Assignment 2.1

Artificial Intelligence

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Artificial Intelligence or “AI” as it is called, has slowly evolved to be a term used even in common households that use a basic level of technology today. The whole trend of AI and IOT has pushed household devices to be seamlessly connected to each other and be operated with voice commands using speech recognition. This has led to the popularization of AI to an extent where all industries are aiming to integrate AI into their systems so that they can maximize their gains and cut their losses.

Today I would like to talk about the financial sector. The financial sector has always been the most crucial sector in the world. Banking systems are undoubtedly one of the most secure systems as they handle large amounts of money every day. One mistake could cause a plummet in their market value, resulting in large losses. During the last few years, with the latest advancements on technology and the rise of 4G internet, the financial sector has seen growth in digital banking, especially in the past couple of years during the rise of the Covid19 pandemic, which resulted in a huge jump in digital banking. Banks are now profiting massively thanks to digital banking, and by 2023 banks are estimated to make a profit of $447 billion [1].

Consumers are hungry for financial independence and providing the ability to manage one's financial health is the driving force behind adoption of AI in personal finance. AI chatbots now offer 24/7 assistance using natural language processing and make personal and consumer finance easier to do from home.

The benefits of implementing AI in finance—for task automation, fraud detection, and delivering personalized recommendations—are monumental. AI in finance can be used for task automation, fraud detection, and delivering personalized recommendations. It also helps enabling frictionless, 24/7 customer interactions, reducing the need for repetitive work: lowering false positives and human error and in saving money.

A collaborative effort between BCLP, Hermes, Marsh, and Oliver Wyman, a few of the leading consultancies studied the applications of AI in financial services [2]. They have highlighted several specific applications, including risk management, alpha generation and stewardship in asset management, chatbots and virtual assistants, underwriting, relationship manager augmentation, fraud detection, and algorithmic trading. Under insurance, they look at core support practices and customer-facing activities. They have also addressed the use of AI in hiring.

“There are many benefits of using AI in financial services. It can enhance efficiency and productivity  through automation; reduce human biases and errors caused by psychological or emotional factors; and improve the quality and conciseness of management information by spotting either anomalies or longer-term trends that cannot be easily picked up by current reporting methods. “ [2]

AI has plenty of applications in financial services but there is one problem. If organizations do not exercise enough prudence and care in AI applications, they face potential pitfalls. These include bias in input data, process and outcome when profiling customers and scoring credit, and due diligence risk in the supply chain. Users of AI analytics must have a thorough understanding of the data that has been used to train, test, retrain, upgrade and use their AI systems.

Lastly, various studies, especially the one conducted by EY, show the increase in adoption of AI in their systems and services [3]. Their research even predicts that within 2 years, 64% of the subjects studied will be “mass adopters” of AI. AI is making things happen quicker, speeding up systems exponentially. It is here and it is here to stay.

References:

[1] <https://www.businessinsider.com/ai-in-finance>

[2] <https://www.oliverwyman.com/our-expertise/insights/2019/dec/artificial-intelligence-applications-in-financial-services.html>

[3] <https://www.ey.com/en_us/innovation/why-ai-will-redefine-the-financial-services-industry-in-two-years>