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Smart Enough to Decide, Too Immature to Govern

When AI is both the decision-maker and its own guard-rail, the board owns what it cannot explain

AI Governance · FSB · BIS · EU AI Act · SR 11-7 · the Board's Operating Model

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2-in-1
AI is the executor and its own guard-rail

8
board-level governance gaps scored by impact × likelihood

Aug 2025
EU AI Act GPAI duties already in force

8-gate
governed adoption lifecycle the board's answer

Sources: FSB · BIS FSI (Insights 63, BCP 15) · EU AI Act · SR 11-7 · PRA SS1/23 · SMCR · NIST AI RMF · ISO/IEC 42001

KEY TAKEAWAYS

- Name the accountable human for every AI decision
- Bring shadow AI into one model inventory
- Run every system through a gated lifecycle

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By Anwarul Hasan (MBA, PhD)
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Artificial intelligence no longer merely supports decisions in financial services — it **makes** them, shaping **credit, fraud and customer outcomes** directly, and increasingly **acting** rather than recommending. That single shift moves AI out of the IT department and into the boardroom. A sharper problem sits underneath it: the same technology is becoming both the decision-maker and the control meant to police it. When the executor is its own guard-rail, the institution is asked to govern itself — and the board ends up accountable for decisions it cannot fully explain.

From IT Problem to Board Problem

The defining challenge is governance, not technology adoption — precisely because AI now influences credit, risk and fraud decisions directly. Work has always flowed along a continuum, with humans handing ever-more-sophisticated steps to machines. AI is the latest step, and what is new is that it plays two roles at once: the **process executor** that produces the decision, and the **guard-rail** that checks whether the process complies. Because AI is still early in its development, it cannot be assumed to know reliably what is right, wrong or "compliant".

> *"When the executor becomes its own overseer, the board must ask: who governs the governor?"*

The Rulebook Doesn't Fit

Traditional model risk management — **SR 11-7** in the US, the PRA's **SS1/23** in the UK — assumes a deterministic, documentable model that can be validated and back-tested. Generative and agentic AI are non-deterministic, opaque and prone to hallucination; they resist that taxonomy (BIS FSI, Insights No. 63). Many tools sit outside model inventories entirely — **"shadow AI"** embedded in chatbots, productivity software and coding assistants, with validation, monitoring and ownership undefined.

Who Owns an AI Decision?

The single most important unresolved gap is named, demonstrable human accountability. Regimes such as the UK **SMCR** were designed around identifiable human decision-makers. When the model is third-party, the data vendor-supplied and the output probabilistic — and increasingly when an autonomous agent acts rather than recommends — the question becomes acute. Regulators are not waiting for new law; the FSB and the BIS are stretching the rules that already exist, reinforced by the **EU AI Act**, whose general-purpose-AI obligations have been in force since **August 2025**. Our analysis maps **eight board-level governance gaps**, led by the accountability vacuum, third-party concentration and the validation deficit.

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"The board cannot delegate accountability for decisions it cannot explain — it can only govern them."

The Answer: A Governed Adoption Lifecycle

The gaps are closable — not with a manifesto, but with an operating model. The board's structural answer is a single, governed **AI adoption lifecycle** in which every system passes through documented decision gates, is owned across the three lines of defence, and is bounded by a board-approved **AI risk appetite** (including prohibited practices). Seven moves matter most:

- **Own it.** Map named senior-manager accountability to AI-influenced decisions — at every gate.
- **See the whole estate.** End shadow AI through mandatory classification and one model inventory.
- **Re-arm the second line.** Fund validation tooling and specialist skills as a control.
- **Govern vendors as concentration risk.** Tie model and cloud dependency to resilience and exit.
- **Make oversight real.** Design human override that can actually stop a decision — not rubber-stamp it.
- **Run the lifecycle.** Intake & classification → data → model → validation → deployment → monitoring → incident → revalidation, each behind a gate.
- **Build adaptive capacity.** Integrate AI into ERM (NIST AI RMF, ISO/IEC 42001, COSO); do not silo it.

AI governance has become a defining test of board effectiveness. The obligations already exist; the systems are already deployed; the accountable human must already be named — and now, so does the operating model that discharges the duty.

"Name the owner, see the whole estate, re-arm the second line — and run every AI system through a governed lifecycle. None of it can wait for new regulation."

I would welcome your perspective — connect on LinkedIn or reach out at anwarul.hasan@riskvizon.com.

Read the complete White Paper:

"Intelligence Without Accountability: AI Governance and Risk Management — the Board's Responsibility, Challenges and Operating Model" (Third edition)

Companion implementation framework: **the Risk Vizon AI Governance Program**.

Available at: **www.riskvizon.com**

#AIGovernance #ModelRisk #BoardGovernance #RiskManagement #FSB #BIS #EUAIAct #SMCR #CRO #ResponsibleAI #RiskVizon

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