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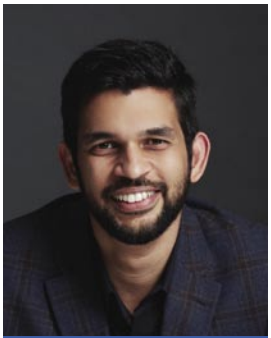
ARTIFICIAL INTELLIGENCE IN BANKING

The impact of AI on the financial services sector

By Sankar Narayanan 'SN', Chief Practice Officer at Fractal Analytics



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Digitalisation has successfully staged an economic and cultural coup, sweeping through legacy industries and swiftly seizing power. The rate of transformation has been rapid, altering the way in which we engage with everything from television to music, to transport and travel and banking.

When it comes to financial services, the modern customer expects an easy-to-use experience equal to taking an Uber, booking an Airbnb or ordering from Amazon. It's impossible to ignore the impact of 'digital-first' challenger banks and fintechs, or deny the influence of mobile apps on the customer experience.

In the wake of this, pressure has been placed on older financial institutions (FIs), including brokerage firms, insurance providers and high street banks, all of which are scrambling to streamline their services and enhance their customer experience.

The reality is that almost all of the traditional players are now facing a fight to remain competitive and relevant.

Transforming financial assets

Prior to the digital era, the success of FIs was shaped by the scale of their assets. Industry dominance was determined through the standardisation of products, exclusivity of access to influential investors, markets, partnerships and funds, all aided by the hiring of the brightest and sharpest minds.

However, artificial intelligence (AI) is set to overhaul the previous parameters upon which this success has been built. New technologies will increase efficiencies to the point that asset size, although important, will no longer be enough on its own. The result of this will be a significant shift in focus towards scale of data, which will become far more important to sustaining a competitive advantage.

In terms of revenue, standardisation of products and services is fast becoming a thing of the past. Today, customers expect highly customised products, tailored services and interactions that address them as individuals.

The knock-on effect of this will not be limited to on-demand customer service; customisation is set to alter the way in which intuitions broker relationships between customers and FIs.

Being able to provide exclusive introductions to investors and direct access to markets will no longer be a strong enough differentiator. Instead institutions will be judged on how well they match these connections to customers.

As a result, AI will transform the entire environment of the financial services sector. By reshaping traditional operating models, it will drive delivery and open up new areas of value. In this new environment, FIs will become leaner and more efficient. Innovation and customisation of products and services will cause them to become highly specialised, but also highly diverse – leading to increased financial inclusion and improved outcomes.

FIs need to focus on retiring their legacy systems in their entirety

Replacing legacy systems

In order to take advantage of their assets and compete in the digital economy, it's vital that traditional FIs begin digitalising their operations and replacing their legacy systems. The truth is that they need to focus on retiring these systems in their entirety.

Many FIs have been reluctant to take this step given how deeply ingrained legacy systems are within the business' operating model. But to hesitate to modernise and to forego investment in technologies designed to streamline processes and enhance the customer experience, is short-sighted.

At present, far too many are continuing to deploy hybrid estates that combine newer technologies and legacy systems, as they transition towards full-scale digital transformation. Some still have areas of their business that operate entirely on pre-existing legacy systems only.

Neither of these solutions is good enough when it comes to competing with disruptive challengers. So, with AI having altered the way in which FIs view, promote and capitalise on their assets, the vast majority are also turning to AI-based solutions to help them restructure their business models.

Restructuring through AI

According to a recent report by Autonomous Research, AI will save the financial industry more than $1 trillion by 2030.

However, to date, the approach FIs have taken to AI is to roll out point solutions, whether that be to the customer (chatbot support) or for internal processes (price-elasticity analytics). But putting in place one model at a time without having an overriding AI strategy, will continue to leave them trailing in the wake of their digital-first competitors.

So, the biggest challenge they have to overcome – because their businesses are not digital- or AI-first models – is to make sure they don't get stuck in an endless loop of investing in point solutions, which will prove ineffective.

AI is providing banks, hedge funds, brokerage firms and insurance providers with enough use cases to streamline the most fundamental financial processes. But rather than taking a piecemeal approach, FIs need to identify and adopt the AI technologies best suited to their business, and then reshape and rethink their entire models so that they can make the most of their assets.

A clear strategy

Given that many FIs don't have a clear strategy for transitioning from legacy to digital technology, it'll come as no surprise to learn that their approach to AI is similarly scattershot. But if they're to be successful in their transformation efforts, they'll need one.

For those FIs continuing to deploy AI without a clear business or mission goal, they're only going to find themselves slipping further and further behind challengers and other traditional players deploying fintech in a much more structured way.

What works best for traditional FIs is an AI strategy founded on three pillars: data, engineering and design. Through a combination of these, FIs can benefit from accurate decision making, improvements in the customer experience and reshaped internal processes that bring new efficiencies and increase productivity.

With the data they hold, FIs can segment their customers and provide personalised, individual experiences that increase conversion and customer retention rates. Today, a personalised experience, with products and services tailored to the needs of the individual, is essential.

When it comes to how this is engineered, speed and accuracy are vital. For example, for banks it is critical to be able to quickly spot a fraudulent transaction on a credit card or identify debit discrepancies. This leads to proactive engagement with customers, an essential element that currently plays a large role separating traditional players from digital challengers.

But in order for these customer-facing elements to succeed, they need to be supported internally by a creative and innovative approach to design. It's important that employees understand how data has been collated, analysed and applied, so that they can generate more value for clients and customers alike.

AI solutions that automate repetitive tasks free employees to focus on higher value issues. But if AI is to do the heavy-lifting when it comes to the automation of large data sets, then it's crucial that the outcomes are delivered to employees in a way that is clear and concise.

While AI-based solutions can help FIs dramatically overhaul their operations and gain a much clearer understanding of where they're going, it's important that they have a clear-cut strategy for transformation.

Given the level of disruption we've already seen from AI in the financial services sector, we can expect the competition among leading institutions to continue to grow over the next few years. Banks, threatened by the rise of tech-savvy challengers, have already grasped the importance of adopting AI, and they are slowly starting to enter the digital era when it comes to products, services and customer experience.

However, while there are certainly some encouraging steps being taken by traditional players, there are still many obstacles left for them to overcome. The most important of these is to ensure that there is a clear strategy when it comes to AI. Without this, it becomes harder to unite different departments, areas of the business and databases into a cohesive whole, which in turn makes it more difficult for them to get the most out of AI-based solutions. ■

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