Summary of the

European Union's

Artificial Intelligence Act

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orchard finance

What's the European Union's AI Act?

The EU AI Act is the European Union's **comprehensive regulatory framework** aimed at ensuring the **safe and ethical use of artificial intelligence.**

Its **key objectives** are the following:

- Ensure AI systems **align with EU values** like democracy, rule of law, and fundamental rights
- Prevent **market fragmentation** by applying uniform rules across Member States
- Promote innovation **while protecting individuals** from high-risk AI applications

The Act is based on a risk-based approach

The Act categorizes AI systems based on risk.

★★★★ **Unacceptable Risk**: applications of AI that are fully prohibited

★★★☆ **High Risk**: AI systems used in critical sectors which require stringent compliance

★★☆☆ **Limited Risk**: systems with specific transparency obligations, like chatbots

★☆☆☆ **Minimal Risk**: the majority of AI applications, minimal regulatory requirements

It enlists a number of High-Risk AI requirements

An AI is considered **high-risk** if it is either the **primary tool** or a **significant component** of the following:

01 Use in **employment** contexts, such as hiring or promotions

02 **Medical** devices

03 Use in **education** or vocational training

04 Use in the **judicial or democratic** process

05 Determination of access to **essential private and public services**

06 **Critical infrastructure** management

07 **Biometric identification** systems

The EU AI Act is applicable to both

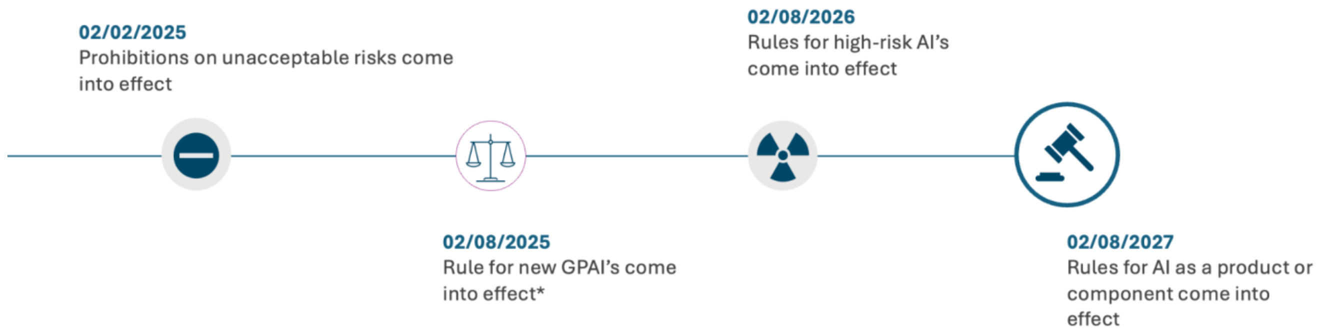
Providers
People/organizations that develop AI systems of General-purpose AI (GPAI)

Deployers
People/organizations that use AI systems

The **European Artificial Intelligence Board** will be in charge of coordinating **enforcement and provide guidance**. Providers and deployers of AI systems are required to ensure that their staff engaged with and using AI systems are adequately AI literate.

What about the timeline?

The EU AI Act will be rolled out over the course of **3 years** as illustrated below:



** Providers of GPAI's that were on the market before 02/08/2025 have until 02/08/2027*

What does this mean for the financial world?

The EU AI Act makes **two specific references to the financial world** in the prohibition of AI in **credit scoring** models and **risk assessment** tools in the insurance sector. Nevertheless, one can infer several consequences for financial institutions:

- ✓ **The encouragement of responsible use of AI**: the EU AI Act mainly focuses on prohibition and regulation of highly risky AI systems, encouraging less riskful forms of AI systems.
- ✓ **Potential slow adoption of AI compared to competitors**: the large amount of regulations around the use of AI may significantly slow down the adoption of AI, particularly for smaller firms for whom the cost of compliance may be prohibitive.
- ✓ **Compliance costs**: banks, insurers, and investment firms will need to implement AI governance frameworks, conduct risk assessments, and ensure AI explainability. These costs are likely to be passed on to the customers of these financial institutions.

Sources:
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