

● Event Recap

AI & Transformation in Financial Institutions

Takeaways from our New York Executive Exchange | November 2024

Participants: American Express, Apollo Global, Bank of America, Barclays, BlackRock, BMO, BNP Paribas, CIBC, Evercore, H.I.G. Capital, Lazard, Morgan Stanley, Scotia, TD, US Bank, Warburg Pincus, University of Waterloo



Introduction

AI is revolutionizing industries and reshaping the way we work. These changes are already underway in the financial services industry and will continue evolving. But where are these shifts most evident? They're not limited to the IT department; they're impacting the business side as well.

While many current applications focus on specific use cases, the full scope of large-scale enterprise transformations remains uncertain. That said, waiting passively is not an option. To lead in this era of transformation, we must actively explore and innovate.

In a recent Executive Exchange, banking, lending, and private markets executives came together in New York City to discuss AI and its role in digital transformation. Led by Dr. Joel Blit from the University of Waterloo, attendees shared learnings from their transformation journeys, including practical applications of AI in financial services.

In this summary, we'll explore how to evaluate when and where to use AI effectively, balancing its capabilities with the need for human oversight to ensure accuracy and reliability.



Joel Blit 

University of Waterloo

About the Guest Speaker

Joel Blit is a senior fellow at the Centre for International Governance Innovation and professor of economics at the University of Waterloo, where he chairs the Council on Innovation Policy. His research, focusing on the economics of innovation and innovation policy, has featured in numerous media outlets, including The Economist, The Globe and Mail and the CBC.

Joel regularly advises policy makers and industry leaders on artificial intelligence (AI) and the future of work. His framework for thinking about the coming AI revolution has been influential among business and policy leaders and was adopted by a multibillion-dollar financial firm as the foundation of its AI strategy.

Six Takeaways on AI & Transformation

1. Generative AI is a Transformative, General-Purpose Technology

Dr. Blit frames generative AI as a general-purpose technology similar to electricity or computers—technologies that fundamentally reshape industries over time. The adoption of such technologies follows three phases:

- **Replace:** Existing tools or processes are swapped with new tools to enhance efficiency.
- **Reimagine:** Processes, business models, or industries are rethought to unlock the full potential of the new technology.
- **Recombine:** The new technology integrates with other technologies, sparking categories of innovation.

Most financial institutions are currently in the “replace” phase of generative AI adoption. A credit leader shared an example of their firm using sentiment analysis models to process news data on issuers and borrowers. By automating what was once a manual effort, the firm scaled its risk assessments significantly, enabling more comprehensive analyses and identifying cases that warranted deeper investigation.



2. Opportunities to Replace and Reimagine in Financial Services

Before generative AI, there was predictive analytics, cloud, and a host of other disruptive technologies. Banks have successfully navigated and thrived through multiple waves of technological change within the digital age alone.

In each new wave, there are methodical ways to approach innovation, despite the unknowns. Dr. Blit outlined several key strategies for effectively adopting and integrating generative and other types of AI.

- **Replace:** Analyze workflows to identify tasks AI can handle. For example, a bank could use AI to automate customer onboarding by analyzing documents, verifying identities, and flagging discrepancies.
- **Reimagine:** Look beyond efficiency improvements to transform entire business processes. One example from financial services is reimagining loan approvals: AI tools could not only predict credit risk but also proactively identify potential borrowers and personalize outreach.

“The key is to start—cautiously, but start. Even if you’re just replacing tasks incrementally, it’s the first step toward enabling radical reimagination later,” emphasized Professor Blit.

However, it’s common to feel overwhelmed by the advice to “just get started.” To help clients overcome this decision paralysis, we typically walk them through a simple framework for evaluating whether technology is suitable for specific use cases.

Tasks focused on creating internal assets are generally better candidates for incorporating new technology than those intended for end-user consumption. For instance, if you need a quick company profile on a prospect for a meeting tomorrow, you can use AI to efficiently create a high-level overview where accuracy is less critical.

In contrast, when preparing a client pitch, every figure and statement must be precise, requiring human expertise and oversight. In such cases, relying on technology alone is inadvisable.

Examples of AI in Financial Services

Several industry leaders shared real AI use cases from financial institutions:

- **Sentiment Analysis:** AI tools assess public sentiment on companies, guiding investment decisions and reducing the time spent analyzing news data manually.
- **Loan Processing:** By automating credit checks and underwriting, AI enables quicker approvals and reduces human errors.
- **Customer Interaction:** Chatbots and virtual assistants enhance client engagement while freeing employees to focus on higher-value tasks.
- **Data-Driven Predictions:** AI leverages non-traditional data sources to predict asset performance or market trends, enabling proactive decision-making.

3. Tacit Knowledge is AI's Unique Superpower

AI's ability to learn tacit knowledge—skills that are intuitive and hard to codify—sets it apart from traditional algorithms. This ability allows AI to mimic expert judgment, empowering non-experts while reducing dependency on specialists.

In financial services, this can be illustrated through loan processing automation. AI tools can assess credit risk and streamline loan approvals by analyzing financial figures within the context of specific reports, reducing reliance on manual processes that require extensive expertise.

4. The Democratizing Impact of AI on Jobs

The shift to "AI for all" has been marked by the accessibility of tools like ChatGPT. This democratization mirrors the personal computer revolution, allowing employees to innovate, even in heavily regulated industries like banking, where strict compliance standards must be maintained.

In financial services:

- Employees are starting to use generative AI to manage high volumes of email and news data, helping them identify actionable insights faster.
- Generative AI-driven translation tools are helping global organizations manage multilingual communications, improving efficiency and reducing costs.

Like most economists, Blit believes that AI will significantly reshape the job market. The types of roles that are most likely to be impacted are those that focus on repetitive tasks, such as entry-level financial analysts and customer service representatives. However, it is yet to be seen whether these roles will be eliminated or upskilled. In all likelihood, this will be a case-by-case situation, favoring those who show the initiative to innovate.

On the flip side, some roles are more likely to be enhanced by AI, like those emphasizing critical thinking, creativity, and problem-solving, such as strategic decision-making in investment banking or high-level portfolio management.

Effective leadership and change management are essential to managing growing concerns around job security. Executives need to establish trust with their employees and strike the right tone, acknowledging and addressing the risks while reassuring them.



5. Trust and Regulation

Regulation and data protection are critical challenges in AI adoption, particularly in sectors like financial services, where compliance is paramount.

However, according to a sourcing executive, “the story of technology is about challenging the status quo.” To stay competitive, you must push the barriers, challenging regulation and the fear of data sharing to discover new opportunities.

Some of the points discussed around trust and regulation included:

- **Trust and Reliability:** Building trust in AI systems is essential. AI tools must address misinformation, false positives, and data biases to gain user confidence. While the technology continues to improve, users must also identify the tasks AI excels at and where it has consistently demonstrated reliability.
- **Data Protection:** Strict rules around data sharing can hinder the development and training of AI models. Financial institutions, wary of losing their competitive edge, often restrict data sharing, which slows innovation. However, data only becomes a competitive advantage if they can figure out how to leverage it effectively.
- **Compliance Support:** Despite challenges, AI can assist with compliance tasks by analyzing data, generating reports, and ensuring adherence to regulatory standards. For example, AI tools in financial services can ensure compliance by automating audits or monitoring transactions to flag suspicious activities, reducing manual errors while meeting regulatory requirements.



Conclusion

This discussion highlighted the transformative power of AI in financial services and beyond. Businesses must embrace AI now, starting with incremental improvements, to build the foundation for reimagined processes and long-term innovation. By doing so, they can navigate the ongoing AI revolution and secure a competitive edge in their industries.

About Our Executive Exchange Series

Evalueserve's Executive Exchange events provide an unparalleled opportunity for senior executives to connect, share insights, and explore innovative ideas in a relaxed setting over dinner and drinks. Our exchanges feature engaging expert-led discussions on trending topics such as digital transformation and AI.

These intimate, invitation-only events are carefully curated to bring together leaders in banking, lending, and private capital in global financial hubs including New York, Toronto, London, and more.

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