

## Developments in AI

October 2023

*As AI continues to develop at a rapid pace, Financial Institutions (FIs) are seeking ways to develop and deploy new models and use cases while maintaining the strong level of model governance and data integrity they have built over the years. The October edition of DataTalk explored this and other topics including model trends, the role of data in AI development, risk management and the importance of evolving governance, Generative AI (GenAI), third-party models, and engagement with regulators. This briefing note summarizes the discussion held on October 25, 2023, respecting that the forum is conducted under the Chatham House Rule and does not represent the official position of the IIF or its membership.*

**GenAI is catching the interest of FIs at the c-suite level, shaping business strategy and permeating more levels within organizations.** Generative AI is quickly transforming the algorithm landscape and use cases are emerging at a rapid pace. As the benefits for FIs and consumers increase, so too are investments in its applications. FIs are looking at ways to innovate responsibly while balancing risk appropriately. Internal sandboxes, which provide institutions a space to test new models without opening sensitive data to additional risks, are one example of methods being used. Efforts at maturing AI, particularly GenAI tools, will continue to lead business innovation.

**With new developments, new challenges for governance appear.** The FS industry has considerable experience with AI risks, governance, and controls. But with new tools, such as frontier AI use cases and an increased use of third-party models, FIs are working to adapt and update governance frameworks for responsible use of AI. As risks differ for each use case, it will be key to understand each of the use cases and the level of explainability and controls that are appropriate for new models depending on the risks they pose. With this context, “judgement on best practices cannot be replaced with a calculator”, and thoughtful validation is viewed as a continually evolving practice.

**The data that is fed to the models is as important as the models themselves and the output they generate.** Successful risk management and responsible use of AI models will depend highly on the data driving them. Quality, availability, and utility continue to be top of mind for FIs as AI models develop and mature. FIs face a two-sided challenge in ensuring both that the data foundation of the institution remains strong and that the models developed are fit for purpose.

**Different priorities and policy objectives for AI are already shaping regulatory efforts.** Jurisdictions across the globe have chosen distinct primary objectives when thinking about AI. Some are looking to increase investments in the field and foster innovation, others are focusing on “protecting citizens”, and a few are looking at AI primarily as a tool for ensuring national security. These differences are already fundamentally changing the horizon for AI regulation and market developments. A focus on developing common principles jointly with FIs and academia may prove more beneficial than prescriptive regulation, especially at a time where innovation is still underway.

The 2023 IIF-EY Survey on AI/ML Use Cases in Financial Services received submissions from 65 IIF members across 9 regions. We look forward to sharing the results of the survey in the next few months. We encourage members to participate in the advocacy efforts that are to come. If you are interested in joining these efforts, please contact Emma Handel at [EHandel@iif.com](mailto:EHandel@iif.com).

*We look forward to continuing our DataTalk series in January of 2024. If you wish to receive an invitation, or if you have any questions about the DataTalk forum, please reach out to [EHandel@iif.com](mailto:EHandel@iif.com).*