

Financial Technology

Evolution of Finance Series: Discussing the Role of AI in Financial Services With Omega Venture Partners

INDUSTRY OVERVIEW

- Evolution of Finance Series: discussing the role of AI in financial services with Omega Venture Partners.** We recently hosted a virtual Q&A with Gaurav Tewari, Managing Partner of Omega Venture Partners, to discuss artificial intelligence, its growth, its utility, and its applications in the financial services industry. Omega Venture Partners was founded three years ago and is the first U.S.-based venture fund focused on early growth stage investing in the AI, automation, and machine learning verticals. The firm's investing strategy can be simplified as "AI with ROI" and Omega boasts a team of both experienced institutional investors and renowned artificial intelligence experts. A former computer science major at MIT, Mr. Tewari has been immersed in the technology ecosystem for ~20 years, and most recently ran the venture capital programs at SAP (SAP, MO, \$179 PT, Walravens) and Citigroup (C, NC) prior to forming Omega. The conversation was timely and further enhanced our belief in AI technology and its incremental value for the financial services industry and the economy more broadly. Below, we share a few highlights from the discussion. A replay of our conversation can also be accessed online [here](#) (Passcode: ynV5.Ykj).
- AI is a fundamental paradigm shift in how we think about software.** AI is a subset of computer science that focuses on creating intelligent systems that can learn and act independently. It is a broad field that has been 50 years in the making and has evolved over the last couple decades, but recent technological breakthroughs made possible by the massive amounts of digital data that are now available and the decreasing cost of computing power have accelerated its development significantly. Historically, the majority of AI has been Discriminative AI (the purpose of which is to classify things) but, more recently, Discriminative AI has been complemented by the development of Generative AI — which can use data to build its own statistical models and create new content based on what it has learned from existing content. As a whole, AI is a fundamental paradigm shift in that software is now no longer constrained by the limitations of its developer and can learn new things and do so at scale. Accordingly, given this foundational elevation of what software can do, Omega views the AI space as one of the biggest investment opportunities for the foreseeable future — though, given the level of hype and marketing "fluff" in the industry, we note that domain expertise is also more important than ever.
- Financial services is one of the most actionable opportunities for artificial intelligence.** Omega views financial services, insurance, digital health, and industrials as some of the biggest vertical opportunities to create and capture value with artificial intelligence. Within financial services, AI is being used to automate tasks, improve decision-making, and enhance customer experience. Fraud mitigation has been one area where large financial institutions have been the most front-footed with their implementation of AI, using systems to analyze large amounts of data and identify patterns to mitigate potential risks. Underwriting has also been area of focus as AI can help accelerate and inform the process.
- Broadly speaking, Mr. Tewari noted that smaller organizations have generally been more nimble (as they face less institutional friction to adoption). However, while still in the early innings, it is clear that most major financial institutions are thinking about the applications of AI within their business model. With Generative AI, financial services companies can also use the technology to assist customers

Devin Ryan

dryan@jmpsecurities.com
(212) 906-3578

Brian McKenna

bmckenna@jmpsecurities.com
(212) 906-3545

Mike Falco

mfalco@jmpsecurities.com
(212) 906-3562

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with financial education and wealth management advice, and within customer service to provide 24/7 support. AI also provides clear opportunities to improve efficiency in the middle and back office, particularly by automating routine processes like data entry and aggregation (e.g., loan or mortgage applications). Further, companies are in the early stages of exploring how AI can be implemented in trading and actual investing as well.

- **Fears of AI may be overblown.** The evolution of AI and potential implications for the labor market have created some concern historically. However, Mr. Tewari related the development of AI to previous technological advances. While there may be some short-term pain as AI takes over routine processes, Omega expects the economic value created by AI to far outweigh these impacts over the longer term as AI creates a new paradigm for how companies operate, enabling them to interact better with customers and eliminate mundane work — which will also allow employees to focus on more complex tasks and use their skill sets more adeptly. Privacy, data security, and potential disinformation or bias in AI models are also key considerations for the industry and financial services firms, and the conversation addressed the regulatory landscape as Mr. Tewari noted that providing transparency into how AI is making decisions is an important consideration for any institution adopting the technology. However, at the end of the day, these are manageable issues with many techniques emerging to address them and, bigger picture, the benefits of AI have the potential to be so profound that the scales tip in favor of adopting the technology.

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Jeffrey H. Spurr
Director of Research
 (415) 835-3903

RESEARCH PROFESSIONALS

FINANCIAL SERVICES

Alternative Asset Managers

Brian McKenna (212) 906-3545
 Devin Ryan (212) 906-3578

Commercial Finance (BDCs)

Brian McKenna (212) 906-3545
 Devin Ryan (212) 906-3578
 Alex Jenkins (212) 906-3556

Consumer Finance

David M. Scharf (415) 835-8942
 Zachary Oster (212) 906-3507

Investment Banks & Brokers

Devin Ryan (212) 906-3578
 Brian McKenna (212) 906-3545
 Michael W. Falco (212) 906-3562

Insurance

Matthew J. Carletti (312) 768-1784
 Karol Chmiel, CFA (312) 768-1786
 David Samar (312) 768-1785

Mortgage & Real Estate Finance

Residential Mortgage REITs

Mortgage Operating Companies

Steven C. DeLaney (212) 906-3517
 Trevor Cranston, CFA (415) 869-4431
 Mikhail Goberman (212) 906-3543

Commercial Mortgage REITs

Commercial R.E. Finance

Steven C. DeLaney (212) 906-3517
 Chris Muller, CFA (212) 906-3559

Financial Technology

Consumer FinTech

Devin Ryan (212) 906-3578
 Brian McKenna (212) 906-3545
 Michael W. Falco (212) 906-3562
 David Scharf (415) 835-8942
 Zachary Oster (212) 906-3507

Enterprise FinTech

Devin Ryan (212) 906-3578
 Brian McKenna (212) 906-3545
 Michael W. Falco (212) 906-3562
 Patrick Walravens (415) 835-8943

Digital Assets

Devin Ryan (212) 906-3578
 Brian McKenna (212) 906-3545
 Michael W. Falco (212) 906-3562

InsurTech

Matthew J. Carletti (312) 768-1784
 Karol Chmiel, CFA (312) 768-1786
 Andrew Boone, CFA (415) 835-3902
 Matthew Condon, CFA (617) 235-8502

PaymenTech

David M. Scharf (415) 835-8942
 Zachary Oster (212) 906-3507

HEALTHCARE

Biotechnology & Biopharma

Reni J. Benjamin, PhD (212) 906-3529
 Kishore Gangangari, PhD (212) 906-3504
 Jason N. Butler, PhD (212) 906-3505
 Jose Lora (212) 906-3511
 Jonathan Wolleben (312) 768-1788
 Catherine Okoukoni, MD, PhD (646) 797-5637
 Roy Buchanan, PhD (212) 906-3509
 Silvan Tuerkcan, PhD (212) 906-3546

Healthcare Services

Constantine Davides (617) 235-8505

Medical Devices & Supplies

David Turkaly (212) 906-3563
 Daniel W. Stauder, CFA (212) 906-3535

REAL ESTATE

Equity REITs

Aaron Hecht (415) 835-3963
 Ryan Treais (415) 869-4411
 Mitchell Germain (212) 906-3532
 Jyoti Yadav (646) 797-5636

Residential

Aaron Hecht (415) 835-3963
 Ryan Treais (415) 869-4411

TECHNOLOGY

Cybersecurity

Trevor Walsh (415) 835-3934
 Rustam Kanga (415) 835-3914

Communication Equipment & IT Infrastructure

Erik Suppiger (415) 835-3918

Internet

Andrew Boone, CFA (415) 835-3902
 Matthew Condon, CFA (617) 235-8502
 Brianna Diaz (212) 906-3534
 Nicholas Jones (212) 906-3528
 Timothy Shubsda (212) 906-3532
 Luke Meindl (212) 906-3593

Software

Patrick Walravens (415) 835-8943
 Aaron Kimson, CFA (415) 835-8944
 Owen Hobbs (415) 835-3961
 Austin Cole (415) 835-8930

CONSUMER

Gaming, Online Gaming & Gaming Technology

Jordan Bender (212) 906-3526
 Eric Ross (646) 797-5635

INDUSTRIALS

Aerospace & Defense

Trevor Walsh (415) 835-3934
 Rustam Kanga (415) 835-3914

ADDITIONAL CONTACTS

James O'Day
Director of Equities
 (617) 235-8506

Brendan Byrne
Director of Institutional Sales
 (617) 235-8507

600 Montgomery Street, Suite 1100
 San Francisco, CA 94111
www.jmpsecurities.com