# Finance sector faces rising pressure to embed ethics in AI



Artificial intelligence is reshaping the banking, financial services and insurance sector by delivering greater efficiency, personalised products and real-time insights. But as institutions adopt AI for credit decisions, fraud detection and algorithmic trading, the need for ethical guardrails has become increasingly urgent.

Recent high-profile cases highlight the risks. In 2019, an AI credit algorithm developed by a major tech company and a financial institution gave women lower credit limits than men with similar profiles. US fintechs have also faced scrutiny for credit scoring models that exclude applicants from diverse backgrounds by using proxies like education or employment status.

Privacy breaches are another concern. In India, some instant loan apps accessed users’ contacts without consent and used aggressive tactics to prompt repayments. Meanwhile, gamified trading apps in the US have been penalised for encouraging risky behaviour, particularly among younger users.

Such incidents underline the need for a robust ethical framework built on four principles: fairness, transparency, privacy and accountability. Algorithms must treat all users equitably, explain critical decisions clearly, protect personal data and include human oversight and audit trails.

Solutions like CryptoBind are helping financial institutions address these challenges. Its tools secure sensitive data through tokenisation and pseudonymisation, enabling safe AI training. A built-in bias detection engine flags demographic imbalances and hidden proxies, while encrypted environments guard against cyber threats. CryptoBind also automates compliance with global standards including GDPR, RBI guidelines and India’s Digital Personal Data Protection Act.

Regulatory scrutiny is increasing. In June 2024, US Treasury Secretary Janet Yellen warned about AI’s complexity and the risks of widespread reliance on similar models. JPMorgan CEO Jamie Dimon has called for explainable AI in credit scoring, as regulators in the UK and US advance laws covering fairness, privacy and governance.

India has taken early steps, with the Reserve Bank of India proposing a framework in August 2025 that supports indigenous AI models, digital infrastructure, and audit mechanisms. It includes a fund to promote ethical AI development integrated with platforms like UPI.

There are also concerns around "AI washing", where firms exaggerate AI capabilities to attract investment. The US Securities and Exchange Commission has issued warnings, and legal teams are under pressure to ensure compliance and honest marketing.

For the BFSI sector, ethical AI is becoming a competitive advantage. Younger consumers increasingly demand transparency in financial services, and regulators are stepping up enforcement. In emerging markets like India, digital trust is critical for financial inclusion.

As AI becomes central to real-time decisions on credit, investments and fraud detection, firms that embed ethics into their strategies will be better positioned to lead. Responsible innovation supported by technologies such as CryptoBind can foster inclusion and trust, making ethical AI a key driver of growth in the UK and beyond.

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## Bibliography

1. <https://www.jisasoftech.com/why-ethics-must-drive-ai-adoption-in-finance/> - Please view link - unable to able to access data
2. <https://www.reuters.com/business/finance/yellen-warn-significant-risks-use-ai-finance-2024-06-05/> - In June 2024, U.S. Treasury Secretary Janet Yellen highlighted significant risks associated with the use of artificial intelligence (AI) in finance. She noted that while AI can reduce transaction costs, it introduces vulnerabilities due to the complexity and opacity of AI models, inadequate risk management, and the reliance on similar data and models by many market participants. Yellen emphasized the need for scenario analysis to understand emerging risks and opportunities, and the Financial Stability Oversight Council continues to monitor AI's impact to promote financial stability.
3. <https://www.reuters.com/legal/transactional/legal-transparency-ai-finance-facing-accountability-dilemma-digital-decision-2024-03-01/> - In March 2024, Reuters reported on the challenges of legal transparency in AI finance, focusing on the accountability dilemma in digital decision-making. AI algorithms are transforming the financial sector by enhancing efficiency and personalizing experiences. However, the opacity of AI models raises significant transparency and accountability concerns, especially in finance. Leaders like JPMorgan's Jamie Dimon emphasized the importance of making AI decisions explainable, particularly in credit scoring. Regulatory challenges include data governance, privacy, and compliance with laws like GDPR. The UK and US are advancing towards comprehensive AI regulation to ensure transparency and fairness.
4. <https://www.reuters.com/sustainability/boards-policy-regulation/india-cenbank-committee-recommends-ai-framework-finance-sector-2025-08-13/> - In August 2025, a Reserve Bank of India (RBI) committee proposed a comprehensive framework to foster the adoption of Artificial Intelligence (AI) in the country's financial sector, while emphasizing risk management. The recommendations include creating a digital infrastructure to support the development of indigenous AI models and forming a multi-stakeholder standing committee to monitor risks and opportunities. The committee also advised establishing a dedicated fund to encourage AI development tailored for India’s financial sector. The report aims to balance innovation and risk mitigation, integrating AI with established digital platforms like UPI and designing audit frameworks for AI applications.
5. <https://www.reuters.com/legal/legalindustry/ai-washing-what-lawyers-need-know-stay-ethical-2025-02-10/> - In February 2025, Reuters discussed the ethical challenges of 'AI washing,' where companies exaggerate or misrepresent the capabilities of AI technology to attract investors. This practice is drawing regulatory scrutiny and presenting ethical challenges for lawyers. In-house attorneys must ensure their companies remain compliant with SEC regulations, which mandate truthful marketing of AI products. Lawyers also have ethical obligations under Model Rule 1.13, requiring reporting within the organization if substantial injury could result from a legal violation. Additionally, under ABA Model Rule 1.1, lawyers must maintain technological competence concerning AI to properly advise their companies.
6. <https://www.reuters.com/legal/transactional/legal-transparency-ai-finance-facing-accountability-dilemma-digital-decision-2024-03-01/> - In March 2024, Reuters reported on the challenges of legal transparency in AI finance, focusing on the accountability dilemma in digital decision-making. AI algorithms are transforming the financial sector by enhancing efficiency and personalizing experiences. However, the opacity of AI models raises significant transparency and accountability concerns, especially in finance. Leaders like JPMorgan's Jamie Dimon emphasized the importance of making AI decisions explainable, particularly in credit scoring. Regulatory challenges include data governance, privacy, and compliance with laws like GDPR. The UK and US are advancing towards comprehensive AI regulation to ensure transparency and fairness.
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