

Insights from financial institution leaders

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Financial services board leaders expect a volatile operating environment through 2026

Financial institutions and their boards are navigating a complex landscape of geopolitical volatility, rapid technological disruption, and shifting competitive dynamics. As one director stated, *“The speed of change—geopolitical or technological—is a challenge. How do we as directors sift through the noise, stay focused on our long-term strategy, but also keep the agility to pivot in the face of disruption?”* Tapestry Networks and EY recently convened a group of board chairs, lead directors, and other senior board leaders from global financial institutions to discuss emerging risks and opportunities. This discussion revealed a shared concern about a convergence of risks—competitive and technological disruption, geopolitical and market volatility, continued growth of private credit, and ongoing fragmentation of regulation and policy—potentially resulting in fundamental shifts to the financial system.

Geopolitical volatility remains a primary driver of uncertainty

- Persistent policy, geopolitical turmoil, and uncertainty could undermine financial market performance.** Despite the high level of geopolitical and policy-related volatility, many financial institutions are reporting robust performance. Noting *“the disconnect between the pessimistic vibes and earnings growth and market performance,”* one director asked, *“At what point do you see a convergence between the negative rhetoric that’s out there and what we’re seeing in financial markets and in earnings growth?”* Another warned, *“For me, the worry is the cumulative impact. It’s the fact that there are so many things that could be the trigger to a reversal in confidence. The system relies very heavily on confidence.”*
- Reacting to short-term geopolitical volatility may be hiding more fundamental changes underway.** Geopolitical conflicts, fragmented international relations, and unpredictable policy shifts are creating what one director called *“a fuel that is driving short-termism”* in business decision-making, which is shifting the focus away from long-term risks posed by a shifting geopolitical and economic order. As another participant noted, *“The potential for long-term change to our business models is a serious issue. Many of our*

institutions are global in nature, operating across borders, and the extent to which that's going to change could be extremely disruptive to our organizations. I think all of our institutions have probably navigated the day-to-day uncertainty pretty well. But the longer-term potential for geopolitics to disrupt the way in which our business models are structured is meaningful."

- **Regulatory and financial policy are increasingly politicized.** Political shifts are affecting regulation and supervisory approaches. One director noted approvingly that US regulators are now taking a *"safety and soundness approach where they won't issue MRAs unless there's a safety and soundness issue."* As a result, *"the number of MRAs are going way down, I think probably for all of us, which brings a great opportunity to shift the focus to other emerging business issues."* However, the political environment in the US is not entirely friendly, with proposals like capping credit card rates or restricting institutional investors' activities making headlines recently. One director also noted, *"There's a ton going on with Fed independence right now that could have real consequences. Markets are skeptical at this point, but I think they're underestimating the importance of what could happen."* While the market hasn't been upended, political intervention in financial markets is unpredictable, with consequences for the entire financial system. One participant also stressed the need to continue *"advocating for stable and supportive regulatory and tax regimes"* that recognize insurers' *"critical role as providers of protection, savings, and retirement solutions and investors in long-term growth."*
- **Different geographies face unique concerns and distinct challenges, contributing to fragmentation.** In the US and Europe, inflation and elevated interest rates are front of mind, whereas China faces the opposite problem—extremely low rates and deflationary pressures that dampen growth. *"Prices in China today are probably cheaper than 10 years ago,"* one participant observed, noting that weak real estate markets and cautious consumers are weighing on China's economy. Another commented, *"Especially for insurance companies, with very low interest rates, how can you get sufficient returns to satisfy shareholders and investors?"* In Europe, participants highlighted policy fragmentation and rising protectionism as concerns; without a unified EU banking framework, for example, cross-border M&A remains elusive. The opposite is likely to be true in the US: *"I think in the US we'll see a lot of consolidation of mid-market banks. It is going to help them build more scale and be more competitive,"* said one director.

New competitive threats are exacerbating strategic risks for incumbent institutions

Directors warned about the *"massive potential disintermediation"* by fintechs, Big Tech, and non-bank financial institutions. From digital payments and stablecoins to the growing role of private equity and private credit, and the emergence of things like agentic commerce, new

players are encroaching on activities once dominated by regulated banks and insurers. *“We have to pay attention to how the disintermediation and dislocation as a consequence of all the technological evolution that we’re seeing is going to change the landscape in which we operate,”* said one director. *“It’s a real risk. If we don’t get it right, we will find ourselves obsolete or easily passed by those that do get it right.”* Another director emphasized that the threat of disintermediation can come from a range of factors: *“If you’re not talking about strategic risk, potential disintermediation, how you’re going to be investing heavily in technology to stay up with all of these big trends, and understanding what’s happening with private credit, at some point you’re going to become irrelevant.”* Financial institutions continue to bet big on AI’s long-term potential, despite the risks created by its rapid acceleration.

Financial services firms are among the top investors in AI technology: *“Financial institutions are not far behind the Googles and Amazons of the world. They have been the largest investors in technology systems and they’re getting ahead pretty fast. A lot of them are quite sophisticated in applications, and ahead of most other industries,”* observed a director. This dizzying pace of AI adoption is raising governance challenges, however: *“It’s changing so fast and being adopted so fast that boards have to stay in touch with that—it’s a primary risk for us,”* a director said. Some participants noted that surging capital expenditure on data centers, chips, and AI startups is propping up markets. If that bubble bursts, it could remove a pillar of the economy. However, most were optimistic that AI’s long-term benefits are real. *“As with anything like this, there will be some losers. But I’m very optimistic about AI in the long run. I believe that new jobs will be built, and I’m optimistic about the application layer that’s going to come behind the new generations of chips,”* one director commented. Another likened it to the Internet in the 1990s: *“Yes, there’s an AI bubble risk, but we just all need to get prepared. We can’t live without the internet today, and AI will be similar.”*

Other risks, including private credit and cybersecurity, could present systemic challenges

- **Explosive growth in private credit is a potential systemic risk.** Participants acknowledged that the growth of private credit is creating pockets of risk above and beyond strategic risk, particularly from new players that have been attracted to the industry in recent years: *“I worry more about the newbies that have come into this industry that have never really had a lot of experience with credit cycles. I don’t really know about their underwriting standards,”* said a director. The risk may be exacerbated by the role of smaller, lesser-known ratings agencies who could be over-rating private debt deals, *“sometimes 5 notches higher”* than the big credit rating agencies. These pockets of risk outside the regulated financial system are raising stability concerns. *“It’s a risk that we don’t know how to calibrate. It’s a risk we know is in the system. We don’t know where it is, but we know it will come up at a certain point in time. It will manifest itself through a couple of bad surprises and that will*

have a domino effect which can really spook the markets and the environment.” This “domino effect” can extend to the regulatory environment too: “More active involvement from regulators is something that will affect us even if we don’t cause it,” added a participant. Moreover, banks are exposed through lending to these private credit vehicles, with hundreds of billions of dollars on the balance sheets of large banks. While the large banks should be able to manage this exposure—“our credit is as good and strong as we’ve seen in a while,” one banking leader remarked—the scale of the exposure could result in significant losses.

- **Cybersecurity remains a top threat, especially via interconnected third parties.**
“There’s never enough money we can spend on protecting ourselves from cyber,” one director commented, noting the difficulty of staying “one step ahead of all the bad actors.” The nightmare scenario is not a direct attack on a big bank or insurer, but a major breach at a critical vendor or fintech partner that cascades through the system. “It’s probably an accident waiting to happen out there, not necessarily within our own walls, but within the walls of someone we’re doing business with,” this director warned. Another director acknowledged the challenge that this presents: “Relying on third parties is something we can’t avoid. If our third-party vendors have a problem, it ends up being our problem.”

Meeting Participants

The following individuals participated in the meeting:

Participants

Mariann Byerwalter, Chair of the Board,
Pacific Life

Andrew Chisholm, Risk Committee Chair,
RBC

John Dugan, Lead Independent Director,
Citigroup

Jamie Forese, Risk Committee Chair,
HSBC

David Herzog, Chair of the Board, Aegon

Trevor Manuel, Chair of the Board and
Corporate Governance and Nomination
Committee Chair, Old Mutual

Albert Ng, Audit and Risk Management
Committee Chair, Ping An Insurance; Audit
and Control Committee Chair, CICC

Douglas Peterson, Non-Executive Director,
Morgan Stanley

Kate Stevenson, Chair of the Board, CIBC

Mark Weinberger, Audit Committee Chair,
JPMorgan Chase; Compensation
Committee Chair, MetLife

Alex Wynaendts, Chair of the Supervisory
Board, Deutsche Bank

EY

Omar Ali, Global Financial Services Leader,
EY

Nigel Moden, Global Banking and Capital
Markets Leader, EY

Isabelle Santenac, Global Client Service
Partner, EY

Jonathan Zhao, Global Insurance Leader,
EY

Tapestry Networks

Dennis Andrade, Managing Director

Brenna McNeill, Senior Associate

Tucker Nielsen, Managing Director