









## Exhibit 3: AI application in banking sector: Key benefits and challenges

| Benefits   | Challenges  |
|--|---|
|  <p><b>Potential to increase profitability:</b> AI could help banks in both cost cutting and increasing revenues, as employees can delegate low value-added tasks to AI and be more productive in core tasks. AI can also help banks maximize asset utilization rates. A market study says that AI technology could increase a bank's revenue by 3.4% and reduce cost by 3.9% over the coming three years. Moreover, banks and firms in the financial services sector could improve profitability by an average of 31% by 2035, using AI.</p> |  <p><b>Data quality:</b> AI is highly dependent on the quality of data fed as input. Therefore, unverified information poses a major risk. For example, absence of correct data will render a fraud detection AI system ineffective.</p>   |
|  <p><b>Reduction in human intervention:</b> As AI enables customers to avail of banking services using voice commands and touch screens, the need to be physically present are gradually diminishing. AI can process queries to connect users, find information and answer questions associated with a number of banking services; this would help in reducing human error.</p>   |  <p><b>Cybersecurity:</b> Data access and privacy is crucial to the development of AI-powered technology. This has become even more significant with the introduction of General Data Protection Regulation (GDPR) in Europe. While banks are using AI to detect fraud and suspicious activity, AI could be used maliciously to inject biased data in the system and create new cyber threats.</p> |
|  <p><b>Personalization of financial services:</b> Banks are a hub of vast customer data/information. AI algorithm helps in analyzing and tracking customer data (behavioral, demographics, location, etc.) to provide best available service to the customer, and solving a problem immediately by evaluating customer identity.</p>  |  <p><b>Lack of right talent:</b> Finding the right talent, which is critical for success in the business, is challenging due to the scarcity of trained human resources. The existing workforce is not familiar with latest tools and applications, whereas people with right data science skills are not available easily.</p>  |
|  <p><b>Improvement in operational excellence:</b> Banks permits the banking/financial services sector to access data intelligence and apply those visions to gain operational excellence. AI has the power to enable real-time automated decision making and operationalize data analytics. When implemented to real data in an automatic manner, AI can offer a real competitive advantage for organizations if leveraged correctly.</p>   |  <p><b>Transparency:</b> AI operates in a sort of "black box", using algorithms that are beyond human comprehension; this makes it difficult to understand how the system reached its conclusion and why a recommendation was made. The lack of transparency is a key issue in the application of AI in financial services.</p>  |

Source: Aranca analysis