

AI'S PIVOTAL ROLE IN SHAPING THE FUTURE OF FINANCE IN 2024 AND BEYOND

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Banks & financial Institutions, through AI and trusted & traceable data sources, can embark on their digital transformation journey in becoming a Cognitive Enterprise. A lot of organisations pay lip service to change their behaviour, but to become truly AI & data-driven requires people at all levels of the organisation to change. AI has the ability to dramatically improve the banking business by enhancing efficiency, precision, and decision-making procedures. But one needs to tread the path of adoption with clarity of the journey and a firm eye on the destination.

We are riding, what we call, the Bank Tech Wave 5 – and Artificial intelligence (AI) will be playing a pivotal role in shaping the landscape of the financial services industry in India. However one needs to step back and crystallise a few thoughts and have answers to. These answers will set the AI Agenda for the BFSI industry. We need to understand: where are we in our organisation's AI journey? This warrants a deep dive into the organisation and takes an unbiased stock of our journey so far. At this stage, we are setting a cartographic view of the current state of affairs. Once we get answers to the current state we then draw the roadmap of where we want to be? AI is all-encompassing and there are several ramifications in the adoption of AI – costs, adoption inertia, disruption in current customer-facing processes, speed to market and several other factors. Like any change management, AI too is a change management agenda – it is a process of transforming an organisation from its current state to a desired future state.

Where are we?

This sets the stage for Situational Analysis (SA). There are various schools of thought on SA but the broad principles remain the same. SA helps in informed decision-making, identifying strengths and weaknesses, being aware of the opportunities and taking stock of the threats, understanding the competitive

landscape and then arriving at a robust plan for adoption with the help of a sound business strategy. This question also answers as to why we are there and what strategy have we used to be in the state that we are in. A deep dive into 'Where are we' flows into the next stage of where we, as an organisation, want to be.

The AI menu out there is wide. But the choices one needs to make have to be precise. AI is a journey, not a destination, and like most change management tools, needs to be handled judiciously. .

The level of AI adoption, its transformative potential, and the challenges surrounding its integration have become the focal points. In India, the financial services sector has been at the forefront of embracing AI, utilising its power to drive innovation, optimise decision-making, and streamline operations.

Where could we be?

The answer to this is rooted in the previous question and also charts an end state of the journey, based on milestones and rooted in the future. It entails looking at options in the market and then mapping them to the objectives of the organisation. The options out there are many: but one needs to choose wisely. Much like the evolution of the hype around digital transformation, and more recently the mass interest around cloud platforms, one must move beyond the hype and consider the practical applications of AI. Banks across the world are still in an experimentative stage with AI. Like all new technology, some are early adopters and some are waiting for the dust to settle. It is a bus one cannot miss. Banks must consider their artificial intelligence and machine learning approach and invest in an AI implementation journey for successful outcomes. There are a few steps one must take towards that journey: Shift from just using AI capabilities to being an AI firm and addressing the Why, What and How effectively. One needs to look at use cases that impact business and increase value and explore the whole range of AI offerings that help in the process. One needs to have a strategic alignment across the organisation and promote nimbleness with the organisation. One needs to build and go ahead with confidence and you and your business and technology leaders, once aligned, know best how to derive value for your ecosystem of stakeholders with the help of AI.

Typical use cases of AI can be classified under 4 broad categories.

Enhanced customer service: Chatbots and Voice bots for customer support

Productivity enhancements: Process improvements using AI tools

Employee productivity: Employee can concentrate on high-end processes and the repeatable and mundane processes can be automated

Creativity: Campaign management, creative etc.

As AI becomes more embedded in the financial fabric, regulators are crafting a nuanced framework to ensure ethical AI use. The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have initiated guidelines for responsible AI adoption, emphasising transparency, accountability, and fairness in algorithmic decision-making processes. While the benefits are palpable, challenges persist. The rapid pace of AI integration demands a strategic approach to ensure a safe, financial eco-system –

1. Upskilling the Workforce: The evolving nature of jobs due to AI necessitates a concerted effort towards upskilling the workforce. A McKinsey Global Institute report indicates that approximately 46% of India's workforce may undergo significant changes in their job profiles due to automation and AI. To address this, collaborative initiatives between the government, educational institutions, and the private sector are imperative to equip the workforce with the requisite skills for the future.

2. Ethical and Responsible AI Governance: The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have recognised the need for ethical AI use in the financial sector. Establishing clear guidelines and frameworks for responsible AI governance is crucial. Transparency, explainability, and fairness are central tenets. A comprehensive approach to AI ethics is not just a regulatory requirement but also a strategic imperative to build trust among customers and stakeholders.

3. Innovation Hubs and Sandboxes: Creating innovation hubs and regulatory sandboxes provides a conducive environment for testing and implementing AI solutions. The RBI's regulatory sandbox allows startups and financial institutions to experiment with innovative technologies under a controlled regulatory environment. This fosters a culture of innovation and enables the identification of viable AI solutions for scaling.

4. Customer-Centric AI Applications: The future of AI in finance revolves around enhancing customer experiences. AI-powered chatbots, personalised financial advice, and intuitive user interfaces are becoming integral components. Adapting AI applications to address specific customer pain points and preferences will be a key differentiator for financial institutions.

5. Monitoring and Evaluation Frameworks: The effectiveness of AI applications needs continuous monitoring and evaluation. Financial institutions should establish frameworks to assess the impact of AI on key performance indicators, customer satisfaction, and risk management. Regular evaluations would ensure that AI applications align with strategic objectives and deliver tangible benefits.

It would be an understatement to suggest that artificial intelligence (AI) and machine learning (ML) in banking are transformative technologies. According to a recent Deloitte survey of IT and line-of-business executives, 86% of financial services AI adopters say that AI will be very or critically important to their

business's success in the next two years. But one needs to take into cognisance to take a step back and understand what our journey with AI should be as the adoption and execution will have a lasting impact on the BFSI industry. A strategic approach will not only define success but also pave the way for a resilient, customer-centric and inclusive financial ecosystem.

Even though banks must still overcome significant operational and organisational challenges, they are making great strides forward in implementation and adoption. To realise the full benefits of AI, banks must stay the course today and continue to build the technological foundations and processes necessary to move forward into the future.