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Written evidence submitted by Axyon AI

Axyon AI

Founded in 2016, Axyon AI is a leading provider of Predictive AI solutions, specialising in forecasting the relative outperformance and underperformance of financial assets to uncover Alpha opportunities in the investment process.

Its technology, and team of 30+ AI experts, allows financial institutions to analyse vast datasets utilising high performance Quantum computing and advanced Machine Learning to build outperforming, scalable AI-based investment strategies with minimal additional resources. Axyon AI is proud to be one of the first providers to offer AI based strategies, with live clients since 2018, recognised as one of the world's most innovative AI technology providers for financial services. Find out more at https://axyon.ai or on LinkedIn.

Evidence for Inquiry:

Axyon AI welcomes the call for evidence by the Treasury Committee which looks at the potential impacts of the increased use of Artificial Intelligence (AI) in banking, pensions and other financial services. We welcome the opportunity to contribute to the inquiry and discussion. As a global provider of Predictive AI solutions to the investment management community, we have a broad and diverse experience of significant opportunities and the myriad of challenges faced in this new era of AI.

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

There will be a period of rapid development and adoption of AI across many industries including our own- the investment management sector across the front, middle and back offices. According to a report presented during the WEF 2025, in 2023, financial services firms globally spent approximately $35 billion on AI, with projections estimating this figure to reach $97 billion by 2027. In a world where data volumes are growing exponentially - in 2023 alone the world created around 120 zettabytes - and markets are in constant flux, our view is that the adoption of high-performance AI tools is no longer optional—it's essential.

The use cases of AI vary greatly depending on the sector. For example, in banking it is used for fraud detection, as well as chatbots and to provide personalised financial advice. In insurance, it is used for risk assessment, automated underwriting and claims processing. For investment management, AI can be used to analyse sentiment from earnings calls and news, forecast price movements using alternative data like web traffic or satellite images, and detect shifts in market regimes to adjust strategies proactively. It can also be used to customise RFP responses. These tools help investors anticipate market behaviour rather than simply react to it, offering a competitive edge in a rapidly evolving landscape.

With financial markets evolving at an unprecedented pace, asset managers are leveraging AI to take investment processes to the next level and equip themselves with dynamic tools capable of adapting to rapidly-changing market conditions.

We believe momentum will continue to accelerate as the approach to including AI becomes a default position. In the area we operate in specifically, we believe those investment managers who do not adopt it will find themselves left behind in the pursuit of generating alpha - the excess return on investments. According to a study from Mercer Investments, nine out of 10 managers are currently using AI within their investment strategies or asset class research. According to another study run by EY, while 90% of firms have integrated AI to some extent and plan to increase annual investments, many are still in the early stages of adoption. Several factors hinder AI adoption in the financial sector, including workforce inexperience, regulatory uncertainty, and the rapid evolution of AI technology. The survey highlights significant disparities across different financial sectors, with 40% of banking respondents and 36% of wealth or asset management firms feeling they are behind their peers. Interestingly, 17% of banks consider themselves ahead in AI adoption, the highest among surveyed industries, while 10% have not yet planned for AI integration.

FinTech firms are at the forefront of innovation of AI in investment management given the flexibility of their nimbler structure, talent pool and technology stack. We believe we will see further AI adoption in the investment process itself as well as in operations, risk management and regulatory compliance. The Axyon AI philosophy is that predictive AI is best used in tandem to add extra inputs to provide additional insights including the potential for new and uncorrelated sources of alpha.

To what extent can AI improve productivity in financial services?
AI has the potential to improve productivity across financial services, whether from automation of routine tasks, especially in the operations function, which can free up employees for higher value add tasks. Crucially it can also help detect fraud and prevent it.

Investment management can benefit from new approaches that can process and analyse vast amounts of data, more rapidly identify new correlations, and highlight the most relevant signals. Embracing Auto-Machine Learning is crucial to ingest new / data sets as they are unearthed to adapt to the rapid shift in market conditions. Artificial Intelligence technology has emerged as a powerful solution, offering capabilities that are additive to both traditional “bottom-up” and quantitative managers. Among these, Predictive AI has shown particular promise in navigating the complexities of financial markets in making predictions, as it is well suited for time series analysis, can be tailored for specific use cases and will adapt as markets evolve.. Unlike Generative AI, Predictive AI, which we've been doing at Axyon AI for over nine years, offers a compelling additional toolset for investment managers to deliver alpha in an environment with infinite data.

While the adoption and integration of AI offers significant long-term benefits, several perceived barriers can hinder widespread implementation. These include high initial costs, a rigid or outdated IT infrastructure, a shortage of skilled talent, resistance to change, regulatory uncertainty and data privacy concerns. However, as AI increasingly becomes part of everyday life, some of these factors will fall away.

Generative AI and Large Language Models (LLMs) excel at processing and producing unstructured content such as text, images, and audio. Their core strength lies in natural language generation, rather than in generating alpha. By contrast, predictive AI—particularly when built on automated machine learning (Auto-ML) frameworks—is purpose-built for low signal-to-noise environments like financial markets, where subtle, non-linear relationships often hold the greatest value. It is

specifically designed to identify and forecast the relative outperformance and underperformance of financial assets with precision and consistency.

Far from being a tool of the future, predictive AI is a present-day asset—poised to enhance decision-making across the entire investment value chain.

What are the risks to financial stability arising from AI and how can they be mitigated?
Integrating AI into a business involves a significant degree of due diligence, research, and investment. One of the first key decisions is whether to develop AI capabilities in-house—which can be challenging due to legacy
systems and infrastructure—or to partner with a trusted external provider. Both routes come with costs, but the long-term gains in efficiency, scalability, and productivity often outweigh the initial investment.

As machine learning becomes increasingly embedded in investment processes, AI is sometimes perceived as a "black box"—producing results that may be difficult to interpret or fully understand. That's why explainability is crucial. Unlike some traditional approaches that rely on intuition or opaque reasoning, AI models—especially those built using automated machine learning (AutoML)—can offer clear, auditable, and reproducible decision-making processes.

And this is where attribution plays a key role. In times of strong performance, asset owners may not focus much on what's driving returns. However, when performance dips, detailed and transparent attribution becomes essential. It allows investment teams to not only explain what happened but also why it happened—strengthening accountability, investor trust, and confidence in the model's robustness.

By prioritising explainability and robust attribution practices, firms can mitigate one of the major risks associated with AI: the erosion of trust due to perceived opacity. These tools are fundamental in ensuring AI enhances rather than destabilises financial decision-making.

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?

The single biggest challenge facing Government and financial regulators will be the balancing act between innovation and AI regulation in the coming years. We believe they need to review existing regulations to accommodate AI advancements while ensuring they do not stifle innovation, and new regulations should be introduced that focus on ethical AI use and consumer protection. We also believe Government and regulators may need to invest in AI education and resources to better understand and manage AI implementation.

Fostering collaboration between tech firms, financial institutions, and regulators to develop AI frameworks that ensure both innovation and safety will be key. As will increasing public awareness and understanding of AI to empower consumers to make informed financial decisions.

We are in a new era of AI, and it requires a period of adjustment and education, the pace of which must be faster than ever before to reflect the speed of change the technology is driving.

In the first weeks of 2025, we witnessed a significant global shift towards AI, with governments in the UK, France, Italy, the US and major corporations prioritising AI development and infrastructure. This increasing focus—from emerging government and international policies such as the European AI Act to substantial investments in AI-driven technologies—will underpin the evolution across many industries, and the financial sector is no exception. The push for AI adoption, fuelled by regulatory development and technological advancements, will keep driving the use of more sophisticated AI solutions.

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