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INNOVATION IN DIGITAL BANKING: HOW SMALLER COMPANIES ARE LEADING THE WAY

This article discusses trends in deposit banking, fueled by innovation and AI-based technology. Covered topics include a primer on uses of AI in banking, an overview of the growing demand for personalized banking services and companies leaning into the AI-movement, and a roadmap of regulatory and legal pitfalls that accompany innovation in banking.

By Andrea K. Mitchell and Chloé Dolsenhe *

The current trend is telling — customers are placing a premium on receiving personalized bank experiences with attractive perks and easy access to funds. Artificial Intelligence (“AI”) and digital bank tools are turning deposit accounts into financial sidekicks. With these integrations, customers can get savings tips, budgeting nudges, personalized add-ons based on spending patterns, and even alerts on impulse purchases. As competition intensifies and economic uncertainty looms large amidst regulatory shifts, financial institutions can no longer afford to operate on autopilot — especially when it comes to their saving and spending products and tools.

Traditional retail banks have spent the last four years fending off supervisory findings, enforcement actions, class action litigation, and mass arbitration claims for a seemingly endless list of unfair or deceptive practices allegations pertaining to bank fees and deposit banking services. Meanwhile, fintechs and tech-savvy community banks that are harnessing AI-supported financial products and services have emerged as formidable contenders for market share and largely

avoided the same regulatory and legal exposure. Indeed, there are benefits to being small and nimble — at least for now.

Once a stable pillar of banking, deposit products are now a playground for innovation and the financial technology revolution. AI-driven personalization and innovative savings solutions are redefining customer expectations. Digital banking is accelerating at an unprecedented pace, and traditional brick-and-mortar banks generally are not leading the pack.¹ While consumers initially shied away from online banks and fintechs offering digital banking services due to concerns over information security, financial stability, and using technology in lieu of tellers and physical branches, confidence has grown in this non-traditional banking model as consumers of all ages begin to

¹ Deloitte — Financial Services, *2025 Banking and Capital Markets Outlook* (Oct. 13, 2024), <https://www2.deloitte.com/us/en/insights/industry/financial-services/financial-services-industry-outlooks/banking-industry-outlook.html>.

* ANDREA K. MITCHELL, is the managing partner of Mitchell Sandler PLLC, a financial services and financial technology-focused law firm headquartered in Washington, D.C. CHLOÉ DOLSENHE is a senior associate with the same firm. Their e-mail addresses are amitchell@mitchellsandler.com and cdolsenhe@mitchellsandler.com.

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