Quote by Devroop Dhar, Co-founder & Managing Director, Primus Partners

The future of AI in banking: What's next for India's financial sector

Authored by Pahi Mehra

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Article Content:

Artificial Intelligence (AI) is revolutionising banking by doing more than just improving operations. Generative AI is leading this change, offering innovative tools that enhance customer engagement and support smarter decision-making. A KPMG report from April highlights that 71% of financial organisations globally are using AI, with 41% applying it extensively. Advanced economies like the US, Germany, and Japan are leading in AI adoption, while emerging markets show mixed progress. China and India are ahead in embracing AI, while regions like Saudi Arabia and parts of Africa are lagging behind.
Private banks in India are already investing heavily in AI. A Reserve Bank of India (RBI) study shows private banks are six times more likely to discuss AI initiatives in their annual reports compared to 2015-16, reflecting a strategic focus on technology. Public sector banks, while slower to adapt, are also beginning to embrace AI to remain competitive.

Next-Generation Customer Interactions

AI's next frontier in banking will be hyper-personalisation. Future AI systems will go beyond basic query resolution, using real-time data to offer tailored financial advice and proactive solutions. Virtual assistants and chatbots, already deployed by banks like HDFC and ICICI, will

become more advanced, capable of anticipating customer needs and offering solutions before they are requested.

"AI will transform customer service into a predictive and proactive system," said Sujatha Iyer, Head of AI at Zoho Corp. "It will provide financial advice aligned with customer goals and adjust recommendations based on evolving market conditions, creating a seamless and effective user experience."
Banks will also integrate AI-driven tools for customer sentiment analysis, drawing insights from social media and feedback to enhance engagement.

Strengthening Cybersecurity and Fraud Prevention

As digital banking grows, so do cyber threats. The next wave of AI tools in banking will focus on real-time fraud detection, leveraging technologies like biometric authentication and advanced anomaly detection. These systems will adapt to increasingly complex fraud techniques, ensuring financial security.
Ajay Trehan, CEO of AuthBridge, emphasises the transformative role of AI, "Advanced AI systems will redefine fraud detection, offering real-time monitoring and leveraging technologies like voice recognition and behavioural analysis."
AI-driven compliance tools will also evolve, automating anti-money laundering (AML) and know-your-customer (KYC) processes to ensure accuracy and reduce regulatory risks.

Manoj Singodia, MD and Lead – Financial Services at Accenture India, highlights a broader perspective: "AI plays a crucial role in fortifying banking transactions and ensuring robust security measures. Advanced AI algorithms detect anomalies in real time and adapt to increasingly sophisticated cyber threats. However, the successful adoption of AI requires a holistic approach. Banks must re-engineer processes across the value chain, prioritize secure, cloud-powered AI cores, and establish robust data infrastructures."

AI in Risk Management: Precision and Predictive Insights

Risk management will see significant advancements with AI. Predictive analytics will allow banks to anticipate market changes and customer behaviours, enabling proactive responses. Indian banks are increasingly incorporating unconventional data sources, such as transaction histories and social behaviour, into risk assessment models, paving the way for more inclusive and accurate credit evaluations.

"AI will enable precision in risk management by analysing large datasets in real-time," said Devroop Dhar, Co-Founder of Primus Partners. "This will not only lower operational costs but also improve decision-making in areas like credit scoring and portfolio management." AI will also streamline regulatory compliance, reducing manual errors and ensuring real-time adherence to evolving norms.

Challenges to Overcome

The road ahead is not without obstacles. Legacy systems in many banks, especially smaller institutions, pose significant integration challenges. Modernizing these platforms will require substantial investment.

Data privacy is another critical concern. With AI processing vast amounts of sensitive information, compliance with regulations like the Digital Personal Data Protection Act (DPDP)

will be essential. Addressing potential biases in AI algorithms will also be necessary to ensure ethical outcomes, particularly in lending practices.

"Integrating AI with legacy systems and upskilling the workforce are key challenges," noted Trehan. "Banks will need to adopt a holistic approach to overcome these hurdles effectively."

The RBI has also cautioned against over-reliance on AI, emphasising the risks of monopolisation by a few technology providers and the need for robust risk mitigation practices.

The Path Forward

The next chapter of AI in Indian banking will be defined by deeper innovation and a stronger regulatory framework. Banks are likely to invest in secure, cloud-powered AI infrastructures and develop scalable data strategies to support advanced applications.

Future AI systems will prioritise inclusivity, offering financial services to underserved populations through data-driven credit evaluations and personalised solutions. Security measures will focus on adaptive intelligence, capable of identifying and mitigating emerging threats in real time.

"AI is set to make banking more seamless, inclusive, and resilient," said Anil Chawla, MD of Verint India. "Real-time risk detection and compliance automation will become standard, ensuring a robust and secure financial ecosystem."