CCIA Europe Feedback

Targeted Consultation on Artificial Intelligence in the Financial Sector

September 2024

The Computer & Communications Industry Association (CCIA Europe) welcomes the opportunity to provide feedback to the European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) targeted consultation on artificial intelligence (AI) in the financial sector.

I. Foster the Uptake of AI in the Financial Sector

With the AI Act, the EU has a comprehensive legal framework governing the development and deployment of AI, including in the financial sector. Implementing the AI Act and streamlining existing rules will foster the uptake of AI and the emergence of new innovative services.

Recommendations:

1. Focus on the implementation of the AI Act in the financial sector
2. Streamline existing sectoral frameworks if necessary

II. Boost AI Innovation in the Financial Sector

AI will bring substantial benefits to financial sector institutions and to consumers. To boost innovation in the sector, promoting responsible data sharing and equal access to financial data will be essential. The EU should fully harness the benefits of AI in finance.

Recommendations:

3. Promote responsible data sharing and equal access to financial data
4. Harness the benefits of AI in finance

Introduction

As a representative of leading AI developers and deployers, including in the financial sector, CCIA Europe welcomes the opportunity to provide feedback to the European Commission's DG FISMA's targeted consultation on AI in the financial sector.[1]

AI will bring substantial benefits to the financial services sector and to European consumers. With its landmark AI Act and other comprehensive rules applicable to AI, such data protection and consumer protection, the EU is well-equipped to address potential challenges related to AI in the financial sector.

CCIA Europe offers the following recommendations to European institutions:

- Foster the Uptake of AI in the Financial Sector
    - Focus on the implementation of the AI Act in the financial sector
    - Streamline existing sectoral frameworks if necessary
- Boost AI Innovation in the Financial Sector
    - Promote responsible data sharing and equal access to financial data
    - Harness the benefits of AI in finance

Our association stands ready to support European institutions in achieving these objectives.

I. Foster the Uptake of AI in the Financial Sector

With the AI Act, the EU has a comprehensive legal framework governing the development and deployment of AI, including in the financial sector. Implementing the AI Act and streamlining existing rules will foster the uptake of AI and the emergence of new innovative services.

1. Focus on the implementation of the AI Act in the financial sector

Artificial Intelligence (AI) is already governed by a comprehensive array of existing laws, regulations, and consumer protections that address potential risks. Before considering new regulations, European institutions should carefully assess whether AI introduces unique risks that extend beyond those already covered by existing rules.

The landmark AI Act[2], which entered into force on 1 August 2024, introduces comprehensive rules on the development of deployment of AI systems and general-purpose AI (GPAI) models. The AI Act sets out horizontal rules encompassing all stages of development and deployment of AI, and imposes requirements following a risk-based approach.

[1] European Commission, DG FISMA, 'Targeted consultation on artificial intelligence in the financial sector', 18 June 2024, available at: https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-artificial-intelligence-financial-sector_en.
[2] Regulation (EU) 2024/1689 of the European Parliament and of the Council of 13 June 2024 laying down harmonised rules on artificial intelligence, EUR LEX, available at: https://eur-lex.europa.eu/eli/reg/2024/1689/oj.

AI systems posing unacceptable risk will be banned entirely, while other systems classifying as high-risk will be subject to stringent obligations. AI systems interacting with humans, such as chatbots, are subject to transparency obligations aimed at enabling users to know clearly that they are interacting with an AI system.

As a horizontal regulation, the AI Act fully applies to all AI systems, including in the financial services sector. The right implementation and enforcement of this regulation will be essential to boost confidence in the technology and encourage its adoption by businesses and consumers. Introducing new legislative rules would be premature and risk adding legal uncertainty and complexity.

The current legal and regulatory frameworks are well-equipped to handle the integration of AI in the financial services sector. Risk management frameworks, which have historically adapted to new technologies, remain effective in the face of AI advancements. Model Risk Management (MRM), for example, is particularly valuable and offers a proven structure for mitigating risks related to AI implementation.

It's important to recognize that the mere incorporation of AI does not automatically categorise an application or system as high-risk. With rigorous testing and ongoing monitoring, alongside sufficient explainability tailored to the specific use case, AI systems can be deployed safely. Regulators should focus on developing stress tests for AI, particularly through existing financial services institution benchmarks, to evaluate the robustness and durability of AI systems under various conditions.

2. Streamline existing sectoral frameworks if necessary

Developing effective AI regulations hinges on the expertise of regulators. It is essential for them to pose precise questions regarding the specific risks and challenges AI presents, all while thoroughly understanding the issues they aim to address.

In instances where existing rules fall short in governing the use of AI, the focus should be on updating current regulations rather than creating an entirely separate framework. Consider, for instance, a self-driving car that uses AI to continuously learn from its environment and improve its navigation capabilities over time. In this scenario, the regulatory framework for vehicle safety standards might need to be updated to address the unique challenges posed by this evolving technology. However, this does not justify the creation of a completely new regulatory framework solely for AI-driven vehicles. Instead, existing regulations should be adapted to incorporate these advancements, following a truly risk-based approach.

By operating within established regulatory frameworks and cooperating with existing competent authorities, regulators can develop specialised AI expertise that is tailored to specific sectors and products. This approach ensures that regulations are precisely targeted to address the relevant issues of particular use cases. In doing so, regulators can still assess the benefits of implementing a particular AI technique within a specific product or sector, balancing these advantages against the effectiveness of existing regulations and any associated risks.

II. Boost AI Innovation in the Financial Sector

AI will bring substantial benefits to financial sector institutions and to consumers. To boost innovation in the sector, promoting responsible data sharing and equal access to financial data will be essential. The EU should fully harness the benefits of AI in finance.

3. Promote responsible and prudent data sharing and access

The financial services sector stands to gain significantly from enhanced data sharing, which could unlock the potential of AI-driven solutions to benefit not only businesses and consumers but also the wider economy. By combining datasets, financial institutions could advance in creating more sophisticated risk assessment tools, fraud prevention systems, and personalised financial offerings. These AI-powered innovations, fueled by expansive data resources, would drive efficiency, foster innovation, and deliver greater value to consumers.

Moreover, the proposal for a Financial Data Access Regulation (FiDA)[3], which will open access to a broad range of financial datasets of regulated financial services entities - such as foreign exchange, insurance, loans, payroll, and pensions - is expected to fuel AI innovation and to benefit the European economy, including SMEs. In order to fully grasp the benefits of open finance, the FiDA regulation should guarantee equal access to financial service data. This will enhance consumer choice, incentivise innovation, and create a level playing field.

Moreover, collaboration through data exchange could serve as a powerful tool for financial institutions to stay ahead of emerging threats and industry challenges. When organisations share insights and knowledge, the collective strength of the sector is bolstered, enabling a proactive response to risks that may arise. To promote this collaborative environment, public policies should support responsible data sharing practices. Yet, it is critical to address concerns surrounding data privacy and security. Measures such as data anonymization, obtaining explicit consumer consent, implementing stringent access controls, and maintaining oversight are essential to ensuring that data sharing is conducted safely and ethically.

However, a one-size-fits-all approach to data sharing, particularly if mandated, could introduce new risks. For instance, when institutions with overlapping investment strategies or exposure profiles share data, they may unknowingly amplify their concentration risk at the pre-model level. Regulators should be mindful of these potential pitfalls and ensure that any data-sharing requirements are carefully crafted to avoid such outcomes.

In the context of global policy development, it's crucial that jurisdictions work towards harmonised solutions. International standards like those from ISO or NIST are invaluable in preventing a fragmented regulatory landscape, which could stifle innovation. Without alignment, the financial services sector could miss out on the full potential of AI.

[3] European Commission, Proposal for a Regulation on a framework for Financial Data Access and amending Regulations (EU) No 1093/2010, (EU) No 1094/2010, (EU) No 1095/2010 and (EU) 2022/2554, EUR LEX, 28 June 2023, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023PC0360.

4. Harness the benefits of AI in finance

The financial sector is poised to unlock a multitude of opportunities through the integration of AI, offering significant benefits that are already being recognized by customers. One of the most impactful applications is in combating financial fraud. AI's advanced capabilities enable financial institutions to detect potential threats with greater speed and accuracy, thereby enhancing regulatory compliance and safeguarding customers' assets.

Another key advantage is the boost in productivity that AI delivers. By democratising access to data and analytics, AI empowers companies to make faster, better informed decisions, streamlining processes that once took considerable time and effort. This has a ripple effect across the industry, leading to more efficient operations and more agile responses to market changes.

Moreover, AI is revolutionising customer service within the financial sector. Through AI-driven tools, financial services firms can engage with customers more effectively, delivering tailored services and enhancing the customer experience and journey.

While these are some of the current areas where AI is making a difference, the potential applications and benefits are far-reaching. As the financial services industry continues to innovate with AI, the opportunities for improving customer outcomes and operational efficiency will only grow. The future of AI in finance holds the promise of even greater advancements, transforming the way the industry serves its customers and operates on a day-to-day basis.

The EU will need to fully harness the benefits of AI in the financial services sector to increase its competitiveness and enhance the quality and efficiency of services for consumers.

Conclusion

AI is poised to offer substantial benefits to the financial services sector and European consumers. The EU, through its landmark AI Act and other comprehensive regulations such as data protection and consumer protection frameworks, is well-positioned to effectively address the potential challenges that AI may introduce within the financial industry.

In particular, European institutions will need to foster the uptake of AI in the financial sector by focussing on the implementation of the AI Act and streamlining existing regulations if necessary. Promoting responsible data sharing and access to financial data as well as harnessing the benefits of AI in the financial sector will be key to boost AI innovation in this area.

CCIA Europe is committed to supporting EU institutions in achieving these objectives.

About CCIA Europe

The Computer & Communications Industry Association (CCIA) is an international, not-for-profit association representing a broad cross section of computer, communications, and internet industry firms.

As an advocate for a thriving European digital economy, CCIA Europe has been actively contributing to EU policy making since 2009. CCIA's Brussels-based team seeks to improve understanding of our industry and share the tech sector's collective expertise, with a view to fostering balanced and well-informed policy making in Europe.

Visit ccianet.org/hub/europe/ or x.com/CCIAeurope to learn more.

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