



Key Trends in Core Banking This Week

S32-2026-BNK • Reporting Period: August 2 - August 9, 2026

AI Financing Moves onto the Financial-Stability Radar. Federal Reserve officials this week shifted attention from how banks use AI internally toward how the AI buildout is financed. Kansas City Fed President Jeff Schmid questioned whether AI investment's scale and interconnectedness could create a "too big to fail" problem; New York Fed President John Williams was more restrained, seeing no housing-style bubble yet. The common point: *leverage and uncertain monetization have moved AI investment into the financial-stability perimeter.* For banks, that changes the underwriting question. AI exposure must be assessed not only through borrower-level disruption risk, as discussed in FARO S31, but also through concentration across data centers, infrastructure finance, leveraged technology borrowers, and institutional investors. The risk is no longer whether a single AI borrower defaults but whether common profitability assumptions are embedded across multiple asset classes at once.

Private Credit's Data Gap Moves onto the Policy Radar. On August 5, the Federal Reserve Banks of New York and Dallas announced a pilot survey of the roughly \$1.3 trillion private-credit market, with results expected in early 2027. The survey will examine credit availability and lending standards across upper-, middle-, and lower-middle-market segments. It responds to a structural problem: supervisors can observe regulated bank lending in detail but have far less visibility into a market increasingly financing borrowers once dependent on banks. The significance lies less in the survey itself than in what it signals. Private credit is becoming important enough to monetary transmission and financial stability that the absence of standardized information is itself treated as a risk. As banks originate, distribute, finance, and compete with private-credit providers, the boundary between regulated and non-bank credit is increasingly analytical rather than economic.

Stablecoin Regulation Becomes a Bank-Funding Question. The U.S. Senate postponed consideration of the CLARITY Act until after the August recess, leaving unresolved one of the most consequential issues for banks: the treatment of stablecoin rewards. Banks argue yield-like incentives on crypto platforms could pull deposits from the regulated banking system; crypto firms contend bank-style restrictions on third-party rewards would suppress competition. The dispute illustrates how digital-asset regulation is migrating into core balance-sheet economics. Stablecoins compete not only with payment products but potentially with the transaction and savings balances that provide banks with stable funding. The prudential question is whether digital money can expand without materially changing the composition, cost, and stability of bank funding.

"The next supervisory blind spot may emerge where leverage grows faster than the data used to measure it."

MY TAKE

Three apparently separate developments, AI financing, private credit, and stablecoins, point toward the same structural shift. Financial supervision is moving beyond risks contained within individual banks and toward the ecosystems that fund, compete with, or depend on them. AI infrastructure can concentrate credit assumptions across markets; private credit can replicate bank lending beyond traditional reporting systems; and stablecoins can compete directly for deposits. The institutions best positioned will be those capable of mapping economic exposure across regulatory boundaries

TECH TERM OF THE WEEK: "Deposit Disintermediation"

The migration of customer balances from traditional bank deposits into non-bank financial instruments or platforms, reducing the volume of stable deposit funding available to banks. Stablecoins become relevant when payment or reward features make them economically substitutable for transaction or savings balances. Deposit disintermediation can increase funding costs, alter liquidity profiles, and make banks more dependent on wholesale or market-based funding.



Key Trends in Insurance This Week

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European Wildfires Turn the Protection Gap into a Current Loss Event. Europe's severe 2026 wildfire season intensified during the week, with major fires in France and additional losses across Spain and Greece. Reuters reported approximately 220,000 people evacuated in France and cited estimates placing total French damage potentially in the €10-15 billion range. Wildfire losses are revealing because France's public natural-catastrophe scheme does not cover wildfire damage, leaving private insurance to absorb insured claims while uninsured losses remain outside the system.

The event exposes a structural distinction between catastrophe capacity and catastrophe coverage. The current losses appear manageable for the insurance industry to absorb an individual wildfire season while still maintaining a substantial protection gap. Historical data remain limited compared with markets such as California, making pricing and accumulation modeling increasingly difficult as fire behavior moves outside historical geographic assumptions.

AI Transformation Produces an Immediate Balance-Sheet Cost at Allianz. Allianz reported on August 7 that second-quarter net profit declined 8.7% year over year, with restructuring expenses rising to €643 million from €152 million. The insurer explicitly linked part of that restructuring to accelerated decommissioning of IT systems associated with investment in AI-enabled workflows and solutions.

This is a useful counterpoint to the usual AI-productivity narrative. AI transformation does not begin with savings; it can begin with accelerated write-offs, platform replacement, restructuring charges, and organizational redesign. FARO S31 introduced AI Execution Risk as the possibility that expected benefits fail to materialize. Allianz illustrates the preceding stage: the financial cost of creating the operating environment in which those benefits are expected to emerge.

Reinsurance Profits Remain Strong as the Pricing Cycle Softens. Swiss Re reported a 9% increase in first-half net income to \$2.83 billion on August 6, while Munich Re reported a 6% increase in second-quarter profit on August 7. Both results benefited materially from comparatively low large-loss activity.

The forward-looking signal is less comfortable. Munich Re has already acknowledged softer property-casualty reinsurance conditions, and reporting around its July renewals indicates declining risk-adjusted pricing and reduced volume as the reinsurer declines business that does not meet return requirements. Strong current earnings may coexist with deteriorating future economics if benign catastrophe experience accelerates competitive pricing before exposure declines.

"A benign loss year can strengthen an insurer's income statement while weakening the pricing discipline needed for the next one."

MY TAKE

Insurance is confronting three different forms of transition cost. Wildfires reveal the cost of hazards migrating faster than coverage systems; Allianz demonstrates the upfront cost of replacing infrastructure for AI-enabled operations; and reinsurance earnings show how favorable current loss experience can pressure future pricing. The common challenge is temporal: reported strength reflects risks already absorbed, while underwriting must price risks still changing. Institutions that confuse current profitability with forward resilience are most vulnerable when the cycle appears strongest.

TECH TERM OF THE WEEK: "Cycle Management"

The active adjustment of underwriting capacity, pricing, attachment points, and risk appetite as market conditions change. Effective cycle management requires an insurer to reduce or decline business when expected returns deteriorate, even when abundant capital and favorable recent loss experience create pressure to expand. Its purpose is to preserve risk-adjusted profitability across the cycle rather than maximize premium volume at every stage.