

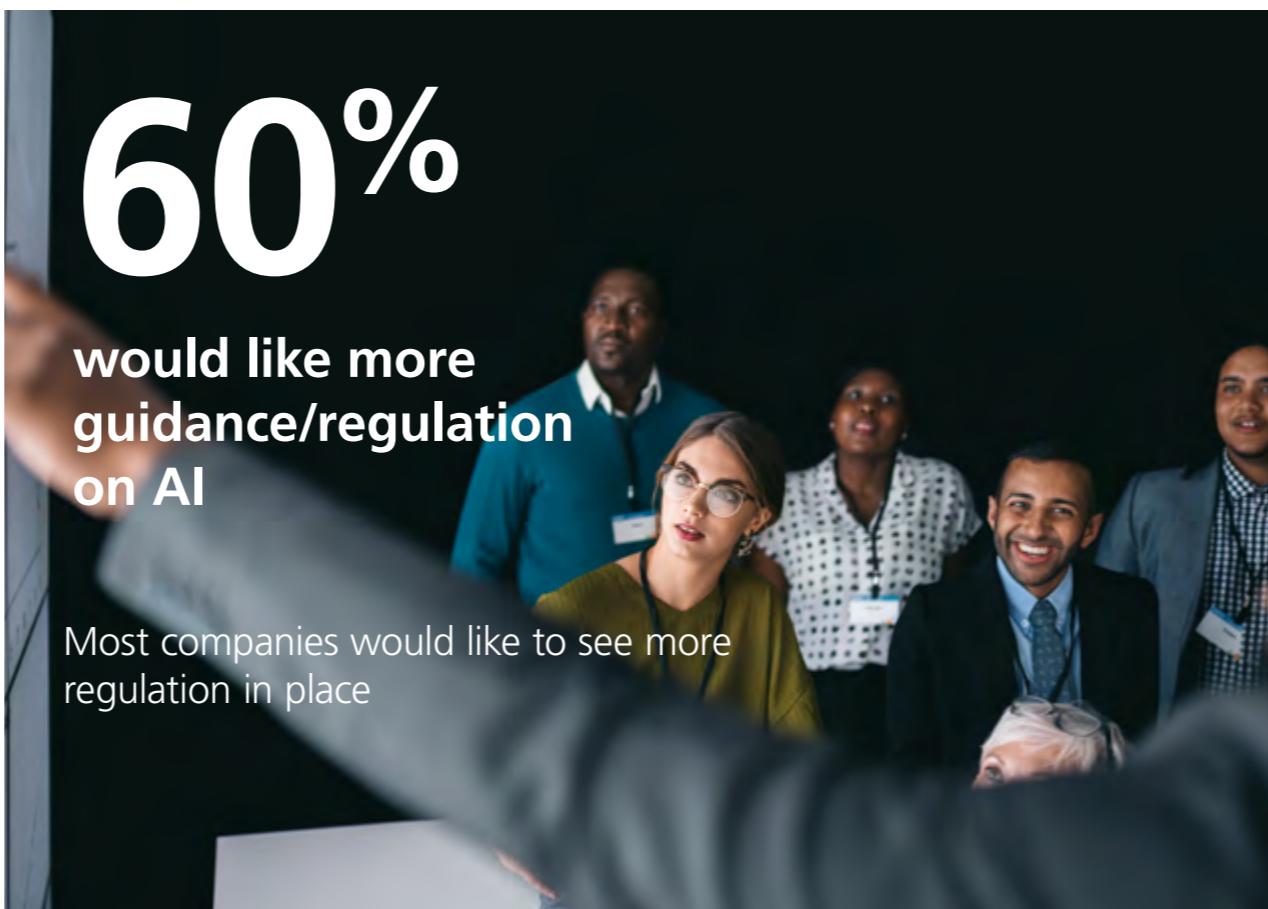
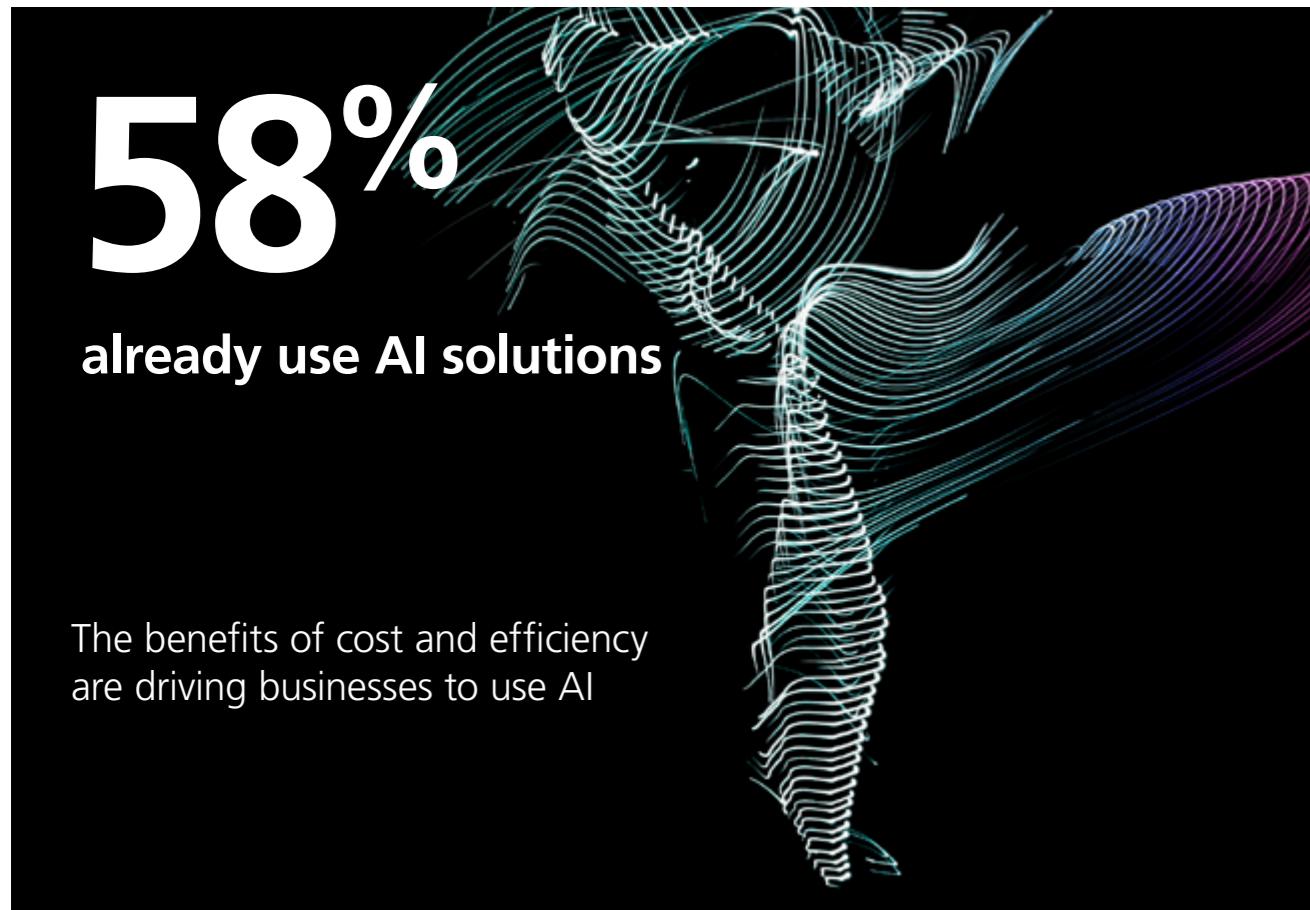
Digital Horizons

A series of reports exploring CEE's digital future

**Innovation vs regulation –
can AI redefine CEE's economic future?**

2020

Data highlights



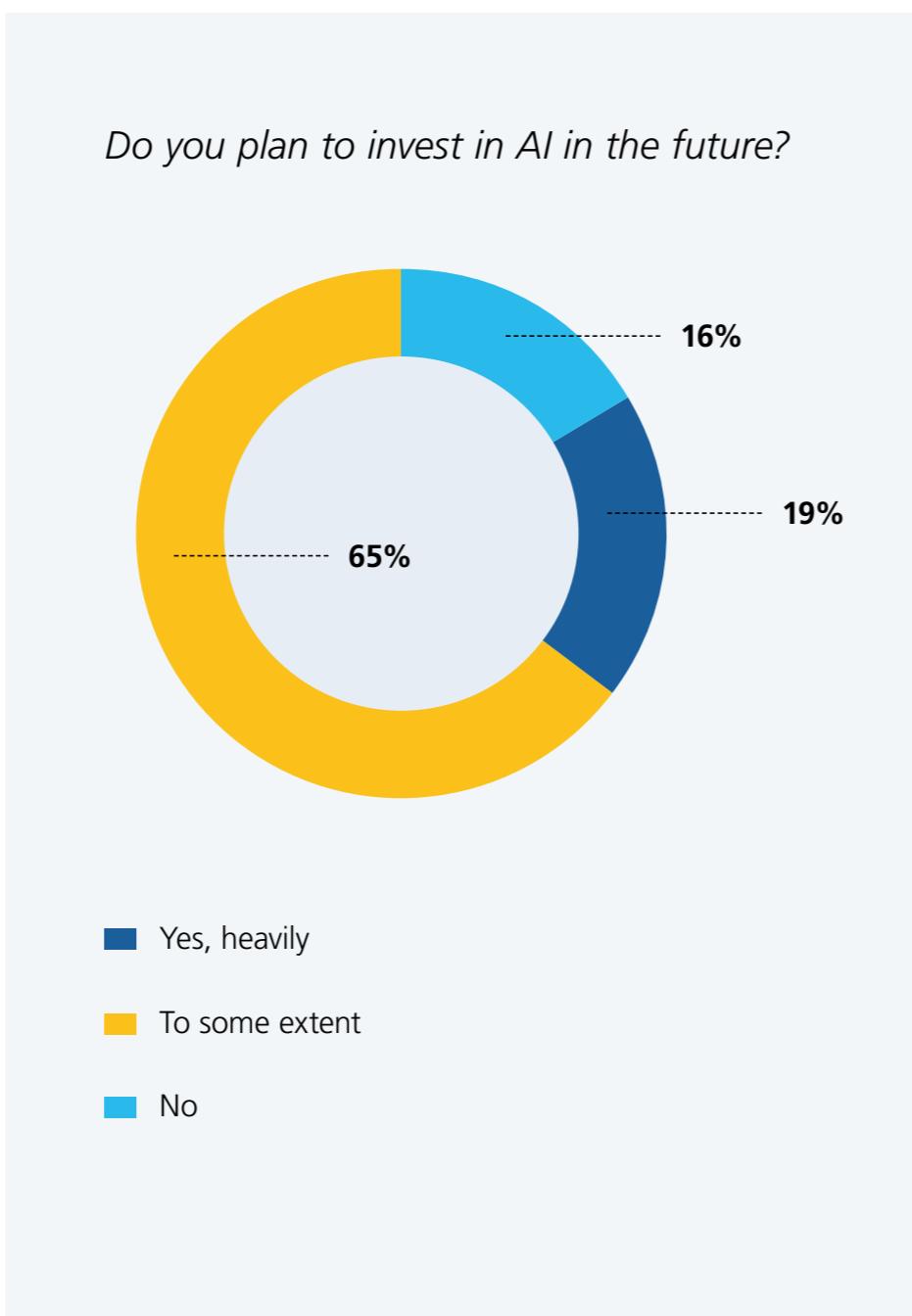
AI's evolution – what does it mean for CEE?

Among the technologies that are set to redefine the world, arguably the most significant is artificial intelligence (AI) - seen by many as the key instrument of change, not least because of what it can deliver in productivity, speed and efficiency. Across the CEE region, as elsewhere, AI is evolving quickly: its tangible benefits are being felt faster and more widely than was anticipated by some businesses.

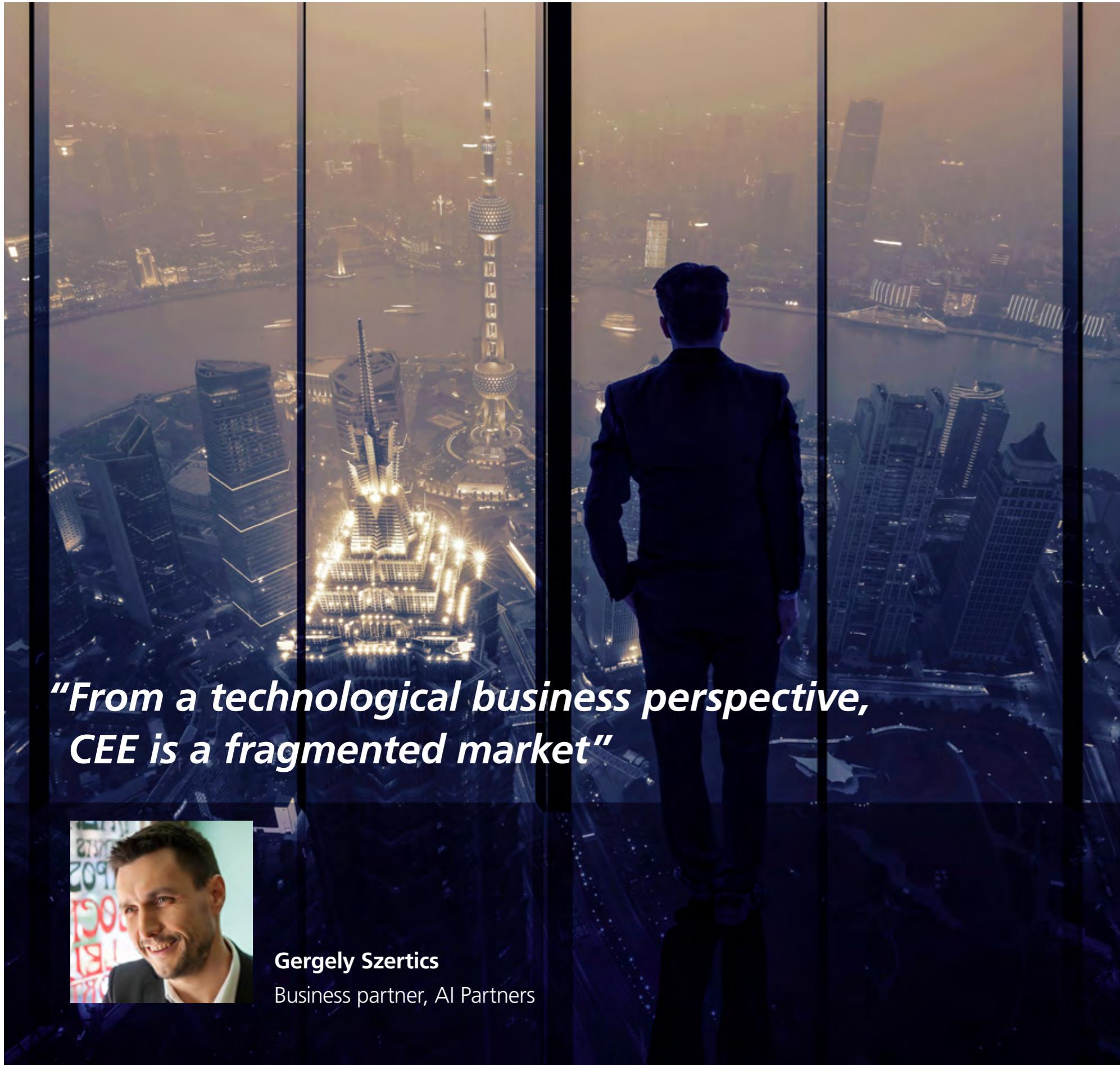
'AI is the future,' says Kamil Šebesta, Legal Director, Medical Devices Group at Johnson & Johnson. **'It is helping to raise quality and standards in the simplification and unification of care, particularly AI solutions that are able to learn. There are some machines that when you give them a substantial amount of information, they are able to learn based on small differences. They can predict outcomes and the best approach.'**

Nevertheless, uncertainty remains elsewhere about what benefits can be derived and when they might reach fruition. **'It's still quite difficult to understand what AI can really do,'** says David Kozák, Honeywell's General Counsel EMEAI. **'Is it data management that can provide me with some results that allow me to make quicker or better decisions? Expectations are really high, but I'm not sure that the outcomes are always there.'**

One thing is certain: every sector, not just TMT and financial services, is already being affected to some degree by new AI systems, new AI architecture, and new AI solutions. Other sectors most likely to see the greatest impact in the 2020s include: healthcare, life sciences, manufacturing, logistics, retail, energy, automotive and transportation. This will not only affect large multinationals operating in CEE, but also smaller national companies that may be less likely to be using AI currently.



Co-operation needed – developing a CEE ecosystem



“From a technological business perspective, CEE is a fragmented market”



Gergely Szertics
Business partner, AI Partners

Although there is huge AI research and business potential in several CEE countries, especially when cooperating together, when acting alone, size and scale can be challenging. ***‘From a technological business perspective, the CEE region is a fragmented market,’*** says Gergely Szertics, business partner at AI Partners. ***‘The platform technologies like IBM, Microsoft and Google, and start-ups that are living on the top of these technology companies, are the key AI business model, although a variety of companies are trying to develop their own services.’***

As a counter to that fragmentation, the V4 countries (the Czech Republic, Hungary, Poland and Slovakia), are seeking to advance co-operation in AI. Their most recent report, AI-Driven Transformation, concluded: ***‘Unlike Lisbon or Stockholm, none of the V4’s major cities are listed in global rankings of start-up hubs. V4 needs a strong ecosystem based on AI, HPC and cybersecurity. The support for concentration of R&D should be coordinated to regional hubs and mutually supportive networks to maximize V4’s competitiveness.’***

To keep pace with AI developments in the US and China, some multinational companies are locating their regional AI R&D functions in CEE. Taking advantage of high levels of local expertise, those which have already done so in Hungary include Nokia and Ericsson. CEE enjoys a large pool of talent in science, technology, engineering, and mathematics (STEM) and ICT, with nearly 250,000 graduates in these subjects—more than any of the EU Big Five markets.

In CEE overall, the current use of AI technology may be uneven across organisations, from country to country and from function to function, but use it they do. From CMS research of nearly 100 companies in the region, nearly 60% already deploy AI solutions. ***‘Right now, in CEE organisations there is AI, including pockets of excellence, but they are isolated because this process has not been evenly diffused throughout organisations,’*** says Amit Joshi, Professor of AI, Analytics and Marketing Strategy at IMD.

Identifying risk - where does liability lie?

Inevitably, banks are among those at the forefront of AI development. András Fischer, Head of Innovation at OTP Bank, explains: ***'We apply machine learning and some AI components to provide personalised offers in our CRM system, via email, and within our online services. We also use this data to feed our chatbots. So, to some extent we use AI, but not like Google or Amazon.'***

Ara Abrahamyan, Chief Digital Transformation Officer at the Erste Group, adds: ***'One of the cornerstones of our digital transformation agenda is data analytics: Generating insights out of the data. We need to make best use of it to better service our clients.'***

Meanwhile the commercial impetus to develop the full potential of what AI can offer businesses in each sector is counterbalanced by the need to mitigate operational and legal risks, which are arguably magnified by the absence of AI-specific regulation.

In a recent CMS survey of the CEE region, security risk and potential legal liability issues in relation to AI are highlighted as significant concerns by the overwhelming majority (86%) of respondents. Olga Belyakova, CMS partner and co-Head of TMT in CEE, explains: ***'Businesses that want to use AI all face the same legal challenges: who has responsibility for using AI systems and any liabilities which may arise?'***

Richard Bacek, General Counsel Siemens, Czech Republic, Romania and Slovakia, develops the point: ***'We need to identify risks, especially in local legislation, regarding liabilities towards customers and the liabilities of our customers towards their customers and third parties, how those risks are treated, and how you can mitigate them at a local level. People who are selling Siemens products that contain AI need to know about the risks.'***



"Who has responsibility for using AI systems and any liabilities which may arise?"



Olga Belyakova

Partner, co-Head of TMT in CEE,
CMS

AI regulation - dampening innovation or sorely needed?

Szertics says: **'Everyone uses AI because it is so sexy and also very useful, but there are no real regulations around it.'** He argues that the EU aspires to be the torchbearer for trustworthy AI as part of its attempt to triangulate the competition between the US and China, which is often framed as a two-horse race. **'I talk to a lot of global companies, who say that the AI race is going to be a trust race and not just a technological race,'** he adds.

Aiming to promote the uptake of AI, while simultaneously addressing the risks associated with its use by examining a potential future regulatory framework, the European Commission (EC) has proposed a White Paper with policy and regulatory options "towards an ecosystem for excellence and trust".

The findings of the EC's consultation on the proposed White Paper were published in July. From the 1215 contributions received, only 3% think that current legislation is fully sufficient, 42% want the introduction of a new regulatory framework on AI, while 33% think that the current legislation needs to be modified. The main focus of new legislation would probably be on potentially high-risk AI applications – e.g. from the viewpoint of protection of safety, consumer rights and fundamental rights.

Explore more on AI:

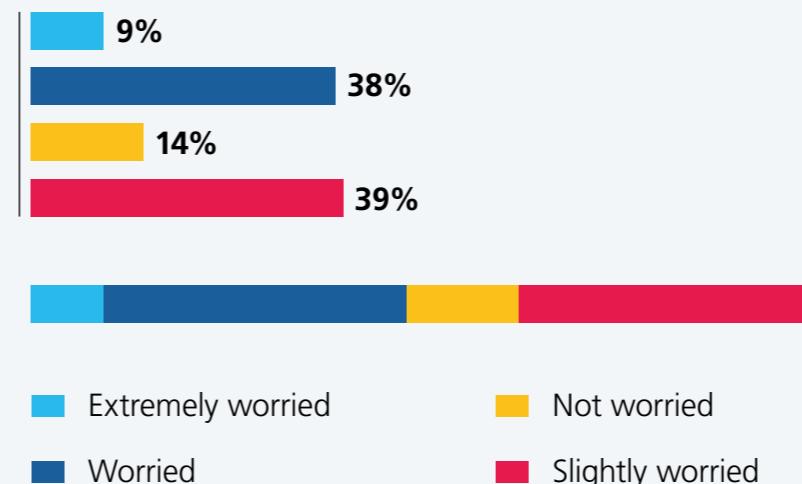
Reflecting a commonly held view, Bacek says: **'It would be good if there's one single legislative approach at a European level – that makes sense, subject to the condition that it's not too bureaucratic.'**

His sentiment is echoed by Gergely Barczy, general counsel at T-Systems Hungary: **'In the future, it will be necessary to regulate AI.'**

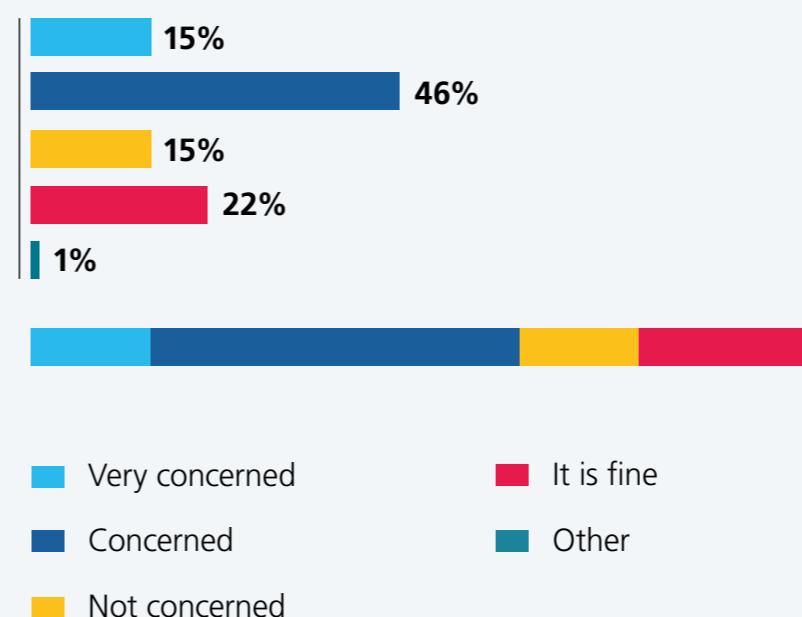
Tomasz Koryzma, Partner at CMS and Head of IP in CEE, adds: **"AI is opening up transformational opportunities in all areas of human activity, but at the same time poses unique risks for companies, governments and society as a whole".**

If AI becomes subject to additional EU regulation, how can protecting European values be achieved without disadvantaging European entrepreneurs, and specifically, those based in CEE? The right balance may be struck by only regulating high-risk areas. For AI to achieve its optimum impact – locally and regionally – adherence to a common set of global principles might be the solution. But for now, that remains some way off.

How worried are you about potential **legal liability** issues when using AI technology/ies?



Are you concerned about **security risks** when using AI and related new technologies?



"AI is opening up transformational opportunities in all areas of human activity, but at the same time poses unique risks for companies, governments and society as a whole."



Tomasz Koryzma
Partner, Head of IP in CEE,
CMS



Stress-test: AI in focus



Ethics: is it crucial to use AI technology in a project?

Do your contractual liability clauses cover AI usage?

Have you done a due diligence of data used by AI systems?

Can AI algorithms ensure data processing avoids competition law risks?

Is AI protected against cyber risks and who bears liability for an incident?

Does AI create any IP? Do you have a legal solution for that?

Does your professional liability insurance cover AI usage?



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.

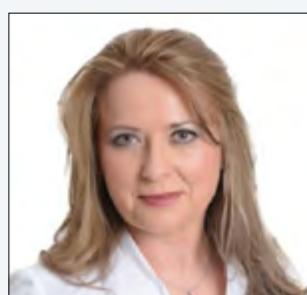
CEE



Dóra Petrányi
Partner, CEE Managing Director
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
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

Poland



Tomasz Koryzma
Partner
T +48 22 520 8479
E tomasz.koryzma@cms-cmno.com

Romania



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

Slovakia



Petra Čorba Stark
Partner
T +421 940 637 825
E petra.corbastark@cms-cmno.com

Ukraine

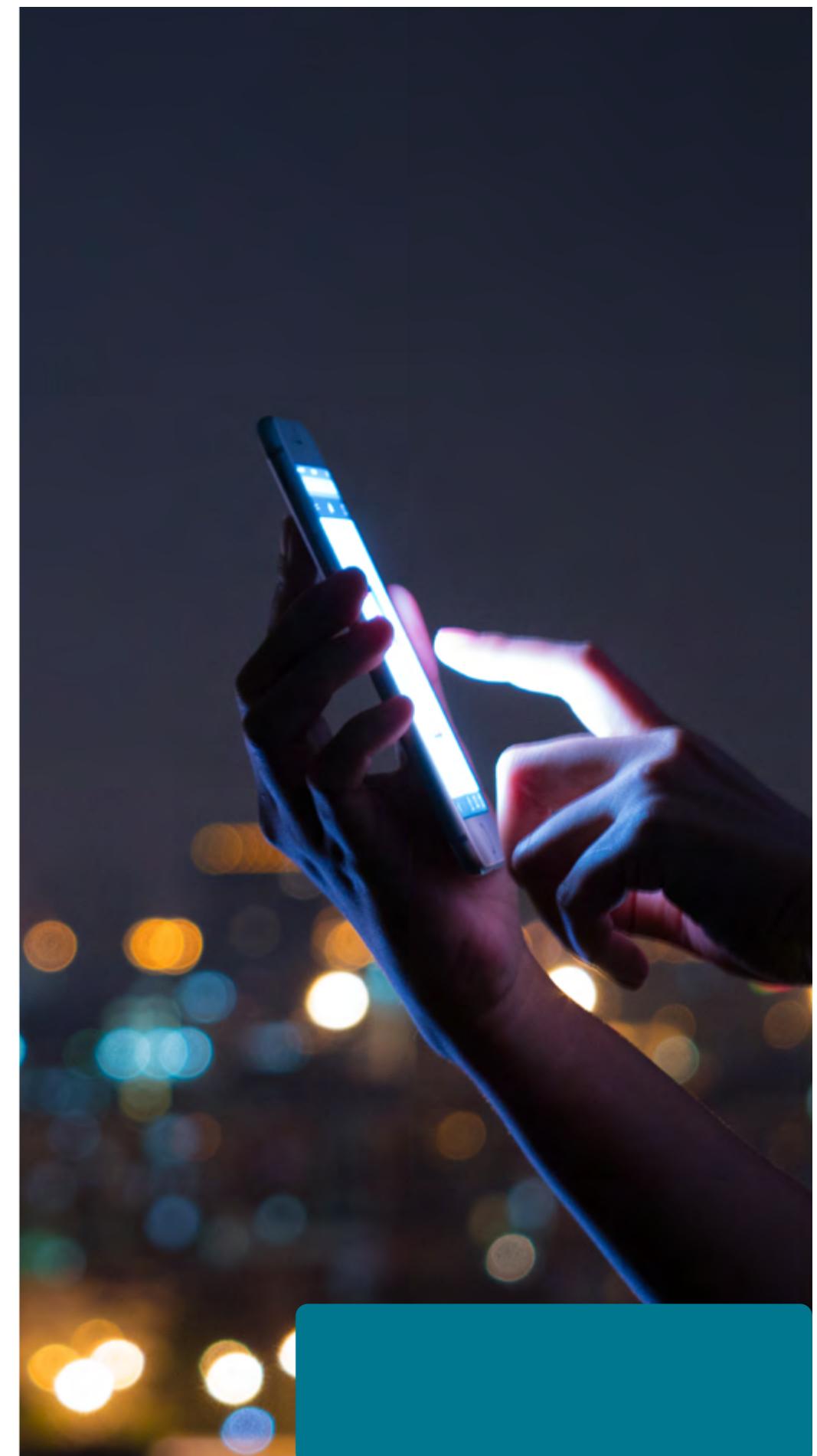


Olga Belyakova
Partner
T +380 44 391 7727
E olga.belyakova@cms-cmno.com

Austria and SEE



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



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Innovation vs regulation – can AI redefine CEE's economic future?

Technology transforming industries in CEE – what's next?

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