FSB FINANCIAL STABILITY BOARD

Press release

Press enquiries:
+41 61 280 8477
press@fsb.org

Ref: 28/2024
14 November 2024

FSB assesses the financial stability implications of artificial intelligence

- ***Report notes that the rapid adoption of artificial intelligence (AI) offers several benefits but may also amplify certain financial sector vulnerabilities, such as third-party dependencies, market correlations, cyber risk and model risk, potentially increasing systemic risk.***

- ***While existing financial policy frameworks address many of the vulnerabilities associated with use of AI by financial institutions, more work may be needed to ensure that these frameworks are sufficiently comprehensive.***

- ***Report calls for financial authorities to enhance monitoring of AI developments, assess whether financial policy frameworks are adequate, and enhance their regulatory and supervisory capabilities including by using AI-powered tools.***

The Financial Stability Board (FSB) published today The Financial Stability Implications of Artificial Intelligence, a report outlining recent developments in the adoption of artificial intelligence (AI) in finance and their potential implications for financial stability.

Widespread adoption and more diverse use cases of AI have prompted the FSB to revisit its 2017 report on AI and machine learning in financial services. Financial firms currently use AI mainly to enhance internal operations and improve regulatory compliance, but generative AI (GenAI) and large language models have given rise to new use cases, such as document summarisation, information retrieval, and code generation. While many financial institutions appear to be taking a cautious approach to using GenAI, interest remains high and the technology's accessibility could facilitate more rapid integration in financial services.

Financial authorities are also using AI for more efficient supervision. The fast pace of innovation and AI integration in financial services, along with limited data on AI usage, poses challenges for monitoring vulnerabilities and potential financial stability implications.

The report notes that AI offers benefits from improved operational efficiency, regulatory compliance, personalised financial products and advanced data analytics. However, AI may also amplify certain financial sector vulnerabilities and thereby pose risks to financial stability.

Several AI-related vulnerabilities stand out for their potential to increase systemic risk. These include: (i) third-party dependencies and service provider concentration; (ii) market correlations; (iii) cyber risks; and (iv) model risk, data quality and governance. In addition,

GenAI could increase financial fraud and disinformation in financial markets. Misaligned AI systems that are not calibrated to operate within legal, regulatory, and ethical boundaries can also engage in behaviour that harms financial stability. And from a longer-term perspective, AI uptake could drive changes in market structure, macroeconomic conditions and energy use that may have implications for financial markets and institutions.

The report notes that existing regulatory and supervisory frameworks address many of the vulnerabilities associated with AI adoption. However, more work may be needed to ensure that these frameworks are sufficiently comprehensive. To this end, the report calls on the FSB, standard-setting bodies and national authorities to: (i) consider how to address data and information gaps to better monitor AI adoption and assess the related financial stability implications; (ii) assess whether current financial policy frameworks are sufficient to address AI-related vulnerabilities both at domestic and international level; and (iii) enhance regulatory and supervisory capabilities, for example by sharing information and good practices across border and sectors as well as leveraging AI-powered tools.

Notes to editors

This report revisits the 2017 FSB report on AI and machine learning in financial services by taking stock of recent advancements, current use cases in the financial sector and drivers of adoption, as well as new potential benefits and AI-related financial sector vulnerabilities. The report draws on the experience and initiatives of FSB member jurisdictions, existing literature, and stakeholder outreach events including an OECD-FSB joint AI roundtable.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.