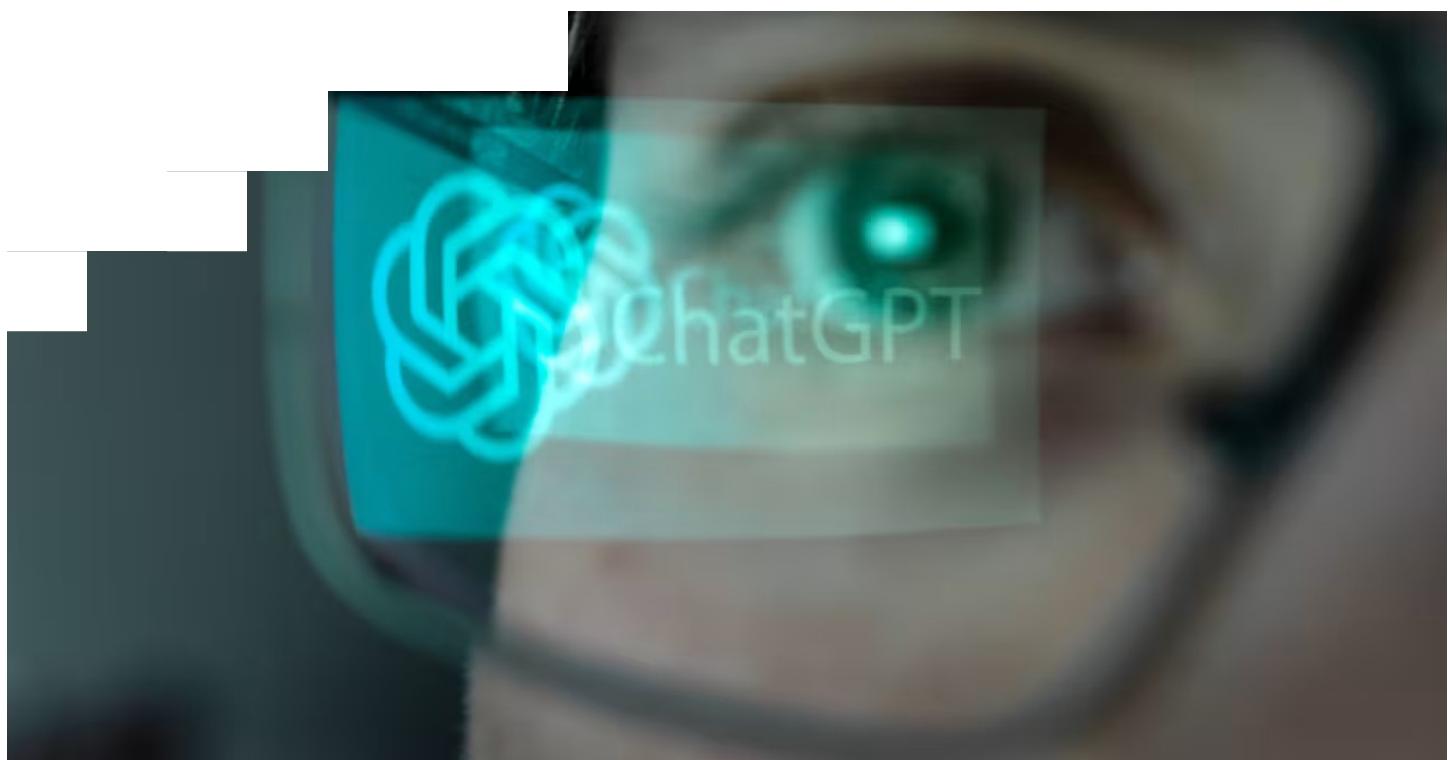


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Compliance Feels AI's Pull, but Doesn't Know Where It Will Lead

By Max Fillion



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AI hype is everywhere, including compliance departments.

With a recent wave of white-collar layoffs fueled by the increased use of artificial intelligence—and with executives pushing remaining employees to use the technology—compliance officers are feeling pressured to adapt it for use in daily tasks.

But compliance professionals, consultants and lawyers who spoke with Risk Journal said they are only just beginning to test the technology, with many still using it for basic tasks such as running a policy through a chatbot for feedback or scanning the internet for regulatory updates. Many professionals lured by buzzy promises of increased efficiency may not yet know how AI can help with everyday compliance tasks.

“They’re open to something they don’t understand,” said Zach Coseglia, co-founder of data analytics consulting firm CDE Advisors. “You look around and say ‘All my friends are buying Ferraris, I gotta buy a Ferrari,’ but you only drive within 2 miles of your home.”

That hasn’t stopped people from trying. According to a Moody’s survey of compliance professionals in September, some 53% of respondents said they are actively using or testing AI, up from 30% in 2023.

In the sandbox

Growing adoption could in part be due to messaging from the Trump administration, said Amy Schuh, a Morgan Lewis partner who specializes in improving corporate compliance programs.

When President Trump in February issued an executive order pausing foreign bribery enforcement and claimed it put U.S. companies at a disadvantage, compliance executives felt as if they had breathing room to experiment, including by testing out AI, Schuh said.

“There is a lot of dialogue around, ‘Maybe now is our time to play in the sandbox in a way that we didn’t feel comfortable with because we were in the crosshairs of potential enforcement,’ Schuh said. “[T]here may not be negative consequences to getting it wrong right now.”

A good place to start exploring how AI could help in compliance efforts would be through large language model chatbots, which typically offer businesses additional protections to keep proprietary information secure, Schuh said. Dow Jones has such a deal with Google’s Gemini.

"Think about your code, policies, procedures," Schuh said. "There is no reason not to run that stuff through ChatGPT and basically say 'What am I missing that my competitors have? How do I make this shorter, more concise, more digestible'... How wrong can they get it? If you don't like it, you just don't use it."

Compliance departments can also look to their software vendors, such as those offering tools that flag suspicious transactions, to see if they have added AI features recently, Schuh said. But relying on a third party's offering without understanding how its model identifies and flags information is more risky, she added.

Some businesses have even begun pushing outside lawyers to start using the technology. Since the launch of OpenAI's ChatGPT in 2022, a landmark event many view as the start of widespread AI adoption, Clifford Chance clients have been asking questions about how the firm is using AI to cut costs, said white-collar partner Josh Berman.

"One [example] might be tech that allows us to build chronologies in a fact-intensive investigation," Berman said. "Fifteen years ago, you'd be handing that work to a group of lawyers, mainly associates. Now you can put this information into technology and get at least a skeleton or a detailed structure that becomes a starting point."

Regardless of how a company uses AI, it should establish a risk committee that regularly tests the technology and thinks through privacy implications of monitoring employees for fraud or other misconduct, said Mikhail Gordon, a managing director with consulting firm Affiliated Monitors who also lectures on artificial intelligence at the University of Surrey in the U.K.

Text and patterns

Many compliance experts say one of the main AI use cases is in absorbing large amounts of text and identifying patterns the human eye may not catch.

Adam Leber, a chief compliance officer for Morningstar's wealth, retirement and research arm, said his team has been tinkering with prompts fed into a large language model chatbot to review marketing materials for potential regulatory violations.

“You’d say, ‘You’re a compliance officer with many years of experience — you’re looking for problematic things based on the rules and regulations that exist under these different regimes, and then when you provide responses they should be clear and concise,’” Leber said. “They should cite the sources that you’re looking at and the users of this application will be marketing folks so consider that when you form a response.”

“A lot of these prompts become pages upon pages of how you want it to think,” Leber added, “It’s almost like teaching a very junior person, somebody who just came out of college.”

Working so-called “hallucinations” out of responses — instances in which AI makes up an answer — took some work, Leber said. A team member started by asking the agent about a fictitious “dandelion clause” being considered by the U.S. Securities and Exchange Commission to get a better understanding of how a made up answer might look. The team eventually developed a paragraph of language to try to stop the agent from hallucinating answers.

Leber said his team is also developing an AI agent that tracks regulators and legislative bodies for developments the team needs to keep an eye on. Instead of monitoring each authority’s website, the agent would be able to give his team a summary of what’s happening globally.

“It’s not going to replace the actual work that needs to be done,” Leber said. “But it certainly gives us a much easier way to understand where we need to focus our time.”

Although threats that AI will take jobs from humans are plastered across the internet — and recent layoffs appear to partially bear that out — experts said it would never fully replace human input.

“You need humans who have the ability to reason, who know other human behaviors, who understand nuances and distinctions,” Gordon said. “These systems are picking up patterns but they don’t know the differences between them.”

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Max Fillion, Reporter at Dow Jones Risk Journal, covers the biggest issues facing compliance professionals across the world. He often writes about sanctions, foreign bribery, illicit finance, competition, trade, data privacy and a range of other topics. He has spent his entire career covering corporate legal issues.

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