JUL 05

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Small FIs shouldn't fear what AI will do to their hometown-style banking service

Article

The trend: **Many financial institutions (FIs), especially the smaller ones, are worried about the costs and uncertainties associated with adopting new technologies** such as genAI, digital payments, and automation tools. But by hanging back, they risk their ability to keep up with competitors.

What's the issue? A deep dive by American Banker found that smaller FIs are most worried about:

- **Their lack of financial resources** to invest in and maintain cutting-edge technology
- **Compliance** with evolving regulations. For example, many smaller FIs were excited to participate in banking-as-a-service (BaaS) partnerships, only to later realize it raised their compliance risks
- **Attracting and retaining skilled personnel** needed to implement and manage new technologies.
- Resistance or **insufficient support from senior leadership** for innovative initiatives
- Concerns about **the impact of technology on customer relationships** and local community ties, which they see as their competitive advantage

The local appeal: The potential for a small FI's local community to see it as more impersonal is a fair concern, because friendliness and relationships are these FIs' differentiators. As big banks deploy aggressive growth strategies, customers are seeking out smaller local banks and credit unions for the personalized service they offer.

- For example, earlier this year, the Wall Street Journal described a dissatisfied customer who switched from a bank she loyally used for 40 years after **PNC** acquired it.
- And a municipal customer also described ending her relationship with **US Bank** after it took six months to resolve a major deposit error. She was also happy with the higher interest rate at her new local bank.

Some small FIs have digitized: And they've still been able to provide more personalized, flexible service.

For example, **Bankwell**, a Connecticut-based community bank worth $3.2 billion, has prioritized strategic partnerships with fintechs to enhance its product offerings.

- Bankwell has also implemented an AI-driven virtual assistant for SMB lending, improving its efficiency with tasks like data validation and loan approvals, per PYMNTS.

- The virtual assistant directly increased lead quality and conversions by taking applications outside of working hours (63% of all applications), and by reactivating over 42% of churn applicants.
- This resulted in an $12.3 million increase in loan application volume for the bank between December 2023 and March 2024.

And we've discussed several credit unions that use AI to boost their lending businesses.

- Pennsylvania-based **Diamond Credit Union** claims its partnership with AI solution Upstart allowed it to increase access to its lending products, speed up loan approvals, and offer a fully digital lending experience for its customers, per its press release.
- New England-based community bank **Liberty Bank** says its partnership with AI solution Amount has streamlined its lending operations, automated lending processes, and enabled effective cross-selling opportunities between banking and lending customers, per its press release.

Key takeaways: Whether smaller FIs adopt an AI-driven chatbot so customers can resolve their unique issues off-hours, use genAI to boost the speed and accuracy of lending processes, or personalize communications to customers, technology doesn't necessarily cause small FIs to lose their human touch. In fact, if done right, it can free up the FI employees to provide more of it.