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AI – managing the future for firms and regulators

Artificial intelligence (AI) has increasingly been used in financial services over recent years. At the FCA, we are considering how we can design a regulatory framework that ensures sufficient oversight, manages the trade-offs firms may need to make, and allows consumers to benefit from the efficiencies AI can bring.

An optimal regime should avoid being tied down to specific technologies. We believe that an outcomes-based and principles-based approach is more conducive to regulating areas that are rapidly evolving. Few of our rules are technology-specific. Detailed and overly prescriptive rules run the risk of becoming quickly out of date and of stifling desirable innovation which can benefit markets and consumers.

Accountability is key when we consider how firms should manage their application of AI. We believe human beings should remain responsible, and accountable, for the technology they use. In the UK, our Senior Managers and Certification Regime is designed to achieve this. But what does accountability look like in the world of AI deployment? As AI technology applications become increasingly advanced and complex, there may be fewer experts who truly understand them. There is also a risk of growing divergence between the experts and senior managers. Senior managers will need to address this.

Effective accountability should support more transparent and explainable use of AI. The use of AI may force firms and regulators to make new types of trade-offs. For example, it can allow more data to be considered in a consumer's credit application, or help provide consumers with products suited to their needs, but it can also incorporate errors and amplify biases. Firms should manage such risks effectively and be clear with consumers about how their data are used. We are currently running a research project with the Alan Turing Institute in the UK to consider how AI could improve outcomes for consumers and support regulatory initiatives.

Machine learning and other AI applications can also be used by malicious actors; for example, to facilitate cyberattacks or financial crimes that spread quickly, are difficult to detect, and cause damage. Firms need to ensure that they are operationally resilient, are vigilant against financial crimes, and can prevent, respond to, and recover from such incidents. Some firms are already using machine learning to combat cyberattacks and money laundering.

The FCA is exploring how we can utilise machine learning to support us in carrying out conduct and prudential regulation. We are investing to become an even more data-driven regulator, enhancing our ability to monitor, predict and respond to firm and market issues. With the Bank of England, we are also setting up a joint AI Forum to gather industry views and share information on safe adoption and usage of AI in financial services and in regulation.

We remain committed to working with international regulators and standard-setting bodies to support an approach to AI that promotes the interests of consumers and is fit for purpose in a fast-changing world. ●