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Targeted consultation on artificial intelligence in the financial sector

Fields marked with * are mandatory.

Introduction

In financial services and beyond, there is a broad technology-driven trend towards greater use of AI. The Commission highlighted the need for a targeted consultation on the use of AI in financial services. The goal is to identify the main use cases and the benefits, barriers and risks related to the development of AI applications in the financial sector.

In general, the development and use of AI in the EU will be regulated by the AI Act, the world's first comprehensive AI law. The AI Act which was voted by the European Parliament on 13 March and expected to enter into force in July, aims to guarantee the safety and fundamental rights of people and businesses, while strengthening AI uptake, investment and innovation across the EU. To support further these objectives, an AI innovation package has been adopted by the Commission on 24 January 2024. It contains a series of measures to support European startups and SMEs in the development of trustworthy AI that respects EU values and rules. This follows the political agreement reached in December 2023 on the AI Act.

The AI Act is designed to complement the already existing financial services *acquis*, that, while not explicitly targeted at regulating AI, is an important framework to manage the related risks in specific applications and includes several relevant requirements for financial entities when providing financial services. It does so by pursuing objectives to ensure healthy financial markets, such as transparency, market integrity, investor protection and financial stability. For example, when providing investment services, including through reliance on AI such as trading algorithms, investment firms must comply with the MIFID/R framework and the market abuse rulebook.

The aim of this consultation is not to lead to policy work that would generate new duplicative requirements in relation to the use of AI by the financial sector, or to new requirements that have the potential to stifle AI innovation.

Objective of the consultation

The present targeted consultation will inform the Commission services on the concrete application and impact of AI in financial services, considering the developments in the different financial services use cases.

The views from stakeholders will support the Commission services in their assessment of market developments and risks related to AI and in the implementation of the AI Act and existing financial services legislation in the financial sector. The consultation is focused on the objectives of the financial sector *acquis* and the AI Act and is not intended to focus on other policy objectives such as competition policy. It is intended to improve the effective implementation of these legal frameworks.

This targeted consultation will include questions with multiple choice and open answers. The questionnaire contains three parts:

1. a first part with general questions on the development of AI
2. a second part with questions related to specific use cases in finance
3. and a third part on the AI Act related to the financial sector

For the purpose of this targeted consultation, the concept of AI corresponds to the definition of an AI system established in the AI Act, which covers "*any machine-based system designed to operate with varying levels of autonomy and that may exhibit adaptiveness after deployment and that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments*".

Target group

The targeted consultation will gather input from all financial services stakeholders including companies and consumer associations. Views are particularly welcome from financial firms that provide or deploy/use AI systems. This consultation is designed for respondents developing or planning to develop or use AI applications in financial services.

Responding to the consultation

Respondents are invited to complete the questionnaire by 13 September 2024. They are invited to elaborate by providing input and additional insights to their answers.

Outcome

Depending on the progress made, the Commission will publish a report on the findings and an analysis of the main trends and issues arising with the use of AI applications in financial services.

Please note that the information collected will not be shared with third parties and if used, it will be anonymised, in such a manner that it does not relate to any identified or identifiable financial institution.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact eu-digital-finance-platform@ec.europa.eu.

More information on

- this consultation
- the consultation document
- digital finance
- the digital finance platform

- the protection of personal data regime for this consultation

About you

*Language of my contribution

- Bulgarian
- Croatian
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- Danish
- Dutch
- English
- Estonian
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- German
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- Hungarian
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- Maltese
- Polish
- Portuguese
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- Slovenian
- Spanish
- Swedish

*I am giving my contribution as

- Academic/research institution
- Business association
- Company/business

- ○ Consumer organisation
- ○ EU citizen
- ○ Environmental organisation
- ○ Non-EU citizen
- ◉ Non-governmental organisation (NGO)
- ○ Public authority
- ○ Trade union
- ○ Other

* First name

Peter

* Surname

Norwood

* Email (this won't be published)

peter.norwood@finance-watch.org

* Organisation name

255 character(s) maximum

Finance Watch

* Organisation size

- ○ Micro (1 to 9 employees)
- ◉ Small (10 to 49 employees)
- ○ Medium (50 to 249 employees)
- ○ Large (250 or more)

Transparency register number

255 character(s) maximum

Check if your organisation is on the transparency register. It's a voluntary database for organisations seeking to influence EU decision-making.

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* Country of origin

Please add your country of origin, or that of your organisation.

- Afghanistan
- Åland Islands
- Albania
- Algeria
- American Samoa
- Andorra
- Angola
- Anguilla
- Antarctica
- Antigua and Barbuda
- Argentina
- Armenia
- Aruba
- Australia
- Austria
- Azerbaijan
- Bahamas
- Bahrain
- Bangladesh
- Barbados
- Belarus
- Belgium
- Belize
- Benin
- Bermuda
- Djibouti
- Dominica
- Dominican Republic
- Ecuador
- Egypt
- El Salvador
- Equatorial Guinea
- Eritrea
- Estonia
- Eswatini
- Ethiopia
- Falkland Islands
- Faroe Islands
- Fiji
- Finland
- France
- French Guiana
- French Polynesia
- French Southern and Antarctic Lands
- Gabon
- Georgia
- Germany
- Ghana
- Gibraltar
- Greece
- Libya
- Liechtenstein
- Lithuania
- Luxembourg
- Macau
- Madagascar
- Malawi
- Malaysia
- Maldives
- Mali
- Malta
- Marshall Islands
- Martinique
- Mauritania
- Mauritius
- Mayotte
- Mexico
- Micronesia
- Moldova
- Monaco
- Mongolia
- Montenegro
- Montserrat
- Morocco
- Mozambique
- Saint Martin
- Saint Pierre and Miquelon
- Saint Vincent and the Grenadines
- Samoa
- San Marino
- São Tomé and Príncipe
- Saudi Arabia
- Senegal
- Serbia
- Seychelles
- Sierra Leone
- Singapore
- Sint Maarten
- Slovakia
- Slovenia
- Solomon Islands
- Somalia
- South Africa
- South Georgia and the South Sandwich Islands
- South Korea
- South Sudan
- Spain
- Sri Lanka
- Sudan
- Suriname

- Bhutan
- Bolivia
- Bonaire Saint Eustatius and Saba
- Bosnia and Herzegovina
- Botswana
- Bouvet Island
- Brazil
- British Indian Ocean Territory
- British Virgin Islands
- Brunei
- Bulgaria
- Burkina Faso
- Burundi
- Cambodia
- Cameroon
- Canada
- Cape Verde
- Cayman Islands
- Central African Republic
- Chad
- Chile
- China
- Christmas Island
- Greenland
- Grenada
- Guadeloupe
- Guam
- Guatemala
- Guernsey
- Guinea
- Guinea-Bissau
- Guyana
- Haiti
- Heard Island and McDonald Islands
- Honduras
- Hong Kong
- Hungary
- Iceland
- India
- Indonesia
- Iran
- Iraq
- Ireland
- Isle of Man
- Israel
- Italy
- Myanmar/Burma
- Namibia
- Nauru
- Nepal
- Netherlands
- New Caledonia
- New Zealand
- Nicaragua
- Niger
- Nigeria
- Niue
- Norfolk Island
- Northern Mariana Islands
- North Korea
- North Macedonia
- Norway
- Oman
- Pakistan
- Palau
- Palestine
- Panama
- Papua New Guinea
- Paraguay
- Svalbard and Jan Mayen
- Sweden
- Switzerland
- Syria
- Taiwan
- Tajikistan
- Tanzania
- Thailand
- The Gambia
- Timor-Leste
- Togo
- Tokelau
- Tonga
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
- Turks and Caicos Islands
- Tuvalu
- Uganda
- Ukraine
- United Arab Emirates
- United Kingdom

- Clipperton
- Cocos (Keeling) Islands
- Colombia
- Comoros
- Congo
- Cook Islands
- Costa Rica
- Côte d'Ivoire
- Croatia
- Cuba
- Curaçao
- Cyprus
- Czechia
- Democratic Republic of the Congo
- Denmark
- Jamaica
- Japan
- Jersey
- Jordan
- Kazakhstan
- Kenya
- Kiribati
- Kosovo
- Kuwait
- Kyrgyzstan
- Laos
- Latvia
- Lebanon
- Lesotho
- Liberia
- Peru
- Philippines
- Pitcairn Islands
- Poland
- Portugal
- Puerto Rico
- Qatar
- Réunion
- Romania
- Russia
- Saint Barthélemy
- Saint Helena Ascension and Tristan da Cunha
- Saint Kitts and Nevis
- Saint Lucia
- United States
- United States Minor Outlying Islands
- Uruguay
- US Virgin Islands
- Uzbekistan
- Vanuatu
- Vatican City
- Venezuela
- Vietnam
- Wallis and Futuna
- Western Sahara
- Yemen
- Zambia
- Zimbabwe

* Field of activity or sector (if applicable)

- [ ] Accounting
- [ ] Auditing
- [x] Banking
- [x] Credit rating agencies
- [x] Insurance
- [x] Pension provision
- [x] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Social entrepreneurship
- [ ] Other

☐ Not applicable

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

* **Contribution publication privacy settings**

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

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

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Part 1: General questions on AI applications in financial services

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

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

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

Please explain and give examples when possible:

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

If properly regulated and supervised, the use of AI in the provision of financial services can bring some benefits for consumers. For example, it makes the sales process for financial services (e.g. the underwriting process when selling insurance products or creditworthiness assessments when selling consumer loans) speedier (more efficient). Moreover, using AI-assisted systems to automate processes leads to cost savings for financial services providers and these cost savings could potentially be passed down to consumers.

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

Please explain and give examples when possible:

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

1. Financial exclusion risks and data privacy concerns:

The use of AI in the provision of financial services brings with it financial exclusion risks. For example, with regards to insurance products, the use of AI for underwriting (risk assessment and pricing) risks making vulnerable consumers uninsurable. Since its establishment, the insurance business model has been built on 'solidarity' or 'risk pooling' which has allowed potentially vulnerable consumers with higher risk profiles to still be able to afford insurance (be 'insurable') as the risk is spread out collectively between policyholders. The highly granular risk assessments (highly personalized pricing) enabled by AI tools (e.g. through the use of wearables/telematics), however, endanger this business model as it can lead to certain vulnerable consumers becoming 'uninsurable', i.e. financially excluded (denied insurance coverage or being faced with prohibitively high insurance premiums).

Another example for finanical exclusion risks are discriminatory outcomes of AI-assisted decisions. AI-assisted tools sometimes use data such as data on social media activities, location, browsing history, and shopping interactions which is collected without the consent of the consumer. This data is sometimes not relevant for the use case (e.g. a creditworthiness assessment of a consumer when offering a consumer loan) and can therefore lead to inaccurate or discriminatory outcomes: e.g. people being denied insurance or only being offered insurance at high premiums based not on objective criteria regarding the consumer's risk but based on biased decisions. In addition, there is the risk of errors or biases in the AI model which can lead to incorrect or discriminatory outcomes. AI models can be biased if they are trained on data that reflects historical patterns of discrimination or disparities (for instance, postcodes signaling ethnicity or occupation categories signaling gender).

The use of irrelevant (wrong type of) data by AI-assisted tools in the provision of financial services can also

lead to mis-selling of financial services which, in turn, can lead to financial detriment for the consumer. If the wrong kind of data is used for a creditworthiness assessment of a consumer when selling a consumer loan, for example, it can lead to consumers being sold a loan they are unable to afford. This, in turn, can lead and exacerbate over-indebtedness which brings with it not only economic hardship for the consumer but also physical and mental health issues as well as a strain on a country's economy as a whole due to loss in production and rising costs for social welfare systems.

2. Price discrimination practices:

The use of AI systems in the financial sector also facilitates price optimisation practices, i.e. practices where, with the help of algorithmic tools, firms set prices/fees for financial services/products based on the consumer' s price sensitivity (willingness to pay more). An example for this is setting premiums for insurance based on assessing whether consumers tend to switch general insurance products, such as home or motor insurance at renewal, or tend to hold them for long periods of time and are therefore unlikely to react to price rises and shop around. Data from EIOPA, for example, show that firms are increasingly using price optimization practices for popular insurance products, including accident, health, household and motor insurance.

3. Lack of transparency and explainability of AI decisions:

The risk with respect to the use of AI technology for the provision of financial services is further exacerbated by the non-transparency or 'black box' effect associated with current machine-learning models. Most current instances of machine learning, especially deep learning, neural networks-based systems, create a 'black box' effect that brings with it severe limitations on the transparency and explainability of the outcomes they generate. This, in turn, makes it difficult for the financial services provider to be able to determine whether the outcome of the AI-assisted decision/output (e.g. risk assessment and pricing for insurance or a creditworthiness assessment of a consumer for consumer loans) is accurate/unbiased and justified. It also makes it difficult for the consumer to legally contest the outcome of the automated decision, let alone obtain the necessary documentary/ factual evidence to contest it.

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

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

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

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

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

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

Please explain and give examples when possible:

5000 character(s) maximum

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

Benefits of using AI applications in financial services

Question 7. Please score the following benefits from most significant (10) to le

	1 -	2	3	4	5	
Fraud detection: AI algorithms can analyse large amounts of data to detect patterns and anomalies that may indicate fraudulent activity, helping to reduce financial losses for businesses and customers.	○	○	○	○	○	
Risk management: AI can analyse and predict market trends, assess credit risks, and identify potential investment opportunities, helping financial institutions make more informed decisions and manage risks more effectively.	○	○	○	○	○	
Automation of routine tasks: AI can automate repetitive tasks such as data entry, transaction processing, and document verification, freeing up time for employees to focus on more complex and strategic activities.	○	○	○	○	○	
Cost savings: by automating processes and improving efficiency, AI can help financial institutions reduce operational costs.	○	○	○	○	○	
Personalised financial advice: AI can analyse customer data to provide personalised financial advice and recommendations, helping customers make better financial decisions and improve their financial well-being.	○	○	○	○	○	
Compliance and regulatory support: AI can help financial institutions stay compliant with regulations by analysing and interpreting complex regulatory requirements and monitoring transactions for suspicious activities.	○	○	○	○	○	
Enhanced decision-making: AI can analyse large amounts of data and provide insights that can help financial institutions make better investment decisions, assess credit risks, and optimise their operations.	○	○	○	○	○	
Improved security: AI can enhance security measures by identifying potential security threats, detecting unusual patterns of behaviour, and providing real-time alerts to prevent security breaches.	○	○	○	○	○	

Streamlined processes: AI can streamline various financial processes, such as loan underwriting, account opening, and claims processing, leading to faster and more efficient services for customers.											
Improved customer service: AI can be used to provide personalised and efficient customer service, such as chatbots that can answer customer queries and provide assistance 24/7.											

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

Please explain and give examples when possible:

5000 character(s) maximum

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

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

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

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

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

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

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

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

Please explain and give examples when possible:

5000 character(s) maximum

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

As mentioned earlier, a greater use of AI in financial services risks leading to financial exclusion, unfair discrimination, data privacy concerns and price discrimination.

All essential (popular) financial services products are impacted by these risks and thus, it is very important that these risks are addressed and that all types of financial services are covered by mitigating regulations.

Discrimination risks impact vulnerable groups such as ethnic minorities, women, the elderly (because they are often by default assumed to be of a higher risk), and groups from lower socio-economic backgrounds the most.

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

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

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

5000 character(s) maximum

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

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

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

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

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

5000 character(s) maximum

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

AI and compliance burden

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

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

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

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

- ( ) Yes
- ( ) No

- Don’t know / no opinion / not applicable

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

5000 character(s) maximum

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

Data access

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

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

Please explain your answer to question 15:

5000 character(s) maximum

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

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

Please explain and give examples when possible:

5000 character(s) maximum

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

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

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

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

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

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

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

Business model

Question 20. Has AI changed your business model?

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

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

Please explain and give examples when possible:

5000 character(s) maximum

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

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

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

General purpose AI

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

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

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

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

Please explain and give examples when possible:

5000 character(s) maximum

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

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

Please explain and give examples when possible:

5000 character(s) maximum

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

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

Please explain and give examples when possible:

5000 character(s) maximum

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

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

Please explain and give examples when possible:

5000 character(s) maximum

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

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

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

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

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

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

Forecasts

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

Please explain and give examples when possible:

5000 character(s) maximum

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

It is to be expected that the use of AI in the provision of financial services will increase more and more. This will exacerbate the risks outlined in our answer to Question 3. Moreover, the increased use of AI-assisted tools in the provision of retail investment products may increase the exclusion risks for consumers who have legitimate data privacy concerns as more and more financial service providers may simply deny (exclude) a consumer from financial services if they are not willing to share their data via an AI-assisted tool (e.g. wearables/telematics used for risk assessments and pricing for insurance). This will mean that consumers reluctant to share too much data due to privacy concerns via tools such as telematics or wearables that monitor their activities continuously are denied insurance or could get less advantageous premiums.

In addition, the increased use of AI applications by financial services providers will put consumers who are not digitally savvy at increased risk. For example, in terms of price optimization practices, data shows that elderly people, people with limited access to digital channels or other sources of information are more likely to be affected by this practice as they are more likely to lack knowledge about these practices, or lack access to IT tools and the time to compare or switch products due to a particular life circumstance.

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

Please explain and give examples when possible:

5000 character(s) maximum

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

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

Please explain and give examples when possible:

5000 character(s) maximum

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

The new EU AI Act only partially addresses the concerns we have outlined in this consultation response.

For one, the AI Act only designates those AI systems intended to be used for the risk assessment and pricing for life and health insurance as 'high risk', subjecting them to data governance, robust human oversight requirements and enhanced supervision. The risks of discrimination/exclusion stemming from the use of AI in risk assessments and pricing, however, also applies to other essential insurance products for which AI systems are used such as motor and home insurance. In addition, inaccurate outcomes of AI systems used in the investment sector (for suitability and appropriateness assessments for retail investment products) can lead to mis-selling of retail investment products which can lead to huge financial detriment for consumers and therefore AI systems used in this sector should be designated as high risk as well.

In addition, rules are needed to specify how the AI Act rules applicable to high-risk AI systems should be implemented in the financial services sector:

o Article 10(3) of the AI Act stipulates that the training, validation and testing data sets used by high-risk AI systems must be relevant, sufficiently representative, and free of errors. However, it does not specify what constitutes "bias-free" and relevant data for the different use cases in financial services. To rectify this and ensure that the right kind of data is used, there is a need for prescriptive rules specifying what type of data can be used for the different use cases. In addition, to avoid a situation where certain consumers become uninsurable due to overly granular risk assessments for essential general insurance (life, motor, home (including NAT CAT insurance), and health insurance products), these rules should also stipulate how this data may be used to avoid excessive granularity that undermines the "risk sharing" principle of insurance.

Finally, price optimization practices should be explicitly prohibited but are not in the existing EU acquis. This practice is discriminatory, exploitative and detrimental for consumers and therefore should be banned as an unfair commercial practice. EU policymakers should use the upcoming review of the digitalization aspects of the Unfair Commercial Practices Directive (UCPD), as part of their 'digital fairness check' to address this.

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

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

Please select as many answers as you like

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

Part 3: AI Act

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

The AI Act defines an AI system as "a machine-based system designed to operate with varying levels of autonomy, that may exhibit adaptiveness after deployment and that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments". Recital 11 further sets out the reasons for this definition, notably setting out that it is based on key characteristics that distinguish it from simpler traditional software systems of programming approaches.

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

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

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

Scope and AI definition

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

AI systems intended to be used to evaluate the creditworthiness of natural persons or establish their credit score

- AI systems intended to be used for risk assessment and pricing in relation to natural persons in the case of life and health insurance
- Both
- None
- Don’t know / no opinion / not applicable

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

5000 character(s) maximum

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

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

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

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

5000 character(s) maximum

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

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

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

5000 character(s) maximum

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

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

5000 character(s) maximum

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

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

5000 character(s) maximum

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

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

5000 character(s) maximum

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

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

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

5000 character(s) maximum

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

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

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

AI Act requirements

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

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

Financial legislation requirements

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

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

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

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

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

- (●) Yes
- ( ) No, the supervisory expectations are clear
- ( ) Don't know / no opinion / not applicable

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

5000 character(s) maximum

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

See answer to Question 32.

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

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

Additional information

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

The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

Useful links

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

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

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

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

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

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