



# ADAPTATION IN GOVERNANCE AND AI

CS Evalyne Odongo

**ADVANCED TRUSTEE LEADERSHIP AND FIDUCIARY EXCELLENCE  
PROGRAMME**

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**VENUE: Pride Inn Paradise, Mombasa**

**GOVERNANCE . TRAINING . EMPLOYEE BENEFITS . TECHNOLOGY**

## EXPECTED OUTCOMES

1. Understand the evolving role of governance in the age of AI
2. Identify key risks and ethical considerations associated with AI integration
3. Explore adaptive governance models
4. Recognize importance of transparency, accountability and inclusivity in AI oversight
5. Develop actionable Insights

## WHAT IS ARTIFICIAL INTELLIGENCE



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❖ **Artificial Intelligence is the capability of computer systems to perform tasks that typically require human intelligence – including learning, reasoning, problem solving, perception and language understanding.**

### Key Characteristics

- learning
- Data-driven pattern recognition
- Adaptive decision-making
- Automation of cognitive tasks

### Three Main Types

- Narrow AI: Specific tasks (e.g., fraud detection)
- General AI: Human-like reasoning (theoretical)
- Super AI: Surpasses human intelligence (future)

## ❖ Common Misconceptions

<b>NOT Human Like Consciousness</b>	<b>Not infallible or objective</b>
AI does not have emotions, consciousness, or true understanding. It processes patterns in data without awareness.	AI systems inherit biases from training data and can make errors. They require human oversight.
<b>NOT a magic solution</b>	<b>NOT a replacement for human judgement</b>
AI cannot solve all problems. It requires quality data, proper implementation, and clear objectives.	Trustees remain accountable. AI is a decision-support tool, not a decision-maker.

## THE AI REVOLUTION IN PENSIONS

### CURRENT REALITY

- AI already manages billions in pension assets
- Chatbots answer thousands of member queries
- Algorithms make real-time trading decisions

### THE CHALLENGE

- Traditional quarterly oversight is insufficient
- Knowledge gaps between trustees and technology
- Unprecedented opportunities + serious risks



# Have you applied AI in your daily tasks recently?



# What are your top concerns with the use of AI



**If you have used AI, what tools did you use?**

## UNDERSTANDING AI: WHAT TRUSTEES NEED TO KNOW

<b>MACHINE LEARNING</b>	<b>NATURAL LANGUAGE PROCESSING</b>	<b>PREDICTIVE ANALYTICS</b>
Learns patterns from data to make predictions. Powers investment forecasting and fraud detection.	Understands and generates human language. Enables chatbots and automated communications.	Forecasts future outcomes based on patterns. Used in actuarial modeling and risk assessment.
AI analyzes data	Testing for accuracy	Real-world operation

## WHERE AI IS TRANSFORMING PENSION OPERATIONS

INVESTMENT MANAGEMENT	MEMBER SERVICES
<ul style="list-style-type: none"> <li>• Portfolio optimization across thousands of scenarios</li> <li>• Algorithmic trading executing in milliseconds</li> <li>• Risk assessment detecting hidden correlations</li> <li>• ESG analysis processing vast data sources</li> </ul>	<ul style="list-style-type: none"> <li>• 24/7 chatbots providing instant member support</li> <li>• Personalized retirement planning tools</li> <li>• Automated claims processing and validation</li> <li>• Tailored communications based on member data</li> </ul>
COMPLIANCE & RISK	OPERATIONAL EFFICIENCY
<ul style="list-style-type: none"> <li>• Fraud detection identifying unusual patterns</li> <li>• Anti-money laundering screening</li> <li>• Automated regulatory reporting</li> <li>• Audit and control testing</li> </ul>	<ul style="list-style-type: none"> <li>• Document management and intelligent search</li> <li>• Data quality monitoring and correction</li> <li>• Cash flow and behavior forecasting</li> <li>• Process automation freeing staff capacity</li> </ul>

## FIDUCIARY DUTIES: EVOLUTION NOT REVOLUTION

DUTY OF CARE	DUTY OF LOYALTY	DUTY OF PRUDENCE
<ul style="list-style-type: none"> <li>• Understand AI systems affecting members</li> <li>• Seek expert advice where needed</li> <li>• Make informed AI decisions</li> <li>• Establish ongoing monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Prioritize member interests over vendor benefits</li> <li>• Prevent member data exploitation</li> <li>• Ensure AI treats all members fairly</li> <li>• Maintain transparency with members</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct thorough AI vendor due diligence</li> <li>• Assess and mitigate AI-specific risks</li> <li>• Consider diversification of AI risk</li> <li>• Document all AI-related decisions</li> </ul>
<p><i>"Ignorance is not a defense"</i></p>	<p><i>Act solely in members' interests</i></p>	<p><i>Thoughtful, well-reasoned decisions</i></p>

## CYBERSECURITY THREATS

*AI faces traditional cyber risks PLUS new AI-specific threats*

### AI Specific threats:

- Data poisoning: Corrupted data teaches AI wrong patterns
- Adversarial attacks: Carefully crafted inputs fool AI systems
- Model theft: Reverse-engineering AI through observation
- Decision manipulation: Gaming AI to produce favorable outcomes

**Mitigation: Regular security testing including adversarial testing; anomaly detection for unexpected AI behavior; comprehensive audit trails; incident response protocols**

## DATA QUALITY & GOVERNANCE

*"Garbage in, garbage out" applies emphatically to AI systems*

### Data Quality Issues:

- Incomplete, outdated, or inconsistent data
- Unrepresentative training data producing skewed AI
- Legacy data quality issues becoming critical for AI

### Governance Challenges

- Unclear data ownership and access rights
- AI requiring longer data retention than otherwise needed
- Data processed in unexpected locations including internationally

## BUILDING AI READY BOARD COMPETENCIES

### Four Essential Competency Dimensions

TECHNICAL LITERACY	STRATEGIC JUDGMENT
<ul style="list-style-type: none"> <li>• Understand how AI works conceptually</li> <li>• Familiarity with AI terminology</li> <li>• Ability to comprehend AI reports</li> <li>• Capacity to ask informed questions</li> </ul>	<ul style="list-style-type: none"> <li>• Assess AI alignment with scheme objectives</li> <li>• Evaluate opportunities against risks/costs</li> <li>• Determine appropriate AI investment</li> <li>• Understand AI's role in scheme strategy</li> </ul>
ETHICAL REASONING	GOVERNANCE CAPABILITY
<ul style="list-style-type: none"> <li>• Identify ethical dimensions of AI use</li> <li>• Balance efficiency vs. fairness/transparency</li> <li>• Consider member dignity and autonomy</li> <li>• Establish ethical boundaries for AI</li> </ul>	<ul style="list-style-type: none"> <li>• Establish appropriate AI oversight structures</li> <li>• Monitor AI performance and risks</li> <li>• Ensure accountability for AI systems</li> <li>• Manage AI vendor relationships effectively</li> </ul>

*Recommended: Every trustee completes at least one full-day AI literacy program within 6 months of appointment, with annual refresher training*

## AI GOVERNANCE FRAMEWORK: PRACTICAL STEPS

<b>ESTABLISH AI INVENTORY &amp; RISK ASSESSMENT</b>	<i>Document all AI systems in use, assess risks, categorize by criticality</i>
<b>DEFINE AI GOVERNANCE POLICIES</b>	<i>Clear policies on AI approval, use cases, ethical boundaries, oversight</i>
<b>ENHANCE BOARD COMPOSITION &amp; EXPERTISE</b>	<i>Add technology expertise, provide training, engage advisors</i>
<b>IMPLEMENT MONITORING &amp; REPORTING FRAMEWORK</b>	<i>Regular AI performance reports, bias testing, security assessments</i>
<b>STRENGTH VENDOR MANAGEMENT</b>	<i>Due diligence protocols, contractual protections, ongoing oversight</i>

## ESSENTIAL QUESTIONS EVERY TRUSTEE SHOULD ASK

<b>ABOUT THE AI SYSTEM</b>	<b>ABOUT RISK &amp; CONTROL</b>
<ul style="list-style-type: none"> <li>• What problem does this AI solve?</li> <li>• What member benefit does it provide?</li> <li>• Why is AI the best solution?</li> <li>• How will we measure success?</li> </ul>	<ul style="list-style-type: none"> <li>• What can go wrong with this AI?</li> <li>• How will we know if it's making errors?</li> <li>• Who is responsible when it fails?</li> <li>• Can we override the AI if necessary?</li> </ul>
<b>ABOUT TRANSPARENCY</b>	<b>ABOUT DATA &amp; BIAS</b>
<ul style="list-style-type: none"> <li>• Can the AI explain its decisions?</li> <li>• How will we explain this to members?</li> <li>• What audit trail does it maintain?</li> <li>• Can we understand specific conclusions?</li> </ul>	<ul style="list-style-type: none"> <li>• What data trains this AI?</li> <li>• How representative is the data?</li> <li>• How do you test for bias?</li> <li>• Where is our data processed?</li> </ul>

Your most powerful governance tool is asking penetrating questions

## QUESTIONS TO ASK SERVICE PROVIDERS

QUESTION	PURPOSE	LISTEN FOR	RED FLAG
What type of AI/ML is being used and why?	Understand if technology matches the problem	Clear explanation of AI type and its appropriateness	Vague "proprietary algorithms" without specifics
What data is required and how is it protected?	Data governance and privacy compliance	What member data the AI accesses, where it's stored, who can access it	We need access to all member data" without clear purpose
How was the model trained and validated?	Understand reliability and potential biases	What historical data was used, how recent, how diverse	Training data doesn't represent your member demographics
Who owns and controls the algorithm?	Legal clarity and exit strategy	If vendor owns algorithm, do you own your data? Can you switch vendors?	You can't exit without losing historical data or analytical capability

## QUESTIONS TO ASK SERVICE PROVIDERS

QUESTION	PURPOSE	LISTEN FOR	RED FLAG
How can we audit the AI's decisions?	Transparency and accountability	Audit trail showing what data AI analyzed and why it decided	Proprietary algorithm can't be audited
What human oversight mechanisms exist?	Ensure appropriate human involvement	At what point do humans review AI decisions?	Fully automated process with no human checkpoints for critical decisions
How do you handle bias testing and mitigation?	Fairness and regulatory compliance	Regular bias testing across demographic groups	"We assume the AI is unbiased" or no testing protocol
What happens when the AI makes a wrong decision?	Business continuity and member protection	Error detection mechanisms, correction process, member remediation	No clear error handling procedure

## QUESTIONS TO ASK SERVICE PROVIDERS

QUESTION	PURPOSE	LISTEN FOR	RED FLAG
How do you ensure regulatory compliance?	Legal risk management	How AI complies with RBA, data protection, and other relevant regulations	Compliance is your responsibility, not ours
What insurance or indemnification is provided?	Financial protection	What liability vendor assumes for AI errors	All risk transferred to you with no vendor accountability
Can we exit this arrangement if needed?	Flexibility and risk mitigation	Notice period, data portability, transition support	Locked in with prohibitive exit costs or data held hostage

Practical tip:

Create a standard AI questionnaire based on these questions. Include in all RFPs and vendor reviews.

## TRUSTEE ACTION POINTS

- ❖ Build AI literacy at board level.
- ❖ Demand transparency and accountability in AI tools.
- ❖ Collaborate with regulators on ethical AI adoption.
- ❖ Integrate AI into strategic governance plans.
- ❖ Establish AI/ technology committee or assign responsibility to existing committee

## REVISITING THE EXPECTED OUTCOMES

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Daphton Court, Riverside Drive, Westlands  
P.O.B ox 48179 -00100, GPO Nairobi, Kenya  
Call: +254 719 560 656, +254 740 257 777, +254 11 1052230  
Email: [institute@finnettrust.com](mailto:institute@finnettrust.com) | [info@finnettrust.com](mailto:info@finnettrust.com)

[www.finnettrust.com](http://www.finnettrust.com)

