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 Technology's 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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DXC Technology Banking and Capital Markets bi-weekly news round–up

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Artificial Intelligence (AI)

Powerful AI Is Already Here: To Use It Responsibly, We Need to Mitigate Bias

NIST: We are all witnessing a revolution in the progress of artificial intelligence (AI) and its adoption. AI's latest content creation capabilities have created an enormous interest in the media and the public.

ChatGPT most recently demonstrated an astonishing ability to generate coherent text when you ask it to write an essay or answer a question. Along with excitement, many ethical questions immediately popped up. Are these systems able to reason on par with humans? Are they aware of the content they generate? Are their answers fair and unbiased?

But AI is not just about chatbots anymore. Even if you've never used a tool like ChatGPT, AI is already affecting your life. AI may have been used in your doctor's office or bank without you even knowing.

Here too, we need to worry about the same issues, including:

- fairness,
- bias,
- security, and
- robustness and resilience.

These are all part of what's known as trustworthy AI. As the power of AI grows, businesses, governments and the public will have to manage AI's impact on society.

The key will be to allow the industry to innovate while managing risk. Although it will be challenging, we will have to find the right balance among self-interest, business interest and societal interest.

DXC's Perspective

Unlike human beings, machines do not have inherent biases. Rather, they are subject to the choices of data and algorithmic features selected by the people building them.

When appropriately developed and deployed, AI can remove the attributes that lead to biases and can learn how to detect potential biases, particularly those unconscious biases that are unintentional and hard to uncover in decision-making processes. Following detection, AI can alert managers to the presence of biases.

In short, AI has an enormous potential to help guard against bias if it is carefully designed. For example, AI can play a critical role in two key areas: ensuring that all qualified candidates have equal access to job opportunities and supporting HR and managers in making fair employment decisions.

Murtuza Yusuf
Head of Intelligent Automation Solution and Delivery
DXC Technology

Responsible AI: How to make your enterprise ethical, so that your AI is too

DXC: A paper about the importance of establishing fundamental principles and processes when developing artificial intelligence

Artificial intelligence — once considered an exotic preserve of the tech-savvy few — is now a mainstream force multiplier. To treat AI as ephemeral is risky when it is transforming core business applications and processes. In a survey of 600 CIOs and other technology leaders conducted by MIT Technology Review Insights, 6% or less say their companies are *not* using AI today. Today's consumers engage daily in AI-enabled transactions to complete routine tasks such as making travel reservations, managing their financial affairs and shopping online.

AI is here to stay, but so too are the issues and business implications around its use and impact. Companies leveraging AI face emerging legal and regulatory demands, as well as continuing distrust — even fear — of AI among consumers.

Bank Sector

Where Banks Will Invest Their 2023 Technology Budgets: AI, APIs, CRM

Forbes: OBSERVATIONS FROM THE FINTECH SNARK TANK

If you want to know which technologies will be hot in the banking industry in 2023, heed the advice of Deep Throat.

Sorry, but that's not a porn reference. In the movie All The President's Men, Woodward and Bernstein's informant—whom they refer to as Deep Throat—tells them: "Follow the money."

A new study from Cornerstone Advisors, What's Going On in Banking 2023, follows the money and reveals where banks and credit unions will place their technology bets in this uncertain year.

Uncertain not just because of the economic conditions, but because of the vagaries of the organizational and technological environments in which banks operate.

Big Tech

Apple's Push Into Next-Generation Financial Services Hits Delays

Bloomberg: Apple's slate of new financial services — including "buy now, pay later" offerings, savings accounts and an iPhone subscription program — have hit delays.

Also: The company hires its first chief people officer, shifting those responsibilities from its head of retail.

Power On: Apple talks up high-end iPhones in sign that an Ultra model may be coming.

The Starters

Expanding into financial services is one of Apple Inc.'s biggest growth opportunities. But it's also one of the most challenging. The company's new initiatives have suffered engineering and technical setbacks that have led to slow progress and missed deadlines.

Over the past eight months, the tech giant has announced at least two new features: a "buy now, pay later"-style service and a savings account program that will be tied to the Wallet app. The former, called Apple Pay Later, was introduced in June and was set to launch in September 2022. The latter, meanwhile, was unveiled in October and was supposed to be delivered many weeks ago.

Big techs in finance: forging a new regulatory path

BIS: Remarks prepared for delivery by Mr. Agustín Carstens, General Manager, Bank for International Settlements, at the BIS conference "Big techs in finance – implications for public policy", Basel, Switzerland, 8–9 February 2023.

As big techs continue to push into financial services on the back of their data-driven business model, it is increasingly evident that the current regulatory approach is not fully fit for purpose to address related policy challenges. A regulatory re-think is warranted, and it is high time to consider tangible options for action.

One of the following approaches could serve as a basis for a new regulatory framework for big techs in finance. The "restriction" approach would prohibit big techs from engaging in regulated financial activities. The "segregation" approach would require big techs to form a financial subgroup that would be ring-fenced.

And the "inclusion" approach would impose group-wide requirements on governance, conduct, operational resilience and, only when appropriate, financial soundness. The segregation and inclusion approaches are to some extent compatible, and in practice a combination of both may be desirable.

Blockchain

How Mastercard, Goldman Sachs And Other "TradFi" Titans Are Using Blockchain To Rewire Global Finance

Forbes Digital Assets: Crypto is in crisis, but many of the world's biggest financial institutions are still banking on the underlying tech as the best way to build confidence with customers—and with one another.

There will always be new payment technology," says Michael Miebach, chief executive of Mastercard, the world's second-largest payments company. "First there were cards using ISO 8583 [ISO numbers refer to international standards] messaging technology, which is 50 years old, then real-time payments became real with ISO 20022. And then came blockchain, and we said okay, what would that solve? There's a whole set of real-life problems out there that blockchain can solve."

In late January, the 55-year-old Miebach told analysts and shareholders that his company had surpassed 2 billion "tokenized" transactions per month, up 38% in a year, and that Mastercard was enabling digital payments in 110 countries. The big benefit? Less fraud.

Today, tokenization at Mastercard means replacing the 16-digit number on your plastic credit card with a supersecure unique digital record for every transaction, without ever leaving behind your identity in the form of a credit card number.

DEPOSIT TOKENS: A foundation for stable digital money

Oliver Wyman: This report was written in collaboration with Onyx by J.P.Morgan. The external authors of this piece includes Naveen Mallela (Onyx by J.P. Morgan), Basak Toprak (Onyx by J.P. Morgan), Nelli Zaltsman (Onyx by J.P. Morgan) and Mario Tombazzi (Onyx by J.P. Morgan).

The increasing attention and ongoing development of blockchain technologies highlight the need for blockchain-native “cash equivalents” — instruments that act as liquid means of payment and stores of value in blockchain-native environments.

This demand has predominantly been met by stablecoins historically. However, the possible adoption of blockchain for payments and complex commercial transactions at scale, including sophisticated institutional activity, raises questions as to what forms of digital money will be best suited to support the transfer of value on blockchain systems.

Blockchain-based deposit tokens are a promising, emerging form of digital money. They are the equivalents of existing deposits, held by a licensed depository institution such as a commercial bank, but recorded on a blockchain.

From an issuing bank’s perspective, deposit tokens are simply a redistribution of deposit liabilities on the bank’s balance sheet, with no changes in the bank’s composition of assets.

Cloud

Many risks lurk for banks in the cloud: Treasury report

Note: The article may require a subscription

American Banker: Banks and their tech providers are running into problems as they navigate an industry-wide shift to cloud computing, the U.S. Treasury Department found.

In a report published on February 8, the government cited a lack of transparency among cloud service providers, which hampers banks' ability to monitor their vendors; a shortage of cloud computing expertise at community banks; and concentration risk from a small number of providers serving a large number of financial institutions.

"While cloud services can increase access and reliability for local communities as well as empower community banks to compete with financial technology firms, the report found that financial service firms ramping up their reliance on cloud-based technologies need more visibility, staff support and cybersecurity incident response engagement from cloud service providers," the Treasury said in its announcement of the report.

Cyber Security

DXC Technology recognized as a cybersecurity leader by Omdia

DXC: Research firm cites DXC strengths including its global presence and broad service capability, high security expertise and deep partner ecosystem

Omdia named DXC a leader in its Global IT Security Services Provider 2022-23 Universe report, which assessed a broad range of services: consulting; professional services; managed security services (MSS); cybersecurity consulting, integration and advisory; threat detection and intelligence, industry cybersecurity solutions; and cybersecurity technology & software.

DXC Technology has been named as a leader in Omdia's Global IT Security Services Provider 2022-23 Universe report. DXC ranked first overall across for managed security services; cybersecurity consulting, integration and advisory; and cybersecurity technology and software.

Omdia describes market leaders as offering the most comprehensive, well-integrated, end-to-end cybersecurity solutions available globally. Market leader characteristics also include customers being strong advocates; broad, mature and evolving capabilities; and a global capability presence.

Building Cyber Security Resilience: NIS 2 enters into force

HSF: The NIS 2 Directive (Directive 2022/2555) on measures for a high common level of cyber security across the EU has now entered into force.

Member states must now incorporate the provisions into their national law by **October 2024**.

NIS 2 will replace its predecessor – NIS (Directive 2016/1148), which was the first cross-sector cyber security law in the EU.

NIS 2 has been necessary because the speed at which network and information systems have developed into a central feature of everyday life has led to greater interconnectedness, including in cross-border exchanges and, with this, has come an expansion of the cyber threat landscape.

The number, magnitude, sophistication, frequency and impact of incidents are increasing, and can impede the pursuit of economic activities in the internal market, generating financial loss, undermining user confidence and causing major damage to the Union's economy and society.

Cyber security preparedness and effectiveness are therefore now more essential than ever to the proper functioning of the internal market; "adapted, coordinated and innovative responses" are required in all member states, says the EU. NIS was not implemented consistently across member states with, for example, some services being categorised as "essential" in some countries but not in others.

Digital Identity

Now is the time for banks to secure role in digital identity

Note: Registration is required to download the full report

Mobey Forum: New report examines the rise of digital identity wallets and opportunities for banks to expand services to become trust brokers in the digital trust economy

A new report published on January 31 by Mobey Forum's Digital Identity Expert Group has identified unique opportunities for banks to leverage their position as custodians of personal data to offer value-added digital identity services and become brokers of trust in the digital economy. The report suggests that for digital identity systems to succeed, banks must bridge the divide between private and public sector and drive adoption of so-called digital identity wallets.

The report, entitled *"The Rise of Digital Identity Wallets: Will Banks Be Left Behind?"*, contends that growing consumer demand, regulatory mandates such as eIDAS in Europe, and the trend toward digital identity wallet issuance by global governments are requiring financial institutions to consider now the role they wish to stake out in the emerging digital identity ecosystem.

DXC

It's time to transition to intelligent test automation

DXC: A blog about the benefits of moving away from manual testing

One of the most common testing issues we hear about from businesses is that they're experiencing problems because of long-running scripts or scripts that stopped responding. What's at play here?

Let's start with the fact that writing test scripts can be an arduous process, and often, these scripts are written to solve an immediate problem, so longevity isn't top of mind. This short-term view can be detrimental to business — and not just because of download and execution costs. Long-running scripts can wreak havoc on CPU time, processor cycles and overall network performance. This can create chain events throughout the organization, stalling business activities, affecting the customer experience and reducing ROI.

On top of all this, developers have their own set of problems. Tools and techniques are always changing, and it can be difficult to keep up with new practices in writing testing scripts. Many organizations also lack enough testers, leaving more workload to the developers. Offices often have a blend of both new technology and legacy systems, which can result in even more scripting tasks. It can become too much for staff to handle, leading to a lack of quality testing which, in turn, slows down the speed of completion.

ESG

Driving better insights for ESG decision makers

DXC Leading Edge: A DXC Leading Edge report about reaching ESG goals with improved data strategies and next-gen technologies

For business executives, there is no path forward that doesn't have sustainability as a core tenet. Sustainability remains one of the highest business priorities for executives, no matter the industry in which they work.

As such, every leader in business has also effectively become an environmental, social and governance (ESG) decision maker, from the CEO on down. The situations differ, but for each leader, the importance remains high. This is the case, for example, for CFOs seeking capital from ESG fund managers, chief people officers promoting workforce diversity, and logistics leaders improving environmental compliance across supply chains.

ESG: The business insight gap

Yet the efforts of many organizations are hindered because they lack the real-time, analytical data and deep insights required to make effective decisions. This ESG void subverts the ability to address outcomes and business performance in tandem.

Payments

Westpac gives credit cards a BNPL twist

Finextra: Westpac has developed a novel twist on the buy now, pay later concept, giving credit card customers the opportunity to pay off their bills in four instalments

In the coming months, Westpac credit card customers will be able to link their existing credit card to a new PartPay digital card, enabling them to split their purchases into an initial instalment, with a further three fortnightly instalments to follow.

Westpac consumer and business banking chief executive, Chris de Bruin, says the new feature is about giving customers more control.

"The payment landscape has changed and customers have told us they like the option of making payments in instalments," he says. "This new feature provides that flexibility in a fast and convenient way, via a digital card that can be downloaded in the Westpac app."

Purchases on the PartPay digital card must be $100 or more and within the customer's approved card limit. No late payment fees will be charged for missing an instalment. Instead, the outstanding credit will be transferred to the consumer's card purchase balance where standard interest rates will apply.

DXC's Perspective

Westpac is part of a number of banks that are aiming to compete with buy-now-pay-later (BNPL) propositions embedded within the retail checkout journey. They are aiming to retain customer spend and keep their products top of wallet. Many existing BNPL schemes bypass issuing banks. This results in a loss in revenue as the customer is not required to use their credit or debit card at point of purchase. With increased regulations in this sector, banks will believe they can offer a competitive product and leverage their risk approach to mitigate irresponsible lending.

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Technology

New Exascale Supercomputer Can Do a Quintillion Calculations a Second

Note: The article requires a subscription

Scientific American: New "exascale" supercomputers will bring breakthroughs in science. But the technology also exists to study nuclear weapons

"Exascale" sounds like a science-fiction term, but it has a simple and very nonfictional definition: while a human brain can perform about one simple mathematical operation per second, an exascale computer can do at least one quintillion calculations in the time it takes to say, "One Mississippi."

In 2022 the world's first declared exascale computer, Frontier, came online at Oak Ridge National Laboratory—and it's 2.5 times faster than the second-fastest-ranked computer in the world. It will soon have better competition (or peers), though, from incoming examachines such as El Capitan, housed at Lawrence Livermore National Laboratory, and Aurora, which will reside at Argonne National Laboratory.

Web 3

Insight Paper on Web3

GOV.UK: This paper sets out the perspective of the DRCF on the possible harms and benefits associated with Web3, and explores the regulatory considerations across the DRCF member regulator remits that may be relevant to applications related to Web3.

In November 2021, the member regulators of the Digital Regulation Cooperation Forum (DRCF) – the Competition and Markets Authority (CMA), Ofcom, the Information Commissioner's Office (ICO) and the Financial Conduct Authority (FCA) – launched a technology horizon scanning programme to provide a coherent view of new and emerging digital markets and technologies.

As a part of this programme, the DRCF held a symposium on Web3, which brought together representatives from academia, industry, government and regulators to understand how technologies associated with Web3 are evolving, and to identify regulatory opportunities and challenges facing both firms and public authorities.

Building on the contributions at the DRCF's Web3 Symposium, this Insight Paper:

- provides context to the ideas behind visions for Web3 with a brief history of the development of the web and explains the key concepts and technologies underpinning these visions
- presents the DRCF's perspective on the possible benefits of the concepts and technologies associated with Web3, as well as the existing and potential consumer harms and wider societal risks
- explores the regulatory considerations across the DRCF member regulator remits that may be relevant to applications related to Web3

Other DXC BCM News

Cloud Right in Financial Services Marketing Campaign

Pressured by growing customer expectations and the need to modernize legacy systems, the Banking and Capital Markets industry is at a critical juncture. Many banks are turning to cloud as a catalyst for rapid service delivery and increased agility, and those that execute a well-planned cloud strategy with the right skills in place will have tremendous opportunities to achieve competitive advantages and business success.
Read our paper to learn how and why.
Watch the video
Like and share on LinkedIn

ESG Data Marketing Campaign

Making the transition to a more environmentally and socially sustainable world has become an urgent business imperative for financial services institutions.
Read our paper to learn how and why.
Read the blog
Watch the video

DXC BCM Video Series: Future focus areas for Know Your Customer (KYC) in financial services

This video is first in a series of interviews with subject matter expert from DXC's Banking and Capital Markets practice. In this video, Jeremy Donaldson, managing director of DXC Banking and Capital Markets, talks about how DXC is helping the financial services sector address the importance of KYC. Watch and share this video.

DXC BCM Video Series: Financial Services and ESG: rethink your strategy

This video is second in a series of interviews with subject matter expert from DXC's Banking and Capital Markets practice. In this video David Rimmer discusses the importance customers are placing on sustainability compliance in their strategy and the targets they are setting. Watch and share this video.

DXC BCM Video Series: What's the bank of the future when it comes to true data-driven insights?

This video is third in a series of interviews with subject matter expert from DXC's Banking and Capital Markets practice. Unstructured data is currently attracting a lot of interest among banking and capital market innovators. What exactly is it, and why is it important? More crucially, what the does bank of the future look like? In this video, Andy Haigh provides his vision for the bank of the future. Watch and share this video.

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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**.