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Navigating the Sovereignty-Innovation Paradox: Effective AI Implementation in Financial Services

Financial Services Roundtable

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At a roundtable hosted by FStech and Red Hat in central London, financial services professionals exchanged ideas, refined approaches and sought solutions to the development of operational resilience strategies as the regulatory compliance landscape continues to evolve.

This special report summarises the main talking points of the event, which covered everything from the adoption of AI technology and managing risk to dealing with new regulations around operational resilience.

Introduction

As financial services organisations accelerate their AI adoption – with 47 per cent already deploying or piloting agentic AI systems – they face a fundamental strategic tension: how to move quickly in an intensely competitive landscape whilst managing increasingly complex sovereignty, compliance, and resilience requirements.

FStech's recent survey of financial services professionals sponsored by Red Hat revealed striking divergences in approach: whilst 41 per cent say data sovereignty is critical to their AI strategy, 30 per cent have decided against adopting enterprise open source solutions entirely.

Nearly a third prioritise storing sensitive workloads in-country, yet organisations cite higher costs, skills gaps, and integration challenges as significant barriers. Meanwhile, 22 per cent admit they don't currently have a formal sovereignty strategy at all – even as they pursue AI innovation.

This discussion examined the practical trade-offs organisations are making: between speed and control, innovation and compliance, cost and resilience.

Implementation issues

The senior leaders started the conversation by sharing their experiences with sovereignty and AI implementation. They discussed what had worked in their organisations and areas where they had struggled.

The head of infrastructure at a Japanese bank said that data collection had been one challenging area as banks use lots of different systems which don't necessarily speak to each other.

"If AI goes wrong, who do you blame?" they said. "We are limited in how we use AI internally, because if it goes wrong, what will we do?"

A legal director working at an international bank said they are using AI to track regulatory changes, and the technology has made it much easier to identify these changes and work out how regulation should be implemented in other jurisdictions.

The chief risk director at a Dutch bank said they are moving away from using publicly available tools, such as ChatGPT and Copilot, and toward internal versions. The bank is also introducing an AI framework to give AI implementation a structure.

"We are moving towards monitoring the desirable usage of the tools we have on offer," they explained. "We are also looking at some of the risks that AI might pose – we need to work out where the touch points are for emerging and enterprise risks."

The principal cloud architect at a German bank said that it is often hard to implement an AI tool, as once the C-suite has taken the time to thoroughly scrutinise and approve it, another tool has entered the market.

Commenting on the discussion, Chris Jenkins, chief architect at Red Hat, said that he had counted 11 examples of sovereignty raised by attendees. These included hallucinations, issues around data, governance controls and monitoring, which indicates how important the issue of sovereignty is to financial institutions.

Skills gap

The discussion then turned to how organisations were addressing the skills gap, including the shortage of existing talent, difficulties in attracting workers with the right skills and issues around upskilling existing employees.

The cloud architect at a German bank pointed out that some frameworks change every six months, which makes skills development even more challenging.

"Banks imagine that they can go hire these skills from the market, but the reality is that these skills are so new," they said. "If I go to Accenture, they are going to give me someone who has spent two weeks on a training course.

"I might as well put my own person on the training course and then I don't have to pay a premium for it!"

Another senior leader said that the technology is moving very fast and employees with these skills need to be encouraged to use them. They explained that they have built an agent to support aspects of their team's architecture work and the agent is helping the team develop problem-solving skills.

A risk director at a European bank said that a top-down approach is needed. Their

organisation has mandated training in programmes like ChatGPT for most employees. While it is expensive, they pointed out that it has made people use the tools effectively.

"I've also encouraged people to share best practice prompts around risk management," they added. "It's been really helpful – we all have similar data sets and inputs, so knowing what kind of approaches we use for processes is very useful."

Richard Harmon, vice president, FSI industry at Red Hat, found it interesting that so many of the attendees were focused on prompt engineering.

"I find it very exciting, because people in regulatory or compliance roles don't naturally experiment in contrast to engineers," he said. "Adopting a more agile mindset helps everyone to do their work in an open-minded way.

"Using these tools helps you without you realising that it is changing the way you think about problems."

Open source

The discussion moved on to looking at the adoption of open source technology.

The head of sanctions at a French bank said that they are using Microsoft Copilot as it is enterprise-ready, meaning that Microsoft has designed it for what enterprises need.

"If we feed our information into it, it is not going to use our information in its model," they said. "My boss wasn't comfortable with other models."

Another senior leader pointed out that when conducting operations in China, their organisation is not allowed to use Google products, which forces it to use open source tools. They added that some more cost-conscious organisations may use open source, but it is generally easier for conservative firms to use a typical cloud platform due to the added reassurance it will not leak data.

Chris Jenkins highlighted that there is a difference between open source models and open source infrastructure.

"No one owns open source models from a geopolitical point of view, there is no kill switch and it can't be turned off," Jenkins explained. "If something happens from a geopolitical point of view – it's your own model running on it and you own the software."

The principal cloud architect at a German bank pointed out that any new tools would need significant testing to ensure they interacted well with existing tools at their organisation. They added that there are some use cases where open source might offer an advantage.

"There is definitely a space for small language models even in the enterprise settings," they said. "We'll soon reach a tipping point where they seem effective in the cost-benefit analysis."

Constantly learning

Next, the attendees looked at what the future might hold for their organisations in terms of regulatory requirements, developments in technology and what their priorities are in the next 18 months.

Richard Harmon said that people are starting to look at diffusion models, which are able to create high-quality images and video files.

"Eighteen months from now, you could be using very different types of algorithms and the model will remember what you told it five prompts ago," he said. "The tools are going to keep changing and shifting; we will need to constantly learn new things."

He added that while AI has created the most rapid learning experiences in 20 years, there is a danger that people will rely on these tools and not understand concepts for themselves.

One senior leader agreed with him, adding that previously developers learned how to solve problems with code, but now LLMs have "taken the fun out of it" and can now do this in a couple of seconds.

Richard Harmon predicted that different

people will use different tools for different jobs. He said people need to experiment with different tools as they are released onto the market and see if they fit the required outcomes.

The chief risk officer at a French bank compared emerging AI tools to driving a car.

"If you want to drive fast, you need to have good brakes," they said. "Your testing needs to be commensurate with what you want to achieve – I wouldn't drive a Formula 1 car because it is too dangerous for me.

"I wouldn't roll out generative AI without fully testing it because I could lose money, so it's about taking a safe approach and ensuring there is a layer of security."

The head of infrastructure at an international bank shared that their employer does not always allow enough time for testing products over the course of a normal workday.

"At the moment, it is something we still do on the side," they said. "I would love my board members to embrace the whole notion of experimentation and look at the wider business case."

The head of third-party risk management at an insurance company made the point that not every decision maker in an organisation is knowledgeable about the technology and may not see the wider arguments for its implementation.

Another leader predicted that more innovative models will likely come from startups, as they can attract the necessary funding and aren't constrained by regulations.

Conclusion

Throughout the discussion, there were several key challenges highlighted by delegates about the implementation of AI technology and its use in daily operations. While many organisations are aware of the benefits of using agentic AI systems, many are unable to do so due to a lack of skills, concerns over compliance issues or lack of c-suite buy-in.

Financial services providers are anxious to meet the necessary regulatory requirements, which can vary in different regions, and recent disruptions to hyperscale cloud providers have elevated sovereignty from a regulatory concern to an operational imperative, yet the path forward remains far from clear.

It is encouraging that firms are experimenting with new technology and carefully assessing use cases before full implementation. It is also encouraging to see departments share best practices and collaborate on issues such as data and prompts.

Concluding the discussion, Chris Jenkins said that when implementing AI tools, firms need a business plan to ensure they are not spending millions on something that may go wrong.

"You need to think about what it can bring to your business, brand and customers," he said. "You need a depth and breadth of knowledge that provides relevant information.

"Doing AI for AI's sake is just like doing tech for tech's sake," he warned. "It needs to be based on and driven by value – you should be