# AI Governance: extending and adapting for a new class of models

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*Generative AI has transformed the algorithm landscape, and use cases are emerging at a rapid pace. As the benefits of AI tools for financial institutions (FIs) and consumers increase, so is investment in its applications. But with new adoption come new risks. FIs are contending with new challenges to deliver secure, transparent, privacy-compliant, and trustworthy algorithms. The June session of DataTalk explored AI, its governance, the pursuit of ethical AI, and how third-party providers are playing an important role in the provision of new solutions. This briefing note summarizes the discussion held on June 20, 2023, respecting that the forum is conducted under the Chatham House Rule and does not represent the official position of the IIF or its membership.*

**As new classes of algorithms emerge, well-tested models and governance techniques are proving applicable and adaptable to new challenges.** The financial services industry has a long history of using AI for various purposes and concurrently has strong model governance for these tools. These long-standing practices are being studied by the industry to see which could be extended to deal with new classes of algorithms. Additionally, the industry is looking to existing and proposed regulatory frameworks to determine what in the current toolkit can be carried forward and what can be updated.

**In determining whether the tools are fit for purpose, a use-case approach could be most effective.** Not every use case needs a model with an equal level of explainability or security. For example, the level of explainability for the algorithm used by streaming services to recommend shows or new artists probably won't require the same level of explainability used by recruiters to analyze candidates for a position. Keeping the intended use case at the forefront of model building and validation will ensure the most straightforward, accurate response to each use case. To ensure the principles of secure and ethical frameworks are kept at the forefront, FIs are prioritizing low-risk, high-value use cases as they continue to walk through the governance routines and model evaluations.

**In this process, the data itself cannot be overlooked.** The reliability of the data will be as important as the model itself as it's the data where many issues are rooted. Governance processes to validate the source, quality, and manipulation of the data sets will be a key first step to getting these new AI and ML models right and will ultimately decide the usability of these tools.

**Regulatory and legal frameworks will need to keep up with advances.** With its quickly expanding applications and risks to use, AI has the attention of the regulatory community. While academia has made strides in proposing standards, there are gaps where official guidance could improve current operating procedures, including model validation, fairness testing, and use of third-party services. Partnering with the financial services industry to keep pace with the digital economy will be essential.

**2023 AI Survey for IIF membership is underway.** The Survey is designed to provide IIF members and the policy community with a benchmark on the adoption and use of these tools, governance approaches, and engagement with regulators. This year's survey is informed by deployments of new generative AI tools and ensuing policy debates. The deadline for submissions is **July 14**. If you would like to receive additional information, please email 2023AISurvey@iif.com.

*We look forward to continuing the DataTalk series on Tuesday, July 18 9:00 pm Washington DC / Wednesday, July 19 9:00 am Singapore where we will explore Open Data, the importance of broadening Open Banking's scope, and the impacts this could have on the end consumer.*