2025 BANKING SECTOR OUTLOOK

Cautious optimism amid fast-changing environment

acuitykp.com

Foreword

Rajul Sood

Managing Director, Head of Banking
Acuity Knowledge Partners

Acuity Knowledge Partners is pleased to share our annual Banking Sector Outlook for 2025. As a trusted global leader in research, analytics and technology solutions for the banking industry, we remain committed to delivering valuable insights that help CXOs stay informed about the latest trends in the sector.

Looking into 2025, the banking landscape is expected to be defined by a confluence of modest economic growth, easing monetary policy and complex geopolitical risks. While some of these factors may present challenges, we believe they will likely serve as catalysts for innovation, resilience and transformation, positioning the year as an opportunity for the industry.

This report explores the critical themes and dynamics that will likely shape the industry in 2025. A low-interest-rate environment is expected to catalyse growth across investment banking (IB), capital markets, lending and research. We next delve into the impact of technology. No longer just a buzzword, AI is emerging as a transformative force redefining banking – from digital lending to advisory to research.
With these advances, however, comes growing regulatory pressure, necessitating a delicate balance between innovation and compliance. We also explore ESG factors and the changing dynamics between banks and the private credit market.

Amid this evolving landscape and the incremental focus on operational efficiency, partnering with a strategic partner can be a key differentiator for banks. Financial services firms around the world are leveraging the outsourcing route to access not only cost-effective research and analytics solutions but also value-added propositions such as technology and automation.

We believe 2025 will be a litmus test for the industry's adaptability and operational excellence. We hope this report provides you with a forward-looking perspective and insights to thrive in a rapidly evolving, exciting year ahead.

Key Takeaways

» **Dynamic but opportune environment**
Interest rates are expected to fall further in a low-inflation environment. Banks would look to capitalise on the global monetary easing – focusing on portfolio growth and increasing deal flow – while keeping an eye on geopolitical developments.

» **Focus on IB & advisory and trading**
As high funding costs put pressure on interest margins, banks will look to maximise revenues from fee-based verticals. A low-interest-rate scenario is expected to be conducive to M&A, fundraising and trading volumes.

» **Greater demand for regulation and compliance**
Increased lending and AI-related advances would be a precursor to more compliance and regulation. The fate of the Basel III endgame, which will increase capital requirements in the US, is likely to be uncertain during Donald Trump's second stint.

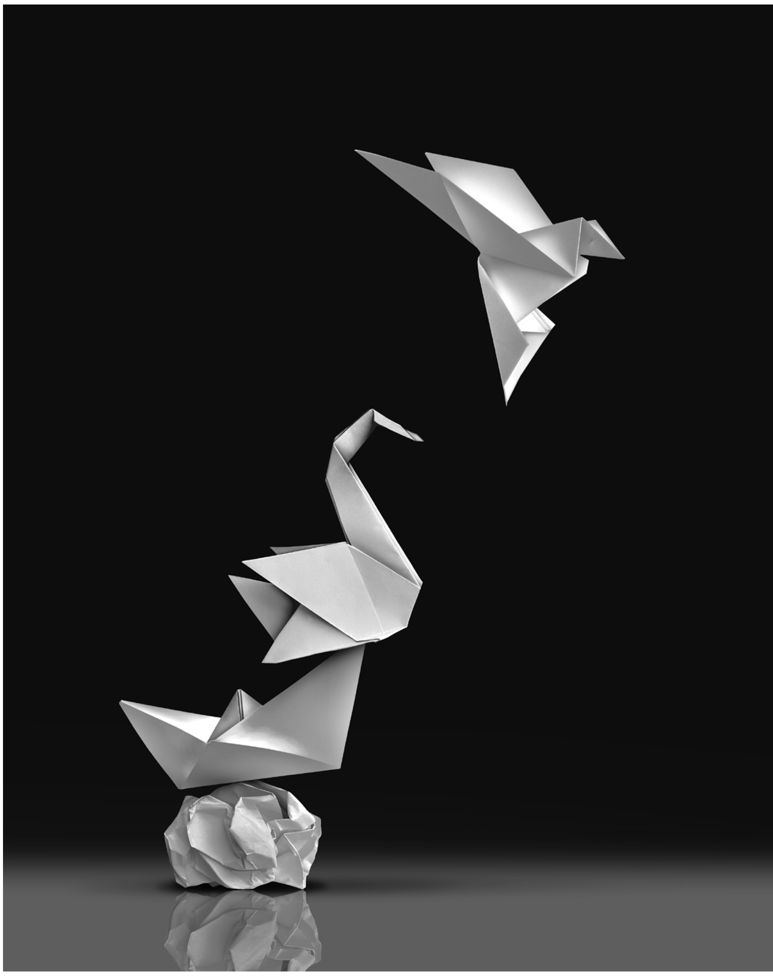
» **Evolved relationship between banking and private credit**
As private credit continues its rapid ascent, banks will look to formulate strategies to participate in the private lending growth story.

» **Applications of Generative AI (GenAI) and Agentic AI in banking**
The implementation of GenAI would provide banks with a key competitive edge and have a transformative, multi-faceted impact. Agentic AI, a pathbreaking advancement in autonomous AI, has the potential to reshape the industry.

» **Continued transformation in digital lending**
Advances in technology, particularly in AI, will revamp digital lending processes. This will enable a smaller operational footprint, improved customer lending experience, and faster and more accurate credit decisions

» **Greater integration of ESG into banking**
The integration of ESG factors in banking is set to continue as sustainability becomes more mainstream. ESG considerations will remain a critical element in investment decisions. Furthermore, demand for green bonds is expected to surpass that for social and sustainability bonds.

» **Role of outsourcing in operational excellence**
Banks are increasingly leveraging outsourcing to enhance operational efficiencies and improve margins. Outsourcing firms have evolved from being mere support centres for routine tasks to technology enablers, providing exceptional talent solutions and delivering efficiencies to global banks.



Introduction

The banking industry in 2025 will navigate moderate economic expansion, low interest rates and shifting geopolitical scenarios. While challenges exist, these conditions will fuel growth across the banking spectrum – from IB and capital markets, trading and research to corporate lending. The role of technology and AI, regulation and ESG will continue to grow. Given this evolving landscape and focus on operational efficiencies, partnering with an outsourcing provider could be a key differentiator for banks.

Overall, the opportunities foreseen in 2025 inspire a sense of cautious optimism as banking executives prepare to navigate a dynamic environment.

Despite geopolitical uncertainty, banks would look to capitalise on a low-inflationary and low-interest-rate environment in 2025

SUMMARY

» Low inflation and further monetary easing are expected in 2025.

» While emerging economies will fare better, economic growth in the West, particularly in Europe, is expected to remain modest.

» The geopolitical landscape remains volatile – any intervention by the incoming US administration will have a strong impact on ongoing conflicts.

» Lower interest rates will foster growth across IB & advisory, lending, research and trading volumes.

As we look ahead to 2025, the underlying theme for global economies and, by extension, the banking sector is that of uncertainty. Conflict in the Middle East, the prolonged war between Russia and Ukraine and the potential escalation of trade tariffs during Trump's second stint could heighten geopolitical instability globally. Bankers would need to be agile in responding to rapidly evolving geopolitical conditions.

Growth

- A low-to-modest growth environment is anticipated in advanced economies, while the outlook for emerging markets remains stable.
- Economic growth in the US is expected to outperform Europe's.
- The IMF's World Economic Outlook projects annual global growth at 3.3% in 2025, compared to an annual average of 3.7% in the decade preceding the COVID-19 pandemic.

Inflation

- Inflationary pressures have eased globally. The IMF expects headline inflation to fall to 4.2% by end-2025.
- No imminent recession is on the horizon.

Interest rates

- In an underwhelming growth environment and amid low inflation, further rate cuts are likely in 2025.
- The Fed's dot plot projects two 25bp cuts in 2025. Other developed economies are expected to follow suit, with policy recalibration to support economic growth.

What does a low-interest-rate environment in 2025 mean for the banking sector?

- On the IB & advisory front, 2025 is expected to be a busy year. Low interest rates and inflation signal heightened deal-making activity as M&A volumes continue to recover from the lows of 2023.
- Private equity firms, sitting on record dry powder, are expected to play a significant role in driving deal volumes.
- Low rates should stimulate borrowing across the consumer and corporate segments, driving loan portfolio growth.
- Easing monetary policy in advanced economies could drive capital flows to emerging markets, due to potential higher yields , creating opportunities in cross-border lending, infrastructure finance, trade finance and SME lending.
- As profitability declines, due to lower interest rates, banks may be incentivised to take on riskier financial products such as subprime and adjustable-rate mortgages.
- Falling interest rates should increase demand for sell-side research as clients seek to understand the implications of lower interest rates on their portfolios. At the same time, trading revenue could see an uptick, with lower interest rates bolstering banks' FICC and equity revenue.

Global banks would focus on growing their fee-based top lines across IB & advisory, trading and research as 'deposit costs' remain high

SUMMARY

» Bank margins will remain under pressure as higher deposit costs persist despite lower rates.

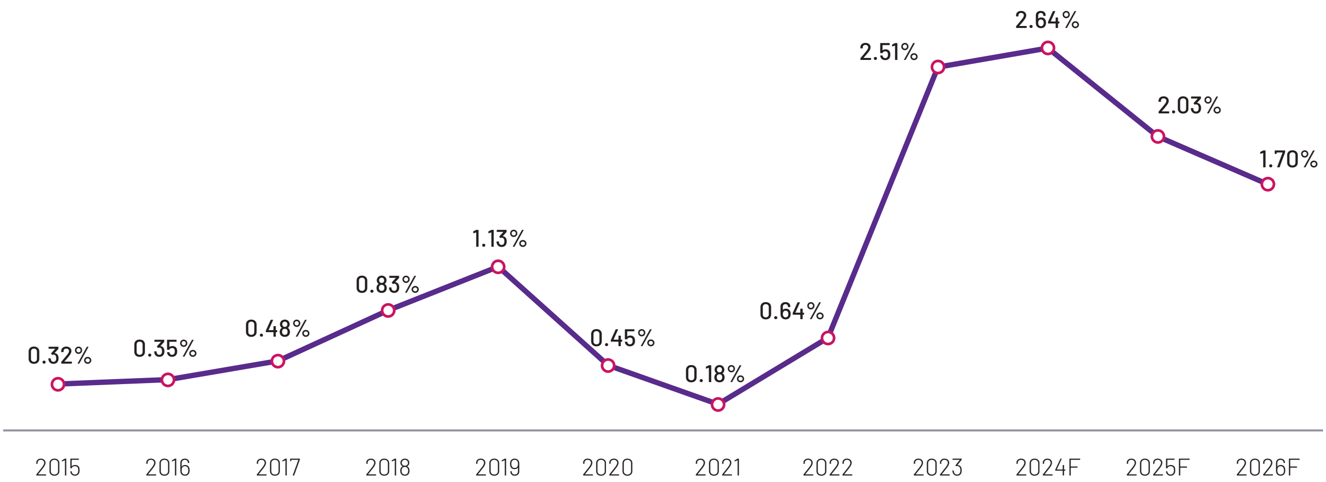
» Growing fee-based income will be key to elevating margins.

» IB & advisory and capital markets are expected to have a strong year, driven by renewed growth in M&A and issuance volumes.

» Trading volumes and research activity will be supported by low interest rates and a robust earnings outlook through 2025.

Despite falling interest rates, the cost of interest-bearing deposits, or the 'cost of funds' for banks, is expected to remain well above historical averages. Banks' liquidity requirements, coupled with continued demand for higher deposit rates, would translate into higher-than-average deposit costs, putting pressure on net interest income in 2025.

Cost of interest-bearing deposits is likely to remain elevated compared to recent historical averages

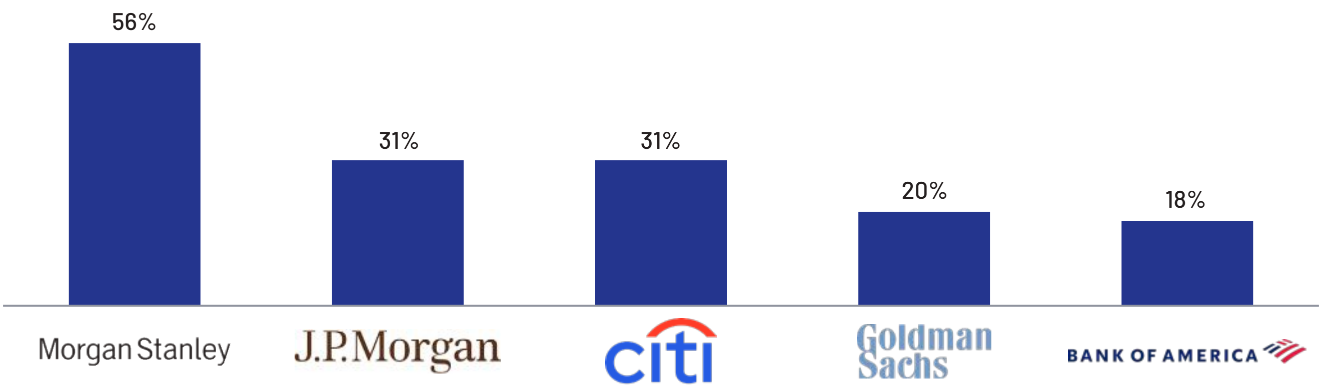


Source: Deloitte

Consequently, in the prevailing high-funding-cost environment, banks are focused on increasing their fee-based income across their IB & advisory, capital markets and trading verticals.

This trend is underscored by US banks' reporting sharp growth in IB revenue in 3Q24.

IB divisions of major US banks saw material revenue gains (3Q24 vs 3Q23)



Source: Q3 Earnings Releases

Banks will look to further increase their IB & advisory revenue in 2025. As noted above, the outlook for M&A volumes remains overwhelmingly positive on the back of falling bank rates. Deal-making activity will be aided by a narrowing valuation gap between buyers and sellers, as well as by private equity firms' record dry powder.

There is also visibility on the outlook for the fixed income and equity markets in 2025, contributing to more fee-based income for banks. Changing interest rates could lead to greater volatility in bond prices, increasing trading volumes. Derivative products are also likely to be in demand, with clients relying on them for hedging and speculation in a falling interest-rate scenario. This would benefit banks' FICC revenues. Equities could also see increased traction, as a decline in interest rates would have a multi-dimensional impact on sectors and companies, increasing trading volumes.

Geopolitical instability mandates greater compliance; Basel III implementation and AI regulation are expected to be in focus in 2025

SUMMARY

» Regulatory policies will need to keep pace with increased lending activity.
» There is a lack of clarity on the implementation of the final version of Basel III in the US. Trump has historically been in favour of deregulation in banking.
» As AI continues to transform the world around us, the regulatory eye will continue to grow.
» Europe launched the world's first AI regulatory framework in 2024, marking a milestone in AI regulation.

A stronger and adaptable regulatory framework is required to support monetary-policy-driven loan growth

With monetary policy easing in many economies, loan portfolios will continue to expand in 2025, requiring more regulation and compliance in anticipation of shocks to the global economy. Rising geopolitical conflicts have created their own set of challenges in the form of money laundering, terrorist financing and sanctions/tax evasion.

Against this backdrop, regulators in 2025 would need to be versatile in their oversight of a number of areas including consumer protection, global financial market stability and measures to counter financial crimes.

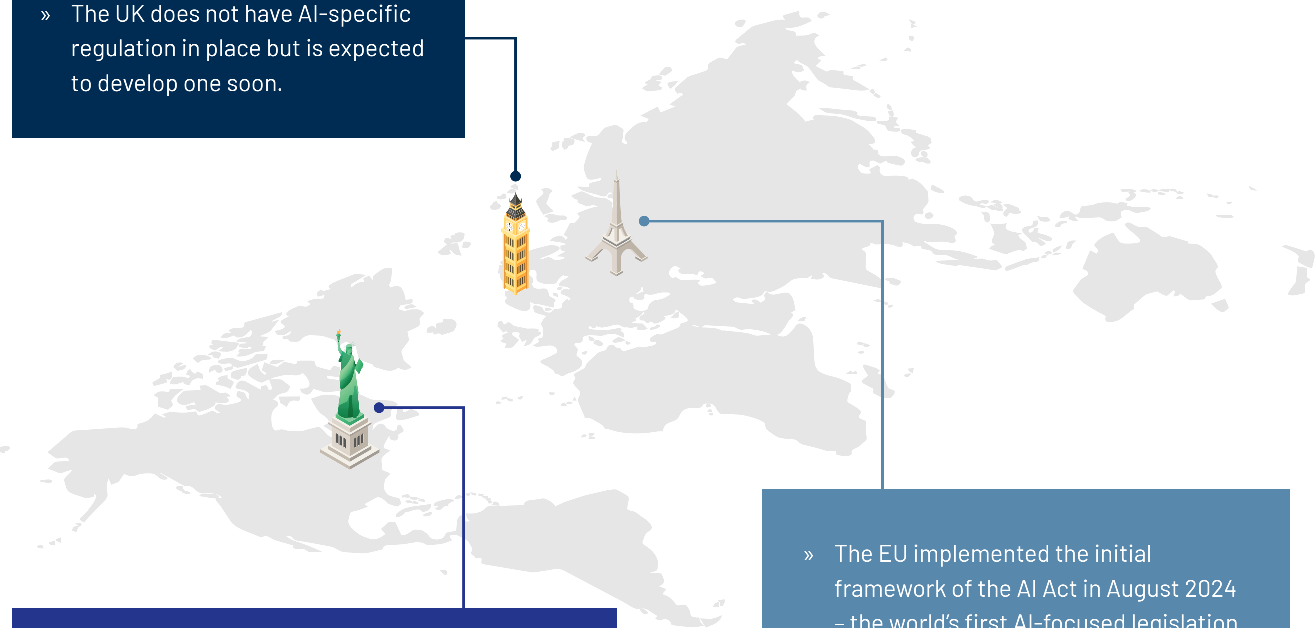
The implementation of the Basel III endgame framework may turn out to be a waiting game in 2025

The final set of rules under Basel III, dubbed the 'Basel III endgame', focuses on capital requirements to mitigate credit, operational and market risks. Scheduled to be implemented in 2025-26, they would have a significant impact on the global banking landscape. Since the election of Trump, a proponent of less stringent banking regulations, it has been unclear whether the implementation of Basel III in the US would be further diluted or scrapped altogether. The Fed had originally set July 2025 as the implementation date, but we believe this deadline is unlikely to be met.

The EU is scheduled to implement the Basel III framework from January 2025 but has postponed the application of market risk rules until January 2026 to avoid a competitive disadvantage, due to likely delays in the implementation of Basel III in the US. The UK has postponed the implementation of the capital requirement rules of Basel III to January 2026. Global implementation may be dictated by Basel III's fate in the US.

AI-related regulation is expected to evolve further

With the rapid adoption of AI in the financial services sector, regulators across the world are taking steps to ensure that the risks associated with the technology are contained.



» The UK does not have AI-specific regulation in place but is expected to develop one soon.

» The EU implemented the initial framework of the AI Act in August 2024 – the world's first AI-focused legislation. It will be further implemented in phases through 2027, with important legislation coming into effect in 2025.

» The US has no AI-specific regulation in place at the federal level. In the absence of an overarching AI-oriented law, several states have enacted their own AI-specific legislation – 113 bills have been passed into law in 2024, according to BSA. More legislation is expected in 2025 as the AI landscape continues to evolve.

Banks would increasingly look to capitalise on and cooperate in the private credit space

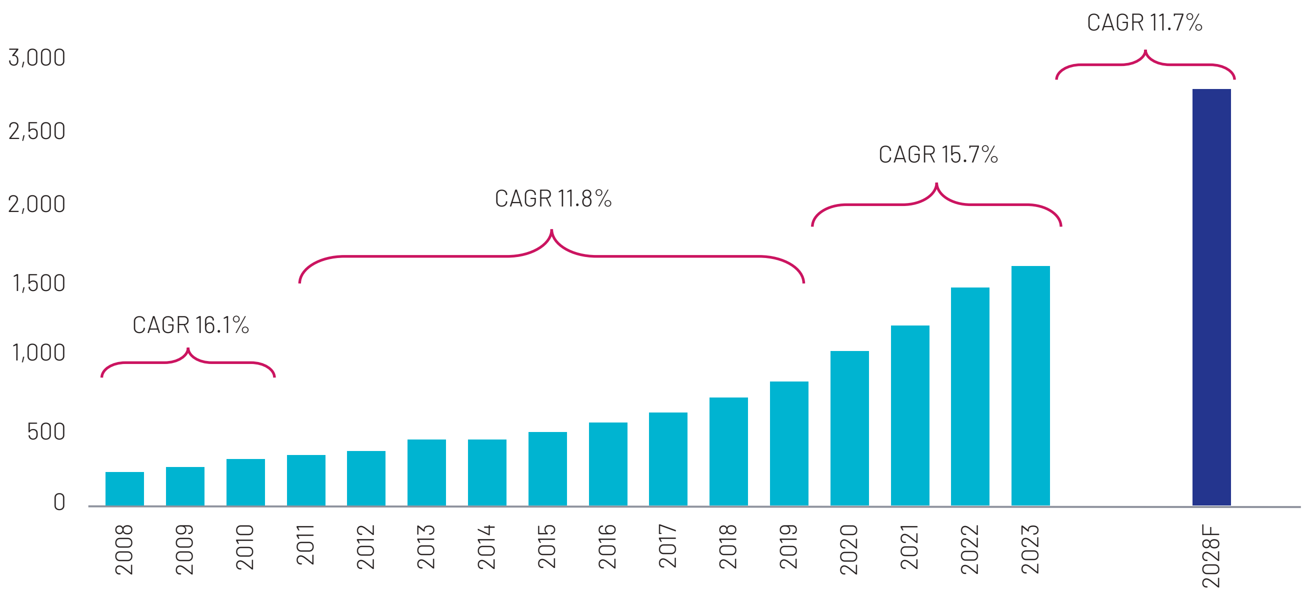
SUMMARY

- The private credit market continues to grow unabated, fuelled by the growth of direct lending.
- Banks need to adapt and coexist with the private credit market through cooperation and collaboration.
- Banks have a key role to play by acting as intermediaries to help their clients leverage private credit opportunities.
- Banks can also participate in the financing of private credit funds and provide fund services.

Private credit, or loans from non-banking institutions to corporates, has grown sharply since the financial crisis in 2007-08, steadily increasing its share of the lending pie. Private credit tends to be more bespoke and flexible in terms of the lending process than bank loans.

The total private credit market stood at USD1.6tn at the start of 2024, compared to USD1tn in 2020, and is expected to grow in double digits in 2025 and beyond, reaching USD2.8tn by 2028.

Global private debt assets under management (USDbn)



Source: Crisil Research analysis of Bloomberg and Preqin data

How will banks approach the private credit space in 2025?

Banks have witnessed a meteoric rise in private credit, which has consistently gained share in lending. Large global banks are increasingly focusing on participating in private credit and view the market more as an opportunity than as a threat.

Banks will look to cooperate with private credit lenders by:

- Acting as intermediaries, connecting their corporate clients to private credit lenders. Since banks are restricted from lending to riskier propositions, they use their connections to facilitate services to their clients while bypassing credit risks.

- Acting as distribution partners through their IB and wealth management divisions, marketing private credit investments to high-net-worth individuals and corporates.

- Marketing private credit investments via their touchpoints with sovereign wealth funds.

- Providing fund services, including treasury, custody and foreign exchange solutions, to private credit firms.

- Participating in financing rounds of private credit firms.

GenAI adoption is expected to accelerate in 2025 – Agentic AI is a potential game changer

SUMMARY

» Banks have been at the forefront of AI adoption, which could significantly improve bottom lines.

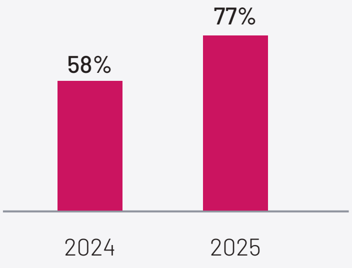
» The adoption of Gen AI will have a far-reaching impact on the way the banking industry operates.

» Agentic AI, although currently at a nascent stage, has the greatest potential to transform the sector.

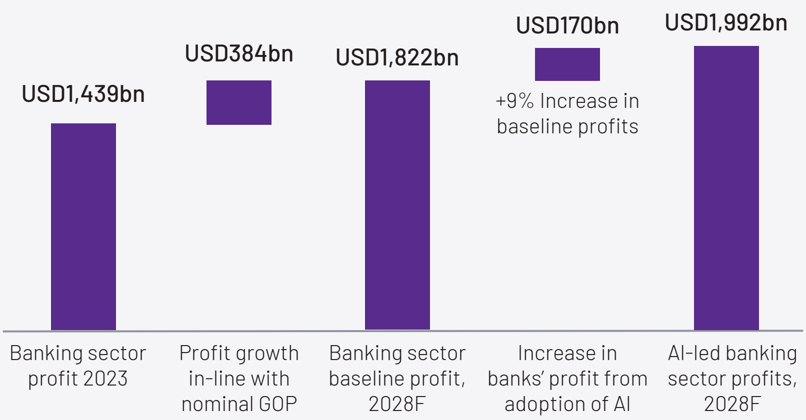
Data and technology have enabled banks to offer more value-added services to customers, as well as introduce a host of operational efficiencies. AI, having seen mainstream adoption in banking at breakneck speed, will continue to evolve in 2025. Banks do not want to sit on the sidelines when it comes to integrating AI, as the impact is tangible. AI adoption could add USD170bn to the banking sector's profitability by 2028, according to Citi.

AI adoption would further accelerate across banking in 2025

Percentage of banking CIOs who have deployed or plan to deploy AI initiatives



AI could have a significant impact on banks' profitability, adding USD170bn by 2028



Source: Gartner, Citi Bank

Harnessing the power of GenAI will be a key focus area for banks in 2025: Agentic AI is a potential game changer

GenAI is a subset of AI that uses deep-learning models to generate data across a variety of mediums, including images, text and video. It was primarily at a proof-of-concept stage, but the technology is now on the cusp of greater, mainstream adoption in the banking sector, with implications across investment research, due diligence, valuation, risk and compliance, customer service and portfolio management.

Agentic AI

An emerging innovation in the field of AI is Agentic AI, which creates agents that can operate autonomously to make decisions and execute complex tasks based on large volumes of data, using natural language-based inputs. The key tenets of this technology are its autonomy, self-learning ability and adaptability. It can perform complex tasks without human intervention, splitting them into manageable, smaller steps.

Use cases of Agentic AI in banking

Agentic AI has the capability to transform customer-centric and growth-focused operations

Relevance and Impact scale

Low — Mid- and back- office — Security — Risk and compliance — Front-office — High

Level 1	Level 2	Level 3	Level 4	Level 5
Churn prediction Portfolio optimization	Insurance payments Algorithmic trading Automation of back-office processes (data entry, document verification, etc.)	Fraud management AML Charges and commissions Loyalty management	Underwriting Pricing and product development Credit decisioning Onboarding and KYC Spend analysis and pattern recognition	Investment portfolio management Consumer agent for personal finance management Financial advisory Marketing

Source: Everest Group

The technology has already made inroads into the banking sector. JP Morgan Chase has implemented Agentic AI to improve fraud detection, with multiple independent agents monitoring transaction patterns. Goldman Sachs has implemented the technology in its trading platforms.

Advances in digital tools are expected to support efficient lending operations and enable personalised customer experiences

SUMMARY

» AI would support faster and more accurate decision-making relating to loan underwriting and risk assessment.

» The implementation of AI solutions could reduce physical footprint and operational costs.

» AI tools could enhance customer experiences through personalised services and support.

» The development of digital solutions would be driven by internal efforts and partnerships.

In 2025, digital lending transactions by banks are expected to be shaped by rapid advancements in technology, refined customer expectations and streamlined operations driven by cost-reduction strategies. Key trends include the following.

AI-enhanced decision-making	» Banks will leverage predictive capabilities to refine loan underwriting, risk assessment and pricing, enabling faster digital lending transactions with more accurate credit decisions while reducing manual input.
Workforce optimisation and network reduction	» As banks shift more services online, they will continue to downsize their branches and ATM footprint, thereby reducing operating costs and allocating higher resources to digital lending.
Blockchain and DeFi-driven efficiency	» To meet growing demand for digital loans, banks are exploring blockchain-based solutions and DeFi-inspired lending models to improve transaction transparency, reduce intermediary costs and expand the market to underserved customers.
More robust security through biometric authentication	» Banks are adopting biometric technology, such as facial and fingerprint recognition, in response to security and fraud concerns
Enhanced customer experience and personalisation	» They are leveraging database tools and analytics to deliver faster credit approvals, streamline application processes and tailor loan products to match customer needs.
Strategic fintech partnerships	» Banks are entering into partnerships with fintech firms to combine the traditional banking experience with innovation, resulting in competitive, customer-focused digital lending products.

ESG is expected to remain an overarching theme for banking

SUMMARY

- Focus on ESG remains high, especially on climate-related initiatives.
- European banks are more focused on ESG opportunities than US banks.
- Increased regulation on reporting standards is expected to support investor confidence.
- Recycling of ESG capital is expected to drive bond issuance in 2025.

ESG and sustainability strategies as a cornerstone of banking processes and decisions would progress in 2025. Reducing the climate-related impacts would remain a key strategic priority for banks. They would need to manage expectations across a diverse range of stakeholders, providing more transparency on emissions, reporting energy use and setting clearer climate action plans.

What opportunities does ESG present for global banking?

- There is significant scope to capitalise on both financial and operational investors' continued interest in ESG investing.

- ESG considerations during M&A processes would remain important in 2025. The IB divisions would play a key role in advising across valuation, strategy and deal execution to ensure that evolving investor expectations are met.

- Improvements in ESG regulatory frameworks relating to reporting standards should drive increased investor confidence in the impact created by ESG activities, supporting future investments and lending activity.

- Green bonds would continue to outperform social and sustainability bonds, supported by increased regulatory focus through taxonomy and bond standards.

- ESG bond issuance would also be supported by the recycling of ESG capital, with redemptions expected to rise significantly in 2025.

- As client portfolios incorporate more ESG-compliant investments, investors' demand for ESG research would continue to grow.

Increased focus on operational efficiency

SUMMARY

- As pressure on margins increase, due to a variety of factors, banks are looking to achieve operational efficiencies.
- Offshoring firms have transformed to become key partners to the banking industry, evolving from executing routine tasks to becoming technology enablers.
- India remains the offshoring destination of choice for global bulge bracket firms.

In the expected low-interest-rate environment in 2025, banks would increasingly look to optimise operational efficiencies to increase their top lines and shore up their margins. Increased investment in technology and higher compensation to retain talent would add to the cost structure, making expense management a critical priority for banks.

To enhance operational efficiency, banks are increasingly focusing on offshoring centres as a key strategic initiative.

Traditionally engaged in more routine tasks, offshoring centres have evolved to provide more value addition, innovation and technology – such as AI, analytics and automation – to banks. The pandemic has further blurred the lines between onshoring and offshoring firms.

In essence, offshore service providers have evolved from mere cost-arbitrage centres to centres of excellence offering value-added services.

What value could offshoring bring to banking in 2025?

The use of global capacity centres and offshoring firms will be critical to reducing costs and optimising efficiencies, allowing bankers to focus on deal origination, execution and other revenue-generating activities in IB & advisory, capital markets and research. In addition to managing more high-volume tasks such as pitchbooks, desktop-driven research, presentation materials and report writing, offshore firms are being entrusted with complex assignments such as valuation and transaction advisory, financial modelling and due diligence. Offshoring can also drive efficiencies in various segments of lending operations, including customer due diligence, loan processing, credit risk and loan covenant monitoring, and ESG monitoring and reporting.

While the traditional advantages have continued to provide strong value propositions, offshoring firms are consistently proving to be key strategic partners in delivering technology-driven and automation-led solutions. In an increasingly competitive landscape, offshoring could be a key enabler to drive efficiency, create value and foster innovation.

Bulge-bracket banks globally are actively stepping up their offshoring efforts, particularly in hubs such as India

1

Mizuho expands to setup its global capability centre in Chennai

THE HINDU

2

US bank captives still hiring as cash moves to stable large banks

THE ECONOMIC TIMES

3

India becomes leading GCC leader with more than 1800 centers

THE TIMES OF INDIA

4

Morgan Stanley opens new GCC in Mumbai

FINANCIAL EXPRESS

5

How NatWest's India GCC is helping transform the bank

GADGETS NOW by THE TIMES OF INDIA

6

Deutsche Bank injects around USD607m into India unit to fuel growth

Retail Banker International

7

BNP Paribas seeks new offshore center as bank drives down costs

mint

Final thoughts

The trifecta of execution, technology and compliance will be in sharp focus in 2025.

Against a challenging macroeconomic backdrop, the speed with which banks adapt (and execute) will define their year. A plethora of opportunities exist across several key departments – including IB & advisory, research and trading – to offset pressures on profitability from falling interest rates and rising costs. Technology will continue to play a larger, fundamental role in shaping fortunes. For global banks, the cost of being 'left behind' in the AI race far exceeds calculations on a spreadsheet. However, as banks embark on the path to sustained growth, they will need to embrace tighter regulations, especially in the wake of the current geopolitical scenario and the unknowns associated with AI.

Banks will increasingly look towards offshoring firms as key partners for the three factors mentioned above – execution, technology and compliance – enabling them to operate more efficiently and save costs, leverage technology as a growth driver and gain access to a wide spectrum of compliance-related expertise.

All in all, we expect 2025 to be a year of opportunities amid challenges and uncertainties – a year of cautious optimism.

Authors

Avishek Suman

Director

Avishek manages the Investment Research business at Acuity Knowledge Partners, Beijing. He has close to 21 years of work experience in research, including 17 years in Acuity Knowledge Partners. Prior to assuming this responsibility in Beijing, Avishek served as Delivery Manager for buy-side and sell-side clients.

Ismadi Ismail

Associate Director, Lending Services

Ismadi has close to 13 years of work experience across lending services, investment research, and corporate finance, including 8 years in Acuity Knowledge Partners. At Acuity, he manages multiple teams across leveraged lending, structured finance, and corporate lending. Prior to joining Acuity, Ismadi was a Senior Manager at PwC Sri Lanka, leading its Corporate Finance and Valuation Team.

Rohan Seth

Assistant Director, Investment Banking

Rohan has been with Acuity for over 13 years. He has extensive experience in managing IB engagements for clients across the globe - from bulge bracket IBs in North America to mid-market advisory firms in Asia - and has supported coverage teams across various sectors including Consumer & Retail, Metals & Mining, Healthcare, Industrials, Business Services and TMT. Rohan holds an MBA in Finance from the IILM Graduate School of Management.

For more details scan the QR code or visit
www.acuitykp.com

Reach out to us on
contact@acuitykp.com

Acuity Knowledge Partners (Acuity) is a leading provider of bespoke research, data management, analytics, talent, and technology solutions to the financial services industry, including asset managers, corporate and investment banks, private equity and venture capital firms, hedge funds and consulting firms. Its global network of over 6,000 analysts and industry experts, combined with proprietary technology, supports more than 650 financial institutions and consulting companies to operate more efficiently and unlock their human capital and transforming operations. Acuity is headquartered in London and operates from 16 locations worldwide.

Acuity was established as a separate business from Moody's Corporation in 2019, following its acquisition by Equistone Partners Europe (Equistone). In January 2023, funds advised by global private equity firm Permira acquired a majority stake in the business from Equistone, which remains invested as a minority shareholder.

© 2025 Acuity Knowledge Partners. All Rights Reserved.