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ACTUARIAL
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DG FISMA Consultation on artificial intelligence in the financial sector

Summary of Key Messages





Consultation Summary Note

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<p>Purpose of the consultation</p>	<p>The European Commission's targeted consultation on artificial intelligence (AI) in the financial sector gathered input from stakeholders about the application and impact of AI technologies. It focused on assessing market developments, risks, and the implementation of the AI Act within financial services.</p> <p>The consultation included a questionnaire with general questions on AI development, specific use cases in finance, and aspects related to the AI Act, targeting financial firms and other stakeholders involved in developing or using AI systems. Responses would aid the improvement of effective implementation of the relevant legal frameworks.</p>
<p>Issuing Authority</p>	<p>Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA)</p>
<p>Brief Overview of AAE Response</p>	<p>The AAE response highlighted the potential of AI to enhance efficiency, decision-making, and risk management in the financial sector and the insurance industry. The AAE emphasised the need for transparency and explainability in AI models to maintain trust and noted the need for strong governance frameworks. While acknowledging the benefits of AI, such as improved fraud detection, automations in pricing and underwriting, claims management, and personalised services, the AAE also raised concerns about potential biases and stressed the importance of maintaining human oversight. The AAE specifically noted the distinction between traditional actuarial models, like Generalised Linear Models (GLMs), and more autonomous AI models. GLMs, though complex, are fully explainable, unlike AI models that may adjust autonomously and operate as "black boxes." The AAE recommended that GLMs not be classified under the same strict governance provisions as autonomous AI systems and called for a tailored regulatory approach and guidelines that recognise these differences.</p>
<p>Notes</p>	<p>Even though we do not provide or deploy AI systems as an association, there were several areas where we were able to contribute as a profession to the consultation, noting the increasing number of actuaries who are active in the area of AI.</p>
<p>List of volunteers/contributors</p>	<p>AAE Artificial Intelligence and Data Science Working Group and FMAs: DAV, DDA, IAF and PSA</p>
<p>Assigned Committees</p>	<p>Insurance, Risk Management and Pensions Committees</p>
<p>Board Reviewers</p>	<p>Lutz Wilhelmy, Matthias Pillaudin, Hartwig Sorger</p>
<p>Deadline</p>	<p>13 September 2024</p>
<p>Submission date</p>	<p>13 September 2024</p>

Summary of main messages in AAE Response

The AAE response to the consultation emphasised several key points regarding AI's role and impact, particularly in insurance and actuarial practices.

General Overview

We highlighted the transformative potential of AI to enhance efficiency, decision-making, and risk management within the financial sector. We stressed the need for transparency and explainability, citing the risks associated with "black box" models, which could reduce trust in AI systems. We called for robust governance frameworks to ensure that AI applications, particularly in insurance, remain aligned with regulatory standards and professional ethical guidelines. We noted that, as actuaries, by virtue of our expertise in insurance and risk assessment, we are well-positioned as a profession to responsibly implement AI models, citing the requirements of the code of practice to which we are bound to.

We also noted several benefits AI offers, such as automation and improvement in processes related to fraud detection, claims management, pricing and underwriting, and the design and offering of more personalised services. However, we also raised concerns over the potential biases AI could introduce and emphasised the importance of maintaining human oversight, particularly when AI systems are used to make autonomous decisions.

Comments on the Insurance Sector and Actuarial Pricing Models

We noted the increasing use of AI models, such as machine learning techniques, in actuarial pricing and risk modeling. However, we stressed that there should be a distinction between traditional models like Generalised Linear Models (GLMs) and AI-driven models.

We argued that GLMs, while complex, are well understood by actuaries and can be fully explained, distinguishing them from more autonomous AI models that may adjust themselves based on incoming data and potentially operate as "black box" systems. We recommended that the European Commission consider this distinction when implementing the AI Act. We emphasised that GLMs should not be classified under the same strict governance provisions as autonomous AI models, as they do not pose the same risks of lack of transparency and explainability.

In conclusion, we advocated for a tailored regulatory approach, including the development of specific guidance for the insurance sector, that recognises the differences between traditional actuarial models and more complex AI systems with autonomous features.



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