GOVERNMENT OF INDIA

MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA

UNSTARRED QUESTION NO. 2619

ANSWERED ON MONDAY, MARCH 17, 2025/PHALGUNA 26, 1946 (SAKA)

USE OF AI IN FINANCIAL SYSTEM

2619. Shri Naveen Jindal

Will the Minister of FINANCE be pleased to state:

(a)   whether it is a fact that the Reserve Bank of India in its latest Financial Stability Report (FSR) has red flagged significant emerging risks from the adoption of Artificial Intelligence in Financial Sector including increased cyber risks, potential aid to fraudsters in launching sophisticated phishing attacks using deep fakes, etc.; and

(b)   if so, the effective counter strategy planned by the Government in this regard?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI PANKAJ CHAUDHARY)

(a):   Yes, Sir.

The December 2024 Financial Stability Report (FSR) of RBI released on December 30, 2024, has, inter alia, mentioned that the evolution and adoption of Artificial Intelligence (AI) poses several risks to financial stability. RBI has highlighted that the threat of cyber risk turning into a financial stability risk is high as AI could aid cyber

attackers through sophisticated phishing attacks such as creation of deepfakes using generative AI.

(b):   RBI has taken various initiatives to enhance the banking sector's resilience against frauds by leveraging the use of emerging technologies including AI/ML (Machine Learning).

In the fourth cohort of Regulatory Sandbox (RS) of RBI on theme 'Prevention and Detection of Financial Frauds' and in fifth cohort of RS which was 'Theme Neutral', entities tested early warning systems for fraud identification based on proprietary AI models that used data across public and private data sources to trigger alerts. One of the themes in the third edition of HaRBInger 2024 was 'Zero Financial Frauds' focussing on problem statements of real-time fraud detection and identifying mule bank accounts. During this many of the solutions developed by teams were based on AI/ ML.

RBI has constituted a committee on December 26, 2024 to develop a Framework for Responsible and Ethical Enablement of AI (FREEAI) and one of the terms of reference of the committee is "To identify potential risks associated with AI, if any and recommend an evaluation, mitigation and monitoring framework and consequent compliance requirements for financial institutions, including banks, NBFCs, FinTechs, PSOs, etc.". In this regard, the said framework is expected to address risks from the adoption of Artificial Intelligence in financial sector including increased cyber risks.

Further, in the context of the securities market, SEBI has recently issued regulations mandating that persons regulated by SEBI [including Market Infrastructure Institutions (MIIs), registered intermediaries, Asset Management Companies (AMCs), managers of pooled investment vehicles], who use Artificial Intelligence tools, either designed by them or procured from third-party technology service providers, to take full responsibility for their use of such tools. The regulations would be applicable irrespective of the scale and scenario of adoption of such tools for conducting its business and servicing its investors and such SEBI regulated persons would be solely responsible for–

(i)   the privacy, security and integrity of investors and stakeholders' data including data maintained by it in a fiduciary capacity, throughout the processes involved;

(ii)   the output arising from the usage of such tools and techniques it relies upon or deals with; and

(iii)   the compliance with applicable laws in force.

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