

FSLN VIEWPOINTS

Navigating AI's transformative impact on financial services

December 2024



As large financial institutions continue to invest in artificial intelligence (AI), leaders are looking for use cases that can be put into production and scaled. They are undertaking this search fully cognizant that overseeing strategies for a digital world requires balancing competing priorities, that AI utilization requires sifting true value from hype, and that they must ensure that risks are effectively managed.

On October 15–16 in New York and October 29 in London, board directors and senior executives from across financial services gathered to discuss deploying AI at scale and the implications for technology governance and oversight. This *ViewPoints* summarizes key themes arising from those discussions. A companion *ViewPoints* synthesizing separate discussions about climate transition finance is available [here](#).

This *ViewPoints*¹ highlights the following themes that emerged from the meetings and related conversations:

[AI utilization and applications continue to advance](#)

[Transformation is on the horizon, but not without complications](#)

[Technology oversight remains a challenge](#)

[AI regulation and policy are moving forward](#)

For a list of participants, please see page 11.

AI utilization and applications continue to advance

During a discussion on generative AI use cases in March 2024, a director said, *“We have a pathway to production for our use cases, but we are still in the testing stage. Given the technology and how it’s changing so quickly, there are concerns. But we have lots of proofs of concept, and I think we’ll get there.”* In the intervening months, generative AI technology has continued to advance, and firms are seeing these proofs of concept transition into production. *“We are seeing a shift from start-up mode to scale-up mode. Now, we’re really focusing on how we industrialize the technology and use it at scale across the whole organization,”* said a participant.

The applications moving into production are primarily productivity plays

Large banks and insurers are currently prioritizing applications that generate near-term value and are starting to deploy these tools across their enterprises. One participant described their organization’s approach: *“We are laser focused on finding paths to production and generating value for our colleagues from applications of the tech.”* Participants discussed several types of applications:

- **AI companion tools.** Several participants said that the scaling of AI assistants throughout their organizations is a priority. One participant reported, *“Where we’ve been seeing success is in scaling out Copilot. We’ve had early positive feedback, and that continues to be a positive experience for colleagues and deliver value. Over time, I think you’ll see Copilot being extended to work with other software we have in production.”*
- **Augmented document and contract review.** *“Finance is a world of documents. People think of finance as only the stock market and numbers, but those aspects are nothing compared to the amount of documents involved in finance,”* noted one executive. *“Because it’s all language, generative AI helps a lot in the document space. It can be a gigantic productivity increase.”* Another executive echoed this promise, saying, *“One area where we’re seeing use cases is in legal. Every organization is driven by contracts, and they get called into dispute. Traditionally it’s very difficult to query these contracts, because they’re not always standard pro forma documents. Legal is*

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— Participant

where I'm seeing a lot of generative AI usage in production.”

- **Improved customer service.** An executive observed, “We are continuing to see benefit in deploying AI in a customer service capacity and in our call centers. On the front line there’s a lot of info to navigate, which makes it difficult to keep the customer front and center during those interactions, and generative AI creates lots of ways to help do that.”
- **Better code conversion and faster code generation.** “Using AI in coding is a very interesting and obvious place to start for financial services because it’s not customer facing,” stated an executive. “It’s very low risk. Just get on with it,” they advised. Another executive noted that AI can be used not only to help generate new code, but also to work through legacy technology struggles: “One of the best use cases we’re seeing the technology applied to is reverse engineering legacy code to discover the schema of business logic in there. It’s not just converting to code but converting to documents for archiving, in effect doing corporate archeology for more traditional companies.”

Firms are moving along the implementation curve

Even as organizations enter the production phase, they must keep pace with the constant evolution of AI technology. “The usage of artificial intelligence in our personal and professional lives is becoming more and more prevalent, and in terms of advancements in tech, not a week goes by where there isn’t an update in model performance or sophistication,” noted an executive. Companies are increasingly deploying smaller, domain-specific models to address very specific problems or tasks. “Specific models are really good at certain domain-specific things—some are good at code, some are good at biology, some are tuned to financial services. So, there’s greater accuracy and less hallucination effect, which leads to a lot more confidence in models,” stated an executive. Some are also perceiving a shift away from closed-source and toward open-source models: “People are looking for more open models where they can trace lineage and have more transparent interpretations,” said one participant.

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— Executive

Transformation is on the horizon, but significant obstacles may slow its arrival

Organizations are beginning to implement more transformative applications of AI, but these applications are not without challenges,

leading to mixed views on the timeline for widespread adoption. In partnership with Google, Hiscox has gone live with a generative AI application that reduces the time it takes to offer a quote to ensure against sabotage and terrorism risks.² One participant reported major benefits from using machine learning in underwriting: *“In our personal-life business, we use machine learning to automate medical underwriting decisions, and the time for those decisions went from 22 days to real time. We also rethought the way those decisions are being made, and our mortality estimates got more accurate. So, we got faster, and we got better.”*

However, applying AI in areas such as underwriting presents a different and more complicated risk profile than applying it for simple productivity enhancements. A director remarked, *“Being almost right, or right most of the time, is simply not good enough for what we do in financial services. It’s entirely possible to use AI to make people more productive. But the really difficult bit is when you get into areas where AI stands alone. It’s not black and white, and, by definition, there is no way to check it. It’s not the most of the time or the mostly right, it’s the very occasionally completely wrong that worries me.”*

Another roadblock, legacy technology, is also likely to slow the widespread adoption of transformative AI applications across financial services. *“While I’m a massive fan, I’m in the 10-to-15-year space. I think there are niche areas where it will get deployed in specialization, but we have to remember we’re in the financial services world, where our legacy technology makes the average bowl of spaghetti look tidy,”* remarked a director. Making necessary investments in legacy systems can limit the funds available for investment in AI. And yet, upgrading and extracting data from these systems is crucial for effective AI implementation. A director observed, *“My organization is spending a lot of money on [information technology], but not AI. We have to focus on legacy systems, digitization, security, cloud migration, etc.”* Another director added, *“The basics have to be fixed. AI is not the silver bullet. Those legacy tech issues have to be resolved, data issues have to be resolved, otherwise AI applications can only be used in specific areas and not applied more broadly.”*

“AI can’t do really complicated things ... yet,” said an executive. The suggestion is that this will change in the very near future. Some predict a transformative impact upon the industry within the next five years.

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builds iteratively, so it's very difficult to extrapolate, but AI is going to get better and better, faster and faster. I think in five years we're going to have a dramatic breakthrough," stated a director. A participant agreed: *"While it's changing all the time and it's hard to keep up with the innovation, I think you could come in before the five-year mark, but I don't think that's far off. I think it's five or less."*

Technology oversight remains a challenge

The adoption of generative AI presents significant challenges in governance and oversight, and few are confident that they have landed on the right approach. One participant said, *"I'm not seeing good practices emerging. I think people are struggling."*

Multiple strategies for board and committee structures have emerged

Many boards are still determining the best approach to board and committee oversight of AI and other transformative technologies. Several have decided to establish tech committees to provide focused oversight of technology strategy, risks, and investment. One director described how the board arrived at the decision to create such a committee: *"The regulators were increasingly asking us questions that were difficult to answer. So, we started with a regulatory committee and came to the conclusion that the confluence of concerns around rapid implementation of AI and data, combined with concern over vendors' power over us, along with our legacy challenges, meant that we were required to go deeper into the issues. That meant the entire board couldn't do it."* A participant offered advice for determining whether forming a technology committee is the right approach: *"If the technology and AI topics are taking over a committee, then consider creating a new committee. If technology takes two-thirds of a risk committee meeting, perhaps a technology committee needs to be formed. No committee has to stay forever, though. Things can evolve."*

One director noted that when considering which issues get covered where, *"it's important to have a really good air traffic control system."* The director continued, *"My board has a map that identifies every type of risk and where it goes. There's some overlap between the risk and operations and technology committees. But I'd rather have things slightly duplicated than fall through cracks. Air traffic control becomes much more complicated when you spread things out."*

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— Participant

Approaches to board composition and expertise will need to evolve

Boards continue to wrestle with the challenge of ensuring that the board has the expertise required to oversee the opportunities and risks emerging technologies present. *“Every board will have to ask itself whether they would rather have a technical expert on the board or whether everyone on the board needs to get up to speed to govern their institutions,”* said one participant. Different boards are answering that question in different ways. *“It doesn’t make sense to have AI experts on all boards,”* said one director. *“You just need everyone to be aware that it’s going to become part of everyday life, so education is going to be the highest priority.”* Others are exploring bringing younger people who are more digitally savvy onto boards. A director observed, *“It’s the classic digital-native-versus-digital-immigrant issue.”* An executive suggested another tactic for bringing a younger viewpoint to the boardroom: *“It’s called reverse mentoring. We created a subcommittee of younger employees ... A lot of very interesting outcomes came out of that subcommittee.”* Even if boards opt for more traditional candidates to fill board and committee roles and duties, giving voice to the people who are most familiar with the technology can help inform better oversight. *“The people building the tech—the data scientists—are rarely invited into the room,”* a participant observed. *“As a group of people, they perhaps haven’t had a big role, but they are the people with the power. They should be invited to talk about what’s ethical, what’s important, and what’s not.”*

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Boards cannot overlook the impact of AI on the workforce

Participants emphasized the importance of addressing the implications of AI for people and culture across all levels of their institutions. Organizational readiness is crucial: *“AI, including Gen AI, can be as disruptive as we want it to be. The limit isn’t technical; the real limiting factor is change management in receiving elements of AI across the organization.”* One director observed that preparing the organization requires starting at the very top of the house. *“From an executive talent standpoint, I feel there’s so much tension at that level that they’re not as equipped from an AI standpoint as they should be. So, there is fear. Boards should help them understand that no one is fully prepared. We’re not going to replace you, but you need to keep up.”*

Keeping up may eventually require a different type of leader. An executive cited the example of a CEO of a large technology company as an indicator of how approaches to management are already beginning to shift: *“This CEO has 60 direct reports, and it’s a totally transformative way of running a business. The CEO has lots of AI agents to enable this, so I do think quite a big change shouldn’t be underestimated. Perhaps it won’t happen as fast as everyone thinks, but it is going to happen.”* One director said, *“I’m not so sure we shouldn’t hire an AI expert for the top job eventually.”*

The broader workforce will also be profoundly impacted by the technology. Concerns persist around the transformation of skills and roles and the potential for significant job losses. How should junior workers be trained when their roles can effectively be done by AI tools? According to a recent Citigroup study, 54% of jobs across banking have a large potential for automation, more than in any other sector.³ One director observed, *“Right now, we’re talking about how these tools free up people’s time to do more value-added tasks. But that’s a transitional phase, and soon there will be big questions about how many people, what are they doing, and where are they? There will come a time when it won’t be positive for all of our people. There will be different jobs being done by different people, not just people doing same job in different ways.”*

Firms struggle with which AI projects to prioritize

Firms that want to apply generative AI at scale have to strike a balance not only between investment in near-term use cases offering immediate improvements (e.g., increased efficiency and productivity) and those that will take more time to bear fruit, but also between AI and other technology projects. *“It’s very hard to determine whether we are spending on the right things and whether we’re getting a bang for our buck,”* stated a participant. Benchmarking can help boards in this endeavor, particularly when it comes to assessing technology spend relative to competitors. One director suggested looking to external sources for information on broader industry trends. *“A healthy amount of consulting is also going to be needed here because you can learn from consultants who see across the industry. The regulators also have a role because they’re doing horizontal reviews across the industry. It’s a feedback mechanism for benchmarking investment.”*

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— Director

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— Participant

Striking a balance between opportunity and risk is critical

Financial companies are grappling with how to move fast enough to remain competitive without exposing the organization to too much risk. One executive said, *“Risk and opportunity are always a balance. We felt that the top risk was the risk of not engaging and falling behind. Now the conversations are around risk appetite regarding use of AI.”* For some, the competitive threat is pushing them to move faster. *“The impact it can have can be transformative, and in a relatively short time frame,”* one participant said. *“I’m seeing organizations look and realize that someone is going to do it first, and if they aren’t careful, they’re going to have their own NVIDIA moment. It’s not going away, so you have to work towards best adapting it for your organizations so as not to be left behind.”* An EY executive noted, however, that a measured approach involving thoroughly vetting the most suitable uses for generative AI is appropriate: *“Some organizations are saying, ‘We should have a risk appetite for generative AI.’ But they’re struggling to get there ... I think there will be a lot of soul searching over next few years about whether financial services can use AI the way we think we can.”*

The adequacy of existing oversight frameworks is the subject of debate

Participants debated whether existing frameworks are sufficient to oversee AI, or if the technology requires fundamentally different approaches to governance and control. One director expressed the belief that *“AI is no different in terms of oversight than any other technology. You need the right people in management that you trust.”* The director continued, *“Good governance looks like good governance of sustainability, good governance of talent, good governance of every other aspect. Curious, interested directors that don’t just do the work that comes to them but are generally interested in the business they serve.”* Describing oversight at the management level, one executive said, *“We are using existing frameworks that are mature within their vertical—data risk, information security, third-party risk—all of which are aspects of risks presented by AI.”* However, the executive also said there may be areas *“where we need to think differently. For example, is our model risk framework sufficiently addressing possible bias in the use of AI?”* Another participant argued for a more fundamental reevaluation of approaches to oversight. *“There are so many aspects to AI, and because the technology*

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— EY Executive

is so new, we need to build confidence. For that, you need a reimagining of governance.”

AI regulation and policy are moving forward

Recent legislation in Europe is likely to have profound impacts on the financial services industry. The EU AI Act went live in August 2024.⁴ *“In 20 years, it is the most dramatic piece of legislation in the EU that I’ve seen,”* remarked a participant. The EU AI Act compels international companies that are selling or deploying AI to EU customers to adhere to certain rules regarding AI development, use, and application.⁵ Penalties for violations can be substantial, reaching up to 7% of a violator’s global annual revenue.⁶ According to a participant, the AI Act is *“causing a wave of anxiety,”* including regarding use cases that some financial institutions may already have deployed. *“Social scoring will be banned, and you may have seen this in the context of the Chinese government, but certain credit scoring is starting to cross the line into what could be considered social scoring. [The AI ACT] also limits HR teams’ use of AI: for example, firms are prohibited to use motion recognition in the workplace, such as tech that examines eye movement and makes judgments during the hiring process.”*

Requirements under the AI Act begin to go into effect next year. *“The first deadline is February 2025. It includes requirements for AI literacy, telling your people about AI, telling them about use and risks. You have to be able to demonstrate that you have done so sufficiently by February 2025.”* The next deadline, in August 2025, will focus on higher-risk AI impacting many financial services use cases. *“The AI Act will capture many financial institutions specifically, and you’ll be deemed to have high-risk AI,”* observed an executive. High-risk systems that are permitted must comply with several requirements and complete a conformity assessment before going to market. According to EY, these systems will need to be registered in an EU database and will require *“an appropriate AI risk management system, logging capabilities”* and human oversight regarding ownership, and they must have *“proper data governance applied to the data used for training, testing and validation as well as controls assuring the cyber security, robustness and fairness of the system.”*⁷

Perhaps surprisingly, China is at the leading edge of AI policy and regulation. *“When we think about AI and AI regulation, we may see Europe as ahead, but that would be wrong. China has more AI patents than anyone in the world, and research at the university level exceeds the*

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— Participant

EU. You would think they would deregulate, but actually they've been regulating since 2017. China had the first deep-fake regulation, and they're focused on data poisoning and cyberattacks," noted a participant, who continued, *"Many think that's just to protect the Chinese government. But I actually think there's real integrity there. China has been ahead of the curve in a way that has taken people by surprise."*

Even as geographies are considering or implementing new legislation, financial services regulators are asking questions about the impact of AI and how it fits within existing regulatory frameworks. A participant stated, *"Regulators are asking tough questions now about supply chain, who you're contracting with for transparency and security, bias, and impact on vulnerable groups. Regulators are really coalescing around this, and they're very interested in whether their tools are strong enough to regulate it. Their concern is how this magical but opaque technology is working and whether we have enough oversight, and, at the moment, the answer is probably no."*

However, one director believes that AI could ultimately be the answer to solving some of the regulatory challenges banks and insurers face: *"There are certain functions that could benefit from AI. We're already seeing applications for industry resilience, whether it's fraud, cyber, or BSA/AML [US Bank Security Act/Anti-Money Laundering laws and regulations]. Once the regulators get comfortable with AI, they'll be certain to ask why you aren't using this technology, and you'll have MRAs [matters requiring attention] if you're behind the curve. Our standards are based on what's going on in the industry, and if we're behind the curve, there will be an AI club they'll hit you with."*

Meeting participants

The following individuals participated in the meetings or related conversations:

Participants

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About this document

The Financial Services Leadership Network (FSLN) is a group of financial services board members, executives, stakeholders, and together with other subject matter experts committed to addressing pressing problems and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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Endnotes

¹ *ViewPoints* reflects the network’s use of a modified version of the Chatham House Rule whereby comments are not attributed to individuals or corporations. Quotations in italics are drawn from conversations with participants in connection with the meeting.

² Hiscox, “[Hiscox’s Generative AI-Enhanced Lead Underwriting Model Enabled by Google Cloud Goes Live](#),” news release, August 12, 2024.

³ Aisha S. Gani, “[Citi Sees AI Displacing More Bank Jobs Than Any Other Sector](#),” Bloomberg, June 20, 2024.

⁴ European Commission, “[AI Act Enters into Force](#),” news release, August 1, 2024.

⁵ Ryan Browne, “[World’s First Major AI Law Enters into Force — Here’s What It Means for U.S. Tech Giants](#),” CNBC, August 1, 2024.

⁶ Browne, “[World’s First Major AI Law Enters into Force — Here’s What It Means for U.S. Tech Giants](#).”

⁷ Konrad Meier and Roger Spichiger, “[The EU AI Act: What It Means for Your Business](#),” EY, March 15, 2024.