(REVIEW ARTICLE)

Harmonizing financial futures: AI enhancement and methodical fusion in banking risk oversight

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Abstract

The paper will deal with the link between finance and artificial intelligence (AI) in the context of banking, including how AI was introduced from simple tasks to more complex ones involving risk management and fraud detection. The phenomenon displays use of AI by banks as exemplified by First Financial Bank, which was able to open new accounts through intelligent digital assistants. The article focuses on the question of ethical AI that aims to create trust and compliance. This article has explored the position that big language models (LLMs) hold in enhancing virtual assistants in banking and the significance of open source models, as they contribute to collaboration and innovation in the financial industry.

Keywords: Finance; Artificial Intelligence (AI); Risk Management; Banking; Machine Learning (ML); Innovation

1. Introduction

Global Banking is primarily focused on the management of risk that involves credit risk, market risk, operational risk and reputational risk. Notable financial institutions still keep manual operations and outdated risk management systems in their operations which are time consuming, inaccurate and costly. In the past few years, AI and ML technologies have made a risk management era through data analytics and automation in order to make better decisions and improve overall risk management.

Risk exposure of the international banking now is at an unprecedented level of complexness and unpredictability. These developments were fueled by the market turmoil, regulatory changes and ever-changing technologies. Financial institutions should not only train risk management in terms of regulatory compliance and large volumes of data handling but also be able to respond timely to new risks as the arise.

AI enhancement and methodical fusion through AI and ML algorithms are used by financial institutions to overcome the mentioned problems for enhancing the accuracy, efficiency, and rationality of the decisions. According to Fritz-Morgenthal et al. (2022), such technologies like AI and ML can be utilized by the financial institutions to sort through a vast amount of data, detect patterns, and get results pretty quickly.

This essay would be to demonstrate the current state-of-the-art risk management in global banking, highlight the challenges faced by the financial institutions in the management of risks and discuss AI enhancement and methodical fusion. This essay argues for the importance of AI and ML in risk management by highlighting the benefits such as improved accuracy, efficiency and decision making. The cases in point and the practical guides for financial institutions adopting this technology in their risk management practices are also mentioned. The paper will also stress on the issue

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of the involvement of accessibility-based AI models in creation of trust and compliance and the role of large language models (LLMs) in enhancing interactive assistants in bank.

2. The Evolution of Risk Management in the Global Banking World

Many aspects of the technological progress, increased globalization and new regulations are behind the diversification of the global banking risk management systems ([1]). Until now, legacy systems and ineffective and time-consuming manual processes have characterized traditional risk management processes.

The growth of innovations in technology and digitalization has dramatically changed the riskface of the financial system. Consequently, the erection of datacenters and the necessity for cyber security have been a new addition to the standard risk profile. Also, the developments in internationalization and the details of the supply chain networks have made worse the risk management problems of the financial institutions (Ohalete et al. 2023). With the expansion of activities, the size of the risk that firms have increases, which in turn requires careful credit management and attention to the risks.

The error in human factor in risk management is still a problem because even though there are some workers who are risk experts the errors are generally unavoidable. Technologies such as AI chatbot tools are capable of operating more quickly than companies can guard against such risks, which leads to legal action and adverse publicity as they prove costly.

In circumstances of rising complexity and changing unpredictability, creative thinking is inevitable. Financial institutions should incorporate the human-centric approach while also ensuring the necessary technological aspects so as to ward off mistakes. According to Ganesh and Kalpana (2022), these will be transparent AI models, and the large language models (LLMs) will be implementing intelligent virtual assistants in banks. Open source models guarantee sharing, collaboration, and innovation in the financial sector. As a result, risk management will be enhanced in the whole sector.

Therefore, the usage of technology and digitalization, the world grows more and more, and the regulatory requirements change all the time have been the main features of the risk management development in the global banking. The old risk management techniques were not well equipped to face the uncertain market condition as they were based on manual work and outdated technology (Nimmy, et al. 2022). Financial sectors need to develop new innovative models, that include, transparent AI models, large language models, and open-source models, that can be utilized to control the risks and build trust between people and the financial institutions.

3. AI Enhancement in Risk Management

The AI enhancement in risk management has the AI utilization of artificial intelligence and machine learning algorithms for more precise risk assessment and better decision making. AI-based risk management will enable data-oriented advises, precautions, adaptive learning and collaborations, which will design effective risk management platforms for financial institutions.

AI in risk management provides more robust and actionable reporting and insights, proactive identification of risks, minimization of coverage for risks, and an all-around efficiency in the risk management process while preserving the sacrosanct data privacy rules. AI systems are frequently applied to compile, assimilate, and analyze multiple data sources such as those coming from the market trends, customer feedback, regulatory updates, or internal control results (Kakade, 2023). It has the capability to identify patterns, inconsistencies, links of association, and cause and effect relationships in the data bringing to light possible future risks and opportunities. Integration of AI by financial institutions gives them the ability to acquire comprehensive and precise information about their risk exposure, performance, and outlook which in turn helps them having strong-based decisions than intuitions and assumptions.

The bank success in implementing AI may be considered as a case study. For example, through AI-driven predictive maintenance, we can analyze the data from sensors and equipment in order to know of a system failure that is likely to occur, which consequently reduces unplanned downtime and production interruptions. According to Kakade (2023), AI algorithms might do it by the comparison of actual-time data with historical patterns, which might denote the occurrence of equipment failure, quality issues, or even safety concerns. AI operated image recognition and computer vision systems can identify flaws in the production process to ensure that only good quality goods will be available on the market, thereby resulting in a reduction in recalls and increased customer satisfaction.

On the other hand, AI implementation as a risk management method also has its own problems and issues to contend with. These categories are transparency, trust, privacy and security, ethics and social responsibility, and ethical implications. Openness of financial institutions should include AI technology used, how it works and gives oversight to the public. People have to work together with AI in its manufacturing, utilization, and protection and by all technologies guaranteed to ensure security, safety, and equality for everyone (Aloisi and De Stefano 2023). Companies must be up on guard about the security of the data of customers, employees and the organization when AI models are being deployed. AI and machine learning systems should be designed in such a manner that they possess a set of foundational values that equate to personal and public values.

AI enhancement in the risk management of financial institutions simply makes sure that these organizations get high accuracy, increased efficiency, and faster risk analysis and decision-making processes. At the same time, financial companies have to get over possible challenges of trust, privacy, safety and security, values and society influence, and moral questions. According to Ahmed et al. (2020), utilizing AI algorithms gives a chance to banks to get the most exhaustive data sources and conduct risk assessments, fraud detection, predictive analytics, real-time monitoring and alerts, and proper decision making.

4. Methodological Management Integration for the Enhancement of the Risk Management

Bringing together AI with historical risk management methods for the purpose of perfecting risk assessment and decision making is the methodical fusion involved in risk management. This method which is AI-centered but still considers traditional risk management techniques will eventually create a more comprehensive and accurate risk management system.

AI's complementarity with conventional risk management approaches is AI's power to avoid traditional method limitations. Conventional risk management practices are synonymous with manual works and subjective decisions that are tedious, costly, and faulty. AI interprets big data vastly and accurately at a fast pace and provides data-based approaches and a predictive strategy that are different from the historical methods. Therefore, this joint approach will provide financial institutions with a more accurate and precise mechanism of the identification, evaluation, and reduction of the risks.

A framework for integrating AI enhancement with existing risk management methodologies includes the following steps:

- Data Collection and Preparation: Financial institutions need to bring together data obtained from different sources such as market analysis, feedback from customers, regulatory changes and internal audit.
- AI Model Development: Banks and other financial institutions can make AI-powered algorithms with the collaboration of machine learning algorithms which helps in recognizing patterns, anomalies, correlations, and causal links in the data sets.
- Model Validation and Testing: Financial sector should evaluate models of AI by different assessment criteria including accuracy, precision, recall and F1 score.
- Model Deployment and Monitoring: The financial institutions need to put the working AI models in the production environment and check this process frequently.
- Continuous Improvement: Financial institutions should regularly review their AI models by adding new data, updating the models, and assessing the effectiveness of their work.

Working jointly with traditional method, AI can provide several advantages for risk management, which include better reporting and insights, proactive identification of risks, minimization of risks exposure, and risk management enhancement assuring data privacy and confidentiality. Utilizing AI algorithms gives a chance to banks to get the most exhaustive data sources and conduct risk assessments, fraud detection, predictive analytics, real-time monitoring and alerts, and proper decision making (Agarwal, et al. 2021).

Notably, the synergy is about merging AI and other standard risk management approaches to produce a more comprehensive risk evaluation and decision-making. For the attainment of accuracy and consistency in the identification, assessment and risk management, financial organizations are able to use the AI combination of the existing risk management approaches for implementation.

5. Practical Implications and Their Case Studies

AI enhancement and methodical integration of banks has played a crucial role in an efficient risk management process; hence the qualities of risk assessment and decision-making have improved. The automated process discovery (APD) enabled Citi Bank to document and structure the flow of their regular operations with the help of AI in machine learning. Chinthapatla (2024) posits that APD can gather and process the data from numerous outcomes of business operations to contribute to the risk management and the decision-making process. The figure below illustrates some of the benefits of APD.
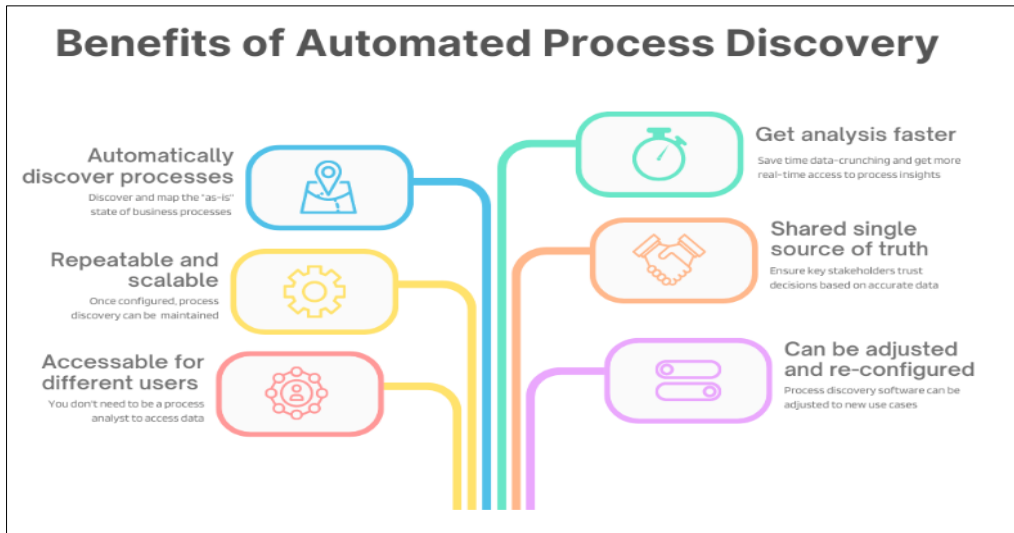
Figure 1 Diagram showing the Benefits of APD

Another example is JP Morgan Chase & Co. which automated the tasks that was repetitive and monotonous by reducing the number of hours per person and increasing productivity. The bank developed an AI-driven credit scoring system which was more sophisticated comparing to the old credit scoring methods that used basic not-so-complicated rules to measure the level of loan defaults and to determine the most credit-worthy applicants. The bank goes ahead to use AI in risk assessment, which lowers the risk to both clients and banks and for fraud prevention which delivers highly accurate results from calculation that's not susceptible to error (Mhlanga 2021). Therefore, it curtails credit card fraud. The figure below shows the AI-driven credit score system and used.
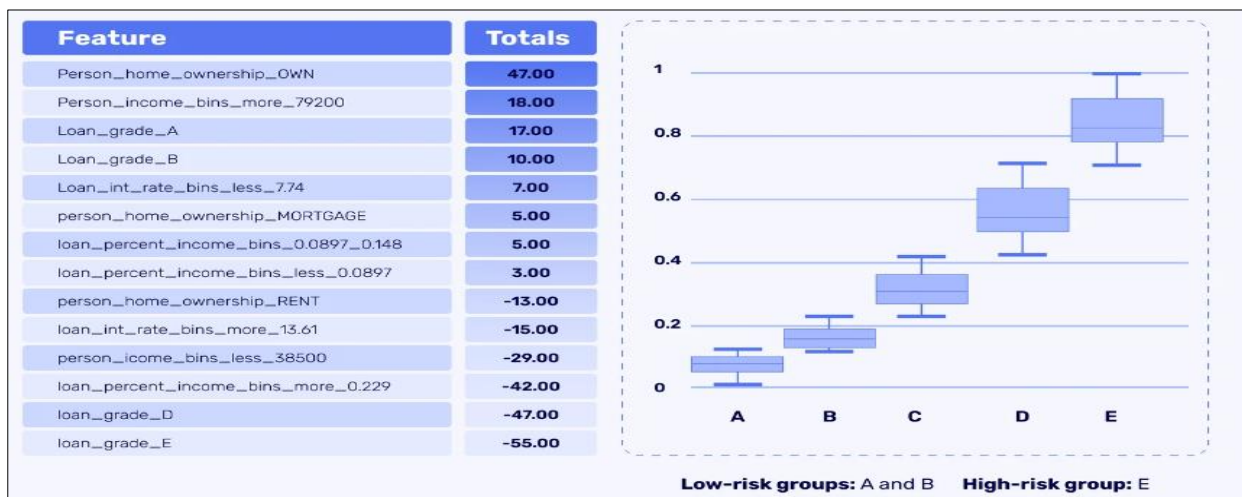
Figure 2 AI-Driven Credit Score System by JP Morgan

In these real-life examples, AI enhancement is showcased, and discussed is the methodical fusion of the technology in global banking. Utilizing AI algorithms gives a chance to banks to get the most exhaustive data sources and conduct risk assessments, fraud detection, predictive analytics, real-time monitoring and alerts, and proper decision making.

At the same time, financial companies have to get over possible challenges of trust, privacy, safety and security, values and society influence, and moral questions. Openness of financial institutions should include AI technology used, how it works and gives oversight to the public. People have to work together with AI in its manufacturing, utilization, and protection and by all technologies guaranteed to ensure security, safety, and equality for everyone (Eling, et al. 2022). Companies must be up on guard about the security of the data of customers, employees and the organization when AI models are being deployed. AI and machine learning systems should be designed in such a manner that they possess a set of foundational values that equate to personal and public values.

Financial institutions can exploit AI enhancement and improve their risk management outcomes as well as AI integration to a higher level yet they should also pay attention to the possible risks and challenges arising from their adoption of AI. Adopting AI best practices should help financial institutions achieve better results in risk management, reduce costs, and enhance customer well-being.

6. Conclusion

This paper presented the common risk management practices in global banking, is so complicated for financial institutions to find appropriate solutions in complex and risky conditions. This paper puts forward the examination of AI enhancement and integration methodology, as well as AI-based risk assessment and decision-making. Also, worth consideration are barriers and difficulties to the realization of AI, including transparency, trust, security, privacy and values, as well as the social and ethical impact.

The main conclusions and remarks of this paper illustrate that AI optimizing and methodology implementation can be the transformation factors in future banking risk management systems. Utilizing AI algorithms gives a chance to banks to get the most exhaustive data sources and conduct risk assessments, fraud detection, predictive analytics, real-time monitoring and alerts, and proper decision making. AI, in risk management, will be able to increase accuracy, speed and efficiency ultimately resulting in a better risk management approach.

At the same time, financial companies have to get over possible challenges of trust, privacy, safety and security, values and society influence, and moral questions. Openness of financial institutions should include AI technology used, how it works and gives oversight to the public. People have to work together with AI in its manufacturing, utilization, and protection and by all technologies guaranteed to ensure security, safety, and equality for everyone. Companies must be up on guard about the security of the data of customers, employees and the organization when AI models are being deployed. AI and machine learning systems should be designed in such a manner that they possess a set of foundational values that equate to personal and public values.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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