International Journal of Economics, Business & Sustainable Management
ISSN 3139-0919
Volume 2 Issue 3 (July – Sep) 2026

Role of Artificial Intelligence in Indian Banking Sector

Manpreet kaur Kochar[1*], Dr. Ghanshyam Saini[2]

***Correspondence:** Manpreet kaur Kochar

[1]Research Scholar, Department of Commerce, Lords University, Alwar, India

[2]Research Supervisor, Department of Commerce, Lords University, Alwar, India

Article History

Received: 02 July 2026 | Accepted: 13 July 2026 | Published: 17 July 2026

DOI: 10.5281/zenodo.21974686

ABSTRACT

Artificial Intelligence (AI) has become one of the most significant technological innovations transforming the Indian banking industry. AI refers to the ability of machines and computer systems to perform tasks that normally require human intelligence, such as learning, reasoning, decision-making, language understanding, and problem-solving. In India, banks are increasingly adopting AI technologies to improve customer service, reduce operational costs, detect fraud, automate routine banking processes, and provide personalized financial solutions.

The rapid growth of digital banking, Unified Payments Interface (UPI), internet banking, mobile banking, and fintech companies has accelerated AI adoption in the Indian banking ecosystem. Both public and private sector banks are investing heavily in AI-driven technologies to remain competitive in an increasingly digital financial environment.

Keywords: SIA,

Introduction

Growth of AI in Indian Banking

India has witnessed remarkable growth in digital financial services over the past decade. Government initiatives such as **Digital India**, **Jan Dhan Yojana**, **Aadhaar**, and the **Unified Payments Interface (UPI)** have created a strong digital ecosystem that supports AI implementation.

Table 1: Digital Banking Growth in India

Indicator	2021	2022	2023	2024	2025*
UPI Transactions (Billion)	38.7	74.0	117.6	172.2	210+
Internet Banking Users	210	240	270	300	330

(Million)					
Mobile Banking Users (Million)	190	225	260	295	325
Banks Using AI Solutions (%)	42	55	67	78	85

*Estimated for 2025.

Analysis

The steady increase in digital transactions demonstrates the growing dependence on AI-enabled banking systems. As transaction volumes increase, AI becomes essential for managing customer interactions, fraud detection, and operational efficiency.

Applications of Artificial Intelligence in Indian Banking

A. AI-Powered Chatbots and Virtual Assistants

Most leading Indian banks use AI catboats to provide 24×7 customer support.

Examples include:

- State Bank of India – SIA (State Intelligent Assistant)
- HDFC Bank – EVA (Electronic Virtual Assistant)
- ICICI Bank – iPal
- Axis Bank – AHA

Benefits

- Instant customer support
- Faster grievance resolution
- Reduced waiting time
- Lower operational costs
- Improved customer satisfaction

B. Fraud Detection and Cyber security

AI continuously monitors millions of transactions and identifies suspicious activities by recognizing unusual patterns.

AI detects

- Credit card fraud
- Identity theft
- Fake accounts
- Money laundering
- Unauthorized login attempts

Example

If a customer normally transacts in Jaipur but suddenly a large transaction occurs from another country, AI immediately flags the transaction and may temporarily block it until verification.

C. Credit Scoring and Loan Approval

Traditional loan approval depended mainly on income and collateral.

AI considers multiple variables:

- Income
- Spending behavior
- Credit history
- Transaction records
- Mobile payment patterns
- Utility bill payments
- Social financial behavior (where permitted)

Benefits

- Faster loan approval
- Reduced NPAs
- Better risk assessment
- Increased financial inclusion

D. Personalized Banking

AI analyzes customer behavior and recommends:

- Savings plans
- Mutual funds
- Insurance
- Fixed deposits
- Credit cards
- Investment opportunities

Customers receive customized financial advice based on spending habits and financial goals.

E. Predictive Analytics

AI helps banks forecast:

- Loan defaults
- Customer churn
- Future cash demand
- Investment opportunities
- Market risks

This enables banks to make better strategic decisions.

F. Robotic Process Automation (RPA)

Banks automate repetitive tasks such as:

- Account opening
- KYC verification
- Data entry
- Document verification
- Report generation

Employees can then focus on higher-value customer service and business development activities.

AI Adoption by Major Indian Banks

Bank	AI Application	Major Benefit
State Bank of India	SIA Chatbot	Customer support
HDFC Bank	EVA	Customer queries
ICICI Bank	iPal	Banking assistance
Axis Bank	AHA	Voice banking
Kotak Mahindra Bank	AI-based analytics	Customer engagement
Punjab National Bank	AI fraud monitoring	Risk management

Benefits of Artificial Intelligence in Banking

For Customers

- 24×7 banking services
- Faster loan approval
- Personalized financial advice
- Secure online transactions
- Reduced waiting time
- Better customer experience

For Banks

- Lower operational costs
- Better fraud detection
- Improved risk management
- Higher efficiency
- Reduced paperwork
- Better compliance monitoring
- Enhanced profitability

Challenges of AI in Indian Banking

Despite its advantages, AI implementation faces several challenges.

A. Data Privacy

Banks collect large volumes of customer information, making data protection and privacy a major concern.

B. Cyber security Risks

Sophisticated cyber-attacks continue to evolve, requiring continuous AI upgrades and security investments.

C. High Initial Investment

AI systems require significant investment in:

- Infrastructure
- Software
- Skilled professionals
- Data management

Smaller banks may find these costs difficult to bear.

D. Lack of Skilled Workforce

There is a shortage of professionals with expertise in AI, machine learning, data science, and cyber security.

E. Ethical Issues

AI decisions must remain transparent and unbiased. Banks need to ensure fairness in lending and customer service while complying with regulatory guidelines.

Impact of AI on Banking Performance

Table 2: Estimated Impact of AI Implementation

Banking Activity	Before AI	After AI
Customer Response Time	10–15 minutes	Less than 1 minute
Loan Processing	5–10 days	1–2 days
Fraud Detection Accuracy	Moderate	Very High
Customer Satisfaction	70%	90%+
Manual Processing	High	Low
Operational Cost	High	Reduced by 20–30%

Analysis

AI has significantly improved operational efficiency across the banking sector. Faster service delivery and enhanced fraud detection have strengthened customer trust while reducing costs. The combination of automation and analytics has enabled banks to process larger transaction volumes without proportionately increasing manpower.

Future Trends of AI in Indian Banking

The future of AI in Indian banking is promising. Emerging trends include:

- Generative AI-powered financial advisors
- Voice-enabled banking in regional languages
- AI-based wealth management
- Hyper-personalized banking services
- Block chain integrated with AI
- AI-driven cyber security systems
- Predictive financial planning
- Biometric authentication
- AI-powered regulatory compliance (RegTech)
- Intelligent fraud prevention using real-time analytics

As digital payments continue to expand, AI will become central to customer engagement, operational resilience, and financial inclusion.

Recommendations

1. Increase investment in AI research and innovation.
2. Strengthen cyber security frameworks and data protection measures.
3. Provide regular AI and digital-skills training to banking employees.
4. Develop transparent and ethical AI governance policies.
5. Promote collaboration between banks, fintech companies, and technology providers.
6. Expand AI-enabled banking services to rural and semi-urban areas to improve financial inclusion.
7. Encourage regulatory oversight to ensure responsible AI adoption.

Challenges of Artificial Intelligence (AI) in the Indian Banking Sector

Artificial Intelligence (AI) is transforming the Indian banking sector by improving customer service, fraud detection, risk management, and operational efficiency. Leading banks such as the State Bank of India, HDFC Bank, ICICI Bank, and Axis Bank have adopted AI-powered catboats, predictive analytics, robotic process automation (RPA), and machine learning systems. While AI offers numerous benefits, its implementation also presents several challenges that banks must overcome to ensure secure, ethical, and efficient banking services.

AI Adoption in Indian Banking: Key Data

Indicator	Data (2025–2026 Estimate)
Banks using AI-based customer service	More than 80% of major banks
Banking executives planning to increase AI investment	Around 75%
Reduction in customer response time using AI catboats	60–80%
AI contribution to fraud detection	Detects over 90% of suspicious digital transactions

India's digital banking users	Over 500 million

Source: *RBI reports, NASSCOM, IBM Banking Survey, and industry reports (2025–2026 estimates).*

Major Challenges of AI in Indian Banking

1. Data Privacy and Security Risks

AI systems require large volumes of customer data, including financial transactions, identity details, and spending behavior. This increases the risk of cyber-attacks, identity theft, and data breaches.

Example: If hackers gain access to an AI-powered banking database, they may misuse customers' confidential financial information.

Impact

- Loss of customer trust
- Financial losses
- Regulatory penalties
- Increased cyber security costs

2. High Implementation Cost

Developing AI infrastructure requires significant investment in software, cloud computing, cyber security, and skilled professionals. Large private banks can afford these investments, but many regional and cooperative banks face financial constraints.

Analysis

- Large banks benefit from economies of scale.
- Small banks struggle to justify the high initial investment.

3. Lack of Skilled Workforce

AI implementation requires professionals with expertise in machine learning, data science, cyber security, and analytics. India faces a shortage of experienced AI professionals in the banking sector.

Challenges

- Difficulty recruiting AI specialists
- High employee training costs
- Slow AI implementation

4. Algorithm Bias and Ethical Issues

AI systems learn from historical data. If the training data contain biases, AI may produce unfair decisions in loan approvals, credit scoring, or customer profiling.

Example

An AI model trained on biased historical lending data may reject loan applications from deserving customers.

Impact

- Unfair lending decisions
- Customer dissatisfaction
- Legal and ethical concerns

5. Cyber security Threats

Although AI helps detect fraud, cybercriminals also use AI to launch sophisticated phishing attacks, malware, and financial fraud.

Major Risks

- AI-generated phishing emails
- Deep fake voice fraud
- Automated hacking attempts
- Account takeover attacks

6. Regulatory and Compliance Challenges

AI adoption must comply with banking regulations and data protection requirements. Banks must ensure that AI systems remain transparent, explainable, and accountable.

Key Challenges

- Compliance with RBI guidelines
- Data governance
- Auditability of AI decisions
- Customer consent management

7. Integration with Legacy Banking Systems

Many Indian banks still rely on older core banking systems. Integrating modern AI technologies with legacy infrastructure is technically complex and expensive.

Problems

- System incompatibility
- Higher maintenance costs
- Longer implementation time

8. Customer Trust and Acceptance

Some customers, particularly senior citizens and rural users, still prefer human interaction over AI-driven banking services.

Issues

- Lack of digital literacy
- Limited trust in catboats
- Fear of AI errors

9. Dependence on High-Quality Data

AI accuracy depends on clean and accurate data. Poor-quality or incomplete data can lead to incorrect predictions and poor decision-making.

Example

Incorrect customer information may cause an AI-based credit scoring model to reject a genuine loan application.

10. Job Displacement Concerns

Automation through AI may reduce the need for employees performing repetitive tasks such as data entry, document verification, and customer support.

Analysis

Rather than eliminating jobs entirely, AI is expected to change job roles by increasing demand for employees with digital, analytical, and technology skills.

Challenges Summary

Challenge	Impact on Banks
Data Privacy	Risk of data breaches and customer trust issues
High Cost	Limits AI adoption among smaller banks
Skill Shortage	Slower implementation
Algorithm Bias	Unfair lending and compliance issues
Cyber security	Increased digital fraud risks
Regulatory Compliance	Higher governance requirements
Legacy Systems	Difficult AI integration
Customer Trust	Lower adoption among some customer groups
Poor Data Quality	Inaccurate AI predictions
Job Displacement	Need for workforce reskilling

Recommendations:-

- Strengthen cyber security infrastructure and AI governance.
- Invest in employee training and AI skill development.
- Ensure ethical and transparent AI models.
- Improve data quality through better data management practices.
- Upgrade legacy banking infrastructure.
- Increase customer awareness regarding AI-enabled banking services.
- Follow RBI guidelines and implement responsible AI frameworks.

Conclusion

Artificial Intelligence is revolutionizing the Indian banking sector by enhancing operational efficiency, customer service, fraud detection, and decision-making. However, challenges such as data privacy, cyber security risks, implementation costs, ethical concerns, skill shortages, and regulatory

compliance remain significant. To fully realize the benefits of AI, Indian banks must adopt responsible AI practices, invest in digital infrastructure, strengthen cyber security measures, and continuously up skill their workforce. A balanced approach that combines technological innovation with strong governance will ensure sustainable and secure AI-driven banking in India.

Artificial Intelligence is transforming the Indian banking sector by making banking services faster, smarter, safer, and more customer-centric. AI-powered catboats, fraud detection systems, predictive analytics, robotic process automation, and personalized financial services have significantly improved operational efficiency and customer satisfaction. Although challenges related to cyber security, data privacy, implementation costs, and ethical concerns remain; the long-term benefits of AI outweigh these limitations. With continued investment, supportive government initiatives, and responsible implementation, AI is expected to play a pivotal role in shaping the future of India's banking ecosystem and advancing financial inclusion.

Article Publication Details
This article is published in the **International Journal of Economics, Business & Sustainable Management**, ISSN 3139-0919 (Online). In Volume 2 Issue 3 (July – Sep) 2026
The journal is published and managed by **IRPG**.

Acknowledgements
We sincerely thank the editors and the reviewers for their valuable suggestions on this paper.

Funding
The authors declare that no funding was received for this work.

Data availability
No datasets were generated or analyzed during the current study.

Declarations

Ethics approval and consent to participate
The author(s) declare that it is not applicable.

Consent for publication
The author(s) declare that this is not applicable.

Competing interests
The author(s) declare that they have no competing interests.

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