

The Value of Trust in the Age of AI

A closer look at the structural advantage that may determine the long-term winners of the AI era – and why the market might be underestimating it.

Executive Summary

From the initial internet boom through the rise of mobile and cloud computing to today's AI era, disruptive technology has repeatedly ignited new investment cycles. As each transition matures, the market tends to bifurcate – separating a small set of durable winners from the broader field. Not every wave of new technology triggers a seismic shift – but there is no denying AI's potential to reshape the competitive landscape across several industries. While AI is already widely recognized as the next transformative force, investors remain divided on who will emerge as the eventual winners.

In the early stages of an investment cycle, investor attention naturally gravitates toward the most visible dimensions of competition. Model releases, benchmark leaderboards and headlines about capital expenditures are the key indicators of leadership in today's AI landscape. Yet the market's fixation on technical edge and first-mover status may overlook decades of evidence suggesting that there are many ways for companies to win in this cycle.

The consequences of premature AI deployment are already visible. A leading source for benchmarking AI performance, Vectara's Hallucination Leaderboard measures the propensity of various Large Language Models (LLMs) to generate factually incorrect information or "hallucinate". The next-generation leaderboard reveals dramatically higher hallucinations since expanding the underlying dataset to include longer documents and more complex requests. When executing realistic business tasks, even the top LLMs consistently exceed 10% hallucination rates, underscoring the need for robust guardrails.[1] As AI scales across corporate workflows, trusted partners with secure connectivity and established governance frameworks hold a structural advantage over competitors unable to provide the same assurances.

The spending patterns of leading Banking & Financial Services institutions – among the world's largest and most demanding technology customers – reveal a clear link between institutional trust and compounding growth. Specifically, the durability of deeply entrenched IT vendors across multiple technological transitions reflects the structural advantages of trust. While continued innovation remains essential, credibility functions as a protective moat that buys time to narrow technology gaps and sustain long-term competitiveness. Although our analysis focuses on technology vendors serving financial services, the same structural logic applies across all heavily regulated sectors: healthcare, energy, utilities and defense. When disruptive technology is introduced to environments with high regulatory overhang, trust-based advantages are especially durable.

Capability Converges, Regulation Accelerates

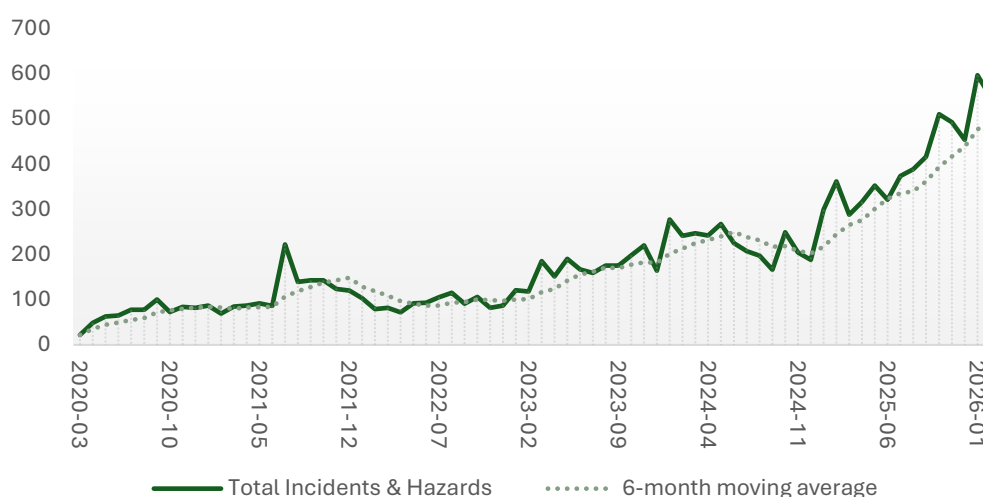
The prevailing narrative of the AI era emphasizes exponential capabilities – each model is seemingly faster, cheaper, and smarter than the last. At this stage in the cycle, many investors view technical superiority as the decisive competitive factor. That assessment is not wrong; it is simply incomplete. Past cycles suggest that there are multiple paths to compounding growth. A broad set of companies, including those currently underperforming, can ultimately emerge as winners.

[1] The Stanford Institute for Human-Centered Artificial Intelligence (HAI)

The harsh reality of the competitive IT market is that capabilities are often replicable, making technical edges short-lived. We already see model performance compressing across industry benchmarks. Stanford HAI reports that the score gap between the 1st and 10th ranked LLMs fell from 11.9% to 5.4% by early 2025.[2] What remains difficult for disruptors to replicate is the accumulated trust earned over years of proven stewardship and deep integration within the complex infrastructure of the most scrutinized organizations.

The deployment of AI in enterprise workflows has coincided with a steady increase in operational failures. The OECD AI Incidents and Hazards Monitor documents a rising volume of security breaches, hallucinations, bias amplification, and autonomous decision errors.[3]

Exhibit 1: Evolution of AI Incidents and Hazards



Source: The OECD AI Incidents and Hazards Monitor (AIM)

This trend is not merely anecdotal. It reflects the inherent challenges of deploying AI in high-stakes environments and carries meaningful implications for vendor selection. Regulatory responses are already taking shape, broadly pointing toward more oversight, accountability, and documentation. For vendors already embedded in the core infrastructure of these institutions, this shift is not merely a compliance burden — it is an opportunity to capitalize on their structural advantages.

How the Trust Advantage Compounds

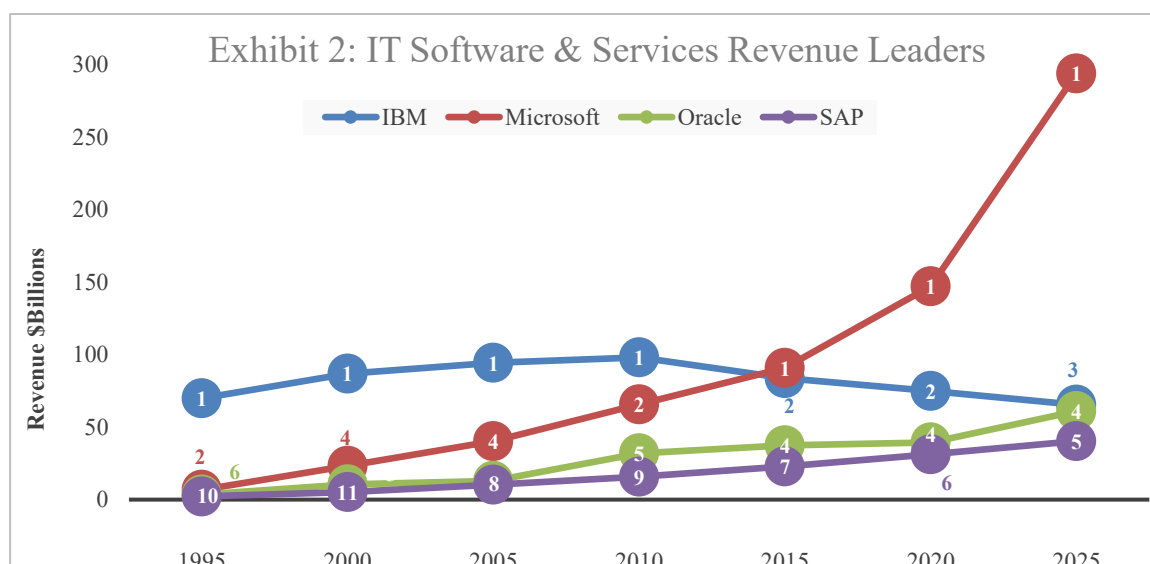
The Banking and Financial Services sector offers the clearest lens to observe this dynamic given the complexity of its technology stacks and regulatory obligations. At the enterprise level, choosing a technology provider means accepting long-term counterparty risk. This makes the vendor-selection process inherently multi-dimensional. Procurement therefore extends beyond technical capability to encompass legal liability, audit defensibility and operational resilience. This assessment process can span several months. Even when they offer superior products, prospective new vendors are often ill-equipped to match the rigorous control mechanisms and institutional familiarity that incumbents have built over decades of partnership. In this context, trust is a structural economic moat that compounds over time through three mutually reinforcing mechanisms.

1. Reduced Procurement Friction

Vendors pre-certified to regulatory gold standards enter procurement conversations weeks or months ahead of uncertified competitors. At a major bank or financial institution, an incumbent's next product bypasses the 18–36 month TPRM cycle required under stringent frameworks such as DORA, SR11-7 and the Basel Committee's Principles for Operational Resilience . The same dynamic governs buyers in the defense (CMMC), healthcare (HIPAA BAA readiness) and government (FedRAMP) sectors. With a lighter procurement burden, trusted incumbents can more readily scale adoption within existing accounts. This dynamic can translate into higher win rates and lower customer acquisition costs than external challengers.

2. Compounding Switching Costs

The technology stacks of banking and financial services institutions are highly complex and constantly evolving. Yet despite successive waves of technological change, these organizations have consistently relied on a narrow group of trusted IT providers. Exhibit 2 illustrates this persistence as many of the vendors commanding market share today were the same revenue leaders three decades ago – across fundamentally different technology landscapes.



Note: Annual revenues of companies selected from Apps Run the World's "Top 10 Banking and Financial Services Software Vendors, Market Size" report (2025). Annual revenue figures sourced from Bloomberg with rankings specific to universe of companies classified in the Information Technology: Software & Services industry group per GICS. [4]

This persistence cannot be explained by legacy positioning alone. For thirty years, these vendors have been deeply embedded in the design, operation and maintenance of the foundational systems. Layering AI on top of existing infrastructure and proprietary data elevates the cost and complexity of displacement. Once AI is trained on institutional data and integrated into core workflows, disentangling these interdependencies becomes increasingly difficult and prohibitively expensive.

Technology migration also carries the risk of hidden costs, including operational disruption, regulatory sanction and reputational damage, which frequently outweigh the marginal upside of a new IT provider. Deeper AI integration is likely to amplify challenges of displacing core technology providers.

[3] Digital Operational Resilience Act, Federal Reserve Supervisory Regulation 11-7, Basel Committee's Principles of Operational Resilience

[4] Cybersecurity Maturity Model Certification

[5] Health Insurance Portability and Accountability Act Business Associate Agreement

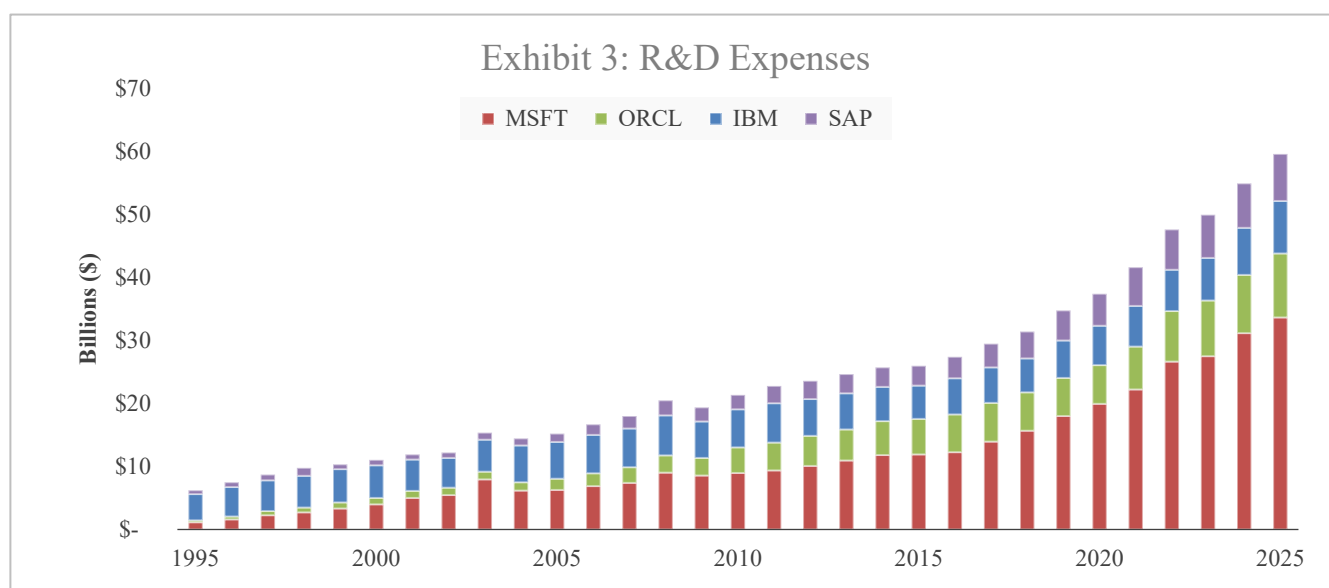
[6] Federal Risk and Authorization Management Program

3. Innovation Runway

Together, the extensive onboarding requirements and high switching costs establish a formidable moat that shields incumbents from external competition. As a result, organizations are incentivized to build around their existing core ecosystem rather than pursue wholesale displacement.

This dynamic grants incumbents a longer runway to innovate and develop the competitive products that drive long-term growth. It also helps explain why these firms consistently rank among the world's largest R&D spenders (Exhibit 3). The protection of their moat gives them the financial capacity and flexibility to sustain this level of investment.

Trust does not eliminate the need for innovation, but it can extend the time horizon over which innovation can occur. In practice, trusted incumbents are better positioned to close technology gaps and remain competitive without risking displacement.



Source: Bloomberg

Performance Evidence

If trust functions as a structural moat, its effects should be visible across full technology cycles – not only during periods of innovation leadership. Exhibit 4 captures the cumulative total return of these four longstanding technology providers against the S&P 500 Index through successive regime changes. Notably, all four of these vendors outperformed the S&P 500 over the past thirty years.

Exhibit 4 Cumulative Total Return (1995 - 2025)			
		Relative to SPX (+/-)	
IBM	2,610.45	+	792.91
ORCL	7,644.21	+	5,826.67
MSFT	14,305.41	+	12,487.87
SAP	2,613.64	+	796.10
SPX Index	1,817.54		

Source: Bloomberg

These outcomes are difficult to explain through first-mover advantage alone. When transformative technology shifted the market, these vendors weathered the initial disruption, entered as fast followers and secured durable positions in the new landscape. The cloud computing cycle offers a clear illustration of this dynamic.

When Amazon pioneered enterprise cloud infrastructure with AWS in 2006, Microsoft (Azure) and Google (GCP) followed within a few years and went on to consolidate leading positions. These three vendors still dominate today's market and account for 63% of the total enterprise spend on cloud services according to Synergy Research Group.[5]

Yet against this concentrated leadership, Oracle, SAP and IBM have still carved out meaningful positions of their own. Oracle Cloud Infrastructure (OCI), launched roughly a decade after AWS, has grown into a top-five cloud provider despite its late entry.[5] OCI's trajectory reflects Oracle's extended runway and illustrates how trusted incumbents can remain competitive in new technology cycles even if they miss the initial wave. In this sense, the cloud cycle reinforces a broader historical pattern: while technical leadership may define early winners, trust and incumbency are also powerful advantages for compounding value over the full arc of a technology transition.

Final Thoughts

Every major technology cycle elevates first-movers, but history cautions against overlooking trusted incumbents with structural advantages. The AI era is unlikely to be an exception. The frequency of AI-related incidents continues to rise, regulators are responding and the enterprise procurement process in regulated industries is as demanding as it has ever been. In this environment, companies with deep regulatory relationships, formidable compliance infrastructure, and a track record of reliable operation inside the world's most scrutinized institutions hold a durable advantage that does not expire with the next model release.

The market is not wrong to watch the benchmark leaderboards. But investors who look only at which AI model is fastest or cheapest today put themselves at risk of ignoring the less visible ways to win in this investment cycle.

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Teddy Wackerman, *Vice President*

Jennifer Foster, *Executive Vice President & Co-Chief Investment Officer*

Sources:

- [1] [Introducing the Next Generation of Vectara's Hallucination Leaderboard](#)
- [2] [The 2025 AI Index Report | Stanford HAI](#)
- [3] [OECD AI Incidents Monitor, an evidence base for trustworthy AI - OECD.AI](#)
- [4] <https://www.appsruntheworld.com/top-10-banking-and-financial-services-software-vendors-and-market-forecast/>
- [5] [Cloud Market Share Trends - Big Three Together Hold 63% while Oracle and the Neoclouds Inch Higher | Synergy Research Group](#)

Chilton Trust

300 Park Avenue, 19th Floor
New York, New York 10022
(212) 843-6882

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CHILTON TRUST

www.chiltontrustcompany.com

CHARLOTTE: 5925 Carnegie Boulevard, Charlotte, NC 28209
(980) 227-3101

NAPLES: 850 Park Shore Drive, Naples, FL 34103
(239) 488 - 1050

NEW YORK: 300 Park Avenue, New York, NY 10022
(212) 843-6882

PALM BEACH: 396 Royal Palm Way, Palm Beach, FL 33480
(561) 598-6330

STAMFORD: 1290 East Main Street, Stamford, CT 06902
(212) 843-6882

WILMINGTON: 1105 North Market Street, Wilmington, DE 19801
(302) 466-3501