STATE OF THE
BANKING INDUSTRY

Research and outlook for 2025
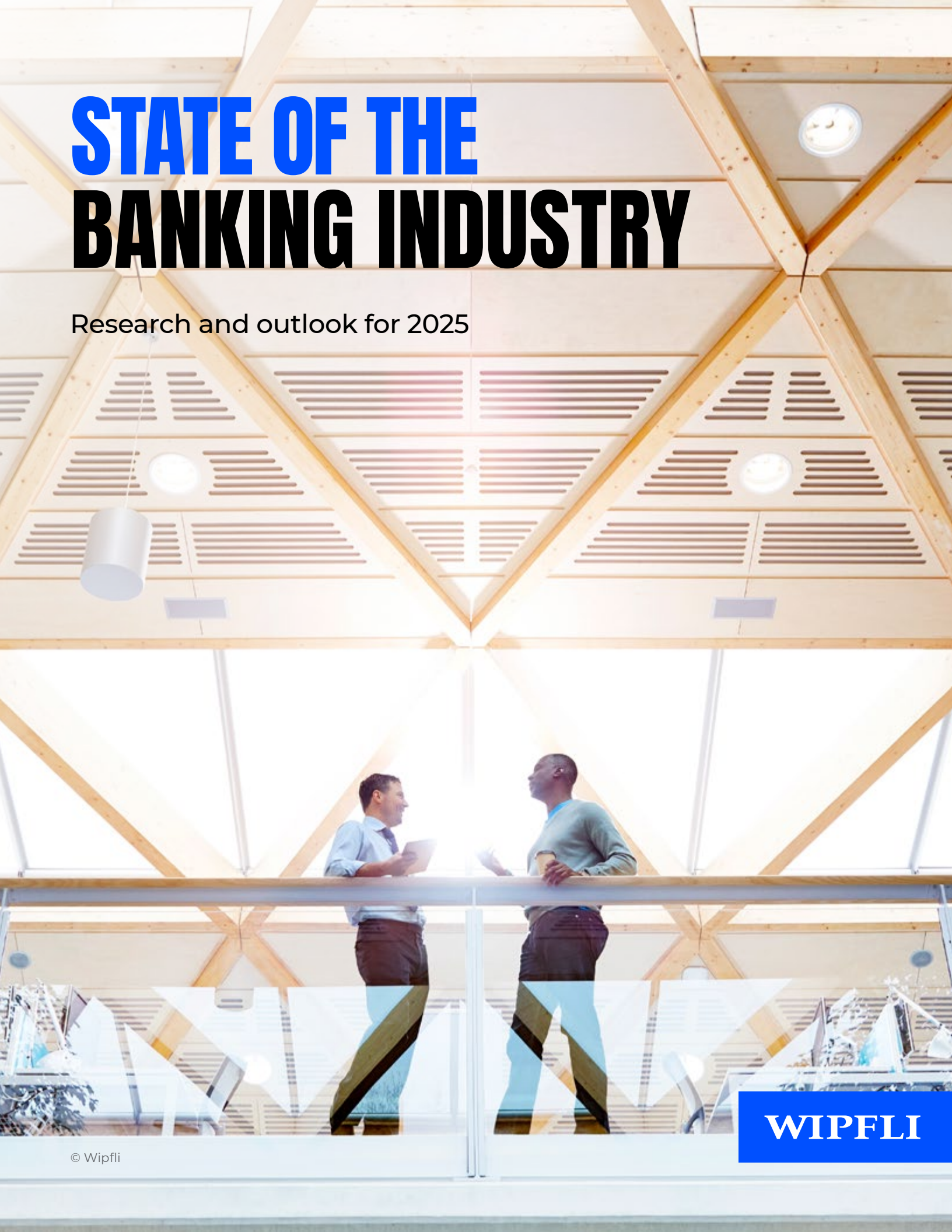
WIPFLI

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Executive summary

The economic environment was more favorable for financial institutions in 2024. Liquidity concerns eased, and interest rates became more manageable. Consequently, credit losses were lower than anticipated by most institutions, and loan portfolios remained relatively stable.

Our annual state of banking report investigates how financial institution leaders are experiencing and responding to industry dynamics such as these.

We surveyed 345 C-level executives at small (less than $1B in assets), midsized ($1B-$5B) and large ($5B+) financial institutions to understand their growth strategies, priorities and concerns leading into 2025.

Digital transformation, banking as a service (BaaS) and artificial intelligence (AI) were key themes. Most financial institutions dipped their toes into AI in 2024. Now it's time to navigate deeper waters.

Facts are one thing. Perception is another.

345 C-level executives surveyed

Key findings
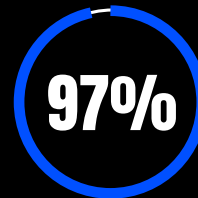
97%
of financial institutions expect to grow in the next 12 months.
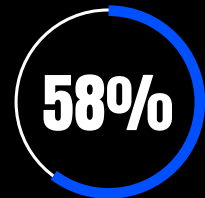
58%
of financial institutions expect to grow 5% or more.

Fraud surged since our last report.

45%
added BaaS/ embedded banking in the last three years.

60%
increased their investment in cybersecurity technology.

Improving digital engagement is the top strategic priority in 2025.

Cybersecurity/fraud is the top concern in 2025.

Financial institutions are feeling bullish this year.

Ninety-seven percent of those we surveyed expect growth in the next 12 months, with 58% anticipating asset growth of 5% or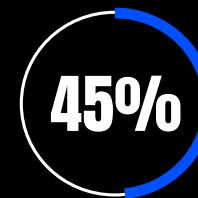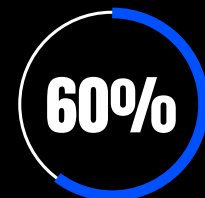 more. That's a significant boost compared to last year, when only 36% of financial institutions expected to grow 5% or more.

In this year's survey, large financial institutions reported higher confidence than smaller ones. Forty-four percent of executives at large financial institutions projected annual asset growth of 9% or more, compared to only 11% of midsized and 18% of small financial institutions.

Expected growth

Legend: 2022, 2023, 2024, 2025

1%-5% growth: 30%, 23%, 56%, 39%

5%-8% growth: 32%, 42%, 29%, 37%

8%-10% growth: 30%, 26%, 5%, 17%

Over the past three years, survey respondents said they added new products and services. Banking as a service (BaaS)/embedded banking was the most-added service. Sixty-six percent of the financial institutions we surveyed are participating in BaaS/embedded banking now or plan to within the next 12 months. Financial well-being products, instant payments services and wealth advisory services topped the list of recently added services.

Services added in the last 3 years

1 Banking as a service/embedded banking

2 Financial well-being products

3 Instant payments

4 Wealth advisory services

Will the BaaS trend continue? Future research will tell.

Across the industry, BaaS has been viewed as an opportunity to create new revenue streams and fight interest margin compression, but future growth could be curbed by impending regulations. Regulators are pressing for more controls, and the additional compliance burden could negate any cost benefits.

We're also watching the financial education space. Gen Z stands to inherit enormous generational wealth — some would argue, unprepared. Gen Z consumers engage with financial institutions differently than prior generations, and they often lack basic knowledge about financial matters and products. In the coming years, financial institutions will need to design products and services to match younger consumers' banking habits and risk tolerances.

Heading into 2025, the financial institution executives we surveyed said their top strategic priorities are improving digital engagement, talent management and data analytics/AI.

Top strategies for financial institutions in 2025

1 Improving digital engagement

2 Data analytics/AI

3 Talent management

What factors affect your ability to achieve strategic priorities?

1 Net interest margin compression

2 Core deposit growth

3 Economy/regulatory environment

For the past two years, financial institutions have had three main concerns

- Cybersecurity (includes fraud)
- Employee recruitment/retention
- Meeting customer needs

2024
43% 43% 37%

2025
48% 34% 33%

Respondents said external factors are most likely to get in the way. They said net interest margin compression, core deposit growth and the economy/ regulatory environment have the biggest impact on their strategic priorities.

Financial institution executives also shared their concerns. Cybersecurity, employee recruitment/ retention and meeting customer needs have been persistent challenges since 2022. Cybersecurity (including fraud) topped the list for the second year in a row, and it was the top concern for financial institutions of every asset size.

Employee recruitment/retention came in second. The third top concern was a tie between meeting customer needs and maintaining regulatory compliance.

On average, less than half (48%) of the institutions we surveyed feel they've reached a mature state of digital transformation related to customer experience and customer engagement. And there was a distinct maturity gap based on institution size. Seventy-six percent of the executives we surveyed at financial institutions with over $5 billion in assets reported feeling mature in digital customer experience and customer engagement, compared to only 19% at institutions under $1 billion.

Seventy-six percent of the financial institutions we surveyed use an enterprise risk management (ERM) program to help them manage risk. Larger financial institutions were almost three times more likely to have an ERM than financial institutions with less than $500 million in assets.

Digital maturity trends with financial institution size

Respondents at larger institutions ($1B+) are more likely to report digital maturity in customer experience and engagement versus those at smaller entities (less than $1B).

76% Large institutions ($5B+ asset size)

65% Midsized institutions ($1-$5B asset size)

19% Small institutions (less than $1B asset size)

Larger financial institutions are more likely to have an ERM program

$5B+	90%
$1B-$5B	94%
$500M-$1B	79%
< $500M	34%
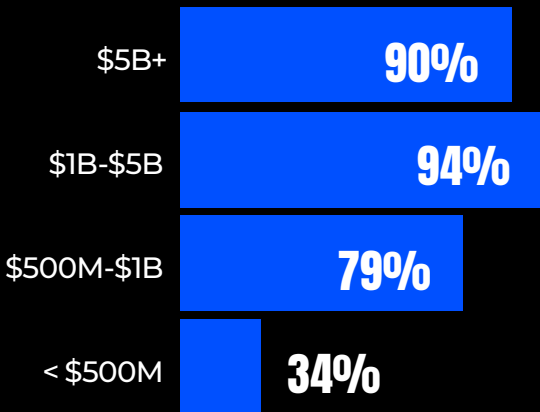
Cybersecurity

In our survey, cybersecurity (including fraud) was the number one concern for financial institutions.

Executives' cyber concerns increased by 5 percentage points since last year — and for valid reasons:

- 61% of respondents said fraud is increasing at their institutions, up from 36% last year.
- 45% reported an increase in cyberattacks.
- 79% detected unauthorized access to their networks and data in the last year — another increase over the prior year.

Sixty percent of the financial institutions we surveyed increased their investment in cybersecurity technology, up from 51% last year. Smaller institutions were the most likely to increase their cybersecurity investment; 67% of small institutions increased cybersecurity spending compared to 54% of bigger banks.

Fraud is growing in the vast majority of financial institutions

What is the current state of fraud at your institution?

- Increasing
- Decreasing
- No change

	Increasing	Decreasing	No change
2024	36%	38%	25%
2025	61%	19%	20%

Financial institutions detected more instances of unauthorized access to their systems in the past year

2024

0	35%
1-2	30%
3-5	27%
6-10	6%
10+	2%

2025

0	21%
1-2	28%
3-5	37%
6-10	11%
10+	2%

Sixty percent of survey respondents also implemented safeguards to better protect their networks and data. Just over half developed or revised a cyber risk management policy in the past 12 months. Half conducted a cyber risk assessment, and nearly as many conducted penetration testing or improved systems to more rapidly identify cybersecurity events.
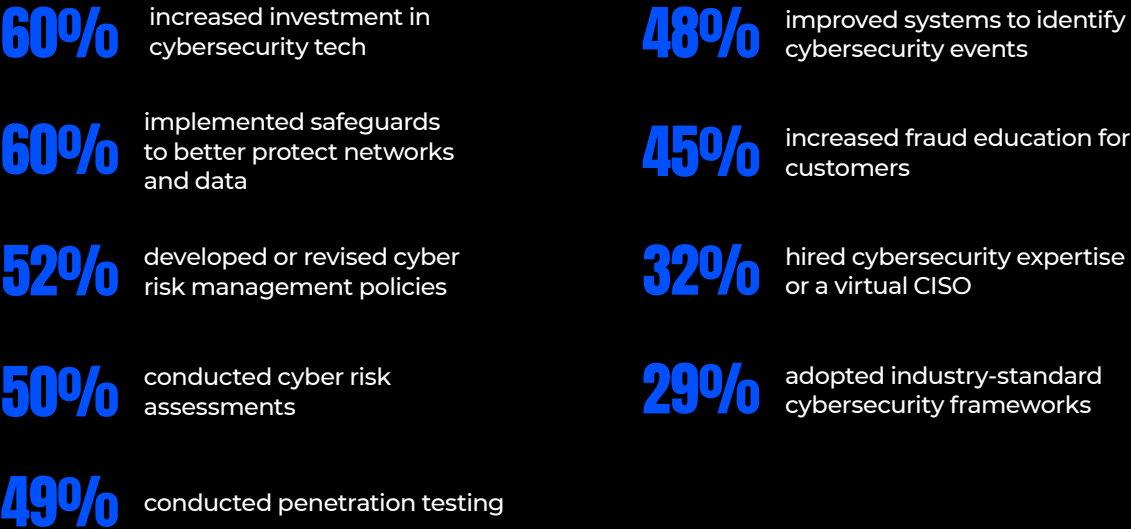
In recent banking and credit union breaches reported in the news, months have passed between incidents, detection and the response. Threat detection is made challenging, in part, by the number of access points, tools and vendors that financial institutions have to monitor and secure.

Cybersecurity is likely to stay a top concern for some time since the financial and reputational risks are high and the attack methods so varied. Thousands of accountholders can be affected by a single breach, and financial institutions often extend identity theft protection services to affected households to help retain their trust.

Most financial institutions increased their cybersecurity investment and implemented protective measures

What cybersecurity measures have you implemented in the past 12 months?

60% increased investment in cybersecurity tech

60% implemented safeguards to better protect networks and data

52% developed or revised cyber risk management policies

50% conducted cyber risk assessments

49% conducted penetration testing

48% improved systems to identify cybersecurity events

45% increased fraud education for customers

32% hired cybersecurity expertise or a virtual CISO

29% adopted industry-standard cybersecurity frameworks

Artificial intelligence

Eighty-three percent of the financial institutions we surveyed currently use AI-based tools or plan to adopt them in the next 12 months.

About half of respondents said data analytics/AI is an important strategy in the coming year.

Among those institutions, fraud and financial crime detection was the leading use case for AI. Those respondents also plan to leverage AI for risk analytics and regulatory and financial reporting.

Only 17% of the financial institution executives we surveyed are resisting AI-based tools. Among those, most are concerned about data-readiness and cybersecurity. They also cited fraud risk and liability concerns.

Roughly half of financial institutions said data analytics/AI is an important strategy in the coming year

The top ways they plan to use AI:

61% Fraud and financial crimes

49% Risk analytics and regulations

47% Financial reporting

43% Credit decisioning

42% Operations

42% Sales/growth

Barriers to implementing AI-based tools
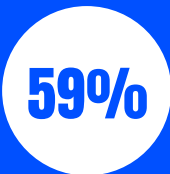
59% Data readiness/quality/governance

53% Cybersecurity concerns
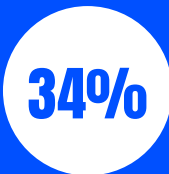
34% Fraud risk

29% Liability

Talent and labor

Labor issues were among the top three concerns and the top three strategies for financial institutions.

About one-third of respondents said employee recruitment and retention is a top concern.

In general, smaller financial institutions (less than $1B in asset size) reported stronger concerns about labor issues than bigger financial institutions ($1B+ in asset size).

Institutions that said recruitment/retention is a top priority have been focusing on workplace culture and increasing wages to address the issue — which were the same top responses last year. However, a higher percentage of financial institutions reported wage increases this year, 46% compared to 41%.

Compared to last year, more financial institutions are allowing flexible work locations, such as working from home.

Smaller financial institutions shared stronger concerns about labor issues

Top concerns by asset size

- ■ Employee recruitment/retention
- ■ Succession planning

<$1B: 42% / 32%
$1-5B: 27% / 26%
$5B+: 28% / 19%
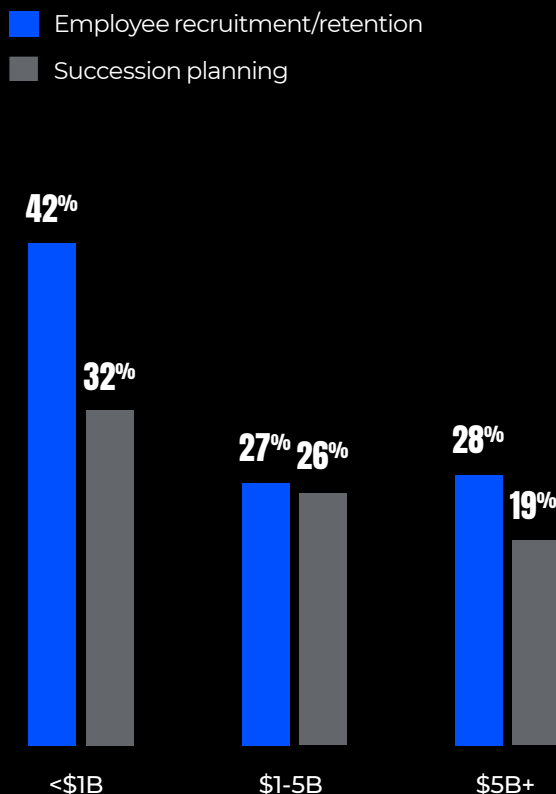
About one-third of financial institutions said recruitment/retention is a top concern. They're focusing on culture and wages to correct the issue.

Successful actions to address employee recruitment/retention:

- **47%** Workplace culture
- **46%** Increased wages
- **38%** Proactive recruitment
- **34%** Career development pathing
- **34%** Flexible work locations
- **34%** Leadership development
- **21%** Increased benefits/perks
- **18%** DEI strategies
- **11%** Outsourcing

About half of the executives we surveyed said talent gaps/shortages are affecting their strategic priorities. Those respondents said information security, IT, accounting and regulatory compliance are the functions they are most likely to consider outsourcing to close the gaps. Compared to prior years, there was stronger interest in outsourcing information security, accounting and compliance.

Roughly one-quarter of respondents said succession planning is a top concern. Among those respondents, 77% said their institution offers leadership or executive training, up from 71% in 2023.

More than half of financial institutions said talent shortages are impacting their strategic priorities.

Functions financial institutions are considering outsourcing:

48%
Information security

44%
IT

41%
Accounting

41%
Regulatory compliance

33%
HR

32%
Operations

20%
Lending

Some outsourcing interests have shifted in the past year

- Information security
- IT
- Accounting
- Regulatory compliance

2024
- Information security: 42%
- IT: 57%
- Accounting: 32%
- Regulatory compliance: 37%

2025
- Information security: 48%
- IT: 44%
- Accounting: 41%
- Regulatory compliance: 41%

Thoughts on the future

Financial institutions of every size are being forced to compete on a national scale, pressured by fintechs and nontraditional lenders.

Online banking has become table stakes, and "best-in-class" digital experiences are often being defined outside of banking by digital interactions that account holders experience in other industries.

Open banking is likely to add additional pressure on banks' abilities to meet customer needs. Meanwhile, financial institutions are being squeezed and scrutinized over every fee they collect.

Financial institutions need to go to market right, both strategically and from a compliance standpoint.

And they already have the playbook. In their data.

In the next phase of digital transformation, financial institutions need to bring all their data and tools together in intentional ways. AI needs to become a central part of strategic plans, rather than a set of disconnected tools. Institutions need to pursue AI and digital transformations in ways that add value across the organization, from the front counter to the back office.

There's no room for mistakes in this competitive landscape.

To achieve this:

- **Establish clear objectives — and stick to them:** AI adoption should start with clear objectives that are tied to overall business goals, whether that's customer satisfaction, efficiency or fraud detection. As new tools and capabilities become available, financial institutions need to evaluate them against strategic objectives and stay committed to the bigger picture.

- **Build an AI-centric data strategy:** Effective AI relies on high-quality, connected data. Invest in a singular and secure infrastructure that can support AI-driven analysis.

- **Implement AI governance and ethical frameworks:** AI can introduce new risks in an already heavily regulated industry. Financial institutions need AI guardrails that are firm, but also responsive to changing conditions and threats. Create a framework for data privacy, security and accountability from the start.

- **Use multilayered security:** Cybercriminals and fraudsters are constantly changing their attacks. Again, a comprehensive and connected AI strategy will offer stronger defenses against fraud and security threats. Financial institutions can leverage AI to continuously learn from fraud attempts and analyze data across various layers.

- **Embed AI into core processes, not just surface-level functions:** Financial institutions will gain more benefits by embedding AI in key processes that connect and influence the customer journey than from standalone applications.

- **Invest in scalable architecture:** Build for the future and plan to expand. Make sure technology investments can adapt to changing needs and scale without major disruptions or significant added costs.

In the next phase of digital transformation, financial institutions need to bring all their data and tools together in intentional ways.

Appendix: The raw data

Wipfli received survey responses from 345 U.S. financial institution leaders. The online survey responses were collected in September 2024. All responses were confidential and anonymous. Due to rounding, data may not add up to 100 in every instance.

Which of the following best describes your title?

Title	Percentage
CEO	38%
CFO	30%
President	8%
COO	8%
CTO	6%
CIO	4%
CCO	3%
CISO	2%
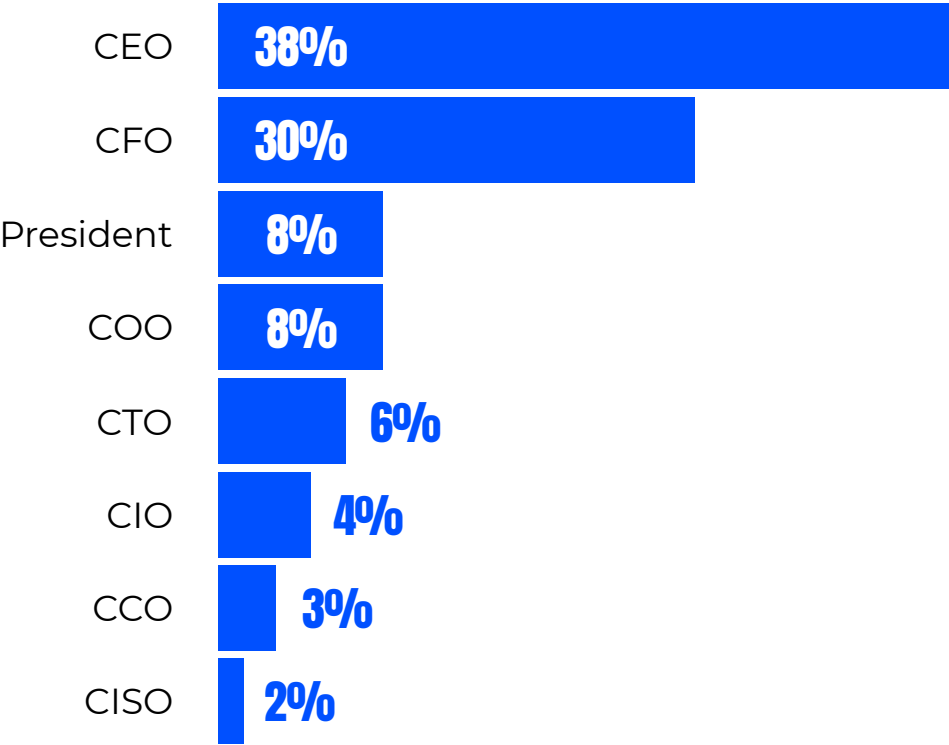
What is your current asset size?

Less than $500M	**25%**
$500M-$1B	**17%**
$1B-$3B	**18%**
$3B-$5B	**18%**
$5B-$10B	**14%**
$10B-$20B	**8%**
More than $20B	**1%**
Total less than $1B	**42%**
Total $1B-$5B	**35%**
Total more than $5B	**23%**

What is your region?

Midwest	**32%**
South	**32%**
Northeast	**19%**
West	**17%**
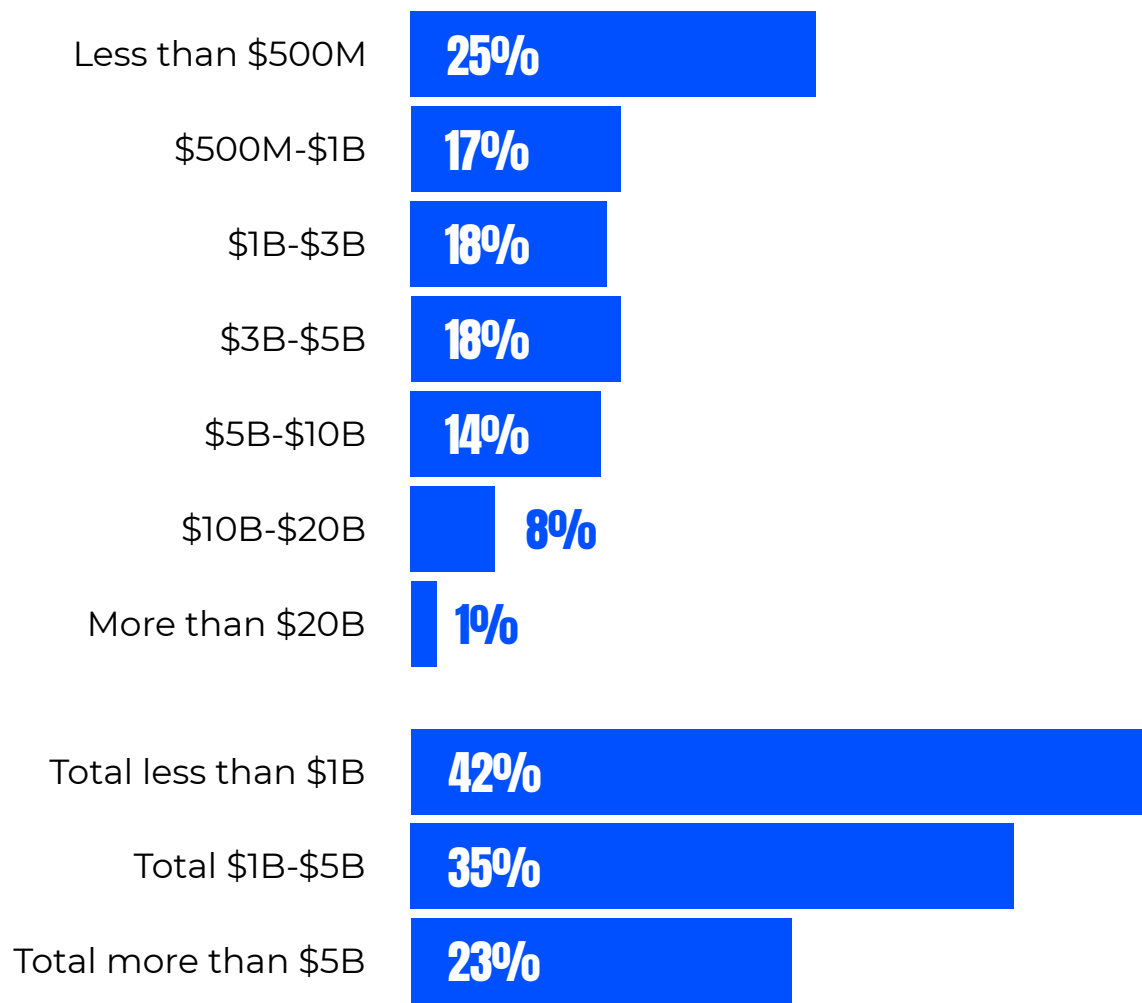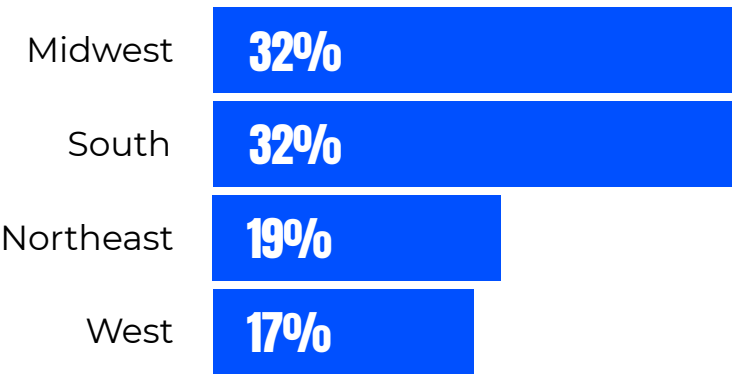
Which, if any, of the following services have you added in the last three years? (Check all that apply.)

Service	Percentage
Banking as a service (BaaS)/ embedded banking	45%
Financial well-being	38%
Instant payments	37%
Wealth advisory	31%
Automated investing/ robo-advisor	28%
None of these	26%
Cryptocurrency	26%
Insurance	24%
Trusts	23%
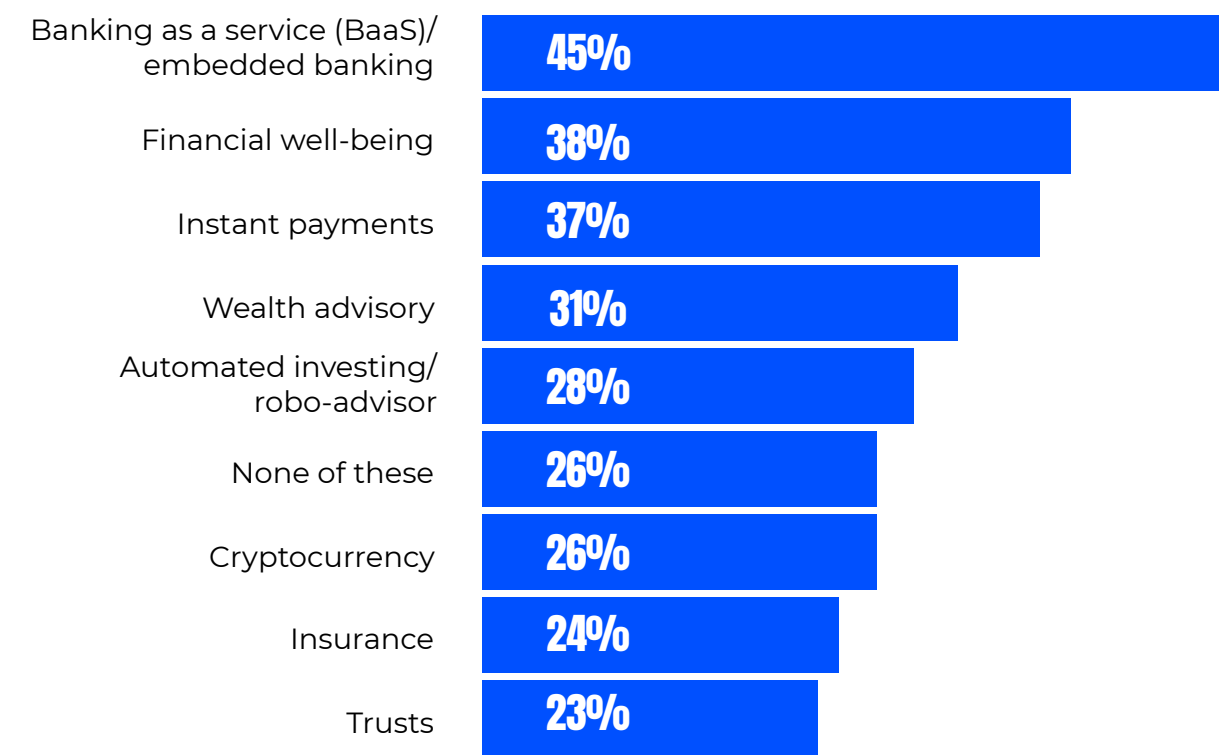
Which best describes your expected asset growth over the next 12 months?

Category	Percentage
Contracting	1%
0%	2%
1%-5%	39%
5%-8%	37%
8%-10%	17%
More than 10%	4%
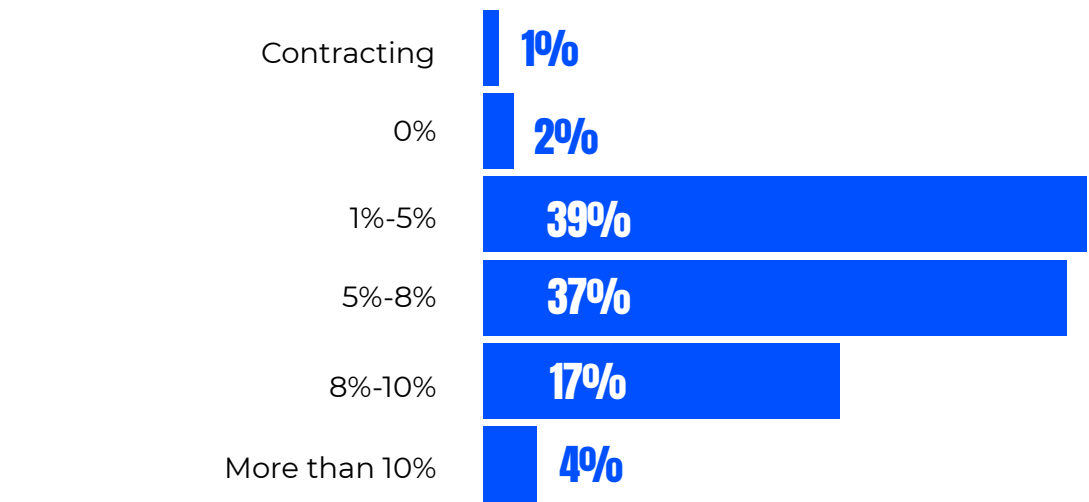
Of the following, please select the top five strategies most important to your bank over the next 12 months.

Strategy	
Improving digital customer engagement	59%
Talent management	57%
Data analytics/AI	52%
Labor replacing and/or staff augmenting technologies	45%
Exploring new revenue streams	44%
Banking as a service (BaaS)/ embedded banking	38%
Automating processes to extend geographic reach	36%
Accepting instant payments	33%
Cloud adoption	28%
M&A	26%
Other	3%
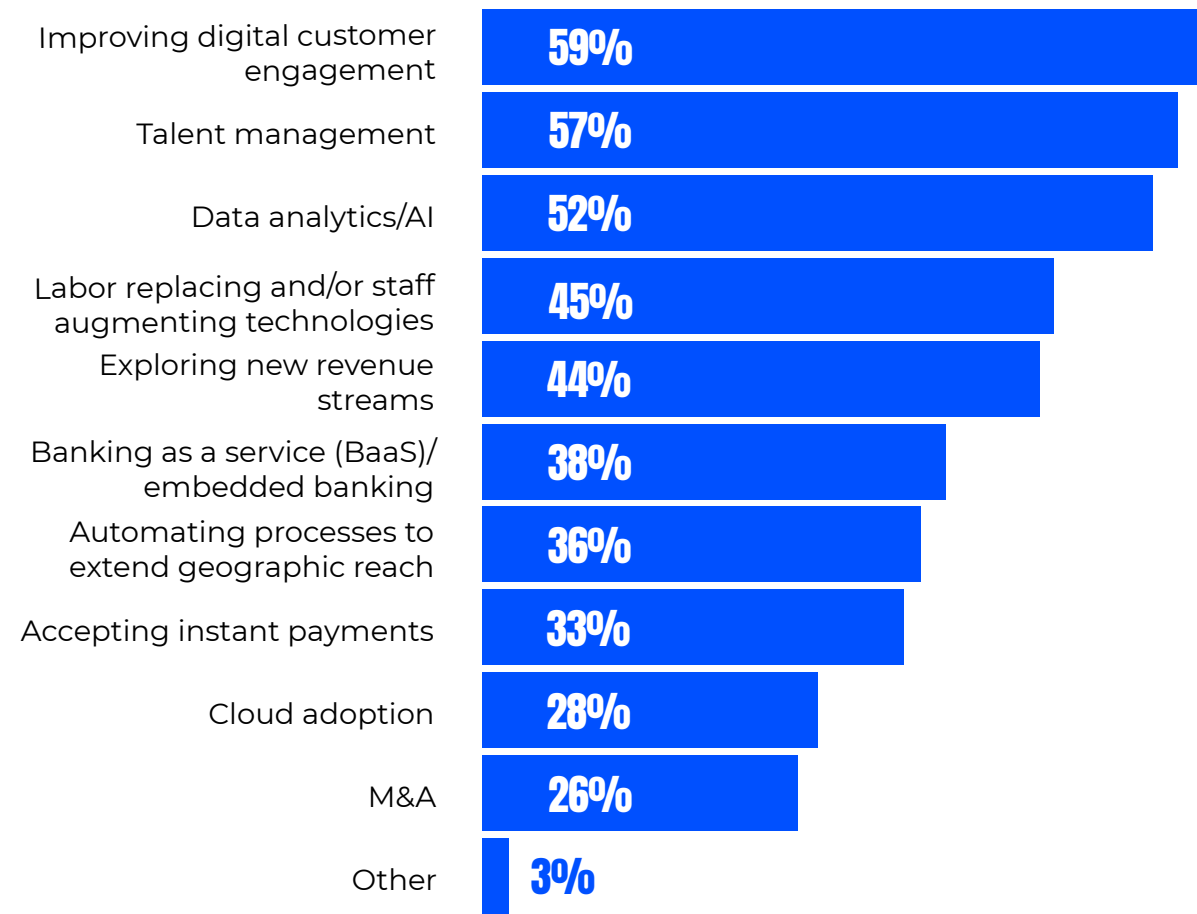
Are you planning to buy or sell?

85%
Buy —

15%
Sell
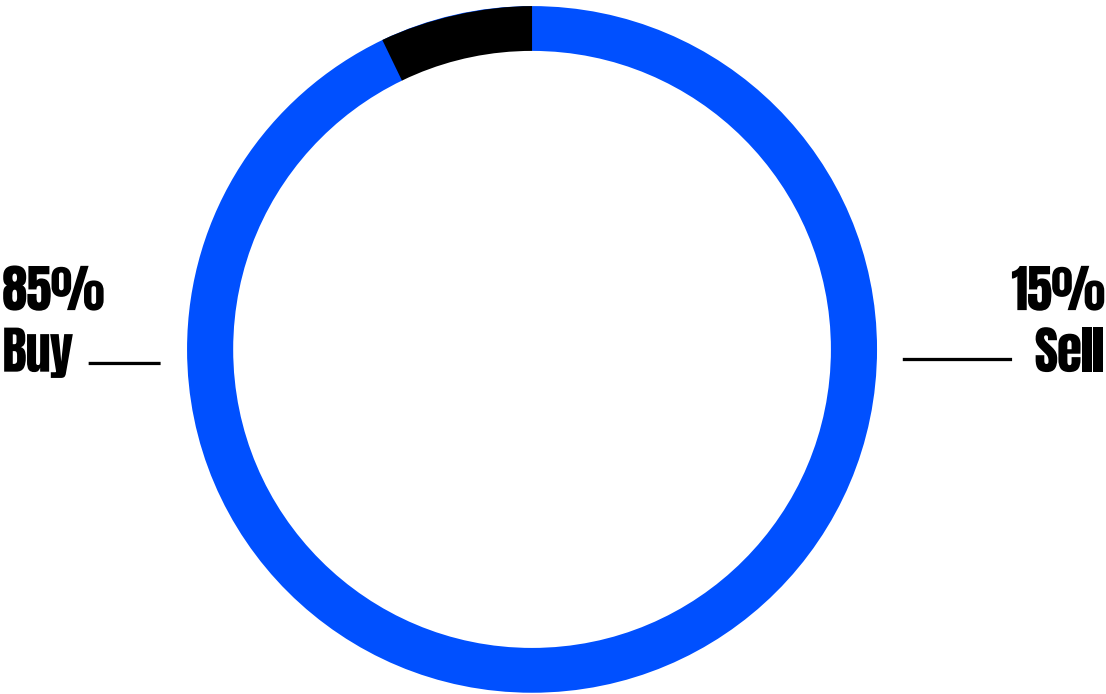
Does your institution have an enterprise risk management (ERM) program?

Yes	**76%**
No	**24%**

For which of the following areas does your institution plan to leverage AI over the next 12 months? (Select all that apply.)

Area	Percentage
Fraud and financial crimes	61%
Risk analytics and regulatory	49%
Financial reporting	47%
Credit decisioning	43%
Operations	42%
Sales/growth/customer 360	42%
Quantitative research	35%
Loan underwriting	27%
None of these	5%
Other	3%
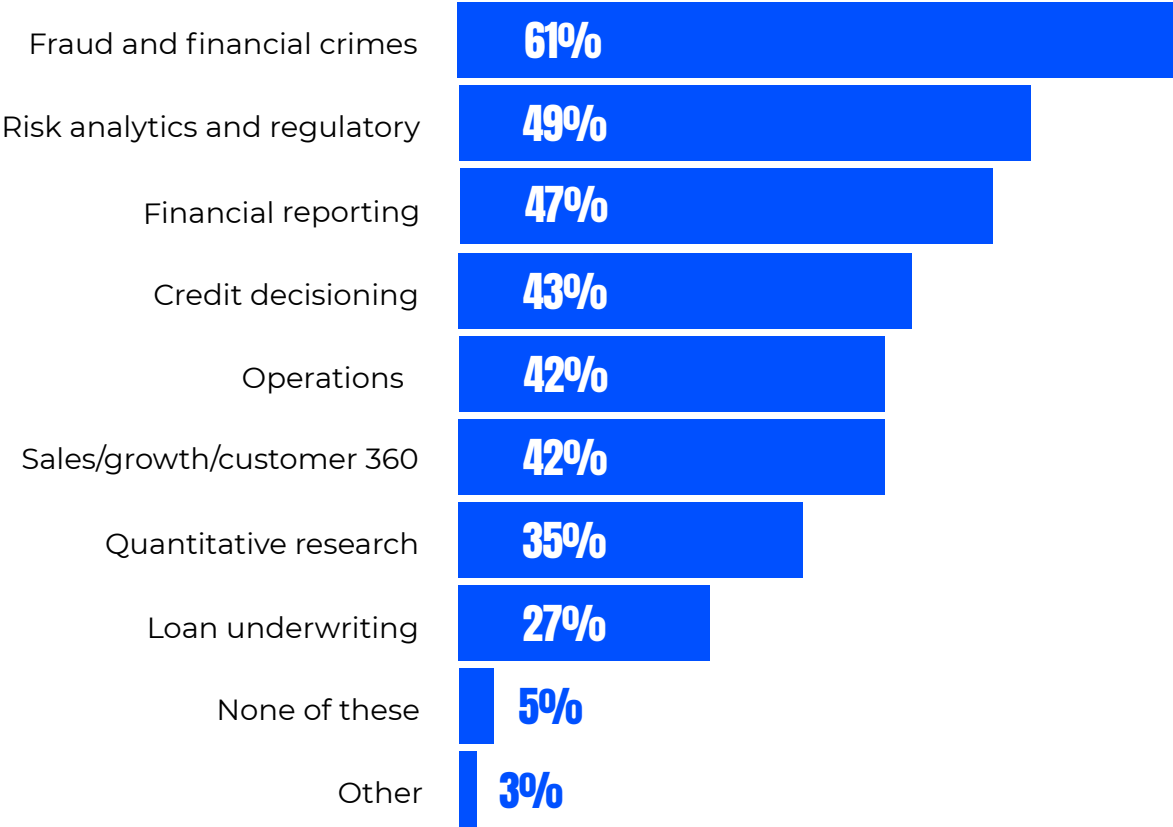
What effect do the following factors have on achieving your strategic priorities? Please rate, from a scale of 1-7, with 1 being "no effect at all" and 7 being a "major effect."

■ Major effect   ■ Large effect

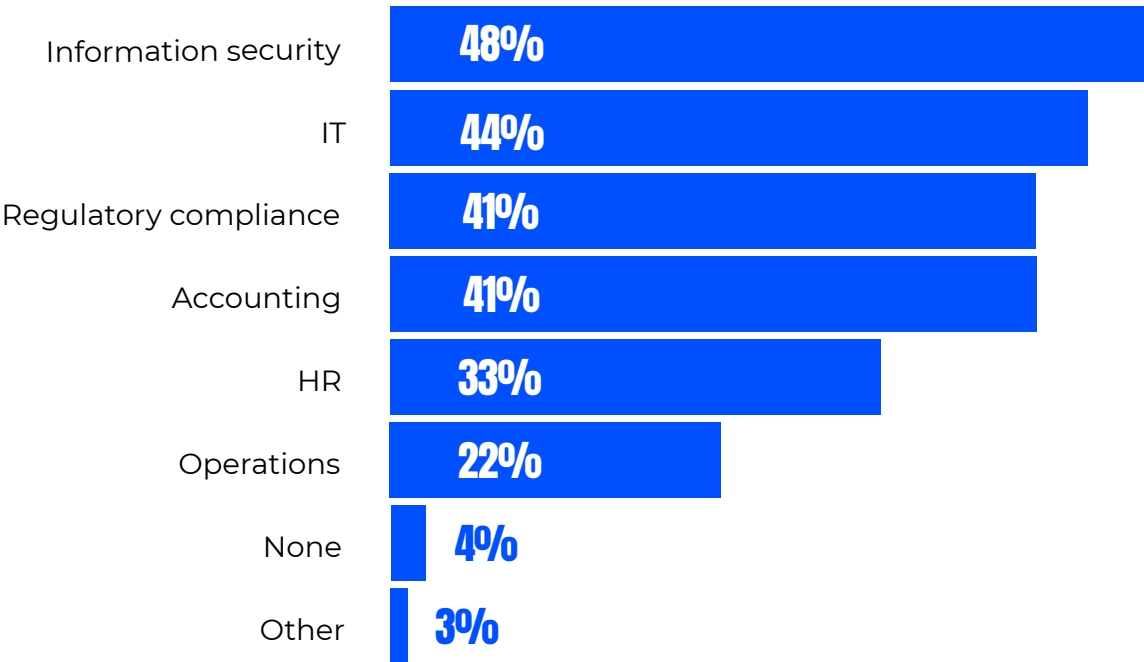| Factor	Major effect	Large effect
Liquidity	29%	58%
Net interest margin compressions	28%	68%
Core deposit growth	27%	67%
Managing and implementing change	27%	60%
Economy/regulatory/environment	25%	64%
Talent gap/shortage	20%	58%
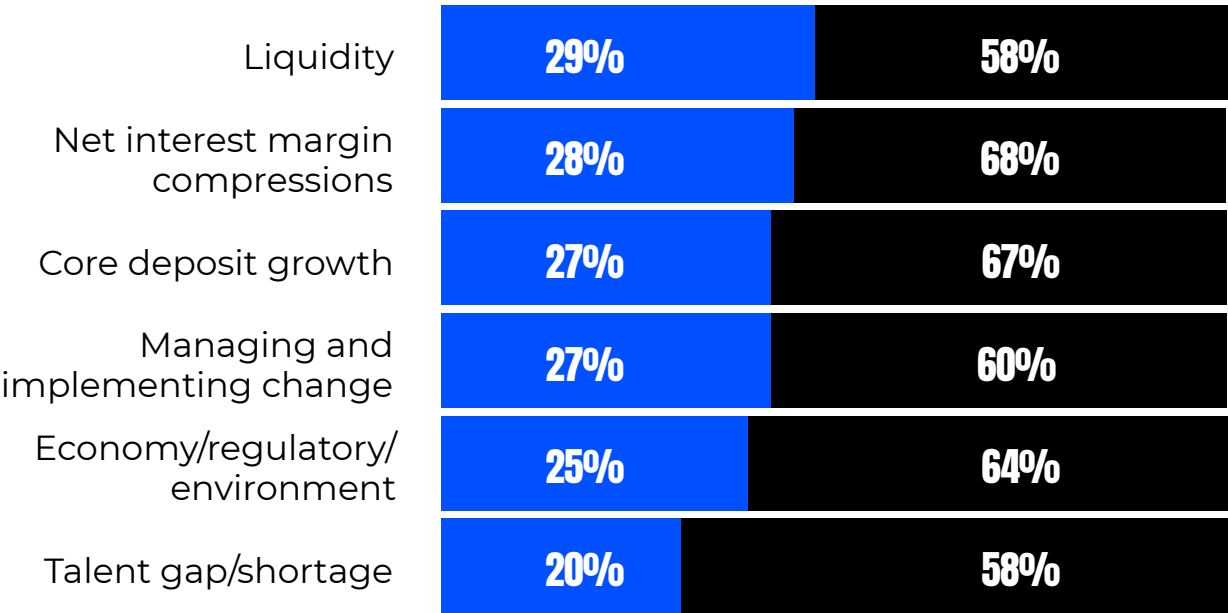
Which of the following functions have you considered outsourcing?
(Select all that apply.)

Function	Percentage
Information security	48%
IT	44%
Regulatory compliance	41%
Accounting	41%
HR	33%
Operations	22%
None	4%
Other	3%

Of the following, please select your top three concerns.

Concern	Percentage
Cybersecurity (includes fraud)	48%
Employee recruitment/retention	34%
Meeting customer needs	33%
Regulation compliance	33%
Retaining market share	28%
Succession planning	27%
Fintech competition	23%
Sustaining operations	22%
Open banking	21%
Consolidation	15%
Neo/challenger bank	12%
Economic conditions	1%
Other	1%

What are the average years of tenure of your executive team?

1-5 years	6-10 years	11-15 years	16-20 years	21+ years
5%	28%	35%	17%	14%
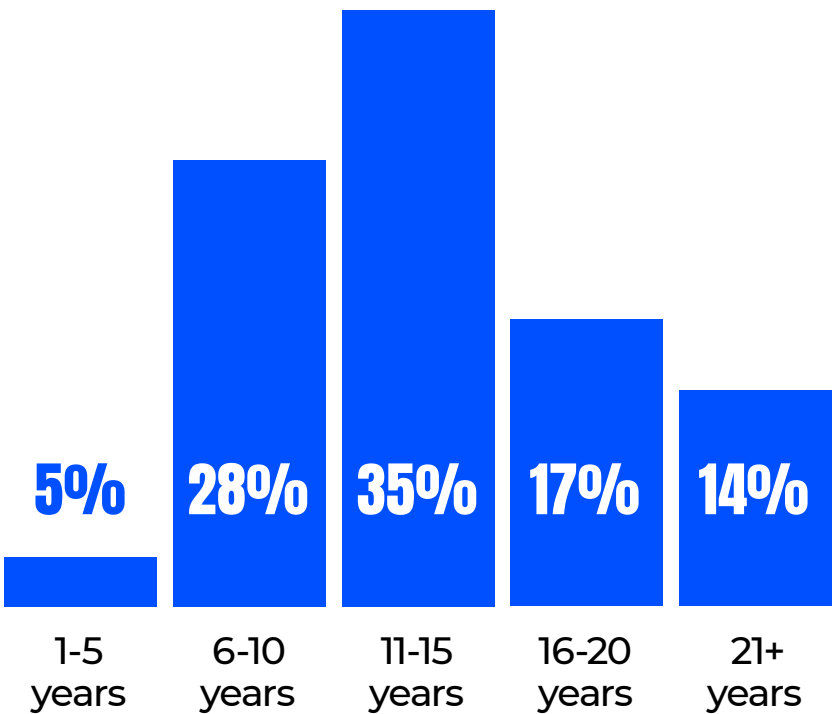
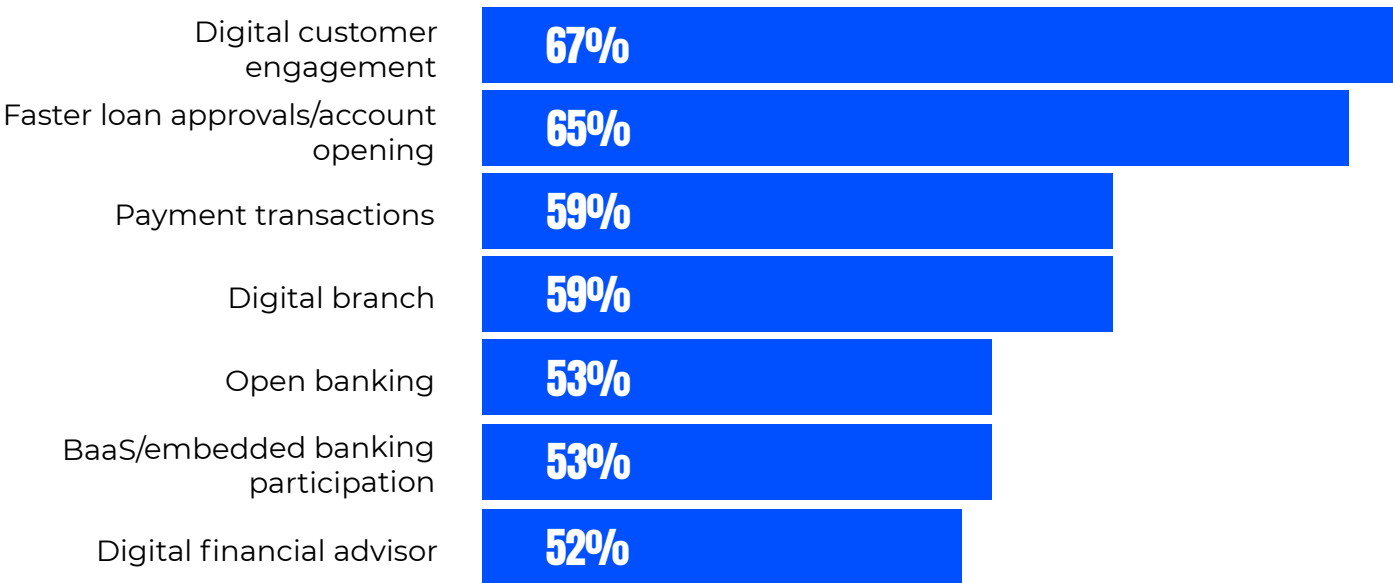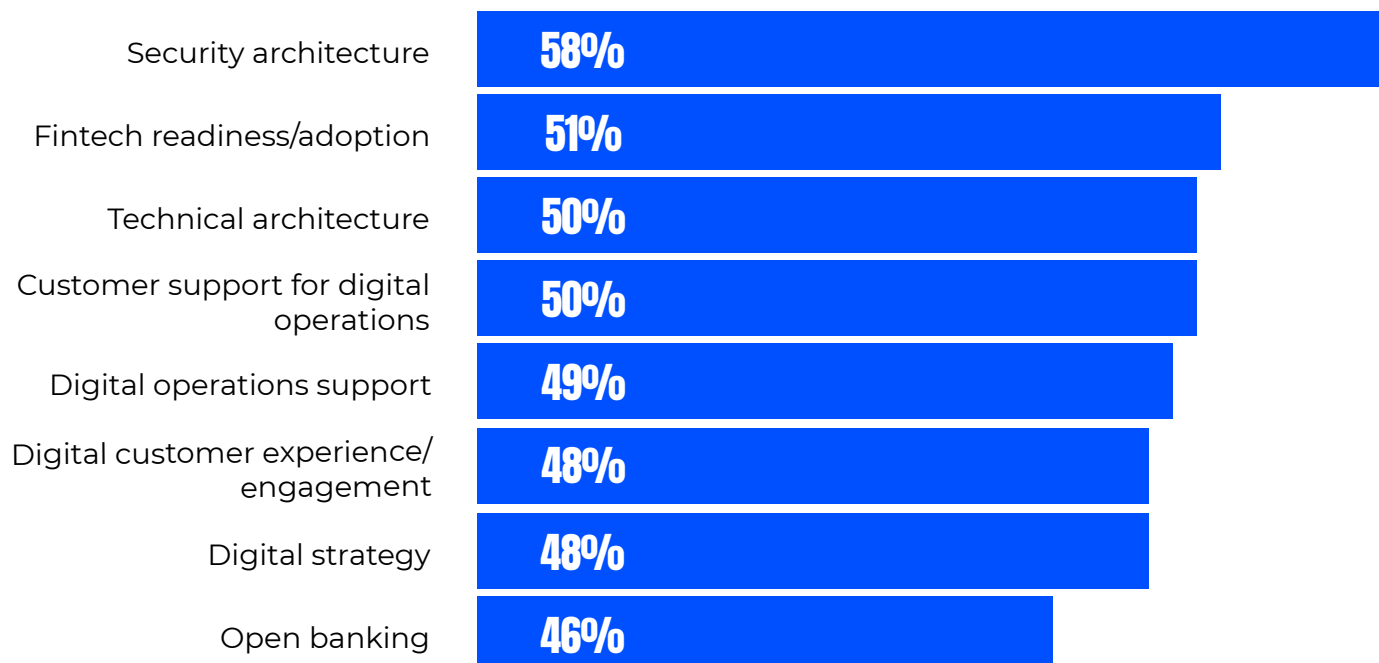# Does your bank provide leadership/executive training?

Yes 77%

No 23%

In the last 12 months, which of the following actions have been most successful in addressing your recruitment/retention efforts? Please select up to three responses.
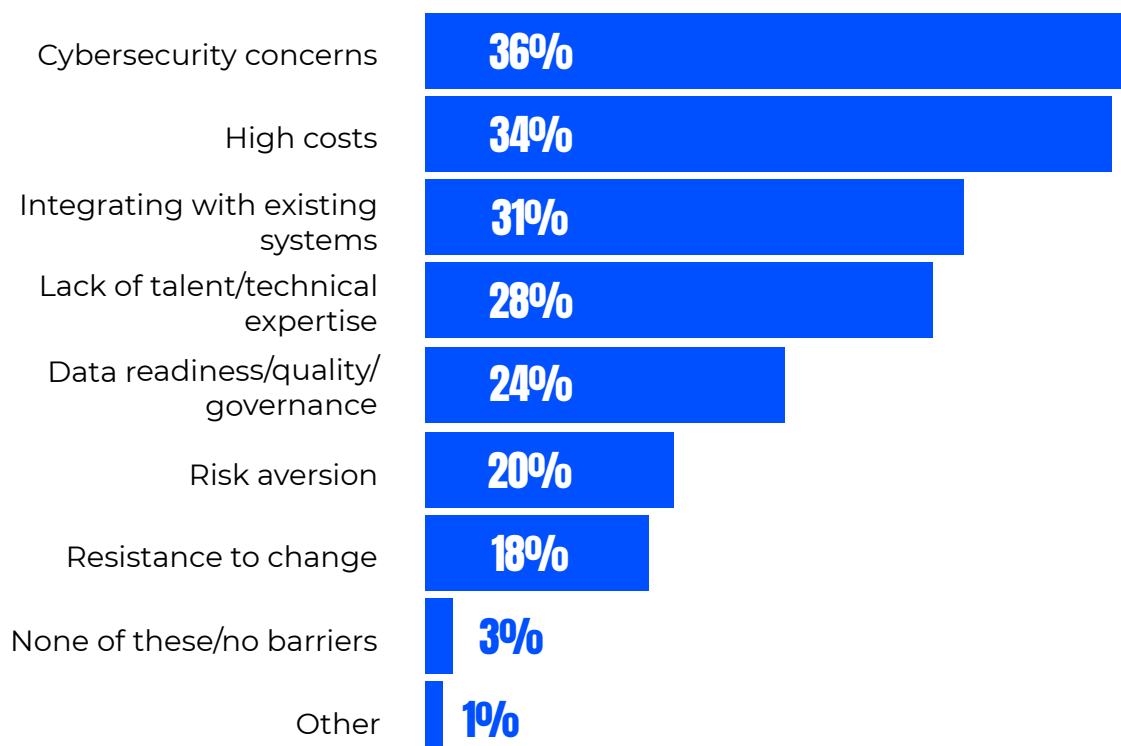
Action	Percentage
Focusing on workplace culture	47%
Increased wages	46%
More proactive recruiting of candidates	38%
Flexibility in work location (i.e., working from home, etc.)	34%
Leadership development	34%
Career development pathing	34%
Increased benefits, perks	31%
Diversity, equity and inclusion (DEI) strategies	18%
Outsourcing/staff augmentation	7%
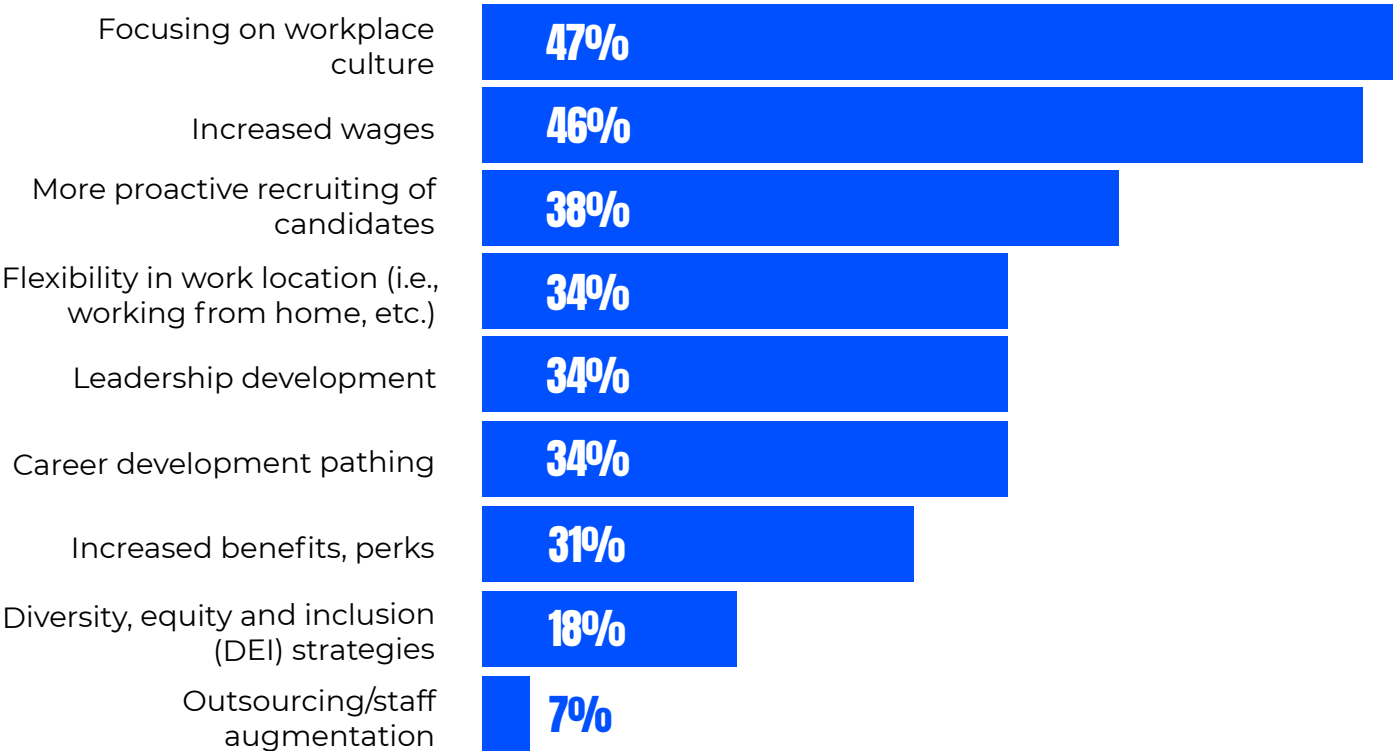
Of the following, which most closely defines digital transformation to you?

Category	Percentage
Digital customer engagement	67%
Faster loan approvals/account opening	65%
Payment transactions	59%
Digital branch	59%
Open banking	53%
BaaS/embedded banking participation	53%
Digital financial advisor	52%

Please rate your institution's maturity level in the following digital transformation categories.

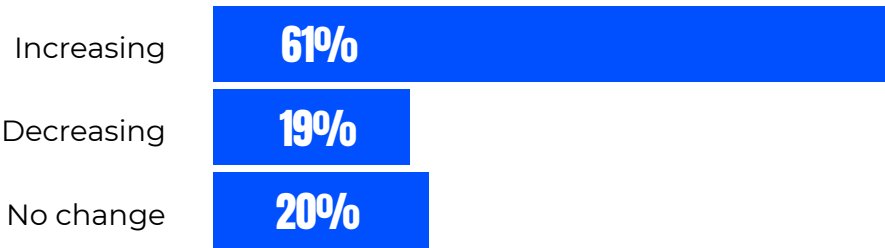| Category	Percentage
Security architecture	58%
Fintech readiness/adoption	51%
Technical architecture	50%
Customer support for digital operations	50%
Digital operations support	49%
Digital customer experience/engagement	48%
Digital strategy	48%
Open banking	46%

When it comes to digital transformation, what are the top two barriers (if any) holding you back? (Select up to two.)

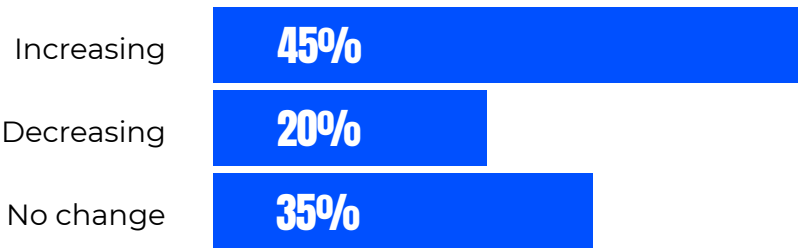| Barrier	Percentage
Cybersecurity concerns	36%
High costs	34%
Integrating with existing systems	31%
Lack of talent/technical expertise	28%
Data readiness/quality/governance	24%
Risk aversion	20%
Resistance to change	18%
None of these/no barriers	3%
Other	1%

What actions has your bank taken in the past 12 months to ensure the security of its network and data? (Select all that apply.)

| Action	Percentage
Increased investment in cybersecurity technologies (e.g., upgraded networks and devices with security features	60%
Implemented safeguards to better protect networks and data (e.g., enhanced access controls, maintenance procedures, 24/7 security monitoring)	60%
Developed or revised a cyber risk management policy that communicates cyber prevention, detection, response and recovering actions	52%
Conducted a cyber risk assessment	50%
Conducted penetration testing	49%
Improved systems and processes to more rapidly identify a cybersecurity event	48%
Increased fraud education for customers	45%
Hired cybersecurity expertise or added a virtual CISO	32%
Adopted an industry-standard, all-encompassing cybersecurity framework	29%

Which best describes the current level of fraud at your institution?

Increasing **61%**

Decreasing **19%**

No change **20%**

Which best describes the current level of cyberattacks on your institution?

Increasing **45%**

Decreasing **20%**

No change **35%**

How many times in the past year has your bank identified unauthorized access to networks and data?

0	1-2	3-5	6-10	More than 10
21%	**28%**	**37%**	**11%**	**2%**
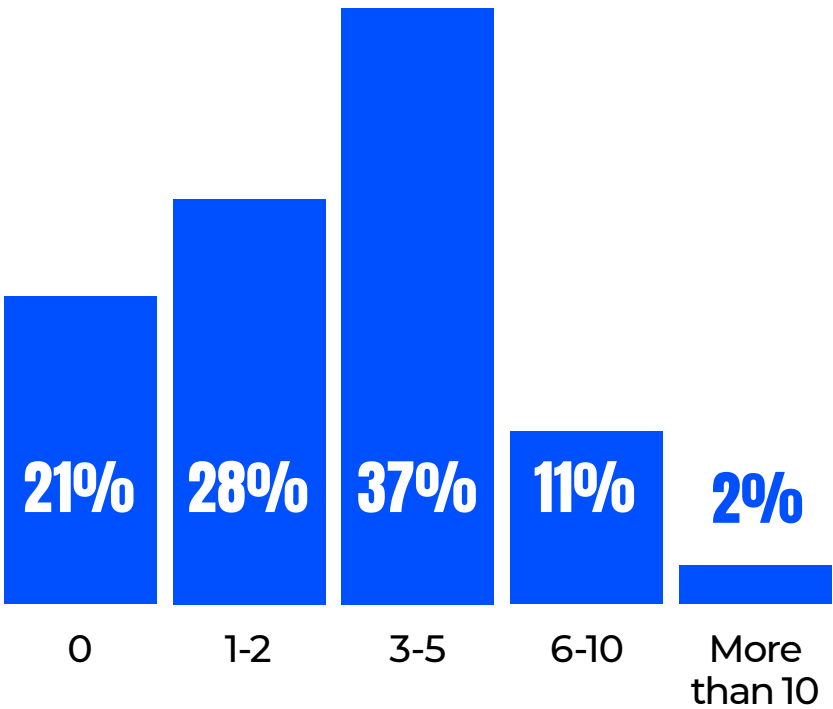
Is your institution currently using or planning to use AI-based tools in the next 12 months?

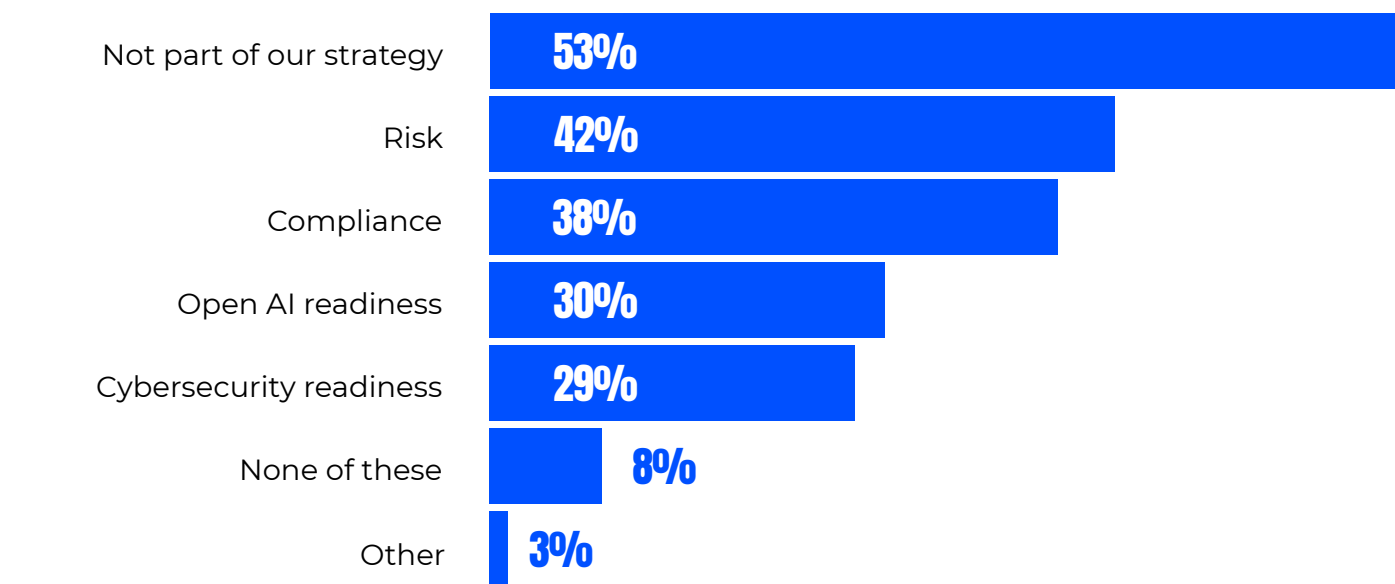|	
Yes, currently participating	**63%**
Yes, planning to participate	**20%**
No	**17%**
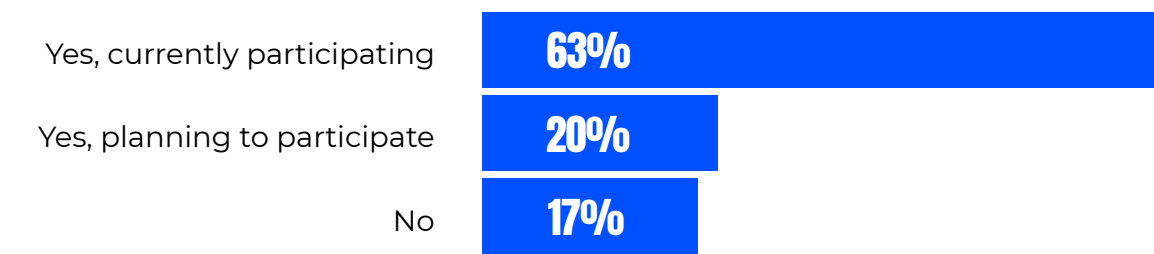
What are the top barriers (if any) preventing your institution from implementing AI-based tools? (Select all that apply.)

Data readiness/quality/governance	**59%**
Cybersecurity concerns	**53%**
Fraud risk	**34%**
Liability	**29%**
None of these	**15%**
Other	**14%**
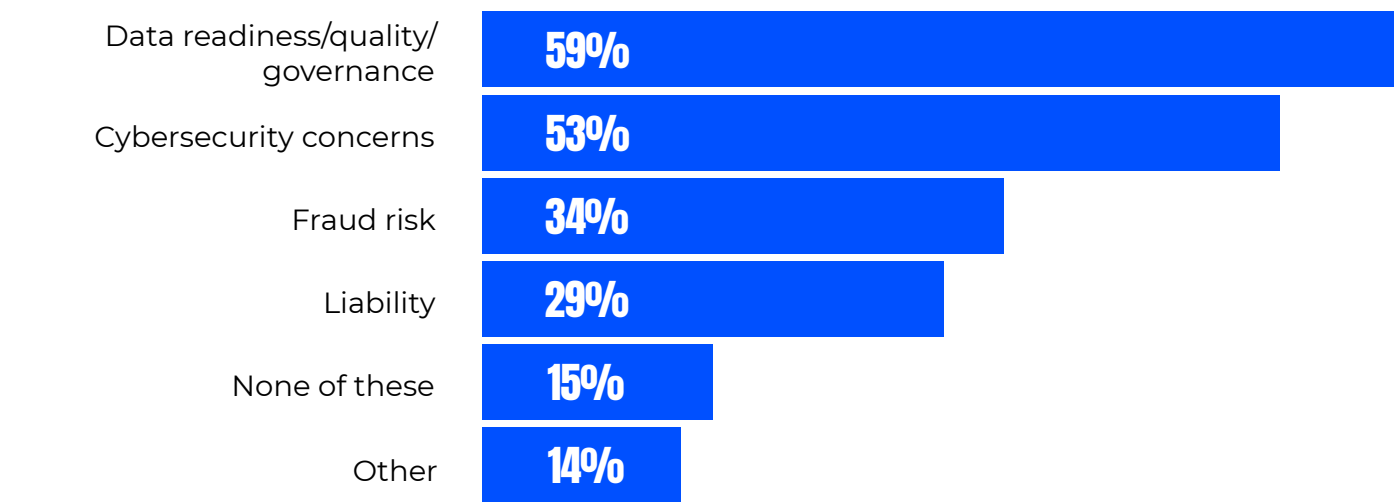
Is your institution currently participating or planning to participate in banking as a service (BaaS)/embedded banking or open AI services in the next 12 months?

Yes, currently participating	52%
Yes, planning to participate	14%
No	34%
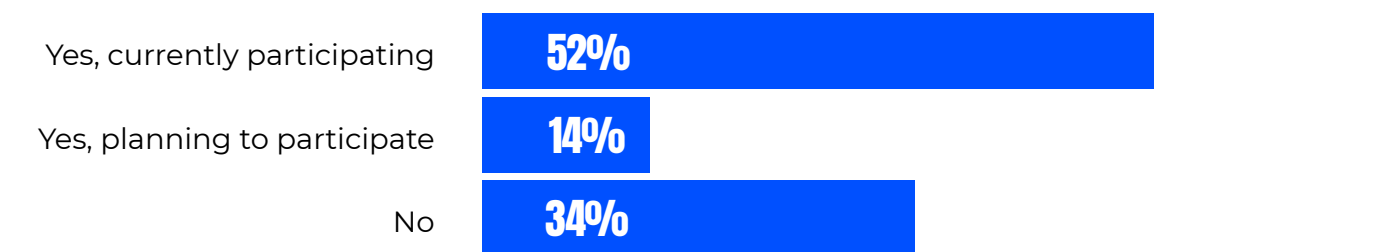
What are the top barriers (if any) preventing your institution from participating in banking as a service (BaaS)/embedded banking or open AI services in the next 12 months?
(Select all that apply.)

Not part of our strategy	53%
Risk	42%
Compliance	38%
Open AI readiness	30%
Cybersecurity readiness	29%
None of these	8%
Other	3%

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