

**STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES**

Bulletin 2026-03-BT/CF/CU

In the matter of:

**Use of Artificial Intelligence Systems
By Financial Service Providers**

**Issued and entered
this 14th day of January 2026
by Anita G. Fox
Director**

This bulletin is issued by the Department of Insurance and Financial Services (Department) to remind all Financial Service Providers (as defined below) regulated by the Department that if advanced analytical and Computational Technologies (as defined below), including Artificial Intelligence (AI) Systems (as defined below), are used to make decisions or take actions that may impact consumers, those decisions and actions must comply with all applicable laws and regulations. This bulletin sets forth the Department's expectations as to how Financial Service Providers will govern the development/acquisition and use of certain AI technologies, including the AI Systems described herein. This bulletin also advises Financial Service Providers of the type of information and documentation that the Department may request during an investigation or examination of any Financial Service Provider regarding its use of Computational Technologies and AI Systems.

By informing Financial Service Providers of the Department's expectations as to how AI Systems will be governed and managed, this bulletin does not prescribe specific practices or documentation requirements. The Department recognizes that Financial Service Providers may demonstrate compliance with the laws that regulate their conduct in the state in their use of AI Systems through alternative means, including through practices that differ from those described in this bulletin.

SECTION 1: BACKGROUND AND LEGISLATIVE AUTHORITY

AI is transforming financial services industries, including banking, credit unions, mortgage, and other consumer financial services. AI has the potential to be deployed across all stages of the financial services life cycle, including product development, marketing, sales and distribution, deposits, lending, account servicing, management, and fraud detection.

AI may facilitate the development of innovative products, improve consumer interface and service, simplify and automate processes, and promote efficiency and accuracy. Nevertheless, AI, including AI Systems, can present unique risks, including the potential for inaccuracy, unfair discrimination, data vulnerability, lack of transparency, and inability to map decision processes. Financial Service Providers should take steps to mitigate these risks.

The Department encourages the development and use of innovation and AI Systems that contribute to safe and stable financial service markets. However, the Department expects that decisions made and actions taken by Financial Service Providers using AI Systems will comply with all applicable federal and state laws and regulations. State law prohibits Financial Service Providers from discriminating on the basis of religion, race, color, national origin, age, sex, sexual orientation, gender identity or expression, height, weight, familial status, or marital status, as prohibited by the Elliott-Larsen Civil Rights Act, MCL 37.2101 to 37.2804 (ELCRA). See MCL 37.2102(1). The use of AI does not relieve Financial Services Providers of their obligation to refrain from discrimination under ELCRA.

In addition to established regulations on risk management, the Department recognizes the report issued by the U.S. Department of the Treasury in December 2024, titled *Artificial Intelligence in Financial Services* (Report) as an appropriate source of guidance for Financial Service Providers as they develop and use AI Systems. The Report emphasizes the importance of fairness and the ethical use of AI; accountability; compliance with regulations; transparency; and a safe, secure, and fair AI system. These fundamental principles outlined in the Report should guide Financial Service Providers in their development and use of AI Systems.

SECTION 2: DEFINITIONS

For the purposes of this bulletin the following terms are defined:

“Adverse Consumer Outcome” refers to the impact of a decision by a Financial Service Provider that is subject to regulatory standards enforced by the Department that adversely impacts the consumer in a manner that violates those standards.

“Algorithm” means a clearly specified mathematical process for computation; a set of rules that, if followed, will give a prescribed result.

“AI System” is a machine-based system that can, for a given set of objectives, generate outputs such as predictions, recommendations, content (such as text, images, videos, or sounds), or other output influencing decisions made in real or virtual environments. AI Systems are designed to operate with varying levels of autonomy.

“Artificial Intelligence (AI)” refers to a branch of computer science that uses data processing systems that perform functions normally associated with human intelligence, such as reasoning, learning, and self-improvement, or the capability of a device to perform functions that are normally associated with human intelligence such as reasoning, learning, and self-improvement. This definition considers Machine Learning to be a subset of artificial intelligence.

“Computational Technologies” are tools and methods that use computers to solve problems, ranging from physical hardware and system software to complex applications like artificial intelligence and cloud computing. These technologies involve using mathematical models, algorithms, and logic to perform calculations, process data, and simulate systems.

“Degree of Adverse Consumer Outcome” refers to the severity of Adverse Consumer Outcome that a consumer might experience.

“Financial Service Provider” means a depository institution as defined in MCL 445.1852(e), a mortgage broker, lender, or servicer licensed or registered under the Mortgage Brokers, Lenders, and Servicers Licensing Act, MCL 445.1651 to 445.1684 or the Secondary Mortgage Loan Act, MCL 493.51 to 493.81, a money transmission services provider licensed under the Money Transmission Services Act, MCL 487.1001 to 487.1047, a person licensed to make loans under the Regulatory Loan Act, MCL 493.1 to 493.26, an installment seller or sales finance company licensed under the Motor Vehicle Sales Finance Act, MCL 492.101 to 492.141, a person licensed to make or negotiate (or to offer to make or negotiate) a credit card arrangement under MCL 493.101 to 493.114, a person licensed to engage in the business of debt management under the Debt Management Act, MCL 451.411 to 451.437, a person licensed to engage in the business of providing deferred presentment service transactions under the Deferred Presentment Service Transactions Act, MCL 487.2121 to 487.2122, and a class I or class II licensee under the Consumer Financial Services Act, MCL 487.2051 to 487.2072.

“Generative Artificial Intelligence (Generative AI)” refers to a class of AI Systems that generate content in the form of data, text, images, sounds, or video, that is similar to, but not a direct copy of, pre-existing data or content.

“Machine Learning (ML)” refers to a field within artificial intelligence that focuses on the ability of computers to learn from provided data without being explicitly programmed.

“Model Drift” refers to the decay of a model’s performance over time arising from underlying changes such as the definitions, distributions, and/or statistical properties between the data used to train the model and the data on which it is deployed.

“Predictive Model” refers to the mining of historic data using Algorithms and/or Machine Learning to identify patterns and predict outcomes that can be used to make or support the making of decisions.

“Third-Party” for purposes of this bulletin means an organization other than the Financial Service Provider that provides services, data, or other resources related to AI.

SECTION 3: REGULATORY GUIDANCE AND EXPECTATIONS

Decisions subject to regulatory oversight that are made by Financial Service Providers using AI Systems must comply with the applicable risk and management standards that otherwise apply to the company’s decisions. These standards require, at a minimum, that decisions made by Financial Service Providers are not inaccurate, arbitrary, capricious, or unfairly discriminatory. Compliance with these standards is required regardless of the tools and methods Financial Service Providers use to make such decisions. In the absence of proper controls, AI has the potential to increase the risk of inaccurate, arbitrary, capricious, or unfairly discriminatory outcomes for consumers, so it is important that Financial Service Providers adopt and implement controls specifically related to their use of AI that are designed to mitigate the risk of Adverse Consumer Outcomes.

To that end, all Financial Service Providers are expected to develop, implement, and maintain a written AI Systems Program (an “AIS Program”) for the responsible use of AI Systems that make or support decisions related to regulated Financial Service Providers practices. The AIS Program should be designed to mitigate the risk of Adverse Consumer Outcomes. Financial Service Providers that choose not to formally engage in

the use of AI Systems should, at a minimum, establish a policy for employee acceptable use of such AI systems.

The Department recognizes that robust governance, risk management controls, and internal audit functions are vital to mitigating the risk of decisions driven by AI Systems. The Department encourages the development and use of verification and testing methods to identify errors and bias in Predictive Models and AI Systems, as well as the potential for unfair discrimination in the decisions and outcomes resulting from the use of Predictive Models and AI Systems.

The controls and processes that a Financial Service Provider adopts and implements as part of its AIS Program should be reflective of, and commensurate with, the Financial Service Provider's degree and nature of risk posed to consumers by the AI Systems that it uses, considering: (i) the nature of the decisions being made, informed, or supported using the AI System; (ii) the type and Degree of Potential Harm to Consumers resulting from the use of AI Systems; (iii) the extent to which humans are involved in the final decision-making process; (iv) the transparency and ability to understand outcomes to the impacted consumer; and (v) the extent and scope of the Financial Service Provider's use or reliance on data, Predictive Models, and AI Systems from Third Parties.

As discussed in Section 4, decisions made as a result of a Financial Service Provider's use of AI Systems are subject to the Department's investigation and examination authority to ensure that the reliance on AI Systems is compliant with all applicable existing legal and regulatory standards governing the conduct of the Financial Service Provider.

AIS Program Guidelines

1.0 General Guidelines

- 1.1 The AIS Program should be designed to mitigate the risk that the Financial Service Provider's use of an AI System may result in Adverse Consumer Outcomes.
- 1.2 The AIS Program should address governance, risk management controls, and internal audit functions.
- 1.3 The AIS Program should vest responsibility for the development, implementation, monitoring, and oversight of the AIS Program—and for establishing the Financial Service Provider's strategy for AI Systems—with senior management accountable to the board or an appropriate committee of the board.
- 1.4 The AIS Program should be tailored to and commensurate with the Financial Service Provider's use and reliance on AI and AI Systems. Controls and procedures should be focused on the mitigation of potential Adverse Consumer Outcomes, and the scope of the controls and procedures applicable to a given AI System use case should reflect and align with the Degree of Adverse Consumer Outcome with respect to that use case.
- 1.5 The AIS Program may be independent of or part of the Financial Service Provider's existing Enterprise Risk Management (ERM) program. The AIS Program may adopt, incorporate, or rely upon, in whole or in part, a framework or standards developed by an official Third-Party standard organization, such as the National Institute of Standards

and Technology (NIST) Artificial Intelligence Risk Management Framework, to the extent it is appropriate.

- 1.6 The AIS Program should address the use of AI Systems across the Financial Service Provider's business cycle, including product development, marketing, sales and distribution, deposits, lending, account servicing, management, and fraud detection.
- 1.7 The AIS Program should address all phases of an AI System's business cycle, including design, development, validation, implementation (both systems and business), use, on-going monitoring, updating, and retirement.
- 1.8 The AIS Program should address the AI Systems use, whether developed by the Financial Service Provider or a Third-Party vendor.
- 1.9 The AIS Program should include processes and procedures to provide notice to impacted consumers that AI Systems are in use and to provide access to appropriate levels of information based on the phase of the Financial Service Providers business cycle in which the AI Systems are being used.
- 1.10 A Financial Service Provider cannot outsource its fundamental risk management responsibility, even when a third party performs a service. The Financial Service Provider remains ultimately accountable to regulators for ensuring compliance and managing risk. Financial Service Providers should have clear policies and expectations for use of AI Systems, including permissible use by employees.

2.0 Governance

The AIS Program should include a governance framework for the oversight of AI Systems used by the Financial Service Provider. Governance should prioritize transparency, fairness, and accountability in the design and implementation of the AI System, recognizing that proprietary and trade secret information must be protected. A Financial Service Provider may consider adopting new internal governance structures or may rely on the Financial Service Provider's existing governance structures; however, in developing or incorporating its governance framework, the Financial Service Provider should consider addressing the following items:

- 2.1 The policies, processes, and procedures, including risk management and internal controls, to be followed at each stage of an AI System life cycle, from proposed development to retirement.
- 2.2 The requirements adopted by the Financial Service Provider to document compliance with the AIS Program policies, processes, procedures, and standards. Documentation requirements should be developed with Section 4 in mind.
- 2.3 The Financial Service Provider's internal AI System governance accountability structure, such as:
 - a) The formation of centralized, federated, or otherwise constituted committees comprised of representatives from appropriate disciplines and units within the Financial Service Provider, such as business units, product specialists, data science and analytics, deposits, lending, compliance, and legal.

- b) Scope of responsibility and authority, chains of command, and decisional hierarchies.
 - c) Methods for ensuring the independence of decision-makers and oversight functions at each successive phase of the AI system lifecycle.
 - d) Procedures for monitoring, auditing, escalation, and reporting protocols and requirements.
 - e) Responsibility for developing and implementing ongoing training and supervision of personnel.
- 2.4 Specifically with respect to Predictive Models: the Financial Service Provider's processes and procedures for designing, developing, verifying, deploying, using, updating, and monitoring Predictive Models, including a description of methods used to detect and address errors, performance issues, outliers, or unfair discrimination in the Financial Service Provider's practices resulting from the use of the Predictive Model should be documented.

3.0 Risk Management and Internal Controls

The AIS Program should document the Financial Service Provider's risk identification, mitigation, and management framework and internal controls for AI Systems generally and at each stage of the AI System life cycle. Risk management and internal controls should address at least the following items:

- 3.1 The oversight and approval process for the development, adoption, or acquisition of AI Systems, as well as the identification of constraints and controls on automation and design to align and balance function with risk.
- 3.2 Data practices and accountability procedures, including data security, testing, quality, integrity, and bias analysis.
- 3.3 Management and oversight of Predictive Models (including Algorithms used therein), including:
 - a) Inventories and descriptions of the Predictive Models.
 - b) Detailed documentation of the development and use of the Predictive Models.
 - c) Assessments such as interpretability, repeatability, robustness, regular tuning, reproducibility, traceability, Model Drift, and the auditability of these measurements where appropriate.
- 3.4 Validation, testing, and retesting as necessary to assess the generalization of AI System outputs upon implementation, including the suitability of the data used to develop, train, validate and audit the model. Validation can take the form of comparing model performance on unseen data available at the time of model development to the performance observed on data post-implementation, measuring performance against expert review, or other methods.
- 3.5 The protection of non-public information, particularly consumer information, including unauthorized access to the Predictive Models themselves.
- 3.6 Data and record retention.

- 3.7 Specifically with respect to Predictive Models: a narrative description of the model's intended goals and objectives and how the model is developed and validated to ensure that the AI Systems that rely on such models correctly and efficiently predict or implement those goals and objectives.

4.0 Third-Party AI Systems and Data

Each AIS Program should address the Financial Service Provider's process for acquiring, using, or relying on (i) Third-Party data to develop AI Systems; and (ii) AI Systems developed by a Third Party, which may include, as appropriate, the establishment of standards, policies, procedures, and protocols relating to the following considerations:

- 4.1 Due diligence and the methods employed by Financial Service Provider to assess the Third Party and its data security or AI Systems acquired from the Third Party to ensure that decisions made or supported from such AI Systems that could lead to Adverse Consumer Outcomes will meet the legal and regulatory standards imposed on the Financial Service Provider itself.
- 4.2 Where appropriate and available, the inclusion of terms in contracts with third parties that:
 - a) Provide audit rights and/or entitle the Financial Service Provider to receive audit reports by qualified auditing entities.
 - b) Require the Third Party to cooperate with the Financial Service Provider with regard to regulatory investigations and examinations related to the Financial Service Provider's use of the third party's product or services.
 - c) Provide prompt written notification for any event where unauthorized access occurs.
 - d) Establish clear responsibilities between the Financial Service Provider and the third party for the safeguarding of data and mitigation of risk.
- 4.3 The performance of contractual rights to confirm the third party's compliance with contractual and, where applicable, regulatory requirements.

SECTION 4: REGULATORY OVERSIGHT AND EXAMINATION CONSIDERATIONS

The Department's regulatory oversight of Financial Service Providers includes oversight of a Financial Service Provider's conduct in the state, including its use of AI Systems to make or support decisions that impact consumers. In the context of an investigation or examination, a Financial Service Provider can expect to be asked about its development, deployment, and use of AI Systems, or any specific Predictive Model, AI System or application and its outcomes (including Adverse Consumer Outcomes) from the use of those AI Systems, as well as any other information or documentation deemed relevant by the Department.

Financial Service Providers should expect those inquiries to include (but not be limited to) the Financial Service Provider's governance framework, risk management, and internal controls (including the considerations identified in Section 3). In addition to conducting a review of any of the items listed in this Bulletin, an examiner may also ask questions regarding any specific model, AI System, or its application, including but not limited to requests for the following types of information and/or documentation:

1.0 Information and Documentation Relating to AI System Governance, Risk Management, and Use Protocols

- 1.1 Information and documentation related to or evidencing the Financial Service Provider's AIS Program, including:
 - a) The written AIS Program.
 - b) Information and documentation relating to or evidencing the adoption of the AIS Program.
 - c) The scope of the Financial Service Provider's AIS Program, including any AI Systems and technologies not included in or addressed by the AIS Program.
 - d) How the AIS Program is tailored to and proportionate with the Financial Service Provider's use and reliance on AI Systems, the risk of Adverse Consumer Outcomes, and the Degree of Potential Harm to Consumers.
 - e) The policies, procedures, guidance, training materials, and other information relating to the adoption, implementation, maintenance, monitoring, and oversight of the Financial Service Provider's AIS Program, including:
 - i. Processes and procedures for the development, adoption, or acquisition of AI Systems, such as:
 - (1) Identification of constraints and controls on automation and design.
 - (2) Data practices and accountability procedures, including data security, testing, quality, integrity, and bias analysis.
 - ii. Processes and procedures related to the management and oversight of Predictive Models, including measurements, standards, or thresholds adopted or used by the Financial Service Provider in the development, validation, and oversight of models and AI Systems.
 - iii. Protection of non-public information, particularly consumer information, including unauthorized access to Predictive Models themselves.
- 1.2 Information and documentation relating to the Financial Service Provider's pre-acquisition/pre-use diligence, monitoring, oversight, and auditing of data or AI Systems developed by a Third Party.
- 1.3 Information and documentation relating to or evidencing the Financial Service Provider's implementation and compliance with its AIS Program, including documents relating to the Financial Service Provider's monitoring and audit activities respecting compliance, such as:
 - a) Documentation relating to or evidencing the formation and ongoing operation of the Financial Service Provider's coordinating bodies for the development, use, and oversight of AI Systems.
 - b) Data practices and accountability procedures, including data security, testing, quality, integrity, and bias analysis.
 - c) Management and oversight of Predictive Models and AI Systems, including:

- i. The Financial Service Provider’s inventories and descriptions of Predictive Models and AI Systems used by the Financial Service Provider to make or support decisions that can result in Adverse Consumer Outcomes.
- ii. As to any specific Predictive Model or AI System that is the subject of investigation or examination:
 - (1) Documentation of compliance with all applicable AI Program policies, protocols, and procedures in the development, use, and oversight of Predictive Models and AI Systems deployed by the Financial Service Provider.
 - (2) Information about data used in the development and oversight of the specific model or AI System, including the data source, provenance, data lineage, quality, integrity, bias analysis and minimization, and suitability.
 - (3) Information related to the techniques, measurements, thresholds, and similar controls used by the Financial Service Provider.
- d) Documentation related to validation, testing, and auditing, including evaluation of Model Drift to assess the reliability of outputs that influence the decisions made based on Predictive Models. Note that the nature of validation, testing, and auditing should be reflective of the underlying components of the AI System, whether based on Predictive Models or Generative AI.

2.0 Third-Party AI Systems and Data

In addition, if the investigation or examination concerns data, Predictive Models, or AI Systems collected or developed in whole or in part by third parties, the Financial Service Provider should also expect the Department to request the following additional types of information and documentation.

- 2.1 Due diligence conducted on third parties and their data, models, or AI Systems.
- 2.2 Contracts with Third-Party AI System, model, or data vendors, including terms relating to representations, warranties, data security and privacy, data sourcing, intellectual property rights, confidentiality and disclosures, and/or cooperation with regulators.
- 2.3 Audits and/or confirmation processes performed regarding Third-Party compliance with contractual and, where applicable, regulatory obligations.
- 2.4 Documentation pertaining to validation, testing, and auditing, including evaluation of Model Drift.

SECTION 5: CONCLUSION

This bulletin provides expectations to ensure that Financial Service Providers consider the risks associated with AI Systems and their responsibility to protect data and comply with applicable laws and regulations.

As in all cases, regulatory oversight may be performed using procedures that vary in nature, extent, and timing in accordance with regulatory judgment. Work performed may include inquiry, examination of

company documentation, or any of the continuum of actions described in regulation manuals. Nothing in this bulletin limits the authority of the Department to conduct any examination or enforcement action relative to any act or omission of any Financial Service Provider that the Department is authorized to perform.

Any questions regarding this bulletin should be directed to:

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/s/

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