Claude AI model ban is a wake-up call for Indian tech cos

The export control directive by the US banning the use of Anthropic's Mythos 5 and Fable 5 models will have long-term impact on Indian businesses, forcing a rethink in strategy

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Anthropic implemented the export control directive on June 12, three days after the models went live. Trump - Evelyn Hockstein / Reuters. Amodei -Fabric...

The call for sovereign AI has gained traction after the US government directed AI frontier model company Anthropic to disable access to its Fable 5 and Mythos 5 models of Claude for non-US users.

According to reports, Anthropic has sought a meeting with officials from the White House to discuss the directive.

The immediate aftermath of the ban emphasises the need for enterprises and startups using AI to engage with model-agnostic architecture.

Research and advisory firm Gartner recommends keeping previous models running as backups and spreading workloads across multiple providers to reduce the risk from shutdowns of specific models.

“To ensure continuity, leaders must establish model optionality as a foundational requirement, building a multimodel portfolio—with primary, fallback, restricted, and sovereign routing—that maintains stable customer interfaces despite back-end volatility,” says Anushree Verma, senior director analyst at Gartner.

She adds, “They will need a model-routing layer that separates the customer experience from the underlying model.”

However, there is no one-size-fits-all solution for frontier model shutdowns given that these are used by a range of businesses—from smaller startups to multinational enterprises.

Hedging for BAU and risks

The restriction on Mythos 5 and Fable 5 models reignites the debate on developing a sovereign AI model for the country, despite the steep upfront costs. This spans investments in building infrastructure, sourcing data, and building applications and intelligent systems.

“If your production rests on one model, you do not control a policy decision made in another country. The firms that hold up will be the ones who treat frontier models as a replaceable layer and invest in things they own above it,” says Mohak Nahta, CEO of visa processing and travel company Atlys, which works with frontier AI models to automate customer experience and other functions.

According to Gartner research, frontier models are at a higher risk of attracting greater regulatory attention and government involvement as they grow more powerful. Stakeholders can protect themselves by developing strategies to build sovereign AI to balance innovation, risk, security and regulatory obligations.

Sectoral impact and cybersecurity risks

Regulatory interference also puts industries and sectors using AI for core operations at a greater risk in India, impacting the economy in general. This is especially true of early adopters of technology like the BFSI sector.

It poses a challenge for delivery timelines and roll-outs dependent on these services in the IT sector. In addition, it is likely to impact deals with US customers going ahead, and US firms that have set up GCCs in other countries.

“Anyone using these models in the US may now also need to deploy access controls to ensure that non-US nationals are not accessing them. This may extend to employees, but also vendors who service such companies, like IT companies in India," says Vikram Jeet Singh, partner at law firm, BTG Advaya.

The move by the US government will also change the way AI software is developed across the globe. Developers will now be looking to check if their models can be caught by laws similar to the US' export-control rules.

The ban on the new models also highlights the security risks from hostile geopolitical forces. "The superficial wrappers around foreign technologies must be replaced by self-sufficient technologies. These must provide a layer of isolation from hostile states and actors the technology was designed to serve," says Neehar Pathare, MD, CEO and CIO of cybersecurity solutions company 63SATS Cybertech.

Insurance sector executives say similar moves will accelerate operational risks, halt specific tech deployments, and redefine cyber insurance underwriting. "Old insurance platforms rely on legacy systems. The potential for a leaked model to target those systems forces insurers to recalibrate their cyber insurance exposure. Cyber underwriters may raise premiums or adjust policy exclusions for companies that are using unvetted AI models," says Evaa Saiwal, business head-liability & cyber insurance at PolicyBazaar for Business.

The way ahead

With these concerns in mind, the outlook points to measures to work towards investing across layers to build a locally controlled and governed full-stack sovereign AI.
Some of the cost can be borne by companies themselves to create interoperability and to build trustworthy AI environments, notes Jameela Sahiba, associate director (AI and Public Affairs) at the thinktank, The Dialogue.

In addition, government incentivisation for developing offensive and defensive AI technologies along with data-in-use protection will be an important step ahead, according to Abilash Soundararajan, founder and CEO, PrivaSapien, a privacy and security provider for enterprises.

The decision by the US government might also make an appearance in the Free Trade Agreement conversation between the two countries, which are reportedly in the final stage of negotiations.

"While this may not legally derail an FTA, it should change the negotiating conversation. India should push for greater predictability in access to critical technologies, stronger digital trade protections, and recognition of India's legitimate interest in building sovereign digital and AI capacity," says Nikhil Narendran, partner-technology, media and telecommunications at law firm, Trilegal.

Highlighting the impact of building local long-term capabilities, founder and executive chairman of entertainment tech company Eros Innovation, Kishore Lulla, says "India possesses the talent, data, digital infrastructure and institutional capability to build world-class AI systems. The opportunity is to create AI that understands India."