GHULAM ISHAQ KHAN INSTITUTE OF SCIENCE AND TECHNOLOGY

*TOPI, SWABI*

# The Impact of Artificial Intelligence on Global Financial Landscape

***Sardar Saifullah Saleem 2022531[1], Ahmad Rashid 2022677[2]***

**[1]BAI, CYS[2]**
**Ghulam Ishaq Khan Institute, Swabi**

## ABSTRACT:

*Amidst widening economic disparities, artificial intelligence (AI) emerges as a beacon of potential reform, offering financial tools and tailored investment strategies that were once exclusive to Wall Street's elite. At its core, AI holds the promise of democratizing wealth creation through personalized micro-investments aligned with individual goals. Yet, this vision is not without challenges. AI systems trained on biased or incomplete data risk perpetuating inequality, favoring the privileged over the underserved. Beyond the data, ethical considerations come to the forefront. Questions of accountability and transparency loom large as AI algorithms increasingly influence the financial ecosystem. How trustworthy are these opaque "black-box" systems? Who governs their operations, and in a landscape where algorithms hold sway, can fair competition truly be ensured?*
*This study aims to unravel the complexities of the modern financial landscape shaped by AI. It seeks to provide a nuanced understanding of AI's impact by analyzing diverse perspectives and market data. While recognizing AI's transformative potential, it also calls for vigilance regarding the risks inherent in its digital influence. Beyond algorithms and data points, the study delves into the human dimensions of finance—exploring how technology is reshaping relationships with opportunity, risk, and wealth. A future where AI enhances rather than constrains the human experience in finance demands a deep, holistic understanding of the technology and its implications*

**Keywords: Artificial Intelligence, Financial Markets, Risk Management, Financial Crisis, Investing and Trading, Transparency and Accountability in AI**

## 1. Introduction:

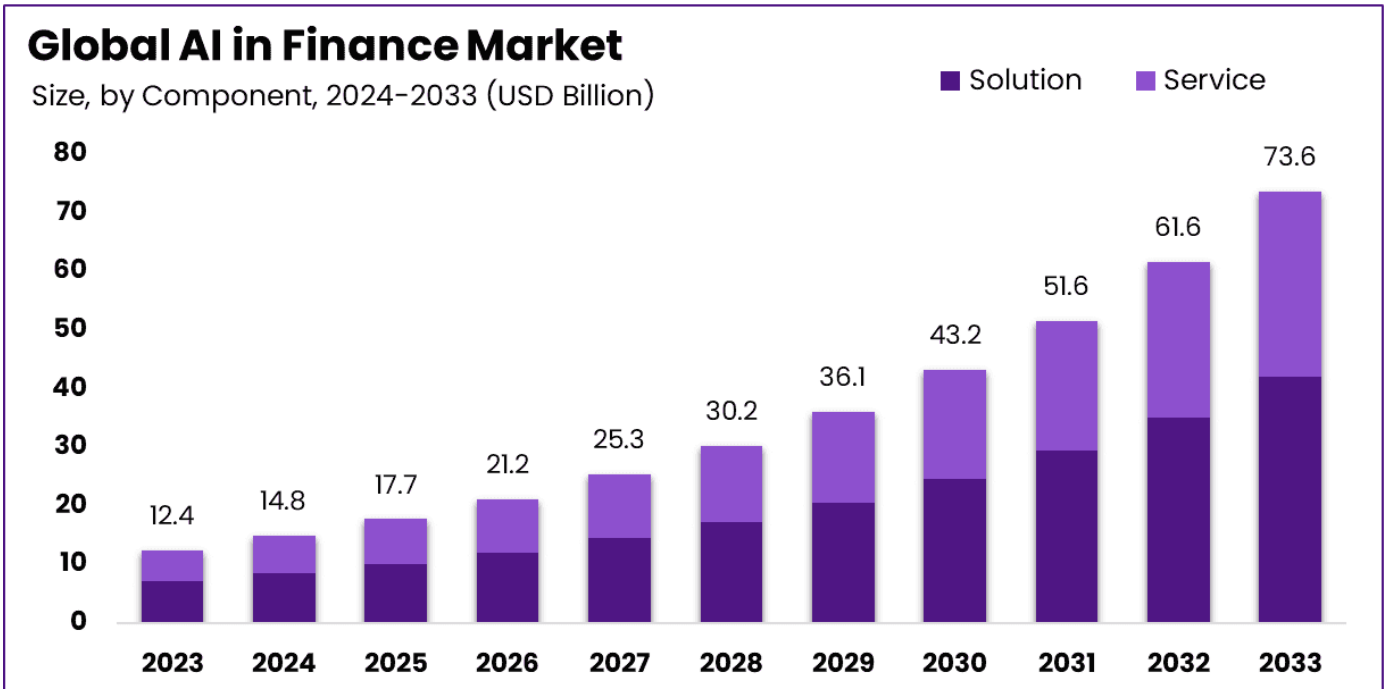
Market finance is currently going through a revolutionary movement because of the adoption of artificial intelligence (AI). AI is no longer a future dream but a powerful tool already that changes the financial markets and organizations for the better, offering the possibility to increase speed, minimize the human factor and make unprecedented decisions. In particular, based on a large quantity of data, AI algorithms identify and reveal subtle patterns, complex dependencies, or organizational inadequacies that many other approaches fails to notice. Think of markets in which computations require unprecedented accuracy, problems are easily diagnosed and solutions immediately implemented, and strategic decisions made based on big data. It's allowing traders to execute such strategies with higher efficiency, assisting investors in building the right investment portfolio with the help of aiming at specific goals and individual levels of risk, and providing financial organizations with effective tools and instruments necessary for enhancing general productivity in their work. Thus, the changes in direction, activity and agility of data advances the finance industry towards a proactive approach of more innovative and even more accurate work-accomplishment.

Nevertheless, the discussion of how to get to the AI powered financial markets has its obstacles. The main challenges that the development of smart manufacturing systems still faces include systematic risks, ethical issues, and data

privacy issues. AI application is a welcome phenomenon, but regulation must be informed and performed to break the monetary institution-paradigm, promoting the overlay, reasonable use of superior accoutrements that brings positive practical results to all companies and citizens involved. AI's potential for finance is almost limitless, yet these advances are far from guaranteed and the journey towards a trajectory where their benefits exceed their risks and inequalities are minimized is going to require hard work and conscious effort.

This research paper aims at understanding the fingers of artificial intelligence in the variety of the financial industry and measures the various economic values utilizing engineering economics. This study will provide quantitative probability of how much the industry was Advanced by systematically evaluating AI's Quality of contribution on distinct financial domains like, banking domain, trading and portfolio management domain etc.

The insights derived from this analysis will empower financial institutions to assess their AI investments more accurately and make data-driven decisions to enhance efficiency and profitability. Policymakers and regulators will also benefit from a clearer understanding of AI's economic footprint, enabling them to craft informed policies that encourage sustainable and inclusive adoption. Additionally, this research will illuminate AI's implications for stakeholders indirectly connected to the financial sector, from investors and technologists to broader economic participants. By bridging the gap between theoretical potential and measurable outcomes, this paper aims to contribute to a more comprehensive understanding of AI's transformative role in global finance.



## 2. Literature Review:

As you know, AI is not some futuristic concept anymore, and today it acts as a game changer for the industries. Several business institutions across different fields have continued to source for AI systems that could help them transform to fit changing trends and improve on their performance. The finance industry and more particularly financial markets are not immune to this organizational revolution. To support these efforts, Goldman Sachs has said global investments in AI are expected to reach $200bn by 2025 as companies industry become more committed to AI-related research, development and adoption . It can be expected that such a considerable portion of financial commitment will also go to businesses, projects, infrastructure, etc. related to AI across the world. However, as the reports suggests majority of Fortune 500 corporations are now using AI and machine learning (ML), there are also emerging new issues specific to the sector. These technologies may result in financial institutions making unbalanced or ambiguous decisions, issues concerning corporate governance arise. In addition, business continuity through AI and ML engenders novel cyber threats and privacy, while over-reliance of numerous organizations with a small number of AI/ML service providers poses threats to the robustness of financial algorithms, and the overall stability of the financial markets (Boukherouaa et al., 2021).

Nevertheless, the application of AI in the improvement of the financial markets has come many steps forward. Competition-oriented artificial markets have become useful tools for enhancing the reliability of financial systems. It took a long time to design these artificial congress and markets to enhance the functionality of rule and policy whereby it offers a tested simulation of heuristic implementation. Recent studies for this purpose have been directed towards investigating the impacts of a range of changes relative to various ground modifications for example and including a reduction in size of ticks for live financial markets. But as shown by manipulative actions of AI traders that emerged in these virtual financial markets for stocks, bonds and other securities, AI in finance is a two-edged sword. This comes on the backdrop of the need to avoid negative externalities and ensure the right use of AI in the financial systems.

AI has also impacted stock trading in that accredited and individual investors and traders can now maximize trade margins at a remarkable speed than it used to be. With the help of AI's computing features and decision-making potential, financial organizations can analyze large unstructured sets of data and assess the dynamics of stock prices to find sophisticated trading opportunities in real time. Automated trading platforms implemented with the help of artificial intelligence have shown to be most helpful when used in trading especially in the volatile stock markets through enabling the investors make smart decisions without incurring many losses (AI in Stock Trading Unlocking Value for the Fintech Industry, n.d.). Besides, AI has brought the new perspective on stock market forecasting of stock returns and volatility in the stock market. Much research has been conducted regarding the application of AI and machine learning for the prediction of market trends, with encouraging findings (Sharma et al., 2020). It is predicted that AI and ML systems will integrate more deeply in the financial sector as computing power, big data, and modeling improve and the COVID-19 outbreak boosts the digital financial services.

On the other hand, application of AI and ML in financial systems also come with great dangers to the systems since AI and ML instances may be easily hacked, bringing negative influence to the financial systems. Despite the advantages implied by technology application, cost reduction, work accomplishment, enhanced risk management, and observation of regulatory standards such technologies are associated with certain risks. In order to avoid these risks regulators should: 1) Increase the consumer awareness; 2) Expand the communication; 3) Attract domain specialists; 4) Strengthen the institutional perspective. The successful implementation and training of AI technologies will demand partnership and information sharing at the regional, state, and worldwide levels (Boukherouaa et al., 2021).

Our research also uses other relevant reports obtained from authorized sources like McKinsey & Company, IMF and others which reveal a rise of AI application across the financial sector. These sources, being among the most comprehensive and international, provide us with appropriate benchmarks and statistical figures concerning the complete economic scope of the AI deployment in the financial industry. Through promulgating such diverse and comprehensive data, this paper contributes to structuring a more comprehensive understanding of AI's impact on market dynamics, the decision-making criteria, and financial stability. From these contributions of these reputed institutions, one can have a better analysis of how AI is transforming the financial scenario ranging from enhancing the operational efficiency, to giving new dimensions to cyber security, ethical, and regulatory issues. When combined with engineering economic models, these data sources became a more precise tool for evaluating the role and value of AI across industries and offering practical recommendations to stakeholders from the global financial system.

## 3. Research Objectives:

- Analyze the Adoption of AI Across Different Sectors of the Financial Industry
  This study will examine how various sectors of the financial industry, including banking, trading, asset management, and insurance, have integrated AI technologies. It will identify the specific AI applications within these sectors and assess their current adoption rates.
- Quantify the Economic Impact of AI on the Financial Sector Using Engineering Economic Tools
  The study will employ engineering economics tools to quantify the economic impact of AI adoption in the financial sector. This includes evaluating the potential benefits, cost savings, and long-term value generated by AI applications.
- Examine the Challenges and Risks of AI Implementation in Finance
  The study will explore the challenges associated with AI adoption in the financial sector, including ethical considerations, privacy concerns, and the potential for biased decision-making. It will also address the risks posed by AI, such as cybersecurity threats and systemic risks that could destabilize financial markets.
- Provide Actionable Insights for Policymakers and Financial Stakeholders
  The research will aim to provide a clear picture of AI's implications for the financial industry, offering valuable insights to policymakers, financial institutions, and other stakeholders. These insights will assist in making informed decisions about AI adoption, regulation, and strategies to mitigate potential risks and maximize AI's benefits in the financial sector.

## 4. Research methodology:

1. **Data Collection**

2. **Research Design**

Since this study is managed by a mixture of qualitative and quantitative data, a mixed method is intended to be used.

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- **Qualitative Analysis:** Focuses on describing the role of AI across different sectors of the finance industry.
- **Quantitative Analysis**: Aims to quantify the impacts of AI using data-driven techniques and engineering economics tools.

3. **Sectoral Analysis with associated Risk and Challenges**

Of all the strategies identified above, Sectoral Analysis, entails the following risk and challenges. A sectoral analysis approach will be used to cover all the sectors in the financial industry and evaluate detailed effects of AI. In particular, the research will reveal the types of risks and challenges that exist when implementing the uses of AI in the financial industry.

4. **Considerations for Policymakers**

   The findings will be presented in a structured and comprehensive manner, providing policymakers with actionable insights for future decision-making and strategic planning.

5. **Research limitations**

6. **Conclusion**

## 5. Data Collection and Analysis:

Sources of data for this study include secondary research materials with regards to the role and significance of artificial Intelligence in the financial services industry. This approach was used since such a study posed the advantage of being able to make use of reports, research papers and other authoritative articles on the industry.

### 5.1. Data Sources

The study relied on high-quality secondary data, gathered from reputable and credible sources, including:

- **Academic Journals:** Peer-reviewed articles from journals specializing in financial technology, AI applications, and portfolio management.
- **Industry Reports:** Publications from leading consulting firms such as McKinsey & Company, Deloitte, and PwC, offering insights into AI adoption and trends in the financial sector.
- **Global Financial Institutions:** Reports and white papers from organizations like the International Monetary Fund (IMF), World Bank, and the World Economic Forum, which provide data on macroeconomic impacts and regulatory considerations.
- **Market Data Platforms:** Data from financial databases such as Bloomberg, Statista, and Reuters for quantitative analysis of market trends.

### 5.2. Data Collection Process

- The collection process was structured around identifying and aggregating relevant secondary sources that aligned with the research objectives:
- **Systematic Literature Review:** A comprehensive review of academic articles was conducted using databases like JSTOR, ScienceDirect, and Google Scholar. The focus was on studies published within the last five years to ensure relevance to current trends in AI applications in finance.
- **Industry Reports and Market Data:** Industry-specific reports were accessed directly through the official websites of organizations like McKinsey, IMF, and World Economic Forum. Keyword searches such as "AI in finance," "AI-driven portfolio management," and "AI-based decision support systems" were used to locate relevant reports.
- **Thematic Analysis:** The gathered data was organized into themes, including AI's role in portfolio optimization, risk management, ethical concerns, regulatory challenges, and market dynamics.

### 5.3. Criteria for Source Selection

To ensure the validity and reliability of the data, the following criteria were applied:

- **Relevance:** Only sources directly addressing the financial applications of AI were included.
- **Credibility:** Priority was given to publications from well-regarded journals, consulting firms, and international financial organizations.
- **Timeliness:** Recent publications (2018–2024) were prioritized to reflect the latest developments in AI technology and its impact.
- **Comprehensiveness:** Sources providing both quantitative data and qualitative insights were included to offer a holistic view of the subject.

### 5.4. Ethical Considerations

Since the study is based on secondary data, no direct involvement of participants was required. Efforts were made to ensure that data was used responsibly and interpreted accurately.

### 5.5 Limitations

The reliance on secondary data introduces potential limitations, such as:

- **Data Bias:** The insights presented in reports from consulting firms and global institutions may reflect the perspectives or agendas of their authors.
- **Scope of Data:** Secondary data may not fully address specific nuances or emerging trends in the application of AI in finance.
- **Timeliness:** Given the rapid evolution of AI technology, some sources might not capture the latest advancements or challenges.

### 5.6. Summary

This study's reliance on secondary data from established sources provided a strong foundation for analyzing the impact of AI in finance. By synthesizing insights from a variety of reputable reports and academic studies, the research ensures a balanced exploration of AI's transformative potential, ethical implications, and regulatory challenges within the financial sector.

# 6. AI in Finance Impact and Challenges:

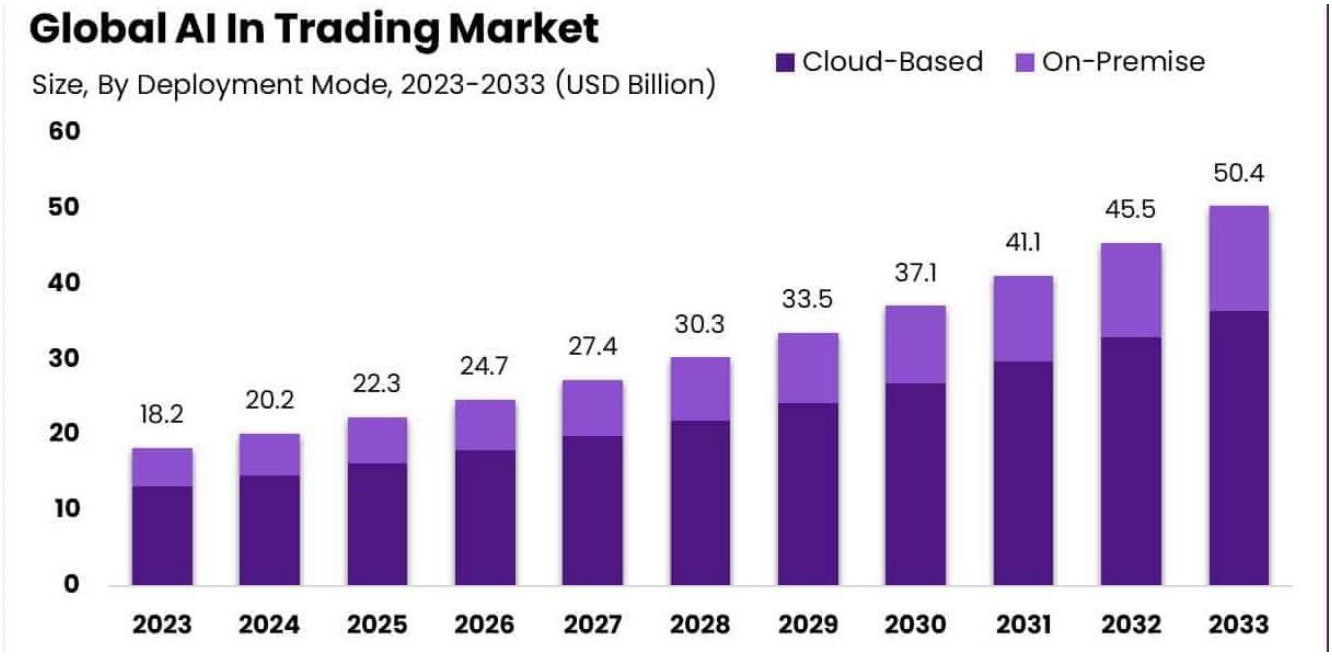
## 6.1. AI in Trading

It has been seen that for the last few years, automating algorithms for stock exchanges have seen a boost with the increasing availability of big data along with the computational resources (Boser et al., 1992). These algorithms employ machine learning methods for mining vast quantities of quantitative and qualitative financial data, such as stock price history, company balance sheets/income statements, financial news articles, social media sentiment, geopolitical and other macroeconomic data. AI master algorithms are able to look for patterns and relations that can be used for future stock prices and market characteristics prediction, which has a higher level of accuracy than a traditional trading approach (2015; Caruana, C. J., & Ke, G. Z. 2001). The other advantage of employing AI in stock trading is that the AI technique can process a large amount of information within a short duration. Human traders sometimes have no accurate way to dissect the large amount of information that is trading in real time, while at other times they make decisions based on either inadequate information, or completely useless information (Chen & Carley, 2018; Chowdhury, 2016). Finally, AI algorithms can analyze millions of data points in seconds to offer traders more timely and valid decision-making opportunities. Furthermore, different variables can be fed into the AI algorithms, and the algorithms would identify combinations and correlations too subtle for a human trader to notice (Chollet (2015). This identify of latent structure provides AI trading platforms a competitive advantage in forecasting events and producing profitable trades. For instance, using historical data of stock prices, the AI algorithms can establish that stock prices are interrelated to such factors as interest rate or inflation rate and consumer perception. AI means that more information can be incorporated into the model so that a better plan can be devised and the plan completed in response to market changes. The third benefit of employing AI for stock investment is that the technique improves from experience (Chowdhury et al., 2021). The traders that have been developed through machine learning can carry out an iterative learning process and improve trading rules as the traders learn from their data experiences. It enables trading systems to be enhanced from year to year by integrating artificial intelligence qualities that make the systems better predict the market's direction.
The list below holds a few names of companies who are implementing the use of AI in smart trading.

| Company | Location | How do they apply? |
|---|---|---|
| **Trading Technologies** | Chicago | It identifies complex trading patterns and reduces compliance risk. |
| **Auquan** | London | It uses algorithmic trading strategies which help to solve investment challenges and can save hefty in-house expertise payment. |
| **Epoque** | Switzerland | It uses AI as an order engine that creates orders and performs operational actions and uses ML to improve its performance. |
| **Sigmoidal** | Poland | It uses AI as an intelligent asset allocation system that uses deep learning to predict every asset in a particular portfolio. |
| **EquBot** | San Francisco | The company systematizes the investment process to build a cause-and-effect understanding of markets, companies, and management by gathering information from different sources. |
| **AI Trading** | London, U.K. | The company scans their markets by using blockchain-based smart contracts to increase earnings. |
| **Trade Ideas** | San Diego | They use a self-learning robo-trading platform which selects only those stocks having a 2:1 profit factor or above and at least 60% success tracks. |

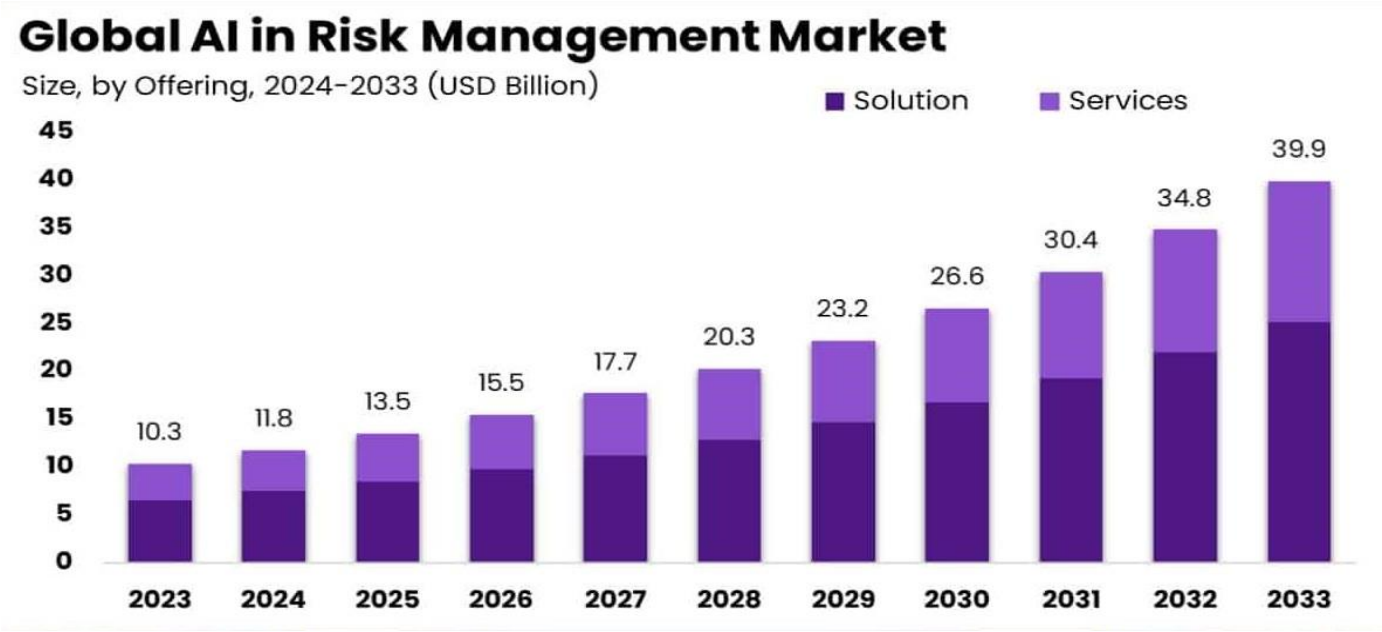
| | | |
|---|---|---|
| **Imperative Execution Inc.** | Stamford | They use AI-based Intelligent Cross, which is comprised of experienced traders, analysts, and engineers to optimize the trading of U.S. equities. |
| **Infinite Alpha** | London | They use AI to facilitate crypto-asset trading and offer protection to trading professionals via advanced authentication, encryption, hardware security modules, and more. |
| **WOA (War of Attrition)** | London | They use AI for real-time market analysis to increase profits for clients such as fund-to-fund, hedge funds, ultra-high-net-worth individuals, and sovereign wealth funds. |
| **Techtrader** | San Francisco | They use a fully autonomous stock trading system that requires no human intervention, adjustments, or updates, and is used to manage hedge funds. |
| **Looking Glass Investments** | Milwaukee, Wisconsin | They use AI to find alternative fixed-income investments for clients such as family offices, institutional investors, and accredited investors. |

In addition, the current market capital of value of AI in trading is slightly above $20 Billion (McKinsey) and is Projected to grow to 50 billion by 2033.By applying engineering economic tools, the calculated Compound annual Growth Rate(CAGR) stands at nearly 10% .



### 6.1. AI in Risk Management

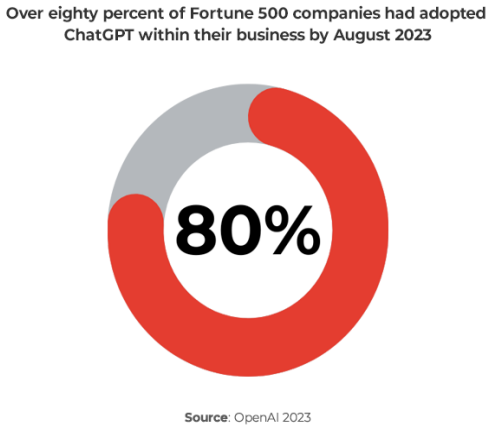
In the realm of risk management, AI is proving to be a game-changer by offering sophisticated tools to identify, evaluate, and mitigate risks. Financial institutions leverage AI for credit risk modeling, fraud detection, and behavior analysis of market participants. For instance, organizations like KPMG use AI to analyze vast datasets, detecting anomalies and patterns that could indicate fraudulent activities or risky transactions. Additionally, AI can assess macroeconomic conditions and simulate stress-testing scenarios, helping organizations prepare for potential market disruptions. However, challenges remain, including addressing biases in AI models, ensuring data privacy, and maintaining the interpretability of complex algorithms. As the technology evolves, combining AI's analytical power with human expertise will be essential to build trust and improve the resilience of risk management systems. Currently the risk management market using AI stands at over 10 Billion Dollars. It is poised to grow to almost 40 billion by year 2033 amounting to CAGR of  almost 14.5%.s

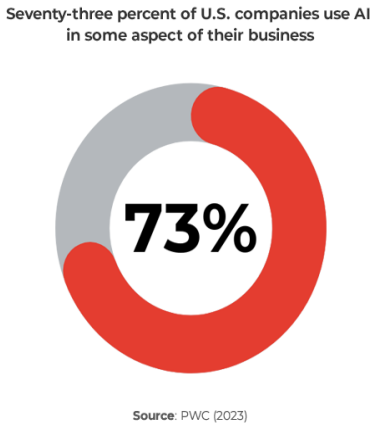



### 6.2. AI in Investment Decision-Making

AI is being increasingly adopted in investment decisions through offering sophisticated instruments that help in signals on movement of regularity, evaluation of potential investment and outcomes of investment markets. AI systems can utilize big data from financial feeds in many sources including the market news feed, social media feed, and historical stock price feed and then make meaningful use of the feeds. These insights help the investors themselves see complex trading patterns and potential trade margins. Robotic services are becoming more solution oriented and today, industry experts use Artificial Intelligence to predict stock movement, detect economic signals as well as evaluate the implications that geopolitical activities may have towards global financial markets. This results in enhanced precision concerning investment approaches and the chance to compete for opportunities efficiently. But full delegation to the AI systems may prove some difficulties since such systems are often insensitive to and other market irregularities that are normally discerned by the human mind.
AI is becoming a more important subject for investors than it has ever been before. Consider this: GCP could provide an impressive $28 trillion to the global gross domestic product by 2025, or $25.6 trillion by the conservative estimates of Jenkins (2020) and McKinsey (2023).  AI market was valued near about $208 billion in 2023 and is expected to reach around $2 trillion by 2030 (Statista, 2023). These numbers do not only speak volumes about the global opportunities for investments to expand but also about the radical change that AI brings traditionally

established investment scenes across the globe. Understanding what exactly Artificial Intelligence is and what it can do is no longer a matter of choice on the Global Financial Markets – it is a necessity for investors.
Because it cannot be easy to measure the implementation of AI in the investment decision making process, we will just present some statistics to validate the effect of AI in this area of finance

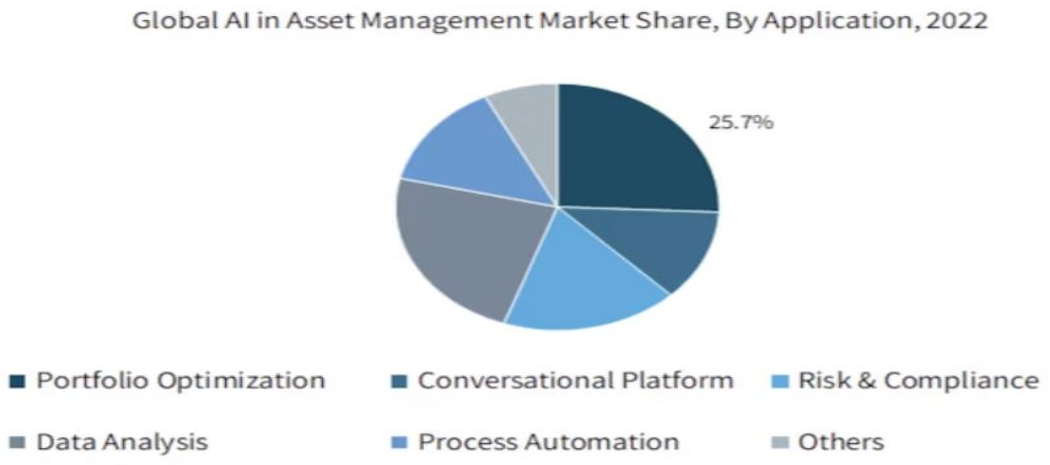


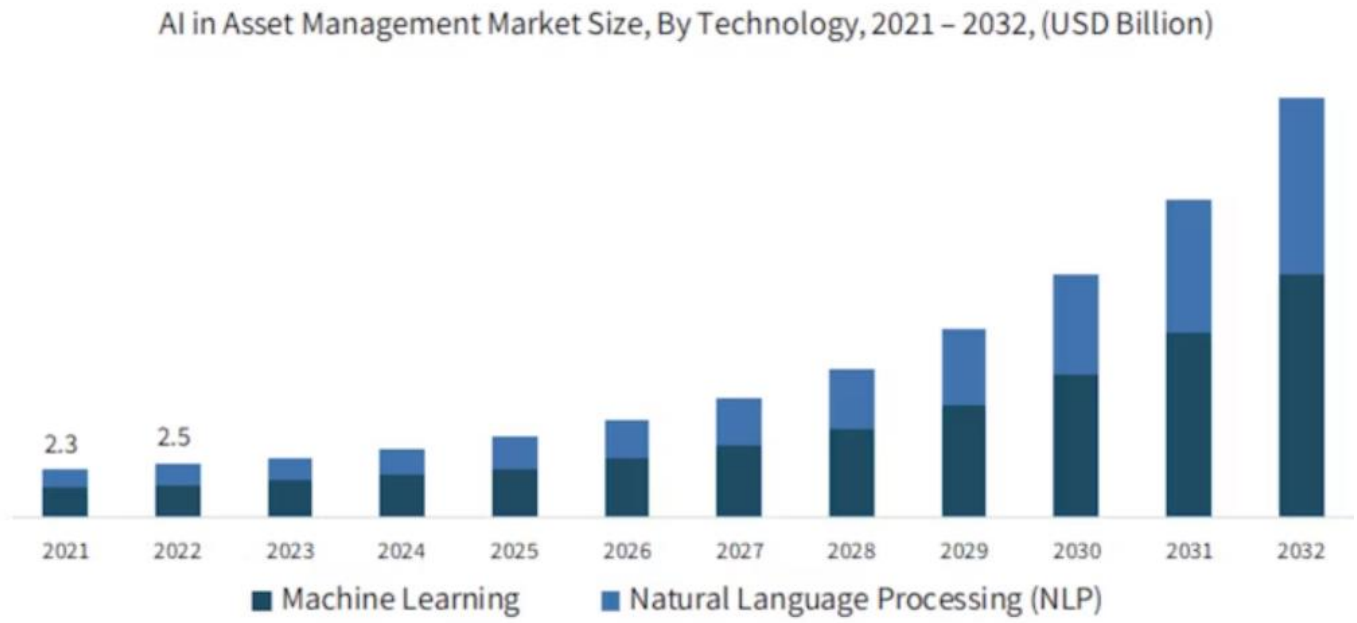




## 6.3. AI in Portfolio Management

The use of AI in portfolio management is redoubtable because it is used for the identification of optimal asset allocation and managing risk-return ratios. This is so because AI powered tools can analyze the investor's choice, appetite for risk, and investment objectives to develop optimal investment plans. cried Many machine learning model work on live performance of the portfolio, and rebalancing of the portfolio based on changes happening in the market It makes a portfolio management process very dynamic in nature. These systems also minimize time spent on research and analysis in a way that allows financial professionals to spend their time on decision making. As we can see, there are a lot of advantages for using AI, however, there are also disadvantages: Leveraging exclusively AI methods might create some systemic problems such as the steering of predictions by different biases, or disregarding the long-term consequences in the periods of market fluctuation. Thus, integrated securities management requires the use of formal AI enhancements together with qualitative experience.

The involvement of artificial intelligence in the management of portfolio at the global level is today barely visible when comparing it to other segments of the financial markets However the growth rate of almost 25%; CAGR means a very positive future awaiting this form of application




### 6.4. AI in Credit Decisions

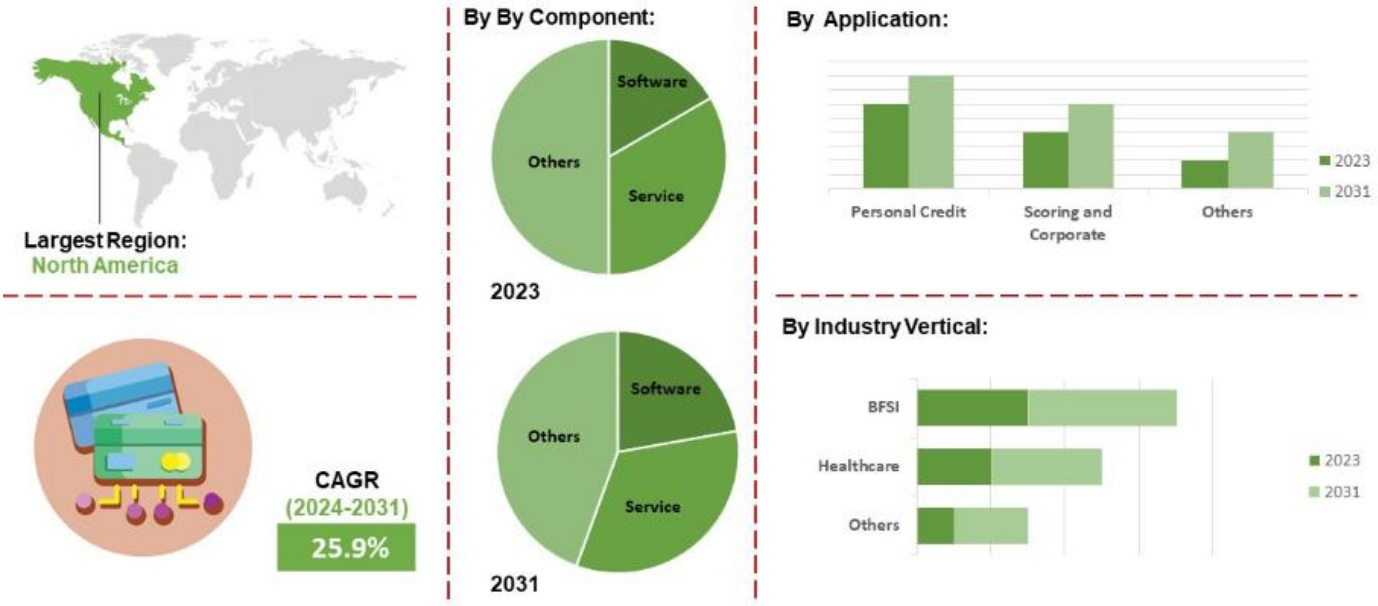
Artificial Intelligence (AI) is fundamentally transforming credit decision-making in the financial industry by enabling faster, more accurate, and data-driven evaluations of potential borrowers. Traditional methods of assessing creditworthiness often relied on manual processes, limited data, and static criteria, which were not only time-consuming but also prone to human biases and errors. In contrast, AI leverages advanced machine learning algorithms capable of processing and analyzing vast amounts of financial and non-financial data in a fraction of the time.

AI-powered systems can evaluate a potential customer's creditworthiness based on multiple variables, including government-issued identification documents, bank transaction records, spending patterns, social media activity (where permissible), and other relevant financial data. These systems use predictive analytics to assess repayment ability, identify potential risks, and flag anomalies that might indicate fraudulent activities. By integrating such diverse data points, AI delivers a comprehensive and nuanced risk assessment that surpasses the capabilities of conventional approaches.

One of the key advantages of AI in credit decisions is its ability to minimize biases and human errors. Unlike traditional methods, where subjective judgment could influence outcomes, AI ensures that decisions are consistent, objective, and fair. This results in improved customer satisfaction, as credit decisions are more transparent and equitable. From a lender's perspective, AI enhances profitability by reducing default rates and increasing efficiency in the credit approval process. Moreover, it enables institutions to expand their reach, providing credit access to underserved populations by analyzing alternative data sources that might not be considered in traditional credit evaluations.

Overall, the adoption of AI in credit decisions is driving a paradigm shift in how financial institutions approach lending. By combining speed, accuracy, and scalability, AI not only strengthens risk management practices but also fosters trust and inclusivity in the credit market. While challenges such as algorithmic transparency and data privacy must be addressed, the potential benefits of AI in this domain are substantial, offering a robust framework for making informed and efficient credit decisions.

The role of AI in credit scoring is poised to grow at compound annual growth rate(CAGR) of almost 26 percent in North American Region and the other parts of the world are not very far behind .By applying engineering economic tools we can simply conclude that it will play a very crucial role and will significantly alter the whole banking industry.



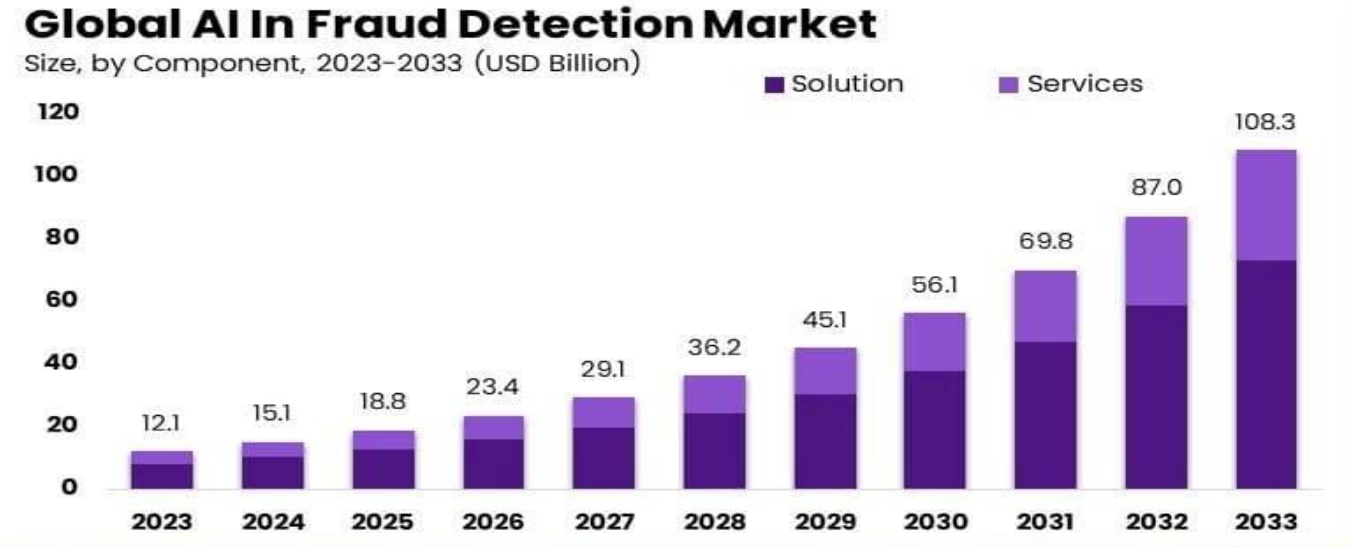

## 6.5. AI in Fraud Detection

AI in Fraud Detection Market refers to deployment of artificial intelligence to detect incidences of fraud in many business sectors. An AI system processes incredibly large sets of data in real-time and looks for these alarms and violent sparks that might be a sign of fraudulent activity. This market is central to industries including finance, insurance and e-commerce, where IT fraud risks are likely to occur.

Machine based approaches improve the efficiency of detecting fraudulent content and keeping financial losses to a minimum. The market is, however, growing fast since businesses are relying on AI to mitigate complex fraud schemes due to the higher and diverse demand for security. Algorithms analyze vast amounts of data in real-time, detecting unusual patterns and anomalies that indicate potential fraud. This market is critical for sectors such as finance, insurance, and e-commerce, where fraud prevention is essential.

AI-driven solutions enhance the speed and accuracy of fraud detection and prevention, reducing financial losses and improving security. The market is expanding rapidly as businesses are increasingly on AI to protect against

sophisticated fraud schemes, driven by the need for more robust and adaptive security measures.
The market for the use of Artificial Intelligence in fraud detection is constantly evolving as the crime themselves grow in complexity and sophistication and as the necessary precautions and protection mechanisms in the financial sectors continue to progress. Applying AI technologies, it is considered as an effective strategic solution to it, speaking about increasing accuracy and detecting rates.
Presently, more than 50% of financial organizations are planning to use AI technology to detect new and other concealed forms of fraud. Such technologies, prominent in or machine learning (ML) and predictive analysis, are greatly appreciated for their capacity to identify novel fraud trends and for minimizing the ratio of false positives. Furthermore, 94 percent of payments professionals admit the essentiality of AI in the evaluation of such transactions and identification of possibly malicious activities. Such a consensus is indicative of the effective use of technology in protecting financial flow and enhancing systemic integrity across diverse forms of banking.
The business risk, particularly by segment of activity, is particularly high in specific sectors such as insurance, fraud reporting being important loss. Each year, insurance fraud swindles about USD 308.6 billion from insurers in the United States, and almost 60% of these have implemented AI to fight this problem.
Technology unfolds from merely recognizing patterns characteristic of fraudulent claims to the automation of verification procedures that results to a reinforcement of response time and diminishes the margin of error attributed to independent scrutiny.
One of the most significant threats today is business email compromise that the Internet Crime Complaint Center of the FBI reveals to be highly effective. According to the report, this type of fraud was sighted 21,832 times in 2022 with total losses totaling up to USD 2 billion. The size and occurrence rates of these fraud cases indicate the need for more sophisticated AI-based tools for early detection of these fraudulent transactions before they lead to loss making.
In addition, Biocatch's analysis shows that 74% of financial institutions use AI for financial crime prevention and 73% for fraud prevention; all of them expect financial crime and fraud activities to increase in the year 2024.
Due to reliance on sources that have a direct impact on the AI in fraud detection market, its trajectory is expected to thrive with dynamics as a large number of financial institutions worldwide get to realize the potential of AI in changing fraud prevention mechanisms. This trend supports not only higher levels of integrated technological security but also raises an issue about the constant improvement of artificial intelligence mechanisms to advance ahead of fraud-related strategies.
AI is expected to reach 108 billion in the year 2033 at a consolidated growth rate of 24% for fraud detection.



# 7. Analysis for Policymakers:

AI has pervasively entered different sectors of the financial industry, transforming conventional practices and processes from operational efficiency and accuracy to improved scalability. In trading, AI algorithms have completely changed the approach to decision-making by including big amounts of data regarding stock exchanges, financial statements, and indicators of developments in the global economy, as well as social networks trends. These algorithms are known to be able to find such patterns to analyze market trends, and place trades with incredible speed and accuracy. This means that trading systems become perfected by the use of machine learning models, making it possible for them to learn from the changing market conditions for more profitability. As a market, AI in trading was estimated to be at $21 billion in 2023 and is expected to expand with a CAGR of 10% and reach $49.8 billion by 2033. Such a growth can be attributed to rise in the use of AI as it has become a center of accomplishing higher levels of efficiency and desirable results in stock trading. However there are issues like model bias that need to be examined and solved so that the system will be a continuously reliable growth point.

It is as revolutionary in risk management offering superior products to appraise credit risks, fraud, and stress-testing simulations. Banking and financial institutions are using AI for accurate credit risk assessment and for the understanding of behavioral patterns which enable them to prevent risks. For example, such giants as KPMG use AI systems to analyze data to identify any irregularities more effectively and faster when it comes to financial risks. The risk management industry is now valued at $10 billion; its growth rate is projected to be 14.5% with the industry expected to reach about $40 billion by 2033. This growth is brought about by the capabilities of the technology in improving decisions, operations and flexibility to market shocks. Although the concepts of AI-driven risk management tools are promising today, the issues of algorithmic explanation, data protection, the centralization of decision-making in AI algorithms necessitate further attention as this technology will continue to develop.

AI has been largely hailed as a crucial enabler of the process of fraud detection as a result of constantly rising levels of fraud sophistication. Sophisticated systems derived from Artificial Intelligence deal with large volumes of data as well as attempt to establish discrepancies and trends that suggest fraud. Applications of machine learning and predictive analytics mean institutions can identify emerging patterns of financial crimes such as fraudulent transactions and insurance fraud. Today, more than half of the financial companies are planning to use AI in the fight against fraud reporting less false signals and growing accuracy of identification. The fraud detection market projected at a growth rate of 24 % is expected to rise up to 108 billion US dollars in the year 2033. It is now clear that AI is well-placed to address emerging fraud strategies and that integrating it into financial security systems remains invaluable to financial organizations and their customers.

The applications involve investment decisions and portfolio management, which has utilization of AI for possessing better analytical tools for managing investment tools and portfolio. AI systems give out insights derived from assorted data-sets including prior performance of stocks or even events in the political realm to enhance investment precision and speed. AI is revolutionizing portfolio management as the portfolio can be manipulated live to ensure it is tailored to risk and returns that are fitting for the investor and the financial goals they desire. Nevertheless, the application of the AI system in this area is still limited, and the market continues to grow at a CAGR of 25% to change investment practices around the world. However, limitations of AI-imbued prediction like presence of skewed bias and non-Consideration of unusual market trends also evidence the necessity of incorporating conventional human insight along with the intelligent systems.

AI is revolutionizing credit decision making by altering the ways in which the financial institutions assess borrowers' credit scores. Due to the use of machine learning algorithms, controlling and monitoring large volumes of financial and non-financial data becomes possible, and AI systems produce faster, more accurate and less subjective results than the ones obtained through the same traditional methods. AI reduces bias influence, offers better risk evaluation, and optimizes processes for institutions to extend credit facilities to the underbanked individuals. According to our analysis, the AI-driven credit decision-making market especially in North American region is expected to grow at the rate of 26% CAGR and this certainly gives a pace to banking and lending market. This increase shows that AI's ability to revolutionize credit assessment procedures is here and now while rebuilding public confidence in accessing credit facilities.

All in all, the growth trend of AI in the financial industry is strong, and the application scenarios in each area also have enormous growth space and new development space. Whether for trading and risk management, or for fraud detection, credit decisions, and more, AI is at the center of a new wave of transformation in the financial industry. The domains of financial support are potentially to become more involved in using AI technologies inasmuch as the market growth rates vary between 10% and 26%. This evolution increases the need for ongoing research and development of AI systems with timely admittance of traditional approaches in order to guarantee a sustainable and fair financial environment.

## 8. SWOT Analysis:

### 8.1. Strengths

- For security enhancement and prevention of such unlawful conducts, AI can analyze different datasets; the transaction history, social media and forums within the darknet, media, and forums on the dark web. It may also identify patterns and connections which could be used to indicate financial crime including money laundering.
- It can take apart tasks and make work easier and less expensive for companies, freeing up money for the customers for financial services (Artificial Intelligence in Financial Markets, n.d.). using transaction trails, social media, and forums on the Dark Web. It may also detect trends and linkages that point to financial crimes such as money laundering.
- AI can simplify procedures and automate jobs, lowering the cost of financial counseling for customers (Artificial Intelligence in Financial Markets, n.d.).
- The financial industry can become more accessible than ever before with the help of AI, which can facilitate the development of new financial products like robo-advisors and algorithmic trading methods (AI for Finance Industry: Advantage and Disadvantage – Experlu, n.d.-a).
- By using AI many times financial experts do not need to spend much time on menial things such as data entry and calculations; (Artificial Intelligence in Financial Markets, n.d.).
- This makes major ethical concerns about privacy, prejudice and transparency appear once again in the area of application of AI in the field of finance for financial stability and confidence. Ion trails, social media, and forums on the dark web. It may also detect trends and linkages that point to financial crimes such as money laundering.

### 8.2. Weaknesses

- To maintain financial stability and confidence, ethical problems about privacy, prejudice, and transparency may arise from the application of AI in the financial sector. Much of this must be resolved.
- The risks are that heavy usage of AI may result in reduced finance and business decisions where human discretion is involved
- It might also prove tough for financial experts to maximize the usage of AI models because of their complexity and hard to comprehend format.
- AI rules regarding the use in the financial sector may have challenges since governments and regulatory authorities may require standards and policies for AI implementation. media, and forums on the dark web. It may also detect trends and linkages that point to financial crimes such as money laundering.
- AI can simplify procedures and automate jobs, lowering the cost of financial counseling for customers (Artificial Intelligence in Financial Markets, n.d.).
- The financial industry can become more accessible than ever before with the help of AI, which can facilitate the development of new financial products like robot advisors and algorithmic trading methods (AI for Finance Industry: Advantage and Disadvantage - Experlu, n.d.-a).
- AI allows financial professionals to focus on more important duties by automating repetitive operations like data processing and analysis (Artificial Intelligence in Financial Markets, n.d.).

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### 8.3. Opportunities

- AI and ML also contribute to the enhancement of risk and market opportunities by providing enhanced capability of the prediction of economic, financial and risk occurrences (Boukherouaa et al., 2021). et al., 2021).
- AI can give real-time decision-making skills, enabling financial professionals to make informed judgments rapidly (Beyond Chatbots: Website Name: Artificial Intelligence in Finance and Banking | Source: (Toptal, n.d.).
- AI can provide personalized services and recommendations, enhancing consumer pleasure and loyalty while allowing financial institutions to better understand and serve their customers (Beyond Chatbots: AI in Finance and Banking (Artificial Intelligence in finance – benefits and risks, Toptal® , n.d.) Financial AI Advantages and Disadvantages - Experlu, n.d.-b)• AI can help financial professionals to obtain more accurate risk assessments and better manage risks along with preventing possible threats to the state of

financial stability (Boukherouaa et al., 2021).me decision-making skills, enabling financial professionals to make informed judgments rapidly (Beyond Chatbots: Artificial Intelligence in Finance and Banking | Toptal®, n.d.).

- AI can provide personalized services and recommendations, enhancing consumer pleasure and loyalty while allowing financial institutions to better understand and serve their customers (Beyond Chatbots: Artificial Intelligence in Finance and Banking | Toptal®, n.d.) (AI for Finance Industry: Advantage and Disadvantage - Experlu, n.d.-b).
- In order to effectively manage risks and foresee and reduce possible threats to financial stability, financial professionals can benefit from AI's ability to give more accurate risk evaluations (Boukherouaa et al., 2021).

### 8.4. Threats

- AI systems are prone to cyberattacks, which could compromise sensitive financial data and transactions, posing a substantial danger to financial stability and customer trust (AI for Finance Industry: (A & D) Experlu – n.d.-b; Boukherouaa et al., 2021).• Some key changes that occur due to utilization of the new technology include; change of workforce: as the AI is adopted widespread in the financial industry, it reduces specific roles thus having impact on the employees and needs to reskill and upskill.
- There are risks if the underlying data is wrong, missing, or skewed since the effectiveness of AI within the financial market heavily relies on the quality and authenticity of data incorporated in training and running AI systems (The Risks of AI in Banking, n.d.).
- There might be or become systematic risk related to the use of AI, meaning that more extensive market shocks or fluctuations are possible because of how financial systems interface with each other.
- Through current changes in the financial process, AI has become an innovative solution in building portfolio, trading, risk assessment, lending, and blockchain finance.nance Industry: Advantage and Disadvantage - Experlu, n.d.-b) (Boukherouaa et al., 2021).
- The widespread deployment of AI in the financial industry may result in the replacement of specific roles, thereby affecting the workforce and requiring reskilling and upskilling activities (How Artificial Intelligence Is Transforming the Financial Services Industry, n.d.).
- There are hazards if the underlying data is erroneous, lacking, or biased because the efficacy of AI in the financial market is largely dependent on the quality and integrity of the data used to train and operate AI systems (The Risks of AI in Banking, n.d.).
- The employment of AI may bring or increase systemic risks, which could result in more widespread market disruptions or volatility due to the interconnectedness of financial systems.
- As the financial landscape evolves, artificial intelligence (AI) has emerged as a transformative tool, reshaping portfolio management, trading, risk management, lending, and blockchain finance. In portfolio management, AI plays an important role in asset allocation, diversification and dynamic risk management since with the help of analyzing the big amount of data patterns, which can be seen by humans, are overlooked. Furthermore, it provides great assistance for predictive analysis of financial data, investor behavior and market condition in real time to make proper investment and portfolio enhancement.
- AI increases effectiveness in trading and risk management through efficient liquidity management, reducing the market effect, as well as efficient order execution. But it may bring fluctuation in the market that is commonly seen in anomalies like flash crashes during stress. Lending: AI drives down the underwriting cost and helps credit providers reach out to “thin file” consumers helping the cause of financial inclusion. Nevertheless, the dangers exist whereby such models create unfair credit outcomes, and where flawed or biased data are used. Likewise, in blockchain finance, AI improves decentralized ledger technology and sensible execution yet again is hamstrung by ‘garbage in, garbage out’ when data quality is poor.
- Automated financial solutions are helping to facilitate the refinancing of the services and providing relevant customer-centric services that help to improve overall satisfaction and thus the level of customer loyalty. Market volatility, such as flash crashes, during times of stress. In lending, AI reduces underwriting costs and expands credit access to "thin file" consumers, fostering financial inclusion. However, biased models and poor data quality pose risks of unjust credit outcomes. Similarly, in blockchain finance, AI enhances decentralized ledger systems and smart contract functionality but struggles with the "garbage in, garbage out" problem when data quality is insufficient.

## 9. Research limitations:

This study also recognized several limitations that might affect the findings and the generalizability of this study. This is because despite the numerous attempts made while collecting diverse and valid various data, most of the data come from secondary origin and may require validation and are sometimes bias and incomplete. Such limitations in data availability may lead to given interpretations may seem more subjective or there might be some gaps in the whole reasoning. Furthermore, the study runs a smooth hierarchy of objectives, where the primary objectives as presented in the study are prioritized as opposed to dissecting all the methodologies or limitations. Therefore, there may be some aspects or contingencies which were not thoroughly examined or explained.

The first one is generalization of results since the methodology may not be very relevant to all large organizations or all service organizations. They may be valid mostly within the contexts in which they are identified in this work and may not generalize easily to other contexts or future developments in technology and finance. This is particularly the case due to the prominent dynamism of AI, as it is almost impossible to generalize conclusions when new ideas appear much faster than in other fields.

However there exist some limitations as follows which is significant in order to acknowledging these limitations because it draws attention to the importance of further research. The present work thus aims to point out these gaps, while opening the way for more systematic studies that might fill these blanks, refine the methods used and enhance knowledge regarding the implications of AI on the financial sector. To this end, such endeavors would lead to a deeper and richer understanding of the topic concerned that will in turn help form the nascent basis for developing further research and application-based knowledge in the future.

## 10. Conclusion:

The integration of artificial intelligence (AI) into financial markets is reshaping the landscape, as this study's sector-wise analysis highlights AI's transformative impact on various domains. By leveraging tools of engineering economics such as future value predictions and growth analyses, the research quantifies AI's potential to enhance efficiency, profitability, and innovation in areas like trading, risk management, fraud detection, and credit evaluation. These insights reveal that AI is not just optimizing existing processes but also driving substantial economic growth across the financial sector. For instance, its ability to predict market trends, assess risks with precision, and streamline decision-making has positioned AI as an indispensable asset for financial institutions.

However, the research also emphasizes that realizing AI's full potential requires addressing challenges such as ethical considerations, systemic risks, and data integrity. Drawing from this evaluation, the study highlights the importance of robust governance and strategic policymaking to guide the responsible implementation of AI. As adoption continues to expand, the financial sector must integrate these insights to ensure that AI serves as a catalyst for innovation while maintaining transparency, inclusivity, and resilience. By doing so, stakeholders can effectively harness AI's transformative capabilities to build a future-ready financial ecosystem.

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