

# Risks and Opportunities Brought by Artificial Intelligence Empowering the Financial Industry

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**Abstract.** Intelligent risk management and trade optimization play pivotal roles in the realm of investment banking. Leveraging AI's capabilities, institutions harness vast datasets and machine learning algorithms to detect potential risks and fine-tune trading strategies. This results in more accurate decision-making processes and better risk mitigation measures. Furthermore, AI enables personalized customer service and precise market forecasting, elevating client satisfaction levels and enabling the anticipation of market trends with greater precision. Tailored services foster stronger client relationships, driving long-term partnerships and loyalty. In addition to enhancing operational efficiency and client satisfaction, AI drives innovation and development within investment banking. This includes the introduction of intelligent advisory services and the implementation of digital perception systems, revolutionizing traditional banking practices. However, the integration of AI also presents challenges such as data privacy concerns, regulatory compliance issues, the need for talent cultivation, and organizational transformation. Looking ahead, the future of investment banking is expected to witness increased AI adoption, leading to higher levels of intelligence, more sophisticated learning techniques, and collaborative innovation across the industry. This trajectory promises to reshape the landscape of investment banking, creating new opportunities for growth and advancement.

**Keywords:** Artificial Intelligence; Financial Industry; Risk Management; Market Forecasting.

## 1. Introduction

In recent years, with the rapid development of Artificial Intelligence (AI) technology, investment banking has gradually applied AI technology in the wave of digital transformation to enhance efficiency, reduce costs, and strengthen risk management capabilities. This report delves into the key application areas of AI technology in investment banking, the advantages and impacts it brings, as well as the challenges faced and strategies to address them. At the national level, a series of development plans such as the "Next Generation Artificial Intelligence Development Plan" have been issued to promote the deep application of AI and the intelligent upgrade of industries. AI applications have become prevalent across various sectors, driving economic and social transformation towards digitalization and intelligentization, and leading a new round of industrial intelligence revolution. With the increasingly massive scale of data and the rapid development of GPU and NPU computing power, deep learning, represented by deep neural network models, has gained widespread application. These models exhibit numerous model nodes, efficient training, stable convergence, high prediction accuracy, and strong versatility, thus fueling the wave of AI applications and serving as key technological support for driving digital transformation across industries [1].

## 2. Key Application Areas of AI Technology in Investment Banking Business

### 2.1. Intelligent Risk Management

Intelligent risk management is a key application of AI technology in investment banking. AI leverages big data analysis and machine learning algorithms to accurately identify and assess market risks, credit risks, etc., assisting in real-time market monitoring and risk management strategy adjustments. By analyzing market and transaction data, AI can identify potential risk factors and issue timely warning signals. Establishing risk warning models enables real-time monitoring and alerting

of market fluctuations, trading anomalies, and system failures, providing timely decision support. AI enables quantitative risk assessment, analyzing risks' probabilities and impacts, aiding in accurate risk measurement and evaluation, and enhancing risk understanding and management. Real-time risk monitoring and control, facilitated by AI, allow prompt detection and response to risk events. Implementing a risk monitoring system facilitates monitoring and controlling investment portfolio risk levels, adopting corresponding risk management strategies, and reducing portfolio exposure and loss risks.

## 2.2. Transaction Optimization

Trade strategy optimization is another crucial application area. AI technology analyzes historical trading data, market sentiment indicators, etc., to identify trading opportunities and enhance trading strategy, improving execution efficiency and accuracy. Recently, the intelligent trader "Xingbao" has been officially launched on the Qtrade platform, leading to a surge in trading volume. Xingzheng Global Fund integrates AI technology with trader funding scenes, employing machine learning, natural language processing, etc., to develop core capabilities such as intent judgment, multi-round dialogue, and direct trading. Since its launch, AI traders have replaced a significant amount of repetitive labor, greatly boosted efficiency and reducing operational risks. Xingzheng Global Fund has recently focused on integrating with the iDeal chat tool of the Foreign Exchange Trading Center, using intelligent robots to access the iDeal chat tool, facilitating inquiry dialogue and responses, thus improving the efficiency of interbank bond trading inquiries. The integration has been preliminarily completed, with scenario training currently underway [2].

## 2.3. Personalized Customer Service

Personalized customer service is another key application of AI technology in investment banking. AI can provide customized investment advice and services to each client based on their investment preferences, risk tolerance, etc., enhancing customer satisfaction and loyalty. Mr. Maoyu, Assistant General Manager of Guoyuan Futures, recently stated to reporters that Guoyuan Futures has collaborated with Meijing Technology to optimize backend operations using big data and AI technology, providing personalized futures investor education services. They recommend investment education content tailored to each user, improving accuracy and satisfaction. The market's response to financial innovation initiatives, particularly in investor education, is positive. It is reported that Huishang Futures plans to utilize AI short videos, virtual avatars, and other technologies to offer investors more diverse and rich educational knowledge. Additionally, leveraging the intelligent research platform, the company provides personalized investment education content to each investor [3].

## 2.4. Market Forecasts and Trend Analysis

Market forecasting and trend analysis are also important areas of AI technology application in investment banking. AI can analyze vast amounts of market data and information to identify market patterns and trends, providing accurate market forecasts and decision support for investment banks. Before conducting market forecasting and trend analysis, extensive data collection and organization are required. This includes gathering market data from various sources such as stocks, bonds, commodities, and foreign exchange, including historical price data, trading volume data, financial statements, etc. Additionally, it involves organizing and cleaning this data to ensure its quality and usability. Subsequently, data models are established, and after completing model training and evaluation, trained models can be used for market forecasting and trend analysis. Through predicting future market trends, AI technology assists investment banks in making informed decisions.

### **3. Advantages and Impacts of AI Technology**

#### **3.1. Increased Efficiency**

The application of AI technology has brought numerous advantages and impacts to investment banking. Firstly, AI technology can enhance operational efficiency and reduce operating costs. By automating and intelligently processing large volumes of tedious business processes, investment banks can achieve more efficient operations. For instance, Snorkel AI, an AI company, built a model for assessing loan policies and risk exposure for a US bank, processing 250,000 documents in a day with an accuracy of 99.1%, surpassing human and existing technological capabilities. According to Bridgewater Associates' forecast, generative AI will bring even greater efficiency improvements, although its full impact may take 10 to 20 years to materialize [4].

#### **3.2. Enhanced Risk Management Capacity**

AI technology can enhance risk management capabilities, helping investment banks to promptly identify and address various types of risks, safeguarding investor interests, and maintaining market stability. Firstly, it consolidates the overall risk situation: Risk managers can utilize the updated generative AI environment and risk analysis to collect new information, add new risk points, and avoid repetition or omission. This aids in agile governance, enabling environmental risk analysis, and facilitating subsequent research such as target setting and evaluation application. Secondly, it checks responsible personnel and confirms participants in the review: When considering reviewers for newly captured risks, risk managers can use this form for detailed risk analysis and management strategy discussions for individual information and objects and allocate appropriate responsible persons and departments. Thirdly, it analyzes and validates the effectiveness and completeness of measures: Personnel responsible for detailed analysis of each risk can use this form to confirm the effectiveness and completeness of analysis viewpoints. Besides innovative opportunities, companies will also face ethical, social impact, copyright, privacy security, and other related issues, requiring comprehensive confirmation and verification of the effectiveness of business strategies and selecting the required personnel for research and conducting measures analysis based on the consolidated risk situation [5].

#### **3.3. Enhancement of Customer Satisfaction**

AI technology can also enhance customer satisfaction by providing personalized investment advice and services to meet individual needs, fostering long-term cooperation. AI traders, through key element recognition, contextual logic understanding, and proactive questioning, efficiently collect and feedback on counterparties' inquiries in real time, facilitating transaction completion. In March of this year, CCB Fund's self-developed "Xing Xiao Er" AI bond trading robot went online, making it the first public fund company to deploy intelligent inquiry robots on the iDeal platform of the Foreign Exchange Trading Center. Previously, institutions attempted AI integration with trading, mainly through data algorithms or business rules. However, with the rise of large language models like ChatGPT in recent months, such explorations have once again become an industry focus [6].

#### **3.4. Promoting Innovation and Development**

The application of AI technology has propelled innovation and development in investment banking, facilitating the transformation and upgrading of business models and enhancing industry competitiveness. AI-driven innovations have fostered technical advancements and fintech development, driving the digital transformation of the financial industry. Investment banking has leveraged AI to introduce a range of new financial products and services such as robo-advisors, quantitative trading, and high-frequency trading, fostering innovation and growth in financial markets. Moreover, investment banking has actively explored and applied emerging technologies. For instance, the digitized dynamic sensing system utilizes IoT technology to connect sensors and devices to the Internet for real-time monitoring and data collection. These data encompass market trends, consumer behavior, environmental factors, and supply chain information, forming a vast data ecosystem. By

analyzing this data, financial institutions can gain a more accurate understanding of market and customer needs, enabling better strategic planning and product positioning. The establishment of this digital sensing system has made the development and implementation of financial products more intelligent [7].

## **4. Challenges and Strategies**

### **4.1. Data Privacy and Security Risks**

Data privacy and security risks pose significant challenges. The substantial data requirements may involve issues of customer privacy and data security, necessitating strengthened measures for data security and privacy protection. Seasoned industry experts elaborate that, firstly, due to the high demands for data security and accuracy in financial transactions, the importance of data foundation ranks foremost in the application of AI technology. AI alone cannot address data accuracy issues, so robust foundational data governance is essential to ensure high-quality data, including consistency, accuracy, security, and so forth.

### **4.2. Regulatory Compliance Issues**

Regulatory compliance is also a key challenge. The application of AI technology may involve complex algorithms and models, necessitating the establishment of regulatory compliance frameworks to ensure that business operations comply with legal requirements. The concept of intelligent investment advisory services in China was first seen in the "Interim Provisions on Strengthening the Supervision of Securities Investment Advisory Business Using 'Recommendation Software'" issued by the China Securities Regulatory Commission in December 2012. It clearly defined recommendation software as software tools, products, or terminal devices with one or more specific securities advisory service functions and excluded products that only have functions such as summarizing securities information or statistics on historical data of securities investment varieties from the scope of recommendation software. Therefore, according to this provision, recommendation software should have functions of recommendation, analysis, or prediction. If it is limited to reflecting client data, it is not within the scope of recommendation software. However, judicial rulings during the same period often equate intelligent investment advisory services with recommendation software, whereas intelligent investment advisory services are not limited to investment advisory functions. In November 2017, the People's Bank of China, together with five other ministries, issued the "Guiding Opinions on Standardizing the Asset Management Business of Financial Institutions (Draft for Solicitation of Comments)," which clearly defined the concept of intelligent investment advisory services, stating that it is a service provided by financial institutions using artificial intelligence-related technologies to operate asset management businesses through robot investment advisers. However, this definition was deleted from the official document. Although the "Guiding Opinions on Standardizing the Asset Management Business of Financial Institutions," issued in 2018, did not directly define the concept of intelligent investment advisory services, Article 23 stipulated that financial institutions engaged in intelligent investment advisory services must have corresponding qualifications, and non-financial institutions must not operate beyond their scope or engage in asset management businesses in disguised forms. This to some extent has created a favorable compliance environment for traditional financial institutions such as banks and securities companies and clarified that financial institutions engaged in intelligent investment advisory services must comply with the general provisions of this opinion, including investment scope, risk isolation, investor suitability, information disclosure, etc. Overall, Chinese regulatory authorities have given sufficient attention to intelligent investment advisory services, but specific regulatory details have not yet been established [8].

### 4.3. Risk of Technical Errors and Loss of Control

Technical errors and the risk of loss of control also require attention. The complexity and uncertainty of AI technology make it prone to errors or loss of control, necessitating enhanced technology development and risk management to mitigate technical risks. In terms of algorithms, AI can perform many tasks, but currently, many AI algorithms mainly handle mathematical probability, and AI has not yet developed to the level of human intelligence, leading to erroneous results. For example, large models like ChatGPT usually perform well, but occasionally provide unreliable answers. In such cases, it is essential to pay special attention to how to review or verify the results generated by AI through multiple layers of identification.

### 4.4. Talent Development and Organizational Transformation

Talent cultivation and organizational transformation are also significant challenges. With the rapid development of advanced technologies such as big data, cloud computing, RPA robots, and AI, financial technology is thriving, inevitably leading to the restructuring of existing financial models. This poses higher demands on educators in financial services and management. Firstly, teachers need to constantly update their knowledge base, fill in new knowledge blind spots, and keep up with industry developments. Secondly, to provide students with cutting-edge practical experience, teachers need to actively engage in the latest financial practices alongside teaching. However, many teachers, although possessing professional skills and certificates, struggle to keep pace with the rapidly evolving financial landscape. Continuing education for many financial professional skills certifications lags, making timely updates difficult. Some teachers also face difficulties in embracing new knowledge, hindering their ability to stay abreast of developments in investment banking, which requires relevant technical and domain knowledge. Further follow-up is needed to address these challenges [9].

Additionally, artificial intelligence can play an active role in teaching tasks related to talent cultivation. AI technologies can drive precise teaching in higher education through methods such as big data mining, machine learning, and strong algorithms. The implementation framework includes precise identification and profiling of student learning situations, customization and delivery of precise teaching content, design of precise teaching activities, tracking and prediction of precise learning, precise teaching evaluation, and decision-making [10].

## 5. Future Development Trends

In the future, the application of AI technology in the investment banking business will be further popularized and deepened. First of all, the enhancement of the degree of intelligence will be one of the future development trends. AI technology will play an increasingly important role in the investment banking business, further improving the degree of intelligence of the business, and realizing more efficient and smarter business operations. In addition, the application of augmented learning technology will also become one of the future development trends, with the continuous development of augmented learning technology, investment banks will apply more augmented learning algorithms to optimize trading strategies and risk management models, to achieve more intelligent investment decisions and trade execution. Finally, open innovation and cooperation will be one of the future development priorities. In the future, the investment banking business will be more inclined to cooperate with external technology companies, training institutions and academia, and further follow up the relevant regulations to jointly explore new AI technology application scenarios and promote the innovative development of the industry.

## 6. Conclusion

This paper provides a literature review of the current status of AI technology applications in the financial field, with a special focus on the latest progress and use cases of AI technology in investment

banking. Reviewing academic journals, conference papers, and professional reports, provides insights into the current key application areas and challenges of AI technology in investment banking business. This article conducts the analysis and discussion of the application and challenges of AI technology in the investment banking business. The application of AI technology in the fields of intelligent risk management, trading strategy optimization, personalized client service, market forecasting, and trend analysis, etc., brings many advantages and opportunities to the investment banking business, but also faces the challenges of data security and privacy protection, regulatory compliance, and technological risks. In the future, with the continuous development and application of AI technology, the investment banking business will usher in a more intelligent and digitalized development, promote the innovation and development of the industry, and inject new vitality and momentum into the continuous growth and development of the investment banking business. Therefore, the investment banking business should continuously follow the trend of technological development, strengthen its innovation capability and actively respond to the challenges in order to realize the sustainable development of the business and enhance its competitiveness.

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