

The Role of Artificial Intelligence in Banking: Challenges and Implementation

OPEN ACCESS

Volume: 13

Special Issue: 1

Month: March

Year: 2025

E-ISSN: 2582-6190

Citation:

Arjunan, C., and NA Sumathi. "The Role of Artificial Intelligence in Banking: Challenges and Implementation." *ComFin Research*, vol. 13, no. S1-i2, 2025, pp. 160–64.

DOI:

<https://doi.org/10.34293/commerce.v13iS1-i2.8756>

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Abstract

Artificial Intelligence create big impact on various industries. Indian banking system is one among them. To enhance functional capabilities and gain expertise in functions, banks are interested to implement new technology based system like artificial intelligence which include various vital activities like PA, RPA, NLP and ML. As providing advantage in functional capabilities this technology driven system also provide some challenges regarding cost to implementation, confidence level in customer mind, security of data and so on. This paper focused on to evaluate various influence on banking and financial industry from technology driven system. This study concentrate on various issues mainly the followings, Impact of AI based system functional capability, customer opinion about technology based activities, issues related to technology based banking system and government rules and regulations regarding financial institutions. This research focused on technology driven tools to personalised services, automation of functions and overall customer satisfaction level regarding banking sector. It is also evaluate the challenges associated with implementation of AI driven process like security and customer awareness about AI an make them familiar with new technology like AI. From this study the some points identified. These are the necessity of ethical based governance with AI, measure to safeguard data from unauthorised access, create awareness about usage of new technology like AI in consumer side. At the the end of this study, conclude with that even some challenges associated with new technology like AI based banking system, it is very important to continues development for financial market wich decided overall development of the nation.

Keywords: Artificial Intelligence, Indian Banking Industry, Customer Perception, Cybersecurity, Regulatory Challenges, AI Implementation in Banking

Introduction

Development of every nation is depend on industrial development of the nation. Industries decide the economic growth of the country. So all countries are highly concentrate to industrial development by providing various assistance to this sector. Investment is one of the important factor for industrial development. So government are focused to availability of fund from government and non government financial sector which include Public, private, cooperative and multinational banking corporations. In recent years there are significant growth in

Indian financial sector due to transformation of traditional banking operation to digital banking operations. Digital transformation reduce barriers for people access banking services and everyone comfortable with banking activities. By introducing new technology Like AI driven banking system Indian banking system are capable to meet new generation customers expectation and grow fastly. A fast-developing discipline, artificial intelligence (AI) lets robots replicate human intellect including learning, problem-solving, and decision-making. By raising efficiency and automation, artificial intelligence technologies, machine learning, natural language processing, computer vision, are revolutionizing sectors. Modern life is being transformed by artificial intelligence from virtual assistants and driverless cars to predictive analytics and healthcare diagnostics. Businesses leverage AI for customer service, fraud detection, and data analysis, enhancing decision-making and personalization. With continuous advancements, AI is expected to reshape economies, drive innovation, and redefine human interactions with technology. (Agarwal, 2021) However, ethical considerations, data privacy, and job displacement remain critical challenges as AI continues to expand its influence globally.

Objectives of the Study

- To explore an overview of AI technology in Indian banking industry
- To analyze the customers perception towards AI technology in Indian banking industry
- To find the challenges of AI technology in Indian banking industry
- To present the implementation of AI technology in Indian banking industry

An Overview of AI Technology in Indian Banking Industry

Artificial Intelligence (AI) is transforming the Indian banking commerce by enhancing operational efficiency, security, and customer experience. Banks are increasingly adopting AI-driven skills like ML, NLP, RPA and prognostic analytics to advance financial services. AI-powered chatbots and virtual assistants, like SBI's SIA, HDFC Bank's EVA, and ICICI Bank's iPal, handle customer queries, deliver transaction provision, and enhance engagement through personalized banking services. These AI-driven solutions enable 24/7 customer support, reducing wait times and operational costs while improving overall service quality. AI shows a critical role in scam discovery and cybersecurity by analysing vast amounts of transactional data to identify suspicious activities and anomalies in actual time. Machine learning procedures help detect fraudulent transactions and unauthorized access, ensuring a secure digital banking environment. Banks like ICICI Bank and Yes Bank use AI to prevent cyber threats and enhance transaction security. Another significant application of AI is in credit risk assessment and loan approvals, where AI-driven models analyze customer data, spending behavior, and credit history to automate loan decisions. This reduces processing time and provides faster, data-driven lending solutions, especially benefiting first-time borrowers. (Bapat, 2020)

Robotic Process Automation (RPA) is also streamlining tedious tasks like KYC verification, account reconciliation, and document processing, allowing banks to operate more efficiently. Additionally, AI-powered biometric authentication and voice recognition are improving security measures, offering customers seamless and secure login experiences. AI-driven investment advisory services and robo-advisors are also transforming wealth management, providing automated, data-backed financial guidance. With continued advancements, AI is expected to further transform the Indian banking industry, enhancing automation, risk management, and customer satisfaction. Even some benefits associated with digital transformation, it is necessary to find solutions to issues associated with the technology driven system for assure banks are concern about safeguard of customer information.

Customers Perception Towards AI Technology in Indian Banking Industry

With help of new technologies like Artificial intelligence, banking industry is one of the example for transformation of traditional process to digital process. Most of the customer are believe that transformation of banking sector associated with various benefits like automation of process, reduce bias and instant immediate reply for queries particularly reduce time wastage and flexible time for banking operations like 24 X 7. Customer perception may be differ from one customer to another customer based on information available with them regarding the new technology. When they are practicing traditional banking system, they need to wait long time in bank premises but new technology driven banking system eliminate these kind of issues. New generation technology friendly customers are comfortable with new transformation of banking system while some customer those from rural areas with lack of knowledge about digital banking system are not comfortable with this. Many still prefer human interaction over AI-driven chatbots, especially for complex banking needs like loan negotiations, investment planning, and dispute resolution. Some customers feel that AI lacks emotional intelligence, making interactions seem robotic and impersonal. Additionally, concerns about data privacy, cybersecurity, and AI biases impact customers' trust in AI-based banking. The rise in cyber threats, including phishing attacks and identity fraud, makes some customers hesitant to rely entirely on AI for banking transactions. Banks like ICICI and Yes Bank have addressed these concerns by integrating AI-powered fraud detection and biometric security to enhance customer confidence. (Garg, 2021)

Despite these concerns, the younger generation and tech-savvy customers are more inclined toward AI-driven banking due to its efficiency, personalization, and seamless experience. AI-driven personalized banking solutions, predictive analytics, and robo-advisors help customers manage finances, track spending, and receive customized investment recommendations. As AI technology continues to evolve, customer perception is expected to improve, provided banks focus on enhancing AI transparency, security, and hybrid banking models that balance AI with human support.

Challenges of AI Technology in Indian Banking Industry

The adoption of Artificial Intelligence (AI) in the Indian banking sector has revolutionized financial services, yet it comes with numerous tasks that banks must report to ensure effective execution. One of the main challenges is data confidentiality and security concerns. In traditional banking system it is very difficult to misuse the customer data without concern people knowledge. But in technology integrated system, possibilities are high to create issues like access of data without permission, misuse of data and so on. To avoid this kind of issues, it is mandatory that all banks are follow regulations regarding data safety like PDPB 2019 to assure that customer information are safe and protect from misuse.

Cost associated with implementation of new technology based system is another issue in this sector. To implement new system, it is necessary for establishing new infrastructure or update existing system is mandatory. It is very difficult to medium size banks for spend more amount for establishing new infrastructure, recruit people with skills. Not only establishment of new system, continues maintenance and upgrade also involve high cost.

New Technology like AI based system need not only technology know how employees, customer with knowledge about new system also important. Now a days particularly in rural area people are hesitate to change from traditional method to digital method due to lack knowledge and fear about safety regarding the system. Fear regarding new technology not only in the customer mind employees also fear about new system regarding job security. They feel implementation of new system may lead to downsizing the employees. Ethics and regulations of government is another

challenge in AI driven Banking system. Man mad algorithms may lead to bias in banking activities and it played important role in decision making regarding sanction of loans, CIBIL assessment, Develop profile for customers. These algorithms may favour or against customers based on data loaded into the system. All banks are must follow the rules and regulations imposed by central bank of the nation which provide openness and responsibility of banks.

Technology based system working model is fully depend on data available in that system. If quality data available then the system provide quality performance otherwise this system may lead to issues. In reality most of the Indian banking system works with inconsistent format, older records, ability to integrate with new system. This may lead to various issues unfair predictions, ineffective detection methods and worthless recommendations Detection and prevention of fraud is another important aspects of digital banking system. System with vulnerabilities helps to hackers to exploiting customers.

Implementation of AI Technology in Indian Banking Industry

Indian banking system is the witness of impact of new technology like Artificial Intelligence in various fields like enhance operational efficiency, overall customer satisfaction, safe guard of data and role of fast and quality decision making. AI technologies like ML, NLP, RPA and predictive analytics have significantly transformed traditional banking operations. The application of AI in Indian banking can be understood through the following key areas:

AI in Fraud Detection and Cybersecurity

With the rise of digital banking and cashless transactions, fraud prevention has become a critical concern. AI helps banks detect fake activities in real-time by analysing massive amounts of transaction data and classifying doubtful patterns. AI-driven fraud exposure systems use machine learning algorithms to monitor customer behavior and detect anomalies such as Unusual transaction amounts, Login attempts from unknown locations, Multiple failed transactions. Banks like ICICI Bank and Yes Bank use AI-based fraud detection tools to enhance cybersecurity, prevent phishing attacks, and secure digital transactions. AI also plays a crucial role in identity verification through biometric authentication (facial recognition, fingerprint scanning) to prevent unauthorized access.

AI in Credit Risk Assessment and Loan Processing

AI-driven credit risk assessment has made loan approvals faster, more accurate, and data-driven. Traditional banking relied heavily on manual verification of credit history, but AI enables banks to analyze the customer transaction history, spending behavior, employment records and social media behavior and alternative credit data. Fintech companies like Paytm, KreditBee, and ZestMoney use AI to assess the creditworthiness of borrowers who may not have a formal credit history. This has improved financial inclusion by allowing loans to be sanctioned quickly and with minimal human intervention. AI has suggest customized loan repayment system which helps to improve loan repayment ratio..

AI-Based Predictive Analytics in Banking

AI based prediction helps to banks design products based on customer characteristics. Before designing the financial products it is necessary to know need of customers, latest trends in market. It help to find out irregular customers and reduce the risk. Based on customer demographic factors determining the price for the product is alos another benift from AI driven system. Some leading banks are offer various products based on customer characteristics..

Robotic Process Automation (RPA) in Banking Operations

RPA is one of the tool used by various Indian banks which helps to enhance operational efficiency of banks and reducing errors from traditional manual system. It is the tool which used for various routine activities of the bank.

AI in Personalized Banking and Customer Experience

One product is not enough to satisfy all the customers. So now a days banks are develop different kind of personalised products which satisfy different type of customers. Based on various demographic and social factors of customers they need different kind of products like savings , minimum balance account, credit card limit etc., Technology like artificial intelligence track the customer and offer the products what they expect.

AI in Biometric Authentication and Security

Banking industry is highly sensitive industry. Customer are highly focused on security measures associate with the banking activities. In traditional method there is lack in safeguard measures. Now Artificial Intelligence tools are able to offer different kind of protection to the customers like biometric system, face recognition and voice based authentication. It will help to minimize the risk and offer better customer experience.

AI in Wealth Management and Robo-Advisory Services

Systematic machine advisors are played very important role investment sectors. By analysing various aspects like trend , risk and goals associated with customer, they offer various suggestion for safe investment options. With help of this ,customers are able to get on time assistance and suggestions without bias.

Conclusion

This paper intend to evaluate the impact of artificial intelligence in Indian financial sector. It explore the essential requirements for successful implementation of AI driven banking system. It also highlight the problems like expenditure for implementation, safeguard for data, unauthorised access of information, rules and regulations regarding technology, associated with the transformation of banking system from traditional to digital banking system. Ability of adoptability of existing system, ethical considerations, similarity with rules and regulations are the important aspects for implementing AI based new system. Awareness programmes for advantages of AI technology to consumers and employees are one of the important factor. Even various obstacle associated with this, Indian Banking industry develop their skill to match with new system helps to sustainable development.

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