December 2025

Key issues for the US banking sector

In 2025, US commercial banks faced a complex risk landscape. The lingering effects of the 2023 regional banking crisis—amplified by recent revelations of fraudulent and non-performing loans—underscored how quickly risks can materialize and reinforced the urgency of forward-looking risk management.[1] At the same time, banks must balance emerging challenges such as artificial intelligence, cyber threats, and digital assets with persistent fundamentals including credit, liquidity, and operational risk.

This *Insight* highlights five key risk areas that defined 2025 and are likely to persist in 2026:

- a shifting regulatory regime with economic and geopolitical uncertainty;
- cybersecurity threats;
- digital asset and stablecoin adoption;
- growth in usage(s) of artificial intelligence; and
- core risks (credit, liquidity, interest rate risk and compliance risk).

Regulatory, economic, and geopolitical uncertainty

After a decade of post-crisis tightening, the regulatory regime is softening—but with considerable uncertainty. New agency leaders have signaled interest in streamlining requirements and creating an environment more supportive of industry. Yet federal supervisors are expected to sustain rigorous oversight in some areas, while state regulators are stepping up in areas such as consumer protection.

Supervisory pressures remain significant. More than 60% of large banks were rated less than satisfactory in at least one component in 2024.[2] Executives must balance potential compliance relief with a backlog of outstanding supervisory findings. At the same time, institutions are pursuing innovation in artificial intelligence (AI) and distributed-ledger technologies while maintaining discipline in managing core risks.

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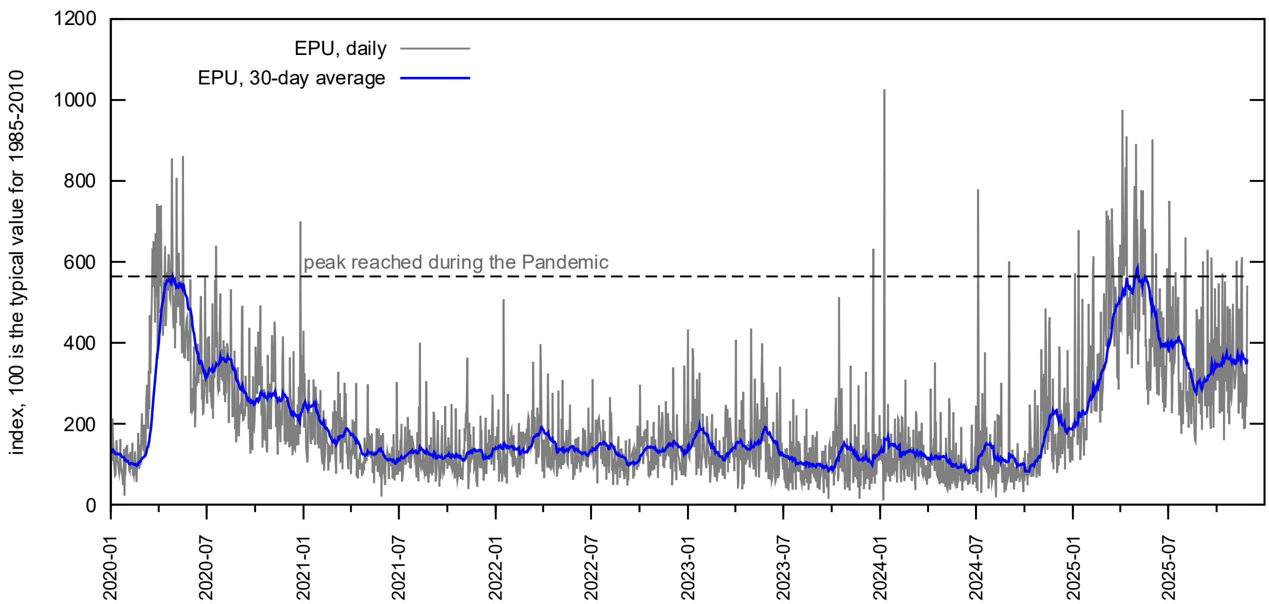
[1] See FDIC (2024), Lessons Learned from the U.S. Regional Bank Failures of 2023 and Fitch Ratings, “Rapid US Non-Bank Loan Growth Raises Risk of Wider Losses for Banks,” October 21, 2025.

[2] See **https://www.federalreserve.gov/publications/files/202411-supervision-and-regulation-report.pdf**.

The Office of the Comptroller of the Currency (OCC) cautions that while the banking system remains fundamentally sound, rising geopolitical tensions, softening consumer sentiment, and mixed economic signals have increased uncertainty.[3] Downside risks dominate planning, and banks are preparing for multiple scenarios—building reserves to buffer against potential credit deterioration or liquidity stress. Strategic planning and capital management must remain flexible amid shifting global and domestic headwinds.

Figure 1: Economic policy uncertainty index, measured by number of articles simultaneously mentioning economy, policy, and uncertainty, is at levels last seen during the onset of the Covid-19 Pandemic. Data source: https://www.policyuncertainty.com/media/All_Daily_Policy_Data.csv



Cybersecurity

Beyond the macro environment, another critical area of concern is cybersecurity. Cyber threats continue to escalate in scale and sophistication. Malicious actors are targeting both banks and their critical service providers, driving the need for resilience and third-party risk management.[4] Three quarters of Chief Risk Officers rank cybersecurity as their foremost concern.[5]

Banks are responding by strengthening “cyber resilience” including stress-testing systems, adopting “zero-trust” architectures, and investing in advanced threat intelligence and encryption. Boards increasingly treat cyber risk as a core enterprise priority, aligning governance, resources, and talent accordingly.[6]

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3 See **https://www.occ.gov/publications-and-resources/publications/semiannual-risk-perspective/files/pub-semiannual-risk-perspective-spring-2025.pdf**.

4 See **https://www.occ.treas.gov/news-issuances/news-releases/2025/nr-occ-2025-63.html**.

5 See **https://www.ey.com/en_gl/newsroom/2025/02/latest-ey-and-iif-survey-reveals-cybersecurity-as-top-risk-for-global-cros-amid-geopolitical-tensions**.

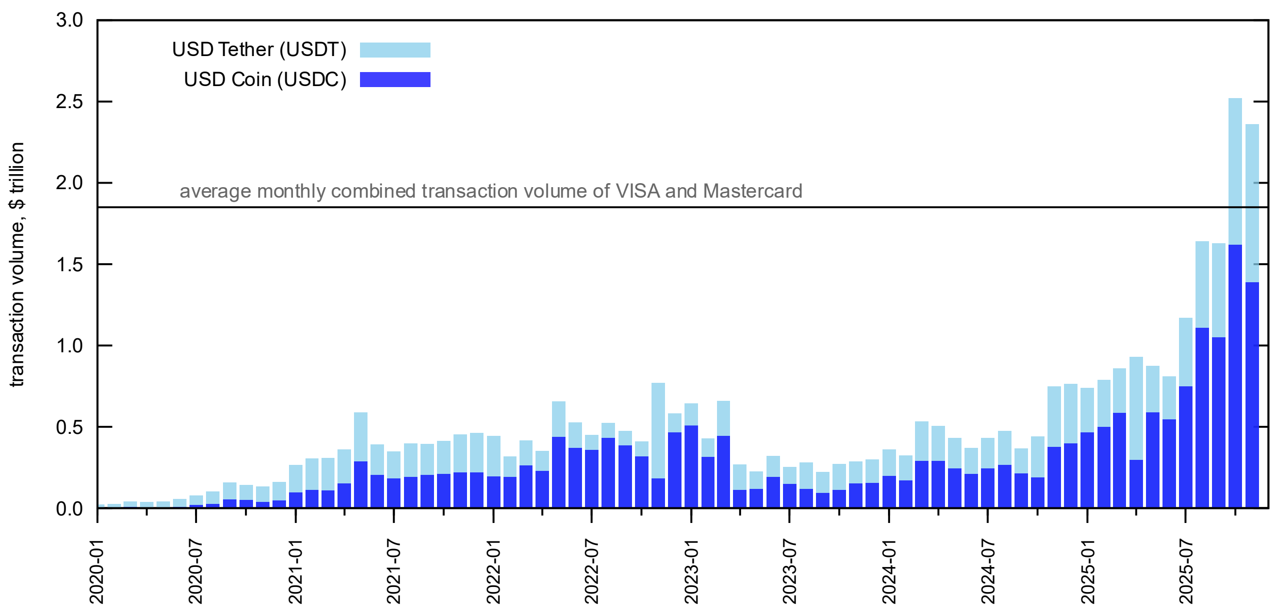
6 Ibid.

Digital assets and stablecoin adoption

Following the passage of the GENIUS Act, US regulators have clarified that banks may engage in certain digital-asset and stablecoin-related activities—provided they maintain appropriate risk-management controls.[7] This development carries significant implications for banks' business models, funding structures, deposit bases, and systemic interconnections, as stablecoins gain traction as alternative payment tools. The associated risks are likely manageable if addressed proactively.

Banks integrate digital-asset dynamics into strategy, risk management, and governance. Institutions should develop robust control frameworks, strengthen liquidity and contingency-funding planning, and adapt their product and funding models to reflect emerging digital-asset realities. Having a strong financial crimes program is critical, and fraud and abuse in crypto markets remain enforcement targets.

Figure 2: Stablecoins emerged as a dominant payment method with the year-to-date transaction volume of the two largest USD-pegged stablecoins exceeding $14 trillion. Data source: https://www.theblock.co/data/stablecoins/usd-pegged/on-chain-volume-of-stablecoins-monthly



Artificial Intelligence

AI has become a strategic focal point, offering both transformative opportunity and heightened risk. Banks are deploying AI beyond back-office automation into customer engagement, fraud detection, and forecasting, among other uses. Cloud-based platforms and fintech partnerships are expanding access to advanced tools, while banks invest heavily in talent and modernized, AI-ready infrastructure.

AI requires strong governance. Nearly half of banks plan to prioritize AI initiatives in the next three years, particularly in risk analysis and control functions. Regulators expect rigorous model-risk management,

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7 See **https://www.congress.gov/bill/119th-congress/senate-bill/1582**.

including testing for explainability, bias, and data security. AI is thus a double-edged sword—a driver of insight and efficiency if managed well, but a risk if misgoverned.

According to Stanford's 2025 AI Report, US private AI investment hit $109 billion in 2024, about 65% higher than the inflation-adjusted $66 billion in 2022. At the same time, the cost of querying an AI model decreased 280-fold from $20 per million tokens in November 2022 (when ChatGPT was released publicly) to just $0.07 per million tokens (keeping accuracy constant) by October 2024. These numbers are expected to become even more staggering when the 2025 data is released.

Traditional risks: Credit, liquidity, and interest rate risk

Traditional banking risks remain central in 2025.

- Credit risk is rising from cyclical lows, with commercial real estate (especially office properties) under pressure and credit card charge-offs above pre-pandemic levels. Banks hold substantial loan-loss reserves, but a severe downturn could still test capacity. The recent revelation of fraudulent and non-performing loans brought bank failures to the forefront again.
- Liquidity and funding risks remain in focus. Deposits have recovered modestly, yet competition is fierce—with money-market funds and stablecoins attracting flows. Elevated funding costs continue to compress net-interest margins.
- On the asset side, prior rate hikes left banks with sizable unrealized bond losses that could constrain liquidity if realized. Institutions have shortened asset duration and expanded hedging, while regulators emphasize robust stress testing across interest-rate scenarios.
- Capital and liquidity positions remain strong, with capital ratios (CET1) at multi-year highs. Nonetheless, supervisors warn of vulnerabilities in concentrated loan categories and the overhang of securities losses. Large banks are expected to rigorously test contingency-funding plans and align balance-sheet strategies with their risk appetite.
- Banks monitored fair lending and UDAAP[8] risks given litigation potential and rising state oversight. At the same time, they invested in advanced AI solutions to detect financial crimes, as enforcement remained high despite some relief brought by the recent Bank Secrecy Act (BSA) reform. Both on the consumer protection and financial crimes fronts, banks took an opportunity to improve their programs and monitoring.

Concluding Remarks

The US banking sector remains fundamentally sound, but faces a convergence of regulatory, economic, technological, and operational pressures. Executives must juggle regulatory uncertainty with growth initiatives, navigate economic headwinds, defend against escalating cyber threats, respond to the growing adoption of stablecoins and their implications for funding and settlement, and responsibly deploy artificial intelligence. Traditional risks remain ever-present, demanding disciplined oversight and governance.

Success in 2026 will hinge on a strong risk culture, agile governance, and the ability to reallocate resources as priorities shift, all while leveraging innovation to remain competitive and resilient.

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[8] Unfair and deceptive acts, abuses and practices.

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