



# Ethical AI at the service of development

Artificial intelligence (AI), applied with ethical and transparent governance, is not only a powerful tool for financial inclusion, but a strategic necessity to remain competitive and relevant in a constantly evolving financial environment. This is how bold Elías Bethencourt, Latam Sales Director of AIS Group, the consulting firm specializing in credit risk management of the PFS business group, was at the 54th meeting of the ALIDE General Assembly.

In his speech, Bethencourt addressed crucial aspects for implementing artificial intelligence in Latin American development banking, sharing lessons learned and project experiences with financial institutions in the region, especially in terms of financial inclusion and support for productive credit.

«Artificial intelligence is generating the most relevant transformation in our history. However, in order to put it at the service of Latin America's development, we must ensure ethical governance with human beings at the center of decisions, » says Bethencourt.

## WHY ARE ETHICS SO IMPORTANT IN AI?

It is true that generative AI has democratized access to artificial intelligence, says the director of AIS. ChatGPT, Gemini, Copilot and Midjourney have made AI available to users on a massive scale. But AI is not reduced to generative AI. Current generative AI is framed within what is called ANI (Artificial Narrow Intelligence), i.e., Narrow AI, where machines focus on specific tasks and have limited skills. Behind this type of AI are two more, which will materialize as the technology evolves.

First, there will be General AI (GAI), an AI with the ability to learn and understand anything, just like a Homo sapiens, as well as to adapt to the environment. Then, there would be Superintelligent AI (SAI), an intelligence more advanced than the human mind itself.

Currently, although there is a global race to develop General AI, we are applying Narrow AI techniques, thereby becoming more efficient, more agile and more productive.

These algorithms, though primitive compared to what is to come, are revolutionizing the world by performing tasks that were once considered intrinsically human. And therein arise the ethical dilemmas and the dangers, if not managed correctly, such as unfair discrimination, lack of transparency, and applications that affect fundamental rights.

#### AI AND REGULATION

As a response to these challenges, there have been different guidelines and recommendations from international organizations, such as the «Recommendation on the Ethics of Artificial Intelligence» of UNESCO, adopted by 193 countries, and the «Ethical Guidelines for a Reliable AI» of the European Commission's High Level Expert Group on Artificial Intelligence. These documents have served as the basis for the new European norm AI ACT, the first legislation regulating artificial intelligence.

This pioneering law in the world, which was approved in 2024, seeks to protect the fundamental rights of citizens and does not classify algorithms by their technology, but by the risk associated with their use. It evaluates AI systems based on their potential impact on health, safety and fundamental rights. High-risk AI systems (among which are credit rating models of financial institutions) must undergo a continuous risk management process, which includes the identification of known and foreseeable hazards, the assessment



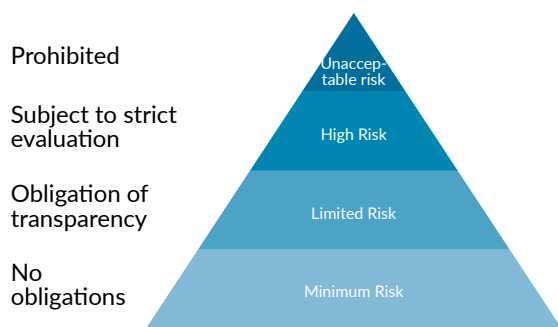
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of residual risks, and the implementation of adequate mitigation measures.

Within the framework of the European Union - Latin America and the Caribbean Digital Alliance, many countries in the region have signed an agreement on AI regulatory convergence, «hence, financial institutions must prepare to adopt measures aligned with these European norms» said the AIS executive.

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AI systems. This translates into working with databases to mitigate biases, selecting algorithms that allow for transparency in decisions, using construction techniques that avoid overadjustment, implementing validation methods to ensure the robustness of the models in all population groups, monitoring periodically with human surveillance and having a process of accountability and assignment of responsibilities, among other relevant aspects for their implementation in risk management.

### AI AND DEVELOPMENT BANKING

Bethencourt underscores the fact that an ethical and transparent governance of AI can bring enormous benefits to financial institutions.

With more than 70 machine-learning models implemented in risk management in Argentina, Chile, Colombia, Mexico, Peru, Paraguay, Dominican Republic and Uruguay, AIS has demonstrated improvements of at least 25% in classification power, not only because they allow working with more information (moving from 10 or 15 variables in logistic regressions to tens or hundreds in advanced models), but also because they find implicit relationships among the data.

Improving the classification power of a risk model has a direct impact on reaching more customers with a better portfolio quality and optimization of resources, as demonstrated by actual cases in banks in the region.

«We are talking about reaching 20% more micro-entrepreneurs, while maintaining arrears levels in Colombia, multiplying productivity by 3 and reducing SME credit delivery times by 9 in Peru, and evaluating unbanked individuals with the same quality [with which] we used to evaluate those with credit history in Chile...».

The expert concludes with three key pillars to achieve the expected impacts: the use of alternative sources of information, the implementation of advanced models and staff training / cultural change management.

AI has enormous potential in Latin America for the mission of development banks. «In a region where fewer than 4 out of 10 people and MSMEs obtain financing in the formal system, AI can be the key to improving the lives of millions of people and providing better opportunities for thousands of enterprises. The time to apply it is today.»

