AIFS0081

Written evidence submitted by the Insurance and Financial Services (APPG, IFS)

The All-Party Parliamentary Group on Insurance and Financial Services (APPG, IFS) examines issues of interest to the Insurance and broader financial sectors, especially where there are legislative or regulatory implications.

The APPG, IFS held a roundtable on the ethical use of AI in April 2025. The meeting included representatives of vulnerable customers, practitioners, AI specialists, professional bodies, trade associations and other interested parties. The following submission to the Call for Evidence is based on that conversation.

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?***

When used responsibly, AI can bring many benefits to consumers, including vulnerable consumers. These include:

- AI is relatively inexpensive to run and doesn't get bored or tired. This means it can provide round-the-clock accessibility and repeat tasks multiple times (such as reading out paragraphs containing product information). These traits can help vulnerable people – for example:
    - helping people with visual impairments to understand documents, without having to ask someone to read and re-read long pieces of text;
    - translating documents for people who speak English as a second language into a language that they are more comfortable with
    - helping neurodivergent people who have a tendency to hyperfocus with open questions, by suggesting structures for their answer that they can build on
    - helping people who struggle to concentrate by prompting and reminding them about information
    - helping to prepopulate forms, making the process of disclosing information easier and more consistent

- AI can be used to spot patterns that are indicators of vulnerability

- It can be used to personalise products, for example by carrying out product comparisons based on an individual's preferences

- It can be used for training and development:

    - AI can be used to build interactive, virtual reality scenarios that allow professionals to practice challenging conversations and develop a sense of empathy
    - Call centres can monitor the quality of every call, not just one or two

- It can be used to summarise claims to help claims handlers understand the key points of a claim quickly and effectively

- Productivity gains from AI can free up agents to spend more time with customers

- It can help to identify fraud from analysing patterns of behaviour, which can help to reduce unnecessary costs for the vast majority of consumers

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

Bias in AI originates from three aspects of the technology:

1. AI learns from data sets that may be incomplete or unbalanced. For example, a data set used to train a machine on voice recognition may be skewed towards people who speak a language with a particular accent. The risk of bias is heightened where:
    a. there are chains of third-party providers, who may not all have the strong governance structures needed to maintain high data standards throughout the chain, or
    b. the training is based on dubious science – for example, some AI applications used in fraud prevention are designed to detect whether or not someone is telling the truth based on patterns of speech, but vulnerable customers may be less likely to have an 'average voice' that can be easily analysed

2. Machines do not possess empathy, which in turns means that they can be used by industries to distance themselves from biased decisions. For example, in the gambling sector machines have been trained irresponsibly and, as a result, have targeted gambling products at people who are at higher risk of developing a gambling problem.

3. AI makes connections based on correlation rather than causation, which means AI can become a 'black box'. For example, in insurance this can mean changes in premiums being triggered by apparently superficial changes in personal circumstances that no one is able to explain.

However, machines are also easier to influence than people, through control of training materials and the imposition of 'guard rails' preventing machines from producing certain harmful outputs. As a result, while AI can be biased, it can also be managed in such a way that it becomes less 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?***

Potentially, there can be benefits from insurers and health professionals sharing medical records digitally, in order to dramatically reduce the time that people with pre-existing conditions have to wait for a decision about life insurance.

Building the trust necessary for this to become standard practice will be a long process. One step along the road to this outcome could be sharing health record analysis to achieve a better

understanding of health risks. A model that could be worth learning from is OpenSAFELY, a secure, open-source software for health record analysis that has been provisioning full GP records of the entire population of England to NHS analysts and researchers since the pandemic in 2020. It has recently received substantial new funding from NHS England and Wellcome. OpenSAFELY was used in the NHS for COVID-19 research.

OpenSAFELY invented new ways to manage privacy risks and implemented those ideas in a working service, to support 181 **projects** from users at 31 different organisations: universities but also the National Institute for Clinical Excellence, the UK Health Security Agency, and the NHS, with over a hundred completed outputs.

Its methods are discussed in more detail at OpenSAFELY in brief | Bennett Institute for Applied Data Science

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

As with bias, there are concerns around reliance on a chain of third parties, where contractual arrangements between two parities in the chain can lead to data being shared in a way that cannot be justified by data protection principles.

However, there is also a dilemma for insurers who want to protect their own customer data, and who therefore refuse to allow it to be used to train machines, but who also want AI to be as relevant as possible to their customers. For many AI issues, engaging with high standards of governance throughout the chain is a preferable option to avoiding risk by not engaging at all.

AI itself can be used to commit fraud and data theft, including the creation of deepfakes and fraudulent documents, so even organisations that do not use AI must be aware of its potential, and of the potential for AI to be used to counter AI-originated fraud.

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

Existing legislation and regulation already covers the key risks around AI, including data protection regulation, the Equality Act, the FCA's Consumer Duty and risk modelling for prudential regulation.

It is unlikely that prescriptive rules around the technical structure of AI models would be productive at this time – AI is still developing and is likely to change radically over the next decade. Prescriptive technical rules could freeze development of AI into what could quickly become a primitive state.

A more productive approach is to set standards of good governance and culture around AI. There are currently a range of good practice guides and principles around AI, including:

- The Chartered Insurance Institute's Digital Ethics Companion and report on Gender Bias and AI
- The Association of British Insurer's AI Guide
- The City of London resources on AI
- The British Insurance Brokers Association is also producing guidance on AI.

Some common themes within this are:

- Using one or even two layers of human checking to ensure that decisions made by an AI model are valid
- Disclosing that AI is being used in decision making or customer communication throughout the consumer journey, in terms of how and why it is being used
- Using data minimisation principles to protect individual personal data
- Ensuring that high standards of data governance are being upheld by third party suppliers, and by *their* suppliers
- Some insurance companies choose not to have customer-facing AI, or have a policy of using a human to interact with vulnerable customers whenever they are identified

Ultimately, it should be possible for firms that are following good practice guidance on AI to back their services with a statement underlining their commitment to good practice, or even a promise to customers to protect or compensate them from mistakes made by AI, in the same way that they promise to put right mistakes made by people.

For example, just as firms currently make statements about modern slavery, they should also be able to make statements about the ethical use of AI, based on established professional standards.

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