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Written evidence submitted by Future Finance (Innovate UK/ESRC funded project)

Future Finance is a collaborative programme, led by Professor Jonathan Beaverstock at the University of Bristol, funded by Innovate UK and the Economic and Social Research Council (Grant Number ES/X014398/1) under the Next Generation Professional and Financial Services Programme. The other University partners on the project are: The University of Glasgow, Glasgow Caledonian University; and, UWE, Bristol. The project is also partnered with FinTech West and the SETsquared partnership, Bristol.

Future Finance aims to accelerate innovation adoption in Mid-Tier organisations and small and medium-sized enterprises in the UK Financial Services (FS) sector, including insurance. The range of FS' organisations included in the programme includes for example, credit unions, mutuals, building societies, independent financial advisors (IFAs) and insurance brokers, across different FS specialisms, focused on advisory, lending, insurance and payments.

To build on the project's social sciences research base and expertise supporting innovation in FS firms and clusters, the innovation adoption accelerator consists of:

(1) an innovation potential assessment tool identifying barriers to adoption;

(b) tiered training with expert providers to overcome barriers to adoption;

(c) an Innovation Leadership Programme for FS talent;

(d) an innovation adoption consultancy programme available to SMEs for knowledge exchange to assist in the delivery of bespoke solutions and, or change management;

(e) a rolling Collaborative Challenge Programme bringing together industry, academic, customer and social insights to explore and address barriers to innovation adoption; and,

(f) peer networking, and match-making FS SMEs with successful adopters (FinTechs).

All the components of the accelerator inform the delivery of specific interventions for FS firms and stakeholders to enable them to gain the skills and capabilities to innovate, change business models and expand knowledge on AI and LLMs in the FS sector. To date, the social science research has undertaken more than 25 interviews and 10 deep-dive organisation case studies to explore the barriers and challenges of innovation adoption, and more than 100 FS organisations have participated directly in the accelerator's portfolio of activities.

Since the inception of the innovation adoption acceleration in late 2023, the subject of AI in FS, unpacking AI's understanding, capabilities and implementation, embedded in the challenges and barriers of leadership and change management, has been a significant 'wicked problem' for innovation adoption in incumbent SME and mid-tier FS firms.

To what extent can AI improve productivity in financial services?

- **Where are the best use cases for AI? Which particular transactions may benefit from AI?**

Working extensively with credit unions and IFAs, Future Finance highlighted substantial potential for AI in accelerating and automating back-office (routine and non-routine) tasks. Both sectors experience significant operational inefficiencies from fragmented legacy systems and burdensome administrative requirements, to issues regarding the challenges of resource capacities and change management.

For instance, IFAs frequently face duplicative work across disparate systems, including client onboarding, compliance documentation, and portfolio management. Generative AI can automate client communications, summarise meeting notes, and assist in creating tailored client reports, significantly reducing time spent on administrative tasks and compliance processes. Automating these tasks frees up human resources for more strategic and client-facing activities. Additionally, the increase in productivity potentially allows IFAs to make their services more accessible by either lowering cost or serving a broader client base with the same staff.

Credit unions similarly benefit from AI by automating repetitive administrative functions such as document verification and loan processing. There is also an interesting opportunity around using generative AI-powered agents for customer service inquiries. Evidence from large scale deployment of these agents at multinational companies (e.g., Klarna, ING) demonstrates their potential for significant productivity gains. In our research, multiple credit unions have mentioned being tied up in customer service calls as a major barrier to improving productivity.

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

At the headline level, data obtained from firms submitting to the accelerator's innovation potential assessment tool identified four major barriers for innovation adoption:

1. Trust - a perceived lack of trust in the technology and how the substitution of tech could affect 'in-person' trust-based relationships with clients, and regulatory compliance;
2. Leadership and cultural resistance to change – firms were mindful of the challenges around organisational capacity/resource, knowledge and skills to implement innovation, in a context where the organisation's culture is not ready for such change;
3. Regulation – linked to the first, firms perceived the adoption of new innovation and technology in back- and front-office processes and systems uplifting the burden and complexity of navigating regulatory compliance.
4. Pace of innovation – firms were concerned that the pace of innovation and change in the FS sector was moving so fast, that there was insufficient knowledge to adopt innovative solutions (cost effectively), which could take significant investment and

time to embed in the organisation, that would then be lagging in the market on implementation.

Drilling down specially in the credit unions and IFAs, our data identifies two principal barriers: cultural and perceived technical challenges. Culturally, there is substantial resistance to change. While there are often "hidden" innovation champions who research and experiment with new technological solutions such as generative AI, they often struggle to get buy-in from senior leadership, preventing wider implementation of emerging tools. Firms further expressed reluctance due to uncertainty around data privacy, copyright, and ethical concerns regarding AI usage. For example, many IFAs hesitate to implement new AI-driven solutions out of fear that clients may react negatively to changes in how their data is handled.

Perceived technical barriers further hinder adoption. Financial Services' SMEs often incorrectly assume that substantial technical expertise and financial resources are necessary to deploy generative AI systems or integrate them into existing legacy platforms. However, our research shows this is not necessarily the case; accessible and cost-effective tools are available and could be implemented quickly.

- **Are there areas where the financial services should be adopting GenAI with little or no risk?**

It is critical to acknowledge that no area of generative AI implementation is entirely risk-free, especially given data handling sensitivities inherent in financial services. However, certain applications offer relatively lower risk. For IFAs, deploying AI for internal document generation, such as drafting routine communications or summarising client meetings, presents lower exposure as it involves controlled environments with limited external data transfer.

Risk can be further minimised by downloading and fine-tuning existing generative AI models to computer that is not connected to the internet to prevent the agent from feeding back data for model training.

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

There is genuine concern within our research that AI could disrupt traditional career ladders within financial services. We find that junior and mid-level roles are particularly vulnerable to automation. These roles are critical for career development, and their reduction could hinder future talent growth and professional development across the sector.

Moreover, AI-driven productivity improvements could lead to fewer back-office support staff handling more tasks, potentially resulting in job losses. While theoretically, IFAs could leverage productivity gains for business expansion, our research suggests most currently focus on maintaining their existing client base and reducing operational costs rather than pursuing growth.

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April 2025