



# COMMERCIAL BANKING: GO AI-FIRST INTO THE FUTURE

## Growing pains

Global commercial banking revenues touched \$2.8 trillion in 2023; between 2018 and 2023, the industry grew on average at 0.8 percent each year.<sup>1</sup> In the last couple quarters, amid economic uncertainty and a Catch-22 inflation situation, most IT budgets were modest at best, except for the relatively generous allocation for AI.

History tells us that only a few banks will be successful in utilizing these budgets to create winning AI solutions that will truly give them and their customers a business advantage; others will simply follow in their footsteps. So what strategies are the frontrunners adopting? What areas are they investing in? And what does their AI roadmap look like?

### A paradigm shift from using AI to being “AI-First”

Many banks have experimented with AI in the past; however, they have always implemented siloed solutions, typically one-off instances achieving a specific purpose, such as supporting a customer service-related experience, increasing productivity, or identifying fraud. Today, with AI being omnipresent, banks need to start looking at every critical business function internally as a potential candidate for AI enablement. Every new transformation initiative needs to be designed around AI touchpoints to make it better and more efficient. It is a change in mindset to begin with and this is what being an “AI-First” organization entails. To be successful, banks need to create this “AI-First” mindset to drive a successful adoption. The banks that are leading this race, are doing this right now.



# Banks are applying this concept in 4 broad segments that are evolving rapidly



## Segment 1 Conventional banking to improve process efficiency

Commercial banks are trying to use AI to solve traditional challenges in their core banking processes viz. customer service, operations, credit monitoring and underwriting, origination etc. Several of these processes are closely intertwined, and data falls through the cracks within the lifecycle of the process. AI is being used to ensure seamlessness, and draw intelligence across the process - thereby adding value beyond what banks are able to generate today. Another area in this category where we see lot of interest is in the regulatory space. Leveraging AI to decipher and analyze regulations at the federal and state level. One of our clients is using NLP for scanning hundreds of pages of securities filing-related information. This is especially useful when dealing with different jurisdictions and their respective regulations. With these broad initiatives, banks are basically trying to tackle some of the most nagging operational problems they have faced in this industry for decades. Most PoCs and use cases we see in the market today are in segment 1 applications.



## Segment 2 Predictive capability to add value in decision-making

Modern commercial banking capabilities involve merging the historical data with market data to draw trends, making inferences and predictions to facilitate better business decision-making. Some common areas of application range from client liquidity management, cash flow analysis, and stress testing clients' creditworthiness based on changing market conditions, to even the banks own internal treasury management scenario analysis to manage risk, capital requirement norms etc. Success in these cases depends largely on having robust algorithms that generate predictions with higher accuracy. And this is not a one-size-fits-all approach, most of these algorithms will be customized and highly proprietary. So yes – this can be a true source of differentiation and that is why we are seeing some of the challenger banks making large bets in this segment.



### Segment 3

## AI to reduce technology debt

The Wall Street Journal recently quoted a 2022 software industry report which said it would take about \$1.52 trillion to fix the technical debt accumulated over decades in the industry.<sup>2</sup> Here, technical debt refers to the cost of carrying the legacy software code that is still running, maintaining systems written in languages not suitable for the digital age, and grappling with the limited availability of skillsets for fixing problems. In the race to build the latest and greatest software, the industry has loaded the technology balance sheet with a level of this 'debt' - which is now not just expensive but almost unsustainable. Generative AI is being used creatively in paying down this debt. Several of our clients have reported on in-flight GenAI projects for deciphering legacy code in applications, creating a reverse engineering approach from code to specs that can help organizations rewrite older applications in modern technology. Other prominent industry examples include using leading coding assistants to directly convert Cobol to Java or tools that have the ability to develop code automatically. Infosys is helping some of the largest banks in the world transition legacy code into Java to make applications more suitable for a digital environment – API-enabled, real-time, and experience-based interactions.

This is great from the point of view of shortening development cycles, lowering program budgets etc., but this also has the potential to create new technical debt at a very rapid pace – thereby significantly adding to the sizeable problem that banks already have. And that is why an AI governance and optimization strategy that goes alongside the AI work effort is imperative to manage this challenge effectively.





## Segment 4 AI to create a bank of the future

The fourth category of “neo” AI use cases are redefining banking by completely transforming conventional processes, such as customer training. Instead of spending time and effort on training videos and product manuals, banks can deploy GenAI to build quick videos explaining new capabilities, features, and whatever else is needed to create a better experience, that too in several languages. We are tracking fintechs that are working with commercial banks to experiment with this technology, building platforms that allow banks to create support tools for customers with agility and at scale. Another popular GenAI use case is around assisting banking sales teams pitch the right product to the right customer at the right time, instead of the traditional way. One study found that relationship managers who used advanced analytics workbenches grew their portfolios by 9 percent over 12 months, saw a fivefold increase in cross-selling ideas, and reduced time spent on account planning by a massive 90 percent.<sup>3</sup> Some of these use cases will be very successful and may also become the new norm in banking that will change the way traditional processes have been handled over generations.

Despite such a broad spread of use cases and the excitement, McKinsey in their report on use of AI by corporate and investment banks observed that only few banks have been successful in leveraging AI technologies at scale with great results. Most institutions are still experimenting with traditional AI, leaving much value on the table.<sup>4</sup>

Our view is that as we wade through these foundational changes, commercial banks should not simply adopt an AI tool as a check mark, to showcase they are left behind, but rather, focus on building an “AI-First” approach as discussed earlier, and create an AI-centric paradigm across the organization. And in doing so, given the wide range of options, a bank’s success will depend on how well they can successfully prioritize use cases in order of value; easy as it may sound, it is one of the key differentiators between those who are able to do this successfully and others. This is where an “AI-First” framework can help every bank assess various use cases and guide them in adopting those best-suited to their particular context.



# AI-ready before AI-First: Building a strong foundation to succeed

## The data strategy

An AI-First approach presents commercial banks with the opportunity to transform their business and unlock new avenues of growth. But first, there are challenges to overcome and unsurprisingly, there is no one-size-fits-all solution here as well. Like many other organizations, banks need to improve both data and ecosystem readiness before they can truly innovate with AI. Typical data challenges include not just having usable data but protecting data privacy and security; demarcation between client, public, and private side data, and ensuring training data does not propagate bias. Historically, commercial banks have been the last adopters of new trends in the financial services industry, and are now looking at a steep learning curve with these modern technologies. They are also under pressure from next-gen competitors, such as fintechs and challenger banks, who come with a strong AI-driven mindset, and even from their own clients who are demanding superior, consumer-banking-style experiences. A robust data framework which protects privacy, mitigates data risks, and ensures full compliance with all regulations is mandatory.

The AI-First framework mentioned earlier can help commercial banks build the data foundation and create an organizational readiness in an incremental manner for deploying AI; it helps banks in defining a structured roadmap for their AI journey based on their priorities.

## The governance framework

An AI governance framework for building trust must figure early in the AI roadmap. In a recent case, the SEC requested investment advisors for an explanation of their use of AI.<sup>5</sup> Regulators were concerned about AI tools creating outputs that are not fully transparent even to investment professionals, or coming up with conflicted investment recommendations that are inherently more profitable to the firm. Another concern is that the tools might use customer data for a particular purpose without seeking consent for it. And on the flip side, regulators are also worried about “AI washing” – firms exaggerating the use of AI/GenAI in their products for marketing or raising capital. These are only a few examples to highlight how a powerful capability can very quickly go out of control and that’s why focusing on an AI governance framework upfront is highly recommended. While the use of AI in banking is imperative, banks need to ensure they are in control of it at all times. Ascertaining a transparent, explainable, and compliant output at all times, is the right way forward.

## The AI tollgate process

Amid so much potential and complexity, banks can easily lose focus and achieve very little. And that is why only a handful of banks have been successful in scaling AI technologies in the past – and this remains a pitfall even today. To navigate this successfully, we recommend making AI part of the regular development process, and creating an AI culture as mentioned earlier, rather than implementing isolated projects and hoping for a big win.

In each program there will be numerous competing opportunities for creating AI touch points. Banks will need to prioritize – based on costs, customer benefit, regulatory compliance, monetization opportunities, and other factors, but all strictly driven against a measurable business value instead of just bells and whistles. This is where the traditional tollgate process is helpful in staying focused on a defined roadmap. Without this, banks risk trying to do too much and eventually achieving very little.

## Conclusion: The AI-First imperative

Investing in a data-led, AI-First approach is no longer a choice, but an imperative. Regarding the delivery methodology, it is worth considering a “take, shape, make” approach for building AI capabilities: take off-the-shelf solutions, configure and shape solutions through customization, and finally, make your own foundational AI model. There are several fintechs and product partners who have dedicated teams working in this space. These organizations not only offer off-the-shelf AI productivity tools, but also bring deep experience and agility to help clients stay on top of this fast changing technology. For example, Infosys is helping globally well-known brands create cutting edge AI and GenAI solutions through the Infosys Topaz framework. The experience gained through these programs is invaluable and often brought onto subsequent engagements.

But as emphasized earlier; the key first step is to get your organization AI-ready. Sorting out data issues, setting the governance framework, building a roadmap and priorities, creating a realistic marketing pitch with explainable benefits for your customers. And making these steps a routine, integral part of your development cycle. That is why we strongly believe the few organizations that do this consistently, will see early success.

## References

<sup>1</sup><https://www.businesswire.com/news/home/20230809634418/en/Global-Economic-Boom-Boosts-Commercial-Banks-Revenue-Set-to-Reach-2.8-Trillion-in-2023---ResearchAndMarkets.com>

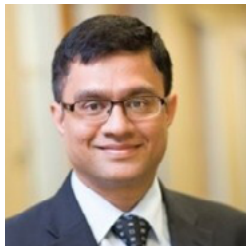
<sup>2</sup><https://www.wsj.com/tech/personal-tech/the-invisible-1-52-trillion-problem-clunky-old-software-f5cbba27>

<sup>3</sup><https://www.mckinsey.com/industries/financial-services/our-insights/the-data-and-analytics-edge-in-corporate-and-commercial-banking>

<sup>4</sup><https://www.mckinsey.com/industries/financial-services/our-insights/been-there-doing-that-how-corporate-and-investment-banks-are-tackling-gen-ai>

<sup>5</sup><https://www.barrons.com/advisor/articles/sec-penalizes-investment-firms-for-ai-washing-49e17971#:~:text=%E2%80%9CInvestment%20advisors%20should%20not%20mislead,says%20SEC%20Chair%20Gary%20Gensler.&text=These%20claims%20and%20others%20made,and%20Exchange%20Commission%20said%20Monday>

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