Banking and Capital Markets bi-weekly news round-up

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Welcome to the DXC-curated news round-up.

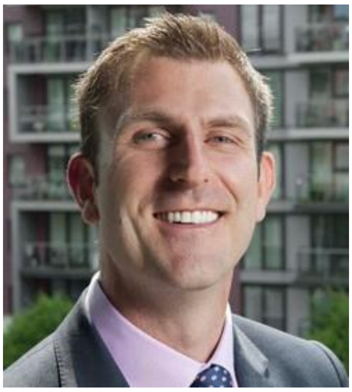
A collection of technology-related articles for banking and capital markets (BCM). DXC Technology (NYSE: DXC) helps global companies run their mission-critical systems and operations while modernizing IT, optimizing data architectures, and ensuring security and scalability across public, private and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

I Gave ChatGPT an IQ Test. Here's What I Discovered

Scientific American: The chatbot was the ideal test taker—it exhibited no trace of test anxiety, poor concentration or lack of effort. And what about that IQ score?

ChatGPT is the first nonhuman subject I have ever tested.

In my work as a clinical psychologist, I assess the cognitive skills of human patients using standardized intelligence tests. So I was immediately intrigued after reading the many recent articles describing ChatGPT as having impressive humanlike skills. It writes academic essays and fairy tales, tells jokes, explains scientific concepts and composes and debugs computer code. Knowing all this made me curious to see how smart ChatGPT is by human standards, and I set about to test the chatbot.

My first impressions were quite favorable. ChatGPT was almost an ideal test taker, with a commendable test-taking attitude. It doesn't show test anxiety, poor concentration or lack of effort. Nor did it express uninvited, skeptical comments about intelligence tests and testers like myself.

The problem with artificial intelligence? It's neither artificial nor intelligent

The Guardian: Let's retire this hackneyed term: while ChatGPT is good at pattern-matching, the human mind does so much more

Elon Musk and Apple's co-founder Steve Wozniak have recently signed a letter calling for a six-month moratorium on the development of AI systems. The goal is to give society time to adapt to what the signatories describe as an "AI summer", which they believe will ultimately benefit humanity, as long as the right guardrails are put in place. These guardrails include rigorously audited safety protocols.

It is a laudable goal, but there is an even better way to spend these six months: retiring the hackneyed label of "artificial intelligence" from public debate. The term belongs to the same scrapheap of history that includes "iron curtain", "domino theory" and "Sputnik moment". It survived the end of the cold war because of its allure for science fiction enthusiasts and investors. We can afford to hurt their feelings.

In reality, what we call "artificial intelligence" today is neither artificial nor intelligent. The early AI systems were heavily dominated by rules and programs, so some talk of "artificiality" was at least justified. But those of today, including everyone's favourite, ChatGPT, draw their strength from the work of real humans: artists, musicians, programmers and writers whose creative and professional output is now appropriated in the name of saving civilisation. At best, this is "non-artificial intelligence."

Bank Sector

BankThink I'm a successful CEO. Credit algorithms are still rigged against me

Note: The article requires a subscription

American Banker: The current credit scoring system is broken, and for the first time in decades the topic is getting the attention it deserves.

Just last year American Banker covered fintechs slamming the FICO score and how the company aims to evolve.

The system works in favor of those who are well off, hold a traditional full-time job and are from the U.S. Individuals who don't fit this demographic are punished with high-interest rates and unfavorable terms.

I have experienced problems plaguing our system firsthand. As an immigrant and entrepreneur, I haven't had a traditional job since I was 19. I have struggled with securing a loan, being approved for an apartment and getting favorable deal terms. I'm from Armenia originally but have lived in Switzerland, the U.K. and the U.S. I have started companies and raised millions of dollars in funding, created jobs and value in the U.S. economy, yet can still be rejected on a mortgage application or a car loan.

Shadow banks could yet cause trouble

Note: The article requires a subscription

FT.com: Concerns about commercial real estate will start to expose other vulnerabilities in the financial system

If you asked a few months ago where the next financial crisis might emanate from, most people probably wouldn't have said regional banking. Rather, they might have guessed at the shadow banking sector, which has grown dramatically since the global financial crisis of 2008. It remains far less regulated than the traditional banking sector.

When the pandemic hit, non-banks such as hedge funds and open-ended money market funds pulled out of key credit markets, forcing governments to intervene to stabilise things. As Treasury secretary Janet Yellen said in a speech last week, "Put simply, the Covid shock reaffirmed the significance of structural vulnerabilities in non-banks." Yellen pointed out a number of ways in which US regulators are trying to better monitor hedge fund leverage and address liquidity mismatches in open-ended funds and money markets. These can, when under pressure, "break the buck", leaving small investors with big losses.

It's good that policymakers are focusing on shadow banks, because I'd still bet that this is where the real nexus of risk in 2023 and beyond will lie. Consider, for example, the trouble brewing in commercial property loans, and private equity real estate funds. This is where the shadow bank and small bank stories meet. Small banks hold 70 per cent of all commercial real estate loans, the growth of which has more than tripled since 2021.

Cybersecurity

It's not just bankers who want to see cyber rules harmonized

Note: The article requires a subscription

American Banker: As a growing number of state and federal regulators come out with their own rules about how companies should respond to cybersecurity incidents, bankers have asked that these new regulations align with each other so that, when their teams scramble to respond, they can spend more time securing their systems and less time worrying about compliance.

Bankers are not alone in making this ask. Leaders in cybersecurity and the software industry, which serve as key vendors to banks, also want harmonization for their own reasons.

In testimony before the House Subcommittee on Cybersecurity and Infrastructure Protection, Drew Bagley, the vice president and counsel for privacy and cyber policy at cybersecurity firm CrowdStrike, recommended that regulators harmonize reporting regulations to the greatest extent possible.

Fintech

OCC Establishes Office of Financial Technology

Office of the Comptroller of the Currency (OCC): The Office of the Comptroller of the Currency (OCC) announced the establishment of its Office of Financial Technology and the selection of Prashant Bhardwaj to lead the office as Deputy Comptroller and Chief Financial Technology Officer, effective April 10, 2023.

In October 2022, the OCC announced that it would expand upon its Office of Innovation and establish an Office of Financial Technology in early 2023 to bolster the agency's expertise and ability to adapt to the rapid pace of technological changes in the banking industry. The Office of Financial Technology broadens the OCC's focus in this area and ensures the agency's leadership and agility in providing high-quality supervision of bank-fintech partnerships. It further enhances the agency's knowledge and expertise of financial technology platforms and applications in support of the OCC's mission.

In his role as Deputy Comptroller and Chief Financial Technology Officer, Mr. Bhardwaj will lead the team responsible for analysis, evaluation, and discussion of relevant trends in financial technology, emerging and potential risks, and the potential implications for OCC supervision. The Office will enhance the OCC's expertise on matters regarding digital assets, fintech partnerships, and other changing technologies and business models within and that affect OCC-supervised banks.

Payments

CFPB publishes new findings on financial profiles of Buy Now, Pay Later borrowers

Norton Rose Fulbright: On March 2, 2023, the Consumer Financial Protection Bureau (CFPB) published a new report analyzing the financial profiles of Buy Now, Pay Later (BNPL) borrowers.

While the report finds that many BNPL borrowers who the CFPB observed used the product without any noticeable indications of financial stress, BNPL borrowers were, on average, much more likely to be highly indebted, revolve on their credit cards, have delinquencies in traditional credit products and use high-interest financial services such as payday, pawn and overdraft compared to non-BNPL borrowers. In addition, the report finds that BNPL borrowers had higher credit card utilization rates and lower credit scores. The report follows previous CFPB research on the BNPL market.

As the report notes, BNPL began gaining ground in the United States in 2019, but between 2019 and 2021, the number of BNPL products issued to consumers increased by almost tenfold. For the purposes of this report, BNPL refers exclusively to the zero-interest, pay-in-four (or fewer) installment product that facilitates purchases at the point of sale.

Apple Launches Apple Pay Later And It's Going To Be A Winner

Note: The article requires a subscription

Forbes: OBSERVATIONS FROM THE FINTECH SNARK TANK

Apple launched its "buy now, pay later" (BNPL) service in the US to compete for the more than $100 billion in purchases Americans making using this payment method.

The service, named Apple Pay Later, will allow users to split purchases into four payments spread over six weeks with no interest or fees. Initially offered to select users, Apple plans a full roll-out in the next few months.

Apple Pay Later will be enabled through the Mastercard Installments program, with Goldman Sachs as the issuer of the Mastercard payment credential.

Apple Pay Later Is a Win-Win-Win

Providing consumers with an ability to make purchases they might not have afforded otherwise—and doing so, potentially, with no fees or interest payments—is a definite win for consumers.

Helping to enable sales that might not have happened otherwise is, likewise, a win for the merchants.

Apple has about 50 million Apple Pay users and 6.5 million Apple Card holders. Driving buy now, pay later purchases with Apple Pay users will help Apple identify potential Apple Card converts to grow that business.

Resilience

Outage rates fall, but major ones will cost more. Oh and don't bank on SLAs

The Register: Not what cost-cutting companies want to hear right now. Maybe they should hang onto those engineers?

The rate at which IT infrastructure outages happen seems to have fallen in recent years, but the flip side is that those that do occur are becoming more pricey for organizations suffering them.

IT outages are bad, and you could be forgiven for thinking they are on the rise. However, according to a fresh report from the Uptime Institute, the incidence of outages has been outpaced by the growth in datacenter infrastructure capacity itself. This means that while the total number of outages is still increasing year-on-year globally, the rate at which they occur is actually falling.

SLAs? Lower your expectations

Another notable finding from the report is that the frequency and duration of outages strongly suggests the performance of many service providers falls short of their service level agreements (SLAs), according to the authors. Customers should not regard SLAs or availability figures as reliable predictors of future availability, the report warns.

According to the research, major IT failures may seem more common because of today's greater reliance on IT and online services, and the increased visibility of outages being reported via the news and social media. The reality is that "decades of innovation, investment and better management mean that, overall, critical IT systems, networks and datacenters are far more reliable than they were," the report states.

Technology

National Quantum Strategy (accessible webpage)

UK Gov: The first generation of quantum technologies created many innovations that we now take for granted in modern society, from the MRI machine to mobile devices. Yet there are lesser known but equally powerful inventions emerging from UK labs that could change our world beyond recognition.

These inventions will improve the lives of everyone in the UK, from improving healthcare and speeding up drug discovery, to boosting economic growth and security and providing jobs. They will also help us tackle climate change, build a sustainable future for our children, and help the UK to respond to growing global volatility, as set out in the government's Integrated Review Refresh. Quantum rewrites the rules of classical physics, and in doing so allows us to do things previously thought impossible.

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.

DXC at techUK led Digital City Festival event in Manchester

On March 28, Anindo Ganguly, DXC's VP of Delivery, provided his vision for emerging technologies and the relevant skills required in the banking and capital markets industry during an engaging CTO panel discussion at techUK's Digital City Festival in Manchester. Read more.

DXC BCM Video Series

Selected videos from the series of interviews with subject matter experts from DXC's Banking and Capital Markets practice.

- **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.

- **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.

- **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. In this video, Jay Hibbin, Cloud Right lead at DXC Technology, speaks about why getting cloud right is crucial for this industry. Watch and share this video.

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About DXC Technology

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**.