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The Business Case for EU AI Act Compliance

Driving Optimisation and Development in a Regulatory Era

The Business Case for EU AI Act Compliance

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Situation Background

Global adoption of AI stands at a turning point.

According to IBM's Global AI Adoption Index 2022 (2022)[1] — which provides insights into overall artificial intelligence ("AI") adoption around the globe, the barriers and challenges that are hindering AI from reaching its potential; the use cases, industries and countries where AI is most likely to thrive; offers a playbook for 42% of enterprises that report exploring the use of AI today; and a window into the AI trends and challenges that are likely to come — compared with 2021, 13% of organisations are more likely to have adopted AI in 2022. Moreover, according to the WEF, the growth of the global AI market is valued at US$136 billion in 2022 and is estimated to expand at a compound annual growth rate ("CAGR") of 37.3% from 2023 to 2030[2].

It is imperative to note that the AI market is more impermeable to the current macroeconomic events than other technologies. AI technologies and software are assisting enterprises innovate, transform experiences, build efficiency through automation, and contribute to the improved top line, bottom line, and green line across industries.

A large proportion of enterprises interested in or deploying AI are seeking to automate but what, exactly, they are trying to automate varies from sector to sector. Just under half of enterprises that have applied AI-based automation have done so to drive greater IT efficiency, but they are also using automation to give time back to employees (49%) and address skills gaps. There are also large regional disparities with certain techniques like robotic process automation (RPA).

As we see, AI brings a wealth of opportunities to enterprises, but also an incredible responsibility. Its tangible impact on people's lives has given rise to considerable questions around AI ethics, data governance, trust, legality, and unintended negative consequences. Enterprises are confronted with potential negative business impact (e.g., damage to brand reputation, reduced public trust, revenue loss) if the AI/machine learning ("ML") business risks (e.g., data privacy) are mitigated insufficiently.

[1] https://www.ibm.com/downloads/cas/GVAGA3JP
[2] https://www3.weforum.org/docs/WEF_Adopting_AI_Responsibly_Guidelines_for_Procurement_of_AI_Solutions_by_the_Private_Sector_2023.pdf

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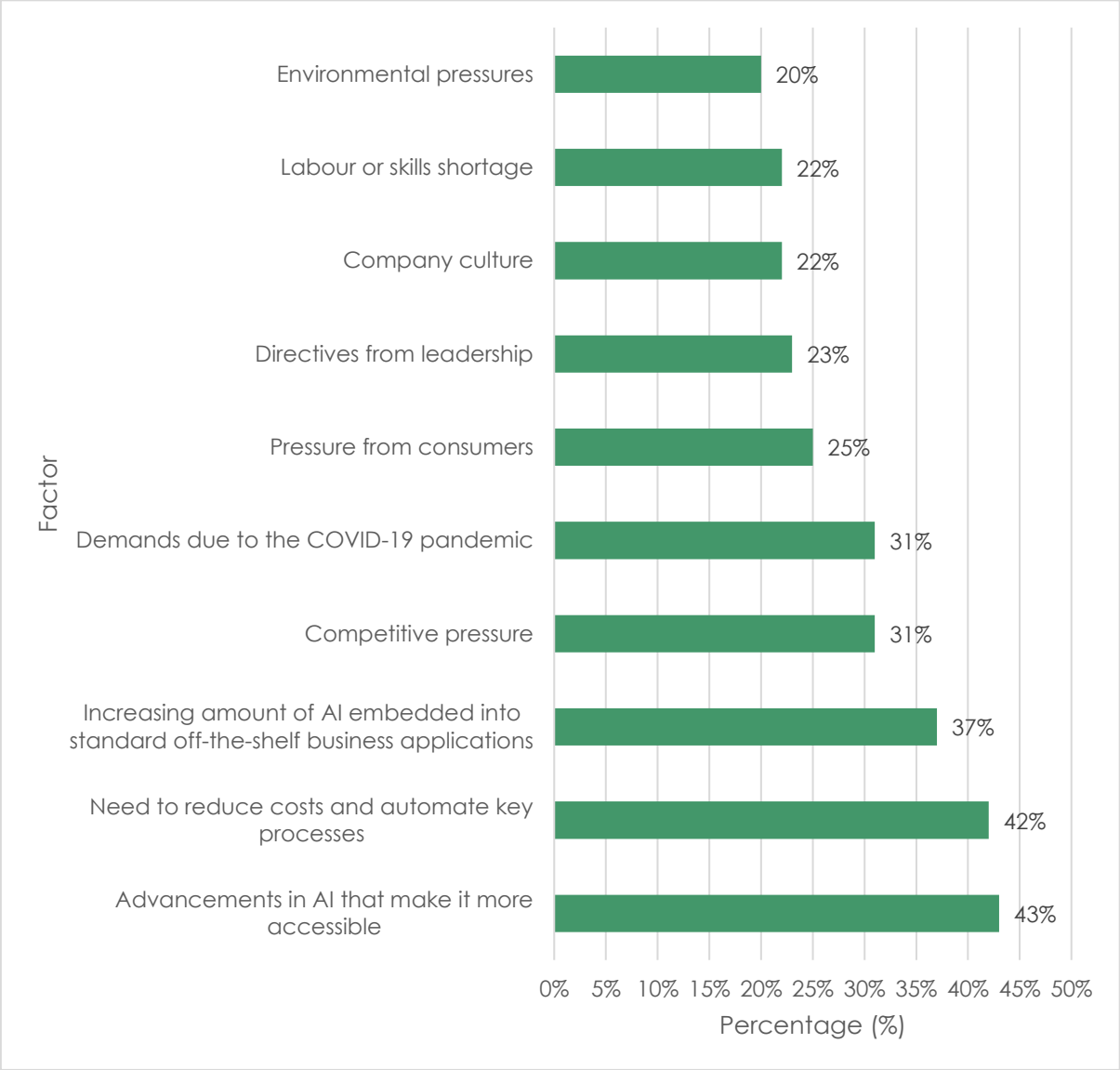
According to the IBM study[1] (an online survey of 7,502 enterprises across the world to gain insights on overall adoption conducted through Morning Consult's proprietary network of online providers from 30 March 2022 through to 12 April 2022), "advancements in AI that make it more accessible" is one of the top reasons driving enterprise AI adoption (see Figure 1).

Figure 1: Top ten factors driving enterprise AI adoption



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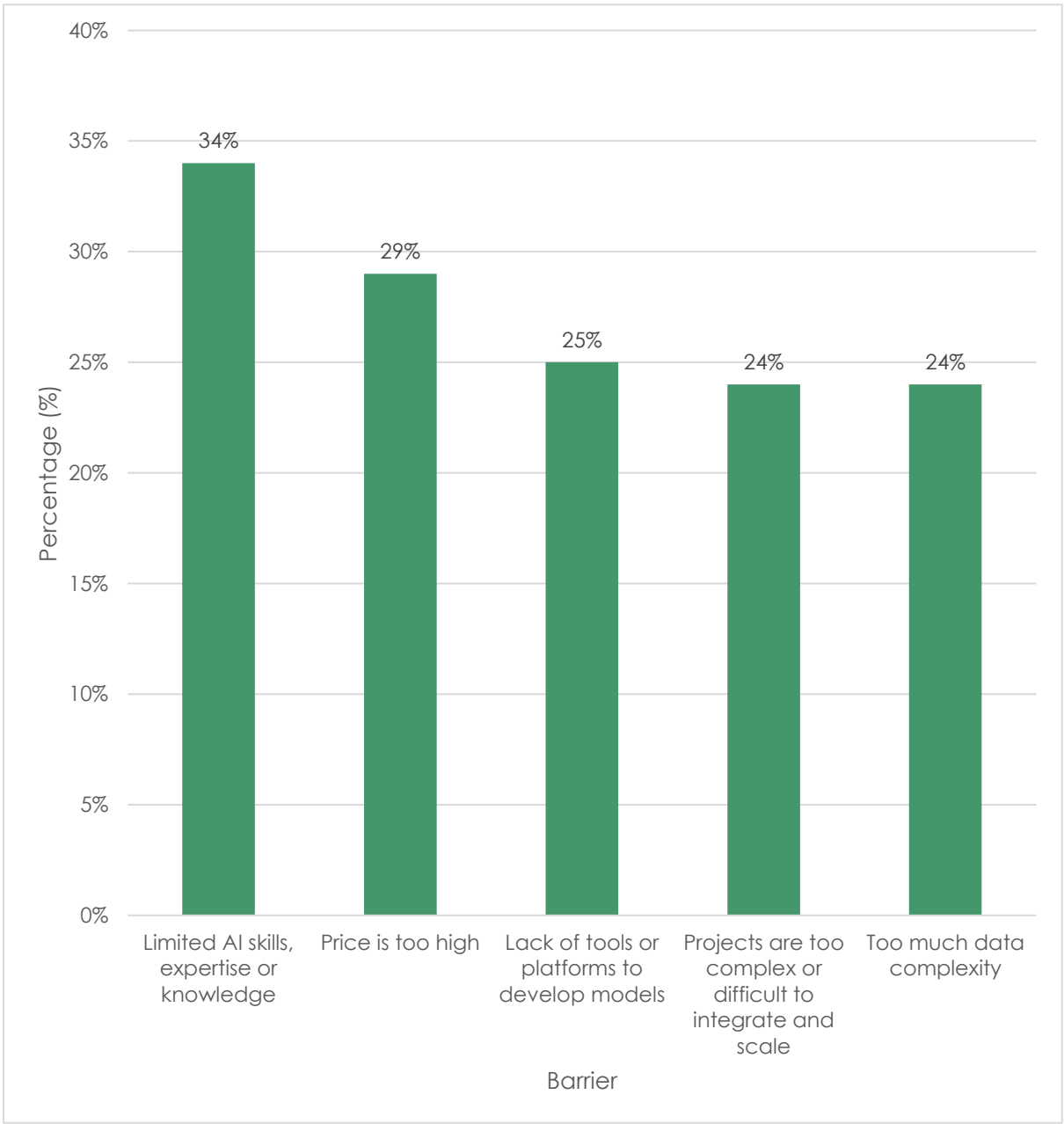
Conversely, the IBM study[1] also shows that a "lack of tools or platforms to develop models" is a key barrier to successful enterprise AI adoption (see Figure 2).

Figure 2: Top five barriers to successful enterprise AI adoption



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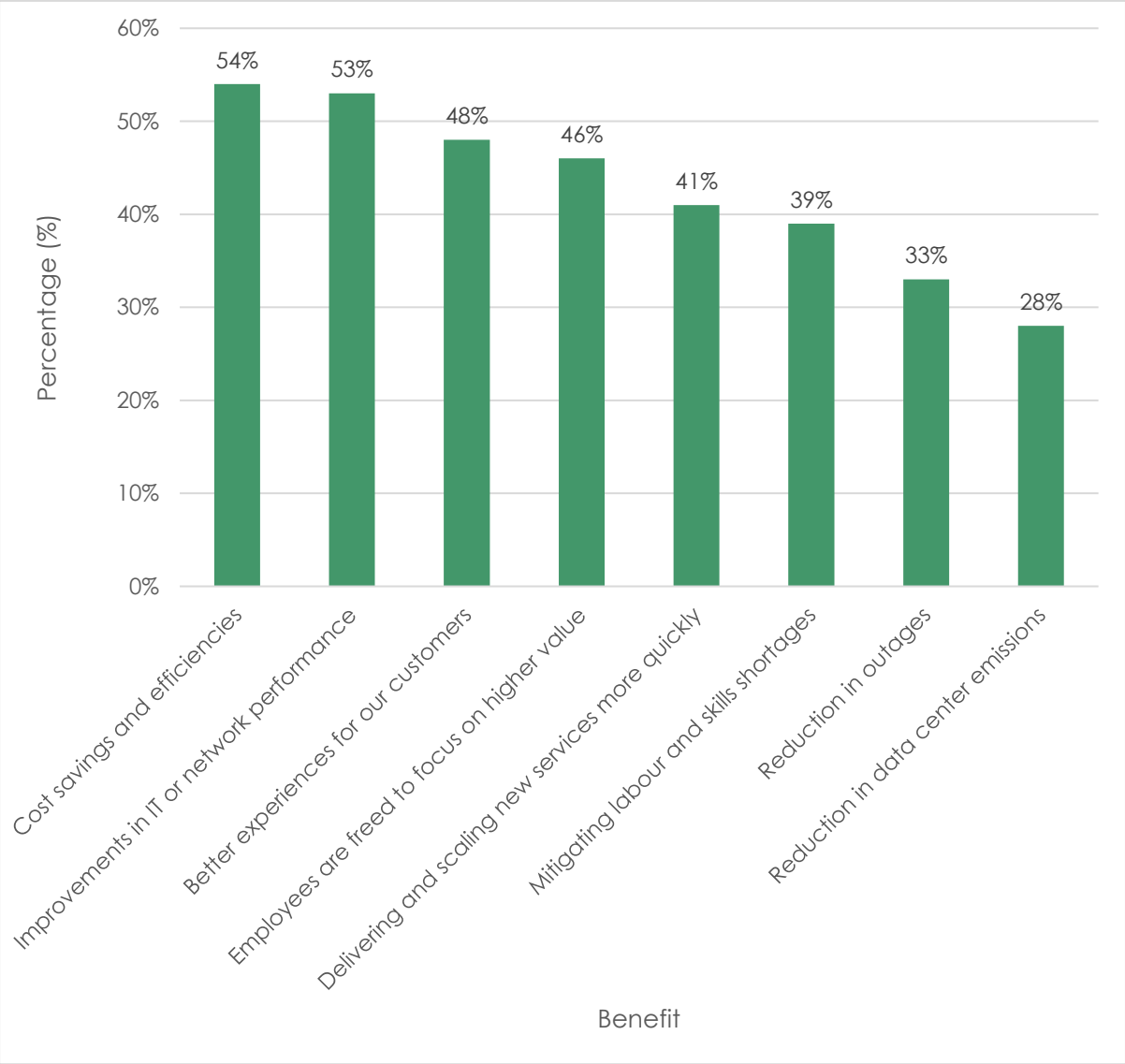
In the IBM study[1], they asked respondents to identify the benefits that they gain from using AI to automate information technology ("IT"), business or network processes. When these were examined 54% of respondents chose "Cost savings and efficiencies", whereas only 28% of respondents selected "Reduction in data center emissions" (see Figure 3).

Figure 3: Top eight benefits from AI usage for automation



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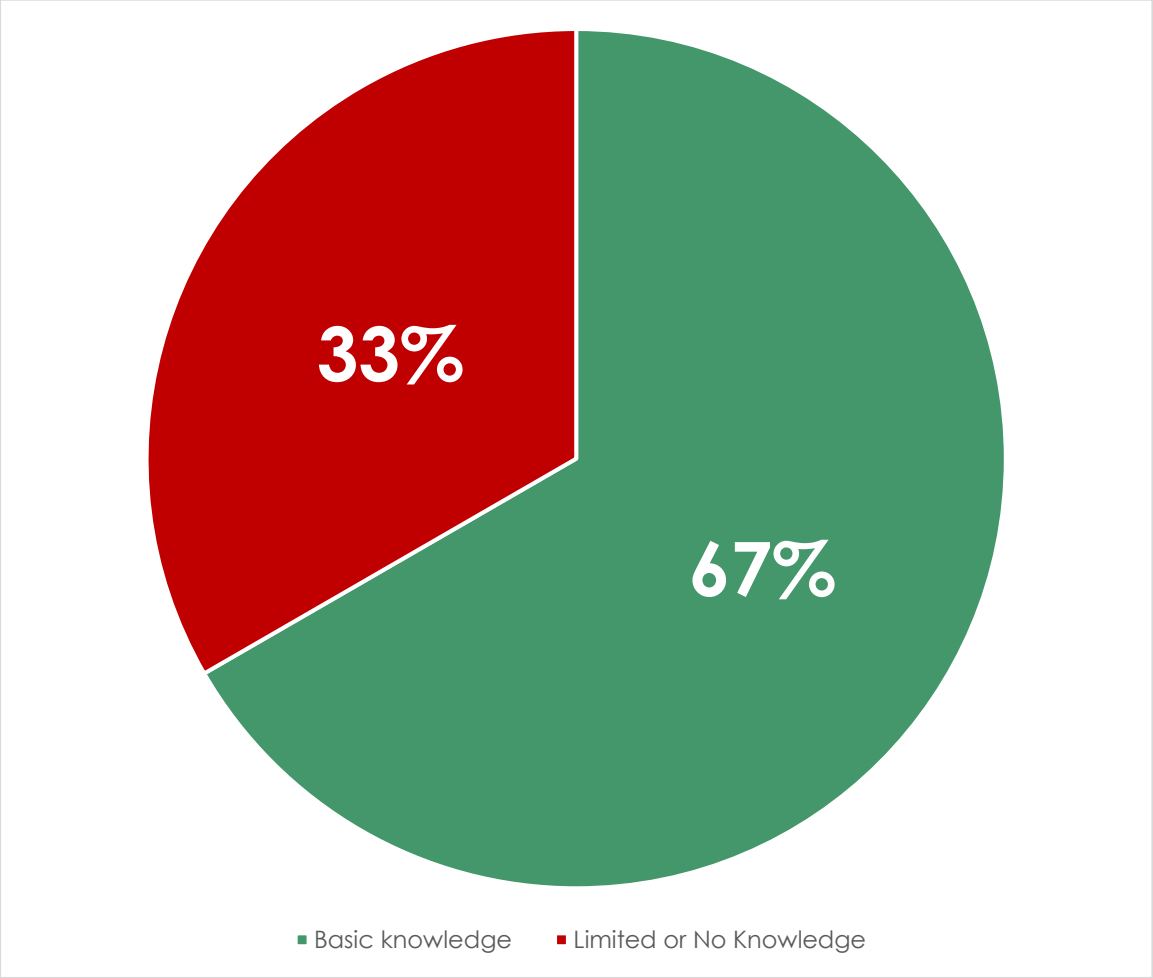
In a report from DIGITALEUROPE[3], which summarises the findings from a pre-regulatory sandbox with 9 European start-ups and small medium enterprises ("SMEs"), 66% of respondents only have basic knowledge of the requirements and cannot fully understand their market implications. Moreover, many participants lament a lack of clarity as to which risk category their product falls into, the applicable technical standards, and their liability exposure (see Figure 4).

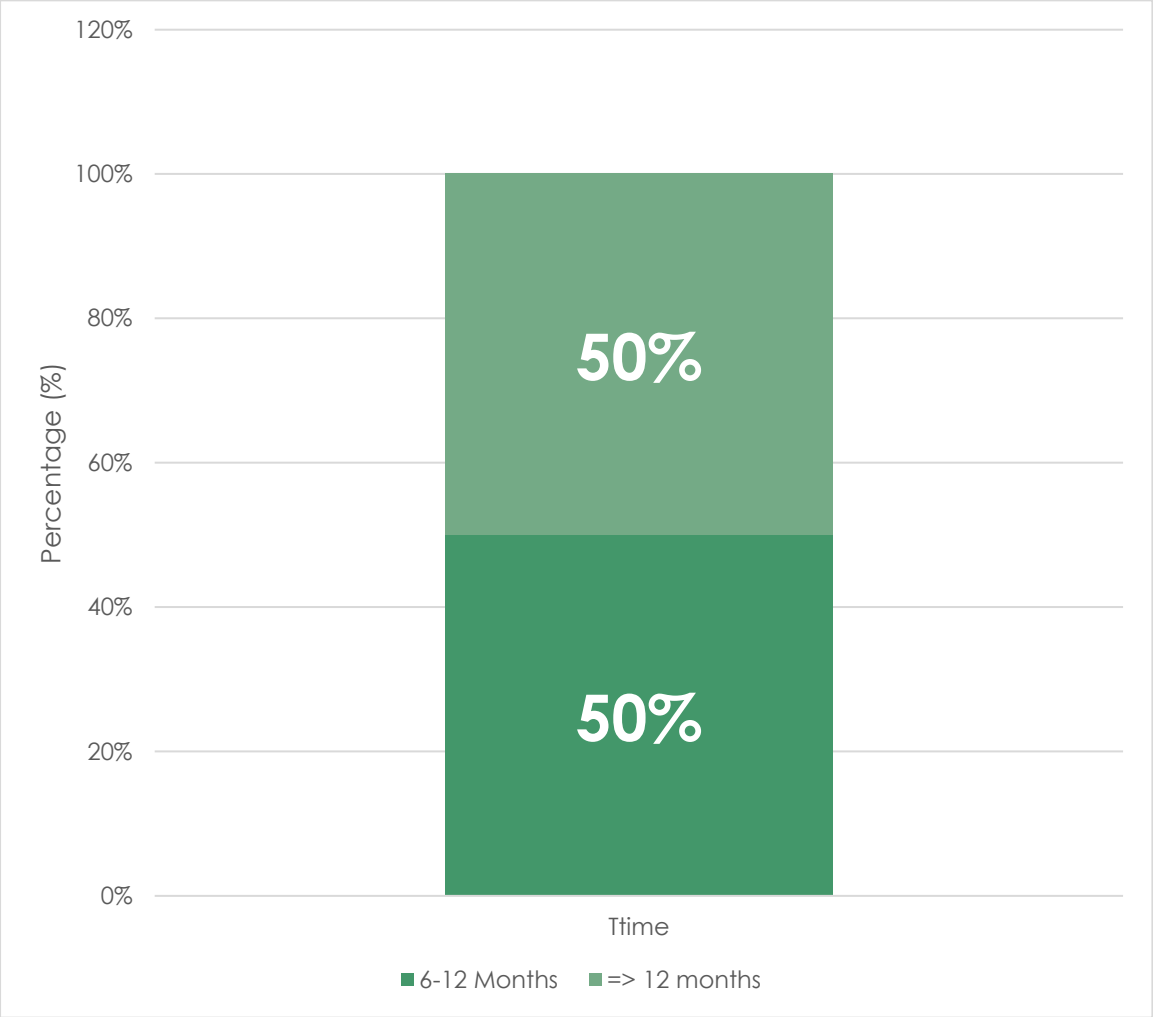
Figure 4: Knowledge of the EU AI Act



[3] https://cdn.digitaleurope.org/uploads/2023/06/DIGITAL-EUROPE-SANDBOXING-THE-AI-ACT_FINAL_WEB_SPREADS.pdf

Additionally, DIGITALEUROPE's report[3] highlighted that the current lack of existing standards and resources for many participants to get involved in formal standardisation activities generates uncertainty as to the expected benefits that harmonised standards will bring. In this context, the resultant uncertainty gives rise to different opinions by firms over how long it will take for them to achieve compliance. The DIGITALEUROPE's report[3] shows that 50% s expect compliance to take 6-12 months, while others expect more than 12 months once all the aspects, including the applicable technical standards, are finalised (See Figure 5).

Figure 5: Expected Timeframe to achieve EU AI Act Compliance



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In terms of the compliance impact, DIGITALEUROPE's report[3] revealed that companies foresee the need of assistance with two key areas related to compliance with the AI Act (see Figure 6).

Figure 6: Areas of assistance for compliance with the EU AI Act

Participants made clear that any internal resources dedicated to compliance are perceived as leading to time delays in research and development, and as having a negative impact on innovation driven by SMEs and start-ups in Europe. One participant suggested the most important area will be technical assistance in terms of interpreting and implementing the requirements. Two participants discussed the need for hiring people with a profile between compliance and data who will be able to decipher some of these regulations for software engineers. Additionally, some participants also foresaw the creation of middle layer companies/consulting firms who will offer certification support services.

In terms of the financial impact, DIGITALEUROPE's report[3] showed that participants remain unclear. However, the cost of compliance is expected to be the key driver of financial impact, with some indirect costs potentially affecting supply chains and overall market distribution.

In the DIGITALEUROPE report[3] it made clear that participants' anticipated different outcomes depending on their company's nature, perceived level of risk, sub-sector and products, among other factors. For example, participants who believe they will unlikely be classified as high risk view the AI Act as a necessary cost that may even present business opportunities in the future. They expect the AI Act to present a competitive advantage when entering into international markets. Conversely, high-risk companies foresee substantial costs that could hinder their innovation potential.

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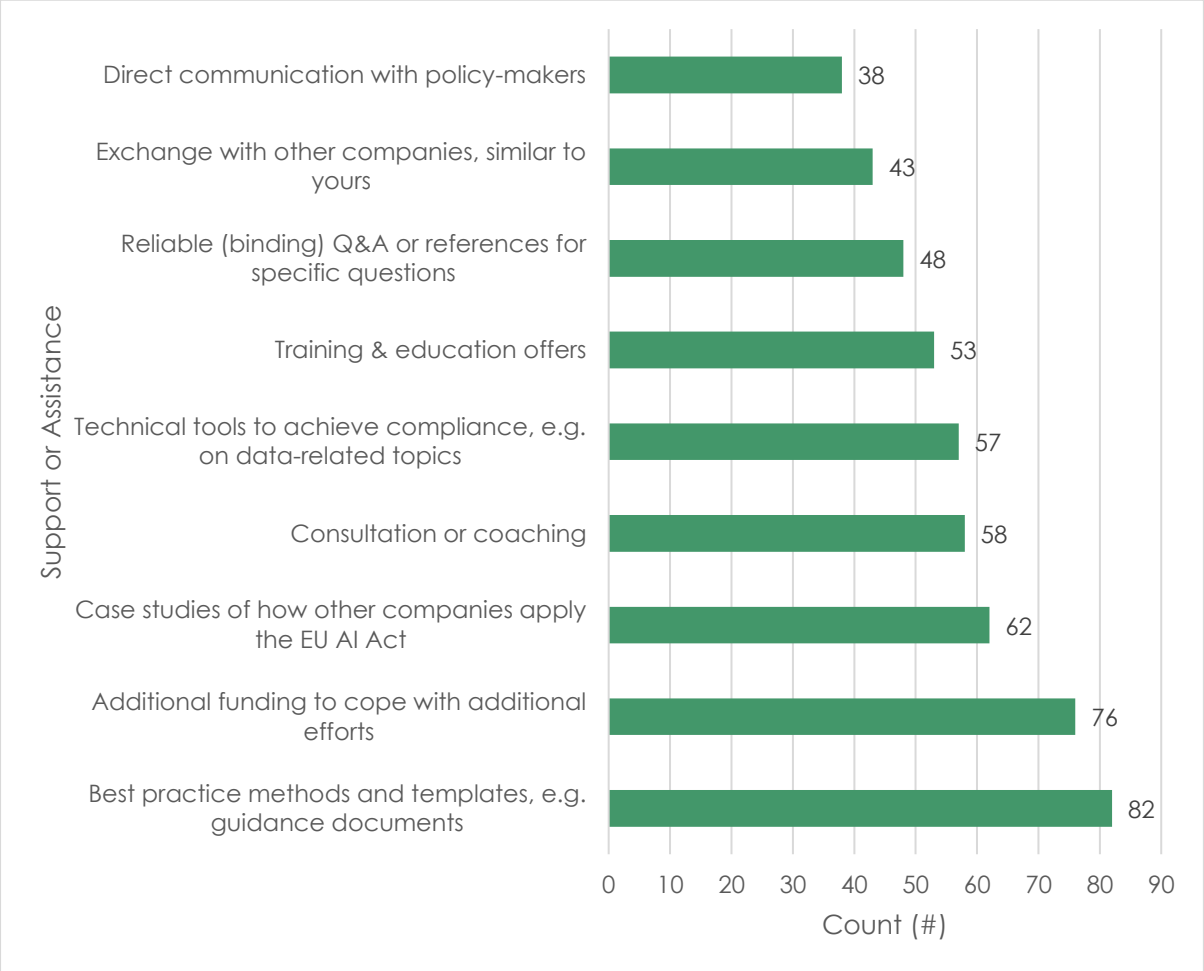
In appliedAI's survey[4] entitled, 'AI Act Impact Survey', which surveyed 113-EU based AI start-ups, they found that most Startups are looking for expert knowledge through practical guidance, case studies or consultation. 57 startups have a need for technical tools to achieve compliance, such as risk categorisation. While this data reflects only a small fraction of the European Industry, it is the one driving innovation. in addition, feedback from established SMEs as well as larger European companies indicates similar challenges (See Figure 7).

Figure 7: Support or assistance required for meeting the requirements or obligations from the EU AI Act (N=239)



[4] https://aai.frb.io/assets/files/AI-Act-Impact-Survey_Report_Dec12.2022.pdf

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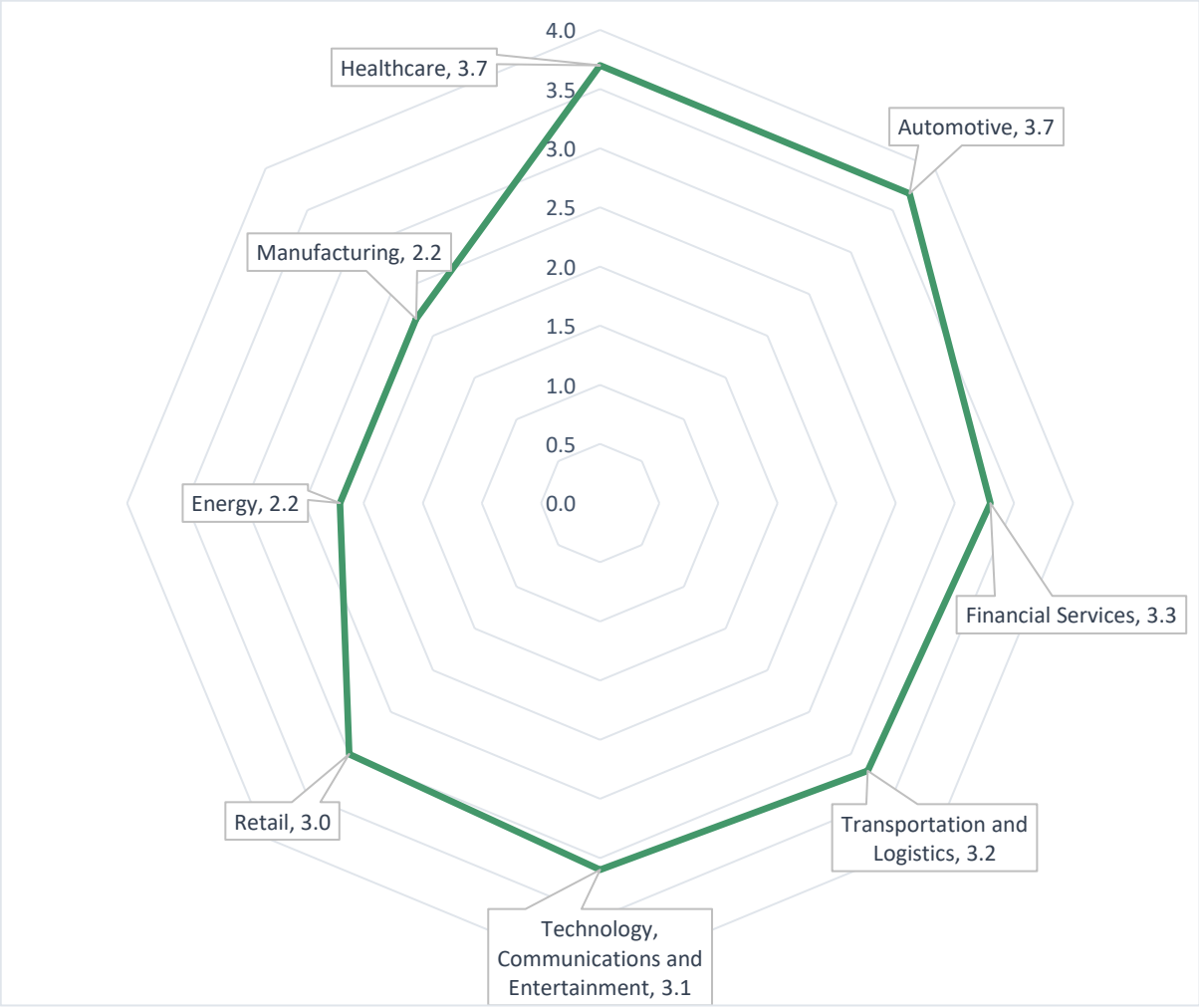
In the PwC study[5], they identified the sectors where AI would have the largest impact. Meeting the requirements matters since AI is set to be the key source of transformation, disruption and competitive advantage in today's fast changing economy. The scores are based on PwC's AI impact index evaluation with potential scores range from 1-5, with 5 indicating the highest potential impact due to AI, and 1 being the lowest (see Figure 8).

Figure 8: Top eight benefits from AI usage for automation



[5] https://www.pwc.com/gx/en/issues/analytics/assets/pwc-ai-analysis-sizing-the-prize-report.pdf

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Responsible AI Under the EU AI Act

The exponential growth of the global AI market highlights the need for establishing standards and frameworks to ensure responsible AI practices.

According to the WEF[2], a responsible AI system "*upholds ethical standards of fairness, transparency, inclusivity and accountability while being environmentally sustainable and balancing profit with social responsibility*."

In this sense, responsible AI ("RAI") is AI that aligns with human-centred values and focuses on reducing the unintended consequences of AI by ensuring that the system's intent and use is aligned with the norms and values of the users it aims to serve. RAI has the objective of empowering employees and businesses and fairly impacting customers and society — enabling enterprises to engender trust and scale AI with confidence.

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AI Trust and Explainability – Role and Importance

Trust remains a priority for enterprises, even if they haven't taken steps to ensure AI is trustworthy.

Trust in AI is essential to deriving value from this technology and even more critical in recent advances like generative AI. But many enterprises hit hurdles when overcoming the perceived risks associated with it. To generate trust in AI, enterprises must move beyond defining RAI principles and put those principles into practice, such as reducing bias, tracking performance variations and model drift, and making sure they can explain AI-powered decisions.

A majority of enterprises acknowledge the imperative need of instilling consumer trust in the way an enterprise's AI is developed, deployed and used, but relatively few enterprises have embedded these principles into official rules and policies. One of the main challenges is that the field of applied AI ethics is still relatively new, and most enterprises cite a lack of skills and training.

To this end, AI governance is paramount in realizing RAI under the European Union Artificial Intelligence Act (the "EU AI Act") – particularly on the elements of transparency and accountability - and plays a vital role in accelerating the business value of AI.

AI governance is, in essence, refers to the system and processes through which individuals, enterprises, or institutions make and implement decisions, exercise authority, and manage resources. It involves the structures, rules, and practices that guide and regulate the actions and behaviour of individuals or groups in positions of authority or influence. Read more in our AI Governance Guide.

AI governance under the EU AI Act requires enterprises to align their AI systems with the following aspects throughout every stage of the AI system life cycle:

- **Accountability**. Be accountable to internal and external stakeholders in accordance with the EU AI Act.
- **Independence**. Act independently when carrying out tasks or exercising powers.
- **Transparency**. Ensure a high level of transparency concerning activities and develop good administrative practices in that regard.

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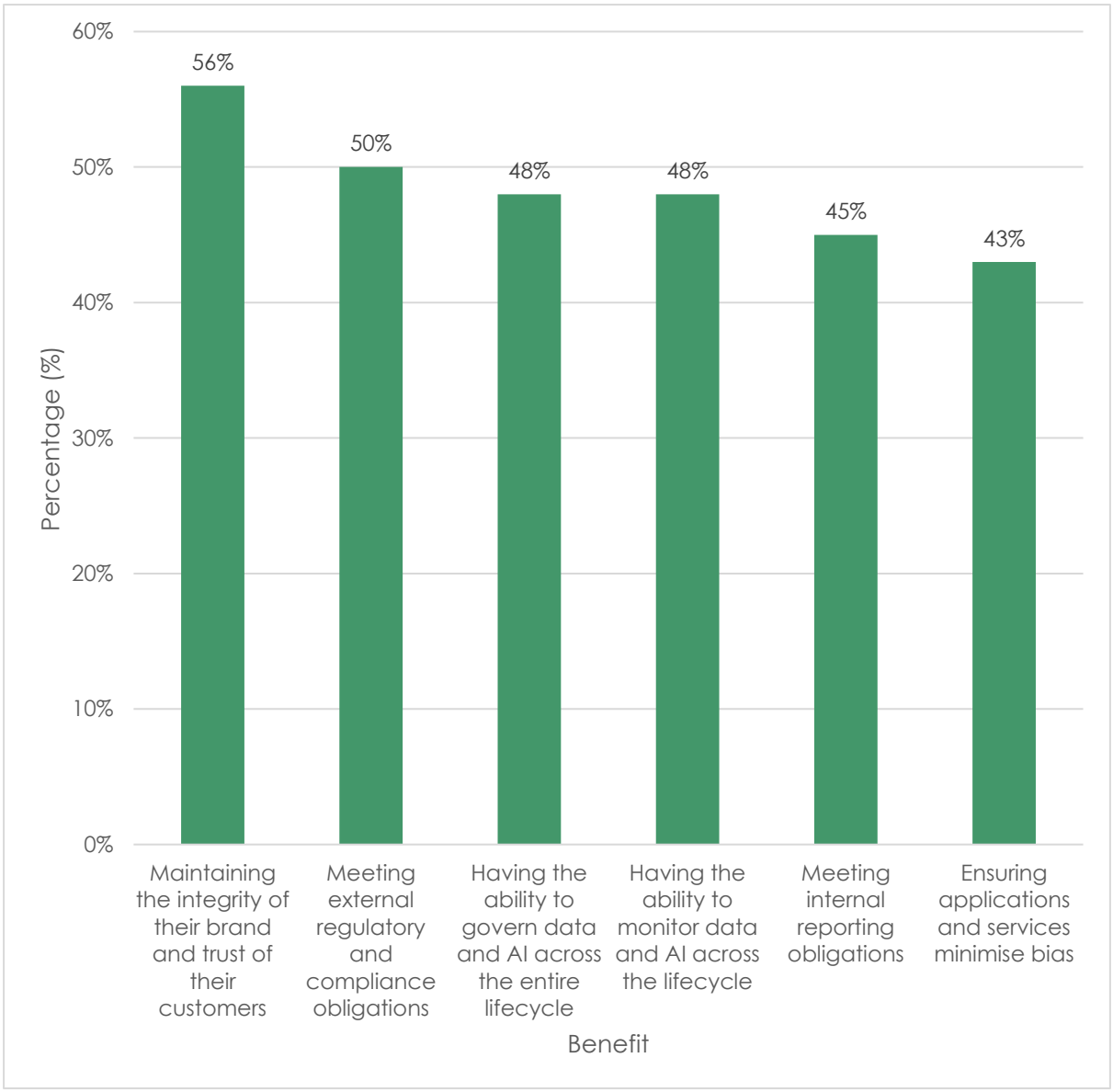
According to IBM study[1], maintaining the "integrity of their brand and trust of their customers ranks" highest on enterprises" aspects of trust and explainability (56%); whereas, "Meeting external regulatory and compliance obligations" followed closely behind (50%) (see Figure 9).

Figure 9: Top six aspects of trust and explainability in firms



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Lack of skills and training to develop and manage trustworthy AI, compliance and management tools that don't work across all data environments, and lack of an AI strategy are the top 3 barriers to enterprise development of explainable and trustworthy AI (see Figure 10). AI governance and management tools have gone from legal issues to business issues. The issues have gone from compliance to business because they are impacting revenue, reputation and credibility with external stakeholders. With headlines featuring potential monetary penalties under the EU AI Act and multiple compliance obligations, regulators are looking to the C-suite and to evidence leadership that will both promote innovation and consumer trust.

Figure 10: Top eight barriers to enterprise development of explainable and trustworthy AI

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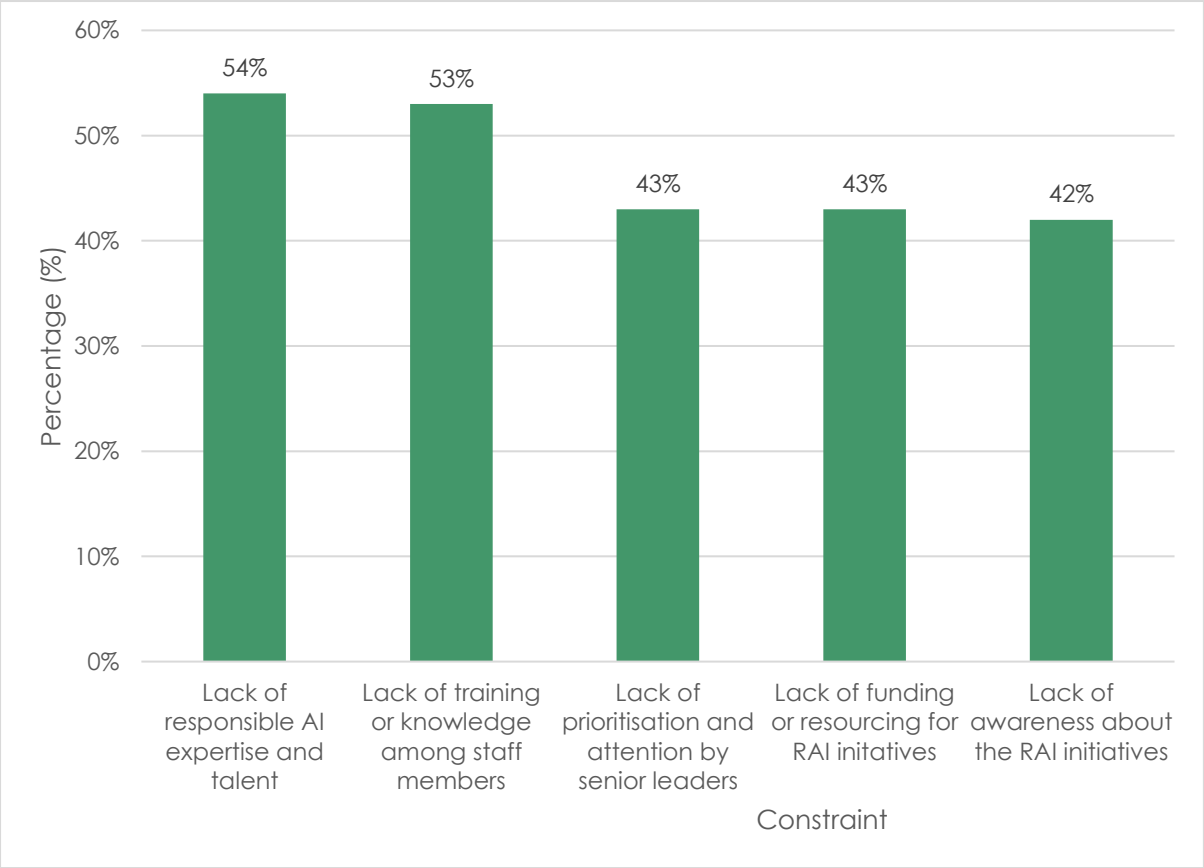
One factor that contributes to RAI's limited implementation is confusion over the term itself. Given that RAI is a relatively new field, it is hardly surprising that there is a lack of consensus on the meaning of responsible AI. Other factors that contribute to the limited implementation of RAI have less to do with the technical complexities of AI than with more typical organizational challenges. According to a BCG study[6], when respondents were asked which factors were preventing their firms from beginning, sustaining, or scaling RAI initiatives, the most common factors were shortcomings related to expertise and talent, training or knowledge among staff members, senior leadership prioritization, funding, and awareness (see Figure 11).

Figure 11: Organisational constraints limiting RAI efforts



[6] https://web-assets.bcg.com/37/87/33f2ee9d4e2281e792472f4ec1bf/to-be-a-responsible-ai-leader-focus-on-being-responsible.pdf

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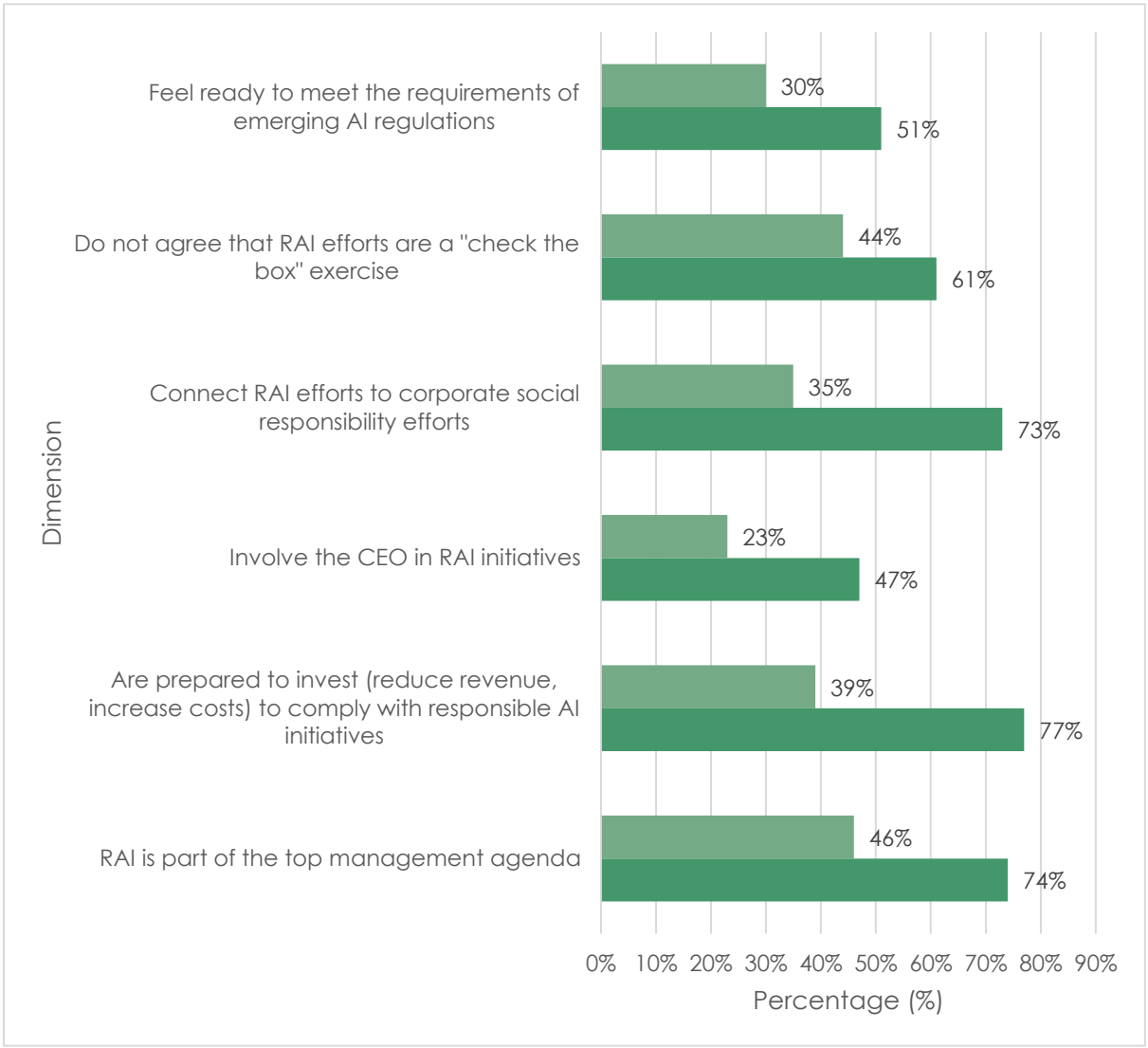
According to the BCG study[6], a small cohort of organizations, representing 16% of their survey respondents, has managed to bridge the gap between aspirations and reality by taking a more strategic approach to RAI. These RAI Leaders have distinct characteristics compared with the remainder of the survey population (84%). In addition to investing in their RAI efforts, Leaders also include a broader range of participants in those efforts. Leaders notably feel more ready to meet the requirements of emerging AI regulations, such as the EU AI Act (see Figure 12).

Figure 12: RAI Implementation: Leaders versus non-leaders



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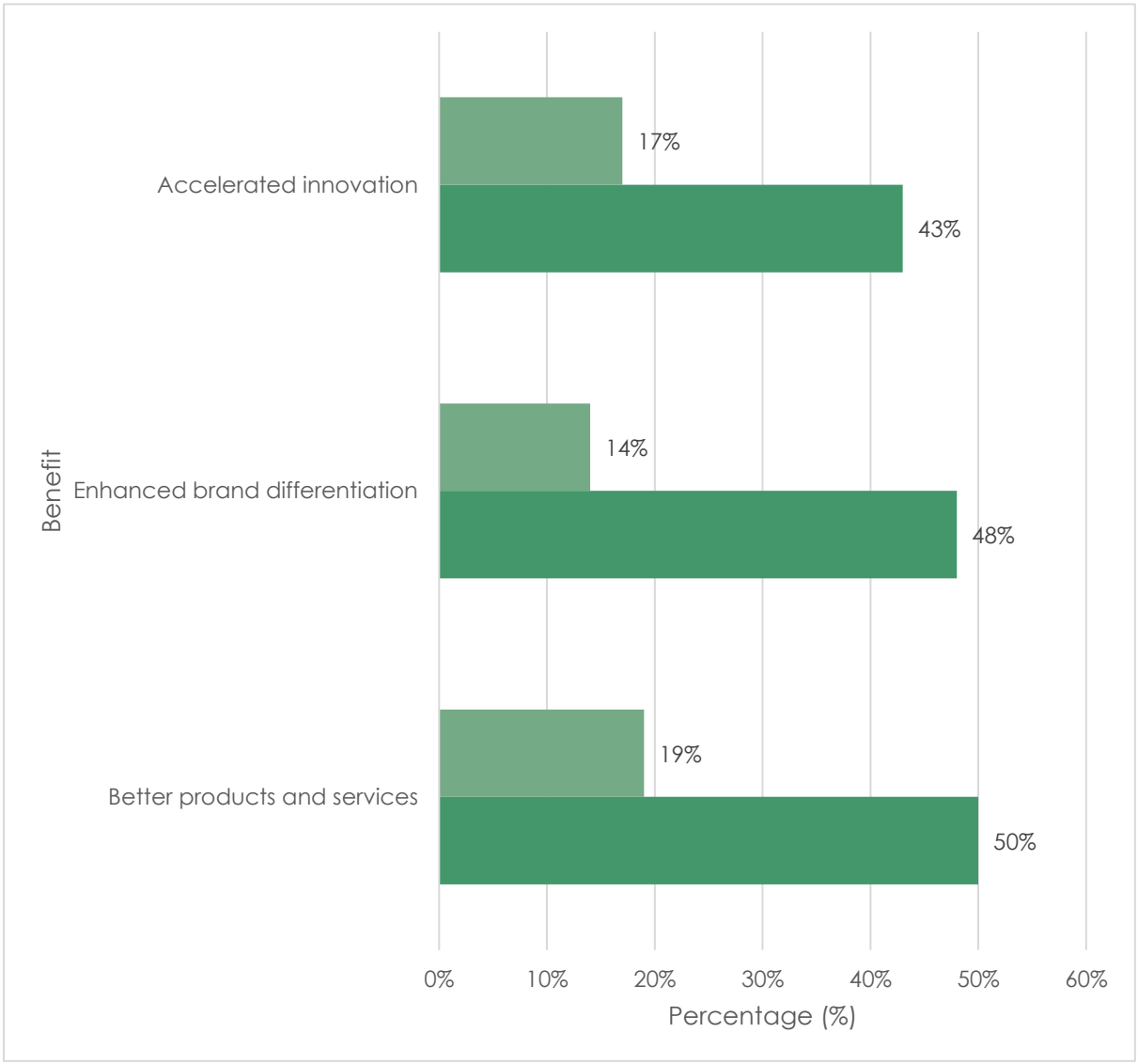
As noted in the BCG study[6], RAI Leaders are able to realise measurable business benefits from their RAI efforts even if they are not primarily motivated by the promise of such benefits. Benefits include better products and services, improved brand differentiation, accelerated innovation, enhanced recruiting and retention, increased customer loyalty, and improved long-term profitability, as well as a better sense of preparedness for emerging regulations, such as the EU AI Act (see Figure 13).

Figure 13: Business benefits realised from RAI iniitiatives



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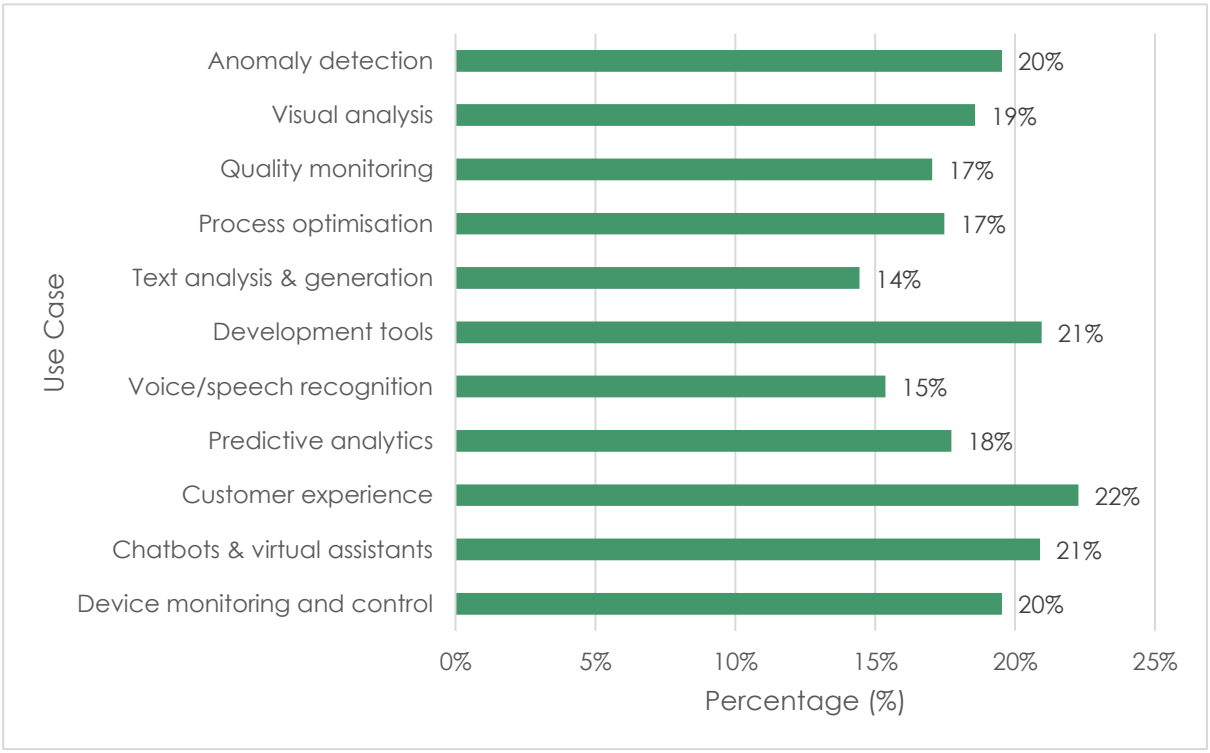
RAI/AI Governance Spend and Budget

Substantive, dedicated AI budgets are becoming a trend.

According to a study by OMDIA, 55% of companies have a dedicated AI budget while 38% said that spending on AI is supported by other budgets. Only 5% do not have a budget while 2% did not know. This commitment reflects continued AI market maturity and indicates that many firms have progressed beyond proofs of concept ("PoC")) and pilots into live, operationalized AI initiatives. Of these, no use case dominates. Customer experience came in at 22.27%, followed by development tools at 20.95% and chatbots and virtual assistants at 20.89% (see Figure 14).

Figure 14: Division of AI budget by use case



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Conclusion and Recommended Guidance

We have developed a risk assessment tool for enterprises' EU AI Act readiness journey.

AI is being heralded as a key enabler of firms' strategic priorities. Scaling AI can drive high performance for customers, shareholders, and employees, but enterprises must overcome common hurdles to apply AI responsibly and sustainably. AI adoption can deliver new, dynamic, ethical, and social issues. An inability to manage these issues can have a significant impact at a human and societal level, leaving enterprises vulnerable to financial, legal, and reputational repercussions.

While many enterprises have taken the first step and defined AI principles, operationalising these is difficult, especially with few standards under the EU AI Act to guide them. Successful enterprises understand the importance of adopting a systematic approach from the beginning, addressing these challenges in parallel, while others underestimate the scale and complexity of change required. A systematic approach necessitates proven tools, frameworks, and methodologies, permitting enterprises to move from principles to practice with confidence and supporting the professionalization of AI. Establishing an RAI commensurate with the EU AI Act that is robust, fair, and maintained on an ongoing basis can also permit enterprises to communicate and collaborate with confidence.

Being responsible at the heart is becoming more beneficial, especially as the European legislative bodies hone in on the EU AI Act and consider appropriate standards for the development and deployment of AI. One of the biggest barriers lies in the complexity of scaling AI responsibly—an undertaking that requires input from multiple stakeholders and cuts across the entire enterprise and ecosystem. IBM study[1] reveals that 60% of respondents face barriers because AI governance and management tools don't work across all data environments. As the EU AI Act enactment date approaches the must be embedded into product development processes and connected to other regulatory areas, such as privacy, data security, and content. As seen with the "Brussels effect" of the European Union's General Data Protection Regulation ("GDPR"), where the GDPR quickly became the de facto global privacy standard, reactive companies have little choice but to be compliance focused, prioritizing the specific requirements rather than the underlying risk, which can lead to problems down the road and value left on the table. **Be intentional with compliance by taking action today**.

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