Federal Reserve Bank of New York

Shifting Norms? The Intersection of Technology and Culture in Financial Services – A Primer

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These days, if you ask the question, “How is technology impacting human interactions?” you are likely to get very different responses. Many see increased digitization as a harm and a threat – frying our brains and diminishing attention spans, decreasing our capacity for empathy, and invading our privacy. Others suggest that digital innovation will save us from ourselves, paving the way for a more egalitarian world that democratizes access and opportunity and narrows the gaps between us.

When it comes to financial services, the reality probably lies somewhere in between – human interactions are both benefitting from and being challenged by increasing digitization. As traditional finance, or “TradFi” offerings and business models adapt to digitization, how will industry norms and behaviors transform?

On July 6, the New York Fed will convene a panel of experts[1] to examine these topics during its webinar, “Shifting Norms? The Intersection of Technology and Culture in Financial Services.”

One topic we will consider is how the increased use of technology to facilitate communication might impact interactions among employees and between an organization and its clients. Technology has in many ways brought us closer together. Video meetings have shrunk the world, enabling us to put names to faces where we would have otherwise been limited to audio and text. However, might the physical distance created by technology also create “moral distance” – often described as a tendency to be less concerned about the welfare of those who are distant from us than we are about those who are more proximate? Does the technological intermediation of our relationships dehumanize us, since we’re transformed into pixels and text? And does the increased “gamification” of many of our interactions – including those with our financial services providers – frame those exchanges as simply mechanical,

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[1] Brandy Aven, Associate Professor of Organizational Theory, Strategy, and Entrepreneurship, Carnegie Mellon University Tepper School of Business; Nathanael Fast, Associate Professor of Management and Organization, University of Southern California Marshall School of Business; and Sameer Srivastava, Ewald T. Grether Chair in Business Administration and Public Policy, UC Berkeley Haas School of Business. Moderated by Susan Ochs, CEO of Ochs Advisors and founder of the Better Banking Project.

obscuring the human impact of our decisions?[2] Might these phenomena make misconduct more likely, as the injured party devolves into something increasingly abstract?

Another set of questions concerns how the rise of decentralized finance (DeFi) and new technologies might interact with existing mindsets that can be prevalent in the TradFi industry. Will the transparency of blockchain technology drive greater transparency in behavior among TradFi professionals? Or, will the pressure to be seen as the "smartest person in the room[3]" keep executives from acknowledging what they don't understand about cryptocurrencies? Is a desire for certainty creating pressure to make false analogies to existing products that are well understood? Will overconfidence in their ability to predict outcomes cause leaders to overlook potential risks, or to stop looking altogether? Finally, a heavily regulated industry can get accustomed to doing anything that is permissible, since regulation provides guardrails. Since DeFi regulation remains light touch for the time being, how does TradFi promote the right level of critical thinking around these issues? What mindsets does TradFi need to adopt to face the prospect of entirely new challenges – from governance hacks to flash loans?

The culture of tech itself raises an additional set of relevant questions. How will financial services culture adjust to an influx of technologists, software engineers, and other Silicon Valley natives? In some ways, the two might seem to have a lot in common. Both financial services and tech can involve highly complex products, with practitioners who value signals of intelligence and use a lot of jargon. The industries' complexity and jargon can increase barriers to entry, advantaging those who speak the language and excluding those who don't. Each industry is powerful and can be highly compensated, and research shows that power – or the perception of power – can influence our behavior and decision-making.

But there are differences, too. Financial services professionals are accustomed to working within a heavily regulated sector. They are required to undergo a great deal of training

[2] In a study of honesty among lawyers, Taya Cohen refers to this tendency as "game framing."

[3] "Inside the Banker's Brain" discusses the importance of being perceived as intelligent by others in traditional financial services.

in risk and compliance. Tech professionals are more accustomed to an industry known for agility, “the pivot” and a desire to “move fast and break things.” Given their similarities and differences, how might the norms and behaviors of Silicon Valley either reinforce or clash with those of traditional finance? Is there something to be learned from the cultural transformation of other industries that have been disrupted by digital transformation (e.g. media)?

Another set of questions to consider centers around how technology can be used as a tool to understand or influence culture in financial services. Much has been written about the potential problems. For instance, how the biases inherent in historical data can be replicated by AI, or how access to data can be abused. However, technology and data analytics can also be used as tools to detect behavioral issues and support stronger organizational norms. For instance, network analysis can help to identify opportunities to influence sub-groups through network nodes. Natural Language Processing technology can use existing data (internal as well as external) to identify behavioral patterns, determine where trust levels are high (and low), and even predict where the context might be ripe for future misconduct. We are eager to learn more about how technology can be used as a tool to improve cultural outcomes – and explore the ethical questions about when technology-enabled surveillance might go too far.

There are also ways in which financial organizations might employ analog approaches – for instance, building a culture of continuous learning. When the goal is learning and improvement – as opposed to being right or proving your smarts – there is room to ask questions, there is appetite for discovery, and there is honor in changing your mind. Note, this is different from the “fail fast” ethos of some tech firms that look to run live pilots and make corrections in real time. Outside of a regulatory sandbox, TradFi firms don’t have the luxury of failing in public as a means of learning and improvement. Could the answer lie in driving learning and growth as a mindset, not just a process?

Join us on July 6 as our panel explores these timely matters and takes questions from the audience.