

UK watchdogs to clamp down on banks using discriminatory AI in loan applications

Article

The news: UK regulators have signaled that they will clamp down on artificial intelligence (AI) use in banking that might be used to discriminate against people, per the FT.

Banks which use AI to approve loan applications must be able to prove the tech will not worsen discrimination against minorities.

The bigger picture: AI is a significant **growth area** in banking. Its market size is projected to soar globally from \$3.88 billion in 2020 to **\$64.03 billion in 2030, with a CAGR of 32.6%**, per a Research and Markets [report](#).

AI in banking is maturing, and as data analysis improves, it brings the potential for more accurate decision-making. But concerns about misuse have led to heightened regulatory scrutiny:

- **US:** Earlier this month, the Consumer Financial Protection Bureau (CFPB) [warned](#) it would get tougher on AI misuse in banking. CFPB Director Rohit Chopra cautioned that AI could be abused to advance “**digital redlining**” and “**robo discrimination**.” The chairs of two US congressional committees last year asked regulators to ensure the country’s lenders implemented safeguards ensuring AI improved access to credit for low- and middle-income families and people of color.
- **Europe:** EU regulators last week urged lawmakers to consider “further analysing the use of data in AI/machine learning models and potential bias leading to discrimination and exclusion.”
- **UK:** The Office for AI will release its white paper on governing and regulating AI in [early 2022](#). This could lead to a shift from the government’s current sector-led approach to blanket AI-specific regulations.

The problem: Banks using AI need to be aware of the risks that come with the technology:

- 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.
- Baked-in **biases** that are difficult to root out are another risk. For example, **Apple and Goldman Sachs** found themselves in hot water in 2019 over claims that technology used to measure creditworthiness might be [biased against women](#).
- Unintended biases in AI models can arise from **flawed training data**. AI algorithms that are trained on incomplete, biased, or extraneous data can yield judgments that are biased, causing a range of issues, including inadvertent discrimination.

Perceived Effect of Mass AI Adoption on Marketwide Risks

Marketwide privacy breaches



Mass cyberattacks



Exacerbating biases and discrimination



Systemic risks in financial systems



Marketwide concentration risks



Perpetuating or exacerbating market uncertainty



■ Significantly increases risk
 ■ Slightly increases risk
■ No impact on risk
 ■ Slightly reduces risk
 ■ Significantly reduces risk

Note: Totals may not add to 100% due to rounding.

Source: Cambridge Centre for Alternative Finance, World Economic Forum, “Transforming Paradigms: A Global AI in Financial Services Survey,” cosponsored by EY and Invesco, January 2020

Methodology: The data was collected in Q2 and Q3 2019 among a sample of 151 responses from 33 countries, with fintech firms and incumbent financial institutions representing 54% and 46% of the sample, respectively. Respondents included C-level executives and other relevant senior management across different financial services sectors.

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The solution: Clear and consistent guidance from regulators will give banks a framework to work within, helping them to minimize potential problems arising from AI use. Banks must

recognise the inherent flaws in AI, improve transparency, and take responsibility for problems. Both banks and watchdogs must introduce **policies** to minimize the risk of bias and discrimination:

- For robo-advice, humans should be involved in signing off outputs from algorithms before they are delivered as advice to customers, a practice known as having a “**human-in-the-loop.**”
- Regulators should offer examples of **best practices and poor practices** when banks deploy AI.
- Tools that are heavily reliant on training data may require new processes to manage the **data quality.**
- **Reverse-engineering** can sometimes be used to draw conclusions about black-box algorithms, improving transparency and documentation.

Attitudes Toward AI & Automation Among Adults Worldwide, Aug 2021

% of respondents

Fear of losing control

I'm worried about its potential when it's in the wrong hands	42%
We must pay attention to its development, so it doesn't get out of hand	42%
It will have negative effects on society that we can't predict today	28%
At some point it will reach a point beyond human control	23%

Inevitable evolution

It's just the next step in the evolution of technology	31%
It will replace routine human actions	29%
It will soon help humans in many of their daily tasks	28%
It will transform entire aspects of society (e.g., commerce, medicine)	27%

Advancing society

It will advance our society	21%
It will improve our lives in ways we can't imagine today	21%
I'm excited by the possibilities that it presents today	17%
I'm willing to share my data if it can be used to make my life better	12%
I'm very well informed on it and the possibilities it presents us	10%

Note: ages 18+

Source: YouGov, "International Technology Report 2021: Automation & AI," Nov 30, 2021

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