AI Finance Legal Issues

1. Introduction

This document examines the regulatory considerations surrounding the implementation of an artificial intelligence system designed to provide personalized financial product explanations and advice. The proposed service aims to address the knowledge gap many consumers experience regarding their financial products through AI-generated video content. Operating in the UK and Belgium (under FSMA oversight), this service raises several regulatory questions, such as "Is AI allowed to give financial Advice?", "Do we have to specify the videos are AI generated?", "If bad advice is given, who's responsibility is it?", "Can we pseudo-anonymize data if the data is stored outside of Europe", "Can we use client banking information?". These questions require thorough investigation before implementation.

2. Problem Statement

Financial literacy remains a significant challenge for consumers across markets. Many individuals do not fully understand the financial products they purchase, leading to suboptimal financial decisions and potential hardship. Traditional educational methods have proven insufficient in addressing this gap. Our proposed solution leverages AI technology to create personalized explanatory videos and proactive financial advice (such

as payment reminders for buy-now-pay-later arrangements), raising important regulatory considerations.

3. Regulatory Classification and Compliance

3.1 Classification of AI-Generated Financial Advice

A primary consideration is whether the advice provided by our AI model qualifies as regulated financial advice. Traditional financial advisors must hold specific certifications and qualifications, raising the question: Does the guidance generated by our AI system meet the criteria for financial advice, or is it merely an explanation that falls outside regulatory requirements? This distinction is crucial in determining the applicable compliance framework.

Therefore, it is important to distinguish whether the output can be classified as financial advice. If it is classified as such, several issues may arise: **Who would need the required certifications if the advice were generated by an AI model? Would we need a qualified advisor to manually review the output?**

3.2 Responsibility Allocation

The service operates on a B2B model where we develop and maintain the AI system while financial institutions deploy it to their customers. This arrangement creates a complex web of responsibilities that requires clear definition. Based on expert consultation, it has been determined that the responsibility lies with the company that offers this option, not the party that developed the solution.

4. Data Protection and Privacy Considerations

4.1 Data Processing Requirements

The personalization of financial advice necessitates processing personal financial data, triggering obligations under data protection regulations including GDPR. Two potential approaches require evaluation:

- Anonymization: Removing all personally identifiable information, limiting personalization capabilities.
- Pseudo-anonymization: Replacing identifiable data with pseudonyms while maintaining the ability to re-identify if necessary. Pseudo-anonymization is only an option if we are able to host everything in Europe.

4.2 Consent Framework

Processing personal financial data for AI-generated advice requires establishing a robust consent framework. Research indicates that explicit, informed consent should be obtained prior to data processing. A possible implementation includes integrating consent into the registration process of a financial product.

5. Implementation Safeguards

5.1 Algorithmic Fairness and Non-Discrimination

AI systems risk reinforcing biases present in training data. Financial services are particularly sensitive to discrimination concerns. The implementation is not allowed to create bias in any way.

5.2 Transparency Requirements

Research suggests that transparency regarding the AI-generated nature of financial advice is essential for regulatory compliance and consumer trust. Implementation must include clear disclosure that content is AI-generated.

6. Conclusion

In summary, do we want to give financial advice or merely financial explanations? This is important to think about since giving financial explanation won't bring the problems that giving financial advice does. Say we do give financial advice which results in a consumer making a horrible decision then the business that provided this solution to their consumer is responsible for it, we at iO are not. This opens the question, why would a business take this risk in the first place? Because AI is not 100% reliable, even if it is 99.9% reliable it could always go wrong at some point which justifies a business for not choosing our product. For anonymization, we have to anonymize all data if we use a tool that is hosted outside of Europe. If we manage to find a tool hosted in Europe, we are allowed to pseudo-anonymize the data. Meaning, if we don't find a tool within Europe some personalization features can't be realized. About personalization, if we want to implement client data into this project, we need consent from the consumer to feed their data into an AI to make a video out of it. Also do we have to make sure the AI doesn't give responses with bias to avoid discrimination. Finally, it is a must to mention to the consumer that the video is AI generated.