

The impact of Artificial Intelligence on Financial Services & Implications for Business Strategy



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Executive Summary

The financial services industry is at the forefront of the worldwide deployment of Artificial Intelligence (AI). Today, AI is exerting a major impact on financial services - from algorithmic stock trading applications to the detection of credit card fraud and so-called "robo-advisors" providing investment advice. In recent years, robo-advisors have seen an increase in popularity, especially among smaller retail investors. The ease of using digital applications to get quick, customized investment advice complements the hectic lives of many consumers. AI is also being used in financial services for a more complex range of enterprise functions. While most trades are settled automatically, some require individual attention, for example, due to a market anomaly.

Such technology, however, holds the potential to be either a transformative and beneficial force, or a destabilizing, even existential, threat to the global financial system. Financial institutions' operating models are being fundamentally reshaped, making financial institutions more specialized, leaner, highly networked and dependent on technology players' capabilities. At the same time, the financial ecosystem's competitive dynamics are being pushed up, driving the creation of bifurcated markets where size and agility benefit at the cost of conventional mid-scale players that makeup a large part of the industry.

In financial services, the first movers in the deployment of AI will be able to increase their lead, accelerating early data advantages for both front and back offices, which will have a profound impact on firms' strategic approach to alliances infrastructure and talent. But shared prosperity is far from assured in this rapidly evolving future and demands greater cross-industry cooperation than is currently being demonstrated. In fact, organizations will need to balance their market strength against new opportunities for collaboration. AI provides financial institutions with the ability to solve a variety of common issues that plague both the industry and its customers, but only when they work together to create shared solutions that benefit all.

Given the inherent interconnectivity of the financial system, there is also a strong international dimension to the rise of AI. Corporate players tend to see AI as a business opportunity, rather than a technology challenge. To do this, they need a comprehensive strategy that identifies concrete barriers and opportunities where AI technologies would be able to create new value for business. Equally crucial is that financial institutions must ensure that they employ responsible, ethical AI applications that customers, employees and the general public can trust. In this context, the aim of this e-book is to examine and to provide an in-depth analysis regarding the impact of Artificial Intelligence on the financial services sector.

Key Findings

From the research presented, we highlight the most important findings regarding the implementation of Artificial Intelligence in financial services over forthcoming years:

- Financial Institutions will turn AI-enabled operations into external services, both speeding up the rate at which these capabilities improve and forcing others to become consumers of those capabilities so that they do not fall behind.
- Future customer experience will be centered on AI, which automates a large part of its customers' financial lives and improves their financial performance.
- Regulations governing the confidentiality and portability of data will form the relative ability of financial institutions to deploy AI and thus become as important to the competitive positioning of companies as conventional regulations.
- Collaborative solutions based on shared data sets will radically increase the accuracy, timeliness and performance of non-competitive functions, creating mutual operational efficiencies and improving the financial system's security.
- Talent transformation will provide the most challenging obstacle for the widespread application of AI, putting the competitive positioning of firms and geographic areas that fail to effectively transition through talent alongside technology at risk.
- Another key to getting AI right is engaging the C-suite in defining data governance and strategy.
- The decision to use AI should be compared alongside the performance of traditional techniques. Firms should determine whether the potential alpha capture is worth the additional cost and complexity of applying AI.
- Increasing numbers of hedge funds are using complex AI-based systems to produce thousands or even millions of businesses every day. By analyzing a wide range of market factors in real time, these systems, based on machine learning and deep learning, facilitating high-frequency trading.
- Many have virtual assistants, chat bots and NLP as a powerful way to get started with building emotional intelligence into AI solutions.

Structure of the E-book

The remainder of the e-book is organized as follow:

The first chapter examines the rise of AI in financial services. To begin with, we analyze the types and technologies of AI. We continue with the lifecycle phases and the key drivers of AI. Moving to the economic landscape of AI, we provide an in-depth analysis regarding the market size, forecasts, investments and AI start-ups.

Moving on to the second chapter, we examine the implementation of AI in financial services. More precisely, we analyze the use cases, benefits and challenges of AI in the sector.

The third chapter provides a comprehensive analysis of AI within the banking sector. Especially, we examine the applications, opportunities and threats for banks with regards to this development.

The fourth chapter analyzes the effect of AI on insurance, taking into consideration subjects such as insurance innovations and challenges, among others. Furthermore, we present the best digital insurance companies active in the development of AI-based solutions.

In the fifth chapter, a discussion around the usage-based approaches to AI is presented. In addition, we examine fleet insurance and the effect of digitization on fleet insurance management and flow.

The sixth chapter discusses the effect of AI on asset and wealth management. More precisely, we examine how AI is transforming such considerations on the wider scale. Moreover, we present the most important AI platforms for smarter trading and analyze its impact on pensions.

Finally, in the sixth chapter, certain predictions are made about the impact of AI on the economy, companies, employees and countries; as well as an analysis of the best practices to scale AI.



