Digital Horizons

A series of reports exploring CEE's digital future

Responsible AI

2024/2025

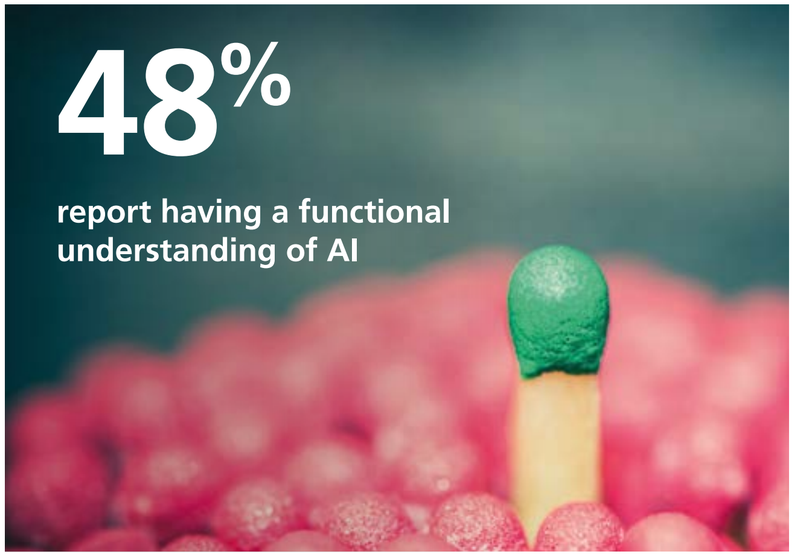
Data highlights – CEE companies

60%

of CEE companies invest in AI systems, 20% plan to do so

84%

already use AI systems



48%

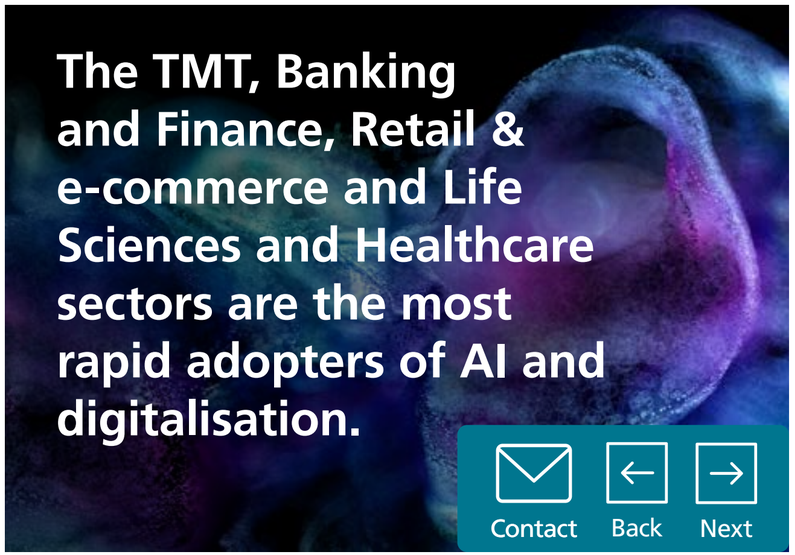
report having a functional understanding of AI

94%

feel they need more AI knowledge/training

66%

cite privacy and security concerns as a primary risk when adopting AI solutions



The TMT, Banking and Finance, Retail & e-commerce and Life Sciences and Healthcare sectors are the most rapid adopters of AI and digitalisation.

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Overview

As a fast-evolving technology, artificial intelligence (AI) is driving transformation across every sector. Its increasing complexity provokes questions about how best to build fairness, privacy and safety into AI systems. Ultimately, this requires AI governance that is suitably robust, safe and ethical: to mitigate and manage risk, and to maintain public trust.

Primarily focused on these objectives, the world's first comprehensive legal framework for AI regulation, the EU's pioneering AI Act (AIA) entered into force on 1 August 2024. Its impact is far-reaching. If the output of an AI system is intended for use in the EU, the AIA applies extraterritorially to providers or deployers of that system, regardless of whether they are established or based within the EU, or in a third country.

With some exceptions, the AIA will become fully applicable after a two-year implementation period in August 2026, positioning Europe at the forefront of AI regulation. To assist with compliance, guidance and standards will be published during this period.

For companies using AI systems in CEE, the AIA creates a wide range of obligations proportionate to the level of potential risk in the AI that they deploy. At a practical level, these include data quality and governance, technical documentation, recordkeeping, transparency, cybersecurity and human oversight. But for every company using AI, there is one key overriding question: who takes responsibility?

Central to the EU's approach to AI regulation, implementing responsible AI primarily rests with the companies using AI systems. Under this self-regulation, each company operating in the CEE region that uses AI will determine its own ethical standards. Among prominent international examples is Microsoft, whose Responsible AI Standard is based on six principles: fairness, reliability and safety, privacy and security, inclusiveness, transparency, and accountability. Among those principles, safety, privacy and security, transparency, and accountability appear in the AIA as main requirements of AI systems.

Similar ethical principles are shared by many CEE companies, which are equally keen to use AI responsibly. Ethical issues such as fairness, inclusiveness are not directly codified by the AIA, because they are subjective and cannot be easily regulated. Instead, core ethical principles remain part of each company's governance bodies, such as an ethics committee.

"You need to develop your internal processes and standards so that they're going to be sufficiently high to be able to comply with all relevant regulation around the world, including the EU AI Act."

Ivan Karpják, Legal Director
Central Region, Johnson & Johnson MedTech

"The first area where we can help is analysing the definition of AI systems, to make a comparison, find a match: what kinds of software, applications, or AI models fall into the AI system category."

Katalin Horváth
Partner, TMT in Hungary, CMS

Obligations, standards and compliance

The AIA will have a profound impact on organisations that are developing, using, distributing and importing AI systems in the EU and across CEE, placing an escalating range of obligations on them, dependent upon which systems are used.

The AIA defines an AI system as follows: ***"A machine-based system that is designed to operate with varying levels of autonomy and that may exhibit adaptiveness after deployment, and that, for explicit or implicit objectives, infers, from the input it receives, can influence physical or virtual environments."***

Katalin Horváth, Partner in the Technology, Media and Telecommunications (TMT) team at CMS Budapest, says: ***"In preparing for the new AI Act, our clients have many questions. The basic starting point is: what is AI? The definition in the new Act is quite broad, and our clients can't easily decide whether they have an AI system with a certain level of autonomy, or just machine learning, pure software or an application. Often, they just don't know whether they are using AI or not, because they buy a solution and it looks like software or an application, and they don't know whether there is any AI involved.***

"So, the first area where we can help is analysing the definition of AI systems, to make a comparison, find a match: what kinds of software, applications, or AI models fall into the AI system category. This is the basic legal question on which we are advising companies in many different sectors. The second legal issue is whether an AI system is prohibited, high-risk or low-risk. If they can categorise the given AI system, we advise our clients about the obligations and deadlines based on the new Act."

Under the AIA, systems that are designated as high-risk AI (HRAIS) will be subject to a broad scope of significant obligations, particularly for providers. Furthermore, distributors, importers and deployers (users) of HRAIS are also facing with assorted strict requirements. Specific provisions will apply to general purpose AI (GPAI) models, which will be regulated regardless of how they are used. All other AI systems are considered as low risk and will only be subject to limited transparency obligations when they interact with individuals.

The AIA prohibits the use of certain types of AI system, such as biometric categorisation and identification (including untargeted online scraping of facial data) and subliminal techniques that may exploit personal vulnerabilities or manipulate human behaviour, thereby circumventing fundamental rights or causing physical or psychological harm.

Critically, some obligations will apply during the three-year timeline: both prohibitions on certain AI systems and requirements for AI literacy will apply from 2 February 2025, while GPAI requirements will apply from 2 August 2025. Almost the whole AIA, including provisions on HRAIS will be applicable from 2 August 2026, except for the provisions on AI systems which are safety components of certain products – these are applicable from 2 August 2027. Financial penalties to be applied under the AIA will be very significant, up to €35m or 7% of global annual turnover for the previous financial year (whichever is higher), depending on the type and severity of the infringement and the size of the company.

Ultimately, effective compliance with the AIA will depend upon maintaining the highest ethical standards. ***"You need to develop your internal processes and standards so that they're going to be sufficiently high to be able to comply with all relevant regulation around the world, including the EU AI Act,"*** says Ivan Karpják, Legal Director, Central Region at Johnson & Johnson MedTech.

Compliance can often be seen as a burden. But Julia Bonder Le-Berre, Head of Global Privacy for Iron Mountain, thinks otherwise. ***"As in-house legal counsel, you always look at how regulation can enable business,"*** she says. ***"So, it's not all a compliance burden, but actually how compliance with this new AI Act can create a business competitive advantage for your organisation. It may be that advantage is created when you're in a position where you can demonstrate compliance to your customers, where you can give them assurance, or maybe you can be the first on the market who created new services that are already compliant with these new rules."***

"It's not all a compliance burden, but how compliance with this new AI Act can create a business competitive advantage for your organisation."

Julia Bonder Le-Berre
Head of Global Privacy,
Iron Mountain

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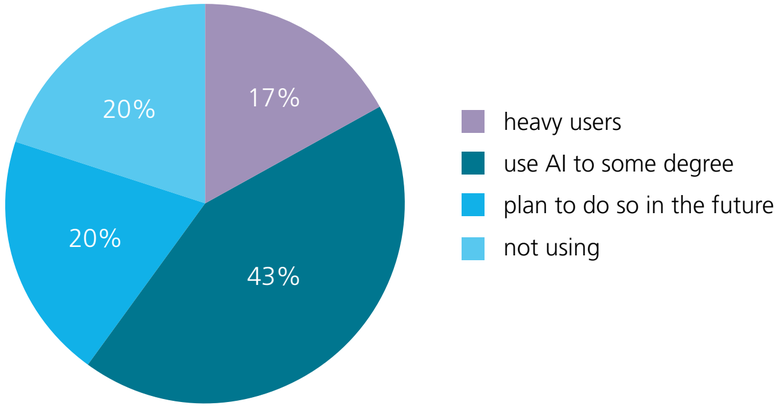
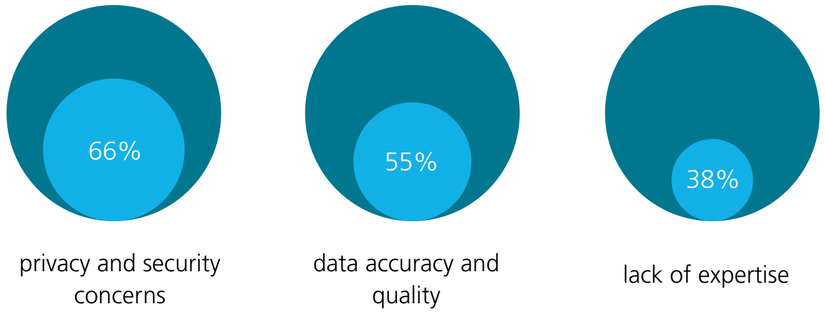
Challenges

According to our AI Survey respondents of CEE companies, their adoption of AI is increasingly widespread: 17% of respondents are heavy users, 43% use AI to some degree, and 20% plan to do so in the future, while 20% do not. Their main AI challenges when seeking to be responsible in using AI are: privacy and security concerns (66%); data accuracy and quality (55%); and lack of expertise (38%).





"Implementation challenges are mostly not legal, but business, putting pressure on the board."

Olga Belyakova
Partner and Co-Head of TMT in CEE, CMS

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Challenges

Olga Belyakova, CMS Partner and Co-Head of TMT in CEE, identifies wider practical challenges. ***"First, companies have to decide which platform to use and when, and to agree internally, especially in big organisations, who will be responsible for what, and how they should implement systems so that everyone can use them consistently and compliantly,"*** she says. ***"Implementation challenges are mostly not legal, but business, putting pressure on the board."***

She adds: ***"Liability is an issue for both users and creators, because of the fine line between what you use and how you use it. Given there is no developed practice, liability questions cannot be answered automatically. Common sense rules apply, but common sense can be very subjective."***

According to Alžběta Solarczyk Krausová, a member of the former Expert Group on New Technologies and Liability at the European Commission, ***"most companies are interested in how to operationalise requirements, such as which documents they need to prepare, and what processes they need to introduce. Companies are also thinking about how to use AI responsibly in areas such as marketing.***

"Many companies are introducing specific themes for AI transition, and thinking how to make their processes more efficient, and deal with compliance." On generative AI, she notes that companies are looking at ***"how to introduce it, and how to adjust their ethical code of conduct to adapt to the new technology. A few companies are going far beyond what the Act requires them to do."***

Magyar Telekom Group Legal Director Dániel Szeszlér notes: ***"Transparency is key. We don't want to put anything on the market that is not entirely clear, both for customers who are making good use in their own businesses of the solutions we provide, and for end users who are impacted in any way by the use of AI. So, if something is not transparent in terms of what they encounter – how AI is impacting the output they receive – then it's a no go."***

He adds that ***"Human centric approaches are key. When it comes to legal requirements, we are ahead of the big implementation project for the new AI Act."***

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Member of the former Expert Group on New Technologies and Liability, European Commission

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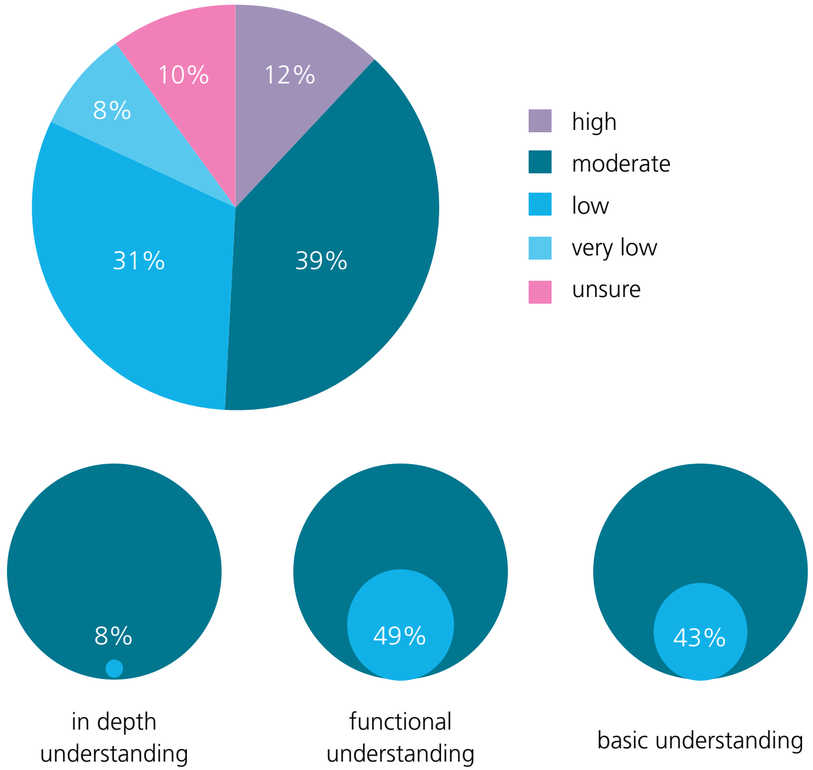
Dániel Szeszlér
Group Legal Director, Magyar Telekom

Training

When asked about current AI literacy (knowledge and skills) in their organisations, survey respondents were mixed: 12% said it was high, 39% moderate; 31% low and 8% very low; while 10% were unsure. Asked how well they understood AI systems, the results were comparably low: 8% had in depth understanding; 49% a functional understanding and 43% a basic understanding. Notably, ‘more training’ (40% of respondents) ranked top among factors affecting CEE companies as a result of the AIA, while 94% of respondents acknowledged that more knowledge/training was needed.



Training

The reality is that AI knowledge is progressing at different speeds, according to Tomasz Koryzma, Head of IP/TMC at CMS Poland. ***"For providers, who produce software and systems, this is critical for their business."*** he says. ***"They started setting up AI governance procedures earlier: having people in place with better training and technical skills. They are now progressing faster and are much more aware. Many deployers are less well advanced."***

According to Dóra Petrányi, CEE Managing Director at CMS and Global Co-Head of the Technology, Media and Communications Group: ***"Every employer using or deploying AI will have to provide basic literacy education to their team members about how to use AI: what are the threats, and how to use it in a smart and efficient way. Like what information do you feed it? What are the questions that you can or cannot ask? How do you handle the answers, always with a pinch of salt? So, we expect that AI literacy will be very much part of induction training going forward for any organisation. And that's a big change."***

AIA obligations on AI literacy apply from February 2025 and GPAI requirements from August 2025, so training should be happening already. Our clients or their staff are already using generative AI, which requires a lot of training. Doing this the right way can unlock further potential of the workforce enabling businesses to maximise the impact of AI – you should work smarter not harder," says Petrányi.

Borys Danevych, Partner and CEE Head of Life Sciences & Healthcare at CMS, says: ***"Some companies are really focused on using AI in healthcare and training their teams. Training is something that we see as an essential, important element in the risk mitigation strategies of companies."***

Bonder Le-Berre describes the knowledge sharing approach at Iron Mountain: ***"In order to ensure responsible use of AI, we've created an AI Center of Excellence (CoE): an AI governance structure which brings together experts from different functions – data, privacy, security, IT, legal. This group meets regularly and exchanges what we've learned about emerging AI regulations and best market practices. That way, we build knowledge that helps us determine next steps towards better compliance. Our broader group of employees also needs to have basic knowledge about AI: our AI CoE has prepared training courses for them. To increase engagement, employees earn points for completed training and are recognised for their AI literacy efforts."***

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CMS

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CEE Managing Director and Global Co-Head of the Technology, Media and Communications Group,
CMS

Training

Lotár Schin, OTP Bank's AI Center of Excellence Lead, develops the point. ***"Education is a crucial part of the AI journey,"*** he says. ***"We have to build an AI governance framework – not just because of the EU AI Act, although it's also a driver. To be responsible means that we need to increase people's awareness. We call it transformative digital capability, because similar to the internet, it impacts nearly everybody in the organisation."***

OTP created an awareness training programme for every employee. ***"We believe they have to understand the potential risks and opportunities of AI technology,"*** says Schin. ***"We tell them about different types of AI, what different models can and cannot do. We're in a good position now: there's a common understanding of key concepts, Natural Language Processing, generative technology, natural language understanding, predictive statistical models, and whether logistic regression is machine learning or not."***

Ákos Janza, Managing Director, MSCI Inc., has significant training experience. ***"Even though you train people, they do not necessarily know how to use it,"*** he says. ***"You show them what generative AI is capable of, but they cannot make a very important distinction between: how do I apply this in my day job, because it needs to become a GPT (general purpose technology). That takes time and you can only do that by creating some network effect.***

"So, we have chosen to create a champion programme with a 1 to 10 ratio, meaning that each department needs to designate 10% of its staff as AI champions. Because you need to create that network effect with a high level of AI literacy: knowing how to create custom GPTs, knowing the difference between machine learning, deep learning, and generative AI, because they are not necessarily the same. So, it's a combination of multiple things. Number one, proper video training. Number two, a network effect by AI champions, and number three, as many use cases as possible and workshops."

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AI Center of Excellence Lead,
OTP Bank

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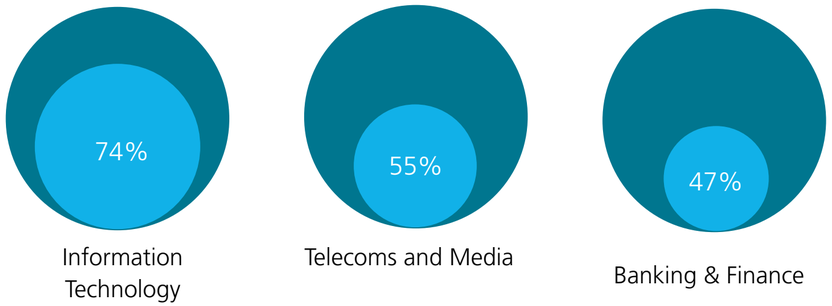
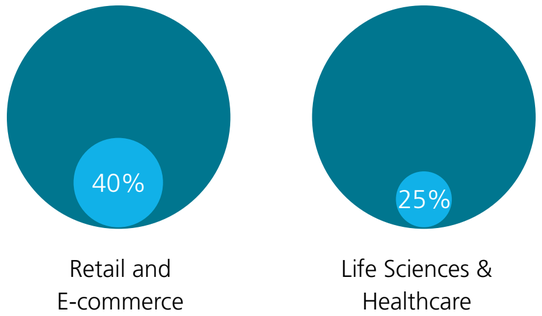
Managing Director,
MSCI Inc.

Sectors

Inevitably, there is a wide range of AI adoption across diverse sectors in CEE companies. Those with the highest levels of adoption, according to our survey, are: Information Technology (74%); Telecoms and Media (55%); Banking & Finance (47%); Retail and E-commerce (40%); and Life Sciences & Healthcare (25%).





Sectors

Among the most prominent IT operations using AI in CEE are data centers, where workloads have increased by more than 340% in the past decade with data center energy demand forecast to increase more than 15 times by 2030. Because data centers are so energy intensive, it is paramount to make the ongoing digital transformation more sustainable.

Eva Talmacsi, CMS global M&A and Corporate Transactions Partner and Co-Head of TMT in CEE, notes: ***"Datacentres are uniquely positioned to benefit from AI applications which are shaping the sustainable digital transformation. Training and delivering AI solutions requires enormous amounts of computing power and data storage, exponentially increasing the demand for datacentre capacity. AI and machine learning can unlock flexibility by forecasting supply and demand. Simultaneously, data centre operators have embraced AI to help streamline the daily running of services, reducing IT infrastructure inefficiencies."***

As elsewhere, many banks and financial services companies In CEE were early adopters of traditional AI systems. ***"They deployed AI in several ways,"*** says Cristina Reichmann, CMS, Banking and Finance Partner in Romania. ***"But the scale and impact are really skyrocketing now. Any deployment of new technology, and especially AI, comes with risks, cost concerns, and liability – not just liability for the banks and financial institutions, but also for the management,"*** she says.

"Some are specific to them. They are heavily regulated, and to comply with specific regulations, they must have a proactive approach. Data privacy is a critical concern for them in relation to AI. To protect data, you need robust security measures: encryption, data storage solutions, regular security audits, audits with respect to third party providers, as well as integrating AI within existing legacy systems."

At OTP, Schin says: ***"We want to implement stricter regulation than the EU AI Act because we believe that in the finance industry, trust is so important. Because our industry is built upon it, the last thing we want is to lose our clients' trust. If you misuse the technology, it's very easy to lose people's trust – and AI could give plenty of room for losing trust, because you don't know where the technology may not work as expected. So, you can't make a mistake, or miscommunicate. It's not just about trust, it's also about being accurate, being clear on what we are doing and being transparent on how we are working."***

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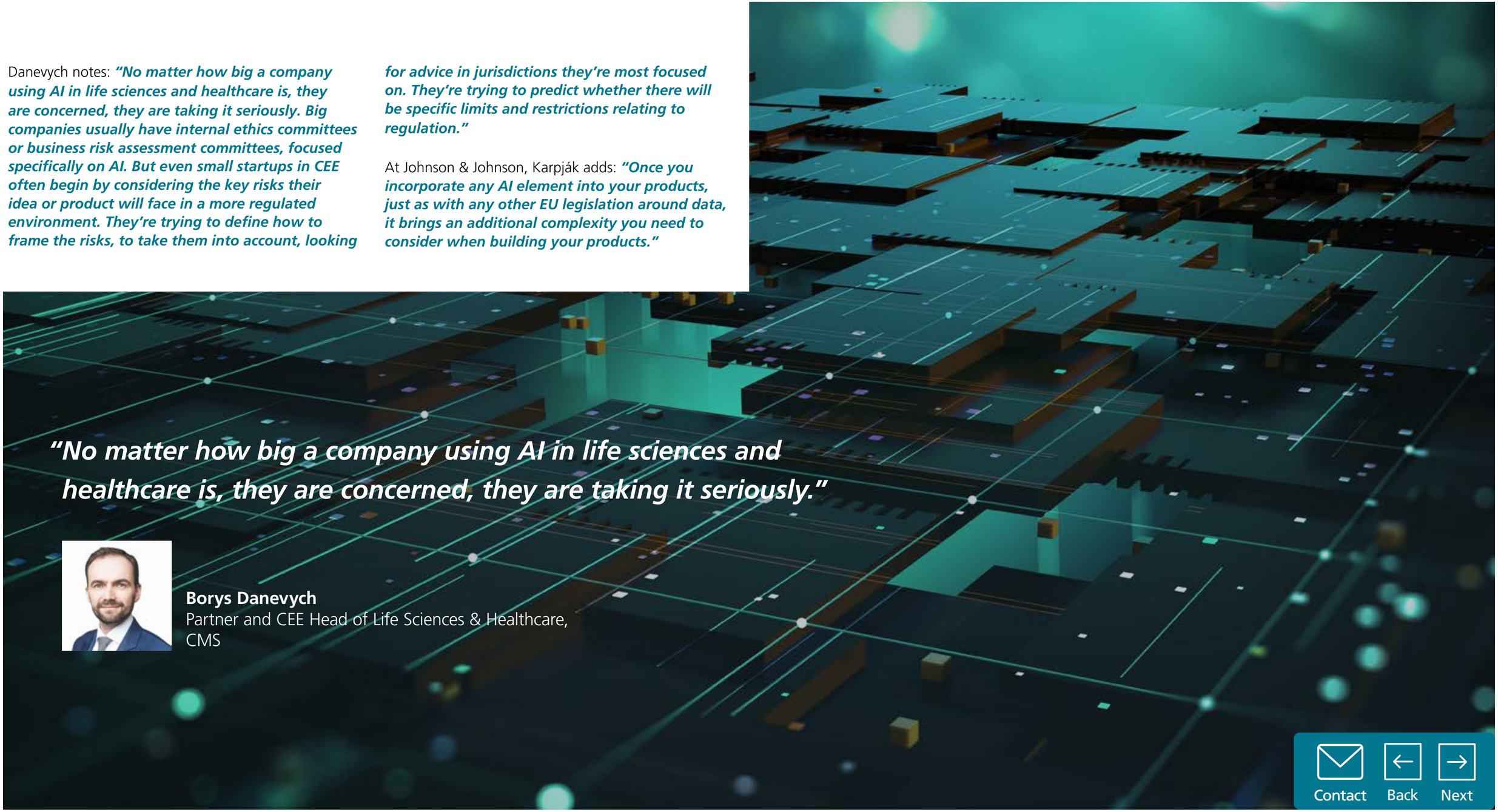
Cristina Reichmann
Banking and Finance Partner in Romania, CMS

Danevych notes: ***"No matter how big a company using AI in life sciences and healthcare is, they are concerned, they are taking it seriously. Big companies usually have internal ethics committees or business risk assessment committees, focused specifically on AI. But even small startups in CEE often begin by considering the key risks their idea or product will face in a more regulated environment. They're trying to define how to frame the risks, to take them into account, looking for advice in jurisdictions they're most focused on. They're trying to predict whether there will be specific limits and restrictions relating to regulation."***

At Johnson & Johnson, Karpják adds: ***"Once you incorporate any AI element into your products, just as with any other EU legislation around data, it brings an additional complexity you need to consider when building your products."***



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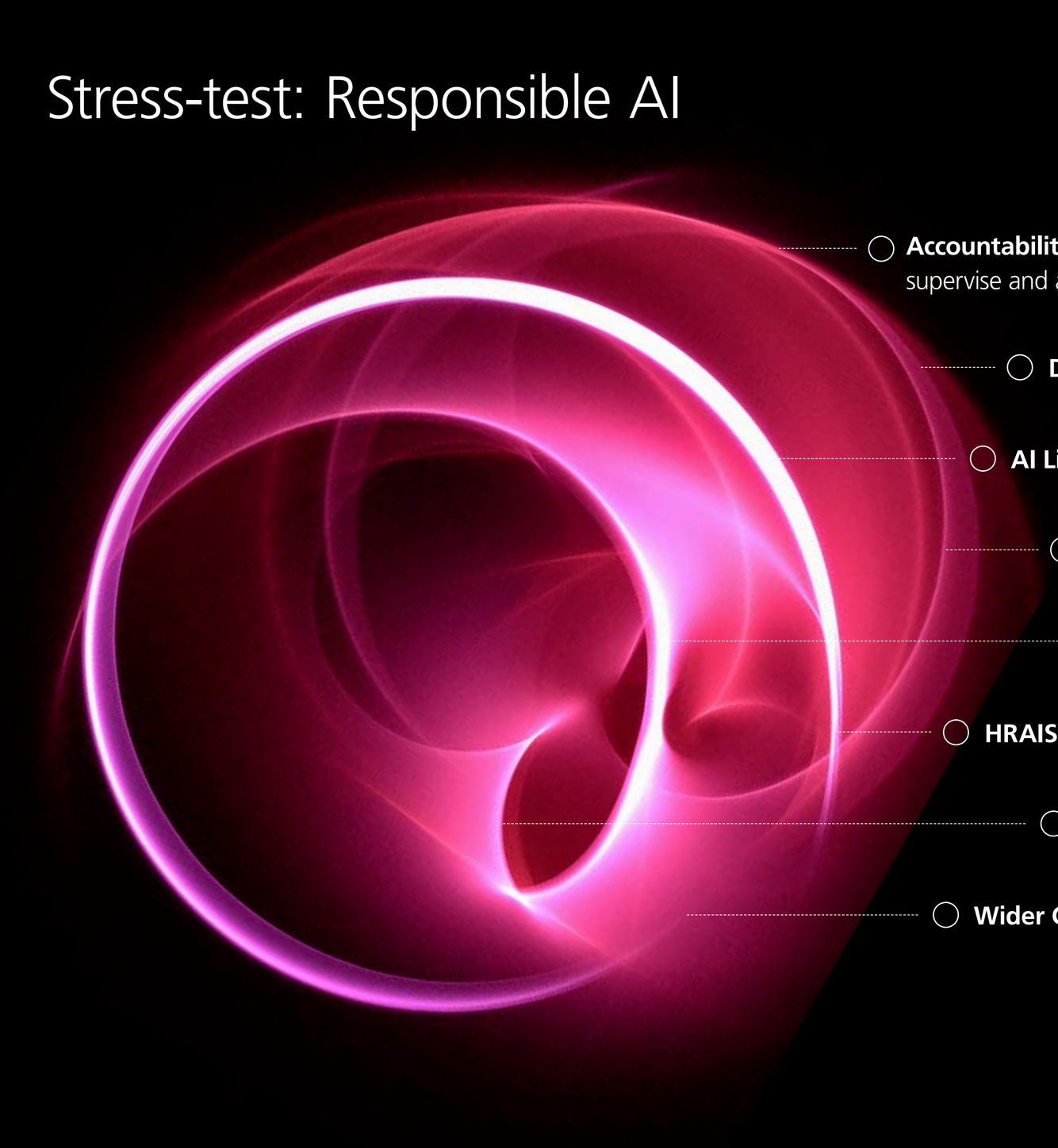
CMS

Stress-test: Responsible AI



- **Accountability:** Does a designated individual monitor, supervise and audit each of your AI systems?
- **Documentation:** Are you documenting the use and purpose of your AI systems?
- **AI Literacy:** Are you training your staff to be sufficiently AI literate?
- **Contracts:** Do your contracts reflect responsibilities in the AI value chain?
- **Assessment:** Are your AI systems prohibited, high-risk or general purpose?
- **HRAIS:** HRAIS providers, deployers, importers/ distributors – are you AIA compliant?
- **GPAIS:** Do you know your AIA obligations re: GPAIS classification, provision, or use?
- **Wider Compliance:** Is your AI system compliant with other applicable laws and regulations?

Talk through your digital strategy with us

If you would like to consult on or stress-test your business' digital strategy with your local CMS experts, please do get in touch with us.

CEE

Dóra Petrányi
Partner, CEE Managing Directorand
Global Co-Head of the Technology,
Media and Communications Group
Global Co-Head of the TMC, CMS
T +36 1 483 4820
E dora.petranyi@cms-cmno.com

Olga Belyakova
Partner, Co-Head of CEE TMT
T +380 44 391 7727
E olga.belyakova@cms-cmno.com

Eva Talmacsi
Partner, Co-Head of CEE TMT
T +44 20 7367 2435
E eva.talmacsi@cms-cmno.com

Bulgaria

Assen Georgiev
Partner
T +359 2 921 9936
E assen.georgiev@cms-cmno.com

Czech Republic

Tomáš Matejovský
Managing Partner
T +420 296 798 852
E tomas.matejovsky@cms-cmno.com

Hungary

Dóra Petrányi
Partner
T +36 1 483 4820
E dora.petranyi@cms-cmno.com

Katalin Horváth
Partner
T +36 1 483 4897
E katalin.horvath@cms-cmno.com

Poland

Tomasz Koryzma
Partner
T +48 607 033 658
E tomasz.koryzma@cms-cmno.com

Romania

Horea Popescu
Managing Partner
T +40 21 407 3824
E horea.popescu@cms-cmno.com

Cristina Popescu
Partner
T +40 21 407 3811
E cristina.popescu@cms-cmno.com

Slovakia

Juraj Fuska
Managing Partner
T +421 2 221 115 26
E juraj.fuska@cms-cmno.com

Ukraine

Olga Belyakova
Partner, Co-Head of CEE TMT
T +380 44 391 7727
E olga.belyakova@cms-cmno.com

Austria and SEE

Gregor Famira
Partner
T +385 1 4825 600
E gregor.famira@cms-rrh.com

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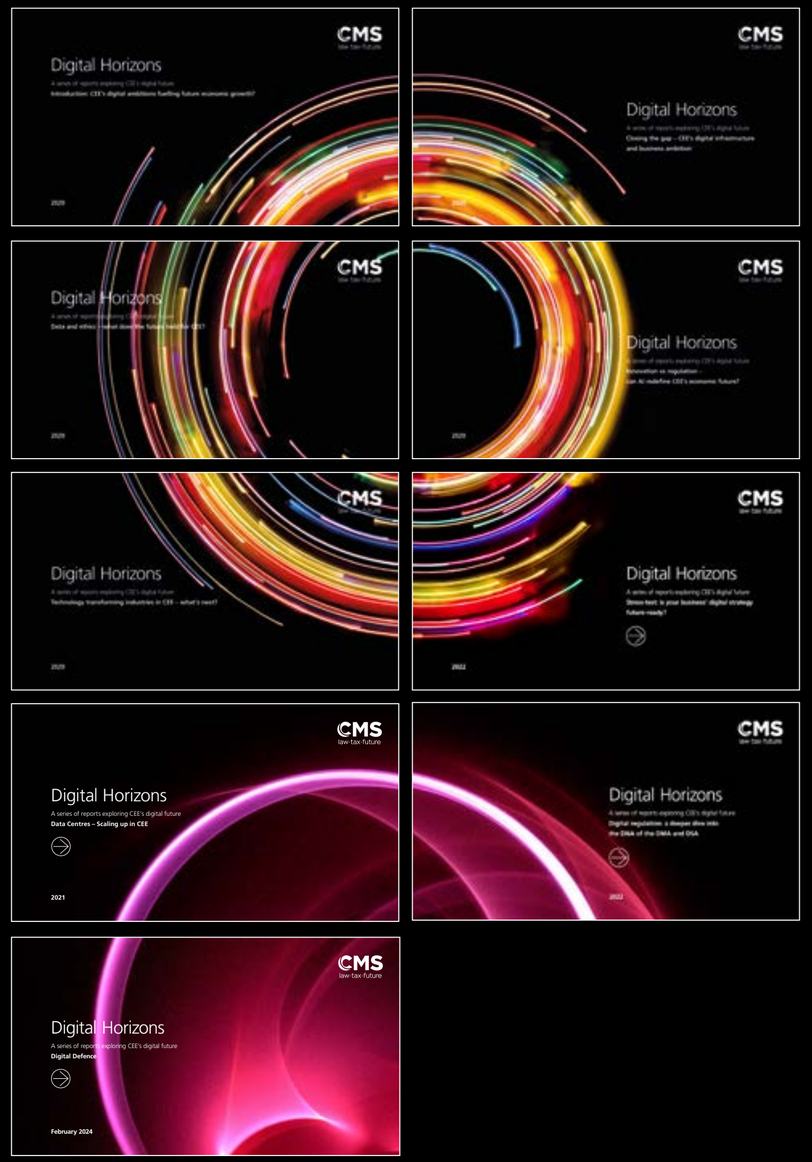

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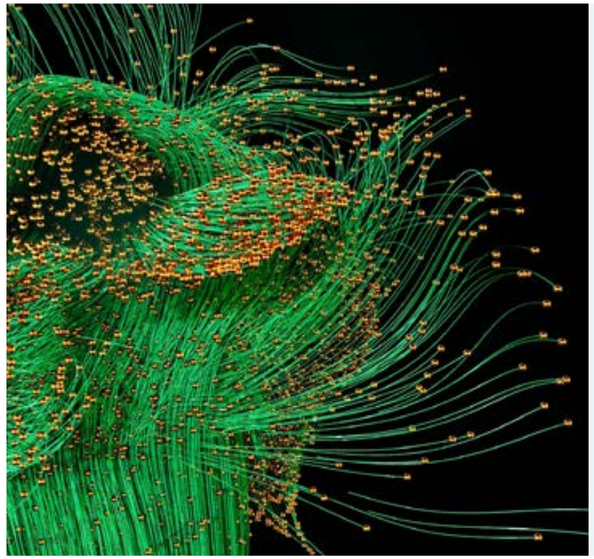

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