

BankDirector

Breakout 2: Your Bank's AI Technology Strategy: What Directors Should Know & Ask

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#BDAudit24

Bank Audit and Risk Conference

Your Bank's Technology Strategy: What Directors Should Know and Ask

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jack henry™



- **Board Responsibilities Increasing Dramatically**



Board Responsibilities

- **Thoughts for Boards: Key Issues in Corporate Governance for 2024**



Looking Ahead to 2024



ESG to Evolve

Regulatory Pressure to Mount

Politics and Business Continue to Collide

Shareholder Activism to Remain Robust

Cybersecurity Threats

Demand for Board Oversight of AI to Grow

Energy Transition Comes Into Focus

Executive Compensation Remains Under Scrutiny

- **Board Oversight of AI Strategy**

1. **Governance and risk management**
2. **Engineering architecture**
3. **Tool and model management**
4. **Data Management**
5. **Use Case Inventory and development**
6. **Third Party Partners**
7. **People, culture and change management**
8. **Communication**



- Understand Your Institution's Vision



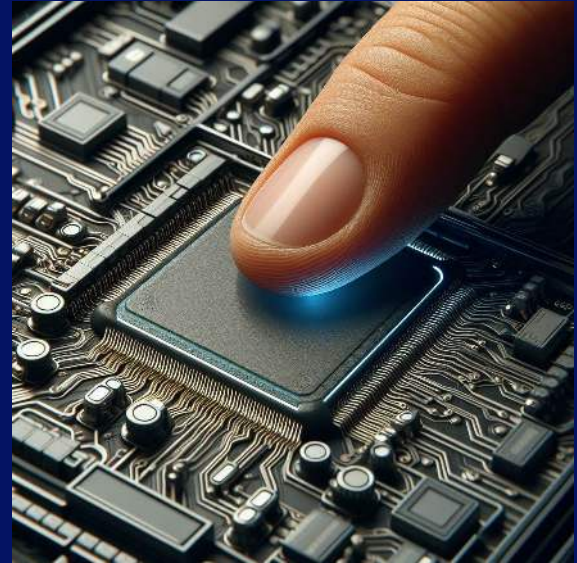
Responsibly Bold and Balanced



Jack Henry is developing **strategies** and **objectives** that **leverage AI** while also **advancing our mission** of being a well-rounded financial technology company.

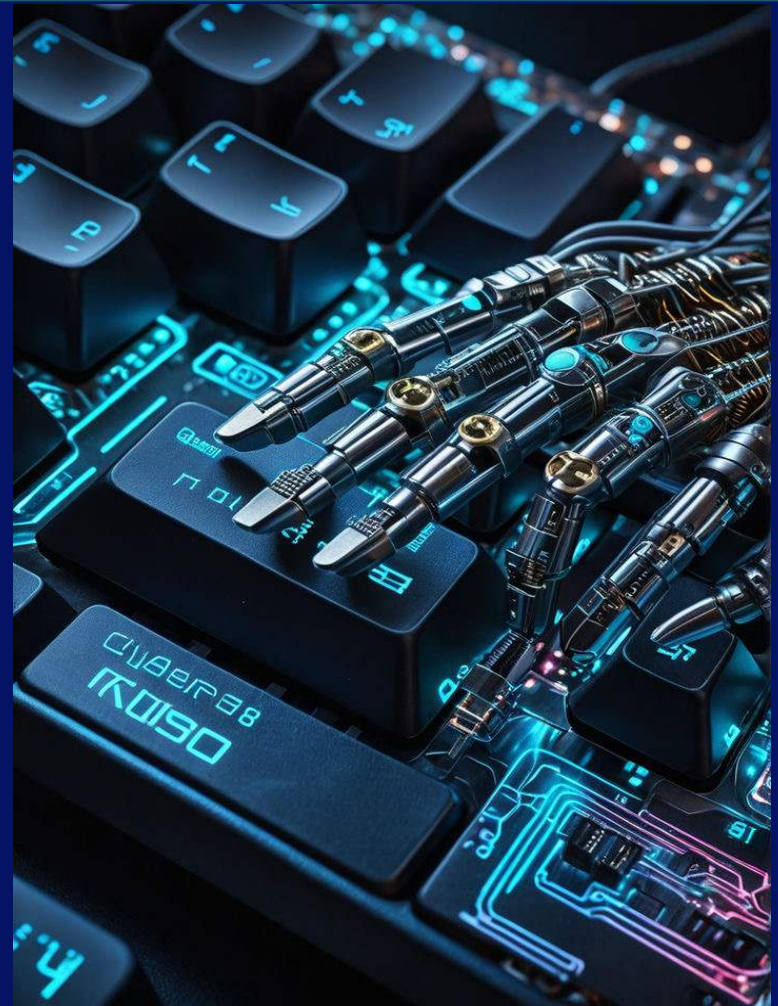
- Ensure Alignment with Institution's Strategic Objectives

Ensure your **AI strategies and objectives** dovetail into **corporate strategy.**



- Understand Strategic Objectives

Provide **leading AI capabilities** to **community and regional financial institutions**. We will **utilize AI** as an enabler to help us deliver on our mission to **strengthen the connections** between people and their financial institutions through technology and services that **reduce the barriers** to financial health.



Review the Institutions Strategic Plan



- **Ask About AI Principles**



Fairness and Equality

Promote fair, just, and equitable treatment and avoid discrimination and bias.



Transparency

AI use cases should be clearly documented and well-explained.



Accountability

People are always in charge with clear methods to report ethical issues or misuse.



Compliance

Compliant with all applicable laws, regulations, and standards.



Privacy and Data Protection

Respect privacy, protect data, allow for clear and informed consent.



Safety and Security

Follow security standards, protect systems, and prevent infrastructure disruption.

- **Request a Briefing on the AI Strategic Plan**

- Form core **team**
- Adopt **AI vision, objective, principles**
- Engage **Leadership**
- Create **Breakout** teams
- Document AI **inventory**
- Develop **approval** process
- Deliver **training**
- **Repurpose** current processes
- **Plan for** evolving strategy



- **Has the Institution Defined the Types of AI?**

What it is

- **Machine Learning**

- Computers analyzes existing data and learns to identify patterns

- **Generative AI**

- Learns statistical patterns and then generates new data based on those patterns
- Understands speech, solves problems, and reasons

- **Multimodal AI**

- Capability to use with text, code, audio and video

What it is not

- **Robotic Process Automation**

- Automates manual, repetitive, and rule-based tasks



- **Has Institution Evaluated and Prioritized Potential AI Use Cases?**

- **Customer Service**
- **Fraud Detection and Prevention**
- **Report Writing**
- **Contract Management**
- **Data Analysis**
- **Personalized Banking**
- **Compliance Reporting**
- **Associate Productivity**
- **Marketing and Communications**
- **Internal Opportunities**



- Has the Institution Documented AI Use Case Inventory?



How Do **You** Use AI Today??



Document extracts using Document AI

Payrailz fraud monitoring

Cybereason

Netskope

ServiceNow

Software development coding assistance

Science Logic

Financial Crimes Defender for fraud identification

Salesforce

- **Has the Institution Distributed Usage Standards? (How Frequent are the Updates)?**

A **reputation** is built over years; it only takes one mistake to seriously damage it

- Consider everything **input** into an **Approved AI tool as well as the output**
- **Always comply with Data Privacy and Data Security policies**
- **Comply with** all applicable **laws and regulations** governing the use of AI.
- **Beware of** common **ethical issues** posed by AI (e.g., bias, discrimination, transparency, etc.).
- Before using AI-generated material, **carefully review** it.

- How is the Institution Handling Private and Confidential Information?



Tool and Model Use (non-developers)



PII



PCI



IP



CODE

- Are There Specific Guidelines for Software Developers?



Tool and Model Use (Software Developers)



Software Developers

- The JH Github Copilot license is currently the only tool approved for software coding.

Licenses

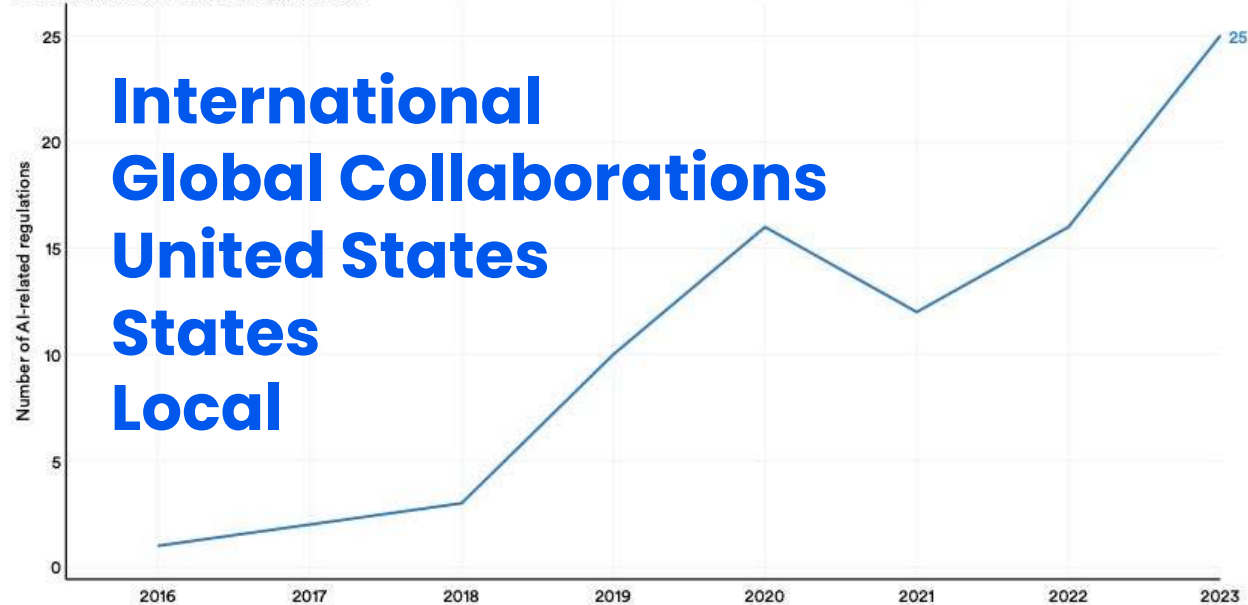
- Request process must be communicated
- Determine internal billing and any chargebacks if necessary
- A “personal” license should not be allowed (the free, public facing tools)

- How is the Institution Managing Regulatory Compliance?



Number of AI-related regulations in the United States, 2016–23

Source: AI Index, 2024 | Chart: 2024 AI Index report



**International
Global Collaborations
United States
States
Local**

More Regulatory Actions Coming: Federal

1

2

3

4

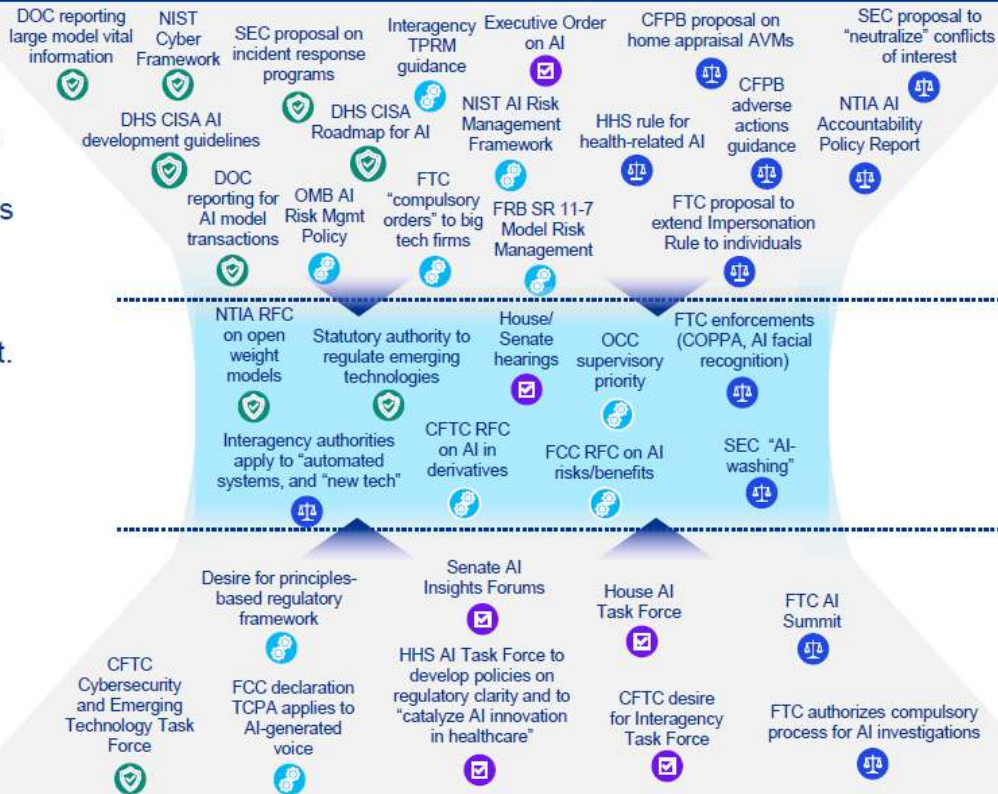
Rulemaking and frameworks will drive supervision and enforcement. Similarly, efforts to further discussion of AI risks/benefits will drive policies that impact supervision and enforcement.



Rulemakings & Frameworks

Supervision & Enforcement Focus

Other Regulatory Actions



● Artificial Intelligence Regulatory Environment

States are addressing AI through both legislation and regulation. Select State activity includes:

Utah

Artificial Intelligence Policy Act:

Consumer protection law effective May 1, 2024, requiring entities and individuals using AI/Gen AI to disclose use of such tools when interacting with customers (establishing liability for inadequate/improper disclosure). Also creates an Office of AI Policy and a regulatory AI analysis program.

California

Executive Order: Directing study of development, use, and risks of AI; develop process for evaluating and deploying AI within state government.

CPPA: Draft regulations for automated decision-making technology (ADMT) including AI, which would provide for consumers rights to opt out of, and access information about, businesses' use of ADMT, as outlined in the California Consumer Privacy Act. A formal proposed rule is still forthcoming.

Colorado

Colorado Division of Insurance: A new AI regulation, effective November 14, 2023, requires licensed life insurance companies that use external consumer data and information sources (ECDIS) and/or algorithms and predictive models to establish a risk-based governance and risk management framework to mitigate the risk of unfair discrimination based on race and remediate unfair discrimination, if detected. Reporting requirements include a compliance progress report on June 1, 2024, and an annual compliance attestation beginning December 1, 2024.

New York

NY DFS: Proposed guidance on the use of AI by insurers, including expectations for developing and managing the integration of external consumer data and information sources (ECDIS), AI systems, and other predictive models to mitigate potential consumer harm; covers anti-discrimination and risk management/governance framework.

NYC: Law requiring AI and automated employment decision tools to be audited for bias and disclosed to prospective candidates/employees.

Connecticut

OLR Public Act Concerning AI, Automated Decision Making, and Personal Data Privacy:

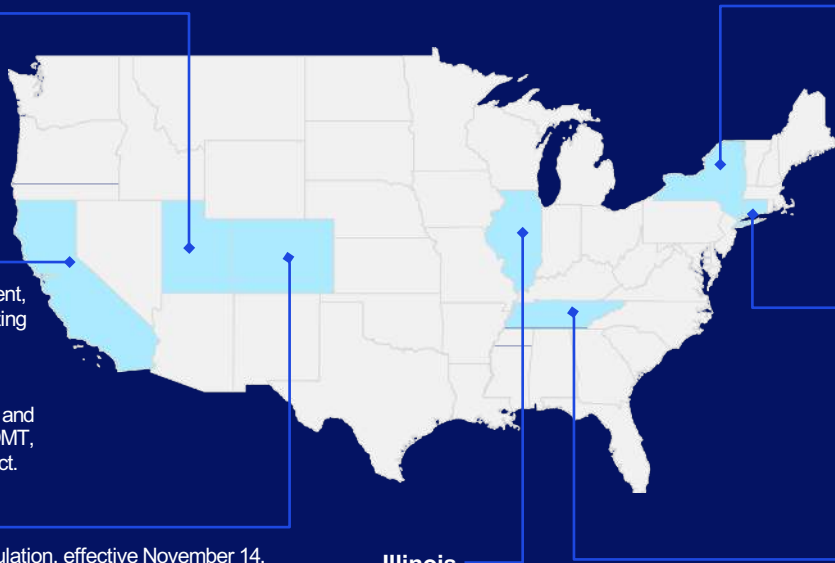
Requires the Department of Administrative Services to inventory all systems employing AI being used by state agencies. Effective February 1, 2024, the department must also conduct ongoing assessments of such systems to mitigate risk of discrimination or disparate impact.

Tennessee

ELVIS Act, effective July 1, 2024, adds “voice” (actual or simulation) to personal property rights of name, image, and likeness and adds protections against their unauthorized use in any medium and in any manner.

Illinois

Artificial Intelligence Video Interview Act, effective 2020, governs the use of AI on video interviews, including requirements for disclosure, consent, confidentiality, and deletion.



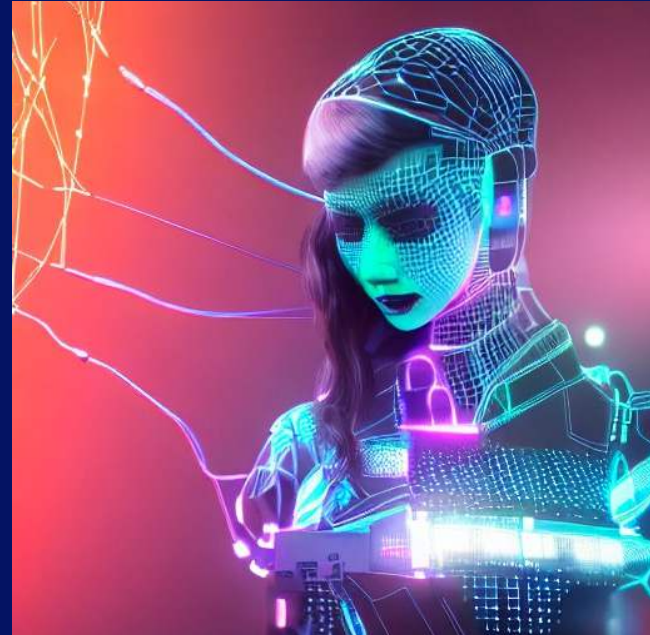
- **Ask for a Briefing on Infrastructure, Engineering and Security**



Engineering planning considerations

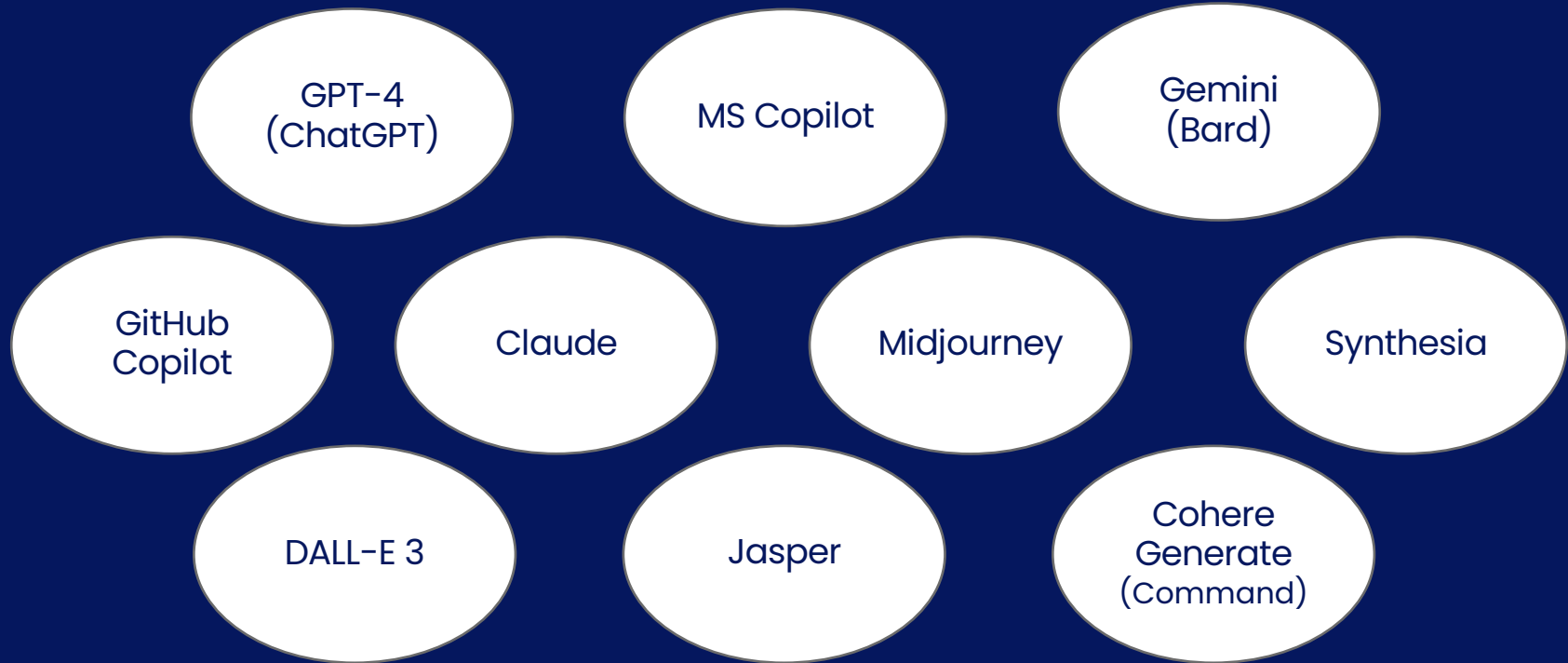


Cloud-based vs On-premise vs hybrid
Well-defined reference architecture
Establish buy vs build framework
Data pipeline
Set up sandbox environment
Information and cyber security



- Which AI Tools Does Your Institution Allow? (How are They Monitoring Tool Use)?

Gen AI Tools and Applications



- Understand the Risks Associated with Specific Models

Market Fragmented by Functionality

	Google	OpenAI	Microsoft
Free	Gemini	ChatGPT 3.5 ChatGPT - 4o	MS Copilot
Subscription	Gemini 1.0 Pro Gemini 1.5 Pro Gemini 1.0 Ultra	ChatGPT 4.0 ChatGPT Plus	MS Copilot Pro MS for Office 365

- How is the Institution Managing Data?



Data planning considerations



- Data Collection and Storage
- Data Cleaning and Preprocessing
- Data Security and Privacy

- How is the Institution Managing Use Case Approval?

What do you have and what will you develop?

Current

Document Inventory

Template

Product Impact

Application Impact

Type of AI

Location

New

Establish Value Model

Collaborative Ideation

Methodical Approach (KPIs)

Run Pilots

Scalability

- **Use Case Approval Processes**

Organize into four categories of use cases

**General
Productivity**

**Business
Use**

**Software
Development**

**Third Party
Integration**

- **Use Case Approval Processes**



Significant Focus Required



Productivity Use Cases

- Presentation creation
- Research
- Meeting scheduling
- Task prioritization
- Email drafting
- Personal development
- Time management

Business use cases

- Risk management
- Customer service
- Inventory management
- Financial analysis
- Internal modelling
- Product reviews
- Requirements documentation

- How is the Institution Leveraging Third-Party Partnerships?



Optimize Use of Strategic Partners



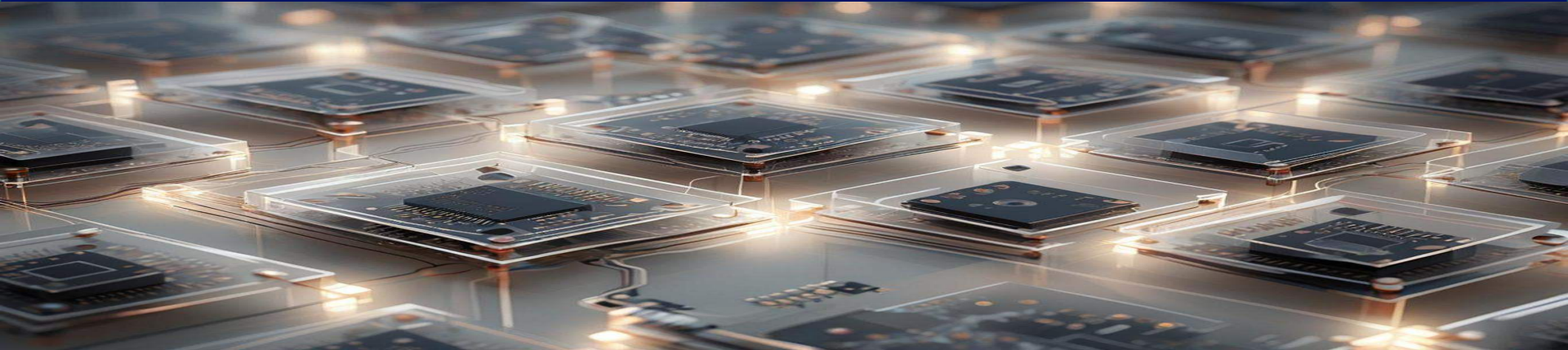
Google – LLMs, chatbots, tools, training, integrations, etc.

Microsoft – LLMs, chatbots, tools, training, integrations, etc.

IBM – NatWest using “Marge” for real-time digital mortgage support for home buyers

Service Now – “Now Assist” (Customer self-service chatbot, coding capabilities)

Salesforce/CRM – “Einstein”



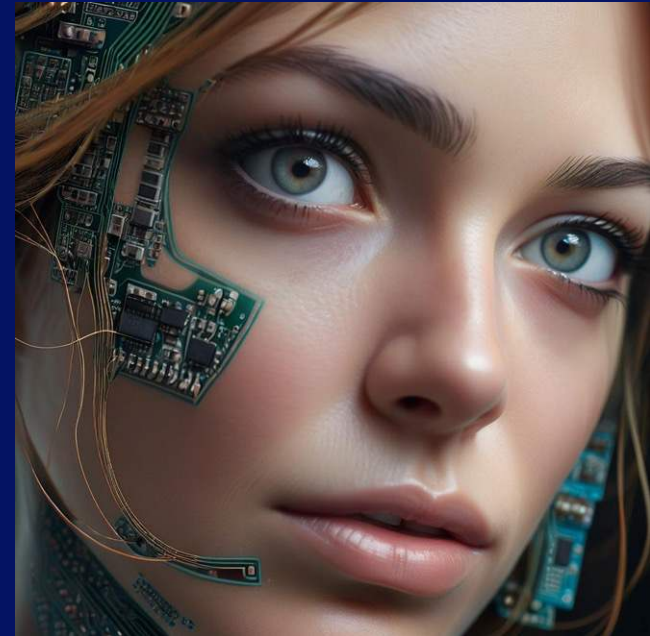
- How is the Institution Managing People and Culture?



Professional Development and Recruiting

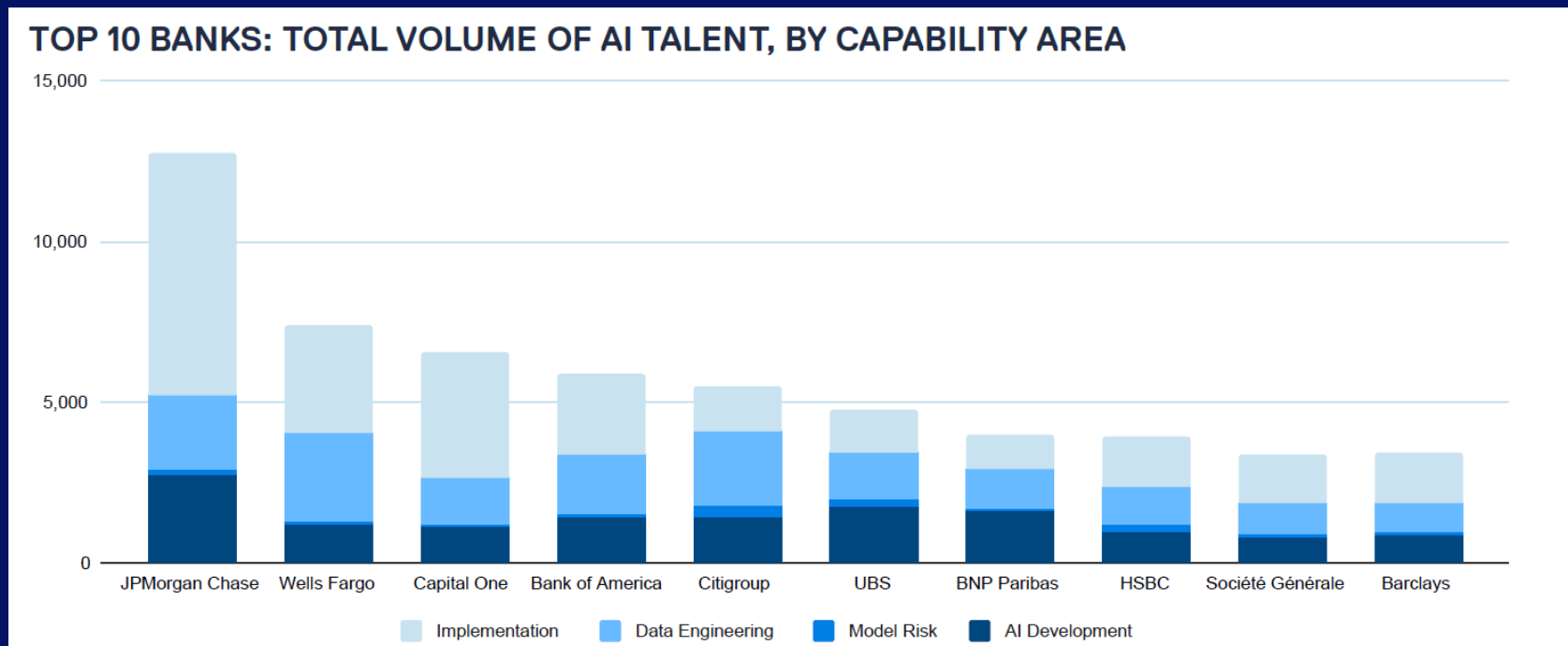


Talent Development
Talent Acquisition
Data Literacy
AI Literacy
Change Management



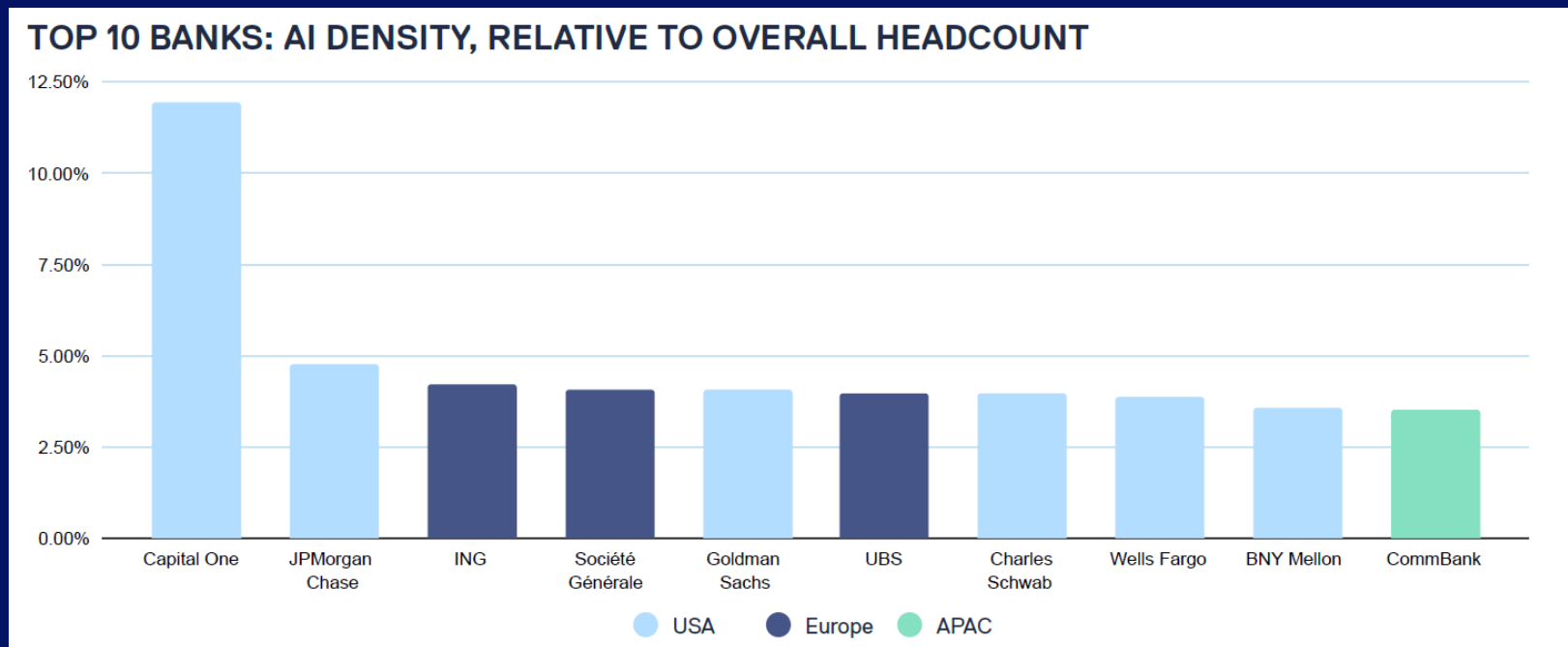
- What is Your Recruiting Plan?

JPMorgan Chase – equipped with 5.7x more AI staff than the average Index bank.



- What is Your Recruiting Plan?

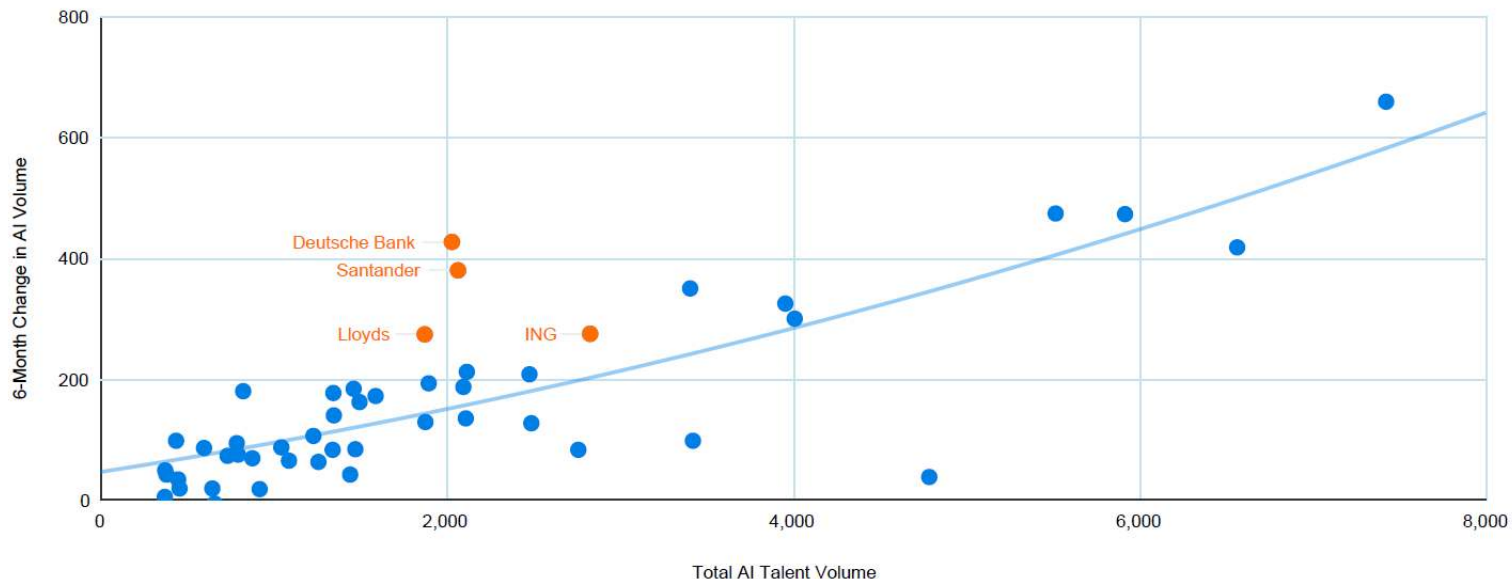
Capital One – significant outlier for AI talent density – with 12% of overall headcount working on AI. While employing 25% fewer workers than the average Index bank.



- **What is Your Recruiting Plan?**

Deutsche Bank, Santander, ING, and Lloyds Banking Group – demonstrated outsized growth in AI talent over the past six months

BANKS TO WATCH: CURRENT AI TALENT VOLUME VS. ABSOLUTE CHANGE



- **What is the Communication Plan?**



Communication is Key

Considerations

Communication
Channels

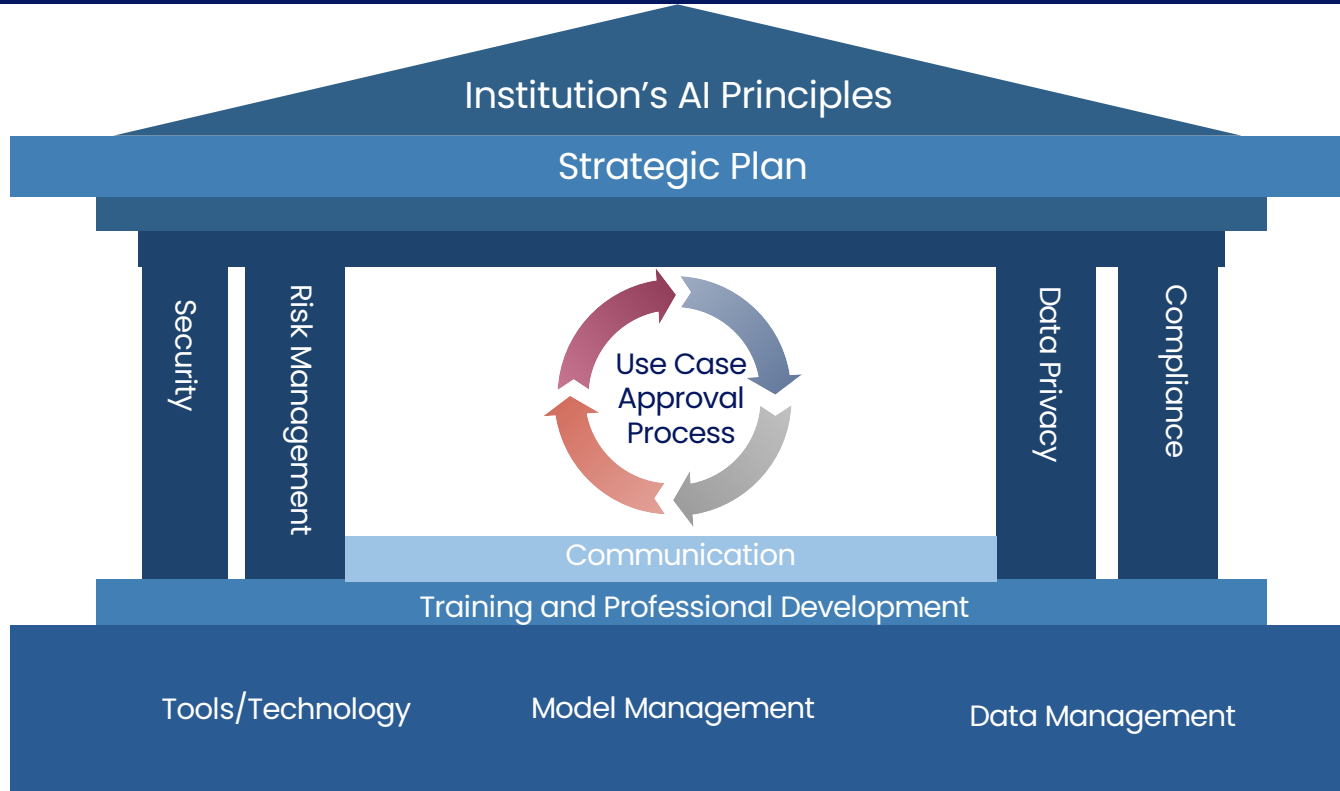
Clarity and
Transparency

Feedback Loops

Stakeholders

Board
JH Leadership
Associates
Software
Developers
Customers
Vendors
Regulators
Stockholders

- What is the Institution's AI Strategy Framework?



- **Key Takeaways**

It is critical for Governance to be immediately established

Technology and engineering determines the playing field

Regulatory compliance will continue to be a focal point

People development will be more involved than expected

Communication will be key



Questions

- **About the Presenter**

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