

# NovaPay – Document 12: AI & Machine Learning Governance

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## Current Use Cases

Third-party ML in fraud detection (Sift Science); limited behavioral analytics within SAS AML. Two systems catalogued in the draft AI inventory.

## Governance Framework

AI policy is in draft; responsibilities not fully assigned; model risk management practices basic and primarily oriented to financial models rather than AI/ML.

## Model Lifecycle and Validation

External validation performed annually on fraud models only; no internal challenger testing; explainability requirements limited; black-box acceptance for fraud remains default.

## Bias and Fairness

One-off bias test performed at initial deployment; no ongoing monitoring for drift or disparate impact; training data governance follows standard data policy but lacks AI-specific controls.

## EU AI Act Readiness

Preliminary assessment suggests High-Risk classification for fraud/TM if ML is expanded. Readiness plan is in progress but incomplete (gap analysis underway).

## Vendor Due Diligence

Standard vendor risk controls applied (security, privacy, financial viability) without AI-specific model transparency, robustness, or bias documentation requirements.

## Human Oversight

All alerts (fraud and TM) require analyst review and MLRO oversight for SARs; override rights documented but not systematically logged for model governance purposes.

## Training

No AI/ML-specific training for staff beyond general awareness; upskilling plan not yet approved.

## Weaknesses

No comprehensive AI governance framework; limited understanding of EU AI Act; no AI-specific risk assessment; validation only for fraud models; no ongoing bias monitoring; limited explainability; no AI ethics committee; staff lack AI expertise; vendor systems function as opaque black boxes; model inventory incomplete.

## Planned Actions

Establish AI Governance Committee (Q1 2026); complete model inventory and risk tiering (Q1 2026); implement bias/robustness testing and monitoring (Q2 2026); document explainability standards (Q2 2026); contract addenda for AI transparency with vendors (Q2 2026); pilot ML for TM with governance gates (Q3 2026).

## Conclusion

AI capability exists but governance maturity is low. Without a formal framework and EU AI Act alignment, regulatory and operational risks will rise as adoption expands.