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United States House of Representatives
One Hundred Eighteenth Congress
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

August 14, 2024

The Honorable Janet Yellen
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Request for Information on Uses, Opportunities, and Risks of Artificial Intelligence in the Financial Services Sector

Dear Secretary Yellen:

We write in response to the Department of Treasury's Request for Information (RFI) on AI. Earlier this year, the House Committee on Financial Services (Committee) announced the formation of a bipartisan Working Group on Artificial Intelligence (AI) to assess how AI is impacting the financial services sector. The Working Group examined issues such as the development of new products and services, fraud prevention, compliance efficiency, and the enhancement of supervisory and regulatory tools, as well as how AI may impact the financial services workforce. As highlighted in our bipartisan staff report and recent hearing titled "AI Innovation Explored: Insights into AI Applications in Financial Services and Housing," we believe AI holds great potential for the financial services sector. Notwithstanding the Committee's work, it is critical that our financial regulators focus on this technology's potential and the benefits to consumers as firms increasingly leverage AI to serve more Americans.

Current and Potential Uses of AI in the Financial Services Sector

AI technologies are already being deployed across the financial services sector in areas such as fraud detection, underwriting, debt collection, customer onboarding, real estate, investment research, property management, and customer service. Continued adoption and further automation of services continue to result in significant cost reductions and greater access to financial services to more Americans.

Technology has always been the most effective driving force behind financial inclusion. ATMs, online banking, and online brokerage accounts were once considered novel financial technologies. These technologies expanded access to the financial sector and are now the preferred methods for millions of Americans to access financial services. Similarly, AI has the potential to increase access to services such that it can become the norm for more Americans as it becomes more embedded in our financial lives.

Additionally, in underbanked and underserved communities, AI-powered banking solutions can provide crucial financial services and help bridge the gap in financial inclusion. Alternative data underwriting, multilingual 24/7 automated call centers, and enhanced investment advice are all making it less expensive for institutions to offer financial services at a smaller scale. AI can also streamline regulatory compliance, reducing the burden on financial institutions and allowing them to focus more on providing services to their customers.

Notwithstanding these advances, the adoption of newer generative AI (GenAI) models has lagged traditional machine learning applications. Market participants are concerned about the explainability and reliability of these models. Yet, improvements in the explainability of these models are occurring, and new methods are being employed to strengthen explainability and reliability.

Supporting Financial Firms of All Sizes

Smaller financial institutions often lack the resources or data to build their own AI models. As a result, they rely on access to third-party solutions to remain competitive with larger institutions. Third-party AI models offer immense benefits, enabling these institutions to access advanced technologies without the substantial investment required to develop them in-house. These partnerships allow smaller institutions to offer competitive services and products, thereby enhancing their ability to serve their communities and customers effectively.

To ensure the long-term viability of these partnerships, third-party risk management and cybersecurity guidance should recognize the increased importance of these relationships to smaller financial institutions. Regulatory frameworks should be tailored to the diverse range of market participants and their needs. A one-size-fits-all approach will only stifle competition among financial institutions. Regulators must evaluate each institution's use of AI technology on a case-by-case basis, ensuring the necessary flexibility to accommodate individual circumstances. Regulators, Congress, and the Department of the Treasury should be judicious with respect to regulating AI, recognizing the regulations, rules, guidance, and laws currently in place that address the use of technologies by financial institutions.

Data Privacy

As AI technologies and use cases continue to advance within the financial system, data privacy has only become more critical and valuable for AI models. The Data Privacy Act of 2023, passed by the House Financial Services Committee, underscores the importance of modernizing financial data privacy laws to ensure consumers have control over their personal information. Committee Republicans want to empower consumers with respect to how their data is collected and used by financial institutions.

For example, consumers should be allowed to terminate the collection of their data or request its deletion, ensuring data is used only for its intended purpose. This approach not only protects consumer's privacy but also supports innovation by providing a clear framework within which financial institutions can operate. Balancing the protection of personal financial information with the benefits of AI-driven advancements is essential in maintaining consumer trust and fostering a competitive, innovative financial services sector.

Regulatory Frameworks for AI

The current regulatory framework must evolve to keep pace with AI advancements. Committee Republicans strongly support a principles-based regulatory approach that can accommodate rapid technological changes more effectively. We caution against horizontal, cross-economy approaches that broadly regulate the use of AI. The government should take a sectoral approach that ensures primary regulators, who understand their respective markets and AI use cases within those markets, retain the regulatory authority to proceed in a technology-neutral manner.

Collaboration is essential in the development of regulatory frameworks. Regulators should work closely with Congress, market participants, AI practitioners and modelers, and academia to stay informed about AI developments and encourage innovation. Regulatory sandboxes should be established to allow controlled experimentation with AI applications, enabling regulators to observe their impacts and adapt regulations accordingly.

While there are risks that accompany the use of AI, as there are with any emerging technology, regulators should ensure market participants comply with existing laws. At same time, regulators should focus on fostering an environment where firms can reap the benefits of AI technology. United States' financial firms have always been among the most innovative, which has given our economy great advantages over our counterparts on the world stage and that must continue.

Conclusion

AI presents an unprecedented opportunity to transform the financial services sector. Committee Republicans are committed to fostering an environment where AI can thrive while protecting consumers and maintaining market integrity. By focusing on fostering innovation, enhancing customer experiences, and ensuring financial inclusion, AI can significantly improve the financial sector's efficiency and accessibility. The potential benefits of AI are vast, and with thoughtful activity-based regulation and collaboration between the public and private sectors, we can harness these benefits to create a more inclusive and efficient financial system for all Americans.

We look forward to working with the Treasury Department and other stakeholders to ensure the U.S. regulatory framework supports innovation and competition in the financial services sector.

Sincerely,

Patrick McHenry
Chairman

French Hill
Chairman of the Subcommittee on
Digital Assets, Financial Technology
and Inclusion

Andy Barr
Chairman of the Subcommittee on
Financial Institutions and Monetary
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Ann Wagner
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