FINANCIAL INSTITUTIONS
THE FUTURE OF FINANCE

Time to Shift Gears?

Financial Institutions Have Earned the Right to Be Bolder on Productivity, Growth, and Innovation

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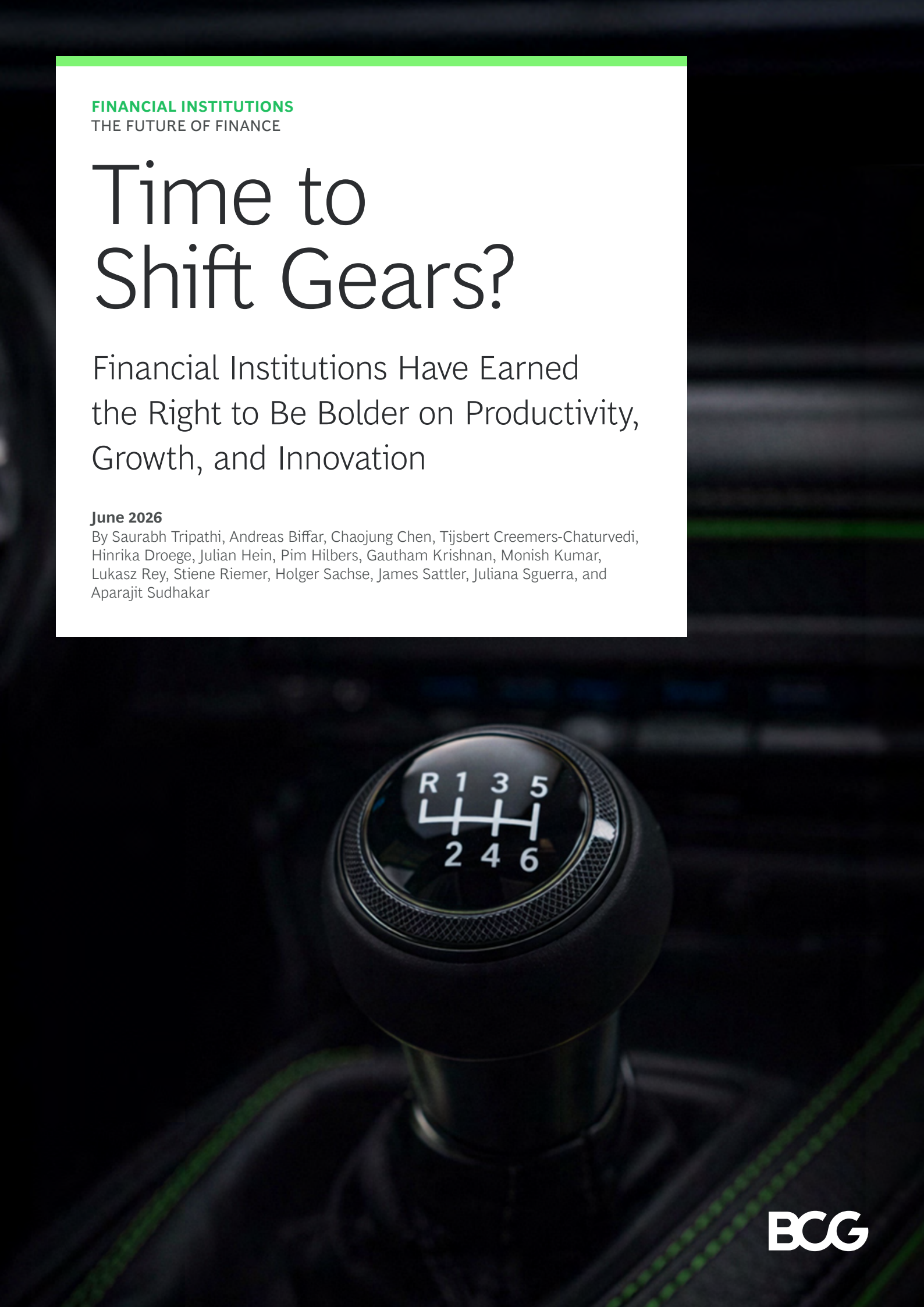

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Executive Summary

Financial institutions had a banner year in 2025, with total shareholder return (TSR) exceeding that of all other industries, including information technology.

The primary driver of this performance was a genuine and durable increase in profitability. Return on equity has risen sustainably above cost of capital across most markets, and price-to-book ratios have improved accordingly. Importantly, however, price-to-earnings multiples have remained largely unchanged. Investors are pricing financial institution earnings no differently than they did before, meaning that sustaining strong TSR will require growth, not merely the defense of existing multiples. With their equity, on average, now trading above book value, financial institutions have earned the right to act boldly from a position of strength. But only those with scalable operating models and sustainable competitive advantages can translate growth into long-term value creation. For most financial institutions, this implies the need for a ground-up redesign.

This report examines how financial institutions can shift into growth gear and position themselves for continuing strong performance. Here is a summary of the main points:

- **Use AI to reset productivity structurally, not incrementally.** Most recent profitability gains reflect income uplift combined with cost containment—positive jaws—rather than structural transformation of the operating model to achieve a step change in productivity and enable scalable growth. Although the overall opex-to-assets ratio has not improved materially, and headcount across the industry has increased, new players are demonstrating that rapid, scalable growth is possible. Winning financial institutions will follow their lead and focus on structural operating model redesign rather than on incremental cost cutting—shifting technology spending from run-the-bank to change-the-bank, simplifying product and tech architecture, and embedding AI in day-to-day work with clear economic ownership. These investments may have longer payback periods, but they will deliver structural productivity gains that no short-term cost exercise can match.

- **Rebalance capital toward tech-led growth.** After years of industry emphasis on cost, growth is reemerging as the more powerful value lever for institutions trading above book. Sustaining recent value creation will require a renewed focus on growth and corresponding shifts in capital allocation. Leaders in digital innovation have demonstrated growth through market share gains. AI is playing a role here by expanding the addressable market—lowering breakeven thresholds to make products such as small-ticket mass-affluent wealth solutions and midmarket treasury services economically viable for the first time.

- **Plot an active portfolio strategy.** For the first time in more than a decade, valuations, capital headroom, and investor expectations for financial institutions align in favor of active portfolio reshaping. We see three routes to value-accretive growth through M&A: increasing scale in the core; expanding into attractive pockets of value; and divesting to optimize the portfolio. All three actions require disciplined integration execution.

- **Position early where disruptive trends intersect.** AI, nonbank financial institutions, and digital assets continue to disrupt the financial institution landscape, but their most significant impact has yet to emerge. As these forces converge, they will amplify their effects on competitive positioning, revenue models, and operating models, generating greater disruption than any single trend in isolation would. Recent stress in private credit markets suggests that these effects can materialize rapidly and that institutions without a clear view of their exposure may find themselves reacting rather than leading. Leaders should prioritize building the organizational agility necessary to respond quickly to the scenarios that emerge. Similarly, institutions that position themselves at the convergence of these trends—rather than simply defending against them—stand to capture the resulting value.

- **Concentrate CEO-owned AI bets and get execution right.** Winning institutions concentrate investment on a portfolio of six to eight high-impact bets chosen following a disciplined assessment of value impact, competitive advantage, reusability, and time horizon. Execution requires building five foundational enablers—technology, data, risk and compliance, operating model, and talent—at scale, not piecemeal. CEOs must personally own this transformation, not merely sponsor it. They should embed AI at the core of the institution's strategic priorities, apply the same rigor in measuring impact as they do in assessing other investments, and track delivery through improved unit economics rather than use-case counts. The contours of the intelligent organization of the future are evident already in AI's disruption of the software development process. Most tasks are agent-led and only supervised by humans. The next step is a disruption of business processes in the same manner, with a massive reallocation of talent.

For financial institution leaders, the path forward begins with addressing five strategic questions:

- Where can AI enable a step change in productivity for your business?
- Where will you achieve outsized growth? How can AI enable this?
- Is your M&A thesis clear?
- Are your teams taking positions and making bets on potential disruptions such as digital assets and nonbank financial institutions?
- How will your organization move from AI-enabled to AI-first?

Introduction

Financial institutions have much to celebrate, including a recovery of profits that led to a striking turnaround in total shareholder return and tailwinds that seem likely to support continued strong performance.

Although 2025 was indeed a year to build the confidence of financial institution leaders, it also represents a transition point: well-positioned institutions that are trading above book value should not hesitate to reinvent themselves from a position of strength. This will not be an easy task, but there is no better moment for taking it on. Ensuring that AI is built into new operating models will enable financial institutions to achieve step changes in productivity, rather than just incremental improvements. And it will position them to take advantage of structural trends that are reshaping the financial services landscape. This report examines how the foundations of banking have shifted, details the forces shaping its next phase, and closes by identifying the decisive moves necessary to sustain long-term value creation.

For additional in-depth insights into financial institutions, see BCG's flagship sector publications, covering retail banking, corporate and investment banking, payments, asset management, wealth management, and fintech. These publications provide analyses of revenue dynamics, competitive shifts, operating model transformation, and emerging trends across each domain. This report integrates these perspectives to present a consolidated view of how value creation is evolving across the financial ecosystem.

Financial Institutions Have Earned the Right to Take a Bold Posture on Value Creation

In recent years, financial institutions have improved their performance across key metrics.

The rebound was fueled by a shift in interest rates from abnormally depressed levels to a structurally sustainable regime and by healthy growth of asset volumes, while banks were applying disciplined cost management to achieve positive jaws. In 2025, institutions were rewarded for their hard work in achieving this recovery with exceptional shareholder returns. The question for the industry now is how to move forward from a position of strength to create value sustainably over the longer term.

A Banner Year for Value Creation

In 2025, financial institutions' total shareholder return (TSR) of 30.2% exceeded that of all other industries, including the typically dominant tech sector, and was the highest mark for financial institutions since the global financial crisis. (See Exhibit 1.)

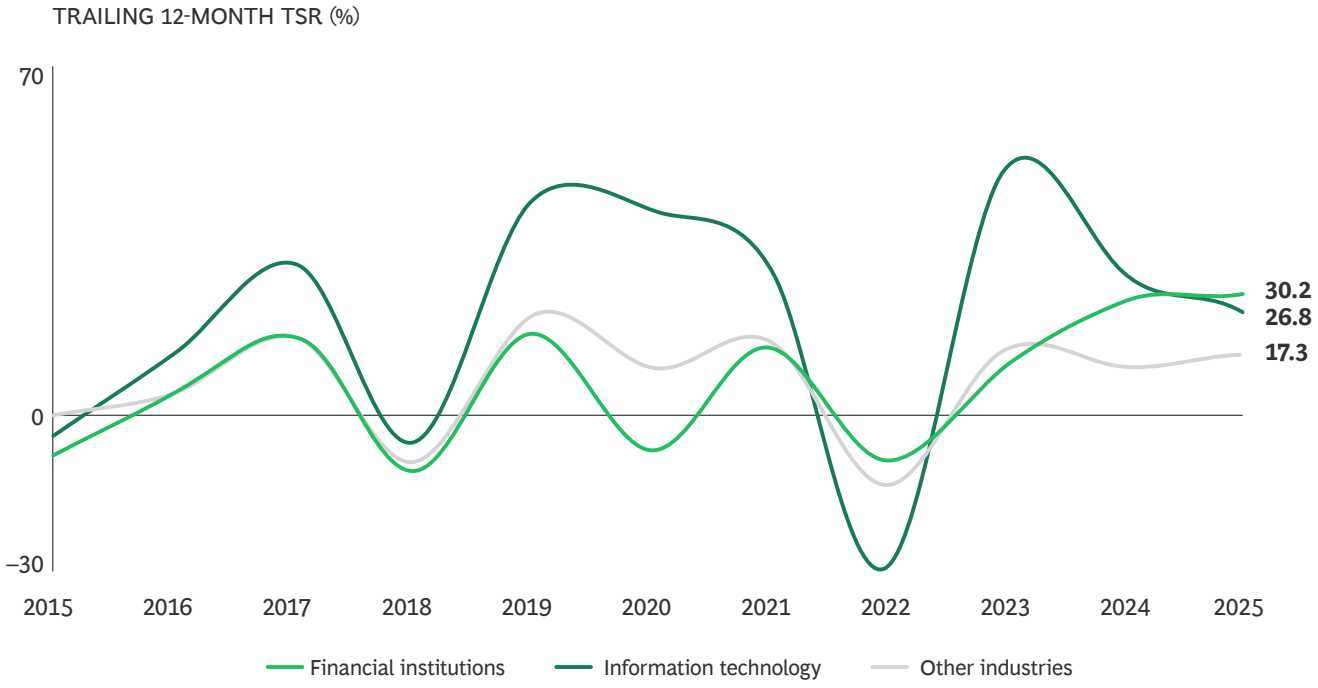
Performance was broad-based but not uniform across business models and regions. Over a three-year horizon from December 2022 to December 2025, specialized and digital banks delivered the strongest TSR, while medium-size and small banks and traditional acquirers lagged significantly. (See Exhibit 2.) Europe, Japan, and South Korea led the pack among regions, largely because they had more ground to make up in recovery.

The key driver of TSR in most regions was improved price-to-book (P/B) ratios, reflecting the genuine recovery in profitability. However, this did not constitute a market rerating in the conventional sense. Price-to-earnings (P/E) multiples have remained largely unchanged, indicating that investors are pricing financial institution earnings no differently than they did before. Capital distribution further amplified TSR. Share buybacks and dividends rose materially, both in absolute terms and as a share of earnings, reinforcing investor returns.

For the first time in many years, the majority of global bank equity is trading above book value. (See Exhibit 3.) However, dispersion remains high. More than half of individual banks, including many small banks, still trade below book, widening the gap between leaders and laggards.

EXHIBIT 1

In 2025, Financial Institutions Led in Value Creation



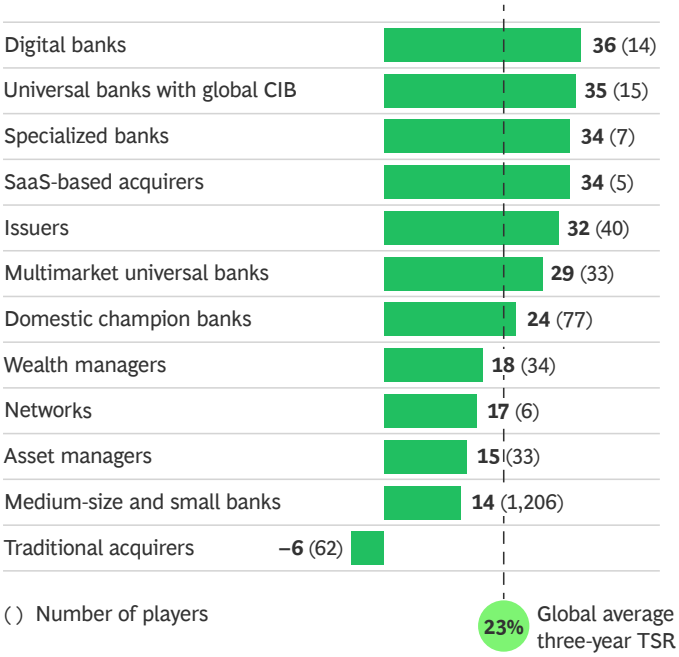
Sources: BCG analysis; S&P Capital IQ.
Note: Financial institutions cover banks, asset and wealth managers, and payments companies across the world (n = 1,498). Data for information technology (which includes companies in software, services, hardware, and semiconductors as per the Global Industry Classification Standard's definition of information technology) and other industries is based on the S&P Global 1200 (n = 1,049). TSR = total shareholder return.

EXHIBIT 2

TSR for Financial Institutions

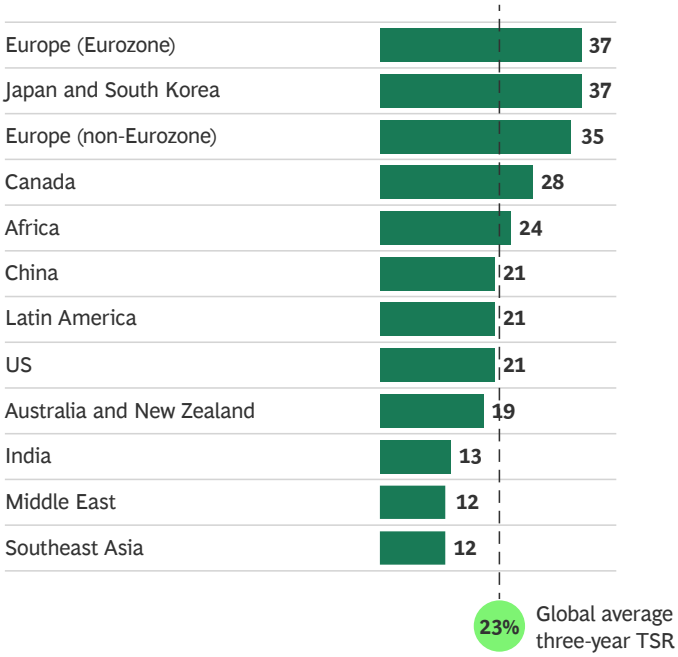
Advantage specialization

THREE-YEAR TSR, DECEMBER 2022–DECEMBER 2025, BY BUSINESS MODEL (%)



Europe and Northeast Asia have led the pack

THREE-YEAR TSR, DECEMBER 2022–DECEMBER 2025, BY REGION (%)

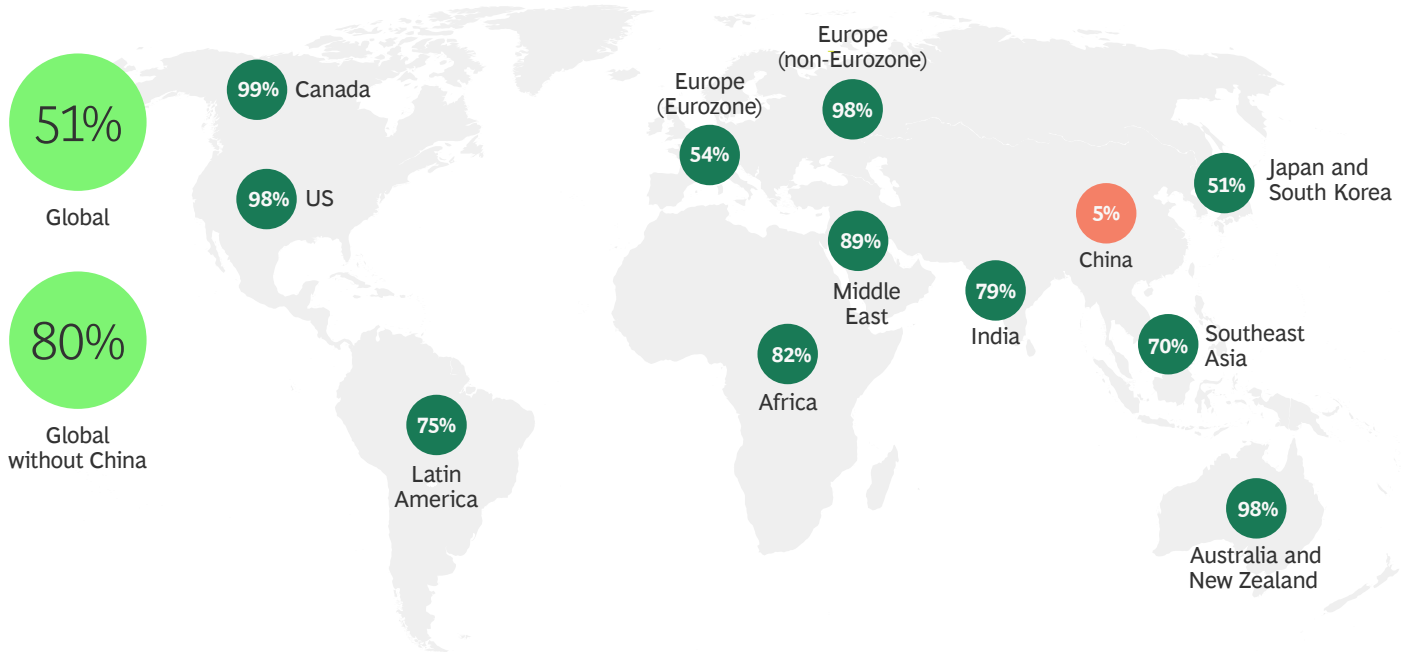


Source: S&P Capital IQ.
Note: CIB = corporate and investment banking; SaaS = software as a service; TSR = total shareholder return.

EXHIBIT 3

Globally (Excluding China), 80% of Bank Equity Now Trades Above Book Value

PERCENTAGE OF BANK EQUITY TRADING AT P/TBV > 1[1]



Sources: S&P Capital IQ; BCG analysis.
Note: All publicly listed banks were considered for this analysis. P/TBV = price-to-tangible-book-value ratio.
[1]Percentages are as of December 31, 2025.

A Hard-Won Recovery of Durable Profitability

Fueled by strong income growth, financial institutions' profitability has increased in several major geographies over the past five years. (See Exhibit 4.) In many developed markets, net interest margin (NIM) uplift contributed the most to recent earnings growth. (See Exhibit 5.) In emerging markets, rapid asset growth boosted earnings, and this trend remains robust as market penetration with credit continues to deepen.

The sector's profitability recovery is not purely a result of interest rates and NIM, however. It also reflects diligence in three dimensions:

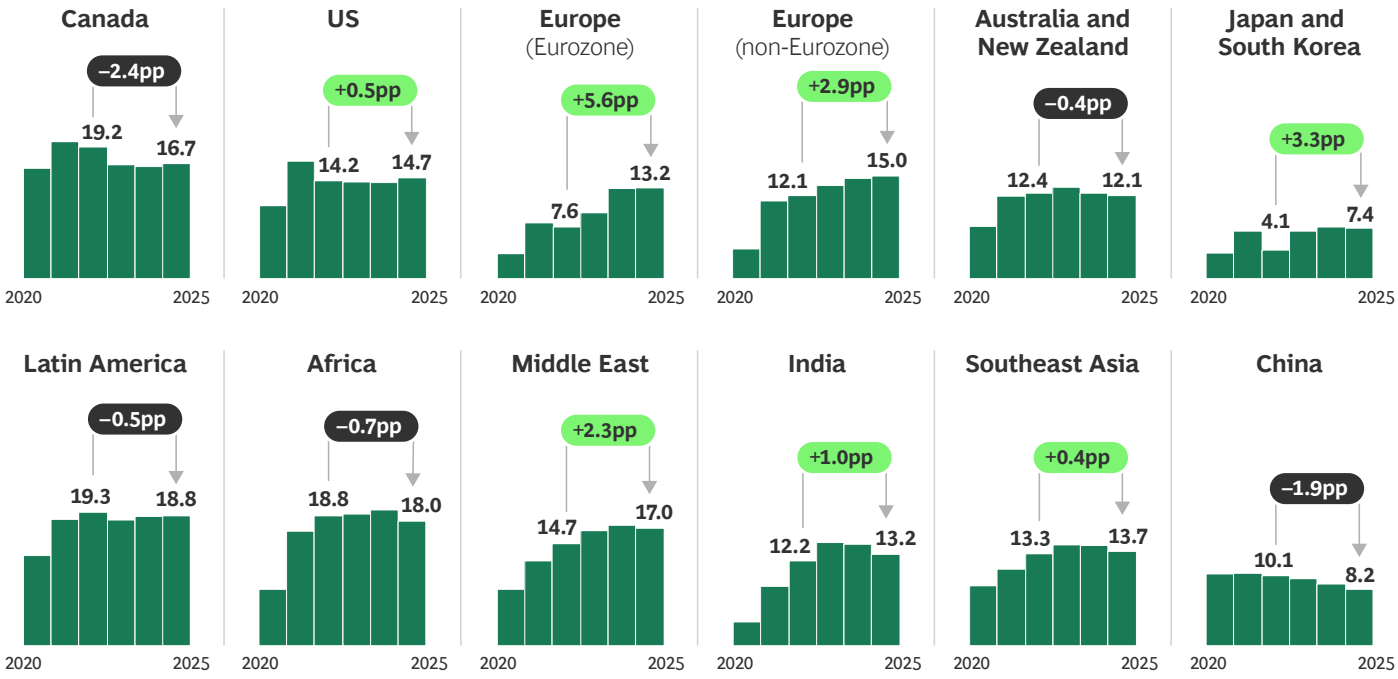
- **Cost Discipline.** The industry contained cost growth despite inflation and the ever-present need to invest in compliance and tech legacy modernization.
- **Prudent Risk Management.** Continual macroeconomic crises did not trigger major reverberations in banks' loan books. Strengthened capitalization provided the needed resilience.
- **Strengthened Balance Sheet Management.** Improvements in management of liquidity, interest rates, and related risks helped to reduce the volatility of net interest income.

Despite the recovery, challenges remain. In many geographies, fee income as a percentage of assets remains low in comparison to historical levels, and many regions saw no material improvement except in select business segments (for example, corporate and investment banking) and markets (Europe and India). In fact, some geographies experienced a decline in fee income. (See Exhibit 6.)

EXHIBIT 4

Europe, Japan, and South Korea Saw a Significant Lift in Profitability over the Past Three Years

RETURN ON TANGIBLE EQUITY, 2020–2025 (%)

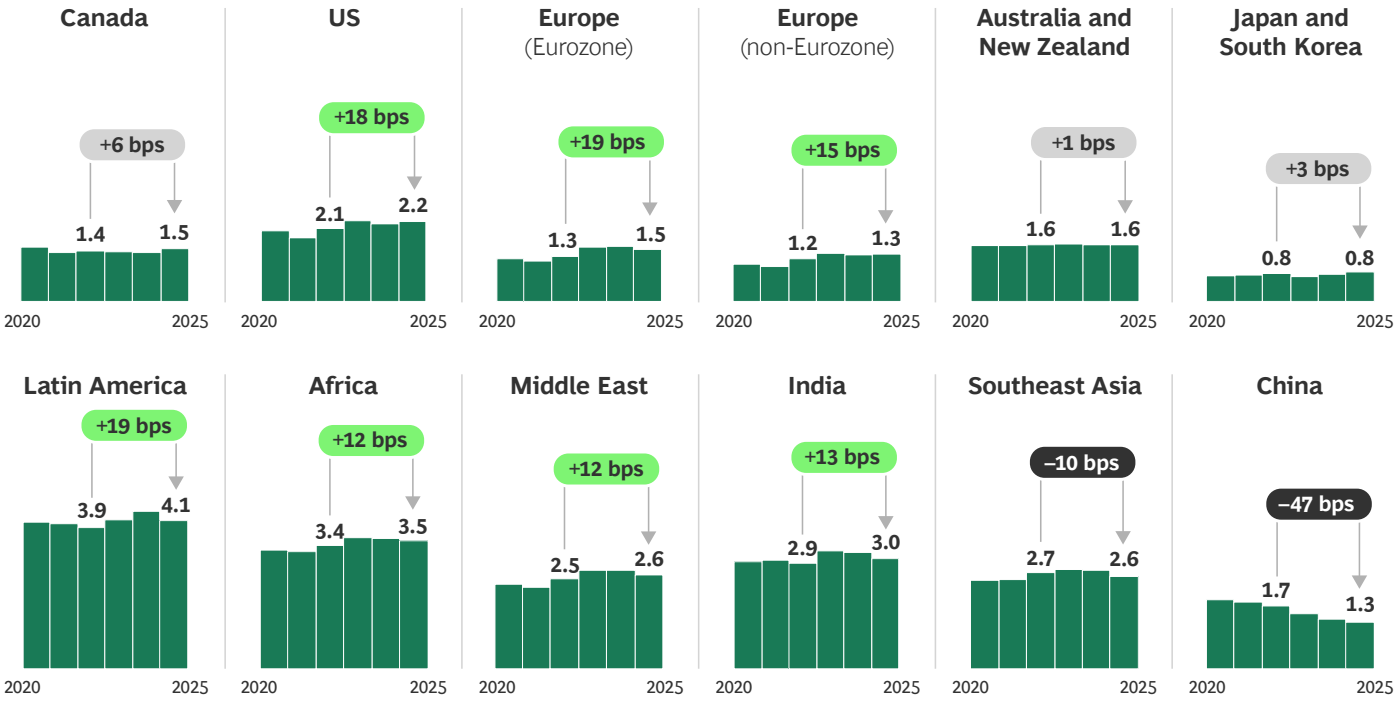


Sources: S&P Capital IQ; BCG analysis.
Note: All publicly listed banks were considered for this analysis. pp = percentage points.

EXHIBIT 5

Most Markets Experienced a Notable Margin Increase

NET INTEREST MARGIN, 2020–2025 (%)

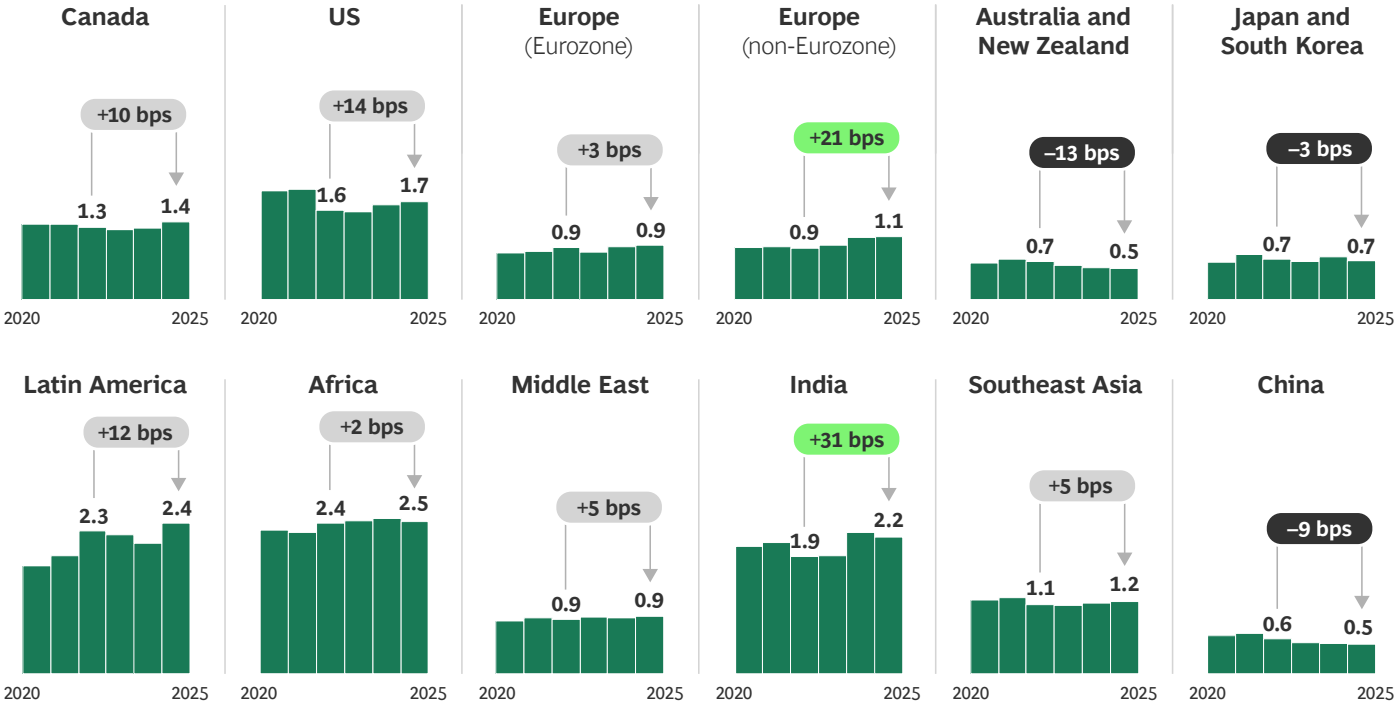


Source: Capital IQ.
Note: Data is for the past five years (2020–2025). All data is in local currency, with weighted averages computed using weights in US dollars. bps = basis points.

EXHIBIT 6

Fee Generation Differs Strongly Across Regions

NON-INTEREST INCOME/ASSET RATIO, 2020–2025



Source: Capital IQ.
Note: Data is for the past five years (2020–2025). All data is in local currency, with weighted averages computed using weights in US dollars. bps = basis points.

The harder question is what comes next. Sustaining strong TSR from a base of stable underlying profitability requires outsized earnings growth and, consequently, a P/E-based rerating.

Overall, we believe that the uplift in profitability is likely to be more resilient than some observers think. Several structural tailwinds should support the transition:

- **Risk of NIM deterioration is lower than many had feared.** Rate cuts have not resulted in pronounced NIM compression, largely because many financial institutions have structurally hedged their positions. In fact, in several markets, NIMs are likely to remain stable or even increase in 2026, despite potentially lower rates.

- **Deregulation could free up capital.** Regulatory recalibration could unlock significant lending capacity and boost capital returns. In the US, proposed capital reforms aimed at adjusting required capital buffers could unlock up to $2.6 trillion in additional lending capacity, freeing deployable capital to support credit growth, shareholder returns, and strategic M&A.

- **Regulatory cost buildup has likely peaked.** Regulatory investment cycles in the aftermath of the global financial crisis appear to have matured. For example, compliance costs sit in a relatively stable band at roughly 1.1% to 1.7% of total costs. Although new regulations will continue to require response from banks, we expect efficiency to improve as institutions shift from expanding headcount across three lines of defense—the default response to regulatory pressure over the past decade—to more effective, lower-cost technology-led approaches enabled by AI.

- **Geopolitical volatility is not purely a risk; it is also a revenue lever.** Geopolitical risks continue to multiply—from conflicts in Ukraine and the Middle East, to the fraught US-China relationship, to a shifting tariff landscape. For financial institutions, these realities demand continuous rethinking of network design, operating models, and regulatory posture. But volatility can also be a revenue lever. For corporate and investment banking (CIB) franchises, for example, foreign exchange and trading volatility bolster noninterest and fee income. More broadly, volatility can give financial institutions the opportunity to expand their role from trade facilitators to supply-chain advisors, leveraging geopolitical and market-risk expertise to underpin client trust and wallet share.

- **Public investments boost credit demand.** In many markets, large public investments in infrastructure, transportation, environmental sustainability, and, more recently, defense are creating durable credit demand. For example, the NextGenerationEU program is the largest joint EU investment ever, with a potential total volume of €650 billion. In Asia, comparable infrastructure initiatives are creating similar demand.

Despite these structural tailwinds, the industry should not overlook remaining risks. Bank share prices declined in the early months of 2026. Specific concerns include credit risk from growing exposure to the software and technology sector—particularly via private credit vehicles—at a time of elevated tech valuation pressure, and the potential for geopolitical conflict to increase volatility in macroeconomic parameters (for example, interest rates, inflation, and growth) that can negatively impact the business. That said, financial institutions have proved their resilience: banks have meaningfully outperformed the broader market, suggesting that investors continue to view the sector's structural earnings outlook as intact, notwithstanding the near-term headwinds.

The gains in profitability and P/B are likely to hold because they rest on durable improvement rather than on a cyclical spike. The harder question is what comes next. Sustaining strong TSR from a base of stable underlying profitability requires outsized earnings growth and, consequently, a P/E-based rerating.

The Bottom Line: Shifting to Growth Gear

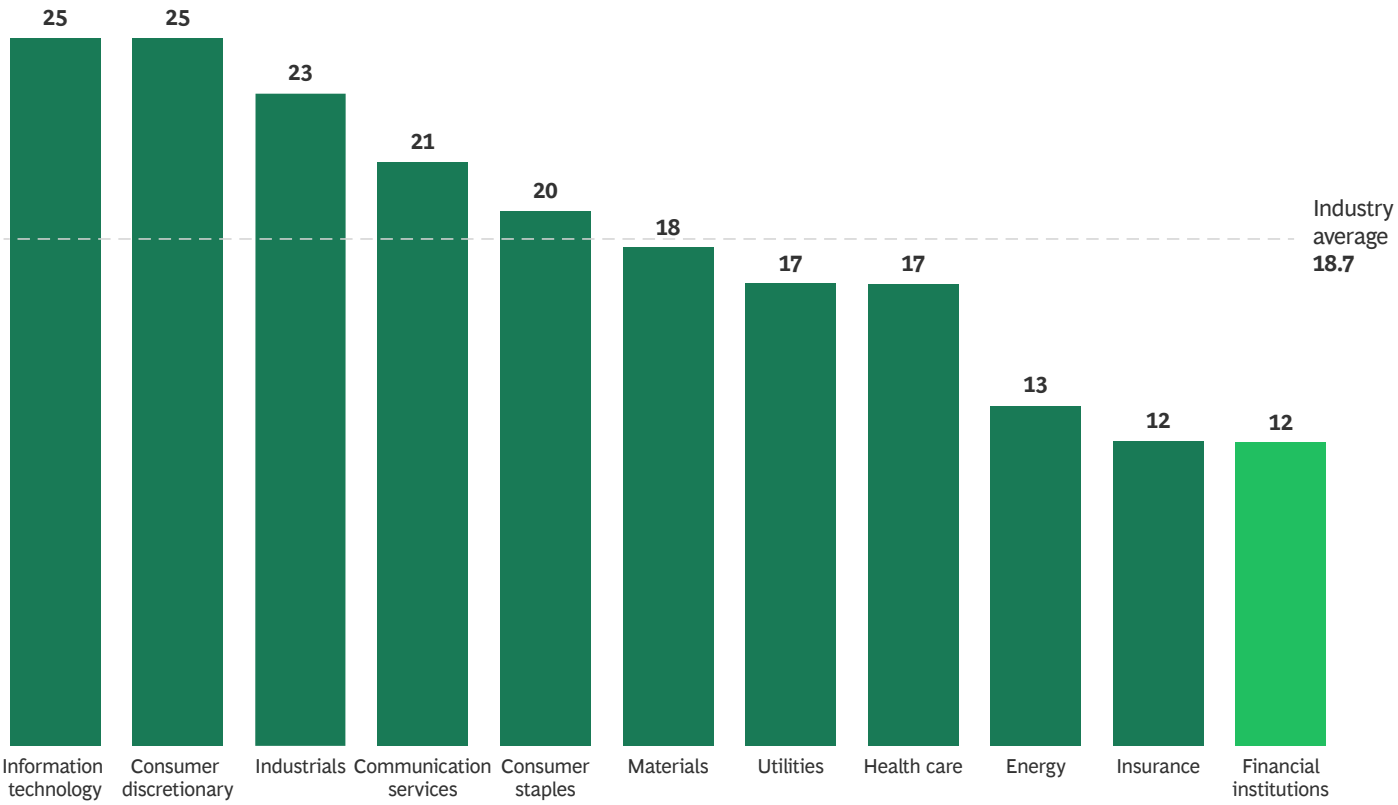
Since late 2022, banks' market capitalization has risen by roughly $5.5 trillion, capturing a significant portion of the $7 trillion value opportunity identified in the first edition of this report in 2024—and financial institutions are well on their way to reaching the $7 trillion mark. On the other hand, financial institutions still rank last among sectors in P/E ratio, trading at roughly a 40% discount to the market average. (See Exhibit 7.) This indicates that while profitability has genuinely recovered and P/B has improved as a result, no corresponding structural rerating of P/E multiples has occurred. Evidently, investors are not yet convinced that financial institutions can deliver consistent, compounding growth.

Growth does not create value uniformly. In the years when most financial institutions traded below book value, balance-sheet growth risked destroying value: expansion without a structural improvement in returns created less value than distributing profits did. That constraint is now largely behind the industry. For institutions trading above book, disciplined growth accretes value: every dollar deployed into scalable expansion earns a premium over book. For this reason, the path to a P/E rerating is to build operating engines capable of converting that earnings strength into scalable, compounding growth.

EXHIBIT 7

Financial Institutions' Aggregate Price-to-Earnings Multiple Reflects Investor Skepticism About Growth

AVERAGE FORWARD P/E AS OF DECEMBER 2025



Source: S&P Capital IQ.
Note: Financial Institutions cover banks, asset and wealth managers, and payments companies across the world (n = 1,498). Data for information technology and other industries is based on the S&P Global 1200 (n = 1,049). P/E = price-to-earnings multiple.

AI for a Structural Reset in Productivity

Today, most banking processes rely on human input to reconcile information across systems, summarize findings, and route cases for downstream decision making.

This model will not survive. Trimming costs or squeezing a few percentage points from the profit-and-loss ledger will not change this fact. Financial institutions must reinvent the way they operate, shifting to superior unit economics, lifting productivity to a fundamentally higher level, and step-changing scale. Building a robust scalable foundation is a prerequisite for delivering strong growth.

To achieve the required level of productivity, financial institutions must reimagine processes with a tech- and AI-first approach, finally shifting from heavily human-driven processes to genuinely digital processes where humans focus on decision making and advice. Digital banks offer a clear example: built from the ground up on fully digital operating models, they have demonstrated the ability to deliver banking at a fraction of traditional banks' cost, to scale quickly across markets, and to provide a superior customer experience.

The time to make fundamental changes is now. Current valuation and profitability levels can support bold transformations, with payback in three to four years.

Much More to Do on Productivity

Over the past years, cost-to-income ratios (CIRs) have improved across geographies as financial institutions sustained positive operative jaws. The resulting profitability gains are likely to be durable, but the industry still has more to do in this area. Operating expenses relative to assets (opex/assets)—a more direct measure of productivity—have shown only marginal improvement despite substantial technology investment, pointing to an opportunity for a step-change transformation rather than incremental gains. (See Exhibit 8.)

Despite all of the investments in digitization, headcounts are growing too, indicating that further meaningful productivity gains are elusive. Globally, financial industry headcount has increased at a compound annual growth rate of approximately 2% over the past three years. (See Exhibit 9.)

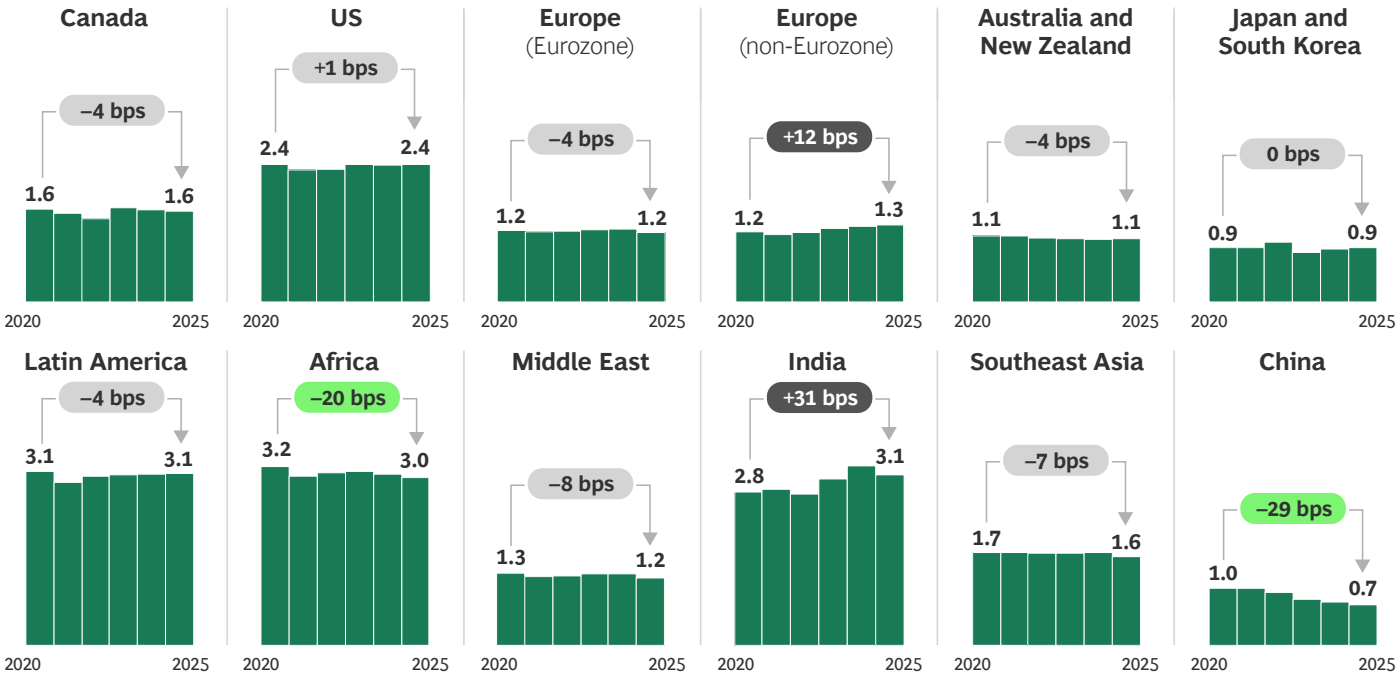
In an environment where overall productivity has plateaued, Chinese financial institutions stand out as exceptions. (See the spotlight "China's Productivity Surge.") But gains elsewhere remain modest.

Operating expenses relative to assets have shown only marginal improvement despite substantial technology investment.

EXHIBIT 8

Banks in China Are Seeing the Largest Productivity Improvements

OPEX/ASSET RATIO, 2020–2025

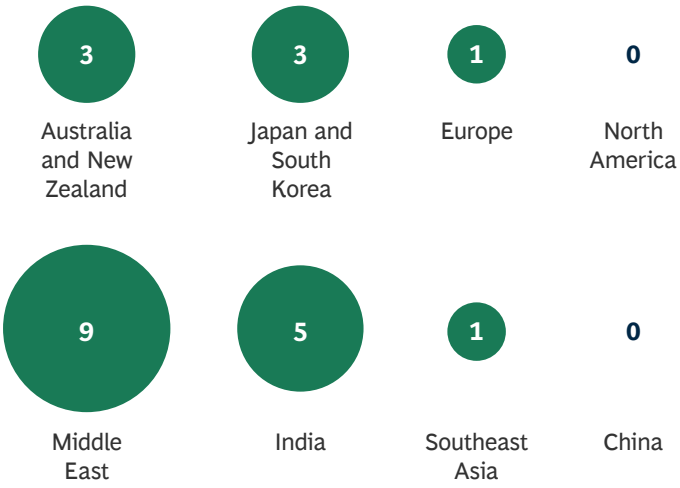


Source: Capital IQ.
Note: Data is for the past five years (2020–2025). All data is in local currency, with weighted averages computed using weights in US dollars.

EXHIBIT 9

Over the Past Three Years, Financial Institution Headcount Has Increased

THREE-YEAR CAGR IN NUMBER OF EMPLOYEES, 2022–2025 (%)



Sources: S&P Capital IQ; BCG analysis.
Note: All publicly listed banks were considered for this analysis.

SPOTLIGHT

China's Productivity Surge

The recent surge in productivity among China's financial institutions is due in large part to digital- and AI-driven improvements. A significant bump in tech investments aimed at increasing operational efficiency began in 2017 in response to a slowdown in top-line growth. Some financial institutions allocated 20% to 30% of these investments toward AI, in some cases achieving savings of thousands of full-time equivalent employees (FTE) per year. In addition, many consumers moved to digital channels during the COVID-19 pandemic, which reduced operating costs at branch and operation centers significantly. And economical, easy-to-use IT tools have become available over the past few years, making tech- and AI-based improvements more feasible.

AI is Breaking the Compromise: More Digital and More Human

BCG's AI Radar global survey indicates that financial institutions plan to invest 2% of their revenue in AI in 2026, a percentage that puts them broadly in line with the tech sector and well above other industries. As with tech investments in general, the differentiator in leveraging AI will be allocations to transformative efforts, not absolute spending.

Financial institutions will achieve step-change productivity not through incremental digitization but through AI-first operating models that reshape the economics of banking by leveraging the disruptive potential of AI. (See "Organizing for Success" on page 32.) Four trends are especially significant:

- **Machine voice will soon become superior to human interaction in empathy and consistency**, enabling banks to be more digital while seeming more human to customers. This advance will unlock step-change reductions in cost and make small-ticket interactions economically viable for the first time.
- **AI agents are starting to execute complex processes autonomously** with persistent memory and context. This capability provides a foundation for compounding intelligence, but it requires a different operating model with new roles and skills for humans who will be supervising the agents.
- **Personal AI agents will increasingly support customers with radical transparency in purchase decisions**, raising the bar for relevance, mobilizing idle deposits, and putting pressure on bank margins. Institutions must win both the customer's heart and the AI agent's recommendation through hyperpersonalization grounded in persistent context.
- **Widespread availability of AI** is accelerating fraud and cybercrime at scale, requiring institutions to leverage AI to manage AI-driven risks, and to build new data foundations to make this possible. The current hyperactivity around Anthropic's Mythos model is a prime example of the coming disruption.

Institutions that lead on all four dimensions will build a compounding structural advantage. Those that treat AI as a cost-reduction overlay on existing processes will find the gap in productivity widening rapidly.

Early AI adopters automate workflows end-to-end and materially outperform traditional providers. For example, digital banks and brokers automate their entire onboarding and customer support processes. In digital debt collection, AI handles the full contact volume across email, SMS, banking apps, and WhatsApp—enabling institutions to concentrate human agents on the moments that genuinely require them: distressed customers, high-stakes negotiations, and complex disputes. This hybrid model combines the scalability of AI with human judgment to manage risk and sensitive situations, enabling the institution to operate at a different price point and offer its services for significantly less than traditional players must charge. The result can be disruption of entire businesses and their pricing models, as is happening in online brokerage.

Crucially, digital players operate under different ambitions and KPIs, with any increase in manual touchpoints triggering root-cause review and process redesign. Efficiency is the operating principle.

In banking, more than in most other industries, it will be critical to examine AI solutions from a regulatory perspective. Specifically, it is crucial that banks be ready to effectively run risk assessments and ensure compliance with different regulatory requirements. Leading institutions have created AI-enabled workflow tools for expedited AI project approval that permits reuse of compliant data/tech, simplifies compliance and controls, and lets simpler projects move much faster.

AI Is Already Delivering a Step Change When Used to Reshape Functions and Processes End-to-End

The AI-first approach is now spreading beyond digital natives. Leading incumbent banks no longer pilot AI use cases or run incremental efficiency programs. Instead, they are resetting and scaling operating models and seeing significant gains. Global financial institutions are rolling out AI to tens of thousands of employees and converting AI maturity into measurable productivity. For example, one major US financial institution has targeted $1 billion in annual AI value split between revenue uplift and cost reduction. Another has announced eight enterprise AI lighthouses with a total value target of $1 billion—about 5% of the institution's net income—indicating that it is rebuilding, not merely experimenting.

The impact is not confined to a handful of functions. In BCG's work with leading financial institutions globally, AI now delivers at-scale results in virtually every domain in banking. (See Exhibit 10.)

EXHIBIT 10

AI's Impact on Productivity in Banking Is Substantial and Growing

RISK GOVERNANCE	CREDIT UNDERWRITING	COMMERCIAL/ CORPORATE BANK	WEALTH MANAGEMENT	TECH/ ENGINEERING
2x–3x	50%	8–10%	30%	60%
Faster approvals for AI deployments	Productivity uplift in underwriting staff	Revenue uplift	Lift in fee income	Increase in tech shop productivity

COLLECTIONS	COMPLIANCE	SERVICE/ OPERATIONS	HYPER-PERSONALIZATION	DATA MANAGEMENT
25%	4x–5x	30%	1.3x	30%
Reduction in loss rates	Faster customer onboarding time	Cost productivity gain in contact centers	Products per savings customer	Leaner data teams

Source: BCG project experience.

Institutions that commit to end-to-end reshaping of functions and processes rather than isolated pilots are seeing material impact across both revenue-generating front-office activities and operational and control functions.

Whether the metric is processing speed, revenue uplift, cost productivity, or risk reduction, the pattern is consistent: institutions that commit to end-to-end reshaping of functions and processes rather than isolated pilots are seeing material impact across both revenue-generating front-office activities and operational and control functions. Banks have begun to realize these tangible benefits in just the past few months, and the trajectory suggests that the gains will increase within quarters, not years.

Consider three examples of how AI can unleash significant productivity gains:

- **AI in Wealth Management.** A leading Asian bank implemented an agentic architecture for relationship management assistants. A central agent orchestrator coordinates specialized agents that handle processes such as direct client communication, portfolio planning in response to market movements, and pitch book generation. An overall orchestrator connects these agents directly to customer relationship managers, calendar tools, document platforms, and other points. The AI system automates meeting preparation, onboarding, servicing, and proposal drafting. This structure frees up more than 30% of advisor capacity to be redirected to higher-value client engagement and complex product sales. The result is 30% higher fee income, three times the number of clients engaging weekly, and more balanced client portfolios.

- **AI in Credit Underwriting.** A medium-size European bank achieved a step change in retail lending productivity by redesigning its credit process with agentic AI. The bank reduced document/data requirements to a regulatory minimum, eliminated double checks, and simplified documentation and decision workflows. Using agentic AI, the bank automated document ingestion, document validation, fraud screening, data extraction, data consistency and correctness checking, credit decision preparation, and payouts. These changes have enhanced the productivity of underwriting staff by 50%, reduced time-to-yes or time-to-cash to 24 hours after document submission, and prompted a quality uplift in various tasks—including an improvement in fraud detection of more than 30%.

- **AI in Engineering.** A US G-SIB integrated agentic AI software engineers that can execute multistep development tasks with minimal human intervention. Under the supervision of human engineers and with the appropriate harness (control system), these AI agents handle the complete software development life cycle, from system requirement specification to testing. The redesign has resulted in an average productivity uplift of around 30% across engineering teams and about 60% for top-performing cohorts.

Re-architecting core customer journeys and operational processes will separate institutions that industrialize AI from those that merely deploy it. AI can be the catalyst for long-overdue structural simplification, process streamlining, layer reduction, and end-to-end workflow redesign. Human approval is limited to review of AI's work. This combination of architectural simplification and AI enablement unlocks step-change impact.

Rebalancing Capital Toward Tech-Led Growth

With profitability now exceeding cost of capital in most markets, financial institutions face a strategic choice: continue returning capital to shareholders through buybacks and dividends—the default posture of recent years—or redeploy it into growth.

For institutions trading above book value, every dollar invested in scalable growth creates value at a premium, whether the investment is directed toward technology, new market entry, or acquisitions. The current environment of strong capital positions, favorable valuations, and emerging AI-enabled growth opportunities presents a compelling case in favor of investing.

The baseline outlook for growth in core banking businesses seems modest overall but is uneven by segment. We expect retail and business banking to grow by 4% annually through 2030 in a business-as-usual scenario, but margin pressures from AI-driven radical transparency in the purchase process could push growth to as low as 2%. We expect growth in CIB to average 5%, thanks to sustained fee-based growth. Commercial banking has the brightest outlook for baseline growth at 6%, fueled by increasing penetration of lending and payments in the midmarket and small business segment, although AI-driven transparency is likely to be a drag in this segment as well.

These growth trajectories are respectable, but they are unlikely to result in a P/E rerating. They also pale in comparison to the growth rates of some digital banks. For example, in Europe, Revolut has expanded its customer base by more than 40% over the past 15 months, surpassing 70 million customers in 2026. In parallel, Revolut secured a full UK banking license in 2025 and has since expanded into zero-commission wealth management, contracts-for-difference trading across 29 countries, and mortgage products—a trajectory from payments disruptor to full-service bank. If fast-growing attackers gain customer trust and primacy, we could see a major transformation in the banking deposits landscape. (See Exhibit 11.)

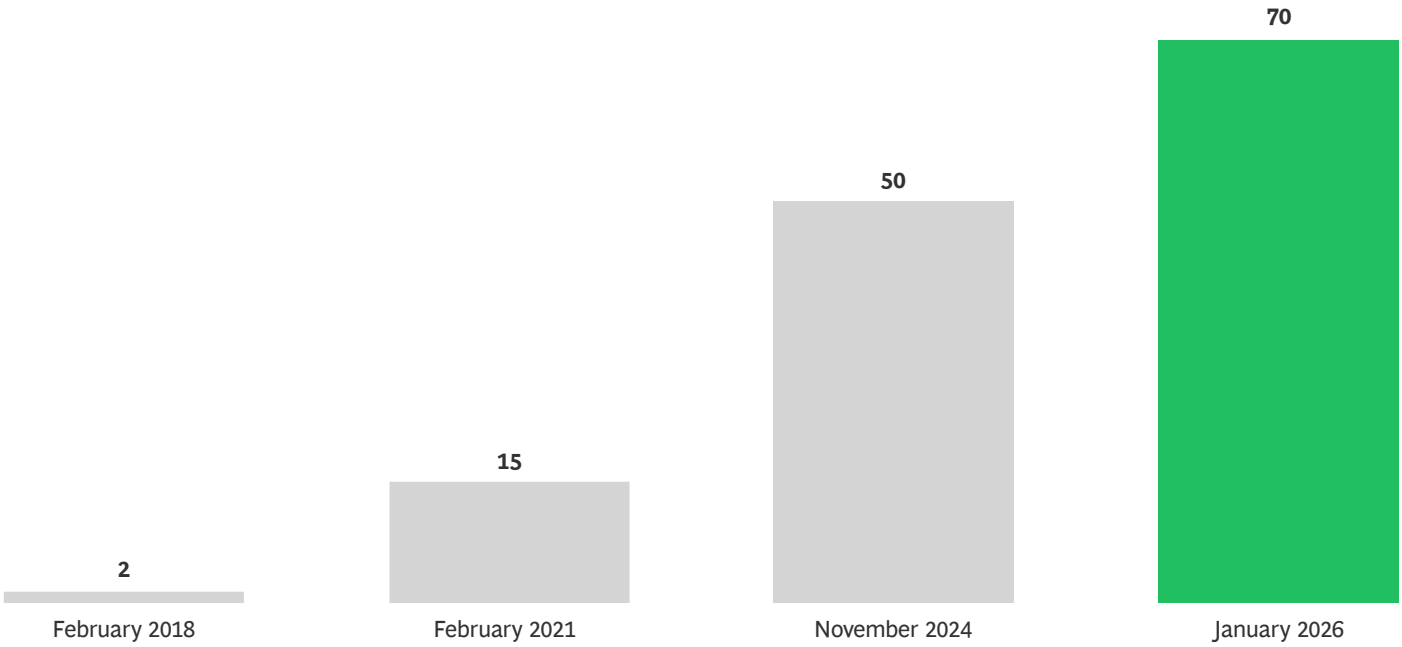
For institutions trading above book, sustaining strong TSR will require actively pursuing two growth levers: winning share and expanding revenue pools through AI-enabled innovation; and reshaping the portfolio through disciplined M&A. Challengers in many segments demonstrate that rapid growth is possible with a differentiated, AI-enabled, scalable offering. Traditional financial institutions have no choice but to follow their lead.

For institutions trading above book, sustaining strong TSR will require winning share and expanding revenue pools through AI-enabled innovation, and reshaping the portfolio through disciplined M&A.

EXHIBIT 11

With Large Customer Bases, If Attackers Were to Gain Depositors' Trust, We Would See a Massive Shift in the Banking Landscape

REVOLUT CUSTOMER BASE (MILLIONS)

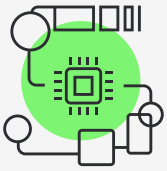


Source: Company website.

From Share Gains to New Revenue Pools

Simply deploying AI will not give financial institutions a unique competitive advantage. Most of the industry will adopt AI over time, and AI will, to a degree, level the playing field by reducing information asymmetries and compressing execution timelines. The competitive edge will go to institutions that embed AI in a reset structural operating model, using it to redesign workflows, redefine unit economics, and amplify what makes them distinctive towards the customer. (See the spotlight "Digital-Led Distribution Innovation Leads to a Near-Quadrupling of Mortgage Market Share for Macquarie.")

For example, a large banking group in Europe is leveraging agents to support underwriters of complex mortgages, enhancing their productivity multi-fold and accelerating growth in a profitable segment. Many leading financial institutions are embracing this idea to deploy scarce human capacity to higher-value work and fuel business growth by creating agents to do manual work.

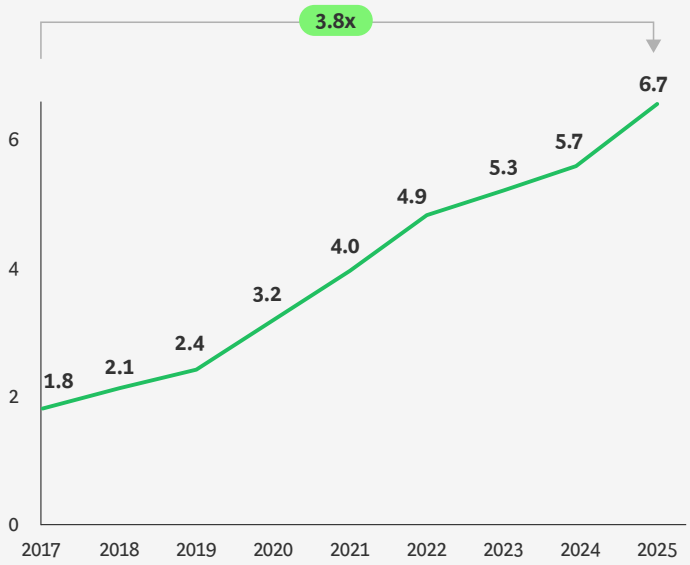


SPOTLIGHT
Digital Differentiation in Action

Macquarie nearly quadrupled its market share in a mature mortgage market by introducing a differentiated digital proposition. The exhibit illustrates the trajectory of this growth and the model that drove it: digital investment paired with a strong product focus and a clear distribution strategy, demonstrating that innovation can support growth in mature markets.

Digital-Led Distribution Innovation Leads to a Near-Quadrupling of Mortgage Market Share for Macquarie

MARKET SHARE OF AUSTRALIAN HOME LOAN BALANCES (%)[1]



Digital home-lending experience redesigned around 15 priority journeys
· Strong customer advocacy (+27 NPS)

Modernized lending architecture enabled faster, more consistent decision making
· One day to initial credit decision
· Real-time cloud-based origination platform

Broker-led distribution model supported strong intermediary advocacy
· 95% originations through brokers
· High broker advocacy (+82 broker NPS)

Sources: Australian Prudential Regulatory Authority, Broker Pulse, Broker News, Reuters, bank disclosures.
[1]Data for 2017–2018 is among banks only. Data for 2019–2025 is among authorized deposit-taking institutions (banks, credit unions, and building societies) as of November 2025.

With their infrastructure and advantage in trust, financial institutions are well positioned to play a broader platform role, from local commerce facilitation to industrial supply-chain orchestration.

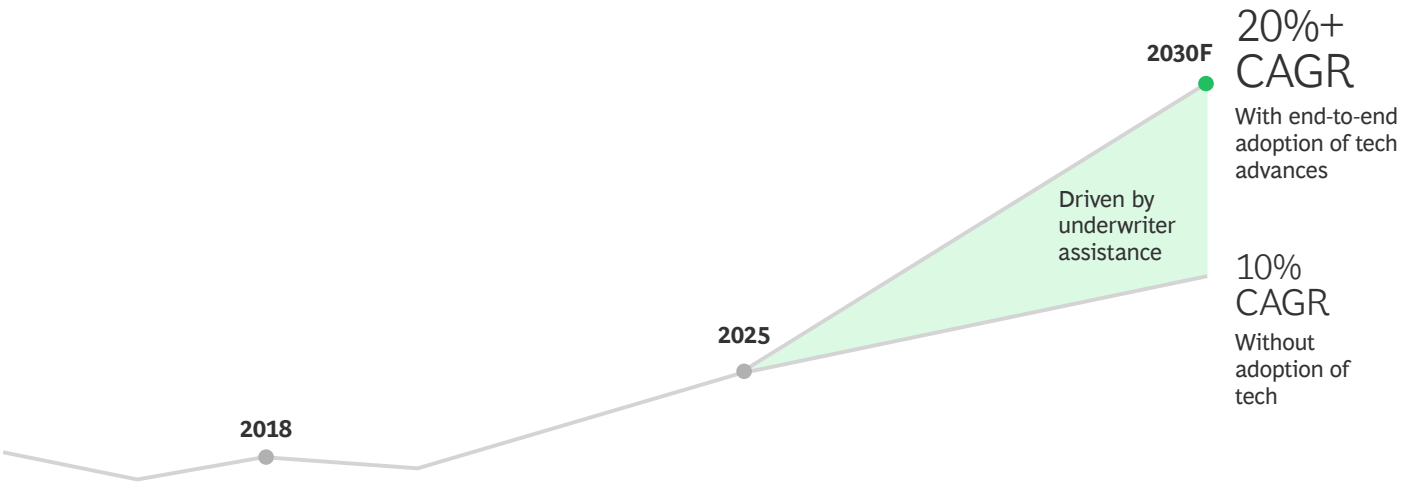
Beyond redistributing existing share, AI and digital technology are expanding the addressable market itself, where they are lowering breakeven thresholds to enable small-ticket lending in emerging markets, deepening penetration of investment products with mass-affluent wealth solutions, and offering midmarket treasury services that in the past were not economical for financial institutions to provide.

In another example, at its Investor Day 2025, AIG declared the ambition to use AI to double growth in one of its business lines over the next five years. (See Exhibit 12.) In this case, the institution plans to use agents to enable a step change in the productivity of scarce underwriting resources, with much higher throughput of files processed (including much lower ticket-size business).

This surfaces a sharper question: Is it time to rethink the perimeter of a banking license? With their infrastructure and advantage in trust, financial institutions are well positioned to play a broader platform role, from local commerce facilitation to industrial supply-chain orchestration. The regulatory climate may be more receptive to this discussion today than at any point in recent memory.

EXHIBIT 12

AIG Aims to Double Growth with AI Agent-Enabled Underwriting in Specialty Property and Casualty Business



	2018	2025	2030F
New business submissions	30,000	30,000	500,000
Bind/submit	4%	2%	6%
Average new premium	260,000	140,000	140,000

Source: AIG Investor Day 2025.
Note: Lexington Insurance focuses on specialty property and casualty insurance for complex, unusual, or high-risk exposures that fall outside standard insurance markets. CAGR = compound annual growth rate.

The following opportunities are not growth engines in the traditional sense. Instead, they are responses to the dual dynamic of AI, offering ways to offset erosion while building for the long term. (See Exhibit 13.) They cover a spectrum from opportunities currently in play to prospects that may be achievable in the near term to potentialities that lie at the frontier of what is technically and commercially possible.

On the retail banking side, we see five credible growth opportunities, which we list in order by their readiness for implementation. The first is in play today:

- **Personalized Pricing.** A more personalized approach to pricing can yield an average incremental revenue uplift of roughly 2% to 3% across retail banking products, with significantly higher gains in products whose pricing is tailored to individual customers' risk profiles, needs, and relationship depth—rather than in standardized, one-size-fits-all products.

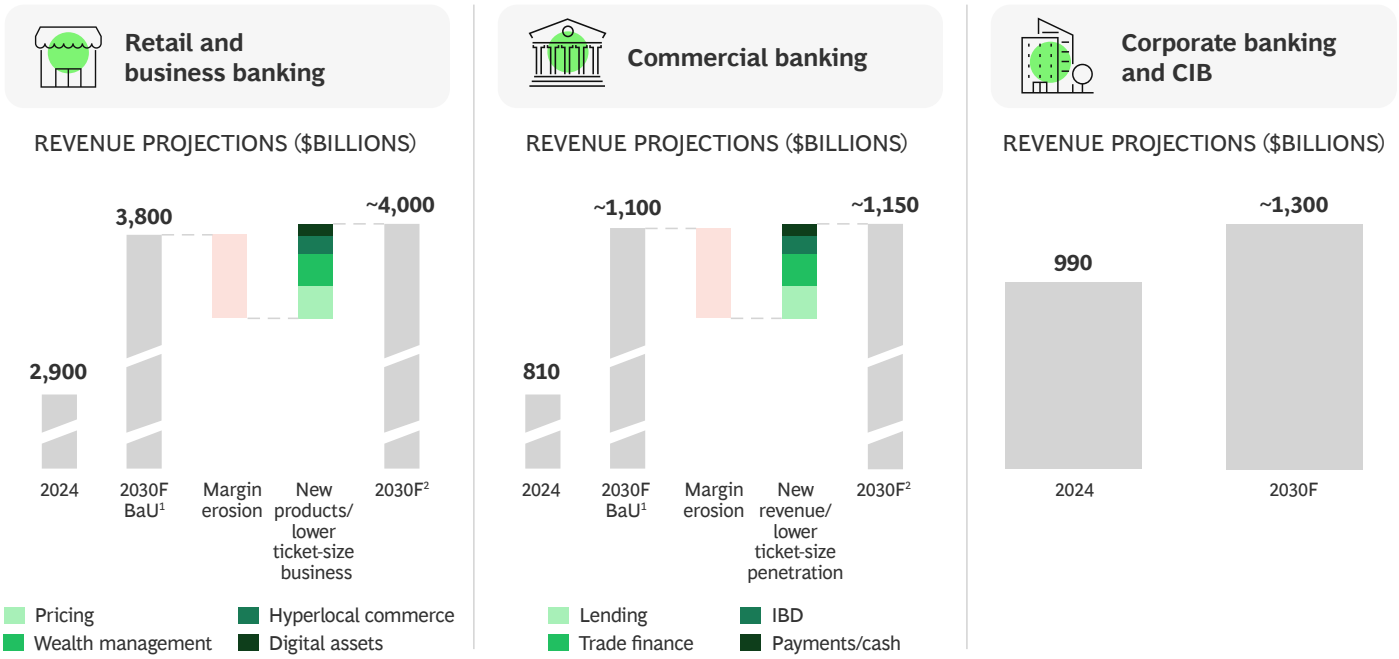
The next two are near-term opportunities:

- **Democratization of Products.** AI-driven reductions in cost-to-serve open a couple of important new markets. First, mass-affluent customers—historically locked out of personalized financial advice and wealth management—can be served at scale, as AI makes advice delivery economical at lower asset thresholds. Second, small-ticket lending to individuals and small businesses in emerging markets, which previously was unviable due to high servicing costs, becomes feasible as AI compresses origination and underwriting costs. The same dynamic that enabled online brokerage to collapse fee structures can extend access to a broader range of financial solutions.

- **Digital Assets.** For financial institutions, facilitating access, brokerage, and custody of digital assets may be a significant revenue opportunity. The scale will depend on regulatory clarity, institutional adoption timelines, and the way in which tokenization reshapes asset management and settlement. Early movers with established custody and compliance infrastructure will be in the strongest position to take advantage of this opportunity.

EXHIBIT 13

AI-Led Innovation Enables Financial Institutions to Extend the Perimeter of Banking



Sources: "From Branches to Bots: Will AI Agents Transform Retail Banking?" BCG, November 2025; "Positioning for Growth in Uncertain Times: Corporate and Investment Banking Report 2025," BCG, October 2025; Statista, press research; BCG Banking Pools; BCG REBEX; BCG Switching Pools; BCG Pricing Performance; BCG Wealth Management Dashboard; BCG project experience; BCG Expand analysis.
Note: CIB revenues include all revenues from cash management, trade, lending, security services, IBD, and global markets. Corporate banking revenues include revenues from all commercial banking clients (generally with turnover of less than $1 billion) but excludes small and medium-size enterprises. BaU growth is driven by macroeconomic factors such as increase in bankable population. BaU = business as usual; CIB = corporate and investment banking; IBD – investment banking division.
[1]Projection based on historic growth rates. [2]Adjusted for margin erosion and new business opportunities.

The final two are future possibilities:

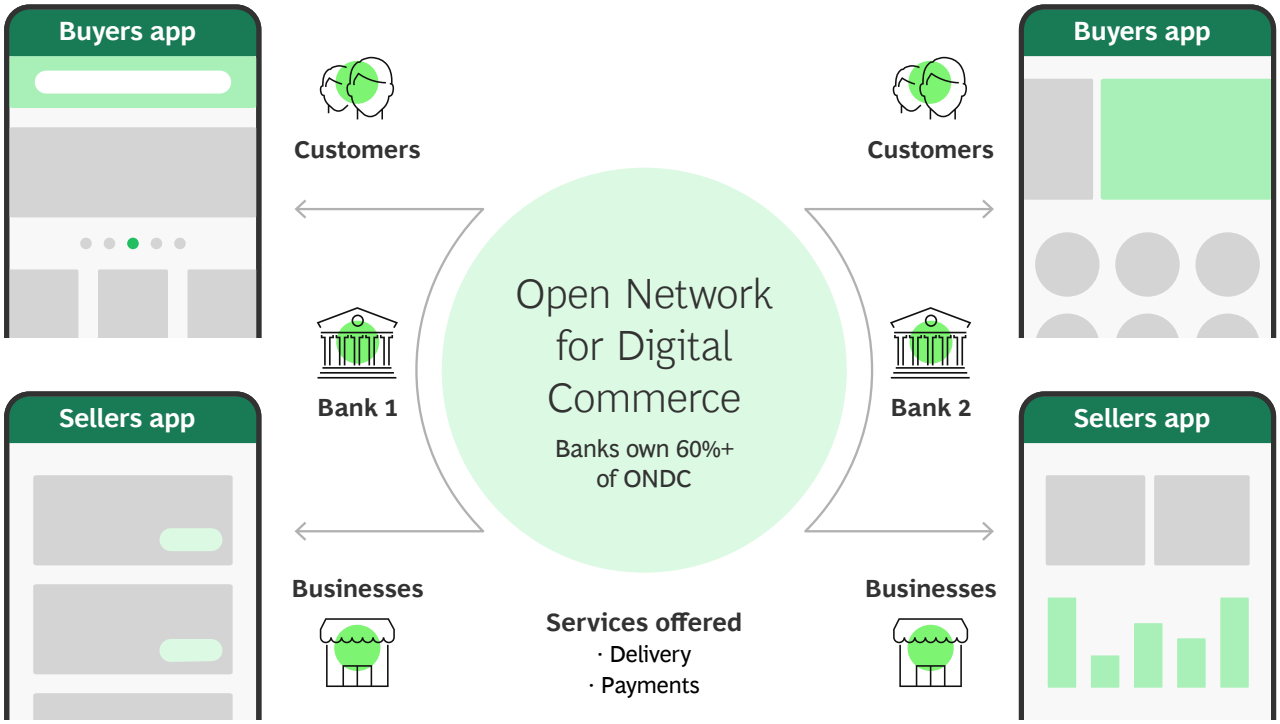
- **Hyperlocal Commerce Facilitation.** Financial institutions occupy a position of trust in relationships between consumers and businesses, with access to rich transactional data. Embedding payments, identity, and financing in commerce ecosystems and connecting buyers and sellers will open new fee-based revenue streams. An example from India is Open Network for Digital Commerce, which lists banks as its majority shareholders. (See Exhibit 14.)
- **Subscription-Based Products.** Fintechs are pioneering a model that packages financial services as subscription tiers—bundling current accounts, credit, investing tools, and rewards in paid monthly memberships, similar to consumer platform models. Traditional institutions are beginning to adopt this approach, linking deposits, credit cards, and investment products into subscription-style ecosystems that reward depth of relationship. For example, they may offer enhanced cashback and yields when customers hold multiple products.

The opportunities on the commercial banking side are more concentrated and broadly near-term, enabled by the same AI-driven cost and capability shifts:

- **Midmarket Investment Banking Access.** Clients that previously relied exclusively on loans now have access to smaller debt capital markets issues or first-time equity raises, as AI enables smaller and simpler issuances while reducing execution risk.
- **Trade Finance Expansion.** Simplified documentation, compliance automation, and AI-driven risk assessment can make trade finance viable for the underserved midmarket client segment.
- **Next-Generation Payments and Cash Management.** AI significantly reduces the cost of delivering treasury and cash management services, making it viable to extend sophisticated offerings—including real-time liquidity insights, predictive cash flow management, intelligent payment routing—to midmarket and small-business clients, broadening the addressable market.

EXHIBIT 14

India's ONDC Provides a Framework for Banks' Role in E-Commerce



Source: ONDC website.

In CIB, we do not yet foresee clear opportunities for net-new revenue pools through AI, but it will become a decisive competitive differentiator. We expect AI to unlock roughly 25% to 40% of banker capacity and 20% to 35% in operations over the next five years. The value will come from redesigning core workflows with agentic AI across credit, onboarding, and servicing, and from deploying copilots that compress cycle times on pitchbooks, term sheets, and client briefs. AI will determine which corporate and investment banks (CIBs) can cover more clients, move faster, and win wallet share.

Beyond AI, CIB growth is benefiting from structural tailwinds. Activity in capital markets has already rebounded strongly, with equity and debt issuance surging in 2024–2025. At the same time, geopolitical fragmentation is reshaping trade and capital flows, creating demand for advisory services around network redesign, regulatory positioning, and cross-border structuring—areas where relationship-driven CIBs have a natural advantage.

Return of M&A and Active Portfolio Management to the Strategic Core

For many institutions, organic growth alone, even if AI-enabled, may not be sufficient to sustain strong shareholder returns from current valuations. Active portfolio reshaping through M&A offers a complementary route to step-change growth, provided it is executed with strategic discipline.

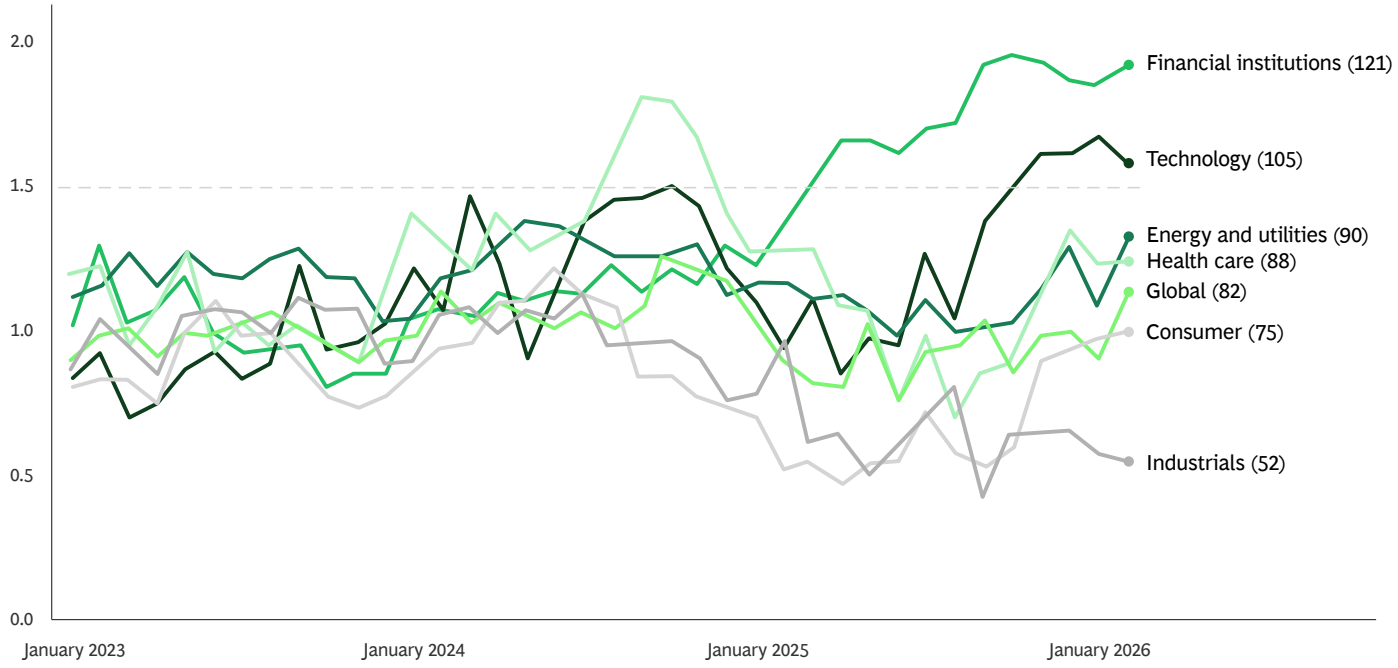
For the first time in more than a decade, valuations, capital headroom, and investor expectations are aligned in favor of active portfolio strategy. In addition, the widening gap between winners and laggards strengthens the case for consolidation.

M&A sentiment is rising, and the rationale is shifting from defensive consolidation to targeted scale (not just size) and specialization. (See Exhibit 15.) For example, in Europe, M&A has accelerated after the recent slowdown, driven by structural pressures related to scale, cost efficiency, and persistent undervaluation.

EXHIBIT 15

BCG's M&A Sentiment Analysis Shows That Financial Institutions Have the Strongest Momentum of Any Sector

BCG M&A SENTIMENT INDEX VALUE



Source: BCG M&A Sentiment Index (February 2026).
Note: Separate models and model inputs were used for each sector; the headline index is not the weighted sum of the sector indices.

Every financial institution should assess three value-creation routes:

- **Increase scale in the core.** Scale-driven deals can offer a clear path to cost efficiency. By consolidating operations, eliminating overlaps, and spreading fixed costs and investments (such as those related to technology or regulation) across a larger client and asset base, financial institutions can significantly improve their competitiveness. However, scale creates value only when it sharpens the core franchise in combination with a well-oiled technology and operations engine that can process the additional business volume synergistically. Scale without strategic focus rarely leads to a sustained rerating.

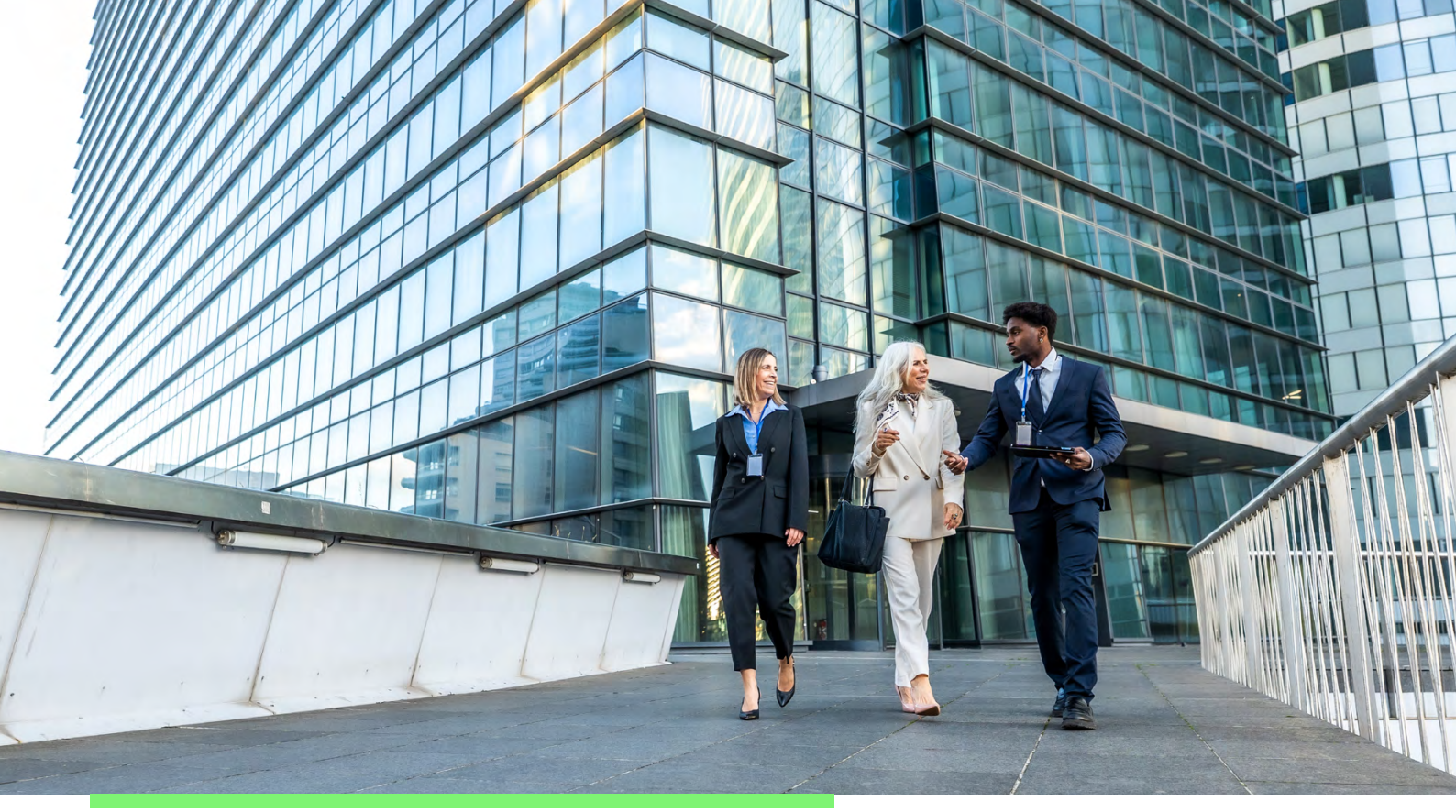
- **Expand into attractive value pockets.** Targeted M&A can expand capabilities and accelerate entry to high-value areas faster than organic build-out can. One example is expansion into wealth management, where higher fee income and relatively stable client relationships enhance valuation. This option includes nontraditional approaches such as capability tuck-ins, bolt-on acquisitions in adjacent niches, and strategic carve-outs—not just full-scale mergers. However, it is critical to identify a strength that one of these routes can amplify, such as acquiring a new product capability to offer to an existing client base.

- **Optimize the portfolio.** Divestitures are as strategic as acquisitions. Shedding subscale, underperforming, or nondifferentiated assets frees capital and management bandwidth. It also enables investment in other acquisitions that reinforce long-term competitiveness. Finally, there is concrete evidence that carve-outs can accrete value in the financial services industry.

Strategic M&A is a core lever for transformation and growth. But creating value requires diligent execution of the integration or carve-out. Although the strategic logic of many deals is straightforward, the value aspiration often fails to materialize. After decades of muted M&A activity, many financial institutions lack the organizational capability to actively manage portfolio strategy. Regulatory complexity adds friction, and cultural mismatches remain the most common source of underperformance. It is critical for institutions to rebuild their M&A muscle so they can use it when the right opportunity arises.

Financial institutions need to set clear integration objectives and design the future operating model before closing. Integration should take the form of a dedicated value program, organized around synergy drivers. Speed and planning accelerate capture, while leadership accountability sustains momentum. AI can enhance sourcing, diligence, and synergy tracking, but strategic judgment remains a responsibility of senior management.

The strategic paths are clear: win share and expand revenue pools through AI-enabled innovation, pursue disciplined M&A, and invest growth capital rather than default to buybacks. Success, however, will depend to a significant degree on three forces outside any single institution's control: AI compressing margins as it enables growth, nonbanks taking share, and digital assets redrawing the infrastructure of financial services. These forces are the subject of the next chapter.



Innovating Amid Evolving Megatrends

Earlier installments in our Future of Finance series have highlighted several structural trends that are reshaping the financial institution landscape: the transformative potential of technology and AI, the rise of focused nonbank competitors, and the promise and potential of digital assets.

Individually, each of these trends is material, and banking leaders need to understand their long-term impact, which will increase as they overlap and combine over the next five years. The true magic will occur at the intersection of these three trends. Ultimately, we expect them to reset margins, scale dynamics, and value creation.

We believe that these forces are, on balance, positive for financial institutions. AI raises productivity and enables new revenue pools. Nonbank financial institutions (NBFIs) deepen market penetration without fully displacing bank franchises. And digital assets expand settlement and payment infrastructure in contained niches. The bull and bear cases around each trend carry materially different implications, but regulation, incumbency, and trust remain powerful stabilizers for traditional institutions.

AI Will Transform Banking but May Not (Yet) Disintermediate Banks

As AI capabilities mature, financial institutions will increasingly industrialize execution across all functions. In addition to reducing the need for human intervention across the value chain, AI agents will replace many of today's rigid system architectures. Instead of relying on heavily customized IT systems to orchestrate processes, multiagent systems will dynamically coordinate entire workflows—from customer request to credit decision to ledger booking—in real time, leading to a step change in productivity.

On the other hand, nonbanks will develop customer agents to assist in financial decision making and, potentially, to autonomously make financial decisions or choose payment rails on behalf of customers. In an extreme scenario, intelligent agents that move capital seamlessly across financial solutions could perform many services—such as advisory, portfolio allocation, and liquidity management—that financial institutions currently provide. In our view, however, the extreme scenario is unlikely to play out because systemic risk considerations will lead regulators to disallow personal agents to move clients' funds around too easily.

A more likely scenario is the rise of conversational interfaces that displace mobile apps. Agentic platforms enable long-term retention of customer context that will permit hyperpersonalization of service, advice, and sales at every touchpoint. The potential to boost customer engagement and deepen product reach in customer relationships is high and lies within the reach of banks.

On a slightly longer time horizon, AI agents created by financial institutions will enable far greater product flexibility. Rather than relying on a limited set of standardized offerings designed around fixed rules and parameters, financial institutions will be able to dynamically structure and price solutions for individual customers, optimizing risk and regulatory capital consumption. Agents will even be able to monitor the borrower, market conditions, and regulatory constraints after origination, adjusting terms over time. In this scenario, banking could shift from offering hundreds of standardized products to offering one adaptable product per customer need. As contracts become unique and continuously adjusted, product comparability, a major driver of margin compression, could diminish, moving financial services from product simplicity toward active management of real-world complexity.

Across scenarios, we believe that AI will have a broadly positive impact on financial institutions. Although the disintermediation risk is real, regulatory constraints make it a tail scenario. The more likely outcome is margin pressure from radical price transparency, which institutions can counter with the same AI capabilities that create it: by building superior customization, introducing pricing sophistication at less cost, and expanding the market with lower marginal costs.

Banking could shift from offering hundreds of standardized products to offering one adaptable product per customer need.

Nonbanks: From Threat to Structural Force

NBFIs have moved beyond disruption into structural integration. Across CIB, NBFIs now account for approximately 20% of global revenue pools—up from 9% in 2019 and 16% in 2024—with a base-case trajectory toward 22% by 2030. (See Exhibit 16.)

But the NBFI story is not monolithic. Penetration dynamics differ materially across the three main vectors of nonbank competition.

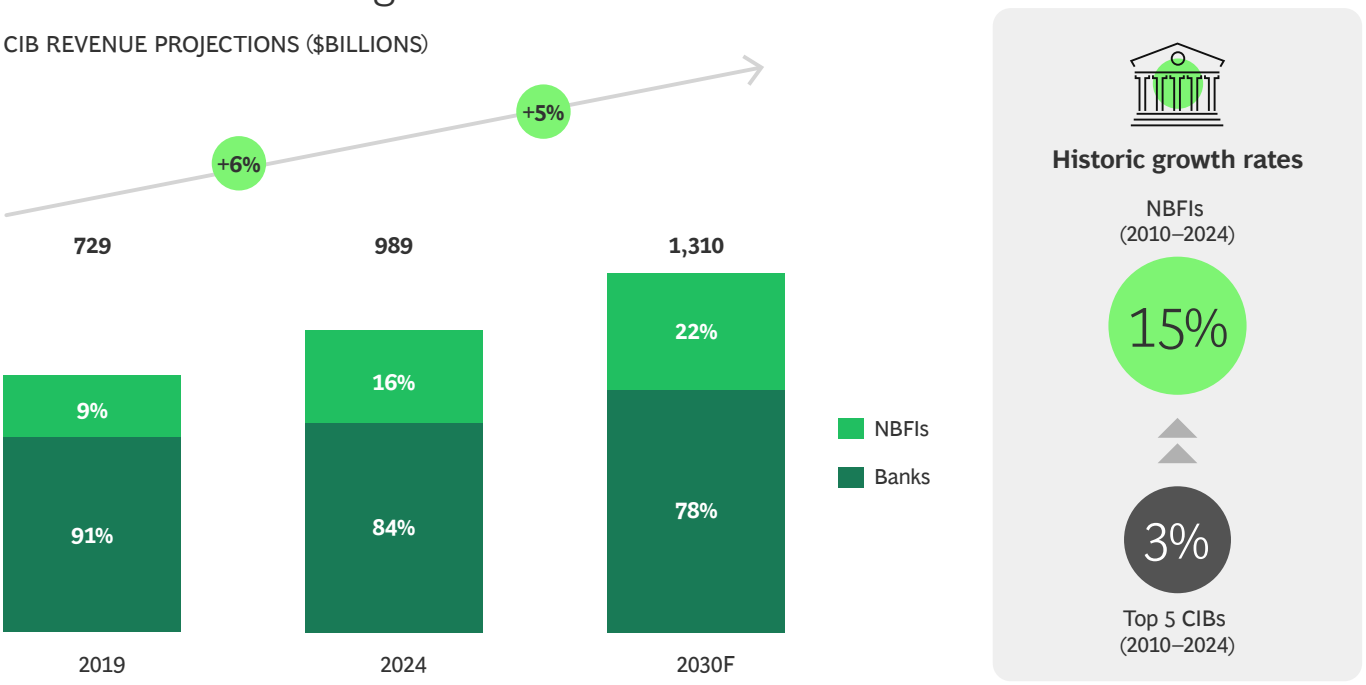
In trading and market making, nonbank liquidity providers (NBLPs) have already captured approximately 26% of global trading revenues. After focusing initially on highly liquid, electronically executed flows, leading NBLPs are expanding into higher-touch asset classes, signaling the potential for more direct competition with banks across a broader product set.

In lending, private credit remains a significant growth story, although the trajectory is less certain than it seemed two or three years ago. Nonbank lending share sits at approximately 11% today, and projections have been revised modestly downward from prior estimates, reflecting tighter fundraising conditions, isolated stress events, and increased product complexity. Net-asset-value lending, structured solutions, and leverage-on-leverage constructions have become more prevalent in middle-market structures, increasing both the sophistication and the opacity of the asset class.

NBFIs are also becoming more deeply embedded in the traditional banking system. In the US, loans to NBFIs are the fastest-growing category on bank balance sheets, and banks are increasingly functioning as capital and balance-sheet providers to private credit managers rather than directly competing with them for the underlying credit. (See Exhibit 17.) Whether this deepening interdependence ultimately reinforces or constrains private credit growth remains an open question.

EXHIBIT 16

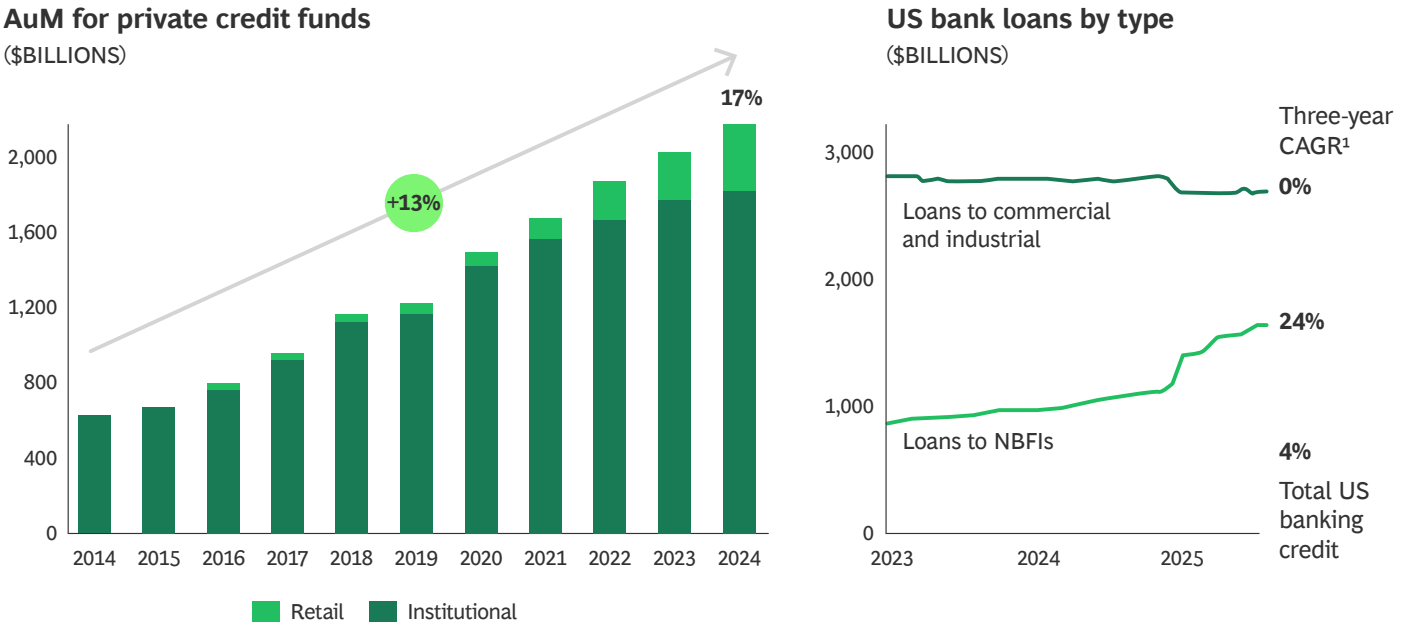
NBFIs Are Gaining Revenue Share in Corporate and Investment Banking



Source: "Positioning for Growth in Uncertain Times: Corporate and Investment Banking Report 2025," BCG, October 2025.
Note: CIB = corporate and investment banking; NBFI = nonbanking financial institution.

EXHIBIT 17

NBFI Reach and Integration Within the Financial Ecosystem Are Likely to Deepen



Sources: Federal Reserve; "Shifting Ground Beneath the Calm: Stability Challenges amid Changes in Financial Markets," IMF, October 2025.
Note: Seasonally adjusted data. AuM = assets under management; CAGR = compound annual growth rate; NBFI = nonbanking financial institution.
[1]August 2022 to August 2025.

The medium-term outlook for private credit in particular hinges on questions that the market has not yet answered. The asset class has expanded significantly without having experienced a serious economic downturn. As a result, underwriting quality, covenant structures, and recovery assumptions remain largely untested across a full cycle—a structural unknown that market narratives tend to pay too little attention to during periods of relative stability.

Much of the stress currently visible in the market appears to be primarily liquidity-driven rather than indicative of fundamental credit deterioration. Liquidity dislocations of this kind create selective opportunities for well-capitalized players, but they do not resolve the deeper question of how the asset class would perform under conditions of severe credit stress. That question, too, remains open.

In the base case, NBFIs consolidate their positions in midcap lending, asset-based finance, and lower-margin market making, while remaining the preferred vehicle for institutional and high-net-worth investors that seek access to private markets. The pace and extent of further penetration into mainstream retail channels will depend on how the current period of uncertainty resolves.

In the bull case, NBFIs extend well beyond their current niches to become the dominant intermediaries for credit allocation outside the regulated banking system. Private credit platforms scale into mass-market products, sovereign wealth funds and insurers deepen their commitments as anchor capital providers, and the fundraising model shifts structurally toward retail and semi-institutional channels. In this scenario, banks increasingly serve as regulated infrastructure—providing balance sheet capacity, distribution access, and capital efficiency to NBFI platforms—rather than originating and holding credit directly. The competitive dynamic shifts from product-level rivalry to ecosystem positioning to determine who controls the customer relationship, the data, and the structuring capability. For banks, this is less an existential threat than a challenge involving margin compression and demanding strategic repositioning. Even so, it calls for proactive choices about where to compete and where to partner.

In the bear case, a credit stress event—as distinct from the liquidity pressures already observed—could trigger a regulatory response and a broader reassessment of the asset class. The early 2026 redemption episodes at several retail-focused funds illustrate one potential channel: a structural mismatch between retail-style liquidity expectations and illiquid underlying loan portfolios, compounded by concentrated sector exposure. The deeper risk, if private credit continues to expand its retail investor base, is the importation of the behavioral dynamics of public markets—including procyclicality and sentiment-driven withdrawals—into vehicles designed for patient capital. Whether those dynamics remain contained or become a broader transmission mechanism is, again, an open question.

Digital Assets: Validity Established; Evolution to Play Out

Regulatory frameworks for digital assets—MiCA in the EU, and the GENIUS Act in the US—are taking shape, although full integration into traditional financial institution models is still evolving. In the meantime, stablecoin volumes and tokenized assets are scaling rapidly. (See Exhibit 18.) In the base case, digital assets play an integral role in five years but are limited to niches such as tokenized fund settlement for money market funds, cross-border business-to-business payments, treasury solutions, and securities settlement. Regulatory decisions forbidding interest payments on stablecoin instruments will heavily influence speed of adoption. For example, MiCA explicitly prohibits stablecoin issuers from paying interest or yield, while the GENIUS Act still requires regulatory clarification on indirect yield mechanisms—leaving open the question of whether stablecoins can effectively compete with interest-bearing deposits.

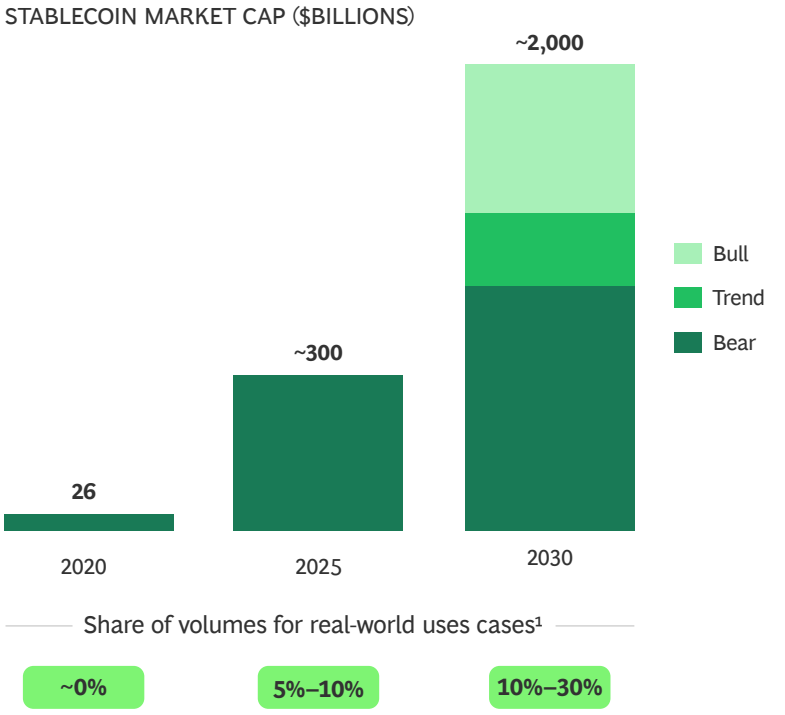
In a bull case for digital assets, a substantial share of finance could run on public chains. In this scenario, we could see at-scale on-chain secured credit, as a large share of real-world assets become tokenized. Tokenized real-world assets could reach approximately $87 trillion by 2035, representing roughly 16% of global investable assets. As a result, there might be relatively little need to on-ramp and off-ramp, given that most finance could be executed on chain.

In a bear case, if technical solutions to improve know-your-customer and financial crime control on public chain fail to meet the risk appetite of financial institutions and regulators, digital assets could remain niche.

For a comprehensive analysis of the implications of digital assets for financial institutions, including financial scenario modeling by business line, risk, and control frameworks, and a ten-step strategic action guide, see BCG's report, The Future of Digital Assets.

EXHIBIT 18

Digital Assets Are Scaling Rapidly and Becoming an Integral Part of the Landscape



@Scale finance on chain: >30% volume for real-world applications

New retail/business-to-consumer use cases

- Store of value and domestic payments
- More asset classes coming on chain in capital markets
- Lending against tokenized real-world assets

@Scale in niches: ~20% volume for real-world applications

- Continued growth in tokenized fund settlement (such as by money market funds)
- Business-to-business cross border
- Treasury solutions
- Tokenized securities settlement

"Stay as is": <10% volume for real-world applications

- Growth led by crypto, decentralized financing niches
- Tokenized fund settlement (such as by money market funds)

Sources: CoinGecko, BCG analysis.
¹Real-world use cases include payments transactions, treasury, tokenization transactions, etc., but not crypto trading.

Embedding agentic automation in credit workflows will create data-rich autonomous credit, yielding multiple benefits.

The Magic Will Happen at the Intersections

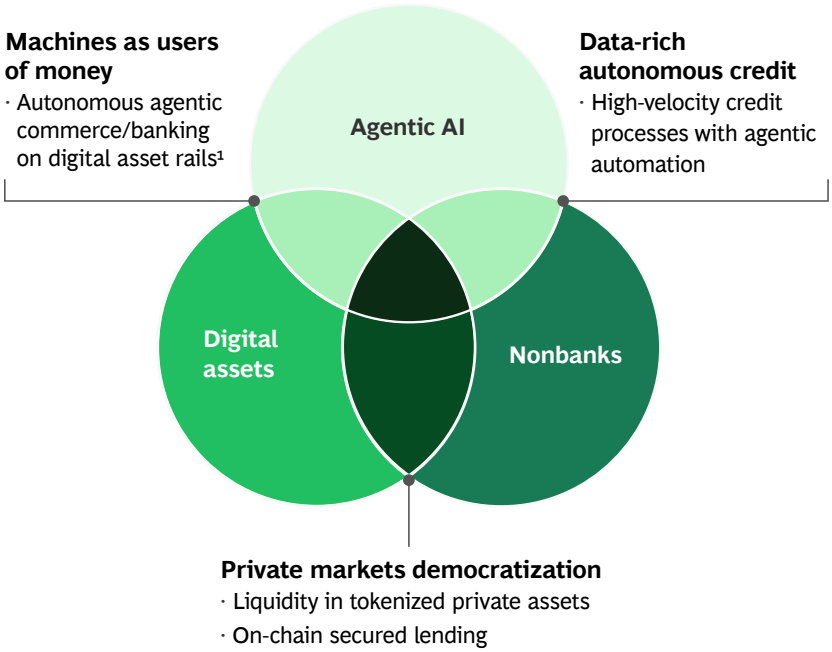
As AI, digital assets, and nonbanks converge, they will reinforce one another to reshape how money moves and how credit and investments are delivered. (See Exhibit 19.)

Programmable money rails—a category that spans stablecoins, deposit tokens, and tokenized real-world assets—could enable machines as money users on behalf of customers and clients, with autonomous agents initiating, settling, and managing payments, credit, and asset transfers. At the same time, embedding agentic automation in credit workflows will create data-rich autonomous credit, accelerating underwriting and decision making, lowering cost-to-serve, and broadening access by enabling higher-velocity processing at scale.

On the other hand, nonbanks' adoption of digital-asset infrastructure will catalyze the democratization of private markets by expanding retail and mass affluent access to tokenized private assets and by supporting on-chain secured lending outside traditional banking rails. Together, these changes will tighten the feedback loop between distribution, liquidity, and credit in a more unified ecosystem for financial activity.

EXHIBIT 19

Megatrends Will Converge and Amplify Their Impact



	Who wins?
Age of specialization (all trends base case)	Specialized business models at scale
Hyper-granularity (digital asset bull case)	Institutions at the intersection of traditional and digital finance
Consumer savings disrupted (nonbank bull case)	Institutions at the intersection of asset management and banking

Source: BCG analysis.
[1]Digital assets include stablecoins, deposit tokens, and real-world asset tokens.

These potent combinations and others could give rise to three broad (and not mutually exclusive) scenarios, depending on how trends develop:

- **Age of Specialization.** If current trends continue, AI-driven radical transparency will simultaneously compress margins and narrow the cost advantage that scale has traditionally provided. Universal scale will matter less, but category-specific scale will matter more. Along with achieving sufficient scale to sustain cost leadership, what will drive competitive advantage is being the best in a chosen domain such as mortgages, small and medium-size enterprise lending, or wealth advisory. For much the same reason, online brokerage consolidated around a handful of platforms once commission-free trading became standard. Financial institutions that fail to scale AI will face structurally higher costs and likely consolidation.

- **Hypergranularity.** If digital assets gain momentum toward the bull case, finance will become both more granular and more connected. Different types of digital money (stablecoins, tokenized deposits, central bank digital currencies, and real-world asset tokenization) will exist side by side and be used at scale. AI combined with digital assets will dramatically reduce breakeven sizes, thanks to low-cost autonomous transactions and on-chain decentralized transactions. The winners in this scenario will be institutions that safely connect these different digital money systems with the traditional fiat money ecosystem and gain the trust of customers.

- **Consumer Savings Disrupted.** If nonbanks gain momentum toward the bull case, they could disrupt banks' current dominance of consumer savings and lending. In this scenario, deposit franchises face direct disruption on two fronts. First, consumers could increasingly hold value in private credit funds that are accessible through digital tokens, choosing yield-bearing instruments over traditional deposits. Second, AI-enabled embedded credit—collateralized against tokenized assets—could allow borrowing in real time without traditional loan origination, further reducing the primacy of the bank balance sheet. Institutions that combine asset management and banking win in this scenario. They earn fees on assets and spreads on lending against those assets, and they can charge higher fees and earn more from managing and lending against assets, rather than just from deposits.

These scenarios are preparation frameworks, not predictions. The institutions that will navigate this challenging landscape best are the ones already stress-testing their strategies against each scenario.

Organizing for Success

The implications of AI for financial institutions go beyond its value in boosting productivity and growth.

Getting the most from AI requires a seismic shift in how the institution is designed. The next generation of financial institutions will need to orient themselves around how they assemble, apply, and govern intelligence at scale, not around processes or tools. At its core, this shift involves a people transformation unlike any other.

Selecting AI Big Rocks

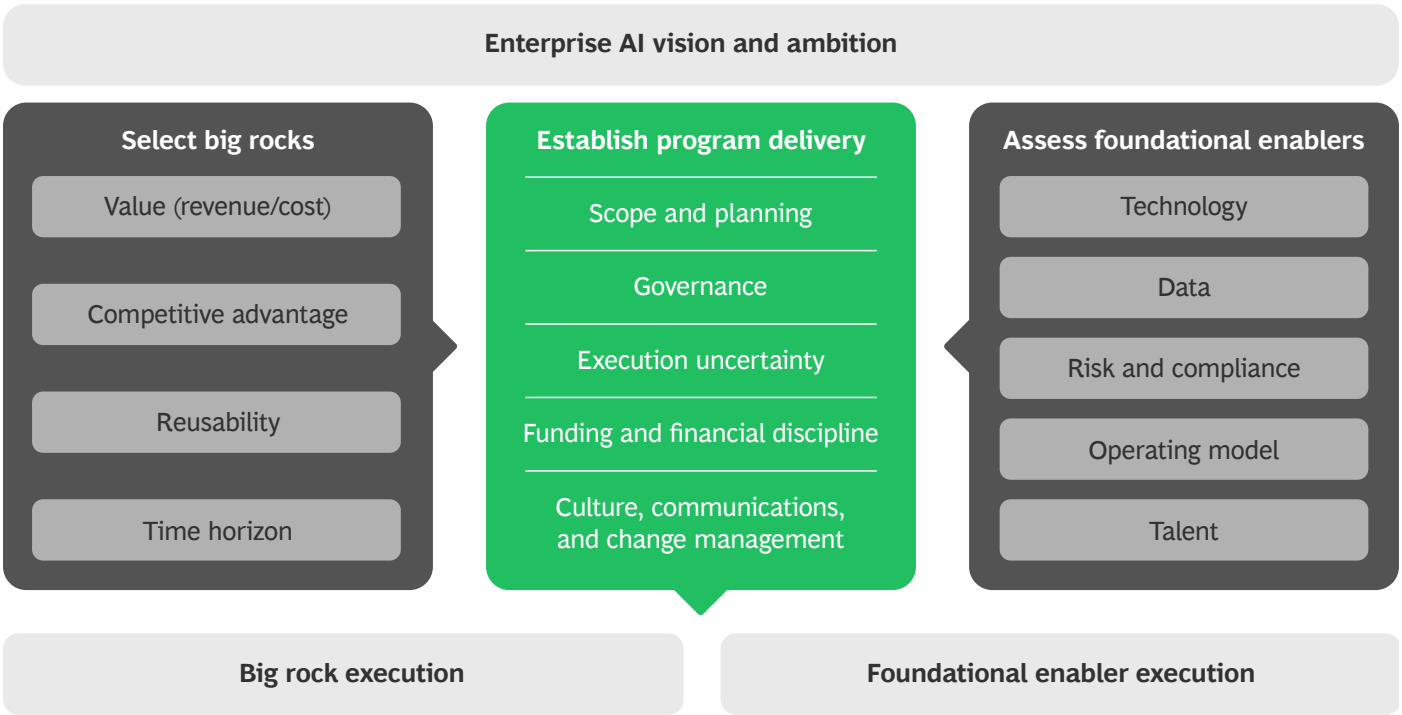
Not all AI initiatives are equal. Institutions that have moved from experimentation to enterprise impact share a common discipline: they concentrate resources on a small number of high-stakes plays—"big rocks"—that can shift performance at scale. Four criteria determine whether an opportunity qualifies. (See Exhibit 20.)

The first criterion is value impact. The opportunity must offer the prospect of meaningful revenue uplift or cost reduction, not incremental efficiency gains that disappear in the noise. The second is competitive advantage. The opportunity should build or defend a differentiating position, not merely replicate what the industry is already doing. The third is reusability. The infrastructure, data pipelines, and models built for one effort should accelerate subsequent ones. And the fourth is time horizon. The opportunity must fit the institution's current execution capacity and risk appetite, and it must have a realistic path from pilot to scale within a defined window. Applying these four filters to a full opportunity landscape—typically 30 to 50 candidate initiatives—produces a manageable portfolio of six to eight genuine priorities that warrant the investment, disruption, and leadership attention that real transformation demands.

Leading institutions concentrate resources on a small number of high-stakes AI initiatives that can shift performance at scale.

EXHIBIT 20

A Clear Set of AI Components to Be Addressed



Source: BCG project experience.

Selecting the right big rocks is necessary but not sufficient. Unless the institution possesses the foundational capabilities needed to execute them at scale, even well-chosen priorities will stall at the pilot stage. Five domains determine readiness for agentic AI:

- **Technology.** Most institutions today are still at stage one, in which individuals use single-purpose tools. Agentic AI requires a shared platform layer with agent orchestration, model registries, guardrails, and Model Context Protocol–based integrations. Critically, the platform must be designed in a way that treats capabilities as shared infrastructure. Often, institutions need to create new APIs to read and write in core systems, as agents can do a lot more than was possible through traditional digital automation.

- **Data.** The gap in data usability is rarely a matter of volume. Instead, it involves the quality and machine-readability of persistent context. Agentic AI turns data issues into execution risk as agents take action, so the real differentiator is the enterprise's full data and knowledge backbone, and the hardest challenge is not technology but quality, ownership, semantics, and control policies. Ultimately, performance depends on whether the system has the right business context, retained memory, semantic structure, and traceability to interpret information correctly and act accordingly. Process documentation and decision logic typically require explicit restructuring before agents can act on them reliably. Institutions consistently underestimate the amount and quality of preparation required.

- **Risk and Compliance.** The control framework should be designed explicitly for AI, with a clear risk appetite—including defined no-fly zones—that lets teams move fast in permitted space rather than treating every use case as equally high-risk, and with tiered review processes covering the full life cycle from ideation to decommissioning. Leading institutions have implemented AI-enabled workflow tools that establish rapid swim lanes for simpler applications and rigorous control checks for those deserving caution.

- **Operating Model.** The versatility of AI reinforces the need for vertical ownership of initiatives and for horizontal scalability of the capabilities that enable them. This calls for an enterprise delivery structure with a dedicated AI delivery office that functions as an activist orchestrator—actively unblocking workstreams and tracking value realization in real time—not a passive governance layer. An enterprise agility framework that supports multifunctional teams working toward common goals requires sharper leadership attention to behaviors. And finally, the role division between classical data science and technology teams must be refined in light of the rapid emergence of an AI engineering cadre at the intersection of the two.

- **Talent.** BCG's 10-20-70 model is instructive here. The model asserts that 10% of transformation success depends on the algorithm, 20% on the technology stack, and 70% on people and process. Structured adoption programs that teach new ways of working have produced tenfold increases in power user cohorts and productivity gains of more than 60%, versus roughly 10% from rollout alone.

Institutions that treat these five domains as sequential prerequisites will never be ready. Banks should run enabler development in parallel with big rock execution, exposing gaps revealed by early use cases and closing them in real time.

Getting the Execution Right

BCG's experience across more than 100 AI transformations points to eight must-haves that separate institutions that capture AI's potential from those that do not. (See Exhibit 21.)

We recognize a frequent pattern in many unsuccessful efforts. When treated as a parallel initiative funded annually within business-as-usual budgets, owned by technology rather than by the business, and governed through existing structures, AI consistently underdelivers. Breaking this pattern starts with setting up the transformation properly. The institution must fund major AI priorities centrally and continuously, moving beyond annual approval cycles to avoid starving high-value plays in mid-execution. Critically, AI investments must compete for capital in the core financial planning cycle and be reflected in P&L targets. When AI sits outside the financial plan, it is the first line item cut in a downturn and the last one held accountable in an upturn. In addition, the institution should establish the program at the enterprise level, with clear targets and dedicated governance. Reshaping policies, processes, and roles is not a business-as-usual activity and cannot be managed as one. The tone needs to be set from the top: the CEO must personally own the AI transformation portfolio rather than merely sponsoring or delegating it, with adoption and value realization metrics tied directly to executive scorecards and compensation.

How an institution designs its AI solutions matters as much as what it funds. The most common failure mode consists of automating existing processes rather than reimagining them. AI's full potential comes from redesigning workflows end-to-end, concentrating effort on the domains where real competitive advantage is at stake, and building with an AI-first mindset rather than layering AI onto legacy process logic. Solution design should be business-led, with technology as the enabler, not the reverse. Heavy business stakeholder involvement from the outset is a precondition for adoption.

EXHIBIT 21

Eight Must-Haves for a Successful Transformation

1. Fund the overall journey and big rocks centrally
2. Establish an enterprise transformation program with clear targets
3. Set expectations for heavy business stakeholder leadership in solution design
4. Set the tone from the top with strong executive sponsorship
5. Build robust evaluation discipline from the start
6. Focus on areas that are core to long-term competitive advantage (e.g., credit underwriting)
7. Redesign governance models to keep pace with the AI journey
8. Prioritize reusability as a core design principle

Source: BCG project experience.

Evaluation discipline is essential from day one. All AI solutions should be designed with a holistic evaluation harness—combining human annotation, golden data sets, and approaches that enlist large language models as judges—rather than being retrofitted after deployment. Most institutions measure AI activity, not AI impact. But what matters is tracking the unit economics of core processes—cost-to-serve, cost per transaction—and gauging precisely how AI shifts them. Governance structures must be redesigned rather than folded into existing frameworks. AI risk stakeholders should be partners in the journey from the start, not reviewers at the end. And reusability should be a core design principle, resulting in a catalogue of assets—data products, model infrastructure, and reusable patterns—maintained and actively measured for reuse. This will lead the institution's AI capability to compound with each new initiative rather than fragmenting into disconnected projects.

All AI solutions should be designed with a holistic evaluation harness combining human annotation, golden data sets, and approaches that enlist large language models as judges.

The Next Frontier: Shape of an Intelligent Institution

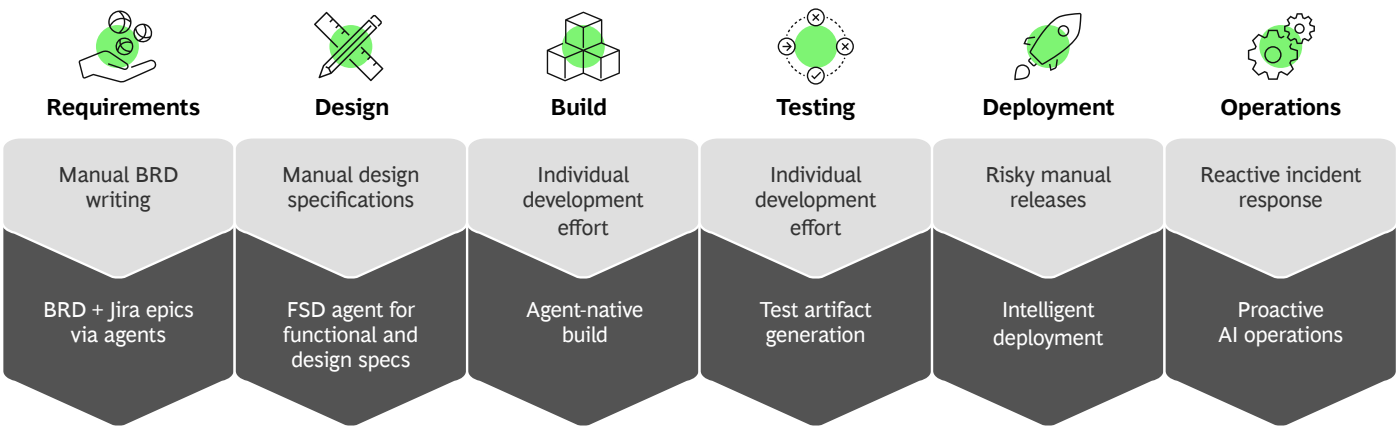
In the industrial era, banks scaled labor. In the digital era, they scaled information. In the AI era, the constraint is high-quality judgment at scale. An AI-first bank is not designed to process transactions; it is designed to produce decisions. At its core, this requires an intelligence system organized around three elements:

- **Context.** This component consists of information assembled from structured and unstructured inputs to actively support reasoning.
- **Intelligence.** Specialized agents work in concert across risk assessment, policy validation, and recommendation generation.
- **A Harness.** This is the control system that directs agents, coordinates decisions, and governs outcomes.

For institutions already executing at scale, this architecture is not theoretical. Early implementations show what end-to-end agentic delivery looks like in practice. At a large Southeast Asian bank, BCG teams have implemented agentic software development processes in which agents handle the full cycle—from requirements to testing to deployment—while humans direct, review, and continuously improve how the system operates. The productivity gain is impressive: over 50% faster time-to-market, three times the engineering throughput, and deployment reliability above 99%. (See Exhibit 22.)

EXHIBIT 22

A Southeast Asian Bank Deployed a Fully Agentic Product Development Life Cycle in Production and Saw Remarkable Improvements in Speed and Quality



50% Faster time to market

90% Automated test coverage

3x Engineering throughput

50% Reduced toil

99%+ Deployment reliability

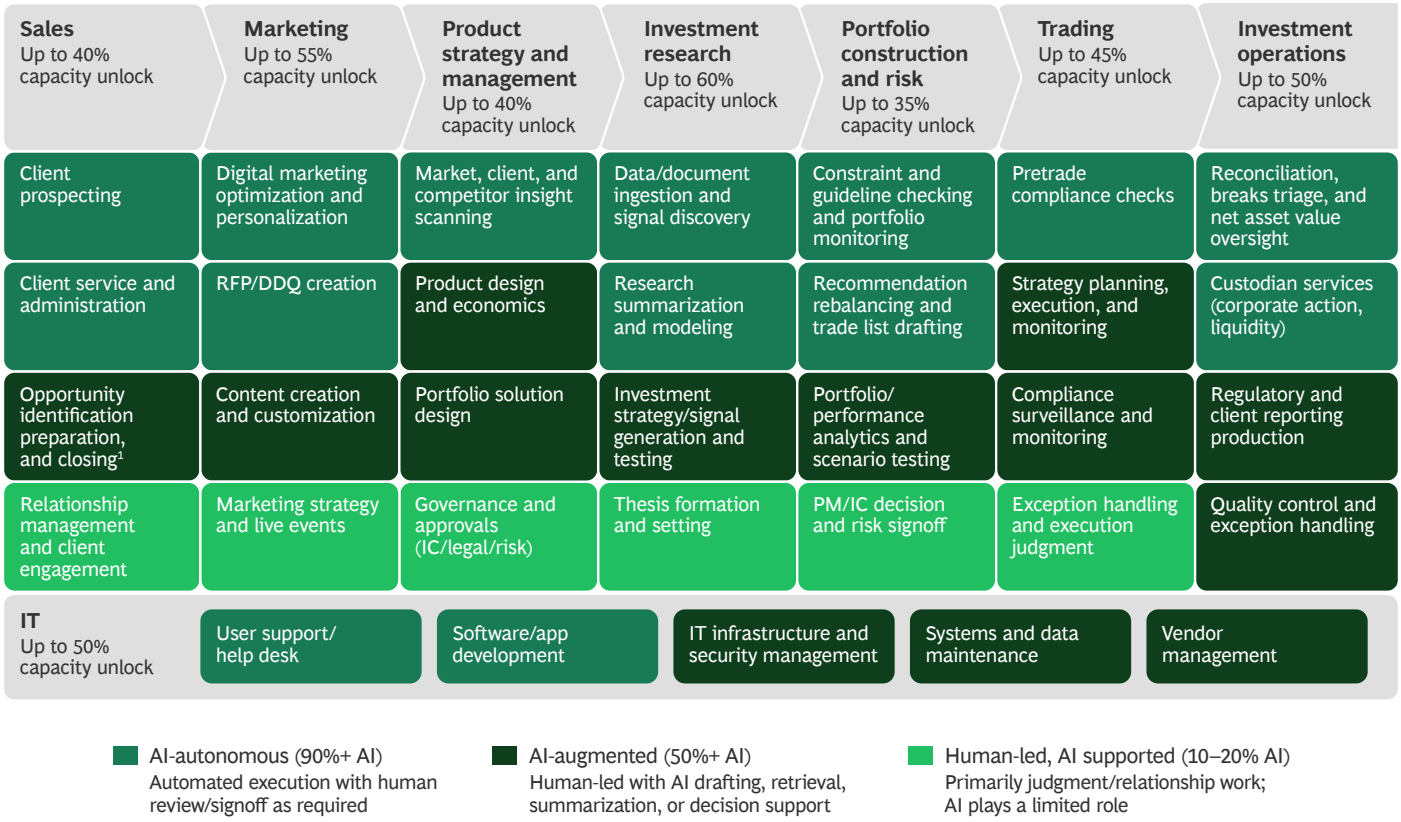
Source: BCG project experience.
Note: BRD = business requirements document; FSD = functional specification document.

Over the next 12 to 18 months, financial institutions will extend this idea from the product development life cycle to core processes, with AI-first processes cutting across every department. In an asset management example, up to 60% of FTE capacity could be freed for redeployment in oversight and governance. (See Exhibit 23.) The step change comes when AI agents orchestrate end-to-end activities and humans act as governors rather than executors.

EXHIBIT 23

In an AI-First Operating Model, AI Executes Most Tasks, While Humans Focus on Relationships, Oversight, and Judgment

Asset management example (3-year north star)



Source: BCG experience and analysis.
Note: Management and support functions (e.g., HR, finance, legal, compliance, and procurement) are not included in this view, but all have significant AI efficiency opportunities (although these are not specific to asset management). DDQ = due diligence questionnaire; IC = investment committee; PM = portfolio management; RFP = request for proposal.
[1]Opportunities include cross-selling and attrition management, among others.

Scaling agentic AI exposes a structural tension that most institutions are not yet equipped to resolve. Traditional organizations are built vertically—lending, payments, operations, and risk each owning its domain—while AI systems work horizontally, deriving their power from reuse and shared learning across those domains. The answer is not to dismantle vertical accountability but to run a dual model in which vertical domains continue to own outcomes, while horizontal layers provide shared intelligence that compounds centrally rather than fragmenting by silo. The workforce implications follow directly. BCG's Creating People Advantage 2026 report outlines the four shifts that characterize an AI-first organization: building for dynamic capabilities rather than static roles; reframing productivity as leverage rather than headcount; embedding continuous reskilling in daily work rather than annual cycles; and redefining leadership for an era of human-machine teaming, where the ability to direct agents and govern outcomes is as important a leadership skill as any other. At the leading edge, some institutions are building proprietary intelligence that is not just deployed across the organization but trained on its own data. (See the spotlight "Banking Foundational Models.")

Financial institutions have spent the past five years earning the right to act from a position of strength. The question now is whether they will use it. The institutions that select the right plays, build the necessary foundational capabilities to execute them, and push toward the frontier of agentic and self-learning systems will widen the gap between themselves and those that do not. Suitable delivery machinery will combine execution speed and the institutional capacity to learn—to absorb what works, update what does not, and compound capability over successive cycles. The window to build both is open now, but it will not stay open indefinitely.

SPOTLIGHT
Banking Foundational Models

As financial institutions build out the context layer of their intelligence system, a further frontier is emerging: proprietary foundational models trained on an institution's entire body of behavioral data. The underlying concept borrows from the process that large language models (LLMs) use to learn patterns from sequences of words, applying the same logic to sequences of banking events. Every transaction, app interaction, trade, and customer communication becomes a data point in a vast behavioral sequence. Although LLMs are extremely good at producing the next word in a sentence, these foundational models perform much better for banking events. For example, if an actual transaction falls far outside a set of expected transactions, that is a clear indication of potential fraud.

The critical advantage is reusability. Instead of requiring the institution to build separate, bespoke models for credit scoring, fraud detection, marketing, and product recommendations, each with hand-engineered features, a single foundational model provides a shared intelligence backbone that users can quickly adapt to new tasks.

A number of financial institutions have already begun using such models. For example, Revolut recently published its PRAGMA, a model trained on approximately 40 billion events from over 25 million users across 111 countries. PRAGMA fuses multiple event sources—transactions, app navigation, trading activity, and communications—into a unified customer representation. Crucially, the model design is published. The competitive moat is the proprietary behavioral data that feeds it. For incumbents sitting on decades of customer data, that data is an underleveraged strategic asset, and institutions that learn to compound intelligence from it will gain an advantage that their rivals will find difficult to replicate.

Key Questions for Financial Institution Leadership

Financial institutions' outstanding performance in 2025 creates momentum for bold action. And current trends present opportunities to reinvent operating models and to innovate in products and services.

Financial institutions can consolidate their gains and set the course for the coming five years and beyond from a position of strength. Institutions that bask in the warmth of investor confidence without taking action will swiftly fall behind those that try to reimagine what banking can be. Conversely, financial institutions that preemptively redesign their ways of working, including by applying AI to productivity and growth levers, will widen the valuation gap between themselves and reactive peers.

To achieve the necessary reinvention, we recommend that financial institution management teams debate and discuss the following key questions:

- **Where can AI enable a step change in productivity for your business?**
  - In which areas can AI scale in your organization and deliver material impact to the business's bottom line?
  - Are your teams reimagining the processes for an AI world, or merely digitizing current processes?
  - Can you track unit cost metrics to see and assess improvements?
- **Where will you achieve outsized growth? How can AI enable this?**
  - Can AI copilots enhance your frontline teams' productivity?
  - Can AI agents engage with customers directly?
  - Can AI-led automation reduce breakeven ticket size and thereby open a large new target market?
- **Is your M&A thesis clear?**
  - Where will you buy and why?
  - Where will you exit and why?
  - Do you have the corporate finance muscle to act quickly to capture value opportunities?
- **Are your teams taking positions and making bets on potential disruptions such as digital assets and NBFIs?**
  - What risks and opportunities do these disruptions present?
  - Where is immediate action needed?
  - How do these disruptions impact your client landscape?
- **How will your organization move from AI-enabled to AI-first?**
  - Are you redesigning processes around intelligent decision making?
  - Does your CEO personally own the AI transformation portfolio?
  - Are you building shared intelligence layers across business domains?

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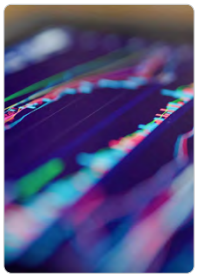

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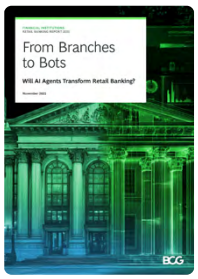

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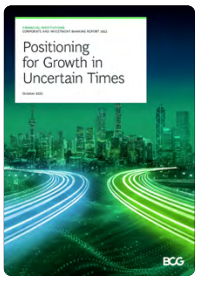

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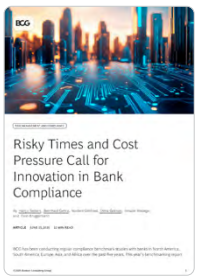

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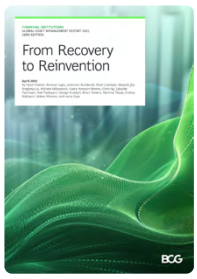

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