The Commission will publish all contributions to this public consultation. You can choose whether you would prefer to have your details published or to remain anonymous when your contribution is published. **For the purpose of transparency, the type of respondent (for example, 'business association, 'consumer association', 'EU citizen') country of origin, organisation name and size, and its transparency register number, are always published. Your e-mail address will never be published.** Opt in to select the privacy option that best suits you. Privacy options default based on the type of respondent selected

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- ○ **Anonymous**

  Only organisation details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published as received. Your name will not be published. Please do not include any personal data in the contribution itself if you want to remain anonymous.

- ◉ **Public**

  Organisation details and respondent details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published. Your name will also be published.

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Part 1: General questions on AI applications in financial services

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Question 1. Are you using or planning to use AI systems?

- ◉ Yes, we are already using AI systems
- ○ Not yet, but we plan to use AI systems within the next 2 years
- ○ No, we are not using it and we don't plan to use AI systems within the next 2 years
- ○ Don't know / no opinion / not applicable

Question 2. What are the **positive** things you encounter when using AI?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our members broadly report that they view AI as a transformative technology with benefits across several areas of banking and have been using AI applications for several years to realise these benefits. Examples of how AI can contribute positively to processes include:

- Enhanced Data Processing and Analysis
- Operational Efficiencies by automating repetitive and time-consuming tasks, freeing up human workers to focus on more strategic, value added, and creative tasks, and potentially reducing the risk of human errors
- Personalized Offerings and Customer Experience: AI algorithms can analyse customer data and preferences to deliver personalized products, services, and recommendations.
- Predictions and Forecasting by analysing historical data and identifying patterns.
- Improvements in risk identification and prevention, enhancing capabilities in areas such as anti-money laundering, trade surveillance, and fraud detection.
- The deployment of AI in customer interfaces, such as chatbots, may also improve customer service by providing quick and efficient responses to inquiries and enhancing overall customer satisfaction.
- Enhanced financial inclusion through transcription, translation and other form of natural language processing
- translation or generation of text (e.g. between natural languages, or computer programming languages)

While traditional AI techniques continue to remain relevant, recent advances in Generative AI offer the potential to unlock new value capture opportunities, particularly around service delivery, software development and operational efficiencies.

Question 3. What are the **negative** things you encounter when using AI?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Many of the types of risks presented by AI applications are not new and are common to the use of technology. Developed based on existing regulatory requirements, standards and guidance, members have mature risk management frameworks (generally using 3 Lines of Defence models), governance and the controls in place to address and manage these risks. These frameworks are designed to ensure compliance with existing sectoral regulation and supervision, which seek to ensure consumer and investor protection, promote financial stability and contribute to well-functioning markets. Nevertheless, some risks may be amplified by the use of AI and others unique. Members are therefore uplifting their risk management frameworks, including governance and controls, to accommodate these risks, including:

- Model risk: the use of AI models presents both familiar and novel risks. Banks long established model risk management (MRM) frameworks to identify risks and implement the appropriate controls.
- Cybersecurity. The advancement of AI increases the risk of complex and malicious attacks on institutions. Banks are updating their risk management frameworks and exploring AI techniques to combat this risk.
- Data Privacy and Confidentiality: Members are concerned about data breaches and loss, eg unauthorised access to proprietary data held in 3rd party systems. They may have limited visibility over third-party training data, making it hard to ensure compliance with data use rules and internal controls. However, members are familiar with these risks, particularly in third-party risk management and Cloud deployments, and are well placed to ensure data governance frameworks comply with regulations eg. GDPR
- Data Quality/Availability – eg. Incomplete, noisy, untimely, or inaccurate data can negatively impact AI models. Firms have implemented data management policies, standards, and committees to manage AI-related risks. They are enhancing data quality by identifying and fixing issues, monitoring data use, and controlling which data can be used for specific purposes.
- Managing third party risks – Firms manage third-party AI risks through existing third-party oversight programs, policies, and processes within a technology-neutral third-party risk management (TPRM) framework. These frameworks are designed to adapt to changes in technology and business models, including AI. Many AI-related third-party risks are not new and are managed by existing TPRM processes, eg. pre-onboarding risk assessments, due diligence processes, supplier control requirements and existing contractual frameworks, and regulations like DORA
- Unfairness/bias: AI can perpetuate biases in training data, leading to discriminatory outcomes. Members have processes for data selection, bias detection, and ongoing monitoring
- Explainability: While some AI models may seem less explainable, they are not always "black boxes." Explainability can potentially be a challenge for non-AI models too, hence Members use various techniques, including explainability and traceability diagnostics, to mitigate risks
- Hallucinations: Generative AI can produce plausible but incorrect outputs. Firms use methods like prompt engineering and Retrieval Augmented Generation (RAG) to improve response accuracy and mitigate hallucinations.
- Intellectual Property: Training Generative AI on datasets containing copyrighted material may lead to intellectual property infringement. Members have data controls internally and applied to third party vendors to manage this.
- Staff training – Due to the fast-developing nature of AI technology, it can be a paradigm shift in understanding its capabilities. Members are training their staff on technical and regulatory issues linked to AI tools, enabling them to recognize and manage AI risks effectively.
- Regulatory Alignment – As highlighted in the GFMA Paper “Key Considerations for Artificial Intelligence in Capital Markets” (28 May 2024) highlights the risk of regulatory fragmentation globally, with different regions taking varied approaches to AI regulation. Banks have experience managing such jurisdictional challenges, but alignment would be preferable.

Question 4. Will you be deploying AI for new or additional processes within your organisation?

- (●) Yes
- ( ) No
- ( ) Don’t know / no opinion / not applicable

Question 4.1 Please explain for which new or additional processes you will be deploying AI within your organisation:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

AFME members have been using AI for several years to enhance existing processes. The majority of AI used by firms in these processes can be classified as “traditional” AI, which is generally used to analyse data and make classifications, predictions or decisions based on that data and includes the use of machine learning (ML) techniques. The use of traditional AI is also generally task-specific rather than being adaptable to a wide range of tasks. Members will continue to explore use cases for traditional AI to enhance decision-making and automate internal processes, to improve services and customer experience to clients, and increase risk management capabilities.

Members have more recently started to experiment with Generative AI (GenAI) and Large Language Models (LLMs) for various low-risk internal and (to a lesser extent) external uses. GenAI is focused on creating new data that resembles the training data and can be adapted to a wide range of tasks

Use cases that use AI, and are in development or already implemented, cover topics like:

- Fraud detection - The use of traditional AI in fraud models provides several benefits to banks and their customers. In particular, machine learning models have been used for several years to detect fraud in credit and debit card transactions, check transactions, digital payments, and account openings. As an example, a more recent application involves the incorporation of graph databases of customer-merchant interaction, suspicious payment flows and customer digital activities into fraud detection models, which has contributed to the significant decrease of net fraud rate and fraud losses, while substantially reducing the operating expense ratio relating to fraud. It has also allowed a greater number of legitimate transactions to be approved, thus improving customer experience and merchant sales.
- Credit decisioning. Although banks have been using traditional AI for over a decade, they have taken a deliberate and cautious approach to implementing AI technology in the highly regulated credit decisioning process. Recently, some members have been evaluating the possibility to apply traditional ML models within the credit decisioning process, including acquisition underwriting and credit line decreases. These ML models use relatively simple and explainable techniques (e.g. gradient-boosted decision trees) and use traditional data from credit bureaus as well as additional bank data that relate to the likelihood and ability of a customer to repay. For any credit decisions, firms ensure they are able to explain to the customer the outcome of the decision. The benefit of replacing traditional models with ML models and the use of additional data in credit decisioning is that they allow for the holistic evaluation of consumer behaviour, which in many instances results in a greater number of approvals while maintaining the same level of losses, and overall improving customer experience.

- Risk management
- Compliance, e.g. Monitoring and Surveillance
- Customer service and support
- Anti-Money Laundering
- Operational efficiency gains
- Finance
- sales, marketing, and customer outreach
- Research
- Improve employee access to and use of internal knowledge via intelligent document management systems
- Software development - various tasks e.g. new code generation, migration of old versions of code to new ones, code documentation etc.
- data summarization and data extraction from large bodies of text or data sources

Question 5. Are you developing or planning to develop in-house AI applications?

- (●) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

Please explain your answer to question 5:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Most members have been developing AI solutions, both in-house and using proprietary third-party models and open-source models for a number of years and managing any potential risks via their 3 Lines of Defence operating models. In some cases, these solutions involve collaboration or partnerships with external providers, which are always assessed according the firm's AI vendor risk process and other existing controls such as model risk management. For generative AI models, firms are generally using third-party solutions rather than developing in-house solutions.

Whether firms develop in-house models or rely on third party vendors will depend on a variety of factors, including the specific use case and the resources available to the institution. Firms may need to develop in-house solutions where third-party vendor models aren't available in the market for a specific use case or they don't have the appropriate datasets for the application. This requires firms to have sufficient resource to be able to develop models in house. In-house AI tools may also be developed for use cases where sensitive customer and proprietary data is a key source of data to train and run the models to address security concerns related to third-party access of the data and the use and retention of that data. For firms facing resourcing obstacles, the use of open-source data could be an option, although this would not always be a suitable route where data is proprietary.

Question 6. Which tools are you using to develop your AI applications?

Examples: machine learning, neural networks, natural language processing, large language models, etc.

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our members leverage their deep experience in building and deploying AI solutions by utilising several tools /techniques, such as:

- machine learning (various techniques including, but not limited to, decision trees, random forest, linear regression, gradient boosting algorithms, clustering etc), deep learning, complex networks, NLP, OCR, neural networks, privacy enhancing technologies. Members are also leveraging LLMs and generative AI technology.

In some cases, members may combine such tools or techniques based on the needs of the specific task, e. g. enhancing LLMs with more traditional NLP tools to improve language processing capabilities.

Benefits of using AI applications in financial services

Question 7. Please score the following benefits from most significant (10) to least significant (1):

	1 -	2	3	4	5	6	7	8	9	10 +	Don't know - No opinion - Not applicable
Fraud detection: AI algorithms can analyse large amounts of data to detect patterns and anomalies that may indicate fraudulent activity, helping to reduce financial losses for businesses and customers.	○	○	○	○	○	○	○	○	◉	○	○
Risk management: AI can analyse and predict market trends, assess credit risks, and identify potential investment opportunities, helping financial institutions make more informed decisions and manage risks more effectively.	○	○	○	○	○	○	◉	○	○	○	○
Automation of routine tasks: AI can automate repetitive tasks such as data entry, transaction processing, and document verification, freeing up time for employees to focus on more complex and strategic activities.	○	○	○	○	○	◉	○	○	○	○	○
Cost savings: by automating processes and improving efficiency, AI can help financial institutions reduce operational costs.	○	○	○	○	○	◉	○	○	○	○	○
Personalised financial advice: AI can analyse customer data to provide personalised financial advice and recommendations, helping customers make better financial decisions and improve their financial well-being.	○	○	○	○	○	○	○	◉	○	○	○

Compliance and regulatory support: AI can help financial institutions stay compliant with regulations by analysing and interpreting complex regulatory requirements and monitoring transactions for suspicious activities.	○	○	○	○	○	○	◉	○	○	○	○
Enhanced decision-making: AI can analyse large amounts of data and provide insights that can help financial institutions make better investment decisions, assess credit risks, and optimise their operations.	○	○	○	○	○	◉	○	○	○	○	○
Improved security: AI can enhance security measures by identifying potential security threats, detecting unusual patterns of behaviour, and providing real-time alerts to prevent security breaches.	○	○	○	○	○	○	○	◉	○	○	○
Streamlined processes: AI can streamline various financial processes, such as loan underwriting, account opening, and claims processing, leading to faster and more efficient services for customers.	○	○	○	○	◉	○	○	○	○	○	○
Improved customer service: AI can be used to provide personalised and efficient customer service, such as chatbots that can answer customer queries and provide assistance 24/7.	○	○	○	○	○	◉	○	○	○	○	○

Question 8. What are the main benefits/advantages you see in the development of your AI applications?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It should be noted that the response to Qstn 7 above is a snapshot in time and an average across all members. In practice the relative importance of each factor varies across members and over time, for example, as new technologies or risk mitigations are developed.
Please see responses to Qstns 2 and 4 above for details of main benefits/advantages.

Question 9. Please score the following challenges from most significant (10) to least significant (1):

	1 -	2	3	4	5	6	7	8	9	10 +	o ap
Lack of access to the required data, in general.	○	○	○	○	○	○	○	◉	○	○	
Lack of access to the data in an appropriate digital format.	○	○	○	○	◉	○	○	○	○	○	
Lack of access to appropriate data processing technology, e. g. cloud computing.	○	○	○	○	◉	○	○	○	○	○	

Data privacy: it is crucial to ensure that sensitive financial information remains confidential.	○	○	○	○	○	○	◉	○	○	○
Lack of trust in relation to performance levels/ security aspects/ certified solutions/ reliability of the technology.	○	○	○	○	○	◉	○	○	○	○
Regulatory compliance with financial regulation: financial services are heavily regulated and not all types of AI applications are in line with requirements under these regulations.	○	○	○	○	◉	○	○	○	○	○
Innovation: the ability to leverage on combining AI with other technologies to enhance its potential and generate new services?	○	○	○	○	○	◉	○	○	○	○

Transparency and explainability: AI algorithms can be complex and opaque. It can be difficult for humans to understand how AI arrives at certain conclusions, which can create issues of trust and accountability.	○	○	○	○	○	○	○	○	◉	○
Bias and discrimination: AI models are trained using data, and if the data is biased, the AI model can also be biased, leading to unfair outcomes.	○	○	○	○	○	○	○	◉	○	○
Reputational risk from undesirable AI behavior or output.	○	○	○	○	○	◉	○	○	○	○
Liability risks: legal uncertainty on who bears the liability in case of damages generated by the malfunctioning of the AI applications.	○	○	○	○	◉	○	○	○	○	○

Skills gap: the development of AI requires specific tech skills, and there is a shortage of such skills.	○	○	○	○	◉	○	○	○	○	○
Dependability: as financial institutions rely more and more on AI; the dependability of these systems becomes paramount. Any malfunction or error (e.g. in risk management) can lead to significant financial losses.	○	○	○	◉	○	○	○	○	○	○
Job displacement: the use of AI can potentially automate certain roles in the financial sector leading to job displacement.	○	○	◉	○	○	○	○	○	○	○

Cybersecurity: AI systems could be targeted by cybercriminals, leading to potential data breaches or manipulation of AI systems.	○	○	○	○	○	○	◉	○	○	○
Integration challenges: integrating AI technologies with existing systems and processes can be complex and expensive.	○	○	○	○	◉	○	○	○	○	○
Additional cost: the deployment and use of AI requires up-front investment and ongoing resources (acquiring or developing applications, keeping them up to date, training/skills).	○	○	○	○	○	◉	○	○	○	○

Question 10. What are the main difficulties/obstacles you are facing in the development of your AI applications?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It should be noted that the response to Qstn 10 above is a snapshot in time and an average across all members. In practice the relative importance of each factor varies across members and over time, for example, as new technologies or risk mitigations are developed.
Please see responses to Qstns 3 above for details of main challenges.

Question 11. Please rank the potential negative impact that widespread use of AI can have on the following risks, 8 being the highest risk:

	1	2	3	4	5	6	7	8
Operational risks	○	○	○	○	○	◉	○	○
Market risks	○	○	○	◉	○	○	○	○
Liquidity risks	◉	○	○	○	○	○	○	○
Financial stability risks	○	○	◉	○	○	○	○	○
Market integrity risks	○	◉	○	○	○	○	○	○
Investor protection risk	○	○	○	○	◉	○	○	○
Consumer protection risk	○	○	○	○	○	○	○	◉
Reputational risk	○	○	○	○	○	○	◉	○

Please explain your answer to question 11 and give examples when possible:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It should be noted that the response to Qstn 11 above is a snapshot in time and an average across all members. In practice the relative importance of each factor varies across members and over time, for example, as new technologies, use cases or risk mitigations are developed.

The ranking is based on our members' assessment of the most significant risks, although as we have stated internal controls for AI, such as managing model, legal, and privacy risks, are in place and members have mature Risk Frameworks to assess use cases and mitigate these risks.

It is important to note that deterministic models for pricing, algorithmic trading and for fraud detection/credit decisioning for retail consumers have been in use for years. As a result, we don't anticipate that new AI technologies will greatly impact market risk or liquidity risks. Additionally, we understand that emerging AI technologies like generative AI, widely used as virtual assistants or copilots, could pose challenges in customer interactions, potentially increasing reputational, consumer, and investor protection risks. Furthermore, a high degree of automation, particularly in back-office operations, could elevate operational risks.
Regarding financial stability concerns, we do not expect AI to pose a financial stability risk at this time given existing Risk Framework and Governance driven by a comprehensive regulatory environment and coupled with the cautious approach banks are taking to AI deployment. However, we acknowledge there are concerns around threats from bad actors, concentration of providers and herding activity outside the regulatory perimeter and address this in question 12.

Question 12. AI may affect the type and degree of dependencies in financial markets in certain circumstances, especially where a high number of financial entities rely on a relatively small number of third-party providers of AI systems.

Do you see a risk of market concentration and/or herding behavior in AI used for financial services?

- (●) Yes
- ( ) No
- ( ) Don’t know / no opinion / not applicable

Please explain in which areas of AI you see a risk of concentration:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There is a potential for market dominance in the sector of substantial foundational LLMs. These models require significant investment and data, typically only manageable by larger providers, whether open or closed source. Furthermore, as vast amounts of data are needed for specific use cases, only a smaller number of providers are able to have enough data to train AI systems for specific use cases. Hence, it's probable that a select few providers could hold a dominant position in the market in the near term. Large financial organizations will depend on these vendors for access to these essential models and hence there is potential for market concentration and herding behaviour. However, it is worth noting that banks and authorities are familiar with concentration risks (especially in relation to cloud service providers) and have measures already in place to identify and mitigate these risks. These include regulatory frameworks and internal oversight mechanisms designed to monitor and address any emerging concentration risks both at entity and at sectoral level. Additionally, some firms implement variations to the AI models by integrating them into broader systems, further mitigating concentration risk.

We do not believe the risk of herding, or the potential homogeneity of markets is, at this point, a probable or realistic scenario. The concern relating to herding stems from the premise that market participants will all eventually use the same base models and datasets with a similar view of risk. However, the value that generative AI could contribute to trading strategies is the possibility to use unstructured/novel data in new ways to seek advantages, for example by finding differentiated sources of information. Should participants use the same underlying data to trade, that data loses its value. Nevertheless, herding is a potential risk and hence members have mitigants at both the firm level – including managing exposure, instilling appropriate limits and implementing controls in line with regulatory requirements (e.g. MiFID II), and through market structure mechanisms such as circuit breakers.

AI and compliance burden

Question 13. Can AI help to reduce the reporting burden?

- (●) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

Please explain in which areas you see AI reducing reporting burden:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our members expect that AI would help to reduce the burden via a decrease in the workload required to prepare regulatory reporting. Particularly, AI can automate data collection, processing and analysis, support in the drafting of Risk Opinions, Risk Assessment, and Audit reports, as well as in Internal rules assessment and gap analysis between new external regulations vs. existing internal regulations.

Advanced AI algorithms can potentially also quickly analyse large datasets, identify trends, and generate insights, making the reporting process faster and more efficient.

It should be noted however, that, although AI could play a role, we should not think that AI in isolation is the only/optimal way to reduce reporting burden, but instead it needs to be considered in conjunction with other tools/efforts. Additionally, new controls and human oversight required to review the output of models could partially offset some of the efficiencies gained by AI automation.

Question 14. Do you think AI can facilitate compliance with multiple regulatory standards across the EU and thus facilitate market integration or regulatory compliance?

For example, would you consider it feasible to use AI for converting accounting and financial statements developed under one standard (e. g. local GAAP) to another standard (e.g. IFRS)?

- ○ Yes
- ○ No
- ◉ Don't know / no opinion / not applicable

Please explain and elaborate on your answer to question 14 and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

A conversion processes such as this would be a complex undertaking requiring careful assessment, implementation and monitoring.

Data access

Question 15. In order to develop AI applications, do you need access to external datasets that you currently don't have access to?

- ○ Yes
- ◉ No
- ○ Don't know / no opinion / not applicable

Please explain your answer to question 15:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Most members primarily rely on internal data, or have existing processes in place to acquire and manage external datasets when required for specific use cases. However, as data is one of the key drivers for the development of AI, our members appreciate the potential from combining data from different sources in order to derive greatest benefits and enabling innovation. As a result, we would request that attention is paid to AFME's ongoing advocacy regarding FIDA and related data sharing initiatives.

Question 16. Which datasets would you need to develop meaningful AI applications and for which purpose/use case?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

N/A due to "no" response to Q15

Question 17. Do you face hurdles in getting access to the data you need to develop AI applications in financial services?

- ○ Yes
- ◉ No
- ○ Don't know / no opinion / not applicable

Question 18. Are you familiar with the EU Data Hub, a data sharing tool for supervisors and financial companies?

- ◉ Yes
- ○ No
- ○ Don't know / no opinion / not applicable

Question 18.1 Do you think the EU Data Hub can improve access to data?

- ◉ Yes
- ○ No
- ○ Don't know / no opinion / not applicable

Please explain your answer to question 18.2:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our members are familiar with this initiative, but currently the data provided is limited to only 3 datasets provided by Bank of Lithuania hence is of limited use to members. Additional data would be required for the data quality and usefulness to be ascertained.

Question 19. Should public policy measures (e.g. legislative or non-legislative) encourage the exchange of data between market participants, which can be used to train AI systems for use cases in finance?

- (●) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

Please explain which type of measures you would propose:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As stated above, firms currently have access to sufficient existing internal datasets to develop AI applications. Looking ahead, and depending on further assessment, the industry may benefit from access to more extensive datasets from within and beyond financial services that can be used to train AI system. In this context, we support public policy measures encouraging voluntary data exchange between financial market participants and with participants from other sectors, particularly when it fosters the development of secure and reliable AI systems for non-competitive purposes.

Such policy initiatives should balance regulation with market demand. In this context, the draft EU Framework for financial data access (FiDA) will play a key role for the financial services sector, and we encourage the European Commission to consider how FiDA can best facilitate the use of AI and vice versa.

This approach could be beneficial in areas like Anti-Money Laundering (AML) and Terrorist Financing Prevention (TFP), Cybersecurity for fraud prevention/detection – areas explicitly addressed by the AML Package's Public-Private Partnerships. Sharing data can significantly improve AI systems' ability to identify and flag suspicious activity within the financial system.

However, as per the findings of the EP's "Bigtech finance, the EU's growth model and global challenges – Feb 2024" and the FCA's FS24/1 "Potential Competition Impacts from the data asymmetry between Big Tech firms and firms in financial services", while data sharing is a positive for innovation, such initiatives must be carefully designed to prevent risks of regulatory arbitrage, distortions in competition or undue advantages for specific market participants, thereby maintaining a fair and level playing field. Moreover, it requires robust safeguards for: Confidentiality, Privacy, and Cybersecurity.

Voluntary measures could include steps towards the development of automated data provision, e.g. APIs, based on recognized standards and a reciprocity principle that encourages all firms accessing data to also share data, hence provide market-driven incentives to participate in data sharing initiatives.

Additionally, public-private partnerships to create data sharing ecosystems and platforms, and educational and awareness campaigns would be beneficial for creating a data sharing culture.

Business model

Question 20. Has AI changed your business model?

- ○ Yes
- ◉ No
- ○ Don't know / no opinion / not applicable

Question 21. Which parts of the value chain are being improved with AI?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Members report that AI is improving several parts of the value chain, particularly in operational efficiency, customer service, risk prevention and management, credit processes, fraud detection and marketing. As stated above, in many cases these applications have been in place for several years.

As regards operational efficiency, AI is automating routine tasks such as documentation, data entry, information retrieval, transaction processing, and document verification. This automation improves speed and accuracy and frees up employees to focus on more complex and strategic activities, thereby enhancing overall productivity.

AI can also enhance our members' ability to assess and manage risks and to analyse and predict market trends and identify potential investment opportunities, helping to enable more informed decisions and risk management.

AI is also being used to improve outcomes for retail consumers through its use in fraud detection and credit decisioning (see question 4).

With reference to customer service, AI can enable better customer service via call centres and, by analysing customer data, AI systems can provide tailored recommendations and solutions to better meet individual customer needs. This personalization enhances customer satisfaction and helps them achieve their financial goals.

Question 22. Are there functions that cannot/would not be improved by AI?

- (●) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

Please explain your answer to question 22 and give examples when possible:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our members assess each use case on a case-by-case basis. Hence, while operational efficiencies can often be found, if the activity is one where AI would not be suitable, eg. Requiring human judgment, creativity, interpersonal interaction etc, then usage of AI would be restricted.
However, even in those functions, some supporting activities, could potentially be enhanced by the adoption of AI.

General purpose AI

For the purpose of this targeted consultation, respondents should consider general purpose AI as defined in the AI Act (article 3(63)), i.e. meaning any "*AI model, including where such an AI model is trained with a large amount of data using self-supervision at scale, that displays significant generality and is capable of competently performing a wide range of distinct tasks regardless of the way the model is placed on the market and that can be integrated into a variety of downstream systems or applications, except AI models that are used for research, development or prototyping activities before they placed on the market*".

Question 23. Do you use general purpose AI models, including generative AI, and their respective reference architectures?

- (●) Yes
- ( ) Not yet, but we plan to use general purpose AI models within the next 2 years
- ( ) No
- ( ) Don't know / no opinion / not applicable

Please explain why you want to opt for these AI models in your organisation:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our members use general purpose AI models, including generative AI, and their respective reference architectures because they offer several advantages:

- Ability to understand and generate natural language: enabling non-technical business users to interact directly with the model through an intuitive interface
- Ability to process unstructured data: generative AI can extract relevant features or attributes from unstructured data (videos, emails etc.), unlike traditional AI
- Flexibility and Versatility: General purpose AI models are highly adaptable and can be applied to a wide range of tasks across different functions.
- Scalability: These models are designed to handle large-scale data and can be easily scaled up to meet increasing demands.
- Innovation and Efficiency: General purpose AI models, drive innovation by enabling the development of new products and services, also acting as a lever for control functions
- Rapid Deployment: The reference architectures of general-purpose AI models are well-documented and widely supported, facilitating quicker deployment and integration into existing systems.

Question 24. How do you plan to operationalise and adopt general purpose AI at scale?

Please explain and give examples when possible:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Members have a well-defined set of governance and control processes and procedures to assess risks of AI solutions at various stages of deployment. This usually includes additional risk assessment as AI applications move through their life cycle from PoC to full production. This includes establishing clear policies and guidelines for AI development and deployment, ensuring compliance with regulatory standards, setting up dedicated committees to oversee AI initiatives and conducting regular audits and validations to ensure AI models are fair, transparent, and reliable.

In some cases, this also includes training of new staff or Talent Acquisition strategies to attract skilled AI experts as well as building new technical components to facilitate integration of GenAI into existing systems and processes.

Question 25. How does the increasing availability of general purpose AI models, including generative AI applications, impact the need to access new datasets?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

General purpose AI models can bring value as standalone components without external datasets (e.g., productivity tools, translation, summarization). However, increasing impacts may be generated by the combination of general-purpose AI with internal data via techniques such as RAG.

However, it is also the case that the larger the corpus of relevant, high quality datasets available for training and testing, the better these models can learn and generalize, leading to enhanced performance. Hence, members would be supportive of any new datasets that meet this criteria, subject to meeting the principles of data sharing mentioned above, including maintaining a level playing field and competition across sectors. Finally, generative AI applications benefit from continuous access to new data to remain relevant and adapt to changing trends.

Question 26. Compared to traditional AI systems such as supervised machine learning systems, what additional opportunities and risks are brought by general purpose AI models?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

General-purpose AI models offer a broader range of applications and innovation opportunities compared to traditional AI systems. These models are not limited to specific tasks and can be utilized for various functions. Their advanced capabilities, like creating new data and human-like text, pave the way for more sophisticated product development and service improvements. Additionally, general-purpose AI models can efficiently process and analyze large datasets, which is crucial for tasks like fraud detection, thereby improving the speed and accuracy of data-driven decisions.

However, these models also carry risks, hence our members have developed Risk Governance and Control Frameworks, and processes to derive the opportunities of the technology, while mitigating potential risks.

These risks include the potential to generate biased or misleading information, by replicating from the data they learn from, potentially leading to inconsistent outcomes. Moderation layers and safeguards are therefore implemented to mitigate these risks.

Additionally, the complexity of general-purpose AI models can make their output generating processes opaque and hard to explain, posing challenges in transparency.

Moreover, generative AI models, particularly those that create new content, can sometimes produce information that doesn't align with reality, known as hallucination. This is concerning in use cases where accuracy is paramount. Lastly, as AI tools evolve, providers must notify users of upcoming changes to ensure proper monitoring and to quickly identify any deviations from expected behaviour. This proactive communication is essential for maintaining trust and reliability in AI systems.

Other challenges would include cybersecurity and third-party risk management, including challenges linked to data privacy and confidentiality when using vendors, as well as confidentiality issues related to the content used for training. Again, our members have significant experience managing these risks by utilising the Governance and Control Frameworks outlined above.

Question 27. In which areas of the financial services value chain do you think general purpose AI could have a greater potential in the short, medium and long term?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In the short term, basic tasks such as summarisation, targeted applications for customer service, developer coding productivityand operational efficiency stand to benefit the most. AI-driven chatbots and virtual assistants can provide immediate improvements in handling customer inquiries, offering personalized assistance, and automating routine tasks such as transaction processing and document verification.

In the medium term, risk management and fraud detection are likely to see significant advancements. AI models can analyse vast amounts of data to identify patterns and anomalies, enhancing our ability to predict market trends, assess credit risks, and detect fraudulent activities. By integrating advanced AI algorithms into our risk assessment processes, we can develop more accurate credit scoring models and improve our fraud detection systems, thereby reducing financial losses and enhancing security within the financial sector.

Looking towards the long term, we expect tools and techniques to be developed to mitigate the concerns that currently exist around GenAI, thereby making further use cases viable, leading to tangible financial and operational benefits to both banks and customers.

Additionally, regulatory compliance and reporting will benefit from AI in different time horizons. AI can automate the generation of compliance reports, ensuring accuracy and timeliness while reducing the manual effort involved. This can help financial institutions stay compliant with evolving regulations and streamline the reporting process. For example, AI systems can improve the monitoring of transactions for suspicious activities and generate comprehensive compliance reports, enhancing our ability to meet regulatory requirements efficiently.

AI Governance in relation to non-high risk use cases, and which are not subject to specific requirements under the AI Act

Question 28. Have you developed, or are you planning to develop an AI strategy or other relevant guidelines within your organisation for the use of AI systems?

- (●) Yes
- ( ) No
- ( ) Don’t know / no opinion / not applicable

Please explain which AI strategy or other relevant guidelines you have developed, or are planning to develop:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Members already have a well-defined set of governance and control processes and procedures to assess risks of AI solutions at various stages of deployment. This usually includes additional risk assessment as AI applications move through their life cycle from PoC to full production. This includes establishing clear policies and guidelines for AI development and deployment, ensuring compliance with regulatory standards, setting up dedicated committees to oversee AI initiatives and conducting regular audits and validations to ensure AI models are fair, transparent, and reliable.

These include, but are not limited to:

- Firmwide AI strategy and AI Governance bodies as well as relevant guidelines for the use of AI systems, encompassing several key components designed to ensure the effective and ethical deployment of AI technologies across our operations.
- Model Governance Framework, including policies and guidelines for AI development and deployment, pursuant to ensuring compliance with regulatory standards and the responsible and ethical use of AI, with a focus on transparency and accountability.
- Data Management and Security Protocols, including Data Protection Impact Assessments, designed to safeguard the data used in AI applications, ensuring data privacy and security. In some cases this could include advanced encryption techniques and access controls to protect sensitive information and comply with data protection regulations.
- These AI specific functions operate alongside members' existing strategy, risk and governance bodies, including MRM, operational risk, non-financial risk, third-party risk, data and information governance etc. Members also continue to review these processes to ensure that they remain relevant as the technology develops.

Question 29. Have you put in place or are you planning to put in place governance and risk management measures to ensure a responsible and trustworthy use of AI within your organisation?

- (●) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

Please explain which governance and risk management measures you have put in place or you are planning to put in place:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please see Q28

Forecasts

Question 30. What are the main evolutions to be expected in AI in finance?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please see Q27

Question 31. Which financial services do you expect to be the most impacted by AI?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

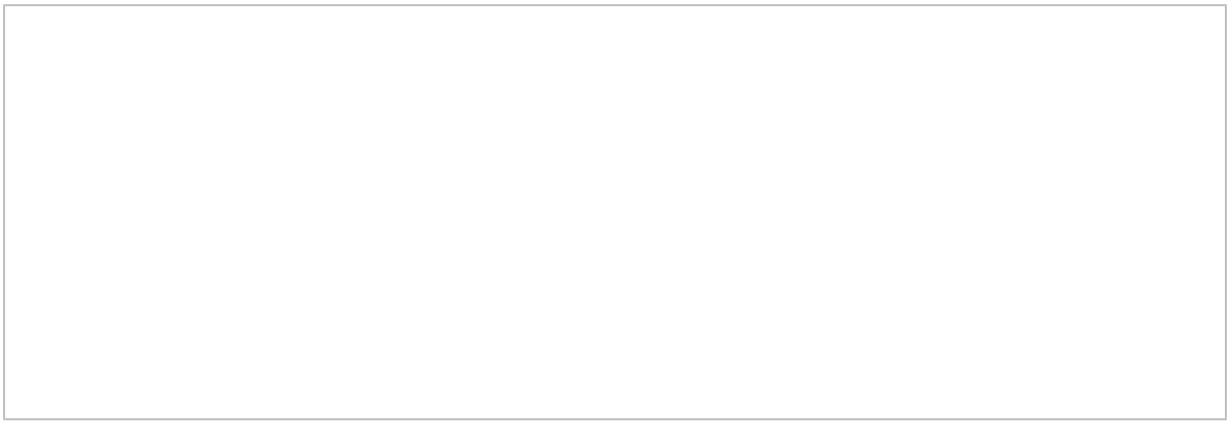
Please see Q27.

Question 32. Do you have any additional information to share?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.



Part 2: Questions related to specific use cases in financial services

Question 34. In which sector(s) are you using AI?

Please select as many answers as you like

- [x] Banking and payments
- [ ] Market infrastructure
- [x] Securities markets
- [ ] Insurance and pensions
- [ ] Asset management
- [ ] Other

Questions per sector

Banking and payments

In banking, possible AI use cases range from credit risk assessment and credit scoring to advice, compliance, early warning (for example of unusual social media activity / massive withdrawal of deposits), fraud/AML and customer service.

Depending on the specific use cases, relevant legislation would include:

- the AI Act (for the identified high-risk use cases such as creditworthiness and credit-scoring of natural persons)
- the Consumer Credit Directive and the Mortgage Credit Directive (creditworthiness of natural persons and robo-advice)
- the Capital Requirements Regulation (CRR) (for example provisions on risk management in relation to credit risk assessment)
- the Payment Services Directives (PSD) (for example for fraud detection)
- and the Anti-Money Laundering Directive (AMLD) (for example for AML risk use cases)

Question BANKING 1. For which use case(s) are you using/considering using AI?

Examples: risk assessment, credit scoring, robo-advice, sustainable finance, personal finance management, regulatory compliance, fraud detection, AML, customer service, etc.

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Some members use AI for Risk assessment for lending and Credit monitoring

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Question BANKING 2. What are the opportunities that AI brings to your use case?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

- Onboarding of new-to-bank customers with smart lending
- Managerial evaluation of the customer creditworthiness
- Collection strategy support with credit monitoring
- Please also see Q2 for more details on opportunities

Question BANKING 3. What are the main challenges and risks that AI brings to your use case (e.g discrimination, opacity of the AI application developed, difficult to control/supervise it, etc.)?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Main challenges remain those identified above, eg. possible biases on the risk processes, hallucinations and the need for fairness and explainability, which members have processes in place to manage.

Please also see response to Qstn 3

Question BANKING 4. What is the main barrier to developing AI in your use case (e.g. lack of skills and resources, readiness of the technology, high regulatory costs for compliance with the relevant frameworks, etc.)?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Main barriers are: availability of data for production environment, high computational costs for experiments on big data, complexity in environment set-up.

Please also see response to Qstn 3

Question BANKING 5. Does AI reduce or rather increase bias and discrimination in your use case?

- ○ Yes
- ◉ No

- Don’t know / no opinion / not applicable

Please explain your answer to question BANKING 5 and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Whilst our members are aware of the general risk of bias in using AI. this risk is assessed for each use case. Bias and discrimination are also controlled on the feature engineering side, by considering non-biased direct information (e.g., gender, country of birth, etc…), and in some cases, on the output side, by adopting a bias-aware approach.
Accordingly, the use of AI could potentially decrease unconscious bias and discrimination in some use cases

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Question BANKING 6. Has general purpose AI opened new possibilities or risks in your use case?

- Yes
- No
- Don’t know / no opinion / not applicable

Please explain your answer to question BANKING 6 and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

General-purpose AI models provide increased flexibility, versatility, enhanced innovation, and scalability, enabling the efficient processing and analysis of large datasets. However, these models are still susceptible to common AI risks highlighted in previous questions, such as generating biased or misleading information, complexity issues like lack of transparency and explainability, risk of hallucination etc. Hence, members continue to cautiously explore the possibilities within the Governance and Control Frameworks described above. Also see Qstns 2, 3, and 4 for further details.

Question BANKING 7. On whom do you rely for the development of your AI solutions?

- External providers
- In-house applications
- Partial collaboration with external providers
- Don’t know / no opinion / not applicable

Please explain your answer to question BANKING 7 and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

All three options are possible and they are chosen depending on the options available for each specific use case / application. Nevertheless, at this time, our members appear to be mainly developing in-house applications, but leveraging third party services when necessary (for specific vertical skill or team size augmentation).
Members report that the main benefits of developing in-house AI rather than relying on third-party solutions include greater customization, increased control over the development and deployment processes. enhanced data security and prevention of fraudulent activities, creating a culture of innovation and expertise within the organization, and allowing for more rigorous validation and governance of AI models.

Securities markets

In securities markets, possible AI use cases range from risk assessment to trade execution (e.g. algorithmic trading), robo-advice, regulatory compliance and market abuse to customer service. Depending on the specific use cases, relevant legislation would include, for example:

- Markets in Financial Instruments Directive (MiFID) (for example on trading and robo-advice)
- and Market Abuse Regulation (MAR) (for example for market abuse detection use cases)

Robo advice: According to the upcoming AI Act, there are specific transparency requirements for AI systems which are not high-risk. The requirements imply that these AI systems are developed and used in a way that allows making humans aware that they communicate or interact with an AI system. This would for example apply to use cases such as robo-advice or other customer personalised AI applications.

Question SECURITIES 1. For which use case(s) are you using/considering using AI?

Examples: risk assessment, individual or collective portfolio management, algorithmic trading, robo-advice, sustainable finance, personal finance management, regulatory compliance, customer service, market abuse detection, etc.

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Some members are exploring the use of AI in Trade Surveillance, where it could potentially be used in:

1. Reduction of false positives
2. System parameterization refinement
3. Search for additional information during the investigation phase (e.g., correlations between subjects, news)
4. Customer profiling with respect to MAR's behavior
5. Automation in the drafting of archiving comments
6. Automated trading bots

Additionally, members are considering using AI in the following areas:

- Client coverage and marketing (e.g. personalizing marketing content, responding to client's enquiries, summarizing and analysing meetings
- Research & investment management (e.g. analysing company earning reports/calls, portfolio analysis, track social media comments on stocks etc)
- Risk management (e.g. risk data aggregation, risk exceedance alerting etc)
- Operational efficiency gains through automatic routine tasks
- Trade surveillance to detect suspicious behavior and ensure compliance with regulations.

Question SECURITIES 2. What are the opportunities that AI brings to your use case?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

- Partly automate internal manual processes and operations to be more efficient
- Better allocation of resources as staff can be freed up to concentrate on other value adding tasks and improve overall productivity
- Better decision making and risk assessment based on better use of large data set, aggregation and summarization of data that beyond human capacity etc

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Question SECURITIES 3. What are the main challenges and risks that AI brings to your use case (e.g discrimination, opacity of the AI application developed, difficult to control/supervise it, etc.)?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It should be notes that members already have and are continuing to develop processes, tools and controls to mitigate the following risks:

- Hallucination risk – providing convincing and seemly correct responses which are in fact wrong
- Risk that deployed models are used in unintended applications.
- Risk that 3rd party providers are integrating LLMs in existing solutions without going through the model risk management
- Data integrity, lawsuits on intellectual property or copyright infringement for data used to train the AI which sits with the providers as this is the model risk for fundamental models
- challenges with oversight
- bias and discrimination
- risk of errors

Question SECURITIES 4. What is the main barrier to developing AI in your use case (e.g. lack of skills and resources, readiness of the technology, high regulatory costs for compliance with the relevant frameworks, etc.)?

Please explain and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

- Rapidly evolving regulatory environment
- There is not enough clarity on what high risk models are and how to mitigate the risk
- AI specialist skills shortage - time taken to develop skills internally and acquire resources
- readiness of the technology/vendors
- high implementation and maintenance costs
- Lack of proven track record for newer GenAI models, means that members are approaching with caution

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Question SECURITIES 5. Does AI reduce or rather increase bias and discrimination in your use case?

- (●) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

Please explain your answer to question SECURITIES 5 and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As discussed above, AI has the potential to introduce bias depending on the training data used, hence members have developed controls and processes to mitigate the risk of bias, eg. The data used to train and run the models is evaluated regularly and asymmetric distributions corrected. Models can also identify bias from human decisions and highlighted this to users

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Question SECURITIES 6. Has general purpose AI opened new possibilities or risks in your use case?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain your answer to question SECURITIES 6 and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

General-purpose AI models provide increased flexibility, versatility, enhanced innovation, and scalability, enabling the efficient processing and analysis of large datasets. However, these models are still susceptible to common AI risks highlighted in previous questions, such as generating biased or misleading information, complexity issues like lack of transparency and explainability, risk of hallucination etc. Hence, members continue to cautiously explore the possibilities within the Governance and Control Frameworks described above.
Whilst, new possibilities may emerge in the future, currently AI is mainly bringing operational efficiencies to financial services processes, and each use case is evaluated for the risk (discussed in previous questions) it may introduce, with the same framework described above.

Question SECURITIES 7. On whom do you rely for the development of your AI solutions?

- External providers
- In-house applications
- Partial collaboration with external providers
- Don't know / no opinion / not applicable

Please explain your answer to question SECURITIES 7 and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Combination of external providers for out of the box solutions and in-house development for bespoke applications.
For in house applications – Examples are predictive models that use widely available AI libraries.

Question SECURITIES 8. 'Herding effects', where trading is dominated by trading algorithms that make decisions based on similar model calibrations, are often considered as a risk for financial markets.

Do you believe that the use of AI has increased this risk?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain your answer to question SECURITIES 8.1 and give examples when possible:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See Qstn 12

Question SECURITIES 9. Machine learning trading algorithms can interact with each other in unpredictable ways on the market.

Do you see any risks to market integrity and efficiency stemming from these interactions, such as collusion that can amount to market manipulation or sudden bouts of illiquidity where trading algorithms stop trading in response to unusual patterns of market behaviour?

- Yes
- (●) No
- Don't know / no opinion / not applicable

Please explain your answer to question SECURITIES 9 and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Although machine learning trading algorithms have the potential to interact in unpredictable ways, these interactions do not necessarily pose significant risks to market integrity and efficiency, such as collusion or sudden bouts of illiquidity.

Firstly, regulatory oversight and controls are in place to monitor and mitigate market manipulation and collusion. Regulatory bodies and national financial authorities enforce rules that ensure trading practices remain fair and transparent, helping to mitigate the risks posed by algorithmic interactions.

Additionally, the presence of diverse trading strategies in the market helps reduce the potential for synchronized behavior that could lead to market disruption. Various trading algorithms with different objectives and methodologies counterbalance each other, decreasing the likelihood of coordinated responses that might cause illiquidity or manipulation.

Moreover, modern trading algorithms are designed with adaptive mechanisms that allow them to respond to changing market conditions. Continuous monitoring and regular updates ensure that these algorithms remain effective and compliant with market regulations, preventing sudden stops in trading activity and maintaining market liquidity and stability.

Furthermore, human oversight remains a critical component of trading operations. Traders and risk managers actively monitor algorithmic activities and are ready to intervene if unusual behavior is detected, ensuring that any potential risks to market integrity and efficiency can be promptly addressed.

Finally, financial markets have demonstrated resilience to various forms of technological innovation and disruption. Historical evidence shows that markets have adapted to previous technological advancements without compromising overall integrity and efficiency, and the same resilience is expected with the integration of machine learning trading algorithms.

Question SECURITIES 10. Can robo-advice based on general purpose AI, which can sometimes produce 'hallucinations', i.e. nonsensical or inaccurate replies, be made compatible with regulatory requirements applicable to investment advice?

- (●) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

Please explain your answer to question SECURITIES 10 and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Robo-advice based on general purpose AI can be made compatible with regulatory requirements applicable to investment advice by implementing several key measures to mitigate risks and enhance the reliability and accuracy of the AI-generated advice, as described in Securities Q 11.

Question SECURITIES 11. What precautions will you put in place to ensure robo-advice is developed in compliance with the requirements for investment advice?

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Firstly, integrating robust validation and monitoring systems is essential. Regular validation of AI models ensures that the advice generated meets the required standards of accuracy and reliability. Continuous monitoring helps detect and correct any instances of hallucinations or nonsensical replies promptly.

Secondly, human oversight can ensure compliance with regulatory requirements. Human advisors can oversee the robo-advice process, intervening when necessary to validate the recommendations provided by the AI. This hybrid model combines the efficiency of AI with the expertise of human advisors, enhancing the overall quality and reliability of the investment advice.

Moreover, implementing strict data governance and quality controls can help prevent hallucinations. Ensuring that the data used to train and operate the AI models is accurate, comprehensive, and up to date reduces the likelihood of generating incorrect or nonsensical advice. Regular audits of data sources and continuous updates to the AI training datasets are necessary to maintain high data quality standards.

Additionally, AI systems should be designed to provide clear and understandable explanations for their recommendations. This transparency helps build trust with clients and ensures that the advice meets regulatory requirements for disclosure and accountability.

Lastly, ensuring that AI systems adhere to a robust ethical framework is important. Developing and implementing a code of ethics for AI use in investment advice can guide the design and deployment of AI systems, ensuring that they operate within ethical and regulatory boundaries.

Part 3: AI Act

In December 2023 the European Parliament and the Council reached a provisional political agreement on the first comprehensive AI framework, put forward by the Commission on 21 April 2021. The regulation was adopted by the European Parliament on 13 March 2024 and will enter into force later this spring once it has been published in the Official Journal of the EU. This horizontal *acquis* is applicable across all economic sectors.

The AI Act defines an AI system as “a machine-based system designed to operate with varying levels of autonomy, that may exhibit adaptiveness after deployment and that, for explicit or implicit objectives, infers, from the input it receives,

how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments". Recital 11 further sets out the reasons for this definition, notably setting out that it is based on key characteristics that distinguish it from simpler traditional software systems of programming approaches.

The AI Act will establish two high risk use cases for the financial sector:

1. AI systems intended to be used to evaluate the creditworthiness of natural persons or establish their credit score, with the exception of those AI systems used for the purpose of detecting financial fraud
2. AI systems intended to be used for risk assessment and pricing in relation to natural persons in the case of life and health insurance.

The aim of this section is to identify which are your specific needs in order for the Commission to be able to adequately assist you with appropriate guidance for the implementation of the upcoming AI framework in your specific market areas, especially in particular to the high-risk use cases identified.

Scope and AI definition

Question 33. Which of the following use cases that could fall into the categorisation of high-risk are potentially relevant to your activity?

- (●) AI systems intended to be used to evaluate the creditworthiness of natural persons or establish their credit score
- ( ) AI systems intended to be used for risk assessment and pricing in relation to natural persons in the case of life and health insurance
- ( ) Both
- ( ) None
- ( ) Don't know / no opinion / not applicable

Question 35. Please explain the overall business and/or risk management process in which the high-risk use case would be integrated and what function exactly the AI would carry out:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See Qstn 4 for details of AI use in creditworthiness assessments

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Question 36. Are there any related functions AI would carry out which you would suggest distinguishing from the intended purpose of the high-risk AI systems in particular to the use cases identified in question 34?

- (●) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

Please explain your answer to question 36 and give examples when possible:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Data preparation, documentation analysis, document translation or summarisation, customer interaction and monitoring and reporting.
Furthermore, systems using basic statistical techniques such as linear or logistic regressions, should not be considered AI systems as those techniques do not fit into the definition of AI in the AI Regulation.

Question 37. Please explain why these functions would/should in your view not be covered by the high-risk use cases set out in the AI act either because they would not be covered by the definition of the use case or by relying on one of the conditions under article 6(3) of the AI Act and explaining your assessment accordingly that the AI system would not pose a significant risk of harm if:

a) the AI system is intended to perform a narrow procedural task:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

AI systems used for data preparation involve aggregating, cleaning, and organizing data from various sources. This process ensures that input data is accurate and comprehensive for high-risk AI systems but does not directly influence decision-making outcomes. Therefore, it can be classified under condition (a) as the AI system is intended to perform a narrow procedural task.

AI systems that perform documentation analysis review or translation/summarisation and extract relevant information from documents such as financial records. This function aids in gathering necessary information but does not directly influence or make critical decisions. Consequently, it falls under conditions (a) as it performs a narrow procedural task

As regards the consideration of basic statistical techniques as AI, we think that these techniques do not comply with the definition in the AI Regulation, lack complexity and learning capabilities, and are highly transparent and explainable. Basic statistical techniques, such as linear and logistic regressions, are fundamentally different from the AI systems described in the regulation. These techniques do not exhibit the adaptiveness or autonomy characteristic of AI systems. They apply fixed mathematical relationships to data inputs to generate outputs without any capability to learn from new data or adapt their behaviour over time. Furthermore, the simplicity of linear and logistic regression models ensures that they do not present the same risks associated with more complex AI systems. These models are deterministic, meaning that their outputs are directly determined by the input data based on predefined equations. This deterministic nature eliminates the unpredictability and potential for unexpected behaviour that more advanced AI systems might exhibit. Consequently, the use of these techniques does not necessitate the rigorous oversight and control measures intended for high-risk AI applications.
The inherent transparency and explainability of basic statistical models further differentiate them from AI systems under the regulation. Linear and logistic regressions provide clear and straightforward relationships between inputs and outputs, making it easy for users to understand how decisions are made. This transparency reduces the risk of hidden biases or unintended consequences, which are significant concerns in the deployment of advanced AI systems. The simplicity of these models ensures that decision-making processes remain interpretable and accountable.
Additionally, including basic statistical techniques within the scope of AI regulation would dilute the focus on genuinely high-risk AI applications that require stringent oversight. The regulatory intent is to address the unique challenges and risks posed by advanced AI technologies, including issues of bias, opacity, and autonomous decision-making. Basic statistical techniques, given their simplicity and well-understood nature, do not align with the regulatory scope and objectives. By clearly distinguishing these techniques from AI systems, regulatory efforts can be better concentrated on mitigating the real risks associated with more complex and adaptive AI applications.

b) the AI system is intended to improve the result of a previously completed human activity:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

AI systems used in customer interactions, such as chatbots and virtual assistants, provide personalized responses and financial information. These systems enhance the customer experience but do not make or influence critical decisions about creditworthiness or insurance risk assessment. They are intended to improve the result of a previously completed human activity, such as providing general information, fitting condition (b).

c) the AI system is intended to detect decision-making patterns or deviations from prior decision-making patterns and is not meant to replace or influence the previously completed human assessment, without proper human review:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

AI systems used in customer interactions, such as chatbots and virtual assistants, provide personalized responses and financial information. These systems enhance the customer experience but do not make or influence critical decisions about creditworthiness or insurance risk assessment. They are intended to improve the result of a previously completed human activity, and detecting patterns in customer enquiries without replacing the need for a human review of critical financial decisions, aligning with condition (c). Of course, any use of AI systems for customer interactions would have to meet the transparency requirements established in the AI Regulation.

AI systems used for monitoring and reporting continuously track the performance of high-risk AI systems, identifying anomalies. They ensure compliance and system integrity but do not replace or influence the core decision-making processes. This function falls under condition (c) as it detects decision-making patterns or deviations without replacing human assessment.

d) the AI system is intended to perform a preparatory task to an assessment relevant for the purpose of the use cases listed in Annex III of the AI Act:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

AI systems used for data preparation involve aggregating, cleaning, and organizing data from various sources. This process ensures that input data is accurate and comprehensive for high-risk AI systems but does not directly influence decision-making outcomes. Since data preparation is a preliminary step to the main assessment, it aligns with condition (d), performing a preparatory task for assessments relevant to high-risk use cases.

AI systems that perform documentation analysis review or translation/summarisation and extract relevant information from documents such as financial records. This function aids in gathering necessary information but does not directly influence or make critical decisions. Consequently, it falls under conditions (d), as it prepares essential data for high-risk AI assessments.

AI systems used for monitoring and reporting continuously track the performance of high-risk AI systems, identifying anomalies. They ensure compliance and system integrity but do not replace or influence the core decision-making processes. This aligns with condition (d), performing a preparatory and supportive task to ensure high-risk AI systems function correctly.

Question 38. At this stage, do you have examples of specific AI applications /use cases you believe may fall under any of the conditions from article 6(3) listed above?

Please describe the use case(s) in cause and the conditions you believe they may fall under:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Members are required under Financial Services regulations to monitor employees for market abuse/conduct monitoring purposes and hence would potentially explore the use of AI for this purpose. However, Annex III. 4 states that high risk systems include those, "… intended to be used to make decisions affecting terms of work-related relationships… to monitor and evaluate ... behaviour …". Clarity would be appreciated on this aspect.

Question 39. Based on the definition of the AI system, as explained above (and in article 3(1) and accompanying recitals), do you find it clear if your system would fall within the scope of the AI Act?

- ○ Yes
- ◉ No, it is not clear/ easy to understand if it falls within the scope of the AI Act
- ○ Don't know / no opinion / not applicable

Please specify in relation to what aspects and/or which algorithmic /mathematical models you do not find it it clear/easy to understand if they fall within the scope of the AI Act:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The AI Act broadly defines an AI system, which can encompass a wide range of technologies, from complex machine learning algorithms to simpler statistical techniques.
However, the minimum requirements for a system to be considered an AI system under the AI Act are not explicitly clear, for the following reasons:
1) The use of “may” in relation to exhibiting adaptiveness would suggest an AI system could be adaptive (clarified in Recital 12 as “a system’s self-learning capabilities, allowing the system to change while in use”), or could not be, and be captured by the definition of AI system in either case.
2) "differing levels of autonomy" may refer to a scenario with no autonomy. It is not clear if such a system would be captured.
3) "designed to operate" ignores whether the system does in fact operate with autonomy. If a system could potentially operate with autonomy, but does not, it is unclear if that system is captured.
4) whether autonomy refers to the ability of a system to learn, act, or both

As a result of the above, it is not clear whether certain methodologies, especially simpler ones, fall within the Act’s scope.
For example, our belief is that basic statistical techniques should be explicitly excluded from the definition of AI. Basic statistical techniques, such as linear and logistic regressions, are fundamentally different from the AI systems described in the regulation.
Moreover, these techniques do not exhibit the adaptiveness or autonomous characteristics of AI systems. They just apply fixed mathematical relationships to data inputs to generate outputs without any capability to learn from new data or adapt their behaviour over time.
While we don’t see value in adding those techniques under the scope of the AI act for the creditworthiness assessment use case to avoid risks that are already managed, it would on the other hand add complexity and administrative burden to financial institutions (e.g. requiring to register those models and to perform conformity and fundamental rights assessments), and will unnecessarily increase as well the number of models under the scrutiny of supervisors.
Guidance would be welcomed clarifying that the use of those techniques is not considered AI or at least are excluded from the high-risk category based on their simplicity.

AI Act requirements

Question 40. Bearing in mind there will be harmonised standards for the requirements for high-risk AI (Mandates sent to CEN-CENELEC can be monitored here), would you consider helpful further guidance tailored to the financial services sector on specific AI Act requirements, in particular regarding the two high-risk AI use cases?

- ○ Yes
- ◉ No
- ○ Don’t know / no opinion / not applicable

Financial legislation requirements

Question 41. Future AI high-risk use cases would also need to comply with existing requirements from the financial legislation.

Would you consider helpful further guidance meant to clarify the supervisory expectations for these use cases?

- ○ Yes
- ◉ No, the supervisory expectations are clear
- ○ Don't know / no opinion / not applicable

Question 42. There are other use cases in relation to the use of AI by the financial services sector which are not considered of high-risk by the AI Act, but which need to comply with the existing requirements from the financial legislation.

Would you consider helpful further guidance meant to clarify the supervisory expectations for these use cases?

- ◉ Yes
- ○ No, the supervisory expectations are clear
- ○ Don't know / no opinion / not applicable

Please explain why you would consider helpful further guidance and indicate if it should be high-level and principles based or tailored to specific use cases:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It is our members' view that, financial services sector specific guidance is not required at this stage. The questions that have arisen re the implementation of the AI Act are horizontal in nature and not specific to financial services. Hence, high-level, principles-based, non sector-specific guidance would be welcomed. This would ensure that the same requirements and supervisory expectations will exist across sectors ensuring uniform application of the Act. Further, providing additional financial services specific guidance is likely to increase regulatory complexity for firms while the primary principles of the AI Act remain unclear. We would therefore, in additional to any general guidance, our members request for additional cross-sectorial guidelines on the following topics:

- Conformity Assessment
- Fundamental Rights Impact assessment
- registration process for high-risk AI systems
- guidance on obligations for ethics, transparency and explainability.

Once horizontal guidance is received, members would require time to assess implement the AI Act and see if additional guidance would help financial institutions navigate any nuances that arise and ensure that their AI systems fully comply all regulations.

Should financial services specific guidance be required, we would request that financial supervisors should be involved in its drafting to ensure that the guidance is developed taking into account the unique aspects of the financial sector and existing regulations, governance and controls already in place and therefore ensure a smooth integration of any new AI rules into the existing supervisory framework

Question 43. Are you aware of any provisions from the financial *acquis* that could impede the development of AI applications (e.g. provisions that prohibit the use of risk management models which are not fully explainable or the use of fully automated services for the interaction with consumers)?

- ○ Yes
- ◉ No, I am not aware of any provision(s) of this kind
- ○ Don't know / no opinion / not applicable

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. **Please make sure you do not include any personal data in the file you upload if you want to remain anonymous.**

The maximum file size is 1 MB.
You can upload several files.

Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

Useful links

More on this consultation (https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-artificial-intelligence-financial-sector_en)

Consultation document (https://finance.ec.europa.eu/document/download/054d25f5-0065-488a-96fb-2bb628c74e6f_en?filename=2024-ai-financial-sector-consultation-document_en.pdf)

More on digital finance (https://finance.ec.europa.eu/digital-finance_en)

More on the digital finance platform (https://digital-finance-platform.ec.europa.eu/)

Specific privacy statement (https://finance.ec.europa.eu/document/download/698ef635-9053-43c2-b3a3-709e18c1f88a_en?filename=2024-ai-financial-sector-specific-privacy-statement_en.pdf)

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