The APAC Lending Paradox:

Why Strategy is Clear, but Execution is Everything

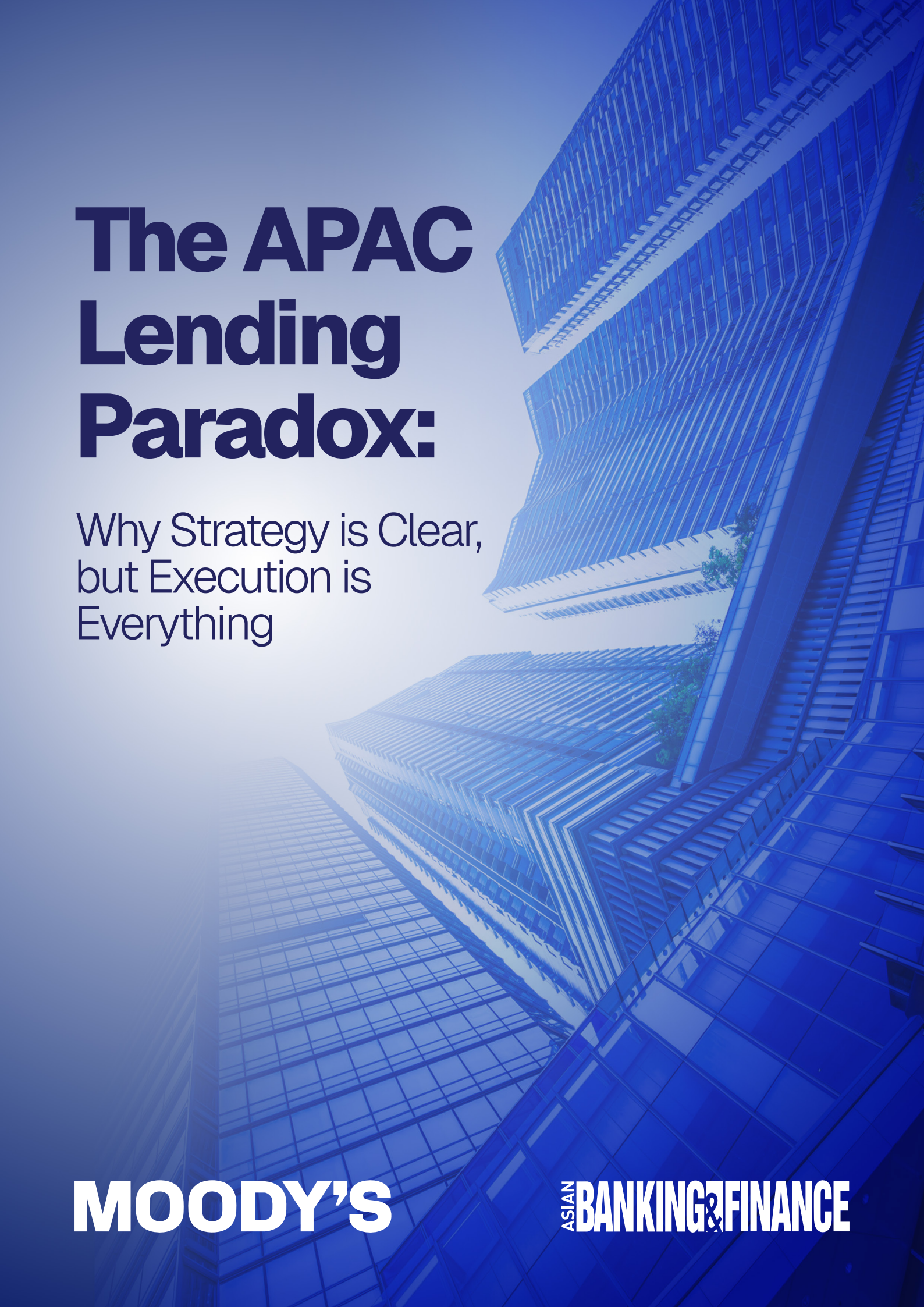

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Table of Contents

Executive Summary

Banks across the Asia Pacific (APAC) region are in a strategic race to reshape commercial and business lending. This study, commissioned by Moody's and conducted by Asian Banking & Finance between August and December 2025, surveyed 50 senior and mid-level APAC banking executives on the state of lending in the region.

The findings reveal a shift in the mindset of APAC executives: the primary driver of change in lending is no longer just efficiency, but a push for market advantage and competitive positioning. What began as a drive to enhance process digitalisation has evolved into a far more strategic imperative: the use of data and artificial intelligence (AI) to defend market position, sharpen competitive advantage, and accelerate decision-making in an increasingly contested lending landscape.

This study shows that banks are no longer debating whether to adopt AI in lending. Instead, they are racing to move from pilots to production. 18% of respondents are already using Generative AI (GenAI) in production environments, seeking to embed AI and automation across origination, credit assessment, underwriting, and portfolio monitoring, amongst others. The research also underscores that AI adoption is inseparable from data strategy. As banks deploy more advanced tools such as GenAI and explore agentic AI, the use of rich, trusted third-party data has become imperative. For many institutions, the ability to integrate and govern external data effectively will determine how far and how fast AI can scale.

However, this ambition is colliding with significant executional barriers. The research reveals that cost, technical integration with legacy systems, and regulatory constraints are the primary obstacles to slowing progress. These challenges do not reflect a lack of strategic intent; rather, they highlight the complexity of turning innovation into enterprise-wide capability.

The findings indicate that sustained competitive advantage will belong to the institutions that can successfully build an integrated operating model: one that combines robust internal and third-party data foundations, scalable AI and automation capabilities, and disciplined governance.

Institutions that address these elements in tandem will be best positioned to translate digital transformation into sustained growth, stronger risk management, and faster, more confident credit decisions across the APAC region.

Introduction

The rapid digitalisation of financial services has reshaped how banks operate, compete, and serve their customers, particularly in commercial and business lending. Across the APAC region, institutions are under mounting pressure to modernise legacy processes, harness new data sources, and adopt emerging technologies such as GenAI to drive smarter, faster credit decisions.

Against this backdrop, this study examines how banks across the Asia Pacific region are navigating the shift from digital ambition to execution. Drawing on insights from banking executives, it explores the strategic motivations driving AI adoption, the technologies and data ecosystems enabling change, the execution challenges slowing progress, and the operating-model choices that will shape the future of lending.

Respondent Profile

Amongst the respondents surveyed, 50% had roles in relationship management and coverage, whilst 22% worked under risk, credit, compliance & analytics. This was followed by lending production, portfolio, and sector leads as well as business, digital, sales, and strategic leads, which contributed 14% of respondents respectively. (Figure 1).

The survey included participants with varying levels of seniority within their respective organisations. C-level or VP-level roles (CRO and SVP titles) make up 10% of the respondents, 12% are directors (directors, executive directors, and business directors), 26% are managers (titles containing manager, senior manager, lending manager, and sales management), and 52% are non-managers (RMs, ARMs, analysts, advisors, specialists, and underwriters) (Figure 2).

Figure 1. Breakdown of respondents

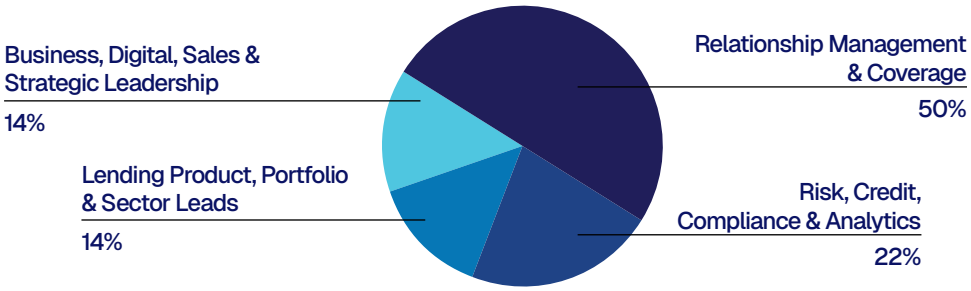
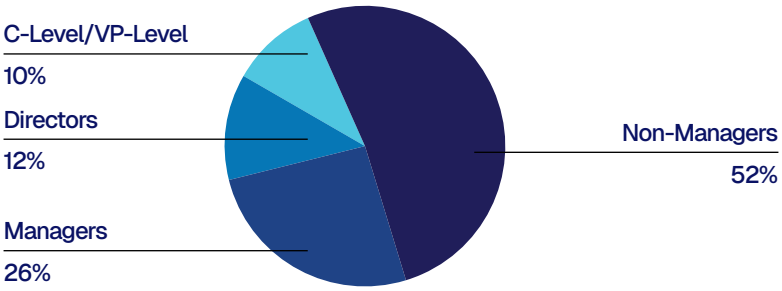


Figure 2. Breakdown of respondents



About this Study

This research was conducted by Moody's in collaboration with Asian Banking & Finance. From August to December 2025, we surveyed 50 senior- and mid-level executives and decision-makers in risk management, commercial and business lending, and digital transformation roles across the Asia-Pacific region. Responses were prioritised from institutions in Singapore, Malaysia, the Philippines, Thailand, Hong Kong, Australia, and New Zealand, with additional coverage from Japan, Taiwan, South Korea, Vietnam, and Indonesia.

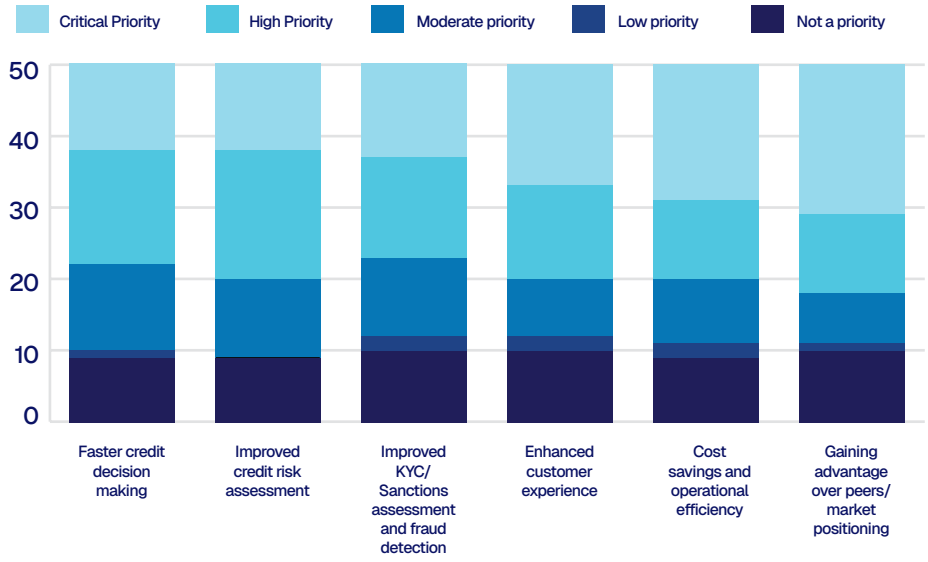
Definition of Key Terms

- **Rule-based AI / Machine Learning (ML)**: Automated systems that use pre-set rules or statistical models to make or support lending decisions using historical data.
- **Generative AI (GenAI)**: Advanced AI such as large language models (LLMs) and chatbots—capable of producing new documents, text, or workflow outputs based on training data (e.g., automating document review or generating responses).
- **Agentic AI**: Advanced AI systems capable of performing complex, multi-step tasks and coordinating across different processes, often with human oversight and intervention points.
- **Third-party data**: Any data sourced from outside one's own organisation to enhance internal processes, for example, data from credit bureaus, trade registries, fintech partners, or alternative data providers.

The New Competitive Mandate: A Race for Market Advantage

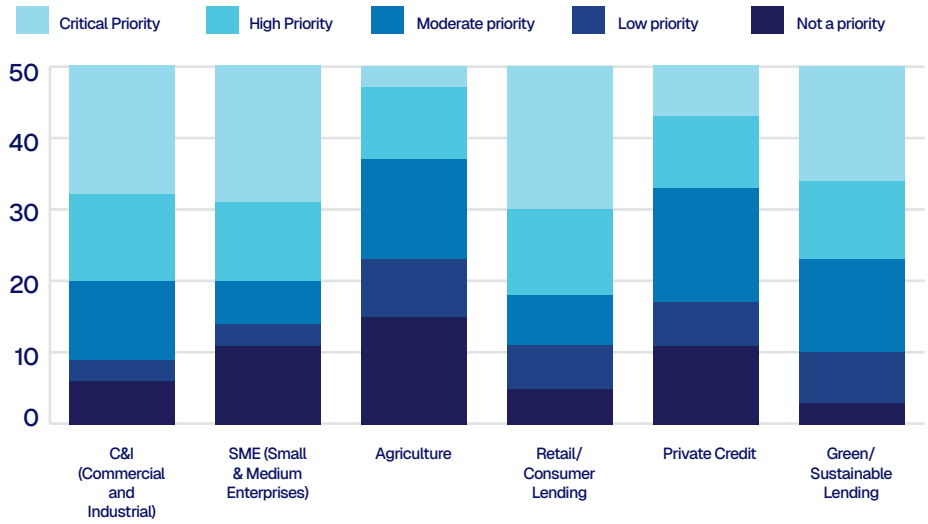
The research reveals a fundamental shift in the mindset of APAC lenders. Significantly, market advantage was cited more frequently than other key AI drivers, including cost savings and operational efficiency, customer experience, improved KYC/sanctions, and credit risk assessment. The message is clear: the primary driver for digital and AI adoption is no longer just a defensive play for efficiency; it is a strategic race for market advantage.

Figure 3. Please rate the importance of the following goals in your adoption of AI within lending workflows.



This strategic focus on competitive advantage also helps to explain where banks are concentrating their efforts. The research shows that retail/consumer lending is a clear priority, with the highest point average and the biggest share of 20 participants deeming it as a "critical priority" – closely followed by SMEs and Commercial/Industrial (C&I) (Figure 4). Meanwhile, private credit and agricultural lending segments were less of a priority amongst respondents. These findings indicate that executive priorities skew strongly towards mainstream growth engines where speed, data, and scale differentiate.

Figure 4. Which of the following lending segments are currently the highest priorities for your organisation?



These priorities are not only commercial choices; they also highlight why banks are accelerating investment in AI and digital capabilities. Retail, SME, and C&I portfolios are characterised by high application volumes, tighter margins, and increasing competition – placing pressure on banks to make faster, more consistent and data-driven credit decisions. In these segments, even modest improvements in decision speed, risk selection, or customer experience can translate into significant competitive advantage.

At the same time, the inclusion of green and sustainable lending amongst top priorities also highlights a growing need to assess more complex risk factors, disclosures, and data sources, further reinforcing the case for advanced analytics and AI-enabled processes.

As banks concentrate growth in segments where scale, standardisation, and analytical intensity intersect, AI is increasingly viewed not as a discretionary efficiency tool, but as a strategic enabler of execution and differentiation.

The New Lending Toolkit: Data and AI as Core Enablers

The race for market advantage is being fought with two interconnected tools: scalable AI and rich data. The research shows that banks are deploying a layered approach to AI adoption, underpinned by an increased reliance on third-party data to unlock more advanced analytics. If AI is the engine of modern lending, then high-quality data is its fuel.

A Layered Landscape of AI Adoption

The survey reveals a market in motion. Whilst the various subsets of AI are at distinct stages of maturity, they all are now firmly on the roadmap.

The study found that:

- **GenAI is slightly ahead in terms of maturity**, being the only category showing any full production integration and the highest share in partial integration. (Figure 5.2)
- **Rule-based AI and machine learning are being broadly explored and modestly integrated**, with any level of adoption (pilots and partial integration) making up 40% of responses. (Figure 5.1)
- **Agentic AI is still in the earliest stage of integration.** However, the majority expect some level of agentic AI deployment within three years, with 42% of respondents noting plans to adopt within a two-to-three-year window (Figure 5.3).

As seen in Figure 6, 18% (9 out of 50 participants) have already adopted GenAI in their organisation, versus only 6% (3 out of 50) for agentic AI. However, over the course of the next 2-3 years, respondents expect agentic AI to catch-up – with 42% of respondents aiming to adopt agentic solutions in lending within this timeframe (Figure 6). No plans to adopt either technology remains a minority view, with 10% in GenAI versus 12% in agentic AI.

The data shows that GenAI momentum is real, not only experimental. Traditional AI and ML remain important but are transitioning more slowly into integrated, cross-workflow use.

Figure 5.1. Rule-based AI/Machine Learning

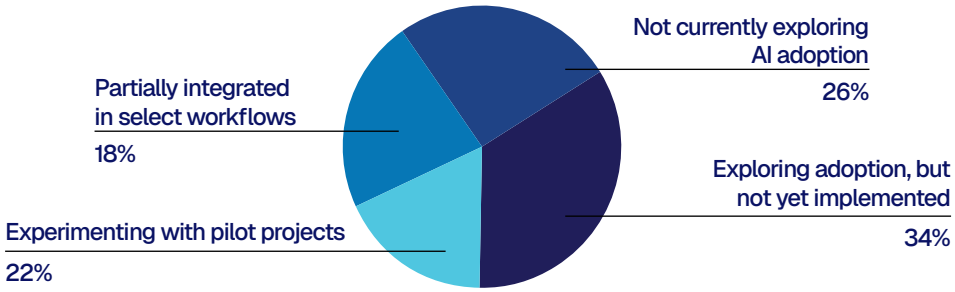


Figure 5.2. Generative AI (e.g. LLMs for document handling, chatbots)

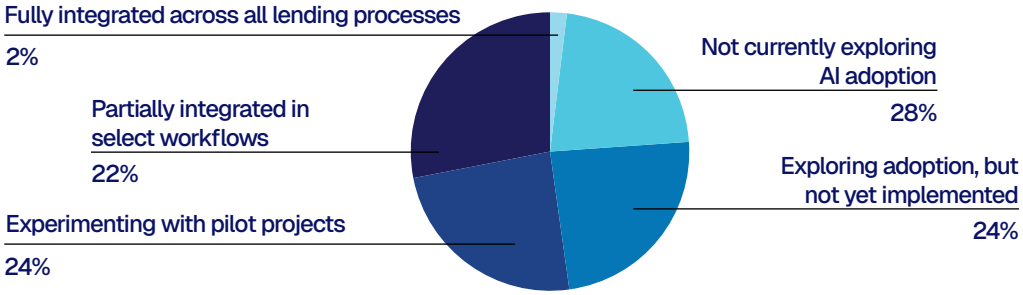


Figure 5.3. Agentic AI

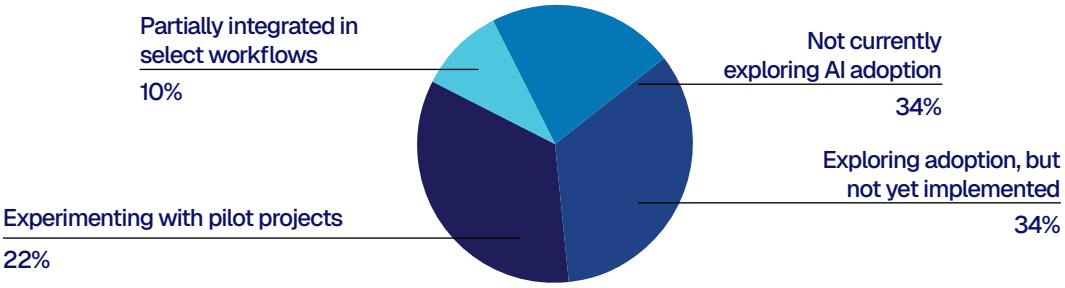
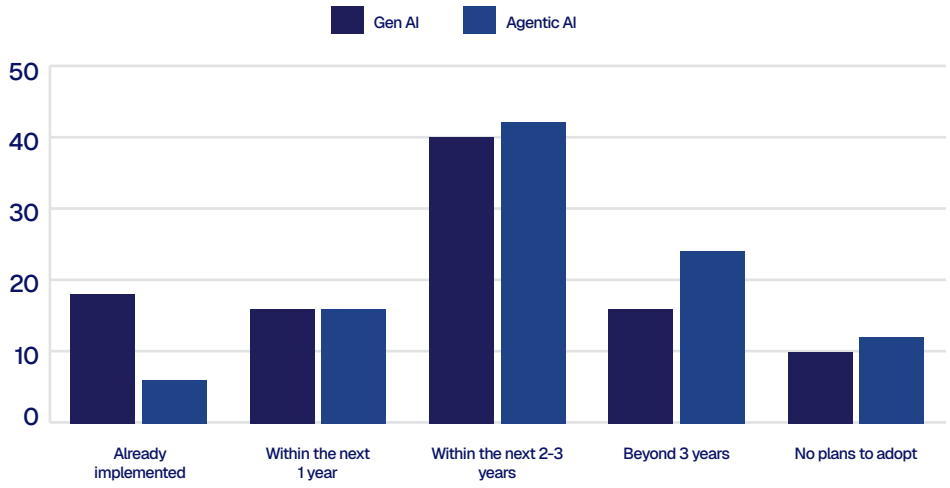


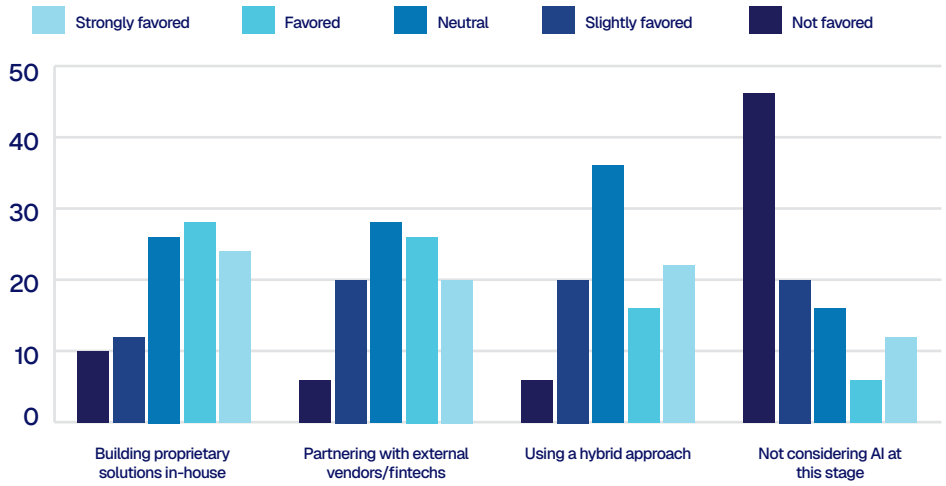
Figure 6. What is your organisation's expected timeline for adopting GenAI and Agentic AI solutions in lending?



To Build or Partner?

Amongst organisations, there was a slight preference for building AI solutions in-house, versus partnering with vendors – 14% of respondents 'strongly favored' in-house solutions, versus 10% strongly favouring working with vendors.

Figure 7. How strongly does your organisation favor each approach for adopting AI and digital technologies in lending?



This preference reflects several strategic considerations. Developing solutions internally allows banks to maintain closer control over proprietary data, model governance, and intellectual property. In highly regulated lending environments, institutions may view in-house development as a means to better manage compliance risks and align AI systems more closely with internal credit policies and risk appetites. It also enables greater customisation, particularly in complex portfolios, where workflows and underwriting criteria may vary across markets and segments.

At the same time, vendor favourability indicates that banks are not pursuing a purely self-built model. A substantial proportion continue to favour partnerships, recognising the speed, specialist expertise and scalability that external providers can offer. For many institutions, especially those seeking to accelerate deployment of generative or agentic AI, partnering may reduce time to market and lower upfront investment requirements.

Data as the Foundational Fuel

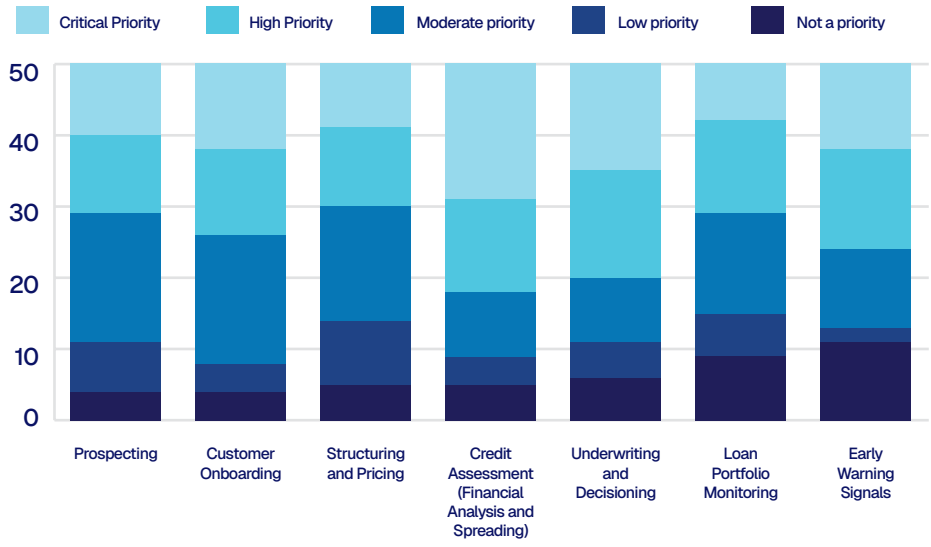
As banks move from AI pilots into production, one constraint becomes clear: AI is only as effective as the data behind it. More advanced applications – particularly generative and agentic AI – require broader and more timely inputs than internal data alone can provide. As a result, third-party data is becoming a foundational element of modern lending analytics, shaping how far and how fast AI can be scaled.

Looking into third-party data across lending operations, the study found that risk decisioning is where third-party data is most utilised. Specifically, credit assessment records the highest average priority score (3.74) across the survey's five-point prioritisation scale (Figure 8). It is followed by Underwriting & Decisioning (average 3.56), Customer Onboarding (average 3.48), Prospecting (average 3.32), Early Warning (average 3.28), Structuring & Pricing (average 3.20), and Loan Portfolio Monitoring (average 3.10).

The pattern suggests a clear trajectory:

- **Risk-centric use cases first**. Banks have focused on embedding external data where it most obviously enhances risk selection—credit scoring, limit setting, KYC, and sanctions checks.
- **Front-end and pricing are catching up**. Prospecting, onboarding, and pricing are starting to leverage external data to target the right customers, reduce friction, and sharpen risk-adjusted returns, but practices differ widely.
- **Portfolio-level augmentation is emerging**. Whilst less mature, the use of third-party data for early-warning signals, sector stress indicators and portfolio analytics is growing and is likely to accelerate as data integration improves.

Figure 8. To what extent does your organisations use third-party data in lending decision-making in the following areas?



In short, institutions that invest early in robust data partnerships, governance, and integration are better placed to build differentiated AI and analytics, whilst those that lag may find their risk and commercial decisions constrained by incomplete information.

Three strategic themes stand out in how banks are approaching AI:

- **Strategic intent is clear**. Banks across APAC are increasingly aligned on why they are investing in AI in their organisations. The survey shows that AI is no longer viewed primarily as a back-office efficiency tool, but as a means to strengthen competitive positioning in lending markets by making better, faster and more consistent credit decisions at scale. In this context, AI investment is becoming a strategic priority tied directly to business outcomes, rather than an isolated technology initiative.

- **Build versus partner is finely balanced**. When it comes to how AI capabilities are developed, banks are split between building in-house and partnering with external providers. Many banks expect to adopt hybrid approaches, combining internal platforms with third-party tools and data. This balance reflects a pragmatic mindset: institutions are less focused on choosing a single model than on assembling a flexible ecosystem that can evolve as AI use cases mature.

- **Inaction is not an option**. Perhaps most striking is the strong resistance to standing still. A significant share of respondents express opposition to sitting out AI initiatives altogether, even where implementation timelines differ. This reflects a growing belief that delaying AI adoption carries strategic risk—whether through slower decision-making, weaker risk insights, or reduced competitiveness relative to peers. Whilst banks may vary in how quickly they deploy advanced capabilities such as generative or agentic AI, the expectation is clear: some form of progress is required. Stakeholders expect visible progress, even if initial deployments are narrow.

The overall picture is one of experimentation moving into execution. The next challenge is to turn these multiple tracks into coherent, governed architectures that deliver consistent value for lenders and customers.

The Execution Gap: Where Ambition Meets Reality

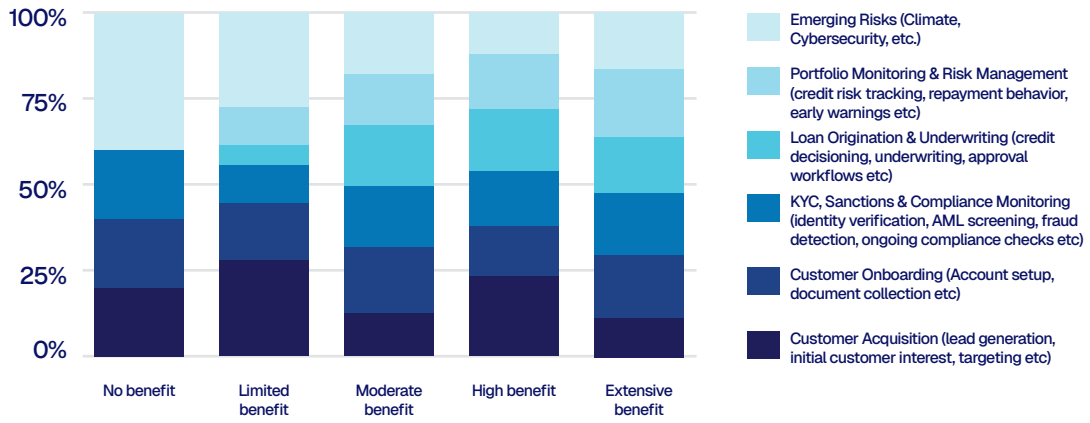
Survey respondents see AI-driven automation delivering meaningful benefits across every major part of the lending lifecycle, with particularly strong expectations around core credit processes.

Portfolio monitoring and risk management, along with loan origination and underwriting, emerge as the clearest leaders: both have the highest average benefit scores and virtually no respondent believes there is “no benefit” from automation in these areas (Figure 9). This points to widespread confidence that AI can improve risk detection, early-warning signals and credit decisioning quality and speed.

KYC, sanctions, and compliance monitoring, along with customer acquisition, also show strong perceived value, with average scores just below the leaders. Views are slightly more mixed in customer onboarding and in emerging risk areas such as climate and cybersecurity.

Overall, AI skepticism is rare. AI bringing “no benefit” in lending range from zero to two respondents across all areas (0%–4% of the sample), including none for loan origination and underwriting or portfolio monitoring and risk management (Figure 9). This demonstrates that the debate amongst executives is not about whether AI will enhance lending – but where AI can help the most and how quickly institutions can operationalise it.

Figure 9. To what degree will the following areas of your lending operation benefit from AI-driven automation?



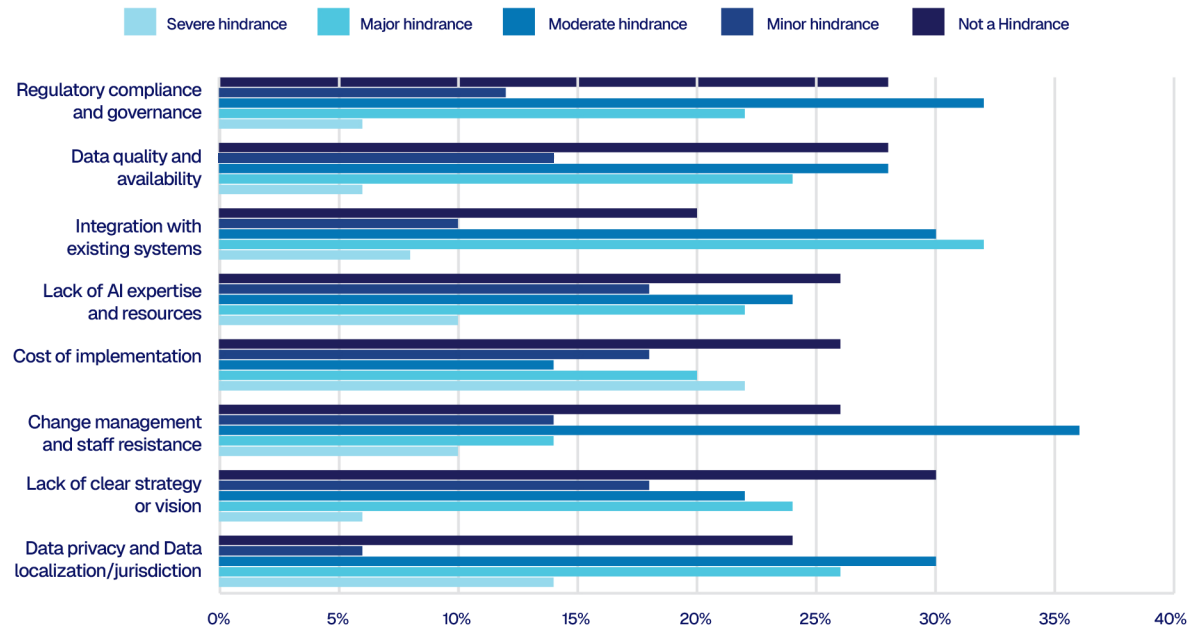
The survey underscores a broad consensus that AI-driven automation is expected to materially improve commercial and business lending. Across the value chain, the benefits that respondents anticipate from automation can be grouped into four themes:

- **Efficiency and cost**. Reduced manual data entry, fewer reworks, faster document processing, and more straight-through workflows.
- **Risk and control**. More consistent application of policies, richer early-warning signals, improved fraud and anomaly detection, and better audit trails.
- **Customer engagement**. Shorter decision cycles, more proactive outreach and better-tailored product and pricing options based on richer data and analytics.
- **Workflow orchestration**. Smarter hand-offs between teams, automated queue prioritisation and granular visibility into bottlenecks across the lending pipeline.

The distribution of responses also points to a progression in adoption. Banks appear to focus first on areas where expected benefits are the strongest—such as underwriting and portfolio monitoring—before extending automation into KYC, acquisition and more complex, emerging risk or customer-experience-driven use cases. The research suggests that over time, the effect of these deployments is likely to reshape not just individual workflows – but the overall operating model for commercial and business lending in APAC.

Whilst the expected benefits of AI are widely recognised, capturing them consistently and at scale is proving more difficult. Survey responses point to a common set of execution barriers (Figure 10). Budget, technical integration, and regulatory data constraints were named the biggest friction points amongst banks. Cost, in particular, was the most acute blocker – with 22% of respondents naming it a “severe hindrance”. Data privacy and localisation

Figure 10. To what degree do the following factors hinder your organisation’s ability to adopt AI-driven lending solutions?



requirements, as well as integration challenges related to legacy systems follow closely, with 14% and 8% of respondents citing them as severe obstacles, respectively.

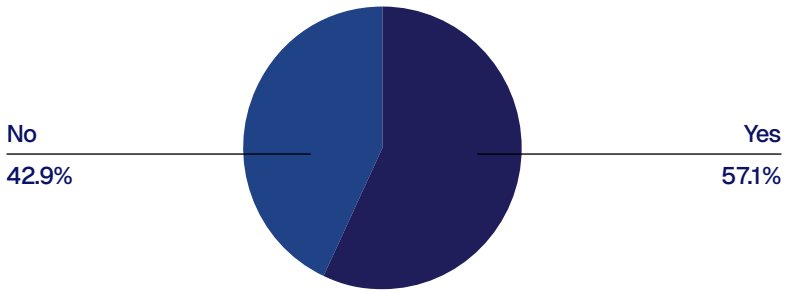
Talent availability, strategic clarity, and data foundations also matter, but these are less frequently identified as severe constraints. This suggests that they are not immovable barriers, but areas that can be addressed through targeted investment, capability-building, and change programmes.

As banks seek to scale AI across lending operations, a lack of established governance is also emerging as a critical constraint on progress. The survey shows that just over half of respondents (57.1%) report having a dedicated committee or role overseeing AI adoption and ethics, whilst a substantial minority (42.9%) continue to rely on more informal or ad hoc arrangements (Figure 11).

This divide points to a market in transition. Whilst many institutions have moved beyond experimentation and have begun deploying AI in production environments, governance frameworks are not keeping pace. Where these structures are underdeveloped, banks often face slower approvals, greater internal friction, and heightened risk aversion – ultimately limiting their ability to scale AI with confidence. As a result, governance has become a central determinant of how quickly and effectively banks can translate AI ambition into execution.

Conversely, institutions with clearer governance structures are better positioned to move faster and more safely. Defined roles, decision rights, and review processes can reduce uncertainty, support responsible innovation, and provide management with greater assurance as AI becomes more embedded in day-to-day lending operations.

Figure 11. Does your organisation have a dedicated committee or role overseeing AI adoption and ethics?



Key Takeaways: A path forward for bank leaders

The study paints a clear picture of an industry at an inflexion point. The question for leaders is no longer "Should we adopt AI?" but "How do we scale it safely, coherently, and in a way that delivers sustained competitive advantage?" Financial institutions across APAC have embraced digital transformation as a strategic imperative – reweighting portfolios toward segments where digital capabilities can scale, whilst embedding technology into the day-to-day work of relationship managers, credit teams, and risk functions. Experimenting with AI, GenAI, and Agentic capabilities is no longer a side project; they are becoming core enablers of growth, risk discipline, and customer experience in the years to come.

Several conclusions stand out:

- **Banks have moved beyond isolated pilots**.
  GenAI is already in production at a meaningful minority of institutions – traditional AI and ML are widely deployed, and agentic AI is on the near-term horizon. The question is shifting from "Should we?" to "How do we scale safely and coherently?"

- **Data and automation as twin levers of value**.
  Third-party data is most advanced where credit risk is directly assessed and approved, but its use is spread across the value chain. In parallel, automation is expected to drive substantial gains in efficiency, risk management and customer engagement, especially in underwriting, portfolio monitoring, KYC and acquisition. Banks that align their data strategy with their automation roadmap are better positioned to unlock compounding benefits over time.

- **Executional barriers, not lack of intent**.
  Cost pressures, integration with legacy systems and regulatory data constraints are the primary blockers, not a lack of belief in the value of AI or digital transformation in lending. This highlights the importance of structural solutions: modern data platforms, modular architectures, cloud-ready infrastructure, and partnerships that reduce build cost and complexity.

- **Governance is catching up—but unevenly**.
  Just over half of respondents report dedicated AI governance structures. Establishing even lightweight governance, clear roles and responsibilities, model inventories, review cadences, and incident processes can simultaneously de-risk and accelerate innovation.

Taken together, these findings point to a clear path forward. Competitive advantage will increasingly accrue to banks that treat AI not as a collection of tools, but as an integrated operating model—bringing together rich internal and external data, scalable AI and GenAI capabilities, and disciplined governance.

How APAC leaders can win with AI: Six Steps to Sustainable Market Advantage

For bank leaders, the findings translate into a clear set of practical priorities.

1. **Anchor AI initiatives to business outcomes**.
   Focus AI investment on lending segments and workflows where scale, competitive pressure, and risk complexity are highest, rather than pursuing technology in isolation.

2. **Strengthen data foundations early**.
   Treat third-party data as a core input to lending analytics, not a supplementary add-on. Clear data sourcing, integration, and governance are prerequisites for scaling advanced AI use cases.

3. **Industrialise AI, not just pilot it**.
   Move beyond isolated proofs of concept by investing in production-grade platforms, reusable components, and modular architectures that support deployment across multiple use cases.

4. **Adopt a pragmatic build-and-partner model**.
   Balance in-house development with partnerships that accelerate time to value, recognising that no single model will suit all use cases or stages of maturity.

5. **Use governance to enable scale, not slow it**.
   Establish clear ownership, decision rights, and review processes for AI models and data usage, ensuring governance supports responsible innovation whilst providing management confidence.

6. **Plan for change as well as technology**.
   Invest in skills, operating model adjustments, and change management to ensure AI tools are adopted effectively by relationship managers, credit teams, and risk functions.

Ultimately, the opportunity for banks in APAC is not simply to adopt more advanced technologies, but to embed AI and data-driven decision-making into the core of their lending operating models. Institutions that align strategy, data, technology, and governance will be better equipped to scale AI responsibly, respond more quickly to changing risk and market conditions, and deliver consistent value across the lending lifecycle.

The research suggests that as competitive pressures intensify, the gap between banks that treat AI as an integrated system and those that deploy it in isolation is likely to widen, shaping not only operational efficiency but also long-term growth, resilience, and relevance in the region's evolving lending landscape.

This research was conducted by Moody's in collaboration by *Asian Banking & Finance*, the industry magazine serving Asia's dynamic financial services industry. Each issue of *Asian Banking & Finance* carries a balanced mix of articles which appeal to the C-level executives of large banking and financial services institutions in Asia.

Asian Banking & Finance is under Charlton Media Group, a leading business information group with offices in Hong Kong, Singapore and the Philippines. The company publishes in print and online key business magazines for the region, both country-based and regional trade publications. It also organises events associated with its key brands, as well as research and bespoke conferences and roundtables for clients.

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- **Research & Insights** – Premier fixed income research business
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