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Breaking The Bank

Will complex regulations and emerging technologies help re-invent the sector?

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ADOBE STOCK

From an ever-expanding web of regulations to the rapid rise of new FinTech competitors, the global financial services industry is facing unprecedented disruption, with new challenges emerging on multiple fronts. As compliance costs surge and data management becomes more complex, the need for bold leadership and innovative solutions has never been greater.

To thrive over the next five years, companies must prioritize clarity in business objectives, integrate cutting-edge technology, and foster a culture of compliance and accountability. The ability to balance risk management with innovation will define the winners in this rapidly evolving market.

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Based on industry research and insights from global executives across the financial services industry, the top five disruptive forces are:

1 Increasing Regulatory Complexity

As new risks emerge, regulatory bodies are introducing an ever-growing array of rules and standards. Financial institutions must now manage a complex web of local, national, and international regulations, each with unique compliance requirements. This growing burden diverts significant resources away from core business activities, forcing firms to focus heavily on ensuring they remain compliant rather than on innovation or growth.

The pace of regulatory change has also intensified, with frequent updates in areas such as data privacy, anti-money laundering, and cybersecurity. Institutions must invest heavily in monitoring and implementing these changes, which often requires new technology and specialized compliance teams. This ongoing adaptation places additional financial strain on organizations, particularly smaller firms that may lack the resources of their larger counterparts.

The complexity of regulations also presents challenges in terms of operational efficiency. Many institutions operate across multiple jurisdictions, which further complicates compliance efforts. Each region may have its own nuanced rules, and navigating these can become a full-time endeavor. Failure to comply can result in hefty fines, reputational damage, and legal consequences, making it critical for firms to stay ahead of regulatory demands. The need to manage these layers of complexity is reshaping how financial institutions approach their operations, pushing them to invest in more sophisticated compliance systems and solutions to streamline the process.

2 Surging Compliance Costs

As regulations grow more complex, institutions are under pressure to increase their spending on technology, specialized staff, and processes to remain compliant. This surge in regulatory requirements has led to the adoption of RegTech solutions, which leverage technology to streamline processes such as data reporting and fraud detection. However, the initial investment required to implement these technologies can be substantial, placing financial strain on institutions, particularly smaller ones.

For context, compliance costs for financial institutions have skyrocketed, with some firms reporting an increase of over 60% in spending on regulatory compliance since the financial crisis. A recent global survey also noted that nearly 23% of financial institutions spend more than 5% of their net income on compliance, a number that has risen dramatically over the past few years.

3 Operational Risks and Data Management

Financial services executives are increasingly focused on ensuring the quality of their AI data as they face growing challenges over the next five years. One of the most significant issues is the complexity of their existing data architectures. Many large institutions, having grown through mergers and acquisitions, now have fragmented and outdated systems that hinder efficient data management. This "spaghetti junction" of systems makes it difficult to implement updates or ensure the accuracy of the data, which is crucial for both regulatory compliance and effective decision-making. Firms are also prioritizing data management beyond just compliance. Non-regulatory spending on data strategies is becoming more common as companies realize that poor data quality undermines even the best technology.

Executives also recognize that investing in better data infrastructure is essential to leveraging new technologies like AI and turning their data into a strategic asset. Industry reports suggest that AI can achieve up to a 70% cost reduction in data management by adopting modern data infrastructures, such as data lakes. These improvements are crucial for compliance with increasing regulatory demands, especially in areas like data privacy and cybersecurity.

Lastly, the importance of robust data management extends beyond internal operations. Environmental, social, and governance—or ESG—reporting, for example, has introduced new challenges for data collection, requiring firms to capture and process large amounts of often nebulous data. As regulatory bodies demand more transparency and data from financial institutions, the need for accurate, well-organized data becomes even more critical.

50%

Emerging markets are projected to account for over 50% of global GDP by 2030, emphasizing the growing economic influence of interconnected emerging economies. This shift will likely increase global market interdependencies.

4 Rising Existential Threats

One of the most pressing concerns is the increasing sophistication of fraud and scams, particularly through the misuse of emerging technologies like artificial intelligence. While phishing attempts used to be easy to spot, modern scams have become far more convincing, posing a serious risk even to tech-savvy individuals. The evolution of these scams makes it harder for financial institutions to protect their customers.

In 2023, the IBM Cost of a Data Breach Report indicated that financial institutions lost around $5.9 million (USD) per cyberincident, which is higher than the average across all industries. Additionally, the U.S. Federal Bureau of Investigation's Internet Crime Report says that financial losses from cybercrime reached a new high of $12.5 billion in 2023, driven by investment fraud and business email compromise schemes. Finally, according to Grandview Research, the global cyber security market size is projected to grow at a compound annual growth rate of 12.3% from 2023 to 2030.

Beyond cyber threats, broader risk management challenges are emerging, as evidenced by the recent failure of Silicon Valley Bank. The bank's collapse was partly due to its failure to account for rising interest rates, which should have been a fundamental consideration in its risk models. This highlights a broader issue within financial services: some institutions are slow to react to changing market conditions, often due to outdated internal systems and processes.

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Inadequate internal infrastructure also presents a significant risk, as many financial institutions rely on outdated architecture. This can lead to delays in recognizing and responding to risks, leaving firms vulnerable to market shifts or operational failures.

5 Disruptive Competitors and Technologies

Traditional financial services firms are increasingly facing challenges from new, often smaller and more agile companies with cutting-edge technology, which present a real threat to entrenched players. Many established organizations respond in one of two ways: they either dismiss the competition until it grows larger or, alternatively, they seek to acquire the new entrants rather than compete directly.

Acquiring these firms allows traditional players to integrate the disruptors' innovative technology into their own portfolios, avoiding the challenges of developing similar solutions from scratch. However, even acquisitions come with difficulties.

When an established company integrates a smaller, innovative firm, it often carries over legacy challenges, particularly with outdated infrastructure and systems. This creates complications that disruptors, who don't have these burdens, can avoid.

Moreover, the financial market itself remains volatile and unpredictable. Events such as geopolitical tensions can create instability, making it difficult for investment banks and financial firms to maintain consistent growth. In response to this volatility, firms often focus on controlling internal costs and managing capital reserves more effectively.

One strategy to address these challenges involves optimizing capital and liquidity ratios. Many firms are now investing in improving their data accuracy to better manage their capital buffers, ensuring compliance with regulatory requirements while freeing up capital for business growth.

$5.9M

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Critical Success Factors

In a 1984 Sloan Management Review article titled, "An Assessment of Critical Success Factors," A.C. Boynlon and R.W. Zmud wrote:

"Critical success factors [CSFs] are those few things that must go well to ensure success for a manager or an organization, and therefore, they represent those managerial or enterprise areas that must be given special and continual attention to bring about high performance. CSFs include issues vital to an organization's current operating activities and to its future success."

For financial services executives and enterprises to survive—and thrive—over the next five years, capitalizing on the following critical success factors will be key:

Clarity and Alignment on Business Objectives

As market conditions continue to shift due to technological advancements, regulatory changes, and economic uncertainties, organizations must ensure that their goals remain relevant and focused. Regularly reviewing and updating objectives is critical in this environment, as it helps companies stay agile and responsive to emerging trends. Firms that fail to adapt their goals risk falling behind competitors who are more in tune with current market needs.

As business goals cascade from leadership to various departments, the connection between individual tasks and larger organizational goals can become blurred. This lack of alignment can result in significant inefficiencies, with employees often working on projects that don't directly support the company's strategic vision. To avoid this, companies must foster a culture of communication where all employees understand how their work contributes to the company's broader objectives.

Moreover, ensuring alignment across the organization is not just about communicating goals—it's about reinforcing the importance of those goals regularly. Financial services firms that actively maintain alignment between leadership's vision and the day-to-day tasks of employees report higher levels of engagement and better decision-making throughout the organization. By embedding clear objectives into the organizational culture, companies create an environment where employees feel accountable and motivated to contribute meaningfully.

Integrate Compliance Programs & Foster a Culture of Compliance

As regulatory environments become more complex, institutions must develop comprehensive compliance frameworks that are deeply integrated with their overall risk management systems. This integration ensures that compliance is not treated as a standalone function but is woven into the fabric of the institution's operations, legal, IT, and risk departments. Research has shown that companies with well-integrated compliance and risk management frameworks are more resilient and better positioned to respond to regulatory changes, reducing the likelihood of costly violations or fines. This also underscores the need to move to a data driven model for managing risk, something already adopted for credit and market risk, but operational risk remains subjective. Systems have become highly complex and a new approach for operational risk—with an analytical method—is needed to leverage data to identify all possible failure modes and effects.

In addition to building strong compliance systems, creating a culture of compliance throughout the organization is essential. Compliance cannot be siloed within one department; it must be embraced by employees at all levels. This requires regular training and awareness programs that help employees understand the importance of compliance and their specific roles in maintaining it. Organizations with a strong culture of compliance tend to experience fewer regulatory issues, as employees are

GLOBAL GROWTH CONSTRAINTS
The World Bank projects a decline in the global economic growth rate to a three-decade low of 2.2% annually by 2030, partially due to the complexities introduced by increasingly interconnected and fragile global supply chains.

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NEXT-GEN CONNECTIVITY
The IMF believes that technology advancements such as AI, big data, and automation are expected to reshape financial services, leading to greater interdependence across sectors and countries. However, this also raises systemic risks, especially related to cybersecurity and digital vulnerabilities. Effective management of these risks will require holistic strategies that transcend national borders.

more vigilant in identifying and addressing potential risks before they become major problems. Leadership plays a critical role in fostering this culture of compliance. Executives must prioritize ethical behavior and accountability, setting a clear example for the rest of the organization. Additionally, maintaining open communication with regulatory bodies allows institutions to stay informed of upcoming regulatory changes and adapt accordingly. This proactive engagement enables firms to align their strategies with evolving regulations, ensuring they remain compliant and avoid disruptions.

Leverage Technology & Enhance Data Management Practices

As the regulatory environment grows increasingly complex, adopting technologies like AI, machine learning, and blockchain will help institutions streamline their compliance processes and manage risk more effectively. RegTech solutions can automate routine compliance tasks, improving efficiency and reducing the manual labor involved in data collection and reporting.

Research has shown that automating compliance tasks with AI can reduce costs by up to 50%, while also improving the accuracy and timeliness of reporting. In an industry where compliance errors can lead to significant penalties, this level of automation will be critical to success.

Beyond automation, these technologies will also help financial institutions detect anomalies and potential compliance breaches more effectively. Machine learning algorithms can analyze vast amounts of data in real time, identifying suspicious activities and flagging them for further investigation. For example, AI-powered systems can identify patterns in transactions that may indicate money laundering or fraud, allowing institutions to address potential risks before they escalate. In this way, leveraging advanced technology not only enhances compliance but also strengthens overall risk management efforts.

In addition to adopting new technologies, institutions must prioritize robust data management practices. Ensuring data accuracy and security is essential for meeting regulatory requirements and protecting against growing cyber threats.

Don't Put Innovation on the Back Burner

In a rapidly evolving industry, companies that prioritize innovation while balancing compliance will be better positioned to adapt and thrive. The key challenge is ensuring that innovation does not take a backseat to regulatory requirements. A risk-based approach to compliance can help institutions allocate resources efficiently, allowing them to meet regulatory demands while still investing in transformative technologies and processes.

Financial services firms can foster innovation by leveraging sandbox environments, which provide a controlled space to test new technologies and business models. Sandboxes enable institutions to experiment with innovative solutions like blockchain, AI, and digital currencies without the risk of violating regulations. This approach allows firms to refine their products and services in a compliant setting before full-scale implementation.

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In addition to creating innovation processes and environments, it's critical that financial services leaders recalibrate their mindset—and capabilities— required to make innovation successful. These often include changes to governance, funding models, and the engagement model between innovation teams and the business line, which ensure successful integration and collaboration. Industry data suggests that companies that actively engage in controlled innovation initiatives report a 15% increase in the successful adoption of new technologies, compared to those that don't invest in similar programs.

Furthermore, striking a balance between compliance and innovation will be crucial in staying competitive in an increasingly digital landscape. By integrating innovation into their core strategies, financial institutions can develop new products and services that meet changing consumer expectations, while also staying ahead of emerging competitors like fintech startups. Ultimately, innovation must be seen as a critical part of future growth, not as an afterthought.

Bold, Decisive Leadership—And a Culture That Supports It

Leaders must make tough, long-term decisions, even if they cause short-term challenges. A lean and focused organization is better equipped to adapt to future market shifts and challenges. Instead of being reactive, companies need to invest in being proactive and future-ready by building a strong foundation, especially in areas like risk management and value creation.

While having a clear and bold vision is essential, a common challenge is that executives often don't stay long enough to see their strategies through. Organizational success requires more than strong leadership—it needs a culture where long-term goals are embraced by the entire team. This ensures stability and steady progress, regardless of leadership changes.

Naturally, this includes reexamining incentive structures, especially if firms seek to incentivize bold leadership. An entrepreneur understands the risk/reward model perfectly—if the financial services industry can follow-suit, it may be better positioned to achieve their visions by retaining those who are fueling that growth.

Every team member should understand how their role contributes to the bigger picture. Even small individual decisions can significantly impact the overall outcome. Organizations must create a culture where every employee feels responsible for the company's success and understands the importance of their role in achieving the collective vision. This sense of shared purpose enables the business to adapt to changes and remain competitive.

Take Five

The financial services industry is at a critical crossroads, where navigating increasing regulatory complexity, rising compliance costs, and intensifying cybersecurity threats will define the next generation of industry leaders. To survive—and thrive—over the next five years, executives must embrace a proactive approach, integrating technology to streamline compliance, leveraging data to drive decision-making, and fostering a culture of innovation and accountability.

The seize the future, the speed at which strategic planning is done needs to be faster—with more frequent cycles—due to rapid changes in market. Organizations must move the decision making processes closer to the front end of the firm, nearer to the customer, where insights are more organic. Top-down planning is for major milestones and market ambitions, but short-term planning horizons are executed by the front end.

Companies that balance risk management with bold leadership and a clear strategic vision will be best positioned to capture new opportunities, while those that fail to adapt risk falling behind. The future of financial services is not just about meeting today's challenges but anticipating tomorrow's disruptions. Success will favor the bold—the companies that not only keep pace with change but actively shape it. **IQ**

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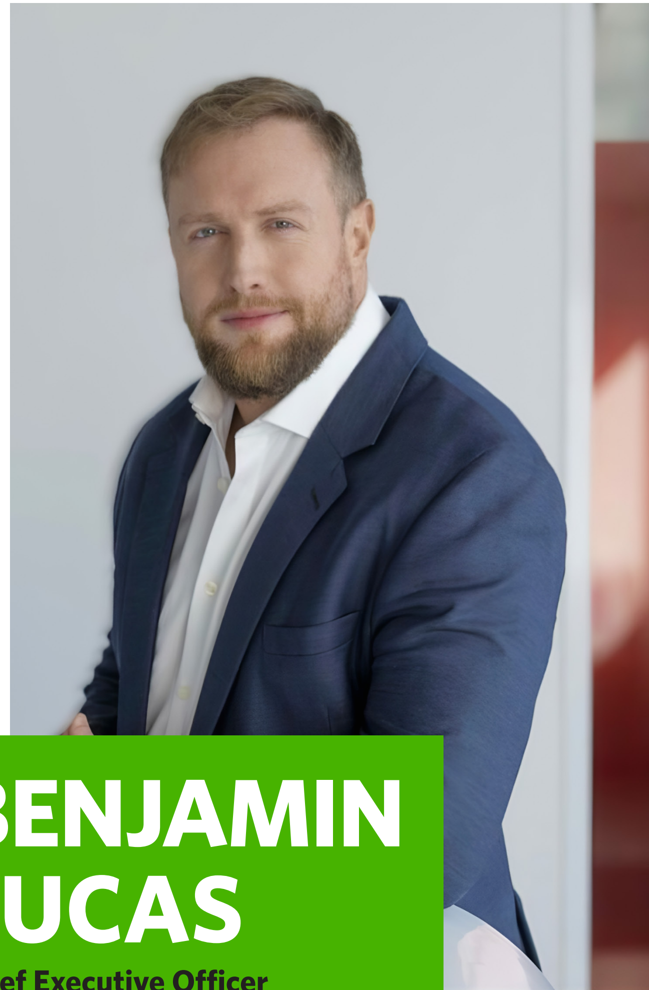
EXECUTIVE PERSPECTIVE: FINTECH

Benjamin Lucas is the chief executive officer at Amundi Technology—which provides scalable, end-to-end financial management and data tools that empower asset managers, banks, and wealth managers to enhance their capabilities—and an ExCo member at Amundi. Prior to this role, Mr. Lucas served as a Partner at KPMG UK, where he held various leadership positions within the asset management and consulting divisions. Mr. Lucas also worked at EY as a Partner and Director, Alpha Financial Markets Consulting as a Practice Lead, and Ernst & Young as a Management Consultant. Mr. Lucas began his career as a Graduate at Zurich Financial Services after completing a BSc. Hons in Economics and Finance from the University of York.



BENJAMIN LUCAS

Chief Executive Officer

Amundi Technology

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***IQ*: From your purview, what are the primary challenges facing financial services executives and enterprises over the next five years?**

Mr. Lucas: A major challenge, which isn't easily controlled but must be managed and has impacts on technology and data, is the new geopolitical backdrop. We're seeing the fragmentation of what was once a truly global model, with the rise of regionalization and potential for new conflicts. This shift has serious effects on political policies, which may then influence regulatory frameworks.

These changes affect the business environment we all operate in. Companies might have to exit markets or adapt to data policies in different countries where political pressures dictate what data is stored locally or offshore.

These geopolitical and regulatory shifts have some impacts on the financial industry, especially for large global banks, insurance companies, and asset management firms. Balancing these challenges will be one of the toughest tasks for leaders over the next five to ten years.

***IQ*: As global market instability affects companies worldwide, how do you see this impacting the financial services sector?**

Mr. Lucas: There are many ways this plays out, but two key issues stand out. First, data localization. Where data is stored, who can access it, and how it's managed are becoming critical concerns. Over the past decade, there's been a shift toward cloud computing, especially public cloud, where many trusted large tech firms to handle their data.

However, this is changing because in some countries regulations require data to be stored locally and controlled onshore. This forces companies to build local infrastructure, which significantly impacts global operating models.

The biggest challenge for financial services executives now is that they're no longer just running financial institutions—they're also running technology businesses. We live in a world with more computing power in our pockets than previous generations had in their entire lives. We're hyper-connected, cloud-first, and increasingly digital-native. Ignoring this transformation is no longer an option.

It is therefore incredibly important to stay connected and to listen. I have been leading conversations with senior leaders for much of the last decade and what was really striking this time was that GenAI came up in almost every conversation over the last year. In previous conversations, CEOs had highlighted cloud, data and talent, but rarely mentioned AI.

***IQ*: Do you think the financial services industry is ready to respond and capitalize on major shifts over the next five years?**

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MARKET OF THE FUTURE
Industry estimates project that the global market for FinTech will reach $1.5 trillion (USD) in revenue by 2030—growth of roughly five times from today. B2B2X and B2B markets are projected to drive the most growth, with embedded finance and financial infrastructure as primary levers for expansion.

Mr. Lucas: When I speak to financial services leaders, many of them are critical of their own readiness. They feel they weren't innovative enough or moved too slowly. However, when I speak to tech leaders, they have a different view. They see financial services as ahead of many other sectors in several key areas. Why? Because financial services has already done much of the foundational work necessary for success in this new era—it's an information-based industry and has been operating in the digital space for years.

One challenge is, of course, the speed of change. Tech companies think in terms of months, while financial services still operates on longer timelines—three, five, or ten years. The rapid advancements in AI are driving this gap in speed.

That said, financial services is better positioned than people realize because it's already heavily regulated, familiar with modern cloud and DevOps processes, and is used to working in a digital environment.

IQ: What do you believe are some of the most promising growth opportunities in the financial services industry over the next five years? How could they be transformational?

Mr. Lucas: For me, there are two clear paths forward. First, there's a massive opportunity for efficiency. Many financial services firms are stuck in outdated practices—like signing papers by hand and dealing with endless paperwork—while also hearing about the rapid advancements in AI and quantum computing. The contrast is stark. Right now, most use cases presented to boards focus on improving efficiency: doing things faster, better, and cheaper through automation. Every board would welcome ways to lower costs and improve processes. This kind of business case, centered on return on investment through efficiency, is easy to get approved.

However, reimagining the entire landscape is more challenging. For example, proposing a radical change to the savings and investment market—replacing traditional methods with AI engines and tokenized assets—likely wouldn't get immediate or easy approval. Firms might experiment with such ideas, but full-scale adoption is unlikely in the near term.

That said, there's enormous potential for efficiency improvements. Addressing these inefficiencies is a clear opportunity, and AI can help achieve this without overhauling the entire system. On the other hand, the real transformation—the outsized returns—will come from adapting to this fast-changing world. AI offers the chance to rethink financial services.

Right now, much of the focus is on improving user interfaces or supporting human advisors. But in the next five years, we might see digital twins—AI-powered systems that understand all your preferences. Instead of clicking through websites, you may simply tell your device how to invest your money, and it would execute based on your preferences. The real exponential gains will come from focusing on effectiveness, not just efficiency, and adapting to such rapid change. But for immediate benefits, focusing on efficiency is the quickest way to generate value.

IQ: Is there a unique challenge in financial services for executives who want to be bold while operating in such a heavily regulated industry? How do you balance being bold and addressing investor concerns?

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Mr. Lucas: That's a great question, and I think there's a clear answer. There's a misconception that being bold means ignoring or bypassing regulations. That's not true. Boldness doesn't mean defying the rules—it means finding ways to work within them. If you engage regulators early, involve them in the process, and bring them along on the journey, you can still innovate.

Some of the best developments in the financial space are coming from places where regulators are actively involved, where they're working on proof of concepts and sandbox models. Regulators are there to protect investors and the market. Being bold means working with them.

IQ: When embracing technology to create a competitive advantage, is there concern about the impact on humans in the industry? How do we leverage emerging tech without losing our humanity?

Mr. Lucas: One key point is that technology, not humans, will become commoditized. We're all using the same tech infrastructure. But there's an opportunity with this tech to leapfrog others. For instance, India skipped traditional Web 2.0 development and went

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–**Benjamin Lucas**
CEO, Amundi Technology

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BANKING ON HUMANS
As technology becomes commoditized, Mr. Lucas says, the real competitive edge lies in your people. "Everyone may use the same 'tech plumbing' but true differentiation comes from your own intellectual property (IP), domain expertise, and the skills of your workforce.

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straight to digital and mobile-first, creating a hyper-connected population that can do banking and payments through messaging platforms. They didn't have the legacy architecture holding them back.

AI offers a similar chance to leap ahead. People often say "garbage in, garbage out," dismissing AI because it relies on data. But AI's strength is turning fragmented, random data into actionable insights. You don't need a five-year data transformation or a new operating model. By working with AI tools, firms can extract insights from unstructured data, potentially leapfrogging those stuck in traditional data restructuring.

That said, success in this approach is rare. Most firms that have tried have struggled and eventually returned to cleaning up their data. But with recent AI advancements, it's not impossible that models could soon handle this more effectively.

As technology becomes commoditized, the real competitive edge lies in your people. Everyone may use the same tech "plumbing," but true differentiation comes from your own intellectual property (IP), domain expertise, and the skills of your workforce. Unlocking that IP, and leveraging your team's knowledge, will be how you stay ahead.

***IQ*: Is there a downside to everyone using the same tech infrastructure? For example, if the "pipes" break, like with the recent CloudStrike error, could it cause widespread disruptions?**

Mr. Lucas: That's absolutely a valid concern, but it's not unique to AI. The CloudStrike issue is a perfect example. How many people realized that a small piece of software, developed by one person, was supporting 80% of computers worldwide? The real issue isn't AI—it's the broader supply chain risk in our technology ecosystem.

***IQ*: How can senior executives adapt and embrace technology to become the type of leaders you're describing, especially in light of the changes ahead?**

Mr. Lucas: I I see two key questions here: first, how to be more bold, and second, what kind of leadership will be successful in the future.

Starting with boldness—I've asked many leaders if they really want to be bold. My conclusion? Most don't. Being bold means taking significant risks. But when you're running a large business with big potential downsides, do you really want to take risks that are too significant? Most people prefer being a fast follower.

The challenge is that in an AI-driven world, the first mover advantage is enormous. If you're not bold or if you don't dare enough, you may find there's nothing left to go after.

Now, if you've decided to be bold and embrace this journey, there's a common misconception that AI will replace everything. I don't believe that. Instead, AI, especially generative AI, will automate many tasks but ultimately amplify the impact of human decisions. Every choice a leader makes will have far-reaching consequences, accelerated and magnified by AI.

AI is a force multiplier, but it also increases the stakes. People will need more training, support, and governance to ensure their decisions are sound. When it comes to AI, every human decision will have a much greater impact than is currently the case. You can have a massive impact, but only if you're making the right decisions in the right way.

***IQ*: Lastly, what does successful, impactful leadership in financial services look like over the next five years?**

Mr. Lucas: Successful leadership, to me, is about openness—openness to collaboration and learning from other industries. Financial services do some things well and they can keep improving by learning from other sectors.

It's also crucial to be smart about what you handle internally and what you delegate to partners. For example, you're not going to reinvent large language models or build entirely new data pipelines from scratch. Instead, you need to leverage your tech partners and work within an ecosystem. No one is navigating these changes alone. **IQ**

"Companies investing heavily in redesigning these platforms are focusing on the present, not the future. The real exponential gains will come from focusing on effectiveness, not just efficiency, and reimagining how financial services can evolve."

–Benjamin Lucas
CEO, Amundi Technology

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