

Issue Update

Artificial Intelligence (AI) is an umbrella term for an array of technologies, including the new iterations of prompt-based generative AI and agentic AI. Banks have long been subject to laws and regulations relevant for AI applications. However, the democratized accessibility to generative AI is leading to heightened banker interest in use cases and risks. Meanwhile, policymakers in Congress, state legislatures, and agencies are considering laws and regulations to address potential gaps.

Shortly after entering office, President Trump rescinded former President Biden's executive order on AI safety and [issued his own on promoting AI dominance](#). The executive order called for the development of an [AI Action Plan](#), which has since been released. Both administrations have looked to the National Institute of Standards and Technology (NIST) and its [AI Risk Management Framework](#) to play a leading role. Of course, as highly regulated entities banks must also incorporate compliance requirements for consumer protection and safety and soundness. They must also consider supervisory expectations from their regulators, including the newly revised guidance on model risk management (e.g., [SR 26-2](#)) and the 2023 guidance on [third party risk management](#). The three prudential agencies have signaled they intend to move forward on issuing guidance around bank usage of generative and agentic AI after soliciting feedback from stakeholders.

Why It Matters

AI is becoming a top issue for business leaders and policymakers. While banks have a proven track record of complying with existing laws and regulations that pertain to AI, it is vital that new requirements do not stifle potential use cases or unduly impact current practices. As AI evolves, the framework must allow for responsible innovation with the technology, including applications involving generative AI such as new products/services, fraud detection, risk mitigation, and regulatory change management. Banks must continue to build and mature their enterprise governance programs to ensure safe and sound AI usage. Recent actions by the prudential banking agencies are encouraging, but this is just the beginning.

Recommended Action Items

- **Educate Congress on the strong risk management framework already in place for banks.** Banks are the only industry with supervisory expectations on model risk management. Lawmakers should ensure that any new laws do not create duplicative or inconsistent obligations for banks.
- **Engage with regulators on rulemaking and guidance.** Banks must be ready to weigh in when there are opportunities to shape agency policies with respect to AI applications.
- **Mature AI governance.** Banks should continue to mature and integrate their enterprise functions (reorganizing where appropriate), including model risk management, third party risk management, and so on.
- **Promote voluntary standards.** Where possible, voluntary tools such as model cards should be encouraged in order to promote trust in the tech stack ecosystem.
- **Get educated on cybersecurity threats.** Recent developments in frontier models have the potential to create significant vulnerabilities for many sectors relying on sensitive data, including banks.