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Science and Technology Committee  
House of Commons  
London  
SW1A 0AA

20 April 2017

Dear Sir/Madam

This is the Financial Services Consumer Panel's (the Panel) response to the Science and Technology Committee inquiry into the use of algorithms in public and business decisions making.

The Financial Conduct Authority (FCA) is required to set up and maintain a Panel to represent the consumer interest. The Panel represents the interests of all groups of financial services consumers and operates independently of the FCA. The emphasis of its work is on activities that are regulated by the FCA, although the Panel may also look at the impact on consumers of activities that are not regulated but are related to the FCA's general duties.

The Panel welcomes the opportunity to respond to this inquiry. In an increasingly digital world, algorithms are being used to make decisions in a growing range of markets. This affects retail consumers in a number of financial services markets, including credit, insurance, and 'robo' advice. For lower risk consumers, there may be some benefit in more personalised risk scoring, but it is likely to lead to financial exclusion for many who are higher risk. In the case of 'robo' advice (most of which is not regulated advice), Panel research<sup>1</sup> has demonstrated that consumers do not fully understand what they are paying, what they are getting, and whether they have access to redress or not. Other potential uses of data include the ability for firms to price discriminate against loyal customers.

Consumers may also be at risk from breaches to the provisions of the EU's General Data Protection Regulation (such as the right to be forgotten) either because it is impossible for a consumer to trace the journey of their data or because firms are not sufficiently supervised or enforced against.

Data analytics is a developing science with a lot of room for experimentation and development. There is a risk of placing undue weight on the output of algorithms that are subsequently found to be faulty, for example, some of Google's early attempts to predict the spread of the flu virus<sup>2</sup>. Algorithms are set up and 'trained' by humans with their own commercial objectives and natural human biases. This can affect the quality of algorithms or the use to which they are put.

Algorithms can also pose systemic risks. A recent paper on 'robo'-advice from a UK investment firm suggests that providers are potentially storing up large liabilities if their algorithms fail further down the line<sup>3</sup>. Another industry paper highlights the practical issues that 'robo'-advice

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<sup>1</sup> Boring Money on Behalf of FSCP (2016), 'Assessing online investment & advice services': [https://www.fscp.org.uk/sites/default/files/final\\_online\\_investment\\_and\\_advice\\_services\\_summary\\_report\\_bm\\_30\\_regulator\\_doc\\_05\\_12\\_2016.pdf](https://www.fscp.org.uk/sites/default/files/final_online_investment_and_advice_services_summary_report_bm_30_regulator_doc_05_12_2016.pdf)

<sup>2</sup> <http://www.wired.com/2015/10/can-learn-epic-failure-google-flu-trends/>

<sup>3</sup> SCM Direct (2016). Fintech Folly: the sense and sensibilities of UK robo-advice <https://scmdirect.com/press-and-videos#block-views-resources-scm-research-tab>

firms need to consider and plan for, including processes for temporarily suspending algorithm-driven advice if, for example, there are changes to legislation that require algorithms to be modified<sup>4</sup>.

It is unclear how firms will be able to explain to consumers the decisions that have been made using complicated algorithms and machine learning. Supervisory oversight is therefore crucial. The Panel would also see value in both regulators and financial services providers that rely on algorithms setting-up ethics committees to discuss and explain decision-making driven by algorithms.

The Panel would like to see an appropriate framework in place for supervision and enforcement as algorithmic decision-making continues to play an increasing role in the financial services sector. Opening-up algorithmic decision-making to regulatory scrutiny would enable stakeholders to monitor how those systems are functioning.

The use of data and automated decision-making by financial institutions should be directed towards providing better products and superior quality services for all consumers. This will not happen without regulatory intervention.

Yours sincerely

Sue Lewis  
Chair, Financial Services Consumer Panel

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<sup>4</sup> Storey, A. (2016). How to monitor robo-advice <https://www.linkedin.com/pulse/how-monitor-robo-advice-andrew-storey>  
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