

Regulators signpost direction of travel on artificial intelligence

AT A GLANCE

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What's new?

- The Bank of England (BoE) and FCA-convened Artificial Intelligence Public Private Forum (AIPPF) published its [final report](#) on 17 February 2022. The report sets out the key findings of the group and next steps on the regulatory agenda on AI. It centres on the AIPPF's three areas of focus: data, model risk and governance.
- The report explores some of the challenges, risks and opportunities associated with the deployment of AI, and makes a number of recommendations to firms and the regulators. The BoE and FCA have also announced they will publish a discussion paper on the regulatory approach to AI later in 2022.

What does this mean?

- The AIPPF, which is made up of a range of stakeholders from industry, academia and the official sector, was established by the BoE and FCA in October 2020. The remit of the group included identifying barriers to the deployment of AI, risks associated with its use, and areas where further regulatory principles or guidance would be beneficial.
- The report notes that AI can bring benefits for consumers through more personalised products and services as well as improved customer journeys. For firms, it says AI can bring operational efficiencies and improve predictive capabilities and profitability. The AIPPF also identifies a number of barriers to adoption of AI, including regulatory uncertainty.
- The group makes a number of recommendations on data, model risk and governance. The full list of recommendations can be found in the annex of this document.
- Many of the benefits and risks associated with AI derive from the **data** which underpin AI models. The report explores the importance of data quality, privacy, and a robust data strategy and governance model.
- The AIPPF sets out a number of best practice approaches to data. These include regular data audits and assessments of data usage, including alignment with business objectives, developing a clear understanding and documentation of the provenance of data used by AI models (especially in the case of third-party data) and understanding of the limitations and challenges of using alternative and/or synthetic data.
- The report also notes that further regulatory or industry data standards may be warranted in the context of AI.

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- The AIPPF also explores the **model risk** associated with AI. Many of the risks associated with use of AI are not new to financial services. However, the complexity of AI models brings new challenges and explainability is a key issue.
- The report makes a number of recommendations on model risk. These include: a clear AI review and sign-off process for all new applications, a complete inventory of all AI applications and an appraisal process for explainability approaches (with potentially three different approaches for internal, regulatory and consumer use).
- The AIPPF also notes that current MRM practices may not fully cover consumer harm and risks. Firms should try to measure the impact on consumers (e.g. those denied access to credit) and help manage those risks.
- The report explores the importance of **governance** of AI. A number of themes are explored, including accountability for decisions made by AI and how these can be reflected under the SM&CR, broader governance frameworks (including the role of the three lines of defence), the importance of the right culture and skills throughout an organisation, and the role audit and certification of algorithms could play.
- Bias, fairness, ethics and transparency are also key themes explored in the report.
- The report notes the potential for AI to exacerbate bias and the challenges in determining what constitutes fairness. It recognises that firms' approach to transparency is likely to differ for different stakeholder groups. For regulators, compliance teams and model developers, transparency should focus on information on the reliability of decisions taken whereas for consumers transparency should focus on telling individuals when AI is being used and how specific decisions are reached.

What does this mean for firms?

- The AIPPF report does not represent regulatory guidance, but the themes explored and recommendations made provide a clear indication of the areas the regulators are likely to focus on in their forthcoming discussion paper. Firms which have deployed AI should consider how aligned their governance structures, controls and risk management are with the best practice and recommendations set out in the paper and how they may need to be enhanced.
- Many of the themes explored in the AIPPF report align with current regulatory priorities, such as consumer outcomes, diversity and inclusion, culture, accountability and governance. It is likely the regulators will continue to focus on these issues in the discussion paper and any future regulatory initiatives.
- At PwC we have developed a [Responsible AI framework](#) to support our clients on many of the issues raised by the AIPPF.

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Annex: Full list of best practice recommendations in the AIPPF report

Best practice - data

Firms should:

- Consider adoption and use of AI holistically, harmonising, where possible, data and model processes. In particular, they should aim to coordinate data management and strategy with AI management and strategy.
- Have processes in place for tracking and measuring data flows within, as well as into and out of, the organisation.
- Carry out regular data audits and assessments of data usage, including alignment with business objectives.
- Have a clear assessment of the value of the data it holds and uses, both for specific projects, and to the firm as a whole. This should inform the cost/benefit analysis of the AI project.
- Have clear understanding and documentation of the provenance of data used by AI models, especially in the case of third-party data.
- Have a clear understanding of the limitations and challenges of using alternative and/or synthetic data.

Best practice - model risk

Firms should have:

- A documented and agreed AI review and sign-off process for all new applications.
- A complete inventory of all AI applications in use and in development.
- Clearly documented methods and processes for identifying and managing bias in inputs and outputs.
- Regular assessments of AI application performance, including potential external impact.
- A clear explanation of AI application risks and mitigation (to be updated as appropriate).
- Documentation and assessment of AI application inputs, including data quality and suitability.

Best practice - governance

Firms should:

- Strengthen contact between data science teams and risk teams from the early stages of the model development cycle, while maintaining independent challenge.
- Establish a central committee to oversee firm-wide development and use of AI. Firms should have: AI-specific elements of the risk framework; a privacy framework; operational principles; and, ideally, a set of ethical principles which can help guide decision-making.
- Provide training and understanding of AI (including responsibility and accountability) with the aim of embedding a sufficient level of skills throughout the organisation.
- Share good practice across the organisation, for example, from data management through to software development and MLOps.