

Artificial Intelligence (AI) and the role of the Board: the challenge of intelligent AI

AI is becoming increasingly visible around us. To consider the role of the board, it helps to start by setting out what is, and what is not, new about it.

In its simplest form, think of AI as a very sophisticated forecasting tool. Businesses have engaged in forecasting for years using regression analysis and expert judgement, but AI represents a significant step in its ability to:

- use huge amounts of data, including non-standard types of data, such as text and images;
- re-calibrate itself, including identifying (new) dependencies with limited human oversight; and
- act independently on the forecasts generated and make business decisions, such as underwriting insurance or accepting a claim.

This drastically increases the complexity of forecasting systems and creates two main challenges for boards:

- 1. Identifying and pursuing opportunities created by AI at the strategic level.** This is similar to other challenges that boards face and requires a non-technical perspective and the consideration of context, understanding and selection of options and then oversight of execution.
- 2. Transforming business models that were not created with AI technologies in mind.** This represents a fundamental change, the scale and scope of which has not been seen since the electrification of factories - when the transformation from steam power took time and investment, despite the increasing availability of electricity.

AI also creates challenges for existing control environments; with pricing models and customer-facing chatbots risking discrimination or inconsistent advice.

As a result, we typically see businesses in financial services adopting a cautious approach to AI focused on standardised productivity tools, in some cases with active controls limiting the development of AI business applications.

Concerns with the adequacy of AI controls have been picked up by regulators and policy makers, who see regulation of AI as a broad development across the economy including financial services.

The EU agreed in December 2023 legislation which sets out how AI is regulated, including an inventory of AI models and risk classification system with enhanced control environment. High-risk AI systems will require effective data governance, transparency to users and human oversight. The EU AI Act will cover all AI systems impacting people in the EU, regardless of where the systems are developed or deployed.

The UK's Office for AI, part of Department for Science, Innovation and Technology (DSIT), issued a March 2023 discussion paper addressed to UK regulators setting out principles to develop an appropriate AI control environment, to enable across the economy:

- safety, security and robustness;
- appropriate transparency and explainability;
- fairness;
- accountability and governance; and
- contestability and redress.

While it is not a regulator, the ABI has taken the lead from the DSIT paper and published a paper supporting the identification of use cases in insurance and identifying examples of good practice related to the five principles in the paper.



At our next NED Club meeting, we will discuss the progress of AI in financial services and how to support the adjustments to how business operate, including the following questions:

- Do you understand, and how comfortable are you with, the opportunities and risks that AI can create for your business?
- What are your views on the business case of introducing AI into financial services? Is it about strategic business performance, or operational efficiencies?
- Is there an agreed risk strategy and ambition for the use of AI in your businesses? Are they currently crawling, walking or running?
- How should the Board be involved in the identification of AI use cases, and the development of AI skills and capabilities?
- What are the implications from AI for oversight of the business and the management of risk? How can boards help to ensure the ambition and strategy is achieved?
- To what extent does the concept of model risk management provide a basis for a proportionate control environment for AI?
- How can regulation support an effective transition to an AI-enabled financial services?

Start the conversation

Justin Elks

Partner

E: justin.elks@crowe.co.uk

T: +44 (0)20 3457 6660

We look forward to sharing perspectives.

www.crowe.co.uk

About us

Crowe UK is a leading audit, tax, advisory and consulting firm with a national presence to complement our international reach. We are an independent member of Crowe Global, one of the top 10 accounting networks in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to businesses of all sizes, professional practices, social purpose and non-profit organisations, pension funds and private clients.

We work with our clients to build something valuable, substantial and enduring. Our aim is to become trusted advisors to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.