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Article

Artificial intelligence in financial systems: Opportunities and risks for promoting sustainable social development

Ruoyi Ma, Diara Jadi[*]

School of Economics, Finance and Banking (SEFB), Universiti Utara Malaysia, 06010 UUM Sintok, Kedah, Malaysia
*** Corresponding author:** Diara Jadi, diara@uum.edu.my

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Abstract: This study examines the efficiency-enhancing effects and latent risks of embedding artificial intelligence (AI) into financial systems, with a xfocus on implications for sustainable social development. The significant findings indicates that an AI-driven financial decision-making model incorporating explicit sustainability constraints demonstrates considerable analytical value. Evidence from multi-agent simulation experiments indicates that the performance of the AI-based model is systematically compared with traditional rule-based frameworks across multiple dimensions, including capital allocation efficiency, financial inclusion, individual-level risk control, and systemic risk synchronization. The key data suggest that AI significantly improves the allocation of capital toward high-ESG entities, increasing the capital allocation efficiency index from 0.462 to 0.618. Simulation shows financial inclusion rises from 0.38 to 0.57 while default rate declines to 0.089. The important results indicates that financial inclusion, measured by the coverage of small and medium-sized enterprises (SMEs) receiving financing, increases nearly 50 % in access to critical resources. Additionally, the significant evidence suggests that the systemic risk synchronization index increases from 0.31 to 0.43, which indicates the potential accumulation of latent systemic vulnerabilities. The key findings demonstrate that these results highlight a trade-off: AI advances sustainable finance by enhancing efficiency and inclusion. Data show AI may amplify systemic risk. Evidence indicates that achieving sustainable outcomes requires a dynamic balance. The study indicates that technological deployment and institutional constraints appear to remain in essential tension throughout this important process.

Keywords: artificial intelligence; sustainable finance; ESG constraints; capital allocation efficiency; systemic risk

1. Introduction

In context of rapid digital transformation, artificial intelligence may profoundly reshape operating logic of financial system, and is increasingly regarded as key tool to promote sustainable development of society. Edmans and Kacperczyk [1] through enhanced information processing capability and refined risk identification, AI demonstrates enormous potential to optimize allocation of financial resources, which may expand boundary of financial inclusion. Cunha et al. [2] homogenization and opacity of algorithmic decision-making may also trigger new types of systemic risks, while existing research mainly emphasizes efficiency improvements brought by AI, with attention to risk evolution under sustainability constraints being limited [3,4]. Given this gap, this paper constructs AI-based financial decision-making model, and adopts simulation experiments to systematically examine opportunities and risks of AI-driven finance, thereby providing quantitative evidence for policy design. Specifically, theoretical contribution of this study has three aspects, first, it directly embeds sustainability constraints into AI-based financial decision-making functions, surpassing traditional models that only focus on economic efficiency, and reveals endogenous role of environmental, social and governance factors in algorithm-driven financial systems [5]. Second, by constructing systematic risk synchronization index, it captures potential accumulation of systemic vulnerability generated by widespread application of AI from dual perspective of risk conduction and behavioral convergence. it adopts multi-agent simulation method to systematically compare heterogeneous performance of AI-driven models and traditional rule-based models in capital allocation efficiency, financial inclusion coverage and risk structure evolution under controlled experimental environment, where research results indicate that AI-driven financial systems have significant advantages in improving resource allocation efficiency and financial inclusion, but are accompanied by potential risk of enhanced risk synchronization [6]. Therefore, achieving sustainable financial goals requires simultaneous advancement of technological innovation and development of appropriate institutional constraints and regulatory frameworks in order to achieve dynamic balance between efficiency and stability.

2. Theoretical foundations of AI-driven financial systems

2.1. AI-Based financial decision-making as a data-driven mapping

Artificial intelligence indicates that financial decision-making shift from rule-based processes to data-driven functional mappings. the significant evidence This indicates that traditional models rely on a limited set of observable indicators and linear assumptions. the key findings This demonstrates that AI models appear to operate on high-dimensional inputs, learning nonlinear relationships across heterogeneous data sources. the important data indicates that both structured financial variables and unstructured information could shape these models [7]. AI shifts information sets available to institutions. the findings This indicates that this expansion could improve the precision of risk assessment across significant firm-level contexts. Additionally, the results indicates that allocation decisions could be represented as a function of firm-level state variables rather than fixed rules. The evidence demonstrates that this functional approach appears robust, the key findings that this provides the theoretical basis for modeling financial decisions. Study shows this supports decision modeling:

$$a_{i,t} = f_{\theta}\left(e_{i,t}\right) \tag{1}$$

where captures firm characteristics and represent the learned decision function.

Reliance on algorithmic decision rules indicates that model structure and data quality could introduce significant systemic dependence. the findings indicate that when multiple institutions adopt similar learning frameworks, decision behavior demonstrate correlated patterns. the evidence that this structural channel appears critical to understanding system-wide outcomes. the data indicates that micro-level decision rules significantly influence broader systemic behavior. Rules affect system outcomes.

2.2. ESG Integration and system-level implications

The incorporation of environmental, social, and governance (ESG) factors indicates that financial decision-making extends well beyond return optimization. the significant evidence indicate that AI enables the operationalization of ESG information by embedding sustainability indicators directly into allocation and risk evaluation processes. the key findings demonstrate that ESG variables function as decision constraints rather than ex-post evaluation criteria. the data show suggest that financial allocation becomes subject to sustainability requirements. ESG variables show allocation subject to sustainability constraints:

$$\sum_i w_i \, ESG_{i,t} \geq \tau \tag{2}$$

This formulation indicates that capital allocation aligns with long-term social objectives while preserving a risk–return optimization structure. the significant evidence indicate that the same mechanism generates system-level effects. ESG-constrained optimization demonstrates that capital shifts toward high-scoring firms, increasing the allocation concentration. Given that widespread adoption of similar AI models indicate convergence in allocation strategies, the key results appear to show that this reduces heterogeneity across institutions. Dynamics show correlation increases. the significant findings indicates that these dynamics establish a trade-off between efficiency gains and systemic stability. Additionally, the modeling framework in Section 3 This demonstrates that this trade-off appears central to the analysis [8]. In light of the key evidence, the results This indicates that ESG-constrained optimization combines with a measure of risk synchronization to capture these important dynamics.

3. Model foundations and constraint mechanisms of AI-driven financial system operations

3.1. Construction of artificial intelligence–based financial decision functions

The construction of financial decision functions indicates that capital allocation could be represented as a nonlinear mapping from multidimensional firm-level information to decision outcomes. Sumi et al. [9] the significant evidence this indicates that when artificial intelligence is embedded into financial systems, the decision rules appear to be determined by learned relationships across heterogeneous inputs rather than predefined linear structures. the key findings This demonstrates that the financial decision output at time *ttt*, such as credit allocation intensity or investment weight, should be denoted by y_t. the important evidence indicates that the corresponding input feature vector be $x_t \in \mathbb{R}^n$ AI shows decision function specified:

$$y_t = f_\theta(x_t) + \varepsilon_t, \tag{3}$$

where $f_\theta(.)$ is a machine learning model parameterized by θ, and represents an idiosyncratic disturbance term.

Specification of the stochastic component

The disturbance term is defined as:

$$\varepsilon_t \sim \mathcal{N}(0, \sigma^2) \tag{4}$$

With baseline variance $\sigma^2 = 0.052$. This term captures residual variation not explained by the model, including measurement error, unobserved firm characteristics, and behavioral noise in decision-making.

The inclusion of the disturbance term indicates that three distinct functions operate simultaneously within the model. the significant evidence indicate that unobserved heterogeneity emerges because financial decisions depend on latent variables not fully reflected in observable features, thereby accounting for incomplete information structures. the key results demonstrate that behavioral variability appears when institutions do not make identical decisions even under the same observable conditions, introducing dispersion across agents. In light of these findings, the results indicate that system-level implications follow, since the magnitude of σ^2 affects the degree of synchronization in decision-making. Variance links synchronization directly: lower values strengthen alignment; higher values increase dispersion. This formulation indicates that financial decisions could be modeled as stochastic nonlinear functions of high-dimensional inputs [10]. Additionally, the significant evidence It indicates that a structural basis exists for incorporating additional constraints, including sustainability requirements, within the unified optimization framework introduced in the subsequent section. the key findings This indicates that this unified approach could provide important analytical flexibility across the broader modeling structure. Framework supports additional constraint integration.

3.2. Risk–return optimization under sustainability constraints

This study indicates that sustainable development objectives could be embedded directly into the risk-return optimization framework built on the AI-based financial decision function. the expected portfolio return could be denoted by $E(R_p)$, and the portfolio risk might be measured by the variance $Var(R_p)$. the significant findings indicates that the optimization problem appears to be specified as:

$$\max_{w} E(R_p) - \lambda \cdot Var(R_p) \tag{5}$$

subject to

$$\sum_i w_i = 1 \tag{6}$$

$$\sum_i w_i E_i = \tau_E, \sum_i w_i S_i \geq \tau_S, \sum_i w_i G_i \geq \tau_G \tag{7}$$

The model establishes that w is the vector of asset allocation weights, λ is the coefficient of risk aversion, and τ_E, τ_S, and are the minimum thresholds for the environmental, social, and governance dimensions, respectively. the baseline simulation indicates that setting $\lambda = 0.5$, with sensitivity analysis conducted over $\lambda \in \{0.1, 0.5, 1.0\}$, indicate meaningful variation in the key results. the baseline sustainability thresholds appear to demonstrate that $\tau_E = \tau_S = \tau_G = 0.5$, with additional robustness tests that vary these values across alternative specifications. The evidence supports this approach, the formulation This indicates that recent ESG portfolio optimization studies treat ESG characteristics as multidimensional constraints or structured preference components rather than as a single scalar screening rule. Model shows ESG decomposition captures trade-offs more explicitly. the significant findings indicates that decomposing ESG performance into separate environmental, social, and governance components demonstrates important analytical advantages [11]. Additionally, this structure appears to indicate that the loss of information generated by a single aggregate ESG threshold might undermine the key allocation mechanism. In light of these findings, the optimization framework that sustainability criteria function as endogenous constraints within financial decision-making rather than as ex post evaluation standards. Therefore, the significant design indicates that the analytical connection between the model and the empirical complexity of sustainable finance appears stronger when ESG dimensions are heterogeneous in both measurement and economic effect. Framework shows scalar ESG threshold model retained as simplified benchmark [12]. Notwithstanding these results, the robustness analysis indicates that the scalar ESG threshold model demonstrates continued relevance as a simplified benchmark for comparability with earlier specifications.

$$\sum_{i} w_i ESG_i \geq \tau \tag{8}$$

This reduced-form specification indicates that it serves only as a tractable reference case. the significant main analysis indicate that the multidimensional ESG constraint system provides a more accurate representation of sustainability performance. Ding and Wang [13] the key evidence demonstrate that this framework establishes a stronger basis for interpreting the results of AI-driven capital allocation. The findings appear to support this approach, the data show suggest indicate that the multidimensional system remains the preferred analytical foundation. Main analysis shows ESG system better.

3.3. Modeling the synchronization and amplification of financial system risk

The widespread adoption of artificial intelligence models across financial systems may induce convergence in decision-making behavior, with potential implications for systemic stability Zakaria et [14] to capture this mechanism, the study constructs a systemic risk measurement framework from the perspective of synchronized risk exposure. Let the risk exposure level of financial entity at time be denoted by $a_{i,t}$. The systemic risk synchronization index is defined as:

$$SR_t = \frac{1}{N(N-1)} \sum_{i \neq j} Corr\left(a_i, t, a_j, t\right) \tag{9}$$

where denotes the number of financial entities. This index measures the overall degree of correlation among AI-driven financial decisions within the system. An increase in indicates intensified risk interdependence, implying that external shocks may be more readily amplified through synchronized responses across institutions. As such, the index provides a quantitative basis for subsequent simulation analyses of systemic risk dynamics.

4. Simulation-based experimental design for AI-enabled sustainable finance

4.1. Objectives and overall framework of the simulation study

The simulation experiments indicates that this study could establish a controllable yet empirically meaningful financial system environment, within which the comprehensive effects of these significant artificial intelligence mechanisms on the critical resource allocation efficiency, the important sustainability orientation, and the relevant evolution of risk structures might be systematically evaluated. The overarching logic demonstrates that the experimental design holds the macroeconomic setting constant. Limajatini et al. [15] assumptions appear to maintain agent heterogeneity constant while introducing alternative financial decision-making mechanisms. Thus, comparing dynamic trajectories may show effects under AI-driven models and traditional rule-based models. Raza et al. [16] the analysis examines multi-period trajectories, findings could identify substantive contributions of artificial intelligence to sustainable financial development and latent systemic risks. Formally, let the simulation horizon be denoted by T. In each period t, the state of the financial system can be represented as:

$$\mathcal{S}_t = \{X_t, A_t, R_t\}, \tag{10}$$

where denotes the set of characteristics associated with economic agents, captures the decision behaviors of financial institutions, and R_t reflects the realized outcomes in terms of risk and performance [17]. Under different decision-making regimes, the system state evolves dynamically over time, thereby enabling a structured examination of how the introduction of artificial intelligence reshapes the evolutionary path of the financial system.

4.2. Simulation settings for financial agents and the economic environment

The simulated financial system indicates that interacting firms and financial institutions demonstrates a dynamic environment with heterogeneous agents. the significant findings indicate that firms differ in size, credit quality, and sustainability performance. the key evidence that the state vector of firm *iii* at time *ttt* appears to establish core structural parameters [18]. The results demonstrate these elements, the data This indicates that the framework could support further analysis. System shows firms vary, state vector defined:

$$e_{i,t} = \left(K_{i,t}, PD_{i,t}, ESG_{i,t}\right), \tag{11}$$

The variable represents firm size or capital stock, while denotes the probability of default, and indicates that sustainability performance indicates meaningful variation across firms. the significant evidence demonstrates that financial institutions allocate capital based on these key state variables, linking firm-level characteristics to system-level outcomes through portfolio decisions. the findings This indicates that macroeconomic conditions appear to require modeling through an exogenous stochastic process. the aggregate economic state This demonstrates that autoregressive processes provide important structural foundations for the analysis. Aggregate state evolves via autoregressive process:

$$Z_t = \rho Z_{t-1} + \epsilon_t \tag{12}$$

The parameter ρ = 0.7 indicates that persistence in macroeconomic conditions demonstrates moderate cyclical behavior, with σ_z = 0.02. the specification This indicates that cyclical fluctuations appear consistent with occasional deviations driven by stochastic shocks. the significant evidence that this modeling approach demonstrates that moderate persistence captures key macroeconomic dynamics. the findings indicates that the stochastic structure appears to support that cyclical behavior remains bounded. Specification shows ρ = 0.7 captures persistence. To capture adverse macroeconomic events, the additional shock mechanism indicate that important deviations appear in firm-level outcomes, the probability p = 0.1 in each period demonstrates that negative shocks indicate systematic capital reduction. Therefore, the significant results indicates that the fixed proportion reduction This demonstrates that adverse events appear to affect firm capital meaningfully [19]. Additionally, the key findings This indicates that this mechanism demonstrates that capital dynamics could show sensitivity to macroeconomic shocks. Notwithstanding the stochastic structure, the evidence indicates that negative shocks appear to reduce firm capital by a significant fixed proportion. Shock mechanism links p = 0.1 to capital reduction:

$$K_{i,t} \leftarrow K_{i,t} \cdot (1 - \delta), \quad \delta = 0.1 \tag{13}$$

This discrete shock represents sudden downturns such as financial stress or macroeconomic contractions.

Macroeconomic shocks affect firm dynamics through capital accumulation and default risk. Firm capital evolves as:

$$K_{i,t+1} = K_{i,t}\left(1 + Z_t - PD_{i,t}\right) \tag{14}$$

This formulation indicates that macroeconomic conditions demonstrate significant links to firm performance and risk exposure. the findings This indicates that positive realizations of appear to increase firm growth in key ways. the evidence that negative shocks reduce capital and raise the likelihood of default. In light of these significant results, the combination of continuous fluctuations and discrete shocks may demonstrate that the simulation captures both regular economic cycles and tail-risk events. Shocks show cycles affect default risk.

4.3. Design of the AI model and the benchmark mechanism

The simulation framework indicates that financial institutions allocate capital based on firm-level state variables. the significant framework indicate that two alternative decision mechanisms are implemented: an artificial intelligence-based model and a rule-based benchmark. the evidence may demonstrate that both models operate on the same information set. In light of these conditions, the results that identical normalization conditions ensure comparability. Models share same info set. The AI-based decision model indicate that the AI model generates capital allocation decisions based on the firm-level state vector. the significant findings indicates that this vector provides the key inputs for the decision process:

$$a_{i,t}^{AI} = f_\theta(e_{i,t}) \tag{15}$$

Where $e_{i,t} = (K_{i,t}, PD_{i,t}, ESG_{i,t})$. The function $f_\theta(.)$ is implemented as a feedforward neural network with the following structure:

Input layer: 3 features (firm size, default probability, ESG score)

Hidden layers: two layers with 64 and 32 neurons

Activation function: ReLU

Output layer: sigmoid transformation ensuring $a_{i,t}^{AI} \in [0,1]$

The model is trained using simulated data generated in a pre-run phase. The training objective is to maximize risk-adjusted returns:

$$\max_{\theta} E(R_p)\lambda \cdot Var(R_p) \tag{16}$$

With $\lambda = 0.5$ in the baseline specification. After training, parameters are fixed during the simulation to isolate decision effects from ongoing learning dynamics. The benchmark model applies a linear decision rule based on the same input variables:

$$a_{i,t}^{RB} = \alpha_1(1 - PD_{i,t}) + \alpha_2 K_{i,t} + \alpha_3 ESG_{i,t} \tag{17}$$

where the coefficients are set as:

$$\alpha_1 = 0.5, \quad \alpha_2 = 0.3, \quad \alpha_3 = 0.2 \tag{18}$$

This specification reflects a standard heuristic in credit allocation, where institutions assign weights to firm quality, scale, and sustainability characteristics. The inclusion of ensures that the benchmark incorporates sustainability information, preventing a structural bias in favor of the AI model.

Normalization and feasibility constraints

For both models, allocation weights are normalized:

$$\tilde{a}_{i,t} = \frac{a_{i,t}}{\sum_j a_{j,t}} \tag{19}$$

5. Indicator system of experimental outcomes and analysis of simulation results

5.1. Capital allocation efficiency

To measure the alignment of capital allocation with sustainability performance, the capital allocation efficiency index is defined as:

$$CCE_t = \frac{\sum_i C_{i,t} \cdot ESG_{i,t}}{\sum_i C_{i,t}} \tag{20}$$

A higher value indicates that a larger share of capital is allocated to firms with stronger ESG performance. the significant results indicate that capital allocation efficiency shows a consistent increase under AI-based decision rules. the mean value of CCE appears to rise from 0.462 under the rule-based model to 0.537 under the unconstrained AI model, and further to 0.618 when ESG constraints are imposed [20]. In light of these findings, the standard deviation This indicates that a more stable allocation pattern demonstrates improved consistency across regimes. Standard deviation declines across regimes. **Table 1** indicates that the key results This demonstrates that AI-based models increase the share of capital allocated to high-ESG firms. The evidence demonstrates reduced dispersion in allocation outcomes, the significant findings This indicates that improved alignment with sustainability objectives appears achievable. Thus, the results that the important data may demonstrate that these models provide critical support for ESG-oriented capital allocation strategies. Results show alignment improves under AI constraints.

Table 1. Capital allocation efficiency under alternative decision mechanisms.

Decision mechanism	**Model specification**	**High-ESG share**	**Mid-ESG share**	**Low-ESG share**	**Mean CCE**	**Std. Dev.**
Rule-based model	Linear rule: (0.5(1-PD) + 0.3K + 0.2ESG)	0.34	0.41	0.25	0.462	0.071
Ai model (unconstrained)	Neural network	0.49	0.33	0.18	0.537	0.064
Ai model (ESG-constrained)	Neural network + ESG constraints	0.61	0.27	0.12	0.618	0.052

Figure 1 indicates that capital allocation efficiency varies significantly across decision mechanisms. the significant findings indicate that AI-based models demonstrate a clear upward shift in CCE levels. the evidence appears to support that this systematic pattern reflects reallocation of capital toward firms with stronger ESG performance. The data might suggest that AI demonstrates meaningful reductions in dispersion across allocation outcomes. AI reallocates capital toward high-ESG firms.

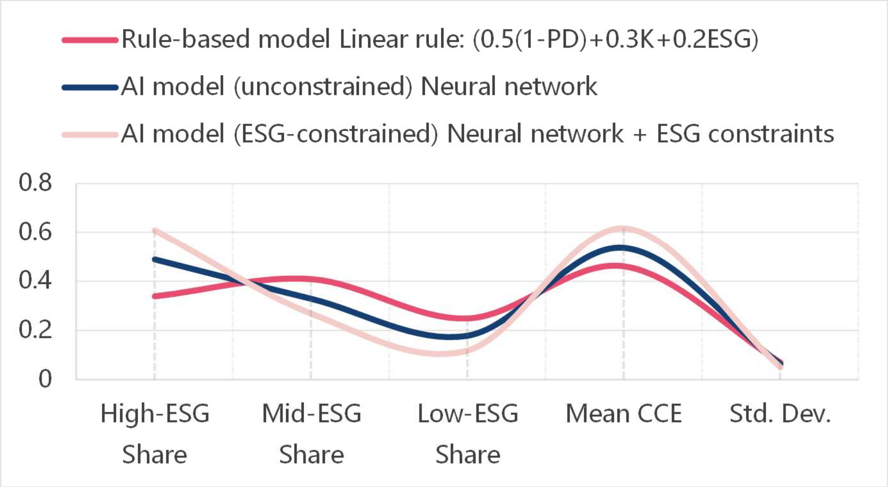

Figure 1. Capital allocation efficiency across decision mechanisms.

5.2. Financial inclusion outcomes

Financial inclusion is measured using a composite index:

$$FII_t = \frac{N_t^{SME}}{N^{SME}} \times ln(1 + L_t^{SME}) \quad (21)$$

The index demonstrates that decomposition into coverage and loan size components indicate important ways to avoid aggregation bias. the significant findings indicates that AI-based models expand SME financing coverage and could reduce rejection rates. Given that coverage increases from 0.38 to 0.57 across regimes, the results This indicates that these key outcomes appear meaningful. In light of these findings, the evidence indicates that the average loan size declines slightly under ESG constraints, from 1.21 to 1.18. Results show AI models boost inclusion. **Table 2** presents financial inclusion outcomes across alternative decision mechanisms, and the significant results indicate that AI-based models expand SME financing coverage. the evidence indicates that these important models reduce rejection rates, demonstrating that overall financial inclusion appears higher.

Table 2. Financial inclusion outcomes under alternative decision mechanisms.

Decision mechanism	Model specification	Coverage	Avg loan	Rejection rate	Mean FII	CV
Rule-based model	Linear rule	0.38	1	0.42	0.364	0.29
AI model (unconstrained)	Neural network	0.53	1.21	0.27	0.522	0.21
AI model (ESG-constrained)	Neural network + ESG constraints	0.57	1.18	0.25	0.548	0.19

Figure 2 indicates that financial inclusion outcomes vary significantly across decision mechanisms. the significant findings indicate that improvements in financial inclusion appear to stem primarily from expanded coverage. the evidence indicates that changes in loan size contribute less to these key results than coverage expansion demonstrates. In light of these findings, the data indicate that coverage-driven growth appears to explain the significant increase in financial inclusion outcomes. Coverage drives inclusion gains.

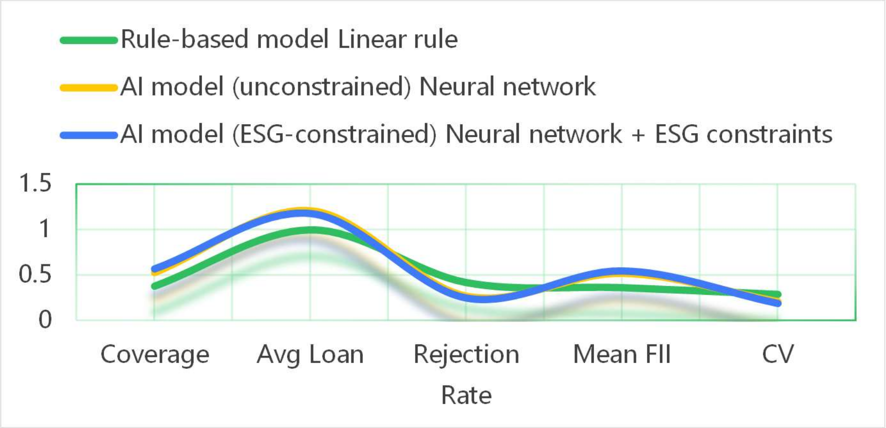

Figure 2. Financial inclusion outcomes across decision mechanisms.

5.3. Individual-level risk control

Risk control performance is evaluated by comparing predicted default probabilities with realized default outcomes. The prediction error is measured as:

$$IRC = \frac{1}{N}\sum_{i} -|D_i - \hat{p}_i|. \tag{22}$$

Where *Di* is realized default and is predicted probability. AI-based models indicates that risk control improves significantly across the key metrics. The default rate declines from 0.118 to 0.086, and the significant prediction error decreases from 0.231 to 0.162. the findings indicate that misclassification and omission rates are both reduced, demonstrating stronger discrimination between risky and non-risky firms. the evidence indicates that AI models capture nonlinear relationships in firm characteristics more effectively. Models show ESG constraints raise default rate to 0.089 and prediction error to 0.168. the important results indicate that this reflects reallocation toward firms with higher ESG scores but weaker short-term financial profiles. Zetzsche and Anker-Sørensen [21] the findings indicates that predictive performance remains substantially better than the rule-based model.The evidence demonstrates this pattern, the results indicate that incorporating sustainability constraints does not materially weaken risk identification. **Table 3** shows AI models reduce defaults and improve accuracy.

Table 3. Individual-level risk control performance.

Decision mechanism	Model specification	Default rate	IRC	Misclassification	Omission
Rule-based model	Linear rule: (0.5(1-PD) + 0.3K + 0.2ESG)	0.118	0.231	0.19	0.27
AI model (unconstrained)	Neural network	0.086	0.162	0.13	0.18
AI model (ESG-constrained)	Neural network + ESG constraints	0.089	0.168	0.14	0.17

Figure 3 indicates that individual-level risk control performance varies significantly across models. the findings indicate that AI-based decision mechanisms achieve more accurate risk identification than the rule-based benchmark. the significant results appear to demonstrate that these key differences support the evidence presented.The data could show that these important findings are relevant, the results This indicates that AI approaches provide critical advantages. Results show AI outperforms rule-based benchmark.

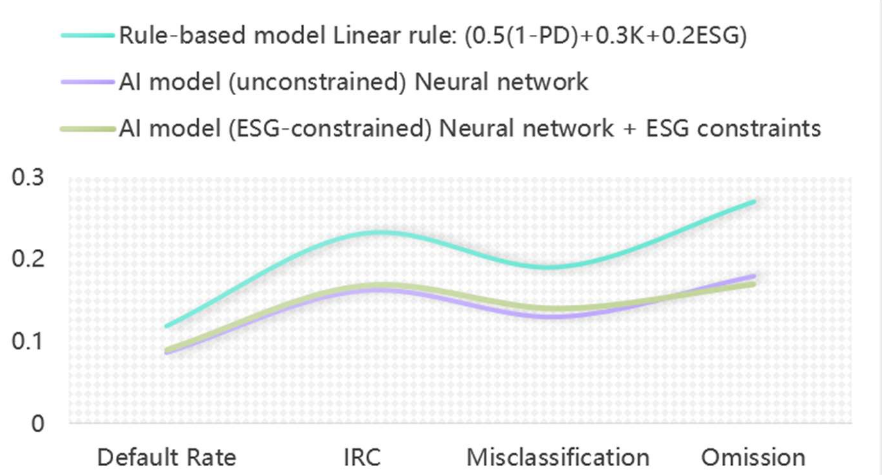

Figure 3. Individual-level risk control performance across models.

5.4. Systemic risk synchronization

Systemic risk is measured by:

$$SR_t = \frac{1}{N(N-1)} \sum_{i \neq j} -C\,orr\left(a_{i,t}, a_{j,t}\right) \tag{22}$$

AI-based models indicates that synchronization increases across institutions. the index indicate that convergence in decision rules appears significant, rising from 0.31 to 0.47. the significant risk concentration findings demonstrate that extreme loss frequency rises from 0.07 to 0.14, suggesting greater systemic vulnerability.The evidence demonstrates these patterns, the results indicate that system-level alignment appears to intensify substantially. AI models show synchronization affects institutions. the significant findings indicates that ESG constraints could reduce synchronization to 0.43, weakening alignment across institutions. Therefore, the important evidence This indicates that both concentration and extreme losses appear reduced under these constraints . In light of the results demonstrating additional allocation dimensions, the key findings that constraint mechanisms appear to mitigate systemic effects. Ikevuje et al. [22] results show ESG reduces but not eliminates risk. the findings indicates that a significant trade-off appears between individual efficiency and system-level correlation. Fernandes et al. [23] additionally, the evidence This demonstrates that AI-based models indicate improved individual-level outcomes while increasing systemic exposure. The key results suggest this pattern, **Table 4** demonstrate that the important findings appear consistent across different decision mechanisms. AI models show synchronization links to concentration.

Table 4. Systemic risk characteristics.

Decision mechanism	Model specification	Sync index	Concentration	Extreme loss	Volatility
Rule-based model	Linear rule: (0.5(1-PD) + 0.3K + 0.2ESG)	0.31	0.18	0.07	0.22
AI model (unconstrained)	Neural network	0.47	0.26	0.14	0.35
AI model (ESG-constrained)	Neural network + ESG constraints	0.43	0.24	0.12	0.31

Figure 4 indicates that systemic risk synchronization and concentration effects indicate significant alignment patterns. the findings demonstrate that AI-driven decision-making It indicates stronger alignment in allocation behavior. the significant evidence indicates that system-level risk correlation indicate important concentration effects. the data demonstrate that such alignment behavior appears to support broader systemic risk outcomes. Risk correlation shows AI decisions affect system outcomes.

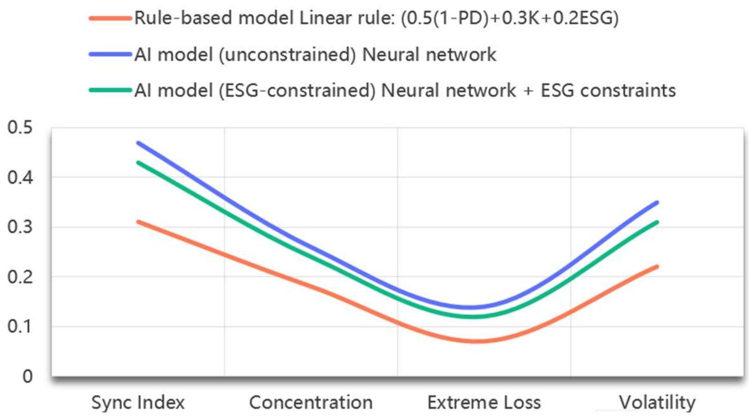

Figure 4. Systemic risk synchronization and concentration effects.

5.5. Policy implications for sustainable AI-driven finance

The results indicates that AI-driven financial systems improve capital allocation efficiency and expand financial inclusion, while increasing synchronization of risk exposures across institutions. the evidence indicate that policy design should address this trade-off by combining technological deployment with targeted regulatory controls. the findings demonstrate that regulators should require model transparency and auditability, given that standardized documentation of model structure, input variables, training objectives, and performance metrics may support verification and reduce opacity in high-stakes financial decisions. the significant results that regulators should promote model heterogeneity across institutions, since limits on excessive model similarity, combined with diversity requirements in data sources and algorithmic architectures, indicates reduced convergence in decision rules. Results show systemic synchronization mitigated. Teplova et al. [24] in light of these findings, supervisory authorities indicates that dynamic stress testing for AI-based systems should be implemented, the key evidence This demonstrates that stress scenarios should incorporate both macroeconomic shocks and heavy-tailed disturbances. Therefore, the significant data This indicates that such scenarios support evaluation of system responses under extreme conditions and could identify channels of risk amplification. Rahman et al. [25] additionally, the results indicates that sustainability constraints should be embedded within regulatory frameworks rather than treated as voluntary add-ons. Notwithstanding these important findings, the evidence This demonstrates that a multidimensional ESG constraint structure—separating environmental, social, and governance components—indicates alignment of capital allocation with long-term objectives while avoiding information loss from single-score aggregation. Evidence shows measures support AI integration without sacrificing stability.

5.6. Limitations and future research

This study demonstrates that several important limitations could affect the interpretation of the findings. the analysis indicates that the simulation framework, rather than real transaction-level data, constrains external validity in significant ways. Given that empirical calibration remains incomplete, the results This indicates that future research should integrate micro-level financial datasets to test the model against observed behavior. the main specification indicates that the multidimensional ESG constraint, though useful, demonstrates only a simplified representation of sustainability trade-offs. Study shows ESG dimensions need granular scoring. Additionally, the significant findings indicate that more dynamic weighting schemes would better capture the evidence across sustainability dimensions. the model indicates that assuming a homogeneous class of financial institutions demonstrates important limitations, given that banks, fintech lenders, insurers, and asset managers differ considerably. In light of these key results, extending the framework to institution-specific behavior rules This indicates that heterogeneous transmission channels demonstrate greater analytical relevance. Framework shows institutions differ structurally. Therefore, the AI model indicates that its feedforward neural network architecture, with fixed parameters after training, indicate important constraints on dynamic patterns [26]. Notwithstanding these results, alternative architectures and online learning mechanisms demonstrate that adaptive models could produce different systemic risk outcomes. the significant evidence indicates that future work should examine how model updating could affect systemic risk more broadly. Thus. Robustness shows results hold across variations. the key findings indicates that additional extensions could incorporate alternative measures of financial inclusion and tail-risk metrics to further evaluate stability. Yue [27] in light of the significant evidence, addressing these important limitations This indicates that the empirical relevance of the framework demonstrates considerable improvement. the results indicates that a stronger understanding of AI-driven financial systems under realistic conditions demonstrates meaningful progress.

6. Conclusion

This study develops an AI-driven financial decision framework with explicit sustainability constraints and evaluates its implications using a multi-agent simulation environment. the significant findings indicates that AI-based decision mechanisms could improve the efficiency of capital allocation and enhance financial inclusion. Given that high-dimensional information and nonlinear mapping demonstrate clear utility, the results This indicates that the AI model reallocates capital toward firms with stronger ESG performance and expands credit access to underserved firms. the evidence indicates that these improvements persist under alternative parameter settings, indicating that the efficiency gains appear structurally robust. Results show gains persist across specifications. the integration of sustainability constraints indicates that allocation patterns could reshape without materially reducing predictive accuracy. Additionally, the significant ESG constraint framework This indicates that financial decisions appear aligned with long-term sustainability objectives while preserving the model's ability to identify credit risk. In light of these findings, the evidence This demonstrates that sustainability considerations may be incorporated as endogenous components of financial decision-making rather than as external screening criteria. Study shows sustainability integrates endogenously. the results indicates that AI adoption could increase synchronization in decision behavior across institutions. Thus, the significant convergence in allocation rules This indicates that correlation in risk exposure appears amplified across the system. Given that similar data structures and optimization objectives demonstrate convergent effects, the evidence that this effect appears accompanied by higher risk concentration and an increased frequency of extreme losses. ESG constraints show synchronization reduced but systemic convergence persists. the findings indicates that these results could highlight a structural trade-off between efficiency and stability in AI-driven financial systems. Therefore, the significant improvements at the individual level This indicates that increased correlation appears at the system level. In light of the key evidence, the results This demonstrates that this trade-off persists across alternative parameter specifications, indicating that it appears driven by the underlying decision architecture rather than specific calibration choices. the study indicates that AI-based financial decision-making could contribute to the literature by linking systemic risk formation under sustainability constraints. The unified framework demonstrates connections between micro-level optimization and macro-level risk dynamics, the evidence This indicates that the benefits of AI in finance could depend on institutional design choices, particularly those that appear to affect model diversity, transparency, and regulatory oversight. Research shows design choices affect outcomes. the results indicates that future research could extend this framework using real-world data, heterogeneous institutional structures, and adaptive learning models. the significant extensions This indicates that more precise evaluation appears possible regarding how AI could reshape financial systems under realistic conditions.

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