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Accelerating AI adoption in financial services in Asia-Pacific

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Contents

Executive Summary

Enabling the development and deployment of economically beneficial and productivity-enhancing Artificial Intelligence (AI) applications should be a key objective of AI policymaking. As with any general-purpose technology, the countries and regions that will gain most from AI are those that succeed at broadly diffusing (the spread across the population) adoption of that technology.[1] George Washington University Professor, Jeffrey Ding, argues that countries that gain technological leadership are those that lead the way in diffusion throughout the economy.[2] To realise the transformative potential of AI technologies for financial services, policymakers must put in place policy frameworks to create the optimal conditions for financial services institutions to responsibly deploy AI at scale, for workers to obtain the skills to use AI, and for a broad user base to benefit from AI.

This report sets out a policy vision for accelerating AI adoption in financial services across Asia-Pacific (APAC). It begins by examining the current state of AI adoption across different types of AI technologies and use cases. It highlights the imperative for AI adoption, identifying AI applications with the potential to transform financial services. Assessing the principal barriers to adoption, the report then delivers policy recommendations to accelerate AI adoption in the financial services sector.

AI adoption for increasingly complex and transformative use cases is becoming a reality. In the annual Institute of International Finance (IIF) and EY AI/ML Survey on financial institutions' use of AI/ML, 89% of surveyed financial institutions reported using Gen AI, with close to 50% reporting active use cases in full scale production. However, this is mostly for internal applications (less than 11% of Gen AI use cases are external facing).[3] Accenture research has found that 32 – 39% of the work performed across capital markets, insurance, and banking has high potential to be fully automated, with a further 34 – 37% holding high potential for augmentation.[4]

Looking ahead, continuing developments in AI technology – including emerging agentic AI systems – hold particular promise for financial services. Whereas non-agentic AI models need specific prompts or instructions to produce results, agentic AI creates groups of independent AI agents that use advanced reasoning and planning skills to solve complex, multi-step problems and to continuously improve. This means that agentic AI can be deployed with human supervision for complex and sophisticated use cases, for example adaptive asset management systems that adjust strategies in real time based on market changes.[5] Leading financial institutions in APAC are already seizing the opportunities. Sumitomo Mitsui Financial Group (SMFG) announced plans to launch an agentic AI solutions company in Singapore specifically focused on enterprise agentic AI solutions.[6] In some cases, agentic AI products are already at an advanced stage of development. ANZ is preparing a multi-agent AI chatbot that will deliver real-time market insights and improve its ability to engage with institutional banking clients.[7]

While the benefits of AI are widely recognised, adoption remains uneven due to persistent challenges including skills gaps, regulatory uncertainty, and governance challenges. Realising the potential of AI technologies to transform the financial services industry requires a concerted focus on creating an enabling policy environment. This report outlines twelve recommendations for financial services policymakers (defined broadly to include both government policymakers and regulators) to achieve AI diffusion throughout the financial sector.

1 Marc E. Ouimette, Ed Teather, and Kevin Allison, "AI, Everywhere, All At Once: A New Policy Agenda for AI Success Through Faster Adoption" (Oct 2024).
2 Jeffrey Ding, "Explaining China's Diffusion Deficit" (Sep 2024).

3 The Institute of International Finance (IIF) and EY, "Annual Survey Report on AI/ML Use in Financial Services" (Jan 2025).
4 Accenture, "Banking on AI: Banking Top 10 Trends for 2024" (Jan 2024).
5 World Economic Forum (WEF), "How Agentic AI Will Transform Financial Services with Autonomy, Efficiency and Inclusion" (Dec 2024).
6 SMFG, "SMFG Appoints Ahmed Mazhari as Groupwide AI Transformation Advisor and Jointly Launches Agentic AI Venture to Pioneer Next-Generation Enterprise AI" (Jul 2025).
7 Andrew Cornell, "ANZ Prepares Agentic AI Platform to Boost Institutional Banking" (Jun 2025).

Recommendations for policymakers

Promoting innovation and inclusive adoption

1. Policymakers should measure AI adoption across the financial services sector to inform targeted policymaking – Using granular metrics to measure AI adoption, including breaking down AI use cases across the financial services sub-sectors, provides the empirical grounding for targeted policy measures.

2. Policymakers should offer non-binding guidance on AI adoption and risk management as an alternative to more rigid restrictions – Through voluntary, practical guidelines, policymakers can help build industry-wide confidence in using AI without stifling innovation.

3. Policymakers should lead by example in AI adoption – By taking active steps to identify and implement AI use cases, policymakers can enhance public trust in the technology, which in turn boosts industry-wide confidence in AI deployment.

4. Policymakers should promote access to underlying core technology and data infrastructure – Encouraging and facilitating uptake of and access to high-speed internet, devices, data storage and management systems, cloud, and compute capacity.

5. Policymakers should enable access to and provision of quality public and private data – Ensuring broad access to quality data, such as through open data initiatives to ensure effective development of AI solutions in the sector.

6. Policymakers should promote broad AI literacy across the financial services industry – AI technical training and awareness campaigns are needed to upskill the broader workforce across the industry.

Developing an enabling regulatory environment

1. Policymakers should adopt a proportionate, principles- and risk-based approach to AI regulation – Laws or regulations must clearly define and differentiate between high-risk AI applications and those that pose little or no risk.

2. Policymakers should assess existing regulations first before introducing new sectoral AI-specific ones – Policymakers' first step should be to assess whether existing regulations adequately address specific AI risks, before considering additional, targeted sector-specific rules.

3. Policymakers should build regulatory certainty and clearly signal that AI innovation is encouraged to their regulated entities – Policymakers should explicitly affirm that AI adoption is allowed or encouraged, provided that appropriate guardrails are in place.

4. Policymakers should design and use regulatory sandboxes, with participation by financial institutions, to drive AI adoption and innovation – AI sandboxes with a clearly-defined scope and objective allow financial institutions to test AI use cases in a risk-controlled environment and regulators to test their regulatory approaches.

5. Policymakers should incorporate a shared responsibility framework for governing AI use in financial services – A shared responsibility framework that clearly apportions accountability between AI developers and deployers will provide financial institutions with greater clarity around legal and regulatory risks in their AI adoption.

6. Policymakers should promote regional and international regulatory harmonisation and coordination – This includes engaging with international standard setting bodies (e.g., IOSCO, FSB) and adopting established international standards (in particular, the ISO 42000 series of AI management standards).

Overview of AI adoption in the financial services sector

This section examines AI adoption in financial services in APAC, understanding trends and adoption barriers across different types of AI technology and use cases. AI is an umbrella term which includes diverse technologies that enable businesses to automate tasks, enhance productivity, perform advanced analytics, and create new customer experiences.[8] The financial services industry has been utilising AI in its operations since the widespread adoption of computers. In recent years, rapid advancements in the technology have expanded its potential for application in the sector and driven investment.

Definitions of Evolving AI Technologies

AI
A machine-based system that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments. Different AI systems vary in their levels of autonomy and adaptiveness after deployment. [9]

Traditional AI
A category of AI designed to follow a set of pre-defined rules or inputs.[10]

Generative AI (Gen AI)
A category of AI that can create new content such as text, images, videos, and music.[11]

Agentic AI
A type of AI system designed to pursue specific goals within a specific context and some degree of autonomy. Agentic AI systems may possess capabilities to make decisions, take actions, and adapt strategies based on feedback from the environment where they operate, often requiring limited human involvement.[12]

8 Amazon Web Services (AWS), "What is Artificial Intelligence (AI)?".
9 See the Organisation for Economic Cooperation and Development's (OECD) updated definition (March 2024)
10 Massachusetts Institute of Technology (MIT) Open Learning, Exploring the Shift from Traditional to Generative AI (Oct 2024).
11 See OECD's definition of Generative AI.
12 Sandrine Kergroach and Julien Héritier, OECD Regional Development Papers No. 147 "Emerging Divides in the Transition to Artificial Intelligence" (2025).

Survey data from several APAC jurisdictions suggests a notable acceleration in financial institutions' AI adoption. For example, according to the Financial Services Agency of Japan (JFSA) surveys, over 90% of financial institutions in Japan already use AI. [13] Customers of financial institutions across the region are eager to see the benefits of AI-driven innovation. A recent Salesforce report highlighted that financial services consumers in APAC expect financial institutions to enhance their services with AI, with 77% expressing interest in AI for fraud prevention and detection and 54% saying that they trust the use of AI agents in financial services.[14]

Despite this growth, AI adoption remains uneven. Although APAC financial institutions are eager to embed AI across a broader set of use cases, they consistently face obstacles (see further discussion below) slowing or preventing AI adoption, especially in adopting AI for more **complex** and **external customer-facing** applications.

For instance, a study by the Hong Kong Institute for Monetary and Financial Research (HKIMR) found that 75% of the surveyed financial institutions in Hong Kong have already implemented at least one Gen AI use case or are piloting and designing Gen AI use cases. However, the same report found that most of these use cases are internal and non-customer facing.[15] This is echoed by survey findings from a report for the Australian Finance Industry Association (AFIA). It found that in the Australian financial services industry, the Gen AI use cases expected to have the most near-term impact primarily relate to employee productivity and internal businesses processes, although Gen AI adoption for more direct customer-facing use cases is expected to grow.[16]

This reflects the global trend: there remains room to progress Gen AI adoption to more **complex** and **external customer-facing** use cases. According to the Bank for International Settlements (BIS) report, financial services firms are particularly cautious in using Gen AI use cases in customer-facing activities due to risk exposure and the high bar needed to fulfil regulatory requirements, among other reasons.[17] Similarly, International Organization of Securities Commissions' (IOSCO) consultation report found that capital market participants have prioritised "internal, lower-risk" AI implementations that focus on supporting internal operations, generating insights or improving risk management, instead of in customer-facing applications.[18]

While Gen AI adoption is a significant untapped opportunity, the next frontier in computing – agentic AI – has already emerged. With intelligent agents that can reason, plan, and complete tasks autonomously, this technology can revolutionise financial services delivery.[19] However, agentic AI systems are nascent and many financial institutions are still focused on catching up with core AI advancements, as highlighted in the Citi Institute's report on agentic AI.[20]

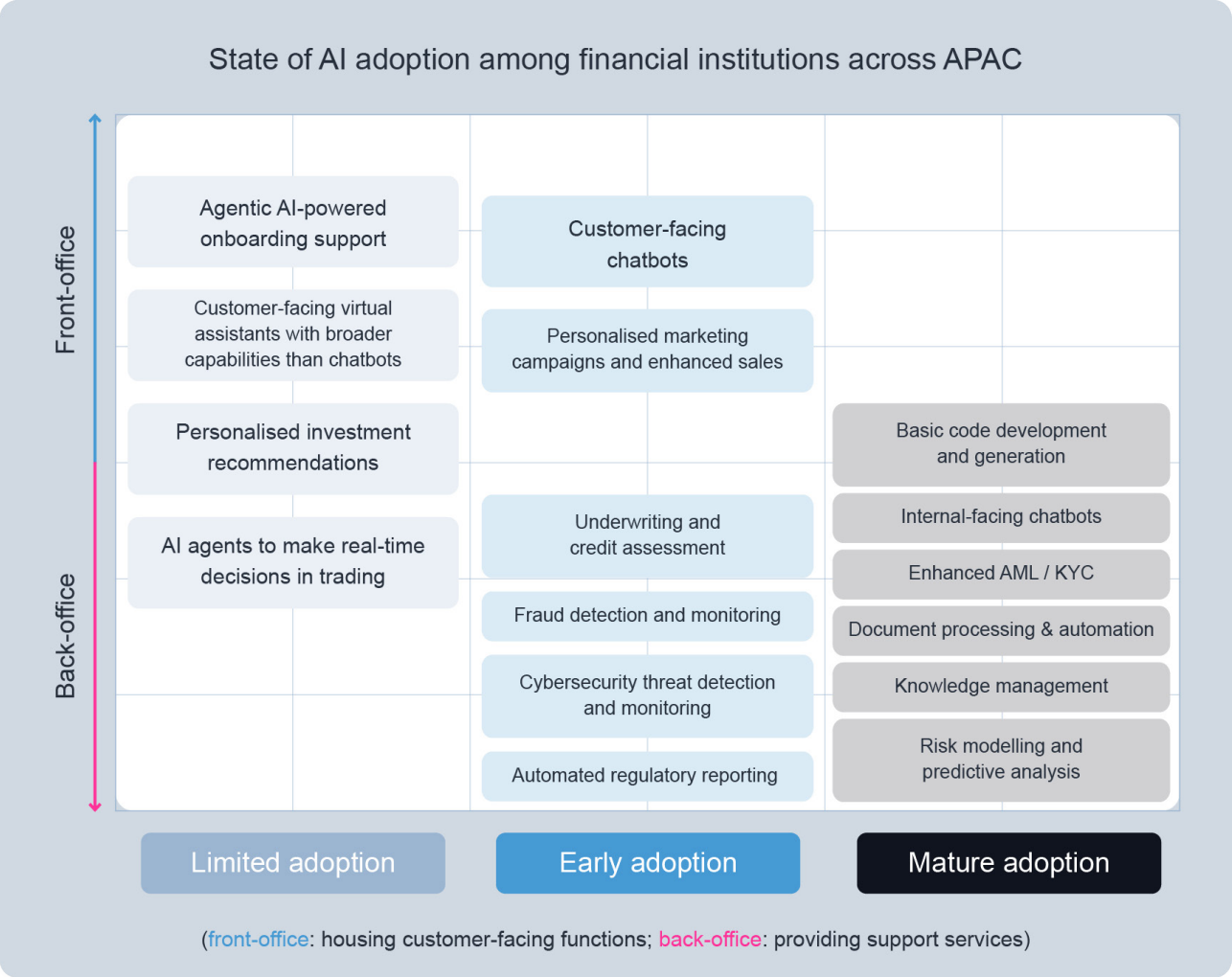
Rapid advancements in AI technology, the pitfalls of uneven adoption, and the danger of some countries (especially emerging economies) being left behind, emphasise the need for a concerted policy focus on encouraging AI adoption.

As this report will show, adoption of AI across the sector is critical to driving consumer value and enhancing the efficiency and security of the industry. Globally, the adoption of Gen AI has been estimated to have the potential to generate value equal to $200 – $340 billion for the banking sector.[21] AI is already driving more personalised and better-quality customer experience. Powered by AI, UOB's digital bank app (UOB TMRW) can anticipate customer needs and offer personalised recommendations, such as curating local and regional deals tailored to customers' spending patterns. AI-driven insights are helping UOB customers make more informed spending and saving choices.[22] AI is also driving efficiency for financial institutions by reducing time-consuming manual processes. The National Australia Bank leverages Gen AI models to automate code generation, contributing to an 18% productivity uplift, with 40% of production code coming from AI-generated suggestions instead of manual input.[23]

Policymakers and business must determine where and how to implement AI effectively. Data on AI adoption provides an evidence base for targeted and effective investments into AI policymaking and adoption initiatives. Infographic 1 visualises the maturity of AI adoption across different business functions. The Y-axis broadly categorises AI applications by their operational function: back-office applications (internal operations, support functions) and front-office applications (customer-facing activities). The X-axis represents the maturity level of AI adoption.

13 Financial Services Agency of Japan (JFSA), "AI Discussion Paper Version 1.0" (Mar 2025).
14 Salesforce, "How AI is Reshaping Financial Services in ASEAN and Beyond" (Mar 2025).
15 Hong Kong Institute for Monetary and Financial Research (HKIMR), "Financial Services in the Era of Generative AI" (Apr 2025).
16 Australian Finance Industry Association (AFIA), "The Impact of Artificial Intelligence on the Australian Finance Industry" (May 2025).
17 Bank for International Settlements (BIS), "Regulating AI in the Financial Sector: Recent Developments and Main Challenges" (Dec 2024).
18 International Organization of Securities Commissions (IOSCO), "Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges" (Mar 2025).
19 AWS, "Build and Scale the Next Wave of AI Innovation On AWS".
20 Citi Institute, "Agentic AI: Finance & the 'Do It For Me' Economy" (Jan 2025).
21 McKinsey, "The Economic Potential of Generative AI" (Jun 2023).
22 UOB, "Personalising the Experience for Every Customer".
23 AWS, "AI-Powered Coding: National Australia Bank Drives Productivity in Software Development".

Infographic 1: State of AI adoption among financial institutions across APAC[24]



Mature adoption: Financial institutions are quicker to adopt use cases that demonstrate **clear, immediate productivity benefits and present less risk.**

In particular, the more easily AI can be inserted into existing workflow processes, the more likely the AI application will demonstrate initial, quick "wins". AI-driven knowledge management and document processing and automation are examples of use cases that do not require complex models and can boost productivity by integrating AI into existing processes. AI adoption is also more advanced for use cases that financial institutions consider not to pose a high risk (where the AI system's decisions or failures are unlikely to have significant negative impacts on individuals' rights, safety, or fundamental aspects of their lives).

Early adoption: Some AI use cases remain underutilised and at the **early, experimental** phase with relatively low adoption. Key examples include AI use cases that augment customer services, marketing and client acquisition. In these scenarios, AI supports customer service personnel, often with limited direct customer interaction – for example, AI does not provide direct recommendations (e.g., financial advice) to customers. The hesitance towards wider adoption can be attributed in some cases to **perceived greater risks** associated with direct customer interactions, for example the risk of an AI chatbot hallucinating and providing incorrect advice.

Limited adoption: There is a **low adoption rate** for certain advanced AI use cases, where the technology itself remains relatively new. Many financial institutions are still investigating agentic AI use cases, especially in customer-facing roles. As financial institutions build their understanding of and familiarity with agentic AI, adoption will increase. However, the speed at which adoption increases will depend on how successfully policymakers can address the broader barriers to AI adoption in the sector.

24 Indicative, non-exhaustive examples of AI use cases across the three categories. For each use case, we distinguish between whether it is primarily front-office (i.e., customer-facing) or back-office. Sources: interviews with industry experts, Flint research and analysis.

The adoption of AI use cases is associated with whether financial institutions see clear immediate benefits from the use case, whether it is complex to integrate into existing systems, and the perceived levels of risk. Where a particular use case is more established and has already been proven to work in a financial services setting, other financial institutions are more comfortable to implement that use case in their own operations. Newer, more complex, and external-facing AI use cases remain at low adoption levels.

Interviews with industry experts identified several **readiness gaps** that shed some light on the challenges financial institutions face in developing and deploying AI:

Gap: Limitations in AI knowledge and skills

Financial institutions contend with skills shortages for effective AI development and deployment. This knowledge deficit applies to both more technical AI skills (e.g., skills needed for high-quality prompt engineering) and the practical, day-to-day AI competencies (e.g., skills needed to use a Gen AI-powered knowledge management system competently).

As a result, financial institutions are insufficiently prepared to adapt to and use AI tools. This global challenge is evident across APAC. The HKIMR report highlighted that about 80% of surveyed financial institutions in Hong Kong identified technical skills for Gen AI use as key skills gaps that the industry faced.[25] Similarly, according to the AFIA report, participants in the Australian financial service industry saw skills shortages as a key challenge impacting financial institutions' adoption of AI.[26]

Skills shortages also create challenges for compliance and risk management. Financial institutions require in-house expertise to understand the risks of AI applications – such as bias, privacy, and cybersecurity – in order to effectively assess and mitigate risks . This is in line with the finding in the HKIMR report that 60% of survey respondents indicated compliance skills as a key skills gap in supporting Gen AI initiatives.[27]

Gap: Risk posture and appetite

Financial institutions decide on their approaches to AI use based on their overall risk appetite, or how much operational, reputational, legal, regulatory, and financial risk they can accept as part of their AI strategy.

Some financial institutions demonstrate a more innovative mindset, due to factors like a strong leadership vision, a culture that encourages experimentation, and regulatory environment. For example, smaller digital banks and fintechs may have greater risk appetite in adopting next-generation AI tools compared to larger financial institutions.

25 HKIMR, "Financial Services in the Era of Generative AI" (Apr 2025).
26 AFIA, "The Impact of Artificial Intelligence on the Australian Finance Industry" (May 2025).
27 HKIMR, "Financial Services in the Era of Generative AI" (Apr 2025).

Gap: Level of cloud adoption

Resource constraints in acquiring the necessary digital and data infrastructure could derail financial institutions' progress in AI use. However, the extensive computing resources available in the cloud can alleviate these constraints by democratising access to AI.

Policy approaches that facilitate cloud adoption are key foundational steps for accelerating AI adoption. Several experts emphasised the correlation between cloud adoption and financial institutions' ability to adopt Gen AI. The "cloud natives" – or financial services institutions that are already using the benefits of the cloud to innovate – will have an advantage in developing AI applications.

Gap: Cross-border data flows

The free flow of data across borders allows AI systems to access diverse data sources – essential for improving the accuracy of AI models. In some APAC jurisdictions, regulatory requirements such as data localisation also slow the pace of cloud adoption, which is a key enabler for AI development. The OECD has found that data localisation measures "can lead to higher costs and reduced service offerings, affecting downstream users [of cloud services], especially SMEs, the most".[28]

Gap: Access to quality data

According to Gartner, at least 30% of Gen AI projects will be abandoned after their proof of concept (POC) stage by the end of 2025 – poor data quality is one of the key contributing factors.[29]

Data quality can be a major roadblock to AI adoption in financial services. Siloed, outdated, or inconsistent data can lead to inaccurate AI-enabled predictions, weaken insights, and increase the risk of AI hallucinations, model drift, and unintended bias.[30] In SymphonyAI and Regulation Asia's surveys and interviews with 126 practitioners from APAC financial institutions, 58.6% of respondents cited data quality and availability as challenges for AI adoption.[31]

Investing early in developing a robust "AI-ready" data foundational infrastructure – including discovery platforms, APIs, and technical standards – is key to ensuring both internal and third-party data are easily discoverable and accessible. This is critical for financial institutions to ensure improved access to high-quality data that is reliable, current, and well-documented. [32]

28 OECD, "The Nature, Evolution and Potential Implications of Data Localisation Measures" (Nov 2023).
29 Gartner, "Gartner Predicts 30% of Generative AI Projects Will Be Abandoned after Proof of Concept by End of 2025" (Jul 2024).
30 WEF, "Why the Global Financial System Needs High-quality Data It Can Trust" (Jan 2025).
31 SymphonyAI, "AI Adoption Lag Leaves Asian Financial Institutions Vulnerable amid Rising Financial Crime" (Oct 2024).
32 Haishan Fu, Aivin Solatorio, Olivier Dupriez, and Craig Hammer, "From Open Data to AI-Ready Data: Building the Foundations for Responsible AI in Development" (Jul 2025).

Gap: Certainty of regulatory expectations[33]

Regulatory uncertainty is an important factor in financial institutions' confidence in adopting AI. Interviewees for this report noted that, given financial services is one of the most heavily regulated business areas globally, uncertainty about existing and pending potential regulatory obstacles on AI use is particularly prominent for financial institutions.

A lack of clarity around which stakeholder is accountable when AI systems make mistakes or cause losses to financial intermediaries contributes to this regulatory uncertainty.

In the AI supply chain, there is a key distinction between AI developers, who design, code, or produce an AI model, and AI deployers, who implement AI models into their operations or into user-facing applications. Regulations that do not provide clarity on the distribution of responsibility between AI developers and deployers create uncertainty, ultimately slowing AI adoption in financial services.

AI adoption by financial services regulators

In an increasingly complex regulatory landscape, financial services regulators can no longer simply rely on traditional regulatory supervision mechanisms, where manual processes and issues like data overload can hinder the timely detection of risks and issues. Regulators are building and scaling their AI use to become more effective in fulfilling their market integrity and customer protection mandates. AI is enhancing regulators' supervision capabilities' in key ways: monitoring large amounts of unstructured data and extracting insights from their regulated entities' information, automating routine tasks to allow regulators to focus on strategic decision-making, strengthening macroeconomic forecasting, and detecting financial vulnerabilities to enable earlier, proactive interventions to avert crises.

Take central banks as an example. Exploring internal AI deployment has become strategically important for central banks, as emphasised by a survey of Irving Fisher Committee on Central Bank Statistics (IFC) members. Central banks are actively experimenting with Gen AI to support tasks including information retrieval, computer programming, and data analytics. Nonetheless, many central banks are still in the initial adoption phase. Key challenges in governance (i.e., coordination and risk mitigation around privacy protection and cyber security weaknesses), skill, IT infrastructure, and quality of the underlying data inputs are affecting the pace of AI adoption by central banks.[34]

Regulators are seeking opportunities to apply AI-powered services or create AI tools to meet their supervisory responsibilities more efficiently. Financial services regulators have been exploring internal AI applications, developing POC solutions, and in some cases, deploying AI applications. AI use cases are already unlocking productivity, from document processing and summarisation, trade surveillance, to financial crime detection. For example, in Hong Kong, the Hong Kong Monetary Authority (HKMA) publicly outlined how it is deploying Gen AI to analyse banks' earning call transcripts, helping improve its efficiency in performing the central banking and regulatory functions.[35] In Australia, the Australian Securities and Investments Commission (ASIC) is trialling Transparently, an AI tool that has successfully flagged suspicious accounting activity among 32 of Australia's largest companies.[36] Overall, AI adoption by financial services regulators in the region is at a relatively early stage, with a critical opportunity for accelerating adoption.

33 Further details in the "Regulatory state-of-play" sub-section.

34 Irving Fisher Committee on Central Bank Statistics (IFC) Report No. 18, "Governance and Implementation of Artificial Intelligence in Central Banks" (Apr 2025).
35 HKMA, "Utilising Generative AI Tools to Monitor Systemic Risks in Global Banking: An Analysis of Earnings Call Transcript Data" (Mar 2025).
36 Jack Derwin, "ASIC's New AI Fraud Detector is Flashing Red on the ASX" (Dec 2024).

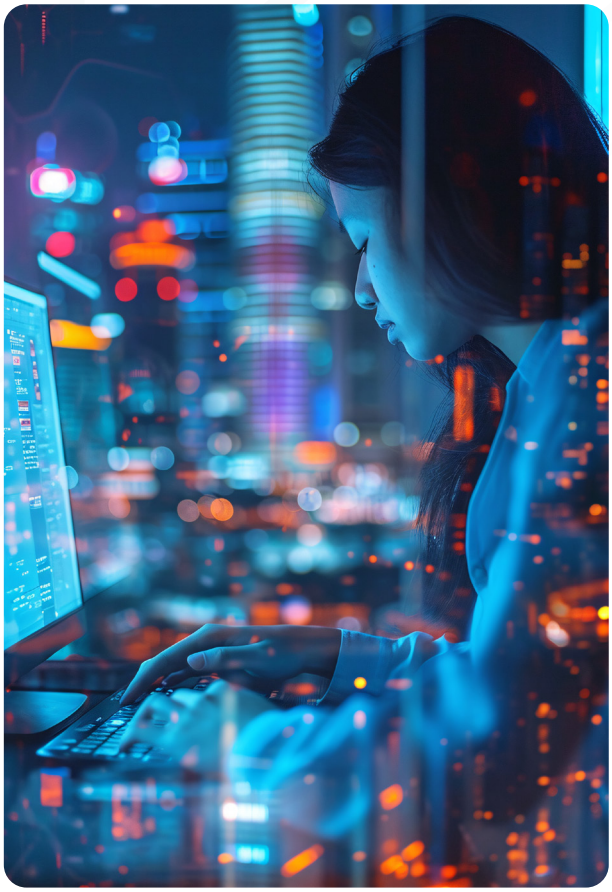
Regulatory state-of-play

The regulatory landscape for AI in financial services is rapidly evolving globally as well as regionally. Many jurisdictions are considering or have already proposed horizontal AI laws while many financial services regulators are exploring the need for sector-specific AI legislation. As a result, financial institutions must contend with a complex regulatory landscape composed of a patchwork of laws, regulations, and voluntary guidelines. Most jurisdictions also have existing laws on data protection, cybersecurity, consumer protection, third-party risk management, and others, which already apply to AI-related risks. For example, in Australia, the risks associated with AI use in financial services are already regulated by a range of technology-neutral legislations, such as the Privacy Act, the Corporations Act, the Competition and Consumer Act, and the Copyright Act.[37]

In the past year, South Korea and Japan passed the region's first two "horizontal" AI laws, regulating the development and deployment of AI across the economy. Taiwan has published its draft AI Basic Act and Australia has consulted on economy-wide mandatory AI guardrails. Beyond horizontal regulations, financial services regulators have focused on developing "vertical", sector-specific laws and guidelines.

Financial institutions may increasingly need to be clear on how they comply with both horizontal and vertical regulatory approaches. The potential for horizontal and sector-specific rules to duplicate regulatory requirements and even contradict each other can lead to confusion and uncertainty that slows AI adoption.

With the technology rapidly evolving, financial services regulators and global standard setters are assessing risks that are unique to Gen AI compared to traditional AI. For instance, the Hong Kong Securities and Futures Commission (SFC) issued mandatory guidance on Gen AI LLM use for licensed corporations.[38] The Financial Stability Board (FSB) highlighted risks like hallucinations and third-party concentration that Gen AI can bring to the financial services industry.[39]

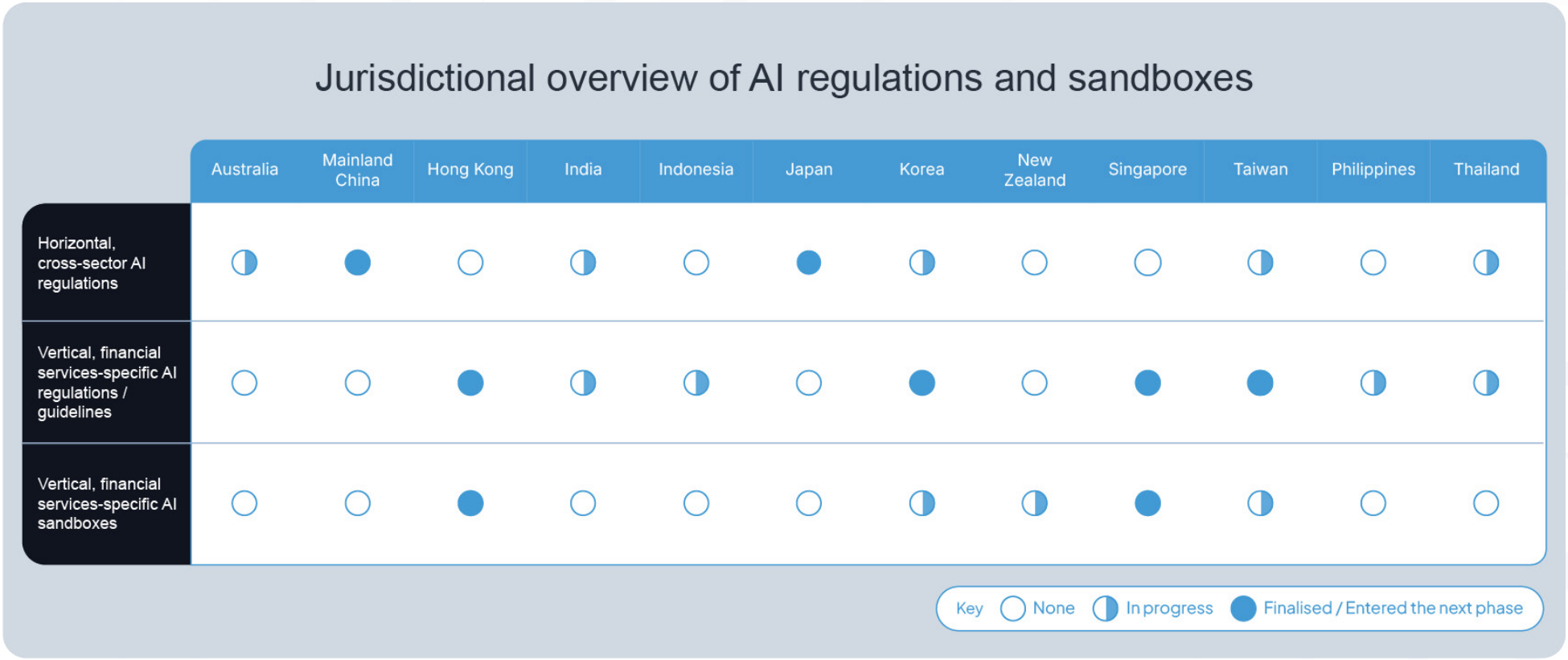


As a result of this complex regulatory environment, some more risk-averse institutions are choosing to put off AI adoption, particularly for potentially more transformative customer-facing use-cases, to minimise legal and regulatory risk. Deloitte's 2025 APAC Financial Services Regulatory Outlook report highlighted that due to uncertainty around future AI regulatory expectations, many financial institutions are taking a cautious approach to AI adoption, which could hinder AI innovation.[40]

Infographic 2 below provides a jurisdictional overview of existing horizontal and vertical AI regulatory approaches (see further details in the section on "a policy vision for accelerating AI adoption").

37 AFIA, "The Impact of Artificial Intelligence on the Australian Finance Industry" (May 2025).
38 Securities and Futures Commission (SFC), "Circular to Licensed Corporations: Use of Generative AI Language Models" (Nov 2024).
39 Financial Stability Board (FSB), "The Financial Stability Implications of Artificial Intelligence" (Nov 2024).
40 Deloitte, "2025 Asia Pacific Financial Services Regulatory Outlook" (Feb 2025).

Infographic 2: Jurisdictional overview of AI regulations and sandboxes.[41]



41 Sources: publicly available information on AI-related laws, regulations, and sandboxes in APAC.

Use cases: Exploring the untapped potential for AI adoption

This section outlines specific use cases that show clear potential to benefit consumers in the APAC financial services sector, but where adoption remains at a relatively early stage. While this sample of use cases provides just a snapshot into how AI is transforming financial services for the better, together they show how AI can contribute to more personalised and better quality of services available to consumers, as well as making a vital difference to consumers' safety and security. This will help to underline what is at stake as policymakers seek to accelerate AI adoption in the sector.

Use Case 1 demonstrates how AI-enabled personalisation can improve customer experience by harnessing customer data to provide powerful, customised insights and advice to better support customers with their financial planning. Use Case 2 demonstrates that, with the availability of massive amounts of financial crime data, AI is also a key tool for to combating fraud and strengthening customer protection. Use Case 3 shows that AI can ensure financial organisations stay ahead of increasingly sophisticated cyber attackers and enhance their cybersecurity defences.

Customer personalisation

Building and managing trusted customer relationships is essential to financial institutions. In APAC, personalisation in consumer finance products is a key driver for customer satisfaction. A survey by TABInsights found that 71% of digital banking customers in 10 APAC markets respond more positively to personalised products from banks.[42]

AI can play a critical role in improving and scaling customer personalisation. AI excels at analysing vast amounts of structured and unstructured data of user behaviour, such as transaction history and demographic information, to uncover historical patterns, extract insights, and provide accurate predictions. Based on a customer's spending patterns and risk tolerance, AI can then help financial institutions tailor communications such as personalised recommendations on credit card options to individual customer needs. For example, DBS uses AI to generate hyper-personalised nudges to enable customers to make more informed investment and financial planning decisions and offer relationship managers deeper insights to engage their customers. [43]

Advancements in agentic AI's capabilities will help financial institutions scale personalised services across the customer base. AI agents can access all available customer data to provide real-time, interactive, and tailored experiences for every customer. For instance, AI agents can act as personal digital bankers, responding to customer queries 24/7 on topics such as saving plans, loan affordability and investment options.

Thanks to AI-powered personalisation, consumers are better informed about how their daily financial decisions impact long-term financial goals. It is also critical in helping financial institutions improve customer satisfaction, loyalty, and retention, and segment product offerings by the market audience. While many financial institutions have started harnessing AI to create more personalised customer experiences, the adoption of Gen AI and agentic AI to enhance personalisation remains relatively limited.

Fraud and financial crime detection

In APAC, the scale of fraud activity has escalated dramatically in recent years. The Global Anti-Scam Alliance (GASA) estimated that individual customers alone in APAC have lost nearly $700 billion to digital scams in 2024, which represents a substantial portion of the estimated $1.026 trillion in global scam losses reported in GASA's 2023 data. [44] Protecting consumers from financial crime has become an urgent priority for financial institutions across the region.

Integrating AI into existing processes (e.g., traditional AML software) can help financial institutions improve fraud and financial crime detection. Machine learning models, trained on historical data, can utilise pattern recognition to automatically identify anomalies and prevent potentially fraudulent transactions from being executed. Additionally, AI can predict the types of future transactions a user might engage in, allowing financial institutions to assess whether the transactional behaviour is normal.

The Commonwealth Bank of Australia (CBA) reported a 30% reduction in customer-reported frauds in part due to Gen AI-powered suspicious transaction alerts.[45] This highlights AI's role in protecting customers from financial losses that come from increasingly sophisticated frauds, such as phishing scams, credit card fraud, and identity theft. For financial institutions, AI helps to shorten the time required to analyse transactions and reduces time spent on chasing false leads.

42 The Asian Banker, "Banks in APAC Must Catch up to Meet Customers' Expectation for Instant and Personalised Credit" (Oct 2021).
43 Brian Pereira, "Asian Banking Giant Maps its Gen AI-powered Future" (Jan 2025).
44 Sam Rogers, "New GASA Report Estimates $688 Billion in Scam Losses across Asia amid Rising Cyberthreat Worldwide" (Oct 2024).
45 Commonwealth Bank of Australia (CBA), "Customer Safety, Convenience and Recognition Boosted by Early Implementation of Gen AI" (Nov 2024).

Recognising the risks of not adopting AI, financial services regulators have supported regulated institutions to uplift their suspicious activity monitoring utilising AI. For example, an HKMA circular encouraged banks to use AI for enhancing the monitoring of money laundering and terrorist financing (ML/TF) risks, highlighting its advantages over conventional rules-based systems for managing the increasingly complex ML/TF landscape.[46] Regulators themselves are also leveraging AI to combat financial fraud. Following its pilot using an AI-based system to identify and block "mule accounts" (bank accounts used by criminals to launder illicit funds), the Reserve Bank of India (RBI) plans to make AI-based verification of bank accounts mandatory across all banks.[47]

Despite AI's effectiveness in enhancing fraud and financial crime detection, research from SymphonyAI and Regulation Asia revealed that over 50% of APAC financial institutions are not using AI for anti-money laundering (AML).[48] This finding underscores the untapped potential for these institutions to leverage AI to strengthen their resilience, as well as that of the broader financial ecosystem.

Enhancing Cybersecurity

APAC financial institutions face increasingly sophisticated cyber threats, such as malicious software, phishing, denial-of-service (DoS) attacks (which overwhelm a target system with volumes of fraudulent traffic) and zero-day exploits (which take advantage of an unknown security flaw in computer software). A 2024 report by Akamai Technologies highlighted that the APAC region saw the highest median threat score for phishing attacks targeting financial institutions. [49]

As highlighted in the Monetary Authority of Singapore (MAS) paper on cyber risks associated with Gen AI, financial institutions should pay attention to new cyber risks enabled by Gen AI, including deepfakes, phishing, malware generation and enhancement.[50] AI increases cyber risks by equipping attackers with new capabilities and by expanding the digital attack surface in financial services.

AI is, however, a key tool for cyber defence. Specifically, it can enhance financial institutions' cyber defence in threat detection, incident

response, and risk assessment. AI can efficiently analyse vast amounts of data to identify patterns and detect anomalies that may signal cyber threats. This enhances threat detection accuracy and reduces the likelihood of successful breaches. Additionally, AI can instantly respond to cyber threats, allowing financial institutions to swiftly isolate compromised systems or send alerts to avert the cyberattack. Furthermore, AI can assess the vulnerabilities of financial systems and pinpoint potential weaknesses, enabling financial institutions to implement targeted security measures. [51]

Some APAC regulators have recognised the value of AI in strengthening financial institutions' defence against cyberattacks. The Reserve Bank of New Zealand's Financial Stability Report 2025, for instance, explored AI's potential benefits in strengthening financial institutions' cyber resilience through improved identification of behavioural anomalies.[52]

Looking ahead, financial institutions must manage fraud and financial crimes in fundamentally different ways, considering how attackers increasingly leverage AI. With an escalating AI "arms race" between cyber attackers and defenders, financial institutions that fail to adopt AI for cyber defence may face increased exposures to cyberattacks.[53] This could impact on the sector's resilience and security and citizens' trust in the financial system.

46 Hong Kong Monetary Authority (HKMA), "Use of Artificial Intelligence for Monitoring of Suspicious Activities" (Sep 2024).
47 Ajith Athrady and Amrita Madhukalya, "Banks to Use AI-Based System to Detect 'Mule' Accounts" (Aug 2025).
48 SymphonyAI, "AI Adoption Lag Leaves Asian Financial Institutions Vulnerable amid Rising Financial Crime" (Oct 2024).
49 Roxanne Libatique, "Rising Cyberattacks in APAC Challenge Financial Institutions" (Sep 2024).
50 Monetary Authority of Singapore (MAS), "Cyber Risks Associated with Generative Artificial Intelligence" (Jul 2024).

51 Tomasz Krakowczyk, "The Role of AI and Cybersecurity in the Financial Sector" (Sep 2024).
52 Reserve Bank of New Zealand (RBNZ), "Rise of the Machines: How Could Artificial Intelligence Impact Financial Stability?" (May 2025).
53 Citi Institute, "Agentic AI: Finance & the 'Do It For Me' Economy" (Jan 2025).

Case studies

Building on the use cases above, this section presents three case studies of impactful AI adoption.

CASE STUDY 1

Bridgewater Associates – Using the Investment Analyst Assistant to enhance markets analysis

Challenge

To develop their investment strategies, asset management firm, Bridgewater Associates, analyses the cause-and-effect linkages that drive global markets. Traditionally, to understand those relationships, analysts spend extensive time exploring and systematically stress testing hypotheses, usually by writing code or using software to create charts and tables.

Solution and key benefits

Bridgewater is leveraging Claude on Amazon Bedrock to build an AI-enabled Investment Analyst Assistant to support junior members of the team.

This secure, LLM-powered Investment Analyst Assistant generates elaborate charts, computes financial indicators, and summarises the results based on both minimal and complex instructions.

The AI application accelerates the investment research process. It helps make the process more efficient and scalable, allowing Bridgewater analysts to allocate more time on the challenging and differentiated aspects of understanding markets. This solution democratises data analysis across the firm, empowering more staff to directly interact with their data assets.[54]

54 Anthropic, "Claude on Amazon Bedrock Now Available to Every AWS Customer" (Sep 2023).

CASE STUDY 2

ASIC, APRA, and RBA – Gen AI PoC solution to aid regulators in document analysis

Challenge

To keep pace with the rapidly evolving financial services sector, regulators face challenges in fulfilling their licensing, supervising, and oversight duties efficiently at a large scale.

Solution and key benefits

Three Australian regulators – ASIC, the Australian Prudential Regulation Authority (APRA), and the Reserve Bank of Australia (RBA) – worked with AWS to build a Gen AI proof of concept (PoC) solution.

This PoC is aimed at comparing, querying, and summarising documents. It has achieved promising results, demonstrating up to 93% confidence in some model outputs based on publicly available documents. [55]

The experiment has been shared with dozens of other regulators. It provides a glimpse of the potential of Gen AI capabilities to transform the way financial services regulators review and analyse documents – from business plans to financial statements and compliance records.

55 Nick Cook and Saket Narayan, "The Future of Financial Regulation: How Technology Makes Finance Safer" (Jun 2025).

CASE STUDY 3

Commonwealth Bank of Australia – Creating the CommBiz Gen AI-powered messaging service to improve customer experience

Challenge

Increasingly, customers expect banks to personalise banking experiences, such as by delivering faster query resolutions, more personalised interactions, and real-time support. Personalisation is key to meeting – and exceeding – diverse customer expectations.

Solution and key benefits

Commonwealth Bank of Australia (CBA) recently expanded its collaboration with AWS through a five-year strategic partnership. This agreement is accelerating the bank's AI adoption, including the rollout of the CommBiz Gen AI-powered messaging service for business banking customers.

The CommBiz Gen AI-powered messaging service is enabling business banking customers to access services and transact faster. Customers can send direct questions to the AI messaging tool and receive rapid and high-quality responses. The tool works by pulling information from over 80 CommBiz (CBA's online banking platform) user guides, FAQs, and other support pages to efficiently provide relevant information using natural language.[56]

Notably, the AI tool went from idea to production in just six weeks. It builds on CBA's success in integrating Gen AI into other aspects of its service for retail customers. Gen AI-powered suspicious transaction alerts have contributed to a 30% reduction in customer-reported frauds. Meanwhile, Australian small businesses are expected to benefit from significantly faster annual credit reviews, with AI reducing the time taken from fourteen hours to two.[57]

56 CBA, "CommBank and AWS Expand Collaboration to Deliver Global Best Cloud and AI Capabilities, Enabling Idea to Production in Six Weeks" (Feb 2025).
57 CBA, "Customer Safety, Convenience and Recognition Boosted by Early Implementation of Gen AI" (Nov 2024).

A policy vision for accelerating AI adoption

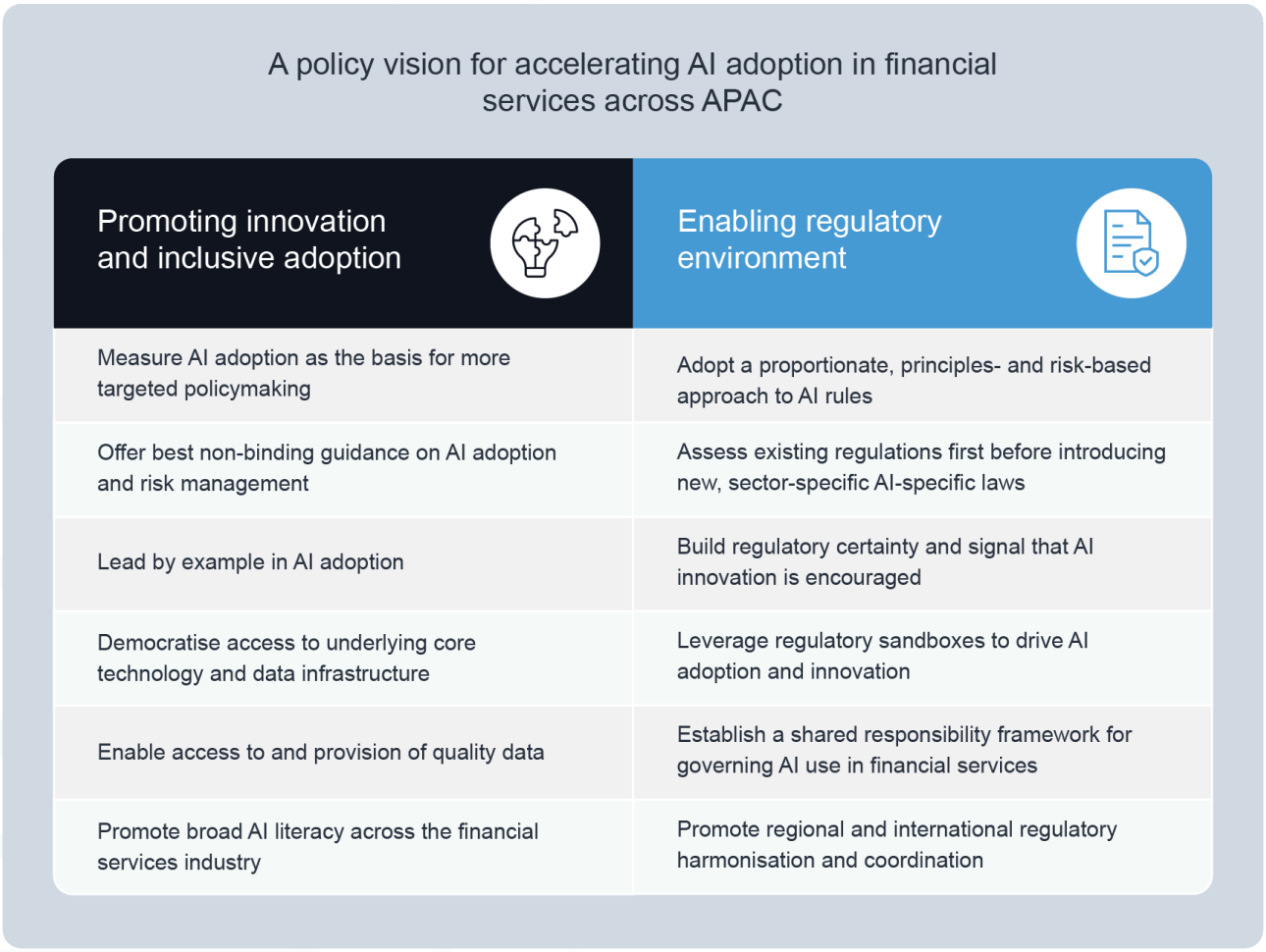
The examples outlined in this paper only scratch the surface of the possible benefits that AI can bring to the financial services industry. Capitalising on AI's productive potential is critical for improving resilience and accelerating innovation in the sector.

As the JFSA warns, the "risk of not taking actions" by the industry in adopting AI is significant.[58] Delayed AI adoption would diminish the APAC financial services sector's competitive edge against other parts of the world that are embracing AI. Encouragingly, a Boston Consulting Group (BCG) report found that APAC is rapidly adopting Gen AI, now narrowing the distance with and only second to North America, which has been the global leader in technology adoption.[59] However, as the global race to AI adoption intensifies and as other regions step up their efforts, APAC countries must step up efforts to ensure the region becomes a leader in AI adoption.

To accelerate AI adoption, policymakers should prioritise:

1. Implementing policies that **promote** innovation and adoption; and
2. Ensuring regulation and governance **enable** adoption.

Infographic 3: A policy vision for accelerating AI adoption in financial services across APAC



58 JFSA, "AI Discussion Paper Version 1.0" (Mar 2025).
59 Boston Consulting Group (BCG), "In the Race to Adopt AI, Asia-Pacific Is the Region to Watch" (Mar 2025).

Promoting innovation and adoption

1. Measure AI adoption as the basis for more targeted policymaking

- Measuring the level of AI adoption in financial services at a more granular level is essential in providing the empirical grounding for more targeted, effective policies that encourage AI adoption.

- While existing information surveys, such as the survey results highlighted in JFSA's AI discussion paper, provide a starting point, many APAC jurisdictions lack comprehensive and granular studies on the extent of AI use and penetration across different use cases.

- Effective policymaking relies on accurate AI adoption metrics. Rather than treating "AI" as a monolithic concept, this type of measurement should break down the specific applications and opportunities of AI within the financial services sector. Globally, organisations like the OECD and US Census Bureau are starting to pioneer this more nuanced approach.[60] [61]

- As different businesses have varying AI applications in the sector, measurements are less actionable without comparable or interoperable metrics. Policymakers can collaborate to build standardised metrics that can be applied to compare and assess the differential rates of AI adoption across the financial services sectors in different jurisdictions.

- Singapore offers examples of how policymakers can provide such sector-specific measurements of technology application. The Infocomm Media Development Authority (IMDA) leads in developing sector-specific Industry Digital Plans (IDPs), which break down the digital solutions or use cases applied throughout the sector's value chain (e.g., the food manufacturing sector).[62] This could serve as a model for policymakers to prepare measurements of AI adoption in financial services.

60 OECD, "The Adoption of Artificial Intelligence in Firms: New Evidence for Policymaking" (May 2025).
61 US Census Bureau, "Is AI Use Increasing among Small Businesses?" (Dec 2024).
62 Infocomm Media Development Authority (IMDA), "Industry Digital Plans".

2. Offer best non-binding guidance on AI adoption and risk management

- By providing non-binding best practice guidance on AI adoption and risk management that is both practical and not overly prescriptive, policymakers can effectively support financial institutions to determine the best approach to governance and risk management for their AI adoption.

- This practical approach can be achieved when guidance is developed based on real-world applications and the feedback collected from the industry. An example of this collaborative model is phase one of the MAS' Project MindForge, which worked with a consortium of banks to develop a comprehensive Gen AI risk framework.[63]

- It is also important to ensure that guidance does not quickly become out-dated and that it can be applied to a range of use cases. Guidance that is principles-based rather than overly prescriptive (e.g., hard guidance or legally enforceable requirements) is more likely to stay relevant over time, as well as to be applicable to a broader set of AI applications.

- When developing such guidance, policymakers should consider including governance principles, best practices regarding potential risks stemming from AI use in financial services, and actionable risk management strategies for financial institutions. Existing guidance in Singapore and Hong Kong offer models for this content.

Singapore has made particularly concerted efforts to provide regulatory clarity aimed at facilitating AI adoption. Singaporean authorities have recognised that detailed and prescriptive rules often struggle to keep pace with rapidly evolving technology. The MAS has therefore introduced a principles-based approach to guiding financial institutions on responsible AI adoption through its FEAT principles (Fairness, Ethics, Accountability, and Transparency).[64] Building on this principles-based approach, Singapore has also developed practical mechanisms for developing and testing AI regulations and use cases. This includes Project MindForge, a collaborative initiative with participating financial institutions which aims to create a risk management framework for Gen AI use in the financial services sector.[65]

In Hong Kong, the Gen AI Technical and Application Guideline (intended for a broader audience than the financial services sector), published by the Digital Policy Office (DPO), provides practical guidance on Gen AI adoption and addresses technical risks such as data leakage, model bias and errors tailored to three types of stakeholders (i.e., "technology developers", "service providers" and "service users"). For example, "service providers" are recommended to develop a responsible Gen AI service framework.[66]

63 MAS, "Project MindForge" (May 2024).
64 MAS, "Principles to Promote Fairness, Ethics, Accountability and Transparency (FEAT) in the Use of Artificial Intelligence and Data Analytics in Singapore's Financial Sector" (Nov 2018).
65 MAS, "Project MindForge" (May 2024).
66 Digital Policy Office (DPO), "Hong Kong Generative Artificial Intelligence Technical and Application Guideline" (Apr 2025).

3. Lead by example in AI adoption

- Regulators should lead by example in AI adoption. By developing internal AI applications such as in market surveillance, risk analysis, and compliance enforcement, regulators can test the applications or even customise the applications on internal knowledge sources in a more controlled environment.
- This will enhance regulators' skills and understanding of the AI technology, leading to better results when they eventually launch the AI models for external applications. This will in turn promote sector-wide adoption of AI by familiarising regulated entities with potential AI use cases and building trust.

Best practices for AI adoption for financial services regulators

Regulators should consider the following best practices in experimenting and scaling their use of AI:

Strengthening skills

Regulators should invest in providing foundational AI training for their wider workforce, improving their technical awareness and skills enablement on AI. For instance, training around AI guardrails or fine-tuning of prompt engineering could become part of the baseline skills for both the executives and the technology team.

Building a strong data platform / foundation

Regulators should build a robust data platform that consolidates the dispersed and sometimes inaccessible intelligence across a variety of different systems and with appropriate controls in place for both internal and external stakeholders. By specifying and standardising formats for regulated entities (e.g., structured data with pre-validation controls and checks), regulators might also receive higher quality data.

Developing a culture of continuous experimentation and innovation

Regulators can build confidence in AI use case by working backwards from ideation to identify the most pressing regulatory needs and the initial use cases which can demonstrate quick results and then scale fast. Starting with clear use cases that demonstrate tangible value and showing a path to production up front is key. Otherwise, the "POC fatigue" can take away the momentum to deliver meaningful AI initiatives. Additionally, testing AI adoption in a safe, controlled environment like sandboxes (see recommendation below) can support a culture of continuous experimentation and innovation for AI.

4. Democratise access to underlying core technology and data infrastructure

- Accelerating AI adoption in financial services will not be possible without access to underlying core technology and data infrastructure, which includes high-speed internet, cloud adoption and compute capacity.[67] Policymakers should assess the extent to which foundational infrastructure exists to support rapid growth in AI adoption.

- Policymakers have long understood the importance of cloud adoption in enhancing operational efficiencies, delivering cost savings, and potentially providing economies of scale. Advancements in AI have made cloud adoption even more important as an enabler for AI development and deployment. Cloud provides the required infrastructure to handle massive volumes of data – which is crucial to developing, training, and deploying AI models – without the need for financial institutions to own and manage resource-intensive on-premise infrastructure. Trust Bank, for example, used AWS Cloud to achieve greater performance and resilience, as well as to scale and innovate faster through agile and reliable infrastructure.[68]

5. Enable access to and provision of quality data

- Quality data is the foundation for accelerating AI adoption across financial services, as it enables the development, validation, and improvement of AI services and products. As this report has found, many APAC financial institutions face challenges in the quality of internal and third-party data. There is potential for policymakers to help broaden access to quality data for financial institutions.

- Private sector-led open data initiatives, such as the AWS Data Exchange, have shown their impact in democratising access to quality, publicly available data.[69]

- Similarly, there is potential for policymakers to directly facilitate access to quality data. Korea's Financial Services Commission (FSC) has unveiled plans to build a new "Financial AI Platform" that provides open-source AI models and data "with performance and safety suitable for the financial sector".[70] This will allow financial institutions to use specialised, Korean-language financial data for their development of AI use cases. In Singapore, the MAS API provides access to financial and regulatory data for financial institutions.[71]

6. Promote broad AI literacy across the financial services industry

- Wider technical training, education and awareness campaigns for the financial services industry on the applications and impacts of AI are essential. The HKIMR report identified technical skills and compliance skills as the top skills gaps in supporting Gen AI adoption in financial services in Hong Kong.[72] The evolution of the AI stack in recent years has changed the training needs for financial institutions. Since most financial institutions now prefer to fine-tune existing models, the level of training and upskilling required is far less than to develop new models from scratch, underlining the importance of broad-based AI literacy rather than bringing in smaller numbers of AI postdocs and PhDs.

- Policymakers can provide up-to-date strategic guidelines, undertake research on both AI's impact on jobs and the skills gap in the AI-era, as well as directly supply AI training and skills development for regulated institutions. The HKMA, for example, released guidelines focused on workforce training in the banking sector, helping banks develop strategies to address the talent needs for AI deployment.[73] Outside of the financial services sector, Malaysia's Ministry of Higher Education collaborated with AWS to provide AI training for both educators and students.[74] There is considerable value in further public-private partnerships to drive solutions on AI upskilling.

67 World Bank, "Global Trends in AI Governance: Evolving Country Approaches" (2024).
68 AWS, "Trust Bank Builds a Scalable and Innovative Digital Bank on AWS" (2024).
69 AWS, "Open Data on AWS".
70 Manesh Samtani, "FSC Korea to Build Platform to Enable FIs to Use Open Source AI" (Dec 2024).
71 Singapore Government Developer Portal, "MAS API".
72 HKIMR, "Financial Services in the Era of Generative AI" (Apr 2025).
73 HKMA, "Manpower Management in the Age of Artificial Intelligence" (May 2024).
74 AWS, "AWS Collaborates with Malaysia Ministry of Higher Education's JPPKK to Build Next-generation AI Workforce" (Oct 2024).

Enabling regulatory framework

1. Adopt a proportionate, principles- and risk-based approach to AI rules

- Policymakers should take a proportionate, principles- and risk-based approach to any rules or guidance for AI use in the sector.

- Given the accelerating pace of AI technology, principles-based regulations provide the flexibility for regulators to update them to reflect new concepts. For example, Singapore's Model AI Governance Framework, first published in 2020, outlines nine, principles-based dimensions to foster a trusted AI ecosystem. These dimensions are grounded in the principles that AI decisions should be explainable, transparent, and fair. The Framework was updated in 2020, and the Model AI Governance Framework for Gen AI, released in 2024, further builds upon these foundations.

- Regulatory guidelines should differentiate appropriately according to the level of risk; those that may restrict the use of AI should be targeted at context-specific, high-risk deployments. This ensures that regulators do not underregulate higher risk use cases (e.g., AI-driven credit decisioning), which create potential for real harm, or over-regulate lower risk use cases, which hinders innovation and adoption of technology that positively impacts society. For example, the EU AI Act classifies AI systems into four risk categories. The significant regulatory obligations on broadly defined "high-risk" scenarios could lead to overregulation, deterring financial institutions from developing and deploying AI, ultimately slowing the overall pace of innovation within the EU.

2. Assess existing regulations first before introducing new, sector-specific AI-specific laws

- In APAC jurisdictions, the potential risks from AI use in financial services are already governed by both economy-wide laws and sector-specific regulations. In many cases, existing frameworks can be applied to challenges thrown up by AI. For instance, many of the relevant elements of data governance and management will already be captured in existing regulations. In Hong Kong, the AI-related risks in personal data collection and use can be addressed by existing laws such as Personal Data (Privacy) Ordinance (Cap. 486).[75]

- Given this, before introducing any new AI-specific laws, policymakers should conduct a holistic audit of adjacent regulations, to assess whether the potential risks of AI use in financial services are adequately addressed by existing legal safeguards. If regulatory gaps are identified, they should be addressed through targeted, sector-specific policies that are tailored to address specific high-risk use cases with actionable, context-specific guidance.

3. Build regulatory certainty and signal that AI innovation is encouraged

- An enabling regulatory framework for AI use in financial services requires consistency and predictability. This enables financial institutions to confidently invest in AI adoption and innovation. Policymakers should seek to provide regulatory certainty without rigidity, particularly in light of the rapid advancements in the capability of the technology.

- By signalling to industry actors that AI adoption (with appropriate guardrails in place) is encouraged, policymakers and regulators can create an environment conducive to technological innovation. The Hong Kong Financial Services and Treasury Bureau's (FSTB) policy statement provides an example by clearly articulating the government's goal to foster an enabling environment for financial institutions to leverage AI responsibly, in addition to outlining recommended mitigation measures for key risks.[76]

4. Leverage regulatory sandboxes to drive AI adoption and innovation

- Widespread AI adoption requires regulatory approaches that allow for experimentation while establishing clear boundaries. Regulatory sandboxes have shown their promise in driving product innovation, building industry-wide confidence in AI adoption, and informing policymaking.

- While definitions vary, a regulatory sandbox generally refers to enabling a live environment that tests innovative technologies in a controlled, time-bound manner. [77] AI sandboxes tend to focus more on providing temporary regulatory waivers at regulators' discretion to enable testing and experimentation, product development, or testing how AI regulations will be implemented, usually before full enforcement of the regulations.

75 Research Office of the Legislative Council Secretariat, "Regulation of Artificial Intelligence in the European Union and the Mainland" (2025).

76 Financial Services and Treasury Bureau (FSTB), "Policy Statement on Responsible Application of Artificial Intelligence in the Financial Market" (Oct 2024).

77 World Bank Group, "Global Experiences from Regulatory Sandboxes" (2020).

- To create a successful sandbox, regulators should be clearly aligned on its objectives, determining whether it primarily aims to promote already well-established AI use cases across the financial services sector or innovations with relatively untested use cases. This can help financial institutions develop their products and services in a regulation-compliant way with reduced regulatory uncertainty, potentially reducing the time-to-market for their products. Through sandboxes, regulators can also test and better understand the products, enabling them to develop adequate rulemaking, supervision and enforcement policies. [78]

SPOTLIGHT:
Gen AI sandbox in Hong Kong

The HKMA, in collaboration with the Hong Kong Cyberport Management Company Limited (Cyberport), announced the inaugural cohort of its Gen AI Sandbox open to banks in December 2024. The proposed use cases mainly revolve around enhancing risk management, anti-fraud measures and customer experience.[79] HKMA and Cyberport launched the second cohort of the sandbox in April 2025.[80]

5. Establish a shared responsibility framework for governing AI use in financial services

- Regulations must account for responsibilities and accountability of the multiple stakeholders involved in the development and use of AI systems. Since AI is a general-purpose technology that can be deployed in a wide range of purposes and downstream users, it is impossible for AI developers to foresee all potential use cases.

- To accelerate responsible AI adoption across financial services while effectively managing the risks, AI regulatory frameworks must carefully allocate responsibilities to the organisation that is best positioned to identify and mitigate the potential harms that could arise from the use of the AI model. The financial institutions deploying AI should be ultimately accountable for understanding the potential risks that their use of a specific AI system presents to their business and accordingly identify mitigations appropriate for the context. Similar to the third-party risk management model, AI developers, as third parties, are responsible for providing certain information on the AI models.

- Stakeholders in the AI value chain and the regulatory community should come together to establish a mutual understanding of a shared responsibility framework for governing AI use in financial services. This should clearly define accountability for AI developers, deployers, and end users, potentially drawing on the cloud industry's shared responsibility model that delineates the security responsibilities between cloud providers and their customers.

6. Promote regional and international regulatory harmonisation and coordination

- Achieving the full potential of AI in financial services (and sensibly mitigating the key challenges) demands a coordinated response. There is a risk that fragmented regulatory approaches with overlapping and sometimes contradictory rules will deter AI innovation that can strengthen the region's financial ecosystem.

- AI is global and cross-border in nature. When financial institutions face different regulatory standards in the jurisdictions in which they operate, it will significantly complicate their adoption of the technology and may in some cases lead them to decide not to implement it altogether. This link between fragmentation and slower technology adoption is well-established. In an analogous example, a research report by Asia House has shown how fragmentation in personal data regulatory regimes across Southeast Asia slows the adoption of digital innovations, especially for businesses offering cross-border digital financial services.[81]

78 European Parliamentary Research Service, "Artificial Intelligence Act and Regulatory Sandboxes" (Jun 2022).
79 HKMA, "HKMA Announces Inaugural Cohort of GenA.I. Sandbox" (Dec 2024).
80 HKMA, "HKMA and Cyberport Launch Second Cohort of GenA.I. Sandbox to Accelerate A.I. Innovation in Financial Sector" (Apr 2025).

81 Poomthawat Wachirapornpruet, "Mind the Gap: How Southeast Asia's Fragmented Personal Data Rules Impact Digital Finance" (Oct 2024).

- Policymakers should promote greater regional and international regulatory harmonisation and coordination. There is an opportunity for APAC policymakers to promote regulatory interoperability through shaping and aligning with international standards. By engaging with key international standard setting bodies, such as IOSCO, FSB, BIS, regulators can ensure that existing regulations are aligned with international standards.

Established international standards, particularly the ISO 42000 series of AI management standards, can provide guidance on compliance measures. By adopting international standards, policymakers can minimise the unnecessary re-engineering of AI rules.

Conclusion

Widespread diffusion is a key determinant for which countries are able to capitalise on the economic growth potential of general-purpose technologies. While AI capabilities continue to advance, adoption remains uneven, with differences across jurisdictions, sectors, and firm size. AI applications hold exciting possibilities for financial services – to bring new innovations and delight customers, as well as to solve persistent problems including financial inclusion and consumer protection.

Policymakers have a critical responsibility to ensure financial services firms and their customers benefit from new technologies. The choices made today will shape the extent to which the generations of tomorrow can fully share in the benefits realised by AI. To fulfil that promise will require relentless focus on creating an enabling policy environment for AI adoption. On the one hand, this involves putting in place the building blocks for encouraging and enabling widespread AI adoption while, at the same time, ensuring that regulatory safeguards are adequate, proportionate and commensurate with the risk involved.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