TISA

Response by TISA to the Treasury Select Committee's Call for evidence on AI in Financial Services

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About TISA

Supporting the financial journey through life

The Investing and Saving Alliance (TISA) is committed to improving the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

We care about the entire financial life of consumers: from their first savings account opened to ensuring people can age and retire with dignity. TISA believes that savings and investments play a significant role in the lives of people and small businesses. Consumers benefit when they put aside money for their future. Saving and investing can provide a buffer for emergencies; help people achieve big and small goals throughout their lifetime; and give people quality of life in later years.

TISA is a not-for-profit membership organisation and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. We have approximately 270 member firms involved in the supply and distribution of savings and investment products and associated services.

Our work, your influence

Our policy work reflects TISA's broad scope of interests and aims on meeting the needs of UK consumers, members, and our industry. From improving financial education, inclusion, and accessibility, right through to savings, investments and retirement planning, the work we do with our members to **influence policy** is crucial in enhancing the industry we operate in and driving positive change.

As part of our commitment to delivering focused and impactful consumer outcomes, TISA's policy working groups have been structured into **four distinct workstreams**:

1. **Consumer Protection -** *Protecting the best interests of UK consumers in their financial journeys.*
2. **Consumer Access -** *Considering issues that could directly impact access to financial products.*
3. **Effective Products -** *Examining key considerations and legislation relating to products across the investing and saving landscape.*
4. **Corporate Responsibility**
   Exploring issues that directly impact society, the environment, and the economy.

All groups focus on both strategic and technical elements of policy/regulation. We provide a channel for firms to have their say on the policy we develop and present, contribute to our technical and regulatory interpretation work and, importantly, gain insights from other TISA members, policy makers, government, and regulators.

Find out more about TISA here: **www.tisa.uk.com/about-tisa**

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Introduction

TISA welcomes the opportunity to respond to the Treasury select Committee's call for evidence on AI in Financial Services.

AI has the potential to revolutionise financial services by improving consumer experiences, enhancing efficiency, productivity, risk management, and enabling innovative solutions.

At TISA, we collaborate closely with our member firms on these consumer experiences and AI can provide several areas of improvement detailed in the answers below.

However, it also presents significant challenges, including infrastructure requirements, inconsistent data formats, ethical considerations, data privacy concerns, and the need for robust governance structures.

Given these factors, AI is an area that our diverse group of members are actively using or planning to adopt in the near future with additional guidance or regulation.

Question Responses

1.How is AI currently used in different sectors of financial services and how is this likely to change over the next ten years?

This may include:

Are there particular areas of financial services that are adopting AI more quickly and at higher rates of penetration than others? Are Fintech firms better suited to adopting AI? What percentage of trading is driven by algorithms/artificial intelligence?

Are financial services adopting AI at a faster rate than other sectors in the economy?

AI is currently being used in various areas within financial services, primarily to enhance internal processes, whether from a risk perspective, quality improvement, or headcount reduction. Additionally, AI is being applied to less risky client-facing services, which will add significant value for consumers in the future.

- Internal Processes:
    - Fraud Detection: AI can review vast sets of data and scenarios to identify potential fraud cases, which can then be examined in detail by the fraud team. This represents a significant advancement over previous methods, where staff were trained to identify cases based on predefined rules (e.g., trades over certain amounts, time periods) flagged in reports.
    - Risk Management: AI assists in making better lending decisions by supporting credit scoring, risk assessments, and predictive analytics.
    - Regulatory Compliance: AI aids in collection of data for review, process monitoring, and reporting, helping firms comply with regulations.
    - Administrative Tasks: AI can automate routine tasks such as data entry and document creation, including financial reporting, improving accuracy, efficiency, and reducing staffing costs for firms.
    - Investment Management/Research: AI is used to manage portfolios and provide investment advice based on insights gained from the data.

- Consumer-Facing Processes:
    - Chatbots and Virtual Assistants: These provide 24-hour support for basic queries and personalised information which allows consumers the flexibility to act at any time of the day.

Over the next 10 years, we expect that all the processes detailed above will improve with technological advancements, making firms more efficient, secure, and consumer driven. Consumers will benefit from tailored advice, product recommendations, and investment strategies, as AI can analyse all customer data, which is currently not possible. These changes will help the consumer gain more confidence to invest and can be used with initiatives such as the FCA's targeted support.

The financial sector is at the forefront of AI adoption. The Bank of England's 2024 survey on Artificial intelligence in UK financial services reports that 75% of firms are already using AI, with an additional 10% planning to adopt it within the next three years. According to the IMF, over 50% of trading in major markets currently utilises algorithms and AI.

Fintech firms are better suited to adopting AI because they are more agile, allowing faster integration, and are built on modern technology stacks, making it easier to incorporate AI , although larger firms will have the monies to make changes where needed.

2. To what extent can AI improve productivity in financial services?

This may include:

Where are the best use cases for AI? Which particular transactions may benefit from AI?

What are the key barriers to adoption of AI in financial services?

Are there areas where the financial services should be adopting GenAI with little or no risk?

Are there likely to be job losses arising from AI in financial services and if so, where?

Is the UK's financial sector well-placed to take advantage of AI in financial services compared to other countries?

AI can assist with high-volume administrative tasks, improving accuracy and productivity for firms while posing minimal risk. This, in turn, enhances customer satisfaction and allows firms to focus their staff on more complex areas.

For internal staff, AI can help create tailored training materials and manage performance, it can also perform more menial administrative tasks such as taking meeting notes. It can review existing documentation for anomalies or generate new documents as needed. AI can analyse data sets, write coding scripts in specific formats, and perform data analysis. Machine learning can automate time-consuming processes like bank reconciliations, completing them in seconds.

However, several key barriers to AI adoption need to be addressed:

- Quality of Data: Legacy systems, siloed data, and inconsistent data standards mean that financial institutions often struggle to get clean, usable data, leading to Interoperability issues, complicating AI training.
- Trust: Concerns about AI transparency, fairness, and accountability need to be addressed. The system's workings must be explainable and free from bias. Where AI use cases are consumer facing, emphasising that the AI has been tried and tested and explaining how consumer data is used can help to overcome trust concerns.
- Firm Culture: Limited knowledge and understanding of AI opportunities and risks can slow down its integration.
- Infrastructure: Up-to-date infrastructure and robust systems are necessary, which may require costly upgrades for many firms. This may create barriers for mid-size and smaller firms.
- AI Skills: There is a shortage of skilled AI professionals, necessitating investment in hiring and training staff.
- Compliance: Organisations must ensure their AI systems adhere to data privacy, security, and ethical use regulations, while also safeguarding intellectual property.
- Cybersecurity Risks: AI systems introduce new risks that require enhanced security measures.

Areas where AI can replace administrative tasks are at risk of job losses, as AI systems can perform these tasks more efficiently and accurately. These areas often have a high volume of staff. Roles involving risk, compliance, legal and reporting are also at risk, as AI can analyse bulk data and generate reports faster than

humans. Algorithmic trading and AI-driven investment platforms can execute trades and analyse market data at high speeds, potentially reducing the need for human traders and analysts. Quantum computing combined with AI is likely to pose material shifts in the infrastructure and functioning of wholesale markets.

The UK financial sector is well-positioned to leverage AI compared to other countries, with a high adoption rate (75%) and an additional 10% of firms planning to adopt AI in the next three years. Currently, 49% of finance teams report that AI is already embedded within their operations. The proactive approach by regulators and the level of investment ensures the UK is on par with leading adopters, including the USA. Additional support could be given by the FCA to encourage experimentation and innovation, particularly in respect of consumer-facing AI use cases.

3.What are the risks to financial stability arising from AI and how can they be mitigated?

This may include:

Does AI increase the risks relating to cybersecurity?

What are the risks around third-party dependencies, model complexity, and embedded or 'hidden' models?

How significant are the risks of GenAI hallucination and herding behaviour?

Are the risks of having AI tools used in the financial sector concentrated in the hands of a few large tech companies? To what extent do the AI financial market tools rely on social media outlets? E.g. trading algorithms using social media posts?

Criminals are developing increasingly sophisticated methods to defraud customers and firms, such as AI-driven phishing and deepfake videos, which are challenging to detect. They can also manipulate the original input data to produce incorrect results and corrupt initial training data, leading to unreliable outcomes. Financial crime undermines trust in the financial system and the regulatory framework needs to adapt to remain fit for purpose to ensure it effectively targets financial crime.

Data privacy is another key concern, as AI systems analyse large volumes of diverse data types. The use of third-party solutions presents several challenges that require robust oversight and understanding. Firms must ensure high security standards, that the solution fully meets their needs, and that the system is free from bias. Dependency on these vendors can become problematic with system changes or when switching third parties.

Complex models add risks due to their difficulty in understanding, susceptibility to attacks, and the time and resources required for maintenance and updates. Embedded and hidden models, coded directly into software or systems, are more accurate but face similar challenges with updates, bias, and integration issues.

AI hallucinations occur when the system outputs inaccurate or visibly incorrect results, which can stem from data format issues used for training and model complexity. These issues can undermine trust in AI systems, making firms hesitant to rely on them.

Herding behaviour can result in multiple AI systems making similar decisions. This can result in similar investment strategies, as an example. which could cause market volatility and risk concentration.

Larger firms tend to dominate AI usage due to their financial capacity to build and support these systems, reducing competition from smaller firms and limiting innovation.

AI algorithms scan social media posts to determine the overall sentiment towards specific stocks or the market in general. Positive or negative sentiments can influence trading decisions. Social media provides real-time data, which is crucial for high-frequency trading. Algorithms can react instantaneously to news, trends, or significant events.

4.What are the benefits and risks to consumers arising from AI, particularly for vulnerable consumers?

This may include:

What benefits to consumers might arise from using AI in financial services? for example, could AI be used to identify and provide greater assistance to vulnerable consumers?

What is the risk of AI increasing embedded bias? Is AI likely to be more biased than humans?

What data sharing would be needed to make AI more effective in financial services, and will there be a need for legislative change to achieve that?

Are there any current or future concerns around data protection and AI in financial services?

What sort of safeguards need to be in place to protect customer data and prevent bias?

AI can significantly enhance consumer services by analysing vast amounts of client data. This enables personalised guidance and recommendations, aiding customers in making informed decisions on investments and savings and expediting loan application processing. In financial services, this activity is regulated under FSMA – i.e. providing a personalised recommendation on an individual's savings and investments constitutes financial advice. There is a risk that many consumers are already using publicly available AI search engines, such as Chat GPR and Co-Pilot, to obtain financial advice. Given the potential for these searches to draw on sub-optimal data sources (or at least treat credible and unreliable sources equally), there is a severe risk that consumers are receiving inappropriate and unsuitable recommendations, which they then act on to their financial detriment. The FCA should seek to either stop this activity or bring the relevant providers within the FSMA perimeter and FCA supervision. If a financial services firm were to provide the exact same service, they would be required to obtain the relevant regulatory permission from the FCA. There needs to be a level playing field, which enables financial services firms to provide reliable information and recommendations to consumers. The Advice Guidance Boundary review will enable firms to provide more personalised information and recommendations to consumers. However, this alone does not address the misinformation and consumer protection issues poses by consumers obtaining 'financial advice' from AI searches. We urge HMT and the FCA to engage with these providers to ensure consumers are protected and that UK financial services firms are given a level playing field.

In addition, chatbots and virtual assistants can address standard queries around the clock, eliminating the need to wait in call centre queues. This, in turn, reduces firms' costs, potentially lowering investment fees.

For vulnerable customers, AI can analyse data to detect signs of financial distress and offer personalised assistance through technologies like voice-activated and tailored interfaces. It can also identify distress signals in calls that human operators might miss. This enables firms to take action to protect customers from harm as it occurs or, ideally, before it has occurred.

As part of recent TISA research on fund performance disclosures, we tested whether consumers would trust AI-powered tools to provide educational content. We found that 91% of less confident investors said that the educational content feature would improve their understanding of their fund performance reports and 89% said it would improve their confidence in investing.

Over 60% of less confident investors said they would use these features if they were available in their fund performance reports.

This research demonstrates that AI can assist firms in addressing consumer understanding challenges that investors are currently experiencing.

The TISA research also showed that many investors would use the AI-powered digital assistant, with two-thirds of Gen-Z investors saying this and older generations becoming increasingly less likely to do so.

On average, 91% of investors thought the AI-powered digital assistant could improve their understanding of how their investment is performing. Less confident consumers were more likely to say that the AI-powered digital assistant could improve their understanding, with 76% saying it would improve their understanding a lot.

The TISA research also found that the younger the investor, the more likely they were to say that the AI-powered digital assistant would improve their understanding: 95% of Gen Z investors said this, compared with 92% of Gen X investors and 83% of investors aged 65+. Notwithstanding that trend, most investors across all age brackets thought the AI powered digital assistant could improve their understanding.

In light of these findings, we recommend that the FCA convenes industry to address the regulatory and cultural barriers to AI experimentation and innovation, so that firms have the confidence to provide consumer-facing AI, where this can provide better consumer outcomes.

However, AI can perpetuate embedded biases, as it learns from data that may already be biased, potentially discriminating against certain groups. While human bias is inconsistent and can be mitigated through training and awareness, AI bias, based on its training data, applies consistently, potentially affecting entire programs. AI systems often lack transparency, making it challenging to identify and address biases. For example, AI should be configured in a way that does not discriminate against individuals, including vulnerable customers, by excluding them from help and support services simply because the AI recognises that the individual is vulnerable.

To maximize AI's effectiveness in financial services, the FCA should work with the industry and consumer advocates to encourage innovation. In addition, fast tracking open finance can increase data availability, enabling individuals to see all their finances in one place, with AI then enabling people to make their money work harder, so that they can reach their financial goals quicker and increase their wealth and financial wellbeing. AI can also make effective investment decisions with access to prices, interest rates, and economic data. Internally, data sharing can improve operational processes and ensure AI systems comply with regulations. Careful consideration should be given as to whether consumers should be able to delegate this decision-making responsibility to AI, as opposed to either taking this decision themselves or relying on a financial services professional. For example, there would need to be a clear and robust redress and consumer protection regime to protect consumers from defective AI decisions.

The foundation of any AI program is its underlying data. If this data comes from legacy systems with inconsistent standards, the results may be inaccurate. Additionally, the sensitive nature of the data raises concerns under GDPR, PECR, and other data privacy laws. It's crucial to protect consumers from discrimination or unfair treatment by AI.
Data-sharing frameworks can assist firms in pooling anonymised insights. Initiatives like open banking and future open finance can enable permissioned access to consumer data.

Regulatory frameworks must evolve to enable firms to innovate and adopt technologies. The FCA's approach to outcomes-focussed regulation may provide a useful approach that could be adopted elsewhere.Security measures must continually advance to counter cybercriminals. Regular audits and vulnerability assessments are essential to identify weaknesses in data protection, along with transparency in models and testing to prevent bias.

5.How can Government and financial regulators strike the right balance between seizing the opportunities of AI but at the same time protecting consumers and mitigating against any threats to financial stability?

This may include:

Are new regulations needed or do existing regulations need to be modified because of AI?

Will Government and regulators need additional information, resources or expertise to help monitor, support and regulate, AI implementation in financial services?

As AI evolves, there is a need to review current regulations, modify them if necessary, and issue guidance for firms to ensure adherence to standard practices. Regulators and the government must effectively monitor and regulate AI implementation. These areas require proper resourcing and expertise to address issues promptly. Additionally, access to underlying data is essential for understanding how AI systems operate, identifying risks, and detecting biases.