

Key Takeaways from our AI in Financial Services Panel Event

200 3 2024

Related topics: [Artificial Intelligence](#)

During our recent panel event on Artificial Intelligence (“AI”) in Financial Services, the panel explored how firms are implementing AI in practice, the application of legal, regulatory and ethical frameworks to AI, and potential challenges for firms and regulators. An audience of legal, compliance and business professionals from across the sector made interesting contributions to the debate. The session operated under the Chatham House rule, but here are some of the key takeaways from what was a fascinating discussion.

- 1. Firms are getting into the rhythm of AI adoption, but the UK’s fragmented approach may be slowing this down**

Firms are taking a slow, steady and thoughtful approach to AI implementation, but are now getting into a rhythm of approving use cases, with more in the pipeline. However, as the UK navigates the delicate balance between encouraging innovation and providing legal and regulatory certainty, the absence of a comprehensive framework like the EU AI Act presents both opportunities and challenges.

The UK's sector-by-sector approach risks slowing down AI adoption. Firms are tasked with deciphering multiple sets of rules and guidelines, which have not yet been tailored for AI systems, creating a fragmented regulatory landscape that can be difficult to navigate. It is welcome that the FCA is making a great effort to learn about the use of AI in financial services, through its regular surveys and other engagement, and that there is broader co-operation between regulators. However, firms are left with a lot of questions to answer and implementation of the rules is challenging.
- 2. Firms need an “AI baseline”**

The EU AI Act is emerging as a benchmark for compliance. It may be difficult for international groups to deal with any significant divergence and decisions need to be made about whether the EU AI Act is chosen as a baseline, or whether something else, which shares features that are common across the emerging regulatory frameworks is more appropriate.
- 3. There are great challenges and great opportunities, but ethics must be central**

AI has immense potential in the insurance sector, which UK regulators predict will be the top adopter of AI technologies. Data analytics can revolutionise risk assessment and pricing strategies, and satellite imaging can be used to assess damage to assist claims management. However, AI applications may marginalise certain demographics or violate privacy rights. Similarly, in the banking sector, AI can improve fraud detection and market abuse surveillance. But firms must consider whether emotion recognition is the right thing to do.

The ethical deployment of AI extends beyond compliance as it involves prioritising human rights and ensuring that AI technologies do not perpetuate biases or infringe on individual freedoms. The EU AI Act's focus on human rights serves as a benchmark, encouraging other regions to adopt similar frameworks that safeguard ethical standards in AI development and usage.

4.	<p>Governance and human-in-the-loop oversight is key</p> <p>Centralised AI panels or boards are important to ensure there is overall oversight and approval of high risk use cases, but regional and business unit governance is also essential. Appointing “AI champions” is one idea for ensuring ownership of the AI agenda at business unit level.</p> <p>Despite the robust data and scientific backing of many AI products, incorporating human oversight remains critical to ensure these are products firms want to sell. This human-in-the-loop approach ensures that AI-driven decisions are not only technically sound but also ethically and socially acceptable. In sectors involving retail customers, where decisions can significantly impact lives, human validation provides an additional layer of scrutiny that purely algorithmic processes may lack.</p>
5.	<p>AI must be considered from an ESG perspective</p> <p>The environmental footprint of AI and its power usage is often overlooked, but should not be ignored. Firms are striving for solutions that meet increasing client expectations and drive efficiency gains, all the while delivering on commitments to net zero.</p>
6.	<p>Capitalising on AI and ensuring compliance requires collaboration between third party vendors and firms</p> <p>The operationalisation of AI systems in the emerging legal and regulatory framework is a shared responsibility that extends across the entire supply chain, from providers of general purpose AI models to individual firms using them to deliver specific products or services. Firms need to know “what to ask” third party vendors and may benefit from clearer guidance from regulators around due diligence and expectations. Currently, there is no market standard and firms are seeing a range of different contractual clauses and protections, some of which may be inappropriate.</p>
7.	<p>Upskilling is necessary...but we are all used to learning on the job!</p> <p>If AI is being used in your business unit, you need to understand it and bring yourself up to speed. As lawyers and compliance professionals, we always have to remain up to date with the latest developments. Non-technical professionals should remain curious and operate in a culture where you can ask the “stupid questions”. That being said, there should not be an expectation that non-specialists will learn to code or get deep into the weeds. It is likely that the more impacted your business unit is by AI systems, the more you will need to know about it, in order to have meaningful discussions with, and challenge, the technical specialists.</p>

KEY CONTACTS



Tom Callaby

Partner

London



T +44 20 7367 2136



Sarah Brook

Partner

London



T +44 20 7367 3424