2025 Roadmap for Banks: Navigating Regulation, Streamlining Costs, Embracing AI

By Megan Beukelman, Phil Marsden, Mike Scarpa, and Paul Walsh

2025 is shaping up to be another year of tumultuous change for banks and other financial institutions, with the three main priorities being regulatory change management, cost base reduction, and technology innovation.

Starting with the regulatory priority, there are still several key initiatives in the pipeline for 2025, despite the expectation that banks will likely see less intensity in the introduction of new regulations. Meanwhile, we are also seeing many banks seeking to materially downsize their cost base, as they adjust to an environment of lower interest rates and higher expenses due to inflation. Finally, we see a strong focus on technological innovation to drive both cost savings and growth opportunities, led mostly by investment in generative AI and appropriate use cases.

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The current consensus across economic commentators is that the U.S. will likely exceed previous expectations and will be a global driver of growth in 2025. GDP growth this year is anticipated to be in the range of 2.5% on a full-year basis, with inflation falling closer to 2%. The combination of a more lax regulatory environment and a pro-business approach to legislation are the likely causes. We are already seeing the effects of this with Michael Barr relinquishing his role as the Federal Reserve's Vice Chair for Supervision ahead of Trump's term, citing 'risk of dispute.' Tariff increases and potential constraints around immigration may generate some drag for 2025, but growth is likely to bounce back over 2026. Against this backdrop, business confidence is increasing, fueling targeted expenditure on premises, equipment, and innovation. And gone are the days of investing in innovation for innovation's sake in banking; now, banks will need to demonstrate scalable and regulatory compliant use cases (from technology to new products/services).

The European Commission is projecting a less rosy view for Europe. Headline inflation was around 2.4% for 2024, tapering to 1.9% in 2026. Expansion is anticipated, though in a more subdued manner. Growth is expected to pick up in 2025 to circa 1.5%, from an expected 0.9% in 2024, and increasing further to 1.8% in 2026. This will naturally drive a more cautious approach from EU banks than their peers across the pond.

1) Regulatory Priorities

In the U.S., the Securities and Exchange Commission (SEC) has indicated that key focus areas in 2025 will include compliance, cybersecurity, and AI.

Many regulatory priorities will look familiar in 2025. For instance, regulators will always look at a bank's compliance program to ensure it is adequately challenging the organization, appropriately escalating issues, and providing the necessary support to enable management to implement effective resolutions. Moreover, banks will always be prone to cyberattacks. Regulators will not shy away from pursuing enforcement actions when a firm suffers disruption due to an attack, or when its cybersecurity policies and systems are clearly sub-par. Regardless of the status of the new SEC cybersecurity rule, examiners will likely apply those principles and guidance during review in a heavy-handed manner.

Newer priorities surround the increase in firms' investigation into, or use of, generative AI and other automated tools. For example, the SEC has indicated that it will review firms' capabilities, policies, and procedures, as well as its own ability to monitor and supervise their use of AI consistent with model governance supervisory expectations. This applies particularly to fraud, Anti-Money Laundering, trading, and other key decision-making areas.

Elsewhere, the European Central Bank (ECB) will be adjusting its Supervisory Review and Evaluation Process (SREP) approach in 2025 to incorporate more qualitative methods and reduce its emphasis on capital. The ECB is also expected to be more

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expeditious in its use of regulatory penalties. There will be added emphasis on the ability of organizations to resolve issues once uncovered and to ensure compliance with regulation fully from the planned go-live date. As a result of the higher potential for fines due to non-compliance, initial tactical implementations focusing only on core components of regulatory change may no longer be a cost-effective approach.

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Other developments to watch include:

- **MAS Thematic Review on AI Model Risk Management**

  The Monetary Authority of Singapore (MAS) recently published a paper based on the findings of a thematic review conducted with several banks, looking into model risk management governance and testing as applied to AI solutions.

  The review highlighted the fact that it is difficult to gauge the fairness of models due to the opaqueness of data sources and the complexity and lack of established techniques for understanding and explaining decisions. The regulator highlighted several areas where improvements are required, namely:

  - **Transparency:** of data sources, systems, models, and the decisioning process.
  - **Ethics:** to ensure ethical standards are met in deployment, including privacy, consent, and the fairness of decisions.
  - **Accountability:** to provide traceability of outcomes to the responsible owner.

  This is clearly an area where MAS and other regulators will focus in 2025.

- **Basel III (IV), Basel 3.1, and Basel III Endgame**

  The final components of the Basel III standards on liquidity and capital are commonly referred to as Basel IV in the EU, Basel 3.1 in the UK, and the "Basel III endgame" in the U.S.

  The proposed measures include updates to the standardized approaches for calculating credit, market, and operational risk, plus credit valuation adjustment. But the timing of these important changes remains uncertain.

  The UK Prudential Regulation Authority last year revised the proposed date to implement them into national law to January 2026. Then, completion of the transitional period for compliance is scheduled for January 2030.

  In the EU, core components of Basel IV remain scheduled for implementation in January 2025, with a partial delay to January 2026, and full compliance is also expected by 2030.

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As of late 2024, the Basel III "end-game" rules, which tighten capital requirements for U.S. banks, are facing delays and resistance. Proposed increases in capital holding requirements, especially for large banks, have been met with opposition from both banks and regulators. While there have been efforts to compromise, the rules are expected to undergo significant revisions or re-proposals, particularly with the Trump administration, which may further slow or alter their implementation in the U.S. As a consequence, the Fed's current July 2025 implementation date looks increasingly unlikely. Should the U.S. scope and/or implementation date change, this could also have implications for the respective EU and UK plans, since banks have stressed that misalignment of changes in the various regions would lead to implementation complexities and competitive advantages for those less impacted.

- **U.S. Treasury Clearing**

  The SEC continues to drive forward with its proposed expansion of central clearing to include U.S. Treasuries.

  As the prime clearing solution provider, Fixed Income Clearing Corporation (FICC) has set the following implementation dates:
  - **March 31, 2025**
    - Safekeeping of customer assets.
    - Access to clearance and settlement services.
    - New risk management practices.
    - Amendments to 15c3-3a requirements.
  - **December 31, 2025**
    - Eligible secondary market cash transactions to be cleared by direct participants of FICC.
  - **June 30, 2026**
    - Eligible secondary market repo transactions to be cleared by direct participants of FICC.

  Those impacted by the new regulations have significant work to do on their systems, processes, and other operational essentials to comply by these deadlines.

2) Optimization and Cost Reduction

As recent headlines have shown, a number of larger banks are pushing forward with strategic cost reduction programs. These include:

- **Citi:** Alongside an ongoing drive to improve its basic risk and control processes, Citi has continued to pursue efforts to reduce operational costs by selling off 13 of its retail businesses, reducing staff by 20,000, saving $2.5 billion by the end of 2025, and restructuring the organization to globally align operations.

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- **HSBC:** With Georges Elhedery as its new CEO, HSBC has not only radically adjusted the structure of the bank, but also announced a $2.6 billion cost reduction program. The focus here will be to consolidate overlapping functions, streamline the organization, cut costs, and enable faster decision-making. These changes are expected to enable HSBC to prioritize more effectively and respond more nimbly to market dynamics.
- **Deutsche Bank:** The German bank is also in the midst of a large-scale restructuring and optimization initiative. Its aim is to reduce headcount by 3,500 over 2024 and 2025, streamline the business, and reduce annual operating costs by $3.1 billion. The initiative includes front-to-back process redesign, with a consequent reduction in the number of software applications and associated costs.

Cost reduction is clearly a common theme across the industry, and we are likely to see similar announcements in the coming months, particularly in Europe.

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3) AI and Innovation

Banks continue to spend on AI initiatives seeking to improve decision-making, provide higher levels of service to clients, and deliver operational efficiencies. Statista, a market research company, has predicted an increase in banks' spending on AI from $6 billion in 2024 to $9 billion in 2025, and potentially as much as $85 billion in 2030. This is explained in part by McKinsey's estimate that generative AI could add $200 billion to $340 billion of value annually to the global banking sector, largely through productivity gains. AI initiatives include:

- **Quest IndexGPT:** J.P. Morgan recently launched Quest IndexGPT, its first client offering based on an AI large language model (LLM). Following testing, the bank believes its solution enables a more efficient and accurate selection of stocks for indexes.
- **Debrief:** In mid-2024, Morgan Stanley Wealth Management released its Debrief solution to the financial advisor community. Subject to client consent, the OpenAI-powered tool captures the content of client meetings. It then generates notes, summarizes actions, and creates draft emails for advisors to share back with their clients. All relevant information is then stored in the firm's customer relationship management system. This new tool has received very positive feedback, with indications that advisors can save 30 minutes per meeting.
- **Cora+:** In August 2024, NatWest launched Cora+ in an initial 12-week pilot. This tool provides intuitive assistance to clients with more complex queries. The previous version of Cora provided customers with links to documents in response to queries. The upgraded version leverages generative AI to communicate in a more human style and provide more nuanced and specific feedback, not just document links.

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Due to the current scarcity of AI talent, many banks have centralized their capabilities. They have developed senior-level governance structures and built long lists of use cases that LLM solutions could enhance. As we see above, a number have delivered early solutions into production that aid efficiency but don't necessarily replace employees.

However, banks are still gaining maturity in their development of use cases from idea to production. Each use case tends to be considered in its own light, for example, and few frameworks exist to test key aspects for compliance and sound model governance.

Over time, sustainable operating models will be developed that enable banks to more easily answer questions from regulators such as traceability of data sources, business ownership, data privacy, security, and many other important matters. The operating models will also enable efficiencies in solution development by introducing standard approaches to activities such as business case development, cloud computing usage control, and the use of solution paradigms such as "LLM as a judge." All this, while also providing comfort in the knowledge that the final solution will be compliant with both the firm's risk appetite and the appropriate regulations and supervisory expectations.

Conclusion

Although the specifics change from year to year, banks' priorities remain focused on regulatory compliance, cost control, and driving growth and optimization through technology-led innovation. In all three areas, 2025 should bring both demonstrable progress and unexpected setbacks as the global landscape continues to shift.

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Treliant can help banks effectively manage regulatory and business change and mitigate the associated risks. By leveraging Treliant's expertise and resources, banks can better understand and meet their obligations, while also protecting their businesses and reputations.

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