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CORPORATE AND ARTIFICIAL INTELLIGENCE ADVISORY

Financial Products and Services and Bot-to-Bot Communications: What the Future Holds for Customers and Providers

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Money 20/20 has come to a close in Las Vegas. What is usually a leading industry conference predominantly focused on consumer and commercial payments markedly "pivoted" this year. Specifically, in what can likely be attributed to recent regulatory actions related to "open banking"[1] as well as the (seeming) market acknowledgment of the rise of artificial intelligence (AI) in the provision of financial products and services, the conference spent significant time delving into the future delivery of banking and financial services across both the consumer and commercial verticals.[2] In short, the conversation centered on the use of bots (generally, software applications that undertake automated tasks) from both a customer-facing and provider-facing perspective.

On the customer-facing side, panelists described a future where customers will create bots that hold all of their financial information (whether a consumer or a business). Financial information held by the customer's bot will include information about the customer's credit needs and desired loan terms, as well as an up-to-the-second analysis of the customer's current financial condition (including cash flows, anticipated expenses, foreign currency exposure, etc.). Critically, unlike traditional credit scores that lag customer performance by 30-90 days, customers' bots will know *everything* about the customer's current financial condition, including when the customer next expects income *and* how much that income is likely to be (and the same is true on the expense side of the customer's ledger). And the information the customer's bot holds will also be "personal," such as a preference to purchase a ticket sold by ABC Airline to the extent such purchase does not exceed a $XX delta from the least expensive ticket the customer's bot can find.

On the financial provider side, their bots will both offer products and services to customer bots *and* scan the market to understand other providers' offerings as the provider's bot calculates credit and other terms the bot's owner will offer (in essence, financial providers' bots will "talk" to competitors' bots to determine the products and services its owner will provide).

The Future of Financial Relationships

According to the convention's panelists, regardless of whether the "customer" is a consumer or a commercial entity, current financial relationships are predicated upon three things: opacity, latency and inertia. While opacity and latency have been mitigated in recent years, customer inertia generally keeps most financial relationships intact today. (To this end, it was noted that only 5 percent of eligible consumers refinanced their auto loans when interest rates were close to 0 percent a few years ago.)

[1] The Consumer Financial Protection Bureau released its final rule related to "open banking" on October 23, 2024 (sometimes referred to as the "1033 Rule" because of its origin in the Dodd–Frank Wall Street Reform and Consumer Protection Act). The final rule has already been subject to a lawsuit brought in federal court in Kentucky.

[2] Bot use in connection with "traditional" conference issues included a discussion of a future where financial institutions create bots to detect and report suspicious activity to government agencies that, in turn, use bots to assess the information provided.

Bot-to-bot communication, however, solves for the inertia variable. Specifically, once this anticipated framework is fully operational, financial products and services will be offered in "real-time" and result from communication between customer and provider bots rather than from protracted customer-to-provider interaction and negotiation. Customers will no longer need to be "smart" about their financial product provider nor will they have to be proactive in seeking a financial product provider: the customer's bot will, with customer-determined frequency, do the comparison for them and apply for the product.

In terms of its effect on financial markets, it is predicted that the following will occur:

1. Customers' bots will seek out new providers of financial products and services on a near-continual basis. This will lead to situations where customers are refinancing their car loans, mortgage loans and other obligations *daily* rather than episodically (if at all).
2. Brand loyalty will dissolve. While there may still be certain areas where loyalty drives a component of a relationship, customers who are motivated by the bottom-line cost of credit will no longer have a provider preference. "Relationship banking" will become a historical anomaly.
3. Banks may become more like regulated utilities that confirm customer identity and other aspects of customer data — although the process described above will be slowed by bank regulators that will implement hurdles that are designed to be protective of bank customers as well as assist banks in maintaining their operational relevance. Banks' current "trump card" is the reputational and operational stature they hold in customers' minds and banks will need to determine how to use this to remain viable.

Conclusion

The myriad issues raised by this new paradigm are seemingly endless. For example, how will the securitization markets work if obligations are refinanced nearly as soon as they are originated? How and when do the legal issues — from the allocation of contractual responsibilities to potential competition issues that arise in such sharing — get resolved? And what does a "banking relationship" look like in this future world?

Katten understands the issues raised in this paradigm and has developed a team to assist its clients in a way that is proactive, efficient and reflective of the markets in which our clients operate. We welcome the opportunity to discuss all implications of the issues raised in this advisory.

CONTACT

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