How does artificial intelligence change banking, and how can community banks prepare?

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Artificial intelligence (AI), or the development of computer systems to perform human-like tasks, like decision-making and speech recognition, is a fairly divisive topic. Sometimes, the uncertainty surrounding AI can be met with anxiety, fearing that one's job or industry may be overtaken by automation. On the other hand, AI is viewed positively, met with the excitement of endless opportunities. Between chatting with bots on your bank's website, to checking your account balance over the phone with digital voice assistants, you've probably encountered more AI in your recent banking experience than you thought. There's no doubt that AI is going to continue to be utilized in more aspects of bank operations and offerings, and will likely change the landscape of banking as we know it – but exactly what can we expect to see?

A changing workforce

Automation is reshaping the banking environment by increasing productivity and reducing overall labor costs. A common fear regarding AI is job security, but the emphasis of AI should be placed on the significant uptick in efficiency. This is especially crucial for community banks with more limited resources. Smaller institutions looking to grow their loan portfolios and serve more customers, but can't afford to hire additional staff to do so, can leverage AI to streamline and automate processes to give employees more time to focus on higher-level tasks. Simply put, AI allows your institution to do more with the same amount of people.

In addition to increased productivity and efficiency in current roles, AI also opens the door to new employment opportunities. In fact, 67 percent of top bank executives expect AI to result in a net gain in jobs, according to a survey by Accenture. For example, in 2017, Wells Fargo created an artificial intelligence enterprise team in an effort to develop AI-based technology and strengthen its digital offerings in order to provide more personalized customer service. According to the Accenture report, "Banks that invest in AI and human machine collaboration at the same rate as top-performing businesses could boost their revenue by an average of 34 percent and their employment by 14 percent by 2022."

Preparing for AI

Implementing automation and AI is already a reality for many large banks, but community institutions have some catching up to do. Banks who have implemented technology utilizing AI have a competitive advantage when it comes to getting work done faster, with less errors, as well as providing a more diverse selection of product offerings to their customers. For community banks that want to remain competitive, AI will be a vital investment. "There is tremendous potential with the advent of AI to help level the playing field in the financial services space," said Tina Giorgio, president and CEO at ICBA Bancard in a pymnts.com article. "Use cases are rapidly growing and they are showing that they can really streamline the customer experience in a number of ways, while strengthening those personal relationships between the bank and its customers."

Looking for a place to start? According to a bizofit survey, banking organizations have been most likely to introduce AI and machine learning technology for risk assessment, financial analysis or investment/portfolio management. Banks are now using AI-based systems that help them make more informed, safe and profitable decisions. Another major pain point that AI addresses is regulatory burden. Banking is one of the most highly regulated sectors, and community banks especially feel the financial pressure from regulation. Many small-to-midsize banks calculate their monthly allowance for loan and lease losses (ALLL) using Excel- and spreadsheet-based models, an inefficient, cumbersome process. With the data requirements of the impending Current Expected Credit Loss model, or CECL, it's imperative that banks examine their current calculation process. Because of this new regulatory standard, many banks are now implementing technology to streamline and automate their loan loss calculation process using methodologies made easier through these solutions.

Implementing systems that make use of artificial intelligence isn't going to happen overnight, nor will your institution see the effects immediately. However, the increasing influence of AI is inevitable and by not embracing it, your institution will likely fall behind as others adapt and become more efficient. When it comes to the anxiety of AI, it seems that the reward far outpace the risks.