STM JOURNALS

E-Commerce for Future & Trends

https://journals.stmjournals.com/ecft

ISSN: 2454-9347
Volume 11, Issue 3, 2024
September–December
DOI (Journal): 10.37591/ECFT

Review ECFT

Exploring Artificial Intelligence in the Finance Sector

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Abstract

Artificial intelligence (AI), machine learning (ML), and progressive algorithms illustrate a substantial technological leap with wide applications across sectors like automobiles, healthcare, gaming, finance, entertainment, and more. The foremost objective of AI is to produce intelligent, independent systems capable of self-sustaining decision-making. This study delivers a concise summary of AI, concentrating on its transformative influence on finance, especially within banking, asset firms, derivatives markets, and insurance enterprises. It summarizes the challenges encountered by the financial industry and their importance, as well as the pros and cons of AI acceptance. Additionally, the report delivers recommendations on how AI will form financial enterprises in the future. AI-driven creations in finance guarantee enhanced efficiency, risk management, consumer experience, and personalized services. Regardless, they also expand concerns about data privacy, algorithmic discrimination, cybersecurity, and potential job eviction due to automation. However, adopting AI offers important opportunities for financial organizations to stay competitive, adjust to market dynamics, and provide value-added solutions. By leveraging AI algorithms and data exploration, financial associations can facilitate operations such as credit scoring, fraud detection, portfolio management, and client or consumer service, permitting more immediate decision-making and deeper insights into customer or client behavior. AI-driven chatbots also improve customer relations by delivering personalized suggestions and support. In conclusion, AI is revolutionizing the finance sector, but successful integration needs managing ethical, regulatory, and technological challenges while expanding the benefits.

Keywords: Artificial intelligence, fintech, machine learning, BFSI (banking, financial services, and insurance), investment, derivatives, predictive analytics, risk management, fraud detection

INTRODUCTION

In today's economy, artificial intelligence (AI) is becoming trendy in various domains. There has been an extraordinary technological evolution that integrates artificial intelligence (AI), machine learning (ML), and other complex algorithms. Artificial intelligence, which is the ability of machines to make decisions similar to human reasoning, mainly focuses on the specific tasks that they perform. According to John McCarthy in 1955, AI is an attempt to get machines to carry out acts that would be seen as intelligent in humans if done by them.

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Received Date: March 19, 2024
Accepted Date: June 25, 2024
Published Date: August 08, 2024

Citation: Nikhilesh Singh, Neesha Diwakar. Exploring Artificial Intelligence in the Finance Sector. E-Commerce for Future & Trends. 2024; 11(3): 16–23p.

Machine learning (ML) is a component of artificial intelligence that focuses on building models, particularly statistical ones, to develop analytical results.

AI is important in the finance sector for future predictions such as investing in the stock market. Investors use various investment analyses and data mining approaches on large amounts of stock data to forecast market trends and maximize profits. Because the stock market is heavily influenced by both market and non-market elements, machine learning plays an important role in black-box model prediction for boosting market prediction accuracy.

Regression algorithms and time-series models in machine learning are utilized in the performance dimension problem to develop a forecasting model that can improve forecasting accuracy and financial data analysis, as shown in Figure 1.

The financial sector, led by fintech firms, has rapidly expanded its use of AI and ML technologies [1]. The financial sector has adopted technological improvements such as big data and cloud computing, which, in intersection with the digital economy's development, has enabled the effective commission of AI and ML systems. A 2020 survey by the World Economic Forum found that 77% of financial institutions anticipate that AI will become critically important to their operations within the next two years. According to McKinsey (2020a), the possible weight of AI in the banking and finance sectors was $1 trillion. The banking sector is transformed by AI/ML capabilities. AI and ML technologies alter customer experience in financial enterprises [2]. This includes enhancing communication with providers, simplifying investment and borrowing approaches, and improving identity verification approaches. Furthermore, these technologies are transforming the processes of financial organizations, resulting in expense savings through process automation, predictive analytics, and enhanced risk and fraud management in the financial sector, as shown in Figure 2.

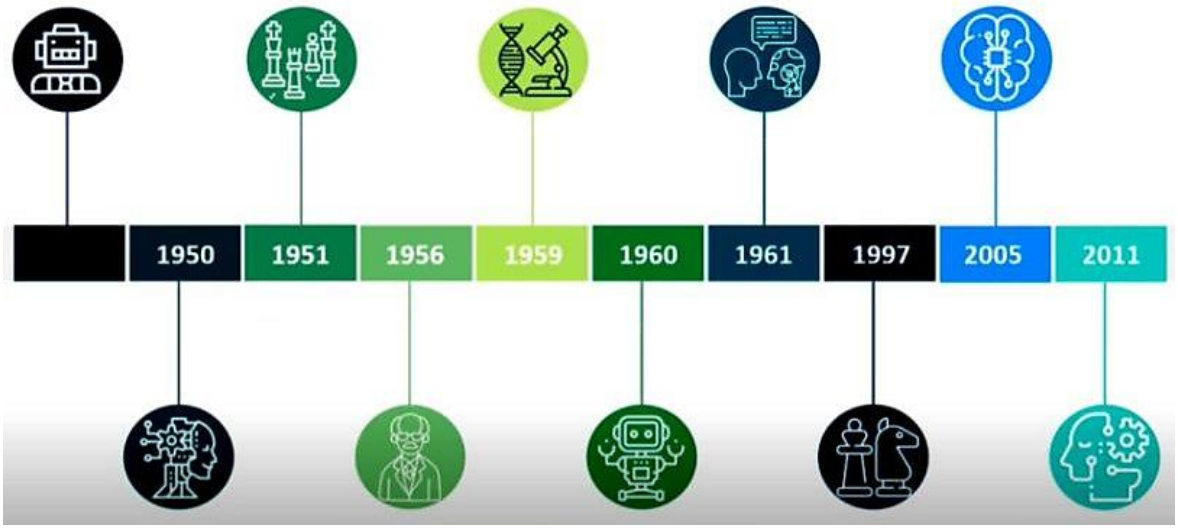

Figure 1. History of artificial intelligence.

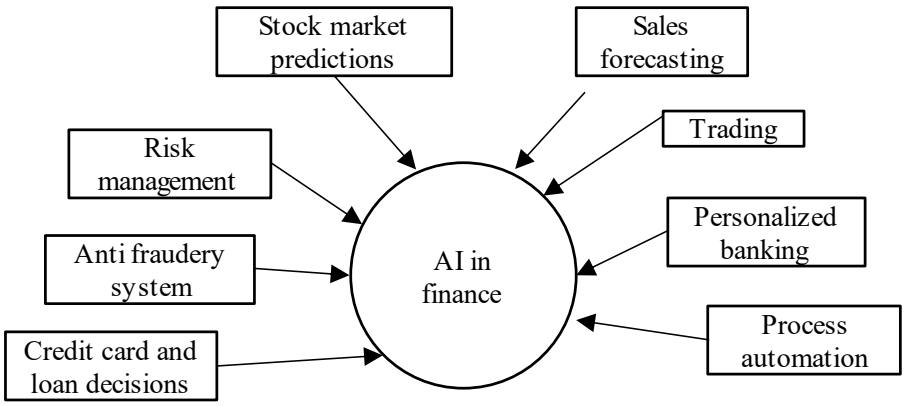

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Figure 2. AI in finance applications.

Role of Artificial Intelligence in Finance

This period inspired people to learn about financial services that utilize technology rather than the old method. In today's economy, AI performs a variety of financial responsibilities [3]. Consequently, in the context of technological change, every individual must be conversant with financial information. In today's world, every learner, student, and financial analyst needs to study and disseminate technology-driven knowledge within the financial sector. Every individual requires financial knowledge of capacity. It is beneficial to increase financial literacy, which implies bringing financial knowledge to every individual to satisfy the varied purposes of all financial activities as well as the efficient use of financial resources.

Financial education includes financial strategy, financial services, monetary behavior, and economic incorporation [4]. Through a localized understanding of financial literacy, financial education develops a person's skills, knowledge, and behavior. Artificial intelligence primarily creates two concepts. Knowing the human mind process first and then comprehending the machine process of the work via the system.

The moment has come to learn about financial technology and how it relates to it. Financial statements help make proper decisions. Both humans and intelligent machines can make optimal decisions. This study examines the influence of AI on financial decision-making. Let us embark on the journey of AI in finance, as shown in Figure 3.

To cover the knowledge of artificial intelligence in finance, consider the following points:

- Innovative and neural network services
- Making a flawless decision
- Fraud detections
- Increasing efficiency
- Contribution to financial task automation
- Learning smart content
- Better engagement and less pressure

LITERATURE REVIEW

According to Kunwar (2019) [5], in his theory entitled "Artificial Intelligence in Finance: Comprehending How Automation and Machine Learning Are Changing the Financial Industry," AI has immensely influenced the financial sector. It is predicted that the study will see an increased use of technologies that can facilitate various parts of the financial service value chain, such as processing, analytics, and investing.

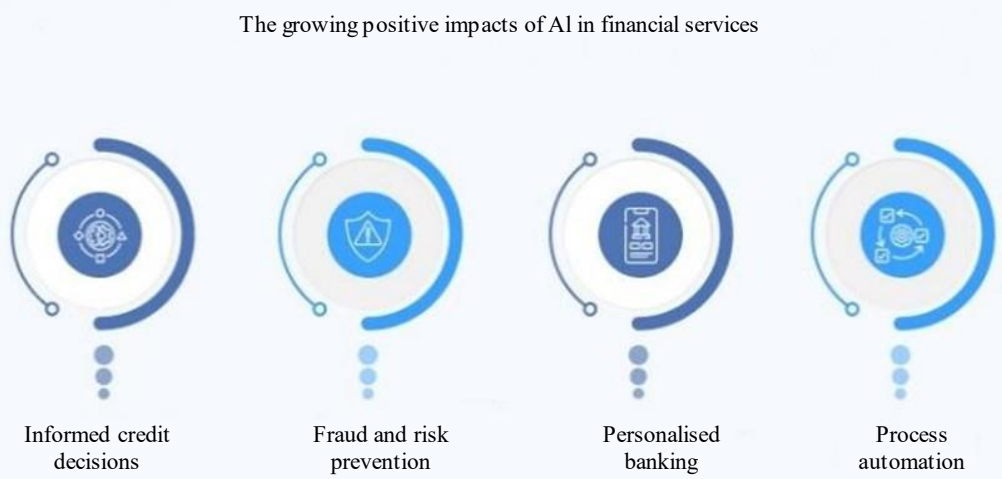

Figure 3. Positive impact of AI in finance.

Likewise, Xie (2019) [6], who focuses on AI and machine learning in finance, explores their impact on macroeconomics as well as microeconomics. This study also provides guidelines for the use of AI in financial risk management.

Wallon (2019) [7] examined AI applications in corporate finance by assessing current uses and anticipating future developments. It provides a perspective on the subject by gathering material from papers, publications, and experts, as well as conducting an ongoing survey utilizing qualitative and quantitative analyses. It permits accurate assessments of the existing situational analysis and future expectations of AI in finance, namely, corporate finance.

Tom C.W. Lin's (2019) [8] article "Artificial Intelligence, Finance, and the Law" investigates the risks and limitations associated with AI in law and finance, focusing on potential harms to society. This study emphasizes issues such as algorithmic bias, data privacy threats, and systemic challenges in financial AI. It also boosts concerns about the more expansive implications for financial cybersecurity, contests, and society.

Patel K. (2018) [9] researched the implications of AI in finance and artificial intelligence. In Finance, investigates human thought processes. In addition, AI is concerned with representing such processes using machines (such as computers and robots). AI has now been carried over by several enterprises, including finance.

APPLICATION OF AI INTELLIGENCE IN FINANCE

The ability to gather and analyze extensive data from the environment using AI and ML is reshaping the financial sector landscape. AI/ML enables the enhanced forecasting of financial and risk events, reshapes financial markets, enhances risk management and compliance, strengthens prudential surveillance, and delivers major banks with new instruments to track their monetary and macroprudential declarations.

Monetary Forecasting

AI and ML approaches are used in the financial sector to forecast macroeconomic and financial trends, manage customer needs, evaluate creditworthiness, and monitor business requirements. AI/ML models deliver more flexibility than traditional statistical and financial models, can assist in uncovering difficult-to-detect correlations between variables, and can complete institutional toolkits. Evidence suggests that machine learning methods often surpass linear-regression-based techniques in terms of prediction accuracy and robustness.

Investment and Banking Offerings

Recent improvements in AI have significantly affected asset management enterprises within the financial sector. For a decade, the enterprise has used technology to operate huge amounts of trade data and information and to achieve high-frequency trading, customer services, and back-office operations. On the other hand, AI/ML and other associated technologies are changing the industry by obtaining new market participants (e.g., product customization), enhancing consumer interfaces (e.g., chatbots), improving analytics and decision-making approaches, and minimizing costs through automated operations.

The adoption of AI in the banking sector has gradually been compared with investment management enterprises [10]. Banking enterprises have a history of pioneering technological innovations such as ATMs, e-card payments, and online and mobile banking. However, owing to the safety and proprietary nature of financial data, AI adoption has slowed. However, in recent years, AI has achieved traction in the banking sector, partially due to rising competition from fintech businesses and their use of AI to enhance customer relations, product arrangements, back-office support, monetary risk management, and credit underwriting.

Equity Market Forecasting and Trading Systems

Several complications can block a trading system. AI systems provide a speedier examination of data, allowing not only the cause of failure to be identified but also the solution to that failure. A computer system has been trained to forecast when to trade shares to maximize returns and minimize losses during uncertain periods, assisting investors, institutions, and businesses in making timely decisions.

Increasing Security

Machine learning algorithms in AI require a split second to access fraudulent transactions in real time rather than detect them after a crime has been committed. Many organizations are attempting to use artificial intelligence to improve the security of online transactions and related services.

Risk Management

Due to a lack of risk management, numerous businesses have contributed to the subprime mortgage problem. Traditional software programs are limited to single-loan applications and financial reports. However, new machine learning technology focuses on every detail connected to the present market trend to avoid financial crime and detect financial crises through credit scoring jobs in a real-world setting. It also aids in reducing the underwriting risks. It can assist in the handling of any risk, whether it is loan, health, mortgage, or life insurance. It ties perfectly with the common underwriting tasks in finance and insurance.

Credit Card and Loan Decisions

AI automates the assessment of credit cards and loan applications, significantly reducing costs and workload while ensuring a fair and transparent process.

Protect Clients by Spending Pattern Prediction

Currently, the entire country is reliant on Internet commerce. In cases where a card or mobile device is lost or an account is hacked, AI can be employed to detect unusual spending patterns and prevent fraud or theft. It verifies the user and authorizes transactions to ensure security [11].

Personalized Banking

In banking, AI plays a crucial role in automating all processes such as payments and deposits, so that customers do not have to rush to banks [12]. Even manage most consumer complaints and deliver a user-friendly self-help interface. AI-powered virtual assistants such as Alexa, Google Assistant, and Echo are rapidly becoming popular in the financial markets. It provides genuine counsel to prospective clients, allowing them to obtain correct information and quick solutions for their difficulties.

Security to world financial data

The biggest threats in the present era are cyberattacks, virus-like worms, and trojan horses. AI security solutions can secure financial data worldwide by merging the control of intelligent pattern analysis with big data capabilities via security technology, giving them a benefit over standard and non-AI tools.

IMPACT OF AI IN THE FINANCE SECTOR

A wide range of issues benefit significantly from AI. Every aspect has an impact, both positive and negative, and AI has the following:

Pros

- Capable of handling a vast amount of information.
- More efficient forecasting helps to strengthen commercial relationships and provides advice services.
- Eliminate bias from metrics.
- More suitable charts and graphs assist in making proper decisions.

- Quickly do financial tasks such as insurance, trading, bookkeeping, etc. Financial customers can access transaction records both online and offline, thus saving time, money, and effort.
- Fraud detection is a smart card-based technology that employs artificial intelligence.

Cons

Complexes in quality require high production and supervision costs.

- As high-end finance technology is prohibitively expensive, no company can afford the premium use of AI.
- Owing to the rapid evolution of technology, several experts have issued warnings concerning the dangers of AI.
- In the near future, the lack of regulatory management could be a cause for concern.
- The possibility of data misuse causing major losses, such as data handed to the wrong hand, may pose a serious hazard to humanity.
- Widespread unemployment as automation and computers replace workers. In addition, it blocks the human mind and encourages reliance on computers.
- Lack of creativity in mind.

RESEARCH METHODOLOGY

This study employs desk and conceptual research methods targeting new financial learners and management students interested in understanding financial concepts. The research structure includes individual reading, observance, and a focus on the abstract framework of artificial intelligence in terms of financial performance. Data for this study were collected from secondary sources including books, research papers, journal articles, online reports, and newspaper stories.

Finding and Discussion

AI plays a crucial role in the financial industry by focusing on technological innovation and data analysis. Figure 4 illustrates the fundamental stages for understanding technology-driven changes in finance and the functions of AI in the financial sector.

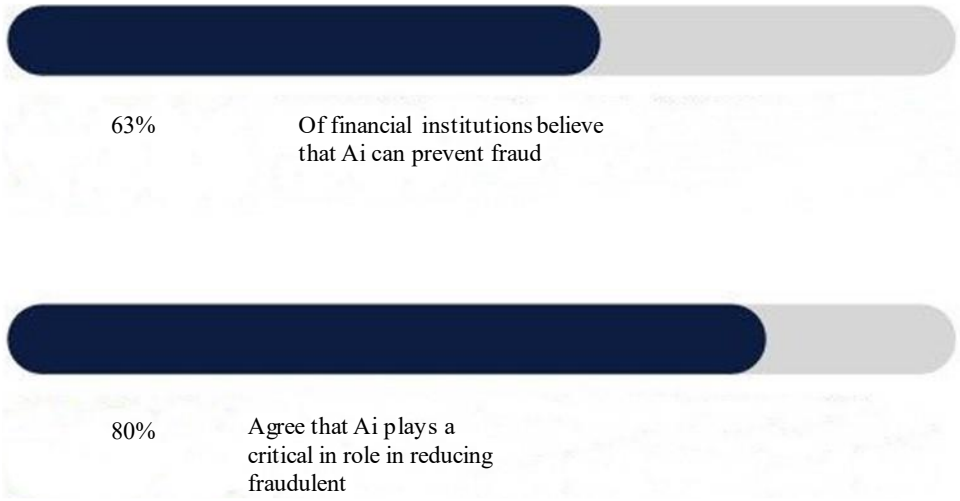

Figure 4. AI in fraud prevention

CONCLUSION

The study's conclusion underlines the AI patterns of high hope in enhancing faultless transactions and judgments that aid in the security of public and business cash and accounts. This research created digital channels for all individuals and businesses. This study also handles personal financial planning flawlessly. Further research should be conducted to make wiser judgments for future financial objectives and develop financial plans based on AI. Future research should focus on making wiser

judgments and building smart investment strategies based on investor income levels. As a result, we can conclude that AI is advantageous in all cases and can manage a variety of financial responsibilities. Hence, technology is consistently more suitable for achieving satisfactory results, encouraging better understanding, and ensuring long-term improvements in the long run.

Change is essential at this time because it provides opportunities for learning and a platform for the adoption of fresh ideas and technologies. Simultaneously, technology will be utilized in human life to assist individuals in becoming smarter. The technology originates from machines, which accomplish an excellent job in the shortest amount of time. An artificial intelligence job is intelligent. Instead of hard effort, consider performing smart work. In the future, artificial intelligence will enhance human performance in technologically operated contexts.

Currently, artificial intelligence is increasing the confidence in machine-assisted financial transactions. Perhaps in the coming years, most judgments will be made by a computer with no mistakes or fraud. Credit assessments, investment choices, and money transfers are all streamlined by artificial intelligence, which has applications in various fields, including transportation, finance, marketing, manufacturing, engineering, and agriculture. After a few years, the machine executes all duties intelligently and in a short amount of time.

In the future, AI will involve machines making decisions, performing tasks efficiently, managing time effectively, executing instructions accurately, ensuring the safety of financial resources, making advantageous financial decisions, and conducting error-free work.

Future Expectations from AI

AI predictions are also applicable to financial services. It is reshaping and innovatively creating financial activities in financial industries such as banking, non-banking, financial advisory, financial markets, credit rating industries, customer relationships, interactions, and so on.

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