Managing Artificial Intelligence (AI) Risk in Community Banking

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STRONGER TOGETHER

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Agenda

- What is Generative Artificial Intelligence?
- Common Use Cases
- AI Governance
- Implementation
- AI Risks

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What is Generative Artificial Intelligence?

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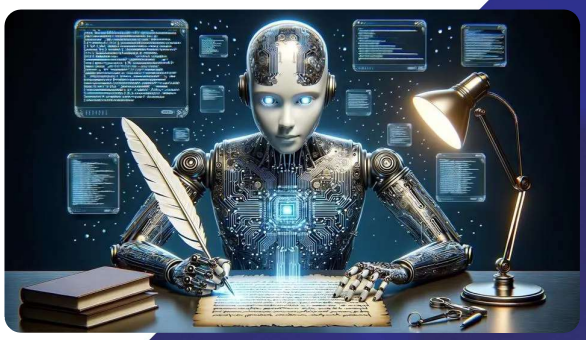
Generative AI

A type of AI that creates new content, such as text, images, or music, based on the data it has been trained on.



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Common AI Tools

- Microsoft CoPilot
- GhatGPT
- Scribe AI
- Google Gemini

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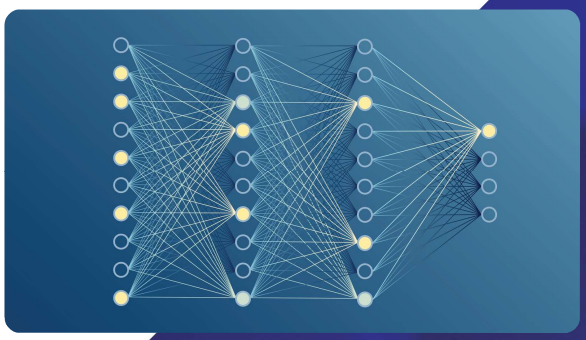
How does it work?

Training

The process of teaching a machine learning model to make accurate predictions or decisions based on data.



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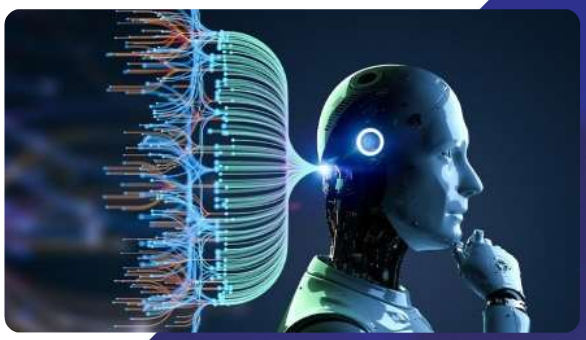
How does it work?

Learning Patterns

Through training, model learns patterns and structures within the data. It identifies relationships between words, sentences, and concepts, allowing it to understand context and generate coherent content.



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How does it Work?

Generation

When generating new content, the model uses the patterns it learned during training to create something new. For text, it might start with a prompt and then predict the next word or sentence based on the context.

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Common Use Cases

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GenAI in Community Financial Institutions

- Customer Service – Online Chat
- Transcription – Meeting Minutes
- Fraud Detection
- Document Processing
- Financial Forecasting
- Credit Reviews, Credit Scoring, & Underwriting
- Marketing
- Research

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Third-party Use of Artificial Intelligence Technologies

- Verafin – Financial Crime Management
- SalesForce – Customized Content Creation
- Jack Henry – Fraud Prevention & Financial Crimes Platform
- Fiserv – Customer Service / Virtual Assistants
- FIS – FIS Compliance Hub

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AI Governance

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Challenges

- Bias, Fairness, & Transparency
- Privacy and Data Protection
- Regulatory Considerations
- Ethical Considerations
- Accountability

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Bias, Fairness, & Transparency

- Bias in AI occurs when an AI system produces results that are systematically prejudiced due to erroneous assumptions in the machine learning process.
- Fairness in AI aims to ensure that AI systems make decisions that are just and equitable
- Transparency involves making the decision-making process of AI systems understandable and transparent to users.

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Privacy and Data Protection

- Ensuring the protection of sensitive customer data is crucial. FIs must implement robust security measures to safeguard against breaches.
- Understanding how your data is used to train models
- Restricting access to your data – awareness of open-sourced tools versus licensed software
- Will your data leave the US?

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Regulatory Considerations

- AI Systems and tools must comply with data privacy regulations – involves safeguarding customer information
- Oversight / Monitoring – regular audits / control reviews
- Policies / Procedures
- Risk Assessments
- Acceptable Use
- Data Retention

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Ethical Considerations

- Maintaining human oversight to ensure accountability & transparency
- Data Quality Controls to ensure transparency
- Compliance with applicable laws & regulations
- Documenting Processes for external review
- Creating and adhering to ethical guidelines for AI use

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Accountability

- Employee Training
- Holding employees accountable regarding AI Acceptable Use
- Ensuring AI is not presented as original work
- Restricting access to AI tools that have not been approved for use
- Effective Risk Management & Compliance

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Implementation

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Scenario

- Credit Analyst for Safe National Bank has been getting very familiar with AI tools and has even been using ChatGBT for general inquires that he has found very helpful in supporting his decision-making when it comes to his role at the Bank. Based on this experience, the Credit Analyst suggests to management that they use an AI Tool to assist with credit decisioning such as reviewing financial statements, credit reports, and other relevant data.
- What should management do?

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RECOMMENDED STEPS

1 Try It Out

ChatGPT

Claude

perplexity

Gemini

Copilot

2 Learn More

100DaysOfAI

3 Start Small

- Corporate Policy
- Executive Training
- Employee Training
- Small Pilots (CoPilot, etc.)

4 Iterate

- Create a backlog of ideas
- Engage with your partners to do proofs of concept
- Quickly funnel down to real opportunities and turn them into projects

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Implementation Flow - Approval

- Project / Change Management Request - Department Manager submits a request for access to the tool to the IT Department
- IT Department / Information Security Officer (ISO) review the tool being requested and perform applicable pre-initiative risk assessments – should include a probability and impact risk review assessing enterprise risk categories (regulatory, strategic, operational, reputational)
- Document potential risks to review with risk management committee(s) – determine if the bank wants to move forward with the project given the risks (data security concerns, oversight/reporting, bias/fairness, transparency, and discrimination)
- Once approved, track the implementation of the tool on the strategic roadmap

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Implementation Flow - Application

- AI Policy – Information Security Program
- AI Employee Acceptable Use
- AI Risk Assessment – Product Focused Risk Assessment should outline all applicable risks and include how those risks are being mitigated
- Documentation of management's oversight procedures – how does management effectively ensure that risks identified are appropriately mitigated?
- Documentation of control implementation procedures – oversight/reporting of acceptable use
- Auditing and testing of controls – what processes are in place to address common challenges?
- Reporting – Risk Management Meetings, Board

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AI Risks

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AI Risks

- Employee Behaviors that can expose Fis to additional risks
- AI-based Social Engineering Threats – Phishing emails have become more sophisticated and harder to identify, Social Media Bots
- Misplaced Trust
- Deepfake Scams – Video Scams
- Call Back Scams

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Thanks!

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BANK TECHNOLOGY OUTFITTER

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