

Memorandum

The risks and opportunities of Generative Artificial Intelligence for companies and their governance.

10th Colloquium

November 2023

*The event recording, full presentation transcripts
and supporting materials are available [here](#)*

“Understanding the potential of Generative AI, both opportunities and risks, is urgent. Addressing international risks is significant - the role of ethics in creating safe AI should not be underestimated”. **Alan Johnson, immediate past President of the International Federation of Accountants and Chair of the Good Governance Academy** welcomed participants to the 10th Colloquium of the Good Governance Academy and expressed his gratitude for the opportunity to chair the event. Mr Johnson noted that: “Professor Mervyn King's dedication to global governance is seen through his founding of the Good Governance Academy.”

The GGA, a not-for-profit organization focused on collaborating and sharing information on crucial business issues, is closely aligned with UN Sustainable Development Goals 4 (Quality Education) and 17 (Collaboration). This 10th Colloquium discussed "The Risks and Opportunities of Generative AI" with a distinguished panel. It discussed both risks and opportunities, with a focus on the responsibilities of accountants, finance professionals, and corporate boards in understanding, assessing, and implementing AI in business.

“Generative AI must be seen as an aid and not replacing original intellectual thinking”, says Professor Mervyn King. In his opening address, Professor King highlights that: “A director, in order to discharge his/her duty of care to the company, has to apply their minds to an issue. They can use an AI tool as an aid in helping them discharge their duty of care. This is a strategic imperative knowing that the aid exists.” Professor King continues in his guidance: “The composition of boards and its leadership becomes critical and intergenerational diversity made up by having a shadow board or an advisory committee with suitable nondisclosure and good faith clauses is becoming the order of the day. Generative AI will also be used to see whether the criteria for the application of the business judgement rule has been met or not. AI will be used to see whether the directors have fulfilled their duties of good faith care skill and diligence.”

Rachel Johnson, Global Head of Risk Management and Corporate Governance at ACCA, noted the comprehensive risk culture study conducted by the ACCA. Ms Johnson noted that the study involved global forums, online roundtables, and engagements with members to explore how risk professionals are addressing risks and opportunities.

Ms Johnson noted that the study had shown that, despite generative AI's developmental stage, businesses are increasingly exploring its capabilities, but with caution. The common concerns raised include biases, data privacy, and ethical implications. Regulatory and compliance risks persist, but there is a shift towards recognizing leadership risks, indicating a decline in trust in boards and senior management. Members have expressed concerns about market disruption, technological adaptability, skills shortages, and the internal control of algorithms. Finally, Ms Johnson notes that the study emphasized the importance of good governance, role clarity, and training at all organizational levels. The global impact of AI, like climate change, requires a strong risk culture starting from the top, emphasizing the board's fiduciary duty.

In its result, Ms Johnson explains, the study calls for a common language and mutual engagement between leadership and employees. Collaboration with various stakeholders, including industry bodies, communities, academics, and employees, is crucial for managing the transformative impact of AI wisely. The ethical considerations of AI, including transparency, accountability, and human control, are central to creating a safe and controlled AI environment. The study raises questions about incentivizing and measuring the desired risk culture, emphasizing the need for a collective effort to answer these challenges.

Ms Johnson chaired a fast-paced, informative conversation between Dr. Andrea Bonime-Blanc, Founder & CEO of GEC Risk, and Dr. Roger Miles, an eminent researcher and speaker. During this discussion, the urgency of understanding both the opportunities and risks associated with Generative AI was underscored.

Dr Bonime-Blanc noted the rapid evolution of AI, specifically generative AI and its impact on various aspects of life. The shift from traditional AI to reinforcement learning from human feedback, emphasizes the improvements which have been made in generative AI capabilities. Concerns are raised about deep fakes becoming harder to distinguish from reality.

The challenges of keeping up with the exponential rate of technological change, ethical considerations, and the need for human involvement in AI processes should not be underestimated. Dr Bonime-Blanc provided guidance on the governance of generative AI, including risks, opportunities, and the importance of risk management, and emphasized the necessity for continuous education, especially for boards, and the need to adapt to new technologies.

She highlighted the potential risks of discrimination and bias in generative AI, along with geopolitical implications. Dr Bonime-Blanc guides attendees to look at her eight-step model for organizational resilience which addresses governance, culture, stakeholder awareness, risk intelligence, strategy, crisis preparedness, scenario planning, and continuous improvement. This model can provide an effective guide to navigating the challenges posed by generative AI.

Dr Miles explored various aspects of artificial intelligence, focusing on generative AI and its implications. He explained his interest in the intersection of human intuition and machine processing, particularly in decision-making, and proposed a "Cognition Test" which involved

determining if a conversation partner, whether human or machine, can convincingly pass as human behind a screen.

His discussion delved into the processing capabilities of generative AI and highlighted the rapid advancements and its potential impact across different fields, using the banking industry as an example. Dr Miles noted the lagging regulation in response to technological developments, and expressed concern about the potential for catastrophes as the industry outpaces regulatory controls. He introduced "Metacognition" as the human ability to know what one doesn't know and contrasted this with AI's tendency to "hallucinate" or provide inaccurate information.

Dr Miles considered historical technological advancements and their unintended consequences, drawing parallels to the current state of AI. He introduced the concept of "Accident Theory" to highlight the unforeseen risks associated with complex systems and emphasized the potential magnitude of consequences with generative AI's information output. He discussed bias psychology and pointed out that AI tends to reinforce stereotypes rather than challenge them. He cautioned that the pace of change in the industry was outstripping regulatory controls and predicted an AI-generated disaster by 2025.

Dr Miles reiterated Professor King's call for cognitive skills and critical thinking, especially in countering potential mistreatment, over-optimism, and manipulative elements amplified by AI. He concluded with a call for the audit profession and governance to play a role in questioning truths, promoting critical thinking, and ensuring that generative AI becomes a force for good, albeit with a cautious tone regarding the current state of affairs.

This 10th Colloquium highlighted one of today's current critical business issues. Recognizing that the world is on a precipice of unprecedented, automated intelligence, all speakers highlighted the need for caution, human oversight, and the establishment of effective controls. The potential opportunities are significant and should not be lost, cautioned the speakers, but these opportunities should be considered in the context of critical thinking in regard to the potential short-term as well as long-term negative consequences. Just because one can, doesn't mean one should.



Professor Mervyn King

Patron

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Carolynn Chalmers

Chief Executive Officer

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