

StateNational



From High-Tech to High-Touch

How Artificial Intelligence
Empowers Financial Institutions
to **Humanize** the Digital
Customer Experience

A brief introduction

The age of artificial intelligence (AI) is, in many ways, no longer something in the distance; it's already here. From filtering email spam to analyzing checks for mobile deposit, AI is becoming ingrained into daily life in ways both seen and unseen. Whether we notice it or not, AI-powered conveniences are quickly transforming into baseline expectations, putting pressure on industries to deliver on them sooner rather than later.

For financial institutions, the arrival of tools driven by AI has raised the bar for the customer/borrower experience in particular. Where digital tools can replace traditionally human touchpoints with a faster, more satisfying experience, they're expected to do just that.

But knowing where these opportunities lie, and making smart decisions about deploying AI, relies on understanding exactly what AI is, how it applies, and how to utilize it to retain the high-touch human experience people expect.

In this guide, we've stripped away the complexities of AI to arrive at a simple, functional definition before diving a little deeper to dispel common myths, highlight the opportunities for financial institutions, and offer a few examples of how AI is being implemented to meet and exceed evolving customer expectations.

A practical definition of AI

Any discussion of AI needs to start with a relevant, working definition. In truth, AI isn't a single concept—it's an *umbrella of concepts* whose meanings are constantly evolving alongside technological development. These concepts also vary depending on who's using them and the context in which they're being used.

For this discussion, we will cover a broad definition of AI and a more specific definition of *applied* AI, which is particularly relevant to commercial applications of the technology.

- **A broad definition of AI:**

AI is a set of “[r]elated technologies...that help machines sense, comprehend and act in ways similar to the human brain. These technologies are behind innovations such as virtual agents (computer-generated, animated characters serving as online customer service representatives); identity analytics (solutions combining big data and advanced analytics to help manage user access and certification); and recommendation systems (algorithms helping match users and providers of goods and services), which have already transformed the ways in which companies look at the overall customer experience.” (Culp, 2017)

Applied and General AI

- **Applied** — such as self-driving cars
- **General** — such as machine learning (ML)

Core Functions of AI

- Pattern recognition using machine learning (ML)
- Chat functions relying on natural language processing (NLP), like SIRI or ALEXA
- Filing digital “paperwork”

Calibers of AI

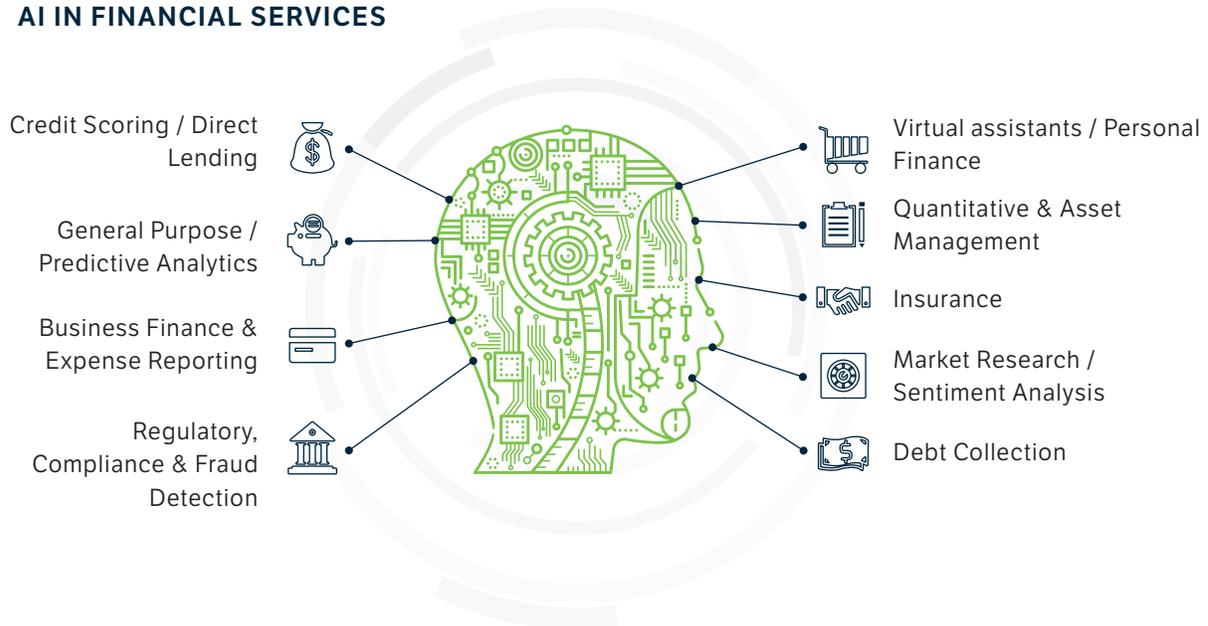
- **Artificial narrow intelligence** — a machine that can win a chess match
- **Artificial general intelligence** — a machine that's as smart as a human
- **Artificial superintelligence** — a machine that's smarter than humans

Source: Filene, 2019

- **A specific definition of applied AI:**

Applied AI is the use of this technology to improve and expand software systems. Specifically, it enables software to use “human-like” judgment to reduce errors and predict outcomes, achieving process automation and better accuracy, among other goals. Applied AI makes processes faster and more productive—freeing up human workers from manual work by automating these processes without losing the value of the human interaction. While the technology is complex, the goal is simple: use human reasoning as a guide to provide better services or create better products.

AI IN FINANCIAL SERVICES



Common AI myths vs. realities

Like any exciting new technology, the hype around AI has propelled it into buzzword status. And like any buzzword, one person’s perception of AI can differ wildly from someone else’s, making it difficult to distinguish myths from reality.

To untangle what AI is and is not, we’ve taken a closer look at three specific myths relevant to financial institutions, along with evidence-backed insights into the realities of each.

1. **Myth:** Customers always prefer human interaction.

Reality: As technology continues to evolve and become more prevalent in daily life, consumers are becoming more comfortable with the adoption of video and voice AI capabilities—even *preferring* them in many situations. According to recent research by Filene, **consumers are increasingly looking for a fully “ambient” experience**—one that enables the tasks of borrowing and banking to fade into the background of daily life through the tech-enabled conveniences of voice interaction, AI, and chatbots. Interactions are handed off to humans only when necessary.



“Younger generations are very comfortable with technology, and in many cases prefer technology over human, face-to-face interactions. This paves the way for fully interactive, full-service electronic branches, full-service mobile capabilities, including pay-by-phone, remote or electronic receipt-printing/generation, etc. These generations are also focused on one-stop shopping. The more an organization can provide all of the related services a member might want in a single location (or more specifically, electronically), the more likely the member will select that organization and stick with them, especially after they have everything set up with that organization.” (Nelms, T., & Rea, S., 2019)

2. **Myth:** AI threatens job security.

Reality: In forward-thinking organizations, AI doesn't eliminate jobs, it eliminates low-value and/or low-satisfaction tasks. This ultimately leads to better employee engagement and customer interactions. Unlike the commonly held notion that current AI technology can fully manage itself (and do away with humans in the process), virtually every example of its real-world implementation to date has demonstrated that, in its current state, AI tools still require human oversight and support.

A 2019 AI Predictions study from PwC found that executives whose organizations are poised for AI implementation largely agree that the technology isn't taking jobs away. In fact, twice as many executives said AI will lead to an increased workforce (38%) compared to those who say AI will lead to job cuts (19%). (PwC, 2018)



38%
said AI will lead to an increased workforce



19%
said AI will lead to job cuts



3. **Myth:** AI is only for large organizations.

Reality: Regardless of whether the rationale behind this myth is cost or usefulness, neither is supported by the facts. The problems AI solves are shared among financial institutions large and small. Its ability to process many signals from a credit report and combine it with other relevant data, for example, offers huge advantages to institutions of all sizes for reducing risk, expanding access to credit, and lowering interest rates for borrowers. In terms of cost, simple questions can be used to evaluate the ROI of such an investment, even for smaller institutions:

Questions to Ask When Evaluating the ROI of an AI Tool

- ❶ **Would this tool grow revenue or cut costs?**
- ❷ **Would this tool make operations more efficient?**
- ❸ **Would this tool mitigate my risk?**
- ❹ **Would this tool improve the customer experience, or give me a better understanding of my customer base?**



How AI can make customer experiences more meaningful

While it might be strange to think that AI—something seemingly cold and robotic—could be used to make financial experiences more *human*, its deployment in key customer touchpoints is already proving its ability to deliver the kind of contextualized, in-the-moment experience customers seek.

This is achieved not simply by collecting and analyzing data, but deriving meaning from it. As we explore in the next section, these tools are exponentially better at many of the critical tasks that build and retain customer trust, such as risk assessment, fraud detection, and financial recommendations—all by parsing and synthesizing massive amounts of data that, until now, was either unseen or unworkable.

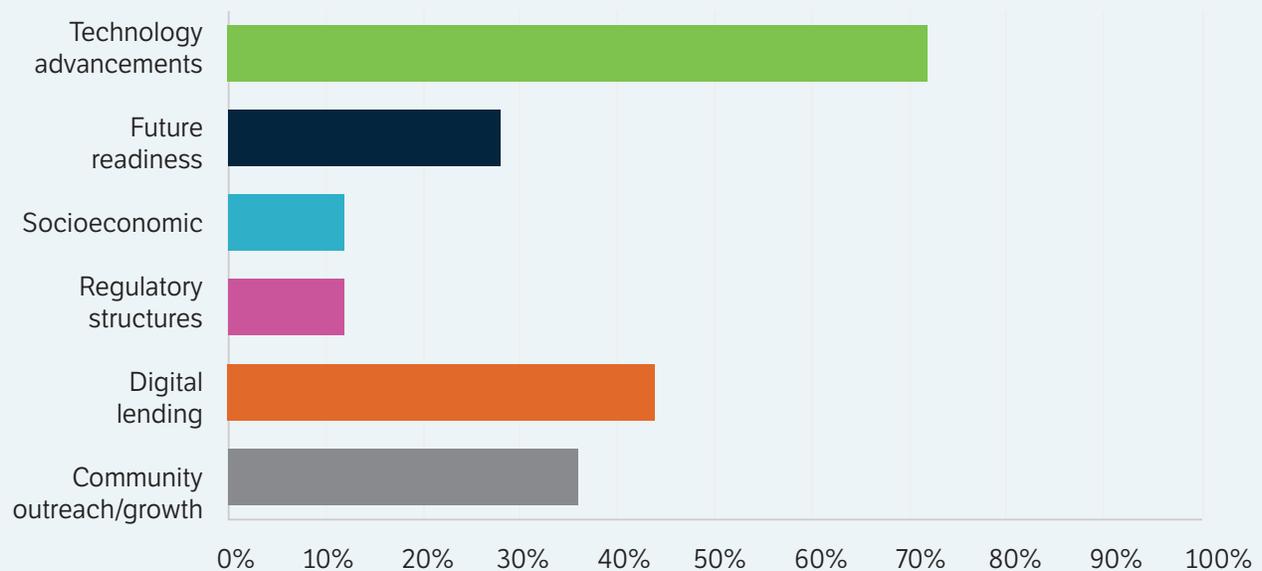
When these insights are used to reshape the way institutions and customers interact with each other, borrowing, banking, and other financial services no longer have to be the interruptive elements of life they've been forced to be. They can integrate seamlessly into daily life—using digital tools to facilitate faster, more convenient engagement that empowers the customer to author their own experience on their own terms.



A few real-world applications of AI

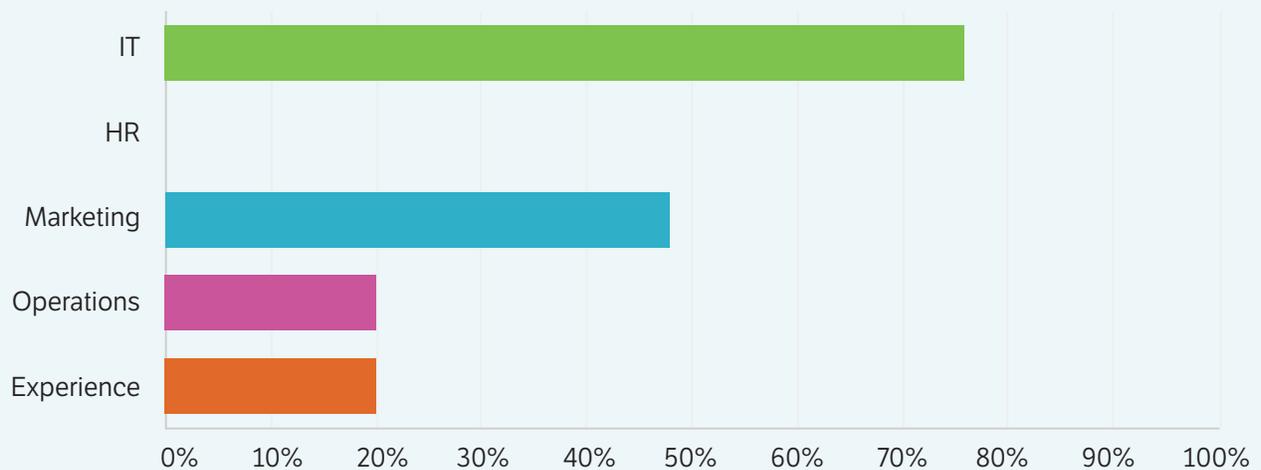
The growing use of AI among financial institutions offers a clear example of the transformative effect it can have on an industry. Recent survey data from our own research suggests decision-makers within financial institutions see changes brought on by technology advancement as having the biggest impact on their long-term success compared to other priorities.

WHAT TRENDS DO YOU THINK WILL HAVE LONG-TERM IMPACT ON YOUR INSTITUTION'S SUCCESS/FAILURE?



What's more, the same survey confirmed that these institutions are allocating resources accordingly by making significant investments in *tech* and the systems in place to support it. **Over 75% of respondents identified IT as the department receiving proportionally more resources throughout 2019.**

WHAT DEPARTMENTS OR INITIATIVES IN YOUR INSTITUTION ARE GETTING PROPORTIONATELY MORE RESOURCES IN 2019?



Here are just some of the current real-world applications already being deployed.

- **Risk Assessment**

AI tools can analyze massive loads of unstructured data, making them perfectly suited for assessing risk. Through the machine learning processes that power AI, these systems can detect warning signs that may be missed in traditional risk screening—instantaneously performing otherwise time-intensive human analysis while increasing repeatability in the process. Over time, these tools gain “experience” that is used to prevent the productivity and quality problems that commonly arise from personnel changes. These tools’ ability to handle more data faster is a significant advantage for small organizations, where labor allocation and workflow planning are especially critical.



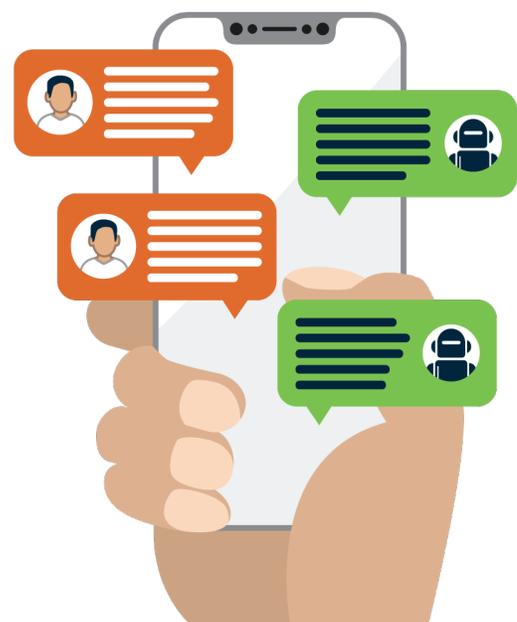
- **Fraud Detection**

The analytics capabilities of AI are also helping financial institutions detect fraud by increasing predictive accuracy and reducing the number of false positives. In addition to frustrating customers, these issues cost financial institutions valuable time in investigating alerts and handling interactions with irritated customers. AI can better detect fraud by enabling institutions to analyze huge masses of data for indicators that confirm or refute suspicions of fraud. For example, a bank might observe that a customer is suddenly making purchases abroad while other signals indicate they're still in the country. Traditional fraud detection techniques might immediately trigger a location-based fraud alert that would cut off the customer's card, leading to a very angry traveler. AI-based fraud detection, by contrast, might notice several events that are related, but separated in time that provide useful context for more informed action.



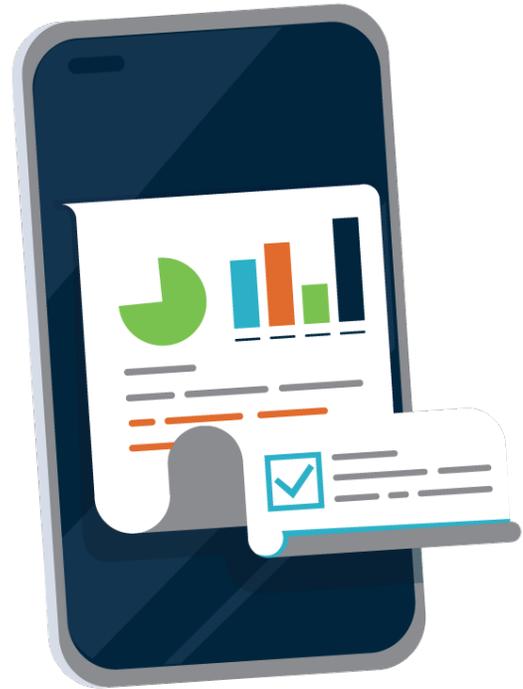
- **Financial Advisory Services**

There are many examples of AI-powered advisory services, but a few provide particularly salient examples of the technology in action. One is natural language processing (NLP). Here, a system understands what's being asked via text or voice, and a recommendation engine provides a suggestion or answer, much like a virtual assistant. AI can also be used to identify data anomalies and identify features and objects inside videos and images. AI is also being used to power new modes of client interaction through chatbots and virtual helpers—improving customer service by predicting why someone is calling and suggesting the best actions, helping human advisors save time.



- **Personal Financial Management**

While AI is already being used for managing personal finances, the future holds huge potential in this area. Someday, algorithm-driven chatbots will be capable of moving funds instantly through global markets in reaction to the current financial news, or accessing loans based on information customers have been unknowingly sharing online. Today, AI is working within financial apps to analyze spending patterns based on data gathered from everyday activities, or to link credit and debit cards and round up the value of purchases to invest in a share portfolio.



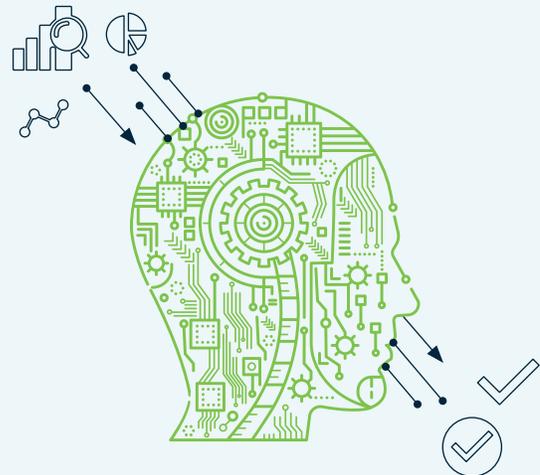
How State National is enriching the digital experience with AI-powered tools

Our commitment to innovation is exemplified through our deployment of exciting new technology tools, all of which improve customer experience through greater efficiency and effectiveness. As we continue to invest in researching new AI-powered tools that will have a measurable impact on end users, we're already implementing a number of technologies that overcome the challenges of lending.

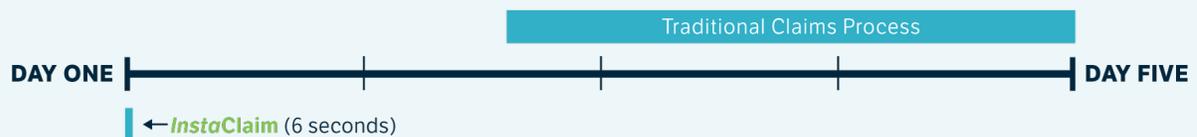
- **WRAP—Web-Based Robotic Automated Processing** — SNC uses robots to conduct an automated search for proof of insurance on our tracked loan portfolio, including extracting and updating auto insurance information, mortgage insurance information, and lienholder updates for both.

This reduces the number of manual verifications and associated member noise by 20%.

Manual verification takes approximately two minutes per instance, while WRAP is able to conduct 3,000 verifications in less than three hours. This drastic reduction in manual verifications has allowed call center staff to focus on other, higher-level tasks, including inbound calls and a research queue that requires personal attention and problem-solving skills, resulting in a better experience for our clients and their borrowers.

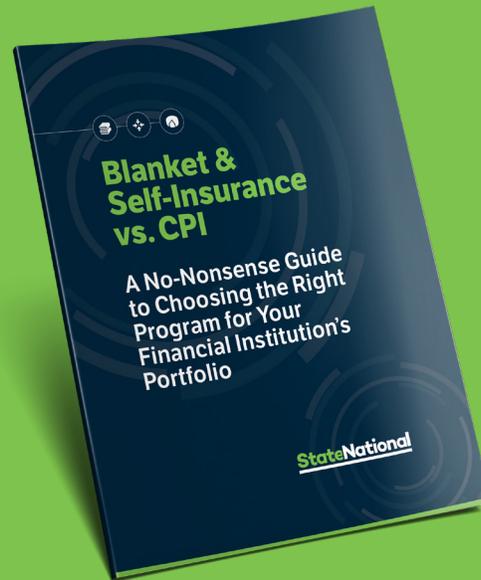


- **InstaClaim—Automated claims processing solution** — Average claims processing time was previously three to five days, but when lenders submit a claim through our online InsureTrak portal, most repossession expense (no loss) and premium deficiency (no loss) claims are now checked for eligibility through our automated *InstaClaim* process and will be settled within six seconds, with ACH transfers automatically initiated overnight.



Dive deeper

Want to learn more about how technology is impacting financial institutions and other lenders? Grab our free white paper to learn why the leading tech-enabled Collateral Protection Insurance (CPI) programs are rapidly phasing out traditional blanket and self-insurance strategies for loan portfolio protection.



Go to:
bit.ly/statenational-wp

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