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By email: drcf.algorithms@cma.gov.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to the Digital Regulation Cooperation Forum's call for input on auditing algorithms: the existing landscape, role of regulators and future outlook

The Financial Services Consumer Panel is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK. Our focus is predominately on the work of the FCA, however, we also look at the impact on consumers of other bodies' activities and policy where relevant to the FCA's remit. We are responding to this consultation because algorithms are commonly used by FCA-regulated firms to make decisions about financial services consumers – be that whether to lend to them or not, how much their insurance premium should be or whether they're within the target audience for a financial promotion. The increasing digitalisation of financial services means algorithms are playing an ever-greater part in determining consumer outcomes and we want to ensure those outcomes are fair.

We therefore welcome the four digital regulators coming together as part of the Digital Regulation Cooperation Forum (DRCF) to explore issues around auditing algorithms. This response should be read in conjunction with our response to the DRCF's call for input on the benefits and harms of algorithms as many of the points made there apply equally to this call for input. Our comments here are restricted to the governance of algorithms.

As the use of algorithms increases in prevalence and complexity, it is vital firms and regulators have the appropriate checks and balances in place to protect consumers from harm caused by algorithms and their source data. This forms a key part of our vision for the use of algorithms in financial services:

- Firms 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.
- The underlying source data informing algorithms is accurate, current, inclusive and representative so that algorithms do not unfairly discriminate against individual or groups of consumers, including those in vulnerable circumstances or with protected characteristics.
- Algorithms promote inclusion and reduce exclusion. They should not create unreasonable barriers to access, switching or cancellation.
- Firms maintain sufficient control and understanding of the algorithms they use so that they are capable of interrogating them to understand how they are impacting consumers. This ensures firms can be held accountable, by consumers and regulators, for how their algorithms impact upon and drive outcomes for consumers.

We believe the DRCF explores the right areas in its call for input and are supportive of the suggested role for regulators in terms of providing guidance on when and how audits should take place and ensuring that issues identified in these audits are followed up on.

We believe the DRCF should prioritise accountability and ownership amongst firms for the consumer data journey. It must be clear who is responsible for decisions about the use of algorithms, the quality of the data used to drive them and the resulting impact on consumers. Firms' governance arrangements should expressly include procedures and arrangements for governing the use of algorithms. Firms should also demonstrate a proactive approach in assessing the potential risks and impact of their use of algorithms at the product design stage. For this to work, firms must ensure they have sufficient understanding of the algorithms and systems they use so that they are capable of interrogating them to evaluate the impact they have on consumers.

To maintain this focus on consumer outcomes, we believe there should be a dedicated consumer representative involved in the auditing process. This representative would ensure the needs of the end user are kept in mind throughout the design and conduct of the audit and that the recommendations are focussed on making a material difference to consumer outcomes.

The results of audits of algorithmic processing should be discussed with the appropriate regulator. This will allow regulators to effectively supervise and enforce regulatory standards as well as give them important insight into firms' approach to algorithms and the pace of change and innovation.

Finally, we urge the DRCF to speed up its work in this area as we are concerned that change and use of algorithms will outpace regulators if they continue to 'debate' the issues involved rather than taking action to address known harms and issues. Regulators should ensure their plans and strategies build in capability and capacity to focus on this significant area of emerging risk.

Yours sincerely,

Helen Charlton
Chair, Financial Services Consumer Panel