HAYNES BOONE

The AI Advantage: Transforming Finance in a Tech-Driven Era[1]

By CJ Donald and Lindsey Hughes

The "AI Advantage" panel at this year's fund finance conference in Miami covered adoption of artificial intelligence ("*AI*"), human oversight, and opportunities for innovation. The panelists encouraged the fund finance community to embrace the potential progress that AI can bring to our industry.

The panel discussed the following topics:

- **Adoption of AI in the financial sector**. The panelists explained that, due to generative AI, it is a uniquely opportune time to apply AI in finance. The gap between companies who use AI well and those who do not is as small as it will ever be. Using AI will increase productivity and expand business capabilities. It may be the wave of the future, so to speak.

- **AI's value creation**. If you invest in AI business tools, there will be value creation in a variety of ways. For example:

  - *Pricing*: AI models can help answer statistics-based questions accurately and quickly. AI models can help suggest pricing strategy over time, not just the optimal price at a given point in time.
  - *Document Processing*: AI will increase the efficiency of deal workflow. Rather than investing in manual review of every contract in a given portfolio, AI can review, analyze, and provide detailed summaries of a large volume of contracts.
  - *Decision-making*: AI tools can help make business decisions based on a risk tolerance profile – whether that be at an individual level or at a company level.

- **Incorporating AI in business flow**. The panelists encouraged attendees to engage with a technology company to learn how AI can be useful in a particular business. These companies can help set an AI strategy, including pain points, use cases, and costs. The market is seeing more and more of these types of companies emerge.

- **Risks to AI**. In order to mitigate risk, AI tools have two key safety features: human oversight and so-called "explainability." These features enhance user safety, but also increase reliability and performance. Through human oversight, technology companies can help set risk tolerance, fine tune the data being input into AI systems, and ensure that the generative AI tools are producing consistent results. "Explainability" is the concept that an AI system and its output can be explained in a way that is reasonably comprehendible by humans. Note that if AI tools did not have explainability, decision making would suffer and the proprietors of the AI tools would ultimately lose in the marketplace. Further,

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[1] Panelists included Ilya Feige, Global Head of Artificial Intelligence and Machine Learning at Cerberus Technology Solutions UK Ltd and Sophia Velastegui, Chief Product Officer at Aptiv. The panel was moderated by Ryan Patel.

without explainability, humans would lose trust in the results and outputs generate by generative AI systems. Ultimately, while there are risks to AI, the bigger risk is refusing to understand the features of AI and not learning how to use AI in business.

- **Private equity firms can use AI for diligence and to increase innovation.** Applied properly, AI tools can ease the burdens of manual due diligence. Firms can proactively use AI to assist with pre-investment auditing, analysis of target companies, and review of target markets. Post-acquisition, generative AI can create value in a firm's portfolio companies by increasing productivity and enhancing innovation in supply chains, pricing strategies, and customer service.`

The panel provided various examples of how AI can help in the fund finance industry – whether from the perspective of a lender, a private equity firm or a legal counsel. As the topic develops and safety features are fine tuned, there are a lot of benefits of employing AI into business and continuing discussions will be helpful for all.