

Financial institutions must embrace AI companywide to weather the ‘Great Transition’

Article

The news: A new McKinsey report says that comprehensive change in the financial services landscape is fueling a historical period of change in the industry. AI is a central component in

every aspect of change banks need to consider when planning for the next steps.

- These findings are based on the firm's report "[Global Banking Annual Review 2023: The Great Banking Transition.](#)"

What makes this transition 'great?' Although many transitions have happened in this sector throughout history, McKinsey [cited](#) a few reasons why this one deserves that descriptor.

- [New technology](#), [evolving regulation](#), and [new competitors](#) have contributed to large-scale changes in how banks operate.
- This transition marks a crucial moment in banking history because it's reshaping how banks make money. And these trends aren't limited to one region or country; they're affecting FIs globally.
- FIs are raking in more profits because of this transition, especially due to rising interest rates. So, "great" could also reflect the positive gains.

Breaking down the report: McKinsey believes FIs should focus on five key areas when strategizing about navigating through this new environment.

- **Leveraging new technology such as AI** to boost overall productivity through automation
- Simplifying their balance sheets by actively exploring methods like syndication and opportunities to partner with third parties, focusing on deposits, and **using technology** to identify areas where costs can be restructured.
- Exiting, expanding, or specializing within a market or product area, and pursuing mergers and acquisitions to achieve economies of scale
- **Offering direct and indirect customer support using AI-based advisory**
- **Utilizing AI** as a potential tool for **adapting to evolving risks**

Notice the trend? AI plays a major role in most of these recommendations, reflecting its ongoing importance in post-transition success.

- With its ability to automate the tasks that require [60% to 70%](#) of the workforce's time, generative AI can boost operational productivity.
- AI helps FIs [create an improved customer experience](#) through an engagement layer that incorporates real-time customer data analysis, enabling personalized offerings and quick

fulfillment.

- AI can assist FIs in enhancing their risk management capabilities by efficiently analyzing large volumes of data, resulting in faster, more accurate decision-making. FIs must remain vigilant, however, to ensure their data isn't biased.

Budgeting for IT: Considering that the success of FIs relies so heavily on the effective integration of new technologies, the absence of budgets allocated for this endeavor raises some red flags.

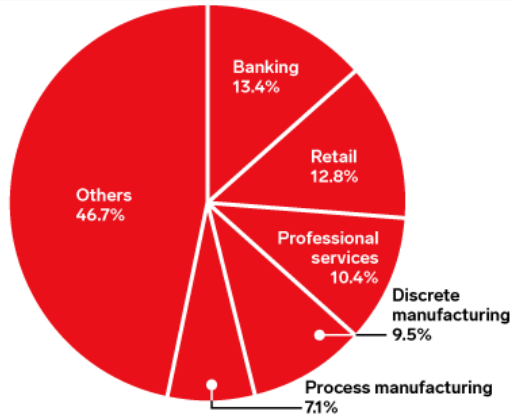
- AI solutions can cost banks anywhere from a few thousand dollars to **JPMorgan Chase's "hundreds of millions of dollars per year."** Cost depends on the complexity of the solution and size of the organization.
- Generative AI solutions require a large amount of data, a hidden but significant cost when integrating this technology.
- FIs should also budget the time and resources necessary to assess and ensure the quality of the data used to train their AI.
- **While 54.6% of organizations use generative AI in some capacity, only 18.2% expect to increase IT spending in the coming year.**
- **And 45% of companies don't have an AI budget at all.**

Our take: FIs need to embrace AI across various aspects of their business, from operational enhancements to customer experience and risk management. However, doing so haphazardly—without the appropriate budget to ensure this technology isn't landing them in even hotter water—is as risky as what they're using AI to help them mitigate.

- To successfully integrate AI into their operations, FIs should set companywide standards and establish clear data quality processes.
- AI integration also requires a comprehensive understanding of evolving regulations and cross-team governance—emphasizing the importance of making AI part of the organization's overall strategy rather than the sole responsibility of IT or any single team.

Share of Spending on AI-Centric Systems Worldwide, by Industry, 2023

% of total



Note: defined as systems with a core AI component, without which the system will not function; includes software, hardware, and services; numbers do not add up to 100% due to rounding
Source: International Data Corporation (IDC), "Worldwide Artificial Intelligence Spending Guide" as cited in press release, March 7, 2023

280608

[InsiderIntelligence.com](https://insiderintelligence.com)