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)

A.I. Belongs to the Capitalists Now

Note: Accessing the full article may require a subscription.

New York Times: What happened at OpenAI over the past five days could be described in many ways: A juicy boardroom drama, a tug of war over one of America's biggest start-ups, a clash between those who want A.I. to progress faster and those who want to slow it down.

But it was, most importantly, a fight between two dueling visions of artificial intelligence. In one vision, A.I. is a transformative new tool, the latest in a line of world-changing innovations that includes the steam engine, electricity and the personal computer, and that, if put to the right uses, could usher in a new era of prosperity and make gobs of money for the businesses that harness its potential.

In another vision, A.I. is something closer to an alien life form — a leviathan being summoned from the mathematical depths of neural networks — that must be restrained and deployed with extreme caution in order to prevent it from taking over and killing us all.

With the return of Sam Altman on Tuesday to OpenAI, the company whose board fired him as chief executive last Friday, the battle between these two views appears to be over.

Team Capitalism won. Team Leviathan lost.

AI copilots: How are banks using them, and do you need one?

Note: Accessing the full article may require a guest account or subscription.

American Banker: The word "copilot," which used to just mean a person who helped fly an airplane, has been co-opted by a host of technology companies, from mainstream vendors like Microsoft, Google, Salesforce and ServiceNow to financial services software providers like Blend, Q2 and Intuit. (Some call the technology an "assist" or a "sidekick.")

These copilots use advances in generative AI to give employees a level of automated help that was not possible a year ago, by making information easier to find and by actually performing certain simple tasks. They typically use some combination of natural language processing, large language models, knowledge management, workflow and application programming interfaces to existing software to do this work. By calling these programs copilots, tech vendors take some of the scariness out of deploying advanced AI.

"Branding this as a copilot is kind of taking a step back," said Gilles Ubaghs, strategic advisor at Datos Insights. "It's giving banks much more sense of control, of human oversight."

When banks think about using artificial intelligence, they don't want the Terminator, they want Robocop, a client recently told Ubaghs.

Who will benefit from AI?

MIT News: What if we've been thinking about artificial intelligence the wrong way? After all, AI is often discussed as something that could replicate human intelligence and replace human work. But there is an alternate future: one in which AI provides "machine usefulness" for human workers, augmenting but not usurping jobs, while helping to create productivity gains and spread prosperity.

That would be a fairly rosy scenario. However, as MIT economist Daron Acemoglu emphasized in a public campus lecture [in September], society has started to move in a different direction — one in which AI replaces jobs and rachets up societal surveillance, and in the process reinforces economic inequality while concentrating political power further in the hands of the ultra-wealthy.

"There are transformative and very consequential choices ahead of us," warned Acemoglu, Institute Professor at MIT, who has spent years studying the impact of automation on jobs and society.

Major innovations, Acemoglu suggested, are almost always bound up with matters of societal power and control, especially those involving automation. Technology generally helps society increase productivity; the question is how narrowly or widely those economic benefits are shared.

Sensible Guidelines on the Professional Use of Generative AI from the California State Bar

Debevoise & Plimpton: On November 16, 2023, the Committee on Professional Responsibility and Conduct for the State Bar of California ("COPRAC") provided initial recommendations regarding use of generative AI by lawyers (the "Guidance").

The Guidance uses the existing Rules of Professional Conduct as a framework, but recognizes that generative AI is a rapidly evolving technology that might necessitate new regulation and rules in the future. Many of the recommendations in the Guidance were also made in a recently-released proposed advisory opinion by the Florida Bar Board of Governor's Review Committee on Professional Ethics on the same issue. Because of the clear, concise, and practical nature of the COPRAC Guidance, it is likely to become a useful set of guidelines that lawyers can follow when using generative AI for work, but it is also likely to have an impact beyond the legal profession, as general guidance on the responsible use of generative AI for professional tasks.

1. **Framing the Guidance**

The Guidance begins by noting that "[l]ike any technology, generative AI must be used in a manner that conforms to a lawyer's professional responsibility obligations . . . and [a] lawyer should understand the risks and benefits of the technology used in connection with providing legal services. How these obligations apply will depend on a host of factors, including the client, the matter, the practice area, the firm size, and the tools themselves." The

Fortune 50 AI Innovators

Note: *Accessing the full article may require a member account.*

Fortune: Will AI create a world where no job is needed? Will computers achieve human-level intelligence? Where will the dramatic OpenAI storyline end up? The drama unfolding in the world of AI has proven that readers and investors need to follow the space closely—and it's changing minute to minute. Predictions, ideas, and execution around the technology are, to put it mildly, all over the map.

But one thing we know for sure about this sector, which is still in its infancy: Investors and companies large and small are taking it seriously. Microsoft—itself a major player via its relationship with OpenAI—recently found that for every $1 invested in AI, companies are reaping $3.50 in return. And according to Crunchbase, one in four dollars invested in American startups have gone to AI companies this year; already 200 AI unicorns have been created. But as anyone who has lived through a hype cycle knows, even the hottest sector mints far more miserable failures than stunning successes.

For the inaugural Fortune 50 AI Innovators list we canvassed VCs, industry analysts, and our own formidable staff of AI experts to identify companies that are at the cutting edge. One thing we know for sure: The work these companies are doing won't just shape the future of AI, it will shape the world we all live in.

The AI Act breaks barriers where Big Tech builds fortresses

Future of Life Institute (FLI): On 10 November, negotiations on the AI Act were derailed due to pushback from France and Germany, demanding that "foundation models" be exempted from regulation. These are general-purpose models, such as Open AI's GPT-4, that can be adapted for a wide range of functions. A recent non-paper from the three largest EU economies - France, Germany and Italy - argues that the most advanced forms of AI should only be subject to non-binding voluntary codes of conduct.

Developers would only have to publish "model cards", explaining their technology's limitations and testing results. Since this is already standard practice in industry, and harms are already being caused, such provisions provide no protection for European consumers.

If policymakers capitulate to these demands, it will render the legislation dead upon arrival. Under competitive market dynamics, allowing corporations to mark their own homework will do nothing to increase safety - as recognised by UK Prime Minister Rishi Sunak. As noted last week by leading AI expert, Yoshua Bengio, such carve outs would result in the AI Act regulating less advanced AI more than the systems which present the greatest danger.

This legislative disruption results directly from the lobbying efforts of two AI companies, and may push the deadline back from December into next year.

DXC's perspective

If we consider the current situation with the EU AI Act where Germany, France and Italy have pushed back on the regulation of foundation models, and the recent situation with OpenAI, where the CEO and the board found it difficult to align amongst themselves, what we actually might be witnessing is humanity, at various levels (the level of an individual firm, as well as countries) grappling with one dimension of the 'alignment problem' – where should humans calibrate the balance between the risks that could arise from fast-moving, profit-seeking (AI) enterprise, on the one hand, and the need for human societal safety and ethics on the other.

Zohair Gangjee,
Managing Director Industries – Energy, Utilities and Banking
DXC Technology

J.P. Morgan, Capital One and RBC lead Evident's AI maturity index

Finadium: Evident released the latest edition of its AI Index, a global standard benchmark of AI maturity for banks based on over 100 individual indicators gathered from publicly available data. This year the index has expanded to 50 banks. It ranks the world's largest banks on four critical pillars of their AI ecosystem: Talent, Innovation, Leadership, and Transparency of Responsible AI.

Key highlights this year include:

- J.P. Morgan leads the Evident AI Index ranking for the second year running, followed by Capital One and Royal Bank of Canada. These three leaders are breaking away from the rest of the pack, with a consistently strong performance across all four pillars of the Index.
- CommBank and DBS – the Asia-Pacific leaders – debut in the top ten. DBS has pipped the top spot from J.P. Morgan in the Leadership pillar, providing a textbook case study for how to position senior leadership to engage on issues that sit at the intersection of disruptive technology and business strategy.
- European banks continue to lag behind their North American peers. UBS and ING lead the way in Europe, both ranking in the top-ten, followed by strong performances from BNP Paribas in 12th and HSBC in 13th.

The SEVEN Key Risks of Generative AI for Banks

Cashless (Richard Turrin): This executive summary by Singapore's MAS reads like a comic book, and that's not a bad way to learn the seven big risks banks will be taking with Generative AI (GenAI).

👉**TAKEAWAYS: GenAI "risk dimensions."**

1. **FAIRNESS AND BIAS**

Setting fairness objectives to help identify and address unintentional bias and discrimination.

2. **ETHICS AND IMPACT**

Ensuring responsible and ethical outcomes in the use of AI against clearly defined core values and practices. Value misalignment and environmental impact.

3. **ACCOUNTABILITY AND GOVERNANCE**

Enabling accountability and governance for the outcomes and impact of data and AI systems. Unclear 3rd party accountability and inadequate oversight.

4. **TRANSPARENCY AND EXPLAINABILITY**

Enabling human awareness, explainability, interpretability, and auditability of data and AI systems. Lack of output accuracy, misleading users, no recourse…

Minimizing Harms and Maximizing the Potential of Generative AI

NIST: When social media platforms were first created, some companies had lofty goals of bringing people together. To some extent, they succeeded. Social media has allowed people to connect. But it has also led to hate speech, violence, bullying, self-esteem issues in teenagers and other harms.

Decades into the social media era, it's clear that new technologies come with both upsides and downsides.

Now, with the rapid growth of tools such as ChatGPT, Bing Chat, Bard and others, we have a chance to be more intentional at the outset. These tools are called generative artificial intelligence (AI) because they respond to user input or requests, such as questions, by predicting and generating content through the use of deep learning algorithms.

If you've used one of these tools to help you plan a trip or choose a dinner recipe, you may have found that moment just as exciting as discovering a new social media platform.

But maybe you also became concerned about the societal implications of this technology, such as job insecurity or misinformation. We have to be mindful and realistic about both the tremendous potential and frightening possibilities of this technology.

Cloud

Motives of multi-cloud users? Compliance and dodging vendor lock-in top the list

The Register: According to research released today, fears over vendor lock-in and the need to stay compliant with regulations are topping the reasons for multi-cloud adoption.

There are many technical motives for why a company might adopt a multi-cloud approach rather than throwing all their eggs into one vendor's basket, not least of which is operational resilience should something go wrong.

However, the research sponsored by Cockroach Labs points to business needs trumping technical reasons for adoption. Worries about cloud vendor lock-in and regulatory constraints topped the list of drivers at 41 and 42 percent respectively with resilience trailing at 32 percent.

The UK dragged down the resilience score, with just 26 percent listing it as reason, compared to 46 percent of UK respondents choosing regulatory compliance as a reason for adopting multi-cloud.

Regulatory compliance might seem a surprising leading reason, but all companies that operate in Europe - including US and UK ones - must comply with the EU's Digital Operational Resilience Act (DORA).

DXC's perspective

It is absolutely the case that business reasons rather than technology are driving the shift towards multi-cloud. Operational resilience (as opposed to technical resilience) is another one of those reasons and is a key driving force behind the regulation in the first place. The market is waking up to the potential longer-term issues associated with vendor lock-in. Adapting your cloud strategy to ensure you stay compliant and have the right leverage to avoid potential future cost uplifts is going to be key in the medium to longer term.

Jay Hibbin
Cloud Specialist – Financial Services
DXC Technology

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Cybersecurity

Hackers Turned Whistleblower: SEC Cybersecurity Rules Weaponized Over Ransom Threat

Debevoise & Plimpton: On November 7, 2023, the profilic ransomware group AlphV (a/k/a "BlackCat") reportedly breached software company MeridianLink's information systems, exfiltrated data and demanded payment in exchange for not publicly releasing the stolen data. While this type of cybersecurity incident has become increasingly common, the threat actor's next move was less predictable.

AlphV filed a whistleblower tip with the U.S. Securities and Exchange Commission (the "SEC") against its victim for failing to publicly disclose the cybersecurity incident.

AlphV wrote in its complaint (a copy of the submission was shared by the threat actor with DataBreaches on November 15, 2023 and is available here): *We want to bring to your attention a concerning issue regarding MeridianLink's compliance with the recently adopted cybersecurity incident disclosure rules. It has come to our attention that MeridianLink, in light of a significant breach compromising customer data and operational information, has failed to file the requisite* disclosure *under Item 1.05 of Form 8-K within the stipulated four business days, as mandated by the new SEC rules.*

DXC's perspective

Ransomware is a form of blackmail and, as is the case with many blackmail incidents, if the ransom is not paid then the information/knowledge will be made public. This is what appears to have happened here with AlphV/BlackCat. With the new SEC reporting requirements coming into force in a matter of weeks, I expect this type of action or threat of action to become another tactic in the tool bag of the threat actors.

John Mundell
Cybersecurity Sales Lead Europe
DXC Technology

FinTech

Is FinTech Eating the Bank's Lunch?

IMF Working Papers: This paper examines how the growing presence of FinTech firms affects the performance of traditional financial institutions. The findings point to a negative impact on profitability, primarily due to a reduction in interest income and a rise in operational costs.

Although established financial institutions have tried to diversify their revenue streams, these efforts have proven inadequate to offset the losses associated with increased competition from FinTech firms.

Our study also reveals that various FinTech business models, such as Peer-to-Peer (P2P) lending and Balance Sheet lending, have varying effects on financial institutions. Cooperative banks experience more significant profit deterioration under both models, whereas (larger) commercial banks appear to benefit from partnerships with P2P platforms, as evidenced by an increase in non-interest income.

Furthermore, the findings suggest that FinTech presence has a disproportionately larger adverse effect on banks in countries with more competitive, profitable, and developed financial systems. Interestingly, however, traditional financial institutions in countries with stronger regulatory frameworks appear to benefit from the expanding influence of FinTech firms.

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Operational Resilience

Australia's second-largest telco loses its CEO after a network outage that hit almost 40% of the country's population

***Note:** Accessing the full article may require a subscription.*

Fortune: Millions of Australians woke up on the morning of Nov. 8 to find that their phones were completely useless. An unplanned outage from nationwide provider Optus hit customers in the middle of their morning commute and extended throughout the entire day, throwing several systems into chaos. Businesses couldn't process electronic payments, hospitals couldn't take phone calls, and public transport was delayed. The downtime affected some 10 million Australians, equal to about 40% of the country's population.

Now, the outage has claimed its first head, as Optus CEO Kelly Bayer Rosmarin resigned Monday following a critical report from the Australian Senate. Her resignation puts an end to an eventful tenure as the head of Australia's second largest telecoms company, owned by Singapore Telecommunications, also known as Singtel.

Bayer Rosmarin said in a statement released by Singtel on Monday that she has had time for "personal reflection" and her resignation is in the "best interest of Optus moving forward".

Payments

Regional bank CEOs in no rush to shift to fast payments

***Note:** Accessing the full article may require a subscription.*

American Banker: The chief executives of several regional banks say they're reluctant to fully embrace real-time payments just yet. Fraud risks, regulatory uncertainties and the monumental task of implementing real-time payment systems that can instantaneously transfer funds throughout the U.S. financial system and around the world are leading them to take a go-slow approach, the CEOs said [recently] at an industry event hosted by The Clearing House in New York.

The ability to process transactions in real time would make a banking company more appealing to customers, but banks need "clear rules of the road" about how to confront fraud and handle reimbursements, according to Andy Cecere, CEO of Minneapolis-based U.S. Bancorp.

"Fraud is real time," Cecere said. "Processes for reimbursement are in real time. [Rules for] all of those things need to be very clear."

Regulations should apply to all payments players, not just banks, he argued.

"I am more concerned about tech platforms who are getting into banking via the payments mechanism, and doing all the things that a bank does, but not being as regulated as a bank," Cecere said.

DXC's perspective

As many markets move to real-time bank-to-bank payments, fraud concerns continue to dominate the conversation and delay adoption.

Unlike payment cards with clear fraud and dispute processes that govern transactions, real-time payments do not currently have the same controls in place, and most of the pressure is being put on banks to find solutions. This is even more complicated when dealing with cross-border payments.

No doubt, solutions will be found, and real-time payments will continue to grow as highly beneficial to consumers and merchants.

Paul Sweetingham
Global Banking Offering & Solutioning Leader
DXC Technology

Other DXC BCM News

Webinar: Customer outcomes and generative AI in Financial Services

On 6 December, DXC will host a virtual webinar on "Customer outcomes and generative AI in Financial Services." in partnership with Nvidia, the world's most valuable chip company, which has come to dominate the market for chips used in AI systems. Financial services experts from DXC and Nvidia deep-dived to provide insights into how Generative AI has raised the bar for customer outcomes by citing use cases and tangible business outcomes. Register now.

International Banker: Essential Evolution of Banking: How Artificial Intelligence and Digitisation are Reshaping Customer and Employee Experiences in Financial Services

How can the banking and capital markets (BCM) sector keep up with unprecedented transformation due to technological advancements, changing customer expectations, and regulatory requirements?

Dive into this exclusive article by Andy Haigh and Jeremy Donaldson for International Banker, where they explore how artificial intelligence (AI) and digitization are reshaping customer and employee experiences in the industry. Click to read more.

Webinar recording: Essential Evolution of Banking: How Banks Can Transform Testing using AI

On 1 November, DXC hosted a virtual webinar on "How Banks Can Transform Testing using AI." in partnership with Tricentis. Financial services experts from DXC and Tricentis deep dived to provide insights into how adding a layer of intelligence can transform key areas of testing such as test data management and test case design. This intelligent testing enables the safer, more predictable, and faster change that customers, application teams, operations and regulators are all looking for. Watch the recording here.

PoV with AWS: Banks can improve scalability and leverage existing investments with a hybrid cloud strategy

Unlocking the power of hybrid cloud in Banking and Capital Markets. In today's financial landscape, a strategic move towards hybrid cloud is pivotal for scalability and maximizing existing investments. But the question remains: How to do it right?

Discover the answers in this insightful Point of View (PoV) by Dave Wilson from DXC Technology, and Steven Brucato and Steven Wong from Amazon Web Services (AWS). They share invaluable insights on choosing the right technology to meet the evolving demands of modern banking customers and maintain a competitive edge. Click here to read the full article.

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PoV: Banks benefit from managed multicloud services and platforms

Financial services companies use a neat blend of public, private and hybrid clouds to fuel digital transformation. However, getting things right requires carefully managing key functions such as security, data integration and application compatibility. But how to do it successfully?

Read this insightful Point of View by Dave Wilson, Andy Haigh, and Glen Ralph from DXC Technology as they find out why knowing how to integrate, orchestrate and control all the different technologies at play in a complex multicloud environment is important. Click here to read the full article.

Article in The Times (UK): Essential to evolutionary: the phases of banking transformation

The transformation journey for banks is both challenging and essential to stay competitive in today's financial landscape. Dive into our exclusive Raconteur report for The Times and The Sunday Times, by Andy Haigh and Jeremy Donaldson where they explore the crucial steps needed for banks to unlock the full potential of digitization and move beyond industry norms. Click here to read more.

DXC Blog: Digital banking needs the right data — not more data

Unlocking the power of data in banking. Banks aspire to harness the full potential of centralized customer data. But what's hindering their journey to this data destination? Gain invaluable insights from DXC experts Andy Haigh and Mohammed 'Khal' Khalid as they delve into the challenges faced by banks in achieving a 360-degree view of customer data and how to overcome them. Dive into the blog.

DXC Blog: AI and data analytics for a data-rich future in banking

AI is revolutionizing Banking and Capital Markets. From fraud detection to risk assessment, it's transforming every facet of finance. Yet, many institutions grapple with scaling AI. Discover actionable insights from DXC experts David Rimmer and Dave Wilson on bridging the gap from experimentation to production. Dive into the blog here.

DXC Gold Sponsor at the 6th World Digital Banking Summit, Berlin

DXC was the Gold Sponsor and exhibitor at the 6th World Digital Banking Summit in Berlin on 5-6 October. This was another fantastic event for our vertical.

As a follow up from our sponsorship and participation at the Banking Transformation Summit in London in June, Andy Haigh and Mohammed ("Khal") Khalid delivered their story of the bank of the future in a data-rich world in a keynote speech on the morning of the 5th of October, and Christian Valerius took part in a roundtable on the future of digital transformation in banking.

Click here to watch the whole keynote speech – we get to experience the full animation and story narration, and the reasoning why we have this vision for the bank of the future.

Click here to watch the roundtable discussion – very useful insights from Christian Valerius on why the transformation towards a data-driven organization is essential.

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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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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. The world's largest companies and public sector organizations trust DXC to deploy services to drive new levels of performance, competitiveness, and customer experience across their IT estates. Learn more about how we deliver excellence for our customers and colleagues at **DXC.com**.