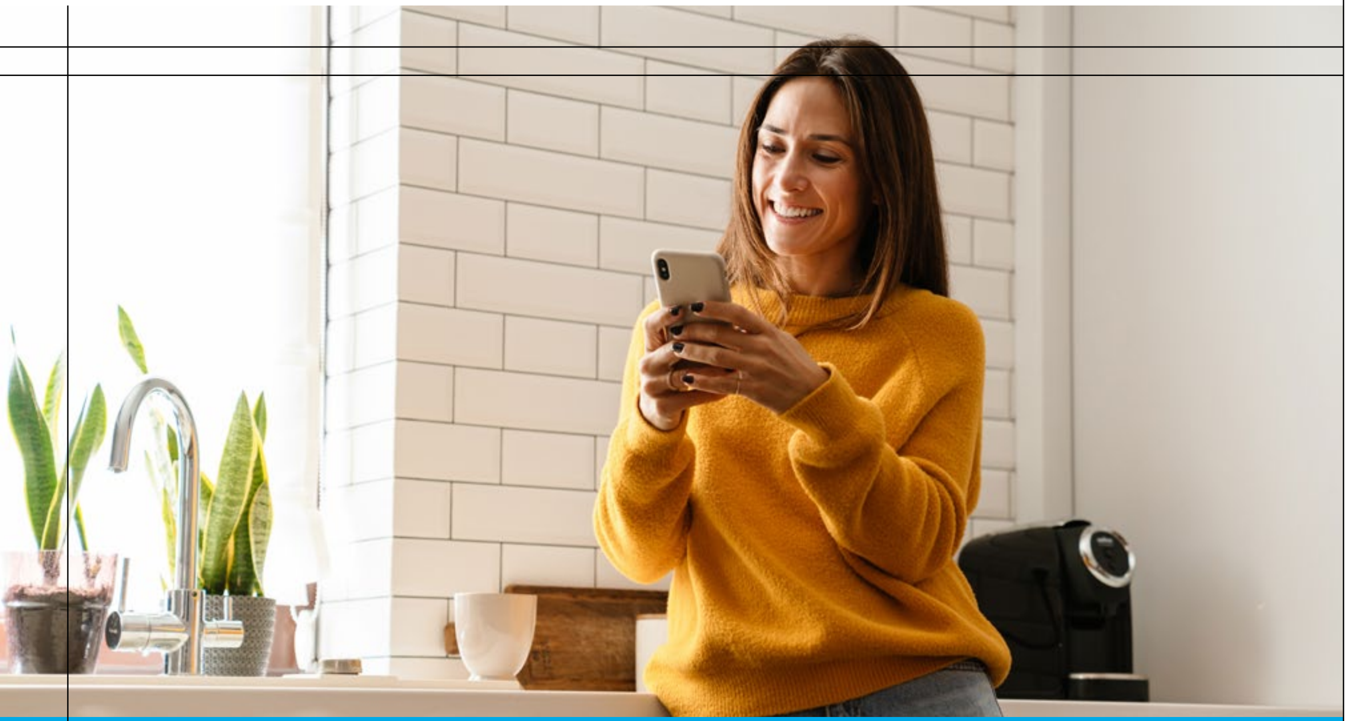
Download the Full Report

BAI Banking Strategies
December 2024 Executive Report

The 2025 banking landscape



'Invisible' banking and AI make customers feel seen

The dawning new year is all about making lives easier as technology smooths customer journeys, fortifies trust and creates personal service.

BY AJAY BHANDARI

Content sponsored by Infosys

In 2025, financial institutions are gearing up to make life easier for everyone—from retail customers to small businesses. With a strong focus on enhancing customer experiences, building trust, and providing cost-effective services, banks are relying on technology to meet their clients' needs.

1. MAKE CUSTOMERS FEEL SPECIAL

Banks are on a mission to create more seamless and personalized customer experiences. With advancements in Artificial Intelligence (AI), open banking, and customer journey strategies, the future of banking is looking more intuitive than ever.

AI-powered transformation

In 2025, AI will get deeply integrated across the front, middle, and back offices to assist customers. AI enhances protections such as encryption. The tech is also used to verify customer identities by analyzing identity documents and comparing them against existing government databases. JP Morgan has long used AI not just for customer service but also for fraud detection and automating document reviews through its COiN program. This means faster and more accurate services for customers.

Generative AI is progressing in areas such as customer service, risk management, and software development. Banks will work toward building AI agents—advanced software programs that observe their surroundings, process information, and take actions to achieve specific goals. They can solve complex problems, create and carry out plans, and use different tools. Think of them as highly intelligent digital assistants. For example, in mortgages, AI can instantly analyze a customer's financial history and assist the loan officer in expediting the onboarding process.

Banks will work toward building AI agents—advanced software programs that observe their surroundings, process information, and take actions to achieve specific goals. They can solve complex problems, create and carry out plans, and use different tools. Think of them as highly intelligent digital assistants.

Interconnected and invisible banking

In the U.S., the Consumer Financial Protection Bureau (CFPB)'s proposed Rule 1033 pushes for stricter data-sharing frameworks, allowing customers to connect their financial data with third-party apps. Klarna, for instance, has embraced open banking to provide pay-later services, letting customers manage their finances more flexibly. Traditional banks are taking note and designing similar offerings, including mortgages, credit cards, insurance, forex, and retirement planning.

This spawns new revenue opportunities for banks, and more importantly, it creates seamless payment experiences for customers.

Embedded finance takes this a step further by integrating financial services directly into non-financial platforms. Banks are now looking to offer these services to their business clients. HSBC, for example, has formed a joint venture, SemFi, focused on providing embedded finance services to its business clients. HSBC will embed financing into invoices to help SMEs speed up payments.

Data-guided customer pathways

It's not just about having a user-friendly app; it's about delivering consistent experiences across all touchpoints. For example, DBS Bank employs data to predict customers' needs and nudges personalized recommendations through its mobile app, helping to enhance engagement and satisfaction. Customers expect nothing short of immediate services that reduce the time to offer solutions.

Another emerging trend is banks opening their data chests to SMEs to identify the use cases and patterns that can be used to solve newer problems. This will create revenue opportunities across payments—embedded payments or broader finance and ESG.

2. MAKE CUSTOMERS FEEL SAFE

Trust is the bedrock of banking. Ensuring customers feel their money is safe is a key aspect of their experience. Yet, as experiences become increasingly digital and the number of transactions rises, so does the opportunity for bad actors. Security and privacy aren't just regulatory boxes to check; they're essential for building strong customer relationships.

Fraud losses for those over 60 were $3.4 billion in 2023, rising 11% year on year. Cyber threats are becoming more sophisticated, with criminals using AI-enhanced techniques and deepfakes to breach systems. Banks, including JP Morgan, are making significant investments to protect their customers.

Strengthen cybersecurity

Fraud losses for those over 60 were $3.4 billion in 2023, rising 11% year on year. Cyber threats are becoming more sophisticated, with criminals using AI-enhanced techniques and deepfakes to breach systems. Banks, including JP Morgan, are making significant investments to protect their customers. The bank uses AI to analyze transactions across its network, identifying potential fraud in real-time. These AI tools are trained to continuously learn from each attack, improving their defense mechanisms. When vulnerabilities or threats are detected, automatic alerts are sent to relevant stakeholders, speeding up responses and mitigation. DBS Bank is also taking a multi-layered approach to tackling fraud. The bank invests in advanced encryption, multi-factor authentication, and continuous monitoring to ensure customer protection.

In 2025, banks will continue to use advanced AI to continuously monitor suspicious activities, educate employees about best practices, and educate customers on safety measures. Creating fraud data consortiums helps the industry stay vigilant with a pooled dataset.

Data privacy and governance

At a time when data breaches are common, banks must reassure customers that they are the safe custodians of customer data. Implementing high-quality data governance with built-in privacy safeguards allows banks to offer personalized services while respecting customer preferences. Institutions such as DBS Bank have positioned themselves as trusted institutions that prioritize customer well-being.

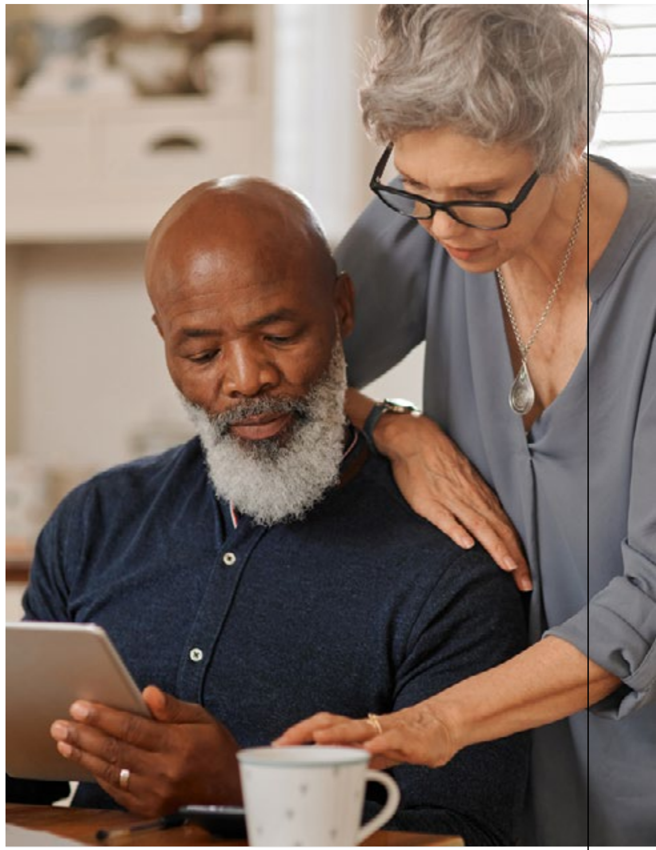
3. HELP CUSTOMERS SAVE MONEY

Technological advancements enable banks to deliver cost-effective services by optimizing operations and automating processes.

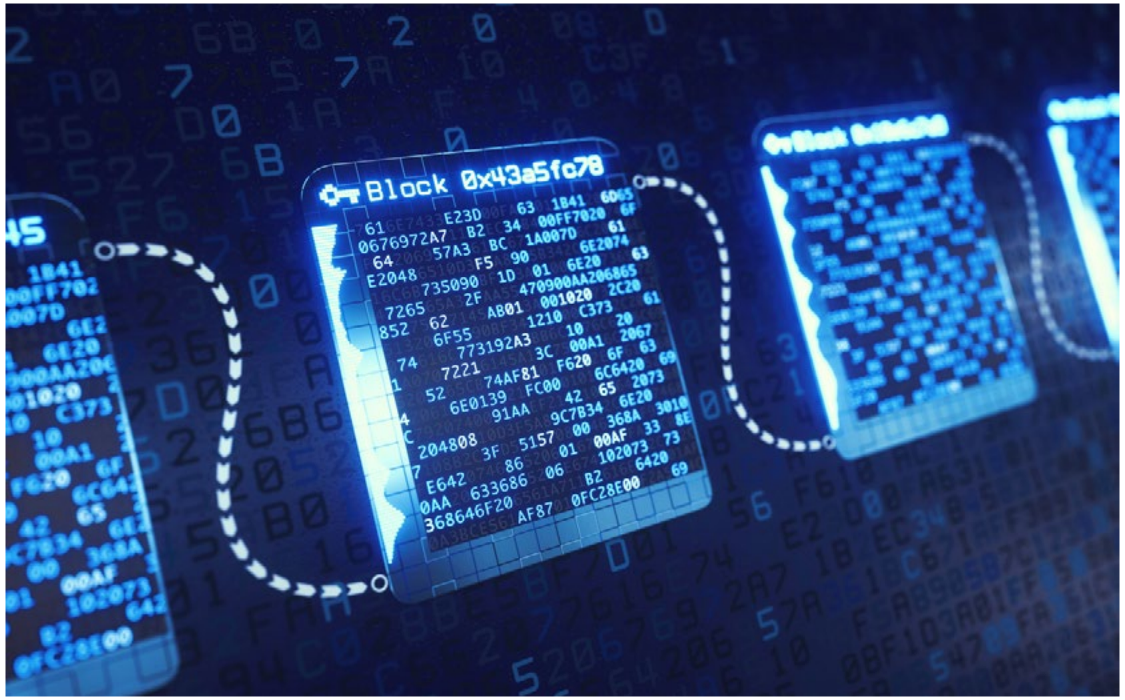
Modernize for operational resiliency and flexibility

As the shift toward modern platforms continues, reducing technical debt becomes essential to seamlessly integrating new technologies and delivering services at a lower cost. Many traditional institutions are now investing in modernizing their mainframe systems to compete with fintechs such as Klarna, that have thrived on innovation.

Customers want banking to be simpler and available 24/7. To keep their promise of banking 'always-on,' banks must be reliable—especially online banking. This is complex for a bank with a



legacy tech stack. Adopting a multi-cloud approach will help banks drive innovation, improve operational efficiency, and uplift customer experience. Cloud-native technologies such as containers and microservices equip banks to become more flexible and scalable. Again, DBS Bank is a great example. The bank uses a multi-cloud infrastructure to lower costs and increase scale. In 2025, banks will adopt more industry-specific solutions that come with AI integrations to solve banking complexities.



Blockchain and smart contracts for efficiency

Blockchain is making significant strides in commercial banking, particularly in streamlining cross-border payments and trade finance processes. The technology's ability to offer programmable payments and automate complex workflows through smart contracts significantly reduces the time and costs associated with traditional banking operations. In trade finance, where multiple parties and manual processes are involved, blockchain can eliminate paperwork, reduce fraud, and improve transparency. "DBS Token Services," from DBS Bank, uses permissioned blockchain to control smart contracts that improve transaction banking capabilities and generate operating efficiencies for their clients.

CLOSING THOUGHTS: SOLVE CUSTOMERS' NEEDS WITH A BALANCED APPROACH

The banking sector stands at a transformative juncture as we approach 2025. With a focus on better experiences, trust-building measures, and cost-efficient services driven by technology, banks can align with customer expectations while remaining resilient in a rapidly changing landscape.

Those who master this balance will lead the way into the future of financial services.

Ajay Bhandari is Senior Vice President and Regional Head, Financial Services, at Infosys.