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The Future of Global Franchising: Innovations, Technologies, and New Markets

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**NEWS FROM AROUND THE WORLD
FRANCHISING IN THE AGE OF AI: UNDERSTANDING THE REGULATORY
FRAMEWORK IN THE UK**

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1. Introduction

The concept of artificial intelligence (AI) is not new, and has been around for several decades, with its foundations beginning in early computing models. Recently, the rapid advancement and widespread availability of AI technologies have transformed the AI field and the innovations it generates, which in turn is affecting industries across the world. With the advent of powerful, user-friendly AI models that are now freely available and easy to use by businesses and consumers¹, businesses are leveraging AI tools to drive significant advancements in the way that they operate. In the United Kingdom² (UK), it is estimated that 68% of large companies, 34% of medium sized companies and 15% of small companies have adopted at least one form of AI technology.³ The same is true within the franchising industry. AI is reshaping the way both franchisors and franchisees operate by streamlining automation processes, enhancing customer service through virtual assistants, optimising data management by analysing large datasets quickly, and supporting more informed decision-making processes that seek to improve both operational efficiency and customer experience.

However, AI technologies are not without significant risks and challenges⁴. AI technologies come with concerns regarding data protection, copyright, bias in decision-making, and the potential for job displacement. Whilst the UK has existing legislation that addresses some of the risks associated with AI⁵, gaps are beginning to emerge between existing legislation that is not specific to AI.⁶ This has in turn led to countries across the world, including the UK, to consider whether there is a need to enact specific legislation to address AI.

The purpose of this article is to explore the rapidly evolving legislative landscape in the UK surrounding the use and development AI. This will include a consideration of the UK's initial proposed "principles-based framework"⁷ to the recently introduced draft AI Bill into the House of Lords⁸. Part 2 will consider the differences in the approach to AI regulation between the UK, the European Union (EU) and the United States (US), before finally briefly considering the potential impact on the franchising industry in part 3.

2. AI Regulation in the UK

The UK Government has consistently sought to position itself as a global leader in the international conversation on AI governance, whilst striving to maintain a balanced and proportionate approach to regulation to encourage AI innovation⁹. However, the UK's first formal regulatory approach to AI was not introduced until March 2023 through the *AI White Paper: A Pro-Innovation Approach to AI Regulation*.

2.1 The AI White Paper

The purpose of the White Paper¹⁰ was to establish a clear and coherent framework for regulating AI within the UK. With the rapid growth of AI technologies, the framework aims to address

¹ Such as Chat GPT, Gemini and other similar easily accessible AI platforms.

² England, Wales, Scotland and Northern Ireland, but not the Republic of Ireland.

³ Department for Digital, Culture, Media & Sport, *AI activity in UK businesses: Executive Summary*, 12 January 2022

⁴ *A pro-innovation approach to AI regulation*. (2023), paragraph 4. Available at: <https://assets.publishing.service.gov.uk/media/64cb71a547915a00142a91c4/a-pro-innovation-approach-to-ai-regulation-amended-web-ready.pdf> [hereinafter White Paper].

⁵ See Equality Act 2010 for discrimination outcomes produced by a bias within an AI software and UK General Data Protection Regulation and Data Protection Act 2018 for the requirement to process data protection fairly.

⁶ White Paper, paragraph 27.

⁷ *Id.*, paragraph 36.

⁸ Artificial Intelligence (Regulation) Bill [HL] [hereinafter AI Bill]

⁹ White Paper, paragraph 3.

¹⁰ A White Paper is a policy document produced by the UK Government that set out their proposals for future legislation.

the challenges posed by this evolution in order to provide clarity for businesses and regulators alike. The regulatory framework is designed to achieve three main objectives¹¹: first, to drive growth and prosperity by enabling responsible innovation and reducing regulatory uncertainty; second, to build public trust in AI by addressing the potential risks and ensuring alignment with the UK's core values; and third, to strengthen the UK's position as a global leader in AI, creating an environment that fosters innovation while also safeguarding societal interests.

Rather than enacting horizontal AI regulation¹², the UK Government viewed that a flexible, principles-based approach was required. Such an approach would, in the view of the Government, allow individual UK regulators to “interpret and apply”¹³ principles to AI within their existing remits and therefore consider the context of the use of AI within their particular sector, the risks it poses and respond accordingly. The 5 principles UK regulators are expected to consider when implementing regulation concerning AI in their sectors are as follows:-

1. **Safety, security and robustness:** AI systems autonomously evolving pose significant safety and security risks, especially in sensitive domains such as healthcare and infrastructure. These risks must be evaluated by regulators within their domains to secure the AI systems, to check that they perform as expected, to provide unified support, and to incorporate frameworks of technical standard documents and cybersecurity concepts.
2. **Appropriate transparency and explainability:** While transparency fosters public trust and eases the adoption of AI technologies, the absence of explainability can pose legal, ethical, or security risks. Because understanding the reasoning behind AI decisions can be challenging, policymakers should consider an appropriate level of explainability AI systems require from a risk and technology perspective.
3. **Fairness:** AI can impact industries such as insurance, credit scoring, and recruitment which require justification and fairness in high-stake decisions. Regulators need to define fairness within their respective areas, consider adherence to the Equality Act 2010 and Data Protection Law, and work together not to discriminate and secure consumer protection.
4. **Accountability and governance:** AI systems can make autonomous and unpredictable decisions, making clear accountability essential for regulatory compliance and business confidence. Given the complexity of AI supply chains, regulators should provide guidance on governance, require impact assessments, and promote technical standards to ensure transparency and risk management.
5. **Contestability and redress:** AI can introduce risks in the form of bias and safety concerns to the detriment of individuals and their rights. Regulators should provide clear guidance on contestability and redress, being transparent and explainable, although UK's initial approach avoids creating new legal rights or redress schemes.¹⁴

The initial intention was for the above principles to be issued by the Government on a non-statutory basis, with individual regulators deciding how and where to apply the principles within their remit.¹⁵ At a later date, the Government will introduce an official duty on regulators to have regard to the principles.

¹¹ White Paper, paragraph 33.

¹² White & Case (2024). AI Watch: Global regulatory tracker - United Kingdom | White & Case LLP. [online], Available at: <https://www.whitecase.com/insight-our-thinking/ai-watch-global-regulatory-tracker-united-kingdom>.

¹³ White Paper , paragraph 36.

¹⁴ White Paper, paragraph 52.

¹⁵ White Paper, paragraph 55.

At this stage, there was no intention of the UK Government to create a central authority to oversee the implementation of the principles.¹⁶

The principles-based approach to AI clearly has benefits, such as allowing AI to continue to develop without tight regulatory restrictions. However, concerns have been expressed that the Government needs to go further and introduce legislation, particularly where AI presents high risk¹⁷. While the framework aims to offer flexibility and adaptability for regulating AI across various sectors, it has been argued that the reliance on voluntary commitments from AI developers rather than legally binding regulations could be inadequate and without enforceable obligations, there is a risk that key ethical and safety standards may not be upheld consistently, particularly by businesses motivated by profit rather than public interest.¹⁸ The lack of clear, binding legal provisions might also contribute to regulatory fragmentation and erode public confidence in AI technologies. As developments in AI continue to unfold, the demand for more stringent, enforceable controls has remained a key issue of contention in the development of AI governance in the UK.

This debate over the principles-based approach highlights a critical tension in the UK's AI regulatory strategy: the balance between fostering innovation and ensuring adequate protection against potential risks. In response to concerns of a lack of regulation surrounding AI, an AI Private Members' Bill¹⁹, was introduced into the House of Lords in November 2023.

2.2 UK Artificial Intelligence (Regulation) Bill

The AI Bill was first introduced as a Private Members Bill²⁰ in November 2023, with three central objectives:

1. Creation of an AI Authority to oversee the regulation and coordination of AI, monitor the ongoing risks and support innovation.²¹
2. Codify the AI principles set out in the White Paper.²²
3. Require the AI Authority to engage with the public on the opportunities and risks that AI presents.²³

The AI Bill built upon the White Paper, aiming to establish a unified approach among UK regulators regarding AI use and risks. However, Private Members' Bills rarely become law in the UK²⁴, and following the transition from the Conservative Government to the Labour Government in July 2024, the bill was scrapped. Subsequently, the AI Bill was reintroduced in the House of Lords on 4 March 2025, and has since successfully passed the first reading. While this marks a step forward, the AI Bill still faces a long legislative process, particularly without Government support. The AI Bill's progress will require close monitoring.

In addition to the initial scrapping of the AI Bill, the change to the Labour Government has brought a change in the UK's proposed approach to the regulation of AI. During the Kings Speech on

¹⁶ White Paper, paragraph 15.

¹⁷ See www.lawsociety.org.uk. (n.d.). *A pro-innovation approach to AI regulation – Law Society response*. [online] Available at: <https://www.lawsociety.org.uk/campaigns/consultation-responses/a-pro-innovation-approach-to-ai-regulation>.

¹⁸ Davies, M. and Birtwistle, M. (2023). *Regulating AI in the UK*. [online] www.adalovelaceinstitute.org. Available at: <https://www.adalovelaceinstitute.org/report/regulating-ai-in-the-uk/>.

¹⁹ Artificial Intelligence (Regulation) Bill [HL], [hereinafter AI Bill]

²⁰ A bill introduced by a Member of Parliament or a Lord who is not a Government Minister.

²¹ AI Bill, c.1

²² *Id.*, c.2

²³ *Id.*, c.6

²⁴ During 2010 – 2024, in the region of 2,500 Private Members Bills were introduced of which 110 have received royal assent. See Baker, F. and Mcalary, P. (2024). *Private members' bills* | *Institute for Government*. [online] Institute for Government. Available at: <https://www.instituteforgovernment.org.uk/explainer/private-members-bills>.

17 July 2024²⁵, it was announced that the Labour Government intends to introduce “appropriate legislation to place requirements on those working to develop the most powerful artificial intelligence models”²⁶, although specific details were not provided. This is in direct contrast to the principles-based approach of the Conservative Government.

Following the King’s Speech, the Labour Government was expected to introduce the formal Government backed AI draft bill for a December 2024 first reading. However, despite initial enthusiasm for regulating AI, the bill has yet to be published and is now not expected until after Summer 2025. Reports suggest the delay is driven by the UK’s desire to align its approach with the US, aiming to keep the UK an attractive hub for AI companies rather than imposing early regulatory constraints.

This shift in focus is reflected in the Labour Government’s AI Opportunities Action Plan, published in January 2025²⁷, which emphasises AI innovation and economic growth over regulatory intervention. Additionally, both the UK and the US declined to sign the Paris Declaration²⁸, a global AI declaration, at the Paris Summit in 2025, reinforcing the UK’s reluctance to commit to binding international AI regulations at this stage. The Labour Government’s evolving stance on AI governance raises further uncertainty about the Private Members’ AI Bill, reintroduced in the House of Lords, facing a challenging path without strong Government backing.

3. Comparative Analysis: UK v EU v US AI Regulation

In comparison to the White Paper and the proposed AI Bill, The EU’s Regulation (EU) 2024/1689²⁹ is the world’s first comprehensive AI regulation, designed to ensure safety, transparency, and accountability. It follows a risk-based approach, classifying AI systems into four categories: (1) unacceptable risk³⁰, (2) high risk³¹, (3) limited risk³², and (4) minimal risk³³. The Act also establishes penalties for non-compliance³⁴. It was formally approved in 2024 and will be gradually implemented across the EU.

The AI Bill (if passed) takes a decidedly lighter approach than the EU AI Act. Both the EU AI Act and the AI Bill include the creation of a central AI supervisory body, but the regulatory framework of the EU AI Act is far more comprehensive than the principles outlined in the AI Bill. In addition, as compared to the EU AI Act, the AI Bill does not impose a strict liability for violations of AI regulations. The EU’s approach to AI regulation is more comprehensive and structured than the UK’s, ensuring legal certainty and clear risk-based rules that apply across all member states. By classifying AI systems by types of risk, the EU AI Act ensures that high-risk applications, such as those in healthcare or policing, are subject to high safety, transparency, and accountability standards. This more closely safeguards consumers, restricts potential harm and promotes trust in AI. The UK, in contrast, opted for a less rigid, sector-based approach, allowing regulators to apply non-statutory principles in their own sectors. While this promotes innovation and adaptability, it can be the source of inconsistency between sectors and is less enforceable than the EU model. The EU model is stronger in addressing AI risk and protecting

²⁵ The King’s Speech outlined the new Labour Government’s proposed legislation and policy agenda for the upcoming parliamentary term.

²⁶ GOV.UK (2024). *The King’s Speech 2024*. [online] GOV.UK. Available at: <https://www.gov.uk/government/speeches/the-kings-speech-2024>.

²⁷ Department for Science, Innovation & Technology (2025). AI Opportunities Action Plan. [online] GOV.UK. Available at: <https://www.gov.uk/government/publications/ai-opportunities-action-plan/ai-opportunities-action-plan>.

²⁸ Elysee (2025). Statement on Inclusive and Sustainable Artificial Intelligence for People and the Planet. [online] [elysee.fr](https://www.elysee.fr/en/emmanuel-macron/2025/02/11/statement-on-inclusive-and-sustainable-artificial-intelligence-for-people-and-the-planet). Available at: <https://www.elysee.fr/en/emmanuel-macron/2025/02/11/statement-on-inclusive-and-sustainable-artificial-intelligence-for-people-and-the-planet>.

²⁹ Regulation (EU) 2024/1689 of the European Parliament and of the Council [hereinafter EU AI Act].

³⁰ *Id.*, Article 5.

³¹ *Id.*, Article 6

³² *Id.*, c.53.

³³ *Id.*, c.12.

³⁴ *Id.*, Article 99.

basic rights, whereas the UK pro-innovation model may induce businesses looking for a less stringent regulatory framework.

The UK's approach closely mirrors that of the US, where AI regulation is largely decentralised. While certain states, such as California³⁵ and Colorado³⁶, have introduced their own AI-related laws, the US Government has opted for a principles-based framework rather than enforcing comprehensive, binding regulations. This approach, much like the UK's, focuses on guidance, voluntary standards, and sector-specific oversight rather than broad legislative mandates.

4. Implications on Franchising

The UK's evolving AI regulatory approach presents both opportunity and challenge to the franchise sector. The current principles-based framework allows franchises to embed AI technologies without the initial burden of rigid compliance regulations. However, the lack of statutory enforcement creates uncertainty, with businesses having to navigate sector-specific guidance rather than a unified regulatory framework. The potential arrival of AI legislation by the Labour Government could bring greater clarity but may also impose new compliance obligations, particularly for franchises that utilise AI in customer engagement, recruitment, or data-based decision-making. As the UK formulates its regulatory strategy, franchises must be adaptable, ensuring that their AI uses align with emerging legal demands but also to leverage AI for operational efficiency and growth.

5. Conclusion

In conclusion, the UK's approach to regulating AI is one of balance between facilitating innovation and mitigating the threats that AI technology may pose. The principles-based strategy set out in the White Paper, paired with the ongoing drafting of the AI Bill, aims to provide assurance without stunting technological advances. However, the absence of stringent statutory requirements has created uncertainty for businesses, including those in the franchising sector. As AI continues to revolutionise industries, the potential for additional particular and binding AI regulations by the Labour Government could bring greater legal certainty but also new compliance challenges. Franchisors and franchisees alike will need to stay vigilant, adapting with the evolving regulatory landscape while keeping their AI applications in line with emerging legal requirements and business objectives. The future of AI regulation in the UK will undoubtedly play a crucial role in shaping the direction of AI innovation and its integration into various industries, including franchising.

³⁵ SB-1047 Safe and Secure Innovation for Frontier Artificial Intelligence Models Act.(2023-2024)

³⁶ SB 24-205 Colorado AI Act 2024.