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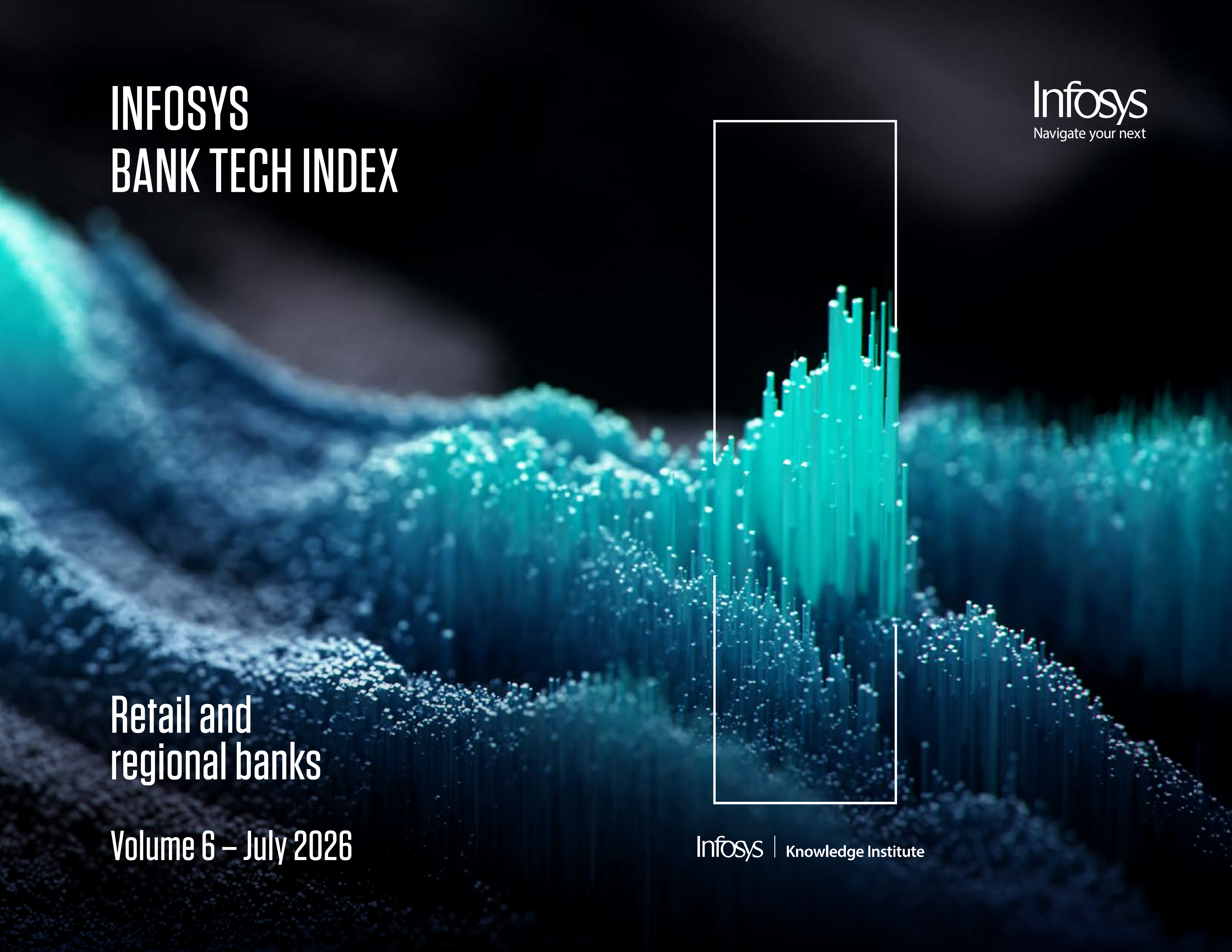


Retail and regional banks

Volume 6 – July 2026

Infosys | Knowledge Institute

Contents

Executive overview

Ajay Bhandari

Senior vice president, regional head, US banking and mortgages

The message from retail and regional banks is clear. Modernization is not optional, but a strategic necessity. When more than nine in 10 banks are committing over 10% of their technology budgets to modernizing core systems, and nearly four in 10 are allocating more than 30%, this is no longer about incremental upgrades. These are sustained, multiyear programs driven by urgency. Legacy cores carry technical debt, regulatory friction, and operating costs that simply do not scale. Just as important, banks understand that modern cores are essential to fully leverage AI and data. With today's tools, modernization is faster and more achievable than it was even a few years ago, giving banks the confidence to act decisively.

What is changing most is the motivation behind these investments. Modernization is now being driven primarily by customer outcomes, not just efficiency. More than a third of banks cite improving customer experience as their top driver, well ahead of cost reduction. Others point to enabling real-time payments, open APIs, and stronger compliance and risk management. This signals that banks are modernizing to enable new services, new operating models, and faster innovation, not simply to address legacy constraints.

Technology, specifically AI, is becoming the primary lever for deeper customer relationships. Banks increasingly view localization of services as their top competitive investment, followed closely by personalization. This technology is now helping banks launch propositions faster and with greater precision in focused areas such as private banking, wealth management, and student banking, increasing customer intimacy. At the same time, customers now expect loan officers, advisors, and relationship managers to be informed, responsive, and equipped with relevant data at their fingertips.

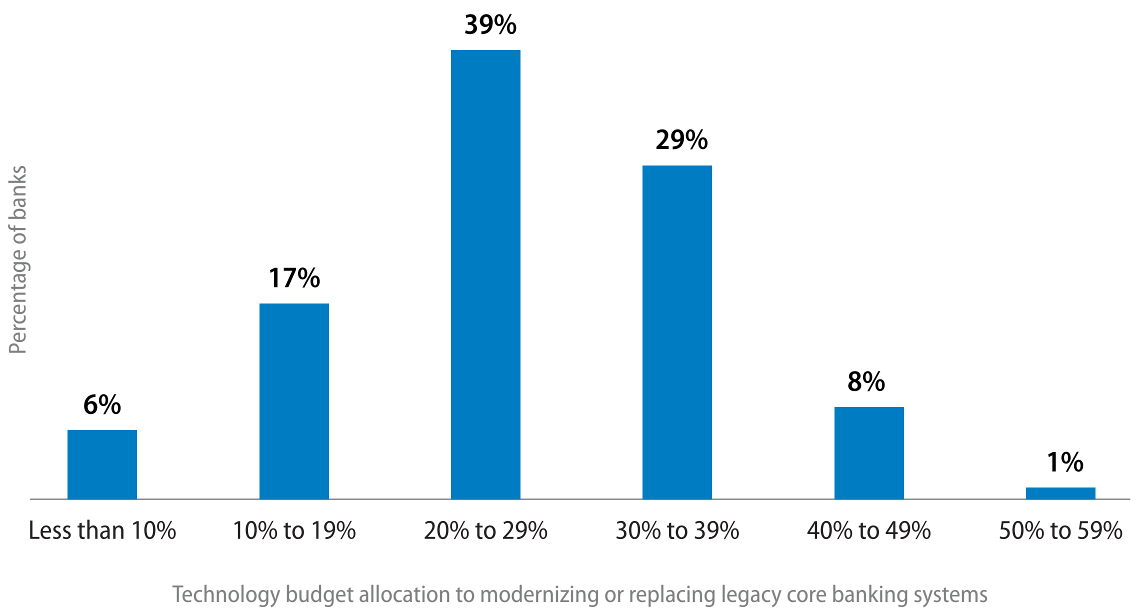
Investment priorities are also shifting toward digital engagement. Branches are not disappearing, but they are being redesigned. Advisory-led, open, and modern environments are replacing transaction-heavy formats as routine activity moves online. That shift is already visible in how customers interact: nearly two-thirds of interactions now happen through digital channels, including mobile, messaging platforms, and AI-powered chatbots. Call centers, in turn, are becoming more self-service and more intelligent.

None of this works without trust. Cybersecurity and data protection must be the foundation of every modernization and AI initiative. If customers do not feel safe, they will not adopt new digital experiences, no matter how compelling those experiences may be.

Key retail and regional banking findings

Modernization becomes an essential commitment

Percentage of technology budget allocation by percentage of banks



N = 116, where *N* is the number of banks that responded to retail and regional banking questions in Volume 6 (Dec 2025).

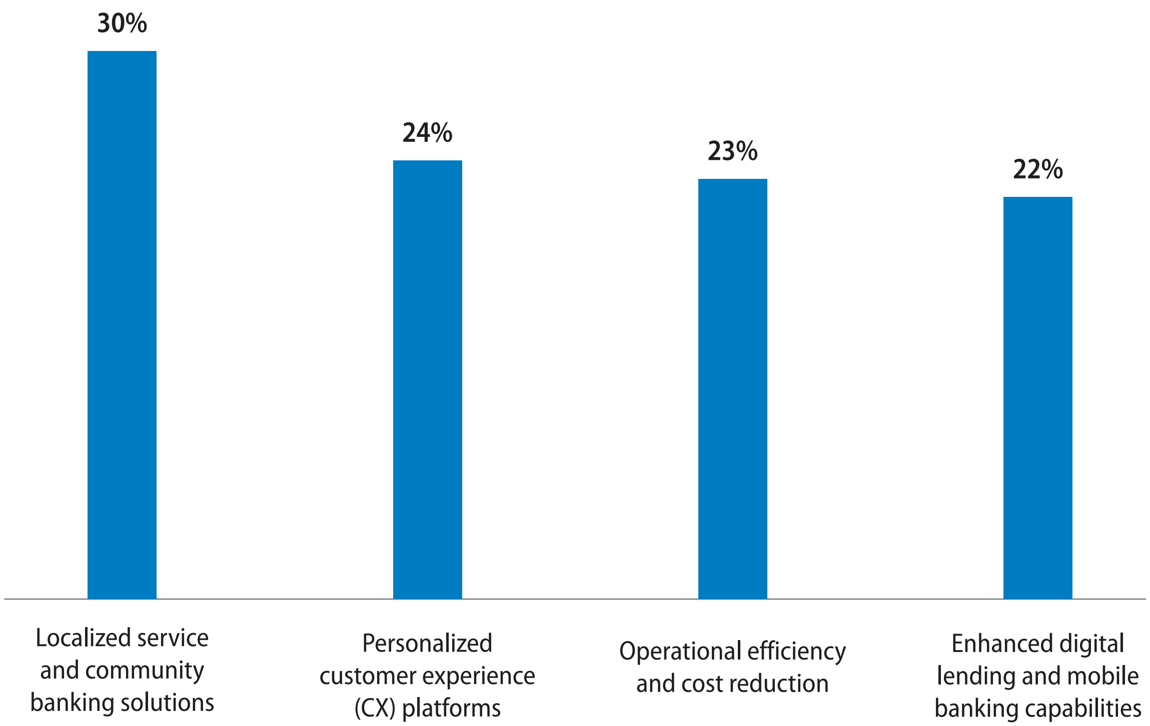
Modernization efforts underway: Over 90% of banks allocated more than 10% of technology budgets to modernize core systems. Allocating more than 10% of technology spend signals sustained, multi-year programs not isolated upgrades.

Pressure to modernize is increasing: The nearly 40% investing over 30% signal the increased urgency of addressing technical debt and regulatory pressure embedded in legacy systems.

AI helps modernize faster: Banks want to modernize their cores to make the best of AI. New tools and technologies can increase the speed of modernization.

Banks focus on experience and efficiency

Share of banks identifying key banking areas as their top technology investment priorities



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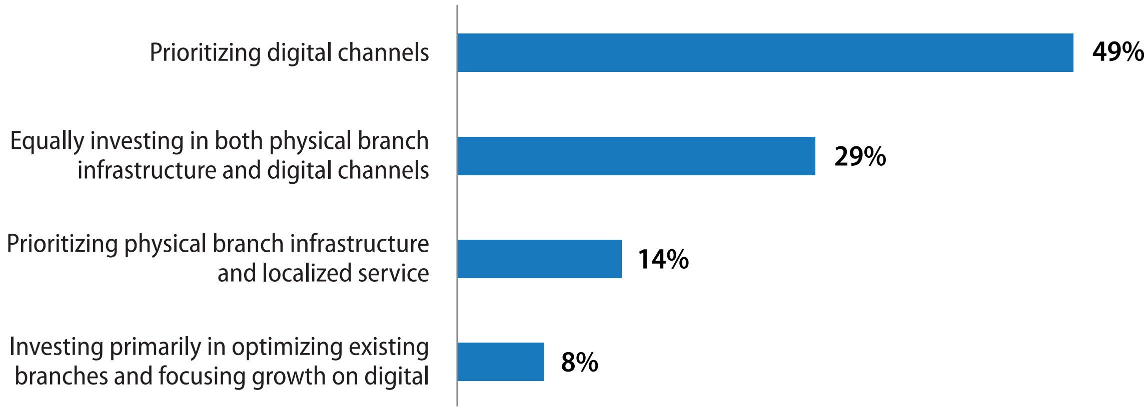
Investments follow community banking: While banks are investing in all four areas, a key priority is localizing their services.

Tech investments for experience and efficiency: Banks are also focused on personalizing customer experience (CX) platforms. They want to increase customer wallet share by investing into core areas such as private banking, wealth management or student banking.

Customer shift to online drives focus on digital channels

Share of banks prioritizing investments between physical and digital channels



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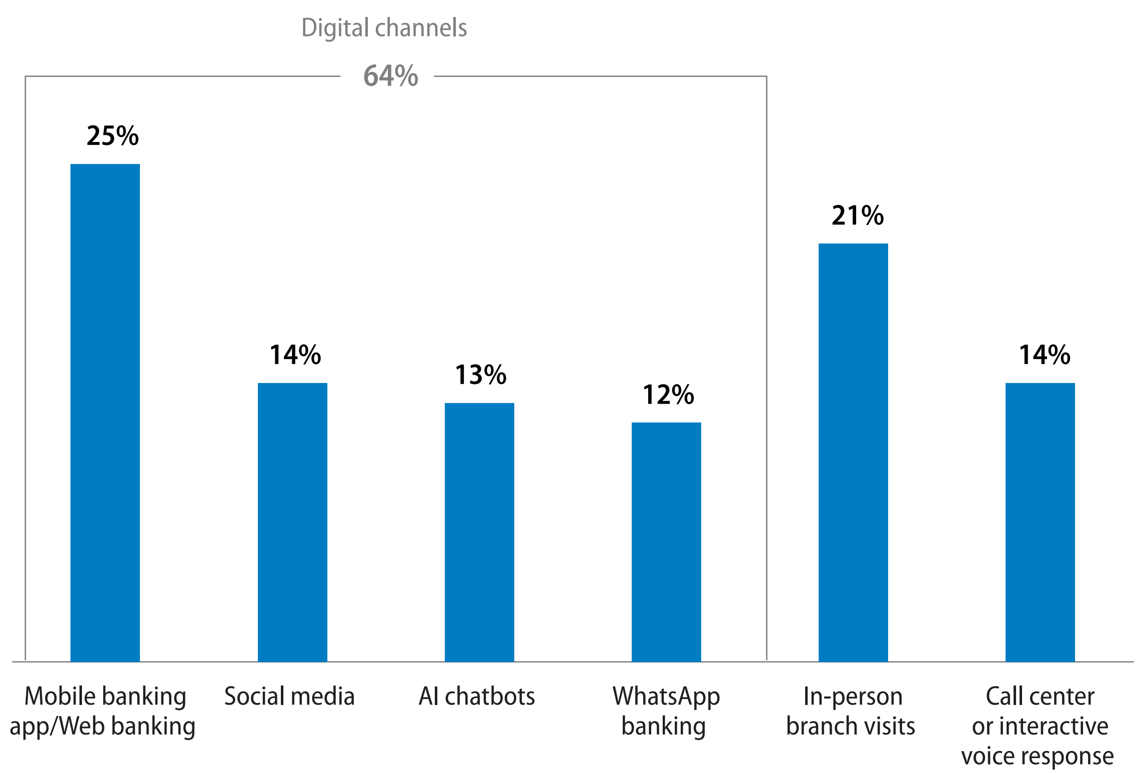
Investments flow into digital channels: Nearly half of respondents said they were enhancing their digital channels, further demonstrating a consumer shift to online banking.

Modern branches reflected in investment: Banks continue to adopt a more targeted approach to branch expansion. Instead of traditional teller-led formats, institutions are redesigning branches to be interactive, café-style environments that support advisory-led engagement rather than routine transactions.

Online banking rules customer interactions

Average percentage distribution of customer interaction channels for banks



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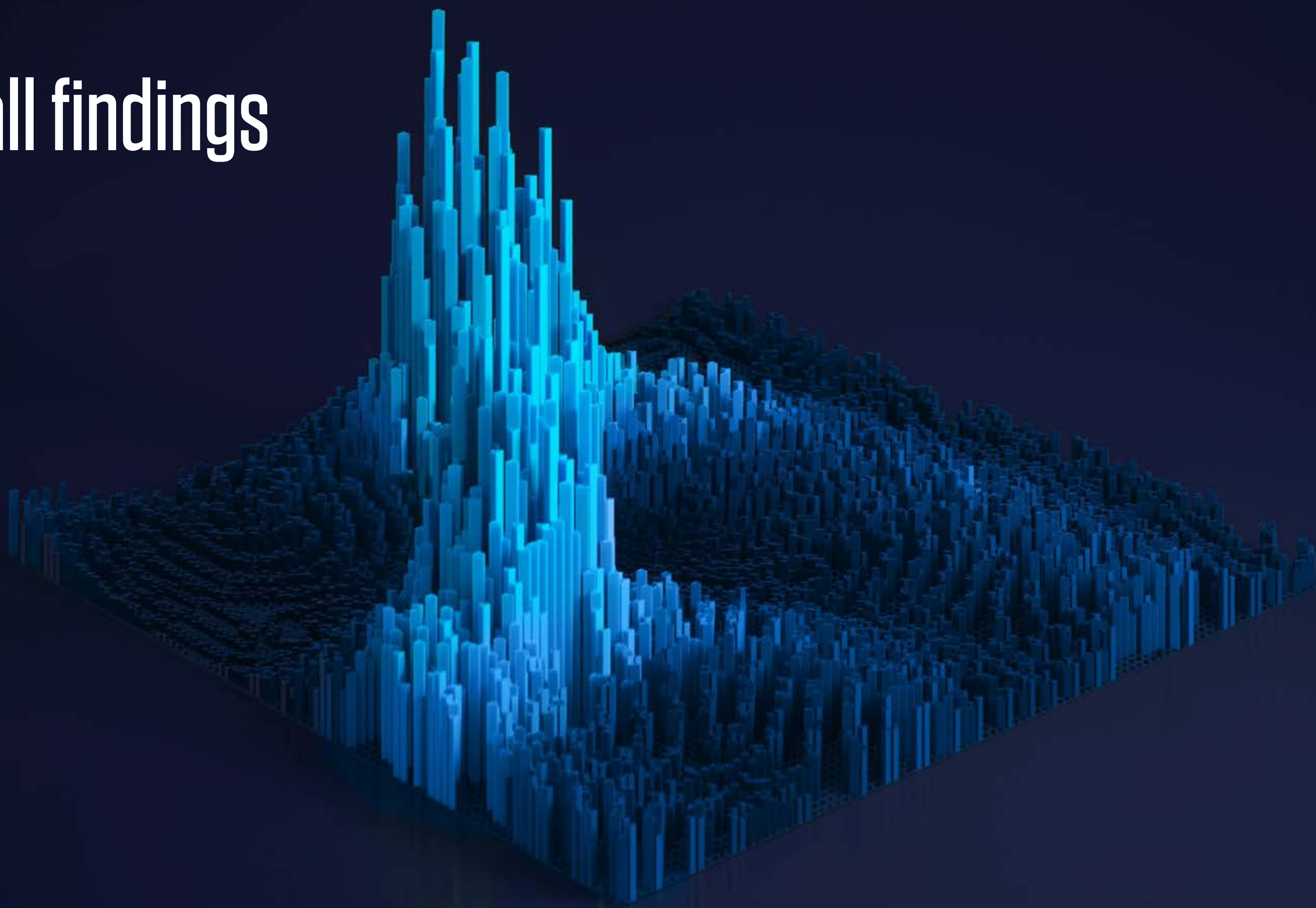
Digital is the primary communication channel: Digital channels make up nearly 65% of customer communication, with in-person and call centers accounting for only 21% and 14% respectively.

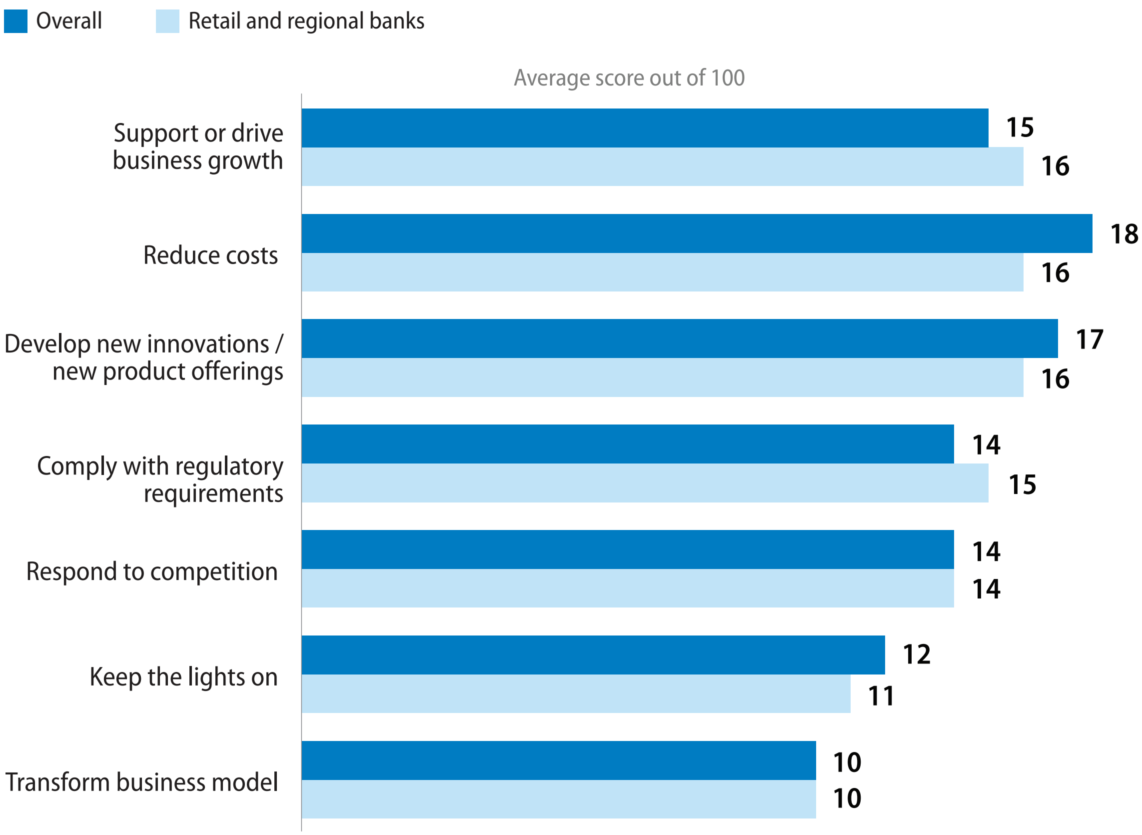
AI increasingly embedded into all communication: AI chatbots have become more advanced and context-aware, with increased personalization. Integration of generative AI enables deeper understanding of user intent, enabling more relevant and meaningful interactions.

Overall findings



Retail banks aim to balance innovation, growth, and cost reduction

Comparison of strategic priorities



N = 400, where *N* is the number of banks surveyed in Volume 6 (Dec 2025), of which 116 banks responded to retail and regional banking questions. Values do not total to 100 due to rounding.

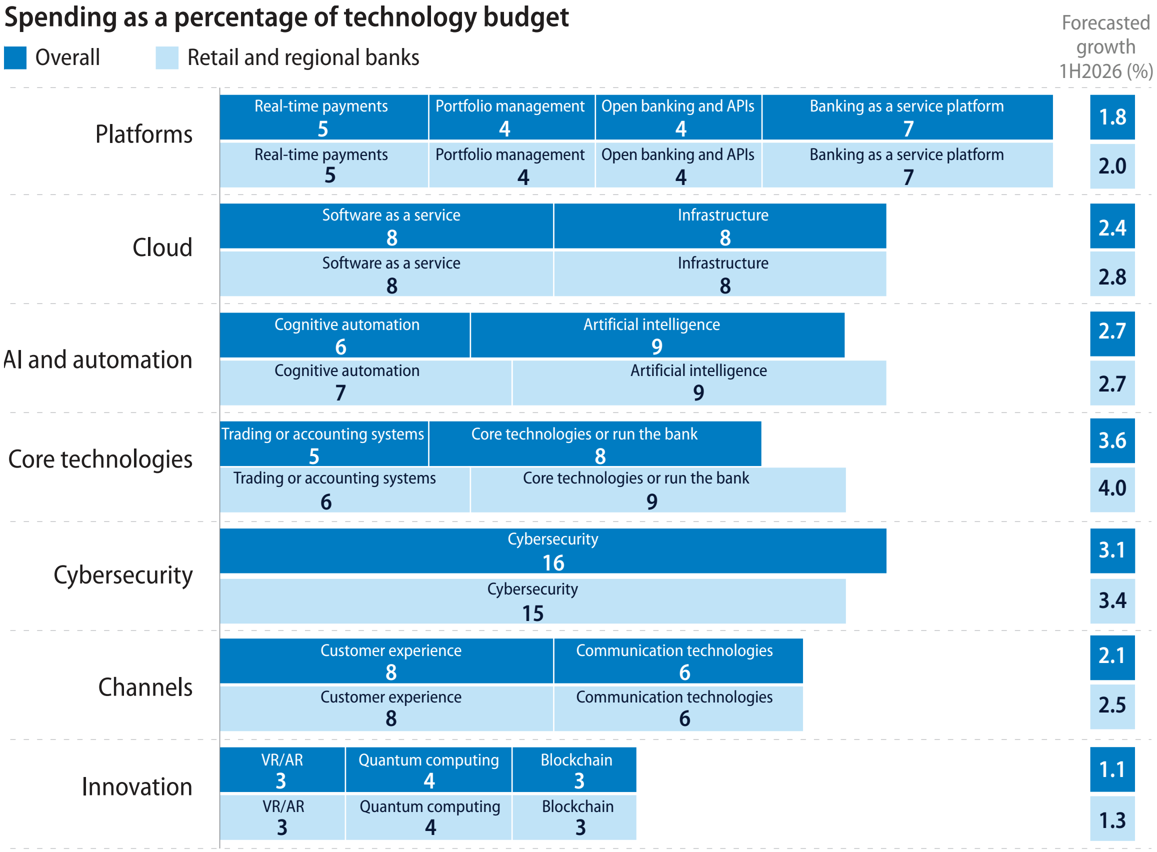
Growth, innovation, and cost reduction are equal priorities at the top: This reflects the need to compete, expand market share and deepen customer relationships while protecting margins. The balance highlights a shift toward integrated strategies that pursue new revenue opportunities and better customer experiences without loosening cost discipline. AI innovation helps retail and regional banks compete more effectively, enabling more personalized, data-driven customer experiences across digital and branch channels. The tech also improves efficiency and risk control in areas such as servicing, fraud detection, and credit decisioning, allowing banks to grow profitably without adding proportional cost.

Cost reduction is less of a concern compared to overall sample: Retail and regional banks do not view reducing costs as a priority, a clear divergence from the overall sample of banks.

Technology budget analysis

Top tech spending areas focus on core tech and customer experience

Spending on core technologies expected to rise the fastest



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Banks likely to increase spend on modernization and digital efforts: Retail and regional banking spend on core technologies is expected to increase by 4% between January 2026 and June 2026 from December 2025. Banks are investing in core technologies to modernize legacy infrastructure and support digital, AI, and operational transformation initiatives.

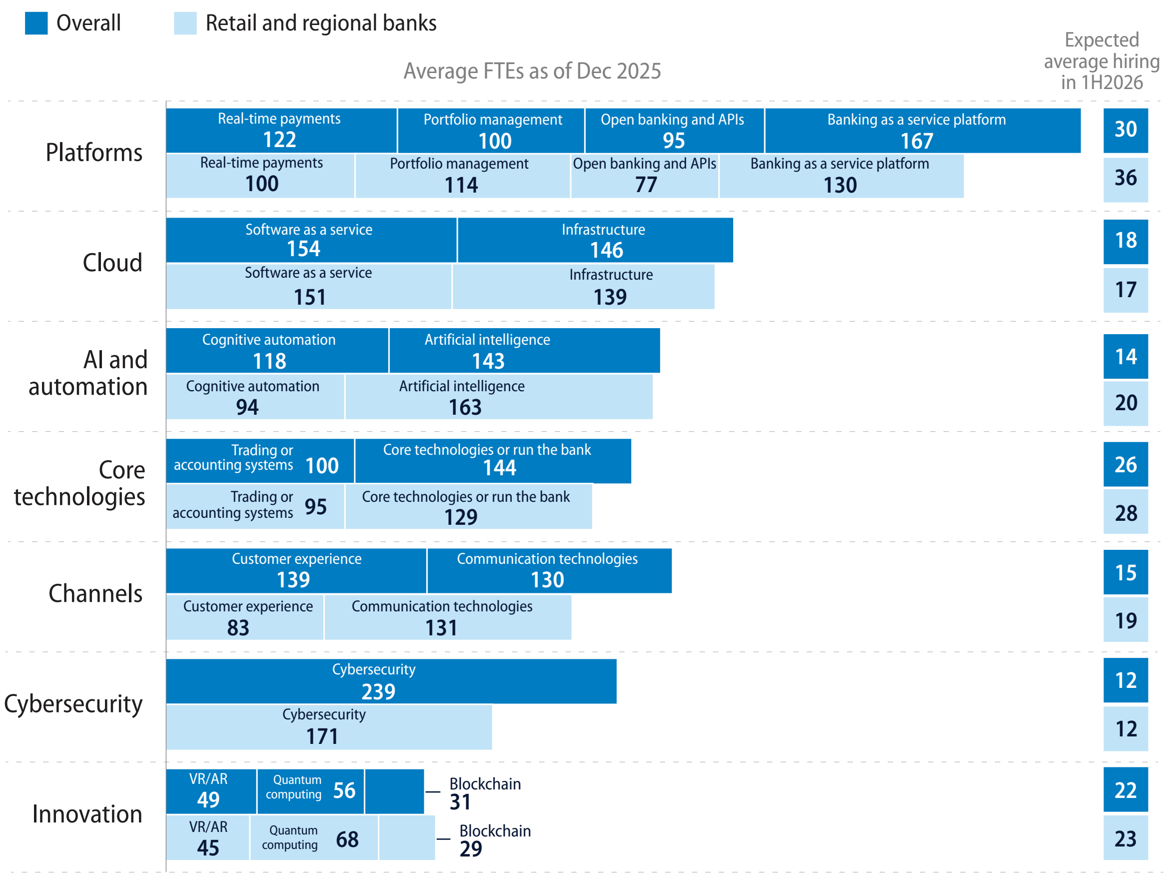
Spend on cybersecurity set to rise: Retail and regional banks are likely to increase their cybersecurity spend to combat rising cyber threats, strengthen resilience, and meet regulatory expectations.

Cloud spend to outpace overall banking group: Spend on cloud for retail and regional banks is expected to rise by 2.8%, reflecting continued momentum in platform modernization to support digital channels, data-driven services, and AI adoption.

AI and automation spend likely to rise: AI spend is increasing as banks move from pilots to scaled deployments.

Spending growth in the top technology areas is expected to outpace inflation: IMF forecasts global inflation to moderate at 4.4% for 2026 and inflation in the US at 3.2% for the year.

Retail and regional banks to increase hiring faster than overall group



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Confidence in near-term business momentum to drive workforce expansion: This suggests retail and regional banks are selectively adding talent to support growth initiatives and digital transformation.

Hiring in AI will likely rise to help improve efficiency, automate manual processes, enhance customer service, and compete with larger banks.

Having trailed the broader industry in platform investments, retail and regional banks are increasing hiring to modernize core capabilities and narrow competitive gaps.

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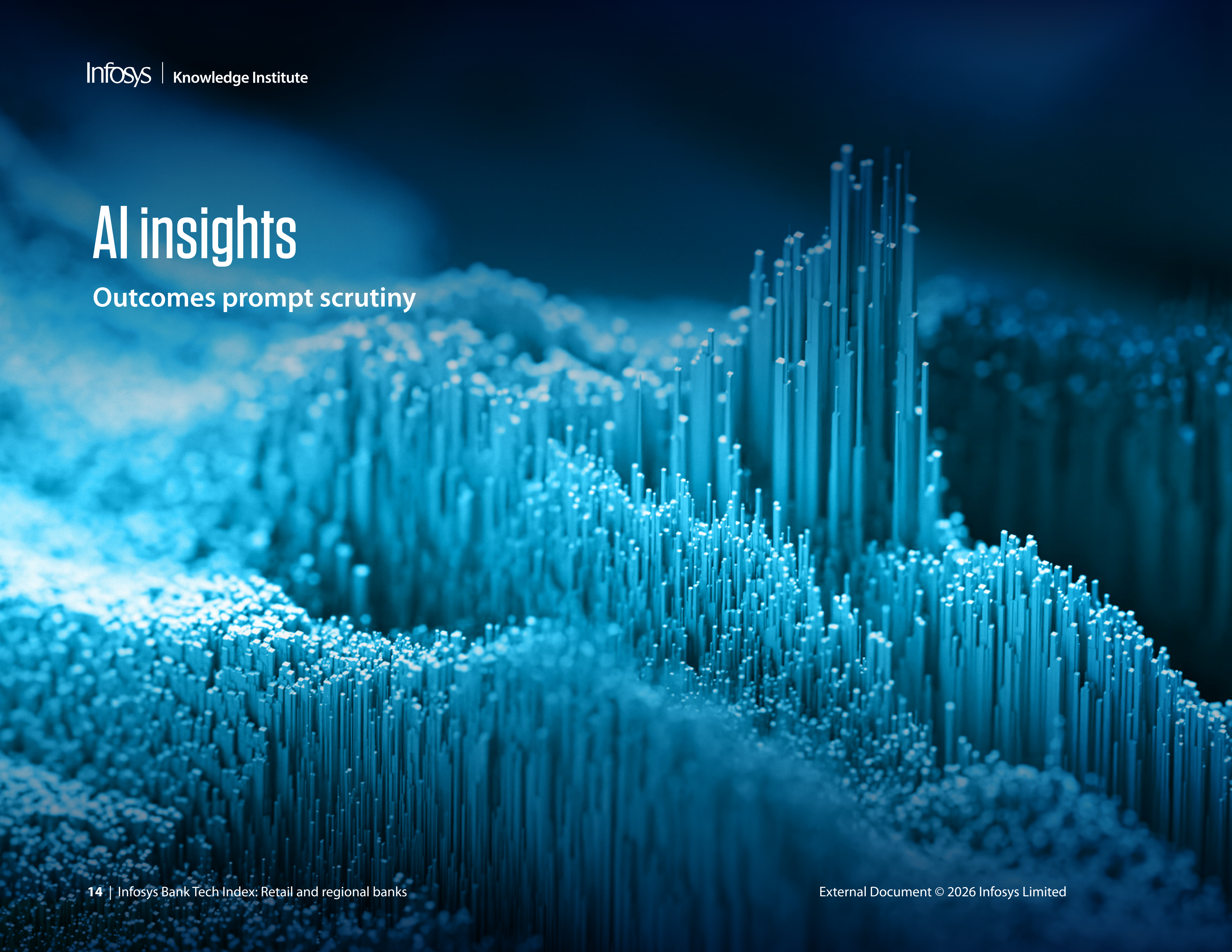
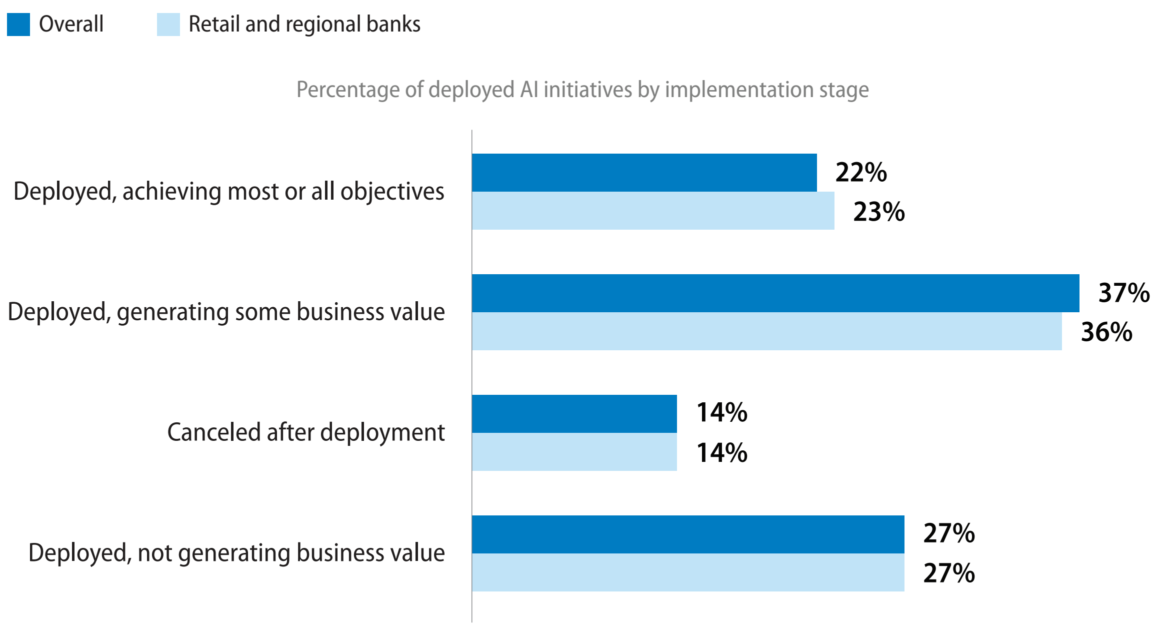


AI insights

Outcomes prompt scrutiny

Outcomes from AI initiatives on par with overall banks



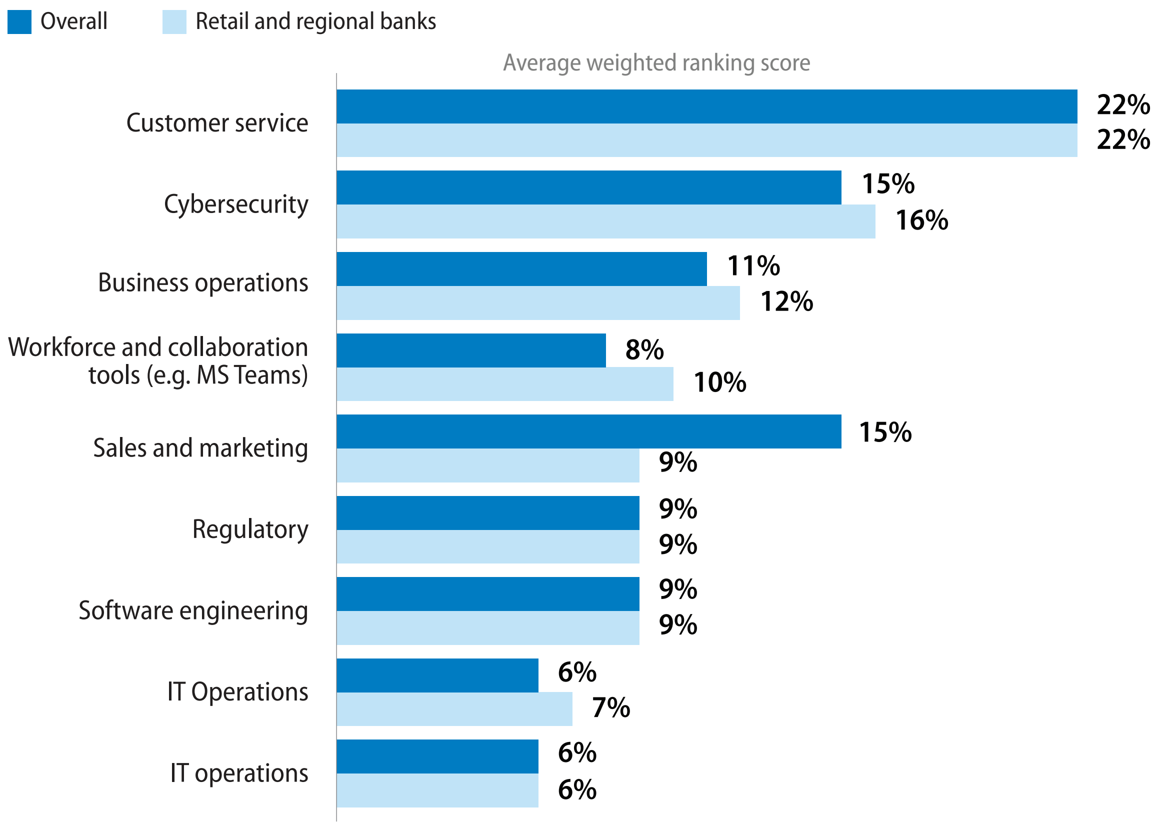
N = 400, where *N* is the number of banks surveyed in Volume 6 (Dec 2025), of which 116 banks responded to retail and regional banking questions. The number of deployed AI initiatives was 25,289 for overall and 7,910 for retail and regional banks.

Retail and regional banks are realizing the same business value from deployed AI initiatives: Nearly 59% of deployed AI initiatives in retail and regional banks generate measurable business value, in line with the overall banking sample.

Similar AI value leakage: Retail and regional banks report an almost identical share of AI initiatives that fail to deliver business value, at 27%, compared with the overall banking sample.

Customer service is the most valuable AI use case

Business functions ranked by where banks see AI generating most business value



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Customer service generates the most business value: Retail and regional banks use AI to automate routine customer inquiries, provide faster responses, and deliver more personalized support across digital channels.

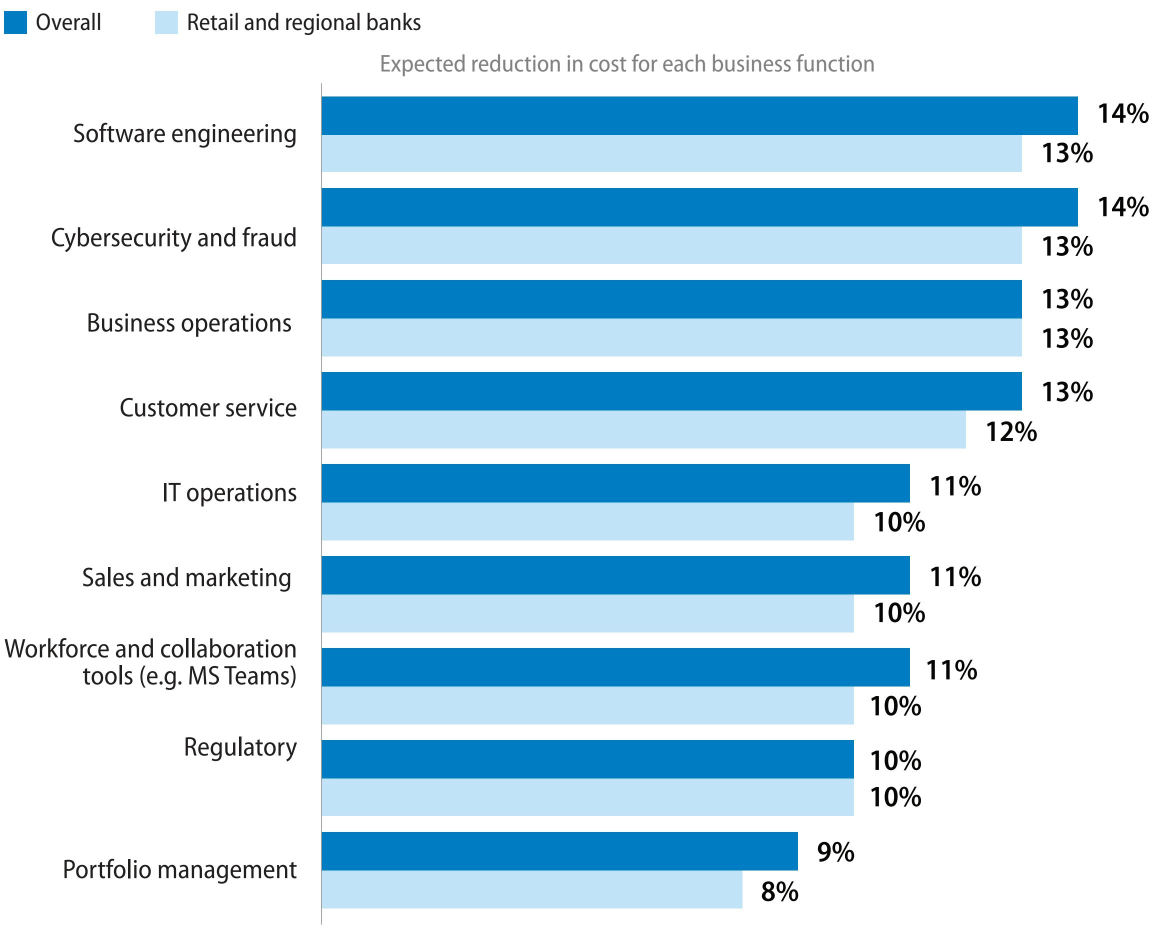
The technology also improves cybersecurity by identifying anomalies and potential threats in real time, helping institutions reduce fraud and strengthen resilience.

In business operations and workforce collaboration, AI streamlines manual processes, accelerates decision-making, and improves employee productivity through intelligent assistance and automation.

Retail and regional banks place greater value on workforce and collaboration tools to improve employee productivity and efficiency.

Retail banks see lower value in sales and marketing: Retail and regional banks place greater emphasis on service, efficiency, and risk outcomes, making sales and marketing a lower AI priority than it is across the broader financial services industry.

Software engineering is among the top areas for AI-driven cost reduction



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Retail and regional banks are less likely to cite cost reduction as a key AI benefit: These banks expect marginally except on regulatory compliance and business operations.

Data privacy and security inhibit wider AI adoption

Weighted average ranking of AI challenges

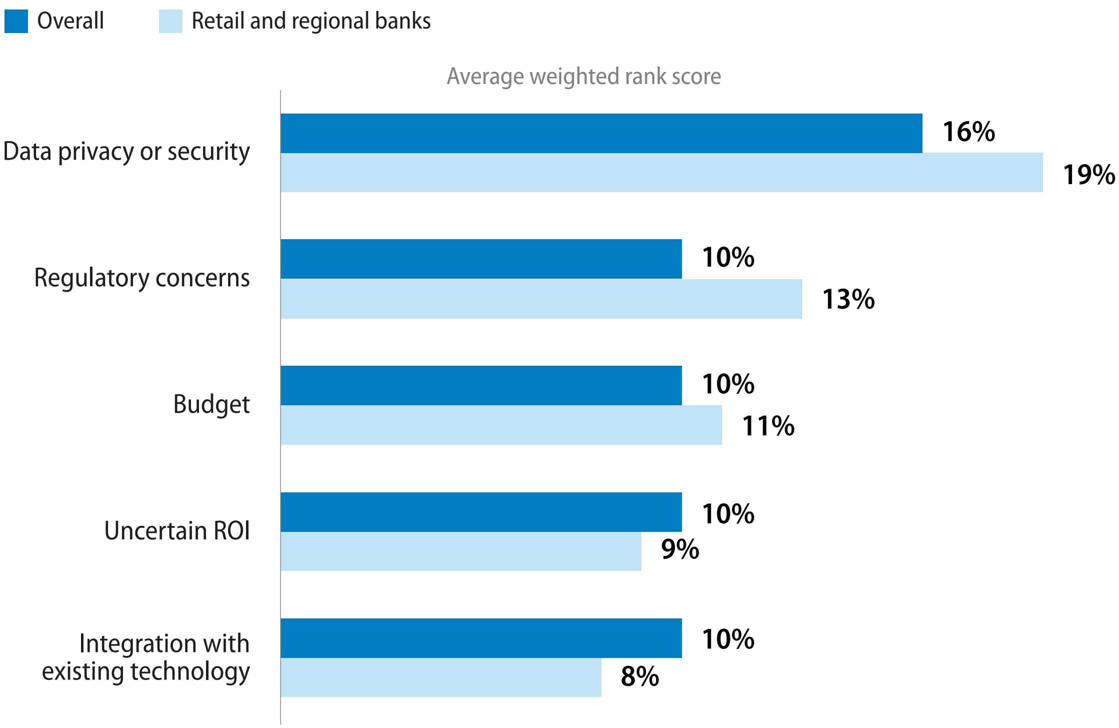


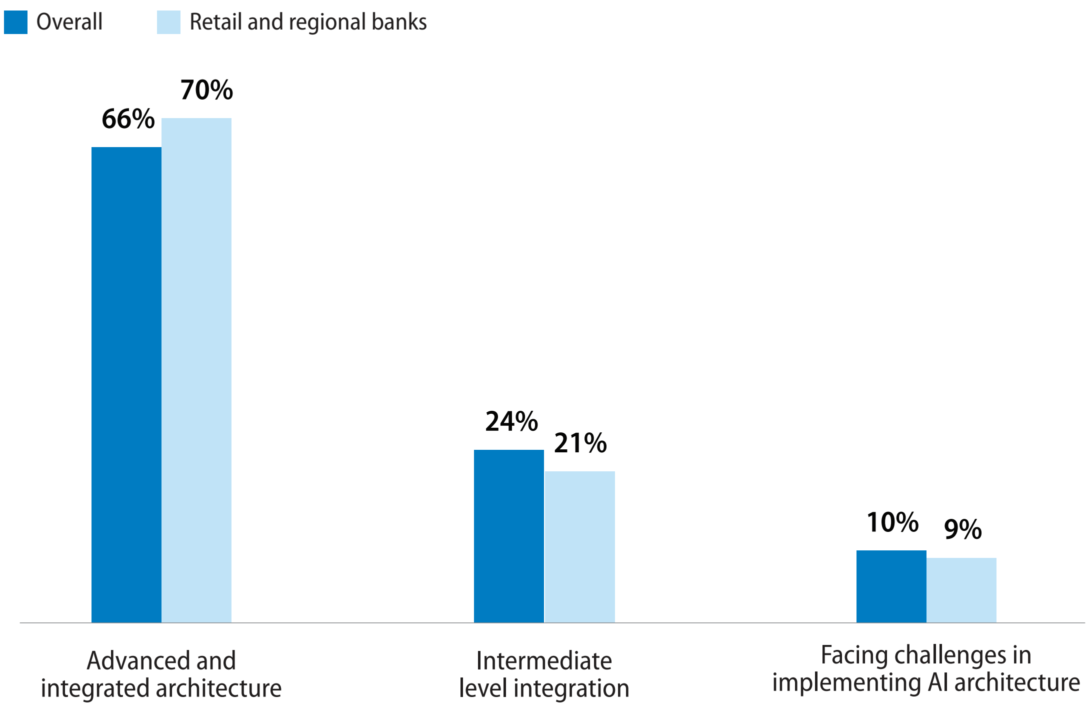
Chart shows only top five out of 12 challenges. The values shows the average weighted score of each challenge ranked top three. *N* = 400, where *N* is the number of banks surveyed in Volume 6 (Dec 2025), of which 116 banks responded to retail and regional banking questions.

Retail and regional banks view data privacy or security as more of a challenge: Issues around data, including privacy and security, continue to outweigh other barriers, including regulatory and financial concerns. This reinforces the need for robust data protection frameworks, stronger governance, and trustworthy data handling practices to enable responsible AI adoption at scale.

Regulatory concerns are a stronger constraint for retail and regional banks: Regulatory concerns are more pronounced for retail and regional banks (13%) than the overall group (10%). AI adoption decisions in these banks are more tightly coupled with compliance, model risk management, and supervisory expectations.

Banks are confident in their data readiness for AI initiatives

Data architecture maturity by proportion of banks



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Advanced and integrated architecture means having a unified data platform with a high-quality and robust data governance framework, real-time data access, and advanced centralized data platform optimized for AI or generative AI-based banking use cases (e.g., fraud detection).

Intermediate level integration means having a centralized data storage (e.g., data warehouses for analytics), with limited data governance, enabling support for a limited range of AI or generative AI-based banking use cases (e.g., AI chatbots).

Facing challenges in implementing AI architecture means having fragmented data sources with minimal integration, making it challenging to support any AI or generative AI-based banking use cases effectively.

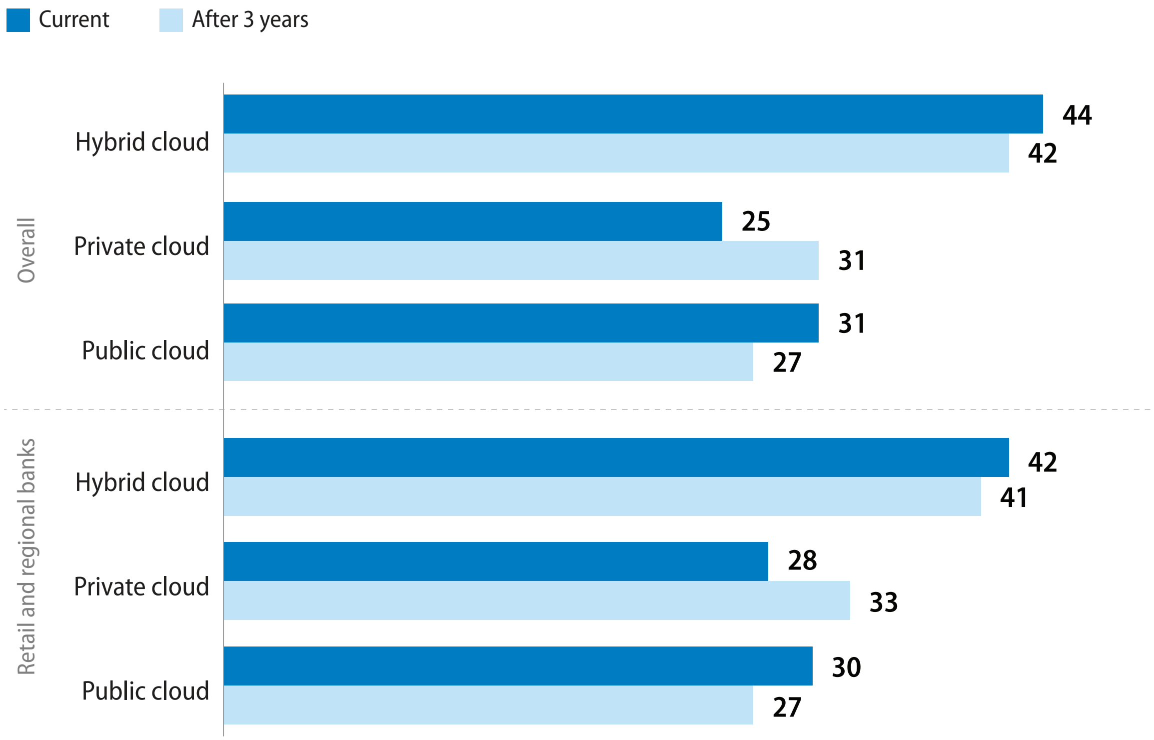
Two-thirds of banks believe their data architecture is already equipped to scale AI: This sentiment aligns with the broader trend that data maturity and integration are no longer seen as the primary barriers to AI adoption. However, questions remain around the ability to scale AI simultaneously across multiple business lines.

Cloud insights

Regulation and data security are key challenges

Cost, control, and AI drive private cloud adoption

Current and expected cloud service distribution



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The balance swings towards private cloud: Usage of private cloud among retail and regional banks is expected to grow from 28% today to 33% over the next three years, reflecting the need to balance scalability and flexibility with control, resilience, and regulatory compliance.

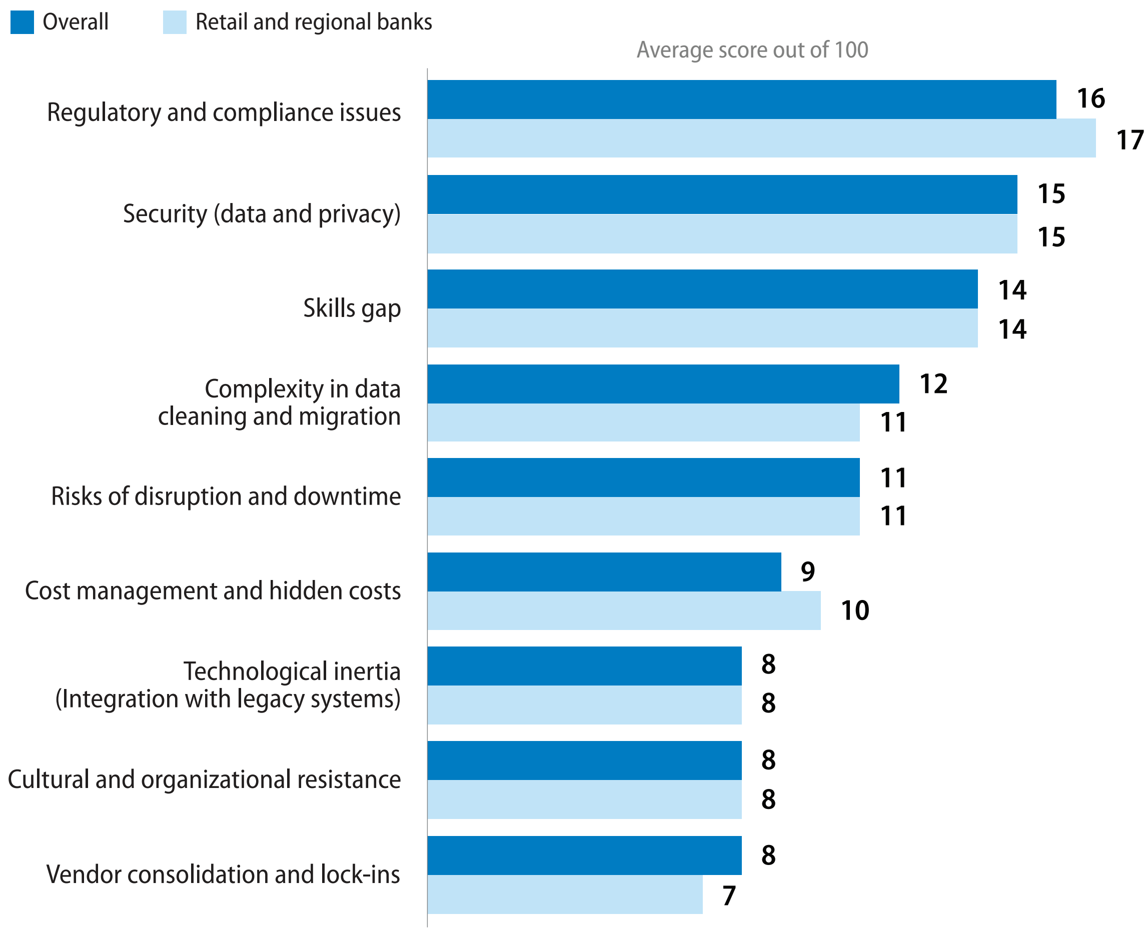
Public cloud cost is rising: AI and ML compute demand, data-transfer fees, vendor pricing complexity, unoptimized modernization, while waste from idle or overprovisioned resources amplifies cost escalation in pay-as-you-go models, especially in North America and Europe.

Heightened data sovereignty concerns: Banks across Europe and APAC must keep data within required jurisdictions, avoid foreign access risks, and manage complex multicountry regulations.

AI use in private cloud and SLMs: Banks train on smaller language models (SLMs) in private environments, where data remains controlled and security risks are reduced.

Regulation and security fears continue to slow cloud migration

Average score of cloud migration challenges



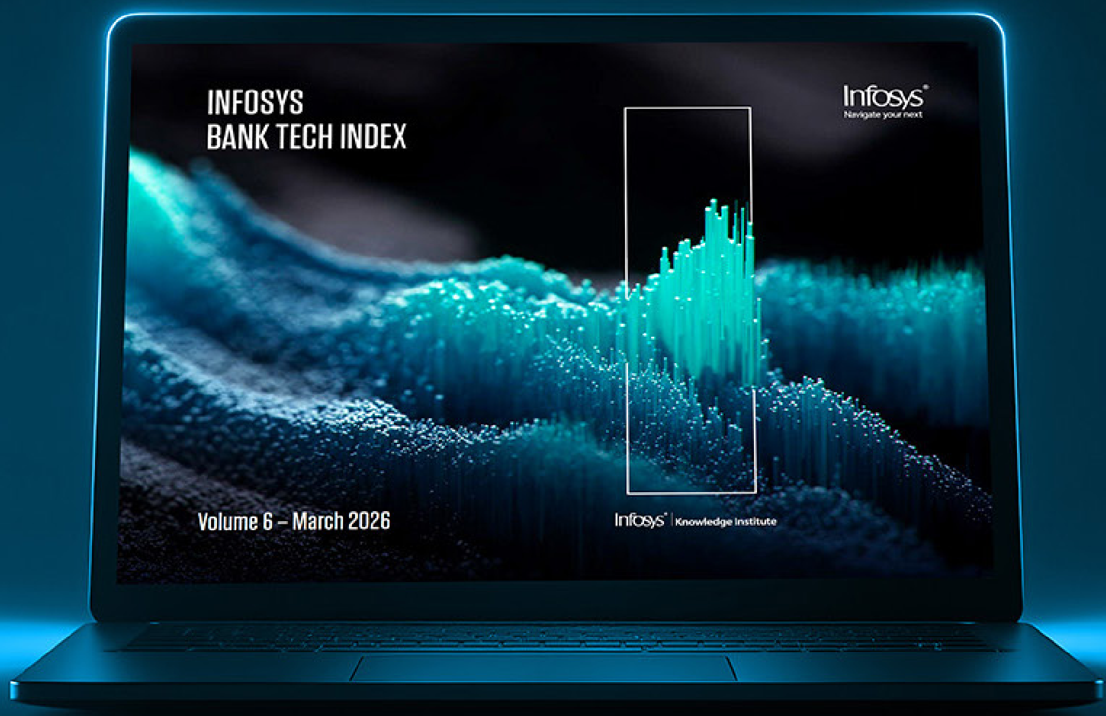
N = 400, where *N* is the number of banks surveyed in Volume 6 (Dec 2025), of which 116 banks responded to retail and regional banking questions. Security challenges refer to data protection and privacy risks. Technological inertia refers to difficulties in integrating AI with existing legacy systems.

Regulation hinders cloud migration: This is true for all banks, irrespective of size and region, with security challenges and skills gap as the next inhibitors.

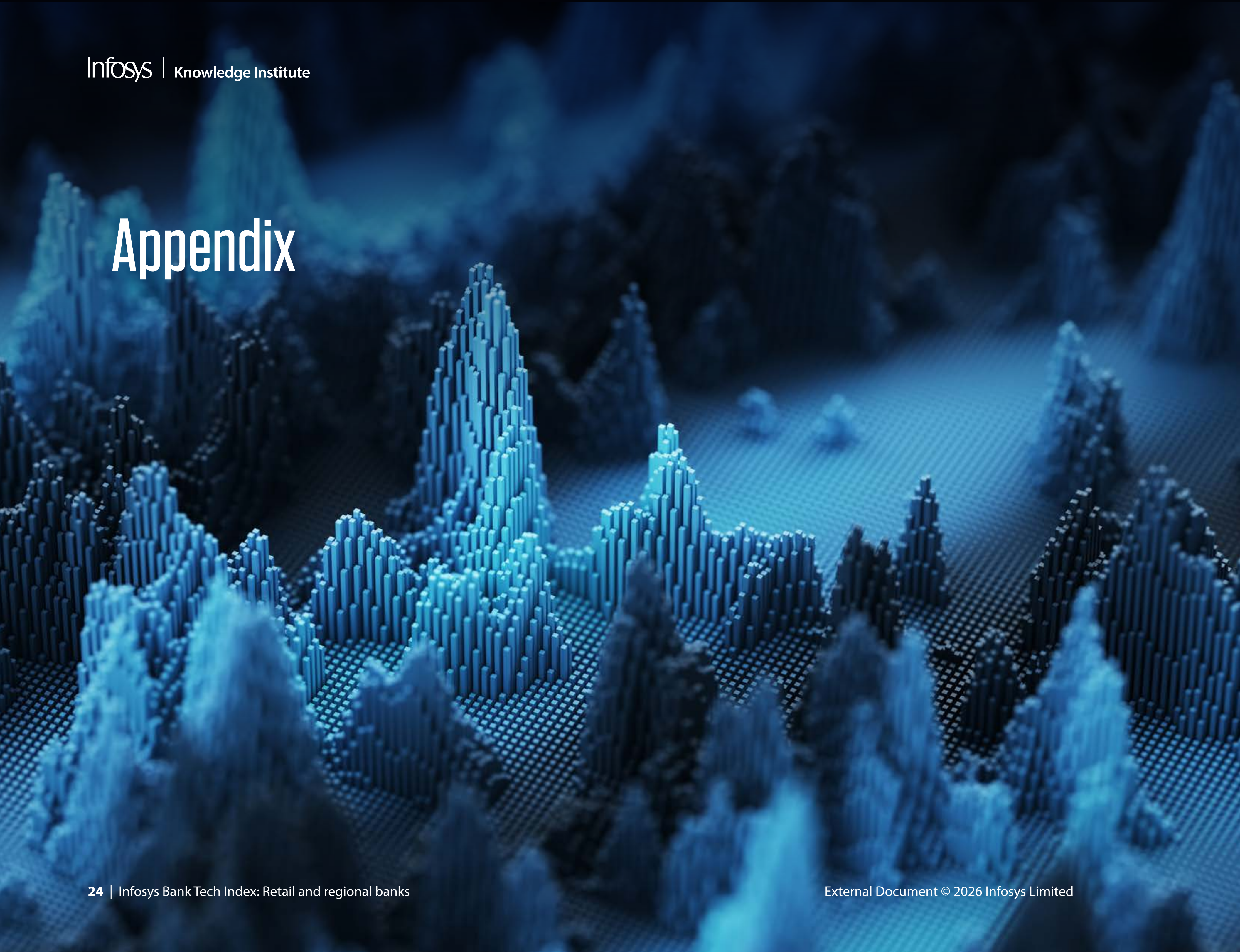
Security challenges persist: Although reduced since December 2024, strict compliance standards for sensitive customer data make security one of the top priorities. This underscores the critical need for robust governance frameworks and encryption protocols during migration efforts.

Skills gap emerges as a new top challenge for overall group: The skills gap challenge increased by four percentage points from December 2024. This trend is expected to increase in line with private cloud adoption.

Explore all findings from the Infosys Bank Tech Index now



Appendix



Appendix A: Methodology

The Infosys Bank Tech Index is a semiannual, survey-based research report that indexes technology investment and talent trends across the banking industry.

The sixth edition gathers quantitative data from 400 of the largest banks by total assets in Asia Pacific, Europe, Latin America, the Middle East and Africa, and North America. Our survey, exclusive to banks with assets surpassing $10 billion, represents 96%* of this asset pool. This semiannual research gathers insights on technology spending, staffing, and performance from a panel of leading banks.

Our executive panelists are key decision-makers for their respective banks' technology investments and talent strategies. Panel respondents will remain confidential to maintain data privacy and ethical considerations.

The research delves into the following areas:

1. **Retail and regional bank insights:** Current priorities, challenges and technology spend.
2. **Technology strategic priorities:** Current priorities of banks related to growth, operational efficiency, and transformation.
3. **Technology talent:** Current technology workforce and expected recruitment for technology roles.
4. **Technology budget analysis:** Current technology budget distribution and expected technology budget distribution.
5. **AI insights:** Percentage of initiatives in each stage of deployment, functions where AI generates the most value, functions where AI reduces costs the most, and improves productivity the most, areas where AI has the most positive impact, business lines where AI is used the most, and challenges to AI adoption.
6. **Cloud insights:** Current and expected cloud strategy, plans to migrate to cloud or use a cloud service platform, and challenges to cloud migration.

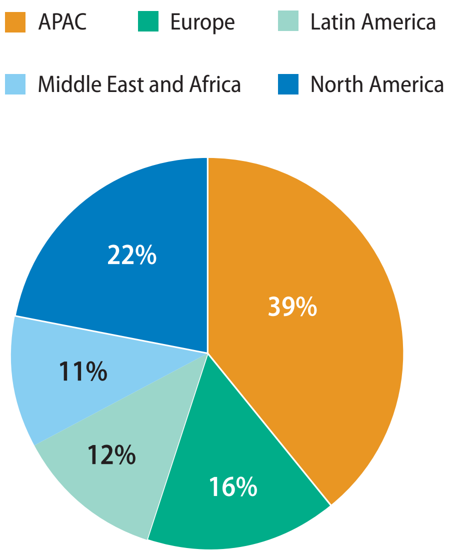
As data is gathered in subsequent quarters, this research will provide a dynamic view of the trends, track evolving patterns and help decision-makers at banks make informed decisions about technology and talent.

In Volume 6, we asked our panel to provide the expected total spending (including capital expenditure and operational expenditure), expected technology spending change, and expected technology recruitment for the first six months of this year, i.e., January 2026 through the end of June 2026.

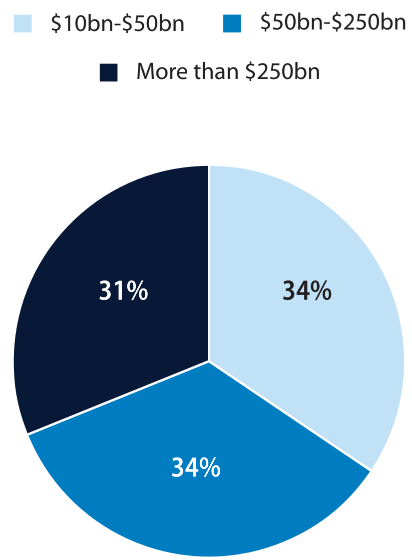
* *Based on 750 banks and assets, as of December 2024*

Appendix B: Panel distribution

Retail and regional banks by region (116 banks)



Retail and regional banks by total assets (116 banks)



Authors

Sharan Bathija | Infosys Knowledge Institute, Bengaluru

Dylan Cosper | Infosys Knowledge Institute, Dallas

Samad Masood | Infosys Knowledge Institute, London

Editors

Kate Bevan | Infosys Knowledge Institute, London

Pragya Rai | Infosys Knowledge Institute, Bengaluru

Analysis and production

Pramath Kant | Infosys Knowledge Institute, Bengaluru

Isaac LaBauve | Infosys Knowledge Institute, Dallas

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