

# UK regulatory bodies call for auditing standards of AI and machine learning

Article

**The news:** Four UK regulatory bodies, collaborating together as the **Digital Regulation Cooperation Forum (DRCF)**, issued a pair of reports **defining potential risks posed by the use of algorithmic systems**—particularly machine-learning approaches. They also offered ideas on how to manage those risks and ensure algorithm usage is **fair and unbiased**.

**What's the problem?** AI is set to explode in banking, with its projected market size to reach **\$64.03 billion by 2030 and a CAGR of 32.6%**, per [Research and Markets](#). But the complexity of AI models can create a “black box” problem in which decisions are made with very little transparency regarding how they reached their conclusions, making accountability and error detection a challenge. Recently banks have been criticized for their current use of AI.

- **Goldman Sachs** faces 2019 [claims](#) that technology used to measure creditworthiness might be [biased against women](#).
- **Wells Fargo's** [refinancing](#) practices found the bank only approved 47% of Black homeowners' mortgage refinancing applications in 2020.
- Three Federal Reserve economists [found](#) in a 2021 paper that algorithmic systems for mortgage underwriting gave higher denial rates for minority borrowers.

**More on the UK reports:** The regulators called the two papers a foundation for identifying areas where individual regulators should step in and where they should collaborate on oversight.

The first [report](#) lays out six focus areas in algorithmic processing: transparency, fairness, access to information, resilience of infrastructure, individual autonomy, and healthy competition.

It also offered an overview of the potential harms and benefits of algorithmic processing.

- Algorithms are beneficial but require responsible innovation because they have the potential to cause harm, both intentionally and inadvertently.
- Firms procuring and using algorithms often know little about their origins and limitations.
- The lack of visibility and transparency in algorithmic processing can undermine accountability.
- Adding a “human in the loop” is not a foolproof safeguard against causing harm.
- Regulators still need to conduct further studies on the risks associated with algorithmic processing.

**What happens next?** In the second [report](#), the regulators outlined a tentative plan of action, which includes:

- Working to improve companies' understanding of the impact algorithms can have, including identifying and promoting best practices.

- Supporting the development of algorithmic assessment practices to identify inadvertent harm, improve transparency, and give the public more confidence in algorithmic processing systems.
- Helping firms communicate with consumers about where and how they use algorithmic systems.
- Working with researchers on human-computer interaction to better understand issues with human-in-the-loop oversight, such as automation bias.
- Promoting further research on open questions, such as exploring futures methodologies (for example, horizon scanning and scenario planning), to identify trends in the development and adoption of algorithms.

**The big takeaway:** The collaborative effort of the four UK regulatory agencies has advanced the development of a clear standard for the use of AI and machine learning. Their findings—and in the US, a similar [call](#) from the **Consumer Financial Protection Bureau (CFPB)** for deeper scrutiny of AI—have started the dialogue needed to get a handle on these powerful and easy-to-misuse tools.

- Clear, globally agreed-on standards must be developed to promote interoperability.
- Financial services firms must have a better understanding of the algorithms they use and their implications.
- Consumers need to know how their data is processed as well as what data is providing input.
- Agencies, companies, and consumers should all encourage greater transparency in the use of these techniques and methodologies.

### US Banks' Deployment of Emerging Technologies, 2018-2022

% of respondents

	2018	2019	2020	2021	2022
Cloud computing	-	-	32%	40%	47%
APIs	-	-	21%	30%	36%
Robotic process automation (RPA)	4%	6%	6%	14%	24%
Chatbots	3%	2%	3%	8%	15%
Machine learning	-	2%	7%	7%	11%

Note: banks that deployed technology going into 2018 to 2022

Source: Cornerstone Advisors, "What's Going On in Banking 2022," Jan 25, 2022

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