

Adaptive Risk Classification Framework (Sample)

Risk Category – [Enterprise Governance Framework]	Risk Classification – [Effective AI Governance Formula]	Risk Sub- Classification	Risk Example	Risk Rating Action	Risk Owner
				Extreme	
				Medium	
				Low	
<b>Control &amp; Governance</b>	1. People & Culture	1.1 Roles	<ul style="list-style-type: none"> <li>Lack of clarity in responsibility throughout the deployment of AI such as Deep Neural Network (DNN) and lack of connection between DNN design function and credit risk function.</li> </ul>		
		1.2 Competence	<ul style="list-style-type: none"> <li>Capacity to identify and/or develop competent employees to monitor the impact of AI tool and lack of cross-functional engagement to ensure appropriate queries are raised and resolved.</li> <li>Capacity of team to deploy, supervise and ethically apply AI solution.</li> <li>Lack of clearly defined AI Risk Management functional roles and individual accountabilities.</li> </ul>		
		1.3 Diversity	<ul style="list-style-type: none"> <li>Lack of diversity in team from a functional and cultural perspective to identify potential for bias (e.g. Data bias, personal biases of designers, potential or perceived cultural biases).</li> </ul>		
		1.4 Transparency	<ul style="list-style-type: none"> <li>Willingness and propensity for employees to challenge norms and question process exemplified by a capacity to raise questions of design teams, explain in plain English the logic and reasoning of the systems and to ensure levels of ethical assurance over the quality of outputs.</li> </ul>		
<b>Ethical</b>	2. AI Solution & AI Governance Tools	2.1 AI governance	<ul style="list-style-type: none"> <li>Lack of steering committee and associated protocols</li> <li>Lack of competence and cross functionality of data, development, management team</li> <li>Lack of documented and understood policies, procedures and governance framework linked to Enterprise Governance Framework</li> <li>Key team members unable to ‘explain’ how AI tool is used and how AI risk is managed.</li> </ul>		
		2.2 AI risk – Bias	<ul style="list-style-type: none"> <li>Direct link from historical datasets as core first layer input to the AI tool (e.g. neural network).</li> <li>Lack of quality assurance and sampling undertaken on origin of data.</li> <li>Lack of scientific testing of data to determine potential for bias.</li> </ul>		
		2.3 Algorithm risk – inaccuracy	<ul style="list-style-type: none"> <li>Interdependence on competence of design of algorithm and/or impact of poor quality of input data may give rise to poor outcome for consumer and the Institution.</li> </ul>		
		2.4 AI Tool risk – feedback	<ul style="list-style-type: none"> <li>Lack of mechanism to capture customer/Institutional feedback gives rise to latent identification of potential bias or error in algorithm and data.</li> </ul>		

Technical	3. Cyber & Data Privacy Governance	3.1 Legacy risk	<ul style="list-style-type: none"> <li>Use of historical data on legacy ICT systems increases the risk for embedding error and/or bias in AI tool.</li> </ul>		
		3.2 Cyber risk	<ul style="list-style-type: none"> <li>Increased complexity of system design, relying on wide array of software, web applications, devices, that require continuous scheduling of updating risks exposing the ICT infrastructure to vulnerability, thereby threatening the core data of the Institution.</li> </ul>		
		3.3 ICT Financial risk	<ul style="list-style-type: none"> <li>Potential of Data Privacy breach sanction imposed by regulator in the event of a data breach and/or inadequate control mechanisms over the data.</li> </ul>		
Legal & Social	4. Societal & Organisational Values	4.1 Reputational Risk	<ul style="list-style-type: none"> <li>Increased risk of reputational damage giving rise to reduced confidence in the systems and processes of the Institution resulting in customers switching institutions.</li> </ul>		
		4.2 Trust & Ethical Risk	<ul style="list-style-type: none"> <li>Lack of ethical framework guiding the selection and use of AI within the Institution</li> </ul>		
		4.3 Economic risk – social	<ul style="list-style-type: none"> <li>Overarching economic inequality arising from the application of unintended bias within the algorithm.</li> </ul>		
		4.4 Economic risk – pecuniary	<ul style="list-style-type: none"> <li>Risk of a pecuniary regulatory penalty (fine) or civil litigation (damages) arising from the failure of governance process and clear, responsible AI framework.</li> </ul>		