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Corporate Banking: The rise of Generative Artificial Intelligence

Why the new generation of AI tools and technologies will be a game changer for corporate banking

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Introduction

Corporate banks are adopting AI at speed, but what are the risks and opportunities it represents?

Artificial intelligence (AI) is a broad term that conflates a number of disciplines, encompassing the intelligent machines associated with Alan Turing to robots in science fiction.

In more recent times, AI is positioned more as a set of technologies that can support decision making, undertake mundane tasks, communicate with customers via chatbots, route documents to the right places, or translate and transcribe voice and video calls, amongst many other use cases.

Generative AI (GenAI), which helps with content creation and information retrieval, is one field within AI, and was propelled to fame with the widespread adoption of ChatGPT.

The McKinsey Global Institute predicts that GenAI is set to benefit the banking industry hugely over the next few years. It estimates that: "across the global banking sector, Generative AI could add between $200 billion and $340 billion in value annually, or 2.8 to 4.7 percent of total industry revenues, largely through increased productivity."[1]

So how will corporate banks go about implementing GenAI, what benefits will it deliver, and what are some of the mistakes to avoid when applying it to lending and other corporate banking processes?

Michael Vrontamitis, founder of T3i Network, Paul Galvin, Director, Application Innovation at Neudesic, Lewis Liu, Co-founder and CEO, Eigen Technologies, and Marc Smith, Founder and CEO, Conpend held a panel discussion to drill down into those questions in more detail, and give their insights into how corporate banks can proceed safely in the fast-moving world of AI and GenAI.

1. https://www.mckinsey.com/industries/financial-services/our-insights/scaling-gen-ai-in-banking-choosing-the-best-operating-model

AI will add value to banks

AI will present myriad opportunities for banks looking to improve the service they deliver to customers; to reduce cost, risk and inefficiencies.

As one of industry's earliest adopters of information technology, the banking sector has also been ahead of the pack when it comes to AI. Even decades ago, banks and credit card companies used executive decision support systems and machine learning to set lending limits for credit cards.

However, says Lewis Liu, the revolution surrounding GenAI appears to be vastly different from previous iterations: "In the last 18 months we have suddenly been able to use AI to write code or transform data at a scale that is unprecedented," he says.

Looking at the activities of corporate banks, everything from loan underwriting to loan servicing through to interactions and accessing the secondary market around collaterized loan obligations (CLOs) can be supported with AI, Lewis adds.

"It all involves much more nuanced customer interactions than you have in retail banking," he says. "Which means the ability for GenAI to deal with these nuances at scale introduced a level of automation that we have not seen before."

Cornerstone use cases

Paul Galvin explains that one of the key opportunities for banks is to use GenAI to ingest large documents, even those developed in pre-AI eras, and extract information for sharing with a specific team.

"GenAI works just like a person does when transcribing or searching documents," he says. "It's just that it does it much faster and much more reliably. So you can hand that process off to a generalized solution, extract all the information needed and even allow people to ask questions and receive answers about the contents of the document."

Digitization of documents is one of the cornerstone use cases in the banking world, agrees Lewis. "If you think about what a bank offers, it's financial products," he says. "And a financial product is basically a contract, which is a piece of paper.

"If you really distil it down and over-simplify, a bank is a bit like a pile of contracts, an IT system and a process – being able to digitize those documents, query them and manage them at scale will be a game changer."

> *"If 2023 was the year the world discovered GenAI, 2024 is the year organizations truly began using – and deriving value from – this new technology."*[2]

Two thirds of senior digital and analytics leaders attending a McKinsey forum on GenAI in banking and securities said they believe GenAI will fundamentally change the way they do business.[3]

Generative AI could add between $200 billion and $340 billion in value annually across the global banking sector.[4]

2. https://www.mckinsey.com/capabilities/quantumblack/our-insights/the-state-of-ai
3. https://www.mckinsey.com/industries/financial-services/our-insights/capturing-the-full-value-of-generative-ai-in-banking
4. https://www.mckinsey.com/industries/financial-services/our-insights/scaling-gen-ai-in-banking-choosing-the-best-operating-model

Real world application of AI

The new applications of AI will deliver more than digitized documents.

Beyond the digitization of contracts and documents, which many banks are already doing, AI will provide the opportunity to translate data from a variety of different data sources – and this will become ever more important, says Lewis.

"We often see how this will solve one of the biggest problems for banks," he says. "If you're an analyst, you might receive data in the form of a spreadsheet, or as a pipe from a dedicated software platform.

"You might want to transform that data into a risk model downstream, and that process has traditionally been very manual. Now GenAI enables data transformation to be automated as well. So you're not just looking at a revolution in documents within human tasks, but also in the way that data itself interacts with other data."

Marc Smith adds that AI is also helping to automate processes such as compliance checking in trade finance. Systems can now go through different levels of controls and automate the outcomes, so that operators can be presented with a traffic light report that says either it's fine to go ahead with a transaction, or to proceed with caution.

Underpinning decision making

Another area for the application of AI would be on the commercial checking side, where banks could process and interpret letters of credit with a large language model, which enables them to interpret data and then immediately perform the checks on the documents that are presented.

Marc explains: "Suddenly, you create a situation where someone would previously be manually processing paper is able to actually rely on a machine that says 'these documents are good to go, you can approve the payment'. This has been a game changer in terms of enabling them to take on more volume and more transactions without having to involve more people in the process."

The automation of these processes also means that team members don't have to spend decades understanding exactly what is going on in trade finance or corporate lending, Marc says. "You can come in as a newcomer and work with a digital environment that means you don't have to work with paper any more. You are left with the final decision, which is do we want this business for the bank or not?"

Headwinds preventing adoption

Headwinds are preventing banks from adopting GenAI as quickly as they should.

Concerns that AI could render corporate lending decisions opaque and unexplainable for customers are understandable, yet they should not prevent banks from using AI, says Paul.

"I'm sure there are people who are worried that junior people are suddenly going to be empowered to make decisions, but that isn't a great reason not to proceed more aggressively than banks generally are," he says.

The way to deal with those concerns is to carry out a series of small experiments, start building up knowledge, identify the most appropriate use cases and sort out responsible AI principles, including customer responses and explanations.

"In general, banks are probably doing this too slowly," adds Paul. "And the ones that don't do it, or do it too slowly, are going to be overtaken by the ones that take a more bullish stance - and that will find themselves at a tremendous advantage."

But should more widespread worries about how AI may take away peoples' jobs be taken into consideration?

"Some of those worries can be quite misguided," says Paul. "A lot of people are spending their time doing stuff that isn't really the kind of work that humans should be doing, so get the computer to do that work, and allow those people to work on harder, more interesting problems. They will be doing more high value work that can be beneficial to everybody, including themselves."

Fear of the unknown

While some banks are concerned about the cost of implementing new processes underpinned by AI or GenAI, the main barrier is fear of the unknown.

"In the main, adoption of AI is going be tremendously positive," says Marc. "However the prescription for fear of the unknown is going to be to turn out applications, one after the other, and learn from them."

The way to address it is to demonstrate the value of use cases to the business, start small and learn lessons that can be applied to future projects.

Regulation, or lack of it, in the AI space is another reason for banks to feel nervous about taking too much of a lead, adds Lewis. So what role will regulators play in helping banks move forward, or will banks need to press on with their plans regardless?

> ***"Banks need to democratize AI developments in one way, but at the same time, you need to do that within the guard rails or the framework you have put in place so you can do that in a responsible way."***
>
> **Marc Smith**
> Founder and CEO, Conpend

Balancing governance and innovation

Regulation may be needed to ensure strong governance in AI, but innovation should not be overlooked.

As Lewis points out, the period leading up to the 2008 financial crisis saw one of the greatest times for financial innovation, and the crash perhaps ushered in a culture of nervousness around new products, including those delivered by AI.

"I think there's a real balance to be struck between that fear and adopting innovation," he says. "What's interesting is that the whole securitization world that led to problems during the 2008 crisis has yielded some great instruments."

CLOs, which are a single securities backed by a pool of debt, were developed in that time period, for example. Lewis says that: "CLOs are one of the best yielding and secure instruments you can have in the financial services world. But if it wasn't for innovation, we wouldn't have CLOs today."

Striking the right balance

So how should large financial institutions get this balance right, and take advantage of AI to be successful through innovation?

Paul says that banks need to see AI just as they would any other new disruptive technology. They should identify early adopter candidates within their business that want to experiment in new and interesting ways, people who are patient and willing to take on the risk.

"Find the champions on both the business and the technology side and carve out a safe space for building out new functionality," he says.

Marc adds that it will also be important to build up data governance, especially in Europe with GDPR. "AI needs data and a lot of the potential use cases around tailoring and customer specific propositions require specific personal data, so governance is a prerequisite."

However, adds Marc, the concept of a safe space for experimentation is a good one: "I'm a great believer that people just need to get out there and try it. Once you've tried it, you can start dreaming about what else you can do, because that creates the motivation to go through the pain and frustration of getting to something that is production ready."

Finally, says Lewis, it's worth remembering that there is a whole spectrum of AI-led applications that banks could introduce, from interacting with documents or generating memos at one end to automated regulatory reporting of derivatives at the other.

"You can create apps that just require general guidance, and the final product will be put together by a human," he concludes. "Other use cases will require precise information from your data inputs, and you're trying to get straight-through processing with near-perfect accuracy."

Conclusion

AI and GenAI will create opportunities for corporate banks, but the innovation deficit needs to be removed.

The promise of AI is that it can remove low value work from banking professionals, freeing them up for more complex tasks. This is where the earliest examples of AI have already been realized: the apps for transcription, translation, adding intelligence to documents or streamlining processes such as credit checks.

Where the nervousness around AI adoption persists is not around these applications, which can be rolled out with relatively low levels of risk, but where automated processes are scaled up to support more complex workflows across a bank.

To remain competitive, banks need to retain the trust of their clients and also ensure that they are using AI to take decisions that are transparently fair and 'explainable' if queried.

As the power and capabilities of AI products and technologies continues to grow, and as regulation potentially brings in new restrictions, banks will need to establish strong data governance models and guardrails that enable teams within their businesses and IT teams to build on their earlier projects with confidence.

Only by removing the 'innovation deficit' that is allied to the fear of failure will banks be able to take the next steps towards adopting AI for more complicated processes. Those that have the courage to do so will be the ones that secure the greatest rewards from the AI revolution that's already underway.

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