Indian Economy · GS - III

Artificial Intelligence is transforming financial markets but also creating new regulatory risks. Examine the need for a balanced regulatory framework for AI in India's capital markets.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 15/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Algorithmic trading, investor protection, market manipulation, data privacy, algorithmic bias, transparency, human oversight, accountability, regulatory innovation, SEBI.

Model Answer

Introduction

Artificial Intelligence is increasingly being used in securities trading, investment advisory and risk management. While it improves efficiency and analytical capabilities, its unregulated use can create systemic and investor-related risks.

Opportunities and Risks

AI can accelerate transactions, improve fraud detection and strengthen market surveillance. However, opaque algorithms, biased recommendations, data breaches, automated errors and coordinated market manipulation can undermine investor confidence and market stability.

Need for Regulatory Oversight

SEBI's proposed AI guidelines reflect the need for responsible technological adoption. A balanced framework should ensure transparency, data privacy, accountability and mandatory human oversight in high-impact decisions. Market intermediaries must remain responsible for AI-driven activities and comply with existing securities regulations.

Way Forward

SEBI should promote risk-based regulation, independent algorithmic audits, cybersecurity standards and clear grievance-redressal mechanisms. Regulatory sandboxes can encourage innovation while testing emerging technologies under supervision.

Conclusion

India needs an innovation-friendly yet accountable AI governance framework to protect investors, maintain market integrity and strengthen confidence in its capital markets.

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