IRON MOUNTAIN®

White paper

Winds of change in banking

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Amid global economic uncertainty, changing customer preferences and competition from thousands of financial technology startups, banks need to focus on operational efficiency and evolve key systems and processes to accommodate the demands of an increasingly unpredictable business environment. Here are the trends that will drive the industry over the remainder of 2024 through next year as forecasted by industry thought leaders.

What trends will banks consider as they drive change?

Banks focus on deposits to hedge against economic turmoil

For the first time, deposit growth is the biggest business challenge banks see in the year ahead. A strong deposit base ensures liquidity and resilience during economic uncertainty. It is also a reliable funding source and a key indicator of customer loyalty. Growing deposits can help banks strengthen lending capacity, protect against failures, improve customer retention, and reduce reliance on investment banking revenue. Many retail banks now offer cash bonuses for new accounts as a low-cost way to drive growth.

> "This year, 72% of bank CEOs and 44% of credit union CEOs say growing deposits is paramount."
>
> **- Jack Henry 2024 Banking Forecast**

Improving digital experiences is essential to customer satisfaction

Empowered by mobile and self-service options, customers want to manage their transactions and investments whenever and wherever they want. Bank branches still matter, but their role is shifting toward advisory and customized services. Four out of five financial institutions plan to increase technology spending over the next two years. Visionary banks will deploy technology that enables every customer touchpoint to be analyzed to improve service and product offerings.

> "Consumers said they expect their banking experience to be 65% digital and 35% human by 2026."
>
> **- BAI Banking Outlook Special Report**

Fraud mitigation is a top concern

Fraud is a growing problem for both banks and their customers. According to the Federal Trade Commission, consumers **lost more than $10 billion** to fraud in 2023, up 14% from 2022. Over one-quarter of U.S. adults have experienced bank and credit account fraud, including 37% of those 65 or older. With the proportion of the world's population over 60 expected to **nearly double** to 22% in 2050 from 12% in 2015, fraud mitigation will become a more compelling priority for banks.

Generative AI is expected to **worsen** the problem by enabling fraudsters to create more convincing scams. However, AI-powered analytics may be banks' best defense against more pervasive problems like credit card fraud.

> "By 2027, the anticipated cost of total payment fraud will reach $40.62 billion. Mid-market and small banks [are] viewed by bad actors as especially vulnerable targets."
>
> **– BAI Modernizing Payment Methods**

Lower interest rates will reshuffle banking priorities

The Federal Reserve is expected to ease rates heading into 2025 as recessionary concerns mount. Pent-up demand could grow residential mortgage origination in the United States, prompting banks to market their services more aggressively. Commercial real estate will continue to be stressed by the COVID remote work "hangover." Office vacancy rates in the U.S. **set a record** in the first quarter of 2025.

Generative AI captures banking executives' imagination

The potential for large language models to summarize complex documents, generate customized forms at scale, and interact directly with customers has caught the imagination of banking CEOs, **44% of whom** expect generative AI to boost profits this year. Initial gains will likely come mostly from efficiency improvements and productivity gains with fully functional customer-facing chatbots demanding significant testing and regulatory sign offs before widespread deployment.

> "Generative AI could be a game changer, lifting productivity by 3% to 5% and enabling a reduction in operating expenditures of between $200 billion and $300 billion."
>
> **- McKinsey Global Banking Annual Review**

Fintech competitors drive urgency in digital transformation

The **more than 26,000** financial technology startups that are now in business is double the total of 2019. These companies take advantage of customers' growing comfort levels with digital tools, the ubiquity of smartphones, and a lack of legacy baggage to move quickly into niche areas and exploit entirely new markets such as embedded finance. Banks must accelerate their innovation pace and use partnerships and acquisitions to keep up with these fleet competitors.

> "Heightened competition [from fintechs] is accelerating the contraction of financial services margins, steering new revenue opportunities away from established institutions."
>
> **- IBM Institute for Business Value Global Outlook for Banking and Financial Markets**

Payment overhaul deadline looms

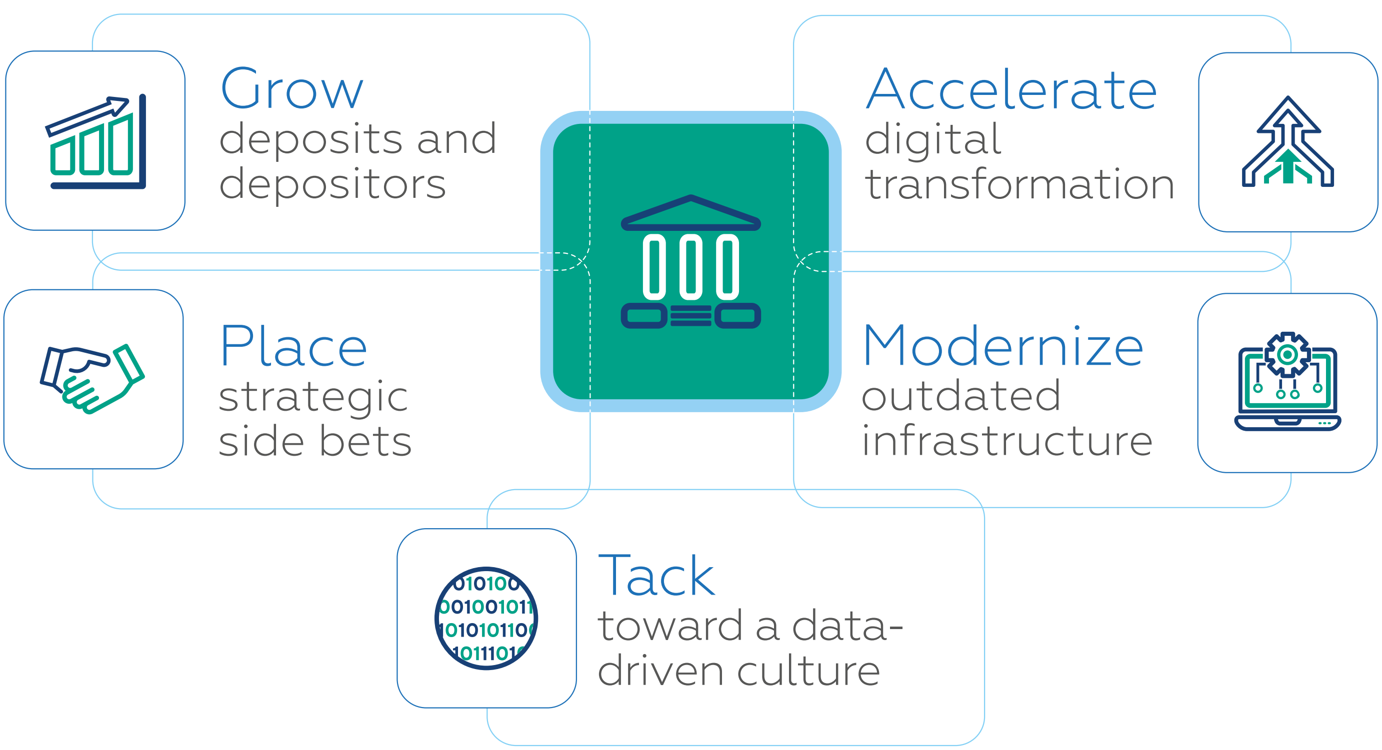
ISO 20022 is a multi-part international standard that aims to streamline financial data communication between organizations and systems by reducing complexity and promoting interoperability. U.S. organizations must overhaul their payment infrastructure to meet the standard by March 10, 2025. The Federal Reserve is using the deadline to encourage banks to adopt its FedNow instant payments service. Banks that move swiftly toward faster and more transparent digital payments will enjoy a competitive edge.

Iron Mountain's perspective on banking trends

The banking industry is taking advantage of the many opportunities created by technology advances to invest in operational efficiency and productivity. Most large-scale digital transformations have been driven by the need to improve efficiency ratios, accelerate servicing speed and reduce manual interventions.

Artificial intelligence is a potential game-changer that can significantly streamline back-office processes by summarizing large troves of documents, automating routine tasks and cutting time spent on research. Forrester expects enterprise AI initiatives to ultimately boost productivity and creative problem-solving in the banking industry by 50%. The more intriguing promise of AI is to transform customer experiences. BAI reported that more than half of Generation Z and Millennial consumers—and even one-third of Boomers—say they're willing to trust advice generated by AI. Bank of America, Wells Fargo, BlackRock, Capital One, Morgan Stanley, and Citigroup are among the major financial players that have already launched or announced initiatives around Generative AI. Banking executives should take note of these trends.

As they prepare for 2025, banks should:



Grow deposits and depositors

This is a bank's best defense against an economic downturn. Growing deposits provides more funds for loans, demand for which will surge with interest rate cuts. Higher deposits enable portfolio diversification across different types of loans and borrowers, improve regulatory compliance and provide a less expensive funding source than borrowing or issuing bonds.

Accelerate digital transformation

Customers' preferences for anytime access, omnichannel banking are well established. Any bank that does not already have a full-service mobile app risks irrelevance. However, digital transformation goes far beyond customer experience. It's also about discarding paperbound processes that limit agility, impede decision-making and drive customers into the hands of competitors. Banks should invest in artificial intelligence, machine learning, and blockchain to enhance operational efficiency and collaborate with fintech companies to spur innovation and add cutting-edge services to their portfolios.

Modernize

Outdated infrastructure and application development tactics limit banks' ability to respond quickly to changes in the competitive environment. Adopting agile methodologies helps software engineering organizations build and enhance software continuously to delight customers with new features. Establishing innovation hubs or labs fosters a culture of innovation and rapid prototyping of new ideas.

Tack toward a data-driven culture

Data analytics and AI are racing ahead to enable decision-makers to manage and analyze large volumes of data to drive intelligence, enhance operational efficiency, reduce risk and improve compliance. Most banks have large quantities of "dark data" locked up in documents and silos. Establishing a culture that values data and assigns it the same level of care and quality control as a product creates a foundation for decisions based on facts rather than instincts.

Place strategic side-bets

There have never been more options for banks that want to expand their reach into new areas. Crypto banking and **stablecoins** provide customers with expanded options for conducting digital commerce. Embedded banking integrates financial services into other platforms like e-commerce and social networks. Customizable insurance products can be tailored to individual needs and lifestyles. AI-powered investment services are increasingly gaining customer favor. Real-time payment services using platforms like FedNow enhance customer loyalty by giving people faster access to their money. By placing small side bets on the services, banks can experiment with new lines of business without incurring excessive risk.

Impact on retail banking, commercial banking and wealth management

The 2023 collapse of Silicon Valley Bank was a seismic industry event that is, fortunately, unlikely to be repeated in the foreseeable future. However, complacency should be avoided in an industry that is navigating so many undercurrents of change. Forrester Research predicted that 2024 would be "a boring, yet dangerous, year," underscoring that while most banks are financially sound, they are also vulnerable to unforeseen disruption.

Over 2,500 financial services institutions worldwide trust Iron Mountain with their critical records and digital transformation initiatives. From our perspective, here are the challenges the three largest pillars of the banking system will face in the coming year.

Retail banking

The biggest question confronting retail banks is also the most unpredictable: the state of the economy. A recession will reduce deposits and lending, directly impacting the bottom line. BAI reported that consumer optimism is waning, with only 28% of banking customers expecting to have excess deposits to invest in six months, down from 40% six months earlier. While retail banks can't control the economy, they can manage the customer experience to increase loyalty. That means providing an end-to-end, omnichannel set of services that customers can access conveniently. Generative AI can contribute by enhancing personalization, streamlining operational efficiency and empowering employees to focus on innovation. CEO excitement about this breakthrough technology is evident in the 44% who expect GenAI to boost profits this year, according to the Jack Henry Strategy Benchmark.

Commercial banking

Growth in this segment will come from designing new service models based on data, insights, and personalized service. Commercial clients need help managing risk, navigating the increasingly complex regulatory landscape and making data-driven business decisions. Banks are ideally positioned to fulfill these needs with innovative digital offerings, but many need help with Byzantine legacy systems, siloed organizations, and overreliance on paper. AI can unlock value in paper documents and speed the transition to parallel digital workflows. Blockchain can shorten transaction times and improve regulatory compliance. The adoption of ISO 20022 and real-time payment services such as FedNow and RTP benefit commercial banks in particular. The business-to-business market still relies on paper checks for about one-third of transactions. Instant payments are not only less expensive but reduce the risk of accounting errors and improve cash flow for clients. A **Federal Reserve survey** found that 93% of financial institutions are interested in using instant payments in B2B scenarios, making it the number one use case.

Wealth management

The most dynamic segment of the banking sector is going through massive change as Boomers shift from contributors to withdrawers. The challenge is to attract the young and digitally savvy millennial and Gen Z cohorts that have different investment objectives and challenges. AI-driven recommendations, creative savings vehicles, and self-directed investment services are just some of the opportunities to reach these groups. Notably, **77% of wealth managers** believe AI will significantly influence their business within the next five years. Young people are also motivated by different values than their elders, presenting opportunities for wealth management firms to get creative with socially conscious investment options.

Sources

Trend reports from industry experts (click on the links to access the reports):

Jack Henry: **2024 Banking Forecast - AI Brings Data Front and Center**

BAI: **Banking Outlook Special Report: Top Trends and Challenges for 2024**

Deloitte: **2024 Banking and Capital Markets Outlook**

Forrester Research: **Predictions 2024: Banks Face A Boring, Yet Dangerous, Year Ahead**

Forbes: **The Biggest Banking And Financial Services Trends For 2024**

BAI: **Modernizing Payment Methods**

McKinsey: **Global Banking Annual Review**

IBM Institute for Business Value: **Global Outlook for Banking and Financial Markets**

Worldmetrics.org: **AI In Wealth Management Statistics: $4.6 Trillion Assets Managed by 2023**

How Iron Mountain can help

As banking institutions move forward with their digital transformation initiatives, Iron Mountain understands the challenges.

We believe banks will renew their focus on operational efficiency and effectiveness initiatives to maintain stability and resilience in 2025. At the same time, they'll sustain a focus on innovation—including digital transformation—so they don't fall behind.

Ultimately, by 2027, 93% of managers, directors and executives have a goal to eliminate paper records, according to a research survey commissioned by Iron Mountain. Clean-up of paper records cuts costs and risk, while opening the door to reveal new value from digital information. Digital transformation will be essential as the banking industry evolves and services customers.

Iron Mountain can help banking institutions achieve the following outcomes to fulfill their goals.

- Rapid and accurate access to secured data
  Learn more
- Rationalization of branches and corporate real estate for consolidation or optimization
  Learn more
- Clean-up of records and data for compliance and governance
  Learn more
- Improved governance and compliance
  Learn more
- Becoming a paperless bank to reduce risk
  Learn more
- Automated document-centric workflows
  Learn more
- Transformed your mortgage & and loan solutions
  Learn more
- Improved line of sight to data to unlock value
  Learn more

Explore all the **Iron Mountain banking solutions**.

How the banking industry benefits

What can banks do to stay ahead?

We realize that customer experience, cost control, compliance, and ESG are key concerns for the banking industry. Our goal is to help navigate the uncertainty of 2025 by accelerating digital transformation. This, in turn, will help deliver real benefits to banking organizations.

As customers work with Iron Mountain on their digital transformation journey, they will:

- **Deliver a superior customer experience**
- **Gain efficiencies to reduce costs**
- **Enhance compliance programs**
- **Support the environmental goals of banks and their clients**

Next steps:

- Download the Moor Insights & Strategy paper digital transformation starts with a digital experience platform
- Explore our premium content for the financial services industry
- Discover Iron Mountain's banking solutions

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