Adopting AI in financial advice?

Here's what the FCA expects

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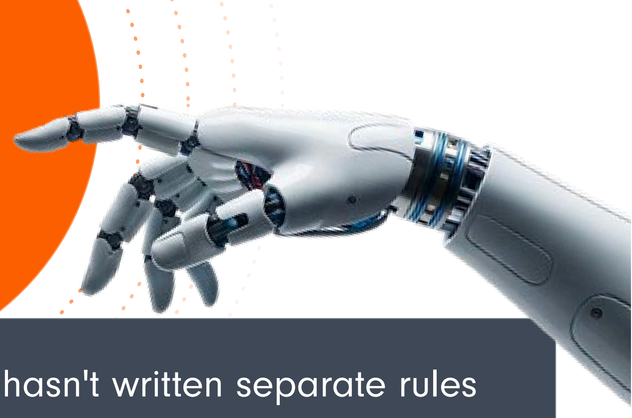
50%

of advisers are using some form of Artificial Intelligence in their workflow.



THE FCA'S POSITION

The FCA is technology-agnostic — it hasn't written separate rules for AI. Instead, it expects firms to apply existing obligations to any AI tool that touches clients, advice or operations.

THREE RULES TO BE APPLIED

Consumer Duty
Does the tool support good customer outcomes?

Senior Managers and Certification Regime (SM&CR)
Is a named Senior Manager accountable for its risks?

Senior Management Arrangement, Systems and Controls (SYSC)
Are governance, oversight and resilience controls in place?

FOUR KEY RISKS TO MANAGE

1 Black box risk
Some AI tools operate in ways that can't be easily explained. If advisers can't explain why the tool produced a result, they can't defend it to a client or regulator.

2 Hallucinations and accuracy
AI can produce confident but incorrect outputs. Human review is essential (especially for anything client-facing).

3 Bias in the data
Tools are only as fair as the data they're trained on. If the data behind a tool contains bias, the outputs will likely exacerbate this. Firms must test for and document unfair outcomes.

4 Third-party dependence
Using an external AI provider doesn't transfer accountability. You're still responsible for due diligence, contractual controls and ongoing oversight.

THREE-PHASE ADOPTION APPROACH

Before adoption
- Define the problem clearly
- Assign SM&CR ownership
- Risk assess: data, bias, resilience
- Review GDPR alignment

During deployment
- Pilot with limited dataset
- Document all testing
- Maintain human oversight
- Keep audit trail of any tool overrides

Ongoing oversight
- Monitor accuracy and drift
- Test for bias regularly
- Review resilience & fallbacks
- Document everything

Due dilligence checklist for vendors

Model design & performance
- [ ] What model is used and what risks does it introduce?
- [ ] Evidence of performance and error rates provided?
- [ ] How is explainability delivered to users?

Data & training
- [ ] Training data confirmed as lawfully sourced?
- [ ] Confirmed if your inputs will be used to train the model?
- [ ] Ongoing bias assessment and corrections in place?

Security & privacy
- [ ] Full data flows, storage locations, access controls and encryption documented?
- [ ] Vendor supports your DPIA and GDPR requirements?

Operational service
- [ ] SLAs, incident response and update schedules agreed?
- [ ] Notification commitments for outages or changes confirmed?

Auditability
- [ ] Access to audit logs confirmed?
- [ ] Decision-level traceability available when needed?

Contract terms
- [ ] Ownership of inputs and outputs (including IP) defined?
- [ ] Controls on vendor reuse of client data and confidentiality?
- [ ] Warranties, indemnities and liability caps agreed?

Data protection & privacy — Treat AI like any other GDPR processing activity
- [ ] Client data anonymised where required?
- [ ] Data storage location and cross-border transfers confirmed?
- [ ] Privacy notices and client terms updated as needed?

Click to reset

Advice liability stays with the firm and the adviser, regardless of which tools are used. The FCA continues to monitor AI adoption and further guidance is expected.

Adviser Solutions

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