Banking and Capital Markets bi-weekly news round-up

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Welcome to the DXC-curated news round-up.

A collection of technology-related articles for banking and capital markets (BCM). DXC Technology (NYSE: DXC) helps global companies run their mission-critical systems and operations while modernizing IT, optimizing data architectures, and ensuring security and scalability across public, private and hybrid clouds.

With this news round-up, published every 2 weeks, we highlight innovative and emerging news, regulation and research, as well as including DXC thought-leadership that explores new ideas, technologies and best practices.

To thrive in the complex and competitive financial market, banking and capital markets firms need products and services that work for twenty-first century customers and meet regulatory obligations. Modernise your IT and transform your business with DXC Technology's IT services and robust partner ecosystem.

Should you have any comments or suggestions, please feel free to contact me.

Happy reading.

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Artificial Intelligence (AI)

If AI holds the answers, are CEOs asking the right strategic questions?

EY: CEOs globally are embracing AI as a force for good while remaining wary of unknown, unintended consequences. They believe more needs to be done to mitigate significant social, ethical, and cyber risks.

An EY study of 1,200 CEOs globally focuses on how they currently use AI as well as their plans to leverage the technology in the future. It also provides insights on capital allocation, investment, and transformation strategies, as well as plans to embed sustainability into the growth agenda – all against a backdrop of economic headwinds.

The latest edition of the CEO Imperative Series, which provides critical answers and actions to help CEOs reframe the future of their organizations, finds companies looking forward and positioning for growth, even as new technologies and geopolitical pressures make that future increasingly opaque.

The headline-grabbing explosion of generative AI in late 2022 and early 2023 has captured the imagination of business leaders, investors, and consumers alike. Tens of billions of dollars have been invested into generative AI applications, with drug development and software coding being the most-funded use cases.

Can you trust AI? Here's why you shouldn't

The Conversation: If you ask Alexa, Amazon's voice assistant AI system, whether Amazon is a monopoly, it responds by saying it doesn't know. It doesn't take much to make it lambaste the other tech giants, but it's silent about its own corporate parent's misdeeds.

When Alexa responds in this way, it's obvious that it is putting its developer's interests ahead of yours. Usually, though, it's not so obvious whom an AI system is serving. To avoid being exploited by these systems, people will need to learn to approach AI skeptically. That means deliberately constructing the input you give it and thinking critically about its output.

Newer generations of AI models, with their more sophisticated and less rote responses, are making it harder to tell who benefits when they speak. Internet companies' manipulating what you see to serve their own interests is nothing new. Google's search results and your Facebook feed are filled with paid entries. Facebook, TikTok and others manipulate your feeds to maximize the time you spend on the platform, which means more ad views, over your well-being.

Furthering the Vision of the Fair Housing Act

U.S. Federal Reserve: As our financial system evolves, it is critical that we adapt our application of the Fair Housing Act and ECOA to deal with technological change and other developments.

The digital economy has produced alternative data sources, some of which can provide a window into the creditworthiness of an individual who does not have a standard credit history. And new artificial intelligence techniques such as machine learning have the potential to leverage these data at scale and at low cost to expand credit to people who otherwise can't access it. While these technologies have enormous potential, they also carry risks of violating fair lending laws and perpetuating the very disparities that they have the potential to address.

Use of machine learning or other artificial intelligence may perpetuate or even amplify bias or inaccuracies inherent in the data used to train the system or make incorrect predictions if that data set is incomplete or nonrepresentative. There are also risks that the data points used could be correlated with a protected class and lack a sufficient nexus to creditworthiness.

How Do the White House's A.I. Commitments Stack Up?

Accessing the article may require a subscription.

NYT: [Near the end of July], the White House announced that it had secured "voluntary commitments" from seven leading A.I. companies to manage the risks posed by artificial intelligence.

Getting the companies — Amazon, Anthropic, Google, Inflection, Meta, Microsoft and OpenAI — to agree to anything is a step forward. They include bitter rivals with subtle but important differences in the ways they're approaching A.I. research and development.

Meta, for example, is so eager to get its A.I. models into developers' hands that it has open-sourced many of them, putting their code out into the open for anyone to use. Other labs, such as Anthropic, have taken a more cautious approach, releasing their technology in more limited ways.
But what do these commitments actually mean? And are they likely to change much about how A.I. companies operate, given that they aren't backed by the force of law?

Given the potential stakes of A.I. regulation, the details matter. So, let's take a closer look at what's being agreed to here and size up the potential impact.

Eliminating bias in AI may be impossible – a computer scientist explains how to tame it instead

The Conversation: When I asked ChatGPT for a joke about Sicilians the other day, it implied that Sicilians are stinky. As somebody born and raised in Sicily, I reacted to ChatGPT's joke with disgust. But at the same time, my computer scientist brain began spinning around a seemingly simple question: Should ChatGPT and other artificial intelligence systems be allowed to be biased?

You might say "Of course not!" And that would be a reasonable response. But there are some researchers, like me, who argue the opposite: AI systems like ChatGPT should indeed be biased – but not in the way you might think. Removing bias from AI is a laudable goal, but blindly eliminating biases can have unintended consequences. Instead, bias in AI can be controlled to achieve a higher goal: fairness.

Uncovering bias in AI

As AI is increasingly integrated into everyday technology, many people agree that addressing bias in AI is an important issue. But what does "AI bias" actually mean?

Generative AI: Hype, or truly transformative?

Goldman Sachs: Since the release of OpenAI's generative AI tool ChatGPT in November, investor interest in generative AI technology has surged. The disruptive potential of this technology, and whether the hype around it—and market pricing—has gone too far, is Top of Mind.

We speak with Conviction's Sarah Guo, NYU's Gary Marcus, and GS GIR's US software and internet analysts Kash Rangan and Eric Sheridan about what the technology can—and can't—do at this stage. GS economists then assess the technology's potentially large impact on productivity and growth, which our equity strategists estimate could translate into significant upside for US equities over the medium-to-longer term, though our strategists also warn that past productivity booms have resulted in equity bubbles that ultimately burst.

DXC's perspective

This Top-of-Mind viewpoint has some distinctive takes on AI, e.g.: (Q) Which opportunity area is being overlooked? (A) The application layer: 'there's a huge amount of creativity and work in getting non-deterministic models to work in production use cases'; (Q) Where are organisations making productivity gains right now? (A) Software development (15% – 20%); (Q) How is this wave of tech disruption already different? (A) The established players are weighing in now with huge investment; it's not just about a few niche disruptors.

David Rimmer
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Bank sector

The Banking Crisis Has Only Just Begun

Accessing the article may require a subscription.

Forbes: In an article titled Is the Banking Crisis Over? We Are About to Find Out, the Wall Street Journal identified three concerns that could determine if the banking industry is out of the crisis or still in one:

- **Deposit costs**. High interest rates have forced many banks to pay more to retain deposits (often via brokered deposits), while many institutions have seen deposits flee to higher-yielding money market funds.
- **Bond losses**. Rising interest rates depress the value of low-rate securities and loans. Banks had more than $500 billion in unrealized losses on their securities at the end of March. Holding these assets can impact profitability because banks can't lend those funds out or invest them at higher rates.
- **Commercial real estate loans**. Banks are anticipating losses in their commercial real-estate portfolios. Many mid-size institutions, with a heavy concentration of commercial real estate loans in their portfolios, could be impacted by the low occupancy rates in commercial real estate.

BigTech

Goldman vs. Apple

Accessing the article may require a subscription.

Money Stuff Bloomberg: [We know that there are] cultural differences in things like user experience and database design between banks and tech companies.

At the Information, Lauren Tara LaCapra and Wayne Ma have a story about "How the Partnership Between Apple and Goldman Sachs Soured," which is largely about those contrasting cultures:
Former employees at both companies who worked on the Apple Card said executives weren't prepared for how difficult it would be to combine Apple's West Coast tech approach with Goldman's New York–style banking culture. While Apple was more focused on the sleek technology and product pizazz that drew in customers and kept them happy, Goldman prioritized regulatory compliance and profitability.

See, if you're a tech person, you read that paragraph and think "oh banks, always prioritizing profitability over a delightful user experience, such short-term thinking."

DXC's perspective

Apple Card is a great example of a complete clash of cultures where partners have very different perspectives on what their product needs to look like. Often, entrants to the banking arena underestimate the level of compliance that is needed, and that handling sensitive banking data comes with huge responsibility. Traditional banks, who understand this complexity, need to modernise their thinking to attract and retain new customers that are used to interacting with tech/social media as their main communication channel. There is a balance, and unfortunately, it looks like this partnership didn't quite make it.

Paul Sweetingham
Global Capability Leader Banking BPO & CX
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Cybersecurity

DXC's perspective

The 4-day disclosure notification period will be challenging for most organisations. Quite simply, by day 4, organisations do not know enough to disclose material information — but in attempting to do so, noise is created, and vital resources are diverted away from the breach.

John Mundell
Security Lead
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SEC Sets 4-Day Deadline for Public Companies to Report Hacks

Accessing the article may require registration or a subscription.

Bloomberg: Companies hit by cyberattacks face a four-day deadline for publicly disclosing significant impact under controversial new rules approved Wednesday by the US Securities and Exchange Commission.

Those rules, proposed last year and vigorously contested by trade organizations and businesses, would require publicly traded firms to file details of a cyberattack within four days of identifying that it has a material impact.

The markets regulator's disclosure rules are its latest effort to boost transparency into cyber threats after years of relentless attacks against businesses from both criminal gangs and hackers backed by nation states. They also seek to address gaps in existing cybersecurity disclosures, according to the agency. Publicly traded companies currently rely on SEC guidelines for when to address cyber risks and incidents that are considered relevant for investors. That has created a hodgepodge of cyber incident reporting. Companies that report incidents provide different amounts of detail about the impact and their response to it.

Digital Assets

Is the digital dollar dead?

MIT Technology Review: It's summer 2020. The world is under a series of lockdowns as the pandemic continues to run its course. And in academic and foreign policy circles, digital currencies are one of the hottest topics in town.

China is well on its way to launching its own central bank digital currency, or CBDC, and many other countries have launched CBDC research projects. Even Facebook has proposed a global digital currency, called Libra.

So when the Boston branch of the US Federal Reserve announces Project Hamilton, a collaboration with MIT's Digital Currency Initiative, to research how a CBDC might be technically designed—it doesn't raise many eyebrows. A hypothetical US central bank digital currency is hardly controversial, after all. And the US cannot afford to be left behind.

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ESG

Our AI habit is making us less environmentally friendly, Google admits

The Register: Google's plans to go green are faltering – and it's all AI's fault, the company claims.

Amid a fall in renewable energy usage and increased water consumption, Google SVP of learning and sustainability Ben Gomes said the Chocolate Factory maintains its "bold goal" to achieve net zero emissions, but the disappointing data is due to the AI that Google has made the centerpiece of its operations.

"Predicting the future growth of energy use and emissions from AI compute in our datacenters is difficult," Gomes said in Google's 2023 Environmental Report, adding that Google remains "focused on developing new ways to make AI computing more efficient while leveraging the opportunities that AI presents to have a positive environmental impact." Regardless of the talk, Google's consumption of carbon-free energy decreased a bit, from 66 to 64 percent, between 2021 and 2022. More startling is the company's scope 2 greenhouse gas emissions, which are those coming from the purchase of power, heat, and the like, which jumped 37 percent between 2021 and 2022.

Innovation

Tech companies still enthusiastic about digital transformation, despite economic uncertainty

Deloitte Insights: Economic uncertainty has spurred many tech executives to pump the brakes on riskier innovation projects, but digital transformation is still perceived as the right target for investment. Leaders interviewed in February 2023 by Deloitte see it as worth the money and rife with opportunity.

Executives surveyed ranked modernizing digital infrastructure as high in potential benefit and relatively low in terms of the challenges in achieving it. The outcomes they expect from their digital transformation efforts include boosting efficiency, improving current offerings, and creating new products and services. Reducing costs, although still important, ranked fourth (see figure).

Although there are many strategic priorities vying for limited resources, digital transformation rises to the top for technology industry leaders. "You have digital transformation goals, cost optimization goals, talent challenges, and reductions.

DXC's perspective

Organisational investment for change is under more scrutiny, with a focus on generating significant value for both customer and business. With the current hype around generative AI, many organisations are establishing if AI is the answer to their business/cost challenges and how this would be achieved. Using specialised infrastructure for AI workloads and data scientists is not cheap. An organisation's digital transformation journey needs to combine experimenting with digital twins and injecting enriched observability data into AI models to generate business value streams for investment.

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When Innovation Goes Wrong

Stanford Social Innovation: Efforts by social enterprises to develop novel interventions receive a great deal of attention. Yet these organizations often stumble when it comes to turning innovation into impact. As a result, they fail to achieve their full potential. Here's a guide to diagnosing and preventing several "pathologies" that underlie this failure.

A pervasive myth holds that the impact generated by social enterprises is the result of innovation. Indeed, prevailing models of social innovation lead people to ask the wrong question about achieving impact in the social sector. They ask: What are the ingredients of successful innovation? They seek to discover "a magic innovation formula" or to define a set of "innovation success factors." We find it useful to turn this question inside out. Instead of focusing on how innovation succeeds, we look at the dynamics of failure within the innovation process. We ask, in particular: What are the factors that undermine the impact potential of an innovation effort?

For the past several years, we have been studying social enterprises in order to determine what enables them to achieve high levels of impact. Innovation, we have concluded, is just one part of a larger social impact creation process.

DXC's perspective

The article catalogues several pathologies (cause and effect) that explain why innovation fails and how to overcome these; it is a useful reference. For many organisations, innovation fails simply because the budget holder cannot visualise the return on investment (value); hence, innovation does not start, or there is a lack of enthusiasm to continue, especially when encountering practical obstacles productionising the idea (impact and scale). The focus typically turns to continuous improvements (Kaizen approach) of business activities based on gamification and crowdsourcing techniques offering small incentives to the idea nominator.

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Payments

Did Anyone Ask for In-Car Payments?

CardsFTW: A couple of news items and LinkedIn posts about in-car payments caught my eye this week. Car IQ announced a partnership with Visa to enable "vehicles to transact directly with Visa's global ecosystem of merchants and banks, and purchase fuel, tolls, parking, insurance, service, and repairs using the Car IQ Pay vehicle wallet." Earlier this year, Mercedes announced its Mercedes Pay+, which is also enabled by Visa and allows customers in Germany to pay for digital services and on-demand hardware upgrades in the Mercedes me Store using a fingerprint sensor in the car.

Juniper Research says car-based payment transaction volumes should "exceed 4.7 billion by 2026." I will go out on a limb and say I do not buy that. It's hard to get people to pay for things in a new way. We still love to pay for items in old forms. We still barter; we pay with coins, cash, checks, Zelle, Venmo, Cash App, Visa, Mastercard, etc. I can't check out with Apple Pay at Home Depot or Vons Grocery store.

I'm unsure if people recall, but major card issuers attempted to roll out NFC-based contactless payments in 2012 and 2013. I distinctly remember getting a Chase card with a chip (I probably had to call and ask for one), driving to a Jack-in-the-Box, attempting to use it, and finding the cashier who thought I was messing with their card reader.

DXC's perspective

Connected devices are the future of payments. Consumers demand frictionless transactions that are convenient — integrated vehicle payments are a key part of this, moving forward. Being able to pay for fuel or tolls without having to get out of your car and/or entering your card in a device, or pay via a website, is hugely beneficial for the consumer and the merchant (less cost to process payments and more efficient throughput). So I don't see adoption being a barrier to vehicle payments or other connected devices — such as your fridge seeing you have run out of milk, ordering it and making a payment directly with a retailer, and organising a delivery.

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Regulatory

SVB Deep Dive Stresses Supervisory Failure Over Tailoring

NYU Stern Business School: Released an extensive forensic analysis of the causes of the U.S. bank failures this spring and recommendations for related changes to supervision and regulation.

In addition to deeply flawed risk management on the part of the banks, the authors for the most part attributed the failure of supervisors to identify and require correction of the interest rate and funding risks of the banks. They also point to the extended period of rapid Fed balance sheet growth and zero interest rates followed by extremely aggressive interest rate hikes in response to rising inflation.

- **What didn't cause the failures**: Two things the whitepaper concluded appeared to not have contributed to the failures were the 2019 tailoring of bank regulations or a newly lax supervisory culture, causes highlighted in the recent Barr report. The authors note that SVB's failure would not necessarily have been prevented if the bank had been subject to the liquidity, capital, stress testing, and resolution regime in place prior to the tailoring or applicable to larger banks. "[T]his section concludes that the 2019 Tailoring does not seem to have weakened or eliminated any particular rule that would have averted SVB's failure," the authors wrote.

Technology

McKinsey Technology Trends Outlook 2023

McKinsey Digital: After a tumultuous 2022 for technology investment and talent, the first half of 2023 has seen a resurgence of enthusiasm about technology's potential to catalyze progress in business and society. Generative AI deserves much of the credit for ushering in this revival, but it stands as just one of many advances on the horizon that could drive sustainable, inclusive growth and solve complex global challenges.

To help executives track the latest developments, the McKinsey Technology Council has once again identified and interpreted the most significant technology trends unfolding today. While many trends are in the early stages of adoption and scale, executives can use this research to plan ahead by developing an understanding of potential use cases and pinpointing the critical skills needed as they hire or upskill talent to bring these opportunities to fruition.

All of last year's 14 trends remain on our list, though some experienced accelerating momentum and investment, while others saw a downshift. One new trend, generative AI, made a loud entrance and has already shown potential for transformative business impact.

DXC's perspective

All but the smallest banks will have teams that scan the market to track technology trends; so, although McKinsey's view of tech trends will be a useful triangulation point, most will already have formed their own view. What is perhaps of more interest, therefore, are: a) data on talent availability per technology area (skills profiles per job posting) which can guide HR planning; and b) equity investment, interest and innovation per technology area which can inform banks in their lending decisions.

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Other DXC BCM News

Webinar: Digitisation and data trends that are defining the future of banking and building societies

On **3 August**, DXC is hosting a virtual webinar on "Digitisation and Data Trends That Are Defining the Future of Banks and Building Societies." Join financial services experts Andy Haigh and Jeremy Donaldson from DXC Technology to learn how data-driven technologies can help financial services organizations transform customer experience and automate repeated processes. **Register now.**

Webinar: Driving Digital Transformation for Financial Services with Observability and App Modernization

On **7 September**, DXC is hosting a virtual webinar on "Driving Digital Transformation for Financial Services with Observability and App Modernization." In partnership with Dynatrace. Join financial services experts from DXC and Dynatrace to learn to learn how to achieve operational resilience with shift-left powered by Dynatrace and DXC. **Register now.**

Developing a data strategy in banking and capital markets

Data is king. Banks that know how to effectively harness it, manage it and monetize it can derive far better business insights, create significant growth opportunities and stay ahead of regulatory demands. Huge benefits can be reaped by developing a clear data strategy that defines how to access, ingest, and connect the essential data that can drive positive business outcomes. **Read DXC's latest paper** to learn about how banks can get the most out of their data.

Executive Data Series: The banking customer in a data-rich world

In the latest conversation of the Executive Data Series, DXC's Head of Banking and Capital Markets (EMEA) Andy Haigh sits down with Mohammed 'Khal' Khalid to discuss how banks can use data and analytics to transform financial services and improve the customer experience. **Listen to the full conversation (23 mins.) or read the transcript:** https://dxc.to/3NlsbXI

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Should you have any questions on the round-up or a particular topic, please feel free to contact your DXC representative.

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