



How can financial institutions adopt generative AI responsibly?

Firms need to weigh risks and benefits of new technology as they deploy it within their organizations.

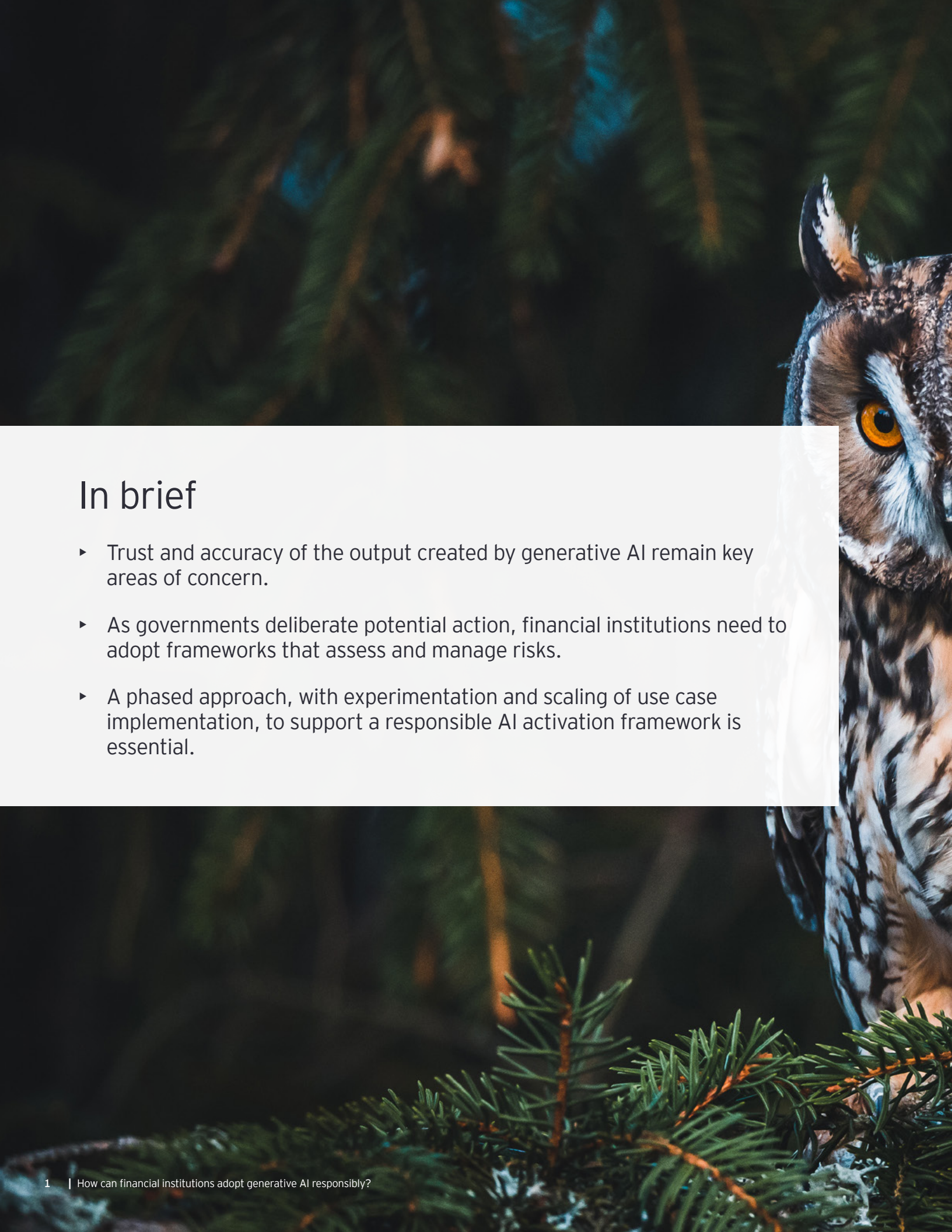


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In brief

- ▶ Trust and accuracy of the output created by generative AI remain key areas of concern.
- ▶ As governments deliberate potential action, financial institutions need to adopt frameworks that assess and manage risks.
- ▶ A phased approach, with experimentation and scaling of use case implementation, to support a responsible AI activation framework is essential.



While generative AI holds tremendous potential, it is also constrained by the risks and limitations associated with this technology. Concerns have been raised related to what might occur from improper use of these technologies, absent adequate guardrails. There is also a growing apprehension about how these models will disrupt the workforce. Furthermore, the financial and sustainability implications of using powerful large language models have yet to be addressed.

To address this, some industry observers are urging national and local governments to accelerate AI regulation in concurrence with its adoption. The European Parliament has already taken preliminary action, passing a law that would attempt to regulate artificial intelligence. In the US, the White House published an AI bill of rights last fall, while the US Senate unveiled its plan to discuss potential AI regulations.

While these regulations have yet to take effect, they could foreshadow actions governments and other regulatory bodies might take to establish guardrails for this rapidly developing technology.

Until a consensus is reached on what those guardrails should be, financial institutions must carefully review the risks in context of the intended use and set up appropriate evaluation and risk mitigants to limit the exposure from activating these technologies in their nascent stage.

Certain key risks and considerations

Trust and accuracy

Large language models (LLMs) can provide responses with high confidence even when the information is inaccurate or unverified. Given the lack of transparency of these models, this issue takes on even more significance and organizations should carefully design solutions that allow for the organization to interpret the output at a granular level and evaluate model reasoning.

Privacy

Generative AI technologies are prone to adversarial attacks, unauthorized access, and privacy breaches. Serious due diligence around technology enablement (vendor vs. in-house) is required when leveraging these technologies in areas that may require collecting and processing sensitive or proprietary data.

Regulatory compliance

The use of generative AI in financial institutions must comply with applicable regulations, such as data privacy laws, consumer protection regulations, and industry-specific guidelines. Financial institutions need to reassess their existing control and governance frameworks to ensure compliance and transparency in the use of generative AI and to manage regulatory risks efficiently.

Fairness and bias

Generative AI models also rely extensively on the training data they receive. If the input data contains biases or inaccuracies, the generated outputs can reflect those biases, leading to biased decisions or recommendations. Conduct scenario-based tests to uncover and measure for biases, followed by building appropriate safeguards to address these concerns in downstream consumption layer.

Legal and ethical issues

Generative AI can inadvertently generate content that may be unethical, inappropriate, or even infringe upon intellectual property rights. Organizations need to implement safeguards and guidelines (including content filters, disclaimers at point of consumption, training consumers) to prevent the generation and usage of malicious or harmful content and comply with legal and ethical standards.



Setting out for responsible activation

Before organizations attempt to integrate generative AI into their organizations, executive decision-makers also need to ask another set of key questions, including how can generative AI support their corporate goals and objectives, and what kind of training and resources will be required to embed and maintain generative AI capabilities into their core platforms and/or key business processes?

Financial institutions can embark on their journey to adopt and deploy this groundbreaking technology in a phased approach:

Phase 1: Setup and experimentation

- ▶ Prioritize use cases based on value, effort, risks, and risk mitigation
- ▶ Set up technology environment: onboard LLM (in-house vs. vendor), model connectivity, copy of data, etc.
- ▶ Build baseline functional capability, including input/output processing, model connectivity, review interface, monitoring
- ▶ Define and run experiments to adjust model and solution parameters to meet performance criteria

Phase 2: Operationalization and scaling

- ▶ Utilize developed foundational assets and scale to broader use cases, including customer-facing use cases
- ▶ Mature processes for ongoing monitoring and improvement of generative AI applications
- ▶ Rethink entire business models and transform business processes to blend human capabilities with AI-driven workstreams

Phase 3: Responsible enablement


- ▶ Discuss use case impact with relevant functions and identify risk tiering for prioritized use case
- ▶ Incorporate operating model changes to establish office of responsible AI and redefine roles and responsibilities
- ▶ Extend existing AI governance to accommodate for generative AI considerations (hallucination, bias testing, etc.) in consultation with relevant business, technology, legal, risk, and compliance stakeholders
- ▶ Engage appropriate functions (MRM, compliance) to perform independent evaluation and certify model for production
- ▶ Define and establish necessary controls such as notifications, consent monitoring, etc. and communicate purpose, usage guidance, and risks to end users

How Ernst & Young LLP can help

The generative AI opportunity for financial services

Generative AI (GenAI) is revolutionary. For financial services firms, transforming the business means both understanding and acting, while carefully managing the risks.

[Learn more](#)



Without question, generative AI presents a transformative opportunity pushing the boundaries of what machines can do. In order to truly embed this new technology into their organizations, financial services institutions need to lay the necessary groundwork for responsible activation by investing time and resources in extending existing AI governance and oversight frameworks to manage risks. This foundation will serve as a key differentiator between organizations that remain in experimentation mode and organizations that truly realize the gains from generative AI through robust operationalization.



Summary

To achieve the full potential of generative AI, financial services organizations also need to address the risks and limitations posed by this breakthrough technology. To that end, financial services firms need to establish appropriate guardrails that limit the potential risk of activating AI within their organization.

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