Corporate Governance Institute

Foundations of AI Governance

Are you prepared?

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Innopharma Education

CGI Webinar

Corporate Governance Institute

Developing the Next Generation of Digital Leaders

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Agenda

1 AI Landscape Review

2 Is your board Ready

3 AI and the role of the board

AI Landscape

Trump announces $500 billion 'Stargate' AI project

US President Donald Trump has announced a major investment to build infrastructure for artificial intelligence led by Japanese giant...

16 hours ago

The Guardian

Trump unveils $500bn joint AI venture between OpenAI, Oracle and SoftBank

Donald Trump has unveiled what he called "the largest AI infrastructure project in history" – a $500bn joint venture between OpenAI,...

12 hours ago

Reuters

Trump revokes Biden executive order on addressing AI risks

U.S. President Donald Trump on Monday revoked a 2023 executive order signed by Joe Biden that sought to reduce the risks that artificial...
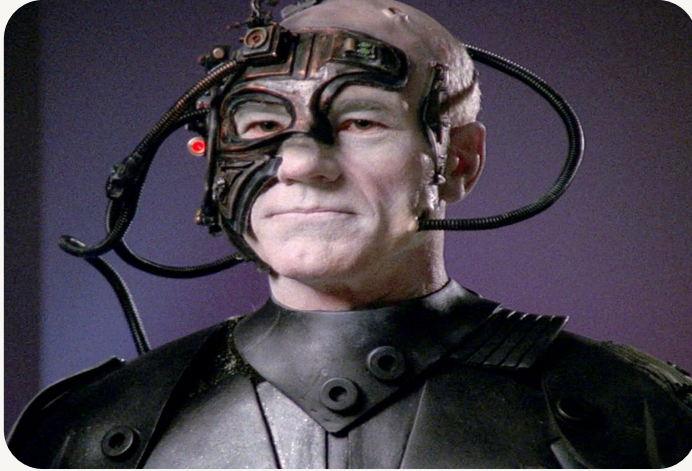
15 hours ago

The New York Times

Trump Announces $100 Billion A.I. Initiative

President Trump on Tuesday announced a joint venture between OpenAI, SoftBank and Oracle to create at least $100 billion in computing...
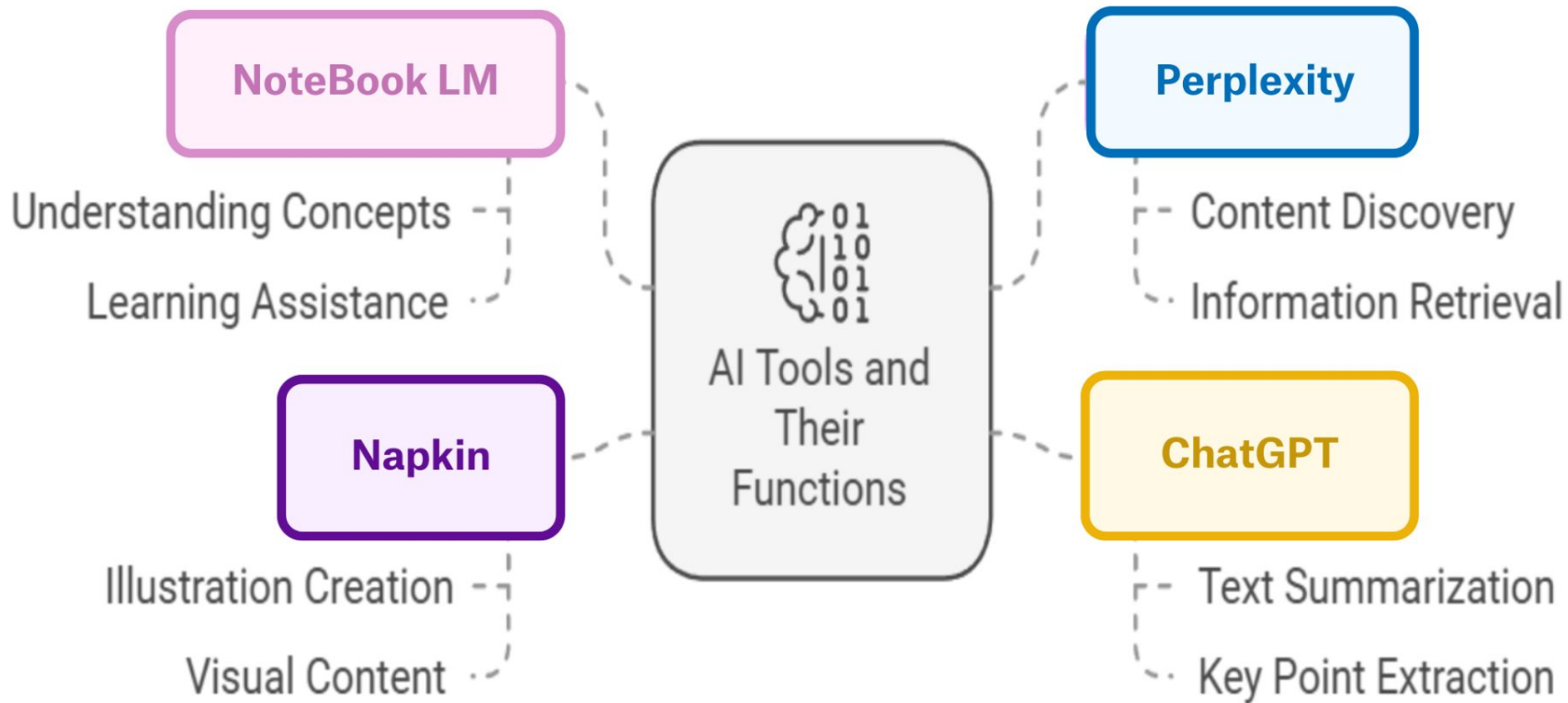
12 hours ago

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An engineered system that generates outputs such as content, forecasts, recommendations or decisions for a given set of human-defined objectives

(International Organisation for Standardization and the International Electrotechnical Commission ISO/IEC 22989)
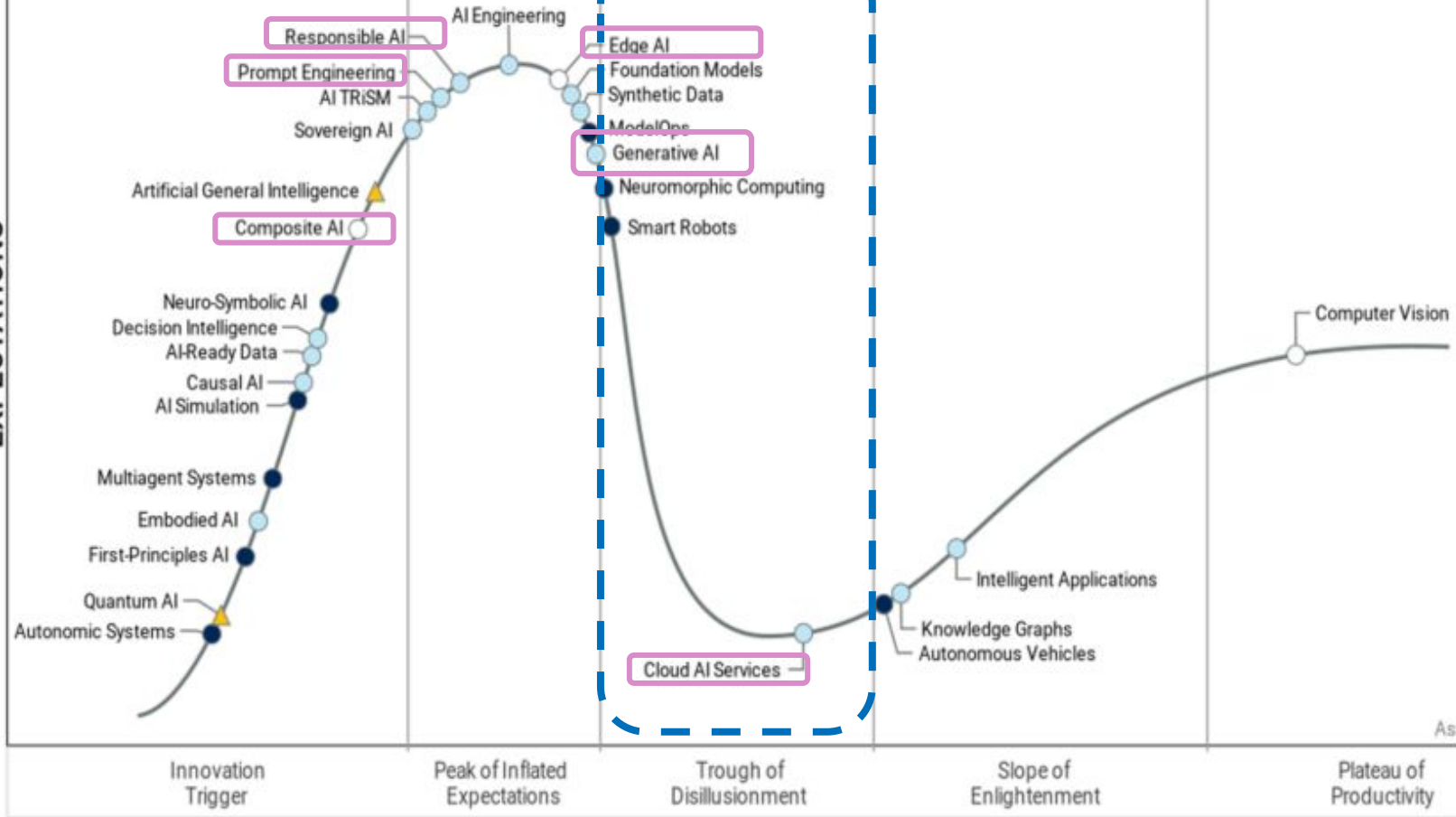
Type of AI system	Description[1]	Examples
General AI (or General Purpose AI)	An AI system that can be used for a broad range of tasks, both intended and unintended by developers. This includes Generative AI.	Text generation (e.g.GPT-4, Gemini), image generation (e.g. DALL.E, Midjourney), programming code generation (i.e. Codex).
Narrow AI	An AI system trained to deliver outputs for specialised, constrained tasks and uses to address a specific problem.	Search engines (e.g. Google, Bing), facial recognition (e.g. Apple Face ID), recommender systems (e.g. Amazon, Spotify, Netflix).

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NoteBook LM
Understanding Concepts
Learning Assistance

Perplexity
Content Discovery
Information Retrieval

Napkin
Illustration Creation
Visual Content

ChatGPT
Text Summarization
Key Point Extraction

AI Tools and Their Functions

Hype Cycle for Artificial Intelligence,
Gartner.

EXPECTATIONS

Responsible AI
Prompt Engineering
AI TRiSM
Sovereign AI
AI Engineering
Edge AI
Foundation Models
Synthetic Data
ModelOps
Generative AI
Neuromorphic Computing
Smart Robots

Artificial General Intelligence
Composite AI

Neuro-Symbolic AI
Decision Intelligence
AI-Ready Data
Causal AI
AI Simulation

Multiagent Systems

Embodied AI

First-Principles AI

Quantum AI
Autonomic Systems

Computer Vision

Intelligent Applications
Knowledge Graphs
Autonomous Vehicles

Cloud AI Services

As of June 2024

Innovation Trigger | Peak of Inflated Expectations | Trough of Disillusionment | Slope of Enlightenment | Plateau of Productivity
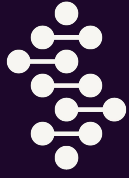
TIME

Plateau will be reached: ○ <2 yrs. ○ 2–5 yrs. ● 5–10 yrs. △ >10 yrs. ⊗ Obsolete before plateau

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Is your board AI ready?

- How often do you use AI?
  (Daily, Weekly, Monthly, Rarely)

- Does your board have an
  approved AI policy in place?

68% of directors don't have a board-approved AI policy
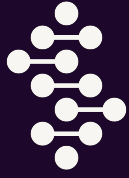
(IoD Ireland, 2024)

75% Not Aware of Scope of New EU Legislation on AI

(IoD Ireland, 2024)

Is your board AI ready? (IOD)

- 41% are not aware of their own personal liability for severe organisational non-compliance with cybersecurity rules

- 36% see AI as a key tool for improving operational efficiency and competitiveness

- 26% are experimenting with Generative AI

- +60% of Irish directors/senior executives still do not use AI in any way in their organisations

AI and the role of the board

FIGURE 1: Existing legal obligations when using AI

Due care and diligence

Directors' duties

PRIVACY, IP AND DATA USE

CONSUMER PROTECTION

WORK HEALTH AND SAFETY

CYBER SECURITY

DUTY OF CARE/ DILIGENCE

ANTI-DISCRIMINATION

The legal and regulatory environment

Good faith, best interest and proper purpose

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FIGURE 2: Risks to organisations from AI use

Amplified risks to organisations

Commercial	Reputational	Regulatory
Commercial losses due to poor or biased AI system performance; adversarial attacks	Damage to reputation and loss of trust due to harmful or unlawful treatment of consumers, employees or citizens	Breach of legal obligations that may result in fines, restrictions and require management focus

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TABLE 2: Key sources of AI risk for organisations

Key sources of AI risk	Examples
AI system failures – where systems create harm because they fail to perform as intended	• Poor system performance • Biased system performance • System fragility or unreliability • Security failures or vulnerabilities
Malicious, misleading, reckless, or inappropriate use – where systems are deliberately used (whether by the organisation or external parties) in a way which creates or amplifies risk of harm	• Misleading advice • Misinformation at scale • Unfair or extractive use • Opacity and lack of interpretability • Weaponisation • AI-powered cyber attacks • Fraudulent and unlawful use e.g. scams • Financial market manipulation • Excessive deployment • Deployment on vulnerable individuals

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Strategic awareness questions to ask

- How AI is currently **used** by the company and its competitors.
- How AI may **disrupt** the company's business and industry.
- The **strategic implications and risks** associated with AI products and services.
- The impact of AI applications on the **workforce** and other **stakeholders**.
- The implications for compliance with legal, regulatory, and ethical **obligations.**
- How is/should AI be used to support the delivery of the organisational strategy
- and related business goals?
- The **governance implications** of the use of AI and related policies and controls.

Strategic alignment questions to ask

- How is AI currently being used to deliver business goals?
- What investments are we making in relation to the development and use of AI systems?
- How can we leverage AI in a responsible way to achieve our organisational strategy?
- What sorts of problems and challenges can or should AI systems be used to solve?
- Under what circumstances would we conclude that AI is not the right tool for the job?
- What is our overall assessment of the evolving balance between the risks and benefits of AI systems to drive business value?

AI & Strategy

- AI is transformative & disruptive, boards need to consider:
  - How AI is currently used,
    - Which departments use it, how is it being used
    - Objectives & metrics: Enhance customer experiences, improve efficiency, reduce costs etc.
    - Guardrails, data integrity, bias
  - How AI may change your industry (and how your organisation should proceed)
  - Strategic opportunities
  - Operational risks: financial, compliance, reputational

AI & Strategy

- **Opportunities**: Boards & management should explore how AI can help achieve objectives, create new products/services, and support new revenue streams.

- **Disruption:** Boards must consider AI's potential to disrupt industries, business models, and take preemptive measures

- **Know the risks:** AI is data-dependent, posing risks such as data bias, algorithmic errors, privacy violations, cybersecurity breaches, data rights and societal harm.

- **Risk Management:** AI can detect financial fraud, automating cybersecurity defenses, and ensuring compliance with various policies.

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Boards should consider how the company's use of AI is impacting **employees** *and the* **talent pipeline,** *whether employees are being* **trained** *to use AI in a manner that leverages their* **skills** *and mitigates AI* **risks**, *and what types of* **policies** *should be implemented to encourage appropriate use of AI by employees for* **approved** *use cases*

Holly Gregory, Sidley Austin. Harvard Law School

Case Study

- **KPMG** launched **KymChat** in March 2023 as an internal **Generative AI** system for employees, initially to assist in finding experts but later expanded for various uses including **answering policy questions and preparing draft client advice**.
- KymChat was built on **Microsoft Azure's OpenAI Service**, ensuring client data remained within KPMG's environment, maintaining privacy and confidentiality standards.
- KPMG implements strict **data governance** processes, assessing data for ownership rights, lineage, provenance, and bias to ensure appropriate and lawful use.
- The company follows a **permission-based** approach, only including data in KymChat after confirming usage rights.
- When using client-related material, KPMG **anonymizes** the content, removing identifying or confidential information with client consent.
- KPMG's **legal team provides sign-off** on all data used by KymChat.

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The Impact of AI

- Boards need to consider how their organisation use of AI can impact: employees, customers, stakeholders, supply chain and the environment.

- Workforce: Hire skills needed, provide training, align to PDPs, develop robust policies, ensure compliance,

- Protection: Limit bias in AI outputs/decisions and comply with relevant regulations (EU, US, local)

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AI & the Role of the Board

UK: Several initiatives under review

- UK Department for Science, Innovation, and Technology published a white paper, AI Regulation: A Pro-Innovation Approach, with a proposal intended to encourage responsible innovation and reduce regulatory uncertainty.

- The UK Information Commissioner's Office updated its Guidance on AI and Data Protection, including guidance on how to apply the principles of the UK's General Data Protection Regulation to the use of information in AI systems.

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Tips

- Boards must understand AI's role in the business, its opportunities & risks

- Strategy leads technology (align AI usage to company values & objectives)

- Address risks such as data & algorithm bias, ensuring diverse and representative data, and promote algorithm transparency

- Establish reporting lines, metrics for AI effectiveness, and receive regular updates on AI use

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The board should have an understanding of...

- How the business and industry could be disrupted by AI

- How AI is used in company processes and third-party products used by the company

- How the company is positioned to leverage its data assets and how this will be managed

- The AI governance system management has put in place, including whether the system has appropriate input from relevant business functions

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The board should seek management's input on

- How resilient the company's use of AI is (cybersecurity, operations, data management)
- Metrics and reporting
- What proof of concept will look like, and how to test for efficacy and compliance as an AI initiative launches/develops over time
- What the key risks are and what risk mitigation tools are available
- Whether there are material disclosure considerations relevant to any audience (such as users, regulators, business partners, or shareholders).

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Compliance and Controls

US: No comprehensive AI regulation   (Trump???)

- Enactment of the National Artificial Intelligence Initiative Act of 2020 (NAIIA).
- Federal agencies' guidance and enforcement activities provide sections related to AI
- The Blueprint for an AI Bill of Rights.
- Proposed: Algorithmic Accountability Act of 2022, DEEP FAKES Accountability Act of 2021, SAFE Innovation Framework

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Compliance and Controls

EU: EU Artificial Intelligence Act (EU AI Act)

- Holds AI developers, providers, and users accountable.
- Gaps remain: Copyright material in training data, generation of illegal content etc.
- A risk-based regulatory scheme on 4 levels:
    - Unacceptable: AI applications that pose clear threats to safety, livelihoods, or human rights, such as certain remote biometric identification systems in public law enforcement, will be banned except in limited circumstances.
    - High-Risk: High-risk AI includes uses that impact safety, health, employment, or education, such as in transportation or surgical applications.

![Corporate Governance Institute logo]

Summary

Continuous Learning

Staying informed about AI advancements.

Strategic Oversight

Evaluating AI's role and industry disruptions.

Workforce Impact

Managing workforce changes and skill requirements.

Governance Policies

Developing policies for responsible AI management.

Risk Management

Addressing operational and reputational AI risks.

Podcast

Digital Transformation Institute
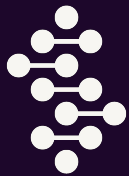## Digital Transformation Institute

● **AI Governance & Board Responsibility**

Digital Transformation Institute

In this podcast, we'll explore the urgent need for robust AI governance in organizations, highlighted by widespread unpreparedness among senior leaders regarding AI policies, cybersecurity compliance, and regulatory challenges like the EU AI Act. We'll discuss the board's critical role in...

Today • 27 min 8 sec

Spotify®

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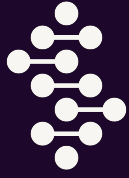# Corporate Governance Institute

AI + Governance: Are you prepared?

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Questions?

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Thank you

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