Written evidence submitted by The Centre for the Public Understanding of Finance (PUFin), The Open University

The Centre for the Public Understanding of Finance (PUFin) brings together academics from across The Open University (OU) who have an interest in personal finance and promoting the general public's understanding of finance. We welcome the opportunity to contribute to this call for evidence and offer evidence from the consumer perspective.

Summary

- **AI use in the financial services sector:**
  - It is concerning that financial sector job ads rarely mention the ethical aspects of AI use. The sector needs to be alert to, and address, embedded biases and hallucinations and potentially detrimental social outcomes.
- **Improving productivity:**
  - Productivity gains (for example by replacing call centre staff with chatbots) should not be at the expense of consumers' needs and their data security. For example, consumers with vulnerable characteristics or in complex situations should have ongoing access to the help of a human.
- **Benefits and risks to consumers:**
  - Robust social policy is needed to ensure universal access to the internet.
  - Vulnerable consumers and their representatives should be included in the design stages of digital services to ensure inclusivity is built in from the start.
  - Financial services providers should bear the main responsibility for protecting their customers from fraud.
  - Agentic AI services (such as product-switching and robo-advice) can benefit consumers through time-saving and better outcomes, and drive competition. However, consumers need clarity about the status of AI outcomes and what access they have to complaints and compensation if things go wrong.
  - The outcomes of agentic AI services and of chatbot customer services need to be monitored to ensure they are delivering the outcomes expected.
  - AI can help identify vulnerable consumers who may need more support.
  - Market restrictions or social policies should be adopted to prevent increasing financial exclusion as a result of using AI for assessing risk in the credit and insurance markets.
- **Striking a balance:**
  - Consumer protection should not be an after-thought: the consumer voice should be embedded from inception in the development of new digital infrastructure, products and services.
  - AI should be proactively used to create good quality jobs that are accessible to workers with disabilities and carers, replacing the lower-skilled (albeit flexible) jobs that are likely to be displaced by AI.

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

AI, combined with increased availability of data (for example through open banking and the internet of things), is already being used to find patterns in large data sets, for example, to:

- refine the assessment of risk in insurance, credit and fraud detection; and

- replace or supplement customer service, with the rising use of chatbots that hold AI-generated conversations with consumers powered by large language models (GenAI).

Data on the use of AI is not yet widely available for academic study. However, small-scale research carried out in 2024 by the OU[1] , while focusing primarily on what universities should be teaching about GenAI, sheds light on where AI is currently being used in the UK financial services sector and provides an indication of the short-term direction of travel. The mixed-methods research included among other elements: a literature review of AI employment trends and a study of 150 job advertisements in mid-2024 from three major platforms where the ads specifically mentioned GenAI.

As shown in Figure 1, the research found that the financial sector was the second highest seeker of GenAI skills (14.7% of the total) as shown in Figure 1. A further 12.7% of the jobs were in consulting, with the businesses concerned offering AI solutions to business clients, some of whom are likely to be in the finance sector.

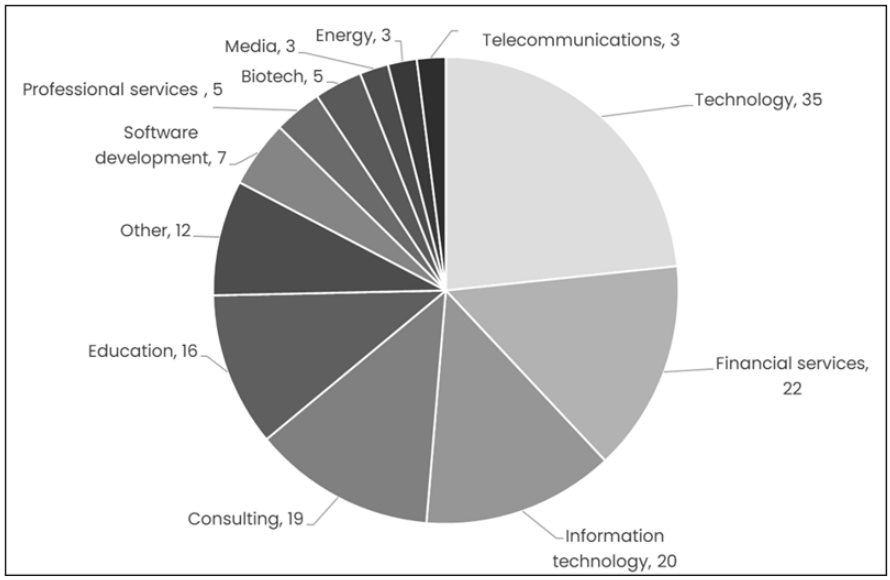

Figure 1: Job ads by sector (number of ads; N=150)

Source: Hardie et al (2024)

The nature of these financial sector jobs is outlined in Table 1. While some of the jobs focus on using AI for specific tasks, such as underwriting and financial market prediction, many suggest a wide-ranging intention to apply and embed AI throughout the relevant business. This is consistent with the findings of the literature review, which suggested that while repetitive or low-skill jobs and tasks will be displaced by GenAI, in other areas humans will increasingly routinely work alongside GenAI[2].

[1] Hardie, L., Lowe, J., Hauck, M. and Brown, V. (2024) *Teaching and assessing students use of GAI*, The Open University (report available on request). The job ads element involved a search on GenAI on three platforms (Glassdoor, Indeed and LinkedIn) and analysis of the first 50 results on each platform but with duplicates removed (total 150 advertisements).

[2] Hazan, E., Madgavkar, A., Chui, M., Smit, S., Maor, D., Dandona, G.S., & Huyghues-Despointes, R. (2024). *A new future of work: The race to deploy AI and raise skills in Europe and beyond*. McKinsey Global Institute.

This whole-of-business approach to embedding GenAI found in the OU research is in line with the Bank of England/FCA 2024 survey[3] of financial services firms, which found that 75% of respondents were already using AI and that 17% of use cases were applying foundation models like ChatGPT so that they could be integrated into a wide range of uses.

Table 1 Nature of GenAI jobs in the financial services sector sample of ads, June 2024

Core job activity	Number of ads (% in brackets)	Types of firm	Type of worker sought
AI programming	6 (27%)	Fintech, Banks, Investment manager	Programmers
AI strategy development	2 (9%)	Challenger bank, Bank	Managers
AI-enabled products/services	2 (9%)	Auditor, Mortgage intermediary	Data scientist, project manager
Application development / embedding AI	7 (32%)	Fintech lender, Insurer, Banks, Hedge fund	Data scientist, programmer, managers, researchers
Automated solutions architecture	1 (5%)	Crypto/digital asset trader	Programmer
Automated underwriting	1 (5%)	Insurance underwriter	Data scientist
Financial market prediction	2 (9%)	Fintech	Researchers
Training	1 (5%)	Venture builder (including fintech)	Strategist, data analyst, trainer
TOTAL	22 (100%)		

Source: additional analysis of data from Hardie et al (2024)

A 2022 study[4] singled out five main critical skills needed for humans to collaborate effectively with AI: data analysis (such as programming languages, statistics); digital skills (such as cloud automation, mobility across devices); complex cognitive skills (such as problem-solving, designing, testing, story-building); decision-making (such as overcoming bias, contextualising, understanding ethics and human behaviour); and continuous learning (such as flexibility and versatility).

It is noticeable that, across the 150 job advertisements in the OU research, only 23 mentioned the ethical aspects of AI. Looking specifically at the financial sector ads, only 5 of the 22 ads mentioned ethics, with four of these ads being from the same firm. This is particularly concerning given the acknowledged problems with AI (such as bias and, in the case of GenAI, hallucinations and copyright infringement of data used for training AI) and the potential for AI to exacerbate financial exclusion

Available at https://www.mckinsey.com/mgi/our-research/a-new-future-of-work-the-race-to-deploy-ai-and-raise-skills-in-europe-and-beyond#/?cid=eml-web

[3] Bank of England / Financial Conduct Authority (FCA) (2024) *Artificial intelligence in UK financial services - 2024*. Available at: https://www.bankofengland.co.uk/report/2024/artificial-intelligence-in-uk-financial-services-2024.

[4] Jaiswal A., Arun C.J., and Varma, A. (2022) 'Rebooting employees: upskilling for artificial intelligence in multinational corporations' *The International Journal of Human Resource Management*, 33:6, 1179-1208.

and outcomes for vulnerable consumers as discussed below. The OU research did not click through from the platform ads to the further details that may have been available on the employers' site where it is possible that ethical issues were addressed. However, the importance of the ethical use of AI is so paramount, particularly regarding the protection of vulnerable consumers, that we would expect it to be prominent in all postings of AI-related financial services jobs. The lack of such prominence raises concerns that business culture may be overly focused on operational efficiency with inadequate regard for the ethical and social implications of AI use.

To what extent can AI improve productivity in financial services?

For banks and established financial services firms, increased efficiency typically means reducing costs[5] . Clearly, AI has the potential to reduce costs since it can displace workers who are generally more costly. However, existing firms often have inefficient legacy data systems and so the expense of upgrading these systems may eat into efficiency savings. Fintechs and other start-ups have the advantage of being able to design-in AI use from inception.

Given that the UK is likely to experience similar trends, it is worth considering evidence from the US. Employment projections for the US by the Bureau of Labour Statistics[6] suggest that the areas most likely to see productivity gains through displacement of labour include sales and related occupations, office and administrative support occupations (including for example, procurement clerks, credit checkers and customer service representatives). Considering the financial sector in particular, further analysis from the Bureau of Labour Statistics[7] projects productivity gains in: insurance claims where drone technology and AI can replace loss adjusters and damage appraisers; and credit analysis (making risk-based decisions on who gets credit and on what terms). The analysis also projects increased use of 'robo-advice' (AI-generated financial advice to retail customers) among younger generations, but offset by the ongoing demand for human advisers among the growing older generation who tend to have larger, more complex finances and less trust of technology. Institutional investment analysts are already somewhat displaced by algorithmic trading when it comes to very short-run trading, but the analysis sees ongoing demand for human analysts to devise longer-term investment strategies.

Industry advocates may argue without question that AI and improved productivity are good for consumers on the grounds of, for example, faster onboarding and, with GenAI, seemingly personalised interactions. However, that is a small part of the customer journey. It is essential that productivity gains are not made at the expense of excluding some groups of consumers from the financial products they need (for example, because they are costlier to serve or deemed unprofitable) or creating detrimental experiences for consumers in more complex situations (such as vulnerabilities and complaints) where they may need the help of a human.

Similarly, productivity gains due to AI should not be elevated in importance over consumers' data security. Moreover, recognising that AI adoption is often primarily supply-side motivated with

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[5] See, for example, McKKinsey & Co (2025) How banks can boost productivity through simplification at scale. Available at: https://www.mckinsey.com/industries/financial-services/our-insights/how-banks-can-boost-productivity-through-simplification-at-scale.

[6] Colato, J., Ice, L. and Laycock, S. (2024) 'Industry and occupations employment projections overview and highlights, 2023-33', *Monthly Labour Review*, November. Available at: https://www.bls.gov/opub/mlr/2024/article/industry-and-occupational-employment-projections-overview-and-highlights-2023-33.htm.

[7] Machovec, C., Rieleg, M.J. and Rolen, E. (2025) 'Incorporating AI impacts in the BLS employment projections: occupational case studies', *Monthly Labour Review*, February. Available at: https://www.bls.gov/opub/mlr/2025/article/incorporating-ai-impacts-in-bls-employment-projections.htm.

consumers nudged or required to 'get on board', financial services providers need to take seriously concerns about fraud and bear the bulk of responsibility for minimising their customers' exposure to fraud when using AI-driven services.

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

We are not offering evidence in this section, but note the Bank of England[8] concern that AI-driven processes could introduce or exacerbate systemic risks. This could be due to, for example: a flaw in widely used foundational models that leads to sector-wide mispricing and misallocation of credit; widespread flawed or inappropriate processes or decisions by agentic AI leading to large-scale redress payments; convergence and increased correlation of investment trades across the sector; reliance on a small number of third-party providers for AI services; and cyber threats.

As evidenced by the 2008 Global Financial Crisis, systemic failures have wide-ranging detrimental impacts for individuals both in their role as consumers of financial services and as citizens who bear the burden of consequential social impacts, such as the results of government austerity measures.

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

The potential applications of AI are diverse, so here we have created a number of use cases to provide context for considering some of the potential benefits and risks, but first we discuss two overarching risks that affect all use cases.

Overarching risk: digital exclusion

An overarching issue applying to all use cases is digital exclusion. The latest Ofcom survey[9] shows that the vast majority (94%) of UK adults have internet access at home; 5% (just under 3 million people) do not; the proportion without access is highest for older users at 13% of people aged 65 and over.

While 80% of 65+ individuals without access say this is due to lack of interest or need, that reason is increasingly likely to be challenged. Digitisation of the economy will continue and, with the decline in bank branches, falling acceptability of cash and the trend in government and financial services towards digital by default, consumers will be increasingly disadvantaged if they are unable to participate in the digital economy.

Solving digital exclusion is not, as sometimes suggested, merely a case of expanding financial education and capability. Ofcom found that 27% of UK adults without home internet cite cost as the reason. In considering the cost burden for low-income households, it should be borne in mind that ongoing costs need to take account of, not just broadband or mobile connection, but also the fact that equipment typically needs to be relatively up-to-date and replaced every few years. Arguably, the digital economy has reached a stage where internet access may be considered an essential utility as

[8] Bank of England (2025) *Financial stability in focus: artificial intelligence in the financial system*. Available at: https://www.bankofengland.co.uk/financial-stability-in-focus/2025/april-2025#:~:text=Greater%20use%20of%20AI%20in%20financial%20markets%20(bringing%20potential%20risks,a%20way%20that%20reduces%20stability.

[9] Ofcom (2024) Online nation 2024 report. Available at: https://www.ofcom.org.uk/siteassets/resources/documents/research-and-data/online-research/online-nation/2024/online-nation-2024-report.pdf?v=386238.

much as water or energy, requiring a robust social policy to tackle how a universal service can be delivered.

It is important that digital-by-default services are designed to be accessible to all users, including those with physical and mental disabilities. For example, Money Advice Trust[10] recently highlighted the case of a blind person who was excluded because of increasing reliance on touch-screen technology; and there are numerous accounts of the difficulties faced by those using powers of attorney to act on behalf of others[11] - many of whom may be excluded from using digital technologies because of disability. It is essential that vulnerable consumers, including those with disabilities, and their representatives are included in the design stages of digital services.

[10] Money Advice Trust (2025) Vulnerability matters. Available at: https://soundcloud.com/vulnerability-matters/episode-39-when-innovation-excludes-touchscreen-payment-devices-and-disabled-consumers.
[11] See, for example, Which (2024) Almost 3 in 10 struggle to use power of attorney at banks and building societies. Available at: https://www.which.co.uk/news/article/almost-3-in-10-struggle-to-use-power-of-attorney-at-banks-and-building-societies-aedZr1O3JOzg.

Overarching risk: fraud

A second overarching issue is fraud. As personal finances move increasingly online the opportunity for criminal activity increases. This process is likely to be intensified as sophisticated AI moves into the world of personal finance. As noted above, given that the adoption of AI is often largely driven by supply-side considerations such as reducing costs and that providers create the AI-context with which customers must engage, financial service providers should bear the main responsibility for protecting their customers from fraud.

As seen with authorised push payment (APP) frauds, this is not straightforward. Given that providers' own fraud detection systems – typically aided by AI – have improved, fraudsters perceive the consumer as the weakest link and deploy socially manipulative frauds that exploit human behavioural traits, often but not always using social media platforms as a conduit.

Financial services providers should be required to: ensure there are systems that aim to detect and disrupt the perpetration of such frauds; provide swift and effective help and reimbursement for customers who lose money as a result of such frauds; and support customers to guard against further frauds where their data has been compromised. Financial services providers may do this independently or join forces with technology platforms which will from 2026 be required to tackle fraudulent paid-for advertising under the Online Services Act 2023[12].

There is also a need to continue deploying financial education to consumers on guarding themselves against fraud but this should not be used as an excuse to absolve providers (the architects of the financial services infrastructure) from bearing the main responsibility for protecting consumers against fraud.

We also urge the government to implement the previous government's proposed extension of the ban on cold calling to all consumer financial products and services[13] as soon as possible, since this would enable financial education messaging to be much clearer: 'if you are cold called, it's a fraud'.

Turning to specific financial areas in which AI may have a significant impact, the following use cases highlight some of the benefits and risks consumers face arising from AI.

Use case 1: Choosing between financial products

At present, a common way for consumers to choose between a wide variety of financial products, such as savings, credit and insurance, is to conduct a search on one or more price-comparison websites. This provides consumers with data about competing products. However, previous research[14] has highlighted how comparing that data and relating it to a person's particular circumstances and needs is made more difficult by business tactics such as price obfuscation, and by many consumers' lack of confidence or inclination to engage in extensive search behaviour. As that research paper suggested, there is a clear opportunity here for the beneficial use of AI to act as the consumer's agent

[12] Available at: https://www.legislation.gov.uk/ukpga/2023/50/part/3/chapter/5.
[13] HM Treasury (2023*) Ban on cold calling for consumer financial services and products*. Available at: https://www.gov.uk/government/consultations/ban-on-cold-calling-for-consumer-financial-services-and-products#full-publication-update-history
[14] Lowe, J. (2017) *Consumers and competition: delivering more effective consumer power in retail financial markets*. Think-piece for the Financial Services Consumer Panel. Available at: https://www.fca.org.uk/panels/consumer-panel/publication/fscp_consumers_and_competition_thinkpiece_finalpp_jtl_20170306.pdf

by shopping around and even automatically switching products to achieve the optimal deal for the consumer.

AI-driven product comparison-and-switching would be a labour-saving service for consumers. In addition, AI-agents could be programmed to make more rational choices than humans, for example, side-stepping consumers' behavioural biases (such as switching inertia, over-emphasising price, using brand as a proxy for quality, or failing to take account of obscured price or quality features). Moreover, AI could be programmed to take into account a wider range of features including service standards, complaints history, and so on. Used widely, AI-agents could also have the advantage of increasing competition and efficiency in these markets.

While, in theory, AI-agents could complete the whole customer journey without the individual's intervention, it is important that the individual has the opportunity to review and, if they choose, to alter the AI-recommended choice. (An analogy here is with current practice around automated renewal of, say, car and home insurance, where a renewal notice is provided in advance and, in the absence of the customer's intervention, renewal proceeds automatically.)

Consumers also need to understand the status of the recommendations from an AI-agent: would it amount to regulated advice or merely (unregulated) guidance? Moreover, the scope of an AI-agent would need to be clearly disclosed: which price/product/firm features are taken into account, and whole of market or restricted to a panel of providers? In addition, the AI-agent business model needs to be clear to consumers, so that they understand whether they are paying a direct fee or indirect commission to use the agent, paying with their data, or some other method.

A key concern is what data the AI-agent would need to access, and that customers can trust that this data is secure and used only in their interests. The type of data will vary with the type of product. For example, data to support shopping around and switching in the case of savings, mortgage, other credit and general insurance would be fairly straightforward; but shopping around for health insurances would require access to sensitive data on health. In research[15] carried out in 2021, that asked a sample representative of UK adults whether they would be interested in taking up a variety of different open-banking powered services, there was a marked skew towards trust in the respondents' own banks as providers over other providers (such as new fintechs). This skew applied to the automated switching services included in the survey, as shown in Table 2.

[15] Lowe, J. (2021) 'People are reluctant to share their data' in The Finance Innovation Lab (2021) *Open finance and vulnerability*. Available at: https://financeinnovationlab.org/wp-content/uploads/2021/07/Open-Finance-doc_FINAL_2021.pdf, p.7.

Table 2 Interest in taking up open-banking-powered automated switching services, UK adults, 2021

Service	Yes	Yes, but only if this service was offered by my own bank	No, this service is not of interest to me	No, because I do not want to use online or mobile banking	No, because of other reasons	Not sure
Checks your transactions regularly to see whether you can get a better deal for gas, electricity, car and home insurance and other services and automatically switches you to that deal	12%	20%	37%	6%	7%	18%
Checks your transactions regularly to see if you can get a better deal by switching to a cheaper mortgage or bank account	11%	20%	38%	6%	7%	18%

Source: Lowe (2021) N=111. Respondents invited to select one answer.

Use case 2: Financial advice

As with Use case 1 above, AI-driven financial advice (robo-advice) is an example of a wider set of use cases where AI-agents solve a multi-stage task without human intervention. For now, the focus is on tools dedicated to distinct use cases, but it should be noted that general AI-agent tools are also being developed that can action a wide diversity of tasks. The major technology companies have been experimenting with this type of agentic AI for several years but have been cautious in rolling it out to the general public. However, in March 2025, a Chinese firm, Butterfly Effect, made a limited release of an agentic AI tool called Manus AI[16]. Its website showcases some potential uses, including comparing insurance policies and analysing potential equity investments. It is speculated that the release of Manus may prompt the large tech companies to escalate their own release of generalised agentic AI tools[17].

The application of dedicated or general AI-agents to robo-advice could help to solve the UK 'advice gap'. The 2024 Lang Cat report[18] found that only 9% of UK adults had paid for financial advice in the two years to 2024 (a reduction from 11% in 2023).

A key benefit of robo-advice tools is the potential to empower individuals to achieve better financial outcomes. It is widely accepted that most people would benefit from financial advice or guidance to help them improve their financial resilience and help them to achieve financial goals through

[16] https://manus.im/
[17] The Economist (2025) *With Manus, AI experimentation has burst into the open*, 13 March. Available at: https://www.economist.com/leaders/2025/03/13/with-manus-ai-experimentation-has-burst-into-the-open.
[18] The Lang Cat (2024) The advice gap 2024. Available at: https://adviser.royallondon.com/globalassets/docs/adviser/misc/langcat-advice-gap-report-2024.pdf.

systematic planning. Arguably, advice is most important for individuals who have modest assets and too often hold these assets disproportionately in cash; yet this is the group that traditional financial advisers are least willing to take on as customers[19]. In addition to benefiting individuals directly, helping them to embrace higher-risk/higher-return investments, such as equities, where appropriate, aligns with the FCA/government goal of using retail investment to promote economic growth[20].

As with use case 1, a major risk is if consumers are unclear about the status of robo-advice and the associated protections available if the advice turns out to be unsuitable or other problems occur. This will be influenced by the outcome of the FCA's advice guidance boundary review[21], which currently aligns robo-advice with the proposed 'simplified advice' category. As the FCA notes, to date, the take-up of existing robo-advice products has been low and the Lang Cat advice-gap report found that 70% of consumers would prefer to see a human adviser if they were to seek advice[22].

It is also essential that providers devote adequate resources to monitoring the outcomes of robo-advice tools to ensure they are working to provide suitable consumer outcomes as expected.

Use case 3: Effective communication

It is already commonplace to interact with chatbots on financial firms' websites. Traditionally, these have been rule-based bots guided by human-created decision trees. Using key words in the customers' prompts, they match queries to pre-scripted answers to frequently asked questions. This type of bot is limited to the information built into the rules.

By contrast, GenAI-powered chatbots have much wider scope to answer customer queries. The bots are trained on data that enables them to predict suitable answers to an unlimited range of prompts. The bots can also learn from the customer interactions and so continuously update themselves in order to both increase the probability of giving a meaningful response and expand the range of queries that can be successfully answered. Moreover, GenAI-powered chatbots recognise and respond in natural language. So, GenAI-powered chatbots can more accurately predict the problem the consumer is experiencing and the response required, and seemingly display 'soft skills' by replying in a personalised and empathic way.

It is clear to see a business advantage in the cost savings of using chatbots over humans. Because bots can handle a larger volume-flow of queries, this could be an advantage for customers too, removing long queueing for a human response. However, a recent poll by an international software-as-a-service provider[23] found that only 12% of respondents preferred using a bot over talking with a human; 49% preferred a human and a further 25% suggested that a human was preferred for more complex issues.

The natural language of responses from GenAI bots tends to create a false sense of understanding and expertise. Based on our research at the OU with students, we suspect that most consumers are probably unaware of the way GenAI works. It is easy to feel that the bot understands the query entered, which of course is not the case. The large-language models that power GenAI are prediction models. As such, some of the predicted text will be false, causing the model to produce

[19] Ibid.
[20] Financial Conduct Authority (2024) *Advice guidance boundary review: November 2024 update*. Available at: https://www.fca.org.uk/news/news-stories/advice-guidance-boundary-review-november-2024-update.
[21] Financial Conduct Authority (2023) *Advice guidance boundary review – proposals for closing the advice gap.* Available at: https://www.fca.org.uk/publication/discussion/dp23-5.pdf.
[22] The Lang Cat. Ibid.
[23] Katana (2025) *1 in 2 customers prefer a real human over and AI chatbot when chatting online*. Available at: https://katanamrp.com/blog/customers-prefer-a-real-human-over-an-ai-chatbot/#:~:text=Humans%20vs.&text=Roughly%2049%25%20of%20respondents%20said,the%20complexity%20of%20their%20issue.

'hallucinations'. Moreover, the model reflects the data on which it has been trained, so it reproduces biases present in the data. Both these characteristics of GenAI can lead to incorrect or misleading answers to queries.

Therefore, it is essential that financial firms devote adequate resources to human oversight to test and monitor their chatbot outputs. We would also like to see chatbot tools clearly labelled with a statement at the point-of-use explaining to consumers that the bot aims to predict the answer to the user's query but cannot guarantee the accuracy of its response, with clear signposting to human help if required. Financial firms should be required to maintain adequate and easily accessed human-contact pathways for consumers who need them – this would include consumers with complex cases often as a result of one or more vulnerabilities.

Use case 4: Identifying vulnerable consumers

The FCA[24] estimates that 47% (24.9 million) of UK adults show one or more of four characteristics of vulnerability (health, life events, resilience and capability). However, a survey for cloud and AI provider, NICE, found that only 19% identify themselves and vulnerable and an even smaller proportion are willing to disclose their vulnerability to firms with which they interact[25].

Spurred by the FCA requirements to treat vulnerable customers fairly, some providers are already harnessing AI in real time to help identify vulnerable customers[26]. For example, our (unpublished) observation of firms in the lending industry have found that this is not limited to analysis of demographic data but can include analysis of factors such as key words and phrases used by the consumer, tone of voice and speech patterns. AI can then prompt call-handlers to carefully ask appropriate questions to establish whether the customer is in a vulnerable category and may require additional support.

Use case 5: More accurate assessment of risk for insurance and credit

Data is fundamental to the insurance industry: it enables the calculation of expected claims and thus the setting of premiums. There has long been a tension between the mutual-insurance principle (providing insurance for a group with the inherent problem of adverse selection) and risk-based pricing which aims to tailor price to ever smaller groups and potentially even to the individual. Risk-based pricing is a more efficient and sustainable basis from the business perspective, but creates mixed outcomes for consumers. Those consumers who present a low risk enjoy relatively low premiums; but consumers who present a high risk are either offered high premiums, limited cover or outright refusal. In some areas, the government has brokered agreements with the insurance industry to either exclude the use of some damaging data (such as the Moratorium on Genetics and Insurance[27] without which some people would be denied life and health insurance as a result of certain genetic test

[24] Financial Conduct Authority (2023) 'Consumers in vulnerable circumstances', Financial Lives 2022 survey: insights on vulnerability and financial resilience relevant to the rising cost of living. Available at: https://www.fca.org.uk/data/financial-lives-2022-early-survey-insights-vulnerability-financial-resilience.
[25] Russell, B. (2025) *NICE Survey Highlights Urgent Need for AI in Customer Service as Up to 35 Million Brits Remain Unknowingly Vulnerable*. Available at: https://ifamagazine.com/nice-survey-highlights-urgent-need-for-ai-in-customer-service-as-up-to-35-million-brits-remain-unknowingly-vulnerable/.
[26] Ibid.
[27] HM Government/Association of British Insurers (2014) Concordat and moratorium on genetics and insurance. Available at: https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2014/genetics/concordat-and-moratorium-on-genetics-and-insurance.pdf.

results) or to spread the risks and costs (as in the case of Flood Re[28] which for now ensures the continuing availability of home insurance for some properties in flood-prone areas).

Similarly, the pricing of, and access to, credit (mortgages, personal loans, credit cards, and so on) is driven by risk assessment. Typically, this assessment is decided within individual firms but heavily influenced by data gathered and analysed by specialist credit reference agencies (CRAs). There have been moves in recent years to expand the type of data that may be included in lenders' and CRAs' algorithms. For example, a positive (ie low-risk) marker has long been a track record of successful mortgage payments, while renting has led to a poorer credit rating. But, in 2016, Experian in collaboration with the Big Issue Invest set up the Rental Exchange[29] which enables tenants' rental payment histories to be included in their credit data, enhancing their credit score if they have a good track record. Similarly, the launch of open banking in 2018 has enabled new fintech[30] lenders and CRAs to use transaction data direct from customers' bank accounts as an input into the risk-assessment algorithms.

AI's ability to find patterns in big-data enables risk assessments to become ever more finely tuned and individual. This will benefit many consumers who had previously been denied access, for example, because of lack of relevant data (called 'thin' files in the case of credit). However, there is the risk of adverse outcomes for two other groups. The first group is those for whom additional AI-generated insights cause their risk rating to deteriorate. The second group is consumers who for whatever reason (including digital exclusion) do not or cannot participate in giving access to the data used to feed the AI tools; they may, by default be deemed higher risk because of the lack of data (a new generation of 'thin' files).

Therefore, a key question is: how can good – or at least satisfactory – outcomes be assured for those with 'bad' data or a lack of data? Two potential routes to addressing this problem include:

- Putting some limit on the extent to which private markets are allowed to pursue individualising risk (and the insurance genetic testing moratorium mentioned above is an example of this type of intervention).
- Overlaying a social policy solution to ensure, or widen, access to products (and Flood Re is an example in this category). A further example from the lending industry is experiments with No-Interest Loan Schemes (NILS)[31] which have shown that, in many cases, high-risk borrowers are not in fact high risk if they are offered loans with affordable repayment terms.

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?

It is essential that financial inclusivity and good (or at least sufficient) customer outcomes are designed into AI-powered processes and products as the digital economy advances, rather than treating financial inclusion as a problem to be dealt with as a side-effect of market developments. Consumer protection should not be an after-thought. This requires the consumer voice being embedded from inception, and being part of the discussion, when digital infrastructure and markets

[28] Flood Re (2025) *Flood Re*. Available at: https://www.floodre.co.uk/.
[29] Experian (2025) *What is the Rental Exchange?* Available at: https://www.experian.co.uk/business/customer-insights/risk-analysis/rental-exchange.
[30] Open Banking (2025) *Regulated open banking providers*. Available at: https://www.openbanking.org.uk/regulated-providers/.
[31] Fair4All Finance (2025) No Interest Loan Scheme. Available at: https://fair4allfinance.org.uk/our-strategy/no-interest-loan-scheme/.

are being developed. It is not enough merely to seek feedback from consumer advocates on decisions that have already been taken by industry-dominated groups.

Striking a balance should go beyond individuals simply in their role as consumers. Equally important is their role as workers. As noted above, the literature predicts that less-skilled jobs will tend to be displaced by GenAI. Research[32] suggests that women are more exposed to the risk of job displacement than men - the root cause of this is the prevalence of women seeking part-time lower-skilled work that synchronises with unpaid care work.

The government also needs to be mindful of whether the direction of AI development is compatible with its ambition to see more carers and disabled people moving into work, since those jobs at risk of displacement are often the ones that offer the flexibility that many carers and disabled people need. Addressed proactively, the displacement of low-skilled, low paid, albeit flexible jobs could be turned into a gain rather than a loss, since AI has the potential to make other, better jobs more accessible to disabled workers and carers. Working alongside AI could enable greater equality in the pay and quality of work that disabled people and carers can access. This could go some way towards addressing the 'financial wellbeing gap' experienced by disabled people and their partners[33]. While these issues are not confined to financial services, this sector could play a major part in adopting AI in ways that combine efficiency goals with improved equality of access to work.

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[32] See for example IPPR (2024) Up to 8 million jobs at risk from AI unless government acts. Finds IPPR. Available at: https://www.ippr.org/media-office/up-to-8-million-uk-jobs-at-risk-from-ai-unless-government-acts-finds-ippr.

[33] Ataullah, A. and Le, H. (2024) *Disabilities, long-term illnesses and financial wellbeing*. Available at: https://maps.org.uk/content/dam/maps-corporate/en/publications/research/2024/maps-adult-financial-wellbeing-2021-disabilities.pdf.