AIFS0049

Written evidence submitted by NatWest Group

Thank you for launching an inquiry into the potential impacts of the increased use of Artificial Intelligence in banking and the wider financial services industry. As you note, the expansion of AI presents a catalysing opportunity for innovation and economic growth, but also warrants consideration of new risks that will need to be mitigated.

At NatWest Group, we share the UK government's ambition to become a world leader in AI. To maximise the opportunities, we see three distinct pillars:

1) **Investment in core AI development and a supportive policy environment** – encouraging the development of complex, effective AI use cases, growth zones, and frontier technologies on UK shores.
2) **Ensuring the UK has the physical and digital infrastructure to support AI** – building more UK-based data centres, establishing energy security to supply AI machines, and rolling out further 5G and broadband infrastructure.
3) **Encouraging the diffusion of AI to businesses & communities** – ensuring that the productivity and efficiency benefits are widely spread and widely felt across the UK.

Given the nature of this inquiry, our focus below is primarily on the first point.

With more than 19 million customers and over £400 billion of lending supporting the real economy in 2024, NatWest Group is at the forefront of AI innovation in financial services, developing tools that continually improve our support for customers and our internal operations. We are seeing first-hand the impact of the increased availability and sophistication of AI and machine learning technologies, in fundamentally reshaping how our customers, suppliers and colleagues interact, transact, and manage their finances.

Accordingly, we are investing heavily in our AI capabilities to meet the shifting needs of our customers. This includes building and investing in our AI-powered digital assistant, Cora, which handled over 11 million customer interactions in 2024. Its generative AI upgrade, Cora+, delivered up to an 150% increase in customer satisfaction last year and halved the number of query cases that required colleagues to intervene in a pilot test.

Our recently announced partnership with OpenAI – a first of its kind for a UK bank – should ensure further acceleration of our ability to meet and anticipate our customers' needs. Currently, over 19% of the bank's analytical models already use AI, and we're well placed to leverage it further following investment in cloud data platforms and machine learning capabilities.

We are also mindful of privacy, ethics, and the risks associated with AI, so we have made sure to have the right safeguards in place for our customers and our colleagues. We're embedding data ethics and responsible AI principles across the bank and our employee training programmes.

This includes making AI training available to all of our employees, with 4,500 of our colleagues completing it in the last year. Ethical and risk considerations will become even more important as we aim to increase the number of AI models deployed by NatWest Group considerably by 2030.

We believe that regulatory clarity is critical and would encourage the government to provide further guidance on its proposed regulation of AI, so that institutions can assess areas of overlap and divergence with the current EU AI Act. In addition, we have included some policy suggestions that we believe would help contribute to a supportive environment for AI investment.

In answer to your questions as part of the inquiry, please see below a more detailed summary below. We have selected three of your five thematic areas, with the first combining our insights into customer benefits and productivity potential.

To what extent can AI improve productivity in financial services and produce benefits for customers?

We believe that that there are four key use case areas that reflect both the productivity potential of AI and the key benefits for customers, in financial services:

Personalised engagement

AI is allowing us to predict our customers' needs, helping to deliver a simpler, more engaging and personalised service.

In June 2024, we announced a generative AI[1] upgrade to our existing chatbot, Cora, which offered more intuitive, conversational customer experiences online. Cora+ has been able to offer proactive suggestions and insights to help customers manage finances more effectively, and is trained on a broader range of banking topics and customer queries. In 2024, the chatbot handled over 11 million customer interactions – and produced a 150% increase in customer satisfaction – providing effective feedback to guide the further evolution of Cora+. In addition, GenAI is helping 7,000 of our colleagues to use our new cloud-based Contact Centre platform, Amazon Connect. It provides enhanced customer transcription and sentiment analysis, helping our customers by reducing the average call hold time, having fewer repeat calls and improving the consistency of our response.

Longer term, we believe that AI could transform the use of customer data from being product-focused to data sources that facilitate holistic, simplified, and re-usable capabilities. These would drive even more personalised experiences for customers – including streamlining customer journeys – and we have an ambition to do so where the application of AI is straightforward. There is also potential for AI to provide more personalised support based on an individual's personal circumstances. This could realise significant consumer benefit; from supporting vulnerable consumers better to enabling financial planning in a way that is only currently available to customers paying for private banking.

Enhanced protection

NatWest Group is committed to supporting customers who may be experiencing financial difficulty by protecting them from increasingly sophisticated cyber threats like fraud and scams. Internally, around 7,000 colleagues are currently using AI to identify key trends to educate and protect our customers, especially those most vulnerable to falling victim to crime. This is a key aspect of our drive to invest more than £1 billion each year in our services, the majority of which goes into data and technology to decrease the likelihood of these incidents occurring. We also recently announced a minority investment in Serene, an early-stage AI platform dedicated to tackling financial vulnerability. Through real-time customer insights, the platform detects early signs of financial distress and predicts risks to help financial institutions deliver personalised, timely support at scale.

Workforce acceleration

Through automation and augmentation, AI is driving workforce efficiencies that allow us to focus more on customer needs. This is evidenced with our experimentation and rolling out of summarisation tools for our Relationship Managers (RMs), which capture call details, summarise details given by customers, and extract the key facts to be sense-checked by the RM – giving RMs greater freedom to focus on the customer during the call instead of on note-taking – producing a 15-minute time saving on average. This ultimately means that customers receive a better experience through having more valuable conversations and tailored interactions on complex cases.

[1] Generative AI has capabilities beyond 'normal AI' - including producing new content based on its training data.

Optimised operations

AI is being embedded in our ways of working across operational processes to transform efficiency, track compliance, and accelerate engineering capabilities. Currently, over 19% of the bank's analytical models already use AI, with an intent to more than double the use of AI models in the bank by 2030.

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

Having 19 million customers means we play a vital role in society, so it's our duty to ensure our use of AI is carefully considered – including mitigating for any risks. The right company-wide culture should underpin this, with transparency and accountability at the core, and corporate governance that reflects the risks deriving from AI.

Although the UK Corporate Governance code (2024) does not mention either AI or its risks, NatWest Group's Board is engaged with AI as part of its remit and contains technological expertise. There have been at least nine AI-focused Board updates to discuss the technology's strategic, operational and risk implications, and a wider drive to offer AI upskilling training to colleagues – with 4,500 having completed this in the last year.

To mitigate against AI design risks, we test and measure any new AI systems, carefully considering the quality of the data being input and output, all within a set of guidelines and guardrails set out in our AI and data ethics framework. This includes ensuring human oversight in any scenario where AI or any algorithm is used in a way that would affect a customer outcome. Extensive care is also taken over customer data privacy – using data only when permission is given or is necessary for the operation of their service.

This is all underpinned by regularly refreshed model risk and clear privacy policies, producing a governance structure that has existed for a long time and is regularly updated to include specific areas around AI, due to new risks that AI and generative AI bring. We also have a dedicated team of AI & Data Ethics colleagues and an Ethics panel chaired by our Head of Responsible AI to provide further scrutiny of major use case risks.

We are seeing emerging threats for customers and institutions from organised crime, leveraging more sophisticated AI technology in areas such as advanced deepfakes and customer impersonations. In addition, we expect agentic AI to potentially automate future customer transactions – opening the door to further customer risks based on challenges such as biases in decision-making and unpredictable behaviours. Robust regulatory frameworks are essential to address the ethical concerns of agentic AI, ensure compliance, and balance human oversight with computational efficiency.

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?

Our view on the regulatory landscape

Although the regulatory environment is supportive, it could be improved through streamlining and greater clarification on the direction of travel. This would likely empower both startups and incumbents to innovate more effectively in the AI space.

We believe that the best approach to encourage investment and development of AI would be for the government to create broad frameworks of operation for the safe deployment of the next generation of the technology, using forums rather than distinct legislation. This would also encourage greater cross-industry data collaboration on use cases and risk.

We are increasingly seeing the European Union's proposals being adopted as the industry norm in the absence of further UK detail, and we continue to assess our compliance with the EU AI Act. We would encourage the government to provide further clarity on its proposed regulation of AI so that institutions can assess areas of overlap and divergence with the EU. This clarity would encourage investment and safe development of AI.

Currently, the highly regulated nature of the financial services industry means that we are already well set up to adhere to AI regulations as they arrive. As touched on before, we already have a Model Risk policy that covers both AI and non-AI models, as well as a Data and AI Ethics Code of Conduct that aligns with the current regulatory guidance from the UK Government.

We will continue to adapt as any rules evolve and will always test to ensure risks are considered when updating our models.

<u>Policy shifts that would support core AI development and investment:</u>

- Clarity on regulatory outcomes: As mentioned above, we broadly support the government's current sentiment towards an innovative regulatory regime. However, we would welcome clarity on the government's intent – including on the role of forums, and on the balance between innovation and mitigating risk.

- Talent: With AI-trained skills profiles crucial to the development and deployment of effective AI use cases, a greater supply of talent is paramount. This could be done by supporting industry-academia partnerships, possibly boosted through tax incentive schemes.

- Data: The government should encourage the strategic critical infrastructure required to power AI usage, especially through building data centres to support GPU capacity. In addition, it could encourage the creation of cross-industry datasets.

- Sustainability: The proliferation of GenAI and especially Copilots should be assessed with respect to their environmental impact – carbon, energy and water included.
    - We are working to ensure we can measure our environmental impact from AI and believe there is scope for the government to encourage Cloud providers to report on location-based emissions.

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