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# Treasury Highlights AI’s Potential and Risks in Financial Services

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On December 19, the U.S. Department of Treasury released a report summarizing key findings from its 2024 Request for Information (RFI) on the uses, opportunities, and risks of Artificial Intelligence (AI) in financial services. The report notes the increasing prevalence of AI, including generative AI, and explores the opportunities and challenges associated with its use.

**Expanding Opportunities for AI Integration**

The Treasury report highlights the transformative role of AI, particularly emerging generative AI technologies, in financial services. Financial institutions are increasingly leveraging AI for tasks such as credit underwriting, fraud detection, customer service, and regulatory compliance. For example, financial firms are using AI to analyze alternative data—such as rent and utility payments—to expand credit access for underserved communities. Generative AI models, which can process unstructured data like customer communications, are also enhancing operational efficiency and improving client engagement. Notably, the report points to the potential of AI to automate processes, reduce costs, and increase access to financial products for historically underserved populations.

**Navigating the Risks of AI**

The report addresses the following risks associated with the deployment of AI in financial services, which build on insights from the Treasury’s March 2024 AI Cybersecurity report.

- Data Privacy and Bias. Ensuring the quality, security, and fairness of data used to train AI models remains a critical concern. Improperly trained AI models risk reinforcing historical biases, potentially leading to discriminatory outcomes in credit and lending decisions.
- Explainability and Transparency. The complexity of AI models, particularly generative AI, often results in “black box” systems, making it challenging for firms to explain decision-making processes. This opacity could lead to increased regulatory scrutiny and erosion of consumer trust.

- Third-Party Reliance. Many financial institutions depend on external AI providers for tools and infrastructure. This reliance increases concentration risks, with a few major firms dominating the market for advanced AI models.
- Illicit Finance. The report also warns that AI tools could be used to further fraudulent purposes, such as generating deepfake content or enhancing phishing attacks.

**Policy Recommendations and Next Steps**

To address these challenges, the report outlines potential next steps for the Treasury, government agencies, and the financial services sector to consider, including enhanced collaboration among governments, regulators, and financial entities to establish consistent AI standards, stronger regulatory frameworks, industry-wide data standards and best practices, and better compliance oversight.

**Putting It Into Practice:** Federal agencies continue to assess the risks of AI in the financial services sector (see our previous discussions on federal AI regulation here and here). This report signals the Treasury's dual focus on fostering AI-driven innovation in financial services while mitigating its risks. Financial institutions should prioritize reviewing their use of AI to ensure compliance with consumer protection laws, fair lending principles, and data privacy standards.

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