AIFS0066

Written evidence submitted by The Platforms Association

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

This may include:

- Are there particular areas of financial services that are adopting AI more quickly and at higher rates of penetration than others? Are Fintech firms better suited to adopting AI? What percentage of trading is driven by algorithms/artificial intelligence?
- Are financial services adopting AI at a faster rate than other sectors in the economy?

The Platforms Association is a trade body formed in October 2024 to champion the interests of the investment platforms sector in the UK and Europe. It currently has more than 60 member firms representing approximately £1.1Trn of retail AuA (Assets under Administration) in the UK across Intermediated/Advisory, Direct-to-Consumer (D2C) and Digital Wealth Platforms.

Membership is open to UK and European regulated firms whose primary activities are the settlement, custody and safe keeping of retail investor assets, whether held bare or through relevant tax wrappers. Such assets may include listed securities, collective investments and ancillary cash along with related financial activities. Membership is also open to regulated sub-custodian firms providing dealing and safe keeping services to organisations acting on behalf of retail investors.

AI and data technologies are at the centre of the Platforms Association's work with member firms. A Data Committee, with a workstream dedicated to AI, is being established. Chief Technology Officers, Chief Information Officers, Innovation Officers and relevant functions from members firms will opine upon and help shape the development of strategic AI applications and industry AI Standards for investment platforms. The platforms sector is committed to using AI responsibly and ethically to improve outcomes for customers and help grow the economy.

Member firms are exploring the use and application of AI to enhance how retail investments are delivered whether that's D2C or through an Intermediated service.

Investment platforms are already beginning to leverage AI to enhance operational efficiencies, improve customer service, and optimise investment strategies. Below are some examples of the application of AI:

1. Customer Service and Experience

- **AI Chatbots and Virtual Assistants –** providing 24/7 customer support, answering FAQs, and guiding users through processes.
- **Sentiment Analysis –** monitoring customer feedback and sentiment to improve services.
- **Personalised Communication –** AI-driven emails, notifications, and recommendations tailored to individual clients.

2. Investment and Portfolio Management

- **Robo-Advisors –** providing automated, algorithm-driven investment advice and portfolio management.

- **AI-Driven Portfolio Optimisation –** using machine learning to balance risk and return in portfolios.
- **Alternative Data Analysis –** leveraging social media, news, and market trends to enhance investment decisions.

3. Financial Crime Detection and Risk Management

- **AI-Powered Fraud Detection –** identification of suspicious transactions and preventing fraud using behavioural analysis.
- **Automated Compliance Monitoring –** ensuring adherence to regulations by tracking transactions and reporting anomalies.
- **Cybersecurity Threat Detection –** AI-driven security systems and protocols to protect customer data.

4. Trading and Market Analysis

- **Algorithmic Trading –** use of AI to support the execution of high-speed, data-driven trades.
- **Predictive Analytics –** forecasting market trends based on historical data and real-time information.
- **Sentiment-Based Trading –** analysing market sentiment from news and social media to make investment decisions.

5. Back-Office Automation

- **Robotic Process Automation (RPA) –** reducing manual work in account opening, compliance checking, and transaction processing.
- **Data Reconciliation and Reporting –** streamlining reporting, reducing errors, and ensuring regulatory compliance.
- **Automated Document Processing –** using AI to extract, verify, and categorise data from financial documents.

6. Client Acquisition and Retention

- **AI-Driven Marketing –** optimising advertising campaigns, targeting potential investors with personalised and more relevant content.
- **Behavioural Analytics –** analysing user behaviour to predict attrition and improve customer retention strategies.
- **Lead Scoring –** identifying potential investors through AI-driven data analysis.

7. ESG and Sustainable Investing

- **AI for ESG Analysis –** evaluating companies' environmental, social, and governance (ESG) factors to align with ethical investing goals.
- **Green Portfolio Optimisation –** helping investors create sustainable investment portfolios.

8. Tax and Financial Planning

- **Tax –** using AI to help investors with tax liabilities.
- **AI-Based Financial Planning –** generating personalised financial plans based on user data and financial goals, including for retirement.

9. Business Improvement

- **Policies and Procedures –** AI models are helping firms identify gaps and areas for improvement in their policies and procedures.
- **Complaints –** improving complaints handling and identifying lessons learnt to enhance customer service.

There will be other applications of AI in the sector, for example, the use of AI to bridge the advice gap in wealth management, improve intergenerational wealth transference and the development and use of Agentic AI in wealth management (AI systems capable of autonomous actions and decision-making to achieve goals with minimal human intervention).

We also would like to note that existing frameworks within the financial services industry have been mostly designed around human decision-making, where there is a clear line of accountability and an auditable paper trail to show how decisions were made and why certain advice was given. With the advance of AI models, especially where there is not a human in the loop, the industry is moving into a different environment. With the complexity of the models now available, greater thought will need to be given as to how financial services firms can evidence how AI has been deployed from 'input to output'.

Other points to draw-out in relation to likely changes over the next 10 years include:

For financial services applications:

- In relation to financial crime and cyber threat, digital identity will pick-up pace, so this is a theme requiring greater industry interaction. For example, biometric authentication within firm's platforms and government bodies alike or other mechanisms enabling it.

- Decentralized Finance - AI will increasingly enable smart contracts and record keeping.

Quantum computing will be even more relevant and publicly available. The 9 items above will see meteoric shifts (not just in speed) but in how and what can happen. For instance, 128 bit/SSL encryption for security will dramatically shift hence impacting transactional fraud detection. In addition, data storage and access in relation to a GDPR evolution will shift how AI uses data.

There will also need to be better governance over AI model biases to ensure diversity of consumers is more embedded into how Large Language Models (LLMs) evolve which will need to be led by providers within the financial services industry.

AI will continue to evolve and improve over the coming years and with this in mind, The Platforms Association is establishing a Technology and Innovation 'Lab' to collaboratively work with leading technology firms (as they apply across the market ecosystem) on the continuing improvement of AI models for the benefit of consumers and the industry. AI will continue to challenge existing processes and ultimately further the democratisation of access to retail investments, making investment products and services more accessible to different consumer groups.

To what extent can AI improve productivity in financial services?

This may include:

- Where are the best use cases for AI? Which particular transactions may benefit from AI?
- What are the key barriers to adoption of AI in financial services?
- Are there areas where the financial services should be adopting GenAI with little or no risk?
- Are there likely to be job losses arising from AI in financial services and if so, where?
- Is the UK's financial sector well-placed to take advantage of AI in financial services compared to other countries?

AI Use Cases for Investment Platforms submitted by a member firm:

Driving client engagement with mass affluent segment to encourage automated savings and investments

- Investment Platforms can use aspects of Open Banking to connect 'everyday' banking to savings and investments by accessing transaction data and using AI to surface tailored insights and recommendations based on customer banking and transaction data.

- Enhanced portfolio views that integrate contextual market data to support awareness of market events, research and decision-making.

- Enhancing and contextualising market information in relation to portfolios.

- For DIY investors, supporting research and analysis.

Operational Resilience

- There are significant opportunities for using machine learning and AI solutions including Agentic AI to improve systems monitoring, observability and reliability to enable proactive operational resilience.

Software Engineering

- Gen AI powered software engineering has been found to increase developer productivity by over 30% across the Software Development Lifecycle and 25% across the Software Testing Lifecycle.

Obstacles to AI outlined by a member firm:

Implementing Responsible AI

To achieve compliant, scalable AI, financial services firms must embed robust governance frameworks, workflow controls, and monitoring across the AI lifecycle, including AI-based production workloads.

This must include the implementation of model registries, access controls, audit trails and data governance to align with regulations like the Bank of England model risk guidelines and the EU AI Act.

Key challenges in implementing Responsible AI include:

- Lack of clear governance over AI and ML usage.
- Lack of controls to scale AI responsibly across investment platforms.
- Exposure to compliance and reputational risk from unregulated AI use.
- Gaps in meeting regulatory expectations (EU AI Act, BoE Model Risk Management).
- Difficulty integrating and monitoring AI models into production securely and efficiently.
- Limited visibility into model lineage, usage, and decision explainability.
- Fragmented collaboration between data science, engineering, and governance teams.

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

This may include:

- Does AI increase the risks relating to cybersecurity?
- What are the risks around third-party dependencies, model complexity, and embedded or 'hidden' models?
- How significant are the risks of GenAI hallucination and herding behaviour?
- Are the risks of having AI tools used in the financial sector concentrated in the hands of a few large tech companies? To what extent do the AI financial market tools rely on social media outlets? E.g. trading algorithms using social media posts?

AI Risks to UK Retail Investment Platforms and Mitigation Strategies

Key Financial Stability Risks

Market Concentration and Platform Dependency

The UK retail investment sector is dominated by a relatively small number of major investment platforms. The high costs of AI development favour larger firms, potentially leading to further market concentration. Smaller platforms may rely on third-party AI solutions, creating systemic dependencies that could introduce new risks across the sector.

The Platforms Association will play a key role in mitigating these risks by fostering collaboration between platforms of all sizes. By facilitating shared learning and promoting access to scalable AI solutions, the Association will help smaller firms remain competitive while ensuring that industry-wide adoption of AI does not inadvertently create structural vulnerabilities.

Algorithm-Driven Investment Behaviours

AI-powered investment tools and robo-advisors could encourage 'herding behaviour' among UK retail investors. If multiple platforms deploy similar AI-driven strategies, investment positions across customer portfolios may become highly correlated. In periods of market

stress, simultaneous algorithmic rebalancing could amplify volatility, particularly in UK-focused assets.

By coordinating research and discussions on AI-driven investment trends, The Platforms Association will help identify emerging risks before they become systemic. It will also facilitate the development of voluntary best practices to ensure greater diversification in AI-driven decision-making, reducing the risk of excessive market concentration in certain assets.

Cybersecurity and Operational Resilience

Retail investment platforms hold significant customer data and assets, making them attractive targets for AI-enhanced cyberattacks. As automation increases, vulnerabilities in customer verification and transaction processing may emerge. Existing regulatory frameworks for operational resilience may require expansion to address new AI-specific risks, ensuring that system failures do not compromise platform stability.

The Platforms Association will serve as an industry forum for sharing threat intelligence and strengthening cybersecurity standards. By coordinating non-competitive collaboration on AI-related security challenges, the Association will enhance the resilience of the sector without duplicating or replacing existing regulatory requirements.

Consumer Protection and Inclusion

AI-driven personalisation could lead to inappropriate product recommendations, particularly if algorithms prioritise profitability over investor suitability. Additionally, complex AI interfaces may exclude less tech-savvy or more vulnerable investors, potentially creating barriers to financial participation. Algorithmic segmentation could also limit investment opportunities for certain demographic groups, raising risks about fairness and accessibility in the sector.

The Platforms Association plans to work with its members to develop ethical AI guidelines that ensure fair and responsible use of AI in investment services. By promoting greater transparency in AI-driven recommendations and advocating for inclusive design, the Association can help the industry maintain high consumer protection standards while harnessing AI’s benefits.

UK-Specific Mitigation Strategies

Regulatory Oversight

To safeguard retail investors, regulators should review AI monitoring capabilities. Establishing transparency for algorithmic decision-making will help ensure accountability. Additionally, AI governance standards should align with Consumer Duty regulations, reinforcing responsible AI use in investment services.

The Platforms Association will support regulatory efforts by acting as a bridge between policymakers and industry participants. By facilitating dialogue on evolving AI risks and best practices, the Association plans to help ensure that regulatory frameworks remain effective while avoiding overly restrictive measures that could stifle innovation.

Technical and Operational Safeguards

Mandatory circuit breakers in automated trading and rebalancing systems could help prevent potential market disruptions caused by AI-driven strategies. Coordinated stress testing of AI

systems under different market conditions will ensure their robustness. Introducing industry-wide standards for AI model diversity could further reduce systemic risks associated with algorithmic uniformity.

The Platforms Association can help define and promote best practices in AI risk management. By encouraging voluntary industry standards and collaboration on stress testing methodologies, the Association will contribute to a more resilient retail investment ecosystem.

Cross-Industry Collaboration

Collaboration among investment platforms can enhance AI safety measures across the sector. Secure data-sharing protocols for identifying emerging AI risks would improve the quality of outputs for customers, (within the confines of competition and data protection laws) and support proactive risk and data management. Developing industry-wide best practices for AI implementation, with robust data and risk management strategies, will ensure consistency and reliability in retail investment services.

By acting as a knowledge-sharing hub, The Platforms Association will promote responsible AI adoption while allowing individual platforms the flexibility to innovate. The intention being that this approach will ensure that AI-related risks are managed proactively.

Consumer Education and Protections

Investor education should include clear guidance on AI-driven investment tools, helping consumers understand their benefits, risks and limitations. Platforms should disclose when AI influences investment advice or decisions, allowing investors to make informed choices. Additionally, maintaining non-digital alternatives for essential investment services will ensure that all investors, regardless of technological proficiency, have access to financial opportunities.

The Platforms Association will be taking a leading role in coordinating industry-wide efforts to educate investors on AI's role in financial investment decision-making. By working with consumer advocacy groups and financial education initiatives, the Association can help ensure that retail investors are well-informed and confident in their use of AI-driven investment tools.

By fostering collaboration, promoting best practices, and facilitating non-competitive knowledge-sharing, The Platforms Association can play a pivotal role in helping the UK retail investment sector harness AI's potential while mitigating associated risks. By implementing these measures, the UK can balance financial innovation with stability, ensuring that AI adoption enhances, rather than undermines, the resilience of the retail investment sector.

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

This may include:

- What benefits to consumers might arise from using AI in financial services? for example, could AI be used to identify and provide greater assistance to vulnerable consumers?
- What is the risk of AI increasing embedded bias? Is AI likely to be more biased than humans?
- What data sharing would be needed to make AI more effective in financial services, and will there be a need for legislative change to achieve that?
- Are there any current or future concerns around data protection and AI in financial services?
- What sort of safeguards need to be in place to protect customer data and prevent bias?

AI has the capability of democratising financial planning, guidance and wealth building opportunities for consumers.

Investment platforms use AI to increase consumers' access to affordable, cost-effective and good quality financial advice and guidance, helping to reduce the advice gap. For example, AI-driven robo-advisors in online platforms or apps provide automated investment recommendations based on the customer's risk appetite, goals and market conditions. It is a more cost-effective model with lower fees, making investments more accessible to consumers. Chatbots and virtual assistants can provide real-time general financial guidance, answer queries and explain investment concepts to consumers, improving their knowledge and supporting them to make informed decisions.

AI-powered financial planning provided by investment platforms will help consumers better analyse their income, expenses and investments to provide personalised savings and retirement plans.

Investment platforms are empowering consumers to invest with confidence.

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?

This may include:

- Are new regulations needed or do existing regulations need to be modified because of AI?
- Will Government and regulators need additional information, resources or expertise to help monitor, support and regulate, AI implementation in financial services?

The Platforms Association suggests that the Government and financial regulators support industry initiatives to maximise the benefits and mitigate the risks of AI in retail investment.

As mentioned previously, the Platforms Association will be working with member firms across the retail investing industry ecosystem to develop sector-specific standards for the use of AI within the UK investment platforms sector for D2C and Intermediated services. These standards will aim to ensure that AI technologies are developed and deployed in a responsible, transparent, ethical, safe and secure way and within existing regulatory frameworks. At this point, the Association does not believe that new regulations are needed.

The standards will cover different areas such as:

- consumer protection
- fairness and inclusion
- explainability
- human oversight and intervention
- governance
- risk management
- accountability
- regulatory compliance
- data protection and management
- operational resilience
- model validation
- performance monitoring
- suitability and appropriateness.

After approval by member firms, The Platforms Association will use the standards to promote continuous improvement and to conduct AI-based impact assessments, considering emerging trends and technological advancements.

The Platforms Association welcomes the opportunity to work with the Treasury Select Committee, Parliamentarians, the Government, regulators and relevant stakeholders to make sure that the UK leads the way in the adoption of AI in investment platforms while protecting consumers and ensuring financial stability.

April 2025