BAI Banking Strategies
Executive Report

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2024 banking outlook

BAI POWERING SMART DECISIONS.

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The to-do list for bankers in 2024: Grow deposits, acquire new customers and enhance the customer digital experience.

BY EDMUND LAWLER

Growing deposits will be very top of mind for bankers in 2024.

It's no surprise that deposit growth is the No. 1 business priority of bankers, according to BAI Banking Outlook: 2024 Trends. Deposits flowed in the wrong direction in 2023, triggered by the collapse of Silicon Valley Bank and the sharp rise in inflation.

As BAI's new Head of Client Engagement John Rountree explains in our annual Outlook issue, how middle-class consumers—battered by inflation—drew down their checking and savings deposits to make ends meet. And affluent consumers swept excess cash from their checking accounts to chase substantially higher rates offered by CDs, money market funds and investment products producing more robust returns.

The No. 2 priority for the year ahead is new customer acquisition, which makes sense because one of the best ways to grow deposits is to enlist new customers. But John believes banks and credit unions will focus more intently on retaining and growing existing deposits ahead of prioritizing the acquisition of new customers.

New customer growth tends to come from people new to banking. They are often just out of college and starting their first job. They usually have less income and less wealth as compared to older consumers.

The No. 3 priority for 2024 is the customer digital experience. As Karl Dahlgren, BAI's managing director, enterprise strategy, explains: Banks face the tall task of serving their customers digitally—much like the best-in-class online retailers seamlessly deliver their services.

But unlike online retailers, banks must comply with a raft of regulations that breathe friction into their customer digital experience, Karl notes. Additionally, banks are often hamstrung by cumbersome core systems.

Nevertheless, banks have made enormous strides with the online experiences they're delivering customers, he says. And the fact that bankers said in BAI Banking Outlook: 2024 Trends survey that technology integration and platforms are their top priority for the next two years suggests they will continue full speed ahead in that direction.

One the biggest challenges to the customer digital experience is fraud. Isio Nelson, BAI's managing director, research, writes that fraudsters are directing a growing variety of scams against banks and their customers.

Most financial institutions are using AI to address fraud, or they plan to within the next year, says Isio, pointing to BAI Banking Outlook: 2024 Trends. AI is helping institutions detect patterns in customer behavior—and the anomalies to those patterns—to help determine when to contact customers to confirm a transaction beyond their normal behavior.

Also in this issue:

What will successful tech transformation look like in 2024? James White of Total Expert writes that as banks look for ways to navigate the headwinds of 2024, technology will be at the center of strategies on both ends of the spectrum: driving bottom-line efficiency and powering top-line growth. AI, he says, is poised to completely change how banking operates.

Six ways financial institutions can harness the power of AI: Vericast's Alexa Bennett says it's clear that thoughtful integration of AI in financial marketing is not an option but a necessity. The versatility of AI, from data analytics to fraud detection, equips marketers with a comprehensive toolkit to elevate their strategies, ensuring they remain competitive and relevant in this swiftly evolving digital era.

Why virtual assistants are the future of banking customer service: Nina Vellayan of Engageware writes that conversational AI—or CAI—offers open and natural conversations, integrates with various platforms and prioritizes privacy and security. This technology, she believes, sets a new standard for customer service, and it will become an indispensable tool for modern banks.

Transforming financial services with generative AI: ServiceNow's Greg Kanevski says Gen AI empowers banks to orchestrate digital workflows on a platform that foundationally helps them connect every system and digital process. This effort is critical as banks race to modernize their front- and back-office systems that have left them less able to compete with nimble tech startups.

How strategic use of AI can unlock opportunity: Heidi Hunter of IDology discusses AI's ability to quickly scrutinize vast volumes of data, which is a boon for financial service providers dealing with millions of daily transactions. AI automates threat discovery, accelerating the detection of patterns of suspicious activity for faster, enhanced decision-making, she says. With human oversight as part of a multilayered ecosystem, banks can tap the full potential of AI for identity verification and fraud prevention.

We hope the insights our leaders have highlighted from BAI Banking Outlook: 2024 Trends will provide guidance for the year ahead. More so than ever, growing deposits, acquiring new customers and further enhancing the customer digital experience will drive the success of financial services organizations. And AI will undoubtedly play a critical role in supporting all those priorities. Feel free to contact us with thoughts on your priorities for 2024.

Edmund Lawler is a contributing editor for BAI.

Prioritizing deposit growth in inflationary times

On the heels of an extraordinarily challenging year, bankers must move forward with agility and creativity in 2024.

BY JOHN ROUNTREE

JOHN ROUNTREE
BAI

When interest rates are low, consumers typically park their money in checking accounts because there are no better alternatives. But when interest rates are high, as they are now, consumers drain excess amounts from their checking accounts in favor of more lucrative alternatives like CDs offering a higher rate of return.

After more than a year of deposit outflows as bank customers sought higher yields—and as others drew down their checking or savings accounts in response to inflationary pressures—it's hardly a surprise that bankers say their top priority in 2024 is deposit growth.

According to BAI Banking Outlook: 2024 Trends, the No. 1 business challenge for bankers will be growing their deposits. BAI's forecast for financial services organizations' deposit growth in the year ahead is negative, with a forecasted 2.4% decline in deposits.

In our 2023 survey of bankers, deposit growth did not even crack the list of Top 3 priorities. The leading priority was new customer acquisition, which slipped to the second spot for 2024.

But 2023 was no ordinary year. In the spring, Silicon Valley Bank, First Republic Bank and Signature Bank all failed, triggering a flight to deposit safety. Throughout the year, many banking customers hunted for higher-yielding products like CDs and money market funds. It's a trend that started in 2022 as the Fed hiked interest rates to cool the economy inflated by the COVID-19 stimulus payments.

When interest rates are low, consumers typically park their money in checking accounts because there are no better alternatives. But when interest rates are high, as they are now, consumers drain excess amounts from their checking accounts in favor of more lucrative alternatives like CDs offering a higher rate of return.

That's particularly true for more affluent consumers who can afford to chase higher-yielding products beyond a basic checking or savings account. Lower-income consumers, battered by inflation and higher rents, are forced to draw from their checking or savings accounts to make ends meet.

Traditional banks are seeing some of their deposits flow to online and direct banks, which are offering better rates on products like CDs and money market funds. Still other deposits are migrating to investment firms.

The competition for deposits has intensified among banks and credit unions because deposits are the best and the cheapest source of funding. If banks don't have sufficient deposits, they must seek funding elsewhere. And that is a big challenge and a big risk.

In less-inflationary times, banks drive deposit growth by acquiring new customers who open checking accounts, which usually establishes primacy. But in 2023, as checking accounts became less sticky because of a wealth of higher-yielding alternatives, banks focused intently on retaining existing deposits instead of prioritizing the acquisition of new customers.

New customer growth tends to come from people new to banking. They are often just out of college and starting their first job. They usually have less money and less wealth as compared to older consumers.

Members of the Generation Z and Millennial generations are well worth acquiring for their longer-term lifetime value, but their deposits will likely have minimal impact in the near-term.

According to BAI Banking Outlook: 2024 Trends survey of 102 financial services organizations, only about one-quarter (28%) of banks and credit unions said they are offering cash incentives for opening a new checking account. The average incentive is $275.

BAI also surveyed 1,000 consumers of all generations to glean their insights. Confirming what bankers are seeing, all generations of consumers reported in September of 2023 that they had fewer deposits than they did six months earlier.

The No. 1 culprit: inflation, followed by higher rent/housing costs and big-ticket purchases. Consumers are simply having to spend more money on just about everything than they did six months to a year ago.

How customers make deposits or open new accounts continues to change as well, according to our survey.

How customers make deposits or open new accounts continues to change as well, according to our survey. Only a third of Gen Z and Millennials open deposits in a branch versus nearly 60% of Baby Boomers who prefer to do so in a branch.

Only a third of Gen Z and Millennials open deposits in a branch versus nearly 60% of Baby Boomers who prefer to do so in a branch. Younger consumers are far more likely to open a deposit using an app or a desktop computer than their older counterparts.

Twenty-eight percent of Gen Z said they prefer to open a deposit account via a bank's mobile app. By contrast, only 9% of Boomers said they preferred to open a deposit account on their bank's mobile app.

It all depends on the generation and how people grew up in the banking system. Older consumers are far more likely to walk into a branch in their community and hand over a check to a teller they've known for years. Many younger consumers have never stepped foot in a branch, preferring to handle their deposits online via the mobile app. It's how they shop, hail an Uber or make a dinner reservation.

Nevertheless, the branch is still important, but important in a different way. Consumers of all generations like to know there is a branch within striking distance of their home or office. And even if some consumers rarely visit a branch, they will make appointments to meet with a banker for financial advice or for more complex transactions like a mortgage, an auto loan or borrowing to finance a college education.

Selecting a primary financial services organization often boils down to two factors for the consumer: Which bank has the lowest fees, and which one offers the highest rates.

Fees apply to a customer's checking account, which is usually the only account that will incur fees. The second-leading factor, according to our survey, is the interest rate paid on savings accounts, CDs and money market accounts. Consumers are keeping a close watch on those rates, especially amid inflationary times we're now experiencing.

These are challenging times, especially for people who didn't experience the unsettling, high-inflationary period of the late 1970s and early 1980s. Navigating this moment in time is daunting for younger consumers, as well as for younger bankers tasked with accumulating deposits and acquiring new customers.

What we can say with certainty is that the inflationary environment of the past six to 12 months has caused a sea change in consumer behavior to which bankers need to respond with a high degree of agility and creativity in 2024.

John Rountree is head of client engagement for BAI.

The critical importance of the digital customer experience

Somewhat unfairly, customers measure their bank's digital delivery of services against the practices of world-class online retailers.

BY KARL DAHLGREN

The customer digital experience slipped one notch on the list of Top 3 priorities for bankers in 2024, but it remains a critical concern for financial services leaders as consumers increasingly conduct their lives in online and mobile environments.

If it weren't for the urgent need for banks and credit unions to shore up deposits during a tumultuous 2023, the customer digital experience likely would have maintained the second spot in BAI Banking Outlook: 2024 Trends. The customer digital experience landed in the third spot behind new customer acquisition and deposit growth in BAI Banking Outlook: 2024 Trends.

Bankers take the customer digital experience seriously. They not only cited it as their third-leading business challenge in the year ahead, but bankers identified the customer digital experience as their second-leading investment priority for the next two years.

Topping the list in BAI Banking Outlook: 2024 Trends for investment priorities is technology integration and platforms, which essentially lays the groundwork for what bankers hope is a frictionless omnichannel experience for their customers, particularly within the digital channel.

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Banks have tough customers. Their expectations are extraordinarily high. They've been spoiled by the seamless digital experiences provided by the best-in-class online retailers, and they want their banks to emulate that level of service.

But banks have tough customers. Their expectations are extraordinarily high. They've been spoiled by the seamless digital experiences provided by the best-in-class online retailers, and they want their banks to emulate that level of service.

Easier said than done, of course, because banks and credit unions have complex, disparate legacy systems. And they must comply with a web of regulations that online retailers do not face.

For example, simply onboarding a customer—regardless if it's done online or in-person—is complicated by regulations such as Know Your Customer or anti-money laundering requirements. Onboarding requires a lot of steps that can throw sand in the gears of online interactions. Creating a holistic experience from the customer's lens is expensive and complicated.

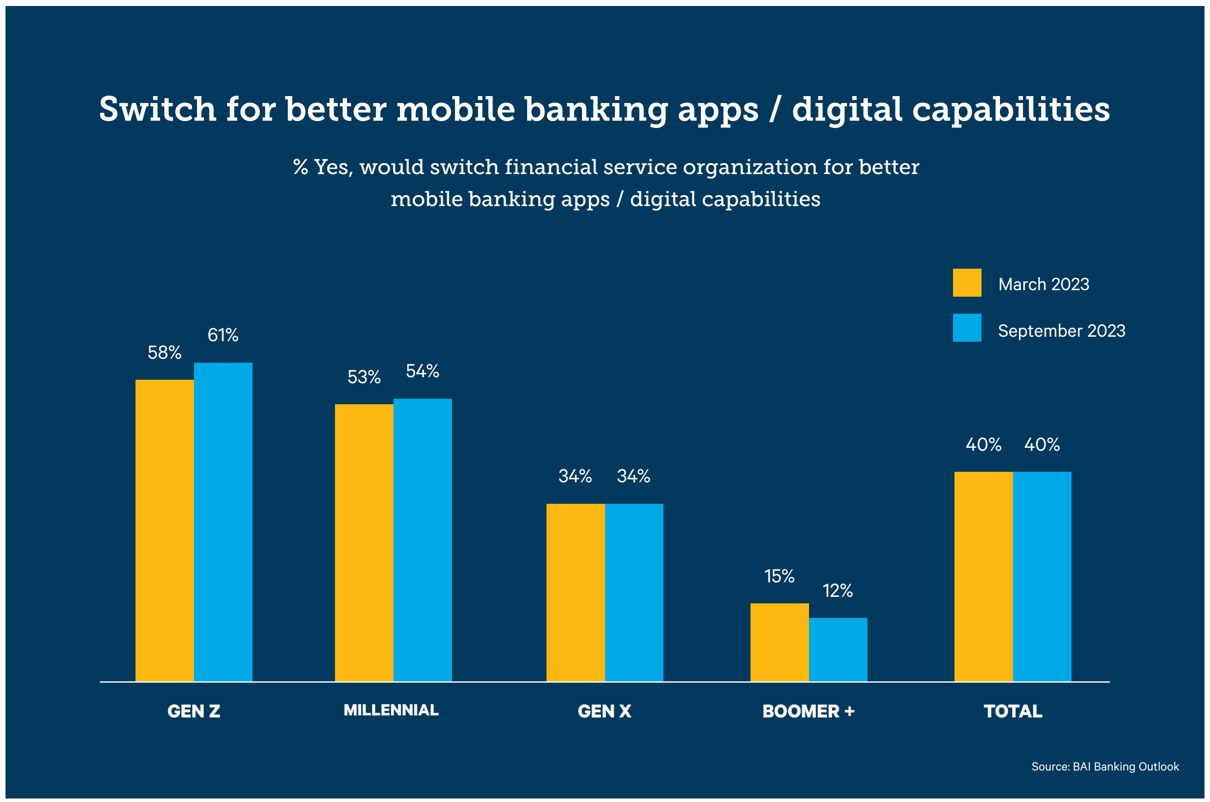
Our survey of 1,000 consumers of all four generations for BAI Banking Outlook: 2024 Trends found they were a bit disgruntled. When asked if their primary financial services organization understands their desired digital customer experience, every generation reported declining levels of satisfaction from when they were asked that question in March 2023 to when they were that question again in September.

The same was true when we asked if their primary financial services organization understood their financial needs. Every generation from Generation Z to Baby Boomers reported lower scores. And Net Promoter Scores for their primary financial services organization were lower across every generation.

Perhaps the feedback reflects a general sense of malaise that goes beyond banking. Despite the sour consumer sentiment and the daunting regulatory challenges, banks must persist in their quest to provide a digital experience that's every bit as good as the one they've long provided in person.

Bankers are well aware of the disparity between the service they provide in person versus the one they serve up online. Thirty-eight percent of bankers said they provide excellent customer service face-to-face, but only 11 percent of them said they provide excellent customer service online, according to our banker survey.

Bankers have been serving customers in person for generations, and they got pretty good at it. Online banking is relatively new, and it's difficult replicating the in-person experience in the digital space. On top of that, the digital component completely changes the economics of the bank because the digital consists of fixed costs associated with the integration of systems and building capabilities within digital platforms.



Banks, regardless if they're brick-and-mortar or strictly online, must get the customer digital experience right. That's particularly important to Gen Z. Six in 10 of them said they would switch financial services organizations in favor of a bank that offered a better app and other digital capabilities.

Fintechs and direct banks are new to the game and have disrupted the banking industry with their digital expertise. When we asked bankers if they have learned lessons from the fintech community that they plan to implement in 2024, slightly less than half (46%) of them said they have.

But that's not to say that slightly more than half of bankers are ignoring or disregarding the influence of the fintech community. They are taking the fintechs seriously, just as the fintechs take seriously the work being done by traditional banks encumbered by their legacy systems and navigating a highly regulated financial services ecosystem.

As evidence of how seriously traditional banks are taking their upstart competitors, 46% of bankers in our survey said they plan to collaborate with a fintech.

Banks, regardless if they're brick-and-mortar or strictly online, must get the customer digital experience right. That's particularly important to Gen Z. Six in 10 of them said they would switch financial services organizations in favor of a bank that offered a better app and other digital capabilities. Fifty-four percent of Millennials said they would make the switch, while 34% of Generation X and 12% of Boomers said they would do the same.

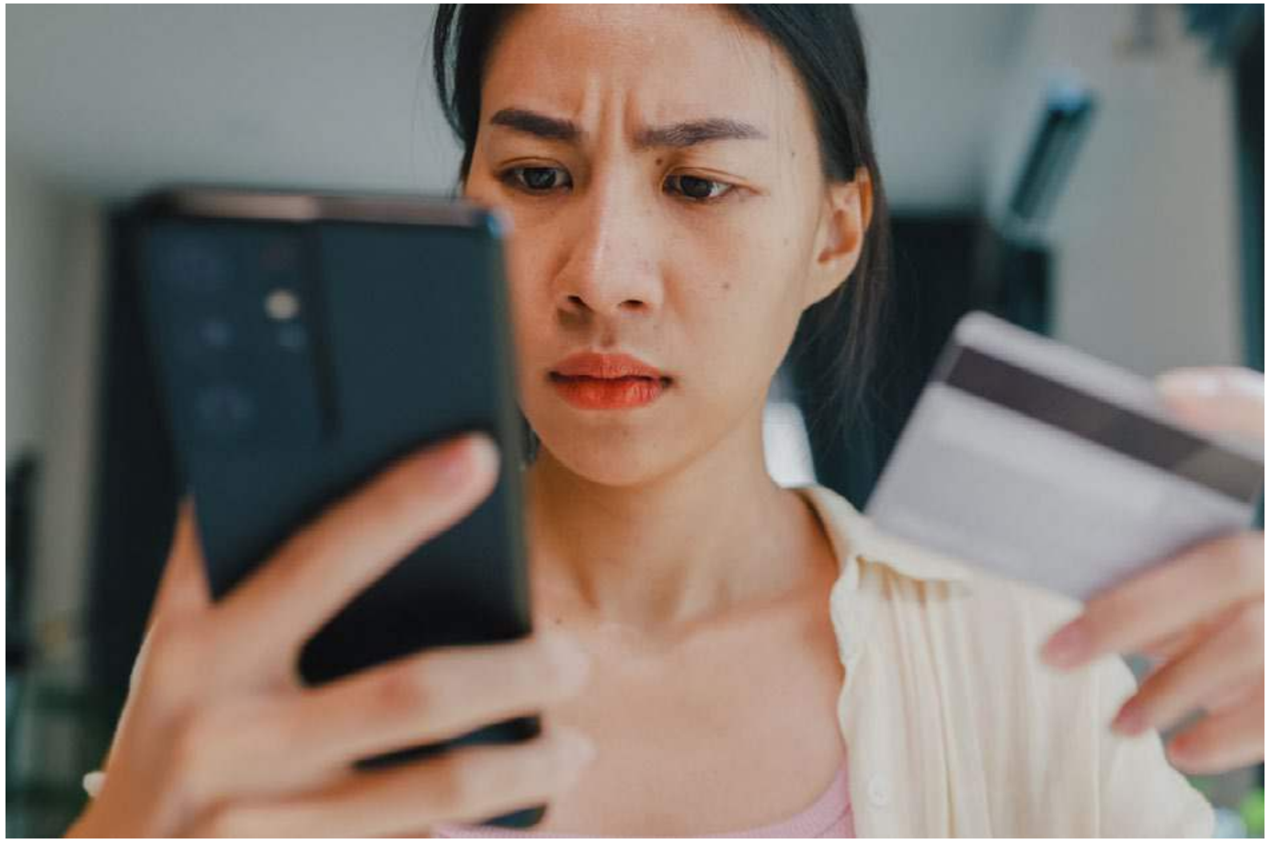
Although Gen Z have far fewer financial assets than older generations and use banking services more than the other generations, these young consumers represent the future of banking. To secure that future, financial services organizations must continue to invest in and master the customer digital experience. Banks can't possibly earn the loyalty of younger generations without offering them a frictionless omnichannel experience.

Karl Dahlgren is managing director, enterprise strategy, for BAI.

Walking a fine line

Banks and credit unions must establish strict fraud-mitigation protocols without creating so much friction that customers walk away.

BY ISIO NELSON



While third-party fraud continues to wreak havoc on financial institutions, first-party fraud is also on the rise, according to the BAI Banking Outlook: 2024 Trends.

Third-party fraud—fraudsters using the identity of others to take over their accounts—remains the most common type committed by swindlers. Nearly a third (32%) of financial institutions reported they experienced third-party fraud in the past year, according to BAI's survey of 102 financial institutions.

However, an increasing percentage of institutions are now seeing incidents of first-party fraud, in which fraudsters open accounts themselves. Forty-two percent of institutions said they experienced first-party and third-party fraud equally.

It's not just hardened criminals committing first-party fraud. Customers sometimes dispute purchases they made, even though they knew they didn't have enough money in their account to afford the purchase.

Some consumers misrepresent their income on digital applications, as well as wash their credit report—disputing a negative item to get it removed. They then fraudulently obtain new credit before the negative item is reinserted into their credit report.

Institutions walk a fine line on fraud. They must put controls in place to mitigate fraud. But if they go too far, they create false positives. Then well-intended customers express their dissatisfaction through social media, which damages the bank's overall brand.

Banks and credit unions know they can never eliminate fraud. All they can do is work diligently to contain it. The challenge is determining how much fraud they are willing to accept.

Phishing and check fraud remain the most common type of third-party fraud reported by customers of the institutions surveyed (73% and 72%, respectively). That's followed by debit card fraud (69%), electronic banking fraud (52%), account takeover (47%), impersonation of official scams such as Social Security and other government programs (37%), malware (25%), provider scams (19%), charity scams (13%) and economic relief scams (13%).

Also on the rise: synthetic fraud. Fraudsters make up a name based on fictitious information to create

Most institutions surveyed have stepped up their fraud reduction efforts in the last year. The vast majority (79%) are protecting their customers using a multifaceted approach. Three-fourths (76%) are educating their customers about how to protect themselves, particularly from third-party fraud.

enough of a backstory so they can open an account. Then they funnel fraudulent or nefarious transactions through the account.

BAI's fraud subcommittee members tell us there's been a big surge in "drop-fraud" accounts, typically opened digitally with zero or low balances. Fraudsters then wait awhile to make other deposits, such as funds they've stolen from tax refunds or other government subsidies. Or they transfer funds from other accounts that were generated from nefarious acts. Fraudsters then close the account and move on to opening new drop-fraud accounts.

ISIO NELSON
BAI

Most institutions surveyed have stepped up their fraud reduction efforts in the last year. The vast majority (79%) are protecting their customers using a multifaceted approach. Three-fourths (76%) are educating their customers about how to protect themselves, particularly from third-party fraud. Roughly the same percentage (75%) are providing additional training for their employees.

Sixty percent of the financial institutions surveyed are investing in new technology to address fraud. Nearly half (45%) have revised their employee policies and procedures to address fraud, and 7% have had to hire a crisis management company.

In cases of synthetic fraud, where there is no real customer, institutions need to train their employees on what to look for, such as inconsistencies with a customer's normal behavior. Then they need to establish policies and procedures to reduce those types of accounts.

For example, we just talked to an institution that recently reduced the time they close accounts with little or no funding from 60 days to 30 days. That's because the small number of accounts that were funded from Day 31 to Day 60 were mostly fraudsters dropping money into those accounts. Closing accounts with little or no funding after 30 days or having customers go through some re-authentication process allows banks to contain synthetic fraud.

Institutions are also leveraging more technology on the back end, as well as on front end, to determine if there's been an account takeover by a fraudster. But again, institutions need to balance fraud prevention and the customer experience so they're not making their processes so difficult that customers get frustrated and walk away.

Most financial institutions are using AI to address fraud, or they plan to within the next year, according to BAI Banking Outlook: 2024 Trends survey. AI is helping institutions detect patterns in customer behavior—and anomalies to those patterns—to help determine when to contact customers to validate a transaction outside the range of their normal behavior.

In a separate BAI survey of 1,000 consumers divided equally between all four generations, we found the No. 1 concern about the digital banking experience for every generation—except Generation Z—is security and/or becoming a victim of fraud. It was the No. 2 concern for Gen Z.

In addition to educating customers about how to better protect themselves against fraudsters, institutions can also offer account alerts via their apps or online banking portals. Some institutions are offering customers monitoring services of their outside accounts to enhance the overall customer experience.

As the fight against fraud continues into the year ahead, the industry should consider some type of formal network to help communicate among the members the rapidly evolving forms of fraud they are seeing. Fraud undermines the trust that customers have in their financial institution. And by working together as an industry, there's an opportunity to create a more solid foundation of trust.

Isio Nelson is managing director, research for BAI.

What will successful tech transformation look like in 2024?

Experts recommend starting small and simple. Centralize customer data and build actionable customer profiles.

BY JAMES WHITE

As we look toward 2024, there's no ignoring the gloomy economic forecasts dominating headlines. But what new pressures do banks need to prepare for? And how will banks balance the instinctive drive to belt-tighten with the need to grow in a decelerating economy?

TWO NEW STRESSORS: INCREASING LOAN LOSSES AND GROWING REGULATORY SCRUTINY

We'll see the same disruptive forces continue to cause stress for banks in 2024: high interest rates, reduced money supply and slower macroeconomic growth. However, two new stressors will present additional pressure.

First, a wave of new regulations and regulatory scrutiny—launched by the banking crisis of early 2023—will land in the coming months. Banks will be incentivized to prioritize bondholders over depositors, paying higher interest rates that will eat into profitability.

Second, banks will face increased fraud and loan losses as the credit card and lending bubble bursts over the next year. With consumer credit card debt at an all-time high and rising at the fastest rate since the great financial crisis, we're due for a loss cycle. While most banks are in a better position to handle loan losses than they were in previous loan loss cycles, these losses will add pressure that will shape strategies for 2024.

BELT-TIGHTENING WILL TARGET TECH BLOAT

As banks look for ways to navigate the headwinds of 2024, tech will be at the center of strategies on both ends of the spectrum: driving bottom-line efficiency and powering top-line growth.

Improving operational efficiency is at the top of banks' 2024 priorities. And tech consolidation will be the low-hanging fruit. It's not only a proven strategy to cut costs without losing value—it's a sorely needed answer to the rampant tech bloat in banking right now. The typical bank tech stack is rife with redundant tech—and, worse, tools that are either underutilized or completely unused.

TECH CONSOLIDATION MUST PRIORITIZE SYSTEMS OF ACTION

Most banks will have little difficulty finding redundant systems or tools for the same data sets—and sometimes even the same use cases—in their tech stacks. Consolidation is pretty much guaranteed to produce cost savings. But to realize value and ROI from their tech spend (no matter how efficiently consolidated), banks must focus on building lean, modernized tech stacks around the critical link between intelligence and action.

That's where I see the big gap in the typical bank tech stack. It's not hard to find tools that gather customer data. In fact, most banks now have more customer data than they know what to do with. Analytics tools keep getting more practical and user-friendly, so banks can gather and segment customer data faster and more easily than ever. But the missing link is connecting the analytics-powered customer intelligence with action: actually creating and delivering hyper-personalized communications to the right customers at the right time—at scale. If you can't bridge that gap, you won't see the true value of your data, hard work or tech investments.

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OVERALL TECH SPENDING WILL INCREASE

Analyst reports confirm the anecdotes: despite the slowdown and concerns, most banks feel like they're on solid footing—and they're not slowing their tech spending. A recent survey conducted by Bank Director found that 83% of respondents said their bank's technology budget increased over the last year—with 15% of that budget dedicated to new initiatives.

Bank leaders recognize that keeping a foot on the gas pedal of tech transformation is the only way to meet rising consumer expectations, keep up with fintech disruptors and stay one step ahead of competitors.

But growth-minded banks also see the opportunity to accelerate through the downturn by doubling down on tech transformation—a strategy that both McKinsey and Gartner advocate. The goal is to continue investing and innovating to build a new competitive advantage while their peers are cutting back.

AI IS EXCITING, BUT BANKS SHOULD TAKE A CRAWL-WALK-RUN APPROACH

Where will banks focus their tech spend in 2024? Bank leaders clearly want the answer to be AI, as 7 in 10 banking executives say AI will be the most important technology over the next decade.

I think they're right: AI is poised to completely change how our industry operates. For marketing and sales in particular, generative AI (GAI) tools have obvious and tremendous potential to enable new levels of personalization at scale. Banks will use GAI to generate hyper-personalized messages to every customer—in seconds.

BUT MOST BANKS AREN'T READY FOR THAT.

The challenge is that GAI is an engine that needs rich fuel: customer data. GAI won't magically solve messy and siloed data. Moreover, we can't (yet) give GAI tools raw data and expect them to spit out personalized messages. Humans still need to refine the inputs if we want GAI to provide the best outputs.

Banks with AI on their minds should start much simpler: building a solid foundation of basic personalization. That means getting all relevant customer data in one place, building out basic customer profiles that include a few consistent, actionable fields that can drive meaningful personalization and prioritizing action at scale: beginning to build out automated journeys that deliver the right message at the right time. Because even when GAI can deliver personalized messages, banks can't depend on manually identifying when and where to send those messages.

Putting together the building blocks of centralized data, actionable insights and automated journeys will put banks head and shoulders above their peers. And that advantage will not only deliver measurable value today but also set the stage for success with GAI and other AI tools.

Without that simple foundation, banks will shell out big money for a shiny, high-powered engine—but the gas tank will be bone dry.

CONCLUSION

I'll leave you with a couple of parting thoughts as we look toward 2024. First, don't be overwhelmed by gloomy forecasts. We're not facing the doom many predicted a year ago. We're still anxious, but the majority of banks have shown they're on solid footing.

Start small and start simple. Break tech consolidation into manageable goals: centralize all your customer data and build out actionable customer profiles. Put the simple building blocks of personalization in place by connecting intelligence to automated action. That way, you'll have a clear path to reach your customers, and you'll be ready to give AI the fuel it needs when the time is right.

James White is general manager of banking at Total Expert.

Six ways financial institutions can harness the power of AI

Data analytics, social media management, fraud detection and more will benefit from this new technology.

BY ALEXA BENNETT

The financial services marketing landscape is on the brink of a renaissance. Unless you've been stranded on a desert island, you've probably noticed that artificial intelligence (AI) is at the heart of this transformation. As we venture into 2024, it has become crucial for banks and credit unions to not only recognize the potential of AI but actively implement it in their marketing strategies.

Still, a significant number of financial institutions remain skeptical. A full 40% of bank or credit union marketers view AI as "hype" or a passing trend rather than a game-changing tool. In a related study , recent research underscores that banks consider AI and machine learning as the technologies most likely to offer them a competitive edge in the next two years. Yet, actual adoption tells a different story: less than 30% of respondents identified chatbots or generative AI as pivotal to their strategies.

This gap between perception and action is concerning, especially as emerging fintech companies are rapidly leveraging AI's capabilities to improve customer experiences. The challenge is not merely about integrating advanced technology; it's about ensuring relevance and survival in a fast-evolving financial world. Financial institutions resistant to change may find themselves left behind by more innovative and agile competitors.

If we look at the numbers, financial institutions' resistance toward AI is perplexing:

- *43% feel they don't have enough data for AI*
- *36% are considering AI but are yet to implement it*
- *30% believe AI is inaccessible for their institution's size*
- *23% admit they wouldn't know how to make the most of it*

DEMYSTIFYING AI: BEYOND THE HYPE

Marketer hesitancy needs a reevaluation. Contrary to the common and increasingly pervasive perception that AI might replace people's jobs, it doesn't aim to replace the human workforce but to greatly amplify their capabilities. This misconception is often fanned by the media. But by adopting AI, marketing and other divisions can function more intelligently and efficiently. A sentiment echoed by 90% of financial marketers is that, while AI enhances operational efficiency, the human essence remains pivotal in forging genuine bonds with clients.

Contrary to the common and increasingly pervasive perception that AI might replace people's jobs, it doesn't aim to replace the human workforce but to greatly amplify their capabilities.

SIX WAYS TO SUNDAY: EXPLORING AI'S POSITIVE IMPACT ON FINANCIAL MARKETERS

So, how can this game-changing technology serve financial marketers? Let's dive into the top six ways:

1. Data analytics: AI-powered data models can extract actionable insights, predicting customers' next moves, attrition rates, acquisition strategies and more. These insights enable marketers to tailor strategies that resonate.

2. Ad targeting and optimization: With tighter marketing budgets, the need for precision targeting is crucial. Accounting for applicable regulatory requirements, responsible use of AI can pinpoint which channels to employ, identify potential clientele and even suggest messaging and visuals for campaigns.

3. Social media management: Vericast's 2024 Predictions Survey reveals that 53% of bank and

The versatility of AI, spanning from data analytics to fraud detection, equips marketers with a comprehensive toolkit to elevate their strategies, ensuring they remain competitive and relevant in this swiftly evolving digital era.

credit union marketers will tap into social media in 2024. AI can supercharge this initiative, streamlining content creation, monitoring brand mentions and spotlighting trending discussions.

4. Communication: Chatbots have transformed the first-touch communication landscape. While they can't replicate the depth of human interactions, they efficiently handle preliminary inquiries, routing more complex issues to human staff.

5. Predictive analytics: By analyzing past behaviors, AI can forecast a client's future actions. This could range from identifying potential account closures to detecting possible loan defaults. Acting on these insights can save both money and client relationships.

6. Fraud detection: AI's prowess is already evident in fraud prevention. By evaluating purchasing behaviors and historical data, it can halt fraudulent activities in real time.

Adopting AI doesn't necessarily signal a philosophical and strategic marketing strategy overhaul. Small, tactical implementations can yield substantial results, laying the groundwork for further integration.

THE ROAD AHEAD: EMBRACING AI WITH THE RIGHT PARTNER

The financial sector is witnessing increased adoption of artificial intelligence, and the path forward is one of continuous learning and innovation, including careful consideration of legal and regulatory requirements. When it comes to embracing AI, partnering with the right team is a top priority.

As we navigate through 2024, it's clear that the thoughtful integration of AI in financial marketing is not an option but a necessity. The versatility of AI, spanning from data analytics to fraud detection, equips marketers with a comprehensive toolkit to elevate their strategies, ensuring they remain competitive and relevant in this swiftly evolving digital era.

Alexa Bennett is content marketing manager for Vericast.

Why virtual assistants are the future of banking customer service

Conversational AI helps financial services organizations interact with technology in a human-like manner.

BY NINA VELLAYAN

The advent of online banking, the rise of mobile devices and the 2020 pandemic have continually rewritten the script on how financial institutions interact with customers. Now, the rapid evolution of AI is changing the landscape even further.

Customers of all ages have shifted to online, mobile and even social channels for their banking needs, but it isn't enough simply to meet them where they are. Financial institutions must anticipate their needs and offer instant solutions, personalized experiences and 24/7 availability.

Enter conversational AI (CAI)—an innovation that is revolutionizing banking customer experiences. CAI refers to technological systems that enable people to interact with technology in a human-like manner. Unlike traditional chatbots, it offers fluid, natural interactions, understanding user queries in their complexity and diversity.

Do not mistake this for a simple chatbot. CAI is a much more powerful and advanced technology. Where chatbots respond through structured question-and-answer flows, CAI engages in fluid and unstructured dialogues. It detects not just keywords, but the customer's real intentions. This is made possible through advanced linguistic and semantic engines that comprehend natural, human-like language—multiple languages, regionalisms, slang, emojis and even voice memos.

CAI gives a virtual banking assistant significant advantage over a traditional script-driven chatbot:

Open and natural conversations: Banks can offer an experience that's more fluid and empathetic, similar to human interactions. Customers can pose questions in any format they want because the technology is designed to establish open and unstructured conversations, in all types of interactions.

Integration and personalization: One of CAI's standout features is its ability to integrate with other platforms. For banking specifically, this means connection to core banking platforms allowing secure access to financial information. The virtual assistant can share real-time information with customers about their account balance, recent transactions or card expiration—instead of providing links or redirects to other apps.

The omnichannel advantage: Omnichannel is not just about being present on all channels. It's about creating seamless, consistent experiences and adapting to each customer's journey. With CAI, banks can ensure consistent service quality across all those touchpoints, leveraging the unique strengths of each channel to get questions answered and keep customers satisfied.

Prioritizing privacy and security: It goes without saying that in the banking sector, privacy and security are paramount. CAI platforms can (and must) implement stringent security measures, like data encryption and ciphering.

Seamless transitions and scalability: For complex issues requiring human intervention, CAI platforms can effortlessly transition the customer to a live agent without leaving the chat window. When these platforms are scalable, they are capable of handling vast volumes of queries without long delays or downtime.

For complex issues requiring human intervention, CAI platforms can effortlessly transition the customer to a live agent without leaving the chat window. When these platforms are scalable, they are capable of handling vast volumes of queries without long delays or downtime.

No-code implementation: Modern CAI platforms are designed to be used without the need for a specialized technical team, making it easy for anyone on the banking team to implement and modify its content.

The rise of proactive banking: CAI helps banks anticipate needs and initiate conversations with customers through push notifications or proactive messages. This approach can be key to enhancing customer engagement and satisfaction and upselling products and services.

SIX WAYS TO MAXIMIZE A CAI VIRTUAL ASSISTANT

1. Grow deposits by helping customers open online accounts, anytime

Many customers don't want to visit a branch, be placed on hold or complete a tedious workflow of tasks in online banking simply to open an account. With CAI, the process becomes effortless. Once a customer shows interest, the AI can jump in and guide the customer in their channel of choice. When the process is complete, the AI can provide regular updates on the account's approval status and keep customers informed.

2. Enhance fraud protection and account security

CAI banking assistants can constantly monitor transactions and look for patterns that seem out of the ordinary. If a suspicious transaction is detected, it immediately alerts the customer via their preferred communication channel and can temporarily freeze the account or card. If there's a larger security breach, the AI guides the customer on the necessary steps to secure their account.

3. Speed up and share balance inquiries from a chat window

With core banking integrations that a CAI-powered platform can support, customers can access all their banking information from any channel, at any time, by simply interacting with the virtual assistant. Instead of navigating through apps or websites to get basic information, customers can simply ask the AI assistant questions like, "What's my balance?" or "What are my recent transactions?" Instead of a redirect, they'll receive an immediate response that prioritizes their privacy and security.

4. Automate and anticipate utility payments

An AI banking assistant can process utility payments on behalf of customers, remind them of upcoming bills and even schedule payments to avoid late fees. Once the customer sets up their utility providers, the AI remembers and streamlines future transactions—and provides detailed receipts to customers.

5. Immediate resolution to incident reporting

An effective system for reporting incidents such as lost, stolen or inaccurate transactions is crucial for customer satisfaction. When customers voice concerns or provide feedback, the AI can either resolve the issue or route it appropriately. The AI is available around the clock. For more complex problems, it can intelligently route the concern to the appropriate department, and after the issue is resolved, it can return to ask for feedback.

6. Instant debit card activation

CAI can walk customers through card activation, ensuring both security and ease of use. The AI assistant simplifies the process with step-by-step guidance while helping to prevent fraud with identity verification.

The banking world is rapidly evolving, and CAI is at the forefront of change. By offering open and natural conversations, integrating with various platforms and prioritizing privacy and security, this technology sets a new standard for customer service.

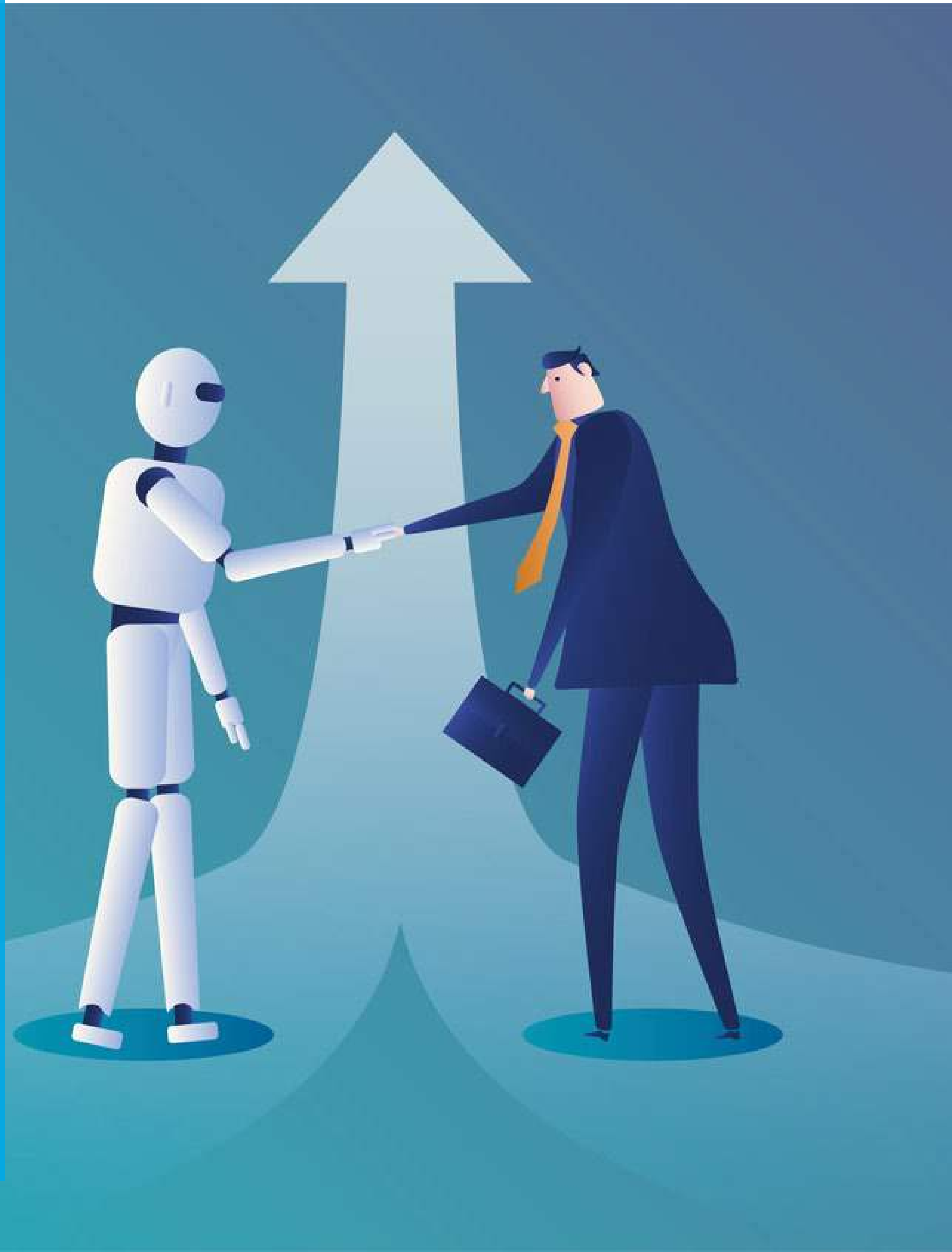
These use cases are just the tip of the iceberg when it comes to the potential of CAI banking assistants. As the technology matures, its applications in the banking sector will only expand, making it an indispensable tool for modern banks.

Nina Vellayan is CEO of Engageware.

Transforming financial services with generative AI

Employees need not worry about losing their jobs to this new technology. They should feel enabled to work smarter in ways that benefit them.

BY GREGORY KANEVSKI



Every bank and credit union, regardless of size, needs to have a generative AI strategy that enables them to succeed and grow.

Remember RAP? There was a time when those regulatory accounting principles were new and fancy. AI is this generation's transformation but with far more upside. While many industries are worried that AI will kill jobs, it's not the case in financial services. In fact, generative AI will help employees work smarter and more efficiently, freeing up staff members to do more critical and valuable work, such as focusing on acquiring and onboarding customers. It can also provide frictionless servicing, and help manage risk and compliance while modernizing technology, all things that lead to more productive and satisfying work and happier end users.

Consider this: Gen AI could have a significant impact on the banking industry, boosting value from increased productivity of 2.8 percent to 4.7 percent of the industry's annual revenues, or an additional $200 billion to $340 billion, according to McKinsey. On top of that impact, the use of Gen AI tools could also enhance customer satisfaction, improve decision-making and employee experience, and decrease risks through better monitoring of fraud and risk.

Simply put, combining Gen AI with a platform technology can create an extremely powerful and unmatched experience. With Gen AI, banks can create and orchestrate digital workflows on a platform that

> *Consider this: Gen AI could have a significant impact on the banking industry, boosting value from increased productivity of 2.8 percent to 4.7 percent of the industry's annual revenues, or an additional $200 billion to $340 billion, according to McKinsey.*

foundationally helps them connect every system and digital process across their institution. This effort is critical as banks race to modernize their front- and back-office systems that have left them less able to compete with nimble tech startups. Such work becomes the foundation for an effective Gen AI strategy that, when combined with platform automation, will create a massive productivity catalyst that ripples across growth, cost-reduction and resilience.

Financial services companies are at significantly different points in their AI journeys. Surprisingly, some of the biggest players still lack this key strategy, while some smaller players are further along. This can't start from the ground up: It has to be a team effort that works across—and integrates with—the industry's notorious silos. The strategy can't be disjointed and it should map up to offering better service, growing the business and improving productivity and innovation. Companies that try to have their Gen AI strategy live independently are less likely to succeed.

There are four main ways financial services workflows may leverage Gen AI:

- ***Acquire and onboard customers' ability to grow the portfolio within compliance objectives.*** *Financial services companies will be able to grow their portfolio within compliance objectives. The lengthy list of potential benefits includes summarization and generation by automating and personalizing document creation that requires only incremental information for new services or existing customers.*

  Regarding generation, imagine a world where they'll be able to build a template for a new portfolio, loan or policy to speed customer acquisition by bypassing known information and only asking for net new or expired data. Meanwhile, they could benefit from customer segmentation and sentiment analysis to help identify profitable growth opportunities.

- ***Provide frictionless servicing to see increased customer LTV (lifetime value) at a reduced cost of service.*** *They could be able to provide agents with a portfolio view of the customer that highlights recent and pending activity. Another benefit could be to automate after-interaction work including case coding, summarization and customer communication. A third potential scenario*

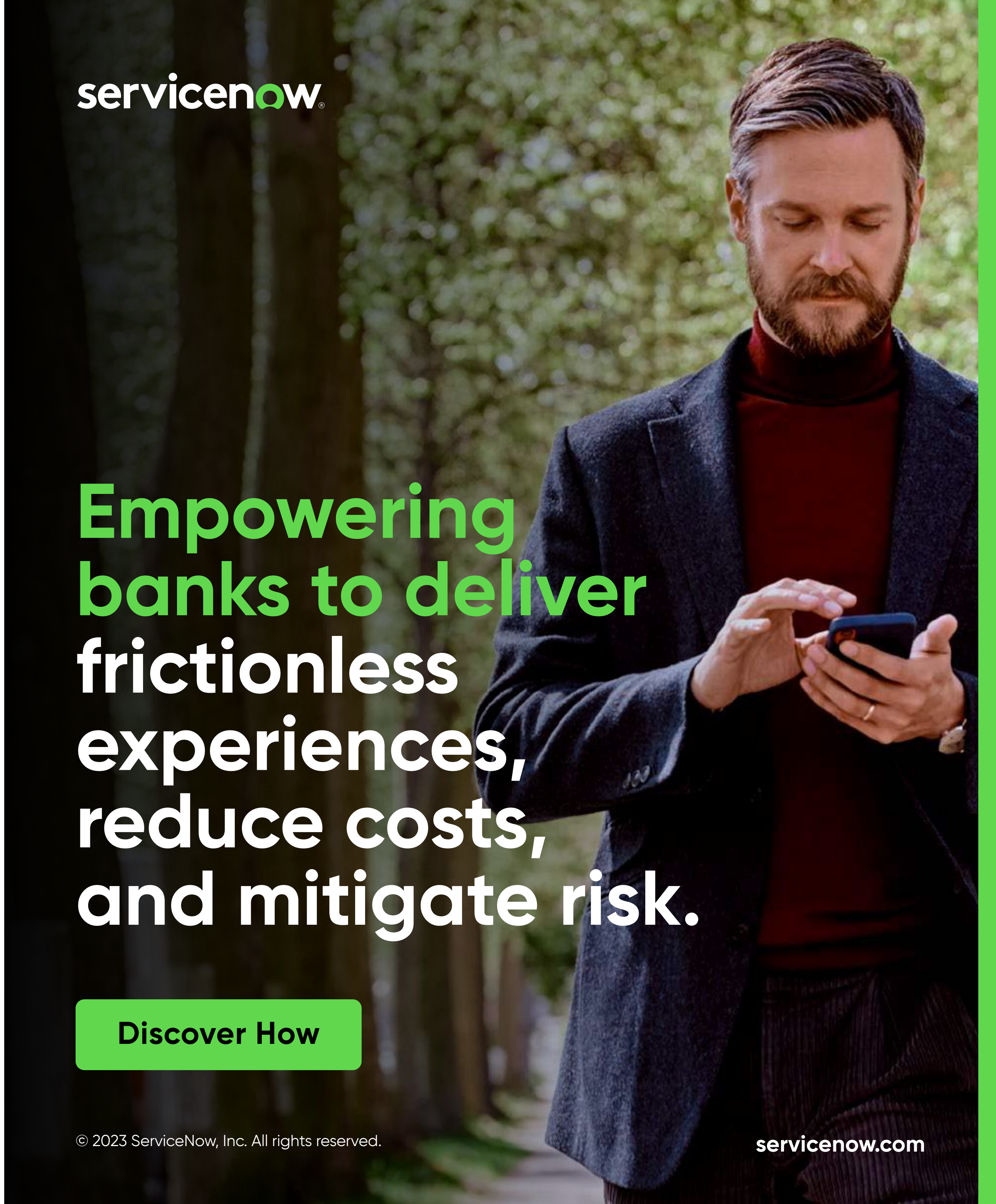
By allowing Gen AI to imbue all aspects of the operation, financial services companies will benefit as they secure new customers with fast and personalized service while managing risk and compliance with modernized technology.

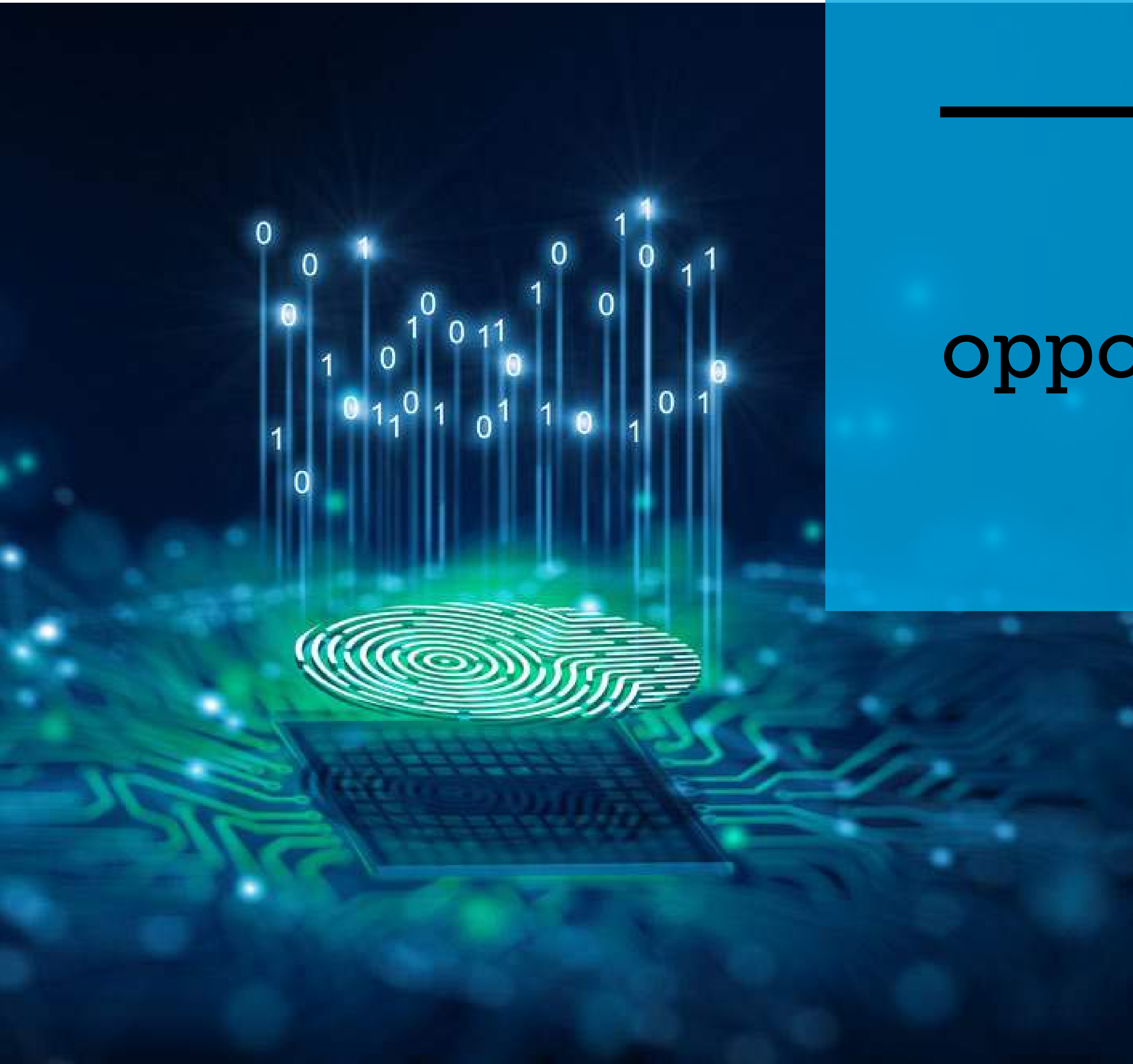
is a virtual agent that avoids costs and regulation for inquiries that may be resolved without cumbersome case creation.

- ***Manage compliance and risk to maintain compliance with policies and regulations.*** *A knowledge summarization could prove efficacy to auditors by demonstrating compliance and effectiveness relative to a list of customers, accounts or cases. Financial services companies may benefit from data analysis that interprets datasets and distills insights of incidents for improved operational risk management, while summarization will automate risk and control self-assessment reports to review incidents that occurred during the period, such as outages or risk events.*
- ***Modernize technology to reduce IT operating cost with modernization.*** *Banks will be able to avoid disruption by proactively summarizing IT service issues and their likely causes and utilizing that data to drive preventative actions. They may be able to avoid complex coding by referencing documents, such as payment association rules, as the driver(s) of a playbook. Finally, summarization content could generate post-incident reviews and publish findings to regulators and third parties.*

The time for banks to embrace Gen AI is here. Employees need not worry about losing their jobs—they should feel enabled to work smarter in ways that benefit them and the company—and the entire industry. By allowing Gen AI to imbue all aspects of the operation, financial services companies will benefit as they secure new customers with fast and personalized service while managing risk and compliance with modernized technology. Be a first mover.

Gregory Kanevski is head of global banking for ServiceNow.





Unlocking opportunity without creating risk

Financial services providers will tap AI's full potential for identity verification and fraud prevention.

BY HEIDI HUNTER

Increasingly, artificial intelligence (AI) is being woven into the fabric of business, becoming an integral part of decision-making and problem-solving for companies of all sizes.

The maturity of AI and its transformational promises couldn't have come at a better time. The threats of online fraud and identity theft have become incredibly complex. Widespread digital adoption has made massive amounts of data available to criminals. Whether they're stealing personally identifiable information through hacking and data breaches or targeting individuals through phishing and social engineering, criminals are continuously adapting their methods of attack. As financial services providers [digitize onboarding and lifecycle programs](#) to better meet customer demands, the door to fraud has opened even wider.

At the same time, [consumer expectations are high](#), and competition is fierce. Approving more legitimate customers without friction while detecting fraud and maintaining compliance in a quickly changing digital landscape presents a sizable challenge that AI can help solve.

With its ability to quickly scrutinize vast volumes of data, AI is a boon for financial services organizations dealing with millions of daily transactions. AI automates threat discovery, accelerating the detection of patterns of suspicious activity for faster, enhanced decision-making. Yet, incorporating AI into the identity verification process can't be taken lightly. AI can play an important role in identity verification and fraud detection, but its lack of transparency introduces serious risks. Fortunately, there's a solution, but it's also essential to understand the risks of relying solely on AI.

AI'S INHERENT WEAK SPOTS

The inability of AI, and the machine learning models that power it, to provide visibility into the identity verification reasoning and decisioning process creates several obstacles. Without transparency, it's impossible to explain to regulators why a decision was made or produce an auditable trail showing that onboarding policies were followed. If a business cannot demonstrate how an outcome was reached, its compliance department is at risk for potential regulatory repercussions or class action lawsuits.

Opaque AI also makes it difficult to prevent bias or confirm ethical AI decision-making. AI systems are trained on massive datasets that inform the decisions they make. When the data, algorithms or decision-making processes used in training an AI system are biased or under-representative, it can lead to unfair or discriminatory outcomes. The machine learning models that power AI don't have a moral bias; they simply do what they're asked to do based on the information they've been given.

Feedback from AI is essential for deeper data analysis and fine-tuning fraud detection models. Determining when and why an erroneous decision occurred is the only way to teach the machine how to spot similar issues in the future. Improving the learning model through constant input and data refinement, which includes training the system to recognize new fraud vectors that AI missed, is a critical step.

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How can financial services organizations address AI's weaknesses and tap into its power without increasing risk?

HUMAN AND AI FOR THE WIN

Layering AI with human expertise and intelligent verification technology makes it invaluable. The benefits of human oversight alone are vast.

Consider one of AI's greatest blind spots—the inability to detect new forms of fraud. Because AI systems analyze data patterns, they assume future activity will follow those same patterns. This opens up the possibility of successful unsophisticated attacks simply because the system has not yet seen them. Machines are great at detecting trends that have already been identified as suspicious but fail at novelty. A trained fraud analyst will catch novel threats missed by AI systems.

AI, in general, is not error-proof. When it comes to a process as important as identity verification, one mistake can open the door to fraud, lead to noncompliance or damage customer relationships. Human fraud analysts bring oversight, ethical decision-making and continuous improvement to AI. They also have contextual understanding and the ability to evaluate situations based on intuition and experience.

If an AI system rejects a legitimate ID, a fraud analyst can jump in, determine how the error occurred and teach the computer how to spot similar issues in the future. This continuous feedback improves machine learning models through constant input and refinement. On the other hand, an AI system without oversight will assume uncorrected bad behavior is accurate and will continue making the same decisions, thereby exacerbating the problem.

This type of failure can draw scrutiny from regulators and result in fines and sanctions. It can also result in reputational harm, which, in turn, can cause financial losses.

THINKING STRATEGICALLY ABOUT AI

AI isn't just being used for good. Criminals are using AI to create new forms of fraud, target victims and evade detection. Thus, financial services providers must think strategically about how they tap into AI to fortify themselves against threats without creating new vulnerabilities.

AI has the power to enhance or destroy a business, and successfully leveraging it for identity verification requires a complete ecosystem of fraud prevention. Multiple layers of intelligence are essential, from automation through AI for rapid fraud detection to fraud analysts. Fraud analysts provide oversight and closed-loop transparency for continuous improvement and optimization. Through partnerships with software developers, they feed fraud intelligence into product innovation roadmaps, ultimately empowering users to prevent more fraud.

Fraud analysts are also invaluable in providing first-hand, expert insight into the fraud they're seeing in the marketplace and best practices for preventing it. As part of a multilayered approach, fraud analysts monitor transactional activity across a vast consortium network of customers, giving users a cross-industry view of fraud and fraud specific to their business so they can make more informed fraud-prevention decisions.

Knowledge is power, and understanding AI's many facets and associated risks is the first step to success. With human oversight as part of a multilayered ecosystem, financial services providers can tap into the full potential of AI for identity verification and fraud prevention.

Heidi Hunter is chief product officer of IDology.

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