



Impact of Artificial Intelligence on Indian Banking Sector- A Study of Banks

Dr. Amtul Wahab¹

¹Assistant Professor of Commerce, Indira Priyadarshini Govt, Degree College for Women, Nampally, Hyderabad, India.

Email: amtwahab@gmail.com¹

Abstract

Artificial intelligence, or AI, is a cross-disciplinary approach to understanding, modeling, and creating intelligence of various forms. It is a critical branch of cognitive science, and its influence is increasingly being felt in other areas, including the humanities. Intelligence might be defined as the ability to learn and perform suitable techniques to solve problems and achieve goals, appropriate to the context in an uncertain, ever-varying world. A fully pre-programmed factory robot is flexible, accurate, and consistent but not intelligent. Artificial Intelligence (AI), a term coined by emeritus Stanford Professor John McCarthy in 1955, was defined as "the science and engineering of making intelligent machines". Much research has humans program machines to behave in a clever way, like playing chess, but, today, people emphasize machines that can learn, at least somewhat like human beings do. Autonomous systems can independently plan and decide sequences of steps to achieve a specified goal without micro-management. A hospital delivery robot must autonomously navigate busy corridors to succeed in its task. In AI, autonomy doesn't have the sense of being self-governing common in politics or biology.

Keywords: Artificial intelligence, Indian banking sector, Machine learning, Problem solving, planning, and search --- generic problem-solving architecture based on ideas.

1. Introduction

1.1. Artificial Intelligence

Key Research Areas in AI

- Problem solving, planning, and search-generic problem-solving architecture based on ideas from cognitive science (game playing, robotics).
- Knowledge Representation – to store and manipulate information (logical and probabilistic representations)
- Automated reasoning / Inference – to use the stored information to answer questions and draw new conclusions
- Machine Learning – intelligence from data; to adapt to new circumstances and to detect and extrapolate patterns
- Natural Language Processing – to communicate with the machine
- Computer Vision-processing visual information
- Robotics-Autonomy, manipulation, full integration of AI

Artificial Intelligence (AI) [1] has entered our daily lives like never before and we are yet to unravel the many other ways in which it could flourish. All of the tech giants such as Microsoft, Uber, Google, Facebook, Apple, Amazon, Oracle, Intel, IBM or Twitter are competing in the race to lead the market and acquire the most innovative and promising AI businesses

1.2. Skills of AI

The statement "Creating better humans will always be more important than creating smarter machines" underscores the significance of prioritizing human development and ethical considerations over the mere advancement of artificial intelligence (AI) technology. [2,3] This perspective emphasizes the ethical responsibility that comes with developing and deploying AI systems and stresses the need to ensure that these technologies enhance human well-being rather than compromise it. Here are several aspects to consider:

Ethical Considerations: The focus on creating better humans implies a commitment to ethical



practices in AI development. This includes addressing issues such as bias, transparency, accountability, and fairness to ensure that AI systems align with human values and societal norms.

Human-Centric Design: Emphasizing the importance of creating better humans suggests a human-centric approach to AI design. AI technologies should be developed to augment human capabilities, enhance quality of life, and contribute positively to societal progress rather than replace or undermine human roles.

Education and Skill Development: Prioritizing the creation of better humans involves investing in education and skill development.[5] This includes equipping individuals with the knowledge and skills necessary to understand, adapt, and collaborate with AI technologies effectively. It underscores the need for continuous learning and adapting to the evolving technological landscape.

Emotional Intelligence: [6] While AI can excel in certain cognitive tasks, the statement emphasizes the importance of nurturing human qualities such as emotional intelligence, empathy, and ethical decision-making. These qualities are essential for navigating complex social interactions and ethical dilemmas that may not be easily replicated by machines.

Human Flourishing: Creating better humans suggests a broader perspective that goes beyond technological advancements. It involves fostering environments and systems that contribute to human flourishing, encompassing physical, mental, and emotional well-being. AI should complement and support these aspects of human life rather than detract from them.

Societal Impact: The statement underscores the understanding that the impact of AI on society goes beyond technological capabilities. It prompts consideration of the broader consequences, both positive and negative, of AI adoption, ensuring that societal benefits are maximized, and potential harms are mitigated.

Collaboration Between Humans and AI: A key implication of the statement is the idea that AI

should serve as a tool for collaboration between humans and machines rather than a replacement for human abilities. This collaboration can lead to innovative solutions, increased efficiency, and improved problem-solving. The statement highlights the need for a balanced and responsible approach to AI development—one that places human well-being, ethical considerations, and societal impact at the forefront. While advancing AI capabilities is important, it should be done in a way that enhances the human experience and contributes positively to the overall betterment of society.

1.3. Areas of Application of AI in Our Daily Life

Healthcare: One primary aim of health-related AI applications is to analyze the relationships between prevention/treatment techniques and patient outcomes. AI programs have been developed and applied amongst others to practices such as the entire diagnosis processes, treatment development, drug development, customized medication, and patient monitoring and care (PwC, 2019). The medical world is increasingly using AI and the Internet of Medical Things (IoMT) for helping citizens via the range of consumer health applications available today (PwC, 2019). Such medical applications are a great source of encouragement and support for people to develop and follow a healthy lifestyle. With proactive health management, technology has put the person in control of their own health and holistic well-being.

Agriculture: AI is being used extensively in agriculture (Intel, 2019). From counting the number of blooms to predict the yield in the fields, to the detection of pests and predicting which of the sown crops will yield the best possible returns, technology is being readied to meet a future global challenge. According to United Nations' population division, the entire world population is estimated to touch 9.7 billion by the year 2050 (UN DESA, 2015) and the challenge we will face will be to feed such a growing population. Microsoft in collaboration with ICRISAT, has developed an AI



Sowing App powered by Microsoft Cortana Intelligence Suite including Machine Learning and Power BI. The app sends sowing advisories to participating farmers on the optimal date to sow. The best part – the farmers don't need to install any sensors in their fields or incur any capital expenditure. All they need is a feature phone capable of receiving text messages (Microsoft 2017). Artificial Intelligence can be used in agriculture to assist in weather prediction and simulate the impact of current and emerging trends on yield, and therefore global produce. Here are three major categories of applications of AI in agriculture:

Agricultural Robots – Development and programming of autonomous machinery to manage essential tasks in agriculture such as harvesting of the crops at a higher volume and faster pace than human laborers. This will save both cost and time.

Crop and Soil Monitoring – Advanced computer vision together with deep-learning algorithms are being developed to process data captured by drones and other technologies to monitor crops and soil health of vast geographical areas that are difficult, by their size, to manage by people.

Predictive Analytics – Models are being developed with machine learning technology to track and predict various environmental impacts on crop yield such as weather changes, spread of pest and agricultural diseases etc.

Retail: The future of retailing is in the partnership of employees with AI technology to introduce ways of optimizing the performance of the business. (Bayern, 2019). [12] AI in retail can be used in specific areas such as supply chain planning, demand forecasting, customer intelligence, marketing, advertising and campaign management, and pricing and promotion of products or services. AI can enable more efficient processing of supply chains and returns in the retail industry. It is also being used to develop chatbots which interact with customers to understand their enquiries or purchase and react accordingly. Development of customer-facing AI functionality such as self-service checkouts are designed to benefit retailers by

reducing costs and increasing sales throughput, and assist customers in a trouble-free shopping experience, thereby increasing customer satisfaction.

Productivity at work: [13] AI-powered applications and apps are prevalent at work too, assisting the human resources department in workforce recruitment. The technology helps managers come up with convincing job requirements using data from similar job postings which have borne fruit (Greene, 2019). AI is also supporting scheduling meetings, writing emails, making appointments and reminding people of various important business and personal tasks that one might miss out, thus helping users to manage their time well. This document itself was created using AI techniques in language definition by checking for correct spelling and grammar and suggesting possible changes to the wording. [10,11] Artificial Intelligence works independently of following instructions to fulfill repetitive tasks. The program is built to understand patterns and draw intelligent connections, thus enabling it to predict and fulfill the next set of instructions and tasks. Considering all the important factors this helps it to suggest potentially smarter business decisions to managers.[22] Over a period of time and upon handling multiple cases, the learning element of AI becomes more intuitive in processing the information. For example, it can propose new operations based on past budgetary results, talent cost, employment plans, etc. Organizations can use AI-based applications to allow job candidates to schedule their interview with the interview panel at a time suitable for all parties. Some applications such as those used by Stella and Koru (Greene, 2019) make use of AI technology components to match the requirement of the employers to that of the candidates based on the candidates' credentials, skills and the experiences. Another AI-based application known as the Palatine Analytics offers various tools to managers that help measure the performance of employees, and even select the right employee for promotion without the element of human bias. Machine learning is a type of



artificial intelligence that uses data to make predictions or decisions, and deep learning is a type of machine learning that uses neural networks to learn from data. All of these technologies are part of the larger field of AI.

1.4. Objectives

The objectives of the study are

- To study the evolution and adoption of Artificial Intelligence in banks in India and to have an overview of its growth/trends.
- To examine the perceptions of AI customer towards adoption of AI and its impact on efficiency.
- To assess the impact of AI on service quality.

2. Review of Literature

Chaya, D. & Syed S. (2023) this study aimed to explore [14] AI's extensive applications in the BFSI sector and its role in the financial industry. Secondary data from various sources were analyzed. The findings suggest that AI could connect financial institutions with millions of first-time credit borrowers and reduce loan defaults. The BFSI sector is rapidly transforming through AI adoption, enhancing efficiency and customer engagement. Governments are facilitating AI integration in financial operations. Key AI applications include Chat Bots, Report Generation, Analytics, RPA, Biometrics, and Loan Processing, with ongoing developments anticipated.

Kumar, J.P., & Gupta, D.S. (2023). This study employed a mixed-methods approach, utilizing surveys to gather data from 187 participants in banks located in Delhi/NCR. [15] The collected data was then meticulously analyzed using SPSS and MS Excel, with a focus on descriptive statistics and variance analysis to discern any significant differences. The results underscored the pivotal role of artificial intelligence (AI) in significantly enhancing customer relationships and streamlining intricate banking processes, ultimately leading to improved customer service, heightened operational efficiency, and enhanced industry credibility. The study's conclusion emphasized that AI has the potential to revolutionize the industry by offering enhanced convenience, security, and stability,

significantly improving the quality and reliability of banking services for customers.

Sharma, P. & Padhi, N. (2023). in this study authors conducted a comprehensive literature review to identify key factors central to AI adoption in the banking sector. They highlighted the trend of technology convergence and the potential risks of job automation, particularly for junior management roles.[16] The researchers also recognized the importance of a task classification model tailored to the Indian banking industry and acknowledged industry-specific factors that impact AI implementation. They introduced the Technological, Organizational, and Environmental/Technological Acceptance Model (TOE/TAM) to assess AI implementation in the Indian banking sector. The study also identified new roles, and skill sets that have emerged due to AI's advent in the banking sector.

Deranty, J. P., & Corbin, T. (2022) discussed about technological unemployment and what kind of jobs are getting affected with AI adoption.[4] AI is introduced in workplaces for increased efficiency in some technical aspect of the work process, or it is introduced explicitly with the aim of replacing human workers and thereby reduce labour costs. In this study they consider that if as a result of AI deployment in work, technological unemployment does occur at a significant scale, or wealth polarization, or crowd work and app-work become widespread employment models, bringing further precariousness in employment conditions, then the impact on current social organizations will be significant.

Fridgen, G., Hartwich, E., Răgo, V., Rieger, A., & Stohr, A. (2022) [7] found that AI-related digital options in retail banking require a conscious process to make specific AI options available. By actively investing in technological readiness and a broad knowledge base, organizations can generate a plethora of available digital options. And also, they found that TOE factors strongly influence the digital options lifecycle.

Kelley, S. (2022) found that there are eleven components that could impact the effective



adoption of AI principles in organizations: [19] communication, management support, training, an ethics office, a reporting mechanism, enforcement, measurement, accompanying technical processes, a sufficient technical infrastructure, organizational structure, and an interdisciplinary approach. This study examines employee perceptions on the effective adoption of artificial intelligence principles in their organizations. In this article, key contribution is in identifying the ethical principles that employees consider essential in the adoption of AI and highlighting the importance of incorporating these principles into the development and implementation of AI systems. The paper provides insights into the priorities of employees when it comes to the ethical considerations of AI adoption and how organizations can effectively adopt AI principles while maintaining ethical standards. The study's findings can help organizations design ethical and responsible AI systems that prioritize employee trust and confidence.

3. Indian Bank Has Effectively Integrated AI in Its Services

Customer Service and Chatbots: Many banks were implementing AI-driven chatbots to enhance customer service. These chatbots could handle routine queries, provide information on account balances, transaction history, and even assist in processing certain transactions.

Fraud Detection: AI and machine learning algorithms were being employed for fraud detection. These systems analyze patterns in transactions and user behavior to identify unusual or suspicious activities, helping banks prevent fraudulent transactions.

Credit Scoring and Risk Management: AI algorithms were used to analyze customer data for credit scoring, allowing banks to assess the creditworthiness of applicants more accurately.[17] AI played a role in risk management by analyzing market trends and predicting potential risks.

Personalized Banking Experience: AI-driven systems helped in providing a more personalized

banking experience. By analyzing customer data, banks could offer targeted product recommendations, personalized marketing, and customized financial advice.

Automation in Back-Office Operations: Automation through AI technologies streamlined back-office operations. This included automating routine tasks, data entry, and document processing, leading to improved efficiency and reduced operational costs.

Advanced Analytics for Decision-Making: Banks were increasingly leveraging AI for advanced analytics to make better-informed decisions. This included analyzing large datasets to identify market trends, optimize pricing strategies, and enhance overall business intelligence.

Biometric Authentication: AI-powered biometric authentication methods, such as facial recognition and fingerprint scanning, were being adopted to enhance security in digital banking services.

Regulatory Compliance: AI was used to ensure compliance with regulatory requirements.[18] These systems could monitor transactions for compliance with anti-money laundering (AML) and know your customer (KYC) regulations. It's important to note that the extent of AI integration can vary among different banks, and the pace of adoption may have evolved since my last update. Banks in India, like those globally, continue to explore and invest in AI technologies to improve their services, enhance security, and stay competitive in the rapidly evolving financial landscape. To obtain the latest information on a specific Indian bank, it would be advisable to check their official announcements, reports, or contact the bank directly.

4. AI-powered services

Chatbots for Customer Support: Chatbots are widely used in the banking industry for customer support. They can handle routine queries, provide information on account balances, transaction history, and assist with basic banking tasks. The goal is to enhance customer service and provide



quick responses to common queries.

AI-Driven Investment Advisory: [20] AI is utilized in investment advisory services to analyze market trends, assess risk, and provide personalized investment recommendations. These systems take into account individual financial goals, risk tolerance, and market conditions to offer tailored investment advice to customers.

Fraud Detection Systems:[21] AI-powered fraud detection systems analyze transaction patterns, user behavior, and other relevant data to identify and prevent fraudulent activities. These systems help banks detect anomalies and take immediate action to mitigate potential risks.

Personalized Product Recommendations: AI is used to analyze customer data and behavior to offer personalized product recommendations. This could include suggesting relevant banking products, credit cards, or investment opportunities based on individual preferences and financial history.

Voice-Based Assistants for Banking Transactions: Voice-based assistants, often powered by natural language processing (NLP) and speech recognition technologies, enable customers to perform banking transactions using voice commands. [8,9] These assistants can provide account information, initiate fund transfers, and execute other banking tasks through voice interactions. The adoption and implementation of these AI-powered services can vary among different banks, and advancements in technology may lead to the introduction of new services or improvements to existing ones. Additionally, developments in the field of AI and banking services may have occurred since my last update. To get the most current information on the AI-powered services offered by a specific bank, it is recommended to check the official website of the bank or contact them directly.

Conclusions

AI's role in automating routine tasks and augmenting analytical capabilities has led to increased employee productivity. Financial professionals can focus on higher-value tasks, leveraging AI-driven insights to enhance their

performance. The synergy between AI tools and human expertise creates a dynamic environment where employees are empowered to deliver more strategic, efficient, and client-focused services. The use of AI positively influences service quality by enabling personalized financial services, efficient risk management, and proactive fraud detection. Clients benefit from tailored recommendations, reduced risks, and enhanced security measures. As financial institutions leverage AI to improve service quality, the overall client experience is elevated, contributing to customer satisfaction and loyalty. While the impact of AI is largely positive, challenges related to employee adoption persist. Resistance to change, concerns about job displacement, and the need for upskilling are obstacles that financial institutions must navigate. Successful integration of AI into workflows requires a strategic approach, including comprehensive training programs and a supportive organizational culture that encourages collaboration between humans and machines. Maintaining ethical standards in AI-driven decision-making is paramount. The transparency of algorithms and the avoidance of biases are critical to building and preserving trust with clients. Financial institutions need to prioritize ethical considerations to ensure that AI applications align with industry regulations and uphold the integrity of financial services. The evolving nature of AI necessitates continuous monitoring and adaptation. Financial institutions must stay abreast of technological advancements, update algorithms, and ensure compliance with changing regulatory requirements. This adaptability is crucial for sustaining high-quality service delivery and ensuring that employees remain adept in leveraging AI tools effectively. In essence, the impact of AI on financial decision-making transcends mere automation; it shapes a new paradigm where technology and human expertise complement each other. As financial institutions inculcate a culture of responsible AI use, address employee concerns, and prioritize ethical considerations, the symbiotic relationship between AI, employee performance,



and service quality will continue to define the future of the financial industry. Balancing innovation with ethical considerations will be key to unlocking the full potential of AI in fostering excellence in financial decision-making and service delivery.

Suggestions

Implementing Artificial Intelligence (AI) in the Indian banking sector can have transformative effects on employee performance and service quality. Here are some suggestions to leverage AI effectively for these purposes. Invest in comprehensive training programs to equip employees with the necessary skills to work alongside AI technologies. This will enhance their understanding of AI tools, improve adaptability, and empower them to utilize these technologies to augment their performance rather than perceive them as threats. Promote a collaborative culture where employees and AI systems work together synergistically. AI can handle routine tasks and data analysis, allowing human employees to focus on complex problem-solving, relationship-building, and strategic decision-making. Encouraging collaboration fosters a positive work environment. Utilize AI for performance monitoring and feedback mechanisms. AI systems can analyze employee performance data, provide insights into areas for improvement, and offer personalized feedback. This ensures continuous skill development and helps employees stay aligned with the evolving requirements of their roles. Stay abreast of the latest AI advancements and continuously upgrade systems to remain competitive. Regularly assess and adopt new AI technologies that align with the evolving needs of the banking sector. This proactive approach ensures that the organization remains at the forefront of technological innovation, positively impacting employee performance and service quality. Prioritize ethical considerations in AI implementation. Ensure transparency in AI algorithms, actively work to mitigate biases, and adhere to ethical standards. Addressing ethical concerns builds trust among employees, customers,

and regulatory bodies, positively influencing service quality and employee morale. Educate customers about the benefits of AI in banking services. Communicate how AI-driven enhancements, such as chatbots and personalized services, aim to improve their overall banking experience. Provide customer support to address any concerns or queries related to the integration of AI, ensuring a smooth transition and increased satisfaction. By implementing these suggestions, the Indian banking sector can harness the power of AI to enhance employee performance, improve service quality, and create a more resilient and innovative financial ecosystem. Balancing technological innovation with a human-centric approach is key to maximizing the benefits of AI in the banking industry.

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