

GENERATIVE AI

INSIGHTS



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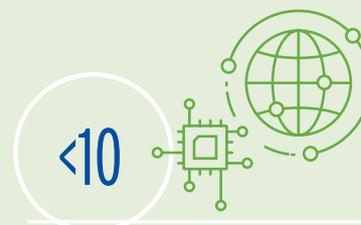
INSIGHTS



As bank leaders think about how to leverage generative AI within their organizations, they could consider how the technology could save employee time and resources. Artificial intelligence could generate internal credit documents, like credit memos and annual credit reviews, while maintaining or increasing accuracy. That could speed up decision-making — while leaving the final say in the hands of experienced lenders.

KEY METRICS

Generative AI: A form of artificial intelligence that allows users to input prompts that create new content, such as text, images, audio and video.



Of more than 300 AI use cases at global banks, fewer than 10 involved generative AI within credit functions or departments.

Source: Evident AI

KEY TAKEAWAYS

- Artificial intelligence could help banks make their processes more robust, efficient and accurate, ultimately speeding up decision-making.
- Generative AI could be used for repetitive tasks that require data or textual analysis but aren't considered to be differentiators, growth drivers or selling points to clients.
- Most banks will leverage AI technology through third parties. Banks should make sure their vendors apply emerging AI-specific standards and frameworks. They should also look out for AI-specific addendums related to their existing evaluation, selection and procurement processes.
- Executives still need to set acceptable and responsible use guidelines, including parameters around what data AI should analyze.

Generative AI has flexed its chops across U.S. businesses as an assistive tool that can handle mundane and rote work tasks, like drafting emails, creating basic code and summarizing meetings. For banks, it holds great promise in helping employees become more efficient and accurate — an increasingly important objective driving technology spending at banks.

From application to approval, originating a loan requires numerous steps, including documentation, underwriting and credit decisioning. Banks should think about use cases and applications where this tech can assist employees with data analysis and drafting documents for internal use. It could also help banks enhance the credit function by detecting fraud within a loan application, and monitoring and managing the credit portfolio as the borrower or environment changes, according to Evident AI, which benchmarks and tracks AI adoption across the financial services sector.

"AI excels at handling extensive data sets and time-consuming tasks but aside from time savings, these efficiencies don't inherently provide a unique competitive advantage for the bank," says Joe Ehrhardt, CEO and founder of Teslar Software, a lending process automation platform. "The real difference maker is that AI can quickly provide a detailed understanding of the data, enabling you to make better, more informed decisions without the usual time investment."

Credit Use Cases

Of more than 300 AI use cases at global banks tracked by Evident AI, fewer than 10 involved generative AI within credit functions or departments. These use cases include automating and optimizing underwriting and credit decisioning, monitoring the portfolio for performance and cost, and drafting credit

Banks' Generative AI Plans for 2024

Source: Cornerstone Advisors' 2024 What's Going on In Banking report



53%

of respondents had discussed generative AI at the board or executive team level.



27%

said it's not on their radar.



14%

planned to invest and/or implement in 2024.



6%

had already invested in or deployed generative AI.

AI Use Cases Explored by Banks

Source: Bank Director's 2024 Technology Survey



memorandums used in debt collections.

Ehrhardt says generative AI could be great at processing reams of data and summarizing facts in a digestible narrative. The technology can combine structured data sets — like financial statements and cash flow — with unstructured external data. An AI tool could make sure the business is properly registered and legitimate. If the borrower is a restaurant, the tech could analyze customer reviews; if it's a commercial real estate property, it could analyze the location, rent rolls and vacancy rates.

"There are many areas in lending where we create stories and memos to describe situations, largely based off the data and facts the bank has available," Ehrhardt says. "That's a great spot for generative AI."

A memo written with generative AI could highlight the strengths and weaknesses of the potential loan, assisting the credit team while giving them the final say in approving or denying a loan. A tool used for annual credit reviews could be programmed to alert credit employees

if the review reveals borrower changes outside of an acceptable risk range.

Deployment Considerations

Bank regulators have flagged generative AI's ability to create inaccurate or fabricated results.

Before deploying a new generative AI tool, executives should consider potential applications and parameters for the technology, prospective vendors they would work with and the data the tool would analyze.

Bankers and any AI users "have an obligation to make sure AI-generated data is accurate, and it's not made up," Ehrhardt says. A generative AI tool used by credit analysts would aggregate, analyze and summarize internal bank data about the borrower, along with external information from sources the bank has deemed acceptable and relevant. "There's so much data available," he says.

Legacy National Bank, the bank unit of Springdale, Arkansas-based Legacy BancShares, uses AI and robotic process

automation within the institution, says Chief Information Officer Brad Miller. Generative AI assists with internal policy generation and with light scripting and coding within his team — areas that help his staff be more efficient without needing to hire more people.

The \$1 billion bank also uses an AI-driven fraud tool to identify anomalous transactions and risky customer behavior; it can even pause transactions for manual staff review. The efficiency gains from these tools could "easily pay for at least a full-time employee a year — probably more at this point," he says. The bank hasn't deployed AI in its credit function.

Legacy National leverages vendors for its AI tools, which is how most banks will enable or add this technology. In the credit function, banks could leverage existing loan origination software or credit monitoring tools that already have governance and due diligence around bank customer information as part of their vendor relationship. Evident AI recommends that banks make sure their vendors apply emerging AI-specific standards and frameworks, and review their current software evaluation, selection and procurement processes for AI-specific addendums.

For generative AI use cases within credit specifically, Ehrhardt adds that executives will still need to set guidelines on what external data AI should incorporate into its analysis. What directories should it search to verify a business' legitimacy? Should an AI tool scrape LinkedIn profiles? Should it include pictures of the loan applicant on vacation, flagging concerns of embezzlement or inappropriate spending?

Ehrhardt believes generative AI applications could become "commonplace" in financial services firms in the next few years. That promises to reduce the time and effort associated with creating internal credit documents while maintaining or increasing accuracy to speed up decision-making.



Teslar Software is a configurable lending process automation solution that helps community financial institutions streamline processes and workflows so teams can work more efficiently and have the transparency they need to make the best lending decisions. Teslar's solution takes a highly consultative approach. We know each community bank's needs are unique. We work alongside bankers to determine the best course of action and offer highly configurable products to meet each bank's specific needs.



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