

Technology in banking



Competition, collaboration, or control

Last year's 'tech disruption' resulted from a lack of unified rules and conduct standards and series of events that significantly impacted market transparency, integrity and confidence. These events, the boom of Generative AI and the continued encroachment of technology in banking present policymakers with two fundamental questions. First, should policy be domestically focused, levelling the playing field so that tech firms compete against and/or collaborate with other market participants on an equal footing. Or, second, should policy be internationally focused, using national banks and tech firms as an extension of individual governments, spurring their ability to compete and exert control on the global stage. Simultaneously, government must remain mindful of the potential of social disruption.

Policy trends

Financial stability

Regulatory focus is on banks' exposure to tech companies and the ability of technology to fuel banking crises. Concentration risk, liquidity and resolution frameworks remain priorities. Big and FinTech firms providing alternative banking services to customers has further raised scrutiny on the current rule-sets and the regulatory perimeter. Equally, policymakers are assessing the financial stability risks arising from new technologies, such as GenAI and digital assets, and from the development and use of Central Bank Digital Currencies. Despite the turbulence last year, the underlying technologies performed as expected and did not fail.

National security

Tech competition is playing out across hardware (e.g., semiconductors), software (e.g., AI, digital identities) and the rules surrounding these systems. Major economies leverage three sets of policy tools: punitive (e.g., sanctions); restrictive (e.g., scrutiny and limits such as FDI caps); and incentives (e.g., subsidies).

National security concerns have driven data sovereignty policies and an increased focus on cyber and third-party provider resilience. GenAI has presented both increased fraud risks as well as offered better capabilities for fraud detection.

Conflicting tech policy

Rapid innovation and tech deployment has offered greater economic growth and value-creation, but has brought destabilising effects to societies, such as workforce dislocation and culture wars. Regulators have acted within their specific mandates, focusing on the use of specific technologies and assets, third party relationships and platforms. Governments are trying to strike a balance between policy that can simultaneously leverage and control new technologies, thus also turning them into a tool of state-craft.



What can we expect in the next 18 months?

AI

Expect continued policymaker ambivalence: is it good, is it bad, how much should it be controlled. Given banks' reliance on third-party vendors, regulators will increase scrutiny on roles and responsibilities. The EU, UK, US, China, and Singapore will step up governance around AI safety and frontier models, albeit with differentiated approaches. Efforts at the global level to mitigate long-term AI risks, including profound societal impacts/workforce dislocation, will accelerate but will struggle to find consensus at a granular level.

GenAI

The FSB will report to the G20 on the financial stability concerns of GenAI, although competing interests will prevent significant moves on the global front. We expect continued use of litigation as a policy tool, particularly around copyright, IP issues, deepfakes, as well as a greater use of anti-trust cases to control market share. Concentration risks around foundational models – due to high barriers of entry and substitutability – could lead to “herding” and procyclical risks in financial services. Governance will remain a critical focus.

Digital assets

Addressing capital requirements, consumer protection, asset safeguarding and segregation,

AML/CFT, and cybersecurity will be top issues as regulators clarify how existing rules apply to digital assets or create new rules. Crypto licensing regimes will finalise in several jurisdictions, while Asia and the Middle East compete on rule-setting. The US SEC's approval of Bitcoin ETFs will bring Bitcoin to mainstream portfolios. CBDC adoption will slow as central banks focus on use cases in the local ecosystem.

Payments

Digital tools will continue to make the cross-border payments more accessible and develop new ecosystems. Key to watch will be whether the US' use of sanctions will incentivise others to create additional rails, and progress on the G20 roadmap for cross-border payments, including the FSB's recommendations to promote interoperability in data frameworks and strengthen banking regulation.

Data

Data protection and safe harbours will come into focus as the European Commission undertakes the first major review of the EU General Data Protection Regulation, while the US is unlikely to see a federal personal data protection law in 2024. Localisation regulations will mature amid concerns around data transfer restrictions – steering some cloud providers towards “sovereign-by-design” solutions.

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