



## Key Trends in Core Banking This Week

S39-2026-BNK • Reporting Period: September 21 – 27, 2026

**AI Market Stress Reaches Banks through Prime Brokerage.** The Financial Times reported on September 21, citing people familiar with the matter, that the Bank of England and the Federal Reserve are asking global banks about their exposures to large trading firms. The inquiries follow a July sell-off in AI and chip stocks that forced the hedge fund Situational Awareness, run by former OpenAI researcher Leopold Aschenbrenner, to sell most of its public-equity portfolio to Citadel Securities, and that contributed to a \$15 billion loss at Jane Street that month. Regulators are seeking information on the firms' risk appetite, how bank exposures changed during the day, and how risk controls operated. This extends the concern raised in FARO S38, where Oracle-linked loans stayed on the books of the banks that arranged them. Here, an AI correction reaches banks through the leveraged firms they finance, without any lending to an AI company. Prime brokerage, repo, and clearing relationships carry the loss. On February 2, Bank of England Executive Director Rebecca Jackson said banks were reporting prime brokerage balances at new peak levels and that the overnight portfolios of principal trading firms, financed by prime brokers, carry risks like those of hedge funds.

**Banks Set Conditions for AI Shopping Agents.** On September 22, banks including NatWest, Bank of America, ING, Capital One, and Commonwealth Bank of Australia said in a report that AI agents that select and buy products for shoppers could increase the risk of scams, fraud, and data-privacy breaches. These banks said customers are enthusiastic about agentic commerce but unsure whether they would be protected or whom to turn to, if a purchase goes wrong. The report sets out principles for developing the technology, and the banks plan to take proposals to policymakers.

This returns to the agent-identity question FARO raised in S23 and to the legally sufficient authorizing act discussed in S28. Payment controls assume that a person authenticates each transaction and that a bank can identify the parties and their instructions. An agent that chooses both the product and the payment method separates those steps, so a dispute turns on what the customer authorized, within what limits, and how the bank can show it. The proposals the banks take to policymakers will show where they expect liability to fall.

**Swiss Upper House Backs 90% CET1 Cover for UBS's Foreign Units.** On September 23, the Council of States, the upper house of Switzerland's parliament, voted 29 to 16 to require UBS to back its foreign subsidiaries with Common Equity Tier 1 capital equal to 90% of their value. It rejected the option, favored by UBS, of covering half with CET1 and half with cheaper Additional Tier 1 instruments, which an upper-house committee had agreed to in August. It had narrowly rejected the government's proposal of 100%. UBS said the measure would require about \$16 billion of additional CET1 at UBS AG, on top of about \$2 billion from ordinance-level rules and called the outcome "not a compromise." The bill now moves to the lower house.

This continues the UBS debate reported in FARO S36 and applies the capital-quality distinction that edition defined: the chamber trimmed the government's ratio by ten points and kept the requirement in CET1. The requirement also depends on where the capital sits. UBS places the increase at UBS AG, the parent bank, and says the ordinance-level changes announced earlier this year would reduce required CET1 at the consolidated group level by an estimated \$4 billion. For a bank with foreign subsidiaries, the legal entity that holds the capital now matters as much as the total.

*"Knowing who stands on the other side of an exposure has become a capital question as well as a credit one."*

## MY TAKE

*This week, banking turns on who stands on the other side of the bank's exposure. Regulators are asking what banks know about the trading firms they finance during the trading day as well as at its close. Banks are asking who is responsible when software places the instruction. Swiss lawmakers are deciding how much capital a parent must hold behind its foreign subsidiaries. In each case, protection depends on knowing who the counterparty is and what stands behind it before stress tests that assumption.*

## TECH TERM OF THE WEEK: "Prime Brokerage Exposure"

*The credit and market exposure a bank assumes when it provides financing, securities lending, clearing, and custody to hedge funds and other leveraged trading firms. The exposure can grow quickly when a client holds concentrated or correlated positions and prices move before collateral can be called or positions sold. AI-linked volatility makes the concept relevant because a bank can absorb losses on a technology correction through the leveraged firms it finances without lending to any technology company.*



## Key Trends in Insurance This Week

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**India Targets the Economics of Insurance Distribution.** India's insurance regulator, IRDAI, released a consultation paper on September 23, proposing lower expense-of-management limits for insurers, phased in over two to five years, and product- and channel-specific caps on commissions paid to banks, brokers, and agents. Comments are open until October 25, and the proposals are not final. Markets reacted on September 24: PB Fintech, the parent of Policybazaar, fell 36% on the NSE, its largest one-day decline, and Turtlemint fell 20%. Insurers and lenders with large insurance-distribution income also traded lower. This proposal makes affordability a question of distribution architecture. Premiums fund claims, capital, expenses, and the cost of acquiring customers, and compressing the last item changes the incentives of the intermediaries that reach policyholders. The paper's attention to banks and NBFCs selling credit-life cover with loans makes the effect direct for lenders. This is the conduct-rule counterpart to FARO S37, where the ECB's Danish Compromise approval showed how prudential rules can make owning an insurer more capital-efficient. Here, conduct rules can change what distributing an insurer's products is worth.

**BCBSA Links Hospital AI Coding to \$942 Million in Added Costs.** On September 24, the Blue Cross Blue Shield Association, the trade group for Blue Cross and Blue Shield insurers, estimated that more complex hospital coding added \$942 million to costs at its member companies between 2023 and 2025. Complex inpatient cases rose from 37% to 40% of claims, and about 70% of the added cost came from secondary diagnoses that moved stays into higher-paying groups. BCBSA found no matching change in the care delivered and points to AI tools, which it says more than 60% of hospital systems now use to scan records for diagnoses. The analysis rests on claims data, does not identify hospitals or vendors, and does not establish causation. Hospitals dispute that reading. The American Hospital Association argues that inpatients are older and more medically complex and that higher coding intensity should not automatically be treated as upcoding. If BCBSA is right, automation can raise claims costs without a corresponding change in treatment, the recorded classification, and therefore the payment change, even where the care delivered does not. Insurers can test that by checking whether new diagnoses come with treatment. FARO S22 examined AI-assisted fraud on the claimant's side of a claim; this dispute concerns the provider's side.

**Saudi-Linked Tankers Face War-Risk Rates Far Above a Soft Marine Market.** Reuters reported on the 24th of September, citing four industry sources, that quoted war-risk premiums for Saudi-linked tankers calling at Yanbu, Saudi Arabia's main Red Sea port, had risen to about 3% of vessel value from less than 1% in early July. London's marine insurance market designated the area high-risk after Yemen's Houthis attacked shipping near the Bab el-Mandeb Strait. Tankers with no Saudi connection typically pay 0.2% to 0.3%. Reuters noted that no public data exists on agreed rates, which can differ from quotes. The International Union of Marine Insurance presented its annual market data at its Rotterdam conference on September 21. Global marine premiums rose 5.5% to \$42.6 billion in 2025, but IUMI said the increase was heavily supported by exchange-rate effects and that the market remains soft across all major business lines. It added that war premiums tied to Red Sea attacks already lifted some 2025 hull figures and would do so more in 2026 because some markets cannot separate war premiums from hull reporting. A market can be soft in aggregate and expensive at one point, and here the same sea prices a tanker at 3% or at 0.2% according to its Saudi connection.

“The average price of a market can conceal the price of the risk that is actually moving.”

## MY TAKE

*Insurance this week shows cost being set at a finer grain than the market average. India proposes to cap commissions product by product and channel by channel; hospital coding, on BCBSA's reading, moves claims cost diagnosis by diagnosis; and war-risk quotes separate Saudi-linked tankers from all others in the same sea. Average rate changes and combined ratios describe none of these well. Insurers will need data at that same grain to see where their economics are moving.*

## TECH TERM OF THE WEEK: “Coding Intensity”

*A measure of how severe and how highly reimbursed the diagnoses recorded on claims are, usually tracked as the share of cases that fall into the most complex payment categories. In systems that pay hospitals by diagnosis-related group, a secondary diagnosis can move a stay into a costlier group, so coding intensity can rise without any change in treatment. The rise may reflect fuller documentation or a drift toward higher-paying codes, and claims data alone cannot always separate the two. That question sits at the center of the dispute between insurers and hospitals over AI-enabled coding tools.*