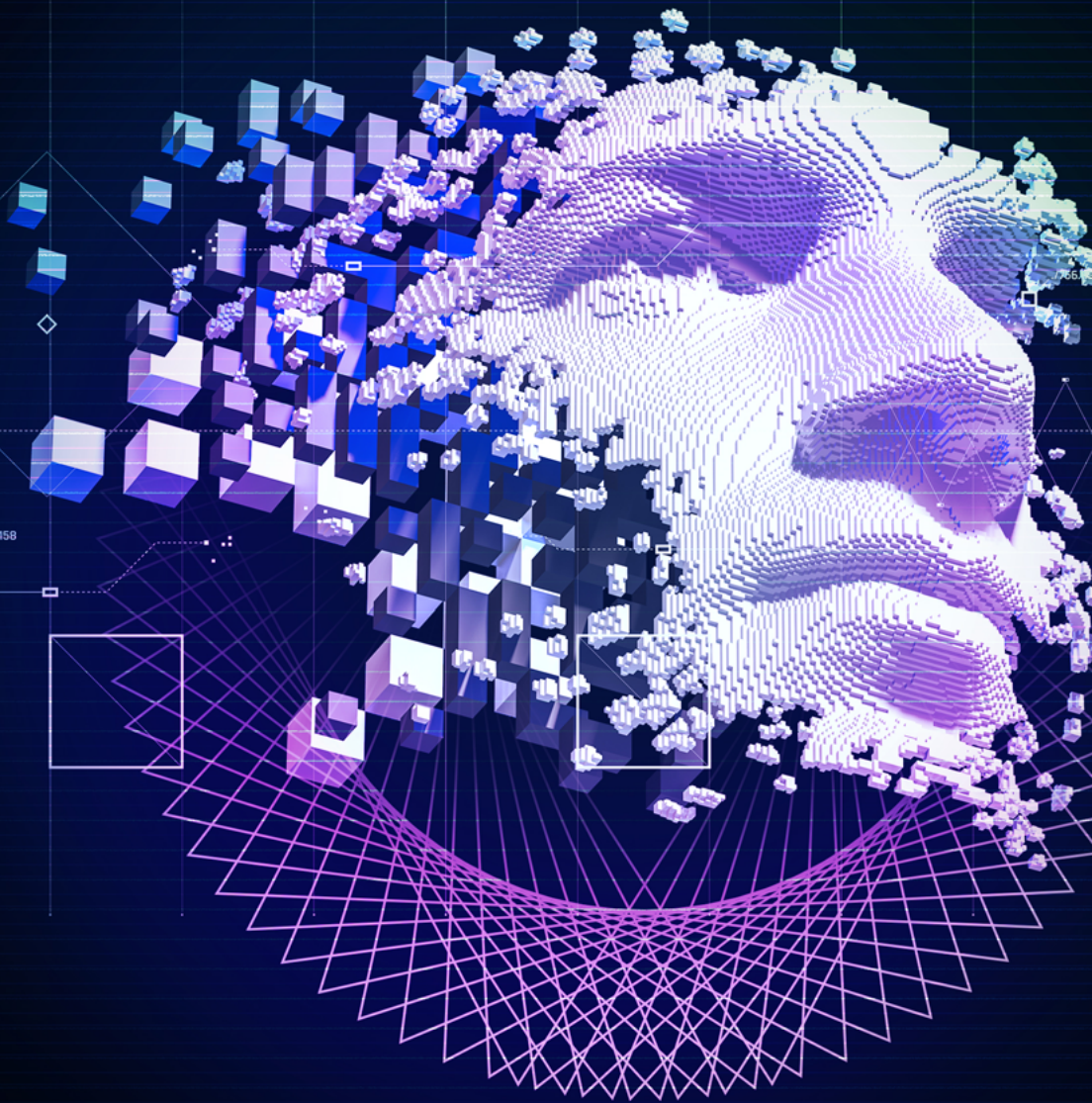




**Centre for
Regulatory
Strategy**

Generative AI: Application
and Regulation in Asia Pacific

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Introduction

In the past twelve months, there have been significant breakthroughs in the development of artificial intelligence (AI) technology such as large language models (LLM) and natural language processing (NLP) models. These technologies have been popularised through tools such as OpenAI's ChatGPT, Microsoft's Bing AI Chat, and Google's Bard AI, bringing a wave of consumer popularity, intrigue and wariness worldwide.

The accessibility of AI platforms to a wide spectrum of users has highlighted the potential application of AI technologies across various industries, including financial services (FS). Many businesses are starting to embrace AI technology to drive their competitive edge. This has, in turn, presented several challenges for regulatory and legislative bodies, as they find themselves needing to be more responsive, agile, and proactive towards addressing risks associated with AI applications.

On release of our report [Trustworthy Use of Artificial Intelligence in Finance](#) in 2022, many regulators in the Asia Pacific (AP) region were still in early stages of consulting on and/or implementing AI principles. Acknowledging the surge in popularity and usage of AI tools in FS, some legislative and regulatory bodies have been researching the risks associated with the use of AI technology, with the aim of safeguarding consumer rights and interests. In this follow-up report, we further explore risks associated with the use of AI in the FS sector, the current regulatory landscape in AP, and what FS firms may consider in preparation for upcoming legislation and regulation in this space.

Part one: Traditional AI vs Generative AI

Knowledge Refresh: Understanding Traditional AI and Generative AI

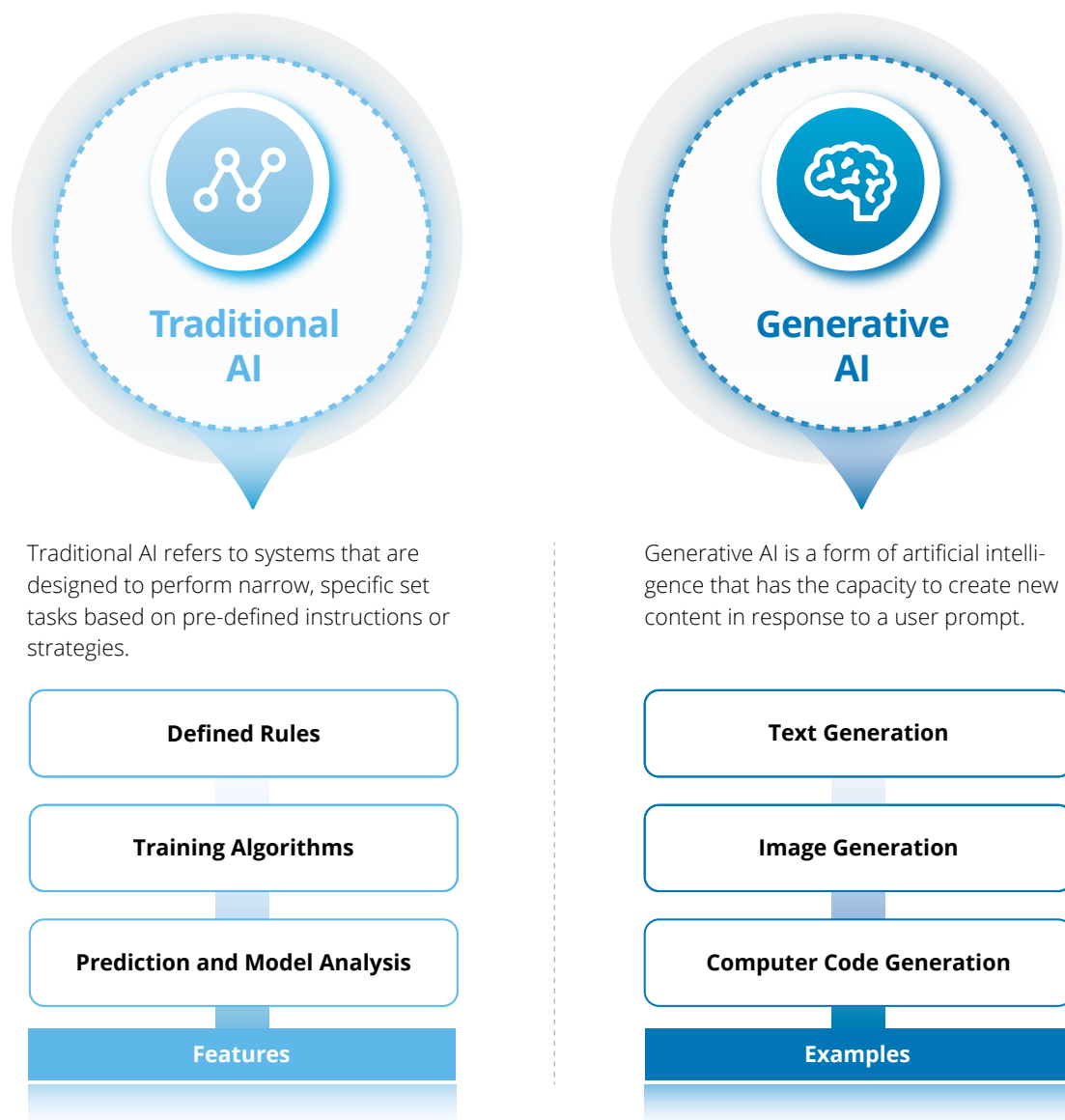
Traditional AI Traditional AI refers to systems that are designed to automatically address a predefined set of inputs. These AI systems possess the capability to acquire knowledge from training data and utilise it to make decisions or predictions. For example, many businesses employ AI-powered chatbots as a means to provide efficient and streamlined customer support. Traditional AI-powered chatbots can be particularly effective in handling frequently asked questions. They are programmed with a knowledge base that allows them to provide accurate and consistent responses to common queries, and predict the intention of the users.



Generative AI, on the other hand, can write text, generate code, produce audio, and craft imagery on a level like or beyond humans. For example, Generative AI tools include LLMs that can be used to generate content such as written text (e.g. marketing copy, software code, etc.) and images. Generative AI models can produce data in ways that were previously achievable only through human thought, creativity, and effort, as evidenced by their ability to generate coherent writing and hyper-realistic images.

The different capabilities of Traditional AI and Generative AI have powered different use cases. Specific to the FS sector, Traditional AI can be leveraged to conduct predictive analytics or detect suspicious transactions, while Generative AI can accelerate tasks from trading and research responsibilities, to the critical support of compliance functions by generating relevant reports, which will be elaborated on further in this report.



Figure 1: Traditional AI vs Generative AI

Part two: Risks arising from Generative AI

Our previous 2022 report on the [Trustworthy Use of AI in Finance](#) explored common risks that AP regulators are aiming to address in their high-level principles of AI regulation: Transparency, Accountability, Fairness, Robustness, Privacy and Data Security. While these risks and concerns remain, the rise of Generative AI presents distinct risks in the market:

- **Lack of transparency:** Due to their complexity and the proprietary information associated with Generative AI models, there can be a perceived lack of transparency surrounding Generative AI. There is also a lack of standardised tools and methods to measure or evaluate the transparency of Generative AI models, making it difficult to compare different models and to track progress over time.
- **Discrimination and bias:** Generative AI can learn to associate biases with patterns in the data it is trained on, and lead to content that is discriminatory or misleading.
- **Lack of accuracy and hallucination:** Generative AI can produce inaccurate or misleading content by drawing on incomplete, inaccurate, or biased data, or simply generate fabricated facts. Generative AI models do not have an inherent 'objective truth', and may generate content that is incorrect or even harmful.
- **Intellectual property and copyright issues:** Generative AI models may be trained on copyrighted material, which could result in the AI generating content that is substantially similar to the copyrighted material. Generative AI models may also be used to create counterfeit or pirated goods, violating intellectual property rights.
- **Fraud:** Generative AI can be used to create deepfakes and synthetic data, which can be used to commit fraud, spread misinformation, or exploit system vulnerabilities.

Part three: Regulatory approaches to AI in the Asia Pacific region

The emergence of Generative AI has compelled policymakers and regulators across the Asia Pacific (AP) region to reassess whether previously implemented AI frameworks remain fit-for-purpose to mitigate new technological risks. Several regulators have implemented AI guidelines & initiatives to advise best-practice for organisations and the wider industry. The following table (Figure 2) provides some examples of the range of approaches taken by AP jurisdictions in regulating AI or advising AI risk management, which include setting AI principles, guidance and tools, introduction of legislation, and incorporating the use of AI as part of their national strategy:

- AI principles:** AI principles provide high-level guidelines for effectively managing the risks associated with the use of AI across sectors. For example, in the European Union, this approach serves as the first step towards further AI regulation and even legislation. It is worth noting that some jurisdictions that choose to legislate or regulate AI risks have also introduced AI principles. In Mainland China, alongside legislation on AI usage, the National New Generation AI Governance Expert Committee have issued the *Governance Principles for New Generation AI*.
- Guidance and tools:** the Guidance and tools are usually leveraged to support the implementation of the AI principles. In the example of Singapore, the Veritas Consortium (led by the Monetary Authority of Singapore (MAS)) published five white papers that set out assessment methodologies for the Fairness, Ethics, Accountability, and Transparency (FEAT) principle. To accelerate FS firms' adoption of the FEAT methodologies and principles, the Consortium has developed Veritas Toolkit version 2.0. Compared to version 1.0, version 2.0 has an improved Fairness assessment methodology, and includes assessment methodologies for Ethics, Accountability, and Transparency. In May 2022, Infocomm Media Development Authority (IMDA) and Personal Data Protection Commission (PDPC) launched *A.I. Verify* – the world's first AI governance testing framework and toolkit for companies aiming to demonstrate responsible AI in an objective and verifiable way.
- Legislation:** the AI-specific legislation approach has been taken by jurisdictions such as South Korea, Mainland China, the Philippines, and Vietnam for the insurance sector, with AI specific legislation passed in Mainland China and Vietnam.
- National Strategy:** Many jurisdictions in the AP region have identified AI as a strategic priority, and have made national strategies to promote the use of trustworthy AI. These include Thailand, Indonesia, Japan, Mainland China, and Malaysia. However, despite being elevated as a strategic priority, several jurisdictions have yet to make advancements to enforce this strategy or provide any structured frameworks to industry.

Figure 2: Examples of approaches taken by regulators and legislators to address AI-related risks

Elsewhere across the globe, jurisdictions such as the European Union (EU) and the United States (US) have acted to implement measures in response to the rapid developments in Generative AI. The *EU Artificial Intelligence Act (AI Act)* is legislation proposed by the European Commission to regulate AI systems in the EU, and exists as part of the EU's broader strategy to ensure the responsible development and use of the technology. The AI Act seeks to establish a risk-based framework that addresses the potential risks associated with AI while promoting innovation and competitiveness. In comparison, the United States has a more fragmented approach to AI regulation. Due to the country's state-based legal and regulatory structure, there is yet to be any enacted or proposed law governing Generative AI at the federal level. Some states have moved ahead with AI legislation, including California and Colorado, while other states are monitoring the evolving risks.

Figure 3: Legislative and regulatory approaches taken by international regulators to address AI-related risks

EU	USA
• The <i>Artificial Intelligence Act</i> (AI Act) is expected to pass as law by the end of 2023.¹⁴ • The AI Act seeks to integrate laws surrounding AI across all the countries over the EU to create holistic legislation surrounding AI and promote their framework as a global benchmark. • AI risk ratings are divided over four levels: – Prohibited AI systems: these are systems that are specifically prohibited due to ‘violating fundamental rights’. These include systems such as real-time biometric identification systems in public spaces. Additionally, the AI Act also bans any systems that intentionally manipulate vulnerabilities in adults or children to cause harm. – High-Risk AI systems: systems that are used in or are a product subject to EU product safety legislation or listed in Annex III of the AI Act. High-risk AI systems are subject to extensive regulation and far-reaching obligations under the AI Act. – Limited-Risk AI systems: systems with which humans can interact directly. These systems must meet transparency obligations and notify users that they are using AI. – Low or Minimal-Risk AI systems: simple AI systems such as spam filters or AI enabled video games. These systems are not subject to any restrictions.	• American laws governing AI differ federally, from state to state, and across industry sectors. • States such as Colorado have laws coming into effect in 2023 specifically surrounding the use of AI in insurance. • More than 20 states still have no legislation or regulations surrounding AI. • In October 2022, the White House Office of Science and Technology Policy (OSTP) published the <i>Blueprint for an AI Bill of Rights</i>¹⁵ which is based on five principles: – Safe and Effective Systems – Algorithmic Discrimination Protections – Data Privacy – Notice and Explanation – Alternative Options. The blueprint is not regulation and therefore unenforceable. It only seeks to act as a guideline to what uses of AI the White House (OSTP) sees as problematic.

Challenges and considerations for regulators



The speed at which Generative AI is evolving poses new challenges to regulators across the region, with development and implementation of concrete regulations often deemed ineffectual and at risk of becoming quickly outdated. Regulators also face challenges with respect to their capability and capacity to address the new challenges and risks Generative AI presents on the FS sector.

Talent shortages, and fierce competition between the public and private sector to attract sufficient resources with the right skillsets and capabilities in AI technologies has seen some regulators constrained in their ability to agilely respond to the new and evolving risks and developments arising from AI technologies. Legislators and regulators also face challenges supervising and enforcing these directives. For example, defining AI remains a key issue in the implementation of AI legislation and regulations, due to a lack of consensus on this matter.

Although AI usage may differ for each stakeholder, a mutual understanding of AI principles is essential to ensure that AI is harnessed to improve financial services without compromising security, fairness, or consumer protection. Ultimately, effective regulation should foster innovation while safeguarding the interests of all relevant parties in the financial ecosystem.

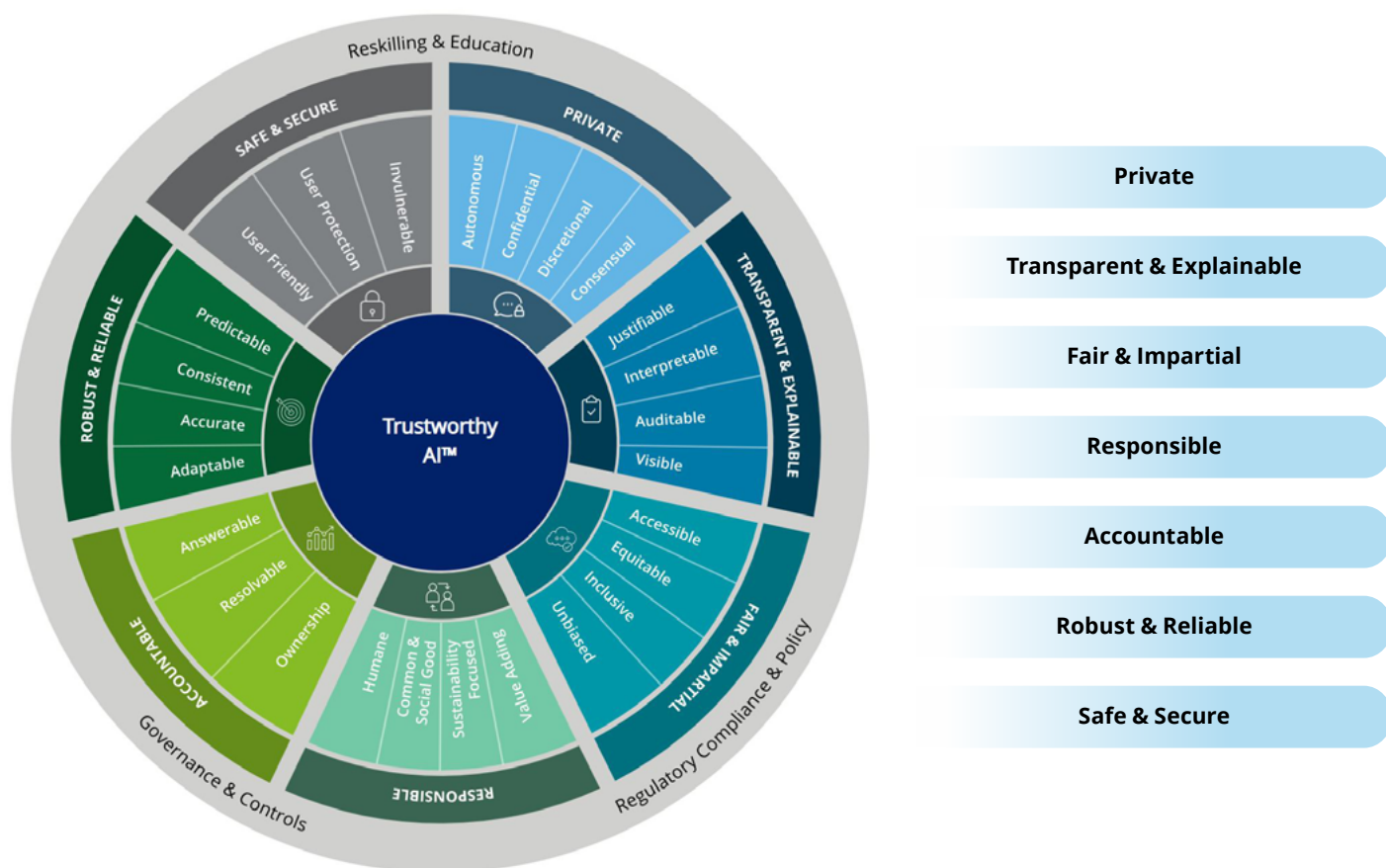
Regional collaboration between industries and regulators can be promoted to establish cross-border governing frameworks, joint research and best practice for regulatory standardisation. These alliances may ensure that regulatory approaches remain informed by practical insights, address global challenges, and maintain a balance between industry growth and societal safeguards.

Part four: The Trustworthy AI Framework in Practice

Compared to Traditional AI, Generative AI can pose more challenging risk management requirements for FS firms utilising AI applications. With AI regulation and legislation still in the initial stages of development or implementation in most jurisdictions, it is crucial for FS firms to establish their own AI governance framework as early as possible, taking global/regional AI principles into consideration.

This framework should systematically manage the risks associated with the use of Generative AI. Doing so holds significant importance, whether for future AI regulatory compliance, better user protection, or further expanding the successful implementation of AI applications. In our [previous paper](#), we briefly introduced the Deloitte Trustworthy AI Framework. In this section, we explore how to manage potential AI-related risks with the Deloitte Trustworthy AI Framework in different use cases.

Figure 4: The Deloitte Trustworthy AI Framework¹⁶



Benefits	The Trustworthy AI Framework in Practice		
	Issue/opportunity	How Generative AI can help	Trustworthy AI Framework elements to consider
Cost reduction	Research-based report generation (KYC)		
<i>With AI streamlining operations, organisations can cut costs through enhanced efficiency, better workforce utilisation, and enabling regulatory compliance.</i>	Onboarding customers often involves labour-intensive tasks, adhering to Know Your Customer (KYC) standards. This process requires extensive manual research on customers, including economic analysis, equity research, adverse media checks, and new prospect due diligence. Human resources and valuable time are significantly consumed in the process.	Generative AI enhances efficiency and adds value by performing initial data searches and meta-analysis using existing search engines or Generative AI chat-based tools. It could also inform meta reports and provide summaries for customer relationship managers. By facilitating easier access to information and providing timely insights, labour hours could be redirected towards more valuable work.	Private — When utilising Generative AI, precautions are necessary to prevent sensitive information leakage and regulate access to the model, underlying data, and referenced customer data. Robust & Reliable — Using Generative AI for search and analysis presents a risk of missing relevant information, impacting meta-analysis and decision-making.
	Enhanced AI support for customers		
	Customer service is crucial for FS firms transitioning to customer-centric models. Rapid and precise responses to customer queries are vital, but digitisation has limited access to representatives. This challenge also comes when customers are expecting hyper-personalised experiences.	Generative AI enhances customer interfaces by delivering hyper-personalised experiences and humane responses. Unlike traditional chatbots, it can offer empathy, summarise contracts, and address nuanced queries. Based on LLMs, this technology significantly improves chatbot usefulness and accessibility, offering various interface options such as text, audio, and imagery. Enhanced customer service leads to loyalty, reputation, and efficiency, enabling businesses to scale operations, prioritise complex tasks, attract new customers, and reduce related costs.	Private — FS firms are legally bound to adhere to rules governing the secure transmission, storage, and access of sensitive information. Transparent & Explainable — End users require a clear understanding of how their information will be processed, while the firm needs to be able to interpret outputs and understand how and why the output is generated.

Benefits	The Trustworthy AI Framework in Practice		
	Issue/opportunity	How Generative AI can help	Trustworthy AI Framework elements to consider
Faster execution	Ensuring the integrity of claims		
By minimising latency and automating repetitive tasks, organisations can significantly reduce operational time.	During property and casualty insurance claims processing, agents assess insured events and determine damage costs. These processes are complex and can be time consuming, and agents have few tools to support their decision making.	Generative AI enables virtual replication of damage using customer conversations, documents, and media, assisting agents in accurate damage assessments. Additionally, claims reports can be generated based on photographic evidence. Claims are processed faster, damage assessments are more accurate, and potential fraud is identified more quickly, helping to ensure the accountability and integrity of claims and payments.	Robust & Reliable — Damage visualisation requires a high degree of accuracy, and erroneous Generative AI outputs could lead to overpayment or underpayment. Transparent & Explainable — If claims agents are unable to articulate to customers how the Generative AI model derived its outputs, customers may not accept the outcome of the claims process.
	Allocation of credit limits		
	In the current credit origination process, Traditional AI-driven credit scores lack transparency, requiring agents to comprehend the underlying methodology. There are instances where scores aren't fully integrated, and significant human intervention is required for credit limit justifications.	Generative AI integrates customer data to estimate credit limits during the origination process, offering nuanced responses mirroring human communication. Compared to Traditional AI, it generates human-like, interpretable decision statements, enhancing transparency for human auditing . Human justifications are reduced, significantly enhancing the efficiency of the origination process, and facilitating the organisation's expansion.	Private — In this process, handling extensive client financial data is crucial, with strict regulations governing its use. Ensuring privacy standards and appropriate information disclosure are essential. Fair & Impartial — The credit limit model, trained on historical customer data, may contain unseen biases, potentially resulting in unfair decisions.
	Predictive trading algorithms		
	Analysing markets for strategic trades demands real-time access to technical data, news, and industry reports. Analysts must consume these vast amounts of information to understand and predict market trajectory and make prudent buying and selling decisions. Financial firms face challenges due to the manual and time-consuming nature of this analysis process.	Generative AI, powered by predictive analytics, assists real-time risk mitigation in investments by generating advanced hedging strategies and enhanced sentiment analysis. This accelerates market predictions, supports analysts effectively, and boosts trading volumes, potentially driving higher profitability while mitigating risks.	Robust & Reliable — Even as Generative AI helps analysts better predict the market, there remains a risk of decision-making based on unreliable outputs, leading to imperfect outcomes. Transparent & Explainable — Human validation of Generative AI outputs remains essential, and stakeholders must understand how and why conclusions are reached to have confidence in the outputs.

Benefits	The Trustworthy AI Framework in Practice		
	Issue/opportunity	How Generative AI can help	Trustworthy AI Framework elements to consider
Reduced complexity <i>Recognising patterns in complex data sources and simplifying operational processes enhance decision-making through more effective and predictive analytics.</i>	Code assistant for digital transformation		
	FS firms are adopting cloud and data transformations to facilitate the integration of AI tools. While this releases human resources and reduces on-premises costs, these endeavours requires substantial time and expenses. Risk factors are also involved, including the potential for failure and errors.	Development teams can reduce the complexity of work by leveraging Generative AI for accountable coding, debugging, and documentation tasks. This approach can boost an organisation's efficiency not only through accelerating software deployment but also shortening the development lifecycle and more quickly reaching a stable and deployable version, such as by rapid writing of transparent & explainable APIs, ETL, data pipelines, and front-end code.	Robust & Reliable — Partial automation of programming-related tasks requires the system to be reliably availability and accurate. Responsibility — The training data for foundation models may create legal risks related to intellectual property or copyright infringement. Safe & Secure — Generative AI use may expose proprietary code, raising security concerns and potential breaches of intellectual property with significant consequences. Accountability — Without a human in the loop (e.g., validating and debugging code), critical failures may occur. Documentation and communicating standards are needed.
Firm-wide data search and access			
	Complex data storage across various locations causes inefficient querying for FS firms, leading to incomplete insights, increased risks, and customer dissatisfaction, especially after mergers and acquisitions.	Generative AI acts as a bridge between user queries and databases, enabling efficient data mining, structured analytics, and rapid insight generation. This reduces the complexity of firm-wide data queries and enhances workforce accessibility to business intelligence beyond traditional methods.	Responsible — When expanding data access, organisations must establish clear restrictions on sensitive business data access to ensure effective governance and control. Robust & Reliable — FS firms risk inaccurate insights and market-level consequences due to Generative AI's potential for hallucination and unreliable outcomes. Private — When handling sensitive data, the organisation must ensure data security, remove or obscure sensitive data in training and testing sets, and evaluate the model to prevent any potential leaks of protected information.

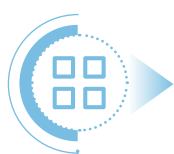
Benefits	The Trustworthy AI Framework in Practice		
	Issue/opportunity	How Generative AI can help	Trustworthy AI Framework elements to consider
Reduced complexity	Reg bot		
<i>Recognising patterns in complex data sources and simplifying operational processes enhance decision-making through more effective and predictive analytics.</i>	The FS sector is heavily regulated, requiring agents to comprehend a wide range of regulations. Navigating these rules can be time-consuming, and human interpretations may vary, leading to potential oversights.	Generative AI can summarise regulations and guidelines, creating a comprehensive directory for various regulations. This user-friendly interface enhances efficiency, timely responses to compliance, assists FS firms in meeting requirements, and reduces the manual burden of navigating through regulations.	Robust & Reliable — Due to ambiguous data and historical misinterpretations, Generative AI may offer misleading insights. Accountable — The regulatory requirements are occasionally ambiguous, requiring human interpretation.
Transformed engagement	Virtual bank experience		
<i>Enabling technology-empowered products to communicate with customers using a human touch, bridging the gap between machines and human language.</i>	Customers increasingly prefer online/remote transactions via digital devices, leading FS firms to seek automation solutions. While chatbots offer automation, current tools have limitations in handling diverse conversations due to pre-programmed dialogue and options.	Generative AI in virtual spaces enables personalised, VR-driven customer interactions with financial institutions, providing tailored responses to inquiries and avoiding the need for extra human customer service staff. This user-friendly way can converse in the customer's preferred language in a timelier manner. Real-time data access enhances service quality and speed.	Accountable — In case of chatbot errors, human stakeholders should be accountable, promoting responsibility by involving humans in the process and documenting roles and duties. Fair & impartial — The datasets used to train and inform the chatbot may contain latent biases, such as under-represented customer groups or semantic deficiencies in some languages but not others. This could potentially lead to a variety of negative customer impressions and complaints. Transparent & Explainable — To build trust, customers need to be informed that they are interacting with a chatbot and understand how their inputs and information are stored and used, considering the chatbot's conversational capabilities.

Benefits	The Trustworthy AI Framework in Practice		
	Issue/opportunity	How Generative AI can help	Trustworthy AI Framework elements to consider
Fuelled innovation	Synthetic Data Generation		
<i>Generative AI can drive new and more business while also catering to customer expectations for customised products and services.</i>	Incomplete datasets, restricted data transfers, and underrepresented outliers pose significant challenges for FS firms, affecting the accuracy and reliability of their data analysis and decision-making processes.	Missing data presents significant challenge for FS firms. Generative AI models can learn underlying patterns within a given dataset to generate new data which is more diverse and realistic, creating an avenue for tasks such as testing machine learning algorithms and developing new products and services.	Fair & impartial — Generating synthetic data carries the risk of unintentionally perpetuating historical biases, such as underrepresenting certain communities or socio-economic groups due to past banking behaviours. Robust & Reliable — Synthetic data created with Generative AI can be limited in its scope and scale. Overreliance on synthetic data generated by Generative AI can compromise data reliability, potentially hampering the accuracy and validity of model outputs and training.
	Customised marketing for the individual		
	Cultural differences as well as varying customer understanding of the products may create regulatory risk for firms in each geography. To overcome this, FS firms invest significant manual labour to maintain a compliant marketing function, which is both time-consuming and costly.	Generative AI enables FS firms to create tailored equitable marketing materials with the right tone, language, and cultural references, ensuring regulatory compliance while reaching individual customers at scale. This can help ensure the content remains in line with regulatory expectations across many geographies, thereby reducing regulatory risk.	Fair & impartial — Unseen biases in training data can result in marketing materials that don't account for crucial geographical and cultural differences. Robust & Reliable — To ensure reliable Generative AI-derived marketing, human validation is crucial due to the risk of false statements and potential regulatory violations arising from hallucinations in the AI output.
Fortified trust	Real-Time Risk Management		
<i>Protecting businesses against fraud, cyberattacks, and regulatory breaches, enhancing product and service quality, and ensuring transparency to build trust in the brand.</i>	Corporate risk management, mandated by regulatory requirements, involves assessing and managing risks related to credit, investment, fraud, and cybersecurity. This process, relying on diverse data sources like identity verification and credit assessment, becomes highly complex and prone to errors, particularly for large financial institutions with millions of customers across various markets.	The ability to access relevant data and contextual information in real-time supports compliance with regulations and industry standards. Robust and real-time risk assessments position the organisation to respond to emerging risks and trends more rapidly, more accurately, and by that, enjoy a more agile capacity to meet regulatory expectations for safe & secure AI risk management.	Fair & impartial — Biases in data sources can result in unequal customer risk assessments by Generative AI. Accountable — If risks are missed by the Generative AI system and the organisation makes a poor customer decision, the machine cannot be held accountable for the repercussions. Safe & Secure — Given the sensitive information involved in risk management, the model accessing data needs to be secured against leaking or unintentionally divulging customer data to unauthorised parties.

Key takeaways



AI technologies such as Generative AI offer significant potential to increase efficiencies and digitalisation within the FS sector. However, we should never lose sight of the risks associated with the use of these technologies. As the regulatory landscape surrounding AI technologies continues to evolve, FS firms considering the adoption of AI technologies should take action to understand, identify and manage AI-related risks.



While the development of AI regulation or legislation is still in early stages across the AP region, FS firms that have adopted or are considering adopting AI applications should start developing an AI governance framework to support better risk management, as well as for future regulatory compliance in this space. FS firms should be accountable and responsible for the outputs that Generative AI applications produce.



FS firms adopting Generative AI applications should consider how AI-related risks and the AI governance framework fits within their existing risk appetite and their overall risk management framework.



FS firms adopting Generative AI applications should clarify their intended purpose, the scope of use of AI applications, and evaluate the potential of harming the safety, health and fundamental rights of customers. Where there is a higher risk associated with a particular application, more human oversight should be considered.



FS firms adopting Generative AI applications should evaluate the factors contributing to the level of vulnerability of customers (e.g., educational background, income, or age). FS firms should avoid bias and discrimination against (vulnerable) customers as an intended or unintended result of adopting Generative AI applications.



FS firms adopting Generative AI applications should identify the external parties or internal functions involved in collecting, storing and processing personal data of customers, and ensure the compliance of data protection requirements by the corresponding party or function.



As it remains unclear what input or output of Generative AI is copyright protected, FS firms adopting Generative AI applications should assume that any data or queries entered into Generative AI applications may become public, and hence they should establish controls to prevent inadvertent exposure of intellectual property or breaches of copyright.



FS firms adopting or planning to adopt Generative AI applications should invest in talent acquisition and training existing staff including the Board and Senior Management on the fundamental concepts of AI technologies, how it's being deployed in the business, what are the key risks and what responsibility each employee has to mitigate those risks.



The private sector should engage in active dialogues with regulators and legislators to share industry knowledge and experience to help facilitate the rule-making process, and help to drive a consensus on the future pathway of AI.

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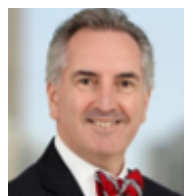
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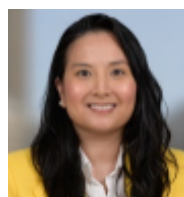
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