

AI is less accessible to small banks and credit unions—fintechs could be exacerbating the gap

Article

The news: Artificial intelligence (AI) is [revolutionizing the banking sector](#), but not all banks are able to tap fully into the powerful technology. Fintech partnerships may also be adding to

smaller banks' tech disadvantage. Here we look at what's stopping all financial institutions (FIs) from being able to use AI to its fullest potential, [per](#) The Financial Brand.

AI-power solutions will become table stakes for FIs to remain competitive.

- AI allows FIs to be more [operationally efficient and cost effective](#), better equipped for fraud detection, and better able to create more personalized offers.
- [Younger consumers](#)—who will soon become FIs' lifelines—expect their financial lives to be digital and personalized. AI will play a major role helping banks meet those expectations.
- Smaller banks and [credit unions rely on customer experience as a differentiator](#). AI helps to create customized and tailored experiences for their customers.

Community banks need access to the same tech solutions as larger FIs to survive.

- Most small banks are already behind in their digital journeys. They often lack the budget and resources to complete a major tech overhaul in a short period of time.
- Fintech partnerships are a quick and easy solution to the lag, but some AI-focused fintech providers are making the gap worse.
- Many fintechs are opting not to work with small banks because they don't see a partnership as worth the time and effort. Fintechs that do work with community banks typically offer them different solutions than they offer larger banks with a bigger tech budget.
- Small banks leaning on AI to personalize their offerings may lose out because they can't source tools powerful enough to provide the level of customization they desire.

Fintechs could lose out, too, from limiting their client-base.

- Small banks whose tech won't help them compete will ultimately fold, look for a larger buyer, or merge with a bigger bank.
- With fewer small banks, and large banks already ahead in their digital transformation, the pool for new fintech clients will become limited.
- Fintechs shouldn't ignore the possibility of a few small investments amounting to big returns.

Fintechs must offer the same tech solutions to all.

- Most larger banks will typically have better infrastructure to integrate with a fintech, whereas smaller banks may prefer a banking-as-a-service (BaaS) structure. Regardless of how the solution is implemented, the tech behind the tools shouldn't differ.
- The level of offerings can differ, with tools providing fewer AI-powered features priced low enough to let smaller banks partake, but the underlying tech itself should be the same.

The bottom line: Small banks and credit unions investing in a fintech partnership to leverage AI-powered solutions should ask pointed questions during the initial due diligence stage. Ask for a full list of AI-powered products and their prices, and dig further into the differences between the fintech's respective offerings for larger and smaller banks. If the differences lie within the technology itself, rather than the implementation, it may be worth checking out other partnerships.

Analyst Estimates: Provider and Consumer Interest in Generative AI Applications in Banking

over a 3-year horizon



Source: Insider Intelligence, 2023

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