# ASIC report highlights governance challenges in AI adoption in financial services



On 29 October 2024, the Australian Securities and Investments Commission (ASIC) released its report titled “REP 798 Beware the gap: Governance arrangements in the face of AI innovation.” This document offers a critical evaluation of how artificial intelligence (AI) is currently being employed in the financial services sector and by credit licensees.

The ASIC report highlights a notable trend where financial services businesses are adopting AI technologies at a faster pace than they can effectively update their risk and compliance frameworks. This discrepancy poses significant risks, including the potential for consumer harm, which ASIC cautions could arise from inadequate understanding and governance of these technologies. One specific instance noted was an AI model deployed by a licensee to generate credit risk scores, which ASIC described as a "black box" due to its opacity. These concerns underscore the essential need for transparency regarding the algorithms and criteria influencing such significant decisions.

In the findings of REP 798, ASIC insists that licensees must remain vigilant and responsive to the dynamic technological landscape. It emphasises the imperative of integrating governance, risk management, and regulatory compliance into new AI tools and systems.

The report outlines existing regulatory obligations relevant to the use of AI in financial services, noting that the current framework is designed to be technology-neutral. Key obligations include the requirement to provide services "efficiently, honestly and fairly," avoiding any form of unconscionable or misleading conduct, and ensuring that directors understand their responsibilities when leveraging AI technologies in decision-making processes.

ASIC also recommends best practices to guide licensees in successfully navigating the complexities of AI implementation. These include conducting regular reviews of governance structures, establishing transparent AI strategies, ensuring the availability of skilled human resources, evaluating risk management frameworks relative to AI adoption, and implementing robust oversight procedures for AI service providers. These recommendations aim to close the gap between rapid AI adoption and compliance with established best practices.

In a complementary initiative, the Australian Government has introduced a Voluntary AI Safety Standard, which delineates ten guiding principles for the deployment of AI. This initiative emerged from industry feedback requesting clearer directives on the ethical and responsible use of AI technologies. Key principles include regulatory compliance, risk management, data integrity, model testing and user transparency. The Government is also considering mandatory guidelines specifically for "high-risk" AI applications, with the definition of high risk still under exploration.

In addition to discussions of regulatory compliance, the accounting industry is increasingly turning to generative artificial intelligence (Gen AI) as a solution to enhance efficiency and effectiveness. As firms grapple with labour shortages and rising client expectations, AI offers substantial potential to transform their operations. Gen AI can provide insights that drive improved performance and client satisfaction.

Nevertheless, the integration of AI in accounting must be approached with caution, particularly given the sensitivity of personal and financial data involved. It is essential for firms to align AI initiatives with the objectives of stakeholders, encompassing clients and regulatory bodies, while ensuring robust privacy practices are in place to safeguard client information.

Establishing a responsible AI strategy is pivotal, with firms needing to identify specific challenges they aim to address and educate both leadership and employees about AI capabilities. Moreover, firms should focus on structuring their data effectively to harness AI’s potential, as well-structured data is instrumental in generating accurate insights.

Evaluations of current operational maturity regarding AI adoption can assist firms in understanding their needs and developing appropriate capabilities. This includes ensuring safety, transparency and trustworthiness in AI applications. Accounting firms are encouraged to safeguard client privacy through practices such as data minimisation and to remain vigilant against biases in AI algorithms that may stem from flawed training data.

Additionally, the success of AI technologies in accounting hinges on establishing clear accountability measures, maintaining transparency in AI operations, and redefining roles within the sector. Contrary to the common perception that AI will replace accountants, it is expected that AI will instead enhance their roles, allowing professionals to focus on more strategic tasks.

In essence, while the promising trajectory of AI in industries such as financial services and accounting is evident, the onus remains on organizations to employ these technologies responsibly, ensuring compliance with regulatory frameworks and best practices that safeguard consumer trust and data integrity.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

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* <https://natlawreview.com/article/australia-ai-and-your-obligations-australian-financial-services-licensee> - Details ASIC's REP 798, highlighting the risks of AI adoption, the need for compliance with regulatory frameworks, and best practices for AI governance.
* <https://natlawreview.com/article/ai-and-your-obligations-licensee> - Outlines the key findings of REP 798, including the technology-neutral regulatory framework and the need for directors to consider their duties when adopting AI.
* <https://babl.ai/asic-report-warns-of-ai-governance-gaps-in-australias-financial-services-sector/> - Discusses the ASIC report's findings on AI governance gaps, the rapid adoption of AI, and the risks associated with inadequate governance frameworks.
* <https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-798-beware-the-gap-governance-arrangements-in-the-face-of-ai-innovation/> - Provides the official ASIC report detailing the governance arrangements and the use of AI by financial services and credit licensees.
* <https://natlawreview.com/article/australia-ai-and-your-obligations-australian-financial-services-licensee> - Explains the existing regulatory obligations, including the requirement to provide services 'efficiently, honestly and fairly' and avoiding unconscionable or misleading conduct.
* <https://natlawreview.com/article/ai-and-your-obligations-licensee> - Details the best practices recommended by ASIC for AI implementation, such as regular reviews of governance structures and robust oversight of AI service providers.
* <https://babl.ai/asic-report-warns-of-ai-governance-gaps-in-australias-financial-services-sector/> - Highlights the Australian Government's introduction of the Voluntary AI Safety Standard and the consideration of mandatory guidelines for 'high-risk' AI applications.
* <https://natlawreview.com/article/ai-and-your-obligations-licensee> - Discusses the importance of aligning AI initiatives with stakeholder objectives, ensuring robust privacy practices, and structuring data effectively for AI applications.
* <https://babl.ai/asic-report-warns-of-ai-governance-gaps-in-australias-financial-services-sector/> - Emphasizes the need for clear accountability measures, transparency in AI operations, and redefining roles within the sector to ensure responsible AI adoption.
* <https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-798-beware-the-gap-governance-arrangements-in-the-face-of-ai-innovation/> - Supports the overall need for organizations to employ AI technologies responsibly, ensuring compliance with regulatory frameworks and best practices.
* <https://natlawreview.com/article/australia-ai-and-your-obligations-australian-financial-services-licensee> - Please view link - unable to able to access data
* <https://www.accountingtoday.com/opinion/responsible-ai-in-accounting-addressing-firms-top-5-concerns> - Please view link - unable to able to access data