



Key Trends in Core Banking This Week

S31-2026-BNK · Reporting Period: July 27 - August 2, 2026

AI Strategy Moves from Experimentation to Operating-Leverage Commitments. Lloyds Banking Group presented a strategy combining £13 billion of investment through 2030 with £2 billion of cost reductions, driven by AI-enabled customer service, mortgage automation, and operational simplification. The shift matters less for any single use case than for the commitment itself: AI is moving from discretionary budgets into formal productivity and shareholder-return assumptions.

Once efficiency targets depend on AI, model performance becomes inseparable from execution risk. Banks must be able to distinguish sustainable productivity gains from temporary headcount restraint, deferred technology expenditure, or service deterioration concealed by automation metrics, particularly as Lloyds itself declined to specify workforce-reduction targets alongside the plan.

Banks Begin Building AI Capability as Regional Infrastructure. HSBC announced that it will recruit more than 100 AI specialists and establish an AI center in Singapore during the second half of 2026, alongside an expansion of its Asian wealth-management capacity. The center is expected to support natural-language processing, data science, AI governance, digital payments, treasury services, and personalized wealth offerings.

The announcement illustrates a transition from centralized group-wide AI teams toward regional capability hubs embedded in priority markets. This can improve commercial relevance and regulatory responsiveness, but it also creates a new governance problem: how to permit local model adaptation without fragmenting enterprise standards for data, validation, accountability, and third-party dependence.

AI Credit Risk Moves from Technology Valuation to Refinancing Discipline. During the week, lenders demanded higher yields to refinance debt tied to AI-exposed software firms: Thoma Bravo-backed Proofpoint priced a \$5 billion refinancing near 9.3%. Credit-protection costs also rose for major AI-investing issuers, with five-year CDS premiums on Oracle and Meta debt reaching record levels. The question is no longer whether AI valuations are excessive, but whether borrowers can refinance legacy leverage while funding the capital expenditure needed to compete.

For banks, AI must be analyzed through two opposing credit channels: the risk that incumbents are displaced by AI, and the risk that AI leaders overinvest before monetization becomes predictable. The Proofpoint refinancing and the hyperscaler CDS move reflect the same dynamic, priced in different markets. Conventional sector classifications may obscure both, since the same technology now sits on opposite sides of the credit ledger.

"AI is becoming a credit-underwriting variable before it becomes a reliably measurable source of cash flow."

MY TAKE

This week marks a shift from AI governance as a control question to AI strategy as a balance-sheet commitment. Banks are hiring specialized teams and embedding productivity gains into financial targets, while credit markets simultaneously reprice AI-linked leverage through wider spreads and record hyperscaler CDS premiums. Institutions must govern their deployment while recognizing that AI is altering the refinancing capacity of their borrowers. Treating these as separate technology and credit issues risks underestimating their combined effect.

TECH TERM OF THE WEEK: "AI Execution Risk"

The risk that expected financial benefits from artificial intelligence, cost reductions, revenue growth, faster processing, or improved risk decisions, fail to materialize because of weak adoption, poor data, model limitations, control requirements, customer resistance, or implementation complexity. AI execution risk becomes financially material when strategic plans, cost targets, or capital-allocation decisions assume benefits before they have been validated through sustained operating performance.



Key Trends in Insurance This Week

S31-2026-INS • Reporting Period: July 27 - August 2, 2026

Private-Capital Structures Trigger Scrutiny of Circular Ownership. U.S. insurance regulators are examining complex investment structures used by private-capital groups, including KKR-backed and Apollo-backed insurers, according to documents prepared for the NAIC. The review focuses on whether circular ownership and limited transparency may conceal concentration or weaken the economic independence of insurer assets. The structures combine private credit, securitized assets, and affiliated investments that may be individually permissible but collectively difficult to assess.

This extends the concern identified in FARO S30. The issue is moving beyond whether an investment is formally classified as affiliated toward whether its economic value depends on other entities inside the same ownership network. Capital adequacy cannot be evaluated reliably where asset provenance, valuation, and ultimate risk transfer remain circular.

Long-Term Solvency Planning Expands beyond Traditional Stress Tests. On July 28, California held a public hearing on proposed long-term solvency-planning requirements to capture natural-catastrophe exposure, cybersecurity threats, and potential misuse of artificial intelligence. The regulation, the first of its kind in any U.S. state, would require insurers to document resilience planning across 2030, 2040, and 2050 horizons, drawing on scenario-analysis practices used by the Bank of England and the Banque de France.

The regulatory direction is important because it shifts solvency analysis from a defined capital horizon toward institutional adaptability. Insurers may increasingly be required to demonstrate not only that they can survive a prescribed shock, but that governance, strategy, and business models remain viable as hazards, technology, and insurability change over time.

Private Credit Demand Persists Despite Greater Regulatory Friction. Insurers remain significant prospective providers of private credit capital: a Marsh McLennan survey found that 57% plan to increase allocations over the next 12 to 24 months, including 81% of firms managing more than \$25 billion and 73% of life insurers. At the same time, supervisors are intensifying their examination of affiliation, liquidity, valuation, and reinsurance links.

This creates a strategic tension. Insurers are structurally suited to hold long-duration illiquid assets, but scale may weaken underwriting discipline precisely as yield premiums compress and investment structures become more complex. The relevant question is no longer whether private credit matches insurance liabilities, but whether the insurer retains independent visibility and control over the risks embedded in that match.

"An insurer's asset may satisfy a capital rule while still failing the test of economic independence."

MY TAKE

Insurance supervision is moving steadily from classification toward economic substance. Affiliated investments, solvency scenarios, and private-credit allocations require regulators to look beyond legal form and assess how risk behaves across ownership structures. The common thread is provenance: whether an insurer can trace an asset's value back to a source independent of the group itself. Institutions most exposed will not be those holding the largest private assets, but those unable to demonstrate independent valuation and credible governance.

TECH TERM OF THE WEEK: "Circular Ownership Exposure"

An investment exposure in which an insurer's asset value, cash flow, or credit quality depends directly or indirectly on entities, funds, or transactions connected to the same ownership or control network. Circularity may arise through affiliated borrowers, securitization vehicles, cross-investments, reinsurance arrangements, or layered financing structures. It becomes a prudential concern when formal diversification masks common economic dependence or when losses can circulate through the group and return to the insurer's balance sheet.