2025 strategy benchmark

Regulatory Upheaval Creates Strategic Opportunity in the Era of Data

jack henry™

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Study methodology

Between January and February of 2025, Jack Henry™ conducted an online survey of our clients. Responses were received from 149 bank and credit union CEOs, representing a diverse sample of Jack Henry clients across the U.S., with assets ranging from under $500 million to more than $10 billion.

executive summary

Voice of the CEO

Welcome to the seventh annual Jack Henry Strategy Benchmark, which aims to identify the top strategic priorities for bank and credit union CEOs in 2025 and 2026.

By providing actionable insights, this survey equips you with a peer benchmark for your strategic planning and enables Jack Henry to better align with your long-term direction, pinpoint emerging areas of opportunity, and expedite timely innovation in areas that matter most.

In addition to gathering high-level insights, we've focused on key competencies across your technology infrastructure and major business lines (core, digital, lending, payments, risk, fraud, and security) to help you compete more effectively and differentiate strategically.

Below are key takeaways from the study:

- As growing non-interest expenses and loan-loss provisions continued to put downward pressure on net income in 2024, community banks and credit unions entered 2025 with a growing sense of urgency around efficiency. **For the first time ever, efficiency has emerged as the top strategic priority, with 54% of bank CEOs and 41% of credit union CEOs naming it a primary focus.**
- **While growing deposits remains the top strategic priority for banks in 2025 and 2026 (64%), credit unions have shifted their focus toward growing loans, with 40% naming it a top priority.** U.S. community banks and credit unions reported strong deposit growth last year, with increases of 4.7%[1] and 4.2%[2], respectively. However, credit unions faced challenges, including a 3.3% contraction in auto loans – with the smallest credit unions (under $500M in assets) experiencing declines across their loan portfolios.

- **The majority of financial institutions (76%) plan to increase technology spend this year and next, down slightly from 80% last year.** Credit unions are significantly more bullish on budgets, with 47% planning to increase tech investments between 6% and 10% – compared to only 16% of banks. Most banks (43%) plan to increase their tech investments between 1% and 5%.
- While digital banking, fraud prevention, and automation are the top three technology investments planned over the next two years, banks plan to increase spending on cybersecurity and artificial intelligence (AI). **Though credit unions have historically given outsized priority to AI investments relative to banks, this year, the number of banks (24%) reporting AI investments grew by double-digits year-over-year.**
- **Fraud losses and cyberattacks are fast-growing concerns for both banks and credit unions**. For the first time, fraud losses rank as the top concern among all respondents (38%), surpassing net interest margin (NIM) compression, which fell to second (34%), followed by deposit attrition/displacement and cyberattacks tying for third. Banks remain concerned about talent acquisition/retention (36%) while credit unions continue to harbor outsized worry about acquiring younger accountholders (37%).
- **For banks, NIM remains the key performance metric for 2025 and 2026 (64%).** Concerns have eased significantly as funding costs declined more quickly than asset yields last year and the industry closed out 2024 NIM levels above pre-pandemic averages. **For credit unions, return on assets (ROA) and accountholder growth/attrition (58%) are the focus.** As a greater proportion of credit unions experienced improvement in their NIM last year, their concerns about NIM compression this year have declined by double-digits.
- **Nearly all financial institutions (94%) plan to embed fintech into their digital banking experiences,** with a slight majority (52%) planning to embed digital account opening (DAO) followed by payments (51%). Credit unions are also turning to fintechs for help embedding consumer financial health and digital marketing solutions, while banks are turning to fintechs for help with small business services and treasury management.
- **Eighty percent of banks and credit unions plans to expand services for small businesses in 2025 and 2026** – up from 78% in 2024 and 65% in 2023. These financial institutions plan to add payment services, digital service tools, and credit/lending options for their small business accountholders.

- **Most financial institutions (89%) plan to add new payment services over the next two years,** with FedNow® Service being the top priority for both banks and credit unions. Digital card issuance, same-day ACH, and contactless cards round out top priorities in payments for 2025 and 2026.
- **The majority of financial institutions (90%) plan to enhance their lending capabilities,** but priorities diverge sharply and predictably between banks and credit unions. Banks plan to prioritize automated workflows, automated financial spreading, and portfolio credit monitoring while credit unions plan to focus on underwriting using AI, rules/decision engines, and automated funding. **Despite the differences in focus, all lending priorities are driven by the imperative to improve operational efficiency.**
- When asked which fraud threats are most concerning, **financial institution CEOs cite account takeover (ATO) fraud, authorized push payment (APP) fraud/scams, and forged/counterfeit check fraud** as their top concerns.
- **Both banks and credit unions report phishing attacks as their biggest cybersecurity threat over the next two years,** with ransomware and malware rounding out the top three threats.

"Potential changes in regulation by the current administration create uncertainty about what these changes might mean or require from a technology standpoint. Regardless, we must have answers for our clients, and, to do that, we have to understand any and all potential impacts. Currently, the landscape is built on ever-shifting sand."

Randy Withrow
Chief Solutions Officer and Executive Vice President of Bank Operations at **Pinnacle Bank**

regulatory upheaval creates strategic opportunity in the era of data

By: Lee Wetherington, Senior Director, Corporate Strategy

Dramatic.

That's the only way to describe the swing in industry sentiment from the end of 2024 to the beginning of 2025. In a matter of weeks, heady optimism curdled into creeping fear, uncertainty, and doubt.

Before the presidential election in November 2024, community bank sentiment reached record highs,[3] driven by confidence in a strong economy, falling inflation, and steadily lowering rates. NIM improved as funding costs declined faster than yields on assets.

On the heels of the election, the promise of regulatory relief further stoked enthusiasm, with 83% of bank and credit union executives indicating they were "very" or "somewhat" optimistic about 2025.[4]

But then came January.

A strong jobs report followed by talk of tariffs and trade wars set off alarms on Wall Street and prompted economists to raise their inflation forecasts on fears President Trump's policies might drive prices up. With that threat looming, the Federal Reserve postponed its next round of rate cuts.

Over the next few months, tariffs were threatened, announced, canceled, delayed and levied – sometimes in a matter of hours. Economic uncertainty soared to levels normally associated with recessions and global crises.

By April, the KBW Nasdaq Bank index had its worst one-day drop since the collapse of Silicon Valley Bank in 2023, and President Trump's tariff announcements wiped out $6.6 trillion of stock market value in only two days, the worse decline since the COVID-19 pandemic in 2020.

Suddenly, 2024's expectations of lower inflation, falling rates and sensible deregulation gave way to 2025's worries about stagflation, global recession and regulatory dysfunction.

"Delete" the CFPB? Careful What You Wish For.

And then there was the Trump administration's attack on the CFPB – the agency that finalized and put into effect the Personal Financial Data Rights (PFDR) rule (or 1033) governing open banking and the exchange of consumer financial data in the U.S.

Given data drives the future of financial services, the fate of the CFPB and the PFDR open-banking rule are consequential. More financial data is exchanged per capita in the U.S. than in Europe, where the concept originated by regulatory mandate in 2007.[5]

More data is always better, and it's a prerequisite for faster digital account opening, instant account verification, cashflow underwriting, and the ability to see disparate financial accounts in one place.

Without secure, standardized open banking, financial institutions will find it difficult to plug data deficits on accountholders, fight fraud and cyber threats in real time, and train AI models to achieve new levels of efficiency – the top strategic priority for banks and credit unions looking to control rising noninterest and provision expense driving declines in net income.

No open banking means less data. Less data means no AI. No AI means less efficiency, more risk, and lower margins.

Regulatory Relief, Chaos, or Opportunity?

The CFPB has been aggressive in its supervision and prosecution of nonbank fintech offenders, leveling the playing field with regulated banks and credit unions. PFDR specifically holds non-bank data providers (e.g., PayPal, Block) to the same standards and requirements as chartered financial institutions.

Given many credit unions and banks see "big fintech" as their most significant competitive threat,[6] **"deleting" (or defanging) the CFPB would make the playing field much less even, giving big fintech freer reign to cannibalize banks and credit unions.**

In April, the U.S. House and Senate overturned a rule that would have given the CFPB explicit supervisory oversight of payment apps and digital wallets run by large technology companies like Apple, Google, Meta and PayPal.

And while open banking and financial data exchange would continue to grow in the unlikely event that PFDR is rescinded, with PDFR standards in place that growth will accelerate, broadening both access to open banking and feasibility for smaller financial institutions to execute their own data strategies, levering their trust to secure more permissioned data than their less credible, non-bank competitors.

Though many banks and credit unions assume PFDR is all cost and no upside, the most strategic financial institutions see open banking as an indispensable source of data needed to compete, differentiate, and win on service, relationships, and trust.

These forward-thinking financial institutions will leverage their 1033-compliant, open-banking integrations and infrastructure to monetize data well outside the scope of PFDR and capture new value with use cases made possible by higher consent rates on data-sharing permissions they secure from their accountholders.

Will the PFDR/1033 Open Banking Rule Survive?

Yes. The PFDR/1033 open banking rule went into effect on January 17, 2025, and now carries the weight of law. Its requirements and tiered compliance deadlines remain.

The rule also enjoys broad bipartisan and bicameral support in Washington, D.C. Powerful interests, including mega banks that invested heavily in open banking infrastructure and standards like the Financial Data Exchange (FDX), are loath to see those investments threatened.

In the words of a large regional bank, "We're worried that if the new administration unravels decisions already made on financial data exchange, it will be more costly to re-build when the administration changes. That's why we're sticking with 1033 and the CFPB's guidelines."

Delay, Distraction, and Exemption Are Dangerous in the Era of Data

Everybody loves an exemption. Especially smaller banks and credit unions.

But PFDR's exemption of financial institutions under $850M in assets could persuade some community financial institutions to remain on the sidelines of open banking.

With no application program interfaces (APIs) in place and screen scraping on the decline, these smaller banks and credit unions (and their accountholders) would be effectively frozen out of the data-driven era of financial services and all the benefits it makes possible.

Many were relieved to learn that compliance deadlines were extended in the final PFDR rule, and some delayed data initiatives and investments accordingly. The chaos created by the new administration's attacks on the CFPB helped others rationalize the mindset of "not doing anything until we see how this all plays out."

Many exempt financial institutions went on auto-pilot regarding data strategy – relying on their cores or digital banking providers to keep them current.

Unlike many other rules and regulations, PFDR is about data, and data drives growth, efficiency and better digital experiences. Without a clear data strategy and the means to execute that data strategy, AI will quickly widen the yawning gap between winners and losers, and challenge the option of being a "fast follower."

To better understand the stakes, it's important to recognize the strategic implications of PFDR. To do that, however, requires sorting fact from fiction and hype from reality.

Five Myths About the CFPB's Open Banking Rule (PFDR/1033)

1. **PFDR will increase financial institution switching**
   - **WRONG!** In practice, it will solidify incumbents' ability to augment their primary data with accountholders' auxiliary data at/with other apps/providers.
2. **PFDR will increase cybersecurity, fraud, and risk**
   - **WRONG!** The rule incrementally replaces widespread screen scraping (and massive cybersecurity, fraud, and risk exposure) with standardized APIs that eliminate credential sharing and a wide array of threat vectors plaguing digital banking platforms.
3. **PFDR will be all cost, no opportunity**
   - **WRONG!** Standardized open banking creates more opportunity for value creation and monetization than any other single phenomenon in the new era of data-driven financial services. 1033-compliant open-banking infrastructures can be used to generate revenues with a host of value-added products and services. Any data that falls outside the scope of 1033 can be directly monetized where the market will bear.
4. **PFDR is just a one-way street for data to leave your financial institution**
   - **WRONG!** Open banking is a secure, standardized way to aggregate more financial data back to your financial institution to improve personalization and better fight fraud in real-time.
5. **PFDR is just another unnecessary compliance headache from the CFPB**
   - **WRONG!** It's your best opportunity to plug data deficits, improve competitive intelligence, achieve better, faster, and cheaper loan underwriting, and scale acquisition of small and medium-sized business (SMB) deposits.

Winning the Data Wars

Whether you're looking to improve DAO to acquire Gen Z, offer emerging payment types like Pay-by-Bank and real-time account-to-account (A2A) transfers, scale underwriting of SMB loans, or fight fraud and cyber threats in real-time, you'll always need more data, not less.

Open banking is an essential source of that additional data.

While most financial institutions think they have between 25% and 75% of their accountholders' total financial data on hand, they don't.[7]

Given the state of financial fragmentation – in which the average U.S. adult has relationships with 15 to 20 financial service providers and apps[8] – most financial institutions would be doing well to possess 25% of their accountholders' total financial data.

Without a preponderance of your accountholders' financial data, you can't truly know them well enough to assess their needs – let alone recommend the next-best product or service.

It's Time to Get Serious, Sober, and Smart About Data Strategy

To get started, identify the most important growth objectives, efficiency gains and AI use cases you're targeting over the next three to five years. Then, ask yourself these questions:

1. **Do we have the right data?**
   - If not, where can we get it?
2. **Do we have enough data?**
   - If not, where can we get more?
3. **Can we access enough of the right data in real time?**
   - What infrastructure and integrations are needed to access enough of the right data in real time to achieve the most strategic use cases?

No matter the near-term political chaos, regulatory upheaval and economic uncertainty, data trumps drama during disruption.

key findings

Study Results:

Top Three Strategic Priorities

Increasing operational efficiency is the top strategic priority for all financial institutions in 2025 and 2026. This year, 64% of bank CEOs report that growing deposits is paramount, while 40% of credit union CEOs are placing greater emphasis on growing loans and acquiring accountholders.

Key Insights:

40% of credit unions say accountholder acquisition is a priority.

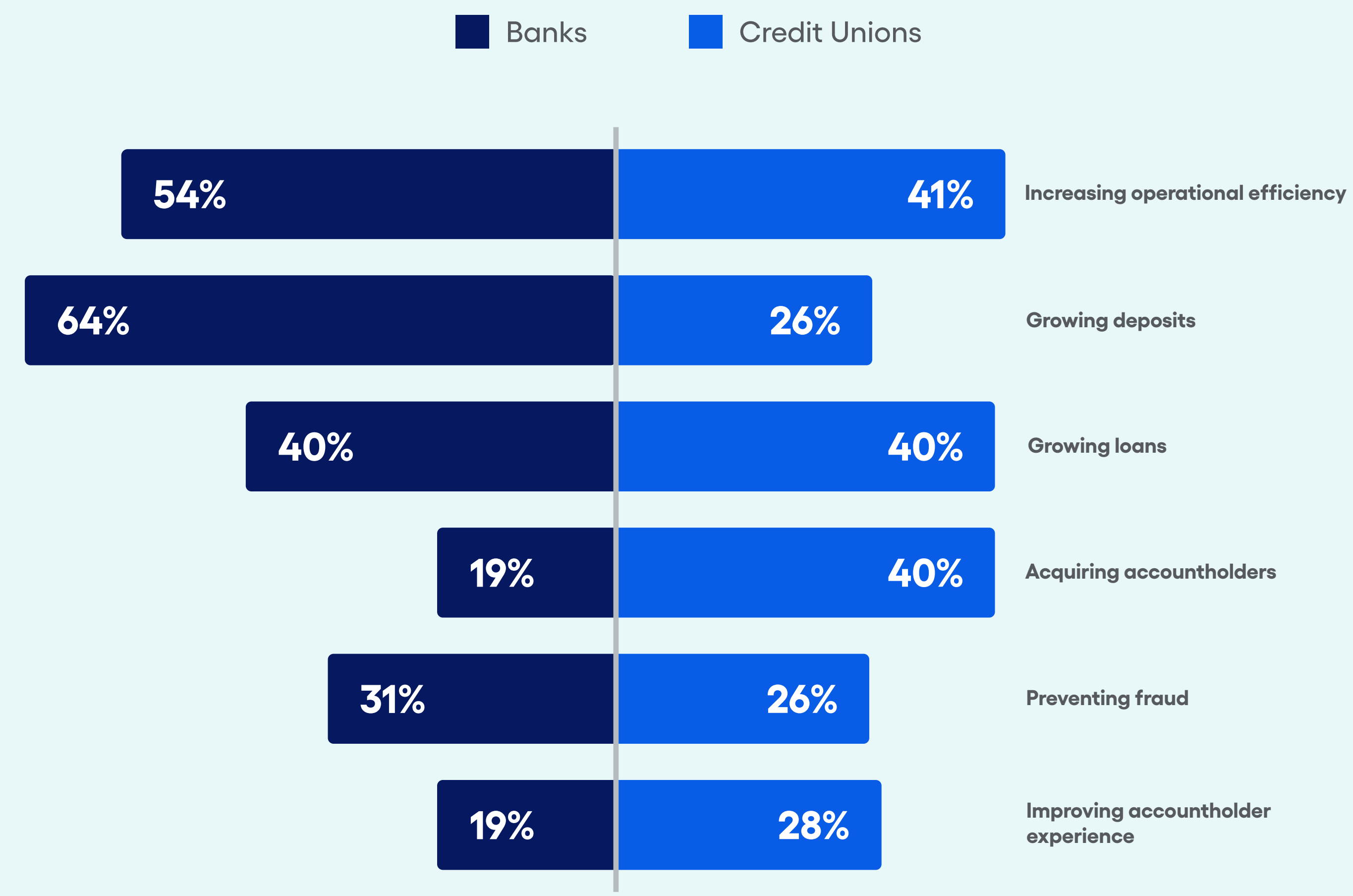
Banks and credit unions differ on key performance metrics. **Banks report NIM as their key performance metric for 2025 and 2026 (64%), while credit unions plan to focus on ROA (58%) and accountholder growth/attrition (58%).**

"Sustainable cost transformation is essential for our bank and all banks. We'll leverage AI wherever possible and continue to identify areas where we can automate processes and mundane tasks. We're fostering a cost-conscious culture to enhance productivity, scalability, and resilience."

Kathy Strasser
Executive Vice President, Chief Operating Officer, and Chief Information Officer at **Incredible Bank**

Top Three Strategic Priorities

Over the next two years, what are your top three strategic priorities?



**results shown reflect top percent of findings only*

Study Results:

Top Three Concerns

While fraud losses and NIM are the top two concerns for financial institutions overall, NIM compression has decreased by double-digits for both banks and credit unions compared to 2024. In contrast, concerns about fraud and cyberattacks have increased significantly.

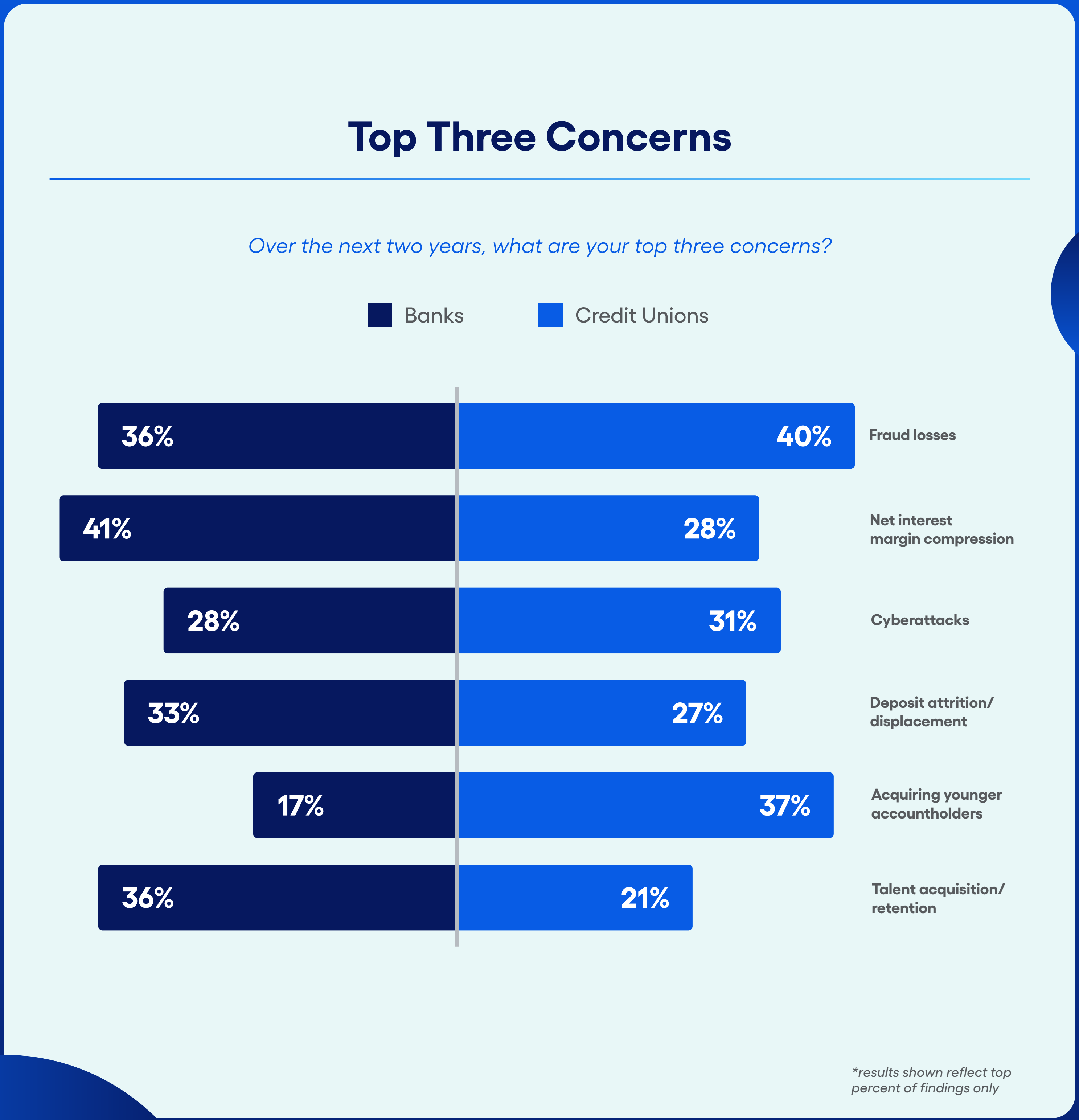
Key Insights:

There's a notable disconnect between recognizing fraud as a top priority and concern and the reduced investment in fraud-specific technology spend. While this gap may not indicate apathy, it reflects a strategic pivot. In fact, **financial institutions are reallocating resources toward staff and accountholder education, staff training, and broader scam awareness** – recognizing that technology alone won't solve socially engineered fraud.

Banks express **higher concern over talent acquisition/retention (36%),** while credit unions are **more focused on acquiring younger accountholders (37%).**

"Whether we want to believe it or not, community banks are in a pressure cooker. Success depends on retaining the best people, having a (ridiculously) clear strategic plan, obsessing over what the accountholder defines as the best experience, and driving a superior project management discipline that delivers rapid and sound execution."

Kristin Marcuccilli Green
President at **STAR Financial Group**



Study Results:

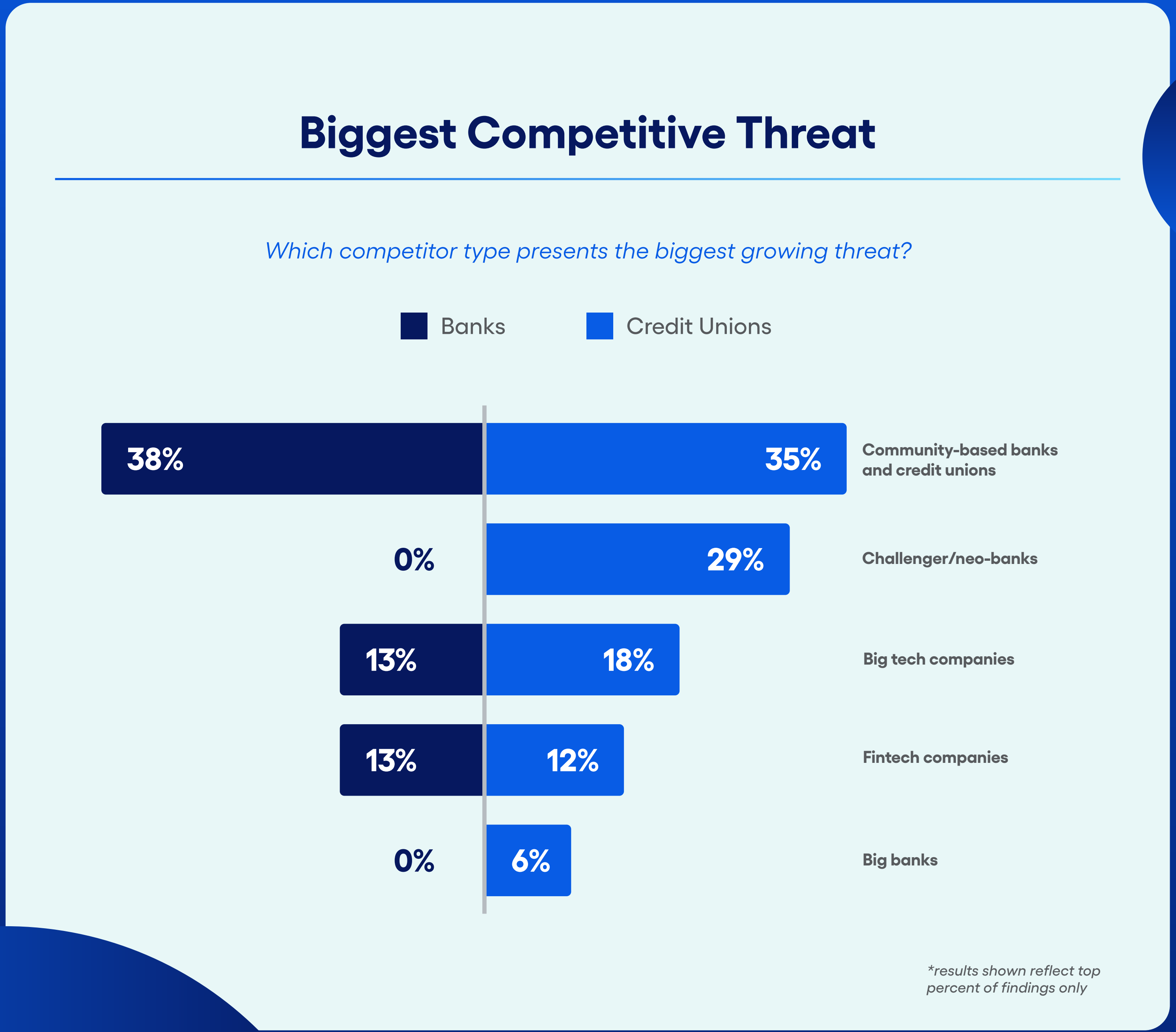
Biggest Competitive Threat

Both banks and credit unions agree that other community-based financial institutions are their biggest competitors in 2025, with credit unions reporting a double-digit increase compared to last year. Meanwhile, banks are showing a double-digit increase in their concerns for big tech competition in 2025.

Key Insights:

This year, **29% of credit unions identified challenger/neo-banks as a growing threat,** a decline from 38% last year.

Big banks did not rank as a top threat for any surveyed banks and only 6% of credit unions. In 2024, big banks were considered a top competitive threat by 17% of banks and 15% of credit unions, indicating a significant decrease in the perceived threat posed.



Study Results:

Technology Spending Plan

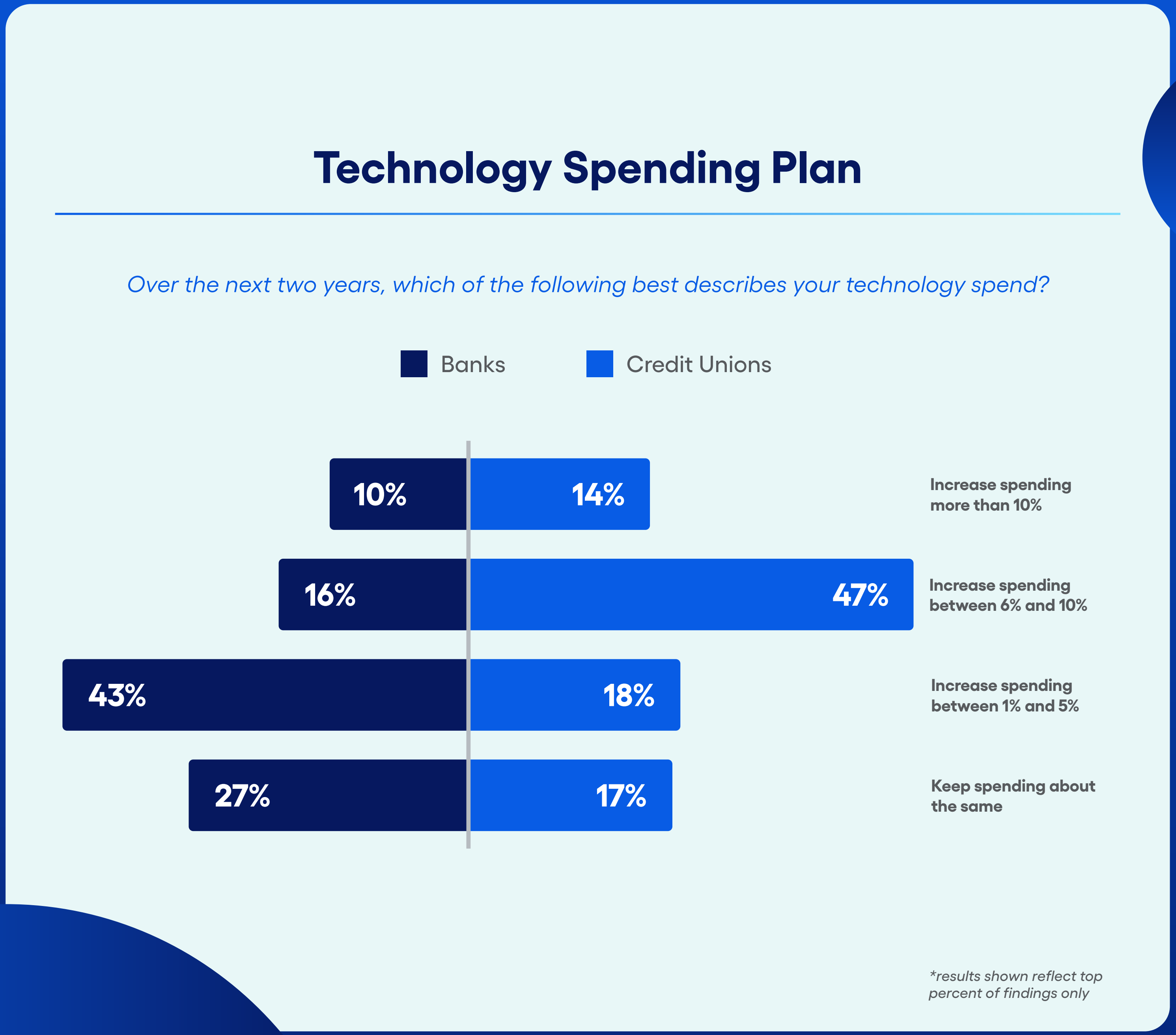
The vast majority of banks and credit unions (76%) plan to increase technology spend over the next two years. Of those planning to increase their technology spend, the biggest segment (33% in total) plans to increase investments between 6% and 10%.

Key Insights:

Credit unions are more bullish on tech budgets, **with 47% planning to increase tech investments between 6% and 10%,** compared to 16% of banks. **Most banks (43%) plan to increase their investments between 1% and 5%.**

Plans to increase tech spend decreased slightly from 80% in 2024 to 76% in 2025 and 2026. This slight decline may be driven by a focus on efficiency (versus net new capabilities) and nascent economic uncertainty.

Digital banking, fraud prevention, and automation are the top three technology investments planned over the next two years. Though credit unions have historically given outsized priority to AI investments relative to banks, this year, the number of banks (24%) reporting AI investments grew by double-digits year-over-year.



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Study Results:

Technology Investment Priority

The top three technologies CEOs plan to invest in over the next two years are digital banking, fraud prevention, and automation.

Key Insights:

Investments in digital banking are likely to deliver dual benefits – enhancing the accountholder experience and fraud prevention. Modern systems that leverage identity data and enriched contextual information **can better authenticate accountholders, help prevent attacks, and safeguard accountholders.**

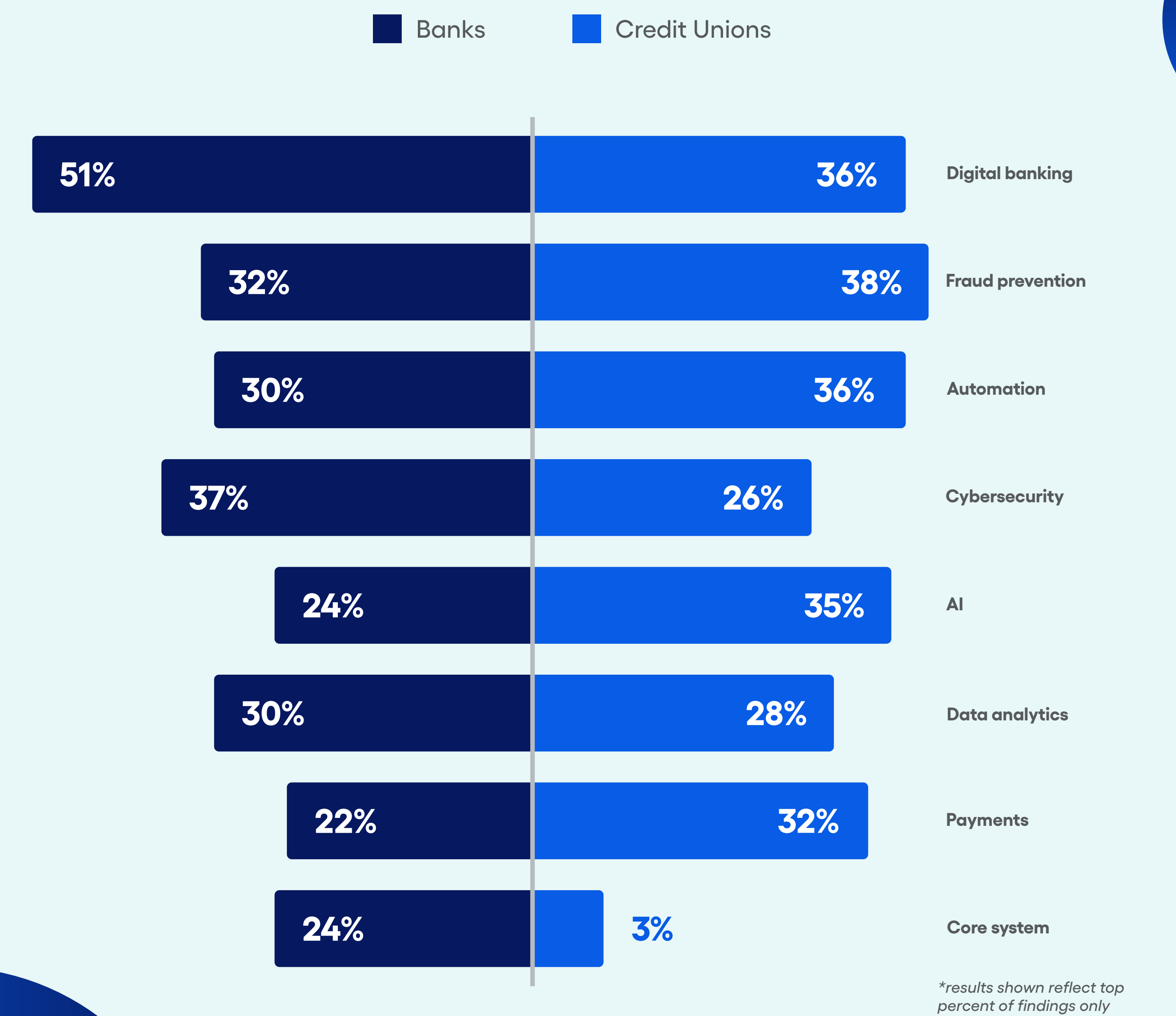
This year, **banks report growing interest in cybersecurity (37%) and AI (24%), while credit unions are placing greater emphasis on payments (32%)** – an increase compared to last year.

"Data is the key to success. We must be able to aggregate and analyze all data across all platforms to understand where our current focus is versus where it needs to be."

Randy Withrow
Chief Solutions Officer and Executive Vice President of Bank Operations at **Pinnacle Bank**

Technology Investment Priority

Select the top three technologies you plan to invest in over the next two years:



Study Results:

Niche Plans

Banks and credit unions continue to pursue niche segments – targeting business, professional, and demographic niches over the next two years.

Key Insights:

The majority of financial institutions (86%) plan to serve a niche market in 2025 and 2026, with business remaining the primary focus.

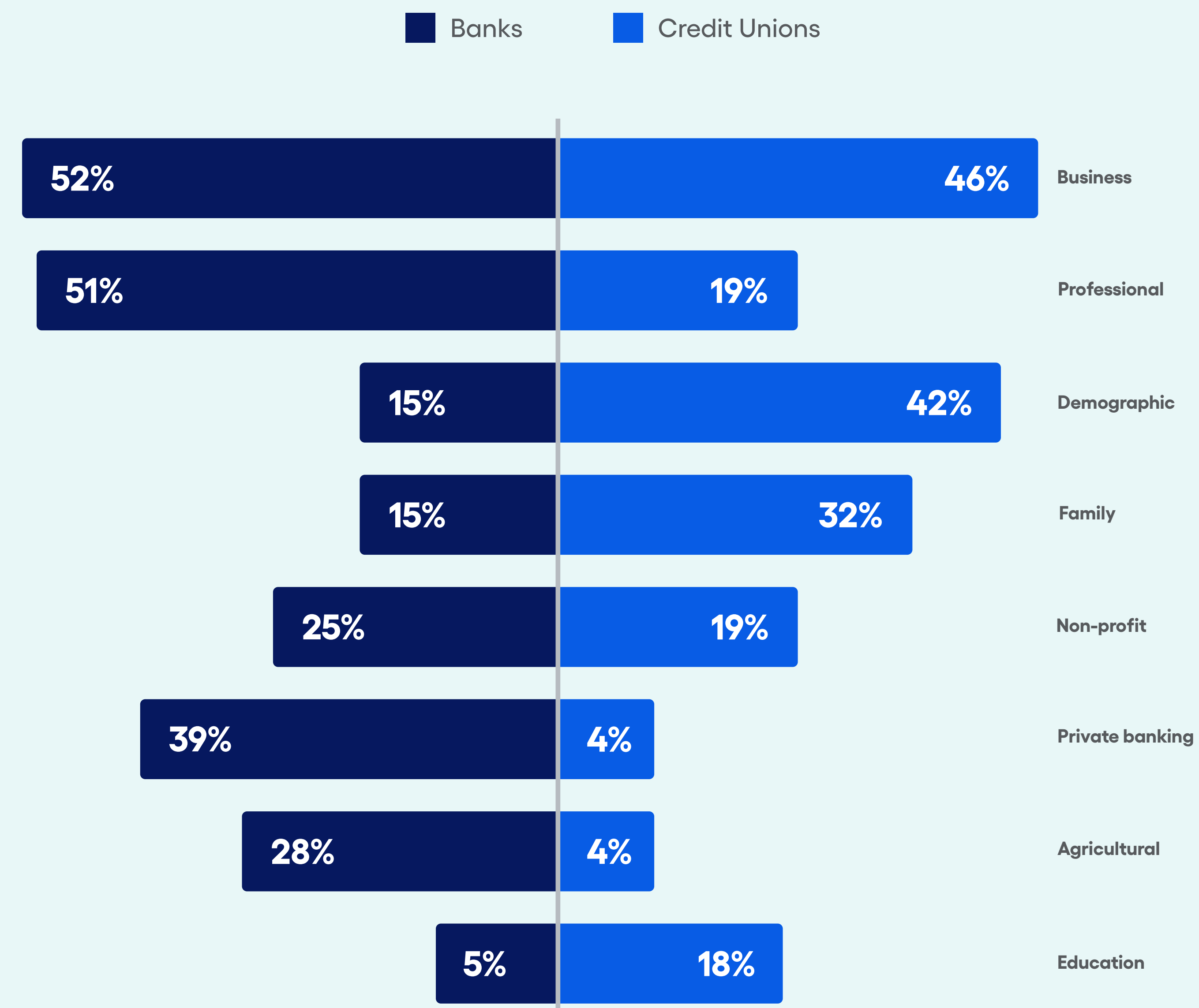
Credit unions (32%) plan to serve the family niche (co-managed accounts for parent/child and senior/caregiver). This focus is expected to increase as generational wealth shifts from older to younger accountholders.

"From a growth perspective, targeting niche markets remains a great opportunity. Understanding the unique characteristics of these niches and offering tailored loan and deposit products can drive significant growth while minimizing competition. These niche markets are often too small for big banks and too complex for fintechs, making them ideal for community banks."

Kathy Strasser
Executive Vice President, Chief Operating Officer, and Chief Information Officer at **Incredible Bank**

Planned Niche Market Segments to Pursue

Which niche market segment(s) do you plan to pursueover he next two years?



**results shown reflect top percent of findings only*

Study Results:

Expansion Plans for Small Businesses

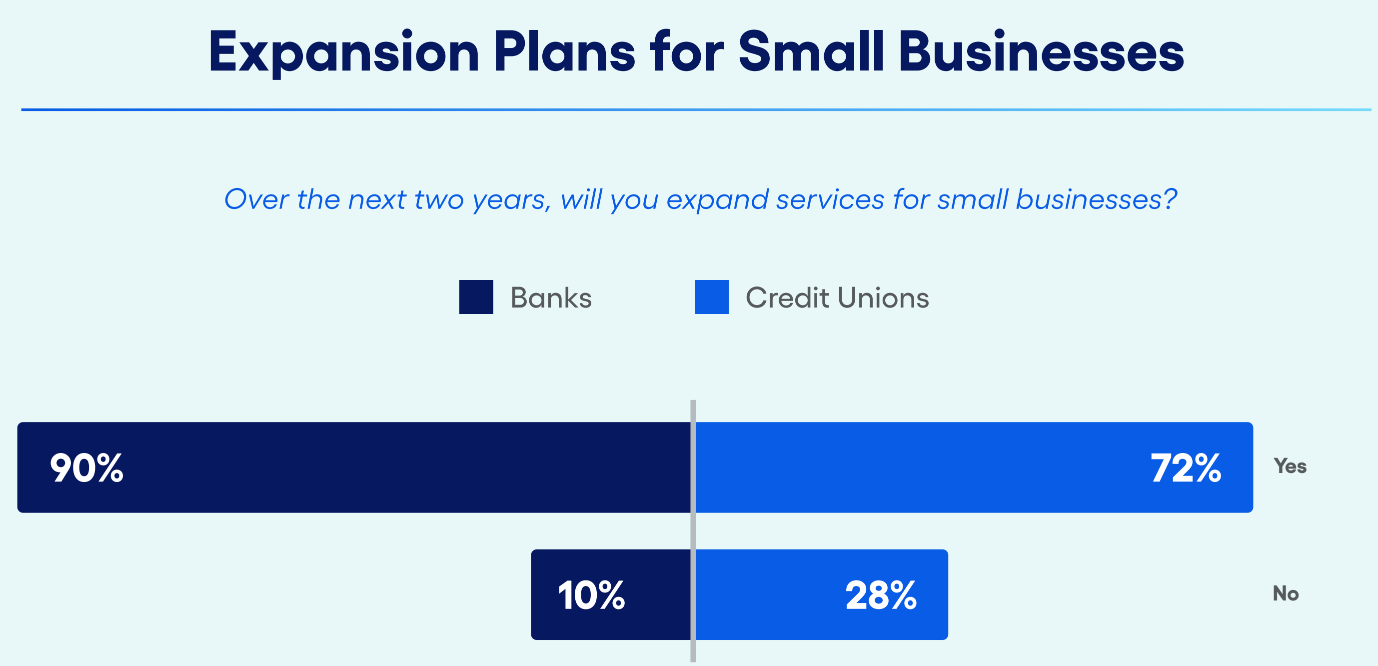
The majority of banks (90%) and credit unions (72%) plan to expand services to small businesses in 2025 and 2026.

Key Insights:

Most financial institutions (80%) have plans to expand services for small businesses within the next two years – up from 78% in 2024 and 65% in 2023.

Banks and credit unions **must use analytics to identify camouflaged small business owners hidden in their retail checking accounts,** then leverage core data to automate approvals of those SMBs to accept payments deposited directly into the bank.

Community banks and credit unions are uniquely positioned to meet the needs of small businesses – **yet more than half of SMBs have their primary checking account with one of the four megabanks.**[9] Megabanks and fintechs are offering one-stop SMB services that provide cash flow management and visualization, expanded payment access, and easy integration to third party services.



Study Results:

Planned Small Business Services

Payments, digital accountholder self-service tools, and business credit/lending are the top three types of small business services banks and credit unions are prioritizing.

Key Insights:

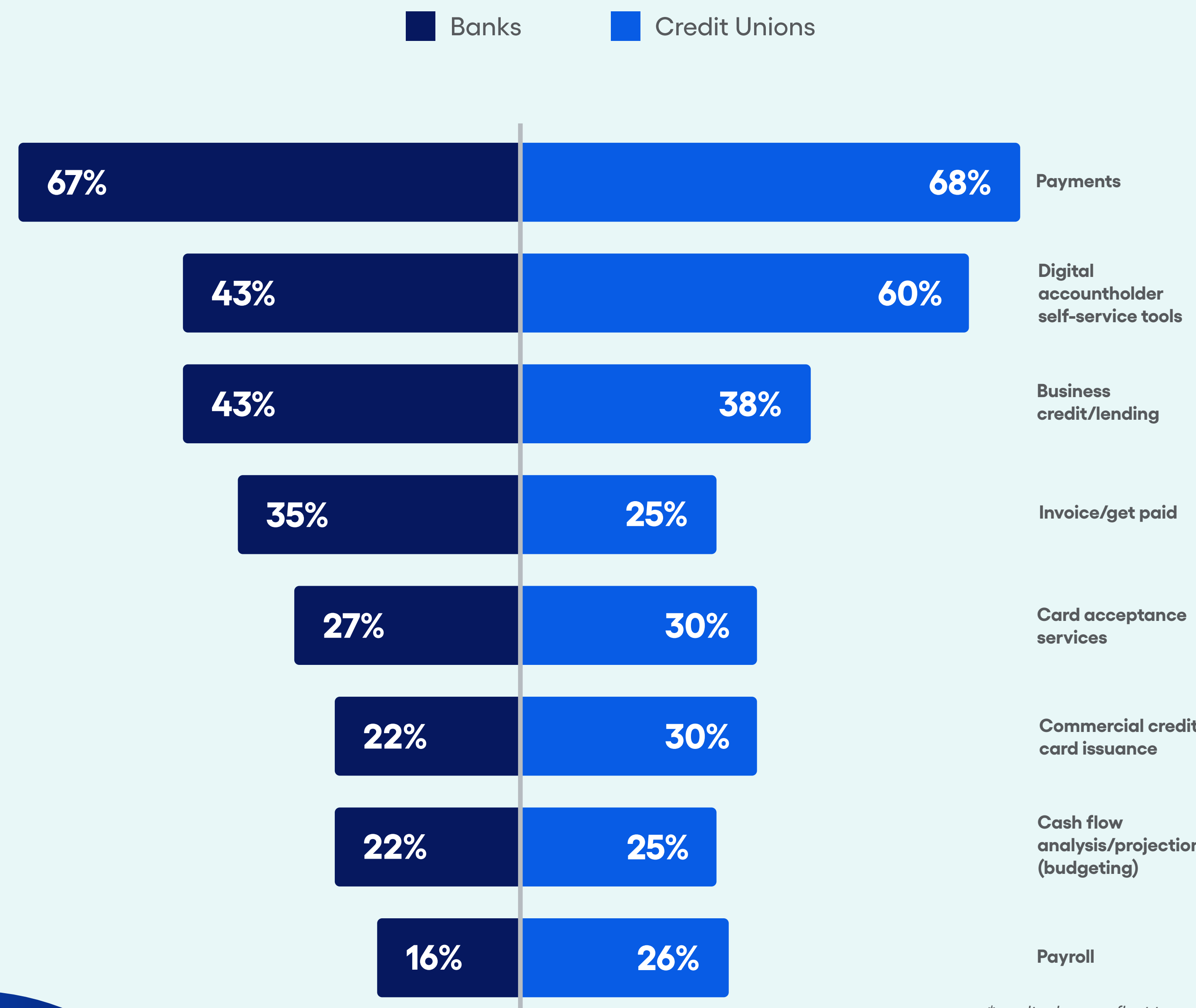
Increased interest in serving small businesses allows banks and credit unions to recapture market share lost to fintechs. Although few financial institutions (23% in total) report cash flow analysis as a priority, **it's critical for the livelihood of small businesses to forecast cash flow while expanding credit and lending capabilities.**

When asked what type of payments services CEOs plan to add, **FedNow Request for Payment (RFP) takes the lead with both banks (60%) and credit unions (57%). Banks report online payment portals (43%) second while credit unions plan for ACH origination (49%).**

Pay-by-bank, accounts payable, and accounts receivable make an appearance in the top six for the first time this year.

Planned Small Business Services

What small business services are you planning to add?



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core

The Inevitable Transformation of Core Banking: Navigating Next-Gen Platforms

By: Carlos Lopez, Senior Analyst, Digital Banking

The Big Picture

Next-gen core platforms are no longer just an interesting trend to follow – they're a transformation reshaping the core market as we know it.

As more financial institutions implement next-gen solutions, the benefits become increasingly evident, as their cloud-native infrastructures create a scalable, fast, and cost-efficient solution while enabling real-time data streaming and orchestration.

This data can be utilized across the entire modernized infrastructure, producing a variety of benefits such as enhanced fraud mitigation, precise cash flow forecasting, and hyper-targeted loan offers.

Furthermore, these platforms are designed for continuous innovation, allowing for the rapid development and deployment of new features and enhancements to help you stay evergreen in your offerings without enduring lengthy upgrade cycles.

Next-gen core platforms offer a range of crucial advantages – and transitioning to them has never been easier.

Traditional core conversions often require complex rip-and-replace processes, creating a major hurdle – resulting in only 21% of bank executives expecting to switch to a new core provider when their current contract ends.[10]

The composable architectures of next-gen cores are designed with a separate module for each function – allowing for incremental deployment. This modularity reduces both the risk and cost of conversion, making the shift more manageable for financial institutions.

If issues arise during implementation, only the impacted module needs to be addressed – not the entire system.

What to Do

While modular deployment offers flexibility, success depends on having a detailed, strategic roadmap that aligns your business goals with technological capabilities. Identifying key functions upfront ensures a faster, more cost-effective transition.

Additionally, a robust data strategy is critical.

Next-gen cores capture a wide array of real-time data that has historically been siloed away. Financial institutions that leverage this data effectively will enjoy a competitive advantage, as 45% of banks and credit unions have no formal data management strategy and/or see significant areas of improvement within their current one.[11]

Next Steps

1. **Craft your transformation roadmap.** An effective strategic roadmap should include details on your target market, appropriate benchmarks of other players in your space, and a solid understanding of the features you need to be competitive in your chosen market. Doing so will help prioritize core modules for adoption and guide your financial institution through the transition from your legacy systems.
2. **Manage your technical debt.** Ninety percent of the average technology budget goes to maintaining current systems, with only 10% earmarked for growth initiatives.[12] By modernizing your legacy systems and core functions that demand constant maintenance, you can free up future investment dollars to support your ongoing transition while also enhancing your operational stability.
3. **Don't forget human capital.** Roughly 50% of financial institution executives say talent shortages have negatively impacted their progress toward strategic goals.[13] Having the right talent in place not only affects the success of a conversion to a next-gen core but also the operation of the core afterward. Ensure your team has the expertise to manage next-gen technology, including change management skills and understanding how to work in a cloud environment.

Study Results:

Public, Cloud-Native Core in Technology Plan

Banks and credit unions are beginning to embrace the public cloud, with 30% of credit unions and 43% of banks planning to include a public, cloud-native core in their strategic plans over the next two years.

Key Insights:

Nearly a quarter of banks report plans to use tech spend toward investing in a new core system.

As the adoption of cloud technologies accelerates, banks and credit unions are **prioritizing enhanced scalability, cost efficiency, flexibility, greater agility, and faster speed to market.**

The composable architectures of next-gen cores are designed with a separate module for each function – allowing for incremental deployment. This modularity reduces both the risk and cost of conversion, making the shift more manageable for financial institutions.

digital banking

If You Build It, They Will Come

By: Carlos Lopez, Senior Analyst, Digital Banking

The Big Picture

In recent years, financial institutions have started to shift their approach to digital banking.

Instead of prioritizing rapid tech adoption, the emphasis now lands on refining existing tools to better align with long-term strategies – with annual growth in IT budgets decelerating to a median of just 4% in fiscal year 2024.[14]

Further fueling this shift is the rise of AI-enabled solutions.

Given their potential to reduce operational expenses through automation and deliver hyper-personalized experiences for consumers, AI tools are helping banks and credit unions create more value with each investment dollar they have and will spend. In fact, 40% of financial institutions plan to make AI a top-five investment over the next one to three years.[15]

Expectations from consumers and businesses continue to rise when it comes to digital platforms.

In today's crowded market, basic or impersonal services risk losing users to more polished alternatives. The competitive future lies within platforms that prioritize addressing financial needs first – offering tailored products and solutions second. Banks and credit unions that embrace relationship-based banking – enhanced with the benefits of open banking and embedded finance – will build trust, brand loyalty, and ongoing engagement.

As consumers' financial lives become more fragmented, the competition for both share of mind and share of wallet grows stronger each year.

You must avoid feature creep that bloats offerings without adding value. By prioritizing your accountholder's experience and needs, you can create continuous engagement – not just one-time sales.

What's Next

Enabling the transformation of a digital banking platform requires a top-down approach.

Your entire financial institution must be focused on long-term relationship building by designing digital experiences that meet accountholder needs and presenting the right products at the right time based on their unique situation.

Your ultimate goal should be to address financial fragmentation and regain the central role in the financial lives of your accountholders.

What to Do

- **Leverage data.** A core element of delivering engaging and personalized experiences is the collection, orchestration, and analysis of proprietary data (e.g., goals, spending habits, app interactions, etc.) to better understand your accountholders' needs and address pain points in their digital journey. In an oversaturated market, data-driven insights are key to differentiating your platform.
- **Utilize open banking.** The average consumer has between 15 to 20 financial relationships[16] – meaning no single financial institution has access to the majority of their accountholders' financial data. This is especially true when dealing with younger generations. Open banking rails help overcome this fragmentation, breaking down siloes to bring together data from disparate sources. The centralization of this data allows for the creation of hyper-personalized experiences and marketing tailored to each unique user.
- **Set realistic benchmarks.** In a crowded market, trying to be all things to all users dilutes your value and effectiveness. Start by clearly outlining your target market and identifying successful players in the same niche. This process will help you identify the features you need to be competitive going forward.
- **Use embedded finance.** If you find your key competitive functionalities are missing or lagging behind peer offerings, third-party vendors can be brought in to bridge the gap. In 2025, 83% of credit unions and 60% of banks cited fintech partnerships as a driver of growth.[17] These partnerships can speed up time to market, reduce operational and regulatory burdens, and leverage the specialized expertise of fintechs for favorable outcomes.

Study Results:

Embedded Fintech Plans

Nearly all financial institutions plan to embed new technology into their digital banking experiences, with the majority prioritizing digital account opening, followed by payments and digital marketing.

Key Insights:

Digital account opening is the nexus of efficiency, growth, and user experiences. As digital banking shifts toward enhancing the quality of features and refining the overall experience through targeted partnerships, deliberate personalization, and engagement, **it's clear digital account opening will play a big role in 2025 and 2026 tech plans.** This approach allows banks and credit unions to target niches and segments that matter while nurturing consumer-centric and sticky relationships.

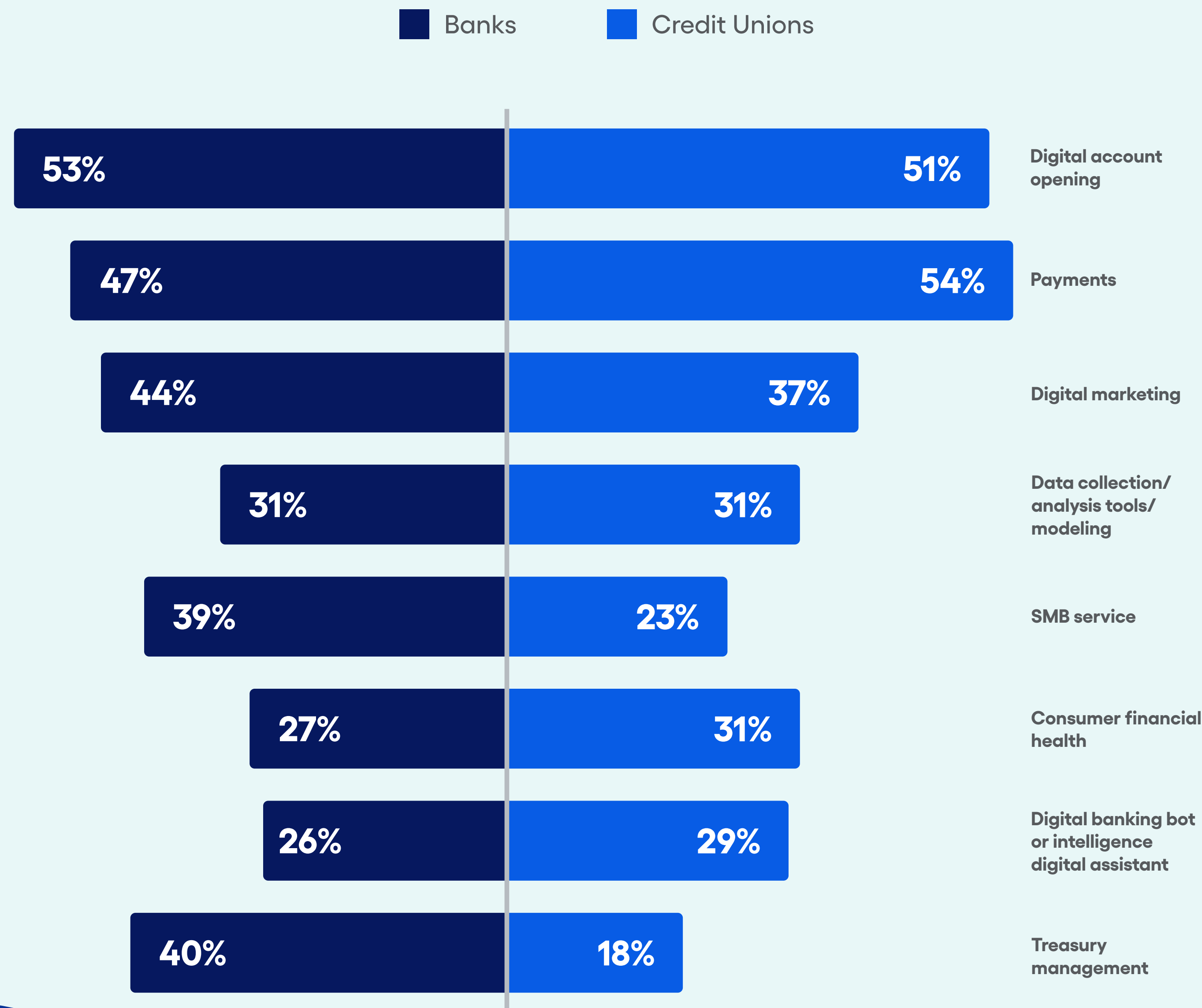
Most financial institutions (94%) plan to embed fintech into their digital banking solutions, though significant differences exist between banks and credit unions regarding the types of fintech they plan to embed.

"During our country's current turbulent economic and regulatory landscape and multiple means of communication, consumers want a safe harbor to conduct their financial business."

David Green
President and Chief Executive Officer at **1st Northern California Credit Union**

Planned Fintech to Embed in Digital Banking

What types of fintech do you plan to embed in your digital banking experience over the next two years?



*results shown reflect top percent of findings only

Study Results:

Planned Financial Services to Embed Into Non-Financial Brands

Majority of banks (68%) and credit unions (73%) have no plans to embed their services into third parties in 2025 and 2026. However, those who do plan to provide embedded banking/finance are primarily targeting Payments-as-a-Service (PaaS).

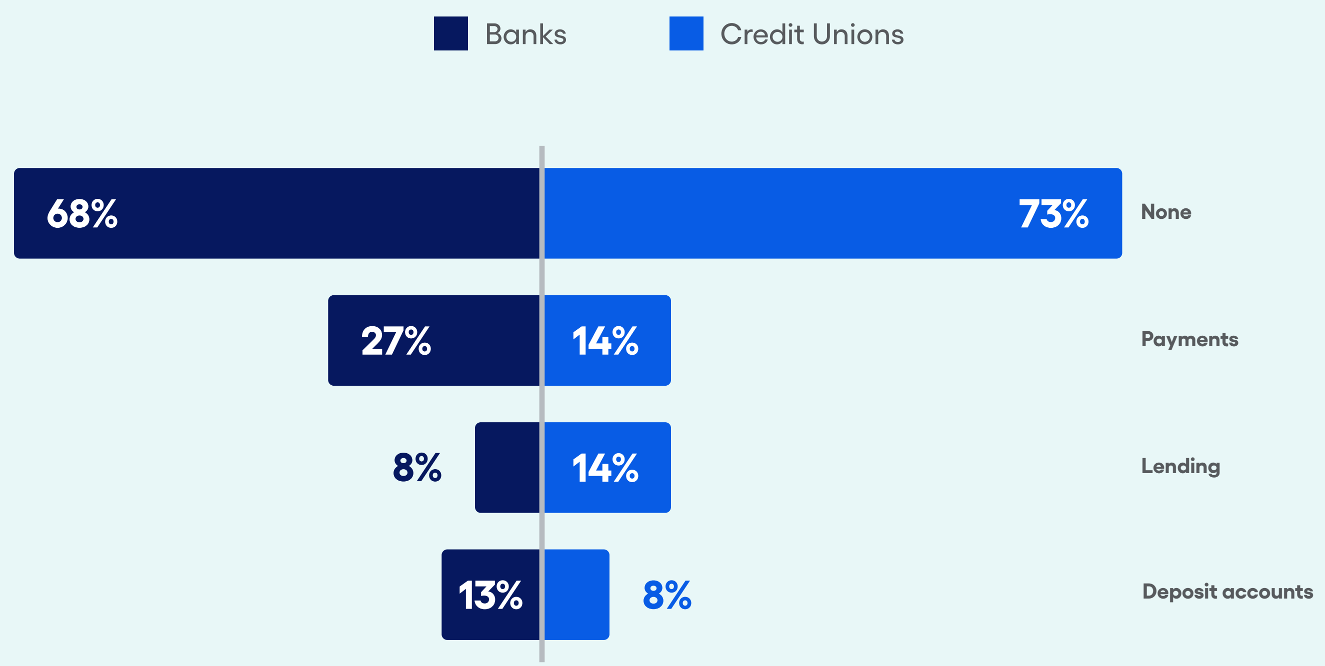
Key Insights:

Plans for launching Banking-as-a-Service (BaaS) – which embeds banking and finance into third-party, non-bank brands – continue to be tempered by increased regulatory scrutiny and related compliance costs. The total number of financial institutions not planning to utilize BaaS **increased slightly from 69% in 2024 to 71% in 2025 and 2026.** While there's some interest, with just over a quarter of banks exploring the option, this concept remains challenging to execute.

Only 15% of CEOs cite regulation/legislation as a top concern (half as many as last year). As federal financial regulations soften, it creates both opportunity and risk – opportunity to innovate and pursue new lines of business, and risk from competitors emboldened to do the same.

Planned Financial Services to Embed Into Non-Financial Brands

Which of your existing financial services do you plan to embed into non-bank third parties over the next two years?



results shown reflect top percent of findings only

Study Results:

How Fintech Partners Are Found

Financial institution CEOs rely on a mix of resources to find fintech partners, including peer referrals, industry associations, independent research, and core providers.

"As new and innovative financial services grow exponentially, it's vitally important that we work together with our key vendor/providers to empower our members with the best combination of beneficial products and services."

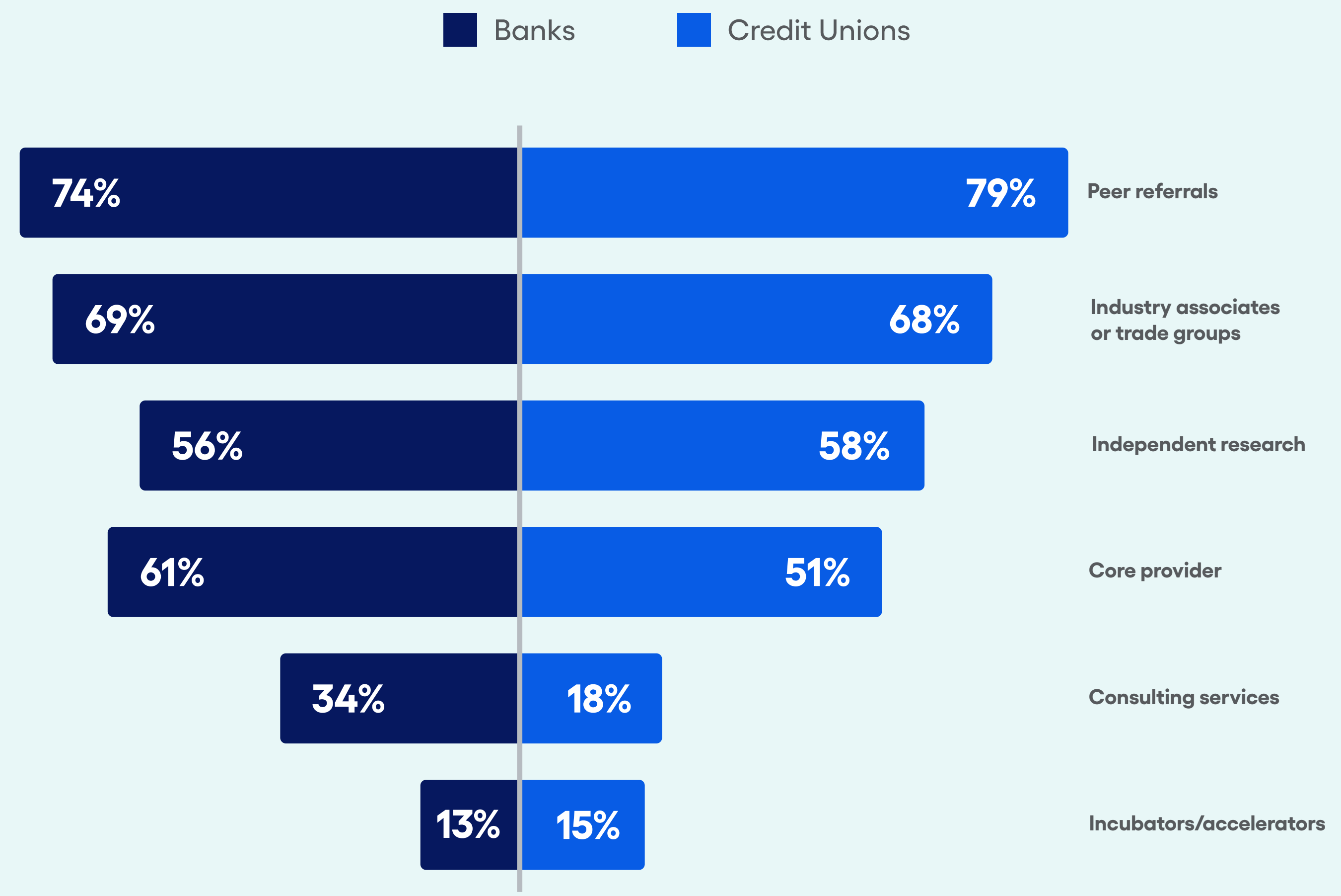
Michael Goad
President and Chief Executive Officer
at **Dow Credit Union**

"With the changes taking place in the administration, 2025 and 2026 will be interesting years. As this unfolds, community banks have a unique opportunity to strengthen their presence in existing communities. Having a top-tier mobile app with the essential banking functionality is crucial. It's also important to note that consumers are increasingly rewarding banks that retain the human touch in accountholders' moments of need. The aggregation of financial data is creating a new level of stickiness that we haven't seen before."

Kathy Strasser
Executive Vice President, Chief Operating Officer,
and Chief Information Officer at **Incredible Bank**

How Fintech Partners Are Found

How do you find fintech partners?



*results shown reflect top percent of findings only

payments

Demand Grows for Open, Embedded, and Real-Time Payments

By: Jennifer Geis, Senior Strategic Advisor, Research and Payments

The Big Picture

2025 is expected to be an exciting yet challenging year for payments.

The payments industry has become increasingly complex and multi-faceted due to the sheer number of players entering the market, with payment fragmentation continuing to play a large role as payment types proliferate.

While consumers are accustomed to invisible, instant, and secure payments, the convenience of managing finances from payment apps and digital-first platforms is pulling them away from traditional financial institutions.[18] So much so, that only $1 of every $8 collected through a third-party app like PayPal, Square, or Venmo ever makes its way back to the primary financial institution.[19]

The importance of payments should not be underestimated.

In the next 12 to 24 months, 92% of banks plan to increase their investment in payments, with 75% of banks believing the revenue from payments will increase more than 5% and 34% anticipating double-digit growth.[20]

Payments play a critical role in achieving and maintaining primary financial institution status.

In the past, direct deposits were a key indicator of primary financial institution status. However, today, transactional accounts that drive payments (e.g., bill pay, credit, debit, and P2P) are now what many accountholders consider their primary financial institution.

What many banks and credit unions may not realize is that Gen Z's preferred payment method is the debit card. Since debit cards are linked to traditional checking accounts, this presents a valuable opportunity for community and regional financial institutions to capture a larger share of the Gen Z market.

In addition, payment insights add to account stickiness as younger consumers and small businesses look for a trustworthy financial provider that offers reliable service and advice.

This is where you come into play.

Offering outstanding payment solutions paired with exceptional service is key to capturing market share and staying ahead of the competition.

What's Next

Payment fragmentation creates deposit displacement.

The connection between payments and deposits is becoming increasingly clear. **Financial providers who accept and send a wide variety of payment methods to meet modern accountholder needs will win the deposit war.**

Deposit displacement or the shifting of funds from traditional retail banking accounts to non-traditional entities such as neobanks, wallet providers, and wealth management firms is occurring at a rapid pace.[21]

Open banking brings the data needed to succeed in payments, giving you a holistic view of your accountholders' payment data. This opens up a wealth of opportunities to capture market share, drive revenue, and enrich your services.

Through open banking, embedded finance allows new opportunities.

PaaS has rapidly emerged as the go-to solution for streamlining payment processing, with the top three business drivers behind PaaS being reduced operational complexity, lower total cost of ownership, and faster service launches.[22]

Merchants drive demand for pay-by-bank – an online payment method that allows accountholders to pay directly from their bank accounts without the need for additional payment intermediaries (such as a card network), with payments made conveniently and safely using ACH or real-time payment rails.

Pay-by-bank benefits both financial institutions and merchants, offering accountholders more choice, enhanced security, improved efficiency, and a better user experience. In fact, 70% of consumers say they'd choose to shop via pay-by-bank if they were offered a 1% merchant discount.[23]

While merchants prefer pay-by-bank to ease the cost of card acceptance, banks and credit unions show concern about how much of their card interchange will be cannibalized by pay-by-bank schemes.

Big banks are fiercely competing to maintain their share of the small business market.

Payments play a significant role in driving revenue, with cards accounting for nearly 50% of U.S. small business banking revenue, while deposits account for 34% of small business banking revenue pools.[24]

More than 50% of SMBs have their primary checking account with one of the four megabanks,[25] leaving community and regional financial institutions to lose ground in the SMB market share.

Many financial institutions are also unaware that a surprising 13% to 35% of retail accountholders are actually micro and small business owners.[26]

Managing and understanding accountholder data is critical in reclaiming SMB market share.

What to Do

- **Serve small businesses well.** Businesses report speed of payment settlement and visibility of payments in real-time as their top two challenges.[27] To boost revenue and remain competitive, businesses will focus their investments on faster payments to gain insights into real-time cash flow and manage payment timing effectively – representing an incredible opportunity for financial service providers to assist SMBs in accepting payments and automating payment processes. You're uniquely positioned to leverage data from your core to help automate merchant payment acceptance and allow SMBs to optimize just-in-time payables, maximize interest on deposits held, and gain more accurate, real-time insights on cash flow.

- **Target real-time use cases.** Although instant payment adoption has exploded within the last year, numerous financial institutions are missing the mark by not offering both send and receive options. You must be able to send and receive payments to capitalize on the full potential and benefits of real-time payments and offer more complex use cases. As RFP comes to fruition, it's crucial to have the capability to both send and receive instant payments.
- **Leverage bill pay data to deepen relationships.** While traditional bill pay is losing ground to biller direct models, banks and credit unions can offer a treasure trove of data and insights to accountholder preferences via bill pay. In fact, bill pay can be a revenue maker – providing insights and advice, deepening accountholder relationships, acquiring deposits, and providing financial wellness. You're well positioned to empower your accountholders to manage their cash flow and avoid a cycle of debt while earning loyal, repeat users in a market where loyalty is waning.
- **Embrace open banking.** Open banking drives payment innovation by integrating new and alternative payment types via open banking rails. Direct transfers between bank accounts make emerging payments easier, faster, and more reliable. Plus, open banking technology can improve ID verification and account authentication while improving fraud detection.

It's time for you to get your data strategy in order.

The data financial institutions have today, enriched through open banking, will define the opportunities of tomorrow. Adopting an open banking posture will help claim first app status, secure permissions back to you, and allow you to adopt a platform approach via embedded payments.

Study Results:

Planned Payment Services Additions

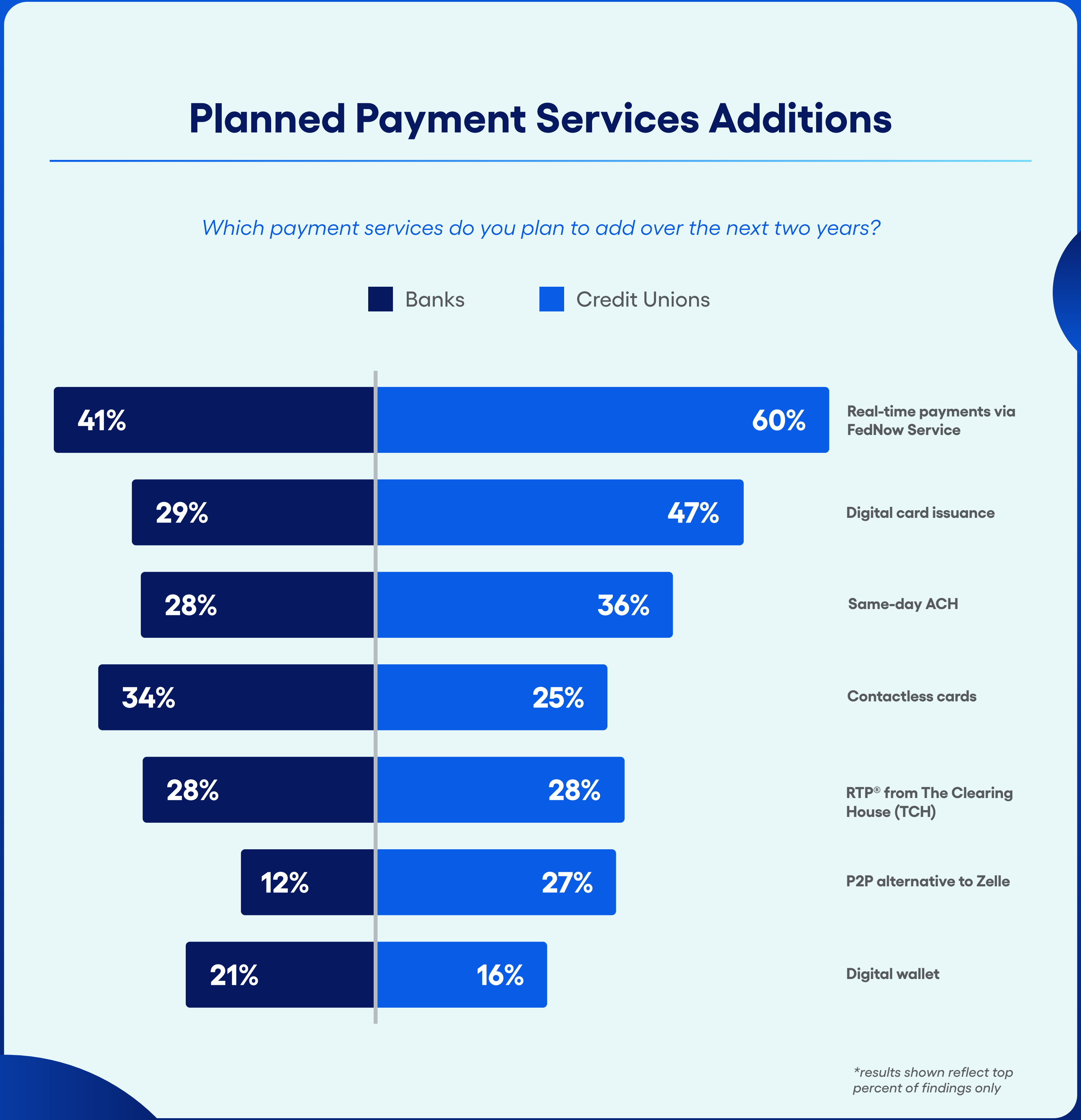
The large majority of financial institutions plan to add payment services within the next two years, with real-time payments via FedNow Service being the top priority for both banks and credit unions, followed by digital card issuance and same-day ACH.

Key Insights:

The majority of financial institutions **(90%) plan to add payment services over next two years,** with credit union CEOs expressing greater interest in digital card issuance (47%) as well as adding a P2P alternative to Zelle® (27%).

Leveraging newer, faster, less expensive payment rails to capture greater margins on payments previously captured on older, slower, and more expensive rails **will be vital to add value that yields both growth and deposits.**

Faster and more convenient payment methods top the list for 2025 and 2026, as real-time rails coincide with an emphasis on digital and contactless technologies.



lending

Embracing Innovation: Transforming Lending With Open Finance, Data, and AI

By: Beth Ericson, Senior Analyst, Lending

The Big Picture

After facing challenges in 2024, financial institutions step into 2025 with optimism, yet uncertainty remains.

This year started with inflation subsiding, interest rates dropping, and the economy remaining strong with low unemployment. And there's hope the Fed will cut interest rates this year to boost loan growth, too.

Uncertainty comes with the new administration in Washington, D.C., and new policies, like relief through deregulation and corporate tax cuts. But amidst the uncertainty, there's also the potential impact of tariffs.

One possible outcome is that tariffs are implemented and maintained for some time. If companies pass costs to consumers, it will add to the record $17.94 trillion of debt the U.S. has as of the third quarter of 2024.[28] This can cause prolonged increases in inflation and flat rates (and possibly increased rates).

Optimism arises from tariffs being mitigated and the hope of an improved regulatory environment, continued low inflation, and interest rate cuts that could improve loan demand. Lower rates allow financial institutions to focus on growing loans: commercial, small business, mortgage, and credit card. Mortgage originations are expected to increase by 28%[29] this year, small financial institutions' portfolios to increase 5.8%,[30] and unprecedented credit card growth – with 43% of U.S. consumers opening a new credit card account in 2024.[31]

What's Next

When lending volumes increase, your loan origination system needs to be ready.

Globally, the loan origination software market is expected to surge to $9.2 billion by 2028,[32] with a focus on a fully digital experience, automation, workflow, data security, open finance, and improving the accountholder experience through data analytics and AI.

The advantage lies in providing a digital experience throughout the entire loan lifecycle – from onboarding to boarding to core processing, loan management, and servicing.

Consider what can give you a competitive edge, including:

- Leveraging open finance for real-time insight into income, expenditures, and financial commitments.
- Data-driven strategies to enhance decision-making, gain new insights into borrower behaviors, optimize and streamline your origination process, and personalize your accountholder experience.
- AI to drive scalability, speed, and operational efficiency while improving underwriting decisions, allowing you to focus on loan portfolio growth.

Open finance, data analytics, and AI are reshaping the lending landscape, creating an efficient, fast, frictionless, personalized, and seamless end-to-end digital lending journey.

What to Do

- **Leverage open banking/finance.** With 43%[33] of financial institutions planning to adopt open banking/finance, lending is emerging as a leading use case – augmenting traditional credit data. Furthermore, consumers are more comfortable with customer-permissioned data with credit reports, simplifying open finance integration into the lending ecosystem. For example, financial institutions can use cash-flow data to create a personalized, data-driven lending model that offers speed, convenience, and transparency to consumers and small business borrowers.
- **Extend short-term financing.** Cash flow data means you can identify borrowers during a cash crunch or cash emergency, allowing you to adapt to the shift of borrowers wanting instant gratification when the immediate fulfillment outweighs their current financial position. Be there for both small businesses and consumers and extend short-term financing to empower borrowers at their point of need. This moment of data-driven service can foster a lasting relationship, serve as a growing consumer segment, and help you capitalize on small business opportunities.
- **Deliver more personalization.** Like cash flow data, open finance will unlock more personalized services for lenders, underwrite loans with rich, real-time data to improve risk assessment, make better-informed decisions, and verify income through account data. The benefits of open finance outweigh the challenges – revolutionizing the lending process by enabling personalized experiences, accelerating speed and agility, and creating a seamless, frictionless journey, empowering you with a competitive edge.
- **Put data at the center of sound lending decisions.** By augmenting traditional lending data sources, lenders can harness vast amounts of data to deliver personalized service and make more informed lending decisions with greater insight into the borrower's character, financial health, and creditworthiness. By integrating diverse data sources, you can create a holistic, real-time snapshot of your borrower. The benefits of data-driven lending systems also include using data that reflects current financial health, making more informed decisions and risk assessments, automating underwriting, and allowing for more what-if scenarios. This same data creates opportunities for lenders, including the ability to recognize trends, agility to adapt to borrower needs, drive borrower engagement, and recognize new market opportunities.

Open finance, data analytics, and AI are reshaping the lending landscape, creating an efficient, fast, frictionless, personalized, and seamless end-to-end digital lending journey.

- **Having your data in order is the first step to embracing AI.** While lenders feel pressure to use AI within their environments for financial analysis, underwriting, extracting data, and identifying red flags, they're hesitant because of the risks and resources. As big banks experiment with AI, they're seeing an increase in productivity, improved operational efficiency, and enhanced processes in lending that will create an increasingly clear competitive advantage. AI is a pivotal opportunity for lenders, as it can transform their approach to the lending process and decision-making. You can seize the opportunity by collaborating with AI vendors to build where speed, scale, personalization, and efficiencies are vital.
- **Lending is advancing.** Don't be left behind. These technologies work together to enhance your loan origination system and streamline your digital lending experience for consumer, commercial, and small business lending. They drive operational efficiencies, provide the opportunity to readapt to the borrower market, reduce approval time, and offer the borrower a tailored and transparent lending experience. These factors create opportunities for lenders to broaden their market reach while effectively managing risk. Technological advancements will also play a critical role in reshaping the lending landscape.

As big banks experiment with AI, they're seeing an **increase in productivity, improved operational efficiency, and enhanced processes in lending** that will create an increasingly clear competitive advantage.

Study Results:

Lending Strategic Priorities

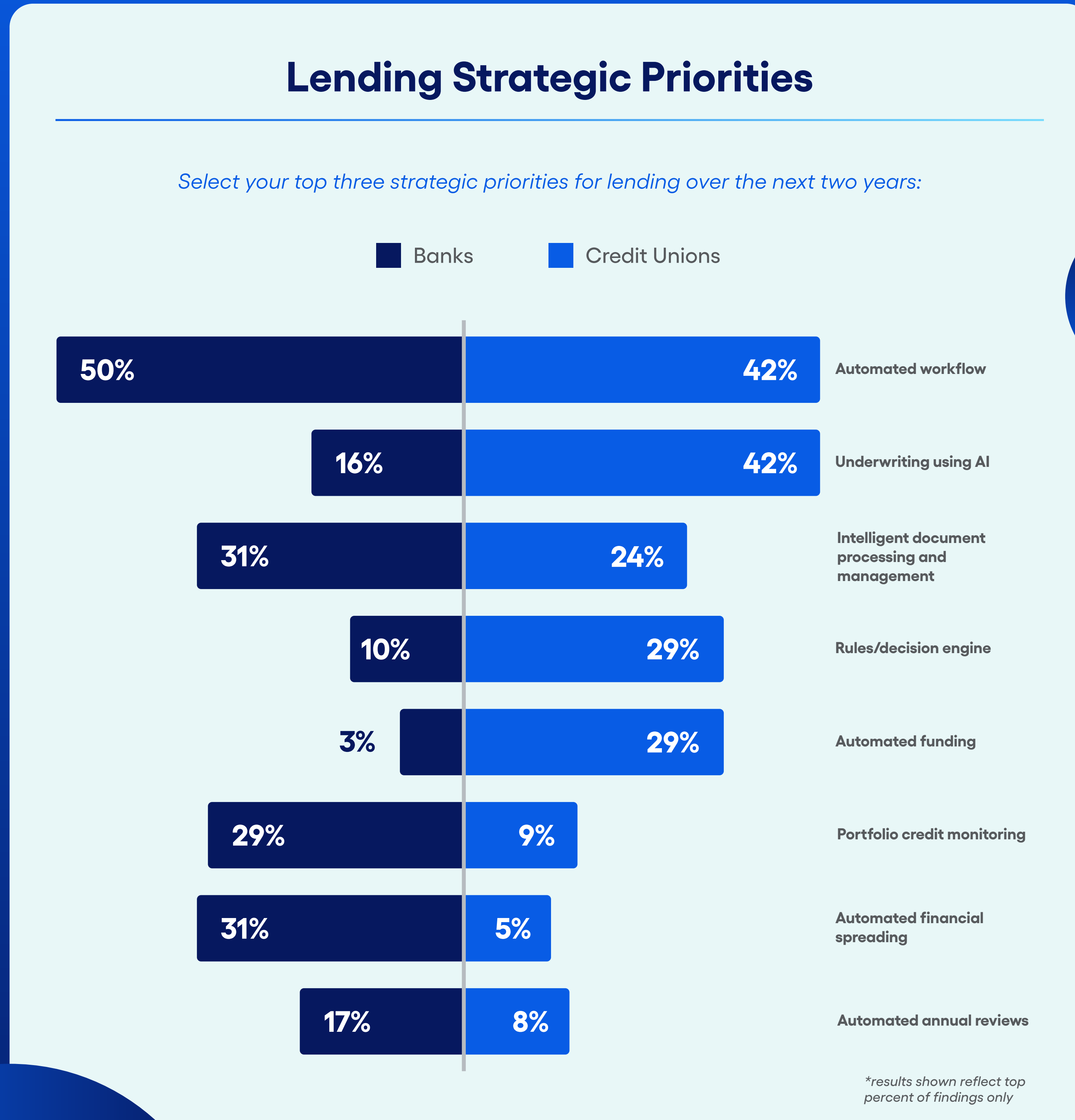
The majority of financial institutions plan to enhance lending solutions within the next two years, as most lending solutions have seen increased interest compared to last year. The top three priorities for lending are automated workflows, underwriting using AI, and intelligent document processing and management.

Key Insights:

Although the majority of financial institutions **(90%) plan to enhance their lending capabilities over the next two years,** banks and credit unions differ on top strategic priorities.

Credit unions place a **higher emphasis on underwriting using AI (42%),** while banks **focus on portfolio credit monitoring (29%) and automated financial spreading (31%).**

Efficiency in lending boosts ROA by reducing loan origination costs, directly addressing concerns about ROA as a key performance metric. Additionally, efficiency has been shown to reduce delinquencies through automation, reducing cost basis, shortening time to market, and expanding total addressable market, all while improving unit economics.



Study Results:

Types of Lending Priorities

CEOs plan to prioritize mortgages as their top lending focus, followed by business loans and home equity lines of credit. However, plans differ significantly between banks and credit unions.

Key Insights:

Financial institutions (68% in total) rank mortgages as their top lending priority. As the economy remains volatile, mortgage rate declines remain uncertain.

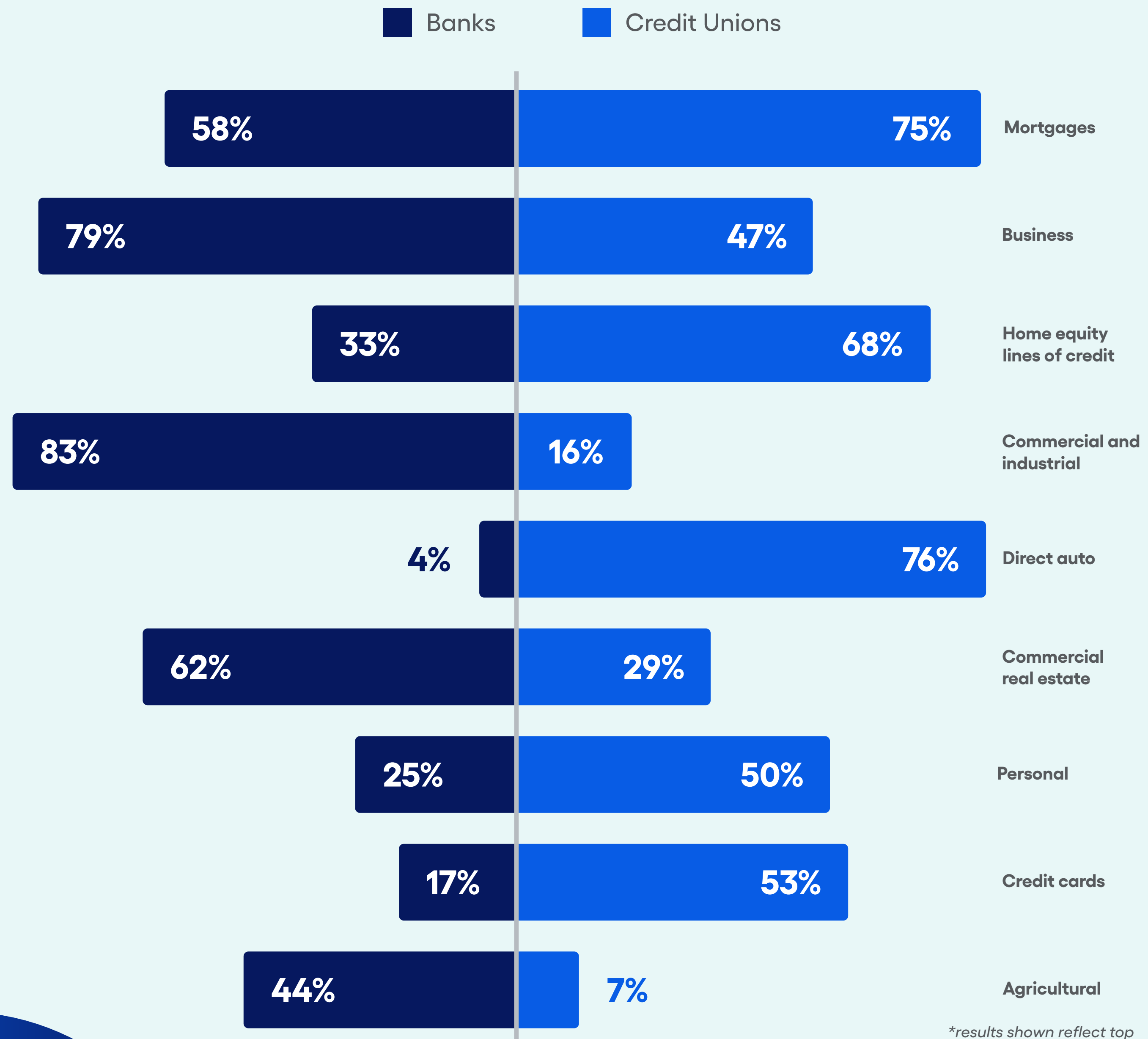
Growing loans is the third most important strategic priority for the next two years, with 40% of both banks and credit unions highlighting its significance.

"As we navigate the evolving economic landscape of 2025 and 2026, strategic caution in lending and disciplined balance sheet management will be paramount. Our focus is on sustainable growth, ensuring every dollar lent is backed by sound risk assessment, and every asset on our books reflects resilience. These years call for not just ambition, but vigilance, as we continue to serve our members with integrity and financial strength."

Kabir Laiwalla
Chief Executive Officer at **Platinum Federal Credit Union**

Types of Lending Priorities

Which type(s) of lending do you plan to prioritize?



*results shown reflect top percent of findings only

fraud and security

In a Fragmented Ecosystem, Collaboration is the Only Answer

By: Sam Truitt, Senior Analyst, Financial Crimes

The Big Picture

Historically, fraud prevention strategies have centered on identifying and blocking suspicious transactions.

But modern-day scams have bypassed traditional detection systems by directly targeting accountholders via social media, text messages, and fake financial apps – often tricking accountholders into willingly authorizing fraudulent transactions that leave financial institutions responsible for resulting losses and liability costs.

At the same time, data breaches continue to flood the dark web with Personal Identifiable Information (PII) for sale.

While overall data breach activity has remained relatively flat between 2023 and 2024, the number of compromised accounts increased by 312% year-over-year, with financial services ranking as the most attacked industry for the first time since 2017.[34]

This sharp rise in compromised accounts has fueled fraudsters' ability to leverage growing troves of stolen data to craft sophisticated, AI-driven scams and false identities – making them harder to detect and even more challenging to stop. **Without a shift in your approach, modern fraud will continue to outpace traditional prevention methods, leaving your financial institution vulnerable to mounting losses.**

What's Next

Today's consumers aren't banking at a single financial institution.

Instead, accountholders have relationships with multiple banks, credit unions, fintechs, and payment apps – resulting in financial fragmentation that limits visibility into your accountholder's total financial behavior and making fraud detection more difficult for individual financial institutions with only a fraction of their accountholder's financial data.

What's more? Fraudsters are taking full advantage of these blind spots – often jumping between accounts at different financial institutions to launder stolen funds before detection can occur.

The good news is that you can use API-based open banking rails to aggregate a preponderance of your accountholders' financial data from disparate third parties – and then use that data to better identify anomalous activity in real-time – minimizing inbound screen scraping and eliminating accountholder credential sharing with third parties.

Additionally, while standardized, secure, API-based open banking required by 1033 will significantly minimize many forms of digital fraud and improve fraud mitigation (including data sharing across financial institution), new risks may emerge.

While the volume and pace of financial data exchange will continue to expand the attack surface for potential breaches, the standards introduced by 1033 allow both financial institutions and vendors to innovate and differentiate on safety and security using the additional data open banking brings to bear.

Global markets (such as the EU and Australia) have established reporting and information-sharing frameworks that have succeeded in mitigating emerging fraud trends.

In contrast, the U.S. lacks a robust, modern infrastructure for anti-fraud data sharing.

This global development has made U.S. consumers a primary target for transnational fraud rings. In fact, in 2024, the U.S. ranked first place globally for funds lost to scams – with a staggering $3,520 per victim loss.[35]

Should information sharing not be leveraged effectively, transnational fraud will reach unprecedented levels and overwhelm existing fraud prevention efforts.

What to Do

- **Proactive strategies.** To break the cycle of escalating fraud, you must move beyond reactive strategies and the bare minimum requirements set by regulations. Rather than waiting for mandates to be enforced, proactively engaging in future-ready initiatives and embracing innovation will help you reduce blind spots, remove unwanted friction, and stop fraud before losses occur.
- **Welcome Section 1033.** While the regulations accompanying 1033 are not explicitly tailored as anti-fraud tools, 1033 lays the groundwork for a more secure and collaborative financial environment that can be leveraged to detect and thwart escalating threats. Being an early adopter of standardized, API-driven data sharing not only positions you to capitalize on the initial use cases of open banking, but also empowers you with a comprehensive view of your accountholders' activity from disparate sources. Banks and credit unions that support responsible information-sharing efforts by collaborating with peers, technology providers, and industry consortia not only strengthen their individual defenses but also improve the collective resilience against fraud threats.
- **Adopt enhanced standards.** In an environment where credential harvesting and phishing attacks are rampant, traditional account protections limited to usernames and passwords are increasingly vulnerable. Adopting Fast IDentity Online (FIDO) standard passkeys for consumer and workforce authentication ensures compromised credentials alone are insufficient for unauthorized access.
- **Use FIDO tokens.** While convenience and user preferences have led to "opt-in" security measures, the rapid evolution of fraud demands a stronger, more universal standard. Making FIDO tokens mandatory – rather than optional – across the entire accountholder base closes loopholes that fraudsters routinely exploit. By removing reliance on shared secrets or easily phished SMS codes, you gain a hardened authentication layer that's far more resistant to credential stuffing, ATO, and identity theft attempts.

Fraud isn't confined to a single financial institution; it moves freely throughout the entire financial ecosystem.

This means preventing it must be equally interconnected.

With the speed and complexity of modern fraud, collaboration and secure data exchange are essential. If these rails aren't firmly established well before the next inevitable crisis hits, you risk facing catastrophic blind spots at the worst possible time.

Study Results:

Top Three Fraud Threats

Similar to lending, most fraud solutions show interest increases from 2024 to now. CEOs report ATO fraud, APP fraud/scams, and forged/counterfeit check fraud as their top three most concerning fraud threats.

Key Insights:

Banks report **increased concern over forged or counterfeit check fraud (90%)** while credit unions **report ATO fraud as their main concern (71%).**

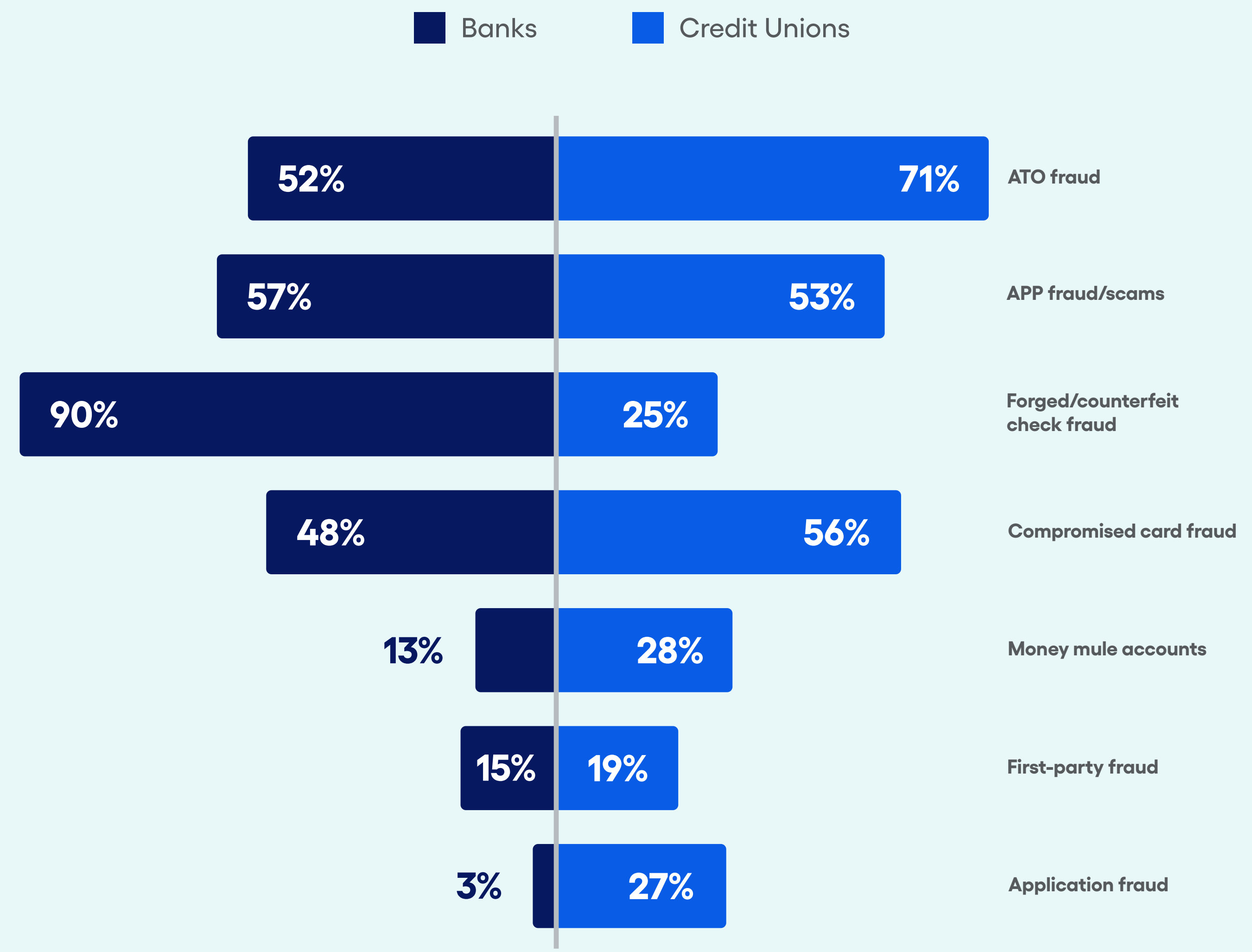
As accountholders seek more comprehensive, on-demand access to their accounts, cracks in authentication and verification systems have become prime targets for fraud. Legacy payment channels, like checks, remain vulnerable, especially for commercial and business accounts, highlighting the complexity of securing both old and new systems. **The industry's focus on staff training and accountholder education signals a practical, near-term strategy,** emphasizing that effective fraud defense now depends on harmonizing digital convenience with foundational trust in identity.

"Providing a secure app that consolidates all financial information offers accountholders a sense of security and relief, allowing them to check their financials multiple times a day through a single app."

Kathy Strasser
Executive Vice President, Chief Operating Officer, and Chief Information Officer at **Incredible Bank**

Top Three Fraud Threats

Select the top three most concerning fraud threats over the next two years:



**results shown reflect top percent of findings only*

Study Results:

Top Three Cybersecurity Threats

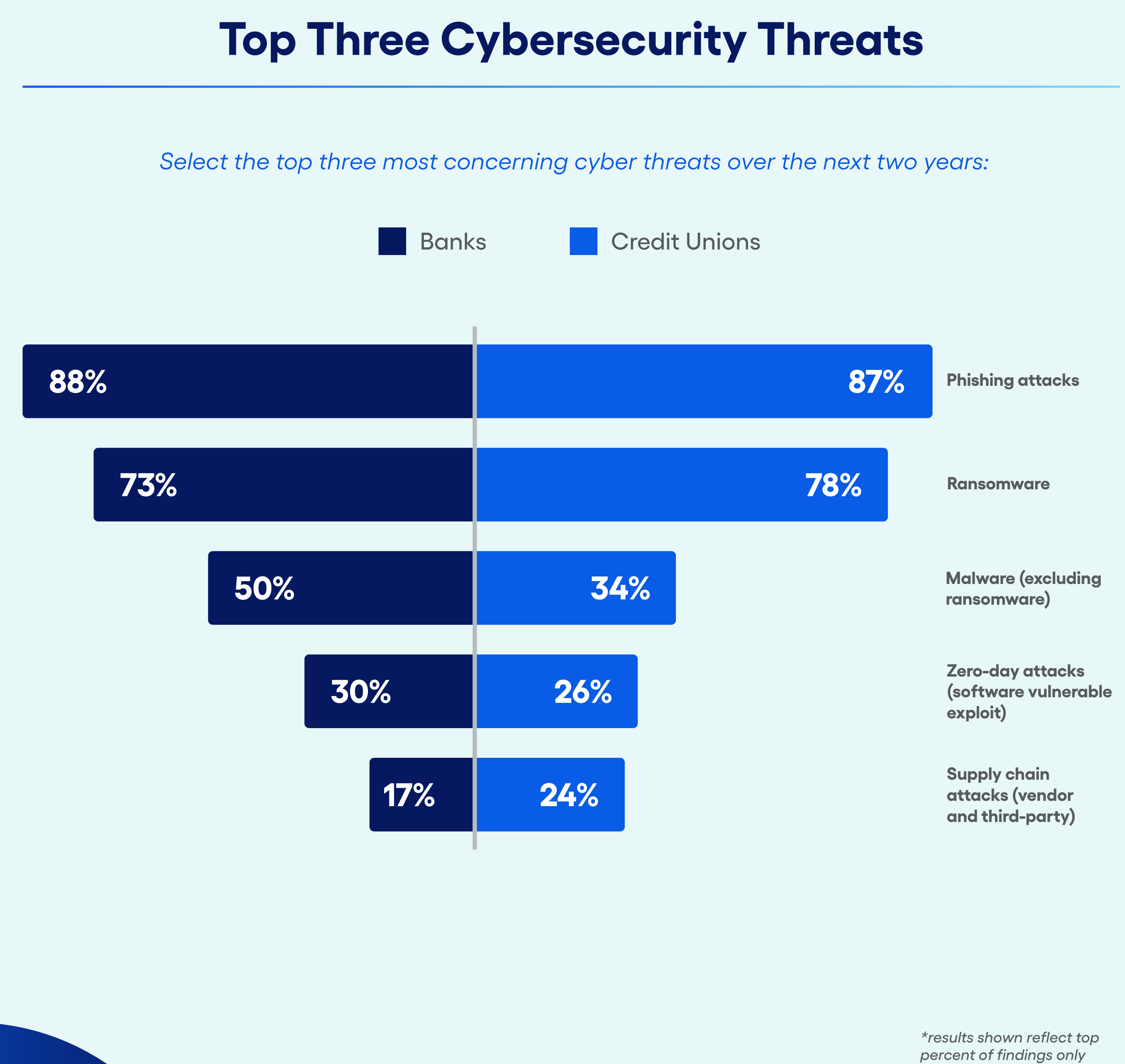
Both banks and credit unions report phishing attacks as their biggest cybersecurity threat over the next two years, followed by ransomware and malware.

Key Insights:

All cybersecurity threats have increased in points compared to last year, **with double-digit increases for ransomware and zero-day attacks.**

The financial industry is at a pivotal point in securing its digital footprint – caught between legacy vulnerabilities rooted in human behavior and the need for modern, adaptive defenses. **Phishing and ransomware remain dominant threats,** not just because of external factors, but because foundational issues like identity hygiene and user behavior are still unresolved.

Financial institutions are prioritizing employee awareness and simulation-based training, signaling a cultural shift toward more resilient security practices. Yet, the slow adoption of zero trust architecture indicates a greater hesitation in fully rethinking network and access strategies – a hesitation that leaves open a critical vulnerability that criminals are more than willing to exploit.



recommendations

Uncertainty Distorts Decision Making: Stick to First Principles

By: Lee Wetherington, Senior Director, Corporate Strategy

No matter your politics or point of view, we're in a window of disruption, regulatory upheaval, and global economic uncertainty. Like tariffs, uncertainty is a tax. It distorts decision making and can frighten you into front-running what may or may not materialize. Disruption always creates opportunities and challenges in equal measure. Because our fears usually focus us on the challenges and blind us to the opportunities, we must deliberately use first-principles thinking to help us see more clearly, make better decisions, and return to what's foundational. Remember and **focus first on what never changes: humans are relational, financial health matters, and you win on relationships, service, and trust.** Disruption – whether technological, political, or economic – always places higher premiums on the things that don't change. The question then becomes much simpler: how do we scale relationships, service, and trust in ways that are better, more cost-efficient, and mapped to the moment?

Being a "Fast Follower" Is No Longer Possible Without the Right Data: Go Get It

A majority of CEOs (58%) consider their financial institution a "fast follower." Thirty years ago, there were a very limited number of monolithic tech stacks, choices were few, and technology was more commoditized. In that environment, **innovation was slower, but that slow pace made it easier to be a fast follower.** In today's complex and interdependent innovation ecosystem, coordination and integration of a growing number of partners and providers can slow time-to-market. Moreover, if you want to emulate a cool new AI application or capability, you must first get the necessary data – which means establishing the integrations, open-banking plumbing, and APIs necessary to access that data. If you have the data and it's trapped inside an older infrastructure, it can limit your ability to train and fine-tune AI models quickly and efficiently. In other words, fast following may not be an option today if you don't have enough of the right data available in real-time or the modern infrastructure and integrations in place that make that possible – leaving you behind the curve instead.

Ask First and Best: The Art and Compliance of "Permissioning" Data

Now that the CFPB's PFDR rule has taken effect, financial institutions and other designated financial data providers must secure consumers' permission to share their financial data. This gives banks and credit unions an opportunity to ask their accountholders for permission to aggregate their disparate and fragmented financial data with other providers back to the bank or credit union. Given most banks and credit unions have no more than 20%-25% of their accountholders' total financial data, the strategic nature and scope of the opportunity can't be overstated. As trusted providers, banks and credit unions can secure higher consent rates on data sharing than less credible niche apps and fintechs. Securing a preponderance of existing accountholder financial data establishes your financial institution as the financial hub or "first app" – making sense of all other financial apps and relationships. Ongoing data wars between financial institutions, fintechs, and payment apps won't be won by superior technology, but by trusted partners who ask for permission first and do it best.

Strategy Is About Positioning Yourself for the Future: Data Strategy Begins Now

Most organizations mistake planning for strategy. That's why they call it strategic planning – a way to make incremental planning sound "strategic." **Real strategy is about positioning, not planning.** Once you've decided how and where you want your financial institution to be positioned in three to five years, your next step is to plan and execute a strategy that moves your financial institution directionally toward that future position. Therefore, data strategy is about how you'll need to be positioned to win with data and data infrastructure in three to five years. For example, deciding which use cases requiring automation, RPA, ML, and AI will be most important in that time frame and what data/infrastructure will be needed to deploy/achieve those use cases. Whether your goal is to achieve meaningful gains in efficiency, enable real-time fraud prevention, scale relationship-based banking cost-effectively, or capture a wider pool of creditworthy loans to small businesses and consumers, defining your long-term positioning now brings urgency, direction, and accountability to your planning and execution.

Embrace Deregulation, Beware Dysregulation

Only 15% of bank and credit union CEOs are concerned about regulation in 2025 and 2026 – almost half the number that reported the same concern last year. It's no surprise given the belief that the current administration's approach on the CFPB and other federal financial regulators will lead to a significant and systemic softening of supervision and enforcement. That softening creates both opportunity and risk. It creates opportunity to innovate and pursue new lines of business, while creating risk from competitors emboldened to do the same. While smart deregulation is tailored to a financial institution's size and complexity, indiscriminate dysregulation introduces systemic risks, gives certain competitors an unfair advantage, and further tilts an already uneven playing field. In April, Congress passed a bill to rescind the CFPB's supervision of payments apps and digital wallets. They, along with stablecoin issuers, crypto companies, and an army of AI-augmented fintechs are stretching their wings. Expect your smartest competitors – both banks and non-banks – to take advantage. Most are looking to go around or directly against banks and credit unions. Stripe, the biggest fintech in the U.S., has applied for a Merchant Acquiring Limited Purpose (MALP) bank charter. **While deregulation is an opportune time to act, dysregulation requires even more urgency and vigilance.**

Do More With the Same: Data Drives Efficiency and Growth ... and Growth Through Efficiency

After the pandemic, banks and credit unions made substantial technology investments in digital transformation. **This year, CEO respondents are fiercely focused on improving efficiency** and getting more from existing tech investments and staff. In 2024, growing non-interest expense and provision expense drove declines in annual net income and ROA for both community banks and credit unions. With tariffs and trade wars creating significant economic uncertainty, how can financial institutions grow?

How can banks grow their top strategic priority – deposits? How can credit unions grow loans and memberships, their second and third top priorities?

Banks must use analytics to identify camouflaged small business owners hidden in their retail checking accounts, then leverage core data to automate approvals – enabling those SMBs to accept payments deposited directly into the bank.

To acquire new members and capture GenZ and Gen Alpha, **credit unions must use open banking rails to achieve a streamlined, mobile-only account opening process** that takes less than three minutes.

To scale personal service for SMBs and newly acquired, younger accountholders without requiring additional hires (the biggest component of non-interest expense), **both banks and credit unions must leverage AI and AI-assist to dramatically improve the speed and quality of personal service and engagement.** Doing more (and better) with the same is how financial institutions improve efficiency and grow deposits, loans, accountholders, and margins.

And data is the key to it all. The key to discovering hidden SMBs and capturing their deposits, the key to acquiring Gen Z with faster KYC at account opening, and the key to scaling service, trust, and relationships efficiently.

"Now more than ever, **smart partnerships with vendors and strong relationships with other community banks are vital for survival.** While we may predict lighter regulation, the pace of technological innovation and speed-hungry accountholders and business owners are more than knocking at our door – the door's been broken down."

Kristin Marcuccilli Green
President at **STAR Financial Group**

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About Jack Henry

At Jack Henry, we believe the world is a better place with community and regional banks and credit unions, and we intend to keep it that way. For nearly 50 years, we've put financial institutions at the center of our modernization. We're here to help you innovate faster, differentiate strategically, and compete successfully – all with one goal in mind: to improve the financial health of the people you serve.

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