

AIFS0056

Written evidence submitted by Pensions and Lifetime Savings Association

Introduction

The Pensions and Lifetime Savings Association (PLSA) is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

We welcome the opportunity to respond to the Treasury Committee's inquiry on the use of AI in the financial services sector. The PLSA is engaged in this area, having undertaken research into how the pensions industry is using AI for a report we plan to release later this year. The report will provide guidance on AI for pension scheme trustees, and much of the evidence in our response to this inquiry was gathered while working closely with key figures in the pensions industry who are developing and/or working with AI systems. As our focus has been use of AI specifically within the pensions industry, we have elected to only answer the questions where we feel our remit allows us to respond in a valuable way.

Throughout our response we are largely talking about *generative AI* when referring to 'AI', and in particular, Large Language Models (LLMs). LLMs have transformative potential for the pensions industry. Users can speak to the model using everyday language, meaning these tools are accessible even to users with low technological and digital capabilities. Because everyone can use them easily, their impact has been wide-ranging and will continue to broaden. This is evident in the use of AI chatbots that are helping to improve access to affordable financial guidance, helping pension scheme members to avoid harm when making decisions about retirement income, for example.

The PLSA believes that adoption of AI throughout the pensions industry should be viewed as a positive development. AI is already reducing costs for schemes and members by increasing efficiency, improving communications and member engagement – ultimately helping more money to flow into pension schemes. However, there are significant cyber security, fraud and data privacy concerns that any scheme adopting AI into must look to mitigate.

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

Looking at the financial services sector more broadly, NVIDIA report that generative AI adoption amongst global financial services firms has increased in the past year, with 50% of firms now reporting use (up from 42% in 2023). Firms report increased use of AI for purposes including cybersecurity and customer experience and engagement, which the latter was the most common reported use (60% of firms surveyed reported they were using generative AI to help with customer experience and engagement, up from 25% in 2023). AI tools such as chatbots and virtual assistants are, in comparison to human-operated call centres, cost efficient and scalable – meaning that their rise in popularity is likely to continue¹.

Within the pensions industry more specifically, AI is just as prevalent and is largely being used in the same way. The Society of Pension Professionals report that 87% of their members' (including trustees, pensions administrators, actuaries, investment/covenant advisers and pensions lawyers)

¹ [State of AI in Financial Services Survey Report from NVIDIA.](#)

organisations were using AI. 41% of their members expected use of AI to expand to be used in 10-20% of their services in the next decade, while 41% expected it to be used in up to half of their services. The remaining 18% expected AI to be used in more than 50% of their services².

A PLSA survey found that 79% of our members believed that AI would be used significantly to enhance member engagement and communication strategies by 2035. Other areas where respondents believe AI will be used significantly by the pensions industry in 2035 include fraud detection and prevention (75%), improving data security (72%), personalised retirement planning (including advice and guidance) (63%) and customising investment strategies (59%).

Arguably the most compelling use for AI within pensions is improving communication and engagement between pension schemes and their members. Using scheme and member data, AI tools can help to create personalised communications to scheme members about their pension, via email or video for example. In other cases, AI chatbots can help to provide accessible and affordable financial guidance to scheme members. Other uses within the pensions industry include improving administrative efficiency (such as taking meeting minutes and document summarising) and enhancing trustee decision making (such as providing data analysis to inform investment strategy and training trustees in other areas of their roles). This response will cover each of these areas in more detail in our answer to question two.

It is clear that use of AI within the pensions industry is only going to increase. The potential for AI to help schemes have better engagement with members, improve efficiency and drive down costs means that more and more schemes will seek to integrate AI into their business models. However, the CFA Institute report that AI adoption across the industry will face some limitation. Due to the strong regulatory environment in which the UK pensions industry operates, which necessitates human accountability and strong governance mechanisms, AI is unlikely to be solely responsible for end-to-end decision making in the foreseeable future, with human agents likely to remain central to decision making across the industry³. The PLSA believes it is essential that trustees remain responsible and accountable for delivering all fiduciary duties to savers.

To what extent can AI improve productivity in financial services?

Where are the best use cases for AI?

Member engagement

As the market shifts from DB to DC, risk in retirement saving is increasingly borne by individual savers rather than pension providers. It is now important for savers to take an active role in making informed decisions about their pension, as having an income in retirement is no longer guaranteed. AI can help schemes to have better communication with their members, and in turn improve member engagement. For example, AI can be used to produce data driven email communications which are tailored to individual members. AI tools such as chatbots are being used by schemes to provide affordable and accessible financial guidance to their members. Scheme members can ask the chatbot questions about their pension and receive quick and accurate answers. AI chatbots like this are often comparatively low cost and highly scalable, meaning that a larger number of members can be reached for a fraction of the cost of running a human-operated call centre (which would require hundreds of human agents to respond as quickly and to as many members as the AI system).

² [Industry adoption of AI 'widespread', says SPP](#)

³ [Pensions in the Age of Artificial Intelligence](#)

Improvements in engagement can help to ensure that members have better awareness of the amount of money they'll save in order to maintain a good standard of living in retirement, in turn encouraging them to increase their contributions. Increasing contributions would also help to improve productivity from an investment perspective and aligns with the Government's agenda for utilising pension investment to boost growth in the UK⁴.

AI may also have the potential to complement engagement initiatives such as the Money Helper pensions dashboard. The dashboards programme, which was first announced by the Government in 2016, will act as an online platform allowing people to view all their different pension pots in one place. The initiative has been subject to significant delays, often blamed on data issues; each pension provider has different data standards and different IT systems (separately, other AI tools can also help to 'clean' data, for example by spotting missing data points). The longer-established pension providers may also have some data kept in legacy systems, which presents further connectivity problems.

In the meantime, AI tools are being developed in the private sector which can help to trace lost pension pots. One firm has reported that, through use of AI, they have been able to successfully trace 50% of applicable members who were previously unreachable by commercial tracing services⁶. Tools such as this may not only help to prepare firms' data to be ready for the government dashboards service, but it is also possible that they will complement the dashboard service itself by providing an alternative digital tool that allows users to trace all their pension pots and view them in a single place.

Administrative efficiency

AI can support pension scheme staff with administrative tasks. With more time and resources free to focus on strategic decision making, use of AI here can help to strengthen scheme governance and reduce costs, both of which ultimately benefit the saver.

For example, AI can be used to clean and validate data, strengthen fraud detection, incorporate environmental, social and governance (ESG) considerations into investment strategies, and streamline regular communications to savers. These tasks, which traditionally required manual effort from trustees, administrative staff and advisers, can now be supported and even entirely undertaken by AI systems. Off-loading repetitive and data-intensive tasks on to AI reduces the risk of human error, allowing scheme managers to focus on more strategic and value-driven activities.

The administrative tasks involved in the running of a pension scheme – for example, meeting minutes, maintaining accurate member data, calculating benefits, and administration of scheme staff – can take up a large amount of a pension scheme's resources, with management support staff such as secretaries and advisers spending hours on these tasks. The same goes for maintaining regulatory compliance, which is a major drain on trustee time. Keeping up to date with long regulatory documents and changes to them, filtering out which information is relevant, and which is not, can be time consuming and costly. There are AI tools on the market, often described as virtual assistants, which can support trustees and scheme management staff with these areas, delivering time saving and efficiency gains.

⁴ [Pensions Investment Review: Unlocking the UK pensions market for growth - GOV.UK](#)

Enhancing trustee decision making

As the pensions industry continues to consolidate, there will be fewer trustees governing larger schemes with a greater value of assets under management. It is therefore crucial that trustees and other staff involved with the running of a pension scheme have the right skills and knowledge to make good decisions in the interests of the scheme and its members. AI can help to provide training, skills development and supporting and enhancing decision making. For example, there are AI products available on the market which can provide training for trustees by simulating valuation negotiations between trustees and DB scheme sponsors. Tools such as this allow trustees to develop their skills in low-risk environments, reducing the potential for making costly mistakes during real-life negotiations.

The CFA Institute have also recently highlighted a number of examples where AI has been able to effectively enhance decision making within the pensions industry. For example, providing data analysis to inform investment strategy, selecting and managing the pension investment portfolio, and assisting with ESG considerations. AI can also help scheme staff with deciding on decumulation strategies for both DB and DC schemes⁷.

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

Within the pensions industry, old and incorrect data is a key issue preventing some schemes from being able to fully integrate AI into their business models. As described, different pension providers have different IT systems, and some providers may keep older records in legacy IT systems. Legacy systems often use non-standard formats or outdated databases (often linked to the problem of scheme members who do not readily update schemes when changing their address or name, for example) which makes data extraction and full integration with the AI model challenging.

Schemes may also be reluctant to integrate AI when doing so seemingly increases the risk of non-compliance with regulation. A lack of understanding of what AI is and does, fear about what can go wrong, and therefore potential breach of regulatory duties can result in schemes simply choosing not to engage with AI, as it is not clear how the potential opportunities outweigh the potential risks. However, NVIDIA report that traditional barriers to AI adoption within financial services are beginning to recede; in their recent survey of global financial services firms, 50% fewer respondents reported a lack of AI budget and significantly fewer companies reported AI data issues⁸.

As the regulatory framework surrounding AI in the UK is still at an early stage (there is not currently any specific AI statutory regulation in the UK), regulators such as the Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) have not yet produced detailed plans for regulating AI in the pensions and financial services sectors. However, both have started to engage in the area. In 2024 TPR published their [Digital, Data and Technology Strategy](#), which outlines a plan for utilising AI within the organisation to help improve saver outcomes and also covers the predicted impact of AI across financial markets and the pensions landscape. TPR is planning to set up a working group to better engage with industry professionals on these topics.

The FCA are exploring how AI should be regulated within the financial services sector, in 2022 having published (in collaboration with the Bank of England) a Discussion Paper on [AI and Machine Learning](#). In 2024, the Government's Department for Science, Innovation and Technology produced

[voluntary guidance](#) for regulators, to support them in implementing [the UK's pro-innovation AI regulatory principles](#). Regulators were asked to publish updates regarding their strategic approaches to the UK's pro-innovation regulatory principles. The FCA responded with their [AI Update](#), which outlines their approach to promote the safe and responsible use of AI in UK financial markets, and leverage AI in a way that drives beneficial innovation. This includes their regulatory sandbox, which allows firms to test innovative AI products in a controlled environment.

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

Does AI increase the risks relating to cybersecurity?

With each of the exciting opportunities that AI presents (outlined in the answer to question two), there are of course associated risks. A survey taken by the Society of Pension Professionals found that 65% of their member believe inaccuracy was the biggest risk when it comes to incorporation of AI, while 6% cited concerns about data protection and cyber security. A further 19% believed there was no significant risk if AI is managed well⁵. Despite industry perception of the cybersecurity risk being relatively low, cyber security and data privacy incidents can bring about significant financial and reputation losses for pension schemes and their sponsors. Pension schemes hold a large amount of sensitive member data (which is often personal and financial in nature), making them attractive targets for cyber-attacks that seek to exploit scheme members and their assets, which are often of high value. UK household's average private pension wealth is £174,836, which is second only to average property wealth (£198,582)⁶. Third party providers of AI products and services can also act negligently, resulting breaches to data privacy. Reports of cybersecurity breaches have seen a steep rise in recent years. The Information Commissioner's Office (ICO) received a 4,000% increase in data breach reports from financial service providers from 2021/2 to 2022/3⁹.

Non-compliance with regulation and resulting penalties

Schemes who are subject to cyber-attacks as a result of their AI use can risk non-compliance with regulation such as TPR's General Code, or General Data Protection Regulation (GDPR). For example, if schemes are, in the event of a cyber security incident, unable to provide evidence of a robust internal incident response plan, they may be penalised by TPR. Similarly, without an internal incident response plan, schemes may fail to comply with their mandatory notification requirements to the Information Commissioner's Office (ICO) (where certain types of personal data breach occur, then notification to the ICO must be made within 72 hours of becoming aware of the breach, where feasible), again resulting in penalisation.

Financial loss to scheme and members

Some schemes are using AI tools to help with member engagement. AI systems can use member and scheme data to produce personalised guidance on retirement options, often in a conversational style where members 'speak' to a chatbot, which provides quick and accurate answers to their questions. However, the removal of any level of human oversight can increase risk. With less human involvement in the guidance process, there is a greater chance that any mistakes, errors produced by the AI, or misinterpretations on the part of the member, will not be picked up. Savers may also make

⁵ [Industry adoption of AI 'widespread', says SPP](#)

⁶ [Average Household Savings & Wealth UK 2025 | NimbleFins](#)

choices of their own accord that are based purely on AI output, without engaging with the scheme or an advisor at all. Each of these scenarios present an increased risk of financial loss for members.

Loss of trust from scheme members, resulting from cyber incidents that are not successfully prevented, can also result in reputational damage and members choosing to change their pension provider. Scheme members may also choose to take legal action if they have suffered from financial losses as a result of cyber incidents. Both of these scenarios are ultimately also detrimental to the financial health of the scheme.

Mitigation

Pension schemes should consider and action appropriate mitigation against these risks (in order to ensure compliance with regulation and protect against financial losses).

Pension schemes should enact and engage in strong cyber protection measures:

- Strong cyber awareness, especially of those needs and risks specific to their scheme, must be continuously maintained by schemes who are integrating AI systems into their business.
- Mapping a scheme's cyber footprint – which includes the security tools they are using as well as who has access to saver data – will help schemes to implement robust safeguards to control access to the data that could inform AI models.
- These privacy considerations should be imbedded into governance approval processes, and scheme systems should be designed to protect user privacy by default.

Trustees and other pension scheme staff should be responsible and held accountable for any AI systems in use:

- They should have adequate training to understand the foundational capabilities and limitations of AI systems.
- In addition to a general, baseline understanding of both cyber and AI among all trustees, it is important to establish clear ownership and accountability for the deployment and use of AI systems. This could mean at least one expert per trustee board who has in-depth knowledge of both cyber, AI, and how they interact.
- Schemes should ensure that they are ready and able to provide regulators with evidence of sufficient action and compliance, including policies and procedures. This may include records of audits, risks assessments and compliance checks.

Schemes should implement appropriate and effective governance:

- Trustees already have governance practices in place to appropriately fulfil their fiduciary duty and to protect savers. Trustees should review and adapt existing governance and approval processes to address both the ethical and technical implications of AI. Developing cyber awareness and a foundational understanding of AI will help trustees to develop strong governance and procedures that best protect their specific scheme.
- For third-party services, trustees must ensure their governance and audit practices meet equivalent standards, providing confidence in the end-to-end privacy and security of user data.
- Trustees should create response plans and perform cyber incident response exercises in case of a cyber breach.
- Trustees should also consider cyber insurance as well as options for legal, technical, and PR support.

Alongside schemes implementing appropriate safety protocols, the UK needs a regulatory framework for AI which should include a specific aim of protecting consumers from harm. Regulators TPR and the FCA are starting to engage with use of AI in the pensions and financial services industries, with the FCA looking at safe and responsible use. However, stronger protections will eventually be needed as use of AI becomes more prevalent.

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

As outlined in the answer to question three, there are significant risks for consumers when pension providers choose to integrate AI systems into their businesses. The risk to consumers is highest where they are interacting directly with AI systems, as is the case when AI chatbots are used to provide personalised financial guidance. Scheme members can ask the chatbot questions about their pension and receive quick and usually highly accurate answers. Generally, scheme governance should require that any third-party AI systems integrated into the scheme are enterprise level, which means they have been designed to meet the specific needs of businesses and organisations and so have robust safety features and are much less likely to produce errors in output. Despite this, the risk of errors in output is not zero; all current generative AI models are capable of producing inaccuracies and hallucinations. Any information given to scheme members that is incorrect could cause them to make ill-informed decisions that cause financial losses. This is especially true for vulnerable consumers, e.g. consumers with poor health, experiencing difficult life circumstances such as bereavement, or with low financial resilience, knowledge, skills, confidence, and access to resources needed to make informed and effective financial decisions. Vulnerable consumers may be less able to understand that AI can make mistakes, nor notice any obvious mistakes in output.

On the other hand, there is argument that AI tools such as this are helping to provide financial guidance to people who otherwise may not have been able to afford it, and who are already taking important financial decisions without any kind of help. The small risk of errors in the AI output is perhaps outweighed by the reach that tools such as these have, which is owed to their cost efficiency and scalability. AI chatbots that provide cheap and easily accessible financial guidance can help more consumers to avoid harm when making decumulation decisions, for example.

It is well understood that consumers need access to more guidance and support, particularly as savers are increasingly expected to actively engage their retirement saving. The FCA's recent Advice Guidance Boundary Review aims to address this challenge, namely, to provide additional forms of support to the mass market. However, while this process remains ongoing, savers may in the meantime turn to AI tools already available to the mass market – like ChatGPT or Gemini – in helping with financial decision making. This in itself poses serious risks to consumers. Models like these have not been developed specifically for this purpose and are far more likely to produce incorrect output. In many cases, their training data includes a large amount of text scraped from the internet, including websites such as Wikipedia. Where there are falsities and errors in the data that is inputted to the model, errors are likely to be produced in the output. On the other hand, enterprise level LLMs typically use much more carefully curated sources of data (e.g. pensions legislation documentation) and so are much more likely to produce output that is correct.

Moreover, savers may be sharing private, financially sensitive information, which could put them at even further risk if it is unclear how their data is being used by the AI model. Models such as ChatGPT do not bear any specific responsibility for the safety of users within this context. While AI technologies are subject to existing legal frameworks in the UK such as GDPR, there is no specific statutory AI regulation. Consumers who use ChatGPT to make decisions about their retirement options do not receive any regulatory protection. On the other hand, pension providers using enterprise level AI, especially any models which are likely to interact directly with consumers, are governed by regulators such as TPR and the FCA and so are subject to their rules. For example, the General Code requires schemes to assess service providers and carry out due diligence as part of the appointment process. And as outlined in its AI update in April 2024, the FCA's principles and outcomes-based regulatory approach means existing rules apply to firms using AI.

These tools, where utilised in regulated markets such as pension schemes, and where trained on carefully curated sources of data, can provide vastly better outcomes for consumers. However, if they are not readily available, it is possible (and evident) that consumers are using freely available tools such as ChatGPT to help with important financial decision making. Careful consideration must be made to this, in order to mitigate consumer harm while regulators work to finalise rules for Advice and Guidance.

Conclusion

In summary, the PLSA views AI adoption as a positive advancement for the pensions industry. By increasing efficiency, enhancing communication, and boosting member engagement, AI is already lowering costs, ultimately improving saver outcomes. However, in order to fully secure these benefits, schemes must carefully manage the cybersecurity and data privacy risks associated with AI implementation, as well as bolster consumer protections.

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