

# Insurtech UK

## Policy Update

### **FCA publishes response to Government's AI White Paper**

#### ***Background***

Today the FCA published its response to the Government's [A Pro-Innovation Approach to AI Regulation](#) White Paper and [Initial Guidance for Regulators](#) published in February 2024. Through these documents, the Government asked key regulators to publish their approach to regulating AI by 30th April 2024. Regulators were encouraged to include:

- An outline of the steps they are taking in line with the expectations set out in the white paper.
- Analysis of AI-related risks in the sectors and activities they regulate and the actions they are taking to address these.
- An explanation of their current capability to address AI as compared with their assessment of requirements, and the actions they are taking to ensure they have the right structures and skills in place.
- A forward look of plans and activities over the coming 12 months.

In response to the Government's request, the FCA published its [AI Update](#). This response outlines the FCA's role and objectives, and the work it has done so far in promoting the safe and responsible use of AI in financial services, as well as its plan for the next twelve months.

#### ***Overview***

- The FCA's [response](#) sets out that an evidence-based view, balancing both the benefits and risks of AI, will ensure a proportionate and effective approach to the use of AI in financial services.
  - Its regulatory framework contains a range of rules and guidance pertaining to a firm's governance and accountability arrangements, which are relevant to firms using AI as part of their business models.
- The FCA published its [AI Discussion Paper](#) with the Bank of England in 2022, which explored the potential benefits and risks of using AI in financial services, and considered existing regulatory requirements.
- A main priority of the FCA is considering how the safe adoption of AI requires consideration of wider technology trends, such as the UK's digital infrastructure and cybersecurity. The FCA will also prioritise understanding current deployment strategies within regulated firms so it can clearly identify and mitigate risks.
- The FCA supports the Government's pro-innovation approach, and the FCA's secondary competitiveness and growth objective provide a path for fostering technological exploration including through the Regulatory Sandbox and other FCA Innovation Services.

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### *Plan of work for next twelve months*

- The FCA will continue to further its understanding of AI deployment to ensure any potential regulatory interventions are proportionate and pro-innovation, and is currently involved in diagnostic work on the deployment of AI in financial markets to allow it to respond to AI developments more efficiently.
- The FCA's current regulatory framework covers the use of technology, including AI, in financial services, but it will continue to monitor developments in AI, such as the rise of Large Language Models (LLMs), and may consider future regulatory adaptations.
- The FCA will continue to collaborate with the Bank of England, the Payment Systems Regulator, and regulators through the Digital Regulation Cooperation Forum (DRCF) to create consensus on best practice and potential future regulatory work.
- The FCA will continue to collaborate with partners domestically and internationally, and has further prioritised international engagement on AI following the AI Safety Summit and other recent developments, such as the EU AI Act.
- The FCA is working with DRCF member regulators to deliver the pilot AI and Digital Hub for testing of beneficial AI, and also runs the Digital Sandbox and Regulatory Sandbox, which have both supported a range of AI applications to date.
  - The FCA is also assessing opportunities to pilot new types of regulatory engagement as well as environments for testing AI, which includes exploring changes to the FCA innovation services to enable the testing and impact of AI technologies within an AI Sandbox.
  - This was referenced in an [announcement](#) today that the Government launched a new pilot scheme, with £2 million in funding, to link AI and digital innovators with regulators with aims to strengthen collaboration between the two. The pilot will create an AI and Digital Hub, delivered by the DRCF, to provide innovators with access to informal advice from regulators with the goal of making it easier for innovators to comply with different regulatory regimes governing the use of AI.

### *Next steps*

Insurtech UK will continue to monitor any updates from the FCA in its approach to regulating the adoption of AI in financial services, including any future changes to regulatory requirements and opportunities arising from the AI pilot schemes. We will also pick this up during future conversations with stakeholders at the FCA.