ARTIFICIAL INTELLIGENCE IN FINANCE: OPPORTUNITIES, CHALLENGES AND MANAGEMENT POLICIES

PhD. Pham Quang Huy*

Abstract: ***This article explores AI's growing role in finance, enhancing efficiency, investment decisions, and customer service. Despite clear benefits, challenges remain data security, talent shortages, and outdated regulations. The author calls for flexible policies, regulatory sandboxes, data protection, and workforce training. Collaboration between financial institutions and research bodies is essential for sustainable AI adoption and digital transformation in the financial sector.***

• Keywords: *artificial intelligence, finance, data security, management policies, sustainable development.*

Date of receipt: 30th Jan., 2026
Date of receipt revision: 20th Mar., 2026
Date of delivery revision: 12th Mar., 2026
Date of approval: 29th Mar., 2026
DOI: https://doi.org/10.71374/jfar.v26.i2.32

1. Introduction

In the context of the Fourth Industrial Revolution, the rapid and widespread development of digital technologies, particularly AI, has created significant changes across various sectors, with the financial industry being one of the most heavily impacted. AI is not just a supporting tool but a core factor in the digital revolution in providing financial services, ranging from automating processes, analyzing big data, to optimizing financial products and delivering personalized services. AI is helping banks, insurance companies, financial institutions, and fintech firms improve operational efficiency, reduce costs and increase transparency while promoting access to financial services for potential customer groups, especially those who are difficult to reach through traditional financial services. The application of AI in finance is not just about automating old processes but also creating new, more flexible, and accessible financial service models, meeting the growing consumer demand for convenience, speed and personalization.

However, while AI presents many opportunities for the financial industry, the implementation of this technology is not automatic and comes with its own set of challenges. AI in finance requires a stable operating environment with appropriate policies and regulations to ensure that the application of technology does not lead to data security risks, customer privacy issues, or legal complications arising from the use of new technologies. Specifically, the rapid development of AI applications in finance is ahead of existing regulations and legal frameworks, leading to a lack of consistency in controlling and managing the technology. The absence of a flexible regulatory framework and the ability to make timely adjustments creates legal gaps that financial institutions could exploit, posing risks to both consumers and the financial market in general. Additionally, the shortage of specialized AI talent, along with data security concerns, may hinder the safe and effective implementation of AI.

Therefore, researching and evaluating the opportunities, challenges, and management policies for AI in the financial industry is crucial. Appropriate policies and management strategies not only help ensure the sustainable development of AI in finance but also help financial institutions optimize the potential of technology while protecting consumer rights and preventing potential risks. Creating a flexible legal environment that encourages innovation while simultaneously protecting consumers and minimizing risks will be key to driving AI's robust growth in the financial sector, thereby improving the efficiency of the national financial system and promoting the development of the digital economy.

2. Opportunities from ai applications in finance

AI presents a wide range of significant opportunities for the financial sector, helping financial organizations optimize operational efficiency and improve customer experience. AI can enhance traditional business processes, reduce costs, streamline workflows, and deliver financial services with higher accuracy and speed compared to traditional methods. One of the most prominent applications of AI in finance is automating the credit approval process. Machine learning algorithms can quickly and accurately analyze customer data, making credit decisions based on factors such as credit history, income, spending habits, and other elements that are difficult for humans to assess in a short time. A study by McKinsey (2020) shows that applying AI in the credit approval process can reduce processing time

*** University of Finance - Marketing; email: pqhuy@ufm.edu.vn***

by up to 60% and minimize human error. This not only helps save operational costs but also provides a fast and easily accessible service to customers, particularly those with unclear credit histories, thereby promoting financial inclusion.

In addition to automating the credit approval process, AI also helps financial organizations make more accurate and efficient investment decisions. Predictive models using deep learning algorithms can analyze vast amounts of financial and non-financial data, uncovering trends and predicting future market movements. A study by PwC (2020) shows that financial organizations applying AI can improve profit predictions and reduce investment risks by up to 30% compared to traditional investment methods. This means that AI helps minimize financial risks and maximize profits while creating a safer and more sustainable investment environment.

One of the standout strengths of AI in the financial sector is its ability to analyze and process Big Data vast amounts of unstructured data that traditional technologies cannot process in real time. By analyzing customer behavior from data such as transaction history, personal information, data from mobile devices, social networks, and other external data sources, AI can uncover hidden patterns in customer behavior. Machine learning models use this data to make more accurate financial decisions and personalize financial products, thereby optimizing the services and products offered to customers. In fact, large banks such as JPMorgan Chase and Bank of America have applied AI to analyze customer data and offer appropriate financial solutions while optimizing investment strategies.

Furthermore, AI helps financial organizations improve customer service through technologies like AI chatbots and virtual assistants. Banks and insurance companies are using these systems to provide 24/7 customer service, answering general inquiries and assisting with more complex financial issues. AI chatbots can handle thousands of customer inquiries daily without human intervention, reducing costs and improving customer satisfaction. According to a report by Juniper Research (2020), using AI in customer service helps save up to 30% in costs and increases customer care efficiency by 40%, while maintaining high service quality. This not only helps financial organizations reduce costs but also enhances the user experience, offering convenience and saving time for customers, especially as the demand for financial services grows and workloads increase.

3. Challenges in implementing AI

Although AI brings many opportunities and significant benefits to the financial industry, the implementation and application of AI also face numerous challenges that directly affect the effectiveness and sustainability of AI-powered financial solutions. One of the biggest challenges is data security and privacy. The financial sector regularly handles sensitive data related to customers' personal finances, including account information, transaction history, and other important details. Therefore, protecting this data from cyber-attacks and misuse is extremely important. A study by IBM (2020) shows that cyberattacks in the financial sector have increased by 25% in recent years, and financial losses due to data breaches can amount to billions of dollars annually. Financial organizations must ensure they comply with data security regulations and customer privacy laws, such as the EU General Data Protection Regulation (GDPR) and other security standards, to prevent data leaks, loss of trust, and significant financial damages.

Additionally, the shortage of skilled personnel in AI within the financial sector is another major challenge. While AI is being widely applied in areas such as risk management, investment optimization, and customer service, many financial organizations, particularly small and medium-sized enterprises (SMEs), still lack teams of experts capable of implementing and operating complex AI solutions. According to a survey by PwC (2021), 75% of financial organizations report that the shortage of AI expertise is one of the key barriers to adopting this technology in their operations. This creates a large gap between larger organizations and smaller ones in AI adoption, making it difficult for smaller businesses to keep up with trends and fully leverage AI's potential. To address this issue, financial organizations need to invest in workforce training, develop collaborative programs with universities and research institutions to provide experts with the necessary skills to implement advanced AI solutions.

Another critical challenge is the lack of coherence in the legal framework. While some countries have begun to develop legal frameworks for AI implementation in finance, regulations in many areas have not kept up with the rapid pace of technological development. This makes it difficult for financial organizations to deploy new AI solutions and creates dangerous legal gaps that could lead to unforeseen risks. According to a report by the Organization for Economic Cooperation and Development (OECD, (2021)), over 40% of countries lack clear regulations on AI in the financial sector, making it challenging to control AI activities and potentially creating legal risks. Consequently, financial organizations face a lack of clear legal responsibility in AI-related activities, which may lead to legal disputes or consumer protection issues.

Finally, financial organizations also face difficulties in integrating AI into existing systems. Incorporating traditional systems with new AI technologies requires substantial investments in technology, time, and

resources. Many financial organizations, especially those lacking modern technology infrastructure, struggle with compatibility between AI and legacy systems, creating obstacles to implementing AI in current business processes.

4. Management policies to promote AI in finance

To ensure the sustainable development of AI in the financial sector, it is essential to establish a flexible, transparent, and appropriate policy framework. The government and regulatory bodies must coordinate to develop policies that encourage innovation while ensuring safety, protecting consumer rights, and maintaining stability in the financial system. These policies not only help drive AI adoption but also create a sustainable development environment while mitigating the potential risks that AI may pose.

One important policy is the establishment of controlled testing mechanisms, also known as sandboxes. Sandboxes allow businesses to test new AI models in a controlled environment, helping to minimize unforeseen risks and protect consumers from negative impacts during the testing process. According to the Bank of England's report (2020), sandbox mechanisms have fostered innovation in the financial sector, particularly in financial technology (Fintech) applications such as peer-to-peer lending (P2P lending), Insurtech, and digital banking. Regulators can use sandboxes to monitor new AI products, thereby gaining a deeper understanding of how these technologies function while improving regulatory policies. This not only helps minimize legal risks but also allows for the creation of regulations that keep pace with the rapid development of technology.

In addition to the sandbox mechanism, establishing a strict regulatory system for data security and privacy in the implementation of AI is crucial. Financial institutions applying AI must comply with data security regulations and customer privacy laws. A report by PwC (2021) indicates that over 50% of financial companies consider data security issues to be one of the biggest barriers to applying AI in their operations. Therefore, regulators must provide clear guidelines on the collection, processing, and protection of customers' financial data. Security policies must align with international standards, such as the EU's General Data Protection Regulation (GDPR) or ISO/IEC 27001 for information security, to protect consumers in an increasingly complex and evolving digital world.

An indispensable factor in promoting AI in finance is the training and development of AI expertise within the financial sector. The government and financial organizations need to collaborate to create specialized AI training programs for staff, helping them enhance their skills, understand AI applications, and foster creativity in implementing AI solutions. According to a McKinsey & Company survey (2020), more than 70% of financial companies believe that the shortage of AI-skilled personnel is a key factor hindering the adoption of this technology in their operations. Therefore, creating training programs and skill development opportunities for employees in the financial sector will enhance AI application capabilities and creativity, contributing to the sustainable growth of the financial industry.

In addition to workforce training, promoting partnerships between universities, research institutes, and businesses should also be encouraged. Universities and research institutes can provide research and development foundations, while businesses can contribute by providing real data and testing opportunities. Such a collaborative model will enhance research capacity, while also generating innovative AI products and effectively applying them in the financial sector.

Conclusion

AI is becoming a crucial factor in the financial industry, offering significant opportunities but also facing numerous challenges. AI can enhance financial performance, from automating credit approval processes, optimizing investment decisions, to improving customer experience. However, the implementation of AI in finance is not a straightforward process and comes with various issues that need to be addressed, particularly concerning data security, a shortage of skilled labor, and a lack of consistency in the legal framework.

For AI to develop sustainably in the financial industry, there is a need for flexible, transparent, and appropriate management policies that encourage innovation while protecting consumer rights and ensuring system security. A controlled testing mechanism (sandbox) and data security regulations must be implemented to minimize risks and create a safe development environment for AI. In particular, human resource training and cooperation between financial institutions, universities, and research institutes are crucial to help the financial industry overcome current challenges and maximize AI's potential.

With appropriate policies, AI can become a key driver in modernizing the financial sector, enhancing the competitiveness of the national financial system, and contributing to the development of the digital economy. However, to achieve this, establishing and implementing a consistent and feasible legal framework is a prerequisite to create a favorable environment for the future development of AI in the financial industry.

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