ARTIFICIAL INTELLIGENCE

Ask the industry:

As the EU became a step closer to introducing the world's first artificial intelligence (AI) regulation in March when MEPs approved the law, *European Pensions* asks: What impact will the AI Act have on the European pensions industry? Do you see AI as a help or hindrance to pension innovation?

In a Danish context we see the introduction of AI regulation as a positive step. As opposed to i.e. the General Data Protection Regulation (GDPR), the risk-based approach in the AI-act is a positive difference, if we manage to focus requirements on 'real risk'.

While finishing the act at political level proved a challenging process, an even bigger challenge lies in ensuring sensible implementation in the coming months. To avoid unnecessarily stringent rules that could undermine the initial risk-oriented approach, it's crucial to maintain the risk-based approach when the AI-act is cemented in standards and guidelines. Striking this balance is key. If successful, the regulation will effectively address genuine risks without imposing unnecessary barriers.

However, history warns us. We have too often seen this balance tip during implementation, leading to an implementation that imposes too stringent requirements relative to the risks it is meant to mitigate; in essence adding unnecessary burdens. In such cases, the regulation could inadvertently hinder innovation in the industry.

Adding to the complexity, implementing the AI Act is that it is in the hands of several players. Even without the challenge of maintaining the initial risk-based approach, just having so many players results in real risks of creating an uneven playing field across the EU.

SIGRID FLOOR TOFT
Insurance and Pension Denmark deputy director

We see the AI regulation as a positive development. It standardises the rules governing AI, drawing many parallels with the General Data Protection Regulation (GDPR) framework. This alignment is practical, as the GDPR has been well-established for some time, and we, along with other companies, have already developed effective governance around it. However, uncertainties remain in interpreting the regulation, and there is still much to learn, adjust and prepare for – for example, assessing to what extent our current and future AI systems within the Finnish pension industry should be considered high risk.

Additionally, it is essential to integrate technological and legal considerations into a cohesive framework to ensure effective and manageable governance under the AI Act. We must also ensure that all requirements of the AI Act can be efficiently implemented across various technology layers and business processes while maintaining minimal bureaucracy and fostering a shared understanding of the Act's objectives.

MIKKO PAKARINEN AND MAIJA NIKULA
Ilmarinen senior legal counsel and director digital transformation & cyber security

We believe that the adoption of AI may lead to better investment outcomes for members, as well as a potential reduction in costs on the back of an increase in efficiencies, though we do expect the expanded use of AI across pension funds to be a longer-term evolution. More broadly, AI has huge potential to improve the operational aspects of pension systems, by analysing data more quickly, improving accuracy, highlighting future risks, reducing costs, improving communication, and reaching members in a more personalised way.

This should provide individuals with a much better experience. Member engagement in pensions is something many schemes have struggled with and the use of AI could lead to significant improvement in member engagement. A live and developing example currently used by multiple leading pension plans is the development of chatbots, but AI could be used to tailor the language used with pension plan members to ensure that it's relevant for individuals and their level of understanding.

EIMEAR WALSH
Mercer European head of investments - wealth

Good laws are usually drafted slowly by experts, without undue rush. Sadly, the European Union AI Act has all the hallmarks of mediocre legislations passed hurriedly: A knee-jerk reaction to the sudden appearance of ChatGPT.

The European Parliament seems particularly proud of having passed the 'first-ever legal framework on AI', as if overregulation on the old continent could hide the fact that, in reality, AI innovation is made primarily by non-European companies in the United States and China. Put simply, it's an illusion to believe one can 'regulate' products or services made by others.

The EU law's requirements are rather vague, and subject to arbitrary interpretation at national and/or industrial sector level, and the enforcement mechanisms are practically non-existent, save for the future establishment of a European AI Office in charge of boosting consumer trust etc.

When it comes to pension products and other financial services, the deployment of AI tools will simply further automatise things: destroying tens of thousands of jobs in banking, financial planning, and pension advice in the process, but I'm not sure it will unleash a new wave of pension innovation.

NICOLAS J. FIRZLI
World Pensions Council executive director

The possibilities presented by AI in the pensions industry are far reaching. Imagine an AI assistant that sorts through your emails, reviews, and challenges advice, and drafts preliminary responses? Imagine a tool that facilitates making tailored investment decisions and monitors the outcomes in real time? Imagine personalised customer interactions tailored to an individual's needs, that seamlessly connects to a human call handler at the right time?

But there's a catch: The importance of trust, clarity and accuracy in such solutions is so critical it can be a barrier to such innovation, particularly in an industry which for many – public and managers alike – is complex and often hard to engage with. The provision of clear guardrails, through the AI Act, establishes a framework that should encourage innovation precisely because it aims to ensure that the technology is developed ethically and transparently, which will go a long way to engender greater trust.

DOMINIC MAKEMSON
Aon associate partner