Financial firms must boost protections against AI scams, UK regulator to warn

Publication Date: 2023-07-11

Author: Jasper Jolly

Section: Technology

Tags: Artificial intelligence (AI), Computing, Financial Conduct Authority, Regulators, news

Article URL: https://www.theguardian.com/technology/2023/jul/12/financial-firms-must-boost-protections-against-ai-scams-uk-regulator-to-warn

The head of the UK's financial regulator is to warn that banks, investors and insurers will have to ramp up their spending to combat scammers using artificial intelligence to commit fraud. Nikhil Rathi, the chief executive of the Financial Conduct Authority (FCA), will say that there are risks of "cyber fraud, cyber-attacks and identity fraud increasing in scale and sophistication and effectiveness" as artificial intelligence (AI) becomes more widespread, in a speech in London on Wednesday. Rapid advances in the sophistication of generative AI by companies such as OpenAI and Midjourney have set companies scrambling to work out how to use the technology to improve productivity. The technology has also prompted concerns over the ease with which users can fake language, audio and video. The prime minister, Rishi Sunak, is hoping to make the UK a centre for the regulation of AI. The FCA's work on AI is part of a broader effort to work out how to regulate the big tech sector as it increasingly offers financial products. Rathi will warn that AI technology would increase risks for financial firms in particular. Senior managers at those firms will be "ultimately accountable for the activities of the firm", including decisions taken by AI, he is expected to say. "As AI is further adopted, the investment in fraud prevention and operational and cyber resilience will have to accelerate simultaneously," he will say. "We will take a robust line on this – full support for beneficial innovation alongside proportionate protections." There have already been instances of financial scams using AI. Rathi will cite a "deepfake" video of the prominent personal finances campaigner Martin Lewis supposedly selling speculative investments. Lewis said the video was "terrifying" and called for regulators to force big technology companies to take action to stop similar scams. Rathi believes AI will have benefits for the financial sector in improving financial models, increasing productivity in customer support and enhancing fraud and money-laundering detection. However, he will say that there are other potential risks for financial markets including higher volatility in price movements, driven by automated trading robots, or biased datasets which could prove even more harmful if relied upon by AI. "The use of AI can both benefit markets and can also cause imbalances and risks that affect the integrity, price discovery and transparency and fairness of markets if unleashed unfettered," he will say.