Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

RegTech and Advanced Analytics
Innovation, Data and Technology
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

22 June 2022

By email: syntheticdata-callforinput@fca.org.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to FCA's Call for Input on synthetic data to support financial services innovation

We welcome the opportunity to respond to the FCA's Call for Input on how synthetic data can be used to support innovation in financial services. We have not answered the specific questions posed in the Call for Input as they are primarily aimed at industry respondents.

However, we feel that the consumer voice is critical to this debate as it is financial services consumers who ultimately stand to benefit from, or be harmed by, developments in the use of synthetic data. Therefore, we are setting out the key considerations and recommendations from a consumer perspective in this letter.

The Panel broadly agrees with the FCA's assessment of the potential benefits synthetic data could offer, especially its potential to be used to model scenarios where there isn't currently high quality, or any, real data available. Firms often cite issues around GDPR and data protection as a barrier to collecting valuable and relevant data about vulnerable customers. However, smart and ethical use of synthetic data sets can help to inform the design and delivery of products and services that benefit consumers, allowing firms to provide services that meet consumer needs and to model the value and impact of their decision-making on consumers with different characteristics of vulnerability. This could in turn drive innovative approaches to inclusive design, which we have advocated for in all areas of financial services.

The Panel also recognises the potential benefit of synthetic data in levelling the playing field between new entrants and incumbent firms in terms of data wealth. This could facilitate greater innovation and allow consumers a broader choice between products and services. For this benefit to be realised, there mustn't be any unreasonable barriers to switching.

However, in our view, there are risks related to the use of synthetic data, which could lead to consumer harm if not considered and mitigated at all stages. We consider the potential harms to be bias, discrimination and exclusion (whether deliberate or unintentional) a lack of accountability, alongside privacy concerns.

As the FCA explains in its Call for Input, synthetic data is artificial data generated using algorithms. It is therefore important that the FCA's work in this space is considered in the context of the Digital Regulation Cooperation Forum's (DRCF) work on algorithmic fairness and governance. We would like to refer the FCA to comments we made in response to the DRCF's consultations about the fair use and governance of algorithms.

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Good practice in this area will be particularly important if these algorithms are used to generate data that will be relied upon to inform the development of new financial services products and markets. We would also encourage the FCA to work with fellow regulators and relevant government bodies on the ethical use of algorithmic technologies, such as Open Data Institute and the Centre for Data Ethics and Innovation, to ensure a consistent and joined up approach.

In summary, we would like to reiterate the key consumer messages that we have set out in other responses, in the context of synthetic data:

- **Consumer focused at all stages of the 'data journey'** - synthetic data systems and procedures should be designed and delivered with a consumer-centric approach that aims to minimise consumer harm and increase positive outcomes for consumers. Algorithms should promote inclusion and reduce exclusion. They should not create unreasonable barriers to access, switching or cancellation. The FCA should make clear to firms that their use of synthetic data in product and service design and such use is communicated to customers should be considered as aspects of firms' responsibilities under the new Consumer Duty.

- **Transparency and consumer information** - firms should put consumers in a position to understand what data is being recorded, the purpose of collecting that data, and how it will be used and shared.

- **Quality of source data** - the underlying source data informing algorithms and synthetic data should be accurate, current, inclusive and representative so that they do not create unreasonable barriers or discriminate against individual or groups of consumers, including those in vulnerable circumstances or with protected characteristics.

- **Accountability and responsibility** – firms should maintain sufficient control and understanding of the synthetic data and algorithms they use so that they are capable of assessing and monitoring them to understand how they are impacting consumers. Firms' governance arrangements should expressly include procedures and arrangements for governing the use of algorithms, including in synthetic data. This will ensure that firms can be held accountable, by consumers and regulators, for how their use of data and algorithms impacts consumers and affects outcomes.

- **Consumer representation** – as noted above, the FCA's Call for Input is aimed primarily at industry respondents. We strongly believe that to ensure good outcomes for all stakeholder, there must be effective consumer representation throughout the development of systems, processes and procedures related to synthetic data. Understanding consumer needs, experiences and potential risks will keep regulators and firms focused on consumer outcomes and ensure that synthetic data is being used fairly and ethically to provide genuine benefits for consumers. The consumer representation in the development of Open Banking and Open Finance may serve as a useful model here.

The FCA's paper asks for views on what the regulator's role should be in the provision of synthetic data. One option is for the FCA itself to generate synthetic data for market participants to use. We are concerned that this may blur the important line between the FCA and industry and encourage too close a collaboration that could result in regulatory capture. If the FCA is to be the generator of synthetic data, it must ensure that it sets a

leading example in creating accurate, private, inclusive data sets that are free from bias and discrimination.

We look forward to future engagement with the FCA on the use of synthetic data as their thinking develops.

Yours sincerely,

Helen Charlton
Chair, Financial Services Consumer Panel