

RBI'S FREE-AI COMMITTEE REPORT – ECONOMY

The Reserve Bank of India (RBI) has released the Framework for Responsible and Ethical Enablement of Artificial Intelligence (FREE-AI) Committee Report. It calls for 7 guiding sutras to promote responsible AI use in the financial sector while balancing innovation and risk mitigation.

RBI's 7 Sutras for AI Adoption under FREE-AI

Trust as the Foundation

Trust must be non-negotiable. AI systems in finance should be reliable, transparent, and inspire confidence among citizens, regulators, and institutions, ensuring that financial stability and consumer safety are never compromised.

People First

AI should complement human decision-making, not replace it. Human judgment, citizen welfare, dignity, and inclusion must remain central, ensuring that AI does not marginalize or harm vulnerable groups.

Innovation over Restraint

Regulators should encourage responsible innovation rather than imposing excessive restrictions. A balanced approach helps financial institutions adopt AI quickly while safeguarding systemic stability.

Fairness and Equity

AI systems must deliver fair and unbiased outcomes. Discrimination based on gender, caste, region, or socio-economic background in credit assessments, insurance, or financial services should be avoided.

7 Sutras

A set of foundational tenets that will serve as the guiding principles for the development, deployment, and governance of AI in the financial sector.

TRUST IS THE FOUNDATION
Trust is non-negotiable and should remain uncompromised



PEOPLE FIRST
AI should augment human decision-making but defer to human judgment and citizen interest

INNOVATION OVER RESTRAINT
Foster responsible innovation with purpose



FAIRNESS AND EQUITY
AI outcomes should be fair and non-discriminatory

ACCOUNTABILITY
Accountability rests with the entities deploying AI



UNDERSTANDABLE BY DESIGN
Ensure explainability for trust

SAFETY, RESILIENCE, AND SUSTAINABILITY
AI systems should be secure, resilient and energy efficient



Accountability

Responsibility for AI-driven decisions lies with the entities deploying AI, not with the technology itself. Clear accountability structures must exist to address errors, misuse, or adverse consequences of AI decisions.

Understandable by Design

AI models should be explainable and interpretable. Users, regulators, and auditors should be able to understand why and how decisions are made, reducing the "black-box" problem.

Safety, Resilience, and Sustainability

AI must be designed for long-term resilience, cybersecurity, and adaptability. Systems should be capable of withstanding shocks, evolving threats, and ensuring sustainable usage.

Significance of AI in Finance

Revenue Growth Potential

AI-driven financial services are expected to generate significant economic returns, with investments projected to reach ₹8 lakh crore by 2027, creating new opportunities for innovation and competitiveness.

Operational Efficiency & Personalization

AI reduces manual workloads by automating repetitive tasks such as loan processing, KYC checks, fraud detection, and customer service, enabling faster and more tailored financial services.

Financial Inclusion

By leveraging alternative data sources like utility bills, mobile usage, or GST filings, AI can assess creditworthiness of "thin-file" customers (those with little or no credit history), expanding access to credit and financial services.

Innovation in Digital Infrastructure

AI enhances India's digital public infrastructure, such as Aadhaar, UPI, and DigiLocker, enabling personalized, adaptive, and real-time services that reach underserved populations.

Risk Management & Fraud Detection

AI improves early warning systems for financial risks, detecting unusual patterns, preventing fraud, and optimizing compliance processes. For example, J.P. Morgan's AI-driven payment validation reduced fraud and lowered account rejection rates by 15–20%.

Synergies with Emerging Technologies

Integration of AI with quantum computing, blockchain, and privacy-preserving technologies can boost efficiency, strengthen data security, and unlock new financial products.

Challenges of AI in Finance

Model Bias & Risk

AI models often reflect biases present in training data, which can result in unfair credit decisions or discriminatory financial practices. Lack of explainability makes auditing difficult.

Third-Party Risks

Heavy reliance on external AI vendors or cloud service providers exposes financial institutions to vendor lock-in, service breakdowns, software glitches, and potential cyber breaches.

Regulatory & Liability Concerns

Ambiguities around who is responsible for AI-driven errors (banks, vendors, or regulators) complicate accountability, especially when consumers suffer from biased or incorrect outcomes.

Cybersecurity Threats

AI can strengthen security but also creates new risks like adversarial attacks, data poisoning, identity theft through deepfakes, and systemic vulnerabilities in financial networks.

Ethical & Consumer Protection Issues

AI-driven decisions, if opaque, may violate consumer rights, breach privacy, or exclude disadvantaged groups, undermining trust in the financial system.

Risk of Non-Adoption

Financial institutions that delay AI adoption risk falling behind global peers, losing efficiency, weakening competitiveness, and being more vulnerable to AI-powered cyber threats.

India's Policy Developments on AI in Finance

RBI's MuleHunter AI

Developed by RBI Innovation Hub, this system enables banks to identify mule accounts (used for laundering or fraud) quickly, reducing digital payment fraud risks.

RBI Digital Lending Guidelines

Require that AI-driven credit assessments remain auditable, include human oversight, and provide grievance redressal mechanisms to protect borrowers from algorithmic errors.

SEBI's 2025 Consultation Paper

Proposes guidelines for responsible and ethical use of AI in securities markets, ensuring fairness, accountability, and market integrity.

IndiaAI Mission

A national program to strengthen AI research, foster innovation, and improve access to computing infrastructure, supporting broader financial sector adoption.

RBI's Recommendations for AI in Finance

Innovation Enablement

Build robust financial data infrastructure as part of India's digital public infrastructure, integrated with AI Kosh (India's AI knowledge and resource hub).

AI Innovation Sandbox

Create a secure, controlled environment (like GenAI Digital Sandbox) for banks and NBFCs to experiment with AI models using anonymised data. This helps test compliance with AML, KYC, and consumer protection norms.

Consumer Protection & Security

Mandate periodic and trigger-based AI red-teaming exercises (stress-testing AI systems against misuse or bias) and introduce incident reporting frameworks with transparent disclosure.

Capacity Building

Financial institutions (REs – regulated entities) must train staff at all levels in AI governance, ethical deployment, and risk mitigation, ensuring that decision-makers understand AI's strengths and limitations.

Knowledge-Sharing Mechanisms

Establish sector-wide frameworks for exchanging AI use cases, research findings, and best practices to avoid duplication and enhance collective learning.

AI Incident Reporting

Introduce structured mechanisms for reporting AI-related issues (biases, failures, attacks) in real time to regulators, ensuring accountability and swift corrective action.

Conclusion

The FREE-AI framework provides a roadmap for responsible AI adoption in India's financial sector. By balancing trust, innovation, accountability, and fairness, RBI ensures that AI strengthens financial stability, improves inclusion, boosts efficiency, and enhances consumer confidence. If implemented effectively, AI can become a transformative force in India's financial system while safeguarding against risks of misuse, bias, and cyber vulnerabilities.

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