Targeted consultation on AI in the financial sector
Paris Europlace AI Working Group response

Paris Europlace is the organization in charge of promoting and developing the Paris financial center. We are a privileged intermediary of European and French authorities, with which we maintain a continuous and constructive dialogue. Our aim is to promote financial markets to international investors, issuers and financial intermediaries to better finance the real economy and the energy transition. Paris Europlace gathers more than 600 members, including investors, sustainable finance entities, banks, financial market authorities, corporates, consulting firms.

Paris Europlace very much welcomes the European Commission invitation to provide feedback on this AI targeted consultation.

1. Main messages

Paris Europlace encourages European authorities to find the best regulatory balance between supporting technological innovations and ensuring investor protection and financial stability. The competitiveness of European companies, whether financial or not, must also be preserved, in relation to the regulations in place in other jurisdictions, when a new EU regulation is envisaged. In addition, we note the following points.

In itself, AI is not new, having indeed quite a long history in the financial services industry (for credit risk scoring, high-frequency trading, and robo-advice) and being already subject to existing risk frameworks. Specifically, AI applications in finance are already subject to regulation through sectoral or cross-sectoral specific rules, such as consumer data privacy regulation, consumer protection regulation in lending operations, or prudential requirements concerning data governance, cyber risk, third-party risk, information systems outsourcing, or operational risk. We thus consider that the financial industry is already more heavily regulated than other sectors. We stand for that reason against an additional, sectoral regulation.

Consequently, any additional regulation resulting from the implementation of the AI Act should be proportionate and adequately defined, not hampering competitiveness or innovation. Further technology-specific regulation with respect to AI seems neither warranted nor desirable, if not tested ex ante correctly. Actually, reaching a global level playing field is essential as the competition for EU firms is global and we see providers and technology developing faster in less regulated environments.

In addition, the risk of regulatory uncertainty is elevated for businesses pursuing innovation, just because AI applications are constantly developing, so regulators are aiming at a moving target. Also importantly, AI and data are inexorably interlinked, as AI requires access to sufficient volumes of quality data: therefore, restrictions to data sharing, improper data localisation requirements could limit its potential and even risk creating bias and possible distortions to train AI systems. However, open finance (FiDA) must remain

carefully adjusted so as to maintain EU firms' competitiveness, avoid unintended consequences (cyber security risks, etc.) and never lead to asymmetric data sharing with non-EU competitors.

2. Consultation questions

Part 1 : General questions on AI applications in financial services

1.1 Use of AI

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 AI systems and we don't plan to use it within the next 2 years.

Answer: Yes, we are already using AI systems.

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

Open answer/Please explain and give examples when possible.

Answer:

- Using AI will increase productivity in business activities and secure efficiency.

- Improvement of operational efficiency /productivity

- Improvement of customer experience

- Enhancement of data collection without increasing administrative burden: for ESG reporting and others

- Enhancement of risk analysis

- Fight against fraud

- New content's creation thanks to IA Gen

- The use of AI can enhance efficiency and accuracy in the delivery of legal services. It can support lawyers in automating routine tasks such as drafting, document review, contract analysis, matter management and legal research. In this way, AI allows lawyers to focus on more complex and strategic work and less time on common regular procedures, leading to increased productivity and reduced costs. AI-powered tools streamline due diligence and document analysis, providing a great starting point for review exercises. AI-powered legal research capabilities enable quicker insights into case law and statutes, assisting lawyers in building a knowledge base in conjunction with human review and verification.

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

Open answer/Please explain and give examples when possible.

Answer:

The negative aspects of AI use are the limited actors AI technology providers and data providers in the European market as of date, prominent actors being mainly from the US/China. This involves international transfer of vast amount of data and could pose regulatory, operational and sovereignty risks. Another negative aspect could be the difficulty to apply transparency and inform coherently AI users depending on the complexity of the technology used.

We also note the following elements:

- Hallucination treatment

- Bias correction for LLM vulnerability to date quality (impact on AI prediction)

- Complexity of generative AI

- Lack of explainability criteria, especially in case of AI system provided by third parties.

In some sectors, including in the legal field, AI isn't always accurate in its output, depending on the resources the AI uses to produce its answers, if it doesn't know something relating to the prompt then it will hallucinate an answer which isn't true. This is why AI outputs should, depending on the case, be reviewed by a human before they are distributed. In addition, users have concerns around the security around putting client information into AI-powered tools. Given that most AI tools are reliant on an open model, the concern is that client information is not safe to enter.

There is also a risk of over-reliance on AI tools, which might lead to complacency among the more junior professionals who often learn about the foundations of their practice through completing routine tasks. Additionally, AI systems can lack the nuanced understanding of complex matters that a trained staff's judgment provides, potentially leading to flawed interpretations of information. The general feedback of users is that while AI is useful to assist with matters, it is not a substitute for the nuanced review that senior professionals undertake.

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

- Yes, which ones?
- No

Answer:

- Process optimization

- Operational efficiency (advisors, B.O, customer self service)

- Support for employees (knowledge access, interpreting text, document analysis, etc.)

- Enhance data collection and ease information retrieval, concerning ESG for example

- Improving fraud detection

- Code & software support project development

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

- Yes, please explain.
- No, please explain broadly whom you plan to collaborate with for the development of your AI applications (fintech, bigtech, etc.). or whether you plan to buy off the shelf fully developed solutions.

Answer:

Yes, such as Machine Learning (Generative AI and Large Language Models LLMs), Natural Language Processing (NLP) models. Most of us have a balanced approach between in-house development (make) and external procurement (buy):

In-house development:

- Focused on better control and avoiding black-box scenarios

- Manages risks of economic dependence, environmental impact, and costs, particularly usage costs

- Develops AI applications internally due to the handling of non-public information and specific requirements in data engineering, learning processes, and performance monitoring.

- Ensures end-to-end process control and establishes a trusted AI framework.

- Deploys an AI workstation (standalone desktop PC with an AI chip) with a localized LLM. This will ensure that no data processed ever leaves our control. An AI workstation would help us build bespoke solutions in a safe space. It would be in conjunction with off-the-shelf AI solutions.

External Procurement (Buy):

- Used when in-house solutions are not feasible.

- Preferred rather than in-house development but chosen based on specific use cases.

- Decisions are guided by a thorough cost-benefit analysis to determine the best approach.

This dual strategy allows to leverage the strengths of both methods, ensuring flexibility and efficiency in meeting business needs.

Question 6. Which tools are you using to develop your AI applications? Examples: machine learning, neural networks, natural language processing, large language models, etc.

Open answer/Please explain and give examples when possible.

Answer:

Machine Learning (Generative AI / LLMs systems), Natural Language Processing (NLP) models. It always depends on the use cases.

1.2 Benefits of using AI applications in financial services

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

- 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.
- Personalized financial advice: AI can analyse customer data to provide personalized 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 optimize 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 personalized and efficient customer service, such as chatbots that can answer customer queries and provide assistance 24/7.

Answer:

8 - 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.

7 - 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.

8 - 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.

4 - Cost savings: by automating processes and improving efficiency, AI can help financial institutions reduce operational costs.

3 - Personalized financial advice: AI can analyse customer data to provide personalized financial advice and recommendations, helping customers make better financial decisions

and improve their financial well-being.

5 - Compliance and regulatory support: AI can help financial institutions stay compliant with regulations by analyzing and interpreting complex regulatory requirements and monitoring transactions for suspicious activities.

5 - 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 optimize their operations.

10- Improved security: AI can enhance security measures by identifying potential security threats, detecting unusual patterns of behavior, and providing real-time alerts to prevent security breaches.

7 - 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.

7 - Improved customer service: AI can be used to provide personalized 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?

Open answer/Please explain and give examples when possible.

Answer:

The main benefits in the development of AI application are to increase productivity in some business activities and ensure secure efficiency. We encourage a balanced approach between in-house development (make) and external procurement (buy) according to the use cases, with not always a real choice.

Building in-house AI systems offers additional guarantees in various domains:

- Control on the solution, full control of the whole life cycle of the AI system
- Knowledge of how it's been built
- Understanding of its real performance and limitations
- Deeper knowledge of the associated risks
- Control over the risks of economic dependence
- Control over environmental impacts
- Lesser dependency to external provider's tools and their costs
- Developing chatbots will give firms the ability to mitigate risk with controlling which Gen AI applications people use on firm hardware. This will give them visibility into use cases and limit the exposure the firms have for harmful use

1.3 Challenges and risks when using AI applications in financial services

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

- 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).

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3. 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.
7. Innovation: the ability to leverage on combining AI with other technologies to enhance its potential and generate new services
3. 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.
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4. 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?

Open answer/Please explain and give examples when possible.

Challenges for developing AI applications also rely on the few number of EU players in this sphere so far, as large firms are mainly non-EU. This leads to the transfer of big amounts of data and pose regulatory and sovereignty risks.

We also note the following elements, trust AI (bias, hallucination), transition from proof-of-concept to deployment of production applications, complexity of implementing AI law (see part 3) and other regulations (DORA...) or dependence on third-party suppliers.

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

- 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 the previous question and give examples when possible.

Answer:

1.Operational risks
2.Market risks
3.Liquidity risks
4.Financial stability risks
5.Market integrity risks
8.Investor protection risk

7.Consumer protection risk
6.Reputational risk

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, in which areas of AI?
- No, please explain.

Answer:

Yes, Generative AI and LLM solutions are provided by mostly the US or China. In the future, as a result of AI, non-European suppliers could grow faster than European players, leading to market concentration and dependency. We expect the Commission to help financial institutions counterbalance the balance of power in favor of GAFAM/Big techs.

This is a potential threat if all users are using systems that pulls from limited data source. This may see people making financial predictions or analysis based on predictions from systems trained on the same data and therefore lead to herding. This is a particular problem for LLMs where only a small number of providers have access to those datasets in order to build AI tools.

1.4 AI and compliance burden

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

Answer:

Yes, AI can help reduce the reporting burden by automating data collection, analysis, and reporting processes. Automatically tagging metadata on information can assist in turning it into actionable insights via reporting. In addition, automated workflows can assist with creating and updating reports.

AI can reduce reporting burden in areas such as regulatory compliance, risk management, fraud detection, and customer due diligence.

Additionally, AI can streamline data aggregation and analysis for financial reporting, transaction monitoring, and anti-money laundering efforts, thereby reducing manual efforts and errors in reporting. However the final production of reports remains a complex task requiring human intervention, and there is no intention to use AI for this particular step.

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)? Please elaborate.

Open answer/Please explain and give examples when possible.

Answer:

Yes, AI has the potential to facilitate compliance with multiple regulatory standards across the EU by:

- Streamlining and automating the process of converting accounting and financial statements from one standard to another

- Analyzing and interpreting large volumes of data to ensure adherence to different regulatory standards

- Enhancing accuracy and consistency in the application of various standards

- Providing real-time insights and updates to ensure ongoing compliance with evolving regulations.

1.5 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?

Answer:

Access to external datasets is not an absolute prerequisite for developing AI applications. It is possible to develop many predictive AI applications today based on internal data (with the consent of our consumers when requested). For example, insurance risks based on claims' observation, anticipating customer attrition based on customers behaviour, propensity to subscribe to a given offer based on customer financial situation.

For specific use cases we also need access to external financial data (tax, accounting, etc.) and extra-financial data (ESG, energy, etc.) whose quality and reliability are guaranteed by third party (public administration or private actor from non-banking sectors).

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

Open answer/Please explain and give examples when possible.

Answer:

The datasets required would vary based on the specific purpose or use case.

- Financial market data: For predicting market trends, stock price movements, and making investment decisions.

- Customer transaction data: For personalizing financial recommendations, fraud detection, and customer behavior analysis.

- Economic indicators and macroeconomic data: For risk assessment, forecasting, and trend analysis.

- Regulatory compliance data: For ensuring adherence to standards and regulations, and monitoring compliance activities.

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

Please explain which type of data you would need to have access to.

Answer:

Organizations developing AI applications in financial services can encounter challenges in obtaining access to the necessary data. These challenges can include data privacy and security concerns, regulatory compliance requirements, data quality and availability, and the complexity of integrating diverse data sources. Overcoming these hurdles often involves establishing robust data governance practices, ensuring compliance with regulations, and fostering collaboration between different stakeholders within the organization. Ensuring that relevant public information is readily accessible for analysis can be a challenge. Public data may be dispersed across different departments, databases, or external sources, and integrating this diverse data for risk analysis can be complex.

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

- Yes, do you think it can improve access to data?
- No, are you aware of other data sharing initiatives that you find useful?

Answer:

These tools can facilitate secure and compliant data sharing, streamline data access processes, and enhance transparency and collaboration between regulatory authorities and financial institutions. It's important to ensure that such tools adhere to data protection regulations and industry standards to maintain the security and privacy of the shared data.

Moreover, it seems that only one member state has provided data for this Hub. Some financial institutions did acknowledge that it could be a useful tool for those developing applications and algorithms in this space, to be able to have a structured set of (real-like) synthetic data, to allow them to start to build, and test, before needing access to real industry data. The financial institutions that responded are not aware of any other initiatives.
In any cases, a strong vigilance is needed to keep the corresponding data and information secret, as confidentiality is key to ensuring a fair competition and to supporting competitiveness.

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. Which type of measures do you propose?
- No

Answer: Yes

- Public policy measures should strive to encourage the exchange of data between market participants to facilitate the training of AI systems for finance-related use cases.

- Legislative or non-legislative actions can promote data sharing while ensuring data privacy, security, and ethical considerations are upheld.

- Data exchange can enhance innovation, risk management, and customer experience in financial services, but measures should also address data ownership, consent, and fair compensation for data use.

- Balancing data sharing with data protection is essential, and policies should aim to mitigate risks and safeguard individuals' privacy rights.

- The inherent benefits of a scheme, including cost and responsibility sharing, should organically drive the market towards this option and allow the necessary time to conduct the negotiations of the financial and technical aspects. These technical considerations are complex and hold substantial implications for all parties involved as well as the EU data single market, given the interlinked nature of standards across sectors. A market-oriented approach that offers flexibility and encourages collaboration is more likely to foster innovation and meet diverse customer needs. A data user willing to access data should do so not only through existing schemes but also through bilateral contractual agreements with data holders. It will often be faster to set up bilateral contractual agreements than to set-up multi-stakeholders' schemes. In any case, horizontal provisions on business-to-business data sharing and on interoperability set out in the Data Act, will apply.

1.6 Business model

Question 20. Has AI changed your business model?

- Yes, how?

- No

Answer:

Yes, AI has improved our business models by enhancing customer experience, improving risk management, increasing operational efficiency, and enabling data-driven decision-making. Embracing AI has allowed us to better serve our customers and maintain a competitive edge in the financial industry.

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

Open answer/Please explain and give examples when possible.

1. Customer Service and Experience:

a. Chatbots and Virtual Assistants: We have implemented AI-driven chatbots and virtual assistants to handle customer inquiries and provide 24/7 support. This has reduced wait times and enhanced customer satisfaction by providing instant responses to common questions and issues.

b. Personalized Services: AI algorithms analyze customer data to offer personalized financial products and services. This includes customized insurance policies, loan offers, and investment advice tailored to individual needs and preferences.

c. The nuanced delivery of legal advice for specific and complex matters is still an area that cannot be improved by AI. Many of the processes surrounding this delivery of advice can be improved but the core dependencies and bespoke nature of advice lends itself to being delivered by an individual with a deep understanding of the business of clients.

2. Risk Management and Fraud Detection:

a. Predictive Analytics: AI models help us predict and mitigate risks by analyzing large datasets to identify patterns and trends. This is crucial in assessing loan defaults, insurance claims, and investment risks.

b. Fraud Detection: AI systems continuously monitor transactions and activities to detect fraudulent behavior in real-time. By identifying anomalies and suspicious activities, we can take immediate action to prevent fraud and protect our customers.

3. Operational Efficiency:

a. Process Automation: AI-driven automation has streamlined our internal processes, from underwriting and claims processing to loan approval and customer onboarding. This has significantly reduced operational costs and improved efficiency.

b. Document Processing: Advanced AI technologies enable us to quickly digitize and process large volumes of documents, enhancing accuracy and reducing manual labor.

4. Data-Driven Decision Making:

a. Insights and Analytics: AI tools provide us with deep insights into market trends, customer behavior, and financial performance. This data-driven approach allows us to make informed strategic decisions and stay competitive in a rapidly evolving market.

b. Risk Assessment: By leveraging AI, we can better assess and price risk, ensuring that our financial products are both competitive and sustainable.

5. Regulatory Compliance:

a. Automated Compliance: AI helps us stay compliant with ever-changing regulations by automating compliance checks and monitoring for any potential breaches. This reduces the risk of non-compliance and associated penalties.

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

Open answer/Please explain and give examples when possible.

AI has the capability to improve all functions, but will not replace human oversight and involvement as human analysis remains an important aspect, especially for Regulatory and Compliance Oversight functions:

a. Regulatory Interpretation: While AI can assist in monitoring and ensuring compliance, interpreting new regulations and making strategic decisions based on evolving legal frameworks require human expertise and experience. Especially since AI systems are not yet capable of fully interpreting legal language.

b. Internal Audits: Comprehensive internal audits and regulatory reviews often need the discernment and oversight of experienced professionals to ensure thoroughness and accuracy.

c. The nuanced delivery of legal advice for specific and complex matters is still an area that cannot be improved by AI. Many of the processes surrounding this delivery of advice can be improved but the core dependencies and bespoke nature of advice lends itself to being delivered by an individual with a deep understanding of the business of their clients.

1.7 General purpose AI

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

Yes, to increase efficiency. The advantage of GPAI is their capability of optimizing all functions since they can answer the different needs of different stakeholders and can be adapted to each function.

Example of GPAI models used extensively: Natural Language Processing (NLP) Models like GPT-4:
a. Purpose: Generates human-like text and understands context in dialogues.
b. Applications: Automated customer interactions, content creation for marketing, drafting policy documents, and personalized communication.

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

Financial institutions are exploring the potential of general-purpose AI (GPAI) in a controlled manner through various use cases, without the immediate intention to adopt it at scale. However, operationalizing this technology is crucial for broader adoption. This requires collaboration with leading tech providers and research institutions, adapting internal infrastructure, developing talent, a clear testing strategy, and a governance and risk management framework. Each use case should be assessed and classified according to internal policies and the AI Act's risk-based approach.

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

General-purpose AI models, such as BERT and GPT-4, are pre-trained on vast, diverse datasets. However, to optimize their performance for specific financial applications, fine-tuning with domain-specific datasets is essential. Accessing new and specialized datasets allows these models to better understand and predict financial trends, customer behaviors, and market dynamics. Accessing new data sets also contributes to addressing data diversity and bias. Moreover, compliance requirements evolve, thus necessitating the incorporation of new regulatory data to ensure AI applications adhere to the latest standards and practices.

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?

Opportunities:

1. Transfer Learning: General-purpose AI models benefit from transfer learning, where pre-trained models on vast datasets can be fine-tuned for specific financial tasks. This reduces the time and computational resources needed to train models from scratch and allows for quicker adaptation to new use cases.

2. Versatility: These models can be applied across various tasks, from customer service automation and fraud detection to risk assessment and investment strategy development, providing a versatile toolset for financial institutions.

Risks:

1. Black Box Nature: General-purpose AI models, particularly deep learning models, are often considered black boxes due to their complexity. This lack of transparency can pose challenges in understanding how decisions are made, which is critical for regulatory compliance and risk management.

2. Explainability: Financial institutions must ensure that AI-driven decisions can be explained and justified to regulators, stakeholders, and customers, which is more challenging with complex models.

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?

1. Short term:

a. Customer Service and Support: Chatbots and Virtual Assistants

b. Fraud detection: Real-Time Monitoring

2. Medium term:

a. Investment and Wealth Management: algorithmic trading

b. Compliance and Regulatory Reporting: Automated Compliance Checks

3. Long term:

a. Advanced Financial Analytics and Insights: Predictive Analytics

b. Innovation in Financial Products and Services: Customized Financial Products

1.8 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, which ones?

- No

Answer:

Yes, a comitology is to be defined for the company in order to create an AI governance. Data policies now integrate chapters about AI principles, and other ambitious companies are already writing AI policies. Consequently, as many regulations already apply in particular in the financial sector, it is of the utmost importance for any additional regulatory initiatives to support the competitiveness of the corresponding firms rather than creating additional hurdles compared to what is in place in other jurisdictions.

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, which ones?

- No

Answer:
A dedicated committee for AI governance.
-An AI system register to help identify high-risk AI systems.
-A use cases register.
-A cartography file to evaluate the risk of AI systems used in the company

1.9 Forecasts

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

1. Advanced Risk Management and Fraud Detection

a. Real-Time Fraud Detection: AI will continue to improve in detecting and preventing fraud in real-time, using advanced pattern recognition, anomaly detection, and behavioral analysis.

b. Predictive Risk Analytics: AI models will become more accurate in predicting various types of risk, including credit risk, market risk, and operational risk, by analyzing vast amounts of structured and unstructured data.

2. Regulatory Technology (RegTech)

a. Automated Compliance: AI will play a critical role in automating compliance processes, ensuring that financial institutions adhere to ever-changing regulatory requirements more efficiently and accurately.

b. Regulatory Reporting: AI-driven tools will streamline the generation of regulatory reports, reducing the time and resources required for compliance and minimizing human error.

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

Retail banking's digitalization is increasing; AI should firstly affect it. This can be reflected through multiple dimensions such as:

- customer knowledge,
- customer self-care,
- back office operational efficiency,
- risk management.

All business may be potentially impacted by AI development but businesses requiring large amount of data and important flows treatments are probably the ones that will be the most impacted in the short term.

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

N/A

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

Question 33. In which sector are you using AI? You may select more than one answer.

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

Questions per sector

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

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

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

Open answer/Please explain and give examples when possible.

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.)?

Open answer/Please explain and give examples when possible.

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.)?

Open answer/Please explain and give examples when possible.

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

Please explain and give examples when possible.

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

- Yes
- No

Please explain and give examples when possible.

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

Please explain and give examples when possible

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

Open answer. Examples: risk management, sustainable finance, regulatory compliance, etc.

Operations, CSDR, Legal, etc.

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

Open answer/Please explain and give examples when possible.

The application of AI to large sets of data is essential to increase efficiency and to make data processing quicker. The same is valid for automatizing repetitive tasks, including to re-think how we run tasks today. Last, to stay competitive towards clients, AI facilitates

innocation and access to technology.

Question MARKET INFRASTRUCTURE 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.)?

Open answer/Please explain and give examples when possible.

One challenge is to define the area and the goal of applying AI to some processes. Also, internal expertise and qualified people are necessary, knowing that AI will not be able to fix all the issues a business model has to address. Then, once developed and deployed, AI models need to remain updated and accurate. This may require various solutions, either with internal models (in-house) or by reusing specific components from vendors.

Question MARKET INFRASTRUCTURE 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.)?

Open answer/Please explain and give examples when possible.

Several essential components are unavoidable: technical knowledge, business understanding and communication skills. Sure, each of those skills can be found, while their combination seems less evident to find. Time and care thus are needed, notably to maintain a large number of data scientists, stable funding sources, flexible investment programs and a predictable regulation.

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

Please explain and give examples when possible.

AI has not to impact individuals, but processes. Bias and discrimination have however to be identified as potential risks.

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

- Yes
- No

Please explain and give examples when possible.

The apparition of an over-use or dependencies to AI is a possible risk. We also call for specific attention to prevent an explosion of AI-related energy consumption.

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

- External providers
- In-house applications

- Partial collaboration with external providers

Please explain and give examples when possible

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

Open answer. 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.

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

Open answer/Please explain and give examples when possible.

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.)?

Open answer/Please explain and give examples when possible.

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.)?

Open answer/Please explain and give examples when possible.

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

- Yes
- No

Please explain and give examples when possible.

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

- Yes
- No

Please explain and give examples when possible.

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

Please explain and give examples when possible.

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

Please explain and give examples when possible.

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

Please explain and give examples when possible.

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

Please explain and give examples when possible.

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

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

Open answer. Examples: risk management, insurance pricing and underwriting, setting capital requirements/technical provisions, robo-advice, regulatory compliance, sustainable finance, fraud detection, AML, customer service, sales and distribution, claims management, etc.

The application of AI is not uniform across all insurance companies. The specific AI strategies, use cases, and levels of implementation may differ from one insurer to another. Various use cases are being considered, including but not limited to customer service, operational excellence, business development, compliance, fraud detection and support functions.

Some institutions focus on use cases linked to decision support, the targeted use cases being those that bring the most value internally and externally in terms of market opportunities. Targeted use cases are those that require a large amount of information in a short space of

time. For example, all tasks requiring document reading. Use cases linked to underwriting and underwriting assistance are therefore concerned. This activity requires the study of numerous reports and the qualification of associated risks.

In the same vein, use cases linked to claims settlement assistance are also a priority, to fully understand the event that occurred, and the associated compensation conditions.

Finally, computing contracts, i.e. the ability to gain a new understanding of contracts and all contractual aspects, in order to understand and analyze our level of exposure. This applies particularly to contractual clauses.

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

Open answer/Please explain and give examples when possible.

The main advantages inherent in the development of AI applications lie in their ability to be meticulously tailored to the needs and expectations of both customers and employees. This approach not only allows greater flexibility, but also greater monitoring and control of data security and application integrity.

In addition, the ability to develop highly specialised models focused on specific processes means that models can be completely customised and owned, which contributes directly to improving customer satisfaction.

Depending on the development strategy (in-house or outsourced), more or less control over the entire lifecycle - from conceptualization to deployment - ensures that applications are precisely aligned with the objectives pursued and that they meet the highest standards of quality and security.

The specific ability of AI to perform quite high-value task opens new possibilities compared to other automation approaches.

All in all, many firms believe that AI offers the possibility of concrete demonstrations and tangible elements in financial terms, as well as in terms of operational efficiency. From a purely innovative point of view, the analysis of information and its connection with the core business is a real asset. AI enables us to help our experts and target key points for priority analysis. AI enables us to better understand and qualify risk. The way we qualify risk could be about to change thanks to AI.

Question INSURANCE 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.)?

Open answer/Please explain and give examples when possible.

The main challenges are related to education and training. Understanding regulatory issues, requirements and constraints is also a key challenge. Our legal teams play an important role in supporting our collaborators.

Question INSURANCE 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.)?

Open answer/Please explain and give examples when possible.

Some challenges may be encountered in the development of AI, including:
- Difficulties in integrating AI into applications/interfaces.
- Challenges related to cloud management and access.
- Coping with the rapid evolution of AI capabilities, which imposes a very demanding pace.
- The accelerated pace mandated by AI and its continual evolution necessitates ongoing training and education, as well as interdisciplinary collaboration, given that it affects various professions (legal, business, IT, HR, etc.). It should be noted that the development of an AI system should occur in parallel with the process of employee learning and familiarization with AI systems to ensure coherence with the pace of AI evolution. Failing to do so may result in deploying and effectively using an outdated AI system.

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

Please explain and give examples when possible.

No, AI does not increase significantly bias and discrimination in our use cases. However, there is a greater awareness of the risk of bias, which leads us to ask more questions related to this risk. Furthermore, AI usage fosters the standardization of processes through use cases hence reduce risks of unconscious human bias.

Question INSURANCE 6. How can insurers ensure that the outcomes of AI systems are not biased?

Open answer/Please explain and give examples when possible.

To ensure that AI systems are not biased, collaborators must be involved (i.e. augmenting decision making instead of automating), advanced monitoring must be implemented, and independent reviews of AI systems must be carried out.

Question INSURANCE 7. Has general purpose AI opened new possibilities or risks in your use case?

- Yes
- No

Please explain and give examples when possible.

There isn't necessarily any new risk in the operational sense and in the implementation of artificial intelligence, because it's a model like any other. Nevertheless, on a purely insurance level, we are starting to see insurance policies appear that insure AI. This represents a

potential opportunity for new products.

Question INSURANCE 8. On whom do you rely for the development of your AI solutions?

- External providers
- In-house applications
- Partial collaboration with external providers
   Please explain and give examples when possible.

We are working on a hybrid model: we don't necessarily build our own AI models, but we work on integrating these models with external providers. However, for certain cases for which our organization already has the required intelligence, we will work in-house, notably on risk qualification.

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

Open answer. Examples: risk management, individual and collective portfolio management, regulatory compliance, trades monitoring, robo-advice, customer service, sustainable finance, etc.

Answer:

The implementation of AI enhances productivity and boosts operational efficiency. Asset Managers (Hereinafter "AM") are exploring the potential use of AI for various reporting purposes, particularly regulatory and client reporting.

Asset Managers are mainly evaluating AI for the following applications:

- External providers
- In-house applications
- Partial collaboration with external providers
- Risk management
- Portfolio management (both individual and collective)
- Optimization and prediction of portfolio tracking errors
- Regulatory compliance (e.g., AML risk assessment)/breach detections
- Reporting (product/client and project reporting)
- Sustainable finance (e.g., internal ESG scoring)
- Client service, marketing, and digital engagement
- Improved employee productivity
- Data optimization and process enhancement/Data controls
- Translation

Some financial institutions report that they are actively investing in the growth of AI use cases in asset management and have over 70 use cases developed and monitored by their dedicated governance committees, ultimately overseen by ExCo and the CEO. These use cases are aligned with industry's best demonstrated

practice.

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

Open answer/Please explain and give examples when possible.

Answer:

The use of AI bolsters productivity and increases operational efficiency.

AI provides ways to make decision-making more accurate and efficient, especially in portfolio management and risk assessment. It helps reduce costs by automating tasks like report screening and data comparison. AI also improves the reliability of reporting by identifying errors and ensuring data consistency, which is crucial for meeting regulations and maintaining client satisfaction.

AI can increase productivity by handling routine tasks, allowing employees to focus on more important work. It also speeds up client service, enabling faster and more personalized responses. By simplifying processes, AI could help us bring products, services, and solutions to market more quickly and improve the effectiveness of our digital and marketing efforts by making them more targeted.

In summary, AI can bring a tremendous value by diminishing the complexity and tediousness of ensuring very high levels of accuracy and relevance of information throughout AM's value chain.

Upstream, it may foster investment research, help identify risks and opportunities and support AM's investment committees' decision processes.

Operationally, it can allow to process their day-to-day operations faster and with additional layers of verifications. Downstream, it will help AM to manage the relationships with their distributors and clients in both a more comprehensive and tailored manner. Throughout the chain, it also allows AM to implement processes to ensure compliance with various applicable sets of regulations, as well as reporting and disclosure obligations.

Question ASSET MANAGEMENT 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.)?

Open answer/Please explain and give examples when possible.

The main risk for us is the reputational risk, which could represent a negative impact.

One of the main challenges is ensuring that AI solutions align with AM's ethical policies and overall mission to provide fair and responsible services. AM need to carefully design the technical architecture so that AI usage supports our goals without conflicting with their core values. It's essential for AM to ensure that AI systems adhere to ESG standards, particularly when it comes to transparency and fairness.

For example, when implementing AI in reporting or compliance, AM must guarantee that the

technology does not introduce biases. Additionally, managing sensitive data within AI systems is a significant challenge, as AM must protect client information and comply with strict data privacy regulations. Moreover, the transparency of data handling by some third-party providers can be uncertain.

Another risk is ensuring that AI remains transparent and understandable, so it doesn't operate in a way that is difficult to monitor or control. This includes aligning AI outputs with our ethical standards, making sure that any automated decisions or recommendations are consistent with our values and do not lead to unintended consequences.

Another significant challenge is having the expertise and agility to identify and support the most innovative and promising opportunities, often with minimal benchmarking or historical data. Investing in AI carries risks for businesses, including high costs and potential resource misallocation. To seize the most rewarding opportunities and scale them effectively, full agility is required, along with ensuring compliance with industry regulations.

As AI is a rapidly evolving technology, there are significant risks across various areas. Using non-proprietary models heightens the risk of limited auditability, often referred to as the "black box effect." Additionally, large language models (LLMs) are susceptible to generate hallucinations. Effectively monitoring and managing these two factors will be crucial in delivering AI solutions that are ready for production and compliant with regulations for both our clients and staff.

Question ASSET MANAGEMENT 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.)?

Open answer/Please explain and give examples when possible.

The main barriers to AI development are related to the significant costs involved, both in terms of financial investment and the necessary expertise—specifically, the financial and human resources required to create AI solutions. Additionally, there are high regulatory costs associated with ensuring compliance with relevant frameworks, challenges in handling sensitive data, and the need for a robust employee training strategy.

The two other main sources of complexity are the technology itself, which is highly versatile and rapidly evolving in a competitive environment, and the implementation of both existing and upcoming regulations, which are also changing quickly. Legal and technology teams are working closely together in tightly coordinated task forces.

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

Please explain and give examples when possible.

AI models, which inherently contain some degree of hallucination, have a significant potential to introduce bias and discrimination in their responses. However, human reasoning and outputs can also be biased. Unlike AI bias, human bias cannot be easily reduced, nor can human thinking or logic be fine-tuned.

AM's are fully aware of the risk of bias in AI, and in line with their regulatory obligations, they make substantial efforts to manage and monitor this risk, ensuring it remains at an acceptable

level.

That said, significant progress has been made, and continues to be made, in reducing bias within AI models. AI has the potential to decrease bias by automating objective processes, such as data comparison in reporting. It can also help combat discrimination by providing equal access to a shared knowledge base, enabling individuals from different backgrounds to learn from AI-generated examples and gain diverse perspectives.

Additionally, clear guidelines should be established to ensure AM's AI solutions are developed and monitored with the goal of minimizing bias and discrimination, reinforcing AM's commitment to fairness and transparency.

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

- Yes
- No

Please explain and give examples when possible.

General purpose AI (GP AI) has opened a vast field of new possibilities, with a potential reputation risk associated to those new possibilities.

GP AI presents vast new opportunities, particularly in enhancing AM's ability to interact with clients. With the extensive amount of information AM industry needs to convey, GP AI significantly improves AM's capability to help clients navigate this information flow. Additionally, as AI contributes to greater information reliability, it offers substantial efficiency gains.

By automating routine and time-consuming processes like data screening, report generation, and compliance checks, AI could allow AM's team to focus on higher-value tasks. This shift brings more value to the organization and helps its employees advance in their careers by allowing them to engage in more strategic and analytical work that requires critical thinking and innovation.

Economically, there's a challenge of balancing the benefits of AI with the potential costs, such as the need for significant investment. Organizationally, integrating AI requires careful management to ensure smooth transitions in workflows and roles.

There's also the risk of relying too heavily on AI without sufficient human oversight, which could lead to decisions that lack the nuance and judgement humans provide. Data management becomes even more crucial, as the integrity and security of information are paramount. Finally, there's the concern about operational dependencies—if AI systems go offline, AM need to have contingency plans in place to keep our operations running.

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

- External providers
- In-house applications

- Partial collaboration with external providers

Please explain and give examples when possible

AM can use either external or in-house providers to develop their AI solutions tailored to their specific use cases as long as such collaboration strictly adheres to our ethical standards and data management/security practices.

Question ASSET MANAGEMENT 8. When delegating functions to third parties, do you check the extent to which the provisions of services will entail the use of AI?

- Yes
- No

Please explain and give examples when possible.

Some firms report that AI clause has been added implying that before signing with any new provider of services, through their due diligence requirements (more generally required vis-à-vis all our service providers), they check and ask this provider if their provided services or products imply the use of AI in particular.

Other indicate that they are working on implementing a specific clause to address the use of AI by third-party service providers. While this clause is not yet in place, they recognize the importance of including it in their review processes. At present, they ask general questions about the use of innovative technologies or new processes, such as digitalization, when evaluating third-party services.

As the AI Act has just been published at the OJEU, AM are set to increasingly embed AI compliance considerations in their contractual relationships, notably delegations.

Part 3: AI Act

3.1 Scope and AI definition

Question 34. Which of the following use cases that could fall into the categorization of high-risk are potentially relevant to your activity?

- AI systems intended to be used to help evaluate the creditworthiness of natural persons or establish their credit score, with a strict regulation being already in place.
- 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.

Both. However, please note that other use cases defined as high-risk or as prohibited may be relevant for the financial sector.

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.

1. Assessing creditworthiness and establishing credit scores

    - Data collection: the financial and personal information of potential customers can be collected from a variety of sources, including tax returns, credit histories, and interactions with financial services

    - Analysis and evaluation: AI analyses these data to assess the customer's creditworthiness. Algorithms take into account various factors such as credit history, income, existing debts and other financial indicators.

    - Building credit score: based on the analysis, AI generates a credit score that represents the probability that the customer will repay a loan. This score is used to make decisions about lending, interest rates, and repayment terms.

    - Predictive Analytics: AI uses machine learning techniques to predict future borrower behavior based on historical data.

    - Decision automation: AI defines a credit score.

2. Risk assessment and pricing in life and health insurance

    - Data collection: health and lifestyle data of potential policyholders are collected from questionnaires, medical examinations, and other relevant sources.

    - Risk analysis: AI assesses risks by analyzing medical data and lifestyle factors. Algorithms consider medical history, lifestyle habits, and pre-existing medical conditions.

    - Pricing: based on the risk assessment, the AI calculates insurance premiums. It determines costs based on individual risks and health profiles.

    - Risk assessment: AI uses statistical and machine learning models to estimate the risks associated with each policyholder.

    - Premium customization: AI enables more accurate and personalized pricing by taking into account a multitude of variables and scenarios.

    - Detection of anomalies: AI helps detect inconsistencies or anomalies in health data, which can indicate potential errors or fraud.

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, there are related AI functions that should be distinguished from the intended purpose of high-risk AI systems like those used for evaluating creditworthiness and risk assessment in insurance.

1. AI Systems in Creditworthiness Evaluation and Credit Scoring

    - Fraud detection and prevention: AI systems can monitor transactions and customer behaviors to detect fraudulent activities and prevent financial fraud.

    - Customer service automation: AI-powered chatbots and virtual assistants can handle customer inquiries, provide account information, and assist with financial planning.

2. AI Systems in Risk Assessment and Pricing for Life and Health Insurance
   - Claims processing automation: AI can be used to automate the processing of insurance claims, verifying documentation, and assessing claims based on predefined rules.
   - Customer health engagement: AI can be utilized to offer personalized health recommendations and engagement strategies, encouraging healthier lifestyles and adherence to medical advice.
   - Policy recommendations: AI systems can analyze a customer's profile to suggest suitable insurance products based on their needs and preferences.
   - Fraud detection and prevention: AI systems can monitor transactions and customer behaviors to detect fraudulent activities and prevent insurance fraud.

From a global perspective, the risk is with systems that contribute directly or indirectly to the establishment of credit scores without human review and validation of these credit scores while having a financial impact on the individual concerned.

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
b) the AI system is intended to improve the result of a previously completed human activity
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
d) or 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](#)

- For systems that contribute but do not independently establish the decision: Narrow Procedural Task (Condition a)
  When the AI system is intended to perform a narrow procedural task, these functions should not be covered by the high-risk use cases because the scope of operation of the AI system is limited, with a mechanical aspect to it as opposed to substantive ones, therefore reducing the potential for these systems to cause significant harm to health, safety or fundamental rights. Such systems typically operate within defined boundaries, making them unlikely to materially influence decision-making outcomes.

  When the AI system is intended to improve the result of a previously completed human activity (condition b), the key point is that AI system's role is supportive and augmentative rather than decisive. The human activity remains central, and the AI enhances rather than replaces human judgment, thus minimizing risks associated with full automation.

When 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 (condition c), AI serves as an analytical tool, providing insights or alerts, while the human retains full control over the decision-making process. This mitigates the risk of the AI system causing significant harm.

When 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 (condition d), these systems assist in gathering or processing information that supports human decision-making, but they do not independently determine outcomes. The presence of human oversight at the final stage further ensures that the system does not pose a significant risk.

In addition:

- Fraud detection and prevention (Condition c): Fraud detection AI systems are designed to identify unusual activities or deviations from typical patterns. They flag potential fraud for further human review, without making final decisions on creditworthiness. As these systems support human decision-making and do not directly influence credit evaluations, they should not be classified as high-risk. AI systems used for detecting insurance fraud should not fall within the high-risk category, considering the exemption provided by the AI Act in Recital 58.

- Customer service automation: this function aims to enhance customer service efficiency and user experience, not to evaluate credit risk or determine credit scores. Narrow Procedural Task (Condition a): AI-powered customer service tools handle inquiries and provide information, which are procedural tasks that do not assess credit risk. These functions aim to improve customer interactions and operational efficiency, and thus do not fall under the high-risk category.

- Claims processing automation: this function deals with operational efficiency and fraud detection in claims rather than assessing the long-term risk profile of an individual. Narrow Procedural Task (Condition a): claims processing involves verifying documentation and applying predefined rules, a procedural task that does not directly impact risk assessment or pricing. Since it focuses on operational efficiency rather than risk evaluation, it should not be classified as high-risk.

- Customer health engagement: this function focuses on improving the overall well-being of customers and reducing future claims but does not directly assess or price the insurance risk. Improve Human Activity (Condition b): AI systems offering health recommendations aim to improve customer health outcomes, enhancing previously completed human activities like health assessments. These systems promote healthier lifestyles but do not directly assess or price insurance risk, keeping them outside the high-risk category.

- Policy recommendations: this is about matching products to customer needs rather than evaluating or pricing the risk associated with insuring the individual. Preparatory Task (Condition d): AI systems suggest suitable insurance products based on customer needs, which is a preparatory task that supports human assessment for policy recommendations. Since they prepare information for human review and do not make final risk or pricing decisions, they should not be considered high-risk.

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.

Here are some specific AI applications and use cases that may fall under the conditions from Article 6(3) of the AI Act, illustrating why they should not be classified as high-risk:

Narrow Procedural Task (Condition a)

• Chatbots for Customer Support: AI-driven chatbots handling routine customer inquiries, providing information about account balances, transaction history, and general product information. These tasks are narrow and procedural, focusing on improving customer service efficiency without impacting financial decision-making or risk assessment.

• Automated Data Entry: AI systems used to extract and input data from documents (e.g., invoices, receipts) into financial systems. This is a narrow task focused on operational efficiency and accuracy in data handling, without influencing creditworthiness or risk evaluation.

Improve Human Activity (Condition b)

• Financial Planning Tools: AI tools that analyze spending patterns and provide personalized budgeting and saving advice. These tools aim to improve users' financial management, building on previous human assessments of financial health, and do not make decisions about creditworthiness or insurance risk.

• Underwriting Assistance: AI tools that assist underwriters by analyzing historical data to provide risk insights and suggestions. These systems support and enhance the human underwriting process, without making final decisions, thus improving the accuracy and efficiency of human activities.

Detect Patterns Without Influencing Decisions (Condition c)

• Fraud Detection in Transactions: AI systems monitoring transactions to detect unusual patterns indicative of fraud, flagging them for human investigation. These systems identify potential issues for further review rather than making final decisions, thereby supporting human judgment without directly influencing creditworthiness or risk assessments.

• Compliance Monitoring: AI systems that scan communications and transactions for compliance violations, highlighting suspicious activities for human review. This application detects deviations from established patterns to ensure

regulatory compliance, leaving final decisions to human reviewers.

<u>Preparatory Task for Assessment (Condition d)</u>

•   Pre-Loan Application Analysis: AI systems that pre-screen loan applications to ensure completeness and flag missing information before human review. This is a preparatory task that aids in the efficiency of the loan review process without making determinations about creditworthiness.

•   Health Risk Indicator Tools: AI applications that analyze health data to provide preliminary risk indicators to insurance agents. These tools prepare data and initial assessments for human review, helping agents make informed decisions without replacing human judgment.

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. If "No", please specify in relation to what aspects and/or which algorithmic/mathematical models?

No, it is not clear/easy to understand if it falls within the scope of the AI Act.

The clarity in determining whether an AI system falls within the scope of the AI Act is often hampered by:

- The definition of AI itself makes it difficult to identify a system as AI, particularly with the use of the autonomy criterion, which is confusing as many systems that are not AI are autonomous in performing tasks.
- Multi-purpose use cases and varying application contexts that change the risk profile of the system.
- Predictive and probabilistic nature of outputs that depend on human interpretation and decision-making.
- Unclear boundaries of autonomy and human oversight where the AI's role in decision-making is not well-defined.
- Algorithmic complexities of machine learning, logic-based, and statistical models that may introduce biases or uncertainties not immediately apparent.

Purpose and context of the use

- Multi-purpose AI Systems: AI systems designed for multiple purposes (e.g., a chatbot that handles both customer service and initial credit assessments). The system's classification may depend on the specific application context, which can vary widely.
- Context-specific applications: AI used in contexts that can range from low-risk (e.g., customer inquiries) to high-risk (e.g., loan approvals). Determining the AI's classification based on varying use cases can be challenging.

Nature of outputs

- Predictive models with advisory roles: AI systems that generate predictions or recommendations intended for human review (e.g., risk assessment tools providing advice to underwriters). If the human review process is not clearly defined or enforced, it may be unclear whether the AI is high-risk.
- Probabilistic models: AI systems using probabilistic approaches to provide likelihood estimates (e.g., predicting the likelihood of loan default). The interpretation and reliance on these probabilities by human decision-makers can vary, affecting the risk assessment.

Human oversight and decision-making

- Degree of autonomy: systems where the degree of autonomy versus human oversight is not well defined (e.g., semi-autonomous underwriting systems). The level of human intervention required to maintain safety and compliance may be unclear.
- AI-assisted decision-making: AI systems that assist rather than replace human decision-making (e.g., tools that highlight potential issues for human auditors). If the boundary between assistance and decision-making is not clearly defined, it may be difficult to classify the system.

Algorithmic and Mathematical Models

Machine Learning Models:

- Supervised learning: models trained on historical data for predictions (e.g., loan approval models) where the impact of bias and fairness is not fully transparent. Determining if the model is sufficiently robust and unbiased to avoid high-risk classification can be challenging.
- Unsupervised learning: clustering and anomaly detection models used for customer segmentation or fraud detection, where the outcomes are not directly interpretable. Understanding how these models influence significant decisions indirectly can be complex.
- Reinforcement learning: models that adapt based on feedback (e.g., optimizing trading strategies) where the feedback loop's safety and fairness are not transparent. Ensuring the system does not develop harmful strategies autonomously can be difficult.

All in all, the lack of clarity primarily stems from the broadness of the definition of AI system in Article 3(1), which includes any machine-based system that operates with varying levels of autonomy and adaptiveness. This definition could potentially encompass a wide range of technologies, from simple rule-based systems to complex machine learning models. Moreover, the distinction between what constitutes an AI system under this definition versus more traditional software systems is not always clear. Regarding the financial sector, there are specific areas where ambiguity could exist:

- **Algorithmic scope**: The definition does not clearly distinguish between different types of algorithms. It is unclear whether all these should be classified as AI system under the Act. Financial institutions often use a variety of algorithmic and mathematical models, such as statistical risk models, credit scoring algorithms, and automated trading systems. The definition in Article 3(1) is so broad that it is unclear whether traditional models, which might not have adaptive or autonomous features, are included under the AI Act. For example, a linear regression model used for credit scoring could technically fit the definition, but it is not clear if it should be regulated as an AI system. A list of cases where an AI system is considered as not incorporating

general-purpose AI would be useful.

- **Level of autonomy**: The sentence "varying levels of autonomy" is vague and could apply to systems with minimal automation as well as those with full autonomy. There is no clear threshold that defines when a system's level of autonomy is significant enough to fall under the Act. In finance, systems may operate with varying degrees of human oversight. For instance, algorithmic trading systems might operate autonomously but within predefined parameters set by humans. The Act does not clearly delineate when such systems are autonomous enough to be considered AI, especially when human intervention is still part of the decision-making process. It seems counter-intuitive to characterize as AI systems that would still necessitate significant human intervention once launched.

- **Adaptiveness**: The term "adaptiveness after deployment" is also broad. While some systems adjust based on user feedback or environmental changes, other may have static outputs post-deployment. It is unclear how much adaptability is required for a system to be considered an AI system. Many financial AI systems, like fraud detection or personalized financial advising tools, adapt over time based on new data. However, traditional financial models might also update periodically without being considered "adaptive AI." The Act's language doesn't clearly differentiate between these scenarios, leading to uncertainty about whether such systems fall under its purview. As a consequence, a risk exist that financial institutions may opt for a conservative approach, to avoid doubts as to whether or not they would be on the safe-side, which would impair the use of modern technology, compared to non-EU competitors.

- **Objective and Output**: The definition includes systems with explicit or implicit objectives that generate outputs like predictions or decisions. However, many software systems can generate outputs based on inputs without necessarily being considered AI, making it difficult to determine if they fall within the scope. The outputs of AI systems in finance—such as credit decisions, risk assessments, or investment recommendations—can significantly impact physical and virtual environments, particularly individuals' financial well-being. However, not all systems with this capability are necessarily considered AI under the current definition, which adds to the confusion.

  Logic and Knowledge-Based Systems:

  - Rule-Based Systems: systems using complex rule sets (e.g., expert systems in legal applications) where rule interactions and their implications are not fully understood. Determining if the rules cover all ethical and safety considerations can be complex.
  - Knowledge graphs: systems leveraging vast networks of knowledge (e.g., for compliance checking) where the graph's completeness and accuracy are not guaranteed. Ensuring the knowledge graph does not contain biases or inaccuracies that lead to harmful decisions.

  Statistical models:

  - Regression models: predictive models estimating relationships between variables (e.g., credit risk models) where the model's assumptions and limitations are not clear. Assessing if the model's predictions are fair and unbiased can be difficult.
  - Probabilistic models: models providing probability distributions for outcomes (e.g., Bayesian networks for fraud detection) where the interpretation of probabilities may vary. Ensuring decision-makers correctly interpret and use probabilistic outputs can be challenging.

3.2 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. If yes, on which specific provisions or requirements and on what aspects concretely?
- No

Yes, further guidance tailored to the financial services sector regarding specific AI Act requirements would be very helpful, particularly for the two high-risk AI use cases identified. Certain areas where clarifications would be useful are general and relate to all industries, including the financial sector. Others are specific to the financial sector. Whenever the financial sector is involved, it is crucial to take into account its specificities, especially through the involvement of the sector-specific authorities and professional bodies.

<u>Here are the specific provisions and aspects where further guidance would be beneficial:</u>

- Defining High-Risk criteria: clarifying what constitutes high-risk in financial applications (see above)
- Providing a clearer definition of what includes the terms "provider", "deployer", "importer", "distributor" as referred to in sections 2 and 3 of the AI Act. In particular, it could be of interest to define precise and operational rules specific to the financial ecosystem, and in the context of a Group.
- Enhancing transparency and explainability: offering methods for clear and understandable AI outputs, and examples/templates of what constitute an explainable output.
- Implementing human oversight: outlining effective human review and intervention processes, as well as examples of human oversight technical proof/documentation.
- Maintaining accuracy and security: setting standards for accuracy, robustness, and cybersecurity.
- Post-market monitoring and cooperation: providing guidelines for ongoing monitoring and cooperation with authorities, particularly templates of data to be communicated.
- Developing lists of more concrete and specific examples specific to the financial sector of exempted high-risk AI systems in order to illustrate section 6 of the AI Act (see above).
- Establishing clear, precise and operational guidelines for the financial sector on the articulation between different legislations addressing high-risk AI systems, especially those related to AML.
- Specifying the different classification tools and methodologies for classifying AI by risk level, to determine whether or not the general-purpose AI model has high-impact capabilities and whether or not it presents a systemic risk.
- Operational methodologies on how to document an assessment if an IA system listed in Annex III is not considered to be a high risk (before the system is placed on the market or put into service)

- Creating compliance checklists tailored to financial AI applications to simplify compliance with the AI Act, covering aspects like data quality, transparency, and robustness.
- Developing frameworks for assessing and mitigating risks specific to financial AI systems, such as bias in credit scoring models or inaccuracies in risk assessment algorithms.
- Specifying the documentation required to demonstrate compliance, such as detailed model documentation, data sources, and decision-making processes.
- Detailing accountability measures, including procedures for addressing errors or biases detected in AI systems.

Examples in specific guidance areas

- Creditworthiness Evaluation AI Systems:
    - Guidelines on developing fair and unbiased credit scoring models, including data selection, feature engineering, and model validation.
    - Methods for assessing the impact of AI-based credit scoring on different demographic groups, ensuring fairness and non-discrimination.
    - Clear instructions on how to inform consumers about the use of AI in credit scoring, their rights to explanation, and procedures for contesting decisions.
- Risk Assessment and Pricing in Life and Health Insurance:
    - Data Management: best practices for handling sensitive health data, ensuring privacy and security while maintaining data quality for accurate risk assessments.
    - Techniques for developing transparent and robust risk assessment models, including sensitivity analysis to understand model behavior under different conditions.
    - Guidance on ensuring that AI-driven pricing algorithms do not lead to unfair discrimination or exclusion of certain groups from insurance products.

Additionally, in relation to AI systems intended to be used to evaluate the creditworthiness of natural persons or establish their credit score, the AI Act provides for an exemption for the detection of financial fraud. However, the extent to which the purpose of detecting fraud may exonerate the AI system, its providers and its deployers from the obligations applicable to AI high-risk systems should be clarified. Especially, the confirmation that AI systems used for the purpose of anti-money laundering and counter-terrorism financing do benefit from such an exemption would be useful. Similarly, recital 58 of the AI Act also provides for an exemption for "*AI systems provided for by Union law [...] for prudential purposes to calculate credit institutions' and insurance undertakings' capital requirements*". However, this exemption from the characterization as AI high-risk system for prudential purposes is not further reflected or expanded elsewhere in the AI Act, contrary to the exemption for the detection of financial fraud which is expressly mentioned in point 5(b) of Annex 3. Clarification on the scope of this exemption (in particular which are the AI system provided for by Union law concerned and/or how to identify them) and the extent to which this exemption may exonerate AI systems would certainly facilitate the development of AI in the financial sector as ensuring a clear framework for financial institutions and insurance undertakings subject to regulatory capital requirements under Union law, notably Regulation EU No.575/2013 (CRR) or directive (EU) No. 2009/138 (Solvency II).

Furthermore, the AI Act also prohibits certain types of use cases. A number of them are defined very broadly. Because of this, their characterization in the financial sector is challenging. For example, AI systems are prohibited if they are used for the evaluation or classification of natural persons based on their social behaviour or known, inferred or predicted personal or personality characteristics, with the social score leading to either or both of the following: (i) detrimental or unfavourable treatment of the said persons in social contexts that are unrelated to the contexts in which the data was originally generated or collected or (ii) detrimental or unfavourable treatment of these persons that is unjustified or disproportionate to their social behaviour or its gravity. It would be useful to clarify how this definition must be implemented in relation to AI solutions used in the financial sector and relying on personal characteristics of clients or their social behaviour to determine the conditions in which they have access to financial services.

Globally, the financial sector would benefit from general clarifications of critical notions of the AI Act, such as: the notions of "AI systems" and "AI models" and how to distinguish between them; the notions of "providers", "deployers" and "distributors"/"importers", their articulation and their implementation, especially in the context of a group. Such clarifications should include a more precise definition of each of these terms, and illustrative application of those definitions, similarly to the "whereas" parts of EU Directives.

3.3 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?

- If yes, please explain your choice and indicate if the guidance should be high-level and principles based or tailored to specific use cases.
- No, the supervisory expectations are clear.

Yes, further guidance to clarify supervisory expectations for future AI high-risk use cases in compliance with existing financial legislation would be highly beneficial. AI high-risk systems in financial services must comply with both the AI Act and existing financial regulations (e.g., GDPR, PSD2, Basel III, Solvency II). Specific guidance can help financial institutions navigate this complexity, ensuring they meet all regulatory requirements without conflicting obligations.

In defining these clarifications, it will be crucial to take into account the specificities of the financial sector and the requirements already applicable to it. For this purpose, European and national financial authorities and sector-specific professional bodies should play a critical role in the publication of these clarifications.

Furthermore, even if these clarifications would be useful, it is important to maintain enough flexibility for the industry in a fast-evolving and highly competitive environment. Therefore, the medium used to bring these clarifications should not impose too strict and prescriptive standards and should rather take the form of indicative guidance or Q&As.

Indeed, the European banking and financial sector is characterised by a highly significant and complex regulatory framework. This framework covers various sector financial entities (i.e.

credit institutions, investment firms, fund management companies, insurance companies etc.) and addresses all aspects of regulated business activities (i.e. governance, client relationships, prudential requirements, risk management, etc.) to ensure the stability and efficiency of the financial sector, while maintaining a safe and secured environment for all financial stakeholders and their investors.

Beyond the magnitude of the financial services regulations, the financial sector is distinguished by its pioneering role in the development and integration of advanced technologies at the heart of its activities (e.g., high-frequency trading, algorithmic trading, etc.). This trend towards digitalization has helped to shape the current regulatory landscape as well as the extra-regulatory environment, particularly through the development of technical standards - often initiated by fintechs - which tend to establish themselves as true market references and practices in the sector.

Regulation has adapted to technological advances by adopting an approach based on technological neutrality. This approach ensures a fair and impartial integration of innovations, without favouring any particular technology, into the various regulatory aspects governing those financial entities (e.g., risk management, prudential, governance, data protection, etc.). Regulation needs to ensure a level playing field with non-EU financial institutions, and non-EU AI providers, to maintain EU innovation. This neutrality should also apply to the use of AI.

The integration of AI in this already highly complex regulatory environment raises questions. Indeed, the introduction of AI-specific regulation adds an additional layer of standards which, counterintuitively, could hinder technological innovation by increasing regulatory complexity, potentially diminishing the sector's attractiveness and be ultimately viewed as contradictory with existing financial services regulation requirements.

It is therefore imperative to conduct a thorough analysis on how AI-related standards can be harmonized or well-articulated with existing financial regulations requirements. The question arises as to whether AI regulation should replace or overlap with current sector-specific regulatory frameworks, or whether it should aim to fill any specific AI potential gaps. Currently, general principles apply to financial institutions, such as with respect to risk-management, and as a general principle, AI regulation could be considered to apply only if current regulation would not otherwise provide for applicable rules.

It is then essential to consider the impact of AI integration in the European financial sector, not only from a regulatory compliance standpoint but also in terms of competitiveness and innovation. Clarifying supervisory expectations for AI in the sector would help to define clear guidelines, thus encouraging a responsible implementation of AI that is compliant with the financial services regulation rules, while supporting the spirit of innovation inherent in the financial sector and the ultimate expected protection of the investors.

To limit risks of conflicts, it could be considered to provide that general principles and rules otherwise applicable to financial institutions override AI rules that would be inconsistent or would otherwise conflict with the latter. In addition, a new approach to sanctions should be considered to better take into account good faith, e.g., prior contacts with the regulator, in connection with the implementation of these new rules in a rapidly moving landscape and ensuring proportionality of sanctions with a violation of the rule.

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?

- If yes, please explain your response, and indicate if the guidance should be high-level and principles based or tailored to specific use cases.
- No, the supervisory expectations are clear.

Yes, providing further guidance to clarify supervisory expectations for AI use cases in the financial services sector that are not considered high-risk by the AI Act is beneficial.

As a general comment it seems to us that the integration AI Act in the banking and financial sector regulatory framework requires a balanced approach that stimulates innovation while leveraging the existing regulatory framework. European Supervisory Authority's guidelines based on general principles – accompanied by examples of use cases – could be helpful as long as they only provide guidelines, aiming to provide comfort to the financial institutions, as opposed to setting-out- overly restrictive regulation that could hinder innovation (the **Supervisors Guidelines**). Those principles could notably include:

- **Risk classification criteria**: establish clear criteria that allow sector players to set the risk level of AI use cases and the corresponding regulatory obligations.

- **AI systems governance rules**: determine the appropriate governance structure meeting the European banking and financial law requirements, including maybe the need to create a specialised committee or appoint an internal AI officer, as well as define the scope of their monitoring duties and the management of interactions with supervisors. It is noteworthy that the AI Act opts for a risk-based approach, in line with the risk management and internal control practices already used by regulated entities in accordance with regulations.

- **Degree of human intervention**: it is essential to keep humans at the heart of the decision-making process to avoid excessive dependence on AI and the risk of making decisions based on errors (sometimes referred to as "hallucinations"). The Supervisors Guidelines could define the level of human involvement in decision-making processes and specify the appropriate time for this intervention. It is important to emphasize that humans should not be limited to a supervisory role that merely validates the choices proposed by AI. On the contrary, they should play a decision-making role, capable of assessing the context and bringing their critical judgment to guide the actions to be taken.

Taking the example of credit scoring, the guidelines should then clarify the role of human intervention in the decision-making process of scoring, the governance around the creation of AI scoring algorithms, the control mechanisms to ensure the consistency and relevance of the scoring algorithm, as well as the level of transparency and explanation provided to clients or investors about the decided rating. The AI Act should be smoothy integrated within the existing financial services regulatory framework, considering all the relevant organisational and conduct of business rules. We would expect as much as possible equivalence between the financial services regulation and the AI rules to avoid any duplication, contradiction and an additional layer of complexity. For example, Article 18 of the AI Act on documentation keeping refers to the body of rules applicable to financial institutions regarding the retention of their documentation by providers of AI high-risk systems.

Similarly, we note that when a provider of high-risk AI systems is a financial institution subject to requirements regarding its internal governance, arrangements, or processes under Union financial services law, the obligation to put in place a quality management system under Article 17 of the AI Act is deemed fulfilled by complying with the rules of Union financial services law. Additionally, deployers that are financial institutions can meet the monitoring obligation set out in article 26 of the AI Act by complying with the rules on internal governance arrangements, processes and mechanisms pursuant to the relevant financial service law.

Moreover, it seems difficult for all use cases to be anticipated to date, given the rapid technological evolution of AI. Thus, a detailed approach could create grey areas by omission of AI use cases due to the impossibility of anticipating future technological developments. The European approach, which adopts a broad definition of AI in the AI Act, should be reflected in the Supervisors Guidelines to encompass a wide variety of use cases, whether current or future.

In conclusion, while recognising the need for the financial services regulation to be adapted to the challenges of AI, it is first crucial to consider the existing highly regulated framework of financial institutions to restrict the applicable AI Act to only new relevant rules and to preserve the financial sector's capacity for innovation.

Regarding some examples of use cases:

Customer service chatbots: AI-powered chatbots are deployed on insurance/banking websites and mobile apps to handle customer inquiries, provide account information, and assist with transactions. Guidance needed:
- Standards for secure data handling and storage.
- Best practices for informing customers about the use of AI.

Fraud Detection Systems: AI algorithms analyze transaction patterns to detect fraudulent activities in real-time, such as unusual spending patterns or unauthorized access attempts. Guidance needed:
- Guidelines for accuracy and reliability standards.
- Best practices for human oversight and intervention.
- Standards for data protection and privacy.

Automated Loan Processing: AI systems automate parts of the loan application and approval process, such as verifying applicant information, assessing credit risk, and making approval decisions. Guidance needed:
- Standards for data accuracy and integrity.
- Best practices for ensuring transparency and fairness.
- Guidelines for GDPR compliance in data handling.

Predictive Maintenance for ATMs: AI systems predict when ATMs are likely to fail or require maintenance based on usage patterns and operational data. Guidance needed: best practices for data security in predictive maintenance.

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)?

- If yes, please indicate the acquis/ provision in cause.
- No, I am not aware of any provision(s) of this kind

Yes, there are provisions within the financial acquis that could potentially impede the development and deployment of AI applications. These provisions primarily focus on the need for transparency, explainability, and consumer protection.

- General Data Protection Regulation (GDPR)
  - Article 22: this article provides individuals with the right not to be subject to a decision based solely on automated processing, including profiling, which produces legal effects or similarly significantly affects them. It requires that meaningful information about the logic involved in the decision-making process be provided, which can be challenging for complex AI models.
  - Article 13-15: These articles emphasize the right to be informed and the right of access, requiring organizations to provide transparent information about the processing of personal data, including the use of AI.

- Markets in Financial Instruments Directive II (MiFID II): Article 25: This article requires firms to ensure that financial instruments are suitable for their clients and to provide appropriate information about financial instruments and strategies. It implies that the algorithms used must be explainable to ensure that firms can meet these obligations.

- Capital Requirements Regulation (CRR)

  - Article 144: Requires institutions to use internal models for risk management that are subject to supervisory approval. These models must be well-documented and capable of being understood and validated by both the institution and regulators.
  - Article 175: Stresses that risk models must be based on accurate, complete, and appropriate data. The models must be transparent, and their assumptions and methodologies must be well understood.

- Consumer Credit Directive (CCD)

  - Article 5: Requires that consumers are provided with adequate information before the conclusion of a credit agreement to allow them to compare different offers and make an informed decision. Automated systems must ensure that the provided information is clear and comprehensible.
  - Article 8: Emphasizes the need for creditworthiness assessments to be conducted before granting credit. This requires transparency in how these assessments are conducted.

- Payment Services Directive II (PSD2): Article 97: Focuses on strong customer authentication and secure communication, which could impact the deployment of AI systems in payment services. Automated systems must comply with these security requirements.

- E-Commerce Directive: Article 11: Requires that certain transactions and interactions cannot be entirely automated, as they necessitate human oversight or intervention,

particularly when entering into binding agreements.

- EBA Guidelines on outsourcing (EBA/FL/2019/02): certain financial entities are subject to a comprehensive set of rules applicable to the outsourcing arrangements they may put in place with third parties with regulatory requirements depending on whether the outsourced service qualifies as a critical or important function. These requirements in the EBA Guidelines may be very challenging to implement regarding the use of AI solutions in the financial sector (noting that AI systems or model providers are not used to comply with audit rights from financial supervisors). A clarification/adaptation of the EBA Guidelines in the context of the use of AI in the financial sector would help the financial sector to seize the opportunities linked to AI for EU financial entities. Similar regulations are applicable to insurance undertakings regarding outsourcings with similar issue (notably Delegated Regulation (EU) 2015/35 of 10 October 2014).

- DORA Regulation: the financial sector is subject to specific requirements regarding its use of information and communication technology (ICT) pursuant to the DORA Regulation, which requires from the regulated financial entities notably to put in place a dedicated ICT risk management framework, to perform specific digital operational resilience testing, and to provide key contractual provisions in the contracts concluded with ICT third-party service providers. It remains unclear when, and in which conditions, AI systems would fall within the definition of ICT under DORA and therefore when financial actors need to comply with DORA when they develop or use AI solutions. A clarification in this regard would certainly facilitate the development of AI in the financial sector.

- Existing regulation for insurance in Europe already applies, including to the use of new technology as AI. Sectoral legislation such as the Solvency 2 Directive (SII), although dealing with conduct and prudential objectives, also applies to AI when used in the insurance and occupational pensions sectors. Similarly, sectoral legislation relating to insurance distribution, such as the Insurance Distribution Directive (IDD), guarantees customer protection.

At this stage, our analysis has not identified any insurmountable obstacles to the adoption of AI in the banking and financial sector. However, it is important to emphasize that integrating AI within the existing regulatory framework requires clarification on the articulation between the existing financial services regulatory framework and the new rules of AI Act.

For illustrative purposes, the ESMA has highlighted in a public statement dated 30 May 2024 that AI could be used to manage relationships with retail clients. It emphasizes that these clients must be clearly informed that they are interacting with an AI and must be aware of the AI's role in the investment recommendations that may be made to them. This illustrates how AI can fit within the framework of the MiFID rules. On the same vein, the EBA published a report on the use of machine learning for internal ratings-based models, showing that financial institutions used or intended to use machine learning techniques in some areas of internal ratings-based modelling, primarily for the probability of default estimation during the risk differentiation phase of the model development (noting nevertheless that new CRR3 prudential rules are likely to refrain banks from using machine learning techniques for internal ratings-based modelling). The French banking authority (ACPR) also published a note showing the challenges, risks and benefits of machine learning models for the design of internal credit risk assessment models used by banks to calculate their capital adequacy

requirements.

It would also be useful to clarify how professional secrecy requirements should apply to AI systems, especially given that professional secrecy is not harmonised across EU jurisdictions. For instance, it could be mentioned whether confidential data may be used to feed AI systems and under what conditions.

Key articulation clarifications/guidelines between the AI Act and the regulatory package of the financial institutions issued by the European Supervisory Authorities may then be very welcome to ensure a smooth development of the AI in the financial sector.

Furthermore, the regulation related to AI is still in its early stages, and it is therefore too premature for specific rules or guidelines that might formally prohibit the use of AI in activities related to the banking and financial sector.

Conclusion

Paris Europlace thanks the European Commission for its invitation for feedback and remains at its disposal to share its expertise, and to detail the technical evidence and analysis on the points mentioned above, with all relevant parties working on, or with an interest in, the EC evaluation. We also look forward to the next steps in 2024 and beyond.