

A Survey on Generative AI Chatbots in Customer Service: Challenges, Benefits, and Use Cases

Venkata Kishore Chilakapati^{1*}, Srikanth Reddy Keshireddy², Venkata Teja Nagumotu³, Harsha Vardhan Reddy Kavuluri⁴, Akhil Kumar Pathani⁵, Ajay Dasari⁶

¹Technical Advisor, Microsoft

²Senior Software Engineer, Keen Info Tek Inc

³Sr Network Engineer, Prorsum Technologies

⁴Lead Database Administrator, Wissen Infotech Inc

⁵Network Engineer, Ebay

⁶Senior Support Engineer, Microsoft

ABSTRACT

Generative AI chatbots have become a revolutionary technology in customer service, they have progressed way beyond the functionalities of traditional rule-based systems. Initially, chatbots were heavily reliant on execution scripts and inflexible pattern-matching techniques, they usually were not capable of understanding the complexity of natural language and customer intent to large language models, generative AI chatbots can create context-aware, adaptable, and human-like responses, thus, they are more engaging and interaction quality has improved dramatically. They comprehend communication intents, follow conversational context, learn from user history, and help companies to communicate in different languages, so they can give their customers a personalized, fast, and scalable customer-support solution. These solutions also become part of a company's strategy to reduce costs through the elimination of the repetitive tasks of customer service where workforce is greatly reduced. Unfortunately, in the face of such advantages, there are still some challenges which include data privacy, security issues, model coherence, and the requirement of an extensive high-quality training dataset. This study explores the architecture, classification, machine-learning methods, and communication abilities of generative AI chatbots, their advantages, disadvantages, and the potential of the new use cases in customer service.

Keywords: Generative AI Chatbots, Customer service automation, Natural language processing (NLP), Machine learning technique, conversational Agents.

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INTRODUCTION

The economic potential of chatbots, a trendy new technology, is unparalleled. Chatbots are now a must-have in the digital ecosystem of interactions. They are basically automated conversational agents that one can find on websites, mobile apps, and social platforms[1][2]. The earliest chatbots were mostly rule-based programs with minimal decision trees that relied on preset scripts. Such systems could reply only to very simple and predictable user queries. These types of systems were often incapable of recognizing the natural language complexities, user intent, or context. They were very inflexible and sometimes even irritating. The market for chatbots is growing significantly, from \$250 million in 2017. Over 80% of Generation Z and over 21% of Voice/text bots are used by American adults to

Corresponding Author: Venkata Kishore Chilakapati, A Survey on Generative AI Chatbots in Customer Service: Challenges, Benefits, and Use Cases, e-mail: venkatakishore.c@gmail.com

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seek for information and commerce. When customers started demanding quick, seamless, and personalized communication, the limitations of those traditional chatbots became very obvious[3][4][5]. The requirement for more intelligent and responsive conversational

systems was the reason why the next generation of AI-driven communication technologies.

Generative AI chatbots are one of the major steps forward in conversational technology. In contrast to rule-based chatbots, generative AI systems employ large language models to create new, context-aware responses instead of simply following preset answers. As a result, they are able to comprehend the user's intention, adjust to different conversational flows, and imitate human-like interaction with a higher degree of coherence[6][7]. Because of their flexibility and ability to take into account the context, AI chatbots powered by generative AI learn non-stop from huge data sets, and they keep getting more accurate and relevant for every user. With this fundamental change from a very strict model of interaction based on rules towards an adaptive language generation model, generative AI is now considered one of the key factors that significantly improve the quality of communication, which, in turn, is the main driver of customer engagement.

AI chatbots are computer programs that act as users' virtual assistants by mimicking human interactions via voice commands or text messages. The use of generative AI chatbots in customer service has been recognized as a potent tool by companies that want to achieve both operational efficiency and customer satisfaction[8][9]. The chatbots are capable of managing a large number of queries in real-time, giving tailored recommendations, and fixing common problems automatically, thus freeing the operator from the heavy lifting of the customer service department. Their ability to provide loyal, sympathetic, and of a high standard type of support is one of the main factors for strengthening the customer relationship and improving the overall service experience[10]. As firms keep on taking up such technological innovations, generative AI chatbots are gradually becoming the core of contemporary service strategies.

Structure of the Paper

This paper is organized as follows: Section II generative AI chatbots in modern customer, Section III Role of AI and ML in customer service chatbot, Section IV, Benefits and challenges of chatbots in Section V, Literature review, Section VI, Conclusions and future work.

Generative ai Chatbots in Modern Customer Service System

A chatbot is an automated conversational computer program system designed to mimic human communication characteristics while interacting with

a user. It is an innovative, cutting-edge method of customer support that makes use of AI with a chat interface. Chatbots are based on AI-based methods of understanding natural language, finding meaning, and feeling, and designing meaningful responses.

Component of Chatbot

A discussion system (software) known as a chatbot (Chatter-Bot) must be developed. Chatbots can help with human-computer contact and can analyze and impact user behavior by posing queries and answering them[11]. A computer software that simulates intelligent communication is called a chatbot. This software receives natural language text as input, and it ought to react to the provided language in the cleverest way possible. Determining the components is necessary while designing a chatbot software package. As seen in Figure 1, a chatbot may be broken down into three components, which are characterized as follows: Responder, Classifier, and Graph Master:

Responder

It serves as a bridge connecting the user to the main features of the bot. The responder's responsibilities include managing input and output and moving user data to the classifier.

Classifier

It is the space between the Responder and the Graph Master. This layer handles database syntax commands, moves the normalized phrase into the Graph master, filters and normalizes the input, processes the output from the Graph master, and breaks down user-inputted data into logical components.

Graphmaster

This area of the brain is responsible for preserving the efficiency of pattern-matching algorithms, organizing the contents of the brain, and storing information.

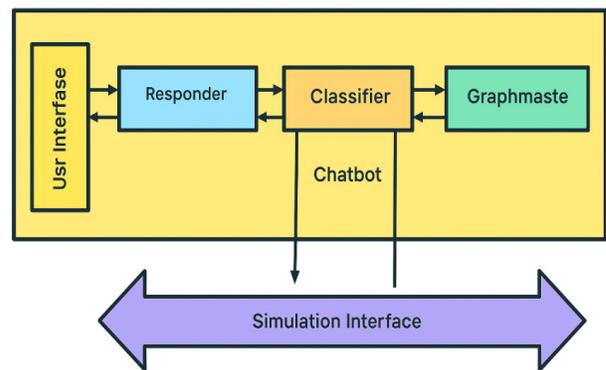


Figure 1: Component of Chatbot



Architecture of Intelligent Chatbot

Every intelligent chat system consists of a number of fundamental parts that work together to build an effective chatbot. They are all equally important. A chatbot with computational intelligence is shown in the architectural perspective in Figure 2. The presentation layer, which contains the system’s numerous UI components, is where end users interact[12]. The messaging backend is in charge of receiving and sending messages to the display layer. An intelligent chatbot that uses a knowledge base to generate replies is built on a machine learning layer. The method of Natural Language Generation is used to provide the user with the final response.

Presentation Layer

The presentation layer is represented by every element of the user interface. Regardless of platform or device, this layer provides end users with a cohesive user interface. The presentation layer’s primary duty is to facilitate multi-channel and multi-platform support.

Machine Learning Layer

The decision engine, natural language processing (NLP), and natural language understanding (NLU) are the three key parts of the machine learning layer. A three-part combination gives the chatbot artificial intelligence (AI) so it can analyse messages intelligently.

- **Natural Language Processing:** The majority of chatbots receive user input before sending it to the Natural Language Understanding section. POS-tagging, dependency parsing, named entity recognition, tokenization, lemmatization, co-resolution, segment detection, and semantic role labelling are among the preprocessing operations that are carried out.
- **Natural Language Understanding:** Natural language comprehension is used to map text from an input message into meaningful slots. The predetermined slots are determined by a number of factors. To find out a user’s purpose, an intent

detection is done. The speech is categorized into one of the predetermined intentions.

- **Decision Engine:** The objective of the decision engine is to generate options based on all of the knowledge base’s data. Using the domain-specific information it acquires from the underlying data, it renders decisions.

Data Layer

Data layer components include user interaction history and knowledge bases. Another significant component of this layer is data analytics.

- **Knowledge Base:** An intelligent chatbot’s Knowledge Base is its fundamental component. The chatbot system needs a lot of data because it is taught under supervision. The knowledge base’s amount and quality are closely correlated with the chatbot’s intelligence.
- **Data Analytics and Data Store:** The quality of the user experience is measured by data analytics. Conversion flows and the quantity of intentions are included. The history of chatbot interactions is saved for further use. Analyzing every user-bot discussion can help us set expectations and provide optimization suggestions.

Natural Language Generation

An abstract claim is transformed into surface utterances in natural language via the natural language generation component. To deliver precise answers, the conversation act type, semantic slot values, and question information are combined using an encoder-decoder LSTM-based structure.

Taxonomy of Chatbots

Chatbot applications may be categorized into four groups: service, commercial, entertainment, and advice. Figure 3 illustrates how service chatbots are made to give clients amenities.

Goal-Based Chatbot

Goal-oriented chatbots are categorized based on the main objective they seek to accomplish. Chatbots are used by businesses on their websites to help clients with queries or problems. They are intended for specific tasks and are utilized for brief exchanges to gather information from the user in order to finish the assignment.

Knowledge-Based Chatbot

Knowledge-based chatbots are classified based on the amount of data they are trained on or the amount of

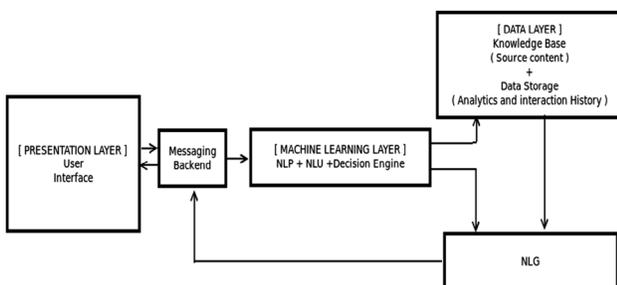


Figure 2: Architecture of Intelligent Chatbot

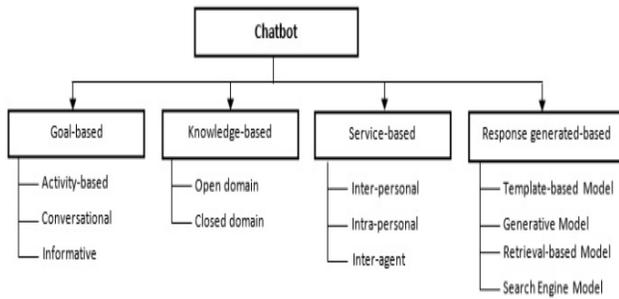


Figure 3: Taxonomy of Chatbots

knowledge they learn from the underlying data sources. Open-domain and closed-domain are the two primary data sources[13]. Examples of open-domain data sources that offer pertinent answers based on wide topics are Quiz Bowl and Allen AI Science. Closed-domain data sources focus on a certain field of expertise. The dataset itself contains all of the information required to respond to the question, including Daily Mail, MCTest, and bAbl.

Service Based Chatbots

Service-based chatbots are categorized according to the services they offer clients. It could be for business or personal use. For instance, a logistics business may use chatbots to provide dispatch paperwork instead of phone calls, or customers could purchase food from McDonald's.

Response Generated-Based Chatbot

The activities that answer-creation-focused chatbots perform are used to classify them. Response models employ text in natural language as input and output. The task of integrating response models falls to the dialogue manager. The dialogue manager takes three stages to provide an answer. It then creates a set of responses utilizing each response model. Second, gives a response depending on priority. Third, the model selection strategy chooses the answer in the event that there is no priority response.

Enhancing Customer Engagement Through Natural Language Interactions

Generative AI chatbots facilitate client involvement is their comprehension of natural language, which makes the dialogues appear more human and straightforward. The customers' experience becomes cozier, more engaging, and interactive due to these tools' proficiency in grasping the context and providing them with a prompt reply, are discussed below:

- **Human like conversation:** Generative AI chatbots

are equipped with knowledge from a large number of human language data, which allows them to imitate typical conversation patterns. They are capable of grasping informal expressions, feelings, and even jokes, as a result of which the interaction does not seem to be with a machine. Such a communication style similar to human helps to attract the trust and good mood of the customers which, in turn, is the reason for their further involvement and the completion of their queries via the chatbot.

- **Improved understanding of customer intent:** Contemporary AI models have the ability to examine the sentence structure, tone, and context in order to figure out the real intention of the customer even if the message is partial, ambiguous, or slang is used. Such a level of intent recognition enables the chatbot to provide precise answers without clarification requests being made again. Therefore, customers get the feeling that they are really understood, which leads to their satisfaction being improved and communication.
- **Faster and more Accurate Responses:** As generative AI is continuously processing information in real-time, it can very quickly fetch and create accurate answers. This is a significant factor in the reduction of the waiting time to a great extent as compared with human agents or rule-based bots. Fast responses are instrumental in keeping customers engaged, avoiding their irritation, and making sure that they get the required data promptly, thus, the service quality is elevated.
- **Adaptive and context aware replies:** Generative AI is not one that makes separate treatments of each message it relates its current questions to its previous statements in the same conversation. This way, it can keep track of the context, recall customer preferences, and proceed logically from the previous points. This kind of continuity helps the interaction to be seamless and natural, as if were talking to a human agent who is familiar with the customer's ongoing issues and understands them.
- **Multilingual communication support:** AI conversational agents can independently change the language of their messages and reply in any of the languages understood by the system, thereby making it possible for companies with an international outreach to be in a position to offer support to a broad demographic of customers without the necessity of recruitment of a large multilingual staff. This quality of being all-embracing



makes it possible for enterprises to have efficient communication with each other despite different scenes and cultures. Besides, customer interaction gets a boost as clients are given the opportunity to express themselves in the language in which they are most proficient thus clear communication and customer satisfaction being realized.

Role of AI and Machine Learning in Customer Service Chatbots

Machine Learning Approach

The chatbots' ability to identify patterns in vast volumes of data is enhanced by ML. The current phases of NLP and ML approaches used in chatbot model building are reviewed in the following sections

Supervised Learning

Algorithms for supervised machine learning are those that call for outside help as such ML task are model building, model evaluation and tuning, and model deployment into production.

- **Decision tree:** An org chart that displays options and outcomes as a tree is called a decision tree. The nodes of the graph symbolize choices or occurrences.
- **Naïve Bayes:** The NB method is a simple probabilistic algorithm used in classification that computes value and frequency combinations from the linked collection to calculate its probability value.

Unsupervised Learning

Unsupervised learning learns very little from the data. Using the features, it has already learned, it is able to identify the class of data upon introduction. Its main applications are in feature reduction and clustering two main methods for dimensionality reduction and clustering.

- **Clustering:** Data is automatically grouped or clustered using this unsupervised learning technique, which is also referred to as grouping or clustering.
- **PCA:** Principal Component Analysis (PCA), lowers the data's dimension. To get a better understanding of PCA Two axes are used to plot the data when it is displayed on a graph. Once PCA is applied, the data reduced to one dimension in figure 6 before and after PCA.

Reinforcement Learning

Reinforcement learning can chatbots by means of out ways to make better decisions, get the best replies by

being given positive or negative feedback for each move. In such a dynamic environment as customer service where user behaviour and query patterns are always changing, chatbots can be assisted by techniques like Q-Learning and Deep Q-Networks (DQN) to function efficiently.

- **Q learning:** A model-free method to determine the optimal responses when the system dynamics are unknown, increasing the chatbot's adaptability.
- **Deep Q-Networks (DQN):** Integrate DNN and Q-Learning to handle vast state-action spaces in complex customer interactions.

Deep Learning for Complex Pattern Recognition

Deep learning equips chatbots with the capability to discover complicated patterns and long-term relationships in large-scale, changing customer interaction data, thus they become very efficient in comprehending complex queries. The models like LSTM networks, recurrent neural networks (RNNs), and Seq2Seq architectures assist the system to keep the conversational context and produce more logical, human-like responses.

- **Long Short-Term Memory Network:** This type of recurrent neural network is known as the long short-term memory network (LSTM). Long-term dependencies are what LSTM is meant to learn. This repeating module, which resembles a single tanh layer in ordinary RNNs, has a somewhat straightforward construction. There are four, and their interactions are somewhat different, as seen in Figure 4.

The structure of these LSTMs is similar to that of a chain, but the repeating module is different, instead of using just one neural network layer.

- **Recurrent Neural Network:** Human minds are persistent. The lack of persistence of traditional neural networks is one of their primary issues. Recurrent neural networks are one kind of neural network that can simulate these distant connections.

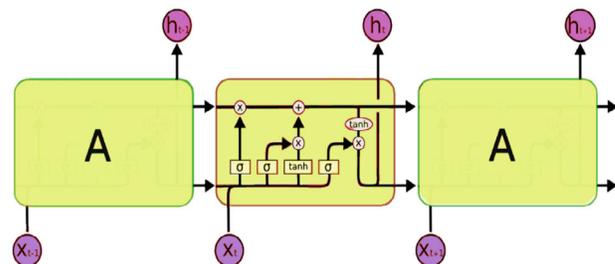


Figure 4: LSTM Structure

- **Sequence to sequence(seq2seq) neural models:** An encoder processes the input data, while a decoder generates the output data; these two RNNs make up the Seq2Seq model. It is based on the architecture of RNNs[14]. In order to get the desired output, the decoder must first decode the encoded input text. The main use of the paradigm is in language translation. Furthermore, this method may be utilised by chatbots to transition between the input and output states.

Generative Artificial intelligence

Generative AI improves customer service chatbots through NLP that is used for text analysis, sentiment understanding, and creating logical, human-like replies, whereas predictive modelling is a way to anticipate customer needs and behaviours by using past data. So, these features turn chatbots into devices that can provide interaction, but also flexible, and customized, at the very time of communication.

Natural Language Processing (NLP)

- **Text Analysis for Market Sentiment** Generative AI-powered NLP systems can measure market sentiment by analyzing text data from social media, news stories, and consumer reviews. This helps consultants identify public perception, emerging trends, and potential risks.
- **Automated Report Generation** Generative AI can produce comprehensive market analysis reports by synthesizing insights from various data sources[15]. Automated report generation saves time and ensures consistency in presenting findings to clients.

Predictive Modeling

- **Techniques for Forecasting Market Trends** Using generative AI, consultants can employ advanced predictive models to forecast market trends. Techniques such as time-series analysis and deep learning models can identify patterns and predict future demand or shifts in consumer preferences.
- **Use of Historical Data for Predictive Insights** Historical datasets can be augmented with generative AI to simulate different scenarios, providing robust predictive insights. For instance, by generating synthetic data, consultants can test how historical patterns might evolve under new conditions.

Scenario Generation

- **Simulating Various Market Conditions** Generative AI can simulate hypothetical market conditions, such

as the impact of regulatory changes or economic downturns. These simulations help businesses anticipate potential challenges and prepare adaptive strategies.

- **Analyzing Potential Outcomes for Strategic Planning** By generating multiple scenarios, generative AI enables consultants to assess the potential outcomes of various strategic decisions. This facilitates more informed and flexible planning, ensuring businesses are better equipped to handle uncertainties.

Benefits and Challenges Generative Ai Chatbots in Customer Service

There are several research have revealed that efforts are underway to create the perfect chatbot application, one that can converse naturally and be mistaken for a human.

- **Fixed Rule-based:** Previous chatbots used a very basic machine learning technique, template-based matching, and a set of predetermined rules.
- **Semantics:** The meaning of words or phrases in natural human language is known as semantics. In the past, NLP, whether it was for question analysis or response production, was beyond the capabilities of chatbots.
- **Recommender System:** Existing chatbots don't enquire, clarify, or offer suggestions on the user's issue. They just gather data and offer answers from the knowledge base [16]. Based on prior responses, the chatbot need to be able to compose new queries.
- **Cost Efficiency:** When companies automate the answering of frequent questions (like FAQs, order updates, and troubleshooting), they can dramatically decrease the costs related to the workforce. As a result, human agents are given the opportunity to handle complicated problems, thus the company's operational expenses are reduced, and the level of service is kept at the same standard.
- **Personalized and context aware response:** Generative AI is different from rule-based chatbots in a way that it can review the entire conversation, check the user's likes and previous interactions and then come up with the answer that is most suitable for the user[17]. Such a capability is instrumental in creating a communication flow that is more interactive and closer to the way humans communicate, which, in turn, enhances customer experience and loyalty.



- Privacy and security concern:** Interactions with customers might include their personal, financial, or confidential information. If AI systems are not properly secured or are not in compliance with regulations (for instance, GDPR), the risk of data breaches, unauthorized access, or misuse of this information significantly increases.

Literature Review

This section presents earlier studies on Generative AI chatbots in customer service. Table I provides a structured comparison of previous research, focusing on technique, benefit and challenges and their associated future work.

Day and Hung (2019) an artificial intelligence affective conversational robot (AIACR), which combines retrieval-based and generative dialogue models with a DL sentiment analysis model. Three models are used in this work’s sentiment analysis model: bidirectional long short-term memory (BiLSTM), long short-term

memory (LSTM), and multilayer perceptron (MLP). Semantics and word2vec are also used. The findings of the experiment demonstrate that in order to get the greatest conversation performance, BiLSTM, word2vec, and the retrieval-based model are used by trio of models: sentiment analysis, similarity, and conversation[18].

Gonda and Chu (2019) conversational agents or chatbots to enhance instruction. Additionally, companies like Google, IBM, and Amazon increasingly provide platforms that are more concerned with fostering dialogue than the intricacies of computer programming, particularly natural language processing, because of recent advancements in AI. Some of the difficulties that might arise in teaching are addressed by the Centre for Education Innovation’s training course for teaching assistants, which uses a basic rule-based chatbot built on Google Dialog Flow[19].

Sheikh, Tiwari and Singhal (2019) Aside from the workplace, human resources controls how specialists

Table 1: Comparative Analysis of Generative Ai Chatbots in Customer Service

Author (Year)	Technique	Benefits	Application	Challenges	Future Work
Day & Hung (2019)	AI Affective Conversational Robot (AIACR) Sentiment Analysis using MLP, LSTM, BiLSTM word2vec + semantic similarity Retrieval and generative	BiLSTM achieved best sentiment performance word2vec gave best similarity Retrieval-based model yielded best dialogue quality	Emotion-aware conversational systems	Combining multiple models increases system complexity Accuracy depends on training data quality	Enhance emotional understanding • Improve integration between sentiment, similarity, and dialogue modules
Gonda & Chu (2019)	Rule-based chatbot Google DialogFlow platform	Simplifies creation of educational chatbots Allows focus on pedagogy, not coding	Teaching assistant training & education support	Limited by rule-based design Difficulty handling complex or unexpected student queries	Expand NLP capabilities • Improve adaptiveness for varied teaching contexts
Sheikh, Tiwari & Singhal (2019)	AI-based HR Chatbot Deep learning (RNN) for profiling Automated candidate interaction	Speeds up candidate screening Automates preliminary HR processes	Human resource recruitment	Data privacy concerns Limited ability to interpret complex candidate responses	Integrate advanced semantic analysis Improve decision-making transparency
Hussain, Ameri Sianaki & Ababneh (2019)	Rule-based and generative models Knowledge-based systems Context-handling techniques	Provides taxonomy and evolution of chatbot design Explores context management in modern chatbots	General chatbot systems (classification and design)	Rule-based systems lack scalability Generative models may produce incoherent responses	Develop better context-aware conversational agents Improve coherence and long-term memory in chatbots
Molnár & Szüts (2018)	AI-supported interactive chatbots Online conversational agents	Rapid adoption across industries Versatile deployment (websites, apps, messaging platforms)	Marketing, public services, virtual assistants	Overreliance on automation may reduce human interaction quality	Improve ethical guidelines for chatbot deployment • Enhance personalization
Varghese & Pillai (2018)	Rule-based and machine learning-based conversational models Deep learning for generative conversation	Enhances user engagement Replaces traditional website interfaces Supports self-learning models	Business, customer interaction	Generative models may require extensive training data Rule-based systems lack flexibility	Optimize deep-learning-based dialogue generation Expand multi-domain capabilities



are handled during the selection, execution, and completion processes. Here, concentrate on enrolling in a few human resources courses. A chatbot is an automated system designed to initiate communication with human clients or other chatbots that provide informational text messages. The Human Resource Chatbot is an AI-powered chatbot that is used to measure and profile candidates for certain tasks. This chatbot uses a variety of neural structures as its learning strategy, including DL methods like recurrent neural networks[20].

Hussain, Ameri Sianaki and Ababneh (2019) Artificial intelligence (AI) algorithms are used by most chatbots to provide the required response and create the appearance of intelligence by using far more straightforward pattern matching and string processing design techniques for user interaction with emerging technologies based on generative and rule-based models. The way chatbots are categorised, how they differ between earlier and modern chatbots in terms of their design, and how the two main categories of chatbots handle conversation context have all helped to create more intelligent systems that use complex knowledge-based models[21].

Molnár and Szüts (2018) At the beginning of the current decade, chatbots became widely used. Conversation on the internet has quickly been overtaken and taken over by interactive technology, frequently in conjunction with AI. Chatbots are used by businesses and governments to advertise goods, concepts, and services on websites, apps, and instant messaging platforms. They are more than simply components of virtual assistants[22]

Varghese and Pillai (2018) The development of conversational agents has enhanced ways to work together in conversational trade and opened up new channels for customer connection. It is an extremely beneficial invention that replaces traditional methods and renders websites and applications unnecessary. Conversational models come in two varieties: rule-based and intelligent machine-based. A deep learning framework is used by the created generative conversational interfaces to make them a reality. Rule-based models follow present rules, but intelligent machine-based models use ML to complete tasks and are self-learning[23].

Chowdhury (2017) Conversational bots are those that can converse in normal language with a partner. They can be utilised for task-oriented services, entertainment, customer service, virtual therapists, digital assistants, and virtual tutors. There are three main

types of conversational bots: generative, rule-based, and retrieval (IR) models. Each of these variants have their own advantages. a predominant focus on retrieval and generation. overall model is a synergy of multiple sub-modules for retrieval, classification, generation, and ranking[24].

CONCLUSION AND FUTURE WORK

Generative AI chatbots have been one of the major forces in changing the customer service environment. They offer more intelligent, adaptive, and human-like conversational capabilities than the earlier rule-based systems. Their ability to recognize natural language, understand context, comprehend user intent, and produce grammatically correct responses has allowed companies to improve customer engagement, shorten waiting times and automate a wide range of service-related tasks. These improvements not only increase the user's level of satisfaction but also, the operational costs are lowered through limited human agents' intervention in repetitive inquiries. In addition, generative AI chatbots can remember conversational history, determine customer sentiment, enable multilingual communication, and provide individually tailored experiences empowered by data-driven insights and continuous learning. the benefits come with some challenges still present, such as data privacy issues, security risks, inconsistent response quality, and reliance on large transparency in the model decision-making are still a few of the difficulties that hinder the adoption of the technology to a wider extent. With customer expectations constantly evolving, there is a need to carefully integrate automation with human-centrism so as to maintain trust, reliability, and fairness in AI-driven interactions. Future research could revolve around using explainable AI as a means of making the working procedure clearer, coming up with privacy-friendly training strategies like federated learning, and delving into blockchain-based security solutions. Besides that, upgrading long-term memory, emotional intelligence, and context-awareness skills will also be very important if want to get to the level of trustworthy and compassionate customer support chatbots.

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