AIFS0024

Written evidence submitted by Amplified Global Ltd and Professor Richard Hyde

INTRODUCTION

We are pleased to respond to the Treasury Committee's Call for Evidence on AI in Financial Services.

Our tool, Amplifi, has been developed using a wide range of established and proprietary linguistic models to accurately test intelligibility of written information – i.e. how likely a reader is to be able to read, understand, and use that information.

Our product is underpinned by AI and machine learning. It is being used by a range of financial services firms to assess their communication, improve and simplify them, and to report on their compliance with the FCA's Consumer Duty and the Consumer Rights Act.

We are also developing new and innovative ways to present information in a more engaging and intelligible form using digital layering and testing comprehension in situ. Our existing tool uses AI to assess the text and to provide an intelligibility score and identify ways to improve it, while we also use generative AI in providing simplified text.

We have direct experience relating to some of the questions being asked by the Committee and are pleased to share our experience as a young company entering financial services with an AI-based solution, and the friction and opportunities we have experienced. We have also provided evidence by sharing some of our primary research findings. We co-authored this response with our colleague Professor Richard Hyde, Professor of Law, Regulation and Governance at Nottingham University.

SUMMARY

Our submission focuses on how AI can enhance content creation, consumer understanding, and regulatory compliance in financial services.

Key Points

1. **AI Adoption in Financial Services**
- AI is increasingly already being used for a wide range of tasks including content creation, risk assessment, fraud detection, customer service, and regulatory compliance.
- There is a growing need for AI tools that simplify financial information, ensuring consumers understand key documents like contracts and credit agreements.

2. **Consumer Benefits & Challenges**
- Many consumers struggle with complex financial terms, leading to poor decision-making.
- AI can improve financial literacy by simplifying documents, restructuring content, and providing interactive tools for better comprehension.
- However, AI models risk bias, and human oversight is necessary to ensure fairness.

3. **Barriers to AI Adoption**
- Regulatory challenges, ethical concerns, and trust issues slow down AI implementation.

- AI must integrate seamlessly into financial firms' workflows and remain transparent to comply with laws.
- There is a need for sector-specific AI models, rather than relying on general AI solutions.

4. Recommendations for AI Regulation

- Regulators should focus on outcome-based approaches, ensuring AI tools meet consumer protection standards.
- Financial services should test AI in regulatory sandboxes before full deployment.
- Cross-regulator collaboration (e.g., FCA and legal regulators) can promote innovation while ensuring compliance.

5. Balancing AI Risks & Opportunities

- AI can enhance productivity but should not replace human decision-making in regulated content creation.
- Governance measures, such as explainability requirements and human oversight, are essential to mitigate risks.

AI has the potential to revolutionise financial services, making information clearer and improving regulatory compliance. However, ethical concerns, bias, and regulatory challenges must be addressed to ensure responsible AI adoption. Policymakers should encourage transparent, consumer-focused AI solutions while supporting innovation.

FULL RESPONSE

Q1 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 adoption of AI across financial services is broad and evolving rapidly, with applications spanning trading, risk assessment, fraud detection, customer service, compliance, and content generation. Several reports, including the UK Finance Impact of AI in Financial Services, provide comprehensive overviews of AI's role in financial services[1].

Our own focus, however, is on the application of AI in content creation, testing, and simplification—a critical yet underexplored area that directly impacts regulatory compliance and consumer protection.

Financial services firms widely use AI-driven tools for content generation and analysis, particularly for legal documents, customer communications, and compliance reporting. While

[1] Paliwal, M. (2024). Pioneering AI innovation: Transforming the future of UK financial services. University of Oxford.

AI is integrated into assessment and content structuring, the use of generative AI and machine learning for improving intelligibility remains limited.

Given the Financial Conduct Authority's (FCA) Consumer Duty and the Consumer Understanding Outcome, ensuring that financial documents are clear and accessible is vital. Many consumers continue to struggle with financial information, whether in contracts, terms and conditions, policies, or pre-and post-sales disclosures.

Consumer Impact of AI Adoption – enabling consumer understanding
The role of AI in financial services is critical for informed consumer decision-making and overall market efficiency. However, AI's effectiveness depends on transparency, fairness, and accessibility. A study we recently conducted on consumer interactions with credit agreements highlighted key challenges:

1. **Challenges with Math and Financial Concepts**

- Many consumers struggle with interest rates, compounding calculations, and payment terms.
- AI-powered interactive tools, such as real-time simulators and step-by-step breakdowns, could enhance comprehension.

2. **Need for Improved Structure and Clarity**

- Consumers find financial disclosures poorly structured, often leading to confusion.
- AI-generated summaries and AI-assisted document restructuring can improve information absorption and build trust.

3. **Cognitive Load and Language Complexity**

- Consumers report that overwhelming volumes of information and redundancy lead to disengagement.
- AI can be leveraged to streamline content and create concise, digestible summaries.

4. **Engagement and Reading Approaches**

- Users primarily focus on headings and bold text while skimming content.
- AI can be used to enhance document navigation, emphasising key points and minimising jargon.

5. **Emotional Triggers and Anxiety**

- Financial documents often evoke stress due to complexity and fear of missing key details.
- AI-driven simplification can reduce anxiety, improving consumer confidence and financial decision-making.

Variations in AI Adoption in Financial Services
AI adoption across financial services is not uniform; different sectors are integrating AI technologies at varying rates, driven by regulatory considerations, business models, and the complexity of financial tasks. While some areas, such as trading and fraud detection, have embraced AI extensively, others, such as compliance reporting and customer communication, are gradually incorporating AI-driven solutions.

The following key areas of financial services illustrate the diverse ways AI is being utilised:

1. **Trading and Investment Management:**

- Algorithmic trading and AI-driven investment strategies have been at the forefront of AI adoption. It is estimated that a significant percentage of financial trading is driven by AI-based algorithms.
- Hedge funds and institutional investors deploy machine learning for portfolio optimisation, sentiment analysis, and high-frequency trading.

2. **Fraud Detection and Risk Management[2]:**

- AI models analyse vast datasets to detect fraudulent transactions and mitigate risks in real time.
- Machine learning is used to refine risk assessment models, reducing false positives while improving financial security.

3. **Customer Service and Personalisation:**

- Chatbots and AI-driven virtual assistants enhance customer engagement, offering 24/7 support.
- AI is used in personalised financial planning, offering tailored product recommendations based on consumer behaviour.

4. **Regulatory Compliance and Reporting:**

- Automated reporting reduces regulatory burden and increases accuracy in financial disclosures.
- AI can ensure that a wider range of compliance factors can be reported on, enabling a greater focus on data-drive compliance reporting, providing deeper insights while making reporting a more efficient process.

5. **Content Generation, Testing, and Simplification:**

- AI-driven content assessment identifies areas of complexity and enhances Intelligibility.
- Generative AI can improve financial document accessibility, supporting consumer protection mandates.

While AI adoption presents immense opportunities for improving efficiency, compliance, and consumer understanding, there are several key barriers that must be addressed to ensure responsible and effective implementation. These barriers include ethical considerations, integration challenges, trust and regulatory concerns, and data security risks. Firms must navigate these complexities to harness AI's potential while ensuring fairness, transparency, and accessibility.

The key concerns include:

1. **Bias and Ethical Considerations**

- AI models risk embedding biases due to flawed training data.

[2] McGee, F. (2024). Approaching emergent risks: An exploratory study into artificial intelligence risk management within financial organisations. arXiv preprint arXiv:2404.05847.

- Transparent AI governance frameworks are needed to prevent unfair outcomes in lending, credit scoring, and risk assessments.

2. **Integration Challenges**

- Financial firms must ensure AI integrates seamlessly with existing case management and compliance systems.
- SMEs and sole practitioners require affordable, scalable AI solutions, ensuring AI benefits extend beyond large institutions.

3. **Trust and Regulatory Compliance**

- Financial AI solutions must be trustworthy, ethical, and compliant with professional standards.
- The FCA must continue to ensure AI transparency and responsible deployment.

4. **Data Security and Confidentiality**

- Training AI models on sensitive financial data raises concerns regarding data privacy and professional ethics.
- AI solutions must prioritise secure, anonymised data usage while maintaining regulatory compliance.

Recommendations

1. **Support Ethical AI Development**

- Policymakers should establish clear AI transparency and fairness guidelines.
- Financial institutions must ensure AI models are trained on unbiased, high-quality data.

2. **Promote AI for Consumer Protection**

- AI should be leveraged to enhance intelligibility in financial disclosures.
- Regulators should encourage AI-powered financial education tools.

3. **Ensure SME Accessibility to AI Tools**

- AI adoption should extend beyond large institutions to small firms and sole practitioners.
- AI tools should be affordable, scalable, and integrated into diverse financial workflows.

4. **Encourage AI Testing in Regulatory Sandboxes**

- AI applications should be piloted in FCA regulatory sandboxes before widespread deployment.
- This ensures compliance, fairness, and consumer protection as well as informing regulators about the pace of change, key challenges and regulatory actions that may be required.

Q2 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 can be used to improve a range of tasks, if the solutions are designed for the specific task, and well applied.

AI has enormous potential in areas of large data analysis and in planning and management systems. Generative AI has a wide range of opportunity to improve outcomes and efficiency in a number of areas, but that comes with a caveat, and its use is not being optimised yet.

In the field of large language models (LLM) and generative content, what we still tend to see are the existing, leading 'multi-purpose' LLMs being applied to a range of roles. This can be limited and challenging for creating content that requires balancing prescribed language and complex and specific information with an increased need to make it understandable to the consumer.

Yet we have evidence to show the benefits that directly and specifically trained AI can have in this context. We would encourage the development of more sector-specific models, trained using appropriate content.

In fact, there is a significant opportunity for AI-based tools to deliver efficiencies in a range of activities relating to content creation and communications:

- Meeting the Consumer Duty requirement to test all communications – most available writing tools are based on readability and are poor predictors of intelligibility in practice.[3] (see 'Assessing plain and intelligible language in the Consumer Rights Act: a role for reading scores?' by Professor Richard Hyde et al, 2018). Detailed AB testing in person is limited in scope, slow, and expensive. The right applied AI can provide objective, accurate, and repeatable testing of likely understanding outcomes cheaply, and at scale.[4] This will improve testing programme efficiency and content governance processes, as well as directly improving consumer outcomes - reducing mis-selling claims, complaints, and financial harm.

- For content governance, having an objective, AI-based testing tool enables a more efficient way to carry out intelligibility benchmarking. This can speed up and help make more definitive review and sign-off decisions and reducing time to simplify and agree content across multiple teams, for all channel and types of communications.

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[3] Assessing plain and intelligible language in the Consumer Rights Act: a role for reading scores?' by Professor Richard Hyde et al, 2018

[4] We have recently conducted an extensive research project together with the Solicitors Regulation Authority to demonstrate this – we can share the results with the Committee if that would be helpful. The report should be published later this Spring.

- For institutional internal audit and governance purposes and regulatory reporting, data concerning intelligibility risk and consumer duty compliance is more efficiently and comprehensively provided, and to a higher degree of trust.

In terms of barriers to adoption, we have seen some reticence or barriers to adoption from some functions within large firms than others. Content creators, particularly for marketing and consumer-facing comms, are more open to adoption. However, there are some challenges relating to expectations – either that AI will provide a 'right first time' solution independent of human input (which it usually does not), or a lack of knowledge of how to apply it to existing workflows and the need for new forms of governance in content creation.

The adoption of AI in financial markets faces several critical barriers, shaped by regulatory, technological, ethical, and psychological factors. Below highlights key concepts that influence the acceptance and integration of AI in financial services:

1. **Regulatory Compliance** – Strict regulatory frameworks, such as GDPR and ethical AI guidelines, create challenges in ensuring AI systems comply with legal standards, impacting user confidence and institutional adoption. Legal professionals in particular tend to be slow adopters of change and innovation, something that financial services on the whole is better at accommodating. FCA has a successful track record at fostering and encouraging innovation. Legal regulators and the profession they oversee would benefit from learning more from FCA about how to successfully undertake innovation programmes and sandboxes. This could help encourage and educate legal professionals about how AI can benefit them, but also help innovators to access the legal profession and meet their needs, in whatever sector they work, including in financial services.
2. **Perceived Usefulness** – AI adoption depends on its ability to enhance job performance and operational efficiency. If AI does not deliver tangible benefits such as productivity gains, automation, or improved decision-making, adoption slows.
3. **Perceived Ease of Use** – Complex AI interfaces, steep learning curves, and difficulties in integrating AI with existing financial tools create resistance among users, particularly in institutions where technology adoption is gradual.
4. **Trust in AI** – Concerns around AI reliability, data security, and explainability affect trust levels. If users doubt AI's ability to make sound financial decisions or secure sensitive data, adoption hesitates.
5. **Ethical Concerns** – Issues such as algorithmic bias, fairness, and accountability create resistance to AI adoption. Transparency and responsible AI governance are necessary to mitigate these concerns and build confidence in AI-driven financial decisions.
6. **Automation Anxiety** – Fear of job displacement and skill obsolescence due to AI automation generates resistance among employees. The impact varies based on task elasticity, with low-elasticity tasks (e.g., regulatory compliance, risk management) being more vulnerable to automation. While job replacement may happen in some areas (large data analysis, for example), where we see AI being best applied to regulated content creation uses AI to support the human subject matter expert, rather than replacing them. This increases their efficiency, reduces time-to-simplify (which can be considerable), and makes the process of tailoring communications a more data-driven and certain process.
7. **Perceived Intelligence** – Overestimating AI's capabilities can lead to unrealistic expectations, while underestimating its limitations creates scepticism. Effective validation methods and clear boundary-setting on AI's role are essential for informed adoption. Skills and knowledge of what AI is, and its capabilities and limitations, is still very rudimentary across most financial services functions and teams.

8. **Social Influence** – Peer recommendations, industry trends, and expert endorsements play a crucial role in AI adoption. Financial institutions often rely on market leaders and regulatory bodies to set AI adoption precedents.
9. **Technical Readiness** - Refers to an organisation's capability to implement and integrate AI effectively. It encompasses infrastructure, data quality, skills, and overall technological maturity.

Financial services firms must address these barriers by ensuring compliance, improving usability, fostering trust, addressing ethical concerns, and managing workforce transitions.

In these cases, retaining a human in the loop is vital, for the best result, and for good governance. Relying on AI, and particularly generative AI, for legal and regulated communications without retaining human oversight carries significant risk.

Example: *The debate between Human-in-the-Loop and Generative AI is not about choosing one over the other but rather about harmonising automation with human expertise to achieve optimal outcomes. Amplifi exemplifies this balance by integrating Generative AI with human oversight, ensuring that AI-driven document refinement remains accurate, compliant, and contextually appropriate. While AI autonomously analyses, categorises, and suggests improvements through Natural Language Processing (NLP) and machine learning, human reviewers play a critical role in validating findings, correcting biases, and aligning outputs with compliance and business goals.*

This collaborative between AI and subject matter expert enhances transparency, enables organisations to assess intelligibility, mitigate risk, and demonstrate regulatory adherence through comprehensive audit trails. By leveraging the strengths of both AI and human expertise, Amplifi not only accelerates document simplification but also ensures that the resulting content remains clear, compliant, and effective.

Recommendations

1. **Develop sector-specific solutions**

- Encourage the creation and training of subject matter and sector-specific Language Models for deployment in financial services.

2. **Educate users**

- Encourage greater understanding of both the challenges and limitations, and opportunities for AI to be adopted in areas of consumer-facing content creation, compliance reporting and outcome monitoring.

3. **Cross-regulator collaboration**

- The FCA could do more to share its experience of encouraging innovation in financial services with other sectoral regulators, including (crucially) legal regulators. This may help overcome the natural inertia in embracing innovation amongst legal professionals and encourage greater innovation in the legal sector, and amongst the legal professionals that work within financial services.

Q3 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?**

No comment.

Q4 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?**

The application of generative AI tools specifically designed for regulated financial services has the potential to revolutionise consumer communication. AI-driven text generation can produce content that is not only compliant with regulatory requirements but also significantly more intelligible than content created solely by human subject matter experts.

By simplifying and clarifying financial communications, AI can play a key role in ensuring compliance with the Consumer Duty requirement for understandable communication. This has broad benefits across all consumer groups, including those with varying levels of education and financial literacy. It is particularly valuable for consumers with vulnerabilities, including those who do not speak English as a first language or who struggle with complex financial terminology.

As an example, consider an example in the context of credit card agreements.
Credit card agreements are often inaccessible to many consumers, especially vulnerable groups. These documents typically contain technical jargon, complex numerical concepts, and fragmented presentations of key financial obligations—such as interest rates, fees, and

minimum payments—making it difficult for consumers to synthesise and apply the information effectively.

Vulnerable consumers, including those with low financial literacy, numeracy challenges, or disabilities, face additional barriers due to the lack of visual aids, supplementary explanations, and transparent breakdowns of financial terms. Online resources do little to address these issues, often failing to provide clear, centralised, and easily navigable financial guidance. As a result, a lack of transparency persists, leading to poor consumer decision-making and increased financial stress.

To better understand these challenges, we researched to analyse how consumers interact with credit card agreements and to identify key barriers to comprehension. The following findings highlight the primary concerns raised by consumers regarding APR in a particular credit card agreement:

1. **Language Complexity -** Consumers reported moderate difficulty with language complexity. One user noted: “It is really hard to catch the key points as the sentence has too many numbers and terms.” Another asked, “What is included when calculating the total amount payable? It is not clear.”

2. **Stressful Structure -** The lack of step-by-step breakdowns increases consumer stress and decreases trust in provided figures. One user commented that missing calculations made it more difficult to verify accuracy and reliability.

3. **Lack of Explanation -** Many consumers expressed high anxiety due to the vague nature of APR explanations. While they recognised APR as important, they found it unclear and poorly defined. One user suggested: “Too many descriptions—a calculation process would help me understand.” Consumers sought greater clarity on interest payments and hidden charges.

4. **Absence of Real-World Examples or Personalisation -** Consumers struggled to relate examples to their own financial situations. Personalising content to align with individual financial behaviours could improve comprehension and engagement.

Generative AI has the capability to simplify financial documents, making them more accessible and personalised. AI-generated summaries and customised financial agreements can be tailored to meet consumer needs, enhancing comprehension and engagement.

Research into AI-powered legal document simplification has demonstrated significant improvements in readability and engagement. In one study, we found that by integrating real-time assessments and guided simplifications, AI-driven Intelligibility tools have:

- Increased comprehension and reading speed.
- Improved applied comprehension in decision-making tasks.
- Reduced cognitive overload through better formatting, logical ordering, and concise explanations.

Eye-tracking data confirms that dense text, technical jargon, and poor structure contribute to cognitive fatigue, further emphasising the need for AI-powered simplification in financial

documentation. While AI can streamline complex information, it must be carefully integrated into legal and financial workflows to ensure both clarity and compliance.

While AI presents opportunities for improving financial communication, bias in AI models remains a significant concern. The quality of data used to train AI models is critical - bias in training data or human interactions used to refine AI systems can lead to skewed outcomes that disproportionately impact certain consumer groups.

To mitigate bias, human oversight is essential. AI-generated outputs must be continuously reviewed to ensure accuracy, fairness, and compliance with regulatory standards. Regulators and financial institutions should not assume that AI models are inherently unbiased but should actively monitor and address any emerging biases.

Initiatives such as the **FCA Digital Sandbox** provide a valuable resource for accessing high-quality data. However, ongoing efforts must ensure that AI implementations undergo rigorous testing to prevent biased decision-making.

Additionally, the financial services industry faces a shortage of high-quality, accessible training data tailored to generative AI applications. This gap poses a significant risk and could constrain AI advancements in financial services. **Open data initiatives** may help address this issue, but they must be carefully governed, balancing ethical considerations with consumer consent and data privacy protections.

Recommendations

1. **AI for Financial Communication**
- AI-driven simplification of financial and legal documents can significantly improve consumer comprehension and engagement, particularly for vulnerable groups.

2. **Consumer-Centric Design**
- AI-generated financial documents should incorporate step-by-step breakdowns, clear calculations, and real-world examples to enhance usability.

3. **Bias Mitigation Strategies**
- Continuous human oversight is necessary to identify and address bias in AI-generated financial content.

4. **High-Quality Training Data**
- Industry-wide efforts should focus on improving the availability and quality of financial data used for AI model training.

5. **Regulatory Frameworks**
- Policymakers should ensure that AI applications in financial services align with regulatory compliance while enhancing consumer protection.

Q5 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?**

Issues facing Regulators and Legislators

1. AI Evolves Faster Than Regulators Can Keep Up
AI-driven financial technologies, particularly those powered by machine learning (ML) and deep learning, advance at an unprecedented rate.

Regulators, however, operate at a more measured pace, requiring time to assess risks, gather stakeholder input, and harmonise policies across jurisdictions. By the time new regulations are enacted, AI technologies may have already outpaced them, rendering certain rules outdated or ineffective.

2. Expanding AI Applications in Finance
AI is transforming financial services through high-frequency trading, fraud detection, algorithmic credit scoring, robo-advisory, and blockchain-based finance.

Each of these applications presents distinct legal and ethical considerations, making it difficult for regulators to establish uniform, comprehensive guidelines across all AI-driven financial activities.

3. Fragmented Global AI Regulations
AI regulations vary widely across jurisdictions, leading to compliance challenges for multinational financial institutions:

- European Union: The EU's AI Act is among the most comprehensive regulatory efforts, imposing stringent requirements on financial firms operating in Europe.
- United States: There is no overarching federal AI regulation yet, though agencies like the SEC, CFPB, and OCC are implementing AI-related rules.
- China: China enforces strict AI regulations in finance but simultaneously promotes AI innovation in fintech.

This regulatory fragmentation complicates efforts to scale AI solutions globally, increasing compliance costs and operational hurdles.

4. Compliance Burdens AI Innovation
The absence of clear, standardised AI regulations creates uncertainty, discouraging financial firms from fully integrating AI-driven solutions.
Companies must invest heavily in legal and compliance efforts to ensure regulatory adherence, which slows down innovation and limits AI adoption.

Strategies for Effective AI Regulation

- Proactive Regulation: Regulators should collaborate with financial institutions to develop adaptive, principles-based guidelines rather than reactive, rigid policies.
- AI Governance Frameworks: Financial firms should implement self-regulatory mechanisms to ensure compliance while regulatory frameworks are being finalised.

- Regulatory Sandboxes: More jurisdictions should establish AI regulatory sandboxes, allowing fintech firms and banks to test AI innovations within controlled regulatory environments.
- Greater use of outcome-focused regulation (such as the consumer duty outcomes)
- Where applied, outcome-based regulation should be supported by the requirement for firms to undertake extensive testing and monitoring, and to provide regular data-driven reports on a regular basis on the outcomes they and their customers are achieving.
- Complementary to outcome-based rules is the application of clear principles.

Regulators should avoid the heavy use of prescription, as that is more prone to become outdated by the pace of change. The Treasury should consider these factors when working with the FCA how to replace the Consumer Credit Act and further changes to wider regulation.

Consider bringing together subject matter expertise from areas such as consumer protection and ethics as well as AI technologies to develop a horizon scanning and future research group to support regulatory action. This has been used successfully by regulators in other areas, such as the Civil Aviation Authority's Horizon Scanning Group.

Good governance expectations (such as enforcing the need for explainability and providing regular human oversight) can also play a significant part in protecting consumers, and firms against inappropriate or misuse of AI. This will be particularly effective when accompanied with clear, practical guidance and case studies will help with implementation, alongside and applied strong enforcement options.

Recommendations

1. **Agile regulation**

- Focus on outcome-focused regulation, supported by data-driven evidence and compliance expectations rather than heavily prescribed regulations or legislation.

2. **Develop a financial services horizon scanning group**

- Bring together technologists, innovators, consumer protection and ethics subject matter expertise to provide horizon scanning and identify emerging trends and future developments, and the regulatory response that may be required.

3. Use Sandboxes

- Encourage AI innovators to enter the Regulatory Sandbox to review developments, ensure compliance, and foster positive innovation in AI

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