RESEARCH ABSTRACT

The Impact of AI talents and GenAI on financial services

Over the past five years, the financial services sector has **faced a multitude of challenges,** including **regulatory changes, geopolitical instability, and a prolonged period of historically low interest rates** that have significantly compressed net interest margins. These pressures have intensified the need for banks to modernize their operations and **enhance their competitive edge through technology.** In the financial services sector, **technology is not merely a supplementary tool but the fundamental means of production.** This distinction underscores why investment in **technology is particularly crucial in this sector compared to others.**

Investment in technology has surged, with banks expected to **increase their overall tech spending** at a CAGR of 9% over the next three years. **Data and AI expenditures are leading this growth,** with projected CAGRs of 22% and 31%, respectively. The rise of generative AI is particularly notable, with corporate spend on these technologies expected to skyrocket to $60 billion, reflecting a tenfold increase from current levels. This dramatic investment **underscores the crucial role of AI in transforming banking operations and customer interactions.**

Despite these significant investments, the **distribution of AI talent across the banking sector remains uneven.** As per the Data & AI human capital report of Darwin X [1], AI specialists currently make up a **small but rapidly expanding segment of the Data & AI workforce,** accounting for just 8% of the total of Data & AI professionals among 40 analyzed banks. However, this segment is growing at a remarkable rate of 38% annually. However, the **effective integration of AI and GenAI talents** into retail banking presents **several complexities:**

- **a) Talent Scarcity:** The limited availability of skilled AI professionals poses a major challenge for retail banking (e.g., difficulty in hiring AI and GenAI experts specialized in CIB, AM, WM)
- **b) High Costs:** Recruiting and maintaining AI talent is expensive (e.g., high salaries for top AI specialists, significant investment in ongoing training and development)
- **c) Knowledge Gaps in Traditional Banking:** Existing employees may lack AI expertise (e.g., traditional bankers in retail banking unfamiliar with AI-based risk tools, AI-driven portfolio management and AI-enhanced client insights)
- **d) Integration Complexity:** Merging AI technologies with existing systems poses challenges (e.g., technical hurdles in integrating AI-based systems, disruptions during system updates)

To effectively **address these challenges and harness the potential of AI and GenAI talents,** banks need to adopt several strategic approaches:

- **a) Reskilling and Upskilling:** Develop and implement comprehensive training programs tailored to retail banking sectors to address the skills gap and prepare employees to handle AI roles internally rather than relying solely on external hires
- **b) Employee Feedback Integration:** particularly through the Employee Net Promoter Score (eNPS) which measures employee satisfaction and helps tailor training and communication strategies to better meet workforce needs and improve engagement
- **c) Change Management Initiatives:** Develop programs to manage change and address employee concerns about job security (e.g. workshops on AI benefits, clear communication about the impact of AI highlighting successful AI integration examples)

By effectively integrating AI and GenAI talents, banks can realize significant enhancements in operational performance and cost efficiency. With the strategic deployment of AI professionals, financial institutions can streamline their processes and **achieve cost savings of approximately 10-15% through improved automation and resource optimization.** Additionally, this talent boost can also **drive revenue growth by 5-10% through better risk management and personalized services.**

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1 Source: Data & AI human capital report of Darwin X – Baking edition 2024