# Sound Practices for Responsible Adoption of Artificial Intelligence (AI): Consultation report

## Response to Consultation

Balaji J (independent response)

1. **Do you agree with the benefits and risks of AI adoption by financial institutions described in this report? Are there any substantive benefits or risks not covered?**

   Completely agree with the benefits and risks of AI adoption. Would like to suggest a bit more focus on three risks and one benefit:

   Risk 1: There is an inescapable over dependence on 3 to 4 Foundational LLM providers, the elimination of even one could create a material systemic impact to the FS Industry. A sub risk here is this over dependence can result in all users of these models getting things consistently wrong when the model misbehaves.

   Risk 2: To build on Risk 1, we also have another inescapable over dependence on data center/could providers who house these Foundational LLMs, the disruption of any one could create material systemic impact to the FS Industry.

   Risk 3: A key principle for AI adoption is transparency, however there is almost no transparency into how these Foundational Models are evolving, and hence what risks they pose in the hands of an unfriendly actor.

   All three risks directly impact financial stability, and no one FI is able to mitigate this risk. Traditional model validations need to be reframed as model behavior assessment, and based on materially and risk, continuous behaviors assessments may be essential.

   On the benefit side, we need to start emphasizing the need to explore AI as a guardrail for AI, and start issuing guidance and best practices. Human in the Loop (HITL) concept is overrated, given pace of adoption and complexity and limitation of understanding AI outputs at run time. At a minimum we need to shift towards having a "qualified" human in the loop. Else we will see a rapid use of off shore centers dedicated to HITL procedures without sufficient understanding of context.

2. **Are the sound practices sufficiently comprehensive and clear to enable financial institutions' responsible AI adoption?**

   Yes, very well articulated and the split between Org Level and Lifecycle Level makes it easy to share and educate.

3. **Do the sound practices strike an appropriate balance between managing risks relating to all forms of AI, and addressing some of the risks relating to emerging and new complex forms of AI, such as GenAI and agentic AI?**

   Gen AI and Agentic AI are already here, so no longer emerging. An emerging risk dimension is whether Quantum Computing with AI will make it impossible to deploy traditional risk management.

   What we probably need is better context setting for Gen AI and Agentic AI. One way to accomplish this would be to start from the commonly understood definition such as "An agent is a person, entity, or system with authority (and capability) to act on behalf of another to produce a specific outcome"

   Now we can start with the definition of Generative AI as "machine learning that produces novel content in response to user prompts using contextual relationships and probabilistically predictions.

   So we can then lay out requirements around:

   - what to do when using a foundational model as a black box (e.g general behavioral testing)

   - what to do when this black box is used within a business process with or without local data enrichments (context specific behavioral testing)

   - what to do when this usage is set up as an agent, or group of agents, depending upon materiality & risk primarily driven by level of human participation

4. **Are the sound practices sufficiently flexible to accommodate and address newer types of AI and responsible adoption over time?**

   Absolutely

5. **Do the case studies in this report sufficiently highlight how different types of financial institutions can benefit from responsible AI adoption? Are there additional case studies for inclusion in the report? If so, please provide such case studies, particularly for nonbanks.**

   Have not studied them as much

6. **Do the case studies in this report provide actionable insights for financial institutions in their responsible AI adoption?**

   Have not studied them as much

7. **Are the definitions in the glossary clear and aligned with industry sound practices, including recent developments in AI?**

   Yes

8. **Are there any comments you would like to make on this report? Please fill in.**

Excellent work, thank you