Written evidence submitted by Independent Governance Group (IGG)

Introduction

- Independent Governance Group (IGG) is the UK's leading provider of professional pensions trusteeship and governance services. Widely viewed as a leader in its field, professional pension trusteeship and scheme governance services are at the heart of IGG's offer and are delivered through a combination of Chair of Trustees, co-trustee and professional corporate sole trustee appointments. Almost 150 of IGG's appointments are to act as sole corporate trustee. Professional pensions support services strengthen the business's professional trusteeship side of the business, and provides secretarial, pensions managerial and governance solutions for 108 appointments.

- The 200+ team includes pensions expertise drawn from many different backgrounds, such as pensions managers and consultants, lawyers, investment specialists, actuaries, administrators and regulators. The team is known for providing diversity of thought and wide-ranging collective experience. The team works with over 493 schemes with a combined asset value of approximately £303bn, of which £245bn is for scheme secretariat and governance appointments. Schemes range in size from the low millions to multi-billions, with over 10% of the group's schemes being £1bn+. IGG is a multi-award-winning active member of the Association of Professional Pension Trustees (APPT) with one of our Trustee Directors holding the role of Chair. Members of the group play a prominent part in APPT committees, and all Trustee Directors are fully accredited as professional trustees.

- Driving innovation is one of IGG's core values. Our team is committed to looking for new ways of doing things and better solutions; being flexible and willing to do things differently. In that spirit we embrace the opportunities that AI has to offer, to improve the quality of trusteeship and governance, and to provide better outcomes for our pension scheme members.

Executive Summary

IGG welcomes the opportunity to respond to the Treasury Select Committee's inquiry looking at the use of Artificial Intelligence (AI) in financial services. AI will, undoubtedly, play a critical role in the UK economy in coming years as many sectors consider how technology can drive productivity and growth. The financial services sector, and particularly the pensions industry, is no different. However, like many industries, innovation and embracing technology such as AI needs to balanced with the necessary regulatory safeguards and oversight.

IGG is embracing AI where there are clear benefits; however, we always remain conscious of our duties and obligations to scheme sponsors and beneficiaries. We are committed to thoroughly understanding the opportunities and risks presented by any AI solution before adopting it. This due diligence is conducted both directly and through our service providers. We have robust policies and procedures in place to govern the use of third-party AI tools.

To fully realise the potential of AI within strict frameworks, we have developed an AI-driven investment governance platform: IGGiQ. IGGiQ is a proprietary tool and allows users to gain powerful insights into several different datasets in order to understand performance against their investment objectives and analyse any gaps in progress.

We see the potential of AI to make scheme governance and administration more efficient and transparent – taking on routine governance and administration processes, where appropriate, and enriching the quality of data to facilitate the focus of professionals on high quality decision making. AI also has a valuable role to play in supporting personalised training journeys for professionals, improving communication with members and strengthening risk management process through analysing and interrogating data. All these opportunities can support better decision-making resulting in better outcomes for pension savers, and their sponsoring employers.

Alongside the opportunity that AI presents, we must be cognisant of the risks also. We are alive to the risk that AI will likely be used to phish and scam savers, or that savers will turn to unregulated public AI tools for financial advice which could result in significant financial loss.

As the UK's leading provider of professional pensions trusteeship and governance, IGG feels it is incumbent on us to lead from the front and set a gold standard for safely using AI. While we recognise there is a role for industry in building consumer protections and safeguards in, we do believe a structured regulatory approach, that can flex with the evolution of technology, is necessary to mitigate risks to pension scheme beneficiaries.

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

Through our broader financial services sector networks and insights, we know that the industry is embracing innovation and see it as critical to establishing and fostering competitive markets. AI adoption is rapidly accelerating, particularly in data analysis, risk management, scheme governance and administration, and member communication.

As an example, IGG has launched its specialist funding and investment analysis platform: IGGiQ, which puts data-driven insights at the heart of trustee decision making and advice. Through it, AI is leveraged to digest investment reports and prospectuses, structure the data into a standardised format, and integrate external data, to deliver deeper insights into scheme investment portfolios. This allows trustees to fully understand and monitor the impact of different scenarios on achieving their investment and funding objectives, building in AI -driven alerts to notify trustees when rebalancing may be required to maintain alignment with objectives.

The use of AI also means we can use the technology's benchmarking capabilities to compare portfolios against IGG's aggregated data lake, helping to identify gaps and track progress trends. By using AI to enhance oversight, our Trustee Directors receive deeper analysis of investment managers' policies and stewardship practices, and visibility of alignment with trustees' own policies and objectives, helping to ensure that pension scheme members are getting the best outcomes.

Built-in large language models (LLMs) improve accessibility by allowing users to interrogate investment and funding information in an intuitive manner, reducing the reliance on additional reports. This can be done on an individual scheme level or across a portfolio of schemes, facilitating strategic, cross scheme analysis.

Ultimately IGGiQ enhances risk management by providing deeper, more intuitive oversight in real time. This is both on a day-to-day basis, but also in the event of significant market events, mitigating the risk of information asymmetry and allowing prompt decisions and action to be taken should events such as those seen in the gilts market in 2022 occur. The ultimate result is better protection for members and scheme sponsors.

Scheme governance is an area that will continue to benefit from AI, improving efficiency and strengthening risk management, including using contextual memory to anticipate challenges before they arise and recommending mitigations and actions, including optimising investment strategies accordingly. A willingness to adopt innovation will allow pension schemes to future-proof their operations, improve resilience and deliver favourable and better outcomes for scheme sponsors and members.

When we look ahead at AI's potential over the next decade, it's clear it will have an increasing role to play. Though, the industry would be naïve to think that doesn't come without risks we need to mitigate. As technology evolves, IGG expects that not only will AI play a key role in automating routine processes and more streamlined governance of schemes, but it will also further enhance decision-making, necessitating clear internal policies and / or regulatory guidance around its use. It will be important for regulators to define the objectives that it sees AI supporting, to clearly articulate the parameters that it expects trustees and others in the industry to operate within, and the checks and balances that it expects to see.

Recognising our fiduciary duties to scheme members and beneficiaries, we strongly believe there should be a robust regulatory framework that governs the use of AI to ensure the stability, integrity, and long-term sustainability of pension schemes.

To what extent can AI improve productivity in financial services?

The clear productivity gains for the pensions industry through the adoption of AI are in scheme administration and governance. For example, efficiencies can be achieved through using AI tools to summarise board papers, retrieve prior decisions and maintain audit trails and address capacity constraints by managing standardised and repeatable processes, such as benefit specification analysis and rule interpretation. AI can also be used to support and elevate Trustee training to deliver personalised learning journeys and alternative delivery formats.

To realise these benefits, IGG has begun actively trialling AI tools to assist governance processes. When used effectively and responsibly, AI adoption will allow trustees to focus more on strategic decision-making focused on investment outcomes.

There are also applications in the member communication space, providing a broader range of ways in which to engage and share information with members, and to ensure that it is done in a fully accessible way. To that extent it has the ability to enhance retirement outcomes and make retirement savings work more productively for individuals.

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

As with all technologies that rely on access to public and private data, AI presents risks that must be carefully managed, particularly when taking into consideration the possible impact on UK investment and the liquidity of pension schemes.

One key concern is cybersecurity vulnerabilities. Financial institutions must establish robust security frameworks to protect against AI-driven threats. The Pensions Regulator's (TPR) General Code

(2024) highlights the need for trustees to be proactive in managing cyber risks. Trustees must ensure they have appropriate risk assessments, controls, and assurances in place to protect schemes from cyber threats. As AI-driven threats evolve, trustees must also consider how much information they need to feel assured that these risks are being effectively managed. Though it should be noted that AI will likely have an equally significant role to play in identifying and guarding against cyber threats.

The distinction between public AI and closed AI presents significant considerations regarding risk management and operational security. Public AI systems, accessible to a wide audience and built on publicly available models, may introduce risks such as data breaches, unintended misuse, and exposure to malicious actors. These systems often rely on vast amounts of data from diverse sources, making it difficult to ensure full compliance with data privacy standards or to mitigate inherent biases.

In contrast, closed AI systems operate within a more controlled environment, limiting access to authorised personnel and data sources. While this approach enhances security, it is not foolproof and users must be live to the risk of data stealing and hacking, scams and phishing attacks.

This is why IGG is implementing stringent governance to ensure ethical and effective use. More broadly, we believe there should be a regulatory and / or industry requirement to adopt a structured risk assessment approach to ensure effective use and governance. This should mean that AI policies are incorporated into Effective System of Governance (ESOG) frameworks, with ongoing training and regularly updated policies to mitigate AI-related risks and ensure responsible implementation.

With the adoption of AI particularly to aid investment decision making, it is important that the wider risk landscape is considered and that decisions are taken with that broader context in mind, to avoid herding in the market impacting financial stability.

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

AI provides potential for a broader range of ways in which to engage and share information with members, and to ensure that it is done in a fully accessible way. To that extent it has the ability to enhance retirement outcomes and make retirement savings work more productively for individuals.

We must be realistic that individual savers will increasingly turn to AI tools to seek financial advice, obtain summaries of information they receive and ultimately use the tools to help them make decisions. There is a risk that AI-generated financial advice may lack nuance, misinterpret complex regulatory requirements, or fail to account for individual circumstances, potentially leading to poor decision-making and risking reduced savings pots and lower quality of later life for some individuals.

Therefore, a robust regulatory framework is essential to ensure that AI-powered tools used by individual savers are as safe as possible and, where safeguards can be reasonably built in to protect individual consumers, they are. As AI becomes a key tool in personal financial decision-making, which could significantly benefit consumers, regulators must balance innovation with consumer protection, ensuring that AI enhances financial literacy and decision-making, rather than exposing savers to unnecessary risks.

It is also critical that awareness of the potential threats is heightened among consumers, since AI is already and will continue to be used by scammers to gain access to people’s pension savings. The methods employed are wide and varied – from using AI to develop sophisticated phishing techniques that are hard to distinguish from genuine communications to ‘deep faking’ Martin Lewis and other influencers to scam consumers into putting their money into fake investments.

How can the Government and financial regulators strike the right balance between seizing the opportunities of AI while protecting consumers and mitigating threats to financial stability?

Given the transformative potential of AI, policymakers must ensure that regulation is flexible to adapt to and keep pace with technological advancements. It will be important for regulators to define the objectives that it sees AI supporting, to clearly articulate the parameters that they expect trustees and others in the industry to operate within, and the checks and balances that they expect to see.

Government and regulators must make clear their intent with respect to regulating AI use within financial services and a timeline to work with industry to develop a robust regulatory framework. The principles and parameters around the use of AI in occupational pension schemes should go hand in hand with TPR’s Data Strategy and its implementation. Part of this includes ensuring that the development and embedding of AI in the pensions industry is being done with the support of people with the right knowledge and skills in this fast-developing technological space.

The FCA must consider whether the consumer duty, in its current form, has the appropriate safeguards for individual savers who will use AI-driven financial tools to make critical pensions-related decisions.

As the UK’s leading provider of professional trusteeship and governance services IGG believes in leading from the front and setting a gold standard for the industry to meet. This is why we are using AI to aid to decision-making, not to make decisions. In our view, human oversight remains critical to scheme governance, honouring our fiduciary obligations to the scheme, and positive outcomes for scheme members and beneficiaries.

By integrating AI into existing governance structures with appropriate safeguards, the industry can unlock AI’s potential while mitigating associated risks. In doing so, they can foster innovation, enhance financial stability, and improve consumer outcomes in the evolving AI-driven landscape.

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