Three Major Trends in IT Spending

🏷️ technology   artificial intelligence   data privacy

Summary: Trends in IT spending are constantly changing among CFIs. They also serve as the best roadmap for where the banking industry is heading. We provide an update on the latest investments financial IT teams are prioritizing, including three major trends.

One of the most popular "toys" of the 1975 holiday season was Pet Rock — literally a rock seated on a bed of hay, ensconced within a cardboard travel box complete with air holes. The pet rock was dreamed up by advertising executive Gary Dahl after hearing friends complain about the complications of pet care. Before the pet rock trend died out, he'd sold more than 1MM rocks.

Pet rocks may have been a popular trend during the 1975 holiday season, but it's safe to say the gift would get a rocky reception among today's children. What is trendy is ever-changing, and nowhere is that more evident than the technology products and services that dominate financial institutions' (FIs') spending.

General Trends

As we have noted before, IT spending among FIs has been on the rise for quite a while now. But the areas where the money is being spent are constantly shifting. FIs were expected to spend $623B worldwide on technology in 2022, according to Gartner, with IT accounting for 42% of the spending. Software is a major priority and is expected to account for $149B of that overall spending. While the final stats are yet to be posted, we can assume a similar trend will follow. In 2023, here a few trends that are expected to be among the **top IT spending areas for FIs.**

1. **Generative AI.** One particular area of software where organizations are focused is generative artificial intelligence (AI), which are self-managed programs able to glean patterns and information from data on their own and create new digital elements, following the same pattern. This can be generated from text or code, and even video and images. Generative AI enables banks to provide incredibly personalized offerings to customers and is already being embraced by FIs for services such as fraud detection, customized risk modeling, and natural language generation. In the case of JPMorgan Chase, the bank is using such technologies to enhance the offerings of its Chase Mobile app after a recent Chase survey found that 41% of customers want more personalized offerings from their banks.

2. **Privacy-Enhancing Computation.** By 2025, privacy-enhancing computation (PEC) analytics — a catchall for technologies that provide a secure environment for processing private data — will be used by 60% of large organizations. In many cases, more than one type, according to Gartner. PEC is used to securely process customers' personal data in multiple environments and uses a variety of privacy-protection approaches to glean patterns and key information from data without running afoul of regulatory and compliance parameters. FIs are turning to PEC for things such as fraud analysis, anti-money-laundering, and data sharing.

3. **Autonomic Systems.** Like generative AI, autonomic systems are software systems that are unsupervised and self-managed. They are able capable of unassisted learning, teaching themselves based on the environments they operate within to adapt their algorithms in the way that produces the best possible results. In the financial realm, autonomic systems are already being used as an IT security measure, but

they also have potential uses such as in smart branches that can provide specialized services to customers like assistance with personal finance, automated lending, and autonomous debt management.

As personalization becomes an increasingly important differentiator for CFIs, institutions are only likely to continue stepping up their usage of the technologies above, among others. While CFIs may not yet need — or have the ability to implement — all of these technologies, it is important to remain aware of these technologies and keep a close watch on what the industry's biggest players are doing. These nascent technologies could ultimately serve as a roadmap for the direction that industry as a whole is heading in.

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ECONOMY & RATES

Rates As Of: 01/17/2023 05:37AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.67	0.25	0.25
6M	4.77	0.01	0.01
1Y	4.68	-0.03	-0.03
2Y	4.22	-0.21	-0.21
5Y	3.64	-0.36	-0.36
10Y	3.56	-0.32	-0.32
30Y	3.68	-0.29	-0.29
FF Market	FF Disc		IORB
4.33	4.50		4.40
SOFR	Prime		OBFR
4.30	7.50		4.32