Response by TISA to Mills Review

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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 over 260 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 three 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.*

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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Responses

Theme 1 - Future Evolution of AI

1. **AI technologies: Which emerging or maturing AI technologies do you expect will most transform UK retail financial services from 2030 onwards, and why? Please cite evidence, pilots, or data where possible.**

In response to the first question, we feel it is important to focus on the end consumer experience, and changes that need to be in place now for generative and conversational AI, rather than focussing on a specific technology which may be outdated.

Some of the key areas that need to be focused on include:

i. Education of workers and users
ii. Potential for AI-driven job losses and the resulting need for financial services to adapt, such as revisiting redundancy insurance and pension access and supporting broader societal transitions caused by AI.
iii. Deeper integration of current AI technologies and data sharing into consumer journeys.

2. **Agentic AI: What do you see as the future potential and direction of agentic AI? What are the implications for retail finance over the coming decade (including accountability, assurance, and market structure)?**

There are many areas where agents have potential to make a difference, particularly to the end consumer. Firms will be able to use AI agents to complete complex tasks, such as fraud monitoring in real time. Consumers could have personal agents on their devices, which will be able to manage their personal finances.

Firstly, we need clearer industry terminology to distinguish between assistants and agents, as this causes consumer confusion and secondly with the emergence of ecosystems where consumers delegate financial decisions to AI agents, we need clear quality standards and control that include requirements on observability, ongoing monitoring and guardrails for minimum capability standards.

We also support the development of digital contracts and industry protocols to safely manage agent interactions with financial institution and consumers. The financial services industry should lead these protocol developments rather than relying on external technology companies or regulators.

It is critically important to maintain robust oversight of the regulatory perimeter to mitigate consumer harm, especially as AI agents increasingly engage in regulated activities.

As agentic AI systems develop, and tools can interact with multiple financial institutions or platforms, consumers will rely on them to secure the best deals. Traditional banks could be bypassed for fintech platforms and digital wallets.

This could intensify market and price competition among firms, potentially allowing larger companies or those offering cheaper products to gain a dominant position. This could potentially be at the expense of firms offering higher priced, but none the less good value, products meeting slightly different customer needs and providing important customer choice.

However, the opposite outcome is also possible. If AI systems optimise for narrow parameters such as price alone, they may steer consumers toward firms that only meet those limited criteria, causing them to overlook important factors like customer service, consumer protections, or long-term value. This could also create AI-driven surges in demand for smaller firms that may not be equipped to handle sudden growth, leading to operational strain and new risks for customers. As such, agentic AI could either reinforce existing market leaders or introduce volatility and distortions in competition, depending on how these systems are designed and deployed.

3. **Digital technologies: How do you anticipate AI combining with other digital technologies, resources, and infrastructures through 2030? What specific markets, products, controls, standards, and risks could emerge?**

By 2030, AI is expected to move from a standalone tool to the core operating layer of the financial services industry, seamlessly integrating with all digital technologies.

The future of retail finance will be driven by AI agents embedded directly into laptops and mobile devices, capable of taking full control of a consumer's financial management. Because these agents will provide real-time recommendations and execute transactions, they will require a robust supervision and enforcement of the regulatory framework— i.e. akin to the standards currently applied to Independent Financial Advisers (IFAs) and Discretionary Managers—to ensure they provide fair, unbiased, and safe financial advice.

As AI becomes more embedded in the product design process, there is a risk to customers if appropriate regulation, guidance, and oversight are not in place. The method in which algorithms, data, AI-driven personalisation, and customer biases are incorporated into financial product design could create significant harms if not properly managed.

Complex AI technologies can increase firms' vulnerability to fraud and cyber-attacks. Larger firms may be able to keep pace by investing in advanced, AI-driven cyber-defences, but smaller firms may struggle—creating risks that could ultimately affect customers.

The critical third-party regime, which firms have been waiting to be announced, will be essential to monitor key players in the market, enabling the regulator to assess the risks they pose. This then ties in with the sovereignty challenges of large infrastructure providers, detailed in question 5, where the government needs to prescribe what needs to be UK based.

4. **Impact on you: How will AI change your operating model, operating environment, and dependencies from 2030? How might you respond to wider adoption of AI?**

AI will change firms operating model and environment considerably from 2030. Technologies will evolve, with AI integrated as part of the standard infrastructure.

As agentic AI automates complex financial workflows, the sector will shift from human-led operations to human-supervised autonomous systems. While human oversight remains essential for governance, this transition will drive a significant reduction in overall staffing and traditional advisory roles.

Tools using real time decision making will be prevalent, increasing speed of fraud detection and improvements to any time critical functions (internal and consumer facing) resulting in improvements to the current service.

To navigate the widespread adoption of AI, firms must prioritise robust governance and risk management frameworks. Immediate investment in these areas is essential to ensure a mature, compliant infrastructure is fully operational by 2030.

5. **The UK: What are the UK's comparative advantages and gaps in AI including compute, data, talent, standards, and regulation relative to other jurisdictions? Which targeted actions might most improve competitiveness?**

The current infrastructure in the UK is not sufficient (UK Compute 10-year roadmap), which raises concerns about the UK's dependence on overseas infrastructure. Until UK-based supercomputing centres are in place, we are susceptible to additional costs, political challenges and data-jurisdictional conflicts which could affect our ability to run critical systems.

The UK has always been at the forefront of talent in the technology space but there is still a lack of skilled AI professionals, within the current UK pool which is ultimately too small to cope with demand. Therefore, firms are looking to overseas experience, which may require the relaxation of visa requirements, and / or a serious investment in the UK's current and future workforce. Firms will need to understand their future strategy to ensure they have the right personnel in place, to cope with current demands and the challenge of technology becoming outdated due to the pace of change.

The currents standard and regulations are pro-innovation and are less rigid than the EU as an example. To be competitive with other jurisdictions in the coming years, the FCA's principles and outcomes led approach allows innovation without the rigid rules. The risks posed by AI are already covered in rules such as consumer duty and SM&CR. This will help firms at the start of their journey but it is clear that firms are still looking for additional guidance from the FCA.

The Treasury is also due to publish a list of critical third parties to ensure oversight of firms which are key to AI infrastructure. We await these with interest and the requirements they set in relation to monitoring, particularly given the territoriality and jurisdictional issues we have raised in this response.

Theme 2 - Future impact of AI on markets and firms

1. **Market structure and customer passthrough: How might AI change concentration in your market? What are the current drivers of concentration, and which could AI disrupt or reinforce? Do you expect AI to increase or decrease barriers to entry? Do you expect AI to increase concentration, reduce it, or reshuffle who the dominant players are? Where there are cost reductions do you expect these to be passed on to customers as lower prices?**

AI has the potential to intensify market concentration because large firms benefit from self-reinforcing advantages, such as superior data feedback loops and significant economies of scale.

Big technology platforms accumulate enormous volumes of unstructured user-interaction data, allowing them to train more advanced AI systems and continuously improve their performance. In contrast, many financial services firms collect less extensive and lower-quality data, which can limit their ability to develop competitive AI models and may weaken their position relative to data-rich technology giants.

Larger tech firms also have the people resources and funds to ensure they will be at the forefront of the technology.

AI automation should reduce prices if the tools are improving processes and cutting operating costs. However, this may take time due to the upfront capex required to invest in the new processes, resources, and expertise. Firms will need to be transparent with customers on where they are using AI, which will drive customer expectations of better service and cheaper prices.

2. **Self-reinforcing dynamics: What evidence do you see of 'winner takes most' dynamics in AI, such as data feedback loops, economies of scale, or network effects, that could entrench market positions? Conversely, could AI reduce switching costs and increase competition? Please distinguish between dynamics you observe today and those you anticipate.**

Please see our previous response on how large firms can benefit from their position in the market and cost benefits.

AI is expected to dramatically lower costs by eliminating the friction that currently traps consumers with legacy providers. By automating administrative hurdles and product comparisons, this could result in a highly competitive market.

Looking ahead, the market will likely be dominated by firms that provide AI Agents. These agents may reside on consumers' personal devices, managing finances and migrating consumers' assets to the best deals in real-time. Consequently, the winners of this "reshuffle" will be the providers that can deliver these high-tech, automated processes at the lowest cost to the user.

3. **Control of the customer relationship: Who do you expect will control the primary customer relationship by 2030 onwards: incumbent FS firms, Big Tech, specialist AI intermediaries, or consumers' own AI agents? Do you see parallels with mobile wallets, where value is captured without becoming a traditional regulated provider? What would this shift mean for customers and for competition?**

It is possible that AI agents will control the primary customer relationship by 2030 onwards. We would not expect these agents to be created or "owned" by consumers. It is plausible that Big Tech could easily integrate these features into mobile phones. Many consumers already use Apple & Google Pay; many also use integrated AI assistants such as Siri and Gemini. Adding financial advisor or personal banking features seems like a natural progression from a Big Tech perspective. From a consumer perspective, this would align with existing behaviours making the transition to this new technology relatively easy.

We are concerned about what this could mean for consumers. Consumers may opt, or may be prompted, to input significant amounts of sensitive personal and financial information into services, and through channels, where the security or subsequent use, location or ownership of that data may not be fully understood. This is in stark contrast to the robust requirements placed on regulated firms that relate to data security and confidentiality.

Furthermore, Research by Aberdeen indicates that 23.3m UK adults have poor financial literacy. FCA's Financial Lives Survey data shows that 75% of DC pension holders aged 45+ do not know that they have to make a choice about pension decumulation. In light of these findings, we think that without proper official sector intervention, it is very likely that consumers will make uninformed decisions when deciding what financial decisions to delegate to AI agents. Consumers may blindly trust AI agents to make financial decisions for them, including irrevocable financial decisions, without having any real ability to oversee and understand the implications. If these agents are not regulated, in the same way that a personal banker or financial adviser is, then consumers will have no recourse if inappropriate decisions and transactions are made. The lack of consumer protections is likely to lead to serious and potentially very widespread consumer harm. We recommend that if AI agents provide these services, the creator/provider of these agents should be regulated in the same way that a personal banker or financial advisor would be. If they are entering into financial contracts and instruments on behalf of consumers, then they should be regulated in the same way in which those existing services are regulated. This would enable appropriate consumer protections to apply, increase trust in regulated AI agents which could ultimately improve informed consumer decision making. This approach would also further the FCA's work to raise consumer awareness of the FCA's register, as a key tool to help consumers make informed decisions about providers. We would also note analogous arrangements that currently exist, for example, where someone sets up a Power of Attorney. It would seem counterintuitive that a relative, or loved one has to go through quite an extensive process in order to act on someone's behalf, whereas there could be little or no such process for an AI agent.

The alternative approach of not regulating these AI agents, whilst they clearly pose a risk to consumers, presents a widescale threat to the existing regulatory framework and the FCA. The approach would undermine large swaths of the FCA's regulatory framework, open policy work, and its primary statutory objective of protecting consumers. Agents may also have the ability to negate the current FCA and FOS consumer redress regimes. It would also undermine the investment and efforts of regulated firms to prioritise consumer understanding, financial capability and support. The UK's regulatory framework facilitates consumer protection, understanding and trust. We support these principles and strongly recommend that these principles and the regulatory framework should equally apply to AI agents.

We accept that there may be bad actor AI agents, but the issue of bad actors exists today. Enabling good actors to be authorised and kitemarked to FCA standards would help drive up responsible innovation, further the FCA's statutory objective and align with the existing regulatory framework and its underlying principles.

From a competition perspective, there is a potential upstream risk posed by largescale intermediation of the consumer relationship via AI agents. If financial providers do not have a direct relationship with consumers, or have a mechanism to receive feedback from consumers, there is a

risk that firms make poor, uniformed product design choices. They may have a tendency to design products that cater to the AI agent's bias and design, not the needs of end consumers. This could heighten the potential of miss-selling, lead to a depression in product innovation and decrease effective competition.

4. **Regulatory perimeter: Could AI systems provide services functionally equivalent to regulated activities such as advice or intermediation, while remaining outside the regulatory perimeter? How might this occur in your market, and what proportion of value could migrate to such unregulated services?**

Yes. This is already happening today.

It is possible to receive a personal recommendation in relation to investments from LLMs such as ChatGPT and CoPilot. TISA research has shown that over a third of UK adults feel confident using AI for help with their personal finances. Given the vast majority of consumers do not distinguish between financial advice and guidance, we suspect that large numbers of consumers are using these tools to receive personal recommendations.

These tools are currently able to remain outside of the regulatory perimeter because they are not offering financial advice by way of business. The FSMA definition and FCA guidance on what constitutes "by way of business" does not extend to these business models. We think it is a fallacy to compare LLMs, such as ChatGPT and CoPilot, to the "man down the pub". The "man down the pub" does not have the capability of reading every single source of information on the internet. We recommend that HMT reviews this element of FSMA to ensure that it is fit for purpose and continues to reflect the business models that currently exist.

We would also note that following RDR, the FCA requires firms to charge for financial advice. This element of the regulatory framework should be robustly policed by the FCA, otherwise it undermines the regulatory framework, the regulator, and the regulated firms.

From a scale and proportion perspective, the FCA estimates that less than 9% of the UK population receives regulated financial advice. The aforementioned TISA research indicates that that many more consumers are essentially obtaining financial advice via LLMs. The levels of usage of these AI systems are only increasing over time. We are also aware of instances where consumers who have previously received regulated financial advice have chosen to use ChatGPT instead. We are fairly confident that already, more consumers are receiving financial advice from unregulated sources than regulated sources. This trend has also been identified by the AI Incident Database.

Theme 3: Future consumer trends

1. **Benefits and risks: How might consumers benefit from AI-enabled retail finance from 2030 and what do you foresee as the greatest risks for consumers?**

AI-enabled retail finance has the potential to have an enormously positive impact on consumer decision making and consumer wellbeing. We already see a strong and growing role for Ain in supporting consumers. AI can drive the democratisation of financial information, make products,

services and journeys more accessible, engaging, and inclusive. Its ease of use and convenience may also drive up retail participation levels.

However, as mentioned in our earlier response, the prevalent levels of low financial literacy in the UK mean that many consumers don't know what they don't know. This can lead to consumers receiving unsuitable recommendations from AI systems which they then rely upon and ultimately suffer detriment. It could also lead to consumers delegating decision making power to AI agents on an uninformed basis and with no real ability to oversee or challenge the agent's decision making. This could all result in financial literacy and capability levels decreasing further, consumers entering into inappropriate financial contracts and instruments and ultimately suffering irrevocable losses and harm.

We are also concerned about the potential liquidity impacts, and consequent consumer detriment (for example loss of value when exiting or entering an investment) posed by AI agents collectively making uniform financial decisions at the same time.

2. **Inclusion versus exclusion: Which consumer segments might 'win' or 'lose' in this new world of AI-enabled retail finance?**

Unless digital exclusion across the UK is addressed, those that are excluded will lose from the new world of AI-enabled retail finance. They will not benefit from the large investment and innovation in this space. Consumers that are not confident using digital services may also lose. AI could be used in ways that can increase consumer confidence, but this may need specific focus from the official sector to ensure AI is adopted and deployed in a way that achieves this outcome. Similarly, those with protected characteristics and vulnerabilities (including low financial literacy) may lose. The current systemic bias and discrimination may continue and worsen in the new world of AI-enabled retail finance, if existing anti-discrimination and pro-access laws and regulations are not properly enforced.

The inverse segments will win.

If the FCA and wider official sector embrace the principles of inclusivity, policies existing legislation and regulation, and create an environment that rewards those that seek to use AI in a way that is consistent with inclusive design, then they can be a powerful force for increased inclusivity and fairness. This could have a material impact on consumer trust and ensure economic growth and consumer wellbeing is inclusive.

3. **Changes to products and services: How might AI drive changes and personalisation in products and services, and what impact will evolving consumer expectations have? This could be to do with evolving price, value, fraud, security, mis-selling, advice, or other topics pertinent to you.**

Please see our earlier response in respect of the impact intermediating the consumer relation may have on financial providers' ability to innovate and develop products and the potential for mis-selling, uninformed decision making and consequent consumer harm.

AI is already changing consumer expectations in respect of personalisation. We are concerned about how this will impact consumer expectations of financial services firms and how this sits alongside the current regulatory framework. Consumers are able to get answers that are personal to them when using LLMs, such as ChatGPT. Under the current regulatory framework, firms may provide guidance for free but cannot provide personal recommendations. Targeted Support, which will be introduced in April, will enable firms to provide targeted recommendations, but whilst this service will include an added degree of tailoring, it will not be an individualised service. We hope the regulated nature of Targeted Support will engender a sufficient level of consumer trust to help overcome the regimes limitations.

AI and other technological advances have a tendency to play to short consumer attention spans. These technologies centre on conveying information in as simple and short a fashion as possible. The proliferation of this communication style has an impact on consumer expectations. We are aware that consumers are already using LLMs, such as ChatGPT, to simplify financial services disclosures. They do not, and will not, read long pdfs of complex information and instead prefer short summaries. TISA supports the simplification of disclosures, to the extent it prioritises consumer-essential information, improves consumer understanding, accessibility, and engagement. However, we are concerned that unregulated tools may cut key pieces of information, leading to consumers making uninformed decisions. One could argue that the fact the consumer reads a subset of disclosed information is better than reading none of the information, but we do not think this should be a race to the bottom. Instead, we continue to see benefit in the key principles that underpin FCA regulation. The new CCIs disclosure regime identifies key pieces of information that are essential for consumers to understand. Under the new rules, distributors can highlight this information, giving it prominence over other pre-sale disclosures. We would welcome the FCA adopting this approach to all forms of disclosure, so that there is a consistent and shared understanding of the information that is decision essential, with other information being capable of being made less prominent (e.g. through layering). The FCA's disclosures regime should prioritise decision essential information, allowing firms to create engaging and intelligible disclosures that consumers will actually read and understand. If this is addressed, consumers should not need to use tools like ChatGPT in order to form a basic understanding of a product or service. However, even if consumers continue to use these tools, adopting our recommended approach means it is more likely that LLMs will recognise this decision essential information, meaning it is less likely to cut it from its responses to consumers. This approach would enable firms to meet consumer expectations, while also providing trusted, reliable information that is decision-useful.

In relation to fraud, we are already seeing a large increase in the use of deepfakes. The AI Incident Database has stated that deepfake-enabled fraud is now the default business model for fraudsters. This is happening at an industrial level, with the most prevalent type of scam being impersonation-for-profit scams, especially "investment opportunity" scams. These scams work by having a deepfake public figure (usually politician, media personality, celebrity, or business leader) "endorse" a product or platform; the content is distributed via high-reach social networks; victims are routed into a funnel that ends in money transfer. Social media platforms are not incentivised to take these scams down, with Reuters reporting that Meta projected that 10% of its 2024 revenue coming from ads for scams and banned goods. Meta also estimates that it shows users 15 billion scam ads a day, demonstrating the scale of this issue and the need to bring Big Tech to the table if we are serious about fighting fraud and scams. Successive UK government's have refused to regulate social media,

leading to widespread fraud and other harms being caused to UK citizens. We would argue that the official sector, including the FCA, should reflect on this and consider whether an alternative approach should be adopted for AI. We recommend that action is taken to ensure that AI develops in a responsible manner that benefits consumers.

We also recommend that a coordinated approach is taken, that spans financial services firms, telecoms providers, digital (social media) platforms and regulator. This is essential to ensure robust sharing of scam pattern intelligence, improving deepfake detection and analysing synthetic identities. This approach will strengthen defences and protect consumers.-pattern intelligence, improving deepfake detection and analysing synthetic identities

4. **Agency and understanding: With the balance shifting between consumer agency and delegation to AI, how might this affect consumer understanding, financial literacy and vulnerability?**

As noted in our earlier response, it is possible that AI agents will control the primary customer relationship by 2030 onwards. We would not expect these agents to be created or "owned" by consumers. It is plausible that Big Tech could easily integrate these features into mobile phones. Many consumers already use Apple & Google Pay; many also use integrated AI assistants such as Siri and Gemini. Adding financial advisor or personal banking features seems like a natural progression from a Big Tech perspective. From a consumer perspective, this would align with existing behaviours making the transition to this new technology relatively easy.

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to negate the current FCA and FOS consumer redress regimes. It would also undermine the investment and efforts of regulated firms to prioritise consumer understanding, financial capability, and support.

We accept that there may be bad actors, but that issue exists today. Enabling good actors to be authorised and kitemarked to FCA standards would help drive up responsible innovation, further the FCA's statutory objective and align with the existing regulatory framework.

From a competition perspective, there is a potential upstream risk posed by largescale intermediation of the consumer relationship via AI agents. If financial providers do not have a direct relationship with consumers, or have a mechanism to receive feedback from consumers, there is a risk that firms make poor, uniformed product design choices. They may have a tendency to design products that cater to the AI agent's bias and design, not the needs of end consumers. This could heighten the potential of miss-selling, lead to a depression in product innovation and decrease effective competition.

5. **Fraud: How could AI-driven fraud evolve as consumers increasingly delegate decisions to AI, and what would this mean for consumer agency, harm, and protection in retail financial services?**

As noted in our earlier response, deepfake fraud is already operating at an industrial scale. We would also note that AI can be used to combat fraud, for example biometric-related AI can be used to prevent fraud and AI can more quickly identify patterns of behaviour that indicate fraudulent or suspicious activity. Thus AI can be a force for good, in the right hands. In line with our previous response, we think it is vital to bring Big Tech, telecoms and the financial services industry together, if we are to meaningfully address financial crime and its direct threat to consumers.

If AI agents that make decisions for consumers become prevalent and they are not regulated, for example in the same way that a personal banker or financial adviser is, there will be no law requiring AI agents to act in the interest of consumers. The potential for bad actors is enormous, unless the FCA properly polices and enforces its perimeter and regulatory framework. If there are no consumer protections, it seems likely that neither the AI agent, nor its creator/owner, will take responsibility for the decisions made in the consumer's behalf. The consumer would be completely at risk. There will also be no redress for consumers where AI agents do not act in their interest. This would undermine the existing consumer redress and FOS regimes. For these reasons we recommend that the FCA regulates the creators/owners of AI agents that make financial decisions for consumers.

6. **Trust: What might help make AI-driven decisions more understandable and trusted by customers, including how the use of AI may be monetised?**

We think AI-driven decisions would be more trusted if they are offered by regulated firms. We think the FCA's approach to encourage firms to innovate in this space has been excellent. The FCA Sprints, Sandboxes and Showcases have enabled firms to test safely, interact with the FCA, and accelerate adoption. The FCA's convening powers also bring the industry and connected communities together, helping to shape responsible innovation that prioritises consumer understanding and trust. We applaud this approach and would encourage the FCA to continue with this work and

publicly share key principles, knowledge, and feedback from these sessions so that the wider financial services industry can benefit and learn.

We think a trusted kitemark, or FCA-regulated badge, would also help consumers make more informed decisions about which AI-powered services and tools to use. It would also increase consumer trust in regulated, quality sources, and hopefully guide them towards these providers and tools, over unregulated options.

We are also interested in the potential for an AI Agent Protocol Contract. This would be developed by the financial services industry, working with law firms, and would set key parameters around delegated authority, responsibilities and consumer protections and consumer understanding. Adoption of the protocol would need to be widespread across the retail investment industry. It could form a model contract that AI agents would need to enter into before they are able to engage with FS providers. The pre-requisite could act as a barrier to bad actors and would increase both consumers and financial provider's trust.

Theme 4: Future regulatory approach

1. **Outcomes-based regulation: What are the opportunities and challenges for the FCA in ensuring an outcomes-based approach to retail regulation in an AI-enabled FS industry?**

A key challenge for outcomes-based regulation is enforceability. If the regulations are insufficiently prescriptive, they may not capture harmful behaviour by bad actors. This type of regulation also presents challenges for SMEs who may not have dedicated, or large, compliance resource. This may increase their costs as they need to source external advice and verification in order to operate with confidence. Determining what constitutes a “good outcome” may be subjective and context specific, and we would note that this subjectivity can be amplified where AI systems behave in non-deterministic or adaptive ways.

The lack of prescription associated with outcomes-based regulation enables multiple approaches to compliance. This openness facilitates innovation and differentiation. It provides the flexibility needed to respond to emerging risks and future technological developments without relying on prescriptive, technology specific rules that may quickly become outdated. By focusing on consumer outcomes rather than specific tools or techniques, outcomes based regulation can better accommodate innovation and allow regulatory expectations to evolve in line with changes in market practice and risk profiles.

2. **Regulatory levers: Are the key FS regulatory levers (Consumer Duty, Operational Resilience, SM&CR, Critical Third Party regime etc) suitable to manage future risks and to enable firms to fully take advantage of AI?**

Yes, insofar as they apply to firms within the perimeter. FCA could do more to enable firms to fully take advantage of AI by setting clear expectations in relation to observability, ongoing monitoring, HITL definitions and guardrails for minimum capability standards.

3. **Supervisory and enforcement approach: Do you have views on the way the FCA should improve or develop its approach to supervision and/or enforcement to respond to increased AI use in the future, including using AI itself?**

The FCA should robustly enforce its existing regulatory perimeter and framework, particularly in respect of financial advice and ensuring consumers do not receive information that is unfair or misleading. If the FCA continues to allow widespread unauthorised financial advice to take place, there is a serious risk of consumer harm. When that consumer harm crystallises, this will undermine the FCA and its ability fulfil its statutory objective to protect consumers.

We encourage the FCA to take a stronger supervisory and enforcement approach, that focuses on the core rationale for having financial regulation in the first place: to protect consumers and instil trust in the UK's financial services industry and markets. In doing so, it is important to reinforce that responsibility for regulatory compliance and consumer outcomes remains with the regulated firm, regardless of whether AI systems or components are developed or operated by third party providers.

4. **Growth: In what ways can the FCA continue to support growth and competitiveness in an AI-driven financial services industry in the future?**

We recommend that the FCA and PRA continue to coordinate and collaborate. There is a clear link between conduct and prudential implications when considering the rapid pace of AI developments. Having a consistent, combined capability will provide confidence and strengthen the likelihood of responsible innovation.

The FCA could further support growth and competitiveness by providing greater practical clarity on the safe deployment of AI, particularly through the development illustrative use-case studies. Practical examples with real or representative use cases would help firms and compliance functions better understand how outcomes-based regulation applies in an AI-enabled context, reducing uncertainty and the risk of inconsistent interpretation, which may in turn accelerate the responsible adoption of AI by firms.

5. **Frameworks for inspiration: Are there other regulatory frameworks (UK or international, other non-FS sectors) which the FCA might consider or emulate to respond to increased AI use in retail financial services?**

The EU AI Act's high-risk AI classification framework offers a structured, legally binding approach to mitigating harms arising from AI systems used in sensitive consumer-facing contexts. Although the UK currently follows a principles-based model, elements of the EU's risk-tiering regime could inform future FCA policy design, particularly as retail financial services, and other consumer-facing industries that enter the FS market, adopt increasingly sophisticated AI-driven decision-making tools.