Written evidence submitted by Ian Roberts, Bangor University

Introduction

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Given my extensive research and active involvement in financial innovation and responsible banking, I am well-positioned to contribute meaningfully to this inquiry, particularly in highlighting critical perspectives that balance industry narratives.

The Responsible Banking research group brings together academics to collaborate on topical and high calibre academic research in sustainable banking, industrial structures, and regulation. Through members extensive links with multilateral organisations, regulators, and industry, the research group connects academic researchers with practitioners and policymakers to address some of the biggest questions facing the banking sector.

Executive summary

While recognising the considerable potential benefits of Artificial Intelligence (AI), I argue that it is crucial to prioritise consumer protection, especially for vulnerable customers. This submission provides a critical balance to the optimistic narrative promoted by industry and lobby[2] groups, underscoring the need for a customer-centric regulatory framework that addresses AI's risks. Specifically, the UK has the opportunity to lead globally in responsible and inclusive AI innovation if it champions robust protections for financial consumers.

[1] https://www.bangor.ac.uk/bbs/research/ief
[2] https://corporateeurope.org/en/search/v2?search_api_fulltext=finance-lobbying-uk

Section 4: What are the benefits and risks to consumers arising from AI, particularly for vulnerable consumers?

4.1 We need to broaden the definition of Vulnerable Customers[3]

Vulnerability in UK financial services must be understood as a dynamic and context-dependent state, influenced by factors beyond mere personal characteristics. Recent research suggests that vulnerability should not be seen as exceptional, but rather as the norm (Riefa, 2022) and is likely to affect everyone at some stage of their lives (Monferrer Tirado & Tena, 2024). Furthermore, the concept of financial vulnerability intersects complex socio-economic factors, market conditions, and personal circumstances (Elliott et al., 2025).

Within this context, the FCA's Consumer Duty faces considerable tension from competing pressures, notably the government's drive for economic growth through deregulation, juxtaposed with the growing necessity of robust AI regulation (FCA, 2025; Rusu, 2024). This regulatory environment must therefore navigate these tensions while placing consumer protection at its core.

Recommendations:

1. Adopt a customer-centric approach to financial regulation, explicitly prioritising consumer welfare and protection.

2. Embed the principle that vulnerability is normative, not exceptional, in all regulatory and financial service frameworks.

3. Encourage the FCA and the financial services industry to integrate a comprehensive understanding of vulnerability, considering socio-economic, market-driven, and personal factors beyond traditional narrow definitions.

4.2 AI can be used as a tool of extraction

Bank branch closures, justified by claims of changing distribution channels (Froud et al., 2017), have disproportionately impacted vulnerable consumers. Recent research (Ashton & Gregoriou, 2025) demonstrates a rise in predatory financial services post-branch closures, particularly in deprived areas. AI-driven hyper-personalisation (Wewege et al., 2020) risks exacerbating this trend, potentially steering vulnerable consumers towards high-cost credit and financial products unsuited to their circumstances

Additionally, AI-driven interfaces can exclude low-literacy users, deepening financial exclusion after physical branch closures. Concerns have already been raised by the FCA about poor outcomes for consumers from data misuse (Rusu, 2022).

[3] Good interpretation from law firm https://www.lexology.com/library/detail.aspx?g=5887d899-958b-4262-8f60-8440891adb4e

Recommendations:

1. Implement clear transparency standards mandating explainability in AI decision-making processes, enforced by the FCA.

2. Introduce mandatory, independent bias audits for AI models in financial services, overseen by regulatory authorities, to proactively identify and mitigate discriminatory practices.

4.3 Structural barriers to socially responsible AI

Structural issues currently hinder socially responsible AI implementation. A recent Bank of England survey (BoE, 2024) reported that 46% of financial firms had only a partial understanding of the AI technologies they utilise, primarily due to reliance on third-party vendors. This knowledge gap significantly increases AI model risks. Historical analogies can be drawn to the global financial crisis, where opaque securitisation practices led to systemic failures. The reliance on third-party vendors also raises privacy concerns as what is often regarded as anonymous data can be de-anonymised (Narayanan & Shmatikov, 2008).

The prevailing profit-driven approach often conflicts with the need for social responsibility, creating a structural bias within financial markets that favours shareholder returns over consumer welfare. The FinTech Regulatory Sandbox, while supporting innovation, often inadequately prioritises consumer protection.

There is already a paucity of public information related to investigations by the FCA (Ring et al., 2016) which impedes the public’s ability to understand the scale and scope of aberrant behaviour within financial services. Estimates vary but one study suggests that (Ashton et al., 2018) detection are significantly lower than reported. The growing adoption of AI will inevitably lead to regulatory breaches as firms conduct their business.

Recommendations:

1. Maintain clear accountability frameworks requiring firms to assume full responsibility for decisions made by AI systems.

2. Ensure the FCA systematically collects and publishes distinct data on regulatory breaches involving AI

3. Strengthen data protection legislation and enforcement mechanisms specifically targeting misuse and unauthorised extraction of consumer data within financial services.

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