

The European Union Artificial Intelligence Act

Impact in the FinTech Industry

An Impact Analysis on Market Participants

June 2024

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An AI-Driven Era

While AI has enjoyed a huge spike in popularity across all domains of financial technology (“FinTech”) over the last few years or so, European regulators have set themselves the ambitious task of keeping on top of a technology that appears to show no signs of slowing down with the imminent arrival of the EU AI Act.

What is the EU AI Act?

Risk-based approach to regulating use, development, deployment and/or marketing of AI systems in the EU based on risks to individuals’ safety, security and fundamental rights.

What does this report focus on?

Analyses the potential impact on the global FinTech industry and their customers in the first year of operation.

— Significant regulatory milestone for technology firms



Pioneering Trustworthy AI Regulation

Protects fundamental rights and harmonizes data legislation for a thriving digital market.

FinTech Compliance Strategy for EU AI Act

Requires clear plans and standards implementation by Spring 2026.

Leveraging EU AI Act Compliance for FinTech Advancement

Enhances operational excellence, reputation, and digitalization while reducing regulatory costs.



Harnessing EU AI Act compliance for FinTech Growth

Implementation drives operational excellence and unveils opportunities for digitalization and industrialization.

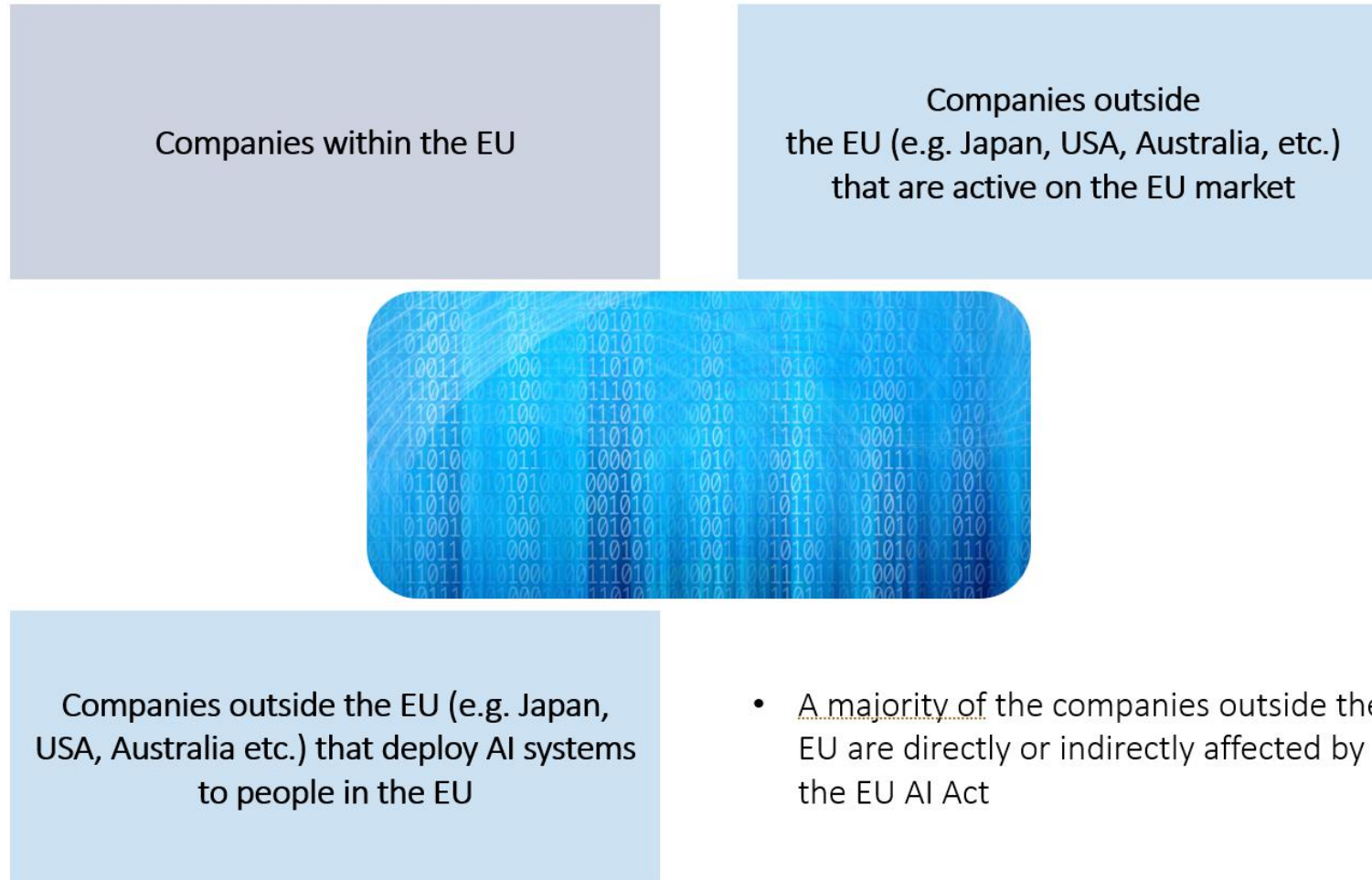
Strengthening Operational Resilience and Cybersecurity

Addresses IT legacy, enhances CRM solutions, and boosts cyber-defence capabilities.

Seizing Opportunities in Industrialisation and Digitalisation

Efficient governance of AI systems streamlines processes, reduces costs, and fosters innovation.

— Extraterritorial reach requires global consideration



— Risk-based approach to regulation of AI systems



Safeguarding Trustworthy AI Adoption

Aims to ensure AI safety, respect fundamental rights, and prevent market fragmentation through a tiered risk-based approach.

Regulatory Compliance Challenges for FinTechs

Many firms may be unprepared for the EU AI Act's requirements, requiring cross-functional initiatives and comprehensive transformation efforts.

Understanding EU AI Act's Impact on FinTechs

Requires broader awareness of compliance obligations, e.g. risk management.

— Compliance a pre-requisite to serve EU market



EU AI Act and FinTech Obligations

Aligning regulatory initiatives is crucial to efficiently address documentation, archiving, and AI system obligations amidst complex regulations.

Entry into Force in Spring 2024

From May/June 2024, global FinTechs serving EU customers must start their compliance journeys, facing potential fines and market access restrictions.

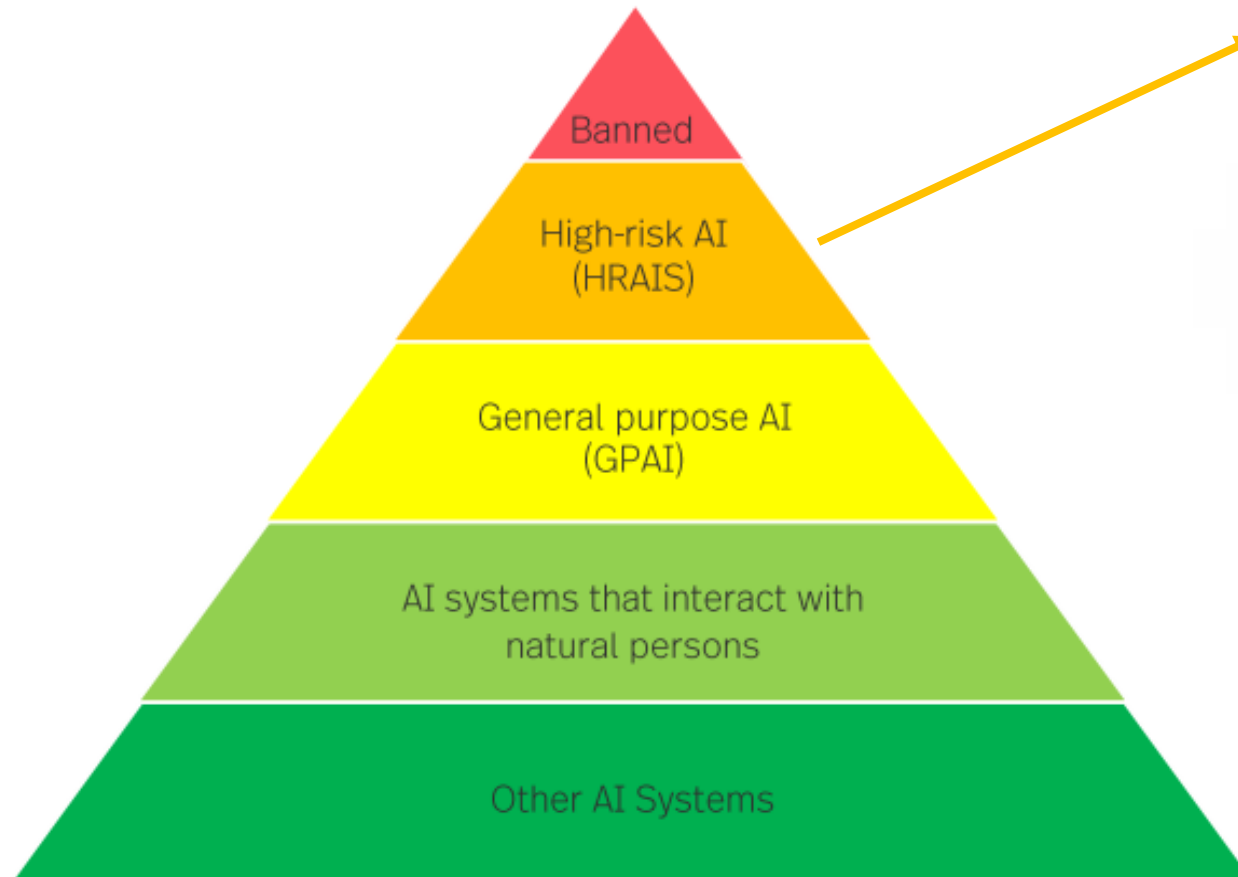
Challenges of Non-Compliance

Non-compliance with the EU AI Act exposes FinTechs to substantial fines, reputational damage, and potential legal action.

— Avoiding reputational and financial risks

	Natural person client-related		Non-Natural person client-related		
	Private wealth/management banking	Retail banking	Corporate clients	Asset management	Investment banking
Type of Client	Affluent & (ultra) high net-worth-individuals	Retail clients	Representatives of institutional clients, beneficial owners	Representatives of institutional clients, beneficial owners, potentially WM clients	Representatives of institutional clients, beneficial owners, potentially WM clients
Client interaction	Many direct client interactions, including sensitive data. For affluent clients more standardised/digitalised than for the highly individualised (ultra-)HNW individuals	Standardised way direct client interaction, more and more automated, standardised and digitalised	Very few and standardised information about natural persons	Mostly standardised and only limited information about natural person clients (except those banks that serve natural persons out of the AM division)	Mostly standardised and only limited information about natural person clients (except those banks that serve natural persons of the IB division)
Services and products offered	Large variety of customised services and products	Standardised services and products	No services or products to natural person-based clients	No services or products to natural person clients (except those banks that serve natural persons out of the AM division). Potentially internal services for other segments	No services or products to natural person clients (except those banks that serve natural persons out of the IB division). Potentially internal services for other segments
AI system type	Unacceptable	High	High	Minimal	Limited
EU AI Act expected impact	High	High	High	Medium	Low

— AI systems involved in credit scoring have a significant impact on individuals' fundamental rights



Credit Scoring Utilising KYC Data

Use Case

Develop a comprehensive risk evaluation system using KYC data for loan assessment.

Objective

Generate equitable risk scores based solely on KYC data for all loan applicants.

Challenges and Mitigation

- **Challenge:** Addressing noise and data incompleteness in KYC data.
- **Mitigation:** Implement effective pre-processing and data treatment protocols. Optimize computational efficiency for non-linear models like random forest and XGBoost.

— Tackling Volatility, Uncertainty, Complexity and Ambiguity – head on!

Deployment of an appropriate risk management system

FinTechs must establish, implement, document and maintain an appropriate risk management system. In addition, they must run an established continuous iterative process throughout the entire lifecycle of the AI systems.

Appropriate levels of accuracy, robustness and cyber security

FinTechs must ensure that high-risk AI systems shall consistently perform at an appropriate (i.e., relevant, representative, free of errors and complete) level of accuracy, robustness and cyber security, in line with each AI system's specific purpose. These must be clearly documented in the system's instructions of use.

Comprehensive instructions for use

To ensure AI systems are clear for natural persons, FinTechs must accompany them with instructions for use that include concise, complete, correct and clear information that is relevant, accessible and comprehensible to users (e.g. the system's intended purpose, performance).

Logging capabilities and human oversight

FinTechs must design AI systems and develop them to enable the automatic recording of events, ensuring traceability of the systems throughout their entire lifecycle. Also, AI systems shall be designed and developed in such a way to enable natural persons to effectively oversee their use.

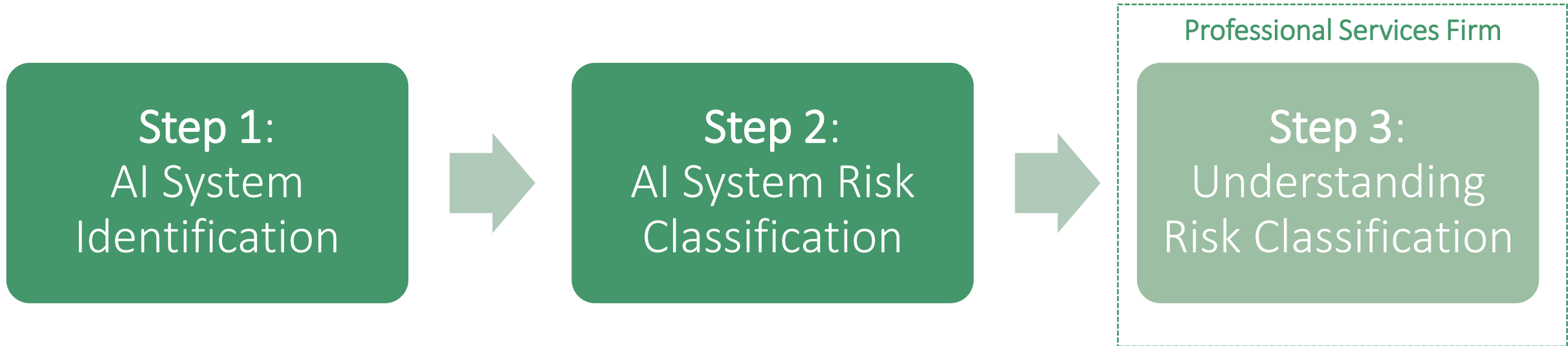
Use of appropriate training, validation and testing data

FinTechs must ensure that training, validation and testing datasets are subject to appropriate data governance and management practices, including relevant design choices, data collection, data preprocessing, formulation of assumptions, prior assessment of availability and statement of biases and shortcomings.

Specific technical documentation

FinTechs' AI systems technical documentation must be developed and used to assess the compliance of each AI system to the regulation. The documentation must contain the general characteristics, capabilities and limitations of the system, algorithms, data, training, testing and validation processes, as well as risk management considerations.

— Following a Three-Step Process under the EU AI Act



The EU AI Act

A Milestone in AI Regulation

Role of EU AI Act in supporting a rapidly advancing technology landscape

“The EU AI Act serves as a critical framework in guiding our engagement with artificial intelligence, urging us to reconsider the intersection of technology and morality. This regulation is not just about compliance; it’s a call to align AI with the evolving societal values around sustainability and fairness to future generations. It challenges us to think deeply about how AI can be harnessed not just for economic gain but as a tool to enhance human welfare and ethical integrity. In this light, the Act becomes a pivotal point for re-evaluating our moral compass in the rapidly advancing technological landscape, ensuring that progress in AI also advances our collective principles.”

Richard Foster-Fletcher, Executive Chair, MKAI



Next decade of growth in FinTech driven by successful adoption of Trustworthy AI

“It’s a non-trivial thing to get right and needs a whole set of upskilling and understanding. The next decade of growth in fintech comes from those who truly understand how to embed AI and other frontier technologies to deliver previously unheard-of operational efficiencies, products and growth, while ensuring they remain compliant with the regulations.

“Investors also now have to embrace an additional field of knowledge to their deal evaluation to satisfy themselves that their portfolio companies understand how to make this work, but the prize is worth it!”

Eric Van der Kleij, Co-Founder, EdenBase



Enterprises should familiarise themselves with the concept of ‘Compliance Plus’

“There is the concept of ‘Compliance Plus’. Will companies and other organisations be incentivized to go beyond minimal compliance with AI regulation. It could be said that Compliance Plus needs to be incentivized, so the companies can be motivated to go beyond minimal compliance. Opening Compliance Plus when innovation also takes place helps the EU AI Act to evolve, finesse and innovate over time.”

Paul Levy, Founder and Director, FringeReview

The EU AI Act

A Milestone in AI Regulation

Creation of a legal obligation on providers to ensure compliance, such as transparency

“While the Act will add an extra layer of protection and trust for both customers and providers of AI-enhanced financial services, it must remain sufficiently agile and dynamic to keep up with the fast pace of change while ensuring innovation and creativity are not stifled.”

Richard Chiumento, Director, Rialto



Role of guardrails in driving both trust and integrity in AI solutions

“Guardrails in AI are the silent sentinels, guiding the digital minds towards integrity and trust, ensuring that every step taken is within the bounds of our collective moral compass.”

Helen Yu, CEO, Tigon Advisory Corp.



Investors committed to supporting a responsible AI ecosystem

“We are committed to fostering a responsible AI ecosystem, fully aligned with the EU AI Act, ensuring transparency, accountability, and protection of fundamental rights.”

Tao Tao, Founder, Up VC



The EU AI Act

A Milestone in AI Regulation

Multi-discipline approach for compliance needed

“The requirement of cross-sectional perspective to comply with the EU AI Act is a very valuable one. The EU AI Act is a law that ‘looks at AI as AI’, and, therefore, incorporates various concepts, such as Risk Management, Human Oversight and Data Governance, through the legal perspective. At the same time, to meet the requirement of the law, a multi-discipline approach for compliance may be needed. Legal interpretation is key, but a diverse input to understand how compliance may be achieved is necessary.”

Vibhav Mithal, Associate Partner (Litigation), Anand and Anand

Introduction

Guiding Enterprises’ EU AI Act Preparation

Importance of thought leadership in spearheading EU AI Act enterprise preparation

“Given the likely impact of new AI regulation over the next few years, this report provides an excellent starting point for those looking to get to grips with the new requirements fast.”

James Burnie, Partner, Gunner Cooke



Greater clarity behind AI-decision-making drives increased consumer trust

“Greater understanding of AI-driven decisions could increase trust in financial services and empower consumers to manage their finances more effectively although consumers may raise concerns about potential bias in AI algorithms used in areas like loan approvals or insurance pricing. The Act’s focus on fairness and non-discrimination aims to mitigate these risks.”

Denis Nwanshi, CEO, NetraScale



EU AI Act and the Global FinTech Industry

Driving Growth by Adopting Responsible AI

Data Dilemma for the Fintech and the Opportunities

“By mandating strict data governance and privacy controls, the EU AI Act could be seen limiting the ability of FinTech companies to leverage big data and advanced analytics, thus impeding their capacity to offer personalised and innovative financial services and their business model overall. Combining data governance, the EU AI Act and GDPR creates a complex landscape for Fintech. However, effective compliance with the EU AI Act and GDPR can significantly enhance trust among customers, partners, and regulators. Demonstrating a commitment to protecting personal data and using Ethical AI will help build a reputation for integrity and responsibility, which is crucial in the highly competitive FinTech industry. Establishing strong governance frameworks that include accountability mechanisms for AI and data use can enhance trust.”

Dr. Indranil Nath, FloD, FBCS, CEng.

New age FinTech AI products embed cutting-edge governance

“FinTechs have great opportunities by developing responsible AI products with governance-by-design. This is the time for FinTechs to pave the way for generative AI and next-gen AI with AI governance suitable for this age – and set a high industry standard, challenging established financial institutions.”

Mikael Munck, CEO & Founder, 2021.AI



Importance of EU AI Act compliant general purpose AI models to build market confidence

“Steve Jobs said that PCs were to human minds, as bicycles were to human mobility. Some say that AI models are the equivalent of fast cars for human minds.

“Fast cars only became safe enough for public roads, once good brakes were introduced. Similarly the EU AI Act is the equivalent of brakes for AI models, to make them safe enough for us all to think faster!”

Sirish Reddi, Director, Voxta



EU AI Act and the Global FinTech Industry

Driving Growth by Adopting Responsible AI

Embracing fundamental rights within innovation represents a step forward

“The EU AI Act is an important and transformative piece of legislation. By setting global standards and adopting a risk-based approach to AI regulation, the FinTech sector will be empowered to balance innovation with safety and transparency.”

“But because the Act aims to strike a balance between innovation and fundamental rights, organisers of FinTech events will be able embrace cutting-edge AI technology with confidence, knowing that ethical standards are upheld, which can only be a positive step for both FinTechs and events organisers.”

Laurence Coldicott, Content Director, FinTech Connect



Driving Growth by Adopting Responsible AI

Embracing Trustworthy AI transcends compliance – its a strategic competitive advantage

“In the evolving FinTech landscape, embracing trustworthy AI isn't just about compliance—it's a strategic advantage. By prioritizing transparency, investing in robust infrastructure, and staying ahead with ongoing training, we turn regulatory challenges into opportunities for innovation and trust-building. Timely preparation is key to unlocking AI's potential responsibly, ensuring long-term success in a dynamic market.”

James Hodgson, CEO, 300Brains UK



Avoiding Reputational and Financial Risks

Impact of the EU AI Act on AI Governance

Control and regulation have become key focus points for legislators

“Feels like AI is a compulsory statement in every sentence related to technology. Even if 10% of the narrative or spin is true, we are in for a period of uncertainty about what this innovation will bring. Some positives, but also some risk.”

“Governments are rightly, and for once on point, looking at control and regulation. Assess the risk, remediate and let the consumer decide. This is absolutely the right thing to do. Implement the guiding principles and controls –fast”

Tej Dosanjh, AI Governance Consultant, AI & Partners



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Impact of the EU AI Act on AI Governance

Trust remains an essential component in driving mass AI adoption

“In the evolving landscape of Web3, effective AI regulation that doesn’t stifle innovation is pivotal for FinTech firms to ensure transparency, fairness, and security, fostering trust and sustainable growth within the decentralised ecosystem.”

James Bowater, Founder, The Digital Commonwealth



Impact of EU AI Act on Various FinTech Segments

Voluntary responsible AI commitments represent a minimum requirement

“To break down the business redesign process into manageable steps, avoiding disruption while achieving compliance, FinTechs can start by making voluntary responsible AI commitments. Next, they should assess their readiness to adopt these commitments and redesign business processes accordingly.”

“By focusing initially on less risky processes, FinTechs can identify gaps and learn from mistakes, which will inform improvements in more critical areas. This iterative approach builds human capacity and ensures continuous learning. Celebrating successes with their ecosystem reinforces these efforts. This step-by-step strategy is the core value that the AI 2030 Responsible AI Pledge program brings to FinTechs, ultimately enabling them to achieve their compliance goals effectively.”

Xiaochen Zhang, Chief Responsible AI Officer & Executive Director, AI 2030; CEO, FinTech4Good





Setting Industry Best Practice

- **Stay Informed:** Monitor regulatory updates and guidance related to the EU AI Act to ensure ongoing compliance and adaptation.
- **Industry Collaboration:** Participate in industry forums and initiatives to share best practices, address challenges, and advocate for responsible AI development.
- **Engage with Regulators:** Build positive relationships with regulators through open communication and proactive engagement.
- **Invest in Responsible AI Practices:** Continuously assess and improve AI deployment strategies to align with evolving ethical and regulatory standards.
- **Be Proactive, Not Reactive:** Approach the EU AI Act as an opportunity to drive positive change and lead the industry towards responsible AI adoption.

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- **Kate Shcheglova-Goldfinch**, Kate is on the list of Top3 UK Banker of the Year (Women in Finance Awards, 2023), TOP10 Policy makers and regulatory experts (Women UK Powerlist'23 by Innovate Finance), UN Women UK'24 Delegate developing tech diversity. Last four years Kate led the fintech and regulatory stream as an external Senior PM at EBRD, serving local central banks, creating regulatory acts and deploying regulatory sandbox legal frameworks (first global regulatory sandbox deployed under the war conditions for Ukrainian central bank, went live in March 23).
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- **Peter Joyce**, Business technology hybrid with over 20 years' of experience in building companies to drive product leadership, product management, quality assurance and growth in resilience capacity building through award-winning digital innovation.

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- **Rodney Prescott**, Rodney Prescott is a seasoned senior leader with a robust consulting background in Technology, Financial Services, Payments, Blockchain and AI. His career spans various industries such as Telecommunications, Web, and Financial Services across multiple countries, where he has excelled in providing expert advice and supplier representation. Currently based in London, Rodney is the Chief Technologist at Technologistkiwi. He is also pursuing a Doctor of Business Administration, focusing on the Financial Management of Digital Assets, underscoring his commitment to staying at the forefront of industry advancements and driving innovation.
- **Susan Furnell**, specialise cryptocurrencies, IOT, and data analytics, can transform their industry structure, their business models, their value chains, their offerings and how they can gain competitive edge and increase profit while hopefully being a force for societal good at the same time. Susan has provided Board level training on what Boards need to know for good AI governance, automated workflows using AI and looked at the legal and regulatory risks of using generative AI in health apps. Susan has decades of experience in high tech strategy in industry (including British Telecom, Mercury and RWE energy) and Roland Berger, the largest strategy consultancy of European origin, before founding her own consultancy.
- **Vibhav Mithal**, currently practices as an artificial intelligence, data protection and intellectual property litigator with one of India's leading IPR firms. He has contributed to India's AI ecosystem in myriad ways and has been part of many path-breaking litigations. Vibhav has been recognized by Managing Intellectual Property as a Rising Star in the years 2022 and 2023.

— A special thanks to **AI 2030** for their ongoing support throughout the full lifecycle

- **Caroline Abadeer**, Senior Fellow, a technology and policy research leader and senior fellow at AI 2030. She holds degrees in political science from Stanford University and the University of Minnesota and has previously served as a research scholar at the United States Institute of Peace and the Fulbright Program.
- **Jerome Silber**, Senior Fellow, a seasoned attorney with extensive experience as an external lawyer and in-house counsel. He specializes in negotiating commercial and technology agreements. Jerry has also taught communications law and ethics at various local colleges. He has been an active member of World Commerce & Contracting (including several terms on the Advisory Council), leading to his “Fellow” status award earlier this year. His commitment to pro bono work has earned him numerous awards. Jerry holds a bachelor's degree in Communications, a master's degree in Journalism, and a law degree. Since retiring from Verizon in March, Jerry has advised several start-ups on commercial and regulatory matters and consulted with Frontier Communications. He holds an advisory role at AI 2030 and has begun a Monthly AI Litigation Review.
- **Xiaochen Zhang**, CEO of FinTech4Good, a venture building firm empowering financial services through emerging technologies, is also the Founder of AI 2030, an initiative aimed at harnessing AI's transformative power for humanity while minimizing its potential negative impact. He is also the former Global Head of Innovation & Go-To-Market at AWS. In the past 20 years, he worked with many portfolio companies in launching new offers, entering into new markets and building transformative collaborative initiatives with the most reputable organizations from all over the world to reshape the future of finance with emerging technologies.



— Thank you!



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