

Impact of Artificial Intelligence on Financial Decision Making: A Qualitative Study

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Abstract

As AI advances and permeates diverse industries, its impact on the realm of finance grows more significant. Firstly, AI algorithms and machine learning techniques augment the velocity and precision of financial analyses, thereby enabling swift and well-informed decision making. These capabilities empower financial professionals to make more accurate and data-driven decisions. Secondly, AI technologies hold the potential to mitigate the impact of human biases, which frequently influence financial decision making. By relying on objective algorithms and data-centric models, AI systems can alleviate cognitive biases such as overconfidence or herd mentality, thereby fostering more rational and unbiased decision making. These AI-driven tools offer personalized recommendations, address customer queries, and aid in portfolio management, thereby enriching the overall customer experience and satisfaction. Nonetheless, the integration of AI in financial decision making presents certain challenges and ethical considerations. Matters such as algorithmic transparency, data privacy, and regulatory compliance demand meticulous attention to ensure responsible and ethical utilization of AI in the realm of finance. However, it is crucial to recognize the significance of ethical considerations to ensure the responsible and transparent deployment of AI in the financial domain.

Keywords - Algorithmic Transparency, Data Privacy, Regulatory Compliance.

Introduction

The swift and momentous progressions in technology have brought about a revolution in diverse industries, and the financial sector stands as no exception. Kokina & Davenport, (2017) the paramount technological breakthroughs in finance, one that holds immense significance is the emergence and integration of Artificial Intelligence (AI). AI entails the emulation of human intellect within machines, which are meticulously programmed to scrutinize and decipher intricate patterns embedded in complex data, make independent decisions, and acquire knowledge from past encounters. The assimilation of AI into the realm

of financial decision making has initiated a paradigm shift, yielding enhancements in efficiency, precision, and profitability. This treatise aims to delve into the profound impact of artificial intelligence on financial decision making, while unraveling the opportunities it presents along with the challenges it poses. In contrast, traditional investment strategies heavily relied on human intuition, which frequently led to biased judgments and missed opportunities.

Popenici & Kerr, (2017)., AI algorithms are endowed with the ability to process colossal volumes of historical market data, discern subtle patterns, and prognosticate future trends with an exalted degree of accuracy. Consequently, AI-powered investment platforms and robo-advisors have garnered widespread popularity, empowering investors to make well-informed decisions founded upon objective data analysis, instead of succumbing to subjective emotions.

According to Dirican (2015) AI has exerted a substantial influence on risk management and the detection of fraudulent activities within the financial sphere. Financial institutions perpetually face an array of risks, including credit defaults, market fluctuations, and fraudulent endeavors. Equipped with potent algorithms, AI systems can expeditiously identify potential risks by incessantly monitoring and scrutinizing vast quantities of data. By detecting anomalies and patterns associated with illicit transactions, AI effectively thwarts and mitigates financial fraud, thereby shielding institutions from monumental losses. Additionally, AI-powered credit risk assessment models have the capacity to evaluate creditworthiness with heightened precision, diminishing the likelihood of default and enhancing lending decisions. Moreover, the integration of AI into financial decision making has engendered the genesis of astute trading systems. AI algorithms equip HFT systems with the ability to execute trades at unparalleled velocities, thereby capitalizing on transient market opportunities. These systems can expeditiously analyse market conditions, identify price disparities, and execute trades autonomously, ensuring maximum profitability. While HFT has sparked concerns regarding market stability and fairness, it has undoubtedly contributed to augmented liquidity and efficiency in financial markets. In addition, AI has facilitated the emergence of alternative lending platforms and innovative financial services. This empowers fintech companies to extend loans and financial services to individuals who would typically be excluded from traditional banking systems. The accessibility and convenience offered by these AI-powered platforms harbour the potential to foster financial

inclusion and stimulate economic growth. One salient concern revolves around the potential for algorithmic biases. AI systems heavily rely on historical data for learning and decision.

Literature review

The influence of artificial intelligence (AI) on financial decision-making has had a momentous impact, completely transforming the operations of finance and banking applications. Bahrammirzaee, (2010) one pivotal domain where AI assumes a crucial role is in the realm of risk management, evaluation, and analysis. By harnessing the power of data science, AI empowers financial institutions to model and anticipate various factors associated with risk, thereby augmenting their capacity to make well-informed judgments. AI-driven risk analytics plays an integral part in mitigating the uncertainty of cash flow and forecasting future economic stability.

Through sophisticated algorithms and machine learning methodologies, AI scrutinizes extensive volumes of historical and real-time data to identify intricate patterns, correlations, and potential hazards. This empowers financial institutions to proactively handle risks, thereby safeguarding their operations and optimizing their financial outcomes. His cutting-edge technology transcends conventional methods by providing detailed projections and forecasts, endowing financial decision-makers with invaluable insights. By accessing and analysing copious amounts of data, AI possesses the capability to detect fraudulent activities, identify potential theft, and facilitate comprehensive scrutiny of cash flow. For instance, AI-powered chatbots and virtual assistants enhance customer service experiences by promptly and accurately responding to inquiries and resolving issues. This not only elevates customer satisfaction but also enables financial institutions to allocate resources more efficiently.

Jarrahi, (2018), AI algorithms possess the capacity to analyse market trends, identify lucrative investment opportunities, and optimize portfolio management strategies. By leveraging AI's prowess in processing and scrutinizing extensive datasets, financial decision-makers can make more enlightened investment choices, bolster portfolio performance, and maximize returns. The profound impact of AI on financial decision-making is undeniable. The realm of asset and investment management has entered a phase of growing receptiveness towards the adoption of decision intelligence, which paves the way for exploring and implementing various promising use cases. Among these, one particularly notable application involves harnessing alternative data sources, such as weather forecasts, online sentiment

regarding companies, media coverage, and more. The objective is to enhance the process of making investment decisions and refining hedging strategies.

By diligently analysing these diverse datasets, financial experts can attain valuable insights into market trends and sentiments. The convergence of artificial intelligence (AI) and decision intelligence possesses immense potential in terms of maximizing returns while simultaneously mitigating risks. As a result, they promptly generate actionable intelligence. Intelligent client outreach is another notable impact of AI in financial decision making. Leveraging recent online and in-person behavioural patterns, financial institutions can utilize AI algorithms to identify potential opportunities for client engagement and tailor outreach efforts accordingly. By meticulously analysing client interactions, preferences, and transaction history, AI systems provide valuable insights into individual needs and preferences. Consequently, financial institutions can craft personalized communication strategies. This intelligent outreach not only enhances customer satisfaction but also improves customer retention and loyalty. Its profound impact is evident across various facets of finance departments, encompassing the realms of fraud detection, financial analysis, and risk management.

Riikkinen, Saarijärvi, Sarlin, & Lähteenmäki, (2018) assimilation of AI technologies has truly revolutionized these domains, facilitating more precise and efficient decision-making processes. By meticulously scrutinizing vast volumes of data, AI systems possess the remarkable ability to discern intricate patterns that might otherwise elude human perception. The utilization of AI algorithms plays a pivotal role in constructing robust models that aid in the identification of deceitful behaviour, thereby ensuring heightened levels of accuracy and effectiveness.

Guresen, Kayakutlu, & Daim, (2011), financial analysis has experienced a remarkable transformation owing to the advancements in AI. Traditional methods of analysis, constrained by human capacity and subjectivity, have been outstripped by the extraordinary capabilities of AI. The impact of AI on risk management has also been profound. AI algorithms possess the capacity to analyze extensive volumes of data, thereby facilitating the identification of concealed risks and the implementation of proactive measures. The reliance on AI systems necessitates a comprehensive understanding of their limitations and the potential biases they may introduce. Upholding transparency, accountability, and ethical

usage of AI in financial decision-making processes is of paramount importance to maintain trust and safeguard against unintended consequences. Dirican, (2015) harnessing the immense power of AI, enterprises can make astute judgments by vigilantly monitoring and promptly responding to fluctuations within their business systems. This elevated capacity not only enhances customer service but also fosters unwavering customer allegiance, ultimately paving the path to enduring success. Real-time analytics, propelled by AI, endow financial institutions with a competitive advantage. Through continuous examination of copious volumes of data in the present moment, these institutions can swiftly detect and counteract instances of fraudulent activity. With AI algorithms incessantly scrutinizing transactions and patterns, any semblance of suspicious conduct can be expeditiously identified, facilitating timely intervention, and mitigating potential losses. This proactive approach bolsters the security and engenders the trust that customers repose in these institutions. Furthermore, AI-driven real-time analytics empower financial organizations to dynamically adapt their marketing campaigns and pricing strategies. By perusing customer data in real time, AI algorithms can uncover trends, preferences, and behavioural patterns. This invaluable discernment enables businesses to customize their marketing endeavours to cater to specific customer segments, thus optimizing their efficacy.

Tsai & Wu, (2008), it aids organizations in optimizing pricing strategies by monitoring market conditions and accordingly adjusting prices. Therefore, companies can sustain their competitiveness while ensuring the generation of optimal revenue. Additionally, AI-powered real-time analytics furnish organizations with the capacity to closely scrutinize customer behavior. Through real-time analysis of customer interactions, preferences, and feedback, financial institutions can acquire a profound comprehension of their customers' requisites and anticipations. This cognizance empowers them to fashion personalized offerings and deliver exceptional customer experiences. By proactively addressing customer concerns and providing timely solutions, companies can foster customer loyalty and cultivate enduring relationships. It confers upon enterprises the capability to expeditiously respond to evolving market conditions, identify and pre-empt instances of fraudulent activities, and administer bespoke experiences to customers. Organizations that wholeheartedly embrace AI-driven real-time analytics are well positioned to flourish in the fast-paced and perpetually evolving financial landscape, ultimately achieving sustainable growth and resounding success. Process automation has emerged as a pivotal instrument for contemporary industry leaders, as they endeavour to streamline operations and curtail operational expenditures. Amidst the plethora

of automation technologies accessible, robotic process automation (RPA) has garnered notable acclaim. This ground-breaking technology, coupled with AI-enabled software, facilitates automated data validation, document scrutiny, and data extraction, thus alleviating human exertion and minimizing error rates, particularly within the domain of financial institutions. The financial sector is witnessing a transformative influence from data science and artificial intelligence (AI), reshaping the modality of interactions and transactions.

According to Belanche, Casaló, and Flavián (2019) advancement resides in blockchain technology, which pledges enhanced account security and diminished transaction fees for consumers. These progressions offer customers heightened convenience and satisfaction while alleviating the burden on human representatives. Another substantial advantage emanating from AI in financial decision-making is the newfound transparency fostered by comprehensive, precise, and timely client information. By harnessing AI technologies, financial organizations acquire profound insights into customer behavior and preferences. The capacity to comprehend individual needs on a granular level facilitates personalized financial advice, products, and services, ultimately cultivating stronger relationships between institutions and customers. These intelligent systems can expeditiously and accurately analyze vast quantities of data, furnishing insights into market trends, risk assessments, and investment opportunities.

Belanche, Casaló, and Flavián (2019), financial professionals can optimize their decision-making processes, augmenting overall performance and profitability. As the financial industry continues to embrace AI and automation, it is indispensable for stakeholders to adapt and enhance the skill sets of their workforce correspondingly. The profound impact of artificial intelligence (AI) on the realm of financial decision making holds tremendous potential for completely revolutionizing the operational dynamics of corporate businesses. However, amidst this realm of immense possibilities, there exist numerous challenges that must be diligently addressed throughout the implementation process of this transformative technology.

Davenport & Ronanki, (2018) the significant costs associated with the adoption of AI solutions. The intricacies inherent in AI technologies demand a workforce equipped with the expertise to effectively execute and manage these intricate systems. It becomes imperative for organizations seeking to leverage the boundless potential of AI to ensure the presence of a readily accessible pool of such adept professionals within the marketplace. The impact of AI

on financial decision making transcends a singular facet and encompasses a myriad of dimensions.

According to Tambe, Cappelli, and Yakubovich (2019), one area of significant influence lies in the realm of automating routine tasks and processes. The introduction of this automation paradigm can substantially enhance operational efficiency, enabling financial institutions to streamline their workflows and allocate resources with heightened efficacy. Furthermore, AI algorithms possess exceptional pattern recognition capabilities, which empower them to discern trends and predict market behaviors. By meticulously analysing historical data alongside real-time market conditions, AI systems can generate highly precise forecasts that serve as indispensable aids in making informed investment decisions. Financial professionals can effectively harness these AI-driven insights to optimize their investment strategies, mitigate risks, and maximize returns. Another profound consequence of AI on the landscape of financial decision making is its invaluable role in bolstering fraud detection and prevention measures. AI algorithms exhibit an unparalleled ability to expeditiously scrutinize massive volumes of transactional data, adeptly identifying anomalous patterns that serve as potential markers of fraudulent activities.

Conclusion

The finance and accounting sectors are undergoing significant transformations as they incorporate AI technologies into their operations. This integration of AI holds tremendous potential for reaping numerous benefits, including heightened efficiency, enhanced accuracy, and more informed decision-making processes. To fully harness the value inherent in data, organizations must embrace AI wholeheartedly and, in certain instances, minimize human involvement in the decision-making process. By entrusting data processing to machines and amalgamating human judgment, cultural insights, values, and contextual understanding with the generated decision options, we can significantly augment financial decision-making processes. AI empowers us to make well-informed choices, optimizing outcomes, and maximizing the potential of the available data.

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