statement and capital levels have been closely monitored.

Supervisory priorities and actions for 2021 continue to be marked by the pandemic,⁵ and focus mainly on credit risk.

2.2.2 Scaling down routine monitoring tasks

In order to ease the operational burden, ongoing monitoring teams ceased to perform some of their routine tasks and focused on analysing banks' ability to withstand the impact of the pandemic.

⁵ For more details, see Banco de España (2021).

To this end, the ECB took a pragmatic approach to implementing its annual core activity – the Supervisory Review and Evaluation Process (SREP) –, in line with EBA guidelines.⁶ The simplified SREP methodology for 2020 centred on assessing banks' ability to address the challenges and risks arising from the crisis, by scaling down the other activities involved in this process.⁷ Specifically, the supervisory analysis of each risk area has prioritised the aspects that might be particularly affected by the crisis, or that could have an impact on the institution's capacity to operate properly in future. The Banco de España has applied the same pragmatic approach to LSIs.

2.3 Adapting ongoing off-site monitoring activities: how should we supervise?

The pandemic has also had a significant impact on **the way supervision is conducted, mainly in four aspects**: greater interaction with institutions, coordination with other supervisors, centralised coordination of impact measurement, managed primarily through transversal actions, and the need for more frequent ad hoc reporting.

2.3.1 Greater interaction with institutions

The need for closer contact with institutions in order to have access to the most up-to-date information, which is part and parcel of any crisis, was heightened by the distinctive nature of COVID-19, to ensure early detection of how the crisis was affecting banks and the services they provide to the general public, and to establish procedures to monitor this impact and to swiftly adopt preventive measures, should they be required.

From early March 2020, the monitoring teams established remote contact with institutions, practically on a daily basis. Conversations focused on liquidity management, market conditions, business continuity issues relating to remote working, the impact on other risks anticipated by the institution, particularly credit risk, and the internal governance structures set up to monitor the crisis. Supervisory teams reported to the ECB and the Banco de España's senior management regarding these conversations on a weekly basis, using standardised templates, or immediately if deemed necessary.

These meetings became less frequent once liquidity tensions eased, although the supervision teams continued to prepare a weekly dashboard to monitor the impact

⁶ For more information, see the European Banking Authority (2020c).

⁷ For more information, see European Central Bank (2021a).

of the pandemic on supervised institutions, which required maintaining close contact with them.

As regards LSIs, the Banco de España has remained in constant contact with all the institutions through numerous remote meetings and has requested contingency plans. Some institutions have been asked to submit periodic reports on aspects that are similar to those affecting SIs.

2.3.2 Coordination with other supervisors

With respect to ongoing monitoring, contacts with other banking supervisors from non-euro area countries were strengthened, in order to understand the implications of the pandemic and the measures implemented in those countries. Moreover, in 2020, meetings of the supervisory colleges were held by videoconference in a shorter duration format, and the main point of discussion was the impact of COVID-19 on the different banking risks. It should be noted that meeting in this way renders the colleges less effective, since there is less dialogue and no social interaction to consolidate supervisory relationships.

2.3.3 Centralised coordination of impact measurement through transversal actions

The ECB set up a multidisciplinary team to coordinate monitoring of the pandemic, tasked mainly with:

- Establishing communication channels with supervisory teams in order to provide them with, inter alia, action guidelines, transversal actions and information to be requested from institutions.
- Reporting to senior management on the effects of the pandemic on the different banking risks and proposing intervention measures to be approved, ultimately, by the Supervisory Board of the ECB, of which the Banco de España is a member.
- Designing indicators and other tools to support the ongoing monitoring teams in their review tasks.

The shift to a transversal and multidisciplinary approach in the procedures was one of the distinctive features of ongoing monitoring of the crisis in 2020. There was a move from monitoring tailored to each institution's particularities to a more transversal and centralised approach, through activities and actions affecting all or several institutions. Benchmarking exercises promptly revealed good and bad practices in

LETTERS FROM THE EUROPEAN CENTRAL BANK TO SIGNIFICANT INSTITUTIONS ON CREDIT RISK (PUBLISHED)¹

1.4.2020. “IFRS 9 in the context of the coronavirus (COVID-19) pandemic”: provides guidance to institutions on the use of macroeconomic forecasts to avoid excessively procyclical assumptions in their expected credit loss estimations.

28.7.2020. “Operational capacity to deal with distressed debtors in the context of the coronavirus (COVID-19)

pandemic”: clarifies supervisory expectations to enable institutions to provide sustainable solutions for distressed debtors.

4.12.2020. “Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic”: refers to supervisory expectations regarding management and coverage of credit risk.

¹ European Central Bank (2020d, 2020e and 2020f).

aspects that neither the institutions nor the supervisors had previously been faced with.

Some of these initiatives were backed by the publication of the letters sent to institutions, as in the case of credit risk, one of main supervisory priorities. A list of these letters is included in Box 2.

The Banco de España has also carried out specific transversal tasks to monitor credit risk which may help to quantify and track its potential impact on the banking system. These include credit portfolio segmentation based on the level of vulnerability to the crisis triggered by COVID-19, and definition of early warning indicators to anticipate the course of credit impairment, which are available to ongoing monitoring teams.

2.3.4 The need for more frequent ad hoc reporting

During crises, periodic regulatory reporting is often needed on a more frequent basis, so that more accurate and specific analyses can be conducted. This need was accentuated during the COVID-19 crisis, owing to its unprecedented nature (systemic, global and not caused by endogenous economic or financial factors). Furthermore, the traditional supervision metrics, used to assess and monitor institutions, have proved less helpful owing to the government support measures introduced for debtors (moratoria and public guarantees), which may delay the recognition of distressed debtors.

Initially, a number of data templates were designed, as the need arose, usually submitted on a weekly basis. In addition, national authorities began to ask the institutions in their jurisdictions to provide data. In order to avoid overlaps, the ECB created a working group with the national authorities to design a monthly prudential

reporting request to complement the quarterly regulatory returns. The request refers to the application of moratoria and public guarantee measures (using a common ECB/EBA template), the use of committed credit lines, operational continuity indicators, and projections of key prudential indicators.

The first compilation contained data as at May 2020, and was also made available to national authorities.

Moreover, the data collection platforms have had to be upgraded, as have data management tools, to achieve greater flexibility and speed, in order to provide monitoring teams with new indicators and useful comparative information on which to base their analysis of the new supervisory focal points.

Nonetheless, data is an area which needs to be improved. At some institutions, shortcomings have been found in the aggregation, availability and quality of data and in the capacity to process data quickly.

Added to this are the difficulties of conducting forward-looking analyses. As a result of the uncertainty over the pandemic's effects on the economy, the analysis of income and capital projections under different scenarios has become a major focus of ongoing monitoring activities.

2.4 Assessment and outlook for 2021

Ongoing supervision has adapted swiftly and effectively to the new situation prompted by the pandemic, thanks to: i) the availability of the necessary technological resources and familiarity with remote working; ii) measures to allow the swift refocusing of supervisory activities and the flexible reallocation of resources, and iii) the establishment of a centralised ongoing monitoring procedure led by the ECB.

The situation of banks stabilised in 2020 H2 and is likely to remain stable during much of 2021 thanks to the moratoria not yet having expired and to the public guarantee programmes. However, the impact of COVID-19 on the banking sector and the uncertainty surrounding expectations for economic recovery have shaped the priorities for 2021. The main focal point will remain credit risk, followed by business sustainability, capital planning and governance. In contrast to 2020, the year could be viewed as a return to normality in terms of procedures and the main supervisory activities.⁸

⁸ A full SREP will be conducted for each institution, setting capital requirements, although some adjustments have been made to the methodology to prioritise the aspects most affected by the pandemic. In addition, the EBA stress tests that were postponed in 2020 will be conducted. From the operating standpoint, remote working is likely to continue during much of the year.

One new development is that transversal activities are here to stay. The organisational change to ECB supervision implemented in October 2020⁹ reinforced the transversal functions, with experts from specific risk areas supporting the joint ongoing monitoring teams and the consistency of supervisory actions being ensured through benchmarking. The challenge we face this year is to strike the right balance between tailored monitoring, based on each bank's specific circumstances and expert opinion, and the transversal actions in which results are obtained through benchmarking.

3 Impact of COVID-19 on on-site supervision

On-site supervision complements ongoing supervision. A permanent in-depth knowledge of the institutions is maintained through ongoing supervision, which mainly relies on the information reported by the institutions themselves. On-site inspections check, among other aspects, the validity and accuracy of the information used to conduct ongoing supervision.

The key characteristic of on-site supervision is precisely the fact that the **inspection team is deployed on-site** at the supervised institution. In addition, this is not work that can be performed single-handedly; **teamwork** is an essential feature. As a result, the outbreak of the pandemic represented an even greater shock in terms of continuing with the work.

The adjustment to the new environment entailed a transition through three very distinct phases. First, the centralisation of all resources deployed outside of the Banco de España. Second, the tasks were rapidly assessed and adjusted against a backdrop of heightened uncertainty and volatility. Lastly, once the new situation had been assimilated, the fact that the pandemic would persist for longer than initially envisaged had to be recognised, which prompted a more stable adjustment with a medium-term outlook.

This section does not differentiate between the supervision of SIs or LSIs, since on-site inspections are substantially similar for both.

3.1 Phase 1: centralisation of resources

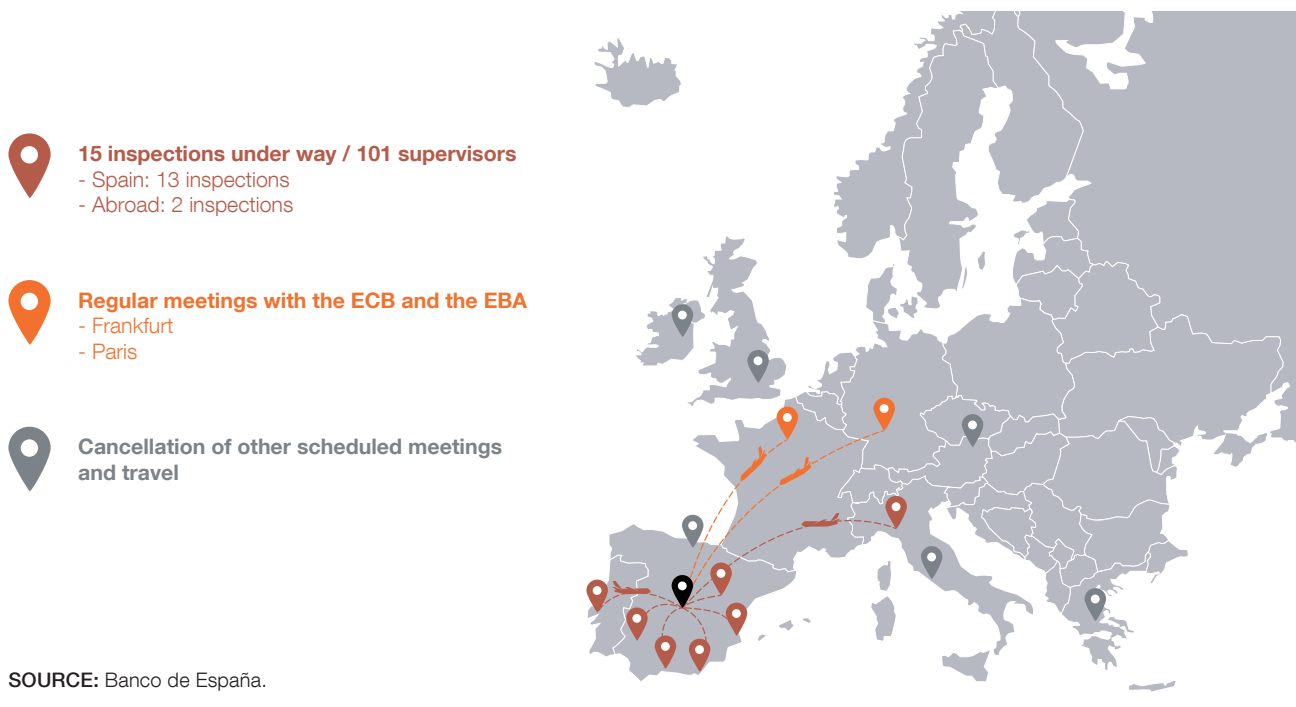
Owing to the spread of the pandemic and the recommendations to keep travel to a minimum, the decision was made to **cancel all inspection team deployments**. These deployments included inspections of Spanish institutions, inspections of

⁹ For more information, see European Central Bank (2021c).

Figure 1

STATUS OF INSPECTION TEAMS IN MARCH 2020

Owing to the spread of the pandemic and the recommendations to keep travel to a minimum, the inspection teams cancelled their deployments in March 2020.



SOURCE: Banco de España.

other European institutions¹⁰ and regular meetings¹¹ with other supervisory and regulatory authorities (mainly the ECB and the EBA).

Specifically, in early March 2020 the Banco de España had 15 inspections under way, with more than one hundred supervisors deployed among various teams. Of those inspections, 13 were being conducted in Spain and the remaining two in other European countries.

In light of the uncertainty regarding the severity and duration of the crisis, in this first stage the working approach was to compile the analyses conducted and the discussions held hitherto for each of the inspections and to document the findings. This succeeded in mitigating the absence of interaction with the institutions and, almost as importantly, the limited interaction with the other members of each team, at a time when systems were being adapted to accommodate remote working arrangements.

10 Cross-border inspections of other European institutions are organised as part of the Banco de España's membership of the European SSM and are coordinated by the ECB. For more information, see European Central Bank (2018).

11 The Banco de España actively participates in working groups of both the ECB and the EBA, and in other international bodies and fora.

3.2 Phase 2: limited and gradual resumption of activity

Inspection work was initially suspended in response to the declaration of the state of alert and with the commencement of remote working. The aim at that time was to avoid interfering with the adjustments required at the institutions to adapt to the new reality, allowing them to focus their resources on the essential tasks of managing operations, risks and liquidity.

However, it rapidly became clear that the pandemic would not disappear in a matter of weeks; the number of infections and their severity increased every day and the state of alert was extended further. This posed the need to refocus the supervisors' activities.

First, from an organisational standpoint, the resumption of supervisory activity entailed adapting to remote working. However, this adaptation was similar to that required in numerous other areas, with nothing particularly characteristic relating to on-site inspections.

Second, and more specific to on-site inspection work, an assessment was required of how to proceed with the inspections under way at that time.

The first concern was to determine **which inspections should be cancelled and which should be continued**. As a standard approach, the idea was to continue any inspections that were in advanced stages, provided that the institutions concerned were able to dedicate sufficient attention to them, such that proceeding with the work would not significantly hinder the management of the institutions at such a delicate juncture. Accordingly, there was a **marked difference between general inspections¹² and inspections of internal models** used to calculate regulatory capital. Model investigations usually take place at the institutions' request; for instance, when internal models need to be adjusted to ensure their adequate functioning, which requires prior supervisory validation.¹³ In addition, such inspections mainly involve highly specialised resources at the institutions, meaning a limited impact on those activities that were prioritised at the outbreak of the pandemic.

Thus, the impact in terms of inspection cancellations was uneven, with a high rate of cancellations among general inspections, whereas the bulk of the model inspections went ahead. However, approximately 60% of the overall inspections planned for 2021 remain scheduled.

The second concern was the allocation of projects to individuals whose inspections had been cancelled. Numerous inspectors suddenly became

¹² Those focused on aspects such as credit risk, liquidity, governance and systems, among others.

¹³ Indeed, 2020 was a very busy year in terms of model adjustments due to the need for changes on account of new European regulatory criteria. For more information, see European Banking Authority (2019).

available when their scheduled tasks were called off. Several initiatives were swiftly put into action:

- Specific horizontal analysis projects, such as the analysis and assessment of the most common and most significant findings identified in inspections conducted in the SSM, for the different areas and risk types.
- Cross-departmental collaboration and support.
- Bolstering training programmes through the design and provision of new courses, tutorials and learning materials.

3.3 Phase 3: full adaptation to remote inspections

Once the inspections that could continue were identified, the working methods needed to be adjusted to accommodate the new remote working conditions. To this end, the approach to several elements needed to be reviewed.

3.3.1 Scope of the inspection

The new circumstance meant that the scope of each inspection had to be assessed, considering matters such as the following:

- Could all of the originally defined areas be suitably inspected on a remote basis?
- Which non-essential aspects could be omitted from the scope?
- Should the original inspections be divided into two or more reviews?
- Did the inspection team need to be expanded and was more time required?

This analysis was conducted for each of the inspections already under way, and likewise for those that were kept on the annual plan and would be launched in the subsequent months.

3.3.2 Inspection methodology

Certain inspection methods are based on on-site activity: file reviews, code or process review working sessions and case-specific discussion workshops (e.g. property foreclosure processes). These methods had to be adapted to remote working arrangements through the following procedures:

- Videoconferencing.
- Virtual workshops.
- Increased exchange of questions with the institution.
- Findings quantification requests.

3.3.3 Communication with the institution

In the initial phase, communication with the institution was adapted by increasing the number of virtual meetings and question exchanges. To ensure more efficient exchanges, the prior planning and preparation had to be bolstered, including greater detail on the pre-established agenda.

As regards information and data sharing, new mass data exchange channels were set up (virtual data rooms, cloud, etc.).

In the second phase, the institutions provided corporate laptops to facilitate data processing and to allow access to applications and source databases. Communication with inspection teams also improved thanks to the use of common software.

3.3.4 Internal communication and logistics

Internal communication within inspection teams was greatly affected by remote working, since it was impossible to hold the short, “spontaneous” meetings that are standard practice. To mitigate this effect, communication platforms were used intensively to convene regular meetings with the entire team and with the inspection sub-teams. The Head of Mission had to play a pivotal role in centralising and organising the inspection, even more so than under normal conditions.

3.4 Assessment of remote inspections

Following completion of the remote inspections conducted in 2020, their implementation and results can be assessed, focusing on the following factors:

- **Implementation time:** remote inspections require more time, essentially on account of the less fluid communications, although good organisation and adapting the scope of the inspection to the extent possible can ensure a negligible impact on the expected duration.

- **Planning:** such inspections require greater organisation and planning, given that some processes may suffer efficiency losses (those more easily performed on-site), while others can be performed more efficiently (for instance, drafting inspection reports).
- **Interaction:** the institutions' cooperation is essential, not only in providing the means to access their systems, but also in the adaptation to efficient remote working arrangements.
- **Difficulty:** the most challenging tasks are those relating to file reviews and the validation of technological processes. However, in some cases these have been performed using an appropriate device (such as the institutions' laptops or through virtual access).
- **Experience:** it is difficult to conduct these inspections remotely without experienced staff. Indeed, incorporating new members into the work team can be particularly challenging.
- **Communication:** internal communication is impacted most, although communication with institutions is also affected.
- **Supervision:** the depth of knowledge that these actions aim to yield can be maintained, despite the inspections being conducted remotely.
- **New supervisory technologies:** significant progress has been made during recent years in applying advanced technologies in the field of supervision (suptech). The experience of remote inspections has demonstrated their usefulness. Numerous initiatives in this field have been reinforced owing to the needs associated with remote working and the attendant lessons learned.

As a general assessment, remote inspections are clearly no replacement for on-site work. However, the following is also true:

- Remote working arrangements can yield satisfactory results where necessary.
- On-site arrangements may be enhanced by including those processes that can be performed more efficiently on a remote basis.

3.5 Medium and long-term outlook

At present, the near-term outlook is for **remote inspection arrangements to be continued** given the uncertainty surrounding the pandemic and based on the

positive results thus far. The current situation is one of greater stability and some prospects of a gradual return to normal inspection volumes. The aim for end-2021 is to restore usual levels in terms of the number of inspections.

As regards general inspections, the medium-term goal is to focus the supervision on aspects directly related to the impact of the pandemic-induced crisis, aligning the supervisory function of these inspections with that of remote ongoing supervision.

In the longer term, the target is to resume on-site supervisory activity as soon as possible, incorporating the lessons learned from remote working into the ordinary supervisory activity. The forced implementation of remote inspections has posed numerous challenges but has equally brought certain opportunities, which may be harnessed as **additional tools at the supervisor's disposal**. For instance, implementing inspections of varying intensity (with the possibility of partially or fully conducting these remotely) for certain cases of more limited scope, thereby optimising the number of inspections that need to be performed.

4 Conclusion: initial lessons and future considerations

In spite of the abrupt shift to remote activity and the general complications stemming from the extraordinary situation, the conclusions regarding the adaptation of the supervisory function to the crisis prompted by COVID-19 are very positive. Three key reasons explain this success:

- The professional and personal **effort** of the Banco de España's and the ECB's supervisors, and likewise of the supervised institutions.
- The **appropriate technology**, with devices and collaborative tools to enable remote working.
- **Adaptability**, which has been evident in the following:
 - A rapid organisational response to refocus the ongoing supervisory work in light of the new requirements, to reallocate resources and to adjust procedures to yield more timely information on the institutions' situation.
 - Approximately 60% of the inspections planned for 2020 went ahead, while new high value-added tasks and projects not initially envisaged were identified and implemented, which was made possible by the sudden availability of resources.

The impact of the pandemic on supervisory activities has varied across the areas of ongoing supervision and on-site supervision. In ongoing supervision,

the adaptation essentially focused on the content of the supervision, which was shifted towards monitoring pandemic-related risks and the impact on the institutions' risk profile. In addition, the way supervision is conducted changed in three main aspects: increased interaction with the institutions and other supervisors, the measurement of the impacts being centrally coordinated by the ECB and the need for more frequent ad hoc reporting.

By comparison, on-site supervision has been more affected in terms of how the work is conducted, given that a sizeable component of the **methodology** is performed on-site at the institutions. Although the pandemic prompted the cancellation of approximately 40% of the originally programmed inspections, those that could be performed remotely were completed successfully and upholding the usual quality standards.

Both areas of supervision faced **common challenges**, such as adapting teamwork to the remote working arrangements, managing teams remotely and planning and organising priorities in the new context.

The adaptation of supervisory functions to remote working has not only posed challenges, it has also highlighted a series of **opportunities and lessons** that can be incorporated into the standard working arrangements. In on-site supervision in particular, the flexibility inherent in remote working offers the opportunity to find an **optimal balance between remote working and on-site activity**. This balance means identifying those tasks that can be performed efficiently on a remote basis and those that require an on-site presence.

Meanwhile, it is vital that **advanced technologies continue to be adopted in the field of supervision**, from communication and information-sharing systems through to the identification of standard supervisory processes that could benefit from the use of such technologies. Institutions must also move forward and improve their data infrastructure and models to produce higher quality forward-looking information.

In an adverse environment of heightened uncertainty, adapting the supervisory function to remote working has not only been successful, but it will also allow us to incorporate numerous lessons learned into our usual work procedures and methodologies.

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