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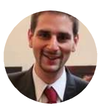
Financial Services

Customer preferences spur retail banking channel evolution

Banks must orchestrate their channel interplay and create a next-generation distribution model to meet changing customer behaviors.

By Klaus Dallerup
Advises clients within the financial, private-equity, and technology sectors on a variety of issues, including digital, strategic, and operational transformations



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Retail banking | Digital and analytics | Customer experience

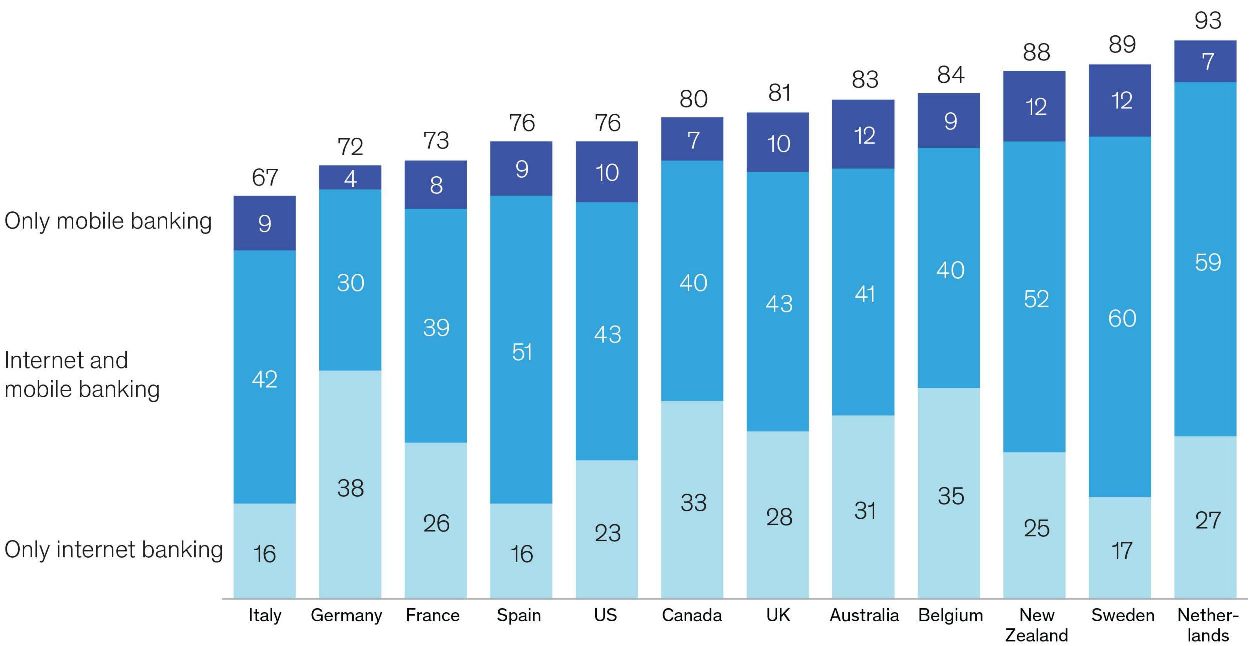
March 6, 2020 - As banks pursue digital adoption to improve efficiency and customer experience, they must navigate evolving customer preferences for different channels for different needs. In some cases, customers embrace new technologies for their convenience. In other cases, they cling to old ways of doing business out of habit or simple resistance to change. According to McKinsey's latest Retail Banking Consumer Survey of 45,000 consumers in 20 countries, these cross-currents are forcing rapid changes in the way banks connect and cultivate relationships with their customers.

We found that the digital channel is increasingly important, even in countries that have been slower to adopt digital. In Italy, for example, more than two-thirds of customers now use digital channels. Meanwhile, in countries where digitization has advanced more swiftly, more than 85 percent use them (Exhibit 1).

Exhibit 1

Digital channels are now the dominant banking channel worldwide.

Percent of consumers that use channel at least once a month



Source: McKinsey 2018 Retail Banking Consumer Survey

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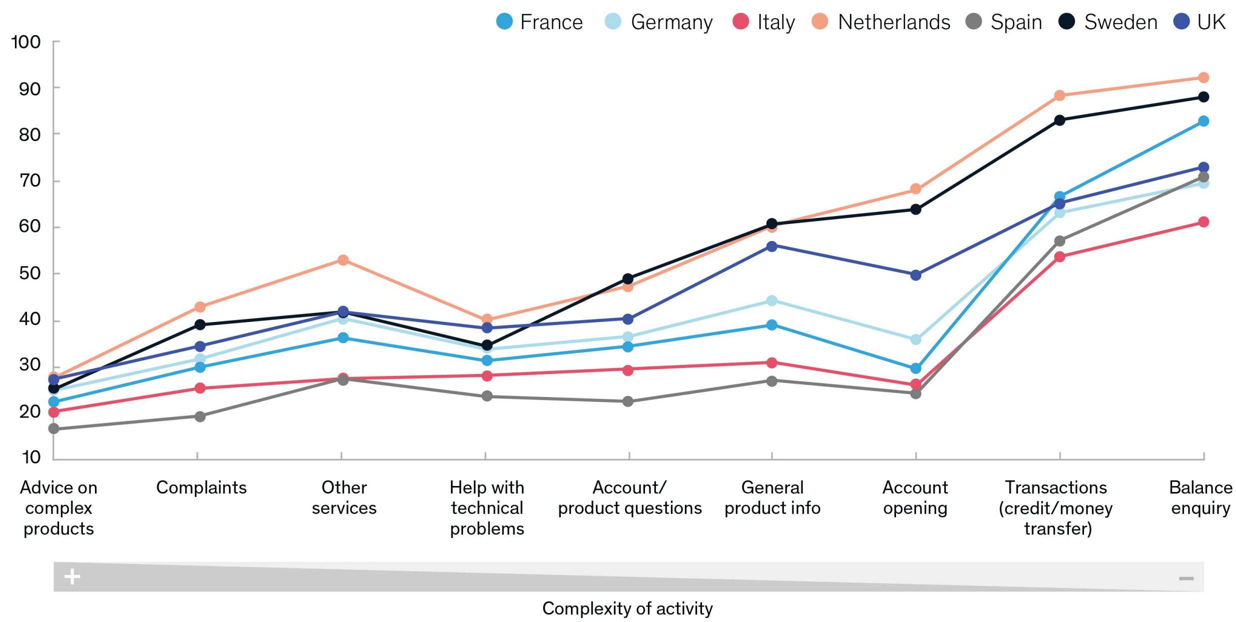
As a consequence of higher digital adoption, customers are visiting branches less in every county we surveyed. In Germany, for example, the percentage of people visiting a branch once a month declined from 60 percent in 2012 to 31 percent in 2018, while in Sweden it dropped from 27 percent to 8 percent. Overall, customers are more and more likely to use digital channels and reserve their branch visits for special advice, to solve complicated issues, or to purchase complex products such as mortgages.

But while branch traffic is down across the board, digital does not dominate all banking *activities* (Exhibit 2). The physical branch still plays an important role. Besides being a place people can go to interact face to face on complex issues, having a nearby branch is one the major factors customers consider when choosing a bank. In 2018, according to McKinsey analysis, 91 percent of new bank customers in Western Europe came through the branch, while in North America that number was 77 percent.

Exhibit 2

Not all banking activities are dominated by digital.

Percent of consumers that prefer internet banking or mobile banking



Source: McKinsey 2018 Retail Banking Consumer Survey

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The bank-channel story would be relatively straightforward if customers simply preferred digital channels for daily, routine transactions and the branch for account openings and the occasional complex product or service. But the reality is more nuanced. Customers are increasing channel agnostic, jumping between channels to solve problems and get answers. They are also embracing digital channels enhanced by human interaction. A prime example of this evolving behavior is the increasing use of remote advisory over the phone and internet when supported by professional relationship managers (RMs).

While these trends are broadly true across the regions we surveyed, different countries are at different stages of digital adoption—even in Western Europe—and so the on-the-ground realities will vary. The Nordic countries, for example, tend to have the most advanced digital offerings, while some of the countries in Southern Europe still rely on extensive branch networks. But there is room for improvement everywhere when it comes to running channels efficiently and delivering excellent customer experience. We see four actions banks can take to better orchestrate their channel interplay and create a next-generation distribution model for customers:

1. **Push remaining simple interactions to digital channels** by increasing customer education. Particularly in countries where extensive branch networks still exist, such as Greece, Italy, and Spain, many simple transactions still occur at the branch. Migrating these transactions to digital channels will require educating customers and employees. Banks need to educate customers on how and why to use digital channels, especially customers 50 and older, who also usually happen to be a bank's most profitable customers (and could be even more profitable). But banks also need to educate employees who often resist embracing digital channels because they worry about digital channels making their roles redundant. Banks need to explain that digital channels will relieve them of the most mundane tasks and free them to work on more complex, high-value activities for the bank and for customers.

2. **Deploy new modern branch formats** that leverage digitization to enhance the customer experience, thus increasing loyalty and satisfaction. As the branch evolves from a place to do transactions to a place focused on customer acquisition and advice, branch formats need to evolve. Some forward-thinking banks are already rolling out branch designs that encourage customers to sit in a welcoming space, converse with RMs about a product or service, and when possible interact with the new technology and learn how to use it. The idea is to offer an experience not just a sales floor.

3. **Embrace new human-digital channels** such as remote advisory. Many customers are happy to have a conversation from the comfort of their own homes. Interestingly, those in our survey generally did not want video-

conferencing. They were more comfortable not being seen. The real game changer for remote advisory seems to be screen sharing. The ability for the RM and the customer to have the same view vastly improves the experience. For banks, remote advisory is a terrific way to balance capacity needs since RMs can be centrally located and don't need to be in branches. Remote advisory got its first real foothold in the Nordic countries but is now expanding rapidly. For example, in Sweden, the percentage of consumers who received remote advice jumped from 25 percent in 2016 to 44 percent in 2018; in Germany it rose from 19 percent to 33 percent; and in the UK it increased from 29 percent to 36 percent.

4. **Focus on digital marketing and support capabilities** to boost online product sales such as credit cards and personal loans. Banks need sophisticated capabilities to trigger online offers at the perfect moment, and to recognize when a customer who has already been preapproved requests a loan. Even if a bank gets this timing right, it still needs to ensure a simple and seamless customer experience that's fast and intuitive. What makes this undertaking even harder is that instead of having these customer interactions within the bank's secure digital channels, the bank is competing on the open internet with other banks as well as digitally savvy nonbanks.

We expect the trends identified in this year's survey to continue. Consumers will embrace digital and hybrid channels while visits to the branch will further decline. What will set banks apart is their ability to optimize these channels and aggressively vie with a wide array of traditional and nontraditional competitors.

Agentic AI will shake up banking, shrinking global profit pools

Agentic AI is almost certain to upend banks' traditional business models. Early adopters may be able to grab an advantage, while laggards will be fighting over diminished profits, warn Pradip Patiath and Ido Segev, of McKinsey & Company.


By Pradip Patiath
Advises financial institutions on transforming their performance and achieving superior growth with digital and analytics


By Ido Segev
Helps clients understand their Digital Quotient and implement digital programs to improve financial performance

Gen AI

November 21, 2025 - This article first appeared in American Banker on Friday 19th September 2025.

Not all new technologies live up to the buzz — think of robotic process automation or the metaverse. But generative artificial intelligence, combined with agentic AI, appears to be for real, with investors and financial institutions putting their money where the hype is: AI has received more than half of venture capital investment thus far in 2025.

Based on a forthcoming comprehensive review of global banking, including interviews with both boosters and skeptics, McKinsey's conclusion is that gen AI, and agentic AI in particular, will change banking fundamentally, and quickly. The sky is the limit.

But while gen AI has been newsworthy in terms of its disruptive potential, there is a striking paradox: While nearly 80 percent of companies report using gen AI in at least one business function, a similar proportion report no significant impact on their bottom line.

Agentic AI is likely to change that. Agentic AI refers to autonomous AI agents powered by dedicated large language models. These agents can reason and act independently, with little or no human intervention, so that they can perform entire complex workflows. Early use cases have shown significant potential, reducing manual workloads by 30% to 50%. For example, a large bank has successfully upgraded its tech stack with a digital factory staffed by a mix of people and AI agents.

The good news for banks is that agentic AI could lower operational costs by 20% or more, equivalent to 9% to 15% of operating profits. The not-so-good news is that McKinsey expects most of those gains will eventually be competed away, as happened with digital banking and other similarly broad-based technologies. Moreover, implementing agentic AI is likely to be costly. Banks will need to upgrade their legacy technology systems, adopt a new operating model with effective risk guardrails and invest in fraud prevention.

If that's not enough, agentic AI could also cut into revenues and profit margins. For example, AI agents could autonomously open new savings accounts and move money on consumers' behalf to find them the best rates. Or agents could optimize credit card lending balances and take advantage of zero balance-transfer offers, threatening margins.

If banks fail to reinvent their business models, McKinsey estimates that global banking profit pools (about $1.2 trillion) could shrink by as much as 10% over the next five to 10 years. But outcomes for individual institutions will vary greatly. We estimate that AI pioneers could open a gap of 4 percentage points of return on tangible equity, or ROTE, relative to slow movers — capturing years of productivity benefits and giving them a meaningful cash flow edge before these advantages get normalized. Slow movers will be caught out with an uncompetitive cost base in a rapidly changing market.

There are four common pitfalls in AI adoption efforts: "copy-pasting" generic use cases instead of basing them on strategic priorities; deploying broad but shallow tools such as copilots that deliver widespread but diffuse productivity gains; failing to invest enough in redesign of work and practical training of employees; and allowing the proliferation of micro-initiatives.

For AI efforts that succeed, however, there are also common elements. These include redesigning the operating model for human-agent collaboration; developing a scalable technology platform with reusable capabilities; and deploying a comprehensive change management program.

In broad terms, what all this means is that banks should focus on transforming entire domains, rather on making incremental efficiency gains. And they should not delay. Early adopters will have the space to experiment, fail fast and iterate, capturing value while their competitors hesitate. Fast followers may be able to learn from leaders' mistakes, but the risk is that they are caught short if the market scales quickly and they are still learning the ropes.

For a handful of institutions with limited scale and capabilities, or those with defensible business models, moving deliberately and buying vendor-led solutions may be reasonable. For most, however, the danger is that delay will make it impossible to catch up.

No matter the approach, to position their institutions for success, CEOs need to consider how the adoption of AI could change their economic assumptions regarding both revenue growth and efficiency. On that basis, they can address what they need to do to make gen AI and agentic AI bring results.

Think back to the advent of Internet-enabled banking. At first, it was a novelty. Before long, it was a necessity. Banks did not become more profitable overall due to online banking, but some managed to win big, while the rest fell behind. Most industry leaders we spoke to think agentic AI will be at least twice as revolutionary — and move even faster.

The use of agentic AI is going to shape the future of banking; it is already changing the present. Getting it right is not just one more operational decision, but a strategic necessity.

To access the full article please visit American Banker, "Agentic AI will shake up banking, shrinking global profit pools"

Banking trends snapshot: How banks can catch up to fintechs on AI

Fintechs are moving faster than incumbents on AI. To stay competitive, banks must look beyond efficiency to create revenue-generating applications that unlock growth and redefine customer engagement.


By Miklós Dietz
Helps financial services companies and other organizations harness digital technology and stay ahead of emerging trends


By Istvan Rab
Supports financial institutions and other organizations in creating future-proof strategies through market intelligence solutions


By Hugo Tong
Advises financial services clients on strategy and innovation initiatives as the product lead for McKinsey Panorama—Idea Analytics


By Tamas Katona
Advises financial institutions and other organizations on innovation and digital technology, with a focus on ecosystem strategies and new business building


By Sonali Gobin
Advises financial institutions and other organizations on strategy, transformation, and business building, with a focus on innovation, fintech, and agile practices

McKinsey Panorama

November 14, 2025 - The data points in this blog post are based on research by McKinsey Panorama

AI, particularly agentic and gen AI, is rapidly reshaping how financial institutions create and capture value.

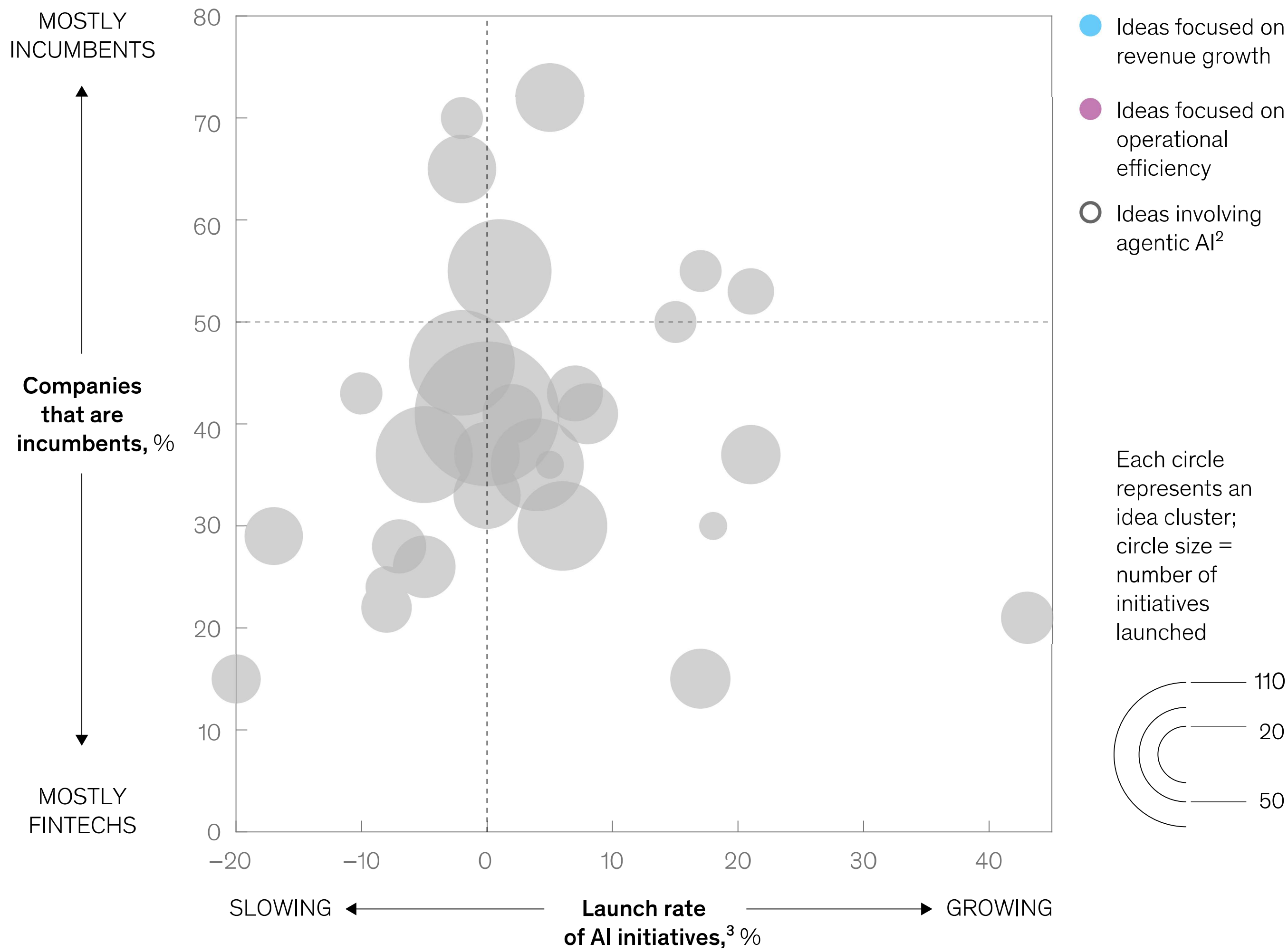
To understand the impact of this evolution in financial services, we analyzed more than 600 AI initiatives, sorted into about 30 idea clusters, using Idea Analytics, McKinsey Panorama's new gen AI–enabled platform for tracking banking innovations (see sidebar, "More about McKinsey Panorama and Idea Analytics").

We tracked initiatives launched between late 2022, when ChatGPT was released, and summer 2025. The aim was to contrast initiatives coming from fintechs and those from incumbent financial services firms, including banks and payments companies (exhibit).

Prev **01** — 04 Next

Incumbent financial services companies are trailing fintechs in AI adoption, particularly in revenue-driving and agentic use cases.

Comparison of AI-based initiatives[1] launched by incumbents vs fintechs, 2022–25



[1]Analysis includes 639 AI-based initiatives sorted into about 30 idea clusters. [2]Defined as ideas for which >5% of the underlying company initiatives in the given idea cluster use agentic AI. [3]Relative growth in launch rate of AI-based initiatives compared with the total number of initiatives launched between Dec 2022 and June 2025 and tracked by the Idea Analytics database.
Source: McKinsey Panorama—Idea Analytics

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Our analysis yielded the following main findings.

Fintechs are outpacing incumbents

Despite their scale and data advantages, incumbent banks trail fintechs in deploying AI with measurable business impact. Our data set includes roughly

4,000 of the largest fintechs globally, based on revenue (if available), funding, and valuation.

Fintechs account for a disproportionate share of the AI initiatives tracked. Although fintechs make up just 40 percent of the data set, they account for nearly 70 percent of the AI initiatives, helped by their agility and focus, as well as by having fewer legacy constraints than banks.

Banks, in contrast, face greater regulatory complexity, fragmented technology stacks, and organizational inertia. While fintechs have rapidly operationalized AI in analytics, trading, and portfolio management, many banks remain stuck in pilot mode, testing promising concepts but struggling to move them into production.

The AI adoption curve is stabilizing

After a period of rapid experimentation, the pace of AI adoption in financial services is leveling off. Many early applications, such as AI-powered conversational assistants and financial-close automation platforms, are now relatively standard and are being launched at rates similar to those for products and services that aren't focused on AI.

Meanwhile, the use cases where adoption rates are growing the fastest mostly involve agentic AI and revenue-driving applications, such as AI-powered multi-asset trading platforms and advanced predictive decision management tools, which use AI and data to identify patterns, predict risks and opportunities, and help organizations with decision-making. Fintechs are on stronger footing than banks when it comes to these types of applications.

The divergence in adoption trends likely reflects some hesitation from banks to launch AI-driven offerings, as illustrated by the relatively small number of launches in our data set. The roughly 600 AI-focused launches in our data set account for only about 3 percent of the total launches of products and services in the Idea Analytics database during the period from late 2022 to summer 2025.

Growth is concentrated in agentic, high-value use cases

Our analysis shows that fintechs are defining the more experimental and fast-evolving frontier of AI innovation, pushing further into agentic, autonomous AI. The most transformative potential lies in agentic AI and revenue-driving use cases—areas where fintechs dominate. These include advanced predictive decision management, AI-driven financial analytics, and multi-asset trading platforms.

For instance, an AI-powered global mobile trading platform used by fintechs enables real-time, algorithmic decision-making, improving trading outcomes. Banks, meanwhile, use AI mainly to improve reliability and trust. Most incumbent initiatives are defined by narrower applications such as treasury automation, chat-based banking assistants, and advisory personalization, which, while useful, risk commoditization and miss the transformational upside.

PayPal's Agent Toolkit, launched in 2025, exemplifies the emerging shift to dynamic, multi-agent commerce ecosystems that will be able to transact, decide, and execute with minimal human input. The toolkit enables developers to build agentic AI workflows directly integrated into PayPal's payments infrastructure, allowing agents to manage invoices, payments, and shipment tracking. In our analysis, the toolkit appears in the "AI-enabled agentic commerce platforms" segment, which is experiencing rapid adoption, mainly among fintechs rather than incumbents.

Hybrid financial institutions blur the lines between incumbents and fintechs, combining regulated banking with advanced personalization. The most widely used idea cluster in our analysis is AI-driven financial services platforms, which use AI to automate processes, analyze huge amounts of data, and personalize services for customers.

One interesting example within this cluster is a widely used financial wellness tool from Discovery Bank, which was launched by South Africa–based insurer Discovery Group in 2019. A full-service digital institution built on a fintech framework, Discovery Bank operates without branches or proprietary ATMs. The financial wellness tool, Discovery AI, allows customers to track their budgets and get personalized recommendations, reminders, and the like via WhatsApp. The voice-enabled tool can answer questions like “How much did I spend on coffee last month?” to help customers track their spending and work toward financial goals.

The strategic imperative: Move from automation to autonomy

AI is more than just another automation wave. It acts as an equalizer that allows agile players to challenge incumbents in revenue-rich areas. Unless banks move beyond incremental pilots and fully embrace agentic AI, they risk ceding customer relationships and long-term growth prospects to nimbler fintech competitors.

To close the gap, incumbents must rethink where and how they deploy AI, using approaches such as the following:

- *prioritizing revenue-generating use cases* by focusing investments on customer-facing opportunities that expand growth

- *scaling beyond pilots* by building the data foundations, governance, and cross-functional delivery models needed for enterprise-wide deployment
- *investing in agentic capabilities* by moving from automating tasks to creating agentic systems that can perceive, decide, and act independently

Incumbents that quickly embrace AI can transform it from a threat into a strategic advantage. By using AI to reinvent themselves, incumbents can match the speed and innovation of fintechs while harnessing their own inherent reach and reliability to lead the next wave of growth. Banks that hesitate, however, could be left watching from the sidelines as AI reshapes the next era of financial innovation.

For a PDF version of this article, click here.

Building a world-class mobile-banking app

Four capabilities can position a mobile-banking app as the market leader and improve efficiency and customer experience and acquisitions.

By José Capel
Specializes in driving digital transformation and customer-centric growth for clients in the banking and wealth management sectors. With deep expertise in digital business building, end-to-end journey digitization, and advanced analytics.

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By Annie Hillier
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By Muthanna Muslet
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By David Tan
Managing Director and global co-lead of Finalta's benchmarking services for banks and insurers, providing actionable insight into performance improvement opportunities across the value chain

Retail banking

June 24, 2025 - Mobile-banking apps have evolved well beyond basic functionalities. Customers are no longer limited to viewing account balances or paying bills. Instead, leading banks are now engineering mobile-first experiences that support increasingly sophisticated customer interactions—including instantly issuing virtual cards, providing seamless access to multicurrency accounts, and offering intelligent personal finance tools, such as contextual goal setting, digital financial advice, and one-click investment journeys. Banks are also extending their mobile ecosystems to include lifestyle-enhancing loyalty programs, often integrating services beyond traditional banking.

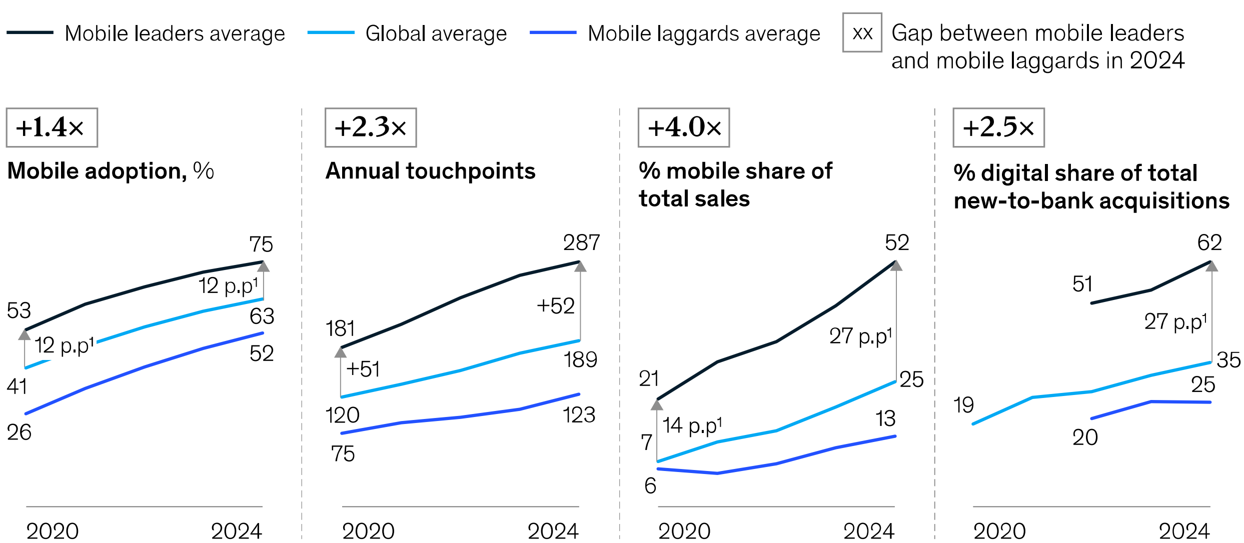
Mobile apps have become the primary gateway to the full spectrum of retail banking. The front-runners are now using their mobile app as a central hub for orchestrating and managing every customer interaction, regardless of complexity.[1]

The result? Mobile apps are no longer just a convenience—they are the strategic hub of customer engagement.

Consumers are responding with enthusiasm. Banks that lead in mobile innovation are seeing significantly higher engagement, more-frequent customer interactions, and markedly stronger commercial outcomes. Benchmarks by Finalta, a McKinsey company, indicate that mobile-banking leaders resolve more than 80 percent of routine interactions entirely in the app by simplifying and streamlining user journeys. These institutions now generate 51 percent more annual touchpoints and about double the mobile-driven sales and new customer acquisitions than the global average (exhibit).

Exhibit 1

Across several KPIs, the gap between mobile leaders and laggards is substantial.



Note: Mobile leaders are 20 banks drawn from Finalta's global peer group, with leading performance on key mobile metrics. The mobile leaders peer group excludes neobanks and fintechs.
[1]Percentage points.
Source: Mobile leaders benchmarks by Finalta, a McKinsey company

McKinsey & Company

Notably, this shift is global. The performance gap between leaders and laggards exceeds regional differences. While top banks see 2.3 times more interactions than laggards, the largest variance across regions is just 1.7 times, highlighting that success hinges more on execution than geography.

So what does it take to become a mobile-banking leader?

McKinsey experience suggests that, as a starting point, mobile leaders get the basics right. They delight their customers with seamless and simple "first time right" service propositions in the app, which in turn builds trust for other, more-commercial interactions, making the app the primary channel for customer interactions. From there, mobile leaders excel at four capabilities to provide an unparalleled customer experience across the most complex journeys:

1. Embedding a seamless design to promote positive user experience

Over time, many banks' apps have become overly complex and hard to navigate. This serves as a deterrent for customers, most of whom are willing to engage with only a limited number of layers and screens. In contrast, new fintech disruptors are starting with a blank slate and provide a simple, design-oriented experience. They might focus on streamlining payment journeys, providing easy access to banking partnerships and beyond-banking services, or making it easy to search for and navigate to product offers. Whatever they do, they get the basic customer experience right through thoughtful design.

For incumbents, simplifying the design of years-old apps is far from easy. It requires a pragmatic focus, which is often delayed by decision-making inertia. Data, technology, and business teams must collaborate to rebuild the channel —updating the front end and APIs and overhauling the back end. Banks can decide whether to launch a full redesign at once or roll out progressive, frequent updates.

2. Leading with hyper-personalization

A hyper-personalized, data-driven approach—putting customer behavior and business intelligence at the center—is essential for a differentiated user experience. The app must provide customers with a personalized, targeted, and resolution-driven experience. Leading banks that take this approach foster deeper customer loyalty while minimizing attrition across channels. Examples of this include seamlessly consolidating a customer's credit products to reduce fees; offering smarter, proactive budgeting tools; identifying cost-effective alternatives for utilities; and providing tips for boosting a customer's credit score—all without the customer having to lift a finger. This is possible through in-app, gen AI–enabled conversations.

3. Building a predictive engagement layer

With the rise of gen AI agents, banks can now integrate predictive reasoning capabilities directly into their apps via in-app conversational banking, elevating customer experience and achieving faster service resolution. For example, many apps offer humanlike conversation with a gen AI–enabled chatbot. If the chatbot understands the customer's intent, it can execute the transaction directly or direct the customer to the appropriate customer journey. If the gen AI chatbot can't take the conversation any further, it can intelligently connect the customer with the right human agent without the customer even knowing they've been handed off.

Mobile leaders are taking this even further by equipping their human chat agents with gen AI copilots. These copilots can rapidly draft responses for agents to review that incorporate relevant bank policies and regulations, saving agents time and effort that otherwise would have been spent on locating this information. Meanwhile, customers get fast, accurate answers without having to make a phone call. Many are now able to resolve their issues end to end within the app.

An emerging frontier is voice-based interaction with gen AI agents. Instead of relying solely on chat, customers will increasingly engage with AI through natural spoken conversations. In fact, leading global banks are already beginning to experiment with text and voice interactions with AI agents while maintaining human oversight to ensure governance, compliance, and accountability in the final steps of the customer journey.

4. Intelligently routing customers to other channels

Leading banks position their app as the central hub for customer interactions, resolving more than 80 percent of routine banking interactions directly within the app. For the remaining 20 percent, the goal is first-time-right deflection to another channel: If customers must be directed to an alternative channel of the bank, the app intelligently guides them to the right one based on their profile, needs, and past preferences, avoiding a situation in which the customer is passed back and forth between channels.

Achieving seamless, intelligent routing across channels requires hyper-personalization via a “smart data brain,” which comprises two main capabilities:

- anticipating customer needs with an integrated view of data and an understanding of disruptions in the customer journey
- enabling proactive, personalized outreach through targeted push notifications and digital interventions at critical moments—most important,

handing customers off to the right next channels before they end their digital journey

For example, if a customer suddenly halts their search for the best travel credit card in the app and logs in three days later to pay a bill, an intelligent routing engine would trigger a push notification reminding them of the credit card search, enhanced with an offer such as "double the spend points." It would then offer the customer a live chat with an agent to learn more, providing a timely helping hand before the customer exits the app.

McKinsey analysis suggests that with gen AI enablement and advanced modeling, banks can predict customer needs with roughly 90 percent accuracy.[2] Banks must embrace a bold approach—routing customers proactively to the most appropriate channel—to create active advocates of the app and bank, thereby deepening customer engagement.

These four capabilities can position a mobile-banking app as the market leader. But banks don't have to do it all at once. Banks can prioritize for specific goals. If the goal is to position the app as a sales engine, banks should prioritize hyper-personalization and seamless user design experience. The simpler and easier to navigate these experiences are, the higher the in-app sales conversion. If the app is positioned as a first-time-right resolution service engine, banks could prioritize predictive-engagement capability for first-time resolution and customer support with intelligent routing from the app to other channels.

The difference between mobile leaders and laggards is stark. Incumbents are striving to protect and strategically expand their customer base, and the need for a distinctive mobile-banking app has never been more critical. If banks don't move swiftly to improve their mobile apps, they'll continue to fall further behind their peers.

The mobile-banking opportunity is big. Are you playing to win?

[1] Integrated channels: The next frontier beyond omnichannel distribution," McKinsey, May 4, 2023.

[2] McKinsey growth alpha estimates of predictive accuracy of customer behaviors over two years.

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Digital Banking: Speed, scale, and the agentic arms race

The power of AI-based agents to transform banking was on display at McKinsey's 22nd Global Digital Banking Conference where participants also heard expert perspectives on geopolitics and digital acceleration.

By Brian Ledbetter
Provides deep expertise in business technology, IT architecture and strategy and operations for clients in the financial services sector

By Gökhan Sari
Senior Partner and Digital & Analytics Leader in our Global Banking Practice

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Advises financial institutions and technology companies on digital strategy, operating model, and core technology transformations.

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Live take | Digital banking

June 12, 2025 - At McKinsey's 22nd Global Digital Banking Conference in Barcelona last week, 300 executives representing 220 financial services institutions from around the world gathered to discuss the issues at the center of digital banking, including agentic AI and a new era of geopolitical volatility. The event's very name—the Global *Digital* Banking Conference—highlights its broadening relevance: The overriding message from leaders was that today, every bank should be a digital bank, because those that aren't are at risk of getting left behind.

Agentic AI was on everyone's mind. If anything, we may be underestimating AI's impact in the short term, said McKinsey Senior Partner Harald Kube, adding that multiple banks are now using AI agents at scale. One of them, 82-year-old Latin American bank Bradesco, which presented during the conference, is prioritizing agentic use cases that assist in fraud prevention and that act as personal customer concierges. Bradesco's CIO, Edilson Dias dos Reis, said the bank's AI pursuits have freed up employee capacity by 17 percent and reduced lead times by 22 percent. In bringing agentic AI into the fold, every financial services player—start-ups and legacy institutions alike—can transform its value pools, including revenue and cost structures, customer experience, and job families and operating models.

Geopolitics, too, was at the forefront of discussion. Keynote speaker Arancha González, dean of the Paris School of International Affairs (PSIA) at Sciences Po, pointed out that geopolitical disruptions are reshaping trade, technology, and finance. According to González, three factors—security, emerging resource and industrial battlegrounds, and "transactionalism"—are testing globalization's staying power. Even so, she doesn't see an end to globalization: "Undoing interdependence has a huge cost that people have to bear."

In addition to macro-level challenges, financial services leaders must confront difficulties at the organizational level. Even though banking is the largest industry in the world and spends the highest proportion of revenues across sectors on tech, poor labor productivity beleaguers financial institutions.

Following are themes we heard at this year's Global Digital Banking Conference.

Agents are an increasingly important focus for banks. Gen-AI-enabled "agents" or "agentic systems" refer to digital systems that can independently interact with other agents as well as people and can be thought of like skilled virtual coworkers. These systems can act as "the completion of a puzzle," McKinsey Senior Partner Leorizio D'Aversa pointed out. "It all started with automation and AI models, then gen AI to complement those insights," he added. "Now, it is all packaged into agentic AI delivery, but agentic alone would not produce the same benefits without all the other ingredients."

For banks to pursue agentic AI, however, they must establish the enablers that also allow for gen AI adoption to happen at scale—for example, a deep bench of tech talent, robust risk guardrails, and an updated operating model. To that end, McKinsey Senior Partner Gökhan Sari predicted that next year's theme will be tech talent, particularly the organizational impact of agentic AI on people.

Gen AI remains a top priority. Of course, you can't talk about agentic AI without also discussing gen AI. Continuing from last year's conference, gen AI remains a top priority, and sector leaders are scaling their AI experiments fast. Just under half of respondents in a recent McKinsey survey said they are using gen AI regularly (46 percent today versus 34 percent in 2023), and 37 percent of respondents said they expect to increase their gen AI investments by more than 20 percent in the next year. The takeaway: Anyone still in the experimentation phase may very well be far behind their peers.

According to Alexandra Mousavizadeh, the CEO of banking research firm Evident and one of this year's conference speakers, "breakaway" banks in AI adoption have emerged in the last year, increasing their AI adoption at double the rate of the average bank. (To be sure, even the average bank has been quick on the AI uptake.) That means banks can afford to be fast followers, but they can't afford to be slow followers, Mousavizadeh said.

While banks are using agentic AI for fraud prevention, as personal customer concierges, or to enhance pricing algorithms, as in Bradesco's case, gen AI use cases with the greatest potential value for banks include those related to corporate and retail banking as well as software engineering. Double-clicking into retail banking, virtual assistants, or AI copilots, are making contact centers more productive. Several banking players are pursuing these gen AI use cases today but could go further in applying gen AI to their customer operations and research and development. To successfully adopt these use cases, banks must also adopt end-to-end and systematic transformations.

The appetite for cloud keeps growing. More than half of banks now have mature cloud programs, and respondents in a recent McKinsey European Digital Banking survey said they plan to double the share of applications that are on the cloud in the next three years (from between 30 to 40 percent today to up to 70 percent in three years). In part, this may be because some of the bottlenecks that banks encountered in cloud adoption have been unblocked. Even so, banks face talent gaps that threaten their ability to go deeper: 88 percent of executives say they perceive the lack of cloud talent as the biggest obstacle to delivering a successful cloud program. Additionally, banks may find themselves stuck with a single cloud provider, which makes it harder to be agile.

Speaking of agility, there is perhaps no better case study of nimbleness in cloud migration than that of the Ukrainian bank Privatbank, which serves 24 percent of the Ukrainian banking market and was one of the conference's presenters. PrivatBank's technical infrastructure was highly concentrated in one data center. Within the first three days of the outbreak of the war in Ukraine, missile attacks occurred close to these data centers, prompting an emergency cloud migration. The migration, which would normally take about three years to complete, was executed in 45 days. "Typically, we talk about how we should first fix things in cloud, make them better, and then transition, so this transition was quite impressive," said McKinsey Senior Partner Gökhan Sari. Would that approach be replicable for banks not facing a similar crisis? "Yes, definitely," he said.

Targeting three segments can help banks achieve gains. Banks have meaningful opportunities to take market share in the areas of retail banking, with a focus on Gen Z consumers and affluent consumers; small and medium-size enterprises (SMEs); and corporate banking.

Take SMEs, which are burdened by administrative tasks and often use several different financial service providers (more than 50 percent have more than one bank). In Latin America, SMEs, which McKinsey Partner Paola Castilho called the engine of Latin American economies, represent the fastest-growing segment in financial services over the last several years. The unlock for banks to work with SMEs is scalability and digitization, she said.

Digital trust is now a business imperative. Digital trust—a bank's ability to manage digital and technological risk—is a key differentiator that is also paying off in the markets. Banks that meet these definition of trust returned 7.8 times greater CAGR from 2017 to 2024 than nontrusted banks. Furthermore, trust is related to customer loyalty: Only 18 percent of customers said they were willing to shift away from a bank they trusted.

Talking about tech is correlated to winning in tech. Here's where walking the talk translates to the bottom line. A McKinsey analysis found that banks that speak publicly about their tech pursuits are often better at connecting them to outcomes investors care about—D'Aversa said that connecting tech investments to outcomes investors care about is now "a differentiating element for performance." The disclosure of tech KPIs, such as percent of digital sales and tech debt, has increased 150 percent from 2021 to 2024. What that means is that the banks communicating their progress in digital are also more likely to be better at measuring the ROI of their AI use cases, for example.

Given all the uncertainty in the year ahead, digital banking players should not ask themselves "whether they can navigate this period," said McKinsey Europe Managing Partner Tunde Olanrewaju. "Rather, it's whether you'll make the right choices to do so successfully."

MENA fintech's ascent: Growth, investment, and the path forward

Unicorns emerge and consolidation looms for fintech in the Middle East and North Africa. Twenty fintech leaders offer insights into how they are navigating the challenges and shaping the future.

By Sheinal Jayantilal
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By Jonathan Chan
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Fintech

May 13, 2025 - The fintech market in the Middle East and North Africa (MENA) continues to grow and evolve. Over the last few years, the number of fintech companies has risen to more than 1,000.[1] Four unicorns have emerged, many more are in the pipeline, and capital has continued to flow into the market, with $1.9 billion invested in 237 deals during 2023 and 2024.[2] Going forward, we expect MENA to be the fastest-growing region globally, with 35 percent annual growth in fintech net revenue until 2028, compared with a global average of 15 percent. This is primarily because the fintech share of banking sector revenues in the Gulf Cooperation Council (GCC) has room to grow, representing only 1 to 2 percent,[3] compared with 3 to 5 percent in the United States[4] and the United Kingdom.[5]

To understand the dynamics of the rapidly growing fintech sector in MENA, we met recently with more than 20 founders, CEOs, and investors from some of the region's leading companies. Our discussions focused on the factors fueling this rapid growth and the strategic approaches they are adopting to navigate the evolving financial services landscape. The companies span a broad range of fintech services, including lending, mortgages, wealth management, payments, digital banking, and buy now, pay later. Following are highlights of those discussions.

Rapid growth and strong economics

The fintech leaders we spoke with have experienced tremendous revenue growth. They all reported impressive growth over the last two years—from two to eight times, with some companies quadrupling revenue just last year.

Profitability metrics among the fintechs also are encouraging. More than a third of leaders say their companies are already profitable, while others are aiming for profitability within the next two to three years.

Leaders of profitable fintechs assert that they are very satisfied with their unit economics and are directing their strategic focus to other areas. At unprofitable fintechs, respondents rate their performance on unit economics as five on a ten-point scale (with ten being the highest) and are focused on improving it, particularly through better engagement and cross-selling within their customer base. Profitable MENA fintechs typically took three to seven years to break even, largely depending on their marketing expenditures, which are key to balancing growth and profitability.

Fintech companies globally grapple with the balance of growth and profitability, as noted in previous publications, including our recent Africa fintech report. As in other regions, the MENA fintech leaders said their attitudes to that balance shifted in 2022 as market valuations adjusted downward. Before 2022, companies focused on growth and spent heavily on marketing. After 2022, they placed a much stronger emphasis on unit economics to balance growth with a path to profitability. Achieving this balance is not always straightforward; in some cases, fintechs made decisions that decreased short-term revenue and profits to improve their products' market fit and strengthen their brand to foster mid-to-long-term growth.

MENA investors also highlight the importance of fintechs balancing profitability and growth, and they are evenly divided on which is more important. Generally, investors agree that growth is crucial during the earlier stages, specifically Series A through C, citing a year-on-year revenue growth rate of 100 percent as the minimum requirement for investing during these phases.

Given the strong growth in the region, fintech leaders expect four to five new unicorns in the next three years. Investors are slightly less optimistic, predicting two to three. However, they describe fintech investment as remaining attractive compared with start-ups in other sectors and expect that one of every two unicorns emerging in the coming years will be a fintech.

Fintechs' goals and challenges

In their pursuit of growth and profitability, MENA fintechs encountered and overcame many substantial challenges.

Effectively acquiring and retaining customers

Fintechs that have been in the market for several years are finding it easier to attract and retain customers. Founders and CEOs of profitable fintechs mention that this is evident in two key metrics: the costs of customer acquisition and retention. Improvements in these have, in turn, led to strong performance in the lifetime value of customer acquisition.

Improved acquisition and retention were evident in services ranging from simple products such as payments to more complex ones like mortgages. Founders and CEOs attribute the improvements to three main causes: improved brand recognition and customer trust established over time, customer engagement driven by ecosystems and marketplaces for the fintech's products, and services with a higher perceived cost of switching, such as wealth management. These factors have allowed some companies to efficiently amass more than ten million customers, rivaling the leading banks in the region.

Unprofitable fintechs are focused on improving their customer acquisition and retention. Acquisition is typically easier to enhance with investment: Aggressive marketing, distribution partnerships, and other devices can attract potential customers to the top of the sales funnel. Retention, however, is more difficult and requires a good product–market fit. Some founders and CEOs acknowledge that they are still developing their product in search of a stronger fit.

Building strong leadership and talent pools

Although the availability of strong talent has historically posed a challenge for fintech companies, the situation in MENA is improving. Most founders and CEOs describe themselves as very satisfied with their current organization, operating model, and top management talent, and they do not perceive a short-term need for improvement.

Interviewees generally describe themselves as satisfied with their technology talent but indicate that there is room for improvement. They rate themselves 7.5 on a ten-point scale for tech talent, and cite product owners as the most difficult role to fill. Outside of technology, the most challenging positions to fill are those in risk and compliance.

Navigating expansion goals and hurdles

Although fintechs have different customer propositions and business models, their leaders uniformly say their greatest challenges are product and geographic expansion, citing the difficulties of simultaneously executing and maintaining profitability.

For 80 percent of MENA fintechs, the primary objective over the next three to five years is product expansion. However, that requires new capabilities and partnerships and increases operational complexity. Additionally, expanding into new categories often entails regulatory hurdles, especially when fintechs push boundaries, such as when they introduce new asset classes to retail customers.

Geographical expansion is a lower priority for most, due to the regulatory hurdles associated with establishing operations in another country, even within the GCC. Outside the GCC—for instance, in Egypt and Pakistan—companies also face the complexity of managing different cultural and commercial dynamics. Some players have already established a presence in several countries; those planning further geographical expansion typically have a clear cross-border proposition.

To reduce the challenges of product and geographic expansion, fintech companies and investors stress the necessity for improved regulatory harmonization and clarity within and among regional markets.

Anticipating more intense competition

None of the fintech leaders we spoke with identify incumbent banks as their primary competitors because of their distinct customer propositions. Instead, they identify other fintechs—particularly those that can rapidly update their product offerings and pricing—as their main competitors. Respondents report that the space is already crowded, with over 1,000 in the region, and they expect competition to intensify as international players arrive. Several have already entered the market, particularly in brokerage and payments, with more on the horizon.

While MENA fintechs' near-term competition is with each other, they inevitably will compete with banks as they expand their services and banks expand their digital and fintech offerings. As competition intensifies, fintechs will benefit from defining and implementing strategies to outperform peers and incumbents.

Strategies for a competitive edge

Our interviewees highlight the positive momentum in the sector, including revenue growth, improved customer acquisition, stronger talent pools, and start-ups becoming profitable. They also describe the challenges, such as product and geographic expansion and intensifying competition. Overcoming these challenges will be crucial for improving fintechs' revenues, profitability, and valuations. To do so, they can take two key actions—one to achieve profitability and the other to accelerate growth.

Reaching profitability through operational efficiency and AI

Two-thirds of the leaders we spoke with describe their companies as not yet profitable. Capital investment in fintechs in the region slowed from $1,276 million in 2023 to $654 million in 2024,[6] partly because investors are leery of geopolitical uncertainty. To invest in growth requires capital, so the tightening investment market makes it harder for fintechs to achieve profitability by acquiring more customers. Fintechs may achieve profitability more easily by improving efficiency.

AI and gen AI can make fintechs more efficient. However, the leaders we interviewed have yet to realize the benefits of these tools, rating their adoption as five on a ten-point scale. Founders and CEOs acknowledge the opportunities inherent in AI, but they have not deployed it effectively because they have been focused on more traditional ways to generate growth.

Globally, fintech leaders have experienced significant benefits from AI, such as streamlining call center operations and accelerating the delivery of technology; MENA fintechs can learn from them. Gen AI code development tools may help fill some of the technology talent gaps that founders and CEOs are concerned about. Additionally, gen AI tools can support risk and compliance teams—another area where fintechs find it difficult to hire. Finally, AI can boost revenue by, for example, identifying opportunities for upselling and cross-selling, a priority for fintechs that are not yet profitable.

Leveraging partnerships and acquisitions to accelerate growth

As competition intensifies, fintechs and incumbents in MENA need to decide whether to compete, partner, acquire, or be acquired.

One option is for fintech companies and traditional banks to form partnerships. Although few such partnerships have been formed in the region to date, strategic alliances can deliver significant value for both parties: traditional banks provide capital and distribution that fintechs would benefit from, while fintechs can offer new products and services that banks may be slow to develop themselves.

Incumbents and larger fintechs with sufficient balance sheets or share capital may find opportunities to acquire fintechs that have the right strategic or product fit or possess attractive technology and talent. There may be substantial opportunities for M&A in the coming years, given the availability of capital and the large number of fintechs in the region relative to its size. The leaders we interviewed agree that significant M&A opportunities lie on the horizon.

The future of fintech in MENA is promising, considering the recent performance of leading players. These fintechs have become profitable, boast strong unit economics and impressive customer acquisition and retention rates, and have built sizable customer bases. Their growth and profitability may accelerate as they expand into additional products and leverage their customer bases. Emerging technologies such as AI and open banking also could enhance their growth. As fintechs evolve and mature, they will continue to shape the regional financial services landscape. The future of the industry is sure to be exciting.

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[1] MAGNiTT; "Fintech surges in MENA through talent and capital gaps persist," *Fintech News Middle East*, February 26, 2024.

[2] MAGNiTT

[3] "Fintech in MENAP: A solid foundation for growth," McKinsey, May 24, 2023.

[4] Max Floetotto, "Fintechs are an economic and social success: Here are 4 ways to keep up the momentum," World Economic Forum, November 6, 2024.

[5] £12.8 billion for the UK fintech sector's contribution to the economy in 2023; The financial and insurance services sector contributed £208.2 billion to the UK economy in 2023.

[6] MAGNiTT

For a PDF version of the exhibit, click here.