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AI IN FINANCIAL SERVICES: BALANCING THE BENEFITS OF AI WITH LEGAL AND REGULATORY RISKS

Financial institutions using AI should assess their risk management frameworks to ensure the associated risks are effectively mitigated.

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The past few years have witnessed the progressive integration of artificial intelligence ("AI") into various industries, including financial services. AI brings with it many benefits, such as reduced costs, increased efficiency, and more effective risk management and controls. But these benefits can also come with significant legal and regulatory risks, particularly in the offer and delivery of financial services. This article discusses the beneficial uses of AI in financial services and the associated legal and regulatory risks identified by various government agencies. This article also discusses privacy and cybersecurity regulations at the federal and state levels, and concludes with some practical considerations for banks and other financial institutions that use, or seek to use, and benefit from, AI in the delivery of financial services.

I. THE MANY USES AND BENEFITS OF AI

Artificial intelligence is becoming an increasingly prevalent part of financial institutions' day-to-day activities, playing a key role in fraud detection, risk assessment, customer service, and automated trading, among others.

AI algorithms are capable of analyzing large volumes of data to identify patterns and anomalies indicative of potentially fraudulent activity. This function, which banks and other financial institutions often employ, can save them millions. Some examples of AI-powered, fraud-detection technologies include machine learning ("ML"), natural language processing, and anomaly detection.

AI's analytical capabilities also allow it to assess creditworthiness and determine risks associated with loans and investments. By leveraging machine learning and predictive analytics, banks can make faster and more accurate credit risk assessments. AI can also assist in monitoring market conditions, identifying potential market risks, and making proactive decisions. This helps financial institutions reduce defaults and loan losses, while also streamlining the loan approval process.

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