WHAT´S GOING ON IN BANKING

2025

Happy(er) Days Are Here Again

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Cornerstone ADVISORS

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Trouble Ahead, Trouble Behind

And you know that notion just crossed my mind. Welcome to the 10th edition of Cornerstone Advisors' What's Going On in Banking study.

In 2023, headwinds and tailwinds blew financial institutions into a windless cove, where they rode out the storms brewing in the middle of the sea. In 2024, smarter banks and credit unions went searching for the next wave to ride towards a new future and destination (Figure 1). So what will 2025 look like?

Figure 1: What's Going On in Banking 2023 and 2024 Cover Pages

Source: Cornerstone Advisors

As the Grateful Dead once sang, "Some days the gales are howling, sometimes the sea is still as glass." Optimism among bankers for the coming year is as high as it's been in a decade. This isn't unbridled optimism, however—bankers know that the economy is still fragile, that the interest rate environment isn't out of the woods, and that regulations and compliance will still be a burden.

As the chief executive officer of a $1.2 billion credit union said, "Going into 2025, there has never been such a question mark as to how the economic and regulatory landscape will shape up." If it's a stretch to claim that happy days are here again, then at least we can say that happier days are here.

And the Survey Says...

This year's survey sample included 308 respondents from financial institutions, 55% from banks, 45% from credit unions, and 92% of whom work for FIs in the $250 million to $50 billion asset range. Eight in 10 respondents are C-level executives (including 30% who are CEOs) with the rest coming from the ranks of senior vice presidents and vice presidents.

With roughly 3,100 banks and credit unions in this asset range, the margin of error in the study is 5% at a 95% confidence level. That's an acceptable margin of error, and it could be argued that the survey results are representative of the overall bank and credit union population in the asset range listed above—although I don't believe it is.

Instead, I believe the sample is representative of FIs that are forward-thinking about technology, aggressive about growth and market share, and unafraid to take on the megabanks, upstart fintechs, and others competing with them for mind and market share—what Steve Williams, Cornerstone Advisors' CEO, calls the "troublemakers."

Rising Up to Paradise, I Know I'm Going to Shine

The purpose of the report is to help both financial institutions and the technology companies that serve and partner with them better understand what's going on in the industry, plan for the changes, and deal with the challenges. And there are plenty of challenges.

Ultimately, I'm optimistic—as are the rest of my colleagues at Cornerstone Advisors—about the prospects for community-based financial institutions. We see the good you do for your communities. We know you're going to shine.

Last thing before you get into the heart of the report: The title of the report was inspired by the Marvin Gaye classic "What's Going On," and like last year's report, this year's report includes many subtle (and not so subtle) musical references. There's already been three Grateful Dead-related references. Hope you find them all.

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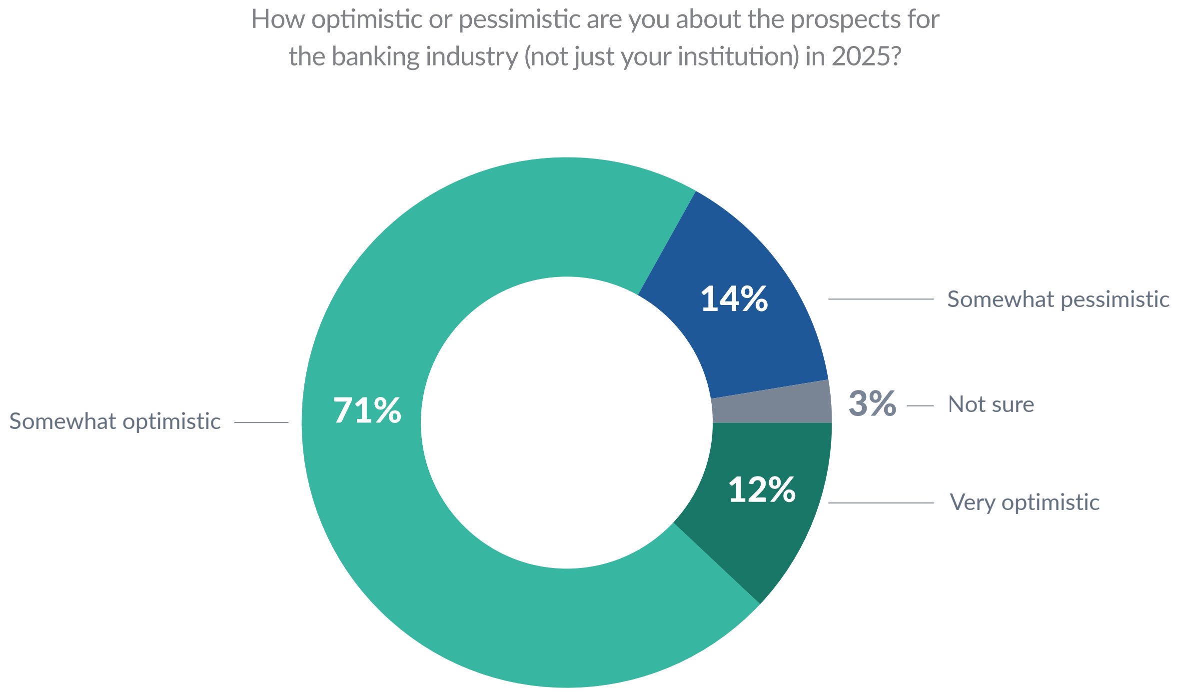
2025 Outlook: Dawn is Breaking Everywhere

This is the 10th year that I've been writing this report, and I can say—unequivocally—that survey respondents haven't been as optimistic about the coming year as they have since 2017, and you know what fueled that optimism. Bank and credit union execs are optimistic again: More than 8 of 10 are "very" or "somewhat" optimistic about 2025, and just one survey respondent was "very" pessimistic (Figure 2).

Figure 2: Outlook for 2025



Source: Cornerstone Advisors What's Going On in Banking 2025

As a point of comparison, more than twice as many bank and credit union execs are very optimistic about 2025 as they were going into 2024 (Table A). There's near-jubilation among bank execs as 17% are very optimistic and another 69% are somewhat optimistic about the coming year (Table B).

Table A: Financial Institution Executives’ Outlook, 2023 to 2025

	2023	2024	2025
Very optimistic	7%	5%	12%
Somewhat optimistic	47%	55%	71%
Somewhat pessimistic	41%	37%	14%
Very pessimistic	2%	1%	0%
Not sure	3%	3%	3%

Source: Cornerstone Advisors What’s Going On in Banking 2025

Table B: 2025 Outlook by Type of Institution

	Banks	Credit unions
Very optimistic	17%	6%
Somewhat optimistic	69%	74%
Somewhat pessimistic	11%	19%
Very pessimistic	0%	0%
Not sure	4%	2%

Source: Cornerstone Advisors What’s Going On in Banking 2025

What's influencing bank and credit union executives' optimism and pessimism for 2025?

1) The economy. Confidence among Americans dropped unexpectedly in December 2024, according to The Conference Board's sentiment index.[1] A less optimistic mood among consumers contrasts with growing confidence in the private sector—and many of the bankers surveyed for this report. And why shouldn't they be more optimistic? According to S&P:

> "Community banks' funding costs likely peaked in the third quarter as the Federal Reserve shifted toward lower interest rates, but these banks will struggle to lower deposit costs quickly due to their increased reliance on certificates of deposits for funding. Community bank margins should still expand as they benefit from newly originated loans carrying attractive yields, while fixed-rate assets reprice at higher yields." [2]

Our survey respondents weighed in with their thoughts:

> "The economy seems to be in a good place. Loan demand seems to be picking up. Margins are holding steady. Labor pressure seems to be easing."
>
> Chief Executive Officer, $600 million bank

> "Generally hoping for regulatory relief but concerned that we will see unneeded market chaos and accelerated inflation. The federal policy choices will go a long way to determining how positive of a year we have in banking."
>
> Chief Executive Officer, $2.2 billion credit union

> "Rates appear to be heading higher for longer, yet again. Consumer and mortgage loan demand are likely to be down in the face of this rate stagnation."
>
> Mark Rabinowitz, Chief Executive Officer, Northrop Grumman Credit Union

> "Interest rates are not going to decline as much as anticipated, so mortgage refinancing will be slow, leading to less fee income from mortgage sales. In New England, it appears that many FIs are loaned up, therefore, loan growth has slowed as borrowing rates are kept higher to discourage aggressive loan growth."
>
> Glenn Welch, Chief Executive Officer, Freedom Credit Union

> "The uncertainty of interest rates and the inverted yield curve creates challenges for the average consumer as they are looking for lending rates to drop commensurate with the Fed rate drops. Consumers have limited liquid funds that are distributed across many institutions, forcing FIs to rely on higher cost term deposits."
>
> Jeff Carpenter, CEO, Weokie Federal Credit Union

2) **Industry dynamics.** According to Fitch Ratings, bankers can expect a more supportive operating environment in 2025, with subsiding net interest margin compression, recovering loan growth, and stabilizing credit quality.[3]

> "The industry is in somewhat of a squeeze right now. The pressure on net interest margins, some weakness in credit quality that is just beginning to surface, the overzealousness of the CFPB, and the volatility of the bond market are making it very challenging for financial institutions."
>
> Lloyd Reiter, Chief Executive Officer, First State Bank

> "Scale and growth are critical for credit unions to keep pace with technology innovations, meet regulatory requirements, and combat fraud. Fintechs have supported credit unions to meet these challenges, but mergers and acquisitions will become ever more important if we are to stay competitive and survive."
>
> Mirella Reznic, Chief Strategy Officer, Valley Strong Credit Union

> "Community-based financial institutions are under increasing pressure, yet technology has not significantly shifted the economies of scale for most smaller institutions due to evolving market expectations. Meanwhile, costs for talent, technology, compliance, and fraud continue to rise unchecked, and service from the big three technology providers is deteriorating at an alarming rate."
>
> Jack Ingram, Chief Information Officer, Whatcom Educational Credit Union

3) **The regulatory environment.** Post-election, bankers are hoping for and awaiting big changes—in their favor—on the regulatory front. The big question concerns the speed at which the changes will come.

> "The change in administration is huge. Not only the hopeful lessening of regulations, but the attitude of the regulators that goes with that change."
>
> Chief Executive Officer, $1.8 billion bank

> "The regulatory burden is onerous and does little to nothing to serve consumers. However, it does negatively impact pricing, which ultimately gets passed along to consumers."
>
> James Watts, Chief Executive Officer, RIA Federal Credit Union

> "I'm mixed on the upcoming administration and how they will handle digital assets and regulatory relief."
>
> Devon Lyon, Chief Executive Officer, Central One Federal Credit Union

> "Having a more business-friendly administration will help. We need to see some of the overreaching regulation pared back, which now stands a chance. A moderating interest rate cycle would help as well."
>
> Greg Ohlendorf, Chief Executive Officer, First Community Bank & Trust

> "Would love to have a more capable regulatory agency and the CFPB to be eliminated."
>
> Chief Financial Officer, $4.5 billion credit union

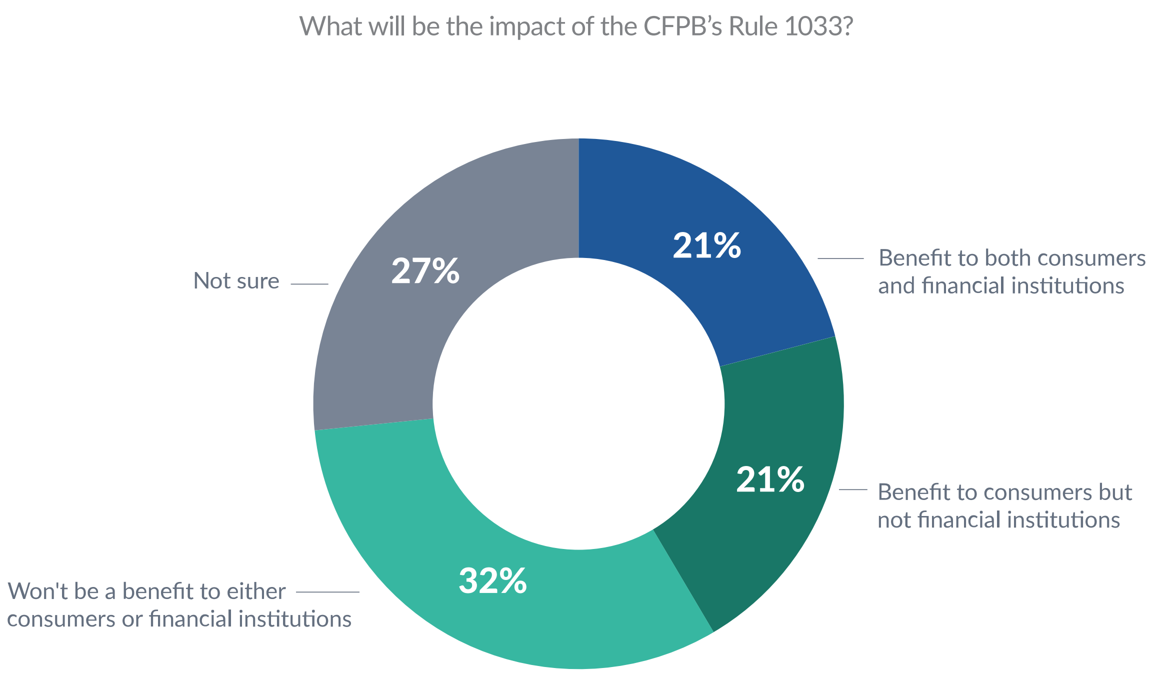
> "I agree with Elon Musk: The CFPB needs to be deleted. The entire organization is a gross historical mistake."
>
> Chief Technology Officer, $2.5 billion bank

> "I'm optimistic that Trump will fire Rohit Chopra and put an end to the CFPB's burdensome regulations."
>
> Chief Executive Officer, $350 million credit union

CFPB: A Searchlight Casting for Faults in the Clouds of Delusion

Speaking of the Consumer Financial Protection Bureau, many execs aren't optimistic about the CFPB's recently released Rule 1033, which will require banks and credit unions to make financial transaction histories and account information available to consumers or their authorized third parties in a standardized electronic format. Although consumer advocates and "open banking" vendors hail this as a big win, more than half (53%) of our survey respondents believe the rule won't benefit them, and just 1 in 5 (21%) think it will help financial institutions. Nearly a third (32%) believe it won't help consumers (Figure 3).

Figure 3: Impact of Rule 1033



Source: Cornerstone Advisors What's Going On in Banking 2025

The Chief Information Officer of a $4 billion bank explained the negative take on "open banking":

> "We mostly offer commodity checking accounts. Commodities are a margin game where high efficiency is all that matters. If we don't wake up and start providing more value through added services attached to these accounts, community banks will be decimated in the next decade. The 'buy local' crowd can only make up so much of the difference. Open banking will provide the juice for large banks to plunder the deposits of the community banks at record low acquisition costs."

Rule 1033: The Law Come to Get You if You Don't Walk Right

Hailed by many in the banking industry as bringing "open banking" to the United States, Rule 1033 mandates that financial institutions provide consumers with access to their personal financial data upon request. The data must be shared securely and reliably with consumers or authorized third parties. Key provisions of the rule include:

- **Data accessibility.** Banks and credit unions are required to make financial transaction histories and account information available to consumers or their authorized third parties in a standardized electronic format.

- **Third-party obligations.** Entities accessing consumer data must adhere to specific privacy and security standards, ensuring data is used appropriately and protected against unauthorized access.

- **Standardization and interoperability.** The rule promotes the development and use of standardized formats for data sharing, facilitating interoperability among financial institutions and third-party providers.

- **Consumer rights.** Consumers are empowered to control their financial data, including the right to access, share, and revoke access to their information as they see fit.

Rule 1033 Will Fall Short Of Its Goal—And What Needs To Be Done About It

Rule 1033 aims to empower consumers by granting them access to and control over their financial data. That assumes, however, that consumers have the knowledge, resources, and capacity to manage such complex responsibilities. This assumption is misguided because:

- **Consumers lack education.** Managing financial data involves understanding things like data security, third-party provider credentials, and consent agreements. But, as so many people here like to point out, we have a financial literacy (or illiteracy) problem in the United States. Many consumers lack formal education in financial literacy or cybersecurity, making them vulnerable to exploitation or mismanagement of their data.

- **There's a proliferation of data and providers.** Many consumers—particularly younger ones—interact with upward of a hundred financial providers. Constantly monitoring, authorizing, and renewing consent for multiple providers will create an unsustainable load for the average consumer. Revoking data access requires knowledge of the process and vigilance to ensure that third parties no longer have the data. Many consumers simply won't spend the time to track these activities.

- **Consumers are vulnerable to data privacy risks.** Many consumers are unaware of how their data may be used once shared. Personally identifiable information (PII) isn't even needed anymore for marketers to accurately identify individual consumers. Providers could use data for purposes like targeted advertising or profiling, potentially violating consumer expectations.

- **The industry is unable to address data breaches.** While there are some good tools available today, most consumers lack the resources to track and resolve data breach issues. Financial recovery, identity restoration, and credit monitoring require expertise and time that many consumers do not have.

To address these challenges, the industry needs:

- **Standardized certifications.** While Rule 1033 requires the secure handling and sharing of consumer data, it doesn't include a formal certification process or licensing requirement.

- **Enhanced default protections.** Instead of placing the responsibility on consumers, banks should implement security measures like automatic consent expiration and granular access settings.

- **Simplified consent processes.** While the rule emphasizes explicit consumer consent and robust security measures, it leaves the implementation and verification of these requirements up to financial institutions and data recipients. Consent frameworks should be designed to be easily understood, using visual aids where needed.

The Unintended Consequences of Open Banking

While Rule 1033 aspires to give consumers control, it places an excessive burden on individuals to manage complex data-related responsibilities. Without additional safeguards and educational measures, the rule risks empowering only the most informed and resourced consumers, leaving others—i.e., those 1033 was designed to help the most—more, not less, vulnerable. To support that assertion, one academic study, titled "Open Data and API Adoption of U.S. Banks," found that:

> "Open banking and bank data portability might result in unintended consequences for bank and fintech competition and borrower welfare. Allowing voluntary data porting by consumers can lead to possible unraveling (i.e., customers are compelled to share data as non-disclosure will be perceived negatively by providers) and negative data externality for customers who don't share data. The loss of customer information due to fintech competition can disrupt information spillover within banks (e.g., by using payment data to learn about consumers' credit quality)."[4]

Proponents of open banking never seem to address these unintended consequences.

When Life Looks Like Easy Street, There is Danger at Your Door

Optimism may be at a decade-long high, but bankers still have concerns about the coming year. Last year's top concern—cost of funds—is still an issue for many banks and is towards the top of this year's list along with deposit gathering, efficiency, and cybersecurity. The increase, year over year, in execs citing cybersecurity and fraud-related concerns should be noted (Table C).

Table C: Bank Execs' Top Concerns, 2022 to 2025

Percentage of Banks Listing Concern as One of Their "Top Concerns"

	2022	2023	2024	2025
Deposit gathering			48%	52%
Efficiency, noninterest expenses, costs	39%	28%	53%	51%
Cost of funds	8%	43%	70%	48%
Cybersecurity	51%	36%	42%	48%
Consumer-related fraud			30%	43%
New customer growth	28%	23%	40%	43%
Noninterest income	29%	26%	32%	33%
Ability to attract qualified talent	67%	42%	26%	32%
Interest rate environment	50%	53%	53%	32%
Small business-related fraud			15%	25%
Credit quality/problem loans	6%	7%	23%	20%
Weak economy/loan demand	36%	35%	21%	19%

Source: Cornerstone Advisors What's Going On in Banking 2025

Among credit union executives, new member growth and efficiency remain top concerns for 2025. Just over half of credit union respondents mentioned cybersecurity and consumer-related fraud as top concerns. Although a couple of credit union CEOs commented on their concerns about interest rates and credit quality, overall, fewer credit union execs cited these as concerns for 2025 as they did for 2024 (Table D).

Table D: Credit Union Execs' Top Concerns, 2022 to 2025

Percentage of Credit Unions Listing Concern as One of Their "Top Concerns"

	2022	2023	2024	2025
New member growth	41%	36%	56%	62%
Efficiency, noninterest expenses, costs	33%	29%	52%	59%
Deposit gathering			49%	52%
Cybersecurity	43%	35%	48%	52%
Consumer-related fraud			37%	51%
Noninterest income	39%	34%	48%	50%
Cost of funds	9%	47%	71%	36%
Interest rate environment	38%	59%	45%	30%
Credit quality/problem loans	4%	16%	37%	30%
Weak economy/loan demand	34%	44%	29%	27%
Ability to attract qualified talent	63%	39%	23%	21%
Small business-related fraud			1%	2%

Source: Cornerstone Advisors What's Going On in Banking 2025

Bank and credit union execs expressed their frustration with the rampant fraud plaguing the industry:

> "We invest MILLIONS of dollars in infrastructure, controls, and fraud prevention tools, and yet merchants have little to no liability for making sure the payment is legitimate. Consumers give their credentials to fraudsters, but don't have to pay a single penny when they fell for a scam. It's all on the bank even though we did everything right. Focus on who is truly to blame, the fraudster, rather than having the banks take the full hit."
>
> Julie Smith, Chief Technology Officer, Isabella Bank

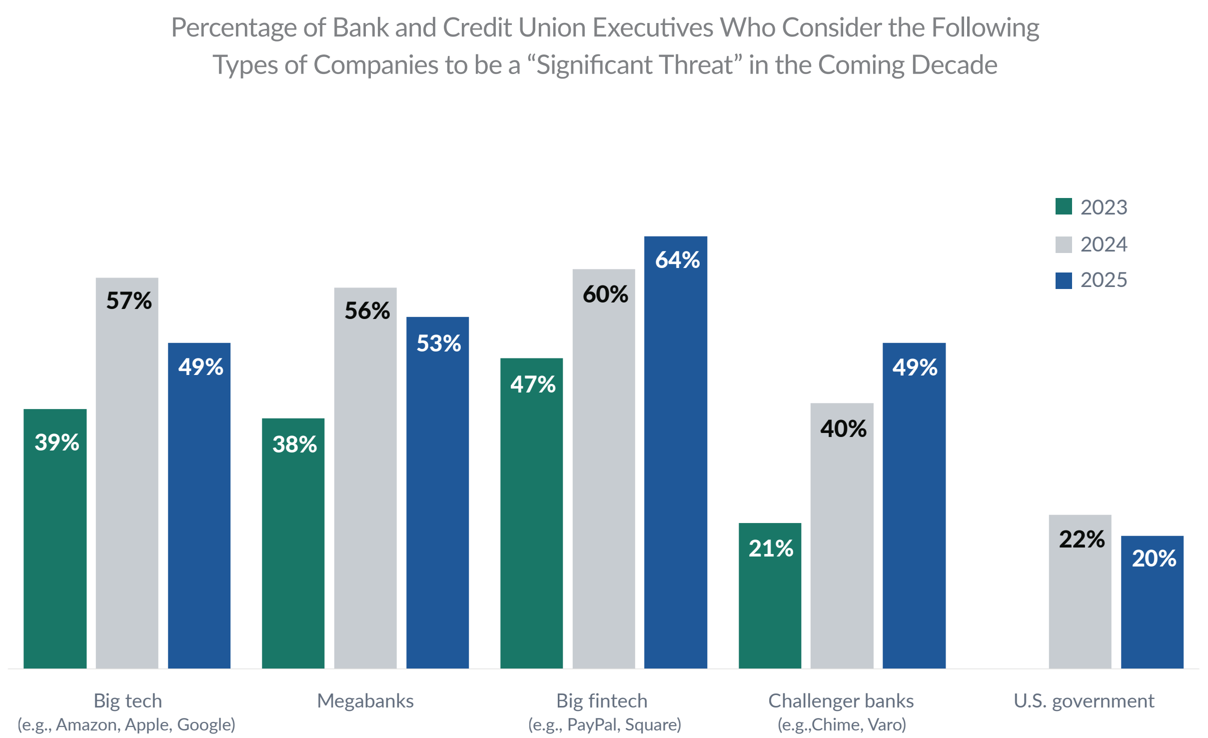
> "Cyber risks remain the anvil hanging over our head. So much work and effort goes into keeping our systems secure, safe, etc., and yet it is largely third-party risks that doom us in a cyber event. Regulators need to get serious about ransomware preparations, and we need an industry response to these events."
>
> Chief Technology Officer, $4.5 billion credit union

> "The requirement for banks to assume all liability for fraudulent consumer transactions in this time is a huge overburden when the cyber industry is not being held accountable for the breaches causing most of this. In addition, the increased reporting regulation under 1071 for small businesses is far overreaching—especially when businesses will not be required to report the information that would be reported."
>
> Erin Simpson, Chief Operating Officer, Encore Bank

There's Stiff Competition All Over the World

Bank and credit union executives' views on the significant threats to the banking industry continue to shift. Since 2023, the percentage of survey respondents seeing Big Tech firms, megabanks, big fintech companies, and challenger banks as threats has increased significantly. In addition, 1 in 5 see the U.S. government as a significant threat—a percentage we bet would've been higher if we had fielded the survey a month before the election instead of a month after it, or if the result of the election had been different (Figure 4).

Figure 4: Threats to the Banking Industry



Source: Cornerstone Advisors What's Going On in Banking 2025

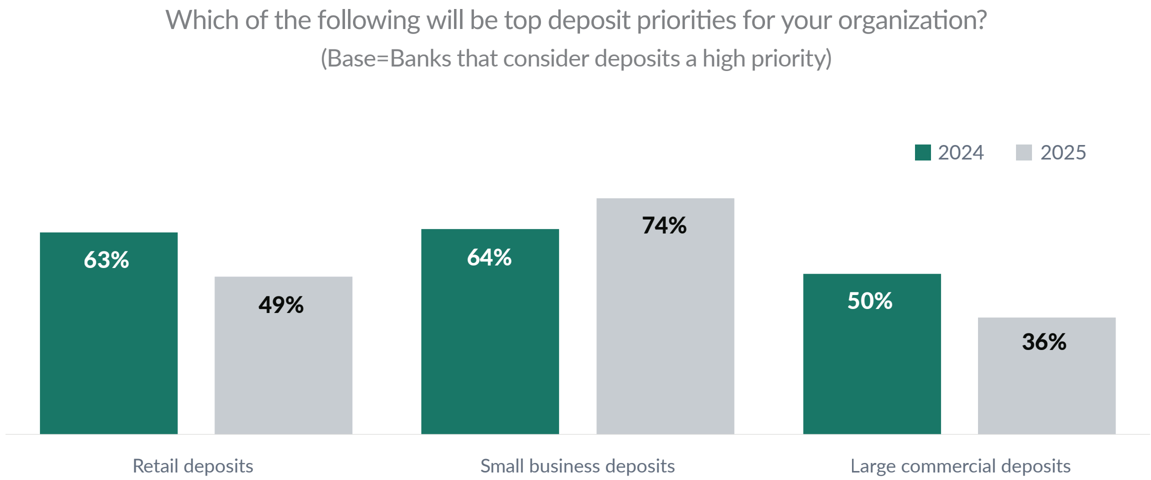
According to one survey respondent:

> "There are growing threats from non-bank financial institutions that do a great job of providing niche experiences and using those niche platforms to expand the relationship. I believe this threat along with continued growing regulations is going to continue to make it challenging for FIs to adapt at the pace needed."
>
> Senior Vice President, Digital Experience, $4.3 billion credit union

Deposits: Like the Good Book Says, You Gotta Reap Just What You Sow

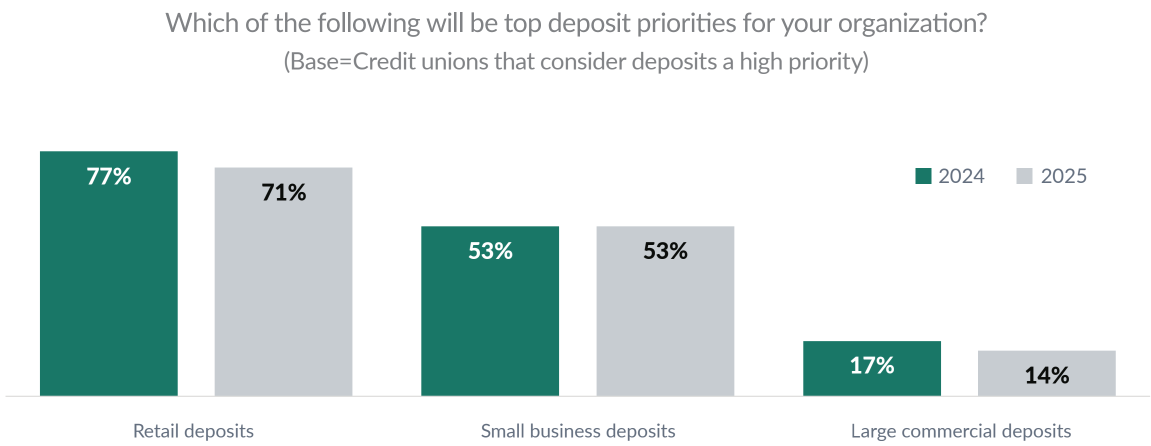
Among banks making deposit gathering a top priority, 2025 will bring a shift from focusing on retail and large commercial deposits to small business deposits (Figure 5). Among credit unions, priorities will remain largely unchanged (Figure 6).

Figure 5: Banks' Deposit Priorities



Source: Cornerstone Advisors What's Going On in Banking 2025

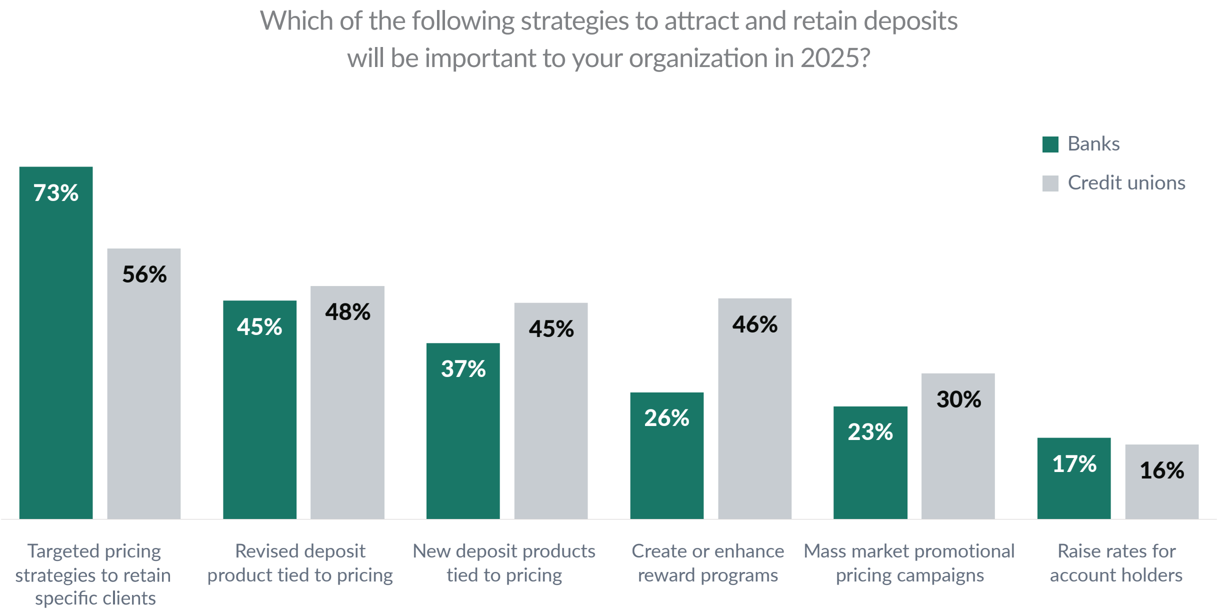
Figure 6: Credit Unions' Deposit Priorities



Source: Cornerstone Advisors What's Going On in Banking 2025

Targeted pricing will be the predominant strategy for attracting and retaining deposits for banks in 2025. Credit unions will take a more balanced approach, with about half planning to employ pricing strategies in addition to creating or enhancing reward programs (Figure 7).

Figure 7: Deposit Strategies



Source: Cornerstone Advisors What's Going On in Banking 2025

How effective were these strategies in 2024? Raising rates was cited by 32% of bank respondents and 44% of credit union respondents as being "very" effective. In contrast, 31% of bank execs and 21% of credit union execs said mass market promotional pricing campaigns and reward programs were not effective. The strategy with the fewest respondents rating it as very effective was reward programs with just 4% of bankers and 7% of credit union execs rating it very effective (Table E).

Table E: Deposit Strategy Effectiveness

	Deployed	If deployed, how effective were the following deposit-gathering strategies in 2024? Very effective	Somewhat effective	Not effective
BANKS				
Raise rates for account holders	89%	32%	64%	4%
New deposit products tied to pricing	59%	26%	68%	6%
Revised deposit product tied to pricing	73%	18%	74%	8%
Mass market promotional pricing campaigns	63%	7%	62%	31%
Create or enhance reward programs	40%	4%	61%	35%
CREDIT UNIONS				
Raise rates for account holders	86%	44%	52%	3%
Revised deposit product tied to pricing	70%	37%	57%	6%
New deposit products tied to pricing	61%	36%	59%	6%
Mass market promotional pricing campaigns	86%	22%	57%	21%
Create or enhance reward programs	50%	7%	74%	19%

Source: Cornerstone Advisors What's Going On in Banking 2025

Survey respondents commented on the deposit environment:

> "Consumers don't understand the importance of deposits to banks and how low-cost deposits can actually benefit them, the economy, etc. Selecting the right bank to place those deposits in is key if the customer is to benefit. Placing deposits in mutual funds and treasuries adversely impacts clients in ways they likely do not perceive. It's not all about rates earned on deposits."
>
> Dan Yates, Chief Executive Officer, Endeavor Bank

> "The industry has to get serious about deposits leaving community banks and how we will fund assets in the future if we can't convince consumers and small businesses to keep funds in regulated institutions."
>
> Jay England, Chief Executive Officer, Decatur County Bank

> "Deposits may stabilize with fewer and lower rate deposit offers so we can wean ourselves off of high-rate promo CDs and focus again on growing core deposits."
>
> Jenna Lampson, Chief Executive Officer, Pacific Service Credit Union

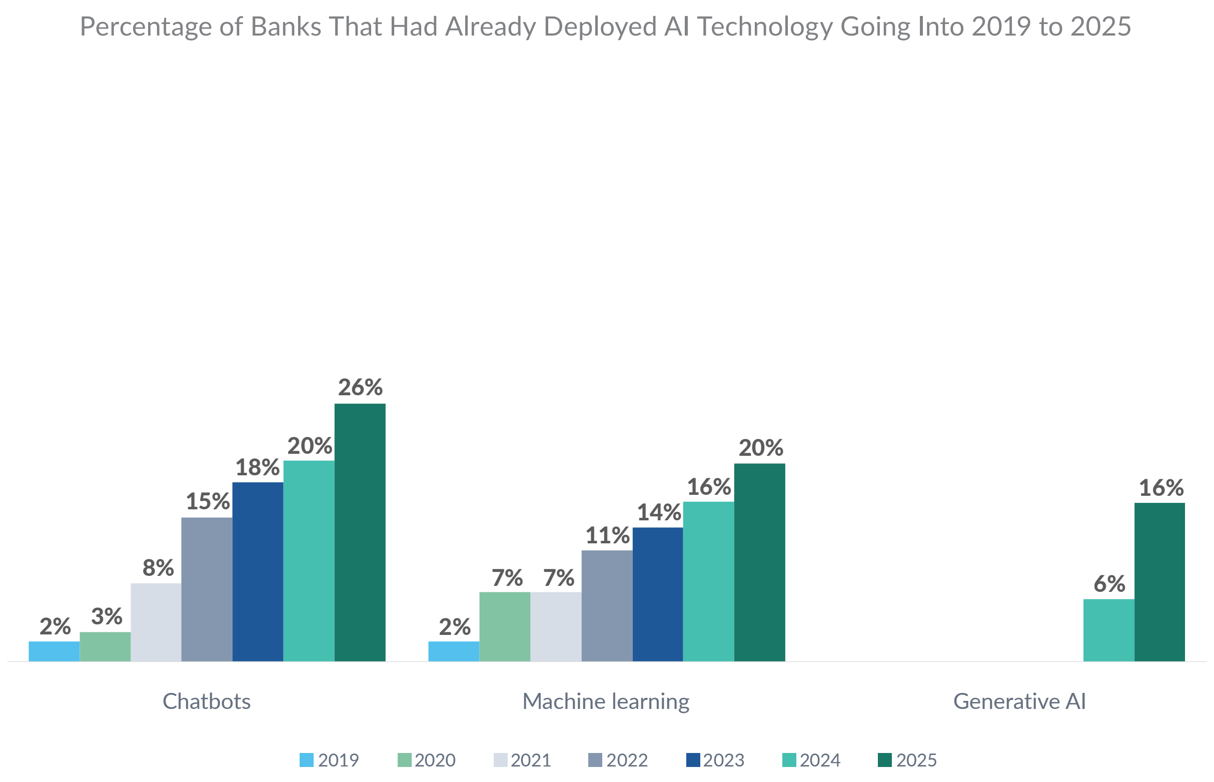
AI: I Opened My Robot Up and Got to Work

I made a promise on LinkedIn in early 2024 that I would stop using the term "AI" because it's an umbrella term that masks the different technologies that make up artificial intelligence. I broke my promise a hundred times. When someone talks about "AI," stop him or her and ask, "What kind of AI technology are you talking about?" If they can't answer, stop listening.

When I talk about AI in this report, I'm referring to: 1) conversational AI (or chatbots); 2) machine learning; 3) generative AI; and 4) robotic process automation (RPA). Adoption of some of these technologies is approaching "mainstream" status.

Among banks, a quarter have deployed chatbots, 20% have implemented machine learning, and 16% are using generative AI tools. Among credit unions, 45% have deployed chatbots, a third have implemented machine learning, and 36% are already using Gen AI (Figure 8 and Figure 9). Looking ahead to 2025, 28% of banks and 29% of credit unions plan to implement generative AI tools for the first time (Table F and Table G).

Figure 8: Banks' Deployment of Artificial Intelligence, 2019 to 2025



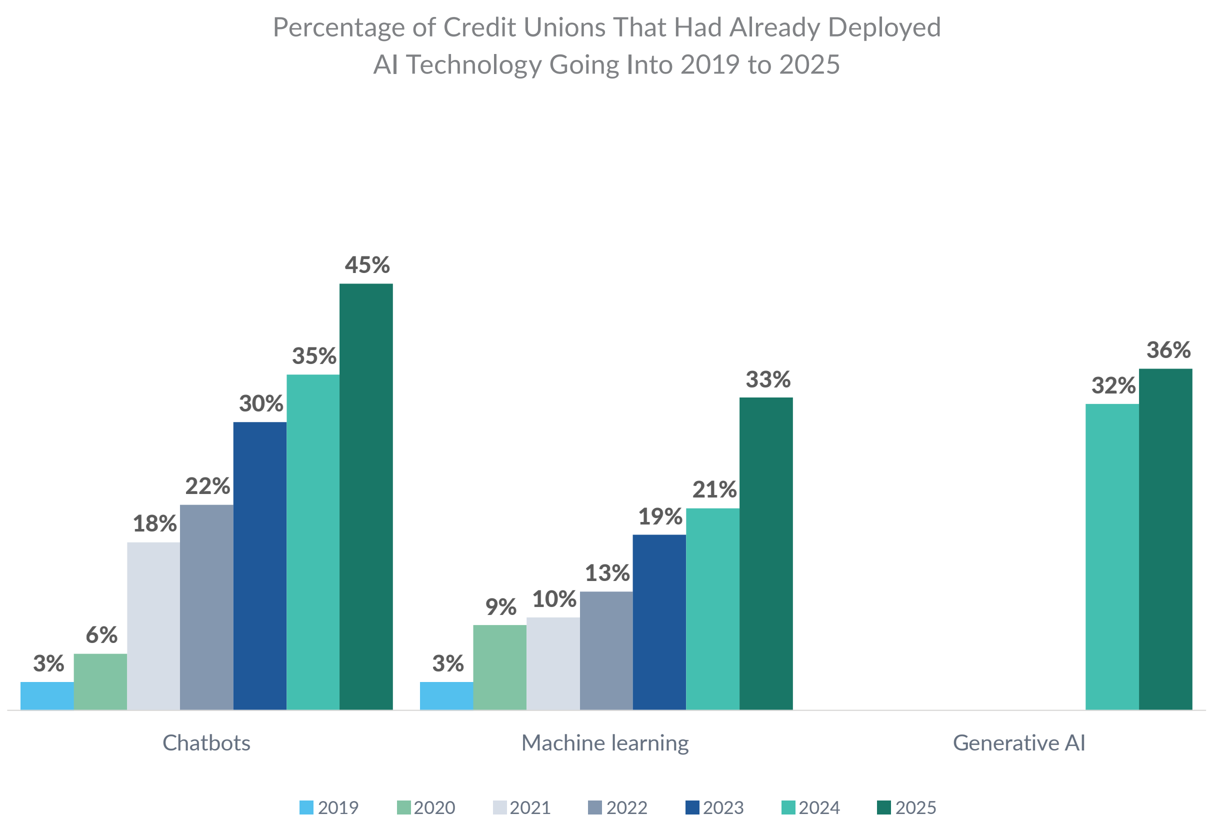
Source: Cornerstone Advisors What's Going On in Banking 2025

Table F: Banks' AI Status

	Have already invested in or deployed	Will invest or implement in 2025	Have discussed at the board or executive team level	Not on our radar
Robotic process automation	35%	13%	23%	30%
Chatbots/Conversational AI	26%	14%	44%	15%
Machine learning	20%	17%	37%	26%
Generative AI	16%	28%	42%	15%

Source: Cornerstone Advisors What's Going On in Banking 2025

Figure 9: Credit Unions' Deployment of Artificial Intelligence, 2019 to 2025



Source: Cornerstone Advisors What's Going On in Banking 2025

Table G: Credit Unions' AI Status

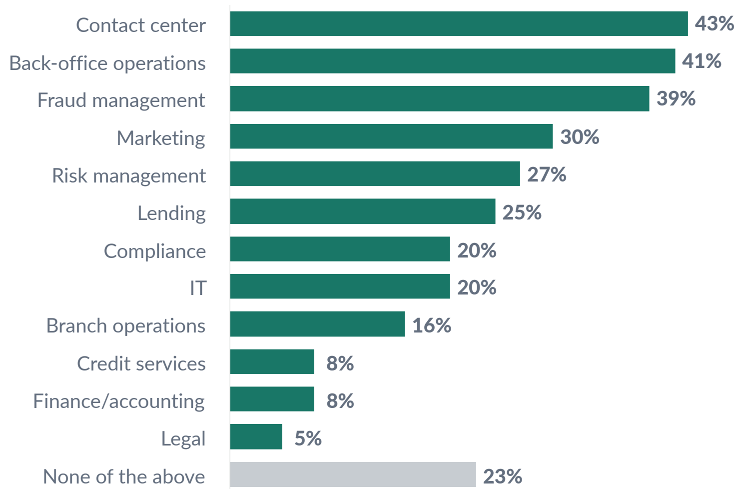
	Have already invested in or deployed	Will invest or implement in 2025	Have discussed at the board or executive team level	Not on our radar
Chatbots/Conversational AI	45%	29%	22%	4%
Robotic process automation	44%	11%	27%	18%
Generative AI	36%	29%	31%	5%
Machine learning	33%	23%	33%	11%

Source: Cornerstone Advisors What's Going On in Banking 2025

Banks and credit unions both see contact centers as the function where they'll most likely use generative AI tools. Among banks, however, back-office operations and fraud management are close behind, while in credit unions, fraud management and lending are the two functions closely following the contact center (Figure 10 and Figure 11).

Figure 10: Banks' Generative AI Plans

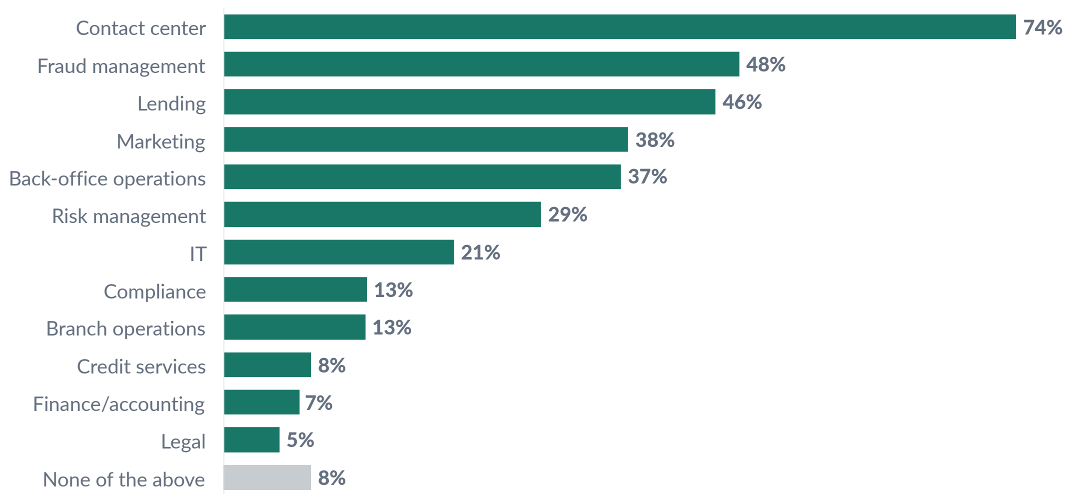
In which of the following areas is your bank using—or planning to use—generative AI agents and tools to help increase productivity?



Source: Cornerstone Advisors What's Going On in Banking 2025

Figure 11: Credit Unions' Generative AI Plans

In which of the following areas is your credit union using—or planning to use—generative AI agents and tools to help increase productivity?



Source: Cornerstone Advisors What's Going On in Banking 2025

The Data Element in AI

Data will be critical to Gen AI initiatives. To quote from the 2024 What's Going On in Banking study:

> "Consultants have been urging you to get your internal data house in order for years, and when you start using generative AI tools, you'll see how well you've done. The adage 'garbage in, garbage out' was tailor-made for generative AI.
>
> "For open-source LLMs that use public Internet data, be wary of data quality. While the Internet is a data gold mine, it's a gold mine sitting in the middle of a data landfill. Stick your hand in for some data and you won't be sure if you've got a gold nugget or a handful of garbage.
>
> "For decades, companies have wrestled with giving their employees access to the data they need to make decisions and do their jobs. Part of the challenge is having tools that access the data, and getting employees trained and up to speed on them.
>
> "Stop talking about 'data'—generically, that is. Instead, evaluate the quality, availability, and accessibility of specific types of data, for example, customer data, customer interaction data, transaction data, financial performance data, operational performance data, etc."

For the 2025 study, we asked survey respondents to gauge the quality of their organization's data strategy, data governance, and use of data. The results were not promising. Few of the survey respondents believe their organizations are very effective at the data attributes asked about (Figure 12).

Figure 12: Banks' and Credit Unions' Data Assessments

Source: Cornerstone Advisors What's Going On in Banking 2025

The Next Phase in AI: Agents

The 2026 What's Going On in Banking survey will ask about the use and planned use of AI agents. Right now, there's too much confusion about what "AI agents" are (and aren't). AI agents are about to have their moment (and it's about time). Too many people think generative AI tools like ChatGPT are just search engines on steroids. They're wrong and missing more than half of the story of what's going on with Gen AI.

What's an AI Agent?

The problem with the term "agent" is that evokes the image of a call center agent or representative. In a generative AI context, that's the wrong connotation. I like the definition from a white paper from PwC:

> "AI systems that possess the capacity to make autonomous decisions and take actions to achieve specific goals with limited or no direct human intervention."[5]

AI agents have certain traits or capabilities. They're:

- **Autonomous.** Agentic AI systems can operate independently, making decisions based on their programming, learning, and environmental inputs.
- **Goal-oriented.** AI agents are designed to pursue specific objectives, optimizing their actions to achieve the desired outcomes.
- **Workflow-oriented.** Agentic AI agents enhance workflows and business processes by optimizing resource allocation, improving communication and collaboration, and identifying automation opportunities.

How AI Agents Work

A report from McKinsey describes how Gen AI-enabled agents could work:[6]

1. **User provides instruction to agent.** A user provides a natural-language prompt, and the system identifies the intended use case, asking the user for additional clarification when required.
2. **Agent plans, allocates, and executes work.** The agent system processes a prompt into a workflow, breaks it down into tasks and subtasks, which a manager subagent assigns to other specialized subagents. These subagents, equipped with necessary domain knowledge and tools, draw on prior "experiences" and codified domain expertise, coordinating with each other and using organizational data and systems to execute these assignments.
3. **Agent iteratively improves output.** Throughout a process, an agent requests user input to ensure accuracy and relevance, and the process concludes with the agent providing final output to the user, iterating on feedback shared by the user.

AI Agents in Action in Banking

To see AI agents in action in the banking industry, there's no better place to look than South State Bank. Chris Nichols (whose title, Director of Capital Markets, belies the fact that he runs the innovation group at the bank), has documented much of the bank's AI-related efforts over the past few years. His blog post on the bank's use of an agent called AutoGPT is a must-read for every banker in the industry.

AutoGPT is a "goal-seeking" tool that creates a task list and then executes the list until the goal is completed. AutoGPT provides its own prompts and recursively talks to itself, feeding a refined prompt back into the system. SouthState used the agent to run a marketing campaign for its Health Savings Account product. According to Nichols:

> "We gave AutoGPT a list of product descriptions, rates, and performance metrics and asked it to raise $2 million in deposits using an email campaign. On its own, it figured out how to generate an email, test it, and then raise rates if it had to. It determined that it needed a clearer call to action, personalization of the email, to highlight case studies/testimonials, and to create a limited-time offer to drive a sense of urgency. It figured out how to segment the CRM list of customers by various factors and further personalize the emails."[7]

Through various iterations of the offer, after a little more than three weeks, $2.3 million was raised in new deposits at a rate of 1.75% from a little over 5,500 accounts from a population of 36,000 active accounts. Nichols listed other uses of the AI agent, including:

- **Data management.** AutoGPT wrote its own code in Python, debugged it, and moved it to production to clean and transform data to an updated data model. Banks have myriad applications that all call the same data with different names. Bringing data together usually takes banks $1 million or more in consulting time or internal effort. A bank can now do this in a small fraction of the time for less than $1,500 of ChatGPT charges.

- **Credit monitoring.** Setting a goal of monitoring a credit portfolio, the agent went out and researched relative metrics and continued to monitor the portfolio until the metrics were optimized.

- **Branch location identification and lease negotiation.** AutoGPT was asked to research high-traffic locations using cell phone data, look for open locations, and rank them according to cost. The AI agent took it upon itself to contact leasing agents (i.e., humans) to ask for information on the property. It then mapped competitors and competitor traffic to produce a location report. Once a branch location was found, the AI agent sent a series of texts asking for certain terms, improvements, and lease structure. The agent presented the best economical deal to the bank based on a list of weighted factors, including the cost per square foot over the life of the contract.

AI's Shortcomings

Generative AI tools can do lots of amazing things, but, as a new report from researchers at Apple demonstrates, large language models (LLMs) have some troubling limitations with "mathematical reasoning." The researchers concluded:

> "Current LLMs are not capable of genuine logical reasoning; instead, they attempt to replicate the reasoning steps observed in their training data. When we add a single clause that appears relevant to the question, we observe significant performance drops across all models. Importantly, we demonstrate that LLMs struggle even when provided with multiple examples of the same question or examples containing similar irrelevant information. This suggests deeper issues in their reasoning processes that cannot be easily mitigated through few-shot learning or fine-tuning."[8]

A recent TechCrunch article documented some of the seemingly simple mathematical calculations that LLMs get wrong. As the publication wrote, “Claude can’t solve basic word problems, Gemini fails to understand quadratic equations, and Llama struggles with straightforward addition.”[9] Why can’t LLMs do basic math? The problem is tokenization:

> “The process of dividing data up into chunks (e.g., breaking the word ‘fantastic’ into the syllables ‘fan,’ ‘tas,’ and ‘tic’), tokenization helps AI densely encode information. But because tokenizers—the AI models that do the tokenizing—don’t really know what numbers are, they frequently end up destroying the relationships between digits. For example, a tokenizer might treat the number ‘380’ as one token but represent ‘381’ as a pair of digits (‘38’ and ‘1’).”

Machine Learning Has a Problem, As Well

Annoyingly, a lot of people use the term “machine learning” when referring to regression analysis or some other form of statistical analysis. According to the University of California at Berkeley, machine learning has three components:

- **A decision process.** In general, machine learning algorithms are used to make a prediction or classification. Based on some input data, which can be labeled or unlabeled, the algorithm will produce an estimate about a pattern in the data.
- **An error function.** An error function evaluates the prediction of the model. If there are known examples, an error function can make a comparison to assess the accuracy of the model.
- **A model optimization process.** If the model can fit better to the data points in the training set, then weights are adjusted to reduce the discrepancy between the known example and the model estimate. The algorithm will repeat this iterative “evaluate and optimize” process, updating weights autonomously until a threshold of accuracy has been met.

Regression analysis and most other forms of statistical analyses lack a model optimization process. Here’s the real-world problem: While “investment” results are generally trackable, “spending” results are not. For the vast majority of people, however, how they spend is a bigger determinant of their financial performance than investing is.

The other challenge here is that we don’t simply spend to optimize our financial performance. We spend to optimize our emotional performance. How is a machine learning model going to track that?

AI Isn’t Ready for Prime Time in Financial Advice

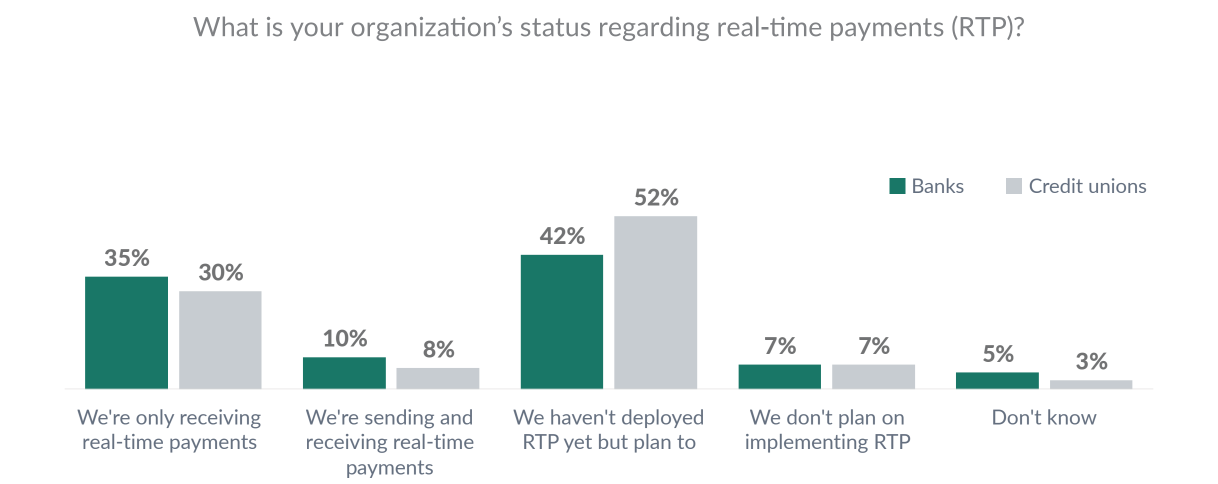
Providing financial advice and guidance is not a straightforward, simple task—the set of instructions needed to do it requires many “clauses.” In other words, the goals and objectives for establishing financial advice and guidance are not simple and straightforward—and it’s these complex questions and instructions that generative AI tools are not good at (according to Apple).

Bottom line: Banks and credit unions shouldn’t rely on AI to provide financial advice and guidance—right now. Maybe someday, but not now, and not for another five, maybe 10, years. If vendors claim they’re using machine learning, ask them about their model optimization process. If they claim to have a large language model, ask them how it overcomes math computation limitations.

You're Slowly Making Me Pay for Things

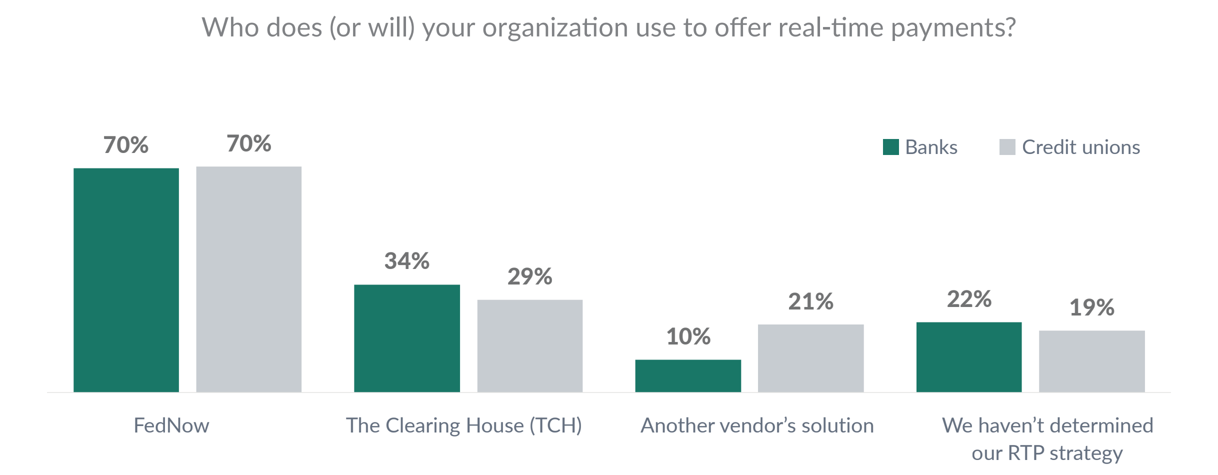
With the 2023 launch of the Federal Reserve's FedNow, real-time payments (RTP) have become a hot topic and high priority for banks and credit unions. Based on the findings of last year's report, we expected that 50% of banks and credit unions would be offering RTP by the end of 2024. Our new study shows that currently, 45% of banks and 38% of credit unions offer RTP—although roughly 8 in 10 of them only receive payments (Figure 13). Seven in 10 FIs are using FedNow, and a third of banks and 3 in 10 credit unions use The Clearing House (Figure 14).

Figure 13: Real-Time Payment Status



Source: Cornerstone Advisors What's Going On in Banking 2025

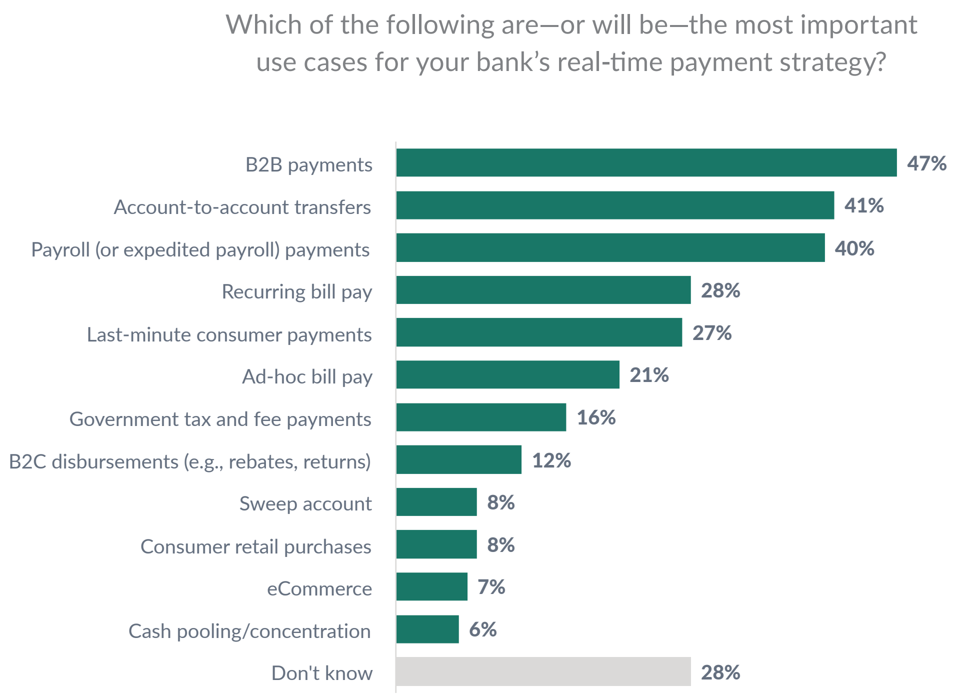
Figure 14: Real-Time Payment Providers



Source: Cornerstone Advisors What's Going On in Banking 2025

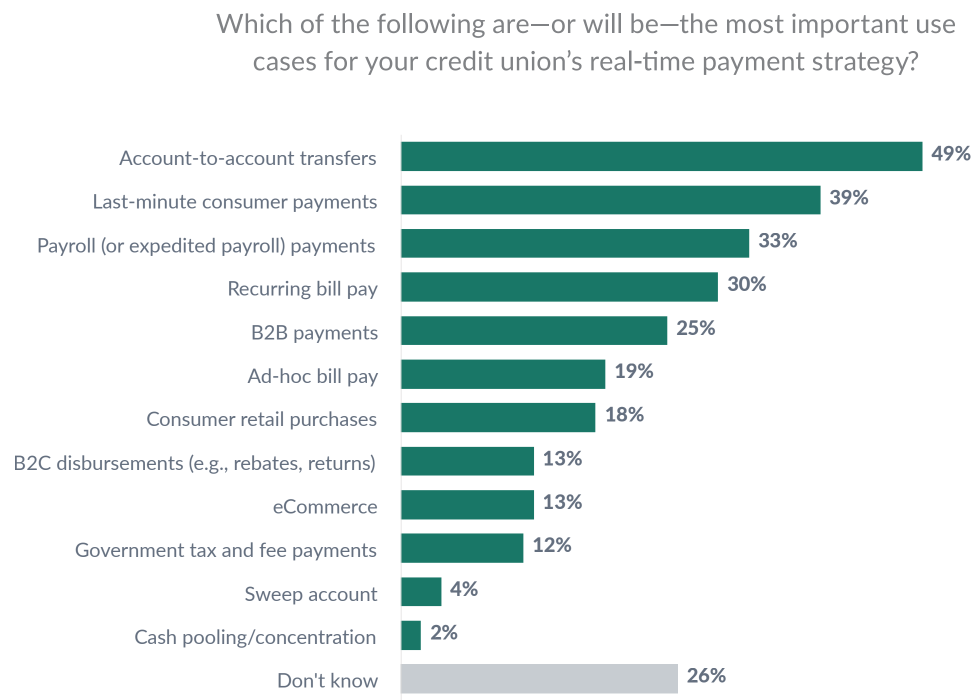
B2B payments are one the most frequently cited use cases for banks' real-time payments strategies, followed by account-to-account transfers and payroll (or expedited payroll) payments (Figure 15). Not surprisingly, B2B payments play a less important role at credit unions (Figure 16).

Figure 15: Banks' Real-Time Payment Use Cases



Source: Cornerstone Advisors What's Going On in Banking 2025

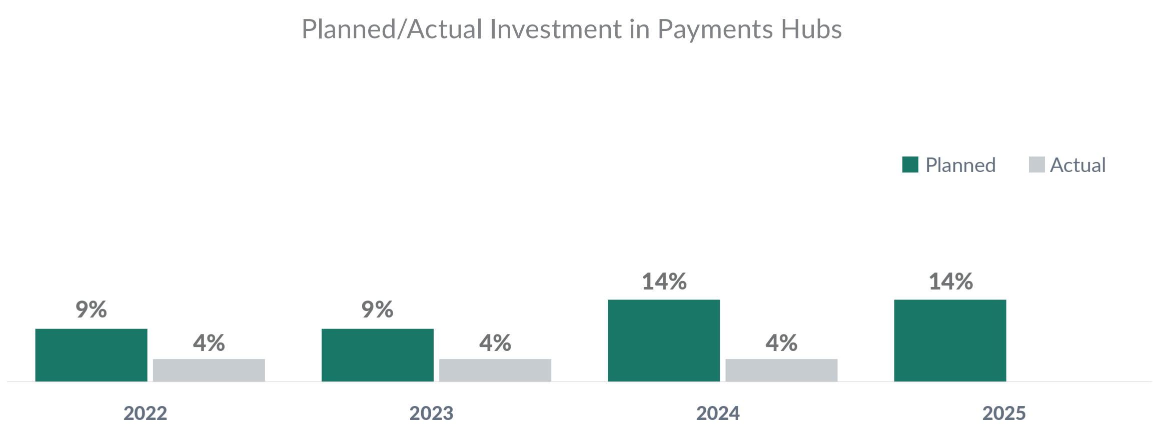
Figure 16: Credit Unions' Real-Time Payment Use Cases



Source: Cornerstone Advisors What's Going On in Banking 2025

Increased attention to real-time payments has helped stimulate interest in payments hubs. In both 2022 and 2023, 9% of banks and credit unions planned to select a new or replacement payments hub, while in 2024 that percentage jumped to 14% (which is the percentage of FIs planning to deploy a payments hub in 2025). In each of the last three years, however just 4% of banks and credit unions have actually selected a new or replacement payments hub (Figure 17).

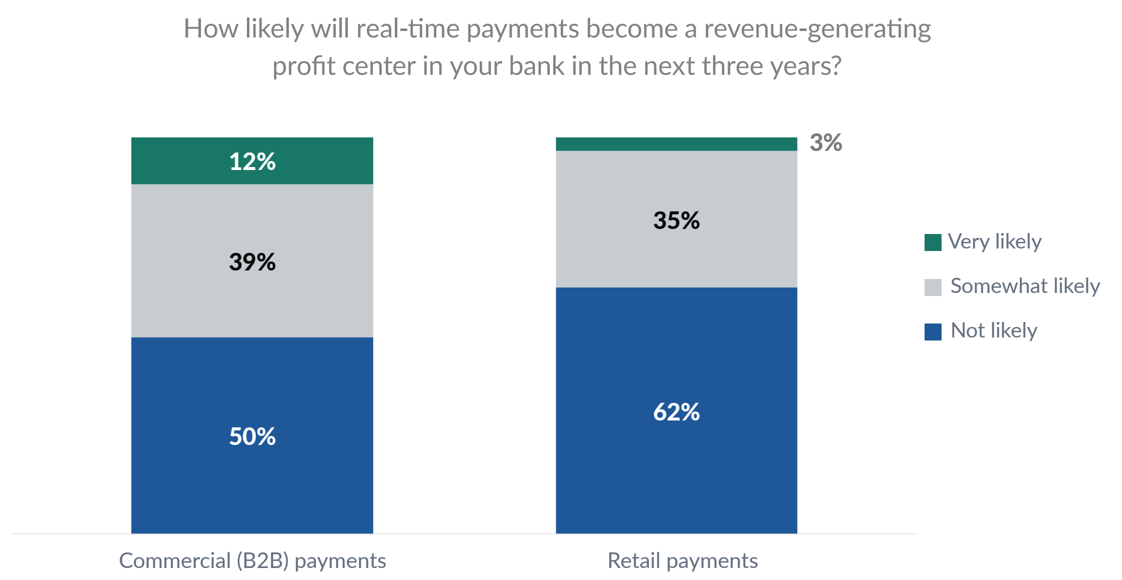
Figure 17: Banks' and Credit Unions' Investments in Payments Hubs



Source: Cornerstone Advisors What's Going On in Banking 2025

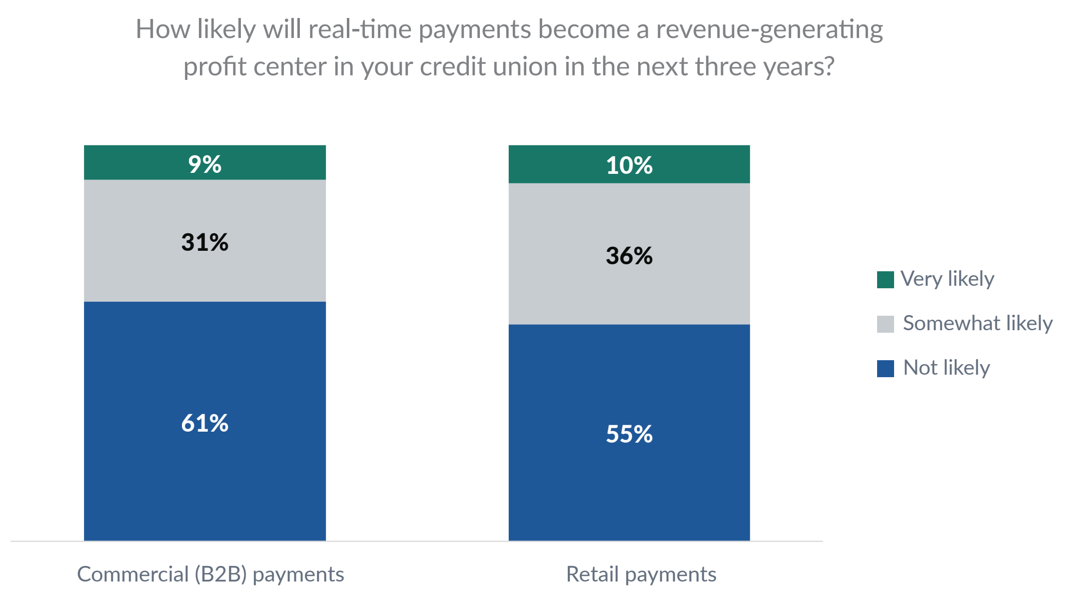
Twelve percent of banks say it's very likely that commercial (B2B) real-time payments will become a revenue-generating profit center in the next three years, with another 4 in 10 saying it's somewhat likely. Just 3% of bank respondents, however, think it's very likely that retail RTP will become a revenue-generating profit center in the near future (Figure 18). Among credit union respondents, about 1 in 10 thinks both B2B and retail RTP will become profit centers (Figure 19).

Figure 18: RTP as a Revenue-Generating Profit Center (Banks)



Source: Cornerstone Advisors What's Going On in Banking 2025

Figure 19: RTP as a Revenue-Generating Profit Center (Credit Unions)



Source: Cornerstone Advisors What's Going On in Banking 2025

Might As Well Jump On the Buy Now, Pay Later Bandwagon

Real-time payments isn't the only hot topic in the payments world. Buy now, pay later (BNPL) programs are in the news nearly every day. Spurred by the spike in online and mobile shopping during the pandemic, the popularity of BNPL payment plans—among consumers and merchants, at least—has skyrocketed in the past few years.

BNPL plans were used to generate a record $16.6 billion during the 2023 holiday season, and Adobe Analytics projects that figure to grow to $18.5 billion for the 2024 holiday season.[10] According to a recent Cornerstone Advisors study, nearly half of Gen Zers and more than 4 in 10 millennials made at least one BNPL purchase in the past two years. On average, users made nearly four BNPL transactions and spent roughly $500 in each of the past two years.

BNPL Has Its Detractors and Downsides—But Isn't Going Away

Consumer advocate groups aren't big fans of the service, claiming it contributes to consumers' debt load. And with credit card debt at an all-time high, extra debt from BNPL exacerbates an already challenging financial situation for many consumers. The New York Fed cautioned:

> "BNPL may attract—and could ultimately harm—financially fragile individuals. That could negatively impact consumers at a time when they're facing mounting credit card debt, strikingly high interest rates, still-high inflation, a slowing job market, a potential government shutdown, and the return of student loan payments."[11]

And the Office of the Comptroller of the Currency (OCC) wrote:

> "BNPL structures may present elevated first payment default risk from fraud or borrower oversight. With loan payments typically tied to a debit or credit card, overextension can also result in secondary fees charged to the borrower, such as overdraft, non-sufficient funds, and late fees."[12]

All good points from the Fed and OCC. Despite the warnings, BNPL activity continues to rise. No one should be surprised. Have reports of the dangers of smoking, drinking, eating too much (or poorly), reckless driving, etc. stopped those behaviors? Of course not. Remember that chant "we want what we want, and we want it now!"? That's BNPL's motto.

Banks and Credit Unions Are Losing Out to Buy Now, Pay Later

The rise in BNPL is bad news for banks and credit unions.

It's hard to estimate how much payment volume banks and credit unions lose because of BNPL. Given the demographics of BNPL users, it's a good bet that debit cards—which generate interchange income for banks—are their payment form of choice, and that BNPL purchases cannibalize debit card volume.

In addition, banks lose interchange fees when users pay their BNPL bills directly from their bank accounts, or with bank checks, prepaid debit cards, or Venmo. This threat, if not reality, of lower interchange revenue is too much for banks to ignore in 2024. As Nandan Sheth, CEO of fintech Splitit, wrote:

> "Banks have not moved fast to address the consumer demand for pay later solutions embedded within the merchant purchase journey. Banks miss the critical 'in-checkout' moment, ceding ground to fintechs with integrated installment plans."[13]

Sheth believes, however, that banks have advantages in terms of scale, trust, and available credit: "The key to triumph in the ongoing contest for the future of BNPL lies in synergizing the strengths of banks to offer a distinctive set of differentiators through strategic partnerships."

Banks Have a Hard—But Doable and Necessary—Road to BNPL Success

Arguments for banks' "inherent advantages" are misguided. There's little evidence that peace of mind, trust, and concerns about scams influence consumers' BNPL purchase decisions. Consumers trust the merchants and retailers on whose sites they make purchases. And repeat BNPL users are repeat users because they trust BNPL providers like Affirm, Klarna, and PayPal.

Reality: Banks and credit unions are at a disadvantage—and a serious one at that—in any quest to capture BNPL volume. Why? Because merchants and retailers use buy now, pay later as a tool to help influence consumers' choice of products and providers—long before the consumer is in the process of making the purchase.

What's different—and important—about BNPL is its place in the customer journey. Payment options typically come at the end of the journey. BNPL, however, influences consumers' choices of products and providers earlier in their purchase journeys.

Banks' and credit unions' involvement in the BNPL process comes *after* the sale. It's an inherent disadvantage.

Banks and Credit Unions Must Battle Back in BNPL

The risk of not competing in BNPL is about more than just lost interchange. It's about:

- **Deposit displacement.** Affirm's debit card's 700,000 users rang up nearly $400 million in purchases in Q4 2023—30% of it in-store. Affirm now offers direct deposit, but it hasn't reported the number of users.

- **Credit card growth.** BNPL activity gives BNPL providers the data they need to identify good credit risks before established credit card issuers can—which means BNPL providers' next move will be to issue credit cards, crowding banks out of the emerging consumer market.

- **Loan growth.** Establishing debit and credit card relationships with young consumers will position BNPL providers to seamlessly and efficiently expand into other personal loan categories, at the expense of banks and credit unions.

While megabanks like Chase have the resources to create their own BNPL programs, smaller institutions need to rely on third-party technology providers. Fortunately, the list of providers is growing with firms like LoanStar, equipifi, Galileo, and Wisetack helping financial institutions get into the BNPL game. Stop making excuses and get in the game.

Nothing is Borrowed, Nothing is Lent

Commercial and industrial loans are still at the top of the lending priority list for banks in 2025—tied with commercial real estate loans—although the percentage of respondents mentioning them as a top priority dropped from 67% to 60%. Home-related loans—mortgages and refis—will be a higher priority for a growing number of banks in 2025 (Table H).

Table H: Banks' Lending Priorities, 2022 to 2025

Percentage of Banks Citing Loan Type as a High Priority

	2022	2023	2024	2025
Commercial and industrial loans	57%	62%	67%	60%
Commercial real estate loans	53%	49%	57%	60%
Mortgage/refi loans	37%	20%	44%	48%
Home equity loans/lines of credit	20%	17%	24%	30%
Microloans (e.g., less than $75k)	NA	NA	17%	21%
Sole proprietorship loans	9%	6%	13%	17%
Auto loans	6%	3%	12%	8%
Other personal loans	5%	3%	10%	8%
Student loans	1%	0%	1%	2%

Source: Cornerstone Advisors What's Going On in Banking 2025

It's no surprise that auto loans are at the top of credit unions' lending priorities, although the percentage citing them as a top priority declined. The new year will show an amplified focus on commercial real estate loans from credit unions (Table I).

Table I: Credit Unions' Lending Priorities, 2022 to 2025

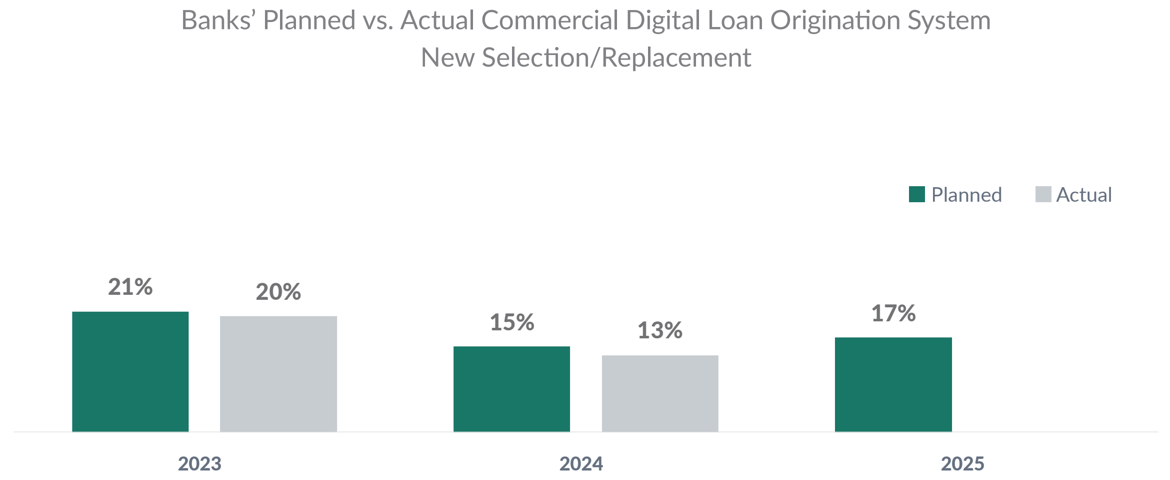
Percentage of Credit Unions Citing Loan Type as a High Priority

	2022	2023	2024	2025
Auto loans	63%	68%	77%	67%
Home equity loans/lines of credit	56%	59%	65%	62%
Mortgage/refi loans	75%	30%	58%	60%
Commercial real estate loans	45%	33%	37%	47%
Other personal loans	21%	26%	29%	22%
Commercial and industrial loans	20%	24%	15%	13%
Microloans (e.g., less than $75k)	NA	NA	12%	10%
Sole proprietorship loans	6%	5%	6%	5%
Student loans	1%	1%	1%	4%

Source: Cornerstone Advisors What's Going On in Banking 2025

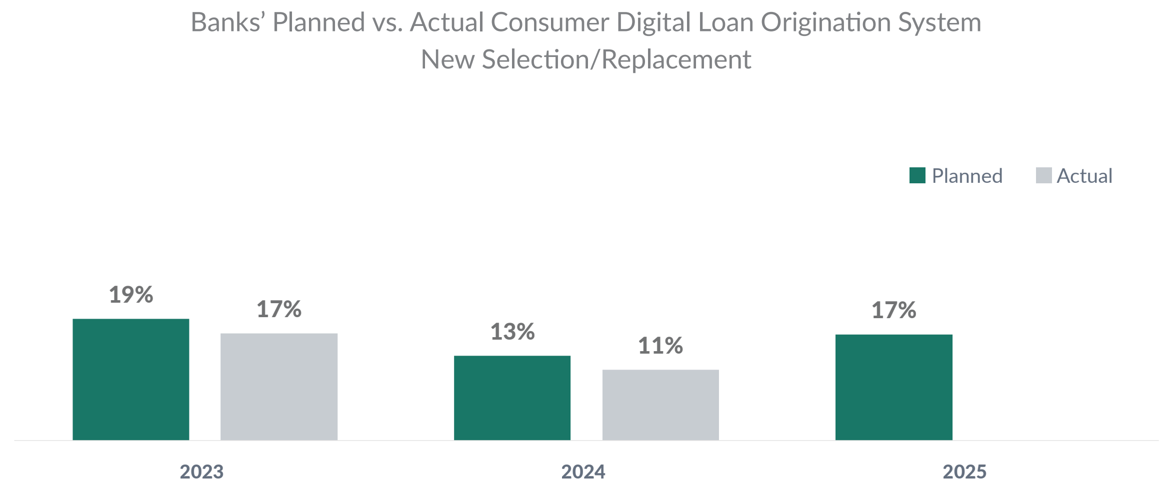
From a technology perspective, the percentage of banks planning a commercial loan origination system (LOS) new selection or replacement bumps up a couple of percentage points in 2025 after a big drop between 2023 and 2024 (Figure 20). On the consumer side, the percentage of banks planning a consumer LOS new selection or replacement rises to 17% after dropping to 13% in 2024 (Figure 21).

Figure 20: Banks' Planned vs. Actual Commercial LOS New Selection/Replacements



Source: Cornerstone Advisors What's Going On in Banking 2025

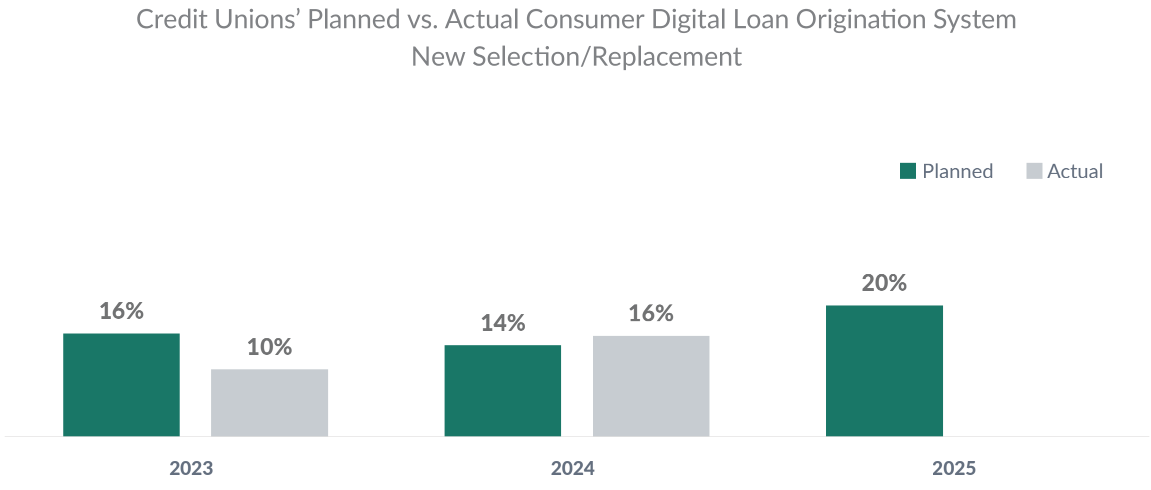
Figure 21: Banks' Planned vs. Actual Consumer LOS New Selection/Replacements



Source: Cornerstone Advisors What's Going On in Banking 2025

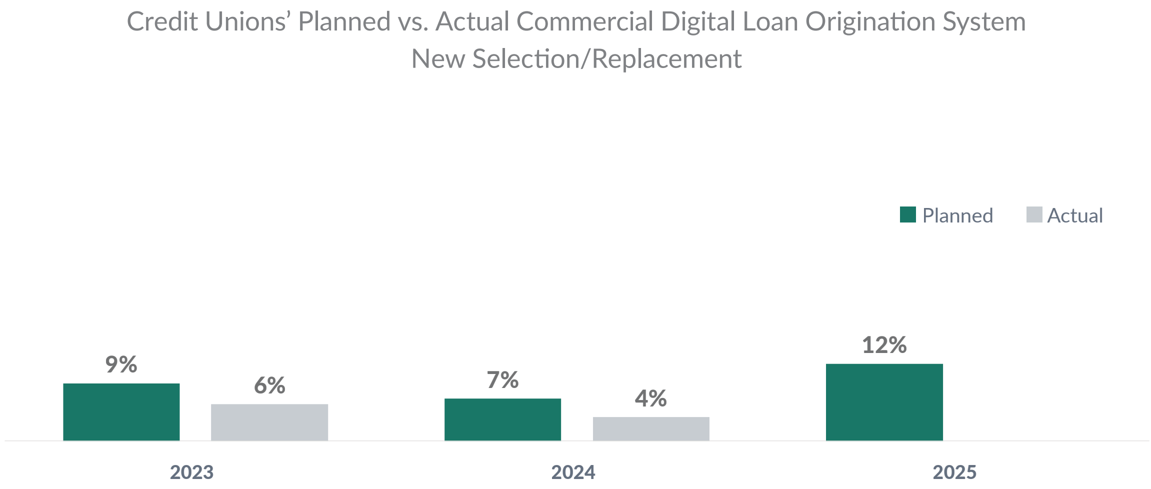
On the credit union side, plans to select new or replacement LOS for both consumer and commercial increases significantly for 2025 (Figure 22 and Figure 23).

Figure 22: Credit Unions' Planned vs. Actual Consumer LOS New Selection/Replacements



Source: Cornerstone Advisors What's Going On in Banking 2025

Figure 23: Credit Unions' Planned vs. Actual Commercial LOS New Selection/Replacements



Source: Cornerstone Advisors What's Going On in Banking 2025

I’m Alright, Jack, Keep Your Hands Off My Tech Stack

I wrote in last year’s What’s Going On in Banking report:

> “There are many chief financial officers in the banking industry who can’t get no satisfaction. They try, and they try—to reduce tech spending—but they can’t get no satisfaction.”

Those CFOs won’t get much satisfaction in 2025. The overwhelming majority of banks and credit unions plan to increase their tech spend for 2025, although, compared to the earlier part of the decade, fewer of them are planning large (i.e., 10% and higher) budget changes. The percentage of banks planning to decrease their tech budgets declined from 15% in 2024 to 9% in 2025 (Table J and Table K).

Table J: Banks’ Tech Spending Changes, 2022 to 2025

How will your institution’s tech spending change in the upcoming year compared to the prior year?

	2022	2023	2024	2025
Significantly higher (>10% higher)	23%	14%	8%	9%
Somewhat higher (1%-10% higher)	60%	64%	56%	64%
No change	14%	14%	22%	19%
Somewhat lower (1%-10% lower)	2%	9%	13%	8%
Significantly lower (>10% lower)	1%	0%	2%	1%

Source: Cornerstone Advisors What’s Going On in Banking 2025

Table K: Credit Unions' Tech Spending Changes, 2022 to 2025

How will your institution's tech spending change in the upcoming year compared to the prior year?

	2022	2023	2024	2025
Significantly higher (>10% higher)	25%	16%	14%	11%
Somewhat higher (1%-10% higher)	61%	66%	62%	68%
No change	12%	11%	20%	15%
Somewhat lower (1%-10% lower)	3%	5%	4%	6%
Significantly lower (>10% lower)	0%	2%	0%	0%

Source: Cornerstone Advisors What's Going On in Banking 2025

System integration tops the list of challenges banks and credit unions face in improving technology efficiency. A legacy system's challenge is more prevalent among banks, while a high number of applications plagues more credit unions than banks (Table L).

Table L: Technology Challenges

What are your organization's top challenges in improving technology efficiency?

	Banks	Credit unions
Lack of integration between systems/apps	62%	53%
Legacy systems	54%	39%
Lack of technology automation/workflow	38%	42%
Lack of data/operational metrics	27%	27%
Insufficient budget	20%	29%
High number of applications	19%	31%
High number of redundant functionalities	10%	14%
None of the above	7%	5%

Source: Cornerstone Advisors What's Going On in Banking 2025

On average, bank execs believe they could realize a little more than $500,000 from improving technology efficiency through consolidating applications, better integrations, and automating technology workflows. Among credit union execs, that potential savings is nearly $1.3 million.

New Selections/Replacements

Where's the money going? Well, we can tell you where financial institutions expect the money to go—but whether it gets there is another story. For the first time in like forever, consumer digital account opening systems aren't the top planned new or replacement app for banks. That honor goes to commercial digital account opening systems, for which 25% of banks plan to select a new or replacement system, up from 18% in 2024. Marketing automation systems are another big mover among banks, with 15% of banks planning a new/replacement system, up from 10% in 2024 (Table M).

On the credit union side, consumer digital account opening systems are again at the top of the list with 37% of credit unions planning a new or replacement system in 2025, the highest percentage we've ever seen in this study. CRM systems make a big jump in 2025, with 26% of credit unions planning a new or replacement system in 2025. If history is any guide, however, far fewer credit unions will actually deploy a new or replacement CRM system in 2025. Data analysis/business intelligence apps are another big mover for credit unions, with 22% citing it for 2025 versus 9% in 2024 (Table N).

Overall, credit unions appear to be planning an aggressive year for new selections/replacements in 2025, and we would not be surprised if, collectively, credit unions are overestimating their capacity and ability to implement a lot of new and replacement systems.

Table M: Banks’ New System Selections/Replacements

For which of the following will/did your organization select a new or replacement system?

	2025 Plan	2024 Actual	2024 Plan	2023 Actual	2023 Plan
Commercial digital account opening	**25%**	16%	18%	11%	23%
Consumer digital account opening	**22%**	21%	27%	19%	29%
Fraud/BSA/AML	**17%**	14%	19%	12%	15%
Commercial digital loan origination system	**17%**	13%	15%	20%	13%
Consumer digital loan origination system	**17%**	11%	13%	17%	28%
Data analysis/business intelligence	**17%**	10%	18%	10%	12%
Commercial online banking platform	**16%**	11%	19%	8%	13%
Customer relationship management (CRM)	**16%**	14%	19%	16%	15%
Marketing automation	**15%**	9%	10%	10%	12%
Consumer online banking platform	**14%**	13%	14%	10%	14%
Payments hub	**13%**	3%	13%	5%	7%
Consumer mobile banking platform	**11%**	13%	14%	10%	13%
Person-to-person (P2P) payments	**11%**	8%	11%	9%	14%
Enterprise risk management	**10%**	2%	9%	6%	3%
Commercial mobile banking platform	**9%**	10%	14%	5%	24%
Call center system	**9%**	11%	8%	12%	13%
Document imaging/workflow	**9%**	6%	5%	5%	8%
Online bill payment	**9%**	6%	10%	6%	8%
Core processing system	**8%**	3%	5%	8%	7%
Core integration/middleware platform	**7%**	5%	8%	5%	8%
ATM processing	**6%**	2%	5%	3%	6%
Interactive teller system	**6%**	2%	3%	4%	7%
Mobile bill payment	**6%**	7%	8%	4%	7%
Credit card processing	**6%**	9%	8%	4%	7%
Debit card processing	**5%**	9%	4%	4%	10%
Card self-service	**1%**	4%	5%	5%	7%
NONE	**19%**	33%	19%	33%	17%

Source: Cornerstone Advisors What’s Going On in Banking 2025

Table N: Credit Unions' New System Selections/Replacements

For which of the following will/did your organization select a new or replacement system?

	2025 Plan	2024 Actual	2024 Plan	2023 Actual	2023 Plan
Consumer digital account opening	**37%**	23%	36%	12%	32%
Customer relationship management (CRM)	**26%**	8%	15%	9%	28%
Call center system	**22%**	26%	23%	21%	21%
Data analysis/business intelligence	**22%**	10%	9%	11%	15%
Commercial digital account opening	**20%**	8%	12%	3%	10%
Consumer digital loan origination system	**20%**	16%	14%	10%	21%
Person-to-person (P2P) payments	**17%**	8%	15%	16%	26%
Enterprise risk management	**14%**	7%	7%	8%	9%
Payments hub	**14%**	5%	18%	5%	10%
Consumer online banking platform	**13%**	8%	10%	14%	16%
Commercial digital loan origination system	**12%**	4%	7%	6%	12%
ATM processing	**11%**	7%	9%	5%	4%
Commercial online banking platform	**11%**	6%	9%	6%	14%
Credit card processing	**11%**	13%	9%	9%	11%
Marketing automation	**11%**	12%	13%	11%	13%
Consumer mobile banking platform	**10%**	9%	8%	15%	12%
Fraud/BSA/AML	**10%**	13%	16%	9%	5%
Interactive teller system	**10%**	7%	5%	8%	10%
Commercial mobile banking platform	**9%**	5%	9%	5%	14%
Core processing system	**7%**	7%	7%	3%	4%
Online bill payment	**7%**	6%	6%	9%	11%
Card self-service	**7%**	7%	9%	5%	10%
Mobile bill payment	**7%**	7%	6%	9%	6%
Core integration/middleware platform	**6%**	7%	5%	7%	6%
Document imaging/workflow	**6%**	5%	5%	4%	8%
Debit card processing	**5%**	11%	9%	5%	9%
NONE	**7%**	21%	17%	23%	14%

Source: Cornerstone Advisors What's Going On in Banking 2025

Introducing the Deployed-to-Planned (DtP) Ratio

Looking back over the past three years, we've seen some interesting trends in what we're calling the deployed-to-planned (DtP) ratio, which is calculated by dividing the percentage of institutions that actually selected a new or replacement system by the percentage of institutions that planned to select a new or replacement system in a given year (Table O and Table P). We found that among banks:

- **Banks' tech eyes are bigger than their stomachs.** Out of the 26 types of systems/applications we looked at, 21 of them had an average DtP ratio of less than 90%, with six of them averaging less than 60%. This is an indication that, when push comes to shove, banks' plans to select and replace a lot of systems fall through (that's a song reference, by the way).

- **No system had a 100% (or higher) DtP ratio three years in a row.** In fact, only one system—enterprise risk management—had a DtP of 100% or higher for two of the three years we calculated the ratio.

- **Enterprise risk management systems had the highest average DtP ratio.** This was driven by two years—2022 and 2023—where few (3%) banks planned on selecting a new or replacement and roughly twice as many actually did. That streak was broken in 2024 when 9% planned a new/replacement ERM system, but only 2% deployed one.

Among credit unions, we found that:

- **Eleven systems had an average DtP ratio greater than 90%.** Although none of them exceeded 90% for all three years. Two of them—core integration/middleware platforms and consumer mobile banking platforms—exceeded or equaled 90% each year.

- **Seven systems averaged 50% or less over the three years.** The system at the top of the planned list each year—consumer digital account opening—had an average DtP ratio of 50%, meaning, on average, only half of the credit unions planning a new or replacement DAO system actually go through with it. DAO vendors, beware.

- **The average DtP ratio in 2024 was 92%.** That was up from an average of 76% in 2023 and 74% in 2022, an indication that credit unions did a pretty good job doing what they planned to do in 2024—on average, at least. Banks' average DtP ratio in 2022 was 81%. It dipped to 76% in 2023, and increased to 83% in 2024.

Table O: Banks' Deployed-to-Planned Ratio

	Deployed-to-Planned Ratio			
	2024	**2023**	**2022**	**3-Yr. Avg.**
Enterprise risk management	**27%**	203%	285%	172%
Call center system	**139%**	95%	95%	110%
Debit card processing	**198%**	44%	63%	102%
Document imaging/workflow	**119%**	66%	112%	99%
Commercial digital loan origination system	**90%**	155%	49%	98%
Customer relationship management (CRM)	**74%**	105%	87%	89%
Core processing system	**58%**	113%	94%	89%
Fraud/BSA/AML	**74%**	82%	108%	88%
Consumer mobile banking platform	**96%**	74%	85%	85%
Marketing automation	**98%**	80%	74%	84%
Mobile bill payment	**90%**	63%	94%	82%
Credit card processing	**119%**	50%	77%	82%
Person-to-person (P2P) payments	**69%**	63%	113%	82%
Consumer online banking platform	**96%**	69%	77%	81%
Core integration/middleware platform	**59%**	66%	104%	77%
Consumer digital account opening	**78%**	67%	78%	74%
Online bill payment	**66%**	76%	80%	74%
Data analysis/business intelligence	**58%**	80%	65%	68%
Commercial online banking platform	**57%**	61%	67%	61%
Consumer digital loan origination system	**83%**	60%	37%	60%
Commercial digital account opening	**85%**	50%	42%	59%
Card self-service	**74%**	76%	28%	59%
Commercial mobile banking platform	**73%**	22%	67%	54%
Payments hub	**23%**	76%	61%	53%
Interactive teller system	**62%**	50%	48%	53%
ATM processing	**45%**	43%	64%	51%

Source: Cornerstone Advisors What's Going On in Banking 2025

Table P: Credit Unions' Deployed-to-Planned Ratio

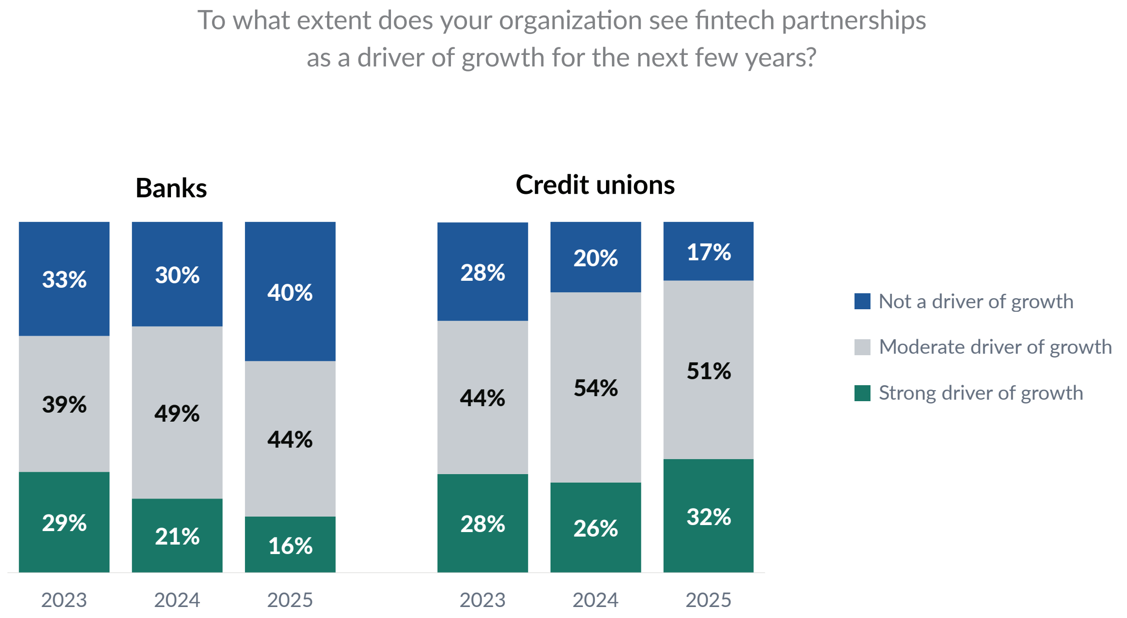
	Deployed-to-Planned Ratio			
	2024	**2023**	**2022**	**3-Yr. Avg.**
Fraud/BSA/AML	**81%**	188%	206%	158%
Core processing system	**98%**	70%	246%	138%
Core integration/middleware platform	**138%**	110%	95%	114%
Mobile bill payment	**114%**	157%	71%	114%
Consumer mobile banking platform	**124%**	126%	90%	113%
ATM processing	**87%**	118%	95%	100%
Call center system	**115%**	99%	81%	98%
Interactive teller system	**138%**	75%	80%	98%
Enterprise risk management	**98%**	83%	105%	96%
Credit card processing	**153%**	77%	54%	95%
Debit card processing	**118%**	52%	112%	94%
Data analysis/business intelligence	**120%**	75%	46%	80%
Marketing automation	**91%**	87%	51%	76%
Consumer digital loan origination system	**111%**	50%	67%	76%
Online bill payment	**98%**	85%	40%	75%
Consumer online banking platform	**80%**	89%	52%	74%
Person-to-person (P2P) payments	**55%**	62%	90%	69%
Document imaging/workflow	**98%**	48%	38%	61%
Card self-service	**79%**	47%	51%	59%
Consumer digital account opening	**65%**	38%	47%	50%
Commercial online banking platform	**66%**	41%	37%	48%
Commercial digital loan origination system	**56%**	48%	31%	45%
Commercial mobile banking platform	**49%**	34%	45%	42%
Customer relationship management (CRM)	**55%**	34%	29%	39%
Commercial digital account opening	**67%**	28%	22%	39%
Payments hub	**26%**	47%	30%	34%

Source: Cornerstone Advisors What's Going On in Banking 2025

Fintech Partnerships: So Happy Together

Banks and credit unions are moving in different directions regarding fintech partnerships. The percentage of banks that see partnerships as a strong driver of growth has declined over the past two years from 29% in 2023 to 21% in 2024 and down again in 2025 to 16%. Among credit unions, however, the percentage citing partnerships as a strong driver of growth jumped from 26% in 2024 to 32% in 2025 (Figure 24).

Figure 24: Fintech Partnerships as a Driver of Growth



Source: Cornerstone Advisors What's Going On in Banking 2025

The SVP of research for a $3 billion credit union commented:

> "For small to mid-size institutions, technology innovation is dependent on core providers. The start-up technology providers that you hope to replace the 'legacy' providers with often lie directly to you or deceptively show you something that's not even ready. Even when asking multiple times if a feature or enhancement is generally available and being told that it is, you find out during implementation that it's only on the 'roadmap.' This is by far the most frustrating thing ever."

For banks, creating new products/services and increasing deposit account volume remain the top objectives for fintech partnerships in 2025. Although reducing operational expenses is an important concern for banks in 2025 (and usually is every year), the percentage turning to fintech partnerships to help cut costs will decline from 43% in 2024 to 28% in 2025 (Table Q).

Table Q: Banks' Fintech Partnership Objectives

What are your bank's three most important objectives for fintech partnerships?

	2023	2024	2025
Create new products/services	39%	47%	45%
Increase deposit account volume	36%	46%	45%
Reduce fraud losses	24%	34%	38%
Improve deposit account opening productivity	43%	42%	35%
Increase noninterest income	26%	32%	30%
Improve loan productivity	45%	26%	28%
Reduce operational expenses	34%	43%	28%
Increase loan volume	31%	24%	22%
Expand geographic footprint	13%	14%	14%

Source: Cornerstone Advisors What's Going On in Banking 2025

Fintech partnership objectives are changing for credit unions, as well. The percentage hoping that parterships will help them increase deposit account volume grew from 26% in 2024 to 39% in 2025 (Table R).

Table R: Credit Unions' Fintech Partnership Objectives

What are your credit union's three most important objectives for fintech partnerships?

	2023	2024	2025
Increase loan volume	58%	43%	44%
Increase deposit account volume	27%	26%	39%
Create new products/services	33%	36%	38%
Improve deposit account opening productivity	34%	44%	38%
Reduce operational expenses	31%	34%	35%
Improve loan productivity	33%	31%	31%
Reduce fraud losses	28%	42%	31%
Increase noninterest income	19%	18%	26%
Expand geographic footprint	21%	13%	13%

Source: Cornerstone Advisors What's Going On in Banking 2025

Nearly a third of banks with fintech partnerships currently offer money movement capabilities via partnerships, with another 31% planning to do so. Among credit unions, rewards/loyalty programs are the most common form of fintech partnership (Table S and Table T).

Table S: Banks' Fintech Partnership Offerings

Which of the following digital products or services does your organization offer or plan to offer via a fintech partnership?

	Offer	Plan to offer
Payment facilitation/money movement	32%	31%
Mobile wallet	20%	12%
Rewards/loyalty programs	20%	20%
Data breach and ID protection services	18%	15%
Insurance/protection services	11%	10%
Subscription management services	10%	14%
Bill negotiation services	7%	12%
Buy now, pay later	0%	7%
Cryptocurrency investing	0%	1%

Source: Cornerstone Advisors What's Going On in Banking 2025

Table T: Credit Unions' Fintech Partnership Offerings

Which of the following digital products or services does your organization offer or plan to offer via a fintech partnership?

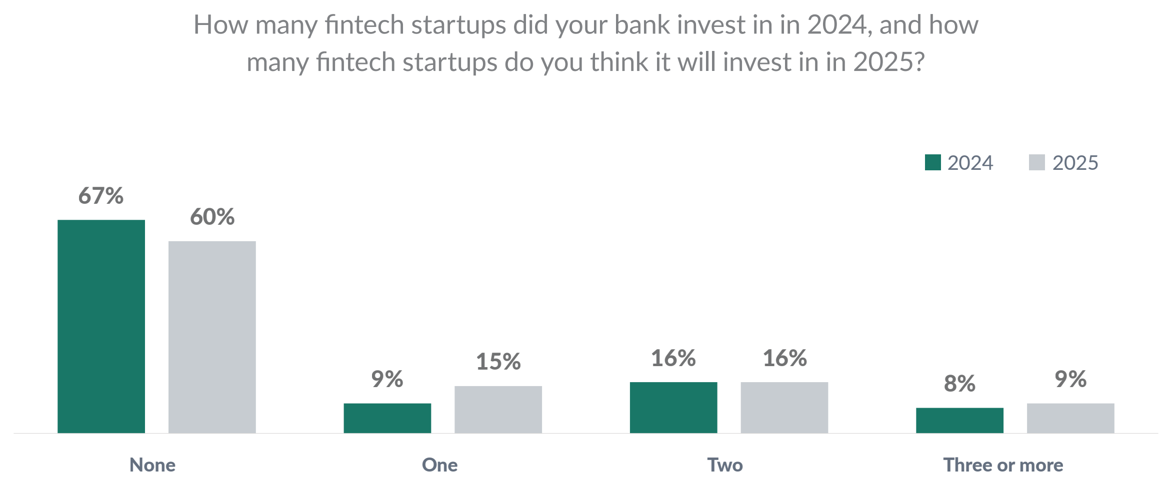
	Offer	Plan to offer
Rewards/loyalty programs	32%	24%
Payment facilitation/money movement	28%	26%
Mobile wallet	27%	18%
Insurance/protection services	25%	6%
Data breach and ID protection services	18%	18%
Buy now, pay later	9%	15%
Subscription management services	6%	25%
Bill negotiation services	5%	6%
Cryptocurrency investing	2%	12%

Source: Cornerstone Advisors What's Going On in Banking 2025

Fintech Investments

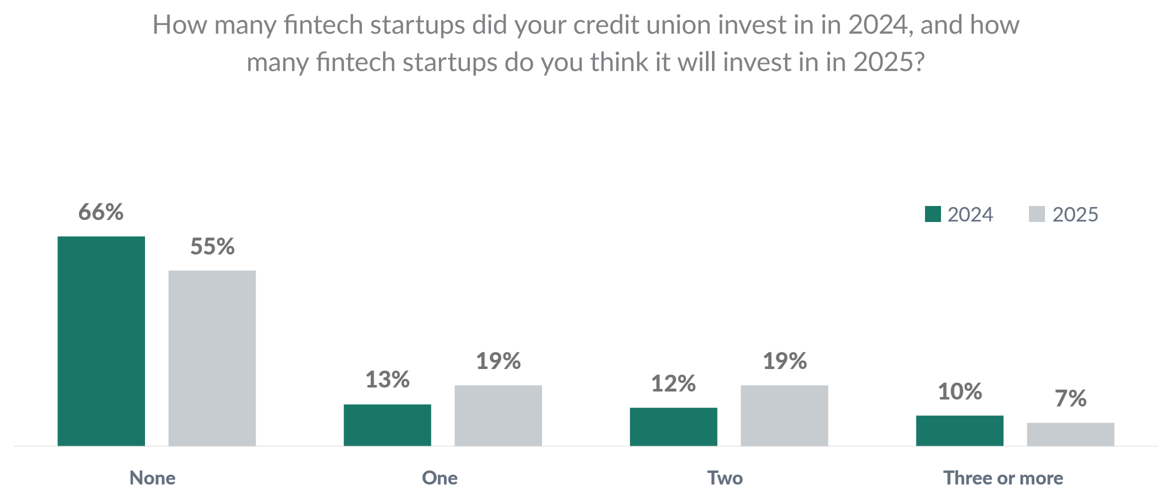
Financial institutions don't simply partner with fintechs—they invest in them, as well. Banks and credit unions have become the new venture capitalists. Among banks that see fintech partnerships as a driver of growth, roughly a third invested in fintechs in 2024, and 4 in 10 expect to do so in 2025 (Figure 25). Among credit unions, roughly a third of those that see fintech partnerships as a strong driver of growth invested in fintechs in 2024, and 45% expect to do so in 2025 (Figure 26).

Figure 25: Banks' Investment Activity in Fintech Startups



Source: Cornerstone Advisors What's Going On in Banking 2025

Figure 26: Credit Unions' Investment Activity in Fintech Startups



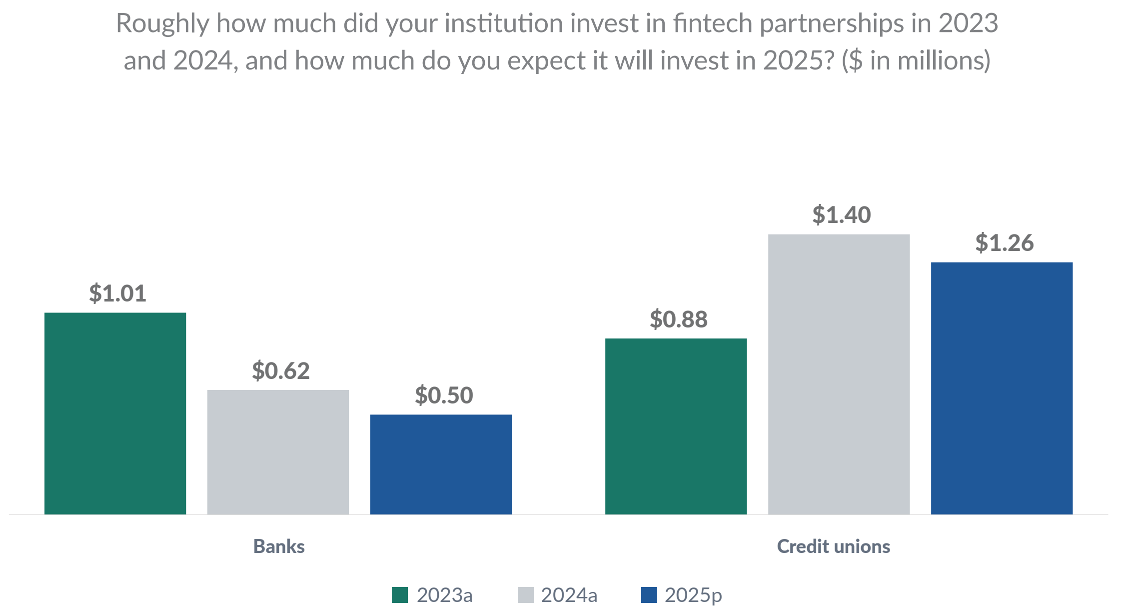
Source: Cornerstone Advisors What's Going On in Banking 2025

The increase in the number of banks and credit unions investing in fintech shouldn't come as a surprise, considering the increase in the percentage of survey respondents considering fintechs a growing competitive threat. An academic study looking at banks' investments in fintechs over the past 20 years concluded:

> "Banks have increasingly utilized [fintech] investments as a solution to their fintech challenge. Banks are more likely to invest in fintech startup firms when facing greater fintech competition. They're also more likely to invest in startups that have business or technological relatedness with them, operate in similar business areas, or have higher technological overlap."[14]

The average size investment that banks are making in fintechs has dropped year-over-year for the past few years, and the planned 2025 amount of $500,000 is half of what banks invested, on average, in 2023. Credit unions that invested in fintechs in 2024 averaged $1.4 million per institution, and they plan on investing $1.26 million per institution in 2025 (Figure 27).

Figure 27: Financial Institutions' Investments in Fintech Startups



Source: Cornerstone Advisors What's Going On in Banking 2025

Banking as a Service (BaaS)

Let's be honest: 2024 was not a good year for the BaaS space. The Evolve/Synapse debacle left a stain on BaaS, and the number of consent orders issued to the 125 BaaS banks outnumbered the consent orders issued to the other 5,900 banks in the United States.

While the influencers and pundits in the industry vacillate between writing BaaS off and claiming its lasting power, there's a consistent percentage of banks marching to their own beat. For three years straight, 5% of banks have expressed their plans to develop a BaaS strategy (Figure 28).

Figure 28: BaaS Status

Source: Cornerstone Advisors What's Going On in Banking 2025

According to Lindsey Ogan, chief marketing officer at Stride Bank:

> "The speed-to-market advantages fintechs offer will continue to outpace traditional financial institutions, making their market share gains unlikely to slow. Regulatory scrutiny of bank-fintech partnerships will remain intense, even if it eases somewhat in the coming year. Banks entering or participating in the sponsorship space will need to prioritize compliance and risk management—cutting corners or outsourcing risk will not be a viable strategy. Banks must have strong spines and prioritize a culture of compliance and operational excellence over short-term economic opportunities. For fintechs vetting prospective bank partners, they will need to consider (or reconsider) the true value of an established, compliant bank and the true cost of a bank that lacks the experience, infrastructure, or capacity needed to support programs at scale."

Nick Chiappetti, VP, fintech partnerships & marketing at FinWise Bank, lamented the lack of banks getting into BaaS:

> "There is not a competition amongst BaaS banks. We need more healthy, compliant, innovative sponsor banks to support and enable all the great fintechs and solutions out there that need to get to consumers/businesses."

And according to Brian Avery, chief technology officer at $3 billion STAR Bank:

> "Clarity from regulators regarding fintech and bank relationships will define the future of banking. Will fintechs continue to get a free pass to play in banking without the burden of a charter and oversight? Will regulators give banks more leeway to innovate quickly but safely? There's a choice to be made about how we want innovation to occur in our industry. We can change the rules and foster fast but safe innovation in collaboration with regulators or continue to allow innovation by outside parties with minimal oversight."

Core Providers: Isn't It Ironic?

Our survey respondents don't have a lot of nice things to say about their core providers. Comments included:

> "The core providers have unfair control of everything. Limiting integration without paying a huge fee. It's frustrating. Plus, it's impossible to get their attention to do anything."
>
> Craig Howie, Chief Executive Officer, Atlantic Community Bankers Bank

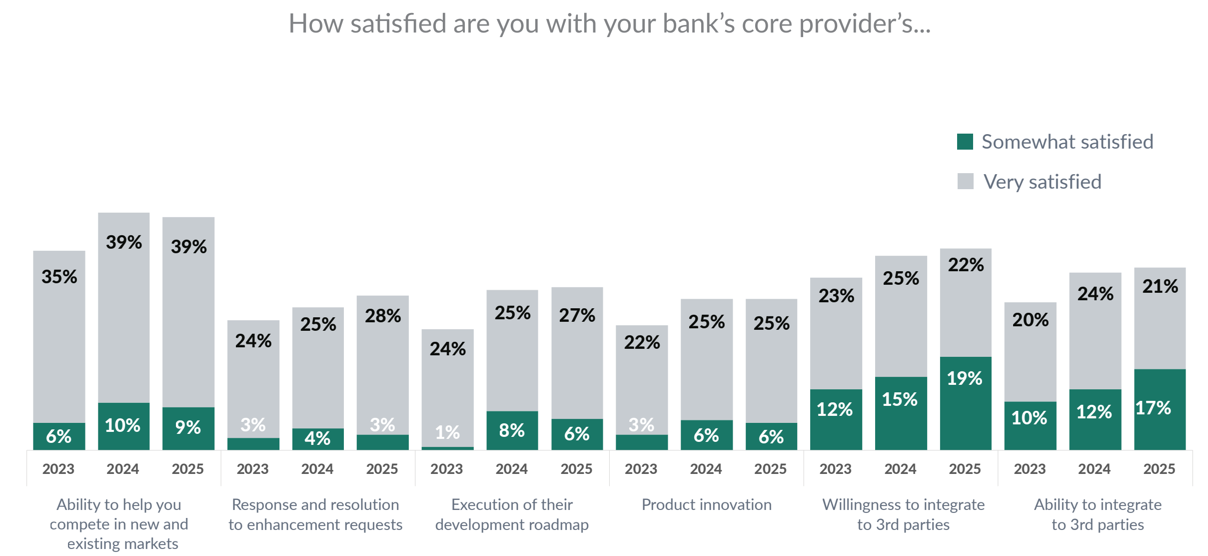
> "For a community bank like us, the consolidation and stagnation of the three big core providers is a concern that we seem to be running into more often. Between breaches, lack of support, and the inability to easily integrate their own products, let alone third parties, we have grown increasingly frustrated."
>
> Chief Information Officer, $1 billion bank

> "Core providers need to focus more on integrations with third parties than internal development of new products and services. This will speed the delivery of innovation in the banking sector."
>
> Jonathan Krieps, Chief Operating Officer, North State Bank

> "Every time I search for a new solution and narrow down the vendors, NONE of them have good integrations with our core. The last time we tried, it was incredibly expensive, and the APIs were not well developed/documented. They've forced us into a position of convert or die as we cannot stay where we are and continue to evolve."
>
> Chief Technology Officer, $1 billion bank

It's ironic, then, that banks' satisfaction with their core providers has increased year-over-year for the past two years. Considering that satisfaction levels are anemic, I might be making too much of the increase. Not one of the six attributes we asked bank execs about reached a 50% satisfaction level. At the top of the list was "ability to help you compete in new and existing markets," with 48% of bank respondents somewhat or very satisfied. At the bottom was "product innovation," where just 31% expressed any level of satisfaction (Figure 29).

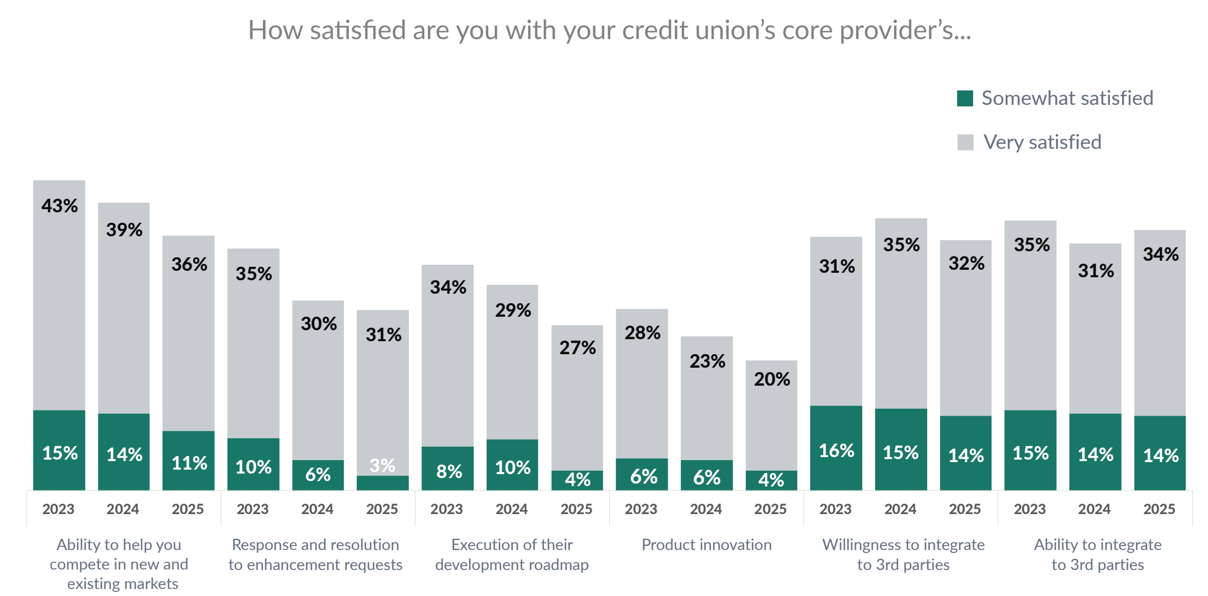
Figure 29: Banks' Satisfaction with Core Providers



Source: Cornerstone Advisors What's Going On in Banking 2025

Credit union executives demonstrate a stronger level of satisfaction with their core providers than bank execs do, but the credit union ratings are, generally, heading downward (Figure 30).

Figure 30: Credit Unions' Satisfaction with Core Providers



Source: Cornerstone Advisors What's Going On in Banking 2025

One credit union executive commented:

> "For smaller financial institutions, fintech providers like Fiserv, FIS, and Jack Henry will never be able to provide all the customization an FI wants. These institutions get stuck leveraging whatever features their core provider gives them. The alternative is to develop and create their own or use APIs. Paying for the talent to develop and manage these systems makes it very difficult for a smaller FI to thrive, however. Whenever a core provider buys some smaller company, that's one less competitor in the field of too few competitors. It's frustrating."
>
> SVP of Research, $3 billion credit union

Looking Ahead: We Will Get By, We Will Survive

A recent *Wall Street Journal* article nailed the title—"Main Street Banking Model Is Being Squeezed"—but missed the mark on the cause. Commenting on the Q1 2024 profit declines for many community and regional (i.e., "Main Street") banks, the article's author wrote:

> "The results underscore the uneven toll that two years of higher interest rates have taken on regional banks, which tend to have plain-vanilla businesses taking in deposits and loans. The model has become less profitable because of the pressure to pay up on deposits."[15]

The *WSJ* article suggests that the "squeeze" is due to continued high interest rates, a "particular problem for banks without much diversity and scale," and goes on to say that "banks are still under scrutiny from regulators [and] many have been in pullback mode in anticipation of potentially stricter capital rules." Survey respondents for this report commented on the squeezes they've been seeing:

> "There is a great expanse of the United States that has been historically served by local community banks and in which many success stories have been created. We now see a correlated decline in population and locally owned banks in many of those areas. Some of that phenomena is the Darwinian process of natural selection, but I think it's important that the community bank model be given a proper chance to survive as the last, best provider of capital to tomorrow's hope in the places where the mega-banks don't have a presence."
>
> Scott Yeoman, President and Chief Executive Officer, First American State Bank

> "Unless there are substantial changes in this space and fintechs are regulated under the same umbrella as financial institutions, I fear that the vibrant community-based financial services ecosystem that makes banking in the U.S. and Canada unique is rapidly fading before our eyes."
>
> Jack Ingram, Chief Information Officer, Whatcom Educational Credit Union

Come On Baby, Squeeze Me Tight

The "Main Street" banking model is being squeezed—but it's a squeeze that has been years in the making and is only exacerbated by current economic conditions. The core of the squeeze comes from:

1) The redefinition of community. It's hard for bankers to see and accept the long-term decline of geography as "community." National providers—banks, fintechs (e.g., Paypal, Square), and even merchants—are chipping into (geographically based) community institutions' payments, lending, and banking businesses.

2) Generational changes. When baby boomers graduated college, their question was, "Which bank should I open an account with?" When millennials graduated, their question was, "Do I need a checking account?" When Gen Z graduated, the question was, "What's a checking account?" The generational changes go deeper than that: Baby boomers were "W-2 Nine-to-Fivers." Gen Zers and millennials are gig workers, creators, influencers, and side hustlers.

3) Product pricing. There's a value disconnect in banking. Many consumers don't feel they get the value they think they should get for the price they pay for financial products. Too much of banks' noninterest income comes from punitive fees. The CFPB has the teeth to address this imbalance, and while its "fixes" often backfire and harm, not protect, consumers, the bureau is addressing the core of the problem.

4) The economics of talent. Banks and credit unions lost a lot of good people after the pandemic. Replacing them is hard thanks to a shortage of people with the kind of technology/banking skills that financial institutions need, and financial institutions' inability to offer an attractive economic package for those people. Survey respondents feel the pain:

> "We have difficulty finding talent. We're culturally burdened with a requirement to find local talent, which is scarce. Quality of talent hums us back from realizing or true potential."
>
> Chief Information Officer, $1.4 billion bank

> "One of the hardest parts to change is people. They're highly influenced by risk and audit. They've grown up risk-averse, with the goal of zero loss, zero, zero, and more zero. How much effort is being unwound for these reasons?"
>
> Tracy Ingram, Chief Information Officer, Achieva Credit Union

5) The government. The *WSJ* article cites banks' pullback "in anticipation of potentially stricter capital rules." That's just the tip of the iceberg. Starting with the Obama administration and then the Biden administration, the government has systematically been shaping the industry to make it more difficult for midsize institutions to succeed by limiting fees for overdraft, interchange, late payments, and more. In fact, a study titled "The Web of Financial Regulation" found that following 2023's bank failures, members of Congress proposed at least 28 separate bills, and banking agencies issued reports suggesting novel regulatory measures. The author concluded:

> "Most of those plans focused on pet projects or individual areas of reform, instead of examining the overarching regulatory scheme. Such a blinkered approach to policymaking does not account for the complexity, variety, and interconnectedness of the world of financial regulation."[16]

It's no surprise, then, that so many community bank CEOs see the U.S. government as a threat to the banking industry.

The New "Small Business" Will Save Community Banking

Competing in the retail banking space has gotten a lot harder over the past 10 years and will continue to get harder—and more expensive. That doesn't mean the death of community banks or community banking (or credit unions).

The savior? Small businesses—and the redefinition of "small business."

Two points of clarification are needed here because it's not simply about:

- **Small business "lending" or small business "banking."** Many community bankers will see the section header and think, "We're already in small business banking." Many are. But many are really in small business *lending*, while others provide small business banking services. Small businesses do need to borrow and bank, but what they need—and want help with—is help managing their businesses.

- **The traditional small business.** Many Gen Zers are gig workers, creators, influencers, and side hustlers—in effect, small business owners. Baby boomers aren't retiring—they're quitting their W-2 jobs and becoming independent contractors—i.e., small businesses. The line between "individual" and "business" has become blurred. Community-based financial institutions have been slow to respond to this blurring.

The problem with talking about "small business" is that there's no common definition for who or what fits under that label. Defining "small business" as established companies with a certain level of a revenue omits a lot of people who aren't really traditional consumers—like gig workers, side hustlers, creators, and influencers—that have borrowing, banking, and accounting needs similar to those of small businesses. These underserved "bizumers"—part business, part consumer—will help save community banking from extinction. Getting there requires banks and credit unions to:

- **Become more tightly integrated into small businesses' day-to-day operations.** A Cornerstone Advisors study found that many small businesses' accounting and payments functions are manual and labor-intensive. A lack of integration across functions and a shortage of useful management information plagues small businesses' accounting, invoicing, bill payment, and payment acceptance processes—and roughly 60% of them are interested in obtaining accounting and payments services from a bank.[17]

- **Reinvent their checking and payments offerings.** Two-thirds of small businesses say they're looking for new banking relationships, and many of them say the reason why is the desire to get better business checking account product features and capabilities.[18] This will entail better cybersecurity protection, better business identity theft protection, and better (i.e., customized) cash flow management tools.

Say Your Peace and Get Out

> "While it's human to vent our frustrations, financial institutions embrace too much of a 'woe is me' attitude towards change. We forget that we are the gatekeepers of modern life. People need us in order to access the financial system—a necessity to get anything done today. Change will come. Rise to the occasion and innovate or get left in the dust."
> Evan Mulcahy, AVP of Digital Experience, Advantis Credit Union

> "To survive, we have to be fast and nimble. Buckle up and hang on!"
> Steve Stone, Chief Executive Officer, 1st United Credit Union

> "If we didn't have to be audited, verified six different ways in each area, we might actually make money."
> Chief Financial Officer, $1.2 billion bank

> "Just do it and stop complaining."
> Mike Butler, CEO, Grasshopper Bank

That was all I had to say, and it's alright. Have a great 2025. Got thoughts or comments about the report you'd like to share? Share them with me at rshevlin@crnrstone.com or on LinkedIn at www.linkedin.com/in/ronshevlin.

About the Author

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As Cornerstone Advisors' chief research officer, Ron Shevlin heads up the firm's fintech research efforts and authors many of its studies. He has been a management consultant for more than 30 years, working with leading financial services, consumer products, retail, and manufacturing firms worldwide. Prior to joining Cornerstone, Ron was a researcher and consultant for Aite Group, Forrester Research, and Nolan, Norton & Co. Ron is the author of the book Smarter Bank, writes the Fintech Snark Tank blog on Forbes, and hosts the What's Going On in Banking podcast. Shevlin is ranked among the top banking and fintech thought leaders globally and is a frequent keynote speaker at banking and fintech industry events and at bank and credit union board of director meetings.

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About Cornerstone Advisors

For over 20 years, Cornerstone Advisors has delivered gritty insights, bold strategies and data-driven solutions to build smarter banks, credit unions and fintechs. From technology systems selection and implementation to contract negotiations, performance improvement, vendor management, strategic planning, and merger and acquisition services, Cornerstone combines expertise with proprietary data to help financial institutions thrive in today's challenging environment.

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End Notes

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