AIFS0060

**Written evidence submitted by TheCityUK**

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The Industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

We welcome the opportunity to respond to the call for evidence from the House of Commons Treasury Committee ("**the Committee**") on artificial intelligence (AI) in financial services. We support the aims of the inquiry and the work being undertaken by the Committee to ensure that the UK financial services industry can harness the transformative opportunities from AI, while mitigating any risks to financial stability and safeguarding customers. The financial services industry's continued adoption and innovation in AI is key to its future international competitiveness and contribution as an enabler of growth, innovation and climate adaptation across the UK economy.

The financial services industry is at the forefront of AI adoption in the UK, with a range of applications across the different financial services sectors. Given the data-heavy nature of financial services, the industry is among those industries best placed to leverage the opportunities AI presents. The Bank of England and Financial Conduct Authority (FCA) 2024 survey on AI and machine learning in UK financial services found that 75% of firms are already using AI, with a further 10% planning to use it over the next three years.[1] AI is not a new phenomenon - for years the industry has successfully deployed traditional, predictive forms of AI to improve operational efficiencies and deliver more effective and resilient services to their customers. Significantly, AI is a key component in systems that protect consumers from fraud and other economic crimes, while also being utilised for a range of applications including personalised banking, automated credit scoring, portfolio optimisation, algorithmic trading, more accurate and efficient underwriting processes, and improved regulatory compliance.

More recently, firms across all sectors of the financial services industry have been exploring, testing and adopting applications for newer, generative AI tools. At present, the industry is mostly deploying generative AI across low-risk, largely internal use cases as firms navigate how these technologies sit within the existing extensive financial services regulatory requirements, alongside the complex web of emerging international standards. These technologies will continue to transform the industry by driving efficiencies, enhancing security, optimising services and improving customer experiences and outcomes.

AI has the potential to significantly enhance productivity in financial services by automating tasks, improving decision-making, offering personalised solutions, optimising processes and efficiencies

[1] Bank of England and FCA, 'Artificial intelligence in UK financial services – 2024', (November 2025), available at: Artificial intelligence in UK financial services - 2024 | Bank of England

and reducing costs. Research suggests that the sectors more exposed to AI, including financial services, are experiencing almost five times higher growth in labour productivity compared to sectors less exposed to AI.[2] Meanwhile, the predicted productivity gains across the financial services industry from generative AI adoption are huge, with estimates predicting gains above 30% in some sectors such as capital markets, banking and insurance, with potential cost savings of £9.7 billion, £12.7 billion and £3.4 billion respectively.[3]

However, as with the application of all technologies in financial services, it is vital that we understand and manage the associated risks. These include financial stability risks such as market concentration, third-party dependencies and AI-enhanced cyber threats, and risks to consumers arising from the ethical considerations of AI use across financial services, such as fairness, bias and privacy and data protection concerns. When regulating emerging and rapidly evolving technologies, there is always a tension between allowing space for innovation and providing the certainty and predictability that firms need to confidently deploy these technologies – and keep up with changing consumer expectations - without concern that firms will be forced to abandon costly projects or fall foul of changing regulation in the near future. There is value in the UK being seen as a safe, stable and well-regulated place to develop and deploy AI. Initiatives such as the FCA's AI Lab are positive steps to support industry AI adoption. Transparency of further changes to policy and regulations, as well as plans and timelines, is key to the UK's investment resilience and competitiveness in this area.

A proportionate, predictable and agile regulatory environment is key to fostering AI adoption across financial services while managing the risks. The UK's pro-innovation, sectoral approach to regulating AI is welcome and creates a strong foundation for enabling growth sectors to harness the full potential of these technologies in various contexts. We 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. Moving towards a prescriptive approach such as the European Union's (EU) AI Act, or introducing undue regulatory burdens, would create unnecessary complexity and cost by adding duplication with technology-neutral rules that are already in place. This would stifle existing operations, slow innovation and productivity, and put UK firms at a global competitive disadvantage. This is particularly important for small and medium-sized enterprises, which may be unable to resource compliance with excessive regulatory complexities.

We also welcome the government's commitment to agile and accountable regulation in the AI Opportunities Action Plan, which includes the requirement for regulators to annually report on their efforts to enable AI-driven innovation and growth, including guidance publication timelines. As acknowledged in the action plan, firms require clarity on regulatory expectations regarding the use of AI to foster confidence and accelerate adoption and innovation. There are areas of existing regulations where integrating generative AI is complex or challenging, and firms are taking a cautious approach to compliance. It is vital that regulators maintain an ongoing dialogue with industry to explore these areas and share emerging best practices. In due course, areas may emerge where further guidance would be beneficial. A public-private model in the style of the Cross Market Operational Resilience Group (CMORG) could be a powerful tool to address areas of regulatory complexity relating to AI, address the regulatory inconsistencies between the FCA and Prudential Regulation Authority (PRA), or to identify areas and set standards that enable the proportionate

[2] PwC, '2024 AI Jobs Barometer' (May 2024), available at: PwC's 2024 AI Jobs Barometer

[3] Accenture , 'Generating growth how generative AI can power the UK's reinvention' (October) 2024, taken from UK Finance, 'Generative AI in Action: Opportunities & Risk Management in Financial Services' (January 2025), available at: Generative AI in action-opportunities & risk management in financial services.pdf

application of existing frameworks to AI, for example, around Model Risk Management (MRM) and Consumer Duty across a series of application types. While the FCA and Bank of England's AI Public Private Forum (AIPPF) was well received by the industry, it lacked real outcomes. We urge the Bank's AI Consortium to take a more outcomes-based approach, as demonstrated to be effective by initiatives such as Singapore's Project Veritas.

The government is considering introducing legislation focused on the most advanced generative AI models. Highly capable frontier models, which have the potential to impact society at a large scale, should receive increased scrutiny to identify and mitigate any systemic risks. However, generative AI has the potential to revolutionise financial services, and the industry's deployment of AI is reliant upon the large AI providers developing these technologies. Legislation must be targeted and proportionate. Managing systemic risks is key, and both the large AI providers developing these technologies and financial services firms deploying them have a shared responsibility to uphold the proposed regulatory principles. The government should provide clarity on the specific liabilities and levels of risk mitigation across the AI value chain to foster a more stable operating environment and instil confidence in businesses and consumers. Responsibilities should be appropriately allocated between AI providers and deployers to avoid financial services firms having to manage this individually.

In the case of AI, a lack of confidence in suppliers and the inability to control or have visibility over supply chains is a specific point of concern, leading to caution in the adoption of AI tools. Guidelines for model providers would enhance firms' confidence in their ability to meet regulatory expectations when adopting AI. The government should consider creating similar guidance to the Code of Practice for General Purpose AI model providers being drafted in the EU.

Many financial services firms are global companies and, therefore, concerned that the international governance landscape for technologies is becoming increasingly complex and fragmented. A lack of international interoperability limits innovation and slows technology adoption. For example, while the UK's principles-based approach to AI regulation has created space for innovation, in practice global firms will need to apply the 'highest watermark' set by other international regulators, limiting any adoption gains from an agile UK approach.

Continued coordination between different regulators - within the UK financial services industry and across various sectoral authorities - is vital to ensure a consistent regulatory approach to AI in financial services, avoid fragmentation of regulatory requirements, and facilitate a coherent approach to cross-sectoral and cross-border issues, such as copyright and intellectual property.

***April 2025***