Financial Services Leadership Network

Insights from financial institution boardrooms

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Summer reflections on emerging technology adoption amid extreme uncertainty

Financial institution boards and management teams are grappling with policy uncertainty emanating from the world's largest economy, broader geopolitical instability, market volatility, and rapid technological change. Over the course of the last few months, Tapestry Networks and EY spoke with Financial Services Leadership Network participants - board members and senior executives from among the largest banks, insurance companies, and other large financial institutions - about how their boards are navigating this uncertainty as they oversee investment and adoption of AI and look ahead to emerging technology applications, including quantum computing. This is a snapshot of participants' comments on how large financial institutions are responding to current conditions.

Financial institutions and their boards are navigating a uniquely uncertain and complex environment

- **Extreme uncertainty reigns and shows no signs of abating.** *"There's no such thing as a Black Swan anymore, because the whole world is swimming in Black Swans,"* said a director. This environment demands a shift in mindset in the boardroom. *"We're in a volatile, uncertain, complex and ambiguous world right now, and this is difficult for a lot of boards. But you need to get comfortable with being uncomfortable, and take a posture on the board that says, 'We've got choppy waters right now, we definitely need all hands on deck.' Everyone has to be actively thinking this through, because no one's got the playbook for this. No one has the answer."* As a result, boards are looking for new kinds of information more frequently from management, running different kinds of more extreme scenario analysis, and considering where they see new opportunities and new risks that may affect investment and capital allocation decisions.

Building a better working world

- **Geopolitical developments are dominating board discussions and upsetting key operating assumptions.** *"Obviously geopolitics is top of the agenda. I don't have to explain why,"* said one director. Boards see recent developments, such as expanding conflict in the Middle East, continuing war in Ukraine, and ongoing trade policy changes, upsetting the established world order with important implications. That is prompting some to ask what the future is going to look like: *"You could see a world that is quite different from where we are today. Until five to ten years ago, everything seemed to be moving in generally quite a global direction. Now we've got a movement going back the other way to nationalism and protectionism. So where does that get you to in five- or ten-years' time? And does that mean anything different for organizations, for global businesses?"* The shifting posture of the United States to the rest of the world is particularly disruptive: *"There are big shifts in the world order, in terms of relooking at supply chains and where you want to make investments,"* a director observed, *"For example, Canadian companies that are very dependent on the US are now saying we need to look elsewhere. But when you talk about diversifying, there's nowhere else to go. So, for example, how do you protect yourself when you have that kind of dependence on all the cloud providers and try to find or build those kinds of capabilities? It's kind of impossible at this stage. Nobody wants to look to China. China is not a viable alternative, so it's a bit of a rock and a hard place."*

- **Financial institutions are conducting more robust scenario planning exercises to inform decision making**. "*How do we make decisions under deep uncertainty?"* one director asked. "*I think there's a strong neurological element to all of this because you don't want people to go into a funk and just do nothing."* Boards and management teams are turning to ever more detailed scenario analysis to try to chart a course: *"There is so much more emphasis now being put on strategic planning and the forward look. What we are doing now is scenario planning to death. In the past, we did only upside and downside scenarios. Now we are doing like three and five degrees of uncertainty and risks on both sides, and asking, 'What are the implications for liquidity, for cyber risk, for economic capital, for credit risk, for every type of risk?'"* said a director. But even detailed scenario planning may not bring clarity to decision-making: "*You can easily produce 10,000 scenarios, but which one should I be concerned about? Which are the ones that my organization should be focusing on?"*

Culture, leadership, and discipline are crucial ingredients in expanding AI adoption and tech transformation

- **Curiosity is a key driver for innovation but requires intentional leadership.** *"Financial institutions don't like curiosity because curiosity is dangerous, and it makes people do weird left-field things,"* asserted one director who worries that financial management teams are "*all* *so busy getting their heads down doing what they think they've got to do,"* that they may lack the time and capacity to think creatively about the future. While not all participants agree with that assessment, many see the need for more leadership from the top when it comes to encouraging creatively about expanding AI adoption: *"So much of AI advancement and innovation boils down to the personality and approach of the CEO. If you've got a really curious person who's very open to what might be out there, and they want to start experimenting a little bit, then you'll get an organization that moves in that direction. You'll have a technology officer who thinks like that or knows he or she has to think like that. If you don't have that kind of leadership at the top, you just don't get a lot of interesting things happening underneath."*

- **Some organizations are struggling to bring technology expertise into the top of the house.** *"You've got to get people who understand this stuff into senior roles. If you look at the executive committees, I think there's a real lack of technology voices at the executive level,"* observed a director. Finding tech-savvy directors presents its own challenges: *"You ideally want board members at the cutting edge of this technology, not someone who retired from a big tech company ten years ago. But those individuals are not really interested in going to a board ten times a year to discuss things people aren't interested in hearing."* But at least one director said the priority should remain at the executive level: *"If you start saying the answer is you need to hire tech savvy non-execs, I don't agree with that. I can think of at least one institution where the board has a vastly greater knowledge of technology than the executive team, and that to me is just completely wrong. That's just madness."*

- **Adoption has to be driven by the businesses.** Some financial institutions have had success by establishing innovation centers or skunk works to promote technology advancement. One executive who leads such a team emphasized its value in helping the organization drive innovation: "*Our team's mandate is to think bigger than what is immediately needed and to take on exploratory projects and wish list things. That allows us to anticipate the needs of customers."* Others are more skeptical of this approach. One director said, *"This is an old debate, but I'm always very suspicious of innovation departments. Rather, the innovation occurs at the product level because you've got smart people who are curious and think, 'We could do it this way or that way.' And some of those things end up working and that gets called an innovation. It's not a bunch of people sitting in a fancy office in Shoreditch dreaming of things."* Whatever the exact approach, driving innovation that actually delivers significant business outcomes—including from AI technologies—remains a profound challenge requiring what one director called a *"disciplined approach"* that addresses thorny questions: *"How are you going to structure your partnerships with your external AI provider, and how are you going to cost it out? How do you determine ROI? Do we really have our arms around how much this is going to cost,* *how we're going to earn a return on the investment, and how it's going to be priced? You've got to go a level beyond, 'Okay, we've played with GenAI, and we think there's something there,' to asking, 'How do we now really start to implement it to drive the company forward?'"*

Boards still have more questions than answers about digital assets

"It's not completely clear to me why we need stablecoins or what stablecoins do for us that the good old US dollar doesn't," said one director. *"I'm not sure I understand that, but if it's relevant enough to get the biggest banks' attention, I'm very interested in it."* Another director said, *"If my organization said, 'We want to invest 10% of our assets in these types of assets,' I wonder how I would feel about that. It struck me that I really don't know enough. Right now, as an individual, I'm honestly a little unsettled by this stuff."*