AIFS0044

Written evidence submitted by the City of London Corporation

As the governing body for the Square Mile, the City of London Corporation (CoLC) is committed to empowering the financial and professional services ecosystem - from start-ups to established multinationals. By accelerating the adoption and development of cutting-edge technologies, we aim to secure the UK's position as a globally competitive financial centre. This mission was highlighted in our Vision for Economic Growth – a roadmap to future proof financial services and in doing so, ensure UK competitiveness on the global stage. A critical aspect of this mission is the advancement of artificial intelligence (AI).

Financial services are a leading sector for AI adoption and investment, with the technology continuing to improve customer experience, strengthen security and fraud defences and increase productivity. Ultimately, AI adoption is futureproofing businesses, ensuring the sector remains globally competitive.

With the UK AI market projected to soar from £16.9 billion to £803.7 billion by 2035[1], it is crucial that the country adopts a forward-thinking, pro-innovation approach to AI adoption and regulation. Getting this right will not only ensure the UK remains competitive on the global stage but will also promote innovation and strengthen user trust which is essential to businesses adopting AI with confidence.

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

Financial services continue to be at the vanguard of UK adoption and investment in AI, unlocking the technology's benefits across areas including data and analytics, fraud detection and customer services. In 2023 CoLC partnered with the Department for Science, Innovation and Technology (DSIT) to deliver the AI Innovation Dinner ahead of the UK AI Safety Summit. The dinner, which welcomed the DSIT Secretary of State, was the largest pre-Summit event and the main way for businesses to engage with the Summit. To coincide with this event, CoLC published a report highlighting how financial and professional services such as finance and accounting, and legal, were among the top three UK sectors for AI adoption. The report highlighted an extensive timeline of AI adoption within the sector, including the first application of AI in the financial sector by the quantitative investment firm Renaissance Technologies in 1982, the wider use of automated regression models to predict creditworthiness in the 1990s and the roll out of "intelligent digital assistants" by banks in the early 2010s[2].

By their nature, financial services collect, analyse, and apply extensive volumes of data. This has proven to be a key enabler for the sector to be early adopters of AI. The ongoing digitisation of banking, insurance, and business services, coupled with access to open data, has been a key driver of AI growth within the sector with AI currently utilised by 75% of UK financial services[3], a significant rise from 58% in 2022. In addition, some estimates suggest that financial services will allocate an extra $31 billion globally by 2025 specifically for AI investments[4].

---

[1] https://www.trade.gov/market-intelligence/united-kingdom-artificial-intelligence-market-0 (US Dept. of Commerce - International Trade Administration

[2] AI: Accelerating Innovation How Artificial Intelligence is turbocharging UK financial and professional services

[3] Artificial intelligence in UK financial services - 2024 | Bank of England

[4] JLL 2023 Banking and Financial Services Outlook Report

It is worth noting that although AI adoption is high across the sector, there is a limited amount of consistent, sub-sector specific data on AI adoption. While CoLC's report does provide some valuable sub-sector use cases (how businesses are deploying AI), overall it can be difficult to properly compare AI adoption within particular sub-sectors of financial services.

With that said, research by the Bank of England highlighted the two financial services sub-sectors leading the way for AI usage as insurance (95%) and international banks (94%). The sector with the lowest percentage of firms currently using AI was financial market infrastructure (57%). The insurance sector is already seeing positive results of AI deployment across key areas such as underwriting, claims handling and actuarial work[5].

To what extent can AI improve productivity in financial services?

Financial services have a long history of using AI to meet a variety of business needs. Initially, AI adoption within the sector mainly focused on efficiency and productivity gains. As AI has become more sophisticated, financial services have expanded their focus to what AI can achieve to encompass more societal benefits and outcomes for end users[6].

For the last two years, a large number of financial services firms have been testing, investing in, and adopting, generative AI. As a result, the sector boasts a variety of use cases and specialist generative AI teams, and is ahead of the curve compared to the majority of other sectors. Recent research by UK Finance noted that generative AI use cases fall within seven areas[7]:

- Customer engagement and personalised marketing
- Knowledge management and information retrieval
- Software development and data management
- Intelligent workflow and email processing
- Fraud and financial crime
- Legal, contractual and compliance text
- Desktop and meeting productivity

Generative AI could enable labour productivity growth of 0.1% to 0.6% annually through 2040.[8] More specifically, generative AI is expected to deliver significant productivity gains across financial services sub-sectors including retail banking, insurance and legal services, worth an estimated £9.9 billion, £9 billion and £9.3 billion respectively by 2030[9].

CoLC and KPMG research found that there is potential to increase productivity in FPS by 12 percent over the next year if firms implement and adopt "general augmentation" AI product firmwide, and 50 percent over the next five years if all opportunities for AI enhancement of current business operations are taken[10]. This will be across FPS, but with a particular productivity improvement in retail banking, insurance and legal services.

---

[5] City of London Corporation and KPMG: Financial & professional services: The future of AI & the workforce
[6] AI: Accelerating Innovation How Artificial Intelligence is turbocharging UK financial and professional services
[7] UK Finance and Accenture: Generative AI in Action: Opportunities & Risk Management in Financial Services
[8] Economic potential of generative AI | McKinsey
[9] The future of AI & the workforce

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

The sector's diversity gives rise to a variety of adoption barriers. Many of these are not specific to AI, for example 'legacy' IT systems, lengthy procurement cycles, lack of digital skills and limited board-level understanding of emerging technologies.

According to the Bank of England, the most notable regulatory barrier to AI adoption in UK financial services is 'high regulatory burdens' on data protection and privacy, while the three most significant non-regulatory barriers to AI adoption are 1) safety, security and robustness, 2) insufficient talent/access to skills, and 3) appropriate transparency and explainability[11].

The UK's financial sector is generally well-positioned to leverage AI. It can benefit from the UK's status as a global financial hub, a regulatory environment moving away from 'tech neutrality' towards 'tech positivity', and strong government backing through initiatives like the AI Opportunities Action Plan recommendation for sector-specific adoption plans. With world-class AI research from institutions and a thriving fintech ecosystem, the UK attracts top talent and fosters innovation in areas such as fraud detection and risk management. Additionally, early adoption of Open Banking and a proactive regulator in the FCA further enhance AI integration, giving the UK a competitive edge over many other countries.

As global AI regulation becomes increasingly fragmented, the UK has a key opportunity to take the lead in shaping AI regulation and standards. The UK Government's sector-specific, pro-innovation approach to AI regulation aligns with the strategy adopted by the US. Additionally, the UK has outlined ambitious plans to drive economic growth by leveraging AI across various industries, reinforcing its commitment to AI as a national priority.

To fully unlock AI's potential, especially in sectors like financial services, it is critical to address key enabling factors. Without sufficient data centre capacity, affordable energy, and robust digital infrastructure, adoption will stall. The UK has many of the building blocks in place – for example it is currently third in the world on data centre infrastructure[12]. However, competitive AI markets like China, the US and the EU have all committed to multibillion-dollar initiatives and funds specifically focused on strengthening digital infrastructure. The UK should consider a similar commitment or risks falling behind in the AI race. Ultimately, the UK's AI success depends on a whole-economy approach—one that supports innovation at every level.

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

Technical skills make up over half of the essential skills identified as a current gap and a key priority for FS firms to address. These skills include software development, data literacy, data analytics and insights, user experience, machine learning/ AI, agile and cybersecurity. In order for the FS workforce to have the skills it needs to adopt AI, employers need to integrate skills as essential to business success and a driver of competitive advantage and growth and invest in the upskilling of their employees. Employers need to map their existing capabilities and future skills needs, with leadership setting an example by participating in upskilling initiatives and fostering a culture of continuous learning. IT experts need continuous training and upskilling in emerging technologies to stay current, but the wider

---

[10] https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/Financial-and-professional-services-the-future-of-AI-and-the-workforce.pdf

[11] Artificial intelligence in UK financial services - 2024 | Bank of England

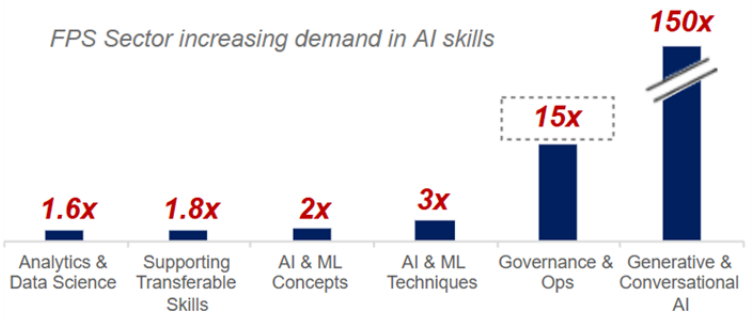
[12] Our global offer to business: London and the UK's competitive strengths supporting investment and growth City of London Corporation (p.7)

workforce also requires skilling to meet all essential workplace digital skills as well as ongoing upskilling to remain relevant. Safety and ethics must underpin all upskilling efforts, including training on data privacy, cybersecurity, and ethical AI practices.

In the CoLC report The future of AI and the workforce, from June 2024, our research found that AI is likely to automate tasks within jobs. As with previous technological disruption, we are also seeing new jobs emerge. How roles will change and entirely new roles emerge is a function of the skills needed to do the series of tasks a job demands. We therefore looked at demand shifts in skills to evaluate trends.

For example, we found a 150x increase demand for generative and conversational AI skills in FPS job postings since 2021. Currently, the demand is starting at a relatively low base, 1.2 - 5.4% over the 12 months we reviewed, but we expect this to grow. Our report shows that different sectors within Financial Services are starting at different levels and demands for skills varies accordingly. For example, retail banking saw a 236% increase in demand for AI skills in the past 3 years, with over a 1000 job posts in a 12-month period focussed on AI & Machine Learning core skills.

Figure 1: Increasing demand in AI skills[13]



Skills will vary not only by sector, but also by function, which is why our report also looked at impacts across revenue, control and support functions within a firm. According to Evident AI's 2024 Index, the 'fastest growing segment of the AI workforce is AI-specific Software Implementation (+37%), which is needed to help adapt and scale AI use cases as they are deployed across a wider base of users throughout the enterprise'.[14]

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

The UK must consider upskilling and reskilling the current workforce as part of the effort to source AI talent. As the Evident AI Index distinguishes, Talent Capability and Talent Development diverge significantly: "*Apart from UBS (#3), the top-5 banks are all US institutions—which over-index strongly in favor of Talent Capability. As you move to the bottom half of the leaderboard, you see an inversion, with most banks demonstrating the opposing strength in Talent Development.*" It goes on to note that *"[o]nly three leading banks—Capital One, JPMorganChase, and BBVA—perform consistently across both Talent Capability and Talent Development. This balanced performance speaks to a conscious, long-term effort to limit the peaks (and valleys) of resource planning. These banks appear to be prioritizing both their immediate need to secure scarce talent in a competitive marketplace, as well as their intermediate need to cultivate AI-specific training, career*

[13] The future of AI & the workforce
[14] Evident - Evident AI Index

development, and upskilling opportunities for existing staff."[15] For the UK's financial services sector to remain competitive on skills we must support firms' efforts to develop skills internally too, including through easier access to the new Growth and Skills Levy and sector champions within Skills England and along the AI Opportunities Action Plan recommendation.

The past decade has seen the number of UK companies among the top 2,000 global R&D spenders nearly halve, decreasing from 118 in 2013 to 63 in 2023. This decline indicates a lag in private sector R&D investment, particularly in emerging technologies like AI[16]. In contrast, countries such as Germany have maintained or increased their R&D investments, bolstering their technology adoption capabilities.

On regulation, as the world's third-largest AI market and a regulatory "middle-ground" between the US and the EU, the UK is uniquely positioned to establish itself as a global leader in AI standards while maintaining close collaboration with these key allies and markets. Shifting towards the EU's more prescriptive approach, as seen in the EU's AI Act, or imposing excessive regulatory burdens would introduce unnecessary complexity and costs. This would lead to duplication with existing regulations, hinder current operations, slow innovation and productivity, and ultimately weaken the global competitiveness of UK businesses.

We therefore support the financial services regulators' efforts to implement the government's principles-based approach by regulating these technologies within existing frameworks rather than creating new AI-specific rules or guidance. This regulatory approach will better support financial services to make the most of AI across their services.

However, there are certain areas within the existing regulatory regime that require industry dialogue with the regulators, to address concerns that they may hinder further adoption of AI within financial services. For example, the responsibility for adoption of AI within the Senior Managers & Certification Regime (SMCR) sits with a regulated firm's SMF 24, the Chief Operating Officer (COO). This is dissuading AI adoption in regulated firms, as it naturally leads to COOs - who ultimately assume personal accountability for any failures - adopting a more defensive position. To alleviate this issue, accountability for AI adoption needs to split across the relevant lines of defence and senior manager functions (i.e. IT, Risk, product teams, Legal, etc.) within regulated firms. In addition, many regulated firms are concerned about the explainability of the AI solutions they utilise, both directly and via critical third-party vendors. If firms can't explain exactly how the solution they wish to utilise operates, they err on the side of not utilising it, particularly in higher risk use cases i.e. including customer facing use cases. Similarly, firms have indicated that, from a cultural perspective, the regulators seem more comfortable with a human making a mistake, rather than an AI solution - even in circumstances where it can be proven that the AI solution will make fewer mistakes overall.

These issues are undoubtedly complex to regulate for, but they are having the effect of stifling AI adoption and innovation, so they need to be worked through between the regulators and regulated firms. Firms indicate that they would welcome the introduction of a

[15] Evident - Evident AI Index

[16] UK companies on list of top R&D spenders almost halves in a decade – Financial Times

'safe space' to discuss the issues above - as well as more granular issues - with the regulators.

Does AI increase the risks relating to cybersecurity?
Vulnerability to cyber threat remains a key barrier to growth, whether from criminals or via malicious state activity. While there has rightly been heavy investment in protecting critical national infrastructure from the threat of cyber attacks, supply chains comprising thousands of small and medium-sized businesses - the hidden facilitators of the economy - remain vulnerable and often fail to identify the risk or implement appropriate mitigations to ensure their resilience.

AI may result in an increase in fraud, it will also help in the detection and counter fraud and cyber-crime. The Police Foundation has done useful research into the way AI is used in policing, and the potential impact it could have to increase productivity, and to help the police prevent and investigate crime[17]. However, with AI technology also being used to counter fraud and cyber-crime, there is potential for a global 'arms race' in terms of matching attack and protection capabilities. This could favour the large tech companies who can deploy the greatest data processing and storage power / attract the brightest talent.

The use of deepfake technology, both image and voice, is also expected to enhance the ability of criminals to socially engineer both individuals or employees, inducing them to compromise their personal or company's cyber security defences. Similarly, the use of Large Language Model (LLM) technology to improve the credibility of synthetically created e-mail chains and correspondence is likely to enhance the ability of criminals to socially engineer victims. Currently, none of the world's major tech companies can effectively 'watermark' (for assurance purposes) or detect (to support countermeasures) AI generated synthetic content.

The City of London Police has been running Cyber Griffin in the Square Mile since 2017 providing accredited training for businesses in the City to protect themselves from cyber threat. Further across the country, the City of London Police coordinate the work of the Regional Cyber Resilience Centres to provide free and affordable NCSC accredited services for small, medium and micro-organisations, which might otherwise fail to access appropriate support. This programme is delivered in partnership with private sector, academia and law enforcement to reach across the UK economy and help put basic resilience measures in place to reduce the risk of their business succumbing to a critical cyber attack.

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

The FCA defines a vulnerable customer as "someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care"[18]. Financial services are utilising AI to assist vulnerable customers in a number of ways. For example, by analysing transaction history and account activity, AI can spot early signs of financial vulnerability which can allow financial services to proactively offer support. An example of this is NatWest's use of AI platform Serene which offers timely, personalised solutions to customers who are financially vulnerable[19]. Another way AI can help vulnerable customers is by improving customer service and providing financial services with the tools to identify signs of vulnerability. One example of this is Cavendish Online, part of Lloyds Banking Group, which partnered with Aveni.ai to improve customer service and detect early signs of customer vulnerabilities during calls[20]. Ultimately,

[17] policing-and-ai.pdf.pdf
[18] Finalised guidance FG21/1 Guidance for firms on the fair treatment of vulnerable customers
[19] Investing in AI to identify and support vulnerable customers
[20] Cavendish Online partners with Aveni for AI analytics and automation technology

the adoption of AI across financial services has unlocked a variety of benefits to customers and continues to enable businesses to provide additional advice and support to those who need it most.

AI – specifically generative AI - offers a variety of benefits to consumers including personalised banking and offers, fraud prevention, and more efficient customer service. When it comes to fraud prevention, financial services have been at the forefront, investing in innovation and collaborating with cutting-edge tech firms to deliver advanced solutions that protect their customers. This includes:

- Revolut's AI scam detection feature[21] protects customers by detecting if they are in the process of falling victim to authorised push payment (APP) scams.
- HSBC's partnership with Google has resulted in financial crime being spotted faster with less impact on customers[22] and;
- Mastercard's Decision Intelligence (DI) - a real-time decisioning solution – can reduce the number of false fraudulent transactions by 85%[23].

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?

Access to relevant, high-quality data is essential for AI startups to innovate effectively and ethically. While GDPR ensures that personal data is protected and that privacy is maintained, the Data (Use and Access) Bill provides a more flexible environment for accessing data, particularly for AI applications, by simplifying the rules around data sharing and reducing some of the compliance burdens for innovation. Crucially, the Bill aims to make it easier for businesses, researchers, and public organizations to share data, which can be crucial for training AI models. It seeks to reduce unnecessary barriers and make the process of accessing and sharing data more streamlined. This is particularly helpful for AI, where large and diverse datasets are necessary for training effective models.

The increasing global trend towards data localisation is creating a barrier for startups looking to obtain the data needed to train and refine their AI models. This stifles both innovation and industry adoption. The Government can play a critical role by facilitating secure access to data for startups, promoting partnerships, and establishing frameworks that ensure data-sharing aligns with privacy and ethical standards. In part, it already has an avenue to do this through the FCA's sandbox. We applaud the sandbox initiative, including recent plans to supercharge it and expand compute power. CoLC worked closely with the FCA to develop the first ever pilot sandbox, and again more recently on APP fraud using synthetic data.

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?

We support the financial services regulators' efforts to implement the government's principles-based approach to AI regulation by regulating these technologies within existing frameworks rather than creating new AI-specific rules or guidance. We also welcome initiatives such as the FCA's AI Lab which aims to support innovators as they develop new AI models and solutions.

---

[21] Revolut launches AI feature to protect customers from card scams and break the scammers "spell"
[22] Harnessing the power of AI to fight financial crime
[23] Mastercard supercharges consumer protection with gen AI

This regulatory approach will better support financial services to make the most of AI across their services. It will also avoid rigid rules that quickly become outdated and promote the interoperability of different regulatory regimes. However, we urge the financial services' regulators to engage with regulated firms on the barriers to AI adoption within existing regulation frameworks. The FCA and ICO-hosted trade association roundtable on 9 May 2025 is a good first step, but the regulators should take further steps to enable confidential bi-lateral conversations with regulated firms.

The CoLC supports HMG's ambition to make the UK a global leader on AI and believes that setting an example on regulation and paving the way on global AI standards can be a key route to achieving this. Furthermore, CoLC supports the AI Opportunities Action Plan recommendation to designate AI sector champions for financial services and utilise them to create AI adoption plans for the sector. As highlighted throughout this response, FS is at the forefront of the AI revolution and has also paved the way for the adoption of other groundbreaking technologies. By engaging with FS and drawing on their case studies and deep expertise, we are confident that HMG can boost technology adoption across the wider economy.

The Government has announced plans for an AI Bill to regulate the most advanced generative AI models. While we agree that frontier models should be subject to enhanced scrutiny to identify and mitigate systemic risks, this technology offers transformative opportunities for financial services, many of whom are already driving innovation in this area. From our own stakeholder engagement we know that many financial services rely on these models to innovate. This is largely due to cost.

With this in mind, the scope of the proposed AI Bill is likely to impact financial services and we recommend the Government take a balanced approach to this issue as striking the wrong balance could negatively impact financial services ability to innovate and futureproof their services.

April 2025