

## Submission to the Federal Government's Safe and Responsible AI in Australia consultation paper

Prepared by: [Alphinity Investment Management](#)

### Introduction and context

As investors, we believe AI presents significant opportunities to the Australian and global business environment. Our understanding is that AI has been used by many businesses, particularly in the engineering, materials and financial sectors, for a long time but has previously been talked about primarily in the context of advanced data analytics or machine learning. Our response and recommendations below are relevant for traditional machine learning applications and generative AI applications.

The advanced use of AI has the potential to make businesses more efficient, reduce costs and overheads, revolutionise business practices, and generate revenue from new or enhanced products and services. It also has the potential to help solve complex environmental and social challenges such as diversity and inclusion, health and safety, and climate change.

For these opportunities to be realised however, the governance, design, and application of AI needs to be undertaken in a responsible and ethical way which manages the key risks appropriately. We believe stronger frameworks and rules for the responsible application of AI will give greater confidence to the business and investor community and unlock significant potential for future revenue and growth.

We support the Government's view that regulation around AI is needed to ensure the technology is applied responsibly, however we believe that the role of regulation is to provide governance, management and reporting structures in order to mitigate the most extreme risks and concerns, and should not be overly prescriptive. As this is such a new and evolving space, we believe it is extremely important that regulation still leaves space for innovation and ingenuity from within industry.

Through our investments and engagement with companies, we believe the uptake of AI in Australia is in the early stages with many companies adopting a cautious 'wait and see approach'. This has been particularly evident when businesses have identified social licence as a key risk factor and/or have been concerned about the potential unintended consequences of AI and impacts on various stakeholders. We have observed that technology leaders within businesses generally have a reasonable understanding of many of the ethical considerations of AI, but strong governance, strategies and business practices to manage those considerations are still being conceptualised, established and implemented.

Regarding key environmental, social and governance (ESG) risks and opportunities related to AI, there are a number of specific considerations that we expect businesses will need to manage in order to create long term value for shareholders. For example, cyber security and data privacy, trust, explainability and accountability, misinformation, bias and human capital impacts, and carbon emissions are all critical risk elements that need to be properly managed.

## Specific comments on the consultation questions

As investors, we are not in a position to comment on all questions posed in the consultation paper. However, we have outlined feedback for the set of questions below relevant to our activities:

*Question: What potential risks from AI are not covered by Australia's existing regulatory approaches? Do you have suggestions for possible regulatory action to mitigate these risks?*

As stated above we believe regulation should support businesses in managing the extreme risks associated with AI appropriately but should also leave space for innovation, testing and trials, and provide room for AI developers to solve some of the potential constraints and concerns.

There are a number of regulations which exist that can be adjusted to include additional considerations for AI (e.g. Privacy Act), however, to avoid confusion we would recommend that an overarching guidance document or regulation map is also developed to help businesses integrate specific AI management practices and protocols into existing processes and systems.

Regulation should also encourage public reporting of significant AI-related incidents and management. This will help build capacity and awareness within the Australian business and investor community and encourage transparency.

The integration of AI related risks and opportunities (including ESG elements) should also be considered as part of corporate governance guidelines and rules for listed entities. This will help to encourage consistent reporting and comparability across the market.

*Question: Are there any further non-regulatory initiatives the Australian Government could implement to support responsible AI practices in Australia? Please describe these and their benefits or impacts.*

## Collaboration

Along with taking a regulatory and risk-based approach to manage AI-related issues, we would also support the Government investing in initiatives which focus on collaboration, training and awareness raising. We believe these are important building blocks to ensuring that businesses manage risks but also invest in opportunities related to AI.

We note that while AI will eventually be applied across many sectors, some sectors are currently well ahead of others in terms of AI application. Therefore, as stated above, we believe that coordination within and across industries is pivotal to manage the risks associated with AI. At the same time this could assist in organisations sharing learnings, successes, failures and good-practice governance.

## AI footprint

The Government could consider encouraging companies to disclose their 'AI footprint'. We have found that comprehensive reporting of the various AI applications across company operations is uncommon. As investors, we have seen tremendous benefits coming from the Modern Slavery Act requiring companies to disclose their operational and supply chain footprint and associated risks and management strategies. We envisage that mapping out AI use across business units, and disclosing a high-level picture publicly, along with appropriate risk management, will play an important role in stronger AI governance from management teams.

## Talent

A longer-term issue related to AI is going to be talent. Investing in initiatives that support awareness raising and a growing industry around AI will help attract talent and ensure Universities are also investing in global leading programs and courses.

## Complaints

The Government should also consider setting up a public complaints process specifically related to concern or misuse of AI. This could be used by employees within businesses report anything they are concerned about or could also be used by the general public. If this is put in place, providing insights on complaints and management (anonymised) in an annual report to industry will help support awareness and greater uptake of risk management practices.

## Global coordination of policy

Lastly, we would support global coordination of approaches related to regulation. Many of the AI products, like social media, chatbots and software, that companies produce would not be contained just to Australia and would therefore be governed by a range of different standards and regulatory frameworks. Establishing an international body like the Basel Committee for International Regulation and Co-ordination or the World Health Organisation (WHO) could help to address common AI issues that reach across borders.

*Question: Do you support a risk-based approach for addressing potential AI risks? If not, is there a better approach? What do you see as the main benefits or limitations of a risk-based approach? How can any limitations be overcome?*

We are generally supportive of a risk-based approach to managing AI related issue, however it's also important to capture opportunity and ensure that a culture of innovation and ingenuity is maintained. There is a concern that an overly prescriptive risk-based approach could stifle innovation and cause opportunities to be lost. Creating space for businesses to experiment and trial new ideas safely is going to be very important.

We believe that the approach the EU has taken, which scales the regulatory response based on risk, is appropriate and seems like a practical solution that would also work well for Australia.

In our view, the extent and scale of a particular risk depends on the type of AI technology, application and range of potential impacts. For example, human impersonation is stated as a limited risk in Attachment B but if that were used in games, social media or metaverse type systems concerns related to mental health and psychological impacts may increase the risk level, particularly for vulnerable groups.

As stated earlier, we recognise there are significant risks associated with AI, however we also believe there will be significant opportunities for businesses and investors. Unintended consequences of AI can be positive or negative and there are still many potential impacts that are unknown or evolving. Therefore, although we are supportive of a risk-based approach, we believe that maintaining some flexibility in that approach in order to encourage innovation and research will be critical to supporting growing, prosperous and safe AI activities in Australia.

We welcome the opportunity to engage further on this topic and thank you for taking the time to consider our response.

Kind regards,

**Alphinity Investment Management**

The Government may consider scaling rules and guidelines around certain applications, rather than applying outright bans. Perhaps high-risk applications related to surveillance for example could require review and approval by a dedicated Government department, rather than being banning completely.

### About Alphinity:

Alphinity Investment Management (ABN 12 140 833 709, AFSL 356895) is a funds management company based in Australia. As of July 2023, it managed more than \$A20 billion in domestic and global equities on behalf of a variety of government instrumentalities, sovereign wealth funds, retail and industry superannuation funds, platforms and retail investors.

Alphinity have partnered with CSIRO to complete a research project related to responsible AI and plan to publish a joint report towards the end of 2023. See the press release [here](#). We have published an initial mini-report outlining our views on [ESG risks and opportunities related to AI for investors](#).