



Webinar on Artificial Intelligence

It takes three to tango? Geopolitics, AI and regulatory fragmentation in banking

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Executive Summary

Introduction

The current banking environment is shaped by the interaction of three forces that can no longer be examined separately: geopolitical change, the rapid diffusion of artificial intelligence, and increasing divergence in regulatory frameworks across jurisdictions. These forces operate simultaneously and intersect in ways that directly affect how banks assess risk, organise governance, and define strategy. Banking is no longer confined to financial intermediation in a stable institutional setting. It now functions within a system where political decisions, technological developments, and regulatory choices are closely intertwined and mutually reinforcing.

Understanding this interaction requires moving beyond linear analysis. Each of these developments modifies the conditions under which the others operate. Geopolitical tensions reshape financial flows and infrastructure. Artificial intelligence alters decision-making processes and operational models. Regulatory fragmentation introduces uneven constraints and incentives. Their combined effect produces a more complex and less predictable environment, where established assumptions about stability, neutrality, and integration are no longer sufficient.

Geopolitics and the transformation of financial systems

Geopolitical risk has moved from a peripheral concern to a central element of banking analysis. Financial systems are increasingly exposed to political decisions that can alter access to markets, currencies, and infrastructure with immediate effect. Measures such as sanctions, asset freezes, and restrictions on payment systems are no longer exceptional. They have become embedded in the functioning of the global financial system. As a result, banks must continuously assess political developments alongside traditional financial indicators.

The structure of the international financial system reflects underlying power relations. Stability has historically depended on dominant actors capable of supporting open markets and providing liquidity. At the same time, the position of key institutions within global networks creates points of control that can be used strategically. Financial interdependence, once seen primarily as a source of efficiency, now also serves as a channel through which pressure can be applied. This dual character alters how banks evaluate exposure and counterparty risk.



Sanctions regimes illustrate this shift. They require banks to maintain detailed screening processes, track ownership structures, and monitor transactions in real time. Compliance is no longer limited to formal rules. It involves continuous interpretation of political developments and their potential implications. In parallel, trade and financial corridors are becoming more fragmented. Decisions about where and how to operate increasingly depend on geopolitical considerations across entire value chains, including suppliers, partners, and jurisdictions.

Alternative arrangements are also emerging. Bilateral agreements, regional payment systems, and diversification away from established currencies reflect attempts to reduce exposure to geopolitical risk. These developments do not replace existing structures, but they modify them and introduce additional layers of complexity. Ownership structures further reinforce this dynamic. When financial activity involves state-linked actors or sovereign interests, decisions require a broader assessment that extends beyond standard financial metrics.

At the core of these developments lies the question of trust. Banking systems safeguard the savings of households and institutions. This creates a need to ensure the resilience and security of financial infrastructure. Concepts such as nearshoring and friendshoring are therefore not abstract ideas. They influence credit allocation, investment decisions, and risk management practices in a direct and measurable way.

Artificial intelligence and structural change in banking

Artificial intelligence is spreading across all areas of banking activity. It is not confined to a single function or department. It influences customer interaction, risk assessment, compliance, reporting, and trading. As a general-purpose technology, it reshapes processes and requires complementary changes in organisational structures and skills.

Its role can be understood along two dimensions. On one hand, it enhances human decision-making by processing large volumes of data and identifying patterns that would otherwise remain hidden. On the other hand, it replaces certain cognitive tasks, automating processes that were previously performed manually. These two dimensions coexist and define how AI is integrated into banking operations.

In practice, AI is already used in areas such as customer analytics, predictive modelling, advisory interfaces, anti-money laundering, fraud detection, customer support, and regulatory reporting. In financial crime prevention, it allows for more targeted monitoring and a reduction in false alerts. This improves efficiency while maintaining oversight. At the same time, its use in decision-making raises questions that extend beyond technical performance.

Explainability remains a central challenge. Strong predictive models often operate as opaque systems, making it difficult to trace how outcomes are produced. In a regulated sector, this lack of transparency is problematic. Institutions must be able to demonstrate how decisions are made, which variables are used, and whether outcomes comply with regulatory expectations. The tension between performance and interpretability is therefore structural rather than temporary.



The pace of adoption further complicates this situation. AI systems are being implemented more rapidly than governance frameworks are evolving. Internal controls and supervisory approaches are still adapting to this reality. As a result, model risk acquires a broader dimension. When similar models are used across multiple institutions, weaknesses can propagate and amplify systemic risk. At the same time, early adoption can create advantages through scale, data accumulation, and learning effects. Balancing these dynamics requires continuous adjustment rather than fixed solutions.

Regulatory fragmentation and its implications

Regulatory fragmentation has become a defining feature of the financial landscape. Banks operating across borders must comply with multiple frameworks that differ in scope, structure, and timing. This creates overlapping requirements and increases operational complexity. Compliance is no longer a uniform process but a series of parallel adaptations to different regulatory environments.

The costs associated with this fragmentation are substantial. Institutions must develop and maintain separate models, reporting systems, and governance structures to meet local requirements. Validation processes become more demanding, and coordination across jurisdictions becomes more difficult. These burdens affect both large institutions and smaller actors, though their capacity to absorb them differs.

Differences between major jurisdictions illustrate this situation. The European Union has introduced a comprehensive framework through the AI Act, including the classification of certain banking applications as high risk. Other jurisdictions follow different approaches, either through sector-specific rules or through regulatory environments designed to attract innovation and investment. These differences influence where and how financial activity takes place.

Fragmentation also creates strategic choices. Institutions may structure their operations to navigate divergent requirements more effectively. This can provide flexibility but also increases opacity. When multiple actors adopt similar strategies, supervisory oversight becomes more complex. The result is a system in which regulatory diversity generates both constraints and opportunities, depending on institutional position and geographic context.

Conclusion

Geopolitics, artificial intelligence, and regulatory fragmentation converge to form a single analytical framework for understanding contemporary banking. Each element shapes the others. Political decisions influence financial flows and infrastructure. Artificial intelligence depends on data, governance, and regulatory acceptance. Fragmented regulation determines how technologies can be developed, deployed, and supervised across jurisdictions.

Banking operations must therefore be organised in a way that reflects this interdependence. Risk assessment, compliance, and strategic planning can no longer be treated as separate domains. They require coordinated approaches that account for uncertainty, technological change, and institutional variation. This includes the ability to respond to shifts in trade,



investment, and security priorities, particularly in regions where economic and political transformations are ongoing.

Within Europe and Central and Eastern Europe, these developments intersect with broader changes in investment, infrastructure, and industrial capacity. Financial institutions are positioned to support these shifts, provided that governance structures, institutional trust, and operational flexibility are maintained. The interaction of these three forces does not produce a stable equilibrium. It creates a dynamic environment that requires continuous adjustment, informed judgement, and sustained attention to both structural and immediate risks.