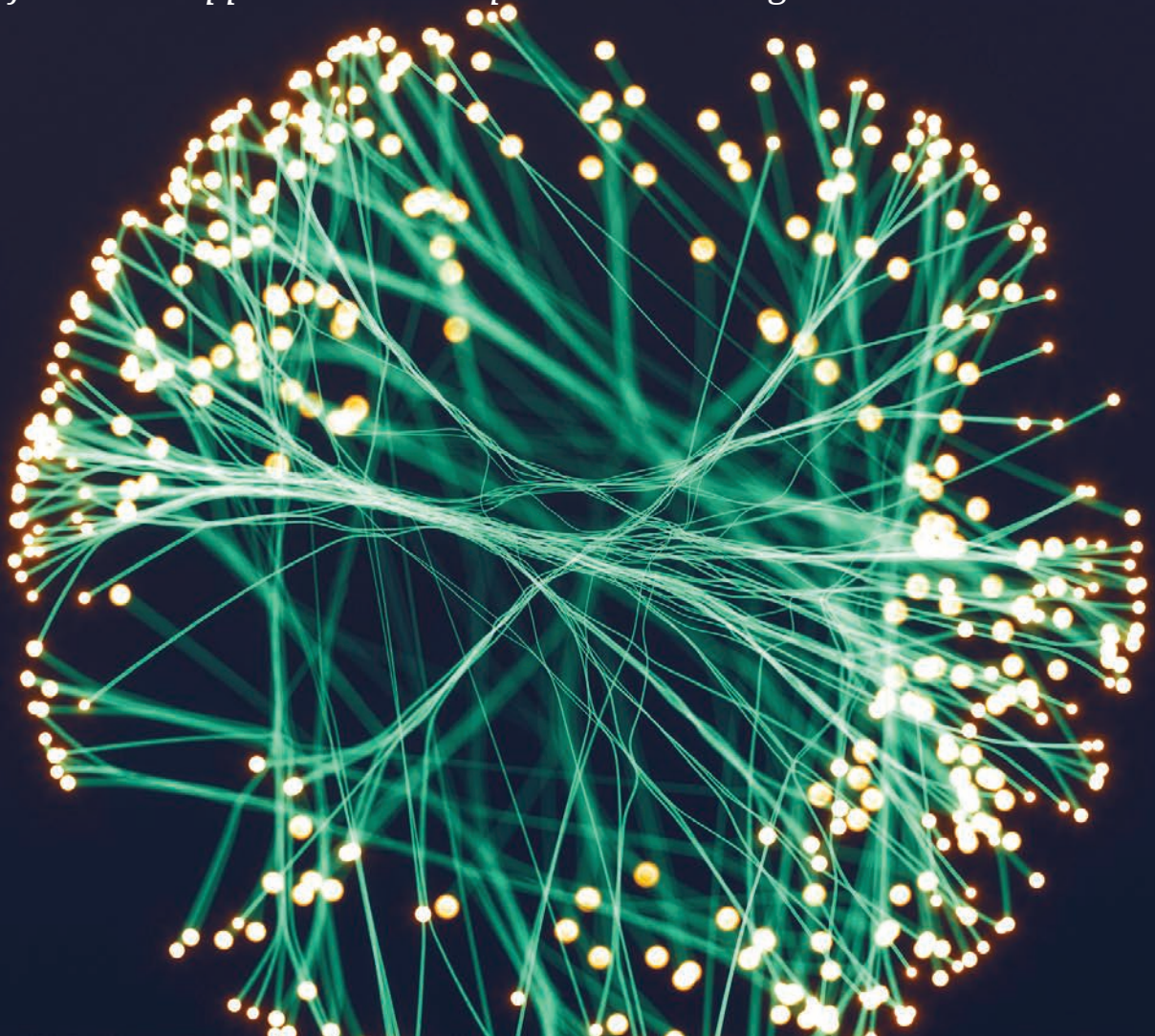


Unleashing the Power of AI in the Secured Finance Industry: A Journey into Change and Evolution

BY RYAN JASKIEWICZ

Change is the great shapeshifter of existence. It is the unseen artist who paints the landscape of our lives with broad strokes of innovation and evolution. In the world of secured finance, change is manifesting through a potent and promising medium—Artificial Intelligence (AI). One particular AI innovation, OpenAI's ChatGPT, is at the frontier of this change, offering a path filled with opportunities and potential challenges.



Embracing the potential of AI is the opening move in our industry's complex choreography with technology. It stands as a candid acknowledgment of AI's transformative power and its potential to redefine the dimensions of secured finance and credit risk management.

Revolutionizing credit risk assessment: AI, through OpenAI's ChatGPT, can enhance accuracy and speed in credit risk assessment. This technology can sift through copious data from various sources, synthesizing it into meaningful information more efficiently than any human could. Moreover, it can operate round-the-clock, increasing productivity and timely decision-making.

Tailoring borrower profiling: AI's ability to analyze natural language—the way we naturally speak and write—allows for nuanced and comprehensive borrower profiling. By understanding the subtleties in a borrower's communication, AI can provide insightful data for crafting customized credit risk models tailored to specific industries or borrowers.

Creating early warning systems: AI's pattern-recognition capabilities far surpass human abilities. It can pore over countless data points, identifying trends that may signify a potential credit risk. As such, AI could enable us to devise early warning systems, improving proactive risk management.

Learning and adapting: AI and ChatGPT, as tools rooted in machine learning, possess the capability for continuous adaptation to changing market conditions. Unlike traditional software systems, AI learns from experience and improves over time. This dynamic nature makes AI a resilient tool in the face of the ever-evolving financial landscape.

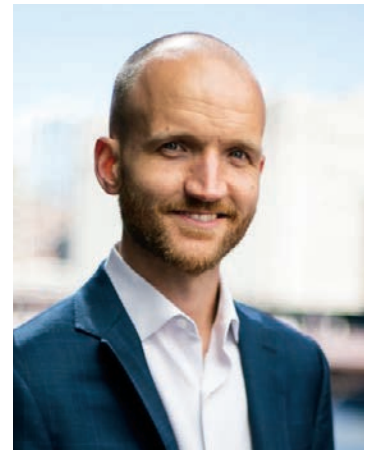
Foreseeing Pitfalls

As we embrace the opportunities AI brings, we must also acknowledge the risks and challenges. A crucial part of presence involves foreseeing potential pitfalls and preparing to

navigate them.

Fraud through AI-generated fake documents: In the wrong hands, AI can generate convincing, yet wholly fabricated, financial statements and other documents. These can deceive even trained professionals, leading to erroneous credit decisions.

Impersonation risks: With AI, fraudsters can create chatbots capable of impersonating borrowers or financial advisors. This could lead to erroneous information flow, misplaced trust, and potential fraud.



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exploit them for fraudulent activities.

Privacy and data security: AI systems that process vast amounts of data invariably raise privacy and data security concerns. Without robust security measures, sensitive information could be compromised, leading to potential data breaches.

Social engineering attacks: AI can be weaponized to create sophisticated social engineering attacks. By generating persuasive content, AI can trick individuals into revealing confidential information, potentially leading to substantial financial losses.

Manipulating credit risk algorithms: An advanced understanding of AI could enable fraudsters to manipulate credit risk algorithms, leading to incorrect risk assessments.

AI-driven insider threats: The potential misuse of AI tools by insiders poses a risk. Given access to powerful AI tools, unscrupulous individuals within an organization could

Adaptability

Embracing this change requires adaptability. It entails modifying existing practices to accommodate the new paradigm that AI introduces.

Strengthening verification processes: Implementing robust authentication processes, such as multi-factor authentication, biometric identification, and video-based identification, can help mitigate the risk of AI-generated impersonation attacks.

Investing in advanced fraud detection systems: Fraud detection systems powered by machine learning can identify suspicious patterns and anomalies that may be indicative of fraudulent activities.

Continual training of employees: Ensuring that employees are aware of the potential risks and equipped with the knowledge to identify and report suspicious activities is crucial.

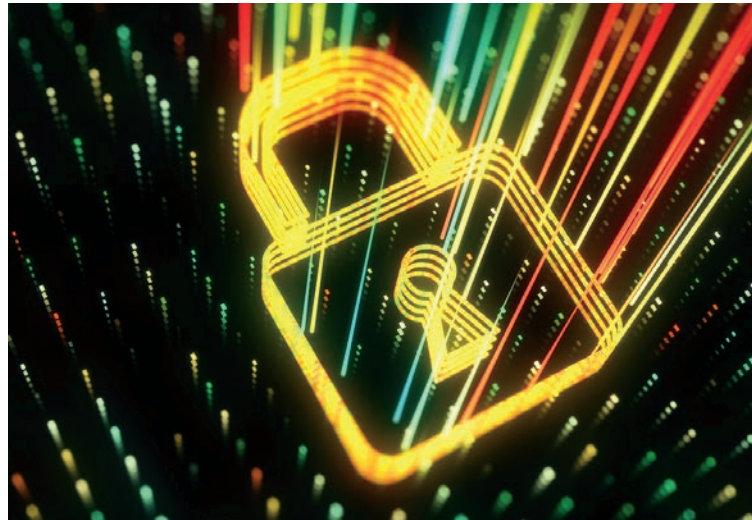
Collaboration with industry peers: By sharing threat intelligence and best practices, organizations can collectively enhance their defense mechanisms. We have an amazing industry and association here. We should be sharing what we are seeing across the board, whether at roundtables or to the association directly to disseminate to our people.

Layered security approach: A comprehensive security strategy that includes secure data storage, encryption, regular audits, and vulnerability assessments can significantly enhance data security and privacy. Remember, security is all about taking the “Swiss Cheese” approach toward safety.

Engagement with regulators and law enforcement: I know it’s hard because it seems like no law enforcement wants to help, but we need to be actively reporting fraud cases, cooperating in investigations, and staying updated on new regulations, which can help prevent fraudulent activities and mitigate their impact when they do occur.

Leading the Innovation Charge: Embracing Change and Redefining Possibilities

In our journey through the vast landscape of secured finance, AI is not a challenge to conquer, but a dynamic partner guiding us towards a new frontier of opportunity, if we are willing to venture beyond our comfort zones. Embracing the transformative potential of AI, we find ourselves not just keeping pace with change, but also leading the innovation charge. By leveraging tools like ChatGPT in credit risk management, and implementing robust strategies to tackle potential risks, we can transform the challenges of the digital age into a symphony of opportunities, driving growth and efficiency in our industry. 📌



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Ryan Jaskiewicz is CEO of 12five Capital, LLC. He started 12five Capital in early 2006 at the age of 23. Responsible for overseeing all facets of the business, he focuses his efforts heavily on systems, processes and. He successfully grew the business from zero dollars in revenue or funding to a company of twelve people, topping over \$35mm in net funds employed over the last 15 years.