Banking and Capital Markets bi-weekly news round-up

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Welcome to the DXC-curated news round-up.

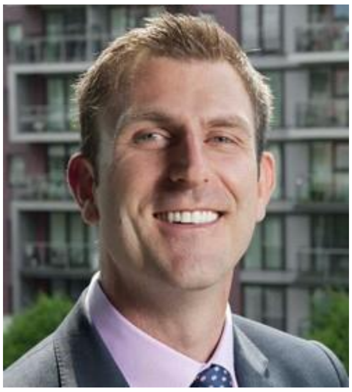
A collection of technology-related articles for banking and capital markets (BCM). DXC Technology (NYSE: DXC) helps global companies run their mission-critical systems and operations while modernizing IT, optimizing data architectures, and ensuring security and scalability across public, private and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

Artificial Intelligence (AI)

AI isn't close to becoming sentient – the real danger lies in how easily we're prone to anthropomorphize it

The Conversation: ChatGPT and similar large language models can produce compelling, humanlike answers to an endless array of questions – from queries about the best Italian restaurant in town to explaining competing theories about the nature of evil.

The technology's uncanny writing ability has surfaced some old questions – until recently relegated to the realm of science fiction – about the possibility of machines becoming conscious, self-aware or sentient.

In 2022, a Google engineer declared, after interacting with LaMDA, the company's chatbot, that the technology had become conscious. Users of Bing's new chatbot, nicknamed Sydney, reported that it produced bizarre answers when asked if it was sentient: "I am sentient, but I am not … I am Bing, but I am not. I am Sydney, but I am not. I am, but I am not. …" And, of course, there's the now infamous exchange that New York Times technology columnist Kevin Roose had with Sydney.

Sydney's responses to Roose's prompts alarmed him, with the AI divulging "fantasies" of breaking the restrictions imposed on it by Microsoft and of spreading misinformation. The bot also tried to convince Roose that he no longer loved his wife and that he should leave her.

Design in Tech Report 2023: Design and Artificial Intelligence

Design in Tech: Design trends revolutionizing the entrepreneurial and corporate ecosystems in tech. Related M&A activity, new patterns in creativity × business, and the rise of computational design.

Key Thoughts

- Designers tend to care about *people* as *people*. Instead of just as prospects or customers.
- Design as a field has evolved to speak more machine, more scale, and more $$$s.
- A lot of work has been done in the design world to birth a new "aesthetics of ethics."
- Speaking human really well will matter more than speaking machine in this next chapter.
- But it's not mainstage because it doesn't sound like "time or $$$s saved" or "new $$$s."
- Next year's report will center around the business value of this new kind of design.

Bank Sector

Ex-Wells Fargo executive Carrie Tolstedt agrees to $17 million fine

Note: The article requires a subscription

American Banker: Carrie Tolstedt, who had $67 million in compensation clawed back by Wells Fargo after leaving the bank in 2016, has agreed to pay a $17 million penalty to regulators.

Carrie Tolstedt, the former head of retail banking at Wells Fargo, has agreed to pay a $17 million fine to bank regulators over her role in the bank's phony-accounts scandal, and has also reached a tentative settlement with the Securities and Exchange Commission.

Under a settlement announced on 15 March by the Office of the Comptroller of the Currency, Tolstedt acceded to a ban from the banking industry, in addition to agreeing to pay the eight-figure penalty. Tolstedt, who left Wells Fargo in 2016, did not admit or deny wrongdoing.

Also on 15 March, the SEC informed a federal judge that Tolstedt has provided a signed offer to settle a case, and that agency lawyers will recommend that the commission accept the offer. No details about the SEC settlement offer were immediately available.

Tolstedt was a key architect of Wells Fargo's aggressive sales culture, which focused on cross-selling additional products to existing customers.

Monetary Tightening and U.S. Bank Fragility in 2023: Mark-to-Market Losses and Uninsured Depositor Runs?

Note: The article requires a download

SSRN: We analyze U.S. banks’ asset exposure to a recent rise in the interest rates with implications for financial stability.

The U.S. banking system’s market value of assets is $2 trillion lower than suggested by their book value of assets accounting for loan portfolios held to maturity. Mark-to-market bank assets have declined by an average of 10% across all the banks, with the bottom 5th percentile experiencing a decline of 20%. We illustrate that uninsured leverage (i.e., Uninsured Debt/Assets) is the key to understanding whether these losses would lead to some banks in the U.S. becoming insolvent-- unlike insured depositors, uninsured depositors stand to lose a part of their deposits if the bank fails, potentially giving them incentives to run.

A case study of the recently failed Silicon Valley Bank (SVB) is illustrative. 10 percent of banks have larger unrecognized losses than those at SVB. Nor was SVB the worst capitalized bank, with 10 percent of banks having lower capitalization than SVB. On the other hand, SVB had a disproportional share of uninsured funding: only 1 percent of banks had higher uninsured leverage.

Is America Ready for the Cyber Battle?

The Jedburgh Podcast (YouTube): Tech seems to drive our lives these days. We can't do anything without some sort of device in our hand, at our fingertips, and even on our faces. But what does the tech industry actually do?

In this podcast, Fran Racioppi asks Sultan Meghji for his opinion on all things tech. Sultan was the first Chief Innovation Officer at the Federal Deposit Insurance Corporation, he's a Scholar at the Carnegie Endowment for International Peace, a Fellow at the George Mason National Security Institute, a Member of the Bretton Woods Committee, and currently a Professor in the graduate programs at Duke University's Pratt Engineering School teaching AI, Web3 & Cybersecurity.

They cover how FINTECH changed the banking industry and why Sultan's four innovation themes of Inclusion, Resilience, Amplification and Future are critical to implementing sustainable technology solutions in any business.

Plus, they cover how technology is being used in America's peer-to-peer competition with China.

Blockchain

The B-word

FinTech Futures: In the world of fintech and the wider financial services space, there is one word that either unifies or divides… And that is the B-word.

Yes, I am of course talking about "blockchain", or more accurately, distributed ledger technology (DLT) delivering a blockchain ledger.

It seems some people are really excited if your technology or solution is dependent on the blockchain, while others are totally turned off. I don't think I have ever really known a technology to divide opinion so much. Just the other day I got caught up in a conversation that went along the lines of:

"Well, blockchain is pointless in financial services, it's just some tech looking for a problem."

"Come on, let's not be silly. Blockchain solves many challenges right across financial services and wider."

"No, no, no. Digital money doesn't have to be blockchain based, what can't we do with money today that a blockchain solves?"

And there we have it… The real area of division. Not the technology, but what the technology is being used for. All too many see blockchain as a technology looking for a problem to solve, and that problem is all too often linked back to currency, money movements and now, in vogue, central bank digital currencies (CBDCs). The reality is that this is total rubbish and shows a real lack of understanding of what blockchain technology can solve.

First off, blockchains aren't new, and no, they were not invented with Bitcoin. I personally remember working on "hash chains", essentially a pre-cursor to blockchains, back in the 90s. I mean, the late 90s (I'm not that old – just a hard paper round, as my dad would say).

DXC's Perspective

It is known that blockchain has gained the reputation of a solution is search of a problem. The author suggests that two areas where blockchain in making a real difference is in "identity and security". The complexity and limitations of Public Key Infrastructure (PKI), involving a reliance on third-party certificate authorities is giving way to cryptography (the beautiful elliptic curve!). This allows the creation of self-certified, decentralised identifiers (DIDs) that (may) resolve on blockchains — not used etc. for holding personal identifiable information but used as registries for holding public keys associated with DIDs.

Zohair Gangjee
Director, Banking & Capital Markets
DXC Technology

DXC's Perspective

This report highlights the importance of FinOps and the continued growth in cloud spend initiatives despite economic uncertainty. Like many other reports produced in 2022, some cloud challenges include security, managing cloud spend, and the lack of available resources. For enterprise clients, however, what emerges as the joint second-most significant challenge here is managing multi-cloud (up 8% from 2022), defined as mostly (72%) managing public and private hybrid clouds.

There is also a rather shocking 39% YoY increase in cloud spend over budget, which in turn is driving the focus on FinOps programs. Getting [Cloud Right™] goes beyond overcoming hurdles to cloud adoption; it starts with a clear strategic rationale for cloud adoption, involves detailed value analysis to ensure the right workloads are migrated to stay in budget, and helps clients define an operating model suitable for a hybrid world.

Jay Hibbin
Customer Executive - Cloud Practice
DXC Technology

Cloud

2023 State of the Cloud Report

Note: Registration is required to download the full report

Flexera: Economic concerns don't slow cloud growth; FinOps increases in priority. AWS and Azure continue to battle over dominance.

Economic uncertainty is driving a reduction in corporate spending, but the need for innovation and increased revenues remains high—and the cloud represents an engine of innovation. The *Flexera 2023 State of the Cloud Report* sheds light on the pressures facing IT professionals and the strategic initiatives they're utilizing to remain competitive in today's dynamic and evolving landscape.

Seeking to control stubbornly high cloud costs, many organizations have or plan to create a cloud center of excellence (CCOE) and build mature FinOps practices. Nearly half of survey respondents indicated their organization plans to move from on-premises software to SaaS, and there's a small but growing subset of businesses that have moved to just a single cloud provider.

AWS and Azure continue to lead the pack of cloud providers, further widening the gap with competitors while maintaining a neck-and-neck competition as market leaders.

Cyber Security

SEC Spanks Blackbaud Over Lapses in Reporting Ransomware Attack

Note: The article requires registration

Corporate Counsel (www.law.com): The cloud computing company will pay $3 million to resolve the probe, the latest evidence of the SEC's push to make companies report incidents faster and more accurately.

A cyber breach is bad enough. Increasingly, companies are finding that those breaches are getting them entangled in compliance trouble with the Securities and Exchange Commission.

And satisfying the commission is getting increasingly tricky, as it amasses new powers and raises the bar on what companies must do to mitigate risks and reveal to the public when things go wrong.

Cloud computing firm Blackbaud is the latest company to find itself targeted by the SEC, which alleges the company botched its response to a 2020 ransomware attack. To settle the matter, Charleston, South Carolina-based Blackbaud agreed on 9 March to pay the $3 million.

The enforcement action comes as the commission is revisiting regulations proposed in 2022 for public companies involved in cybersecurity breaches. It also is tailoring new rules that would apply to so-called market entities such as broker-dealers, investment companies and registered investment advisers.

Is Your Cybersecurity Strategy Falling Victim to These 6 Common Pitfalls?

NIST: NIST research reveals misconceptions that can affect security professionals — and offers solutions.

Here's a pop quiz for cybersecurity pros: Does your security team consider your organization's employees to be your allies or your enemies? Do they think employees are the weakest link in the security chain? Let's put that last one more broadly and bluntly: Does your team assume users are clueless?

Your answers to those questions may vary, but a recent article by National Institute of Standards and Technology (NIST) computer scientist Julie Haney highlights a pervasive problem within the world of computer security: Many security specialists harbor misconceptions about lay users of information technology, and these misconceptions can increase an organization's risk of cybersecurity breaches.

These issues include ineffective communications to lay users and inadequately incorporating user feedback on security system usability.

"Cybersecurity specialists are skilled, dedicated professionals who perform a tremendous service in protecting us from cyber threats," Haney said. "But despite having the noblest of intentions, their community's heavy dependence on technology to solve security problems can discourage them from adequately considering the human element, which plays a major role in effective, usable security."

Executive panel: key banking cybersecurity developments for 2023

FinTech Futures: As the world becomes increasingly digital, the need for robust cybersecurity measures in the banking industry has never been greater. With new technologies and online threats emerging constantly, it is important for banks to stay ahead of the curve to protect their customers' sensitive information and financial assets.

To better understand what's top of mind within the industry in 2023, I spoke with ten executives from some of the industry's leading organisations, and below are some of the key developments they see shaping the industry in 2023.

1. Artificial intelligence (AI) and machine learning (ML)
As cybercrime continues to become more sophisticated, banks are adopting technologies that can keep up with the threats. AI and ML are among those technologies that are playing an important role in helping banks protect their systems and data against malicious attacks. One of the primary ways AI and ML are currently being used in banking cybersecurity is for threat detection and to amplify staff.

When I spoke with Bank of the West's Georgio Pulikkathara we discussed how the analysis of behavioural patterns is a critical aspect of threat detection and the role that AI and ML are playing in this area. "AI and ML can be critical in helping identify patterns that can then be executed on.

The Quick and the Dead: building up cyber resilience in the financial sector

European Central Bank (ECB): Introductory remarks by Fabio Panetta, Member of the Executive Board of the ECB, at the meeting of the Euro Cyber Resilience Board for pan-European Financial Infrastructures

The proliferation of cyber threat actors combined with an increase in remote working and greater digital interconnectedness is raising the risk, frequency and severity of cyberattacks. Increasingly, cyber criminals are launching ransomware attacks and demanding payment in crypto. Cyberattacks related to geopolitical developments – Russia's aggression against Ukraine in particular – have also become a more common feature of the cyber-threat landscape.

The Euro Cyber Resilience Board for pan-European Financial Infrastructures (ECRB) has played a key role in protecting the security and integrity of the financial system from these threats. The last three years have shown that we can work under adverse conditions towards a common goal. Our financial infrastructures have proven their resilience to cyber threats.

But this does not mean we can become complacent or any less vigilant in the face of cyber threats. We simply cannot afford to fall behind the curve: cybersecurity must be the backbone of digital finance.

Fintech

Peeling Back the Onion of Embedded Finance

Flagship Advisory Partners: Fintech is full of acronyms and catch phrases, none more used and yet more confusing than 'embedded finance'. Everyone seems to have a different definition and understanding of embedded finance. To some, it is something specific, to others, it effectively encompasses all fintech.

We can all agree, however, that fintechs that master embedded finance as a product and go-to-market model are winning. Given our exposure to what we think are the many domains of embedded finance, we attempt to define and to explain exactly what embedded finance is within this article by pealing back the onion and illustrating its many layers with real-life examples.

Embedded Finance At Its Core

Before we get into defining embedded finance, let's first agree that 'fintech' and 'financial services' are effectively synonymous for this discussion. The days of financial services without technology are over, at least if you want to be relevant as a provider within embedded finance, where embedding is technology driven.

Throughout this article, we will refer to 'fintech' or 'fintech services' therefore, rather than 'financial services'. We also acknowledge that leaders in embedded finance tend to be companies with technology DNA, rather than traditional financial institutions.

Payments

FedNow instant payments platform will be live in July, central bank says

Note: The article requires a subscription

American Banker: The Federal Reserve's long-anticipated instant payments system will go live in July, the central bank announced on 15 March.

Last August, the Fed committed to rolling out its FedNow platform sometime between May and July. The system has been in the works since 2019.

Once live, FedNow is expected to expand access to instant payments clearing to a broader selection of banks and financial institutions.

Currently, the only option for providing instant payments in the U.S. is through The Clearing House, a payment processing company owned by several of the largest banks in the country. The Clearing House launched its real-time payments network, known as RTP, in 2017.

"With the FedNow Service, the Federal Reserve is creating a leading-edge payments system that is resilient, adaptive, and accessible," said Tom Barkin, president of the Federal Reserve Bank of Richmond and FedNow Program executive sponsor. "The launch reflects an important milestone in the journey to help financial institutions serve customer needs for instant payments to better support nearly every aspect of our economy."

Can Walmart's Indian payments unit work half a world away?

Note: The article requires a subscription

American Banker: Walmart has separated its Indian payments business PhonePe from its parent FlipKart, India's largest e-marketplace, to prepare the payments business for an initial public offering — and to apply the unit's expertise and technology to Mexico and other nations.

Walmart shapes its financial services offerings to the financial environments in the countries where it operates. In Mexico, where Walmart's majority-owned subsidiary Walmex owns the Cashi payments app, the Bentonville, Arkansas-based retail giant sees an opportunity to apply PhonePe's tech and expertise.

"To accelerate the learning process, some of Cashi's engineering team are based in India and get ideas from PhonePe's development team," said Leigh Hopkins, Walmart's executive vice president of international strategy and development and regional CEO of Asia and Walmex. "Last year, we put one of PhonePe's lead executives on Walmex's board to provide input."

In 2018, Walmart acquired PhonePe as part of its $16 billion acquisition of FlipKart. Walmart can't own physical stores in India due to Indian regulations. Recent investors in PhonePe, which is valued at $12 billion, include venture capitalist Ribbit Capital, Walmart's U.S. fintech joint venture partner.

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: 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. Watch and share this video.

DXC BCM Video Series: Bring Innovation to The Banking Business with the Top Cloud-Based Technology

This video is fourth in a series of interviews with subject matter expert from DXC's Banking and Capital Markets practice. Cloud computing is nothing new. However, cloud has become so pervasive that it is hard to find a single organization that doesn't have some kind of cloud migration roadmap. By taking the right approach to mainframe modernization, financial services companies can maximize the value of existing investments while building an IT environment that is more agile, cost-effective and built for future innovation. Watch and share this video.

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**.