



AI-FIRST FOR RETAIL BANKING

For years, retail banks have drawn inspiration from the consumer goods industry, offering customers convenience, speed, personalization, and cutting-edge solutions. However, navigating the current volatile market presents a multitude of challenges. Banks need to strike a delicate balance between profitability with long-term goals amidst rising interest rates, shrinking margins, and ever-changing regulations. The constant threat of customer churn due to increasing competition further compels retail banks to continuously innovate and adapt.

In this dynamic landscape, Artificial Intelligence (AI) emerges as a powerful ally for retail banks in navigating challenges, staying relevant, and securing long-term success. Powered by AI, banks can personalize banking experience to enable customer retention and automate tasks for efficiency, thus freeing up time for strategic initiatives and expediting data-led decision-making. It can also support banks in regulatory compliance, risk mitigation, and boost innovation in products and service offerings.

Retail Banking: Navigating a Multifaceted Landscape

Meeting Customer Expectations: A Moving Target

Today's competitive retail banking landscape demands seamless, consistent, tailored, and high-quality, 24/7 service across all channels to meet customer expectations. However, the key challenge is to provide large-scale personalized services amidst fluctuating customer demands and innovative disruptors. Despite having abundant customer data, extracting meaningful insights for personalizing products and services is a significant hurdle. Advanced analytics capabilities are crucial for this data-driven personalization.



Fintechs: A Disruptive and Complementary Force

The era of geographically confined banking is over. Intense global competition has emerged as fintechs, digital banks, and neo banks leverage technology to fortify their digital-only channels and deliver groundbreaking solutions. Customers now have a wide range of services at their fingertips, leading to enhanced customer experiences, improved banking efficiency, and faster time-to-market for new products. However, this rapid innovation comes with two critical challenges: ensuring seamless, accessible, safe, and user-friendly digital experiences and going head-to-head with disruptors or joining forces.



Higher Servicing Cost and Operational Inefficiencies: A Drag on Performance

Exceptional customer service is paramount and delivering experiences that make customers feel valued and understood is crucial for customer satisfaction and loyalty. Banks are expected to provide uniform service across all platforms. Therefore, substantial annual investments are necessary to ensure consistent, effective service and to keep pace with industry innovations.

As per a 2024 Gartner Research, "The median cost per contact is \$13.50 for assisted channels (such as phone, chat and email) and \$1.84 for self-service."¹



Constantly Evolving Regulations: A Complex Landscape

One of the primary challenges for retail banks is maintaining compliance and staying abreast of regulations. Constantly evolving regulations regarding data privacy, anti-money laundering, and consumer protection add complexity to banking operations. Keeping track and maintaining compliance is both time-consuming and demands considerable financial resources, making it one of the most significant issues confronting banks today.

Gartner predicts fines related to mismanagement of data subject rights will exceed \$1 billion by 2026.²



Fraud and Security Concerns: An Ever-increasing Threat

As banking services digitize, the risk of cyberattacks and data breaches intensifies. Protecting customer data and financial assets is paramount, but the ever-evolving tactics of cybercriminals make it a constant challenge. Consumer privacy and data rights are crucial for trust. Data privacy regulations mandate adherence to guidelines and consumer transparency. Non-compliance can be costly, leading to hefty fines and reputational damage. Open banking while fostering innovation, poses regulation challenges in data sharing. As services expand, banks must monitor data-sharing agreements with partners to ensure secure data exchange and prevent breaches.

As per Global Cybersecurity Outlook 2024 survey conducted on 120 executives at the World Economic Forum's Annual Meeting on Cybersecurity, "29% of organizations reported of being materially affected by a cyber incident in the past 12 months."³



How Can AI Help? Reimagining Retail Banking

AI presents a transformative opportunity to revolutionize retail banking, ushering in a new era of personalized experiences and efficient servicing. By leveraging AI, banks can offer tailored financial products, enhance customer engagement and experiences, and streamline operations. AI's predictive capabilities enable proactive fraud detection and mitigate financial risks, while its automation prowess easily manages repetitive tasks, freeing up resources to focus on complex customer needs and strategic initiatives. From chatbots providing 24/7 customer support to AI-driven credit scoring for expedited loan approvals, the impact of AI in retail banking is transformative and profound.

The Power of Personalization: How Can AI Unlock Customer Delight in Retail Banking?

By leveraging vast customer data and dynamic insights, AI can tailor experiences for each individual, creating a new era of satisfied banking customers. AI algorithms have the capacity to analyze vast customer data, including demographics, behaviors, preferences, etc., to discover patterns and generate real-time insights that would elude human analysis. This empowers banks to predict the customers' needs, anticipate future requirements, and identify areas where the customer experience can be enhanced.

AI can also enhance user experience by personalizing it in real-time based on actions of the customer. Imagine, a customer is browsing for an auto loan or a new credit card; AI can dynamically adjust the site's content to highlight relevant products, creating a highly personalized journey for each customer. The ability to understand and cater to individual customer needs in real-time creates a meaningful and valuable interaction for the customer.

Capital One is using AI to analyze customer data and provide personalized product and services such as credit card offers, savings suggestions, and spending insights.⁴



Leapfrogging the Competition: How Can AI Innovation Transform Financial Services?

AI is a strategic tool to propel banks beyond the realm of competition, thanks to its innovative applications. Leveraging AI, banks can create a future-proof environment, redefining customer experiences, driving operational efficiency, and enhancing security and risk management. By harnessing AI, retail banks are not just keeping pace with the competition, but leapfrogging ahead, setting new standards for the industry.

Let's take an example of AI-based systems for identifying potential business prospects. Banks can analyze vast amounts of structured and unstructured data, interpret patterns, and pinpoint potential business prospects. Imagine a scenario where a bank proactively offers a loan solution to a small business experiencing a surge in growth, even before they realize the need for additional liquidity. Banks can predict with certainty the likelihood of approval and reduce underwriting churn. This proactive approach nurtures stronger client relationships by anticipating client needs and offering the right solution at the right time, while also increasing targeting effectiveness and improving portfolio quality.

DBS updated their Digibanking mobile app to include over 100 automatic personalized insights. These insights are generated by their proprietary AI-driven predictive analytics engine, which expands the reach of personalized banking services to their customer base.⁵

From Efficiency to Empathy: How Can AI Transform Customer Service?

AI is truly reshaping customer servicing at banks and is being increasingly used to automate routine tasks, shorten resolution time, and optimize the efficiency of service channels. This provides an opportunity to spend more time in truly understanding individual needs and fostering empathy. Furthermore, GenAI-powered chatbots and virtual assistants, scrutinize text from various sources such as customer inquiries, reviews, emails, and social media posts to determine the underlying sentiment and shifts appropriate action from reactive to proactive. Thus fostering a more empathetic environment, where customers feel valued and well served, ultimately leading to customer stickiness and improved margins.

Erica, the conversational chatbot from Bank of America, not only handles bill payment, fraud detection, and account management queries but also gives users helpful insights to manage finances better.⁶

The AI solutions at Morgan Stanley & Commonwealth bank analyze information in seconds and summarize answers for users.⁷

Ally Financial's Ally.ai platform can transcribe and summarize live customer service phone calls in real-time.⁸

DBS chatbots on mobile app and web banking enable customers to easily perform several banking tasks such as checking balances, transferring funds, paying bills, and applying for loans.⁹

Compliance to Competitive Advantage: AI Holds the Key

The financial services sector is witnessing a surge in regulatory scrutiny that continues to intensify daily. New regulations and stricter enforcement demand robust compliance strategies from banks to prevent reputational losses and avoid penalties. AI is being used as a powerful tool in several areas of regulatory compliance like streamlining and expediting the KYC process by automating document verification and customer onboarding, while ensuring compliance with KYC regulations; analyzing customer behavior, suspicious transaction patterns, and activities indicative of money laundering with greater accuracy and efficiency for enhanced anti-money laundering detection; and generation of regulatory reports, ensuring timely and accurate submission for regulatory reporting.

HSBC's "Fraud Prevention System" powered by AI analyzes millions of transactions daily, identifying anomalies and fraudulent patterns with remarkable accuracy to protect against financial crime.⁶

JP Morgan leverages AI to ensure KYC and AML processes comply with the latest regulatory requirements by automatically updating compliance rules and protocols.¹⁰

Security Breaches: How Can AI Fortify Consumer Banking Defenses?

Banks today face constant threats from ever-evolving cybercrime, more than ever before. Security measures powered by AI, including biometric authentication, behavioral analysis, and anomaly detection, can bolster the security of banking operations to prevent crucial data breaches and unauthorized fraudulent transactions. AI's advanced algorithms and machine learning capabilities enable banks to detect and prevent cyber threats in real-time, thereby enhancing cybersecurity. AI can analyze vast amounts of data to identify suspicious patterns and potential threats, thereby preventing security breaches before they occur and mitigate fraud risk.

Commonwealth Bank is using AI to deal with cybersecurity threats with online activity which can be anything from an email being sent, a file being shared, or uploading personal details into an online form.¹¹

JP Morgan Chase is using AI to monitor user behavior and detect deviations from a baseline that suggest potential fraudulent activity such as login attempts from unfamiliar locations or unusual transaction times.¹²

Roadblocks to Roadmap: AI Adoption in Retail Banking



Embracing an AI-First approach in retail banking is not without its challenges. The twin challenges often faced by organizations are the lack of a clear strategy for AI adoption and being data-ready to fully exploit AI capabilities. Banks often struggle to move from experimentation around select use cases to scaling AI technologies across the organization. They often face significant challenges in AI adoption due to data readiness, primarily stemming from issues such as data fragmentation, lack of standardized data formats, and concerns around data privacy and security. This is further complicated by an inflexible and investment-starved technology core, fragmented data assets, and outmoded operating models that hamper collaboration between business and technology teams. Application of AI in banking has also encountered obstacles related to ethical and legal issues, including privacy, security, a lack of transparency, and algorithmic bias. Concerns about the transparency of data sources and their authenticity, and biases could result in unfair decision-making. Recognizing the potential risks associated with AI, numerous regulations have been established to govern its use.

The European Parliament passed The European Union's Artificial Intelligence Act, the world's first legislation on AI on 13th March 2024. The objective of the act is to create a regulatory framework for AI technologies, mitigate risks associated with AI systems, and establish clear guidelines for users, developers, and regulators.¹³

Other countries like the United States, Canada, UK, Singapore, China, and India have also taken significant steps to bring rules and regulations around responsible AI.

Way Forward

As AI models continue to evolve, an increasing number of market participants are set to assess and capitalize on the value they provide, however, a successful approach demands strategic planning. Banks will need to conduct comparative analysis and identify the most suitable use cases for implementation, all while considering the challenges of AI to ensure the models are efficient and free from bias. While this may seem straightforward, it poses one of the main challenges to successful AI adoption. By adopting an AI-First approach, retail banks can assess various use cases, create a prioritized roadmap, and implement the ones that are most beneficial and effective from both a strategic and business objectives perspective, considering the data subject rights and guardrails for overcoming AI impediments.

To embed an AI-centric approach, banks must initiate a transformative thought process as a precondition. Collaboration with AI technology providers is essential to identify the right use case that will address operational gaps in banking, and to outline a roadmap for the successful adaptation and implementation of AI within their ecosystem. By taking these proactive steps, retail banks can harness the transformative power of AI and position themselves for a competitive edge.

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Uttam leads Process Transformation Capability, leveraging advanced technologies and analytics within financial services. His recent work focuses on setting up of a process simplification factory with an integrated approach to achieving customer experience, risk reduction, and process efficiencies. Within the retail banking sector, he has helped transform onboarding, fraud risk management, back-office processing, mortgage operations, and compliance risk management with adoption of advanced technologies like process mining, machine learning, GenAI, and other advanced technologies.



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