



CITIZENS 2024

AI TRENDS IN FINANCIAL MANAGEMENT

Insights from mid-size company CFOs
and private equity finance leaders

 Citizens®

A new survey of mid-size companies and private equity (PE) firms, set out to discover how the use of artificial intelligence (AI) — computer systems that are capable of completing human-like tasks such as assessing, reasoning, learning and problem-solving — impacts organizations' financial operations and where they're going next with the technology.

Across industries, data and data-driven decisions have become intertwined with how people do business. Of the chief financial officers (CFOs) surveyed at mid-size companies that are already using AI or are open to it, about three-quarters say their organizations use AI that automates processes, assesses data and applies predictive algorithms for financial operations and payments.

At PE firms, the finance leaders surveyed aren't just considering using AI; they have widely adopted it. They report AI use at nearly 100%. They've implemented it to assist with fraud detection, payment automation, risk assessment and management, financial analysis and other finance-related operations.

Key Insights

- Private equity firms that have adopted AI are realizing the benefits and increasing their investment level.
- CFOs at mid-size companies play a crucial role in driving AI adoption and implementation for their organizations.
- Mid-size companies are largely using AI for cash flow forecasting and financial analysis.
- Although many PE firms and mid-size companies are optimistic about AI, there is still concern about legal compliance.

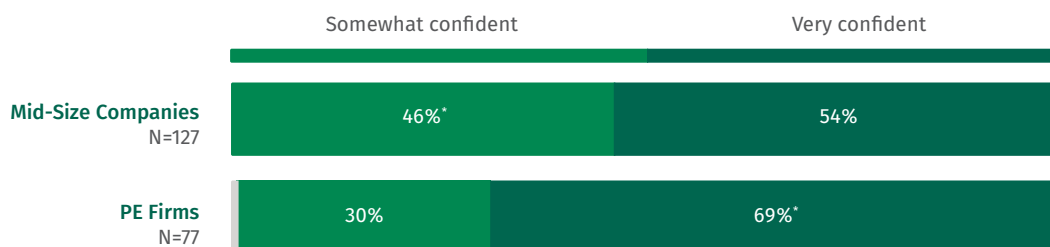
Private equity firms are adopting AI faster than mid-size companies

PE firms are ahead of the curve in using AI for financial operations. Almost all — 97% — of the PE financial leaders surveyed say they're using AI, compared to 76% of mid-size company CFOs.

Focused on operational efficiency, PE firms have been relatively early adopters of AI and have started to see the benefits of implementing it. The survey found that 81% of financial decision-makers at PE firms say using AI made business easier. By comparison, only 45% of CFOs at mid-size companies say the same.

PE FIRMS ARE EMBRACING AI QUICKER THAN MID-SIZE COMPANIES

Confidence in ability to leverage AI benefits in the next 5 years



* indicates significant difference at 95% confidence interval

While AI is a priority for both groups, more finance leaders at PE firms say they'll increase their investment in AI. This may be because PE firms are reaping several benefits. They're using AI to automate manual processes, synthesize data to help with fraud detection and assist with other financial operations. These efficiencies can reduce costs and make people more effective in their roles. In turn, the success PE firms are experiencing likely makes their financial leaders confident about AI and drives them to explore even more uses.

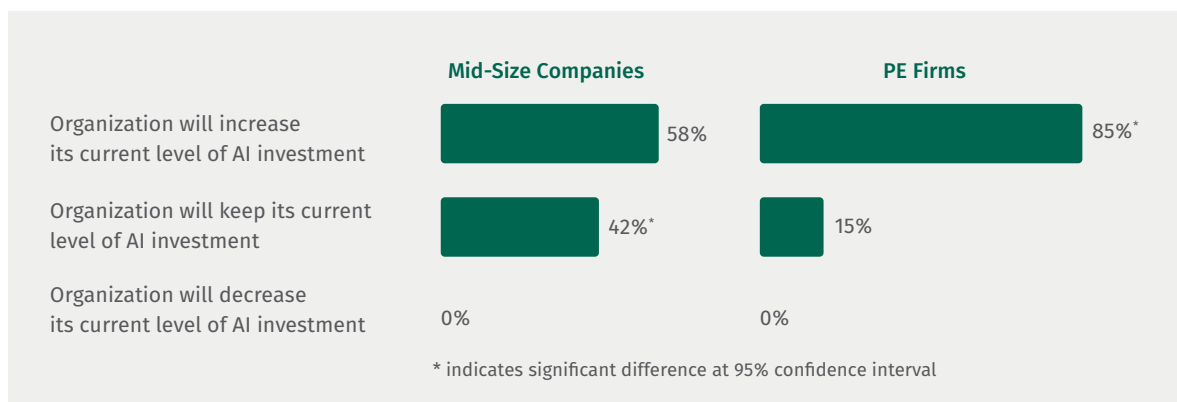
AI is defined as the intelligence of machines and software that can mimic human problem-solving, recognition and decision-making. **Generative AI** is defined as AI technology that uses human prompts to synthesize new images, text and other content by drawing from vast data sets and machine-learning models.

“AI is already starting to drive efficiencies within organizations and enable greater operational success. While it’s still evolving rapidly, applying AI will increasingly become table stakes in how people run their businesses, whether you’re the operator or the private equity firm.”

— **Devin Ryan**, Director of Financial Technology Research at Citizens JMP Securities

PE FIRMS, BOLSTERED BY EARLY SUCCESS, ARE INVESTING MORE IN AI

Outlook of AI investment levels in next 5 years



CFOs are driving AI adoption at mid-size companies

In mid-size companies, CFOs typically lead the way when deciding if the company will use AI. In part, as consulting firm Deloitte points out, this is likely because CFOs across all industries are under pressure to reduce costs, grow revenue and maintain regulatory compliance.¹ They're also increasingly seen as key business strategists. The growing role of the CFO makes them uniquely positioned to drive AI implementation.

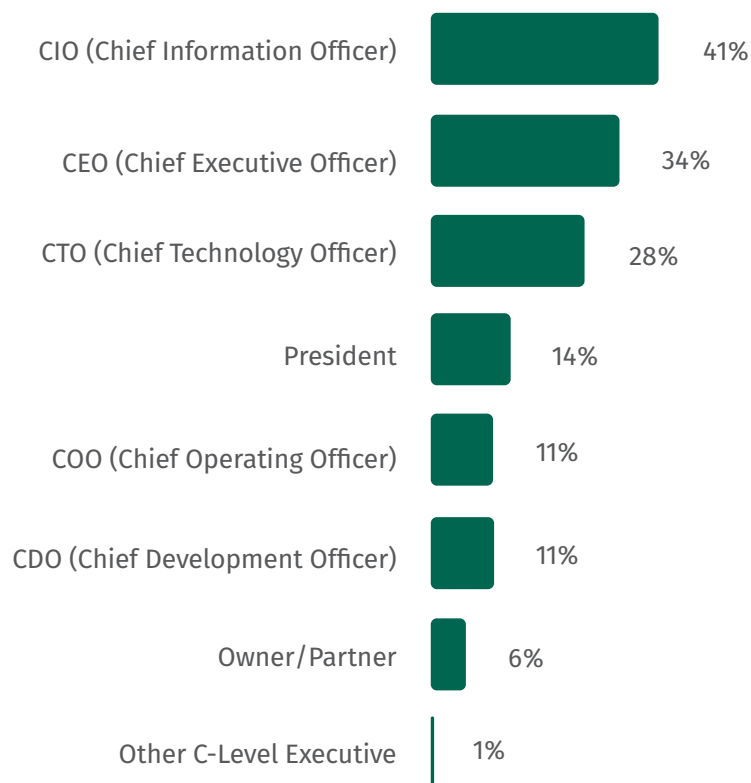
The survey found that the CFO leads 87% of AI implementations for financial processes. The chief information officer (CIO) comes in a distant second, leading 41% of such efforts. A CFO who leads AI implementations typically partners with their organization's chief executive officer (CEO) or CIO.

"CFOs are increasingly turning to cutting-edge technologies like robotic process automation, machine learning and artificial intelligence to raise efficiency in the finance department."

— **Matt Richardson**, Head of Treasury Management at Citizens

CFOs ARE LEADING THE WAY

Roles that are responsible for promoting or implementing AI in financial processes



Mid-size companies are using AI for cash flow forecasting and financial analysis

At 76% of the mid-size firms surveyed, CFOs say they're already using AI and applying it in various ways. Over half of them report applying AI to their cash flow forecasting and financial analyses. The use does, however, vary by industry. Tech companies, for example, were the most outsized adopters of AI for cash flow forecasting at 80%. And while slightly less than half of all mid-size companies rely on AI for payment automation, 75% of healthcare companies use it for that purpose.

The variety of applications will likely increase. In customer support, AI can now analyze transcribed

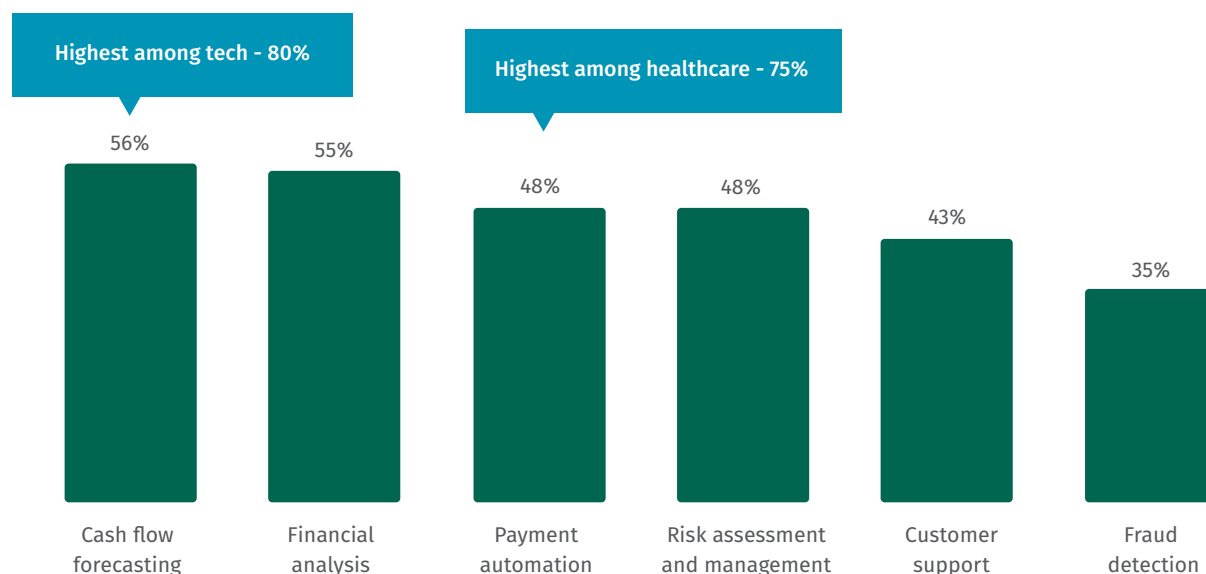
customer conversations to identify common complaints or questions so companies can proactively collect and address those insights.

“There are huge swaths of data within organizations that AI can analyze to identify patterns and help mitigate potential future risks.”

— **Devin Ryan**, Director of Financial Technology Research at Citizens JMP Securities

MID-SIZE COMPANIES ARE USING AI FOR A WIDE RANGE OF APPLICATIONS

Ways mid-size companies are currently using AI



Mid-size companies and PE firms using AI have concerns about potential risks

As more industries start using both traditional AI and generative AI — which involves the tech itself synthesizing new images, text and other content by drawing from vast data sets and machine-learning models — organizations are grappling with the legal and ethical implications. The survey found that legal compliance is the top concern for mid-size companies, followed closely by magnification of errors and privacy violations.

Notably, top risks vary considerably from one industry to the next. About 33% of companies in business services rank legal compliance as the most important risk, but only 5% of companies in technology, media and telecom say the same. More heavily regulated

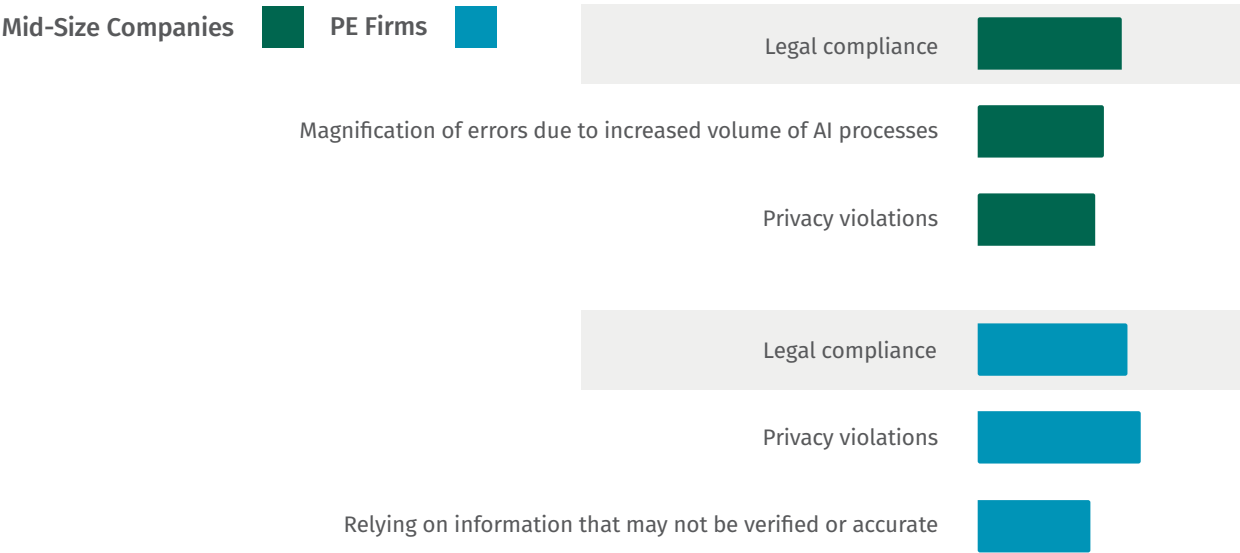
industries, such as healthcare, appear to be more attuned to potential legal risks. In healthcare, 100% of companies surveyed in the industry say they've implemented legal training.

Private equity firms are most focused on privacy violations, followed by legal compliance.

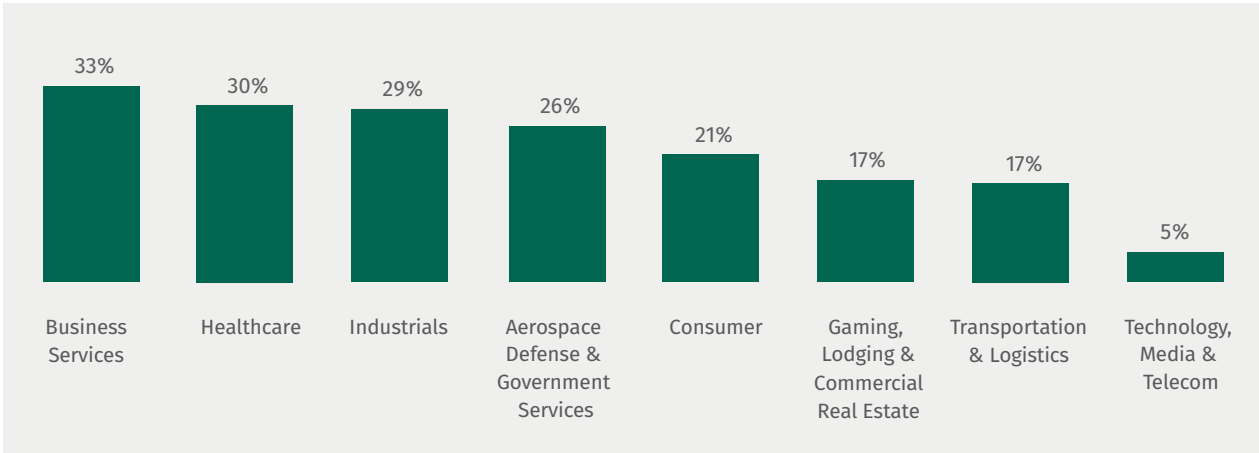
With AI developing so quickly, regulations are lagging. In-house counsel needs to be aware of gaps in regulations and laws as well as potential legal and ethical issues. A recent survey from Deloitte found that 38% of mid-cap companies don't have a board or committee with primary oversight for AI, and about half of companies don't have any employee or board education or training on AI.²

TOP 3 CONCERNS ABOUT RISKS OF AI

Risks of AI Usage (Ranked in order of importance)



Concern About Legal Compliance Risk by Industry



“At Citizens, we recognize that AI is a real driver of business value, and we’re being very thoughtful about how we implement these new tools. We’ve invested in our data foundations, ensured we have the right technology toolkits and also established a strong risk framework. Now, we’re actively leveraging AI and analytics and are well-positioned for generative AI use cases.

— **Beth Johnson**, Chief Experience Officer at Citizens

AI is transformative in helping mid-size companies reach greater operational success and efficiency. While the CFOs surveyed say they mostly use AI for cash flow forecasting and financial analysis for now, the uses will surely increase. Companies would do well to keep an eye on how trends evolve in 2024 and beyond.

Actions to consider in 2024

- Evaluate potential areas in your company where AI could help drive efficiency.
- Recognize the added responsibilities CFOs take on with AI implementations by providing the necessary resources, including additional training, tools or personnel.
- Encourage a company culture that embraces exploring AI as a possible tool for improving financial analysis and decision-making. Establish employee development programs for upskilling and ongoing learning to understand, use and manage AI and AI-driven financial insights.
- Stay informed on AI-related regulations, and encourage in-house counsel and other relevant teams to stay up-to-date on AI legal and ethical issues.
- Collaborate with industry peers on best practices regarding legal and regulatory compliance and potential privacy violations.

Explanation of methodology

Citizens worked with research firm Escalent to produce a survey that shows how financial decision-makers at mid-size companies and PE firms are thinking about AI processes and incorporating the technology in their financial operations to increase efficiency. Participants were screened for their current use of AI or their openness to using AI in the future, and those who were not using it or not interested were excluded.

- All participants worked in industries other than banking at the time of the survey.
- 127 participants were CFOs in mid-size companies with annual revenues between \$50 million and \$1 billion.
- 77 participants were financial leaders at PE firms with a fund size of less than \$1.5 billion and were active with mid-size companies.
- Fielding was conducted with Escalent during Sept. 5-21, 2023.

During the survey, the respondents were provided with these definitions of key terms:

Artificial intelligence: The intelligence of machines and software that can mimic human problem-solving, recognition and decision-making.

Financial operations: All aspects of managing the finances of a business/organization, including but not limited to financial analysis, cash flow forecasting, risk management, payments, etc.

Machine learning: A subset of AI that uses algorithmic learning to automate complex tasks such as custom recommendations, dynamic pricing, etc.

Robotic process automation: A form of business process automation that allows a virtual bot to perform repetitive/routine tasks.

Footnotes

¹Source: Deloitte, “Four faces of the CFO,” 2016, <https://www2.deloitte.com/us/en/pages/finance/articles/gx-cfo-role-responsibilities-organization-steward-operator-catalyst-strategist.html>

²Source: Deloitte, “Future of tech: Artificial intelligence (AI),” 2023, <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/future-of-tech-artificial-intelligence.html>

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