Written evidence submitted by The British Private Equity and Venture Capital Association (BVCA)

Introduction

The British Private Equity and Venture Capital Association (BVCA) welcomes this opportunity to provide evidence to the Treasury Committee inquiry on AI in financial services. The UK private capital industry invest significantly in UK technological innovation – from venture capital to large private equity funds, with investment in AI a rapidly developing sector across the private capital ecosystem. Private capital firms are also increasingly adopting AI to increase operational efficiency within their own businesses, to support the investment process and enhance productivity. The investment provided by private capital firms into innovative technologies such as AI is an important contributor to enhancing productivity and increasing economic growth throughout the UK.

As the industry body and public policy advocate for the UK private equity and venture capital (private capital) industry, the BVCA represents over 600 firms, the vast majority of all UK-based private capital firms, as well as their professional advisers and investors.

The private capital industry is already an indispensable partner for UK economic growth, standing as it does at the unique intersection of deploying capital, investing for the long term and helping to shape the strategy of the UK businesses it invests in. In 2023, it directly supported 12,000 businesses, accounting for 2.2 million jobs and contributing 6% to GDP across all sectors.

UK-based private capital specialists have £178bn of funds to invest, which they expect to deploy in the next three to five years (this is known in the industry as 'dry powder'). Historically, around half of the private capital managed in or advised from the UK is put to work here. To drive economic growth, the UK must utilise the domestic pool of capital and attract international investment, both by encouraging investors to put their capital in UK funds and by ensuring that investors have the confidence to invest in the UK's businesses.

The UK is already home to the third largest AI ecosystem behind the US and China.[1] The BVCA welcomes the UK Government's commitment to harness the potential for AI to increase economic growth and the launch of the AI Opportunities Action Plan, which has set out recommendations for regulators to accelerate the implementation of AI in priority sectors and encourage the creation of initiatives such as regulatory sandboxes to encourage innovation.

Private capital firms have a front row seat and are an active participants in cutting-edge AI and other tech developments. This means BVCA members are well-placed to share lessons across investee companies, with policymakers and more widely. The Government should seize the opportunity to engage with private capital to help the UK cultivate innovative AI companies which will offer attractive funding opportunities to UK and international investors through the UK's world-class venture capital funds.

BVCA response to specific questions

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

Private capital firms utilise AI to support in-house operational processes, particularly within compliance teams to help process the significant quantity of data and support the analysis required as part of the investor onboarding and transaction due diligence process. AI is also utilised by private

[1] Beauhurst_Royal-Academy-of-Engineering_Spotlight-on-Spinouts-2025.pdf

capital firms, and the professional services firms within the private capital ecosystem to support back-office operations and increase efficiency when analysing data, deal information and investment proposals that are submitted to private capital firms. AI is also a valuable tool to detect trends that can support with existing AML and fraud detection processes. The range of applications of this technology is growing across many areas, and this will continue to increase over the next ten years.

Due to the sensitive nature of the data and information relating to investment deals, private capital firms have introduced protective measures to ensure AI is not directly involved in the investment decision making process. Private capital firms tend to withhold the use of AI technology at Investment Committees and other forums where sensitive information is shared, in order to mitigate against bias and uphold confidentiality standards.

While private capital firms are in the early stages of adopting AI in their operational processes, some firms are introducing training for employees on how AI can be used to improve efficiency such as monitoring trends in internal and external communications, summarising and providing a source of reliable information and data, and tool to support with transcription.

To what extent can AI improve productivity in financial services?

There are two key ways in which BVCA members in private equity, venture capital and private credit are using AI to drive productivity in financial services. Firstly, existing companies are backed by the expertise, long term view, and patient capital provided by private capital, and are then encouraged and supported to adapt and adopt emerging technologies. And secondly, private capital backs new companies creating and driving forward innovative new technologies.

On adoption of AI and emerging technology; the investment provided by private capital funds is a significant contributor of increased productivity in businesses. This is a result of the strong people management and operations management practices associated with private capital-backed companies, with forthcoming data showing over 900 financial services businesses backed by private capital are headquartered in the UK.

Research conducted by the BVCA with Public First[2] has highlighted the productivity growth that results from private capital investment, with annual productivity gains in private capital backed firms collectively one per cent higher than in the business population as a whole. This builds on the existing and widespread academic consensus that private capital investment supports productivity both at portfolio companies, and across entire industries through spillover effects.

The BVCA-Public First Investment Commission set out some of the ways that these productivity gains are realised with one of the key drivers being through the adoption of technology such as AI.

On innovation and new companies, the UK has a strong investment ecosystem in developing AI technologies, with the UK the largest market for AI funding in Europe.[3] Alongside the adoption of AI to enhance operational efficiency at a firm level, BVCA members actively invest in companies developing AI technologies, ranging from cyber security to ESG and sustainability compliance tools, that can be utilised by the financial services industry.

Intelligent Ultrasound is a Wales-based medical technology company that specialises in real-time hi-fidelity simulation for the ultrasound training market and artificial intelligence based clinical image analysis software tools for the diagnostic medical ultrasound market. Supported by IP Group since

[2] Adding Value, Delivering Growth - BVCA and Public First's Investment Commission Report
[3] Venture funding in Europe fell to $45B in 2024, says Atomico | TechCrunch

2010, the company has been able to develop new innovative products such as its AI-based ScanNav image analysis technology that makes clinical diagnostic ultrasound easier and simpler to use.

The AI technology is utilised by GE Healthcare, the world's largest ultrasound company, in their Voluson Expert, Signature and SWIFT ultrasound machines. Through the support of investors such as IP Group, the company has been able to expand its product offering into new medical specialties such as anaesthesia and emergency medicine and grow its sales network to cover operations in the US, Europe and Asia

Artificial intelligence is also the top emerging sector by number of spinouts in the UK, with 214 companies as of January 2025.[4] Private capital firms are uniquely placed as investors and adopters of innovative technologies such as AI and can therefore provide Government and regulators with valuable insights on the opportunities for the UK to adopt and utilise AI.

As a result of the pro-innovation approach taken by the government to utilise AI and the commitment to work alongside regulators to facilitate this, the UK's financial sector is well-placed to take advantage of AI compared to other countries. As outlined above, private capital firms are increasingly adopting AI technologies to streamline processes, increasing existing capability and capacity that contributes to enhanced productivity.

While the adoption of AI is increasing among private capital firms, it remains cost-intensive to build internal firm tools to utilise AI and manage data. The accuracy of AI tools is cited as a key consideration for firms adopting AI to enhance productivity, given that oversight is still required to ensure that information and data is accurate. It is important that as there are further technological advancements in AI innovation, the UK retains a flexible regulatory approach to encourage innovation to improve productivity within the financial services industry.

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?

The UK has a world-leading financial services industry and it is important that the UK remains a competitive environment to attract investment and continue to enhance technological innovation through its research and development ecosystem. It is important that while the opportunity to adopt AI is in the financial services industry is seized, any threat to financial stability and consumers is mitigated. The principle-based approach to the current regulatory framework aligned with the five areas; Safety, security and robustness; Appropriate transparency and explainability; Fairness; Accountability and governance; Contestability and redress, offers private capital firms an agile regulatory framework to facilitate the adoption of AI while mitigating any harm to consumers or financial stability.

This differs from the prescriptive requirements of the EU AI Act. It is important that regulation remains flexible to continue to support innovation, while the impact of new technologies for consumers and the wider economy is assessed.

Regulation must also be able to keep up with the pace of technological change. Government funded regulators should have funding that is fit for purpose given changing economic, societal and technological demands, alongside a commitment to annual, inflation-linked budget increases.

Many technology startups are working with innovative technologies – from AI to medical devices to quantum technology to driverless cars to novel foods – which are rightly subject to regulation but

[4] Beauhurst_Royal-Academy-of-Engineering_Spotlight-on-Spinouts-2025.pdf

where their regulatory status is unclear, because regulations have not kept pace with what is now technologically possible. This makes it much more difficult for investors to understand what their return on investment is likely to be, whether a product has a path to market and how quickly it will get there, and indeed whether a business is viable at all.

In our BVCA member survey conducted under the Investment Commission with Public First, we found that 91% of respondents say a faster and more agile regulatory system would make it easier for them to invest in UK businesses.[5]

The FCA's regulatory sandbox is a valuable tool for innovation and the adoption of new technologies, and enables regulated financial services firms to test their products in a controlled environment with guidance, mitigating risks and reducing uncertainty around compliance. The sandbox contributes to the UK's position as a global leader in fintech, and the BVCA would welcome similar models implemented by other regulators to encourage innovation.

Collaboration from regulators through forums such as the Digital Regulation Cooperation Forum (DRCF) help to foster a collaborative approach to the adoption of AI across the financial services industry. It is important that regulators continue to engage across the financial services industry on any developments to the existing regulatory approach. The BVCA previously welcomed the Government's focus on enabling and supporting increased digital adoption, including technologies such as AI which have the potential to increase productivity and facilitate new products and services, and the need to ensure a robust and transparent regulatory framework that supports growth while maintaining financial stability.

Ensuring the UK remains a hub for technological innovation and investment is essential to drive economic growth. Being a leader in this space would enhance UK international competitiveness, provide homegrown advancements in critical industries such as defence and cybersecurity, and enable the UK economy to adapt to risks and evolving geopolitical circumstances. Some private capital firms have noted that the current definition of AI technology in scope of the National Security and Investment Act is too broad, resulting in many transactions falling into scope when there is minimal to no national security dimension. It is important that legislation strikes the right balance between protecting national security and encouraging investment into innovative technologies.

In order to capitalise on this, the UK must ensure its regulatory framework keeps pace with technological advancements, while its R&D regime must actively encourage private capital investment in technology. This approach will help retain and expand UK innovation domestically, safeguarding the nation's economic security for the future.

April 2025

[5] Adding Value, Delivering Growth - BVCA and Public First's Investment Commission Report