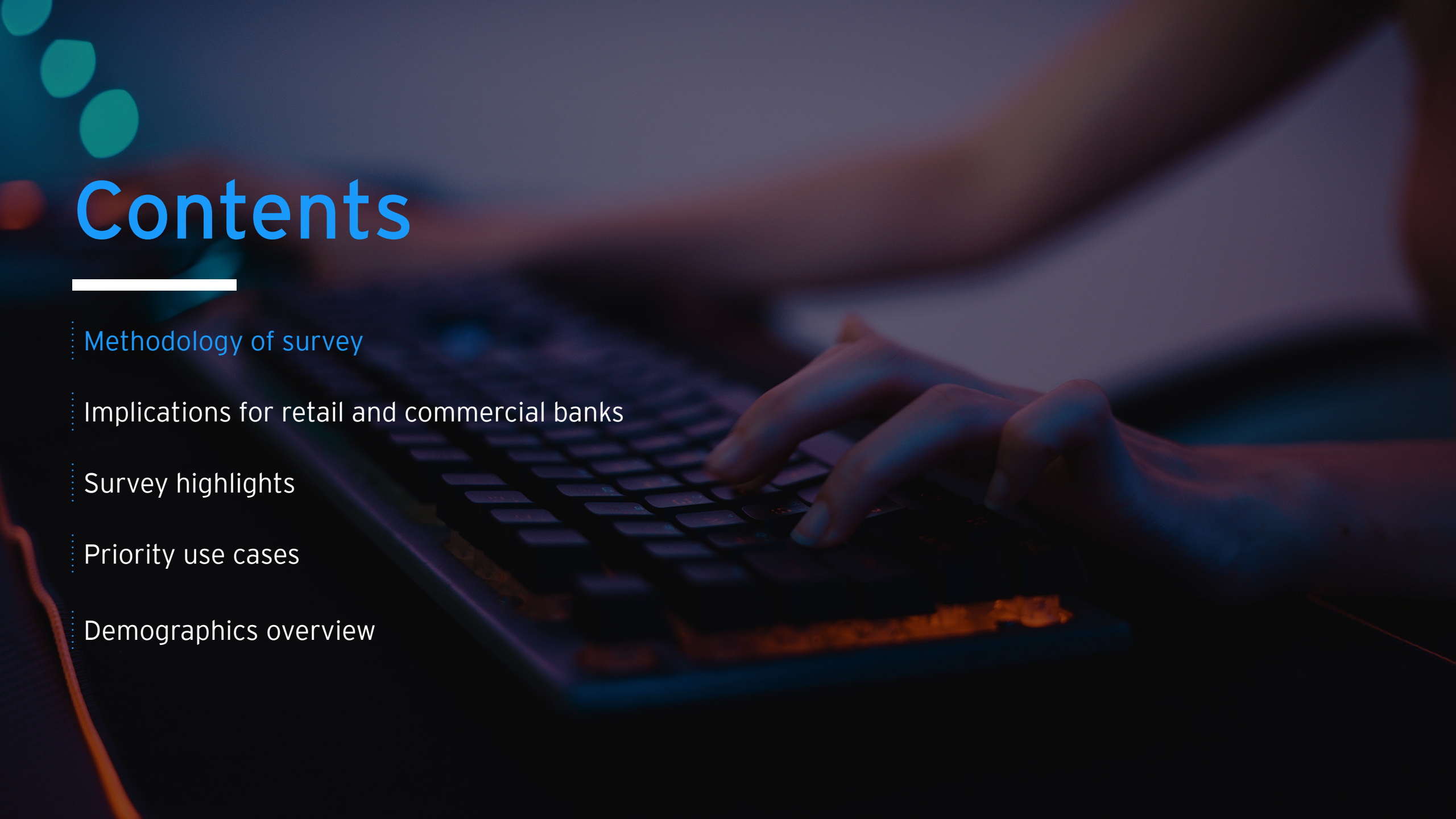
Generative AI in retail and commercial banking

EY Parthenon

Building a better working world



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- Implications for retail and commercial banks
- Survey highlights
- Priority use cases
- Demographics overview

Background and methodology

Interest and demand for GenAI* solutions is rising quickly. Retail and commercial banks, as well as SME banking players, are beginning to make significant movements and investments into the space.

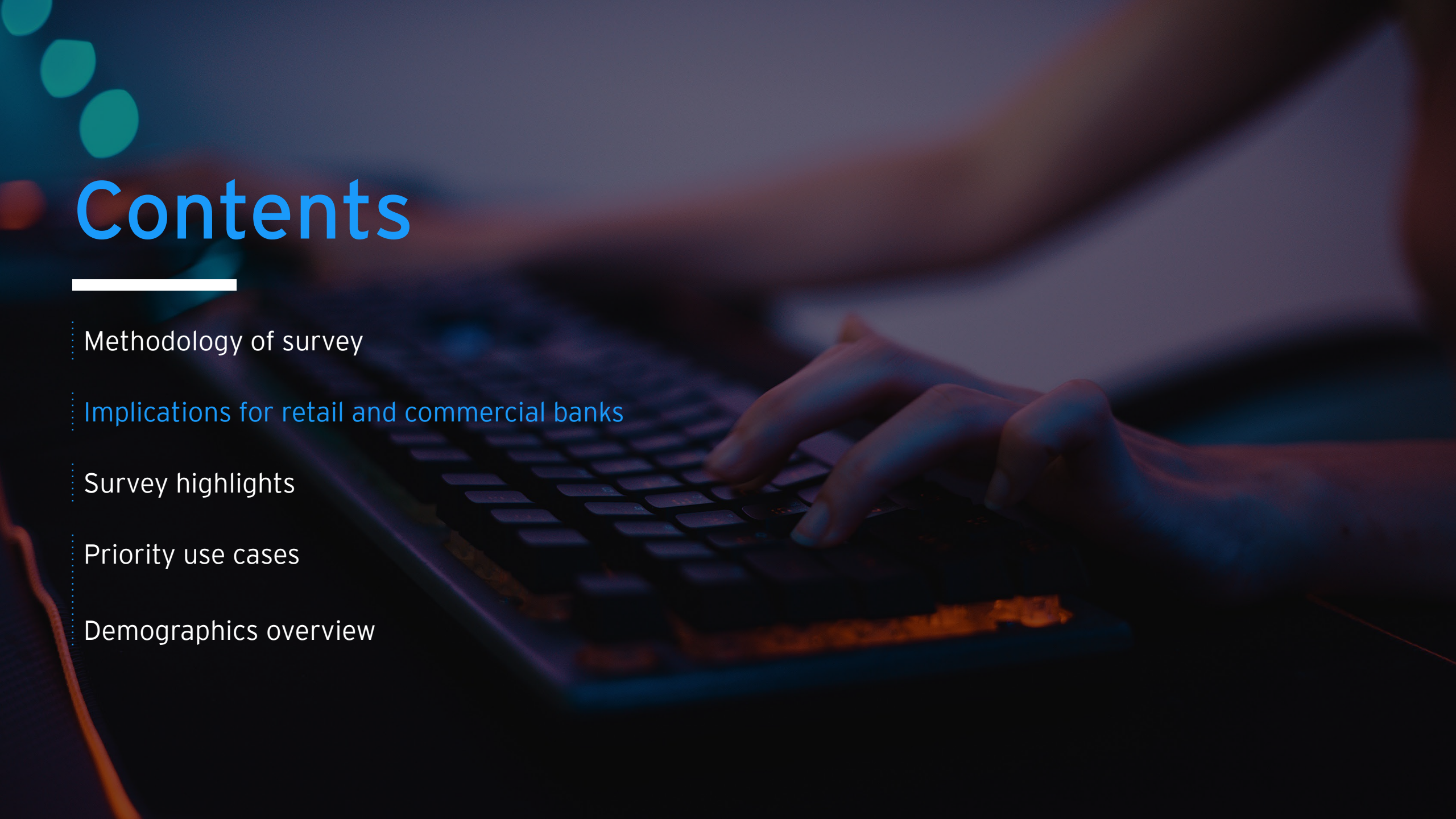
To better understand how global retail and commercial banks are exploring and/or implementing GenAI applications, EY-Parthenon teams conducted the following survey:

N=151

- Respondents included global, regional and community banks within the consumer/retail, commercial and small-and-medium enterprise (SME) banking segments.
- Decision-makers focused on client servicing, marketing, onboarding, product strategy and other investment and technology representatives
- Respondents had knowledge of the represented bank's GenAI initiatives or direct involvement in teams leading GenAI efforts, with specific expertise in GenAI applications, including ChatGPT, Dall-E, OpenAI and Microsoft Azure.
- Sample decision-maker titles included (but were not restricted to): chief strategy officers, chief technology officers, chief lending officer, head of product development, head of marketing, relationship manager, chief risk officer and other positions in the firm directly related to client servicing, client investing, client onboarding and risk.

Conducted in July 2023

*Generative AI or GenAI



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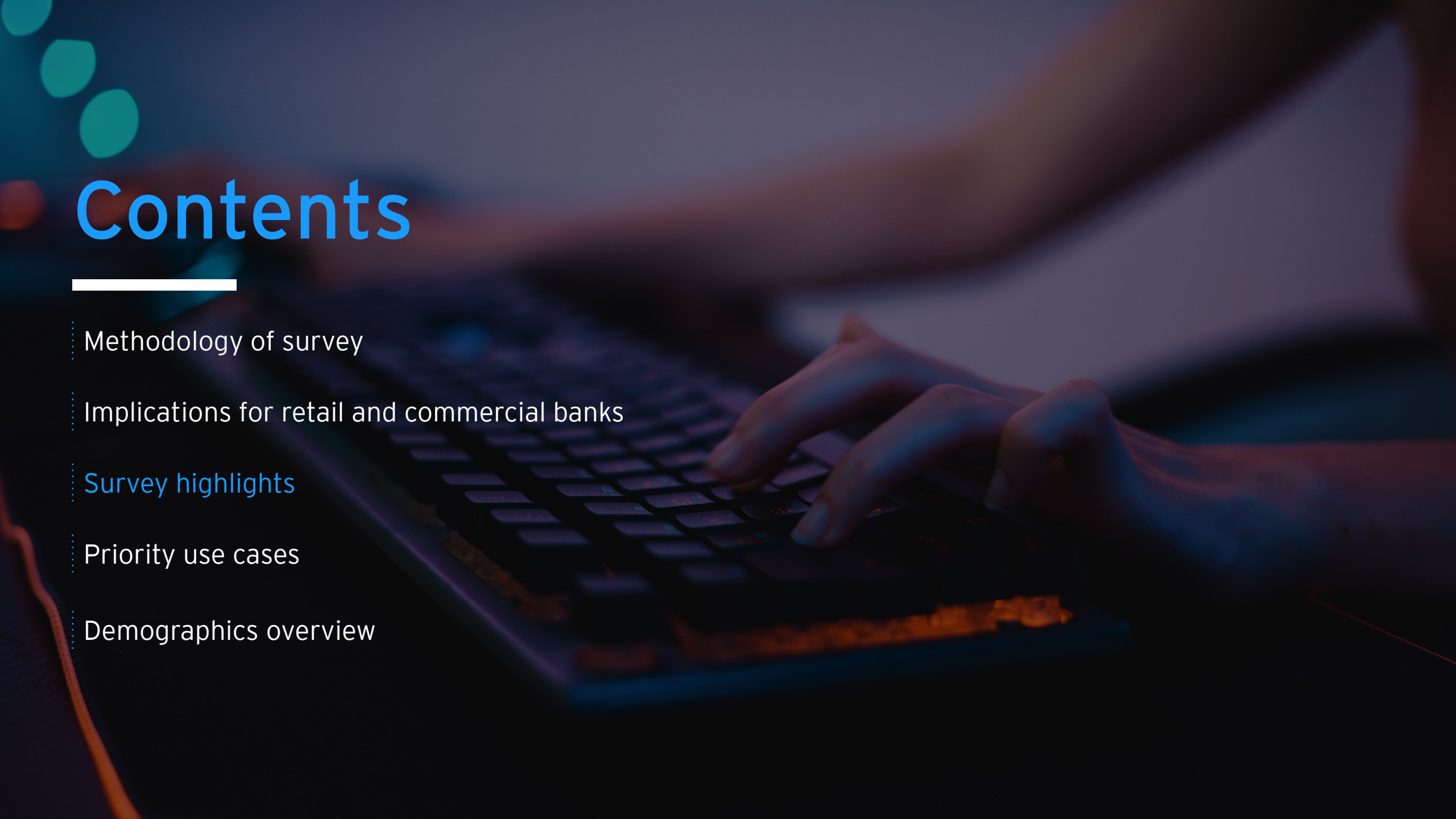
GenAI can unlock meaningful enhancements in profitability and efficiency for retail and commercial banks

	Key takeaway	Supporting data
1	Retail and commercial banks are already investing, or are planning to invest, in GenAI applications.	▸ 60% of large banks (>US$500b in deposits) have already made tangible investments in GenAI. ▸ 86% of small banks (<US$50b in deposits) are already investing or actively planning to invest.
2	Banks are focused on benefits that will yield efficiency gains, lower costs and greater client acquisition/retention.	▸ 78% of banks see productivity enhancements as a primary driver. ▸ 60% of banks seek customer experience enhancements and cost reduction.
3	Enhancements are largely concentrated in the back office, with risk and ops projected to capture the largest gains.	▸ 66% of banks note fewer than 40% of viable use cases as front-office focused. ▸ 70% of banks see risk and compliance as the top area for GenAI teams to connect.
4	GenAI investments are already being made, with larger banks further ahead than smaller peers.	▸ >75% of large (>US$500b in deposits) and >50% of small (<US$50b in deposits), are at the beta-testing stage or beyond. ▸ 71% of banks have mobilized and are allocating <20% of their designated budget source (e.g., IT) to GenAI initiatives.
5	Banks are prioritizing select use cases, signaling awareness of their most salient needs.	▸ 50% of banks have identified <10 novel use cases. ▸ >60% of banks are prioritizing customer service, risk management and operations as the top use cases.
6	Retail and commercial banks both are prioritizing similar use cases focused on customer experience, risk management and revenue generation.	▸ ~47% of banks prioritize new revenue opportunities and 48% prioritize personalized product recommends as top focus areas. ▸ 69% of retail banks see real-time fraud detection a top investment and 75% of commercial banks prioritize AML/KYC risk use cases.
7	There is still much apprehension regarding the viability of the GenAI in the front office and doubts about bank's ability to implement.	▸ 67% of banks are waiting for further developments and testing before prioritizing front-office use cases. ▸ 37% of bankers do not have confidence in their bank's ability to implement GenAI.

Source: EY-Parthenon HNWI Tokenization Survey (n=251); EY-Parthenon Institutional Investor Tokenization Survey (n=78)



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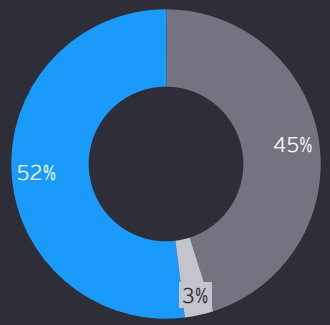
Retail and commercial banks demonstrate growing interest in GenAI solutions, anticipate enhanced profitability and have begun deploying dedicated resources

Retail and commercial banks ...

1 Are actively exploring GenAI initiatives

45%

of banks are **already investing** in GenAI



52%

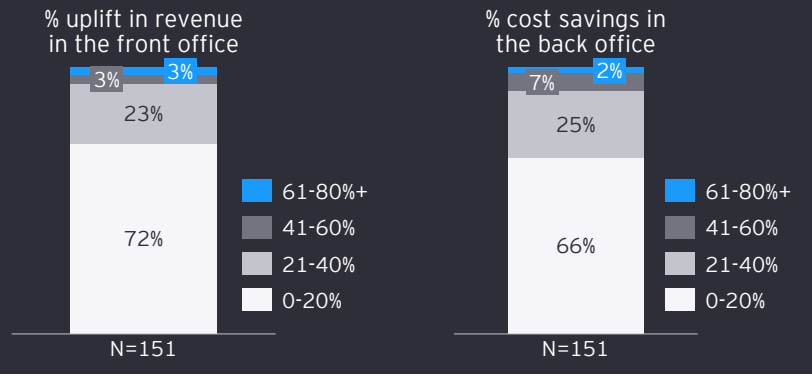
of banks **are planning to invest or highly interested in learning more**

2 Anticipate numerous benefits following implementation

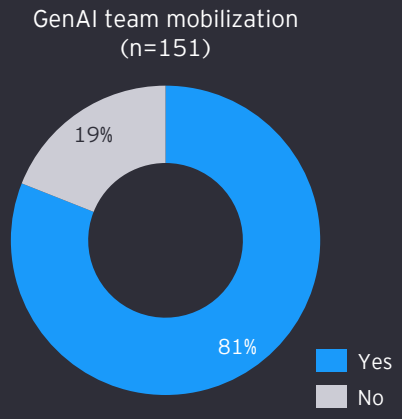
Both retail and commercial banks are most motivated to invest in GenAI due to the following drivers:

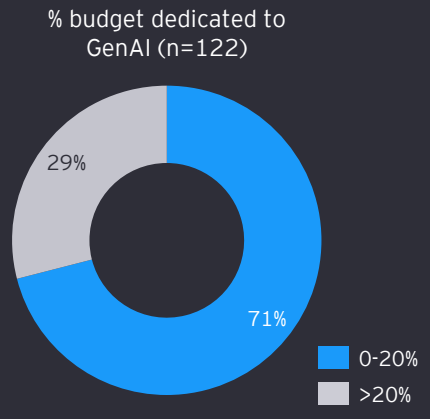
1. Productivity enhancements
2. Customer experience enhancements
3. Cost savings
4. Competitive differentiation
5. Task automation

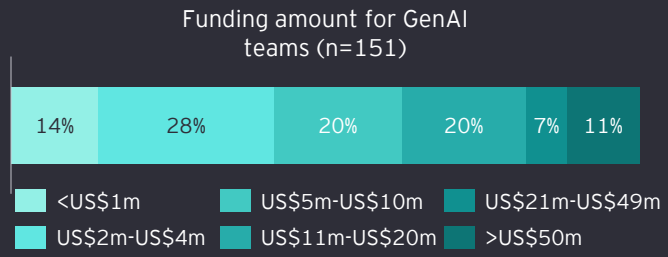
3 Expect lower immediate revenue impacts



4 And have begun making investments in dedicated GenAI teams to realize these benefits







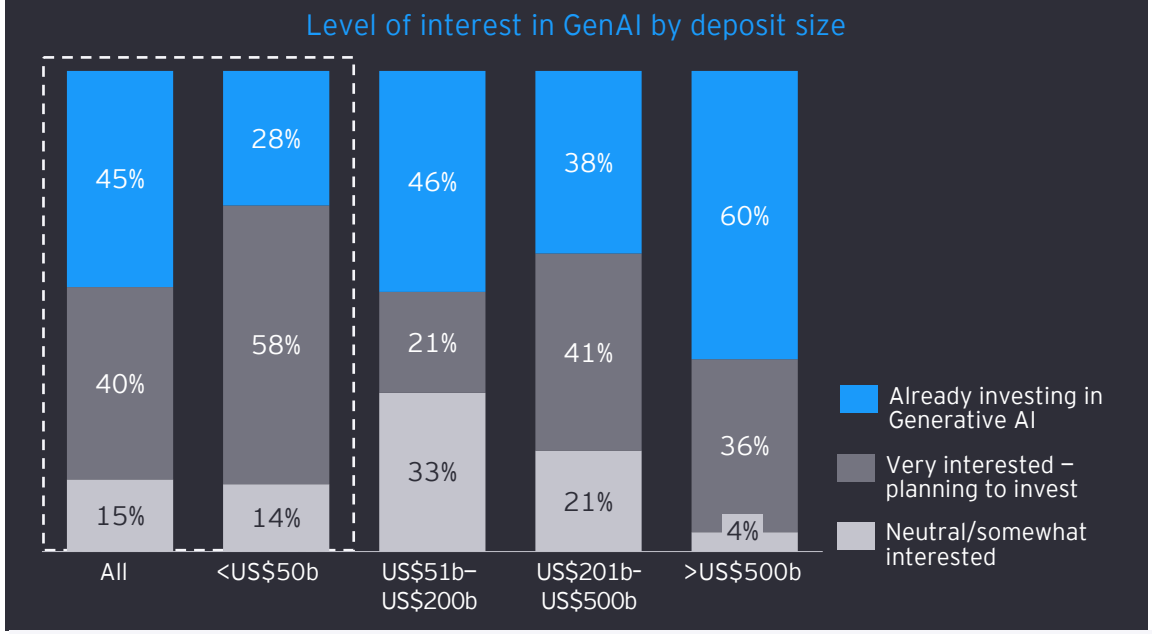
Funding amounts largely correlate with bank segment sizes, with most spending <20% of their budget on GenAI.

Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

EY Parthenon

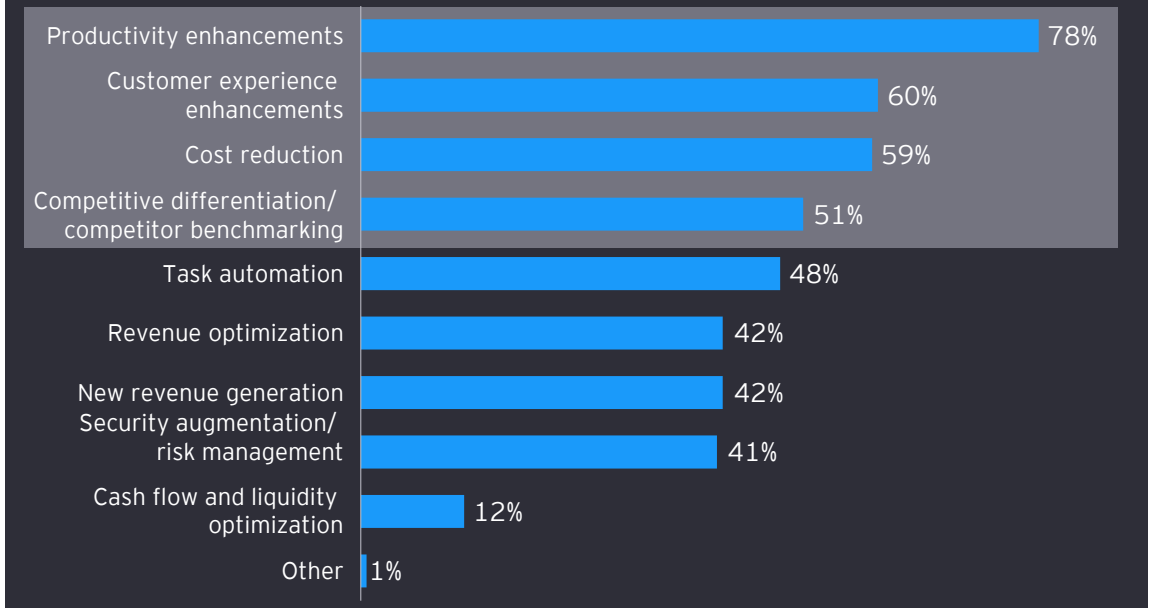
45% of banks are already investing in GenAI, with larger banks outpacing their peers; productivity, CX enhancement and cost reduction are top drivers

Please rate the overall interest of your firm in investing in GenAI / developing additional use cases for GenAI technologies. (n=151)[1]



- Large banks with >US$500b in deposits have made tangible investments in their GenAI capabilities, with 60% already investing in the tech.
- Conversely, only <30% of smaller banks (<US$50b in deposits) have begun investing in GenAI technologies.

What are the primary drivers motivating your bank to implement GenAI technologies? (n=151)

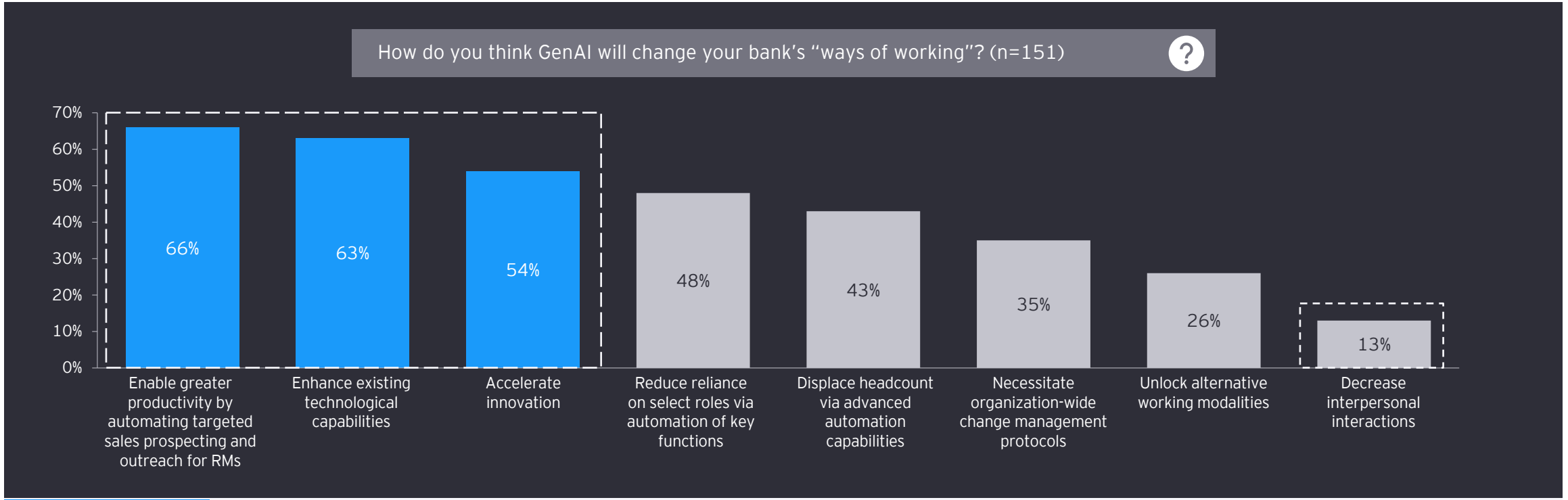


- Productivity enhancements, customer experience enhancements and cost reduction are key motivators among banks seeking to implement GenAI.
- Competitive differentiation also rises to the top as a primary driver, with >50% of banks perceive GenAI as a catalyst for differentiation.
- Receptivity toward key operational drivers is less homogeneous, with task automation resonating more strongly with banks than cash flow and liquidity optimization incentives.

1.Rank order determined by % of respondents that ranked each choice 1, 2 or 3.
Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

EY Parthenon

Two-thirds of respondents anticipate greater productivity gains from GenAI; over half expect it to enhance existing tech capabilities and accelerate innovation

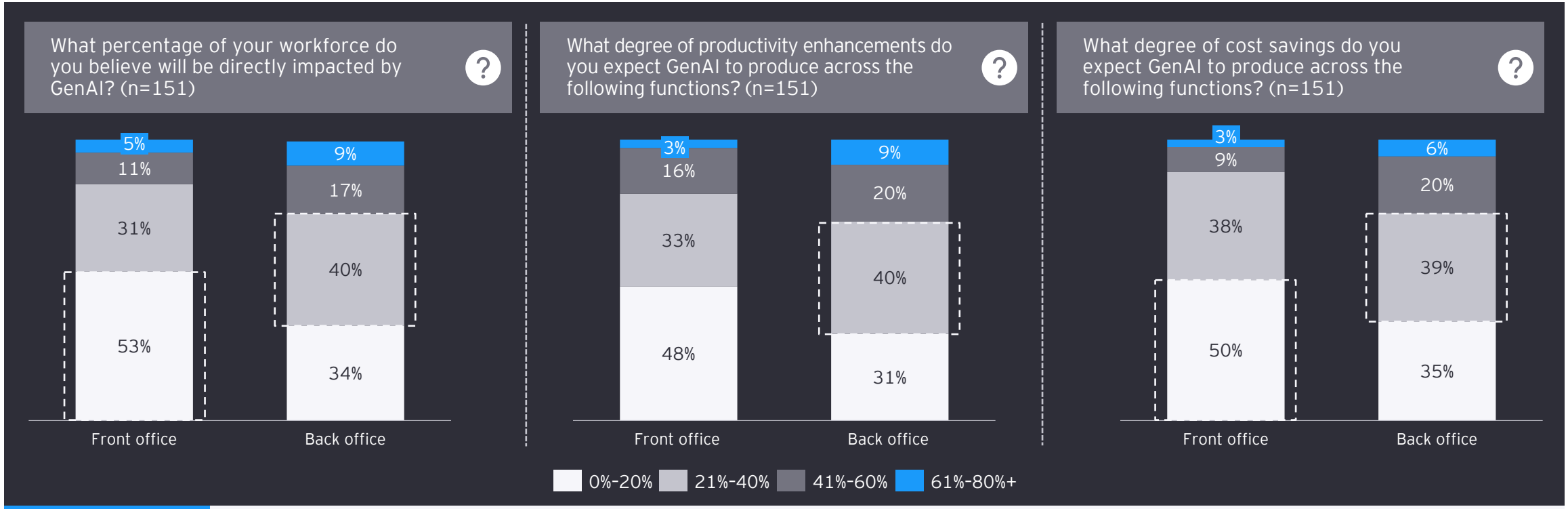


Additional Details

- Top areas for change, enabling greater relationship manager (RM)/sales productivity and enhancing technical capabilities, will both require clear performance metrics in the business case to assess success.
- Among both retail and commercial banks, 54% see GenAI accelerating innovation as a highly anticipated use case, which positions GenAI investments as an enabler for other areas of innovation as well as future AI use cases.
- With 48% of banks expecting GenAI to mitigate reliance on select roles via automation and 43% believing that GenAI will progressively displace headcount, it will be especially critical to build a governance and control model to manage the top concerns of trust in the technology.
- Despite its many impacts, the vast majority of respondents do not see GenAI decreasing interpersonal interactions.

Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

Impacts to workforce, productivity enhancements and cost savings are expected to be larger across the back office

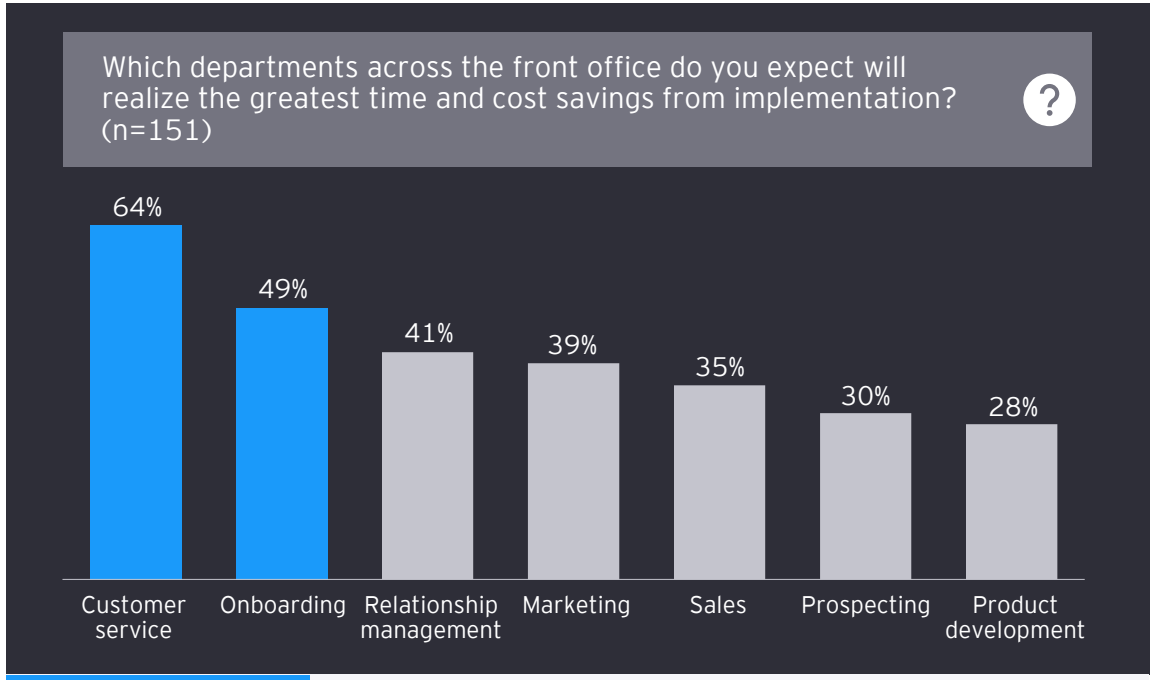


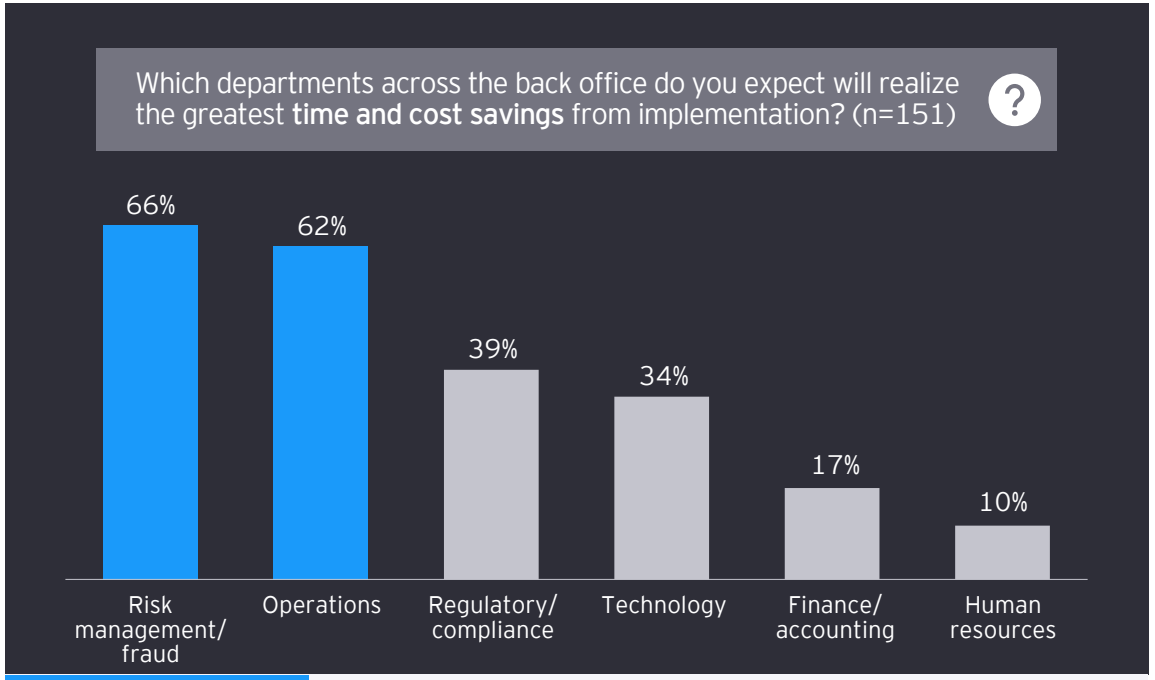
Additional Details

- 46% of large banks with >US$500b in deposits anticipate a direct impact on 41-50% of their respective workforces in the back office, up from 38% of small banks with <US$50b.
- The front office will be especially impacted over longer timelines; while only <40% of banks anticipate >20% in cost savings or productivity enhancements in the front office in less than five years, >60% anticipate that level of impact in less than five years.
- Even in the longer-term outlook of less than five years, fewer than than 20% of banks across all segments see >40% impact to workforce, productivity or cost.

Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

Customer service, onboarding, risk management and operations were identified as top impacted areas in terms of cost and time savings





Additional Details

- Customer service and onboarding were identified as top departments for significant cost and time savings, signaling an ongoing strategic focus on client-facing functions to drive cost optimization.
- Large banks with >US$500b in deposits lead smaller segments in terms of expected time savings in customer service, representing 42% of those selecting customer service as a top candidate in efficiency gains.
- 44% of large banks with >US$500b in deposits noted product development as an area to drive time savings vs. 28% of overall respondents.

Additional Details

- Both retail and commercial banks see far greater cost savings vs. time savings for top back-office departments of risk management and operations.

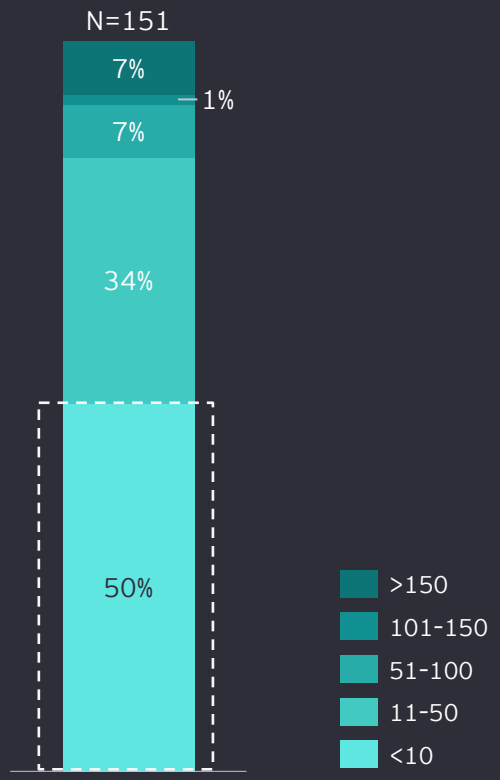
Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

EY Parthenon

50% of banks are exploring <10 novel use cases; of those, client-focused use cases such as enhancing marketing and human-like chatbots are top priorities

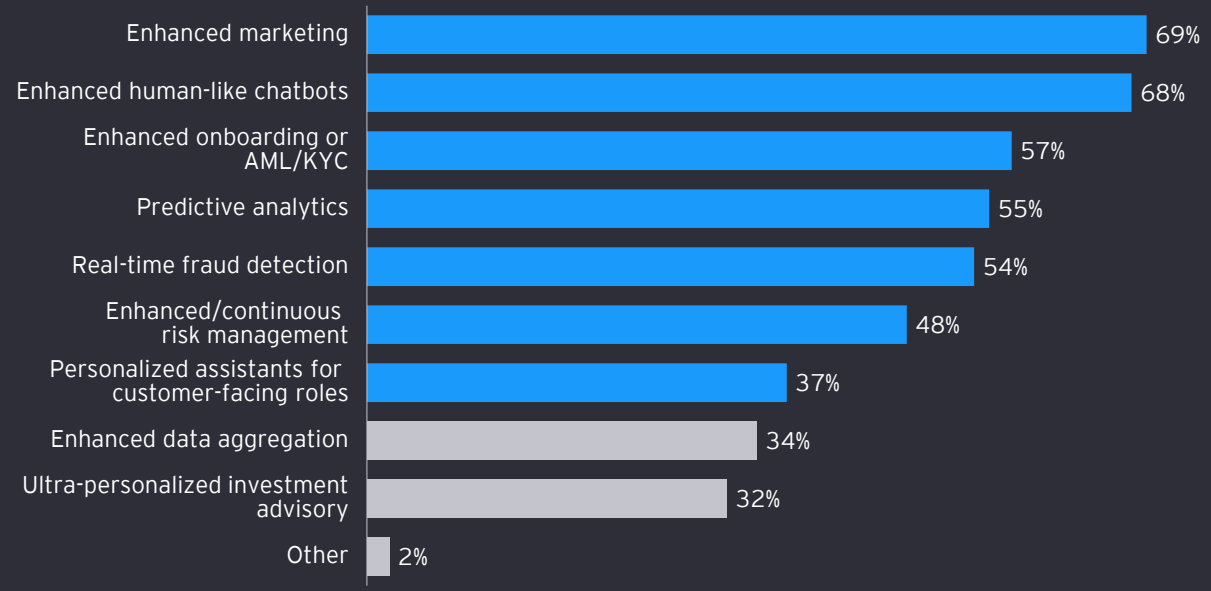
How many new use cases have been identified, across your firm, for GenAI ? (n=151)

Number of new use cases for GenAI



What type of GenAI investments/use cases/initiatives is your firm currently exploring? (n=151)

Novel GenAI use cases



- Banks are exploring a diverse array of novel use cases, with 15% of banks identifying at least >50%; however, the distribution of identified use cases is also fairly polarized, with another 50% of banks identifying <10 new use cases.
- Client-focused marketing and chatbots stand out as the top use cases being explored, with forward-looking predictive analytics use cases being explored by >50% of banks.

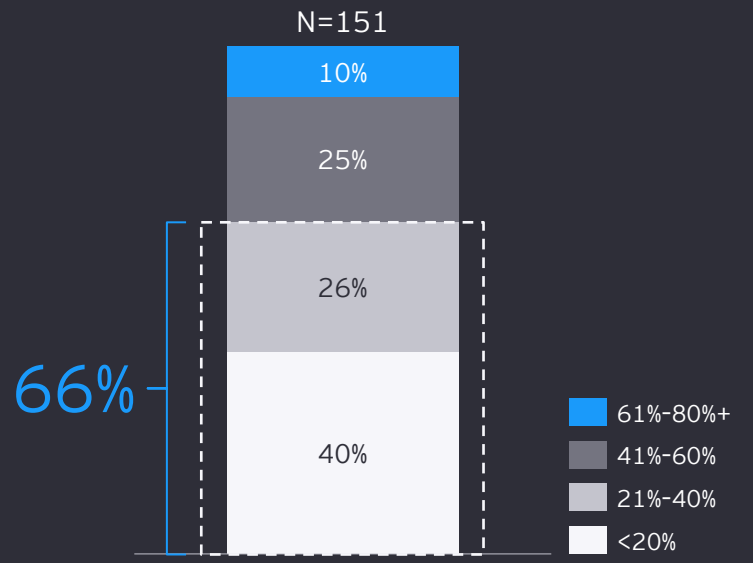
Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

EY Parthenon

Majority of respondents (66%) note less than 40% of viable use cases are front-office focused, with 67% waiting for further development and testing before prioritization

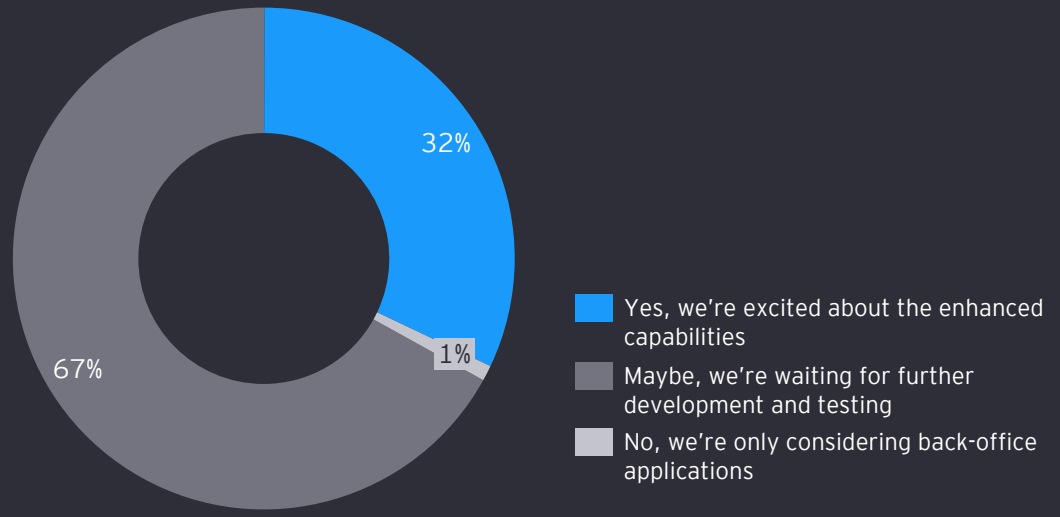
What percentage of viable use cases reflect front-office functions (e.g., marketing, prospecting) as opposed to back-office functions (e.g., risk management, operations)? (n=151)

Proportion of total use cases represented by front office



Would your firm prioritize front-office client-centric GenAI applications over augmentation of back-office automation? (n=148)

Prioritization level of front-office applications



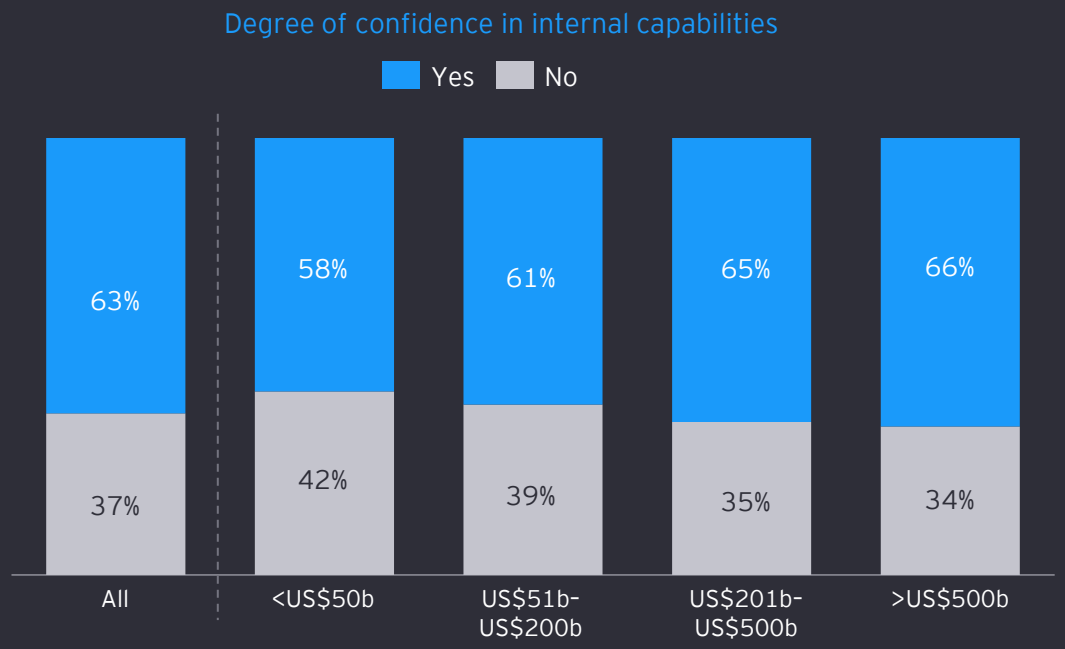
- Two-thirds of respondents see less than 40% of viable use cases as front-office specific, emphasizing that most banks are prioritizing back-office operations and risk use cases similarly to past automation technologies.
- 67% are awaiting further development/testing before prioritizing GenAI use cases, echoing uncertainty in the viability of the technology and the low confidence bankers have in their firm's capabilities to implement.

Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

EY Parthenon

Two-thirds of all respondents express confidence in their internal capabilities to deploy GenAI use cases, with data privacy and accuracy/reliability as top concerns

Do you believe that your bank is well equipped with the correct technological infrastructure, internal controls and internal talent to implement GenAI use cases? (n=151)



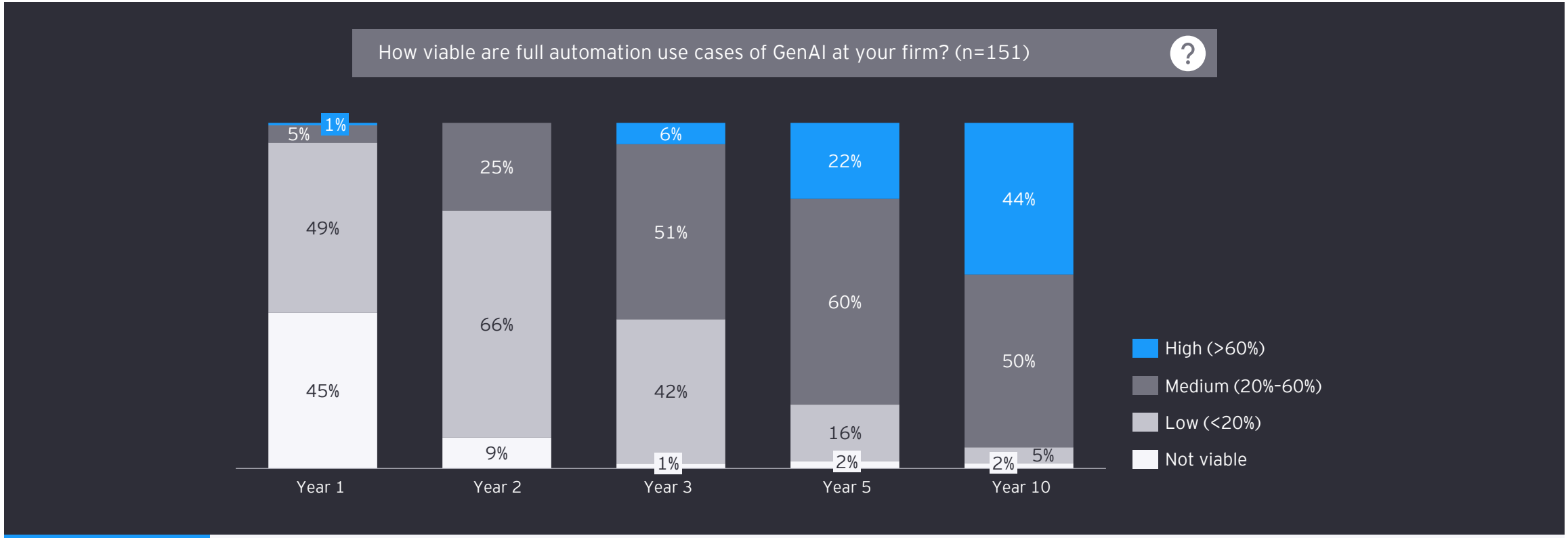
- Confidence in internal technological infrastructure and capabilities increases slightly with those with larger deposit sizes.

Please select challenges/barriers to implementation that your bank has encountered while exploring GenAI initiatives. (n=151)

1	Concerns regarding data privacy and security
2	Concerns regarding accuracy/reliability
3	Cost of implementation
4	Legal and reputational risk
5	Ambiguous business use cases
6	Concerns regarding fairness and biases
7	Ethical considerations
8	Cost of ongoing or routine maintenance
9	High energy consumption

1.Rank order determined by % of respondents that ranked each choice 1, 2, or 3
Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

Banks are cautious about GenAI viability to drive full automation in the near term and most still do not see high viability even after 10 years



Additional Details

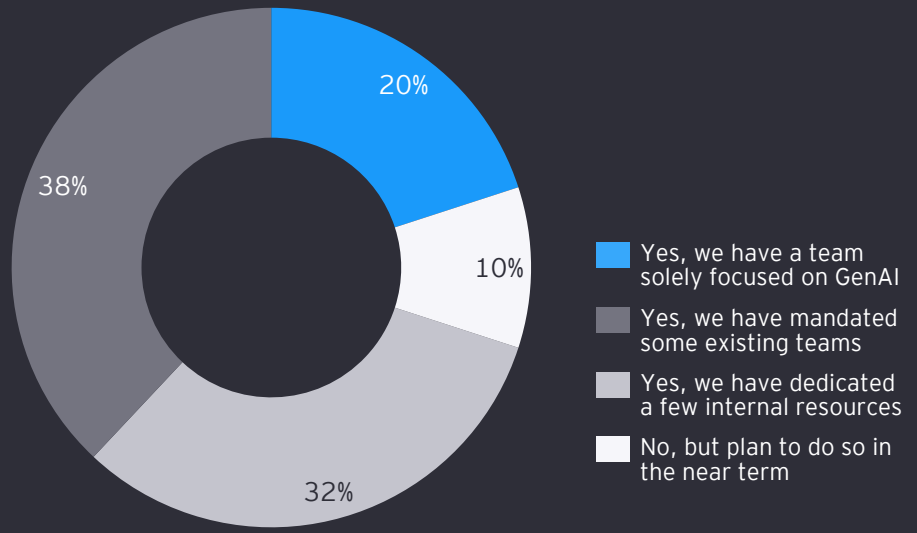
- Banks anticipate that GenAI's full automation capabilities will significantly increase in viability over the next 1-10 years; however, even after 10 years, most banks still do not see high viability.
- Although 45% of banks do not see GenAI as viable in the next year, the proportion decreases to 1% by Year 3, indicating growing confidence in their internal capabilities and partnership opportunities in the near term.

Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

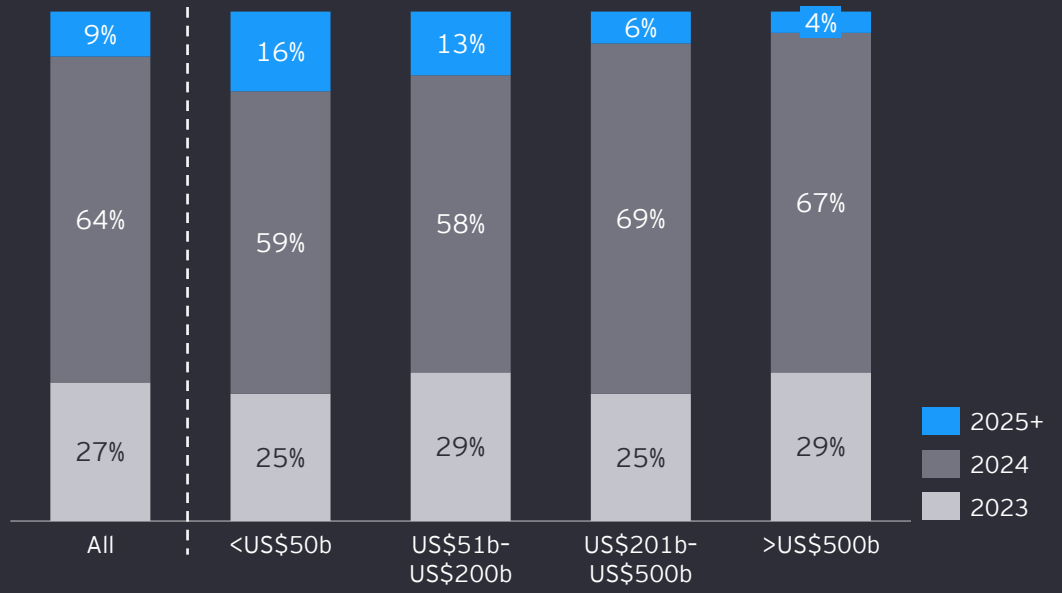
90% of banks have dedicated at least some resources to GenAI initiatives; however, most applications (73%) are not expected to launch before 2024

Has your firm allocated dedicated resources to GenAI exploration and/or deployment? (n=151)

Dedicated resources to GenAI deployment



When do you expect to launch GenAI applications? (n=136)



Additional Details

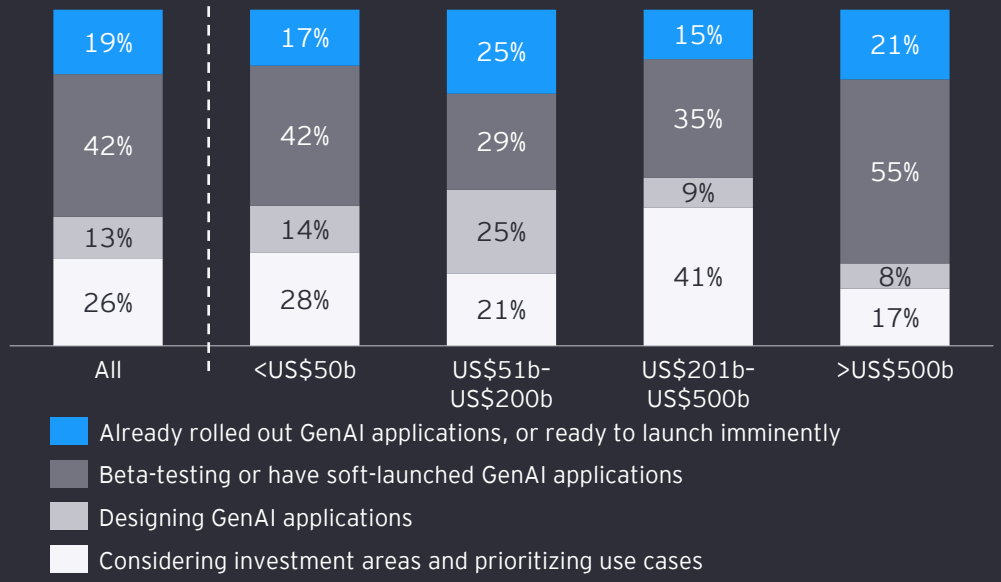
- Among banks that have yet to fully launch a GenAI application, 91% overall anticipate doing so by the latter half of 2024.
- Larger banks with >US$200b in deposits outpace their smaller counterparts in speed-to-launch, with 96% of banks with >US$500b in deposits and 92% of banks with US$201b-US$500b in deposits planning to launch by 2024 at the latest.
- 16% of smaller banks with <US$50b in deposits anticipate launching GenAI applications in 2025 or beyond, while only 9% of all respondents expect to wait that long.

Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

61% of banks have already launched or soft-launched GenAI applications, and are largely funding efforts from their IT/tech spend

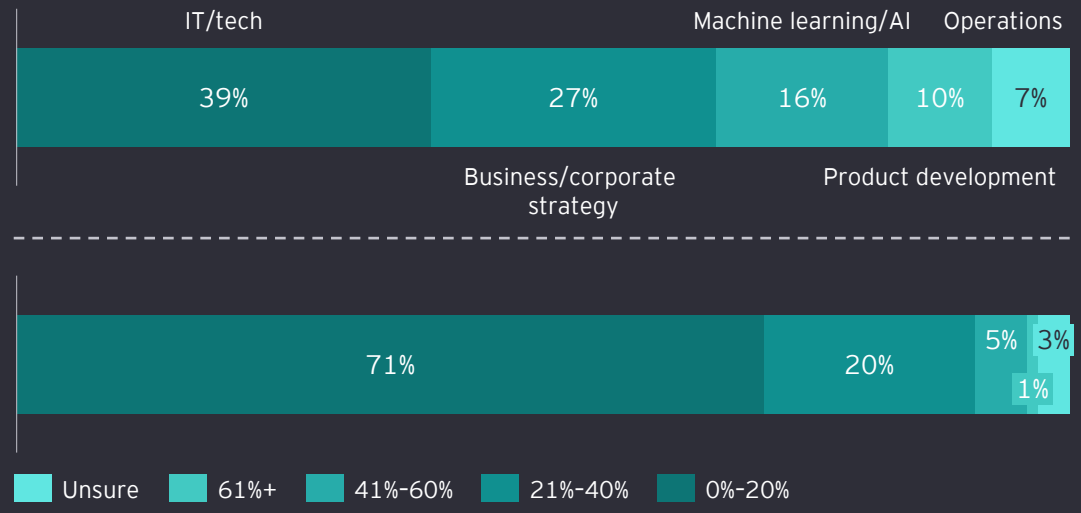
At what stage is your investment in GenAI? (n=151)

Stage of investment by deposit size



Where is funding/spend for dedicated GenAI teams being sourced? Approximately what percentage of your bank's budget do you expect will be allocated to mobilizing the GenAI team? (n=122)

Funding source and amount for GenAI teams



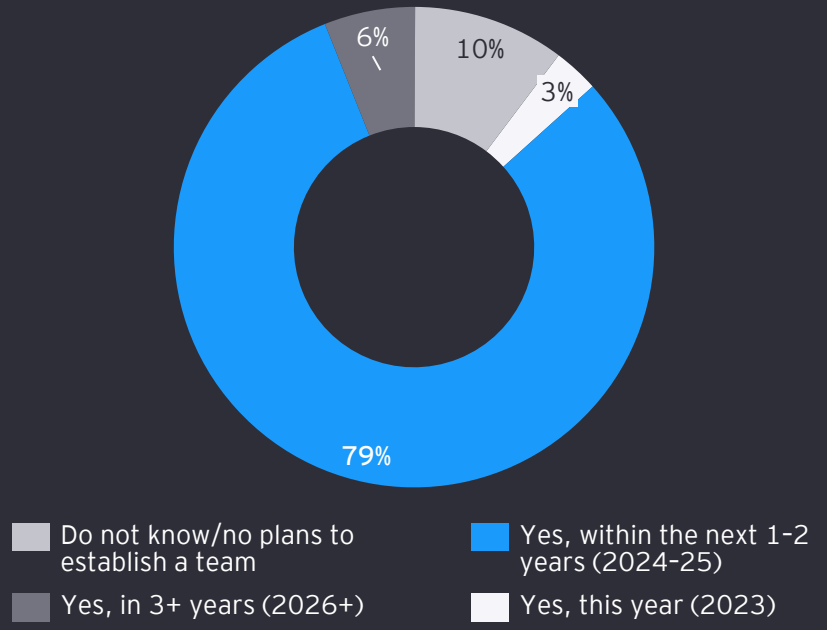
- Majority of banks (~40%) are funding initiatives from IT/tech budgets, as well as the business/corp. strategy budget (17%).
- Over 70% of respondents noted their banks are allocating <20% of their designated funding source (e.g., IT/tech) toward GenAI applications.

Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

EY Parthenon

Of banks that have not yet established a GenAI team, a majority plan to establish a team within the next one to two years

Does your bank have plans to establish a GenAI team/sub-unit in the future? (n=29)



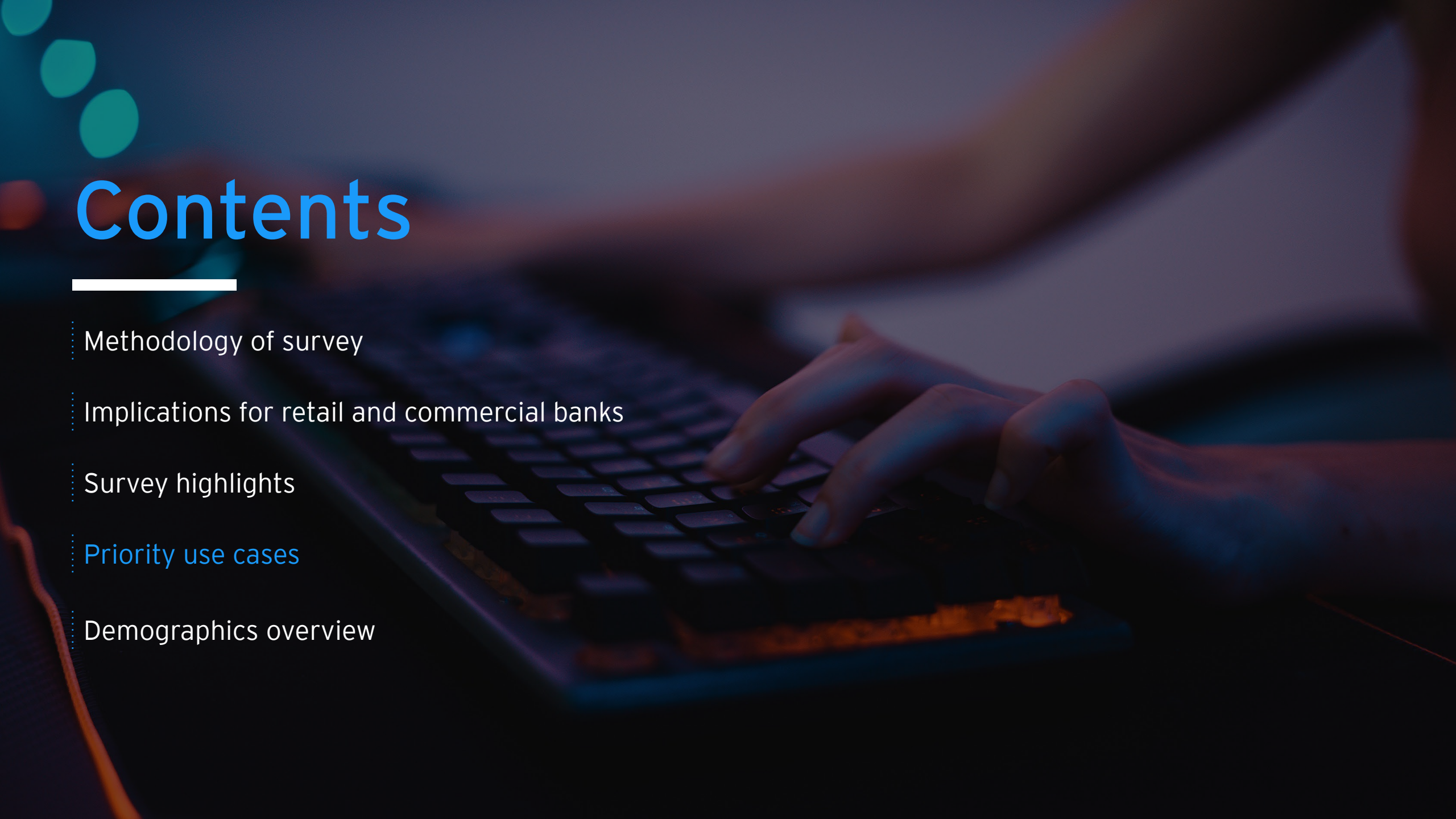
- An overwhelming majority (79%) of banks that have yet to establish a GenAI team anticipate doing so within the next one to two years.
- Very few are waiting, with only 6% of banks planning to establish GenAI after three+ years and only 10% unsure or without a current plan to establish a team, emphasizing the sentiment that there is some urgency to move quickly.

What barriers and/or challenges have deterred your bank from establishing a dedicated GenAI team? (n=29)

1	Insufficient internal expertise on GenAI
2	Regulatory ambiguity and volatility surrounding GenAI
3	Cost/budget constraints
4	Perception of inadequate return on investment
5	Inadequacy of ancillary support
6	Low prioritization of GenAI

- Despite broad enthusiasm for GenAI applications, notable barriers to establishing dedicated teams remain top-of-mind for many banks, with more than half (55%) identifying insufficient internal expertise as a key challenge.
- Regulatory ambiguity and cost constraints are also critical hurdles to GenAI implementation.

Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)



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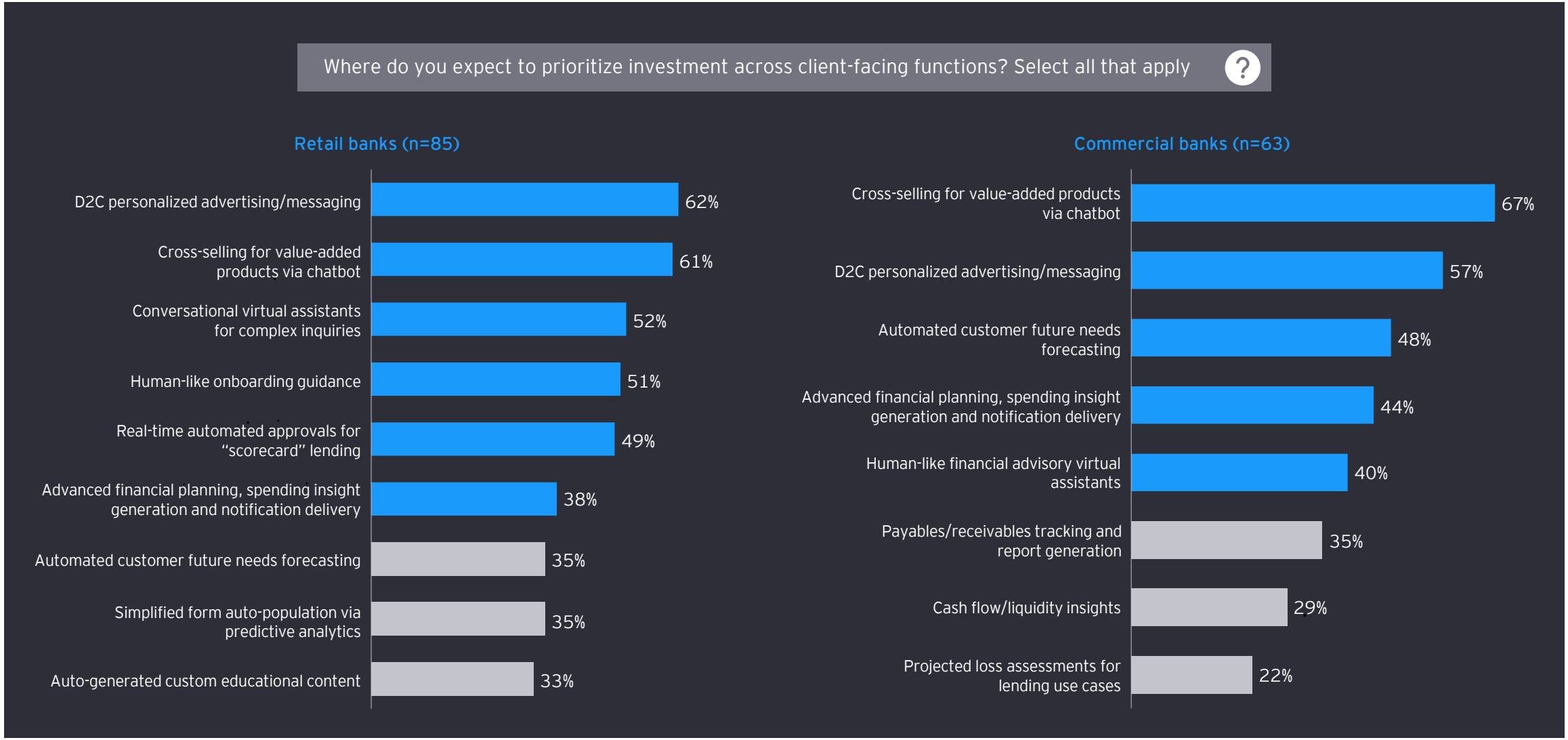
Top front-office use cases for retail and commercial banks

Where do you expect to prioritize investment across front-office functions? Select all that apply

Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

EY Parthenon

Top client-facing use cases for retail and commercial banks

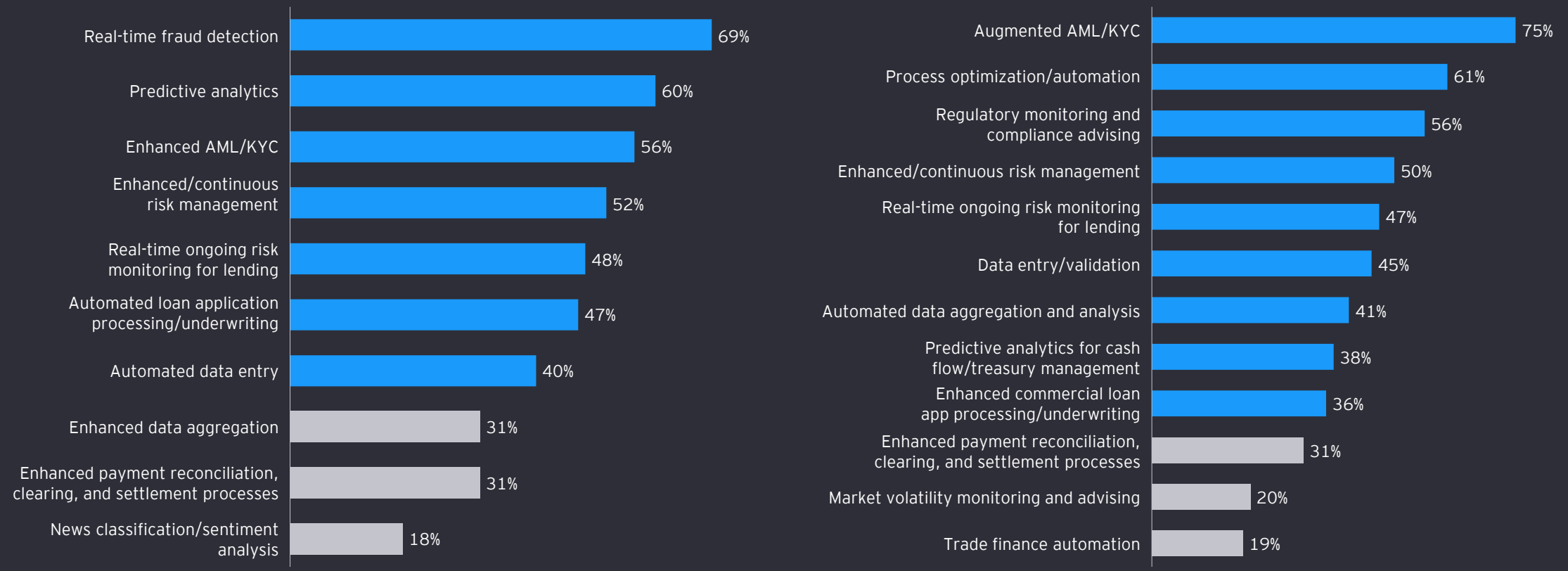


Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

EY Parthenon

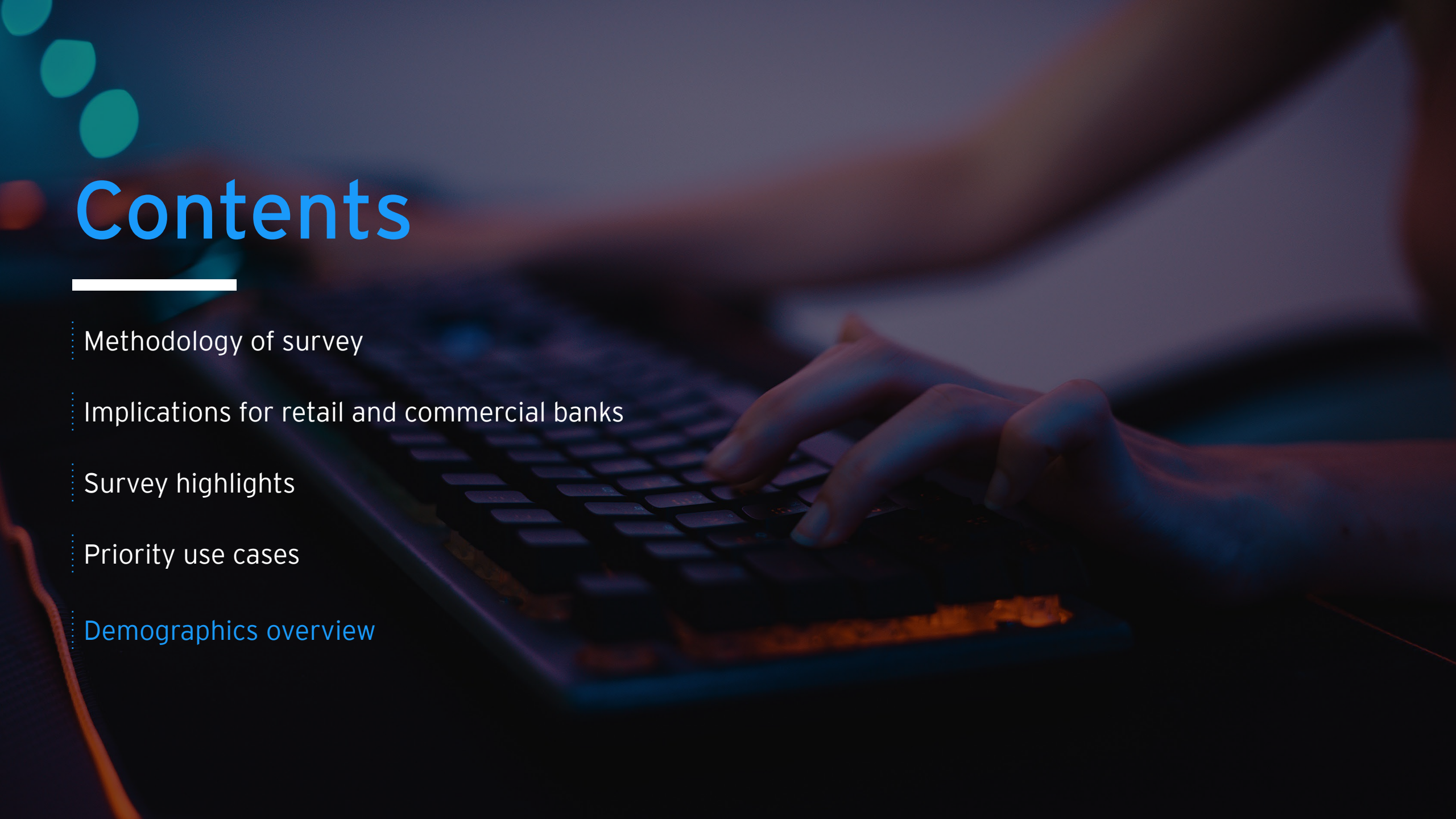
Top back-office use cases for retail and commercial banks

Where do you expect to prioritize investment across back-office functions? Select all that apply



Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

EY Parthenon



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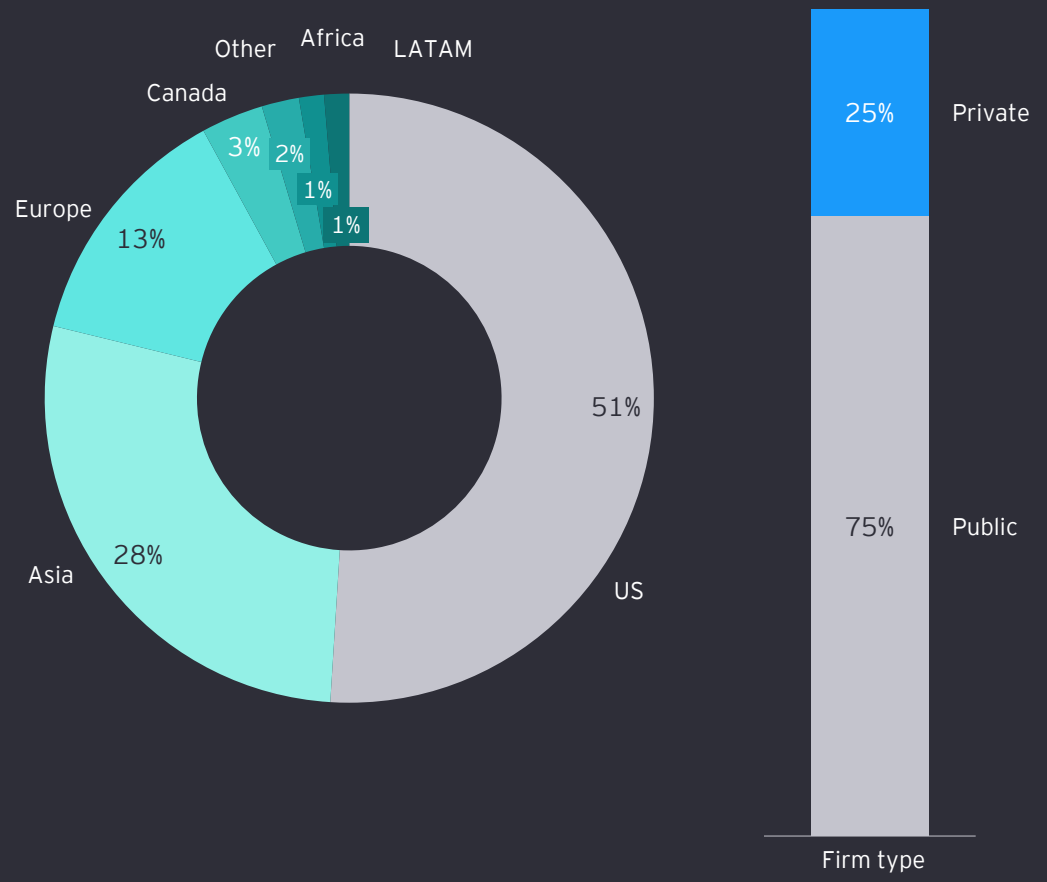
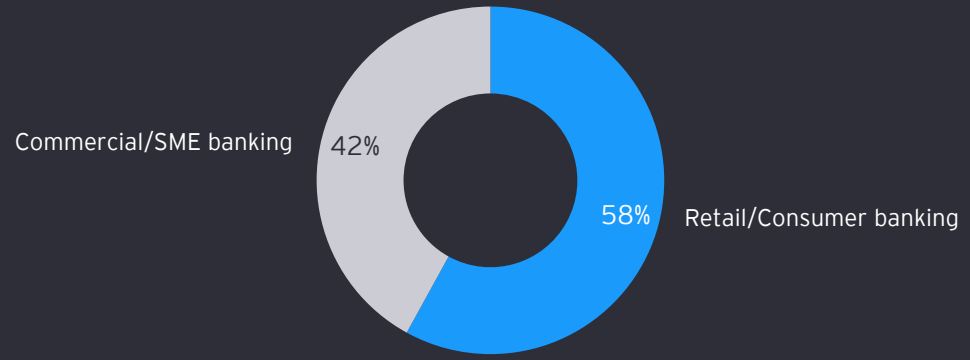
Surveyed institutional investor demographics

Surveyed commercial and retail banks are primarily represented by respondents from Asia and the US at public firms (n=151)



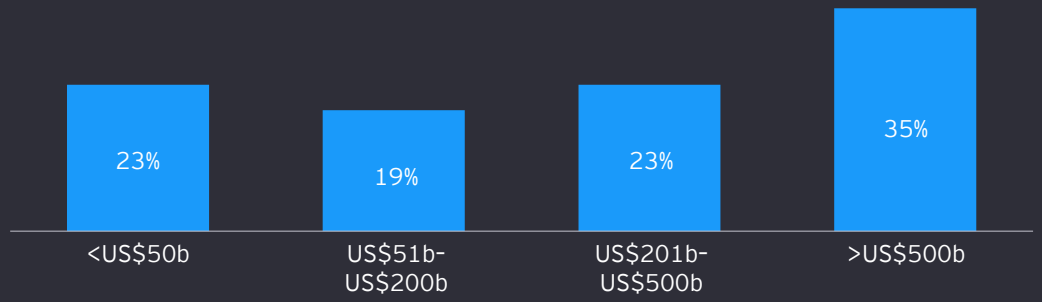
What type of banking function most accurately describes your department?

Banks surveyed are broadly split between commercial/SME banking and retail/consumer banking (n=151)



What is the size of your institution's deposit base?

Both retail and commercial banks are acutely interested in GenAI and a substantial proportion has already initiated deployment (n=151)



Source: EY Parthenon Retail and Commercial Banking GenAI Survey July 2023 (n=151)

EY Parthenon

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