European Union Artificial Intelligence Act

Impact in the FinTech Industry

An Impact Analysis on Market Participants

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AI & Partners defends and extends the digital rights of users at risk around the world. By combining direct technical support, comprehensive policy engagement, global advocacy, grassroots professional services, regulatory interventions, and participating in industry groups such as AI Commons, we fight for fundamental rights in the artificial intelligence age.

This report was prepared by Sean Donald John Musch and Michael Charles Borrelli. For more information visit https://www.ai-and-partners.com/.

Moreover, for information on future publications, register your interest for **TransformBase 2024**, the leading event focused on enterprise adoption of and investment into AI. Join us on 27th June for a key regulatory roundtable moderated by AI & Partners. Discover more and secure your tickets upon their release here.

Lastly, this report aligns with **AI 2030**'s main initiative aimed at harnessing the transformative power of AI to benefit humanity while minimizing its potential negative impact. Moreover, we are immensely grateful for the invaluable contribution from the AI 2030 team, who went above and beyond all expectations. See page 38 for individual contributors. For more information, access the website here.

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Our report identifies that implementation efforts are likely to vary across FinTech segments, such as digital lending, payments, capital raising, and the EU AI Act's impact depends on customer types, interaction basis, services offered, and involved IT systems. Moreover, complying with the EU AI Act is likely to enhance operational excellence and reputation while uncovering further digitalisation opportunities.

About this report

This report is based on market research, publicly available data, and interviews with AI specialists in AI & Partners, financial services organisations, and relevant third-parties. Moreover, quotations provided on specific topics reflect those of AI specialists at AI & Partners to be as representative as possible of real-world conditions. All references to EU AI Act reflect the version of text valid as at 16 April 2024. Accessible here.

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Executive Summary

Considered by many as a milestone in artificial intelligence ("AI") regulation, the passage of the European Union ("EU") AI Act (the "EU AI Act") opens a new chapter on the road towards Trustworthy AI. The regulation aims at empowering individuals by protecting their fundamental rights in an AI era and harmonising the patchwork of national data legislation across the EU to lay the foundation for a thriving digital market.

The regulation introduces certain rights for individuals and new obligations for providers, such as fundamental rights impact assessments ("FRIAs") and AI system breach notifications. financial technology ("FinTech") participants, such as banks, need a clear plan and strategy to best analyse the impact of the regulation and to implement the applicable standards by Spring 2026.

This white paper examines opportunities as to how EU AI Act compliance can contribute to operational excellence and good reputation, prepare for digitalisation and substantially reduce future regulatory adjustment costs in the light of pending global AI legislation. Moreover, it discusses the challenges faced by the global FinTech[1] industry with the EU AI Act and proposes a clear approach as to how best to analyse and implement the EU AI Act and avoid EU AI Act-related risks.

The Key Takeaways

- The EU AI Act marks a significant regulatory milestone impacting both technology firms and traditional companies.
- It extends to high-risk AI systems deployed to EU residents by banks outside the EU, particularly in banking service offerings.
- Compliance with the EU AI Act ensures alignment with future revisions and international AI legislation tied to it.
- Adhering to the EU AI Act significantly influences a FinTech's Trustworthy AI organization and accountability.
- Non-compliance may lead to substantial fines and temporary market access restrictions for non-EU companies by national AI agencies.
- Implementation efforts vary across FinTech segments such as digital lending, payments, capital raising, InsurTech, and market provisioning.
- The impact of the EU AI Act on FinTechs depends on customer types, interaction basis, services offered, and involved IT systems.
- Complying with the EU AI Act enhances operational excellence and reputation while uncovering further digitalization opportunities.
- Robust technology infrastructure, like databases, facilitates FinTechs in adapting customer-centric relationship management and efficient client onboarding.

[1] This term includes all entities involved in the FinTech environment, including FinTech activities (e.g. insurance, asset management), enabling technologies, and policy enablers. Moreover, it also includes those to whom a FinTech services (E.g. banks) as well as interacts with (E.g. cloud infrastructure provider). Unless otherwise stated, this term applies to the FinTech itself, its clients, service providers, partners, suppliers and all other stakeholders.

Glossary[2]

AI Act Term	AI Act Definition
AI System	A machine-based system that is designed to operate with varying levels of autonomy and that can, for explicit or implicit objectives, generate outputs such as predictions, recommendations, or decisions, that influence physical or virtual environments.
Authorised Representative	Any natural or legal person located or established in the EU who has received and accepted a mandate from a Provider to carry out its obligations on its behalf.
Deployer	A natural or legal person, public authority, agency, or other body using an AI system under its authority.
Distributor	Any natural or legal person in the supply chain, not being the Provider or Importer, who makes an AI System available in the EU market.
FinTech	Technologically enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services.
General-Purpose AI Model ("GPAI")	Means an AI model, including where such an AI model is trained with a large amount of data using self-supervision at scale, that displays significant generality and is capable of competently performing a wide range of distinct tasks regardless of the way the model is placed on the market and that can be integrated into a variety of downstream systems or applications, except AI models that are used for research, development or prototyping activities before they are placed on the market;
Importer	Any natural or legal person within the EU that places on the market or puts into service an AI system that bears the name or trademark of a natural or legal person established outside the EU.
Operator	A general term referring to all the terms above (Provider, Deployer, Authorised Representative, Importer, Distributor, or Product Manufacturer).
Product Manufacturer	A manufacturer of an AI System that is put on the market or a manufacturer that puts into service an AI System together with its product and under its own name or trademark.
Provider	A natural or legal person, public authority, agency, or other body that is or has developed an AI system to place on the market, or to put into service under its own name or trademark.

[2] **EU AI Act** (Corrigendum Version (April 2024), accessible at https://www.ai-and-partners.com/_files/ugd/2984b2_6c147f9bc82a4062a1af1a9a491e4611.pdf, (last accessed 18th April 2024)

Turning the Regulation into a Benefit

The majority of FinTechs serving customers residing in the EU will be required to comply with the EU AI Act. It is a compliance journey which will not only affect how AI systems are governed but may also alter business processes and require significant amendments on IT systems. Thus, implementation of the EU AI Act may also contribute to operational excellence and uncover and provide opportunities for further industrialisation and digitalisation in the FinTech industry as well as opportunities for reshaping towards state-of-the-art client-facing business units.

Contributing to Operational Excellence, Cybersecurity and Reputation

An important aspect of EU AI Act implementation is the contribution it can make to operational excellence. A large problem that the majority of FinTechs share across all business segments is IT legacy. To date, it seems to us that implementation of the EU AI Act would involve FinTechs not only addressing implementation from a purely organisational and governance point of view, but also simultaneously addressing their IT legacy.

Many FinTechs will have to optimise operational processes in the front office and shift towards state-of-the-art client relationship management ("CRM") solutions. Wealth management will have to decide on how to structure its data landscape to best address client relationship management in a digitalised world.

Besides contributing to operational excellence and cyber-defence capabilities, the EU AI Act provides an opportunity for FinTechs to differentiate themselves from competitors and to be perceived as forerunners in terms of taking trustworthy AI seriously, in particular after potential reputational damage associated with AI misuse. In an increasingly digital world, in which FinTech has to move towards new business models and provide new value positions to clients, demonstrating true responsibility towards promoting trustworthy AI and customer rights is a key driver toward sustainable long-term growth as it will positively contribute to strong client-supplier relationships. Third-party risk management is a related topic that can also be addressed within the EU AI Act context.

'Human-centric focus of innovations essential for FinTechs in new regulatory domain', NetraScale

Additional compliance considerations implemented through the Act will also ensure pivots within the FinTech industry are properly executed and underlying users protection is always the highest priority.

Impact on Next-Generation Digital Payments:

Real-Time Gross Settlement (RTGS):

- **Transparency and Explainability**: AI-powered fraud detection or anomaly identification systems used in RTGS will likely need to be more transparent. Regulators may require explanations for how these systems flag suspicious transactions, ensuring they are not biased against certain types of payments.
- **Focus on Fairness and Non-Discrimination**: The Act could impact algorithms used for transaction settlement decisions (e.g., based on risk profiles). Developers will need to demonstrate these algorithms do not unfairly block legitimate payments based on factors like geography or transaction size.

- **High-Risk Applications**: RTGS systems are likely classified as high-risk due to their critical role in financial infrastructure. This could mean stricter testing and human oversight for AI components, potentially impacting timelines and costs for implementing new functionalities.
- **Rationale**: Balancing innovation with robust safeguards is crucial in RTGS systems. Explainability and fairness are essential to ensure AI doesn't disrupt essential financial transactions or create unintended consequences for critical payments infrastructure.

Uncovering Opportunities for Industrialisation and Digitalisation

A key side effect of EU AI Act implementation is that governing AI systems effectively will open up new opportunities for further industrialisation and digitalisation efforts. As a consequence, FinTechs will be able to structure their processes more efficiently and effectively and avoid duplicated processes. AI systems will flow more smoothly within the FinTech, reaching the appropriate receiver quicker, allowing for effective cost reduction, and rasing employee productivity and efficiency.

Today, FinTechs use various AI systems. However, substantial efforts are required for employees to identify and catalogue a FinTech's AI system. Structuring AI systems and flows permits firms to overcome that issue. In addition, well-structured infrastructure makes it easier for FinTechs to adapt their business units towards a state-of-the art customer-centred relationship management including an appropriate and efficient AI-assisted client on-boarding procedure. This enables FinTechs to gain a more holistic view of clients and to operate more efficiently on the sales side, not least with regard to client on-boarding and risk management – all via the help of AI.

Governing AI systems also requires assessing the effectiveness of outsourcing in terms of maintaining the benefits of transparent and well-structured AI system interactions together with having transparent interfaces. This allows the implementation of agile applications. Thanks to the growing number of digital solution providers, FinTechs will be able to offer a new variety of AI-enabled services and products.

Finally, the reputation for security and integrity of established FinTechs will remain a competitive advantage difficult to match by the new competitors from other industries. Going forward, those FinTechs will in the long-term substantially benefit from the EU AI Act as they reap the benefits of industrialisation and digitalisation in the FinTech industry and match them with their already strong reputation for security and integrity.

Introduction

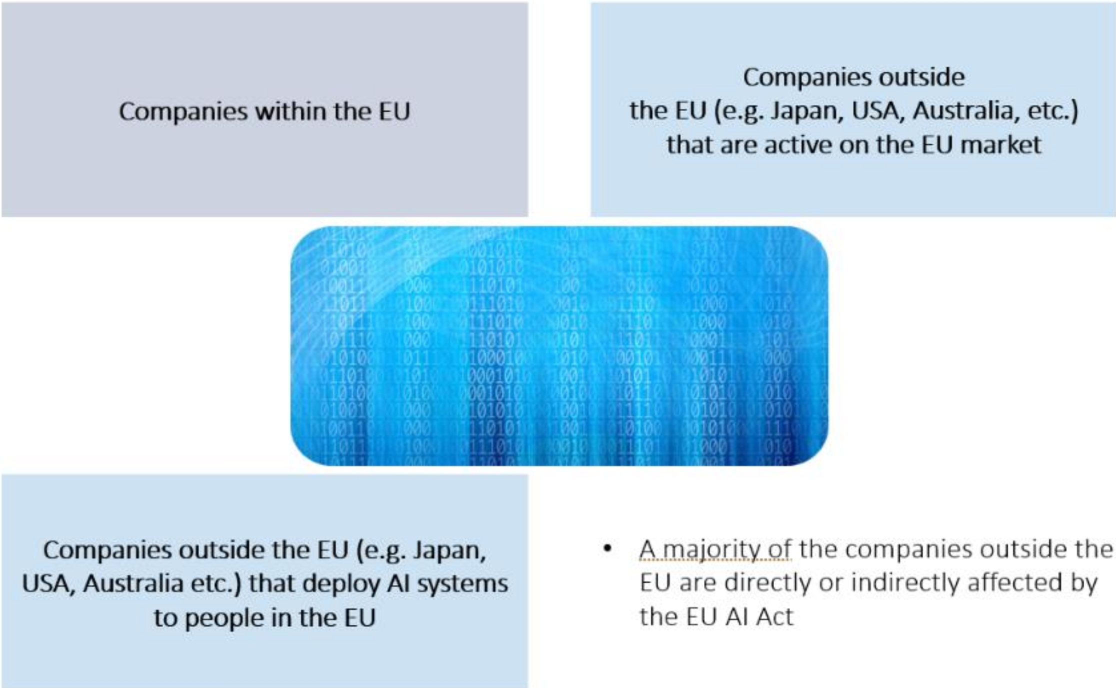
FinTechs and FinTech service providers utilise a vast amount of AI tools on a daily basis. According to the World Economic Forum ("WEF"), FinTechs view 'AI as being the most relevant topic for FinTech industry development over the next five years'[3]. Many of the AI is high-risk or even unacceptable risk.[4] As a result of the EU AI Act, which looks set for adoption by member states in 2024 and will become directly applicable in 2026, FinTechs, and businesses in the FinTech supply chain, will be subject to new legal-regulatory risks. The newly created EU AI Office (AIO) will oversee implementation and enforcement of the EU AI Act, but local enforcement will be the focus of AI national supervisory authorities ("NSAs") in EU member states. Similar to the EU's General Data Protection Requirements (GDPR), the EU AI Act aims to protect individuals and it substantially safeguards their fundamental rights as a consequence. It also gives the NSAs new rights to audit FinTechs and impose administrative fines which can amount to a maximum of EUR 35 million or 7 per cent of the global annual turnover of a company – whichever is higher.

A particular feature of the EU AI Act is its **extraterritorial reach**, which is stipulated in Art. 2. Besides applying to companies established in the EU, the regulation also applies to companies not established in the EU to the extent they are used by EU individuals: "[…] providers placing on the market or putting into service AI systems in the Union, irrespective of whether those providers are established within the Union or in a third country." Further, it is important to consider that the EU AI Act focuses on all individuals. Hence, not only a FinTech's customers but all individuals whose fundamental rights are affected by AI system deployment are within the scope of the regulation, even employees.

AI & Partners' experiences since 2021 show that in the light of the extraterritorial reach of the EU AI Act and the large scope of individuals affected, many global FinTech executives are uncertain about the applicability and potential impact of the EU AI Act. Reducing and managing uncertainty requires clear steps, such as identifying the AI Systems used and deployed as well as a proper legal assessment, embedding the specific business operations into the entire regulatory framework. And finally, a clear definition of requirements and risk mitigation strategies is essential.

[3] https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-future-of-global-fintech-towards-resilient-and-inclusive-growth//
[4] Biometric identification and financial evaluations likely are examples of high-risk applications.

Figure 1: Companies within scope of the EU AI Act



Besides contributing to operational excellence and cyber-defence capabilities, the EU AI Act provides an opportunity for FinTechs to differentiate themselves from competitors and to be perceived as forerunners in terms of taking trustworthy AI seriously, in particular after potential reputational damage associated with AI misuse.

In an increasingly digital world, in which FinTech has to move towards new business models and provide new value positions to clients, demonstrating true responsibility towards promoting trustworthy AI and customer rights is a key driver toward sustainable long-term growth as it will positively contribute to strong client-supplier relationships. Third-party risk management is a related topic that can also be addressed within the EU AI Act context.

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*

gunnercooke

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*

The EU AI Act

The EU AI Act isa milestone in terms of trustworthy AI regulation. The regulation looks set to enter into force during Spring 2024 and will become directly applicable around May/June 2026.

AI systems are being deployed to address various societal and industrial challenges; this, however, also brings about certain risks and potential negative consequences. In order to regulate and mitigate these concerns and to balance the benefits of AI with regulatory measures, the European Union introduced the AI Act. A political agreement on the AI Act has been reached and the final text is expected to be available in the first half of 2024. The objective of the AI Act is to ensure that AI systems are safe, respect fundamental rights, provide legal certainty for investment and innovation, enforce safety requirements and fundamental rights effectively, and prevent market fragmentation by creating a single market for trustworthy AI application.

The EU AI Act adopts a four-tiered, risk-based approach for categorising AI systems: Unacceptable, High, Limited, and Minimal. The tiers generally correspond to (i) the level of sensitivity of the data involved, and (ii) the AI use case or application under consideration.

Due to its wide geographical scope, the EU AI Act will impact many companies outside the EU to the extent they target EU individuals. Considering that leading European capitals, such as Paris, Berlin, and Amsterdam, are the world's leading financial hubs and – in that context – the importance of cross-border provision of financial services in Europe, the EU AI Act will substantially impact global FinTech players.

A Milestone in AI Regulation

The European Commission ("EC") proposed the EU AI Act as an instrument to protect citizens, promote the uptake of safe, secure and trustworthy AI, and simplify the regulatory environment for business in the course of digitalisation. The regulation takes centre stage with regard to the realisation of the digital single market strategy, which aims to "ensure that Europe's economy, industry and society take full advantage of the **new digital era**"[5], a priority on the EC's agenda. As a guardian of the single market and tasked with ensuring a level-playing field, the EC is likely to closely monitor EU AI Act compliance by market participants with a presence inside and outside its territory. Although it is a regulation, the EU AI Act remains very vague, requiring careful interpretation and advice by AI and legal professionals.

National Supervisory Authorities ("NSAs") and the future AI Office ("AIO") will publish guidance to define best practices with regard to the application of the EU AI Act, which is likely to require ongoing legal impact assessments. With regard to sector-specific guidance, for example financial services, the EC and NSAs encourage drawing up codes of conduct that should contribute to the proper application of the EU AI Act; these codes should take account of sector-specific features when it comes to AI system deployment and specific industry needs.

[5] The Council of Europe, (2024), 'Digital single market for Europe', accessible at [Digital single market for Europe - Consilium (europa.eu)] (last accessed 18th April 2024)

‘Industry participants must encourage a re-evaluation that leads to more ethical and flourishing technological advancements’, MKAI

In the realm of artificial intelligence, akin to broader societal dynamics, the fluidity of morality emerges as a pivotal force shaping humanity's trajectory. This evolution prompts a critical examination of the genesis and efficacy of our values, advocating for a re-evaluation conducive to more ethical and beneficial technological advancements. Recent emphasis on sustainability and equitable treatment of future generations within environmental ethics signifies a significant moral transition, mirroring larger shifts in societal values and emphasizing the imperative of recalibrating our moral compass to meet emerging challenges.

For the FinTech industry, the recognition prevails that navigating these transitions entails active engagement with the dynamic discourse surrounding ethics in AI, rather than rigid adherence to static moral frameworks. Through questioning entrenched norms and embracing the spectrum of human values and perspectives, leading industry practitioners can endeavour to cultivate a community wherein moral considerations in AI are regarded as a collective journey. Such dialogue aims to elucidate optimal ways of leveraging AI to navigate the intricacies of existence, thereby ensuring technological progress aligns with humanity's well-being and ethical imperatives. This approach acknowledges the evolving nature of morality not as a source of ambiguity but as an essential element in our collective strive to refine and apply moral understanding amidst the evolving landscape of artificial intelligence.

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*

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.*

'Technological advancements, underpinned by robust regulation, empowers firms' operational efficiencies', EdenBase

The forthcoming decade is poised to witness significant expansion within the FinTech sector, propelled by the successful integration of Trustworthy AI. This endeavor demands substantial upskilling and comprehension. Pioneering advancements in AI and allied technologies will empower firms to achieve unparalleled operational efficiencies, innovative product offerings, and sustainable growth, all within regulatory compliance frameworks.

Investors, recognizing the imperative nature of this evolution, must incorporate an additional dimension into their due diligence processes, ensuring portfolio companies possess the requisite expertise to navigate this terrain. The rewards of such endeavors are substantial, validating the strategic importance of embracing Trustworthy AI in shaping the future of FinTech.

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*

EDENBASE

'Transparency a hallmark of trustworthy AI applications', Rialto

Many of the functions and processes of the fintech industry will fall under the high-risk category in the Act's new tiered regulatory system, creating a legal obligation on providers to ensure total transparency and security around data and finance-based deployment of AI and other frontier technologies.

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*

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ACCELERATED IMPACT

‘FinTechs are strongly incentivised to develop advanced, secure, and compliant AI solutions’, Tigon Advisory Corp.

FinTech companies are entering a transformative era, thanks to the EU AI Act that opens the door to growth through trustworthy AI. By adhering to the EU AI Act’s rigorous standards, FinTech companies can harness AI to enhance fraud detection, personalize customer experiences, and improve credit worthiness accuracy and optimize operations while maintaining ethical practices that build consumer confidence. The EU AI Act’s focus on transparency, accountability, and data protection stimulates innovation, prompting FinTechs to develop AI systems that are advanced, secure, and compliant. Aligning with the EU’s responsible AI framework can distinguish these companies as pioneers in the financial sector. As FinTechs navigate this regulatory environment, those who prioritize trustworthy AI can expect to cultivate customer loyalty, mitigate risks, and stimulate growth, steering the industry towards a future where technology and trust are in harmony.

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.*

Tigon Advisory
Start-ups, cure your disconnects.

‘Investors focusing on responsible AI by prioritising Sandbox alumni’, Up VC

Backers of AI firms look to secure their investments by concentrating on firms that have passed rigorous regulatory requirements. Of note, these pertain to those whom have undertaken testing in a controlled environment to the complete satisfaction of regulators’ from multiple standpoints, such as consumer protection, market integrity and data protection. They seek ventures with regulatory experience, strong ethics, and EU AI Act alignment. This fosters both trust and portfolio success.

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*

UP VC

In the Aftermath: Focusing on the Right Spots

Although the EU AI Act has become an area of focus for companies across all industries, a recent DIGITALEUROPE study[6] showed that most firms are generally either not prepared or are still trying to make sense of the far-reaching ramifications of the EU AI Act related to concepts, such as security by design and default, risk management or conformity assessment.

Our experience in the global FinTech environment shows that only recently has the EU AI Act become a topic on the regulatory radar of most FinTechs. The applicability and scope of EU AI Act with respect to FinTechs is the basic question, but FinTechs also often ask for more details on explainability, risk management and individuals' rights. We also often see that EU AI Act compliance is only handled in legal teams rather than as a cross-functional initiative. This is problematic due to the high impact on operations and the management of AI system interactions (e.g. use, deployment) as a daily business. Implementation of the EU AI Act needs to be a joint initiative from all lines of service and all functions.

Another point is that many FinTechs underestimate the effort required and the timeline they need to become compliant. We expect many FinTechs will need a larger transformation initiative where several IT systems and the process landscape itself are affected and therefore wider change will be required. The deadline for compliance in Spring 2026 is tight in view of this. As this may be more cumbersome in the initial phase for these FinTechs, it will in the long-term add to the success of standardised compliance initiatives and continued confidence from the market and investors alike.

Another hot topic among FinTechs is the multifaceted impact of AI and its relationship to the EU AI Act. Across the globe, safeguarding of individuals' fundamental rights is legally protected by various legal instruments, such as the European Charter for Fundamental Rights (the "Charter"). Fundamental rights protection for individuals derives from a long history of EU-oriented legislation. FinTechs are required to maintain robust safety standards concerning the human-centric affairs of clients. FinTech employees who violate that obligation are liable to prosecution. In light of that, some FinTechs believe that they are already compliant with regard to AI legislation. However, AI regulation predominantly addresses consumer protection for those individuals interacting with FinTechs from a fundamental rights standpoint. The EU AI Act goes beyond preventing the deployment of unacceptable risk AI systems. It governs the full AI system lifecycle, provides rights to individuals and confers duties on Providers. Therefore, complying with related, non-AI laws does not relieve FinTechs from complying with the EU AI Act.

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*

[6] https://cdn.digitaleurope.org/uploads/2023/06/DIGITAL-EUROPE-SANDBOXING-THE-AI-ACT_FINAL_WEB_SPREADS-1.pdf

EU AI Act and the Global FinTech Industry

The EU AI Act adds an additional layer of obligations to the already complex and highly regulated financial services environment. Besides AI legislation, FinTechs are subject to other regulations with strong AI implications, such as Know-Your-Customer ("KYC") duties, record-keeping obligations ("MiFID II") or the Automatic Exchange of Information ("AEOI") in tax matters. The collaboration of enhanced AI standards in combination with these other FinTech requirements, help to create a safer, more transparent market for participants. When done properly, AI can help to ensure the compliance industry is more robust into the future, protecting all parties involved in transactions.

Documentation and archiving obligations constitute other tasks with an AI system dimension for FinTechs. Hence, aligning regulatory initiatives is key to saving cost and effort when preparing with a solid foundation for upcoming regulations in the field of trustworthy AI and beyond.

Complying with the EU AI Act while observing all other obligations poses a significant challenge for FinTechs in and outside the EU. Nevertheless, compliance will be a precondition to serve customers in the EU. Non-compliance will expose EU AI Act impacted FinTechs to substantial legal risks and may ultimately trigger heavy administrative fines. As the reporting standards for many FinTech's change frequently, the implementation of AI in this ever changing environment will help firms comply with the burden of changes as well as help weed out bad actors who become non-compliant. Non-compliance will expose EU AI Act impacted FinTechs to substantial legal risks and may ultimately trigger heavy administrative fines.

Applicability of the EU AI Act

From Spring 2026 onwards, the EU AI Act will apply without exception to global FinTechs actively offering cross-border services to customers domiciled in the EU. As a key pillar of the digital single market, it is unlikely that the EC will tolerate a distortion of the level-playing field by companies domiciled outside the EU as a result of less strict AI regulation. Thus, it can be expected that from Spring 2026 on the EC will put particular emphasis on EU AI Act compliance by foreign companies active on the EU market.

Although the powers of national NSAs in EU member states have been considerably broadened, doubts remain about the enforceability of the EU AI Act on businesses domiciled outside the EU. However, there is little doubt about its enforceability against global FinTechs that in many instances have established subsidiaries in EU Member States. An NSA could impose and collect fines using a FinTech's assets in the EU. This may have repercussions on the legal setup of FinTechs serving EU clients through subsidiaries in the EU.

'Privacy protection element – a key point of focus', FinTech Connect

Over the past decade, both FinTechs and AI have become crucial components of the financial industry, promising increased efficiency, improved customer experiences, and reduced costs. As AI becomes increasingly embedded in financial services, the risks of using AI to support FinTechs in media-related activities, which rely heavily on the trust of the media, also increase.

For example, if AI-generated content is passed off as original, it breaks the vital element of trust and has serious consequences. Similarly, AI-image generation tools used to create images by incorporating elements from available images and artwork on the internet raise ethical concerns in presenting AI-created work as original branded content. FinTechs risk hefty copyright infringement fines and a hit to their credibility if they use AI in this way.

There is no substitute for original content and FinTechs need to protect their reputations by using AI responsibly.

The EU AI Act has a transparency mandate that means general-purpose AI systems are required to comply with EU copyright law. Thie will ultimately ensure the accountability of FinTechs and build trust with their customers.

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*

FinTech CONNECT

Consequences of Non-Compliance with the EU AI Act

As already mentioned, the EU AI Act provides NSAs with new rights to audit and to impose administrative fines which can amount to a maximum of EUR 35 million or 7 per cent of the global annual turnover of a company – whichever is higher. In the case of global FinTechs with no physical presence or assets in the EU, NSAs in EU Member States may find the enforcement of administrative fines for non-compliance with the EU AI Act particularly difficult, if not impossible.

When issuing fines to companies in third countries, such as the United States of America, NSAs will have to rely on international mutual assistance in criminal matters from the relevant government authority. Depending on the gravity of a trustworthy AI breach, market access for a company outside the EU could be temporarily restricted as a result of measures taken by NSAs on an individual basis. In any case, non-compliance with the EU AI Act by a global FinTech is likely to trigger substantial reputational damage, especially with clients in the EU.

Finally, while the procedure for enforcement of administrative fines for non-compliance is likely to remain uncertain and will have to be assessed on a case-by-case basis, claims by individuals will likely be treated differently. On the basis of private international law, application of the EU AI Act in proceedings against a third country-based FinTech is almost certain if the EU resident affected mandatorily complies with the EU AI Act as the applicable law (and not the relevant home state legislation). This option is also available to EU individuals taking action in home state courts. While the applicability of foreign AI law is not particularly new, given the much wider scope and new obligations that the EU AI Act entails compared to third-country legislation, non-compliance with the EU AI Act entails high legal and financial risks.

Driving growth by adopting Responsible AI

'Delicate balance between managing risk and maximising returns', Voxta

At the core of financial services lies the delicate balance between managing risk and maximizing returns. Kahnemann and Tversky's insights underscore the prevailing concern among consumers, prioritizing the protection of their hard-earned savings over potential gains, given humans' innate loss aversion tendencies. For any fintech platform leveraging advanced technologies like LLMs and programmatic logic, assuring consumers that their capital is exposed only to understood and accepted risks is paramount.

Achieving widespread acceptance hinges on establishing consumer trust, a prerequisite for any fintech endeavour. While integrating powerful AI models presents significant advantages, prioritizing safety is imperative. Compliance with regulations such as the EU AI Act not only ensures legal adherence but also fosters confidence among users and partners, ultimately facilitating broader adoption.

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

"Steve Jobs said that PC's 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*

‘Adopting trustworthy AI isn’t just a compliance measure, but a strategic advantage’, 300 Brains

For FinTech companies aiming to drive growth under the EU AI Act, adopting trustworthy AI is not just a compliance measure but a strategic advantage. A thorough understanding of the regulatory landscape ensures AI deployments are compliant and ethically aligned. Prioritising transparency, fairness, and security in AI models, with a particular emphasis on explainability, is vital for building stakeholder trust. Implementing robust infrastructure-grade software development using secure, scalable frameworks is crucial. Furthermore, investing in expertise in data governance and ethical AI, and collaborating with regulatory experts for ongoing training, enhances a company's ability to adapt to regulatory changes. These practices not only boost the company's reputation but also secure a competitive edge in the marketplace.

By adopting these measures, FinTechs can expect improved customer trust, enhanced innovation potential, and a stronger competitive position in a rapidly evolving financial sector. This strategic approach to trustworthy AI under the EU AI Act enables FinTechs to harness AI's full potential while fostering sustainable growth and market leadership.

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*

300 BRAINS | Do IT Smart

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**, FIoD, FBCS, CEng.*

'Governance-by-Design Generative AI products to set leading market standard, 2021.AI

FinTechs who seek to engage, or disrupt, established financial institutions, face an opportunity to create a distinct advantage in their favour. Established financial institutions are struggling to adopt generative AI technologies due to internal risk and compliance frameworks not yet adapted or suitable for generative AI technology. FinTechs who are building governed-by-design generative AI products and services, will be the first to receive access to crucial banking data. In turn, such access will improve model performance and accuracy, as well as accelerate what are typically long sales cycles.

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*

Trends of AI-generated fraud in the Fintech Market and the efficacy of the EU AI Act

Fraudsters are quick to adapt to technological advancements, and AI is no exception. AI-generated fraud has skyrocketed in the last few years. Deepfakes, one of the most notorious offshoots of AI, is of particular concern for the Fintech industry, as deepfakes pave the way for identity theft, scams, and misinformation campaigns on an unprecedented scale.

Sumsub's 2023 Identity Fraud Report has discovered that the number of deepfakes detected worldwide has increased 10 times from 2022 to 2023, based on Sumsub's internal statistics (p.6). Amongst the industries analysed in the Report, the Fintech industry is the second most susceptible to deepfake fraud, amounting to 7,7% of the deepfake cases spotted in 2023 (p.30).

The EU AI Act does not let these trends go unnoticed. The approach found by legislators is to not prohibit deepfakes, but rather impose transparency requirements on providers and deployers of technologies capable of generating deepfakes.

Art. 50 (2) says: *"Providers of AI systems, including general-purpose AI systems, generating synthetic audio, image, video or text content, shall ensure that the outputs of the AI system are marked in a machine-readable format and detectable as artificially generated or manipulated (...)"*

Art. 50 (4) says: "*Deployers of an AI system that generates or manipulates image, audio or video content constituting a deep fake, shall disclose that the content has been artificially generated or manipulated (...)"*

These dispositions align with the technique of watermarks, a transparency technology that attaches a "unique signature" to the output of an AI model, signalling that the output is AI generated. Watermarks, however, come with their own shortcomings, including limitations on its technical implementation, accuracy and robustness.

Whilst welcomed, the efficacy of these transparency requirements is also questioned in at least two main ways.

First, considering the criticality of risks to both personal and business interests, the first issue is whether transparency obligations are enough protection against deepfakes.

The analysis of the efficacy of open source deepfake detectors has indicated that these detectors severely underperform. It takes fraudsters only small improvements to a deepfake (e.g. jpg compression) to fool such detectors.

Second, even if transparency requirements were enough to offer protection deepfakes, how to enforce such requirements still remains an open issue. For example, fraudsters cannot be expected to abide by transparency requirements. Additionally, many exceptions apply to Art. 50 (4), but such exceptions are, arguably, loosely defined.

All in all, the EU AI Act still remains an innovative piece of legislation also when it comes to deepfakes, but in this case, as in many others, the efficacy of the legal dispositions will largely depend on implementing acts and future jurisprudence.

Avoiding Reputational and Financial Risks

Given the reputational and financial risks that non-compliance with the EU AI Act involves, it is necessary for global FinTechs to assess their exposure to the regulation, and if results indicate the FinTech is within the scope of the EU AI Act they will have to assess their readiness to comply on the basis of their current trustworthy AI architecture.

In most cases, global FinTechs aiming for compliance will be able to leverage existing trustworthy AI mechanisms and IT security processes. However, an initial requirement for any EU AI Act compliance measures is a full picture of the AI system deployed as well as of related interactions flows within a FinTech. Given that the EU AI Act holds the Provider accountable for compliance with the EU AI Act and requires it to demonstrate compliance (i.e. reversal of the burden of proof), EU AI Act implementation has far reaching effects on a FinTech's trustworthy AI organisation. In other words, an EU AI Act compliant FinTech will have to demonstrate that it has full control over the AI system it deploys.

Identifying EU AI Act Impact on FinTech

With regard to compliance and implementation, the EU AI Act impacts FinTech differently depending on the business segment. As far as AI systems are concerned, much depends on the client segment, the basis of interaction and the services offered. All that determines the type of AI system used by a FinTech. EU AI Act compliance is generally easier where AI system deployment results in well-structured AI systems. In addition, the larger the FinTech, the more complex its AI system structure is likely to be as a function of its legal setup (entities), diversity of operations and the AI system interactions between and across divisions.

The table below provide indicative impact of EU AI Act's impact on FinTechs.

	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

'Governments' increasingly recognise value of regulation in mitigating AI risk', AI & Partners

In the rapidly evolving landscape of fintech, AI stands as both a beacon of innovation and a harbinger of uncertainty. Governments recognize the need for regulation to mitigate risks. Compliance with the EU AI Act isn't merely a checkbox; it's a strategic advantage, signalling credibility and leadership in providing AI-verified financial products.

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 EU AI Act on Various FinTech Segments

As the EU AI Act only affects individuals, segments of business which are directly client related, such as digital lending and digital banks, are more impacted by the regulation than other segments. While the focal point of this white paper is on customer trustworthy AI, it is important to remember that the EU AI Act applies to the deployment of AI systems that affects any EU resident. Thus, it may concern all sorts of AI systems that can be found within a FinTech. Compliance with stricter regulations for high-risk AI such as credit scoring or fraud detection will require Explainability & Transparency, Data Governance and Human Oversight. This means financial institutions need to be able to explain how AI models reach decisions and demonstrate fairness in algorithms.

As a rule of thumb, wealth management with its high level of individualised services and client interaction will be most affected by the EU AI Act. A key feature of the global FinTech market and feel-good package is the broad selection of additional services, for example concierge services. Those services are provided by the actual client advisory and portfolio management sections assisted via AI technology, such as chatbots. Inevitably, a substantial amount of AI systems is used in order to deliver such additional services; this includes analysing information about a client's family, travel routes or health status. Moreover, it is a truism in FinTech that a relationship manager's assets are information about the client and the client's environment which is collected in order to best serve and meet the client's expectations.

Here, FinTechs face difficult legal questions, in particular with respect to different types of AI systems, such as unacceptable, or high-risk.[7] The EU AI Act aligns with Open Banking and Open Finance initiatives by promoting responsible data sharing and usage within the financial ecosystem. Both initiatives aim to increase consumer control over data and foster innovation in financial services.

As a consequence, the FinTech faces three key issues in the wealth management segment:

1. Currently, AI systems are spread across different systems and kept in various storage places. To comply with the EU AI Act, FinTechs need to understand where and how the AI systems are currently developed and used and need to answer the question on how to structure processes for the future in order to have an ***easily accessible holistic view of client data***.
2. It is assumed that wealth managers currently analyse all kind of client information, even sensitive data, often unstructured. FinTechs have to decide how to deal with the AI system development and deployment going forward, while retaining a comprehensive overview of AI system governance. ***FinTechs may implement a clear policy framework and further guidance in behavioural rules for client relationship managers using AI to mitigate the risk of breaching EU AI Act***.
3. How to handle the analysis of **personal data pertaining to the client environment**, such as information about friends and a client's family?

In view of the significance of cross-border wealth management for global FinTechs, it is also important to address the deployment of AI system. This will involve interaction with a FinTech's other business divisions, such as investment banking on the product side. Retail banking faces similar challenges to wealth management with respect to regular interaction with individuals. However, in contrast to the latter, retail banking – thanks to its service-channels – benefits from AI system deployment that is much more organised and trustworthy.

Digitalisation can be expected to contribute to standardisation, in particular, with respect to how AI systems are deployed in retail banking. Finally, FinTechs' retail clients are in most cases domiciled globally and are thus mostly out of scope of the EU AI Act.

To become compliant with the EU AI Act, FinTechs may have to substantially redesign business processes, in particular in the retail banking and wealth management segments. This is likely to have a considerable impact on client lifecycle management for a bank, i.e. the different phases of a client relationship: prospecting, on-boarding, servicing/ cross-selling, and up-selling and termination.

Therefore, any EU AI Act implementation measure in the context of client data interacting with an AI system should be carefully elaborated to minimise any negative effects on a FinTech's business. The picture is different in the corporate banking, asset management and investment banking segments. These divisions only, or mainly, deal with institutional clients and thus, legal persons. Hence, for most banks, the interaction with individuals is limited to representatives of institutional clients and ultimate beneficial owners, and such dealings are based on standardised, or even automated, processes.

[7] For example, the Act requires that any AI systems that will interact directly with humans must be clearly marked as such, unless otherwise obvious.

This data is generally limited to contact and identification details and is in a structured format, which is then used to input into an AI model. Implementing the EU AI Act in these banking segments is likely to be less complex given familiarity with regulatory regimes.

Irrespective of banking segment, transaction data – the largest data set held by banks – is an important topic. It comprises inter-bank transactions, transactions to third parties and cross-border transactions. As transaction data can lead to identification of a client – via the use of an AI application – that AI application is considered to be an AI system under the EU AI Act.

'FinTechs must embark on their responsible AI preparation journey immediately', AI 2030

To become compliant with the EU AI Act, FinTechs may have to substantially redesign business processes, in particular in the retail banking and wealth management segments. This is likely to have a considerable impact on client lifecycle management for a bank, i.e. the different phases of a client relationship: prospecting, on-boarding, servicing/ cross-selling, and up-selling and termination.

Starting the responsible AI preparation journey now is imperative for FinTechs, especially given the impending compliance requirements of the EU AI Act, as this early engagement not only helps identify potential risks and gaps but also fosters trust among stakeholders by demonstrating a commitment to responsible AI integration ahead of regulatory changes and industry trends.

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*

Impact of the EU AI Act on AI Governance

EU AI Act implementation has far-reaching effects on a FinTech's trustworthy AI organisation. Besides demonstrating that it has full control over the AI systems it deploys, a FinTech will have to demonstrate that it complies with the EU AI Act's general principles applicable to all AI systems as well as with all other obligations required under the regulation.

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.

'Trust remains an essential component in driving mass AI adoption', The Digital Commonwealth

Effective AI regulation is a linchpin for nurturing trust within the FinTech ecosystem. By ensuring transparent and accountable AI algorithms, regulations mitigate the risk of bias and unfair treatment in financial services.

Moreover, robust regulations bolster cybersecurity measures, safeguarding sensitive financial data and enhancing consumer confidence in digital transactions. As a result, a well-regulated financial AI landscape instils trust among users, investors, and stakeholders, driving sustained adoption and growth in FinTech innovations.

Effective AI Regulation supports innovation within a decentralised ecosystem

"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*

Use Case

Credit scoring utilising Know Your Client ("KYC") data

Scope

This use case aimed to create an advanced risk evaluation system for assessing loan applicants using Know Your Customer ("KYC") data. By leveraging KYC information, this system seeks to enhance risk management practices while expanding coverage to a wider population of potential borrowers.

Objective

The primary objective was to generate real-time risk scores for loan applicants exclusively based on KYC data. This approach ensures equitable evaluation for both individuals new to the credit market and those with established credit histories, facilitating informed lending decisions tailored to each applicant's risk profile.

Approach

Developing a robust risk assessment model solely from KYC data presents challenges due to inherent noise and data incompleteness. Nonetheless, the potential benefits of such a system are significant. By employing advanced non-linear classification algorithms, it becomes feasible to construct an objective risk scoring mechanism capable of accommodating the diverse characteristics of loan applicants.

Key Variables

During the KYC process, various data points are collected, including customer age, self-reported income, occupation type, loan purpose, among others. These variables form the basis for constructing a sophisticated non-linear risk model, allowing for the exploration of complex interactions among them.

Challenges and Mitigation

One major challenge involves the quality of KYC data, particularly in rural areas, where it may suffer from noise and missing values. Effective pre-processing and data treatment protocols are essential to address these issues before inputting the data into the model algorithm. Additionally, the utilization of non-linear models such as random forest and XGBoost necessitates substantial computational resources during the training phase. Strategies for optimizing computational efficiency must be explored to ensure timely model development and deployment.

Likely Risk Classification Under EU AI Act

The use case of credit scoring using KYC (Know Your Customer) data for building a risk scorecard for loan applicants falls under the "high-risk" AI system classification according to the EU AI Act. This classification is due to the significant impact these AI systems have on natural persons' access to financial resources or essential services such as housing, electricity, and telecommunication services. The Act specifically identifies AI systems used to evaluate the credit score or creditworthiness of natural persons as high-risk because they can lead to discrimination between persons or groups and may perpetuate historical patterns of discrimination, such as those based on racial or ethnic origins, gender, disabilities, age, or sexual orientation.

The Right Approach to Address Volatility, Uncertainty, Complexity and Ambiguity, while Delivering …

How to Meet EU AI Act Requirements Most Effectively

The EU AI Act is a complex piece of legislation which will put some FinTechs under significant pressure to transform. The window of opportunity for implementation of the EU AI Act prior to Spring 2026, when it will become directly applicable, will pass quickly. AI & Partners suggests that FinTechs combine decisive and bold steps with a risk-based approach to tackle EU AI Act compliance.

The starting point is an analysis of the FinTech's existing trustworthy AI setup, and AI systems development and deployed, followed by a comprehensive analysis of gaps with regard to the requirements of the EU AI Act. This first phase is the heart of EU AI Act implementation and it can be performed separately from other steps. It includes an impact assessment and is essential to define the scope of the work required.

In AI & Partners' experience, the majority of FinTechs require an end-to-end transformation and implementation approach to meet the conditions of the EU AI Act. It is important not to underestimate the complexity, e.g., with respect to a potential EU AI Act architecture transformation, organisational change and a larger contract amendment exercise for individuals and third parties. However, several key factors define the effort for FinTechs: the size, the complexity of services and products, the process and IT landscape, and the current compliance and regulatory set-up.

Thanks to our experience and to our many experts in the sector, we are able to keep costs low and minimise the risk of incompleteness and are able to support your business in becoming compliant with the EU AI Act in an efficient and thorough way.

Executives designing EU AI Act compliance architecture should consider four critical building blocks: strategy, legal, data security and IT. AI & Partners' provides a holistic approach which consists of sustainable strategies that help your business adapt to the EU AI Act while reducing costs and leveraging talent, as well as tailor-made legal advice and outstanding IT solutions. In parallel, AI governance identify and mitigate risks around AI systems. The proper combination of these four building blocks can help a FinTech to adapt to the complex challenge that EU AI Act compliance poses and exploit business opportunities to gain a competitive advantage.

AI & Partners' five-step transformation framework has been designed to be both efficient and effective in addressing EU AI Act implementation from a strategic and project management angle. It is a tested approach to performing large-scale transformation projects and smaller change initiatives, ensuring completeness and minimising risks. It brings transparency about what is required and what we do and gives you a complete overview that simplifies planning and budgeting. The framework can also be tailored easily to answer clients' specific needs.

Three Step Process for AI Systems under the EU AI Act

Spotting AI Systems: Let's kick things off by identifying the AI systems your FinTech uses, especially those falling under the EU AI Act's radar. Keep a close eye on the high-risk ones, like safety-critical systems or standalone products that need third-party assessments .

Gauging AI Risks: Once you've found them, it's time to figure out the risk level for each AI system, following the criteria laid out in the EU AI Act. FinTechs will want to separate the high-risk ones from the rest. Annex III of the Act breaks down classifications and real-world examples, making it easier to understand .

Getting a Second Opinion: It's always a good idea to get a fresh perspective, especially when it comes to legal stuff. Consider reaching out to law firms or other experts to double-check your risk classifications. They'll evaluate your AI systems based on things like Articles 5-6, Annex III, and Commission guidelines, giving you advice on what steps to take to stay compliant.

Advantages from AI & Partners' Approach

The EU AI Act is a common regulation for all industries but is specifically meant to be implemented in various industries and is even specific to single institutions. AI & Partners has a clear strategy and approach so we can start immediately and efficiently work together with your people. Due to the complexity involved, an end-to-end approach is recommended, although for most FinTechs an early assessment should be considered first.

Besides identifying specific impacts on the FinTech sector and the challenges it faces, AI & Partners has identified several similarities across industries and institutions that lower the burden of implementation and ease complexity in application of the EU AI Act. Due to many EU AI Act engagements, we are committed to easing the process and aim at increasing efficiency and effectiveness.

This allows us to quickly identify ourselves with your needs, and we keep informed about potential upcoming regulatory amendments: we carefully analyse what is needed and what is not. In addition, AI & Partners' leverages your existing requirements listed into the EU AI Act standards and guidelines with other requirements to put them into the context of your risk environment and risk appetite.

You benefit from a broad spectrum of practical tools (specific work programmes) and pragmatic approaches on implementing the standards required. Most importantly, you get every service required from one source.

Our experts receive ongoing training on the EU AI Act and surrounding trustworthy AI regulations. They are used to managing operational excellence and IT transformation initiatives, delivering fast and precise results. But most importantly, our experts have practical experience on EU AI Act programmes that allows them to leverage the best approaches and tweaks. As a multi-disciplinary division, we are uniquely placed to help you adjust to the new environment. Our trustworthy AI team includes lawyers, consultants, cybersecurity specialists, auditors, risk specialists, forensics experts and strategists. If needed, our team is global, proposing innovative solutions with on the ground expertise in all the major EU economies.

1 Understanding and Assessment	2 Strategy and Set-Up	3 Design	4 Implementation	5 Operating ('Run-the-FinTech')
Assessment of the current AI protection governance, compliance set-up and legal entities to ensure completeness.	Development of an action plan and strategy set-up, including a project charter and project plan.	Development of a risk assessment programme, amended AI system structure and change design.	Ensuring a seamless integration of new designs for all applications and processes.	Conduct a completeness assessment to ensure EU AI Act compliance.
Develop AI system inventory to understand the full scope of AI systems affected and assessment of AI system types.	Outline implementation roadmaps in consideration of the right legal paths, incl. third-party risk management.	Create AI system flow diagrams of business processes and overview of flows between the business processes and applications.	Amendments of contracts, where applicable, e.g. to receive consent.	Establish/enhance trustworthy AI training and awareness programme for employees.
Analysis of the (i) AI system structure, (ii) IT architecture, (iii) process structure and (iv) AI system deployments.	Define design principles for changes required and desired by the FinTech as well as definition of change priorities.	Outline organisational changes where applicable.	Implementation of new policy compliance programme and frameworks.	Develop a communication plan for all relevant stakeholders and an incident response process for AI system breach cases.
Screening and grouping of AI systems using in-house tools.	Analysis of AI system purposes and their legal grounds.	Design of a fully automated individual rights management process.	Implement risk management frameworks.	Ensure an ongoing compliance assessment and completeness of the compliance framework.
Analysis of products and services offered in order to understand what kind of AI system is developed/deployed in which area.	Analysis of required contract amendments, including third parties.	Develop and design frameworks concerning the (i) management of trustworthy AI, (ii) roles & responsibilities and (iii) governance & reporting.	Implement or amend AI system deployments and amend interfaces to third parties, where required.	Establish an emergency plan for AI system breaches and other potential violations of EU AI Act.

What should you do?

Create a formal governance committee.

- *Establish an AI Governance committee with experienced professionals from various disciplines to decide on challenging AI Governance disputes.*

Evaluate your risks.

- *Mandate your firm to have a solid risk management framework in line with the AI Act requirements.*

Assign responsibility.

- *Create and enforce roles and responsibilities for the entire AI lifecycle and associated requirements.*

Structure ethical systems

- *Promote a sustainable and ethical use of AI incorporating it in your organisational strategy.*

Increase awareness.

- *Distribute information and train your people with regards to the benefits and risks brought by AI*

Remain current.

- *Stay linked to new regulatory developments to foresee their impact on your firm.*

Document AI Systems and Processes

- *Maintain detailed documentation of your AI systems, data sources, models, and decision-making processes*
- *Implement robust data management practices to ensure traceability and auditability*
- *Develop clear policies and procedures for AI system development, testing, deployment, and monitoring*

Implement Technical Safeguards

- *Incorporate security measures to protect AI systems from cyber threats and unauthorized access*
- *Ensure data quality, integrity, and privacy through appropriate controls and safeguards*
- *Implement mechanisms for human oversight, intervention, and control over AI systems*

Establish Monitoring and Auditing

- *Develop processes for continuous monitoring and auditing of AI systems and their outputs*
- *Conduct regular assessments and audits to ensure ongoing compliance with the AI Act*

Facilitate Human Oversight

- Involve human experts in the development, deployment, and monitoring of AI systems

Embrace Transparency and Explainability

- *Prioritize transparency in AI system development and decision-making processes*
- *Implement techniques for interpretability and explainability of AI models and outputs*

Foster Stakeholder Engagement

- *Engage with relevant stakeholders, including impacted communities, throughout the AI lifecycle*
- *Seek diverse perspectives and feedback to identify potential risks and concerns*

Start work now!

- *Start designing and implementing strategic improvements to your AI lifecycle in order to decrease complexity and implementation costs.*

How can we help?

AI & Partners

Amsterdam - London - Singapore

AI & Partners – 'AI That You Can Trust'

Your trusted advisor for EU AI Act Compliance. Unlock the full potential of artificial intelligence while ensuring compliance with the EU AI Act by partnering with AI & Partners, a leading professional services firm. We specialise in providing comprehensive and tailored software solutions for companies subject to the EU AI Act, guiding them through the intricacies of regulatory requirements and enabling responsible and accountable AI practices. At AI & Partners, we understand the challenges and opportunities that the EU AI Act presents for organisations leveraging AI technologies. Our team of seasoned experts combines in-depth knowledge of AI systems, regulatory frameworks, and industry specific requirements to deliver strategic guidance and practical solutions that align with your business objectives.

To find out how we can help you, email contact@ai-and-partners.com or visit https://www.ai-and-partners.com.

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Susan Furnell, specialises in digital assets, 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

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AI 2030

A special thanks to the **AI 2030** team during the full lifecycle of this report. These individuals were as follows:

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