

AI-based Personal Financial Management: Opportunities and Challenges

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Abstract

AI powered tools are revolutionizing as they are hands free, automated, and data driven. AI allows individuals to track spending, investment management, and future goal achievement with little manual effort through numerous AI powered tools like machine learning algorithms, robo-advisors, and virtual assistants. AI enhances financial literacy, gives real time details, and sets personalised strategy targets to each and every individual through big data and predictive analytics. While AI-based Personal Financial Management offers various benefits, it facesome problems also. Majority of concerns focus on privacy as AI is data sensitive and personal. Access to finances without privilege can cause fraud, identity theft, and various other outcomes. AI algorithms are also perceived to be unbiased but efficient. If unwilling trained data is used for algorithms, results can be unfair sponsorship. Additionally, less human supervision can be regarded to be more efficient, but putting too much trust in AI led financial tools can cause suboptimal decision making within intricate scenarios. Lack of regulatory framework concerning AI in personal finance is an ethical and legal issue too. This article analyzes the benefits and issues associated with AI-based personal financial management. It explains the ways in which AI assists users in their financial decisions through automation, analytics, and risk management. Finally, enhancing AI-Finance security, making algorithms highly transparent, and developing effective regulations are some of the suggested measures for the enhancement of AI-based Personal Financial Management systems. AI is expected to update the way people manage with their finances, so its use in personal financial management will increase as the technology improves. It is very important to recognize the opportunities and challenges in order to encourage responsible use of AI technology in the finance.

Keywords: Finance, AI, Sensitive, Personalized, Algorithms.

Introduction

The advent of Informational Technology (IT) has taken a toll on PFM by introducing new challenges and practices, most notably, in the realms of data management and communication. Robo-advisors, along with budgeting apps and AI powered virtual assistants, are changing the way people handle their finance. AI, powered by big data, machine learning, and predictive analysis, offers unique financial advice and enhances one's decision-making capability. This has resulted in improved financial literacy, but some factors that have not

fully embraced AI tools and algorithms in PFM systems are data security issues, algorithmic bias, lack of regulations, and dependence on automation. This paper discusses the personal financial management options based on Artificial Intelligence PFMAI, its challenges and its opportunities along with possible remedies for its restrictions.

Objectives of the Study

1. To analyze the opportunities and challenges of AI in personal financial management.
2. To predict the future prospects of AI in personal financial management.

Reviews of Literature

Several studies have analysed the important and impact of AI in personal financial management, they highlighted both its opportunities and threads. Smith and Johnson (2020) stressed that AI-based financial analytical tools improve the budgeting, savings, and investment decisions by carefully examining user spending habits and financial oriented targets. In the same way, Patel et al. (2021) observed that AI-enabled robotic-advisors provides cost-conscious and data-driven investment tactics, making wealth management accessible to a large number of people. However, issues on the data security were raised by Williams (2019), who argued that AI tools handling financial data are susceptible to cyber frauds and threats, necessitating stronger encryption and privacy measures. Lee and Kim (2022) found that AI-based credit scoring systems can get biases from historical data, proposed to unequal lending actions in terms of algorithmic bias, Lee and Kim (2022) found that AI-based credit scoring models can inherit biases from historical data, leading to unequal lending practices. Brown (2020) also noted that high dependence on AI for decision makings related to the financial management may highly reduce the users' literacy of the financial, as users may give more importance to the AI recommendations without getting idea on the basic financial methods and concepts. Conversely, Gupta and Rao (2021) noted that AI can increase financial literacy by providing timely information and educational resources that help users develop better financial habits. Meanwhile, Thompson and White (2023) discussed regulatory challenges, noting that consistent AI governance within financial services is lacking, which raises ethical and accountability concerns.. Brown (2020) also noted that overreliance on AI for financial decisions may lower users' financial literacy, as users may put too much trust in AI recommendations without understanding basic financial concepts. Conversely, Gupta and Rao (2021) noted that AI can increase financial literacy by providing timely information and educational resources that help users develop better financial habits. Meanwhile, Thompson and White (2023) discussed regulatory challenges, noting that consistent AI governance within financial services is lacking, which raises ethical and accountability concerns. Zhang and Li (2022) investigated the trust obstacles in AI adoption and discovered that the transparency of AI decision-making greatly impacts user confidence in financial tools powered by AI. Furthermore, Harris et al. (2023) proposed that combining human financial advisors with AI technologies can alleviate trust concerns while providing tailored financial planning. Finally, a report from Deloitte (2024) estimated that improvements in explainable AI (XAI) will play a vital role in tackling transparency and fairness issues in AI-driven financial management, which will, in turn, enhance user adoption and trust.

Opportunities of AI in Personal Financial Management

Automated cost tracking and budgeting

AI-powered apps such as Mint, YNAB (You Need a Budget) and Pocket Guard can automatically create a budget and monitor your spending. These programs study financial flows, classify spending patterns, and offer tailored budgeting assistance. AI also having an ability to

forecast the upcoming payments of expenses based on historical data, permitting consumers to change their financial planning accordingly.

Investment Guidance

AI is playing an important and vital part in robot-advisors, such as wealth maximisation and betterment, by providing strategies which are data-based, low cost investment. To give recommendation on customized portfolios, these models are evaluating investment targets, risk acceptance of the investors, and trends of the market. AI based on the real-time analysis of big data sets enhances decision-making, simplifying an enhanced risk reducing and management and investment portfolio diversification.

Financial Planning and Sensible Savings

AI helps consumers in automating their savings and establishing financial objectives. Apps such as Digit and Qapital move negligible amounts to savings accounts naturally without affecting regular expenses by analysing patterns of income and expenses via AI algorithms. AI-based retirement planning applications also assist users in modelling future financial requirements.

Detecting Fraud and Building Security

They are used by the financial institutions to immediately detect any fraudulent activity in their business procedures. By observing transaction patterns, machine learning models can identify irregularity and minimize financial fraud. AI-developed security systems include blockchain integration and biometric authentication.

Enhanced Financial Intelligence and Understanding

AI-based chatbots and virtual assistants, from Bank of America's Cleo and Erica, offer the consumers investment advice, expenditure charts, and financial literacy tips. These bring about knowledge in the consumers about finance, and they are made to create better decisions that increase financial safety in the consumers.

Challenges of AI-Based Personal Financial Management

Data Privacy and Security Risks

Since AI in personal financial management have access to large amount of sensitive financial information such as history of financial transaction, credit scores, records related to the investment, and personal spending habits, privacy of data and issues related to the security are a great concern in AI-decision-making in financial management. Data gathered by cyber frauds can further lead to identity theft, financial fraud, or others.

On the other hand, AI financial apps are mostly cloud-based, it means that they are subject to hacking and data leaks. Most of the financial institutions have faced hacking incidents that forced them to expose financial information of large number of users. It enforces need for effective cybersecurity such as end-to-end encryption, multi-factor authentication, etc., a blockchain-based security protocol ensuring the security of consumers' sensitive financial information.

Issues on Algorithmic Bias and Fairness

Historical financial data are trained to the AI models in personal financial management, biases in decision-making can happen due to this issues. Inclusion of elements such as socio-economic status, gender, etc., in AI algorithms might work at some advantage against others inadvertently. Such discriminatory credit scores, loan approvals, or investment recommendations are often shared among hidden and historically marginalized communities unjustly.

For example, an AI trained on banking lending data where low-income individuals had formerly been denied loans may well continue with such skewness of effect, revering further financial exclusion. models which are related to the Financial risk assessment also tend to favour the wealthy people; hence, individuals at the low income groups of the economic hierarchy could end up with credit scores which leads to un-access of financial opportunities.

Continuous monitoring and checking of algorithms are very essential for fairness and transparency in AI based financial management. Financial institutions should deploy bias-detecting mechanisms, diverse the training data, and adopt explanations for AI (XAI) techniques that can make machine decision-making more interpretable for users. Regulators may be more important than ever to implement some preventative guidelines around AI-related issues, that then promote social inclusion in finance.

High-Reliance on AI and Reduced Human decision making

Highdependence on AI can eliminate or reduce the human judgment in personal financial decision-making will be possible due to automation and efficiency offered by the AI based personal financial management. Large number of users mainly relying on AI-powered budgeting apps, robot-advisors, and financial planners without careful examination of suggestions given by them. In very complex financial decision making situation it can be a big problem.

AI based investment suggestions may not consider the country-wide factors like economic uncertainties, political changes, or global economic problems that can affect the financial markets, but AI based investment suggestions is mainly consider the market trends.

In addition to that, some AI-based applications are data-driven not based on the customised patterns. A budgeting tool based on the spending patterns may give an opinion on aggressive savings based on spending patterns, but it will not consider the sudden medical problems, loss of job, or personal financial targets that need flexibility. This drawback shows the importance of integrating AI tools with human financial advisory services to provide a balanced approach.

To prevent blind reliance on AI, users should be educated about AI's limitations in financial management. AI should be seen as a supportive tool rather than a complete replacement for human financial expertise.

Lack of Regulatory Frameworks

AI's quick growth in finance has left laws struggling to keep up causing legal and moral issues. Many AI money tools work without clear rules on how to show their math, protect customers, or use AI. This barrier to principles makes it very difficult to make anyone responsible when AI makes money choices that hurt people.

Governments and money watchdogs need to set up clear policies to control AI in personal finance. They should focus on these key areas:

Data Protection Laws: Ensure that AI systems follow privacy rules such as GDPR and CCPA.

AI Ethics and Fairness Standards: Implementing guidelines to avoid mistakes in financial decision making.

Consumer Protection Policies: Setting up ways for people to question money choices made by AI that hurt them.

Transparency Requirements: Creating and implementing techniques for users to challenge AI-based financial decisions that negatively impact them.

Banks or financial institutions, tech companies, and people who make laws need to work together to create good and responsible rules for AI based financial decision makings.

Hurdles to User Trust and Adoption

Despite a growing number of people applying AI-propelled financial tools for personal finance tasks, areas of concern remain for users. Concerns for the securement of data, understanding how AI works, and depending on the validity of the information received still create significant obstacles to the attainment of widespread application.

An important concern is users' ignorance of how AI provides financial advice. Countless are those who harbour distrust of AI-driven tools through merely not knowing how they work from within. Take, say, a robo-advisor. If a user receives a recommendation for a specific investment strategy without a basis for that advice, the individual might not feel confident enough to heed it. AI-driven financial tools would greatly benefit from articulating their reasoning in order to instil users' trust.

Yet another problem is that people become uneasy about losing control over their financial choices. Many folks used to frown on the good old ways of planning their finances: talking to a real person who gives personal financial advice. They value the opportunities to speak face-to-face with one another and the types of advice that are wholly personal. AI financial tools, albeit effective, usually are not able to give the individualized emotional or situational guidance that human advisors can offer. Large decisions about money may not be something the users will be comfortable letting AI help with.

Furthermore, older adults or people who are not technologically savvy will find it particularly hard to use AI-based money services. This is evident in how older adults may encounter challenges in operating budgeting apps or robo-advisors-powered AI. That way, they miss out on leveraging AI's offering when it comes to money management.

Future Prospects and Recommendations

For the achievement of the maximum benefits of AI for personal finance management along with mitigation of risks, certain measures should be initiated.

- **Reinforcement of Data Privacy Standards:** Advance the data protection level with advanced cybersecurity technologies such as the use of blockchain.
- **Reduction of Algorithmic Bias:** Periodically audit AI models to ensure fair decision-making in finance.
- **Enhancing AI Transparency:** Develop explainable AI (XAI) techniques that make financial recommendations understandable to users.
- **Establishing Regulatory Frameworks:** Collaborate with policymakers to create laws that govern AI ethics, consumer rights, and data protection.
- **Joining Human Financial Expertise with AI:** Promote well established financial advisory systems that combine AI automation with human financial decision making skills.

Conclusion

AI-enabled personal finance management can change the management of finances for people by providing data-driven, not human oriented, and personalized solutions. Nevertheless, responsible adoption of AI needs considering concerns regarding data security and protection, algorithmic bias, regulatory related drawbacks, and trust of the user. Through protocols which are improved, motivating the algorithmic transparency, and building of the regulatory framework, AI has the potential to increase literacy of financial management and education, improve the quality of financial decisionmaking, and convert the financial system more wide-ranging. The upcoming of AI in PFM is in a harmonious balance between technological improvements and human knowledge to achieve the long-term financial prosperity.

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