ARTIFICIAL INTELLIGENCE MODELS IN FINANCIAL SERVICES: EMERGING ISSUES AND AREAS OF RISK

This article explores the rapidly evolving landscape of artificial intelligence in the financial services industry, and discusses emerging risks and regulatory challenges. It examines how financial institutions are leveraging predictive and generative AI to enhance operations, and highlights the tension between innovation and compliance, particularly with the patchwork of emerging state laws and guidance that seek to address algorithmic bias and data governance. Practical considerations for data management, model risk, and explainability are discussed to help institutions consider how to responsibly implement AI solutions. As the regulatory environment continues to shift, this article offers timely insights for industry participants seeking to balance innovation with regulatory compliance.

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Artificial Intelligence ("AI") is changing the way we view and analyze data. With predictive AI, financial institutions increasingly began to implement models that analyzed prior consumer information to predict outcomes — an improvement over previous formulas. However, in the past three years, the advent of generative AI[1] has taken human capabilities to an entirely new level of efficiency — AI can draft essays, analyze thousands of rows of data, and summarize multi-volume treatises instantaneously. Furthermore, in the years since, reliance on agentic AI has increased, and AI agents and interactive chatbots that can communicate with consumers without human intervention have

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[1] Large language models ("LLMs") are a subset of generative AI systems trained on extensive datasets to generate human-like language and responses. They utilize deep learning techniques, particularly transformer architectures, to perform a range of language-related tasks. Nat'l Inst. of Standards & Tech.,

footnote continued from previous column…

Artificial Intelligence Risk Management Framework: Generative Artificial Intelligence Profile 1, 3–4, July 2024, NCSL Artificial Intelligence 2025 Legislation, https://nvlpubs.nist.gov/nistpubs/ai/NIST.AI.600-1.pdf.

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