KPMG

Kennedy Masterton-Smith, *Partner*

12:
AI and data regulation

Executive Summary

- In 2050 a mutual model speaks to customers by offering a trusted AI and human operating model focussing on good AI principles of transparency, explainability, accountability, accuracy and fairness, addressing distrust and scepticism of Big Tech
- To ensure a 2050 regulatory regime that is effective in addressing AI operating models, new specific rules and guidance needs to be developed to address significant risks of customer harm
- It is incumbent on the BSA, building societies and credit unions to drive the industry and agentic regulation by collaborating and engaging with regulators on development of the road map to the 2050 specific regulatory regime based on core mutual principles. This will required AI fluency across the mutuals community
- Business opportunities that are currently open to mutuals will likely be diminished if they cannot keep up with the fast-paced change of AI and agentic solutions.

Overview of 2050

In 2050, building society and credit union operating models heavily involve autonomous AI. High capability AI agents have joined the digital workforce. Alongside humans, they act independently with autonomous decision making within defined parameters, with human oversight but without continuous human input. Mutual agents and customers' own agents operate using digital personas and embedded digital identities, which are empowered to act on behalf of customers and entities.

Financial services regulation, data protection and supervision is undertaken on a day-to-day basis by regulator agents, regulating in real-time and near-time , using data protection compliance, prudential, compliance and Consumer Duty agents. Human regulation is mostly focussed on escalation and broader regulatory strategy.

In the past 25 years there have been a number of significant AI agent failures as technology and operating models have developed and resulting in material harm and loss to UK customers.

2050 Agentic operating models

Agent-to-agent (A2A)/machine to machine interoperability is standard and includes message passing, intent negotiation, structural collaboration between agents, multi-agent task orchestration and dynamic role assignment. Firms are empowered to negotiate and execute contracts/product terms and conditions and autonomously sign-up clients for financial products within pre-prompted parameters. Agents resolve 100% of day-to-day customer interactions without human input, and proactively suggest steps to enhance performance and customer satisfaction. Biometric data is used to identify and authenticate customers.

In 2050 customers have the following behaviours:

- High adoption of A2A operating models by a significant percentage of potential customers
- Deep scepticism of big tech and AI agents within the remaining pool of potential customers. This is based on a previous poor experience and/or publicised failings with AI agents over the years (as noted above)
- Desire to keep personal information restricted and concern regarding facial recognition and biometric data
- A need for human interaction when it comes to critical financial decisions or in moments of financial stress

These desires and concerns result in successful mutuals offering a multi-channel approach by providing an option for a 'human' interaction channel, whether standalone or hybrid, which stands out in the shareholder focussed market.

Building Society and Credit Union 2050 workforce

All levels of staff and directors need to be AI-fluent, with specific focus on AI governance. Governance and controls as we understand them today move into the first line of defence, embedded across the A2A lifecycle. Traditional point in time validation is no longer sufficient for continuously learning and self-coding models. They utilise their own teams of 'ethical agents', 'compliance agents' and 'privacy agents' to undertake day to day second line functions, where human employees provide oversight of the AI agents on a real time and periodic basis of those tasks. Staff focus is on designing specifications around how the agents function and interact, while governance looks at design specifications and customer outcomes.

2026 to 2050 Law and financial services regulation

In 2026 the UK does not have AI-specific legislation or AI-specific financial regulation. There is a patchwork of AI regulation in other countries. The UK regulators rely on the existing regulatory framework to supervise financial services firms' use of AI.[1] Currently there is no intention to introduce a specific AI regulatory regime in the UK. Instead, the UK regulators expects firms to apply existing frameworks, such as AML, SMCR, data protection and the Consumer Duty to AI systems. In their view, the risks associated with AI, including accountability, consumer harm and third-party risk, are already covered by current rules.

Industry stakeholders have stated that there is significant uncertainty about expectations, particularly in light of the speed of change and the amplified impact AI can have, at much greater speed and scale. Much of current legislation does not anticipate the embedded nature of agentic AI in 2050 as described above.

In terms of law and regulation there are some broad possible scenarios, two of which are below. We do not offer an opinion on the likelihood of each scenario.

[1]Treasury Committee - Artificial intelligence in financial services. Fifteenth Report of Session 2024–26 HC 684 published 22 January 2026.

Scenario 1
Everyone for themselves

In 2050, there is weak coordination between firms and regulators. This leads to fragmented, reactive oversight, unclear cross-border rules and firms building AI architectures without clear standards, increasing operational risk and reducing effective controls. Agentic failures, cascading errors (errors made in respect of a consumer are committed to agent memory and compounded through the cascade, making them difficult to identify, amend and eradicate)[2] and unclear accountability drive customer harm, litigation and loss of trust. There have been a number of swings from under- to over-regulation and there is ultimately restrictive regulation that limits AI adoption across financial services. Consumer trust in A2A models is critically impaired.

Scenario 2
Collaboration and active engagement

Under this scenario, law and regulation sets out specific and detailed requirements for AI agent operating models whilst continuing with the principles-based current approach. Regulation is developed around AI principles based on ensuring good customer outcomes and protection, which align with member interests. As such, mutuals have proactively invested time and collaborated with regulators to develop the longer-term regulatory approach based on these principles, which then support their structural advantages. In contrast, a shareholder owned competitor must balance the tension between these principles and aims for greater volume and profit:

Transparency and explainability	Accountability	Accuracy	Fairness

- **Transparency and explainability**
  AI solutions are developed and delivered in a way that answers the questions of *why* and how a decision was reached. Transparency has become a competitive advantage for building societies.[3] Members want to know that their mortgage decisions are fair and well-reasoned, showing the logic behind an agent's scope. Permission will be part of that disclosure for customers, auditors and regulators. Regulatory agents regularly test agent design on this issue.

- **Accountability**

  Operating models are clear where human oversight should be embedded across the AI lifecycle to manage risk and comply with applicable rules and regulations. It is a high priority for regulators to assess firms on this issue.

- **Accuracy**

  Structured clean and consistent data will continue to be the basis for compliant agentic model operation. Disorganised and low integrity data are the focus of regulatory focus – akin to 2026 regulation.

- **Fairness**

  AI can operate with embedded bias which could threaten positive customer outcomes and drive financial exclusion for the most disadvantaged consumers. The architecture and agents are required to be built with fair and ethical treatment at their core. The regulators' ethics agents will assess outcomes on a real-time and near-time basis.

[2]ICO tech futures: Agentic AI Report – 8 January 2026
[3]"Why Agentic AI Is the next big shift for building societies" BSA

In 2050, regulation includes specific legislation and practical guidance developed with industry, in the areas outlined in the Box to the right.

The market has developed compliance and privacy tools as second line agents. The ICO noted in their January 2026 report that privacy agents could be a more vigilant guardian of personal information than an individual.

Box 1: Regulation will address the following areas of potential uncertainty and risk:

- Definitions and risk categorisation of agentic models and activities
- Security measures needed to manage the increased risk of cyber attacks including biometric authority and facial recognition
- Automated decision making and contractual, agent liability, kill switches and framework for consumers to contest decisions and ask for human intervention
- The AI agent Interaction Policy and Agent Framework and approval by the regulator
- Expectations for risk management – in particular risk categorisation of tasks (e.g. loan default, forbearance and repossession decisions as high risk) and where human interaction/engagement is mandatory
- Accountability and the level of assurance expected
- Benchmarking and evaluation of agents
- Audit frameworks for reviewing AI agent actions, operating frameworks, ethical standards, agent scope and permissions

Conclusion: Opportunities for Building Societies and Credit Unions

- Agentic AI will reshape how consumers interact with markets, delivering meaningful benefits. Consumer trust is critical for adoption and engagement.
- There is deep scepticism around AI operating models and concern around the use of personal data. A mutual can stand out as being able to attract customers away from big tech and big bank firms by speaking to these concerns.
- As building societies and credit unions already focus on customer-focused business model development, they have an advantage in mapping to existing ethical frameworks. However, a breach of this trust could result in outsized reputational damage and business impact, as building societies and credit unions are expected to have higher standards in these areas.
- By ensuring that agentic systems are developed and deployed in ways consumers can understand and rely on, in using 'ethical agents', 'compliance agents' and 'privacy agents' as well as providing human led engagement, building societies and credit unions have the opportunity to position themselves at the forefront of the market.