

AI Regulatory Radar

Supporting compliant, responsible AI adoption

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Welcome to the third edition of AI Regulatory Radar.

Debate over the future of AI regulation has accelerated as capabilities continue to advance. Concerns around frontier models increasing cyber risk, and agentic autonomous behaviour, are prompting renewed calls for safeguards, legislation and regulatory intervention.

Globally, policymakers continue to debate whether existing AI regulatory frameworks are sufficient, while the UK has committed to putting AI at the 'heart' of the UK's 2027 G20 presidency.

Financial services regulators however continue to favour applying existing regulatory frameworks and strengthening supervision as firms scale adoption. Andrew Bailey, Governor of the Bank of England, has noted that the priority should be to test, understand and develop credible intervention mechanisms before reaching for a dedicated AI rulebook.

Against this backdrop, this edition of AI Regulatory Radar explores the growing focus on AI as a financial stability concern, and increasing supervisory emphasis on governance, accountability and control as firms move AI into core business processes.



AI as a potential source of financial stability risk

Financial services regulators are increasingly examining two connected risks: disruption due to the rapid adoption of AI within financial services and vulnerabilities building around the financing and valuation of AI itself.



Risks from AI use across financial services

As AI becomes embedded in critical financial infrastructure and decision-making, operational failures could transmit more quickly across firms and markets.



Financial Stability Board (FSB)

The FSB has finalised its sound practices for responsible AI adoption by financial institutions. Chair Andrew Bailey also called for continued vigilance over AI-related financial stability risks, with safe adoption remaining a priority for the FSB in 2027.



The European Central Bank (ECB)

Christine Lagarde highlighted that AI is now a macroprudential concern, citing the growing use of autonomous AI agents, common technology dependencies and cyber risks that could propagate shocks across the financial system.



Federal Reserve

In a speech on AI and the financial system, Vice Chair for Supervision Michelle Bowman highlighted AI's potential to become a "force multiplier" across banking and emphasised the need to understand how growing adoption could affect financial stability.



Bank of England

In the H2 2026 Systemic Risk Survey, the number of respondents citing AI-related risks rose 32 percentage points, putting them in third place after geopolitical risk and cyberattack. Respondents highlighted the pace of AI development and concerns over whether governance, controls and risk management are keeping up.



Bank of England

Andrew Bailey delivered a speech on frontier AI governance, highlighting the potential implications of frontier AI for financial stability, through impacts on cyber risk, operational resilience and the increasing use of AI within critical financial infrastructure. Critically, he noted that the resilience of financial institutions, payment systems and financial market infrastructures can no longer be considered separately from developments in AI.



Taken alone, each risk is serious. But together they can interact and compound across the financial system. That potential interplay calls for careful and encompassing macroprudential monitoring going forward.

Christine Lagarde

President, European Central Bank (October 2026)



Risks around AI investment and financing

Alongside operational risks, authorities are scrutinising stretched valuations, rising leverage and increasingly interconnected funding across the AI ecosystem.



Financial Stability Board (FSB)

In its August [letter](#) to G20 Finance Ministers and Central Bank Governors, the FSB identified AI-related asset valuations, leverage and increasing interconnectedness between AI firms and hyperscale technology providers as areas of potential concern. The FSB noted that market concentration and cross-investment structures could amplify future market corrections and increase contagion risks.



Bank for International Settlements (BIS)

The BIS [noted](#) increasing interconnectedness within the AI ecosystem, with 28.7% of AI investment deal value involving investments between AI firms and 55.2% of funding into AI firms coming from other AI firms. It warned that these circular relationships may increase opacity and amplify macro-financial risks.



Bank of England Financial Policy Committee (FPC)

The FPC has [highlighted](#) AI valuations as an emerging financial stability issue. Although the summer correction in AI valuations did not cause wider disruption, a reassessment of AI growth expectations could still trigger market stress. The FPC also points to rising debt-financed AI investment and complex funding structures as potential amplifiers of future shocks, while recent frontier AI incidents underscore the need for firms to strengthen cyber and operational resilience.

Ultimately, these risks could reinforce one another: an AI-related incident within financial services could trigger wider market stress, while a sharp correction could prompt more restrictive regulation of AI adoption.



Over time, a more formal regulatory framework may well emerge. But regulation is not, in my view, the right place to start. Understanding, testing and establishing credible points of intervention must come first.

Andrew Bailey, Governor Bank of England ([Sept 2026](#))



KPMG View – AI requires more than deployment

Many firms are successfully implementing AI use cases, but far fewer have developed the governance, accountability and operating model changes needed to realise sustainable value from AI.

KPMG Global report on [Unlocking AI value in insurance](#) explores the gap between AI ambition and business outcomes:

44% of insurers surveyed consider themselves AI leaders.

...but only

...11% claim data foundations and governance.

...18% have a clear view how AI will enable their strategy and vision with leadership aligned on execution.

...11% have a very clear view of AI return on investment.

...45% place accountability for AI solely within the technology function.

This report outlines practical steps insurers can take to redesign customer experiences, operating models and future business models. The result is a guide for leaders looking to move beyond experimentation and unlock sustainable competitive advantage through AI.





Focus on governance, accountability and control – and impact on customers

As AI adoption continues to accelerate, regulators are focusing on how firms govern AI, manage accountability and demonstrate effective control over **increasingly autonomous systems**:



Monetary Authority of Singapore (MAS):

MAS has [published](#) supervisory expectations for financial institutions' use of AI, requiring proportionate governance, risk management and oversight of both internal and third-party AI systems as adoption grows across the sector.



Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC):

Australian regulators have [called](#) on firms to move from awareness of frontier AI risks to practical action. Their joint industry engagement highlighted board oversight, risk appetite, third-party dependencies and incident preparedness as critical components of firms' AI governance frameworks.



Central Bank of the UAE:

The Central Bank [issued](#) guidance on the responsible adoption and use of AI and machine learning by licensed financial institutions. The guidance highlights board and senior management accountability, human oversight, transparency and governance as key elements of firms' AI frameworks.



The European Supervisory Authorities

EBA, ESMA and EIOPA have issued a [joint statement](#) calling for a cross-sectoral, risk-based and consistent supervisory approach to mitigate the ICT risks stemming from frontier AI models. They warn that frontier AI models could amplify cyber and systemic risks, and have called for financial entities to have robust governance and risk management frameworks in place.



Bank of England:

Through its Frontier AI Information Sharing Forum, the BoE has [highlighted](#) the importance of “harness engineering” – the governance, controls, oversight and operating environment surrounding AI models.



Financial Conduct Authority (FCA):

The FCA's [review](#) of frontier AI and cyber resilience flags that firms' preparedness for AI-related risks depends as much on governance, ownership, controls and remediation processes as on the underlying technology itself. The review identifies effective human oversight, clear accountability and senior management visibility of AI-related risks as key areas of importance, whilst noting that it does not introduce new regulatory expectations.



FCA:

Meanwhile, new FCA research has found that younger investors increasingly trust AI-generated financial information and social media sources when making investment decisions. These findings reinforce themes from the FCA's [Mills Review](#), including the need to consider how AI may affect consumer outcomes, financial promotions and investor protection.



Some insurers have historically believed that the sector's significant regulatory requirements provide a buffer against major disruption.

The pace and range of technological change make those assumptions unsafe, not least against competitors who do not want to follow traditional insurance models in the first place.

Huw Evans, Partner and Head of Insurance at KPMG in the UK





KPMG View – State of AI in UK asset & wealth management

According to KPMG in the UK's [State of AI in UK asset & wealth management](#) report, the next wave of AI value will come from transformation:

89% of firms identify Research and Front Office as the most mature area of AI deployment.

94% cite operational efficiency as their primary AI investment objective.

62% expect AI budgets to increase over the next 12 to 24 months.

67% see product innovation and faster time-to-market among AI's leading transformational opportunities.

1/3 wealth firms identifies hyper-personalised advice as a significant future opportunity.

The firms that push ahead in the next phase of AI adoption will not be those running the most pilots. They will be those that build the operating models, governance and data foundations required to turn experimentation into enterprise value.



KPMG view – KPMG Global Chief Ethics and Compliance Officer Survey

In KPMG Global survey...

68% of CCOs [reported](#) that they feel “mixed, leaning positive” with AI use, noting they have seen more benefits than challenges.



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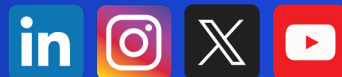
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