

Trusted AI Assessment

Our journey towards encouraging companies to embed AI ethics into culture, governance and strategy

In April 2019, we published our first paper, “**Investors’ Expectations on Responsible Artificial Intelligence and Data Governance**”¹. In this we laid out six guiding principles and two analytical frameworks on how to engage with companies on the responsible use of big data, machine learning and artificial intelligence systems.

We subsequently developed a sector specific paper “**Artificial Intelligence Applications in Financial Services**”² with our collaborators – Marsh, Oliver Wyman, and Bryan, Cave, Leighton Paisner (BCLP) – published in December 2019, with multiple sets of sample questions for engaging with financial services companies.

We understand the importance of going beyond principles and sample question lists, and we have urged our engagement companies to do so. Therefore, we established an assessment framework, a scoring mechanism with scoring guidance, and performance metrics and indicators as tools for corporate engagement.

The purpose of this document is to outline our assessment framework and scoring methods.

Trusted AI – three lines of defence

Three lines of defence model	Categories
1st line: Responsible use of AI embedded in strategy and operations	8
2nd line: Internal audit, risk assessment and governance structure	3
3rd line: Ethics at its core	5

We have established a **three lines of defence** model for Trusted AI implementation. Each category of the assessment is mapped to the principles and analytical framework (legal and financial factor analysis and salient social impact analysis) that we highlighted in the April 2019 paper.

Ethics sits at the core with five categories of assessment. We engage to gain insights on how the company’s progress in establishing a set or multiple set of applicable principles strengthens the corporate culture and awareness of the importance of AI ethics. We review the quality and robustness of a company’s contribution towards shaping local, regional and international ethical AI standards; how well it articulates the applications of its own principles; and how industry development strengthens its own practices, creating a positive loop of actions and learning through stakeholder engagements.

Risk, Governance and Audit form the second line of defence.

On risk, we assess how well the company explains its risk appetite and whether the benefits and challenges of using big data and AI are realistically represented in its disclosure. On governance, we assess whether the board understands the AI footprint of the group, and if it has sufficient expertise or access to expertise that can support oversight. We also assess if there is management accountability and associated performance indicators to ensure any conflicts of interests are addressed. Trusted AI audit, which includes certification and assurance, is an emerging area. We work closely with industry specialists to encourage its development and progress.

Eight strategic and operational categories form the first line of defence – business strategy, communications, customer strategy, operations, technology, sustainable development, human capital and information security (including cyber risks).

- 1 On **business strategy**, we assess if the company has a clear strategic plan to manage innovation.
- 2 On **communications**, we expect companies to demonstrate their efforts to gain public trust and be explicit and transparent about when and how AI is used in their products and services.
- 3 On **customer strategy**, we evaluate the customer acquisition strategy, data privacy, responsible sales processes and fair customer services.
- 4 On **operations**, we engage with companies on strategic alignment to see if the tone from the top is carried through into operational transformation that allows for fair and transparent AI. We also look at how AI-human interaction is put into practice. We expect companies to disclose that operational performance targets are set, and that they assess the tangible benefits and risks of deploying AI.
- 5 On **technology**, we engage with experts to understand the challenges of systems compatibility, counterparty risks, and if sufficient resources are dedicated so that companies can capture the benefits from AI applications, as well as address the risks that they pose.
- 6 On **human capital**, we evaluate how ethical and technical training are provided to employees and contractors, and - if AI is used in hiring - whether companies assess its effectiveness and pitfalls. Also, if corrective methods are used, are risks identified?

¹ <https://www.hermes-investment.com/uki/eos-insight/eos/investors-expectations-on-responsible-artificial-intelligence-and-data-governance/>

² <https://www.hermes-investment.com/uki/insight/strategy/ai-applications-financial-services/>

Trusted AI



Source: EOS.

References: <https://www.pwc.com/gx/en/issues/data-and-analytics/artificial-intelligence/what-is-responsible-ai.html>;

<https://www.weforum.org/projects/ai-board-leadership-toolkit>.

7 On information security, we engage on the strategic and technical resilience of the company's information security plan, and the quality of regular reviews and upgrades of associated systems. For example, does the company have full and exclusive access to its own data lakes, are its cloud providers reasonably diversified, and can systems be segregated if cyber attacks take place?

8 On sustainable development, we encourage companies to map their AI applications to the UN Sustainable Development Goals (SDGs). We evaluate whether such applications are well timed and justified, to avoid the risk of "SDG-washing". Where relevant, companies should also address any unintended consequences of using big data and AI. For example SDG 16 - Peace, justice and strong institutions - is often linked to the human right to data privacy. We engage with companies on how they manage AI-related risks as well as AI opportunities in all aspects of these issues as detailed above.

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