Risk-Based Supervision for Inclusive Digital Financial Services

TRANSCRIPT: Leveraging SupTech

Supervisory Technology, known as SupTech, is already being leveraged and providing value across three functions: as a support function, a regulatory function, and most importantly, as a supervisory function.

As a **support function,** SupTech is being used to transform and manage supervisory data. Its use greatly improves supervisory data, making it fundamental and impactful for more data-driven supervisory activities. SupTech is also being used as a support function to provide services to the external public, such as addressing consumer complaints. Because support functions, and specifically data, are so critical for supervisors of DFS, this is one of the most important uses of SupTech for supervisors.

As a **regulatory function**, SupTech is used to assess regulatory impact and to streamline the regulatory reform process.

As a supervisory function, supervisory departments can look at potential SupTech use cases in two buckets: cross-functional and specific supervisory use cases.

Cross-functional use cases include using document digitalisation or document parsing tools that can be used by numerous supervisory teams, or automated report generation using large language models.

Specific supervisory use cases include using SupTech tools for fraud detection in fast payment systems and other applications in market conduct and prudential supervision.

SupTech Strategy

To be effective and impactful, investing in Supervisory Technology needs to be strategic and should be documented as a SupTech strategy. This strategy needs to be based on a careful diagnostic of the current needs and a vision for how data-driven and tech-driven financial supervision will become.

The SupTech strategy needs to be closely aligned not only to the data strategy, but also to the digital transformation strategy, data governance frameworks, and workforce strategy of the organisation.

Digital Transformation Strategy

A comprehensive digital transformation strategy needs to be aligned with supervisory goals and supported by senior leadership. Digitalisation is a critical enabler for deriving value from Supervisory Technology, so it is essential that this broader strategy is in place to leverage the power of SupTech.

The SupTech strategy should be a core pillar of digital transformation for a supervisory authority. Research by the Cambridge Centre for Alternative Finance has shown that supervisory authorities with SupTech strategies are far ahead in their deployment, proving the case for adequate planning.

Data Governance Framework

As supervision becomes more data-driven, a more robust data governance framework is required, to keep up with new technology and new uses of data for regulatory and supervisory purposes.

SupTech investments should focus on addressing pain points of regulatory and supervisory processes and avoiding well-known and well-documented deployment-related issues. For instance, in a 2024 publication, Jermy Prenio advocates for SupTech strategies that are more process-focused, rather than issues-focused.

An updated and appropriate governance framework helps ensure smoother processes and more successful implementation, integration, and management of SupTech.

Workforce Strategy

The SupTech strategy should align with and support the workforce strategy. This strategy must be dynamic and continuously updated to respond to evolving technology and supervisory priorities.

The strategy should balance generalists and specialists by building multidisciplinary teams with both domain expertise and technology proficiency. It should also consider special skills required to enable staff to assess AI outputs, such as detecting anomalies and identifying biases.

To facilitate the upskilling and skills development required to leverage SupTech, the workforce strategy needs to include internal training programs and partnerships with third-parties, such as academia and think-tanks. This can help build a pipeline of technology-literate professionals. External experts can be used to complement internal capacity, through advisory roles, short-term consultancies, or secondments.

If upskilling is not an option, the lack of technology expertise may mean that authorities need to select certain low-code SupTech tools in some areas. These are tools that do not require the user to know computer coding. This helps reduce reliance on hard-to-find talent with both supervisory and technology expertise, and minimises staffing constraints while still accelerating digital supervisory innovation. Workforce plans should both shape and be shaped by decisions about SupTech investments.

SupTech Implementation

Successful implementation of SupTech requires cultural change, change management, and broad mobilisation. This includes fostering the development of an innovation culture, facilitating the change through appropriate change management strategies, and improving the foundational supervisory approach.

Innovation culture

According to the Bank for International Settlements, fostering a culture of innovation will maximise the benefits of Supervisory Technology. It is crucial to have high-level leadership in the driving seat to ensure effective change-management, while reinventing organisational processes.

Authorities must work towards reshaping workflows throughout the organisation, breaking departmental silos via cross-functional collaboration, and fostering openness to experimentation.

Change Management Strategies

As part of the change management strategy, Financial Supervisory Authorities should review administrative processes, such as procurement frameworks to identify and remove obstacles for SupTech adoption and required skills management. At the same time, effective change management strategies should phase in the organisational change to SupTech to ensure buy-in and mitigate resistance.

Foundational supervisory approach

To improve the foundational supervisory approach, supervisory authorities in Emerging Markets and Developing Economies need to accelerate the evolution towards effective risk-based supervision implementation.

Supervisory Technology cannot substitute a good supervisory approach; it is only a catalyst for good supervisors and cannot substitute them. A forward-looking, risk-based mindset needs to be fostered within supervisory authorities and agencies, including thorough training in supervisory judgment. Supervisory Technology can help reform outdated processes, so a good step in improving the foundational supervisory approach is to do a review of supervisory procedures and manuals.

The successful implementation of SupTech requires a strong SupTech strategy, that aligns with other internal strategies and frameworks, effective Change Management Strategies that remove obstacles and ensure buy-in, as well as the fostering of a culture of innovation and implementing a risk-based supervisory approach.