

AI Governance: Building Trust in the Future of Finance

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2. DEFINING AI GOVERNANCE

AI Governance refers to the framework of policies, processes, controls, and oversight mechanisms established to ensure that AI systems are developed, implemented, and used responsibly. It aims to maximise the benefits of AI while managing risks relating to fairness, transparency, accountability, privacy, cybersecurity, and regulatory compliance.

In practice, AI Governance helps organisations answer critical questions such as:

- ⊗ **Algorithmic fairness:** Are AI-driven decisions fair and free from bias?
- ⊗ **Explainability:** Can AI-generated outcomes be explained to customers and regulators?
- ⊗ **Data integrity:** Is customer data being protected appropriately?
- ⊗ **Accountability:** Who is accountable for decisions made using AI?
- ⊗ **Compliance:** Are AI systems operating within legal, ethical, and organisational boundaries?

By addressing these questions, AI Governance enables organisations to build trust among customers, regulators, investors, and other stakeholders.

3. MANDATE FOR FINANCIAL SERVICES AND AI GOVERNANCE

The financial services industry is particularly sensitive to the risks associated with AI because many AI-driven decisions directly affect financial consumer protection. Credit approvals, loan pricing, fraud monitoring, customer onboarding, and investment recommendations can all be influenced by AI-powered systems.

While AI can improve decision-making speed and accuracy, inadequate oversight of AI systems may create unintended consequences. Biased algorithms could disadvantage certain customer groups, inaccurate models could increase credit risk, and inadequate controls could expose institutions to cyber threats or regulatory penalties.

As a result, financial institutions around the world are increasingly recognising AI Governance as a critical component of their governance, risk management, and compliance frameworks.

1. INTRODUCTION

Artificial Intelligence (AI) is rapidly transforming the global financial services industry. From automated credit assessments and fraud detection to customer service chatbots and personalised financial solutions, AI is enabling institutions to improve efficiency, enhance customer experiences, and make more informed decisions. As the adoption of AI continues to accelerate, organisations must ensure that these technologies are deployed responsibly and ethically. This has given rise to the concept of AI Governance.

4. THE SRI LANKAN CONTEXT AND REGULATORY LANDSCAPE

Sri Lanka's financial sector is experiencing significant digital transformation. Banks, Non-Bank Financial Institutions (NBFIs), fintech companies, and payment service providers are investing in digital platforms, automation, advanced analytics, and AI-enabled customer solutions.

Examples of AI applications within Sri Lanka's financial sector include:

- ⊗ Digital loan origination and approval systems
- ⊗ AI-powered customer support platforms
- ⊗ Fraud detection and transaction monitoring systems
- ⊗ Credit scoring and risk assessment models
- ⊗ Customer behaviour analytics and personalised marketing
- ⊗ Automated document processing and verification

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As the use of AI becomes more widespread, the need for appropriate governance structures becomes increasingly important. While Sri Lanka is still developing its regulatory landscape relating to AI, financial institutions are already expected to comply with existing requirements relating to Personal Data Protection (PDPA) Act, No. 09 of 2022, data privacy and cybersecurity, operational resilience, risk management, and fair customer treatment.

Furthermore, global trends indicate that regulators are moving towards stronger oversight of AI systems. The European Union's AI Act, international principles issued by the Organisation for Economic Co-operation and Development (OECD), and emerging guidance from financial regulators worldwide suggest that AI Governance will become an increasingly important area of focus for Sri Lankan institutions in the years ahead.

5. KEY PILLARS OF EFFECTIVE AI GOVERNANCE

An effective AI Governance framework is typically built around several core pillars:

5.1. Accountability and Oversight

Clear accountability is essential to ensure responsible AI deployment. Boards and Senior Management should understand how AI is being used within the organisation and provide appropriate oversight. Responsibilities for AI development, implementation, monitoring, and risk management should be clearly assigned.

5.2. Ethical and Fair Use

AI systems should operate fairly and avoid discriminatory outcomes. Institutions should assess potential biases in data, algorithms, and decision-making processes to ensure equitable treatment of customers and stakeholders.

5.3. Transparency and Explainability

Customers, regulators, and management should be able to understand how AI systems make decisions. Transparent and explainable AI models improve trust and enable effective challenge and review processes.

5.4. Data Governance

AI systems rely heavily on data. Strong controls relating to data quality, privacy, ownership, and security are critical to ensuring reliable outcomes and protecting customer information.

5.5. Enterprise Risk Management

AI-related risks should be incorporated into existing enterprise risk management frameworks. This includes assessing operational, reputational, cybersecurity, compliance, model, and conduct risks associated with AI applications.

5.6. Cybersecurity and Resilience

As AI systems become more integrated into business operations, they may become targets for cyberattacks. Appropriate cybersecurity measures and ongoing monitoring are necessary to safeguard systems and data.

6. STRATEGIC OUTLOOK

As artificial intelligence becomes increasingly integrated into Sri Lanka's financial services industry, AI Governance is expected to evolve into a strategic board-level priority. Institutions that establish robust governance frameworks will be better positioned to manage emerging risks, maintain stakeholder trust, and adapt to evolving regulatory expectations. Beyond compliance, effective AI Governance enables organisations to deploy innovation responsibly, safeguard customer interests, and strengthen operational resilience. As the sector continues its digital transformation journey, embedding ethical oversight, transparency, and accountability into AI-driven processes will be critical to ensuring that technological advancement supports sustainable value creation and long-term business success.

