New rules of the game: AI act in banking

Background

In the past months we have seen an upswing with consumer-facing Artificial Intelligence (AI) tools that almost came out of nowhere. Media has been flooded with posts regarding Openai's Chat GPT-3, and how it has passed numerous exams from prestigious American law and business schools. What is remarkable about these new AI tools is that they are surprisingly good. Even as we write this article, we use Notion's AI feature and Quillbot for rephrasing. So right now, AI is not just a buzz word or a complex technology working in the backend, but something tangible and visible for consumers. With AI's upswing outside business applications, the discussion regarding regulation and ethics raises new discussions.

Ahead of the most recent buzz around AI usage, back in April 2021, the European Commission ended up with its proposal for a regulatory framework on AI: the Artificial Intelligence Act (AI Act). In the proposal it is stated that the AI Act's objective is to:

- ensure that AI systems placed on the Union market and used are safe and respect existing law on fundamental rights and Union values;
- ensure legal certainty to facilitate investment and innovation in AI;
- enhance governance and effective enforcement of existing law on fundamental rights and safety requirements applicable to AI systems;
- facilitate the development of a single market for lawful, safe and trustworthy AI applications and prevent market fragmentation

The main objective of the act is to provide a set of guidelines to help organizations create AI that is reliable and trustworthy, compliant with EU law, ethically sound, and technically stable.

Banking according to AI Act

In the act proposal AI operations are classified by groups in terms of the potential risks the AI misuse could lead to. The risk groups are: minimal risk, limited risk, high risk and unacceptable risk. According to the act AI solutions in banking are interpreted to belong to the group of high-risk systems, meaning that under the AI Act banks and financial institutions may experience stricter demands and limitations. Before and after releasing their AI tool into the market, operators of high-risk AI systems must adhere to several technical and compliance requirements, such as developing a quality management system, maintaining thorough technical documentation, performing an assessment to make sure the system complies with the AI Act, registering the system in an EU database, monitoring the system once it is released onto the market, and updating the documentation and conformity assessment if necessary.

Hence, the new regulation is aiming at making sure that the high-risk AI solutions are always traceable and auditable in a transparent manner subject to human oversight, trained on datasets that are complete, representative, and error-free, and as a result they become robust, accurate, and secure. As an example, financial institutions might be expected to log and store any AI activity related to their customers more diligently than they have done it before. Tietoevry Banking, as a strategic partner of banks and financial institutions, takes these concerns seriously and has already started taking into account the new requirements in its solutions.

Understanding the risks

To understand why banking is generally classified as a high-risk industry it's important to understand its comparative position to other industries. Banking as an industry and in terms of AI differs from other consumer products significantly in terms of three key components: data sources, risks related to errors, and compliance and regulation. Consumer products typically rely on user-generated data that can be quite universal in general. In contrast, banking data is typically subject to certain established structures and formats arising directly from the business models in banking, such as regulatory filings, credit scores, transaction history and accounts. Another important difference is related to the consequences arising from the errors: while a mistake in a consumer product recommendation may result in a suboptimal user experience, a mistake in an AI solution in banking could result in financial losses or regulatory violations with a threat of sanctions. The potential consequences of inaccuracy can be way more severe for people's lives in banking. When it comes to compliance and regulation, banking in itself is already a highly regulated industry subject to restrictions coming from frameworks such as GDPR, PCI DSS, AML and KYC. However, its AI solutions are not subject to any specific regulation and therefore most of the times AI solutions in banking are interpreted from the point of view of existing regulation which is a suboptimal situation leading to a lot of space for interpretation. Therefore, AI act will bring more clarity to the situation, and it will fill the gaps related to the regulation of AI systems in banking.

New opportunities

Despite the new requirements, our take on the AI Act is predominantly positive since it offers a more concrete and transparent framework on how AI systems should be monitored and adds stability to this process. The act creates a clear set of rules eliminating uncertainty related to AI solutions' compliance, ethics, and technics we have seen in recent times. The new regulation puts high expectations on our AI solutions, and as a strategic partner of banks and financial institutions Tietoevry Banking is responding to these expectations by maintaining the high standards of its services in AI and aligning them with the new regulation. AI act helps us to build products with the long-term perspective and as a result enabling more potential for the future scalability.