AI-DRIVEN TRANSFORMATION IN INDIAN BANKING: POST-COVID GROWTH AND EMERGING TRENDS

*Shreya Dixit[1], Shreenath Nelgi[1], Shraddha K[1], Aishwarya[1]

[1] Student, Department of Master of Business Administration, Guru Nanak Dev Engineering College, Bidar, Karnataka, India

ABSTRACT

Following the COVID-19 pandemic, digital transformation accelerated rapidly, positioning India's banking sector at the forefront of an Artificial Intelligence (AI) revolution. This study examines AI's impact on fraud detection, customer service, credit scoring, back-office operations, and risk management using data from reports, bank filings, and official statistics. The AI market in India's BFSI sector reached $739 million in 2022 and is projected to grow to $8 billion by 2033 (IMARC, 2024). RBI data indicates a sharp rise in AI adoption, especially among private banks. Empirical evidence shows reduced costs, faster loan processing, increased digital transactions, and lower fraud rates. The study concludes with strategic recommendations addressing challenges such as data privacy, bias, and workforce transitions in the banking sector.

KEYWORDS: Artificial Intelligence, Indian Banking, BFSI, Post-COVID, Fraud Detection, FinTech, Digital Transformation, Machine Learning, RBI, GenAI

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1.INTRODUCTION

AI is completely changing the banking industry, from personalized advise to rapid fraud alarms. It's revolutionary in India, where 340+ banks serve 1.4 billion individuals, many of whom are new to banking. We lead the world: 59% of large companies deploy AI (IBM 2023). scan of the RBI's report? Since 2015–16, public and private banks' discussions about AI have increased threefold and sixfold, respectively. The COVID-19 pandemic caused branch closures, which increased demand for digital tools like chatbots and payment monitors. The 2024 budget allocates $480 million for AI, the national mission will cost $1.25 billion, and the RBI's FREE-AI framework was just released. With market trends, bank examples, and significant turning points, this article analyzes the post-COVID statistics on AI's proliferation and influence.

2. LITERATURE REVIEW

India is becoming one of the world leaders in the adoption of AI, and an increasing amount of research suggests that AI is a major force behind structural change in the country's financial system and economy. Using a macroeconomic perspective, Panigrahi et al. (2024) demonstrate how AI is predicted to boost India's GDP by around USD 967 billion by 2035, including benefits from fraud reduction and banking automation. In addition, the Reserve Bank of India's (2023) text mining analysis of bank annual reports shows that between 2015–16 and 2022–2023, AI-related keyword mentions increased sixfold in private sector banks and threefold in public sector banks, with bank size and capital adequacy (CRAR) positively correlated with the intensity of AI adoption.

Global and national surveys back this up: the World Economic Forum (2023) says that India has the most digital banking users in the world and that AI is making service ecosystems more flexible by giving personalized advice, risk management

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tools, and India Stack-based digital infrastructure. IBM's Global AI Adoption Index (2024) says that 59% of large Indian companies have already used AI, which is the highest percentage among 15 countries. It also says that 74% of companies that have adopted AI have increased their spending on it over the past two years.

Sector-specific industry studies, like NASSCOM's (2024) AI Adoption Index 2.0, show that AI is mostly used in BFSI for fraud detection, credit underwriting, and customer personalization. This is what is driving the projected CAGRs of 25–35% in the AI market through 2027.Market research reports give detailed financial benchmarks:

The India AI in BFSI market is estimated by IMARC (2024) to be worth USD 830 million in 2024 and is expected to grow at a compound annual growth rate (CAGR) of 28.8% to reach USD 8.09 billion by 2033. The report highlights the significance of Digital India and the RBI's FREE AI framework as regulatory enablers. The market was valued at USD 739.59 million in 2022 and is expected to grow to USD 4.21 billion and USD 2.36 billion by 2029, respectively, driven by fraud detection, chatbot-led customer service automation, and personalized financial services, according to Blue Weave Consulting (2023) and Research & Markets (2024).

These trends align with IDC's (2021) broader AI-market analysis, which estimated India's total AI market at USD 3.1 billion in 2020 and USD 7.8 billion by 2025, noting that 80% of organisations had implemented or planned AI investments to address post-COVID scenarios.

On the application level, Rao and Iyer (2023) show that AI-based credit-scoring models at HDFC Bank and SBI, which integrate social-media activity and transaction history, expand credit access for low-income borrowers while lowering default rates relative to rigid rule-based systems.

Frontiers in AI (2025) profiles six major Indian banks—SBI, PNB, HDFC, ICICI, Axis, and Kotak Mahindra—highlighting AI-powered chatbots (SIA, EVA), ML-driven credit-risk models, fraud-detection algorithms, and robotic process automation (RPA) in back-office operations, alongside emerging "Green AI" sustainability initiatives. Abaca demy (2025) further documents how SBI's AI initiatives cut operational costs by 15% and loan-approval times by 40%, linking this to post-demonetisation digitisation and the COVID-19-induced push from customer-facing tools toward real-time risk-monitoring and decision-support systems.

Broader reviews and policy-oriented studies fill the governance and workforce-related dimensions: Sharma and Padhi (2023) and the Journal of Interdisciplinary Economics Research (2024) document the rise of new AI-related roles, the uneven measurement of AI outcomes, and barriers such as high implementation costs, talent gaps, and low customer acceptance, calling for better disclosure standards in bank reports. Capgemini's (2019/2022) IBA Bank Tech report provides an early baseline on EVA (HDFC), SIA (SBI), and other robotic and predictive-analytics deployments, which later post-COVID literature uses to gauge acceleration. India-Brand-Equity-Foundation (IBEF, 2023) and Deloitte India (2023) connect AI growth to USD-1.29 billion in Digital India funding and planned 50% increases in AI investment, respectively, while flagging talent shortages and data-governance weaknesses as key constraints.

Last but not least, extensive global and India-specific market and policy studies—Stanford HAI (2025), Fortune Business Insights (2024), and Market Growth Reports (2025)—place India among the top tiers of AI investing nations, predict a massive increase in the overall AI market, and confirm that AI-driven fraud detection systems have reduced incidents by up to 50% in leading financial institutions. Additionally, chatbots now handle over 70% of routine queries in some banks, and 82% of global financial firms have implemented AI for fraud prevention, transaction monitoring, and compliance. Despite ongoing issues with governance, transparency, and workforce adaption, this literature collectively confirms AI as a structurally ingrained, rapidly expanding force in Indian banking with proven advantages in efficiency, risk management, and financial inclusion.

3. OBJECTIVES

1. To track AI's growth in Indian banking from 2020–2024 and estimate its market size up to 2033.
2. To understand how COVID-19 sped up AI adoption in Indian banks.
3. To assess AI's real impact in areas like fraud detection, customer service, credit scoring, and risk management.
4. To compare AI adoption between public and private sector banks and find patterns.
5. To study the regulatory environment, key challenges, and future growth possibilities for AI in Indian banking.

4.RESEARCH HYPOTHESIS

H1: COVID-19 significantly pushed AI adoption in Indian banking beyond its normal pace.
H2: AI has brought measurable improvements in efficiency, cutting costs and processing times.
H3: Private sector banks have adopted AI faster and more deeply than public sector banks.
H4: AI-powered fraud detection has meaningfully reduced financial fraud in Indian banks after 2020.

5.RESEARCH METHODOLOGY

This study uses a descriptive and analytical approach, mainly relying on secondary data and content analysis of reports, rather than primary surveys or experiments. It is mostly quantitative—using numbers and trends—but also includes qualitative insights from real-world examples of how Indian banks have rolled out AI tools.

5.1 Data: The secondary data is used from published sources:

- Regulatory documents from RBI (Annual Reports, Monthly Bulletins, FREE-AI framework 2024),
- Industry studies like IBM's AI Adoption Index, NASSCOM's AI Adoption Index 2.0, and Deloitte India's State of AI Survey,
- Market-research reports from IMARC, blueweave, Fortune Business Insights, Research & Markets, and others,
- Annual reports of major banks (SBI, HDFC, ICICI, PNB, Axis, Kotak) from 2020–2024,
- Government sources such as IBEF, india ai, NITI Aayog, and the Ministry of Finance,
- Academic journals and global reports (WEF, Stanford HAI, IDC).

5.2 Scope of the study

The scope of the study is 2019–2024, with projections up to 2033, and it focuses only on the banking part of the wider BFSI sector.

5.3 Limitations

- Reliance on secondary data,
- Differences in how research firms define and measure AI market size,
- Scarce, consolidated data on individual banks' AI spending, and
- Possible reporting bias (rose-tinted views) in bank annual disclosures.

6. DATA ANALYSIS

6.1 India AI-BFSI Market Size: Year-Wise Trend

Table 1: India AI in BFSI — Market Size Year-Wise (2019–2033)

Year	Market Size (USD Million)	YoY Growth (%)	Key Trigger	Source
2019	~200–250 (est.)	—	Pre pandemic baseline; AI mostly experimental	IDC / IndiaAI
2020	~280–320 (est.)	~25%	COVID 19 forces contactless banking; 80% of banks plan AI investment	IDC 2021
2021	~400–500 (est.)	~28%	Post lockdown digital surge; AI services market projected at 35.8% CAGR	IDC 2021
2022	739.59	~28–30%	AI keyword mentions 6x in private banks (RBI study); PwC FICCI AI governance framework	BlueWeave 2023
2023	554.3–700 (range)	~27%	RBI awards INR 91 crore AI based supervisory analytics contract; early GenAI pilots begin	Research & Markets

2024	830–902 (range)	~29%	RBI FREE AI framework; USD 480 million Digital India AI budget; AI driven automation in core banking (AGENTNEXT style)	IMARC / TechSci
2025 (proj.)	902.6–1,100	~30%	India becomes 3rd largest FinTech ecosystem globally (~USD 111 billion AUM)	TechSci / IBEF
2029 (proj.)	2,363–4,209	~28%	Natural language processing (NLP) becomes fastest growing segment; AI based advisory and back office automation mature	BlueWeave / Research & Markets
2033 (proj.)	8,090	~28.8% CAGR	AI is expected to unlock about USD 1 trillion in global banking value by 2033	IMARC 2024

Source: *Compiled from BlueWeave Consulting (2023), Research & Markets (2024), IMARC Group (2024), TechSci Research (2024), IDC (2021).*

6.2 AI Adoption Intensity: RBI Text-Mining Evidence

Table 2: AI Keyword Mentions in Indian Bank Annual Reports (RBI Text-Mining Study, 2023)

Bank Category	2015–16 Level	2022–23 Level	Increase Factor	Primary Focus
Private Sector Banks	Baseline (low)	Very high	~6x increase	Automation, data analytics, fraud detection
Public Sector Banks (PSBs)	Very low	Moderate high	~3x increase	Automation, customer service, compliance
Select PSBs (advanced)	Low	High	Comparable to private peers	AI based customer support, predictive analytics

Source: *RBI Monthly Bulletin (2023), "How Indian Banks are Adopting Artificial Intelligence?"*

6.3 Application-Wise AI Impact in Indian Banking

Table 3: AI Application Areas — Impact Statistics in Indian Banking

Application Area	Market Share	Key Metric / Impact	Indian Bank Example	Source
Fraud Detection	45% of AI BFSI market	Fraud incidents reduced by up to 50%; real time UPI fraud flagging	ICICI Bank ML anomaly detection; HDFC EVA fraud algorithms	Market Growth Reports (2025)
Customer Service / Chatbots	25% of AI BFSI market	70%+ routine queries handled by chatbots; SBI SIA: 1M+ queries/month	SBI SIA; HDFC EVA (2.7M+ queries); PNB One chatbot	Banking Finance (2025)
Credit Scoring & Lending	~15%	Loan approval time reduced by ~40% (SBI); lower default rates	HDFC Bank & SBI AI credit scoring; Aadhaar KYC integration	Abacademy (2025)
Operational Efficiency (RPA)	~10%	~15% operational cost reduction (SBI); 60–70% routine tasks automated	ICICI robotics in 200+ processes; Axis Bank RPA back office	Banking Finance / NASSCOM
Risk Management & Compliance	30% of AI BFSI market	82% of global FIs use AI for compliance tools; INR 91 crore RBI AI contract	RBI supervisory AI (McKinsey + Accenture); FREE AI framework	RBI 2023; Market Growth Reports
Wealth Management / Advisory	~5%	India AUM per investor +21% (Jun 2023); AI portfolio management growing	GenAI for portfolio analysis at private banks; algorithmic advisory	World Economic Forum (2023)

Source: *Compiled from Market Growth Reports (2025), Banking Finance (2025), Abacademy (2025), RBI (2023), WEF (2023).*

6.4 Bank-Wise AI Deployment Analysis

Table 4: Bank-Wise AI Deployment and Reported Outcomes

Bank	Sector	Key AI Tools	Reported Outcome
SBI	Public	SIA chatbot, YONO app, predictive analytics, biometric AI, hackathon driven AI solutions	SIA: 1M+ queries/month; YONO: millions of digital transactions; 15% cost reduction; 40% faster loan approvals
HDFC Bank	Private	EVA chatbot (Senseforth AI), OnChat (Niki.ai), AI fraud detection, IRA robot, AI credit scoring	EVA: 2.7M+ queries, 530K+ unique users, 1.2M conversations; improved credit access for low income borrowers
ICICI Bank	Private	Software robotics in 200+ processes, ML for credit risk & anomaly detection, voice biometric authentication, robo advisory	Pioneer in AI adoption; better credit risk analysis; 200+ automated processes; improved customer retention
PNB	Public	AI chatbot on PNB One app, predictive analytics, automated customer engagement	20% increase in digital transactions driven by AI chatbot
Axis Bank	Private	RPA across back office operations, AI driven process automation, digital transformation platform	Significant improvement in processing efficiency; reduced manual errors in back office operations
Kotak Mahindra	Private	AI powered digital banking, ML for personalised services, fraud monitoring systems	Ranked among frontrunners in digital transformation; enhanced customer personalisation

Source: *Frontiers in AI (2025); Banking Finance (2025); Abacademy (2025); Emerj (2024); RBI (2020–2024).*

Table 5: Regulatory and Policy Milestones — AI in Indian Banking

Year	Policy / Regulatory Action	Significance
2020	RBI issues digital innovation guidelines for banks; Aadhaar KYC AI integration formalised	Sets foundational framework for responsible AI driven banking
2021	IDRBT publishes AI in Banking primer; IDC reports 80% of banks planning AI investment	First comprehensive technical guidance for Indian banks on AI implementation
2022	PwC India & FICCI AI governance framework; Union Budget AI allocation; RBI text mining study initiated	Establishes industry led governance standards for AI in banking
2023 (Aug)	RBI awards INR 91 crore contract to McKinsey & Accenture for AI based supervisory analytics	Direct regulatory use of AI for monitoring systemic risk in banks and NBFCs
2024 (Aug)	Union Budget allocates USD 480 million for Digital India AI integration	Largest single government commitment to AI infrastructure for the financial sector
2024 (Dec)	RBI launches FREE AI framework — addresses algorithmic bias, data privacy, and ethical AI deployment	India's first comprehensive regulatory framework specifically for AI in banking
2025	India becomes 3rd largest FinTech ecosystem globally; GenAI regulatory guardrails developed	India achieves global fintech leadership; regulatory maturation phase begins

Source: *RBI Bulletins (2020–2024); IMARC Group (2024); Stanford HAI AI Index 2025; IBEF (2023).*

FINDINGS

1. The AI BFSI market in India has grown from about USD 200–250 million in 2019 to USD 830 million in 2024. It is expected to reach USD 8.09 billion by 2033 at a CAGR of 28.8%, making BFSI the fastest growing AI application sector in India.
2. The COVID-19 pandemic was the main reason why AI went from being tested in pilot programs to being an important part of most major Indian banks' operations. This happened in just a few quarters, instead of years.
3. The RBI's 2023 text mining study shows that AI-related talk in bank annual reports went up six times in private sector banks and three times in public sector banks between 2015 and 2023.
4. India is the world leader in using enterprise AI (59% of large companies, IBM 2023), and the BFSI sector is at the front of this trend.
5. AI has made real improvements: SBI cut operational costs by 15% and loan approval times by 40%; PNB's AI chatbot boosted digital transactions by 20%; and top banks say they have seen up to 50% fewer fraud

cases

6. Fraud detection (45%), risk management (30%), and customer service (25%) are the top three areas where Indian banks are using AI.
7. Private banks like HDFC, ICICI, Axis, and Kotak lead in AI adoption, though public banks like SBI and PNB are steadily catching up.
8. The government has backed AI strongly — $1.25 billion for a national AI mission, $480 million under Digital India in 2024, and the RBI's FAIR framework as India's first responsible AI guideline for banking.
9. India is the world's third-largest FinTech market, expected to hit $421 billion by 2029, largely driven by AI-powered banking services.

CONCLUSION

Post-COVID-19, AI has surfaced as a crucial element in reshaping Indian banking, shifting focus from short-term remedies to sustainable, strategic frameworks. It has enhanced fraud detection, boosted financial inclusion, reduced costs, and improved efficiency. Prominent banks such as SBI, HDFC, and ICICI demonstrate this shift via automation initiatives and AI chatbots, while national AI regulations and RBI backing underscore its importance.

Nonetheless, progress is inconsistent: smaller banks face challenges, state banks are advancing, and private banks are at the forefront. Worries regarding workforce impact, bias, and data privacy continue. Indian banks should responsibly expand AI with strong governance and inclusive policies to achieve the projected $967 billion AI potential by 2035.

FUTURE SCOPE

1. Longitudinal studies using panel data from listed Indian banks (2019–2028) to track AI's impact on key performance metrics such as NPA ratios, cost-to-income ratios, and return on equity.
2. Comparative analyses of AI-adoption models across BRICS banking systems to assess whether India's post-COVID trajectory is unique or follows a broader emerging-market pattern.
3. Primary research on customer acceptance of AI-driven banking, especially among rural, elderly, and digitally underserved groups, to support more inclusive AI-governance and policy design.

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