# NRI



- Interview with Takuro Okada by Yohei Kaneko -

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# **Executive Summary**

With generative AI expected to yield big benefits across the financial sector amid burgeoning interest in its applicability to business, the Financial Data Utilizing Association (FDUA) recently published a handbook on generative AI use cases at financial institutions and risks specific to those use cases. We spoke to the FDUA's Representative Director Takuro Okada about the aim of publishing the handbook and plans for future editions.



#### Takuro Okada

Representative Director, Financial Data Utilizing Association (FDUA) Vice Chairman/Executive Director, Financial IT Association

Began career at 77 Bank in 2008. Subsequently held financial digitalization roles at Japanese Bankers Association, Mitsubishi UFJ Trust & Banking Corporation and Japanese government's Digital Agency. Has headed multiple organizations dedicated to promoting Al/IT utilization across financial sector. Founded Financial Business and Al Community, FDUA's predecessor. Established FDUA and appointed as its Representative Director in April 2022.

#### Yohei Kaneko

Senior Researcher Financial Market & Digital Business Research Department Nomura Research Institute, Ltd.

Joined NRI in 2015. Assigned to NRI Secure Technologies' security consulting business from 2015 to 2020. Assumed current role, which entails research and consulting with financial institutions, in 2020. Specialties include financial digital transformation and retail financial services. Serves as advisor to FDUA's AI Working Group. Co-author of *AI Navigator 2024*.



## FDUA's role

Yohei Kaneko: Please tell our readers about the FDUA, the organization you head.



**Takuro Okada:** The FDUA was founded two years ago, in April 2022, when we converted its predecessor, the Financial Business and Al Community (established January 2020), into an incorporated entity.

When launching the FDUA, we received advice from members of its current Board of Directors. One piece of advice that we especially took to heart was to build horizontal connections across the financial services industry. I have long felt that Japanese financial institutions are too

siloed off from and competitive with each other, to the detriment of the industry's overall competitiveness. So I felt the FDUA needed to play a cross-industry role by finding ways in which financial institutions can collaborate.

The FDUA originally started out as a forum for data practitioners in the financial services industry to socialize over drinks after work. While conversing with peers at these gatherings, we learned we were encountering similar challenges on our jobs with respect to analytic techniques, platforms, training of junior employees and so on.

We eventually decided to start meeting in a more structured setting to casually share know-how with each other. In the course of doing so, we came up with the idea of drafting generative AI guidelines. We decided to form a working group to draft the guidelines.

Initially, our community members all worked for financial institutions. When we formed the FDUA, we decided to open up membership to anyone interested in joining. We've since gained new members from tech startups and IT vendors like NRI who have injected fresh blood into our organization.

**Kaneko:** How did your community and the FDUA manage to overcome the barriers that had previously kept financial institutions siloed off from each other, unable to make much progress in sharing data-utilization know-how?

**Okada:** One of the FDUA's hallmarks is passionate members who believe they can bring about major changes in an entrenched status quo.

Kaneko: Would you say these passionate individuals joined the FDUA because they were frustrated by difficulties they had been grappling with alone on their jobs?

**Okada:** Yes. Al was not as popular as it is now when the FDUA was formed two years ago. Al was the subject of considerable disillusionment for much of the four years since the community that preceded the FDUA was founded. Although this period witnessed a third Al boom driven by deep learning, the consensus among financial institutions was that Al did not live up to its promise in terms of applicability and did not pay off business-wise. At some financial institutions, I think Al practitioners were made to feel a little bit like outcasts.

Meanwhile, the FDUA was attracting individuals who were confident an era of AI and data would eventually arrive and believed they could change finance. Today, the generative AI era is finally here.

### Financial institutions' reaction to generative AI boom

Kaneko: I agree that financial institutions' disillusionment with AI has given way to a huge generative AI boom. How do financial institutions perceive the current boom?

**Okada:** I strongly feel their senior management is taking the current generative AI boom more seriously than other recent technology movements like FinTech and digital transformation. I



have often heard that such initiatives were derailed within financial institutions by opposition from risk managers. This time, though, I feel financial institutions are entirely on board with generative AI, with even risk managers suggesting solutions to obstacles to AI adoption.

The current generative AI boom may have gotten ahead of itself to some extent but I doubt it will be followed by another disillusionment phase, at least not for a while. I think generative AI is widely seen as a relatively utilitarian technology.

Kaneko: You mentioned that risk managers are favorably disposed toward generative AI, but I think it's hard to identify which risks of using generative AI warrant the most attention. There are obviously risks related to legal/regulatory compliance and security, but many financial institutions seem more concerned about the reputational risk of offensive or politically incorrect output from generative AI models. What kinds of risk do you think are of particular concern?



**Okada:** Generally speaking, not embracing generative Al may be the biggest risk of all.

Kaneko: That would be an executive decision risk, not a risk overseen by the risk management department.

**Okada:** That's right. In the past, however, I don't think risk managers would regard not adopting generative AI as a risk. I see risk in customer-facing generative AI apps. Internally, there are certain business processes where AI errors would

be tolerable to some extent. When customers are involved, financial institutions cannot tolerate wrong answers to questions or faulty investment advice. How to avoid such errors is a crucial issue in my opinion.

Kaneko: I think financial institutions would like to deploy generative AI to answer customers' questions or provide advice to customers. But if they program their AI apps to generate only "safe" output from a compliance standpoint, the apps would be of little use to customers. This dilemma cannot be solved by financial institutions and IT vendors alone. I personally believe financial institutions should take steps to increase customers' AI literacy.

**Okada:** I agree. Even if financial institutions have their customers sign an Al risk disclaimer, they would still not have customers' fully informed consent, so reputational risk would persist. If customers were to gain a widespread understanding of Al's shortcomings, I believe financial institutions' Al-related reputational risk would decrease and their Al utilization would increase. Promoting such a public understanding may be a future role for the FDUA.

## How to effectively use FDUA's handbook

Kaneko: The FDUA published a practical handbook on generative AI for the financial services industry in May and it plans to release generative AI guidelines for the same audience this summer. In the interest of full disclosure, I contributed to the handbook as a co-author. Could you share the backstory behind these publications?

**Okada:** Currently, financial institutions are individually performing due diligence on generative AI by researching laws and regulations, assessing risks and drafting rules. From an industry-wide perspective, much of this work is duplicative. Financial institutions are reluctant to consult with each other about generative AI, though they would like to.

As a forum where financial institutions' personnel can collaborate in an individual capacity, the FDUA decided to draft guidelines to address common challenges facing every financial institution. Once we started working on the guidelines, we realized they needed to be presented in the context of common use cases with major business impacts because both risks and applicable laws and regulations differ among use cases. We concluded that the industry would be better served if we created a handbook covering Al use cases before drafting guidelines. That's why we published the handbook first.

Kaneko: With financial institutions now presumably using a trial-and-error approach to figure out how to utilize generative AI, your handbook should help them identify the risks specific to their intended use cases.

**Okada:** Last year, the FDUA published a book on machine learning that contained recipes for success in financial AI. We



heard from many practitioners at financial institutions who said the book gave them a better understanding of use cases, which in turn made their jobs easier. I think such feedback was another reason we wanted to first focus on use cases in the generative AI space as well. **Kaneko:** I feel your decision to first publish a handbook revolving around use cases typifies the FDUA's commitment to facilitating generative AI utilization.



**Okada:** Yes, the FDUA is made up of practitioners in the true sense. I think the handbook is full of hands-on expertise. Most FDUA members, yourself included, are basically passionate doers who have arranged with their employers to participate in an individual capacity. We met to work on the handbook mainly on weekday evenings and weekends.

Kaneko: How has the handbook been received so far?

**Okada:** Very well. It has elicited a much bigger response than any of our previous projects, with 500 copies downloaded from our website in the first week alone. We've been getting downloads and inquiries from not only financial institutions but also government agencies, IT vendors, tech startups and individuals.

Kaneko: How would you recommend the handbook be used?

**Okada:** We hope AI practitioners working for financial institutions will keep it at their fingertips. I believe they would be more productive if they refer to the handbook and follow its pointers when working on generative AI projects.

#### NOTE

 The matrix is Figure 1.2-1 on page 11 of the handbook (downloadable in Japanese from https://www.fdua.org). Personally, my favorite feature of the handbook is a quick-reference matrix that shows relationships between use cases and risks<sup>1</sup>. The matrix rates eight specific examples of generative AI use cases in terms of their susceptibility to five risks (privacy/confidentiality breaches, hallucination, malicious acts (e.g., prompt injection attacks), third-party risk and copyright infringement), with the degree of risk expressed as a number of stars.

When AI practitioners at financial institutions are tasked with formulating generative AI use cases by senior management, they're often unsure of where to begin. Meanwhile, financial institutions' risk managers still lack clarity on generative AI's risks. As a first step toward adopting generative AI, I hope financial institutions use our matrix to identify and quantify the risks associated with leading use cases, thereby facilitating intra-organizational communication. And when a financial institution decides to pursue a given use case, it can learn more about

the use case's risks by referring to the handbook's discussion of that use case.

Kaneko: If practitioners encounter any difficulties after reading your handbook and embarking on an AI project, they can attend FDUA meet-ups to get advice.

**Okada:** Absolutely! Our meet-ups are attended by experts like you and by fellow practitioners dealing with similar issues at their own financial institutions. We invite anyone to come discuss their project in more detail than contained in the handbook. Practitioners can gain the most benefit by not only reading the handbook but getting involved in FDUA activities also.

## Future plans for handbook

Kaneko: How do you envision the handbook evolving from here?

**Okada:** The handbook we published is not the definitive version. We have to continue refining its content on use cases and risks on an ongoing basis. We're just getting started.



Kaneko: I like your attitude. The handbook project was launched in

December 2023 and we started writing in early 2024. It seems to me that generative AI use cases have already changed quite a bit as of mid-2024. I feel the handbook should be updated to make it even more practical.

**Okada:** One of my ideas for the handbook is to publish it in hardcopy and distribute it to financial institutions. Hardcopy versions are handier to reference. A hardcopy handbook would serve as a reliable source of explicit knowledge for financial institutions' AI practitioners. I would like to also broadly distribute free copies of the handbook to government agencies, universities and other public-interest organizations.

Our handbook notably may be the world's first generative AI handbook specific to a single industry. I would love to see practitioners in non-financial sectors like retailing and manufacturing follow suit with similar initiatives. Kaneko: Lastly, what role does the FDUA hope NRI will play?

**Okada:** I don't think we could have completed our handbook without your leadership. Going forward, I hope NRI continues to generously contribute its expertise to the FDUA's activities and share its know-how in leading-edge technologies and consulting.

Kaneko: Thank you for your kind words and today's enlightening conversation.

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Inquiries to : Financial Market & Digital Business Research Department Nomura Research Institute, Ltd. Otemachi Financial City Grand Cube, 1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan

E-mail : kyara@nri.co.jp

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