What Wealth Enterprises Should Consider When Adopting AI

Version July 2024

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About the author

Rob Pettman

Chief Revenue Officer and President, TIFIN

Prior to joining TIFIN, Rob held the position of Executive Vice President of Wealth Management Solutions at LPL Financial. In this role, he was responsible for managing LPL's wealth management capabilities, which included overseeing the company's investment product distribution, retirement plan business, advisory platforms and support teams; its relationships with product and technology companies; and a large research organization with over $70B AUM. He held various other roles across investment product management and wealth management during his 19 years at LPL, allowing him to materially participate in the rapid growth of the organization that culminated in $1.4T in assets and over 22k financial advisors at the time of his departure.

Earlier in his career, Rob also amassed experience working as a financial advisor serving trial attorneys in the areas of settlement planning, trusts, and structured settlements. He credits this experience as one of the most impactful of his career, as it enabled him to connect with investors and understand the importance of the financial advisor role.

Rob has held several industry board positions with organizations such as IRI and MMI, and a mutual fund board position at Macquarie for the Optimum Funds. Additionally, he has participated in an advisory board capacity for several private equity and financial technology firms.

Rob received a Bachelor of Arts degree from Eckerd College and his Masters of Business Administration from the University of Southern California Marshall School of Business.

As someone who has spent most of my career examining the impact of new technologies on the wealth management industry, I have seen firms both thrive and falter in their adoption of new innovations. I firmly believe that AI will be one of the most transformative advancements our industry has encountered in a long time. However, the journey into AI is not without its challenges. Many firms feel overwhelmed by complex terminology and uncertain about how to navigate this evolving landscape. Let's delve into some critical considerations for successfully evaluating and integrating AI technology into your advisory firm.

Identifying the Key Problem to Solve

It’s tempting to jump on the AI bandwagon simply because it’s the latest buzzword—a shiny new toy. But I urge caution. The first step is to pinpoint the specific problem you need to solve. Align AI initiatives with your strategic goals; otherwise, they risk languishing, underutilized, and fading into obscurity. Focus on real business challenges where AI can enhance your firm’s overall strategy.

Not sure where to start? Consider a few key areas:

- **Resource Allocation**: Identify where your firm invests excessive resources. AI can optimize allocation and streamline key workflows.
- **Performance Gaps**: Identify areas where your firm isn’t achieving expected results. The right application of AI can accelerate your performance.
- **Outsized Impact**: Look for opportunities where AI can have an outsized impact relative to your expectations.

Consider the Types of AI Needed for Your Organization

Depending on your objectives, different types of AI technology come into play. Let’s explore two key categories:

Supervised AI: Also known as predictive AI, supervised AI operates through machine learning models that learn by training on large datasets, such as CRM data, client portfolio data, or other proprietary firm data sets. These models make predictions or classify new data points based on historical data with known outcomes.

In wealth management, supervised AI excels in tasks like predictive maintenance, fraud detection, and recommendation systems. It is particularly useful when precise predictions or classifications are essential. Firms can leverage supervised AI to supercharge growth strategies or mitigate portfolio and compliance risks.

If your firm has already invested in data infrastructure elements such as cloud servers, a modern CRM system, or an in-house data analytics team, then adopting supervised AI is a natural progression on the existing foundation.

Generative AI: Instead of making predictions, it creates new content—whether text, images, or code. This type of AI thrives in unsupervised scenarios, learning from unlabeled data to find underlying patterns. Generative AI has several applications that you may have experienced like content creation, natural language understanding and creative solutioning.

While there are many applications within wealth management, there are three areas where I think we will see the most impact:

1) **Helping navigate complex products and platforms in a personalized way.** Examples include narrowing down the investment product shelves for the right solution, locating portfolio commentary and performance attribution on demand, and improving the front end to a wealth firm's intranet site (which stores all things operations, compliance, product, etc.) where advisors frequently complain about navigation issues.
2) **Improves accuracy and timeliness of service experience between newly minted service professionals and veteran advisors**. Advisors do not call with simple questions. Service interactions are unique to the individuals and situation. Generative AI can help bridge this complexity at scale as an aid to service representatives to both improve answer accuracy and speed to resolution.
3) **Creating and sharing content.** Content is king! But it takes a massive amount of time to create custom content. Generative AI can help speed this process ny moving past the creative block that slows down the sharing of ideas with our clients. Whether it's traditional marketing content or research reports, there is significant opportunity here.

However, generative AI comes with risks. The content it generates may lack accuracy or coherence, so ensuring legal, compliance and ethical alignment is crucial. Furthermore, poor first impressions will kill adoption so you need to be highly sensitive to when something is ready. On the flip side, the benefits can be profound, simplifying complex information, understanding new asset types, and improving investor services.

Impact on People

When introducing AI solutions to your wealth management firm, consider the diverse audience who will interact with this technology.

- **Home Office Staff**: They play a critical role in operational efficiency and data management. AI can streamline back-office processes, freeing up staff to focus on strategic decision-making. However, resistance to change is a real risk. Some team members may hesitate to adopt new AI tools, potentially hindering the efficiency gains we hope to achieve. To mitigate this, consider providing comprehensive training and involving potential resistors in the vendor selection process.

- **Office of the CIO**: AI can streamline the application of insights produced by the Chief Investment Officer both at the firm level and for client-specific portfolios. This enables advisors to provide personalized financial advice to their clients and increase the number of clients served. It also helps them derive more value from the house view and likely improves adoption overall.
- **Financial Advisors**: They rely on data-driven insights to guide investment decisions and client interactions. AI solutions can empower them with growth insights and indicators, real-time market analysis, policies and procedures in a situational fashion, and overall expedited access to the information they need to run their business. However, there's a risk of overreliance on AI. Advisors might blindly follow AI recommendations without considering critical context. To address this, transparency is crucial. Explain how AI arrives at decisions and encourage a balanced human-AI partnership.
- **End Investors**: For end investors, user-friendly interfaces and transparency are paramount. AI-driven chatbots or virtual assistants address investor queries, offer personalized advice, and simplify account management. However, trust and privacy concerns loom large. Investors worry about data security and ethical AI use. Clear communication about AI's role and prioritizing features that enhance the overall client experience can alleviate these fears.

Navigating Data Sharing for AI Solutions

Depending on the solution, you may need to share different types of data, each carrying a varying level of concern. I have seen the most concern around sharing customer data that may include either personal information like names, addresses, contact information, and financial profiles; or behavioral data like client preferences, investment behavior, risk tolerance, and transaction history. Being a responsible steward of this data helps establish trust with your clients. Other types of data include operational data which pertains to trade execution, settlements, and portfolio management; and research data which comprises proprietary market data, economic indicators, industry-specific information, and performance benchmark data. Special consideration ought to be given to applicable license restrictions relative to the disclosure and use of benchmark data to specific audiences.

As a wealth management expert, you understand that leveraging AI involves sharing data with third parties. While this opens up new opportunities, it also introduces risks. Consider the following to protect your data while still benefiting from AI solutions:

- **Data Quality and Accuracy**: Ensure shared data is accurate, up-to-date, and reliable for optimal AI performance.
- **Data Privacy and Security**: Evaluate AI vendors' security protocols and compliance with regulations (e.g., GDPR). Consider using dedicated clouds for an added layer of assurance.
- **Data Ownership and Rights**: Clearly define ownership in agreements with third parties. Specify permitted uses to prevent disputes or confidentiality breaches. When resharing another party's data, adhere to contractual conditions.

- **Transparency and Trust**: Foster trust by openly communicating data usage, sharing practices, and security protocols.
- **Data Accessibility and Usage**: Ensure that authorized parties can access relevant data when needed. Define access controls and monitor data usage to prevent misuse.

Risk Mitigation Strategies

Now that we've considered integrating AI into our technology solutions, let's address associated risks with practical strategies:

- **Training**: Provide training to staff and advisors on using AI tools effectively. Encourage adoption by highlighting benefits and addressing any concerns.
- **Third-Party Risks**: Partnerships are essential to moving quickly and adopting AI technology. When using third-party AI, firms should assess data privacy, model transparency, and vendor reliability.
- **Data Privacy and Security**: Protecting sensitive client data is table stakes. Evaluate AI vendors' security protocols, compliance with regulations (such as GDPR), and data encryption practices.
- **Scalability and Integration**: Choose solutions that can scale as your firm grows. Integration with existing systems (CRM, portfolio management, etc.) is essential.
- **Governance**: Set clear guidelines for AI adoption. Regularly assess risks, monitor performance, and ensure compliance. Larger firms have opted to setup AI committees for review and approval as a clearing house for these decisions.
- **Data Sources**: Data sets and content being used to train models should be checked periodically to ensure licensing restrictions are adhered to.
- **Legal Compliance**: Ensure outputs comply with legal and regulatory requirements and maintain transparency in AI decision-making.
- **Monitor Regulatory Frameworks**: Actively monitor NIST, GDPR, and PCI frameworks and proactively create associated standards for internal teams to observe.
- **Verification Metrics**: Measure the performance of responses by validating sources cited in the returned response.

In the end, AI should be viewed as an ally. It is a powerful general-purpose platform that when properly implemented, can propel our industry forward. So to maximize its potential impact, let's strategize thoughtfully, understand the impact on our existing employees, and implement the right applications that achieve the desired results.

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