

# IS ARTIFICIAL INTELLIGENCE the future of Financial Services?

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## Is Artificial Intelligence (AI) the future of Financial Services?

Technology has disrupted just about every industry over the last decade of digitalization. The financial services are no exception in this regard. Management of insurance and savings, as well as retail banking, are already heavily dependent on IT. The progress that is currently being made provides an enormous transformative potential through service providers' internal processes, the ways in which they interact with their financial ecosystems and, most obviously, in their dealings with customers.

Computer algorithms and applications that are able to perform tasks previously performed by people are changing the world as we know it. At a certain level, all sectors and industries are being disrupted. Artificial intelligence today is so much more than an experimental strategy among financial services institutions: it is a true competitive differentiator that can help banks offer hyper-personalized customer experiences, enhance decision-making and boost operational efficiency.

There are several AI applications being implemented in financial services that utilize the components of machine learning, natural language processing and cognitive computing. These are as follows<sup>1</sup>:

- **Improving customer engagement:** Artificial intelligence can help create personalized smart products and services with new features, intuitive experiences and advisory skills.
- **Reducing costs and increase revenue:** The benefits of more automated and intelligent communication with consumers includes significant cost savings, with risk distributed across millions of customer interactions. In the near future, virtual assistants and back office robotics will become increasingly accepted as customer facing programs.

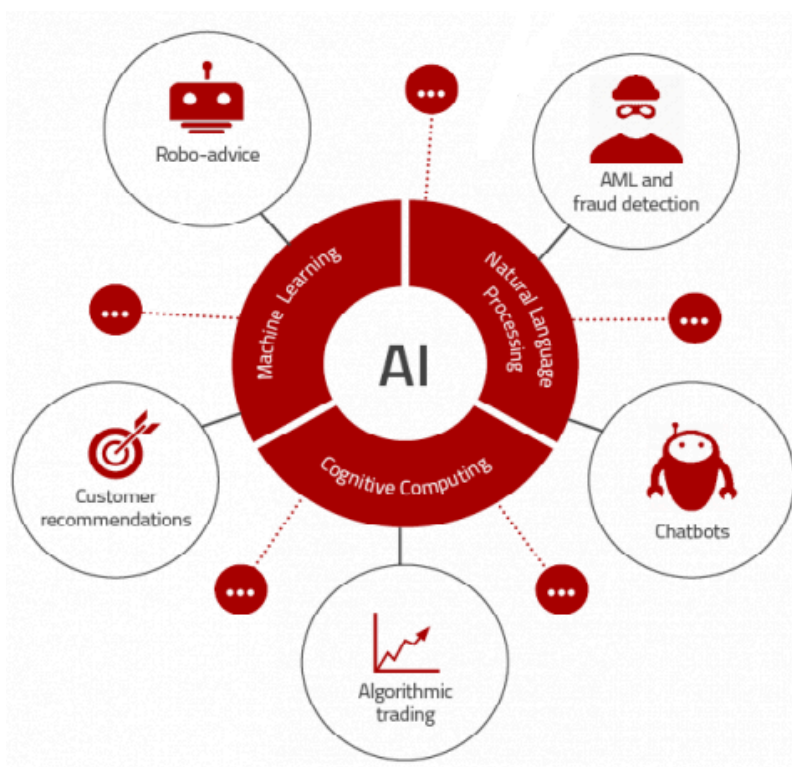


Figure 1: Applications of Artificial Intelligence in Financial Services  
Source: House of Bots, 2018<sup>2</sup>



- **Fraud Detection:** AI has the ability to identify fraudulent behavior, as it is able to predict patterns of suspicious behavior. [Location data can help with this process.](#)
- **Compliance with Regulatory Requirements:** Technology can be used to confirm that regulatory requirements are met and that data is preserved with real-time monitoring. This makes it possible to flag problems even faster.
- **Improving the Customer Experience:** By deriving deep and actionable insights, AI provides the opportunity for improved and faster decision-making. Most of these interactions will be facilitated through new voice or chatbot technology, while others will take place behind the scenes to further support marketing communication.

Several banks and insurance companies are busy exploring the use of chatbots and fraud detection systems based on AI, and many are now getting set to progress to the next stage of this shift. Namely, financial service companies need to build a clear path forward in effectively incorporating AI into their business models. Various business strategies require different AI strategies. Therefore, each organization must determine for itself how it plans to use these new technologies, and to what degree.

There are many opportunities to use AI in banking and insurance, from evaluating different drivers to optimizing internal processes to creating products in the field of portfolio accounting, asset monitoring or payment processing. But simply choosing something from this palette is not enough. It is necessary to consider future AI solutions as part of a broader strategic objective<sup>3</sup>.

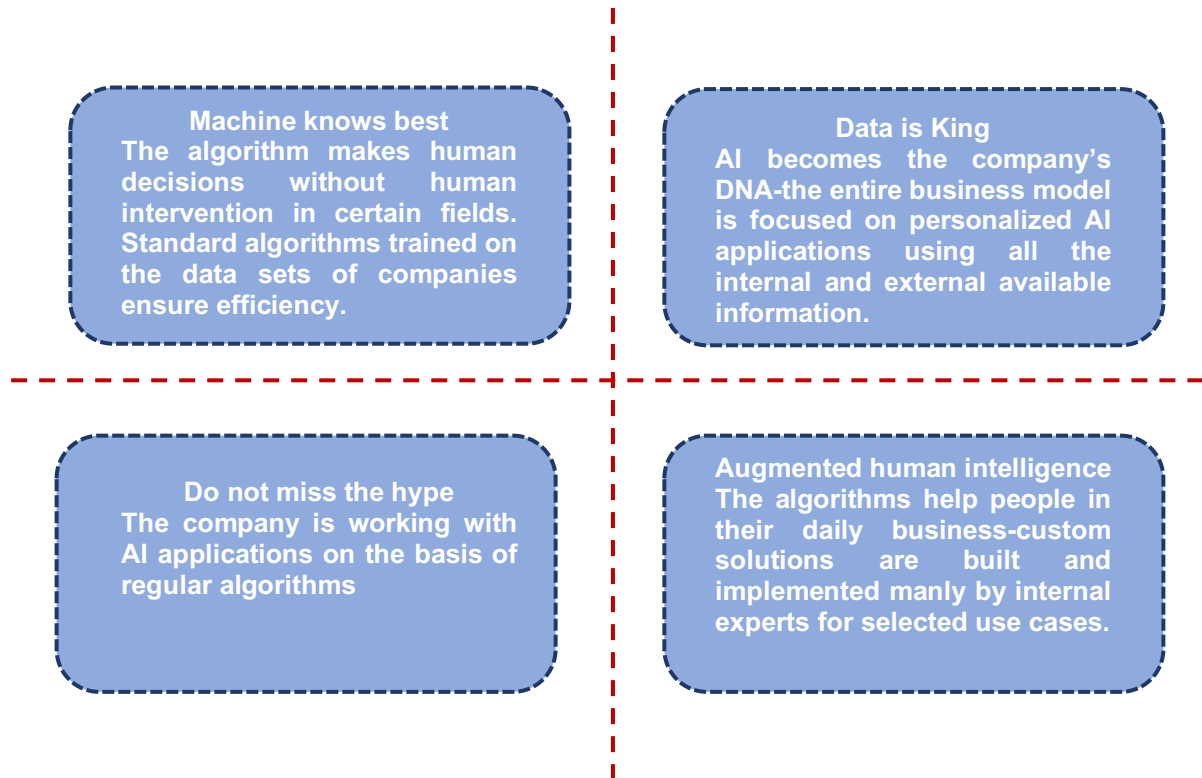


Figure 2: AI strategies  
APU Insights, 2019<sup>4</sup>

- When used as an 'Augmented Human Intelligence' element, AI technology will serve as an efficiency and quality enhancement tool. Through this approach, AI is not applied in order to alter the business model or value chain dramatically. Decision-making is still strictly limited to people, although it is assisted by the AI-augmented algorithms' suggestions<sup>3</sup>.
- 'Data is king' is the most disruptive approach, and the banks and insurance companies that pursue it are radically changed. Here, AI becomes part of the corporate DNA, using data and machine thinking to create value throughout the strategic business model. This approach offers innovative players the best opportunity to distinguish themselves from the competition<sup>4</sup>.
- Another option is the 'Machine knows best' approach. Although AI does not alter business processes completely, it dramatically changes the way they are done.
- Most banks and insurance companies already implement the 'Don't miss the hype' experience, which is AI's simplest approach. This includes playing with engineering, mostly by opportunistic and standardized solutions. AI does not have any significant impact on team structure, corporate governance or culture<sup>3</sup>.

Transforming from a traditional financial service company to a completely AI-based platform is not something that can be achieved overnight, that much is certain. With big data, cloud computing and machine learning advancing at an unprecedented pace, financial services can be overhauled at a much faster rate than most players would prefer. In order to remain competitive, they need to move as quickly as possible to establish a decisive strategy to tackle the AI challenge.

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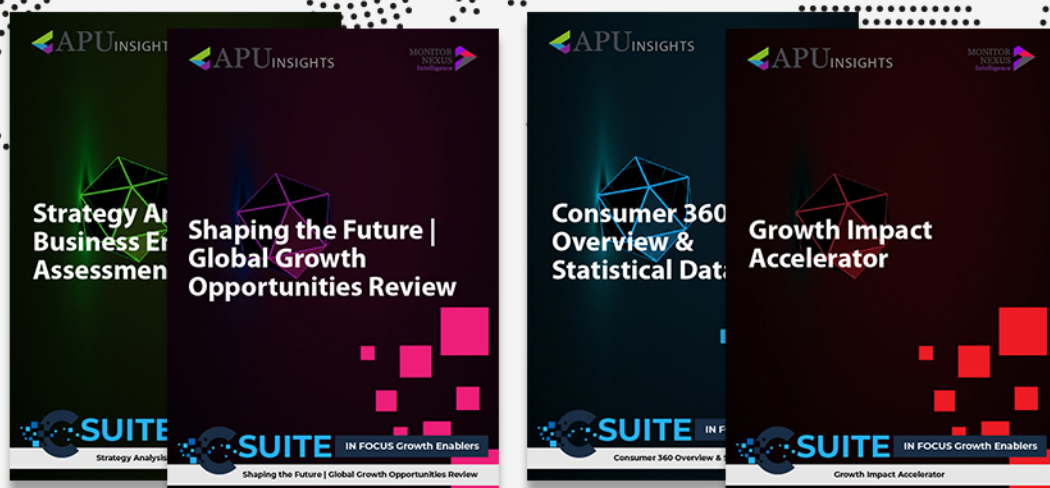
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