



# Smart Money

## The Impact of Artificial Intelligence (AI) on Wealth Management



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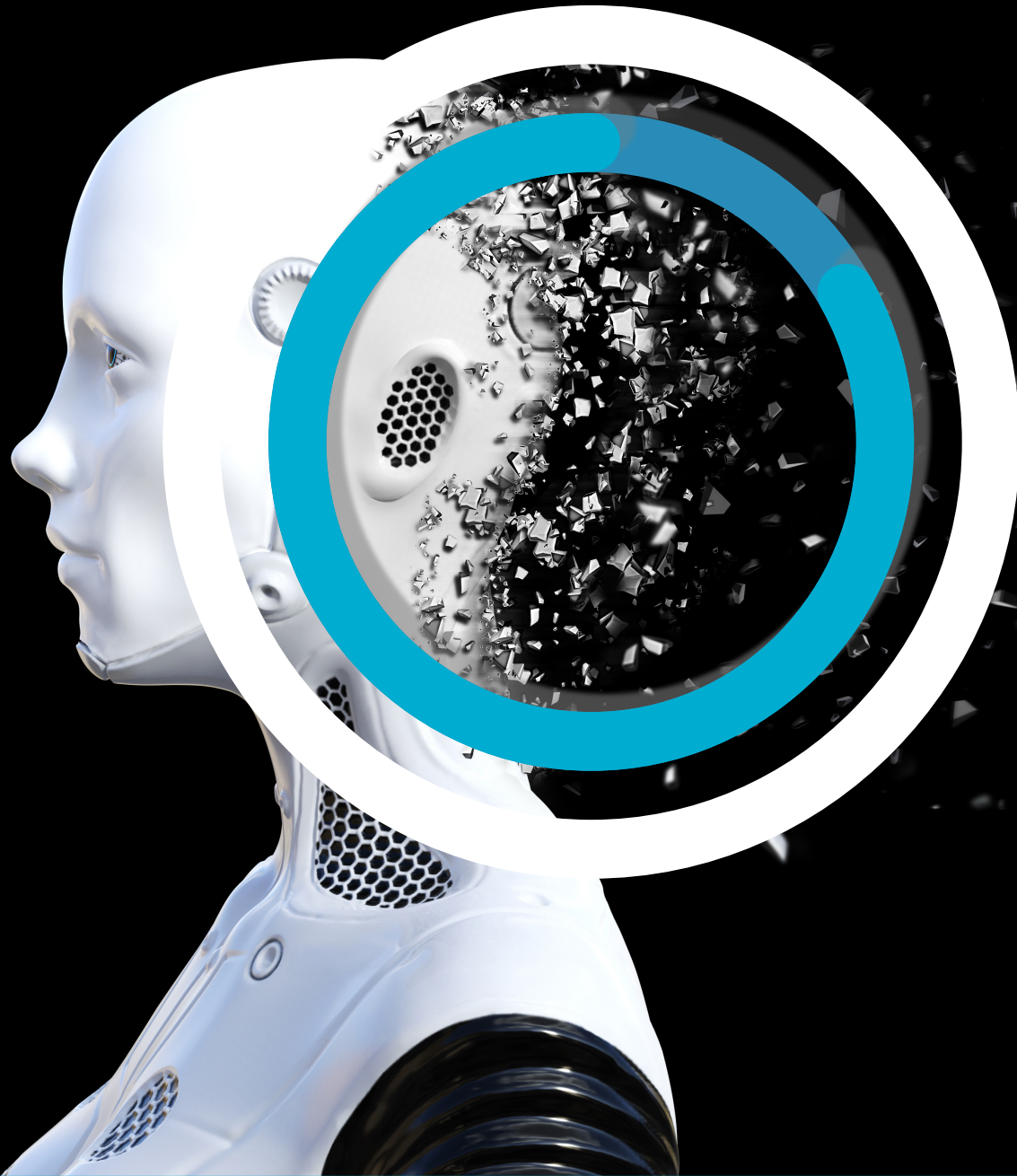
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“ globalization means opportunity  
& challenges in legacy systems  
and regulation costs ”



## INTRODUCTION

# The rise of Artificial Intelligence (AI) in Wealth Management

Asset and wealth managers have undergone significant change in their business model over the past decade. The pressure on fees led to an all-out price war and the move to passive investment put active managers on the defensive. Artificial Intelligence (AI), Machine Learning (ML), and other data analytics technologies are coming in. The implementation of AI technology in asset management is being heralded as an opportunity to streamline the development of customer-specific and more tailored results, but the reality is that there is still significant disparity in the definition of what AI can offer as opposed to its practical application. Understanding how AI can be integrated into the workflows of investment strategy to deliver value, instead of being an obstacle to be solve in terms of cost and capital, is becoming gradually more evident. Together, AI and the use of Natural Language Processing (NLP) give the industry efficient solutions on both the need for generation alpha and the need for cost containment. The growth of passive investments in conjunction

with the decrease of investment fees and increasing confidence in the future are the main challenges of asset and wealth managers.

Thus, these challenges explain the need for the adoption of AI. The switch from active to passive is so extreme that the economists of the Federal Reserve are now evaluating passive approaches. But the main impact of growth in passive investments was combined with regulatory stress for the managers themselves. The combination has led to a dramatic reduction in investment fees.

**A succession of regulatory initiatives in Europe and the US have been aimed at reducing conflicts of interest, increasing transparency, and disclosing investment costs.**



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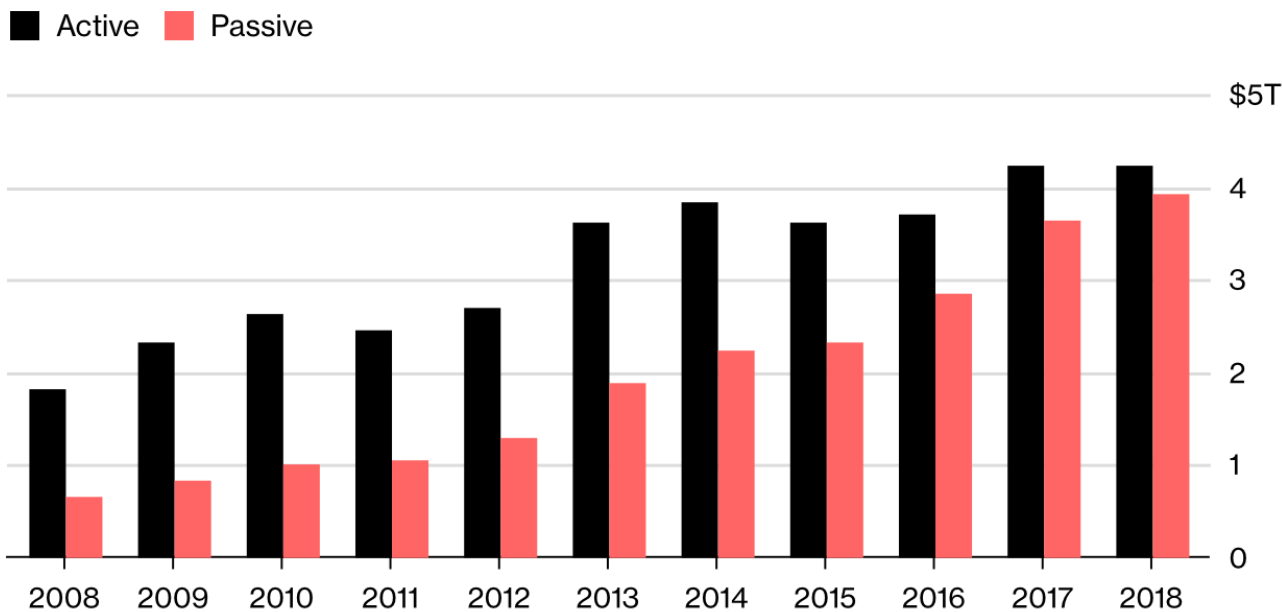
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Some have succeeded, while others have not, investor preferences, however, have changed, and asset managers have responded by creating clean shares that exclude fees for their role in distribution from advisers and platforms. With an all-out price war, the industry has reacted. The result is a race to the bottom where asset managers are seeing a drop-in revenue while costs are rising and the future looks foggy. Passive approaches are growing because they are less costly, 'market keeping' has proven to be as effective if not more than 'market beating'. Fees for all types of funds have been decreasing and will continue to do so.

The increasing regulatory attention on the price charged to retail investors for investment products is one of the reasons for the decreasing fees. The trend applies to both traditional and alternative funds, including hedge funds. Moreover, globalization means opportunity and challenges in legacy systems and regulation costs. From all the aforementioned, it comes without saying that there is an urgent need to step up technology adoption. To this end up, companies have to treat data as a corporate asset, adopt emerging technologies, leverage market insights and customer feedback faster, and share data seamlessly through the business.

**Figure 1 | Passive U.S. equity funds could soon overtake their active peers. *Medium*, (2019). *How Artificial Intelligence is transforming Asset and Wealth Managers Operations* [2]**



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To put it another way, AI is a suite of technologies and capabilities that can allow businesses to offer radically new kinds of quality and reshape business models once implemented. The adoption of AI in investment management now empowers companies to do things they have not been able to do before: Increase human staff awareness and promote the development of next-generation capabilities. Some of the most important AI use-case in asset management are the following: [1]

- ↓ **Automated insight:** reading transcripts of income to evaluate sentiment in management.
- ↓ **Alternative datasets:** study of alternative data such as weather forecasts and container ship movements, tracking of word search engines to structure hedging strategies on specific topics.
- ↓ **Relationship mapping:** recognition of non-intuitive securities/market indicators relationships.
  
- ↓ **Growth opportunities:** use of corporate website traffic to assess future growth along with behavioral patterns of customers.
- ↓ **Intelligence of operations:** use of machine learning to automate functions
- ↓ **Reporting and service:** generating customer reporting, commenting on portfolio and risk, and marketing material using natural language processing.
- ↓ **On-demand reporting:** chatbots and machine learning used to respond to employee or investor queries, generation on-demand management reporting.
- ↓ **Improving risk performance:** AI-based algorithms and machine learning to track and cause response protocols for suspicious transactions.

Increasing wealth managers' capabilities with AI tools could enable wealth management to provide clients with customized financial advice on a scale. AI data techniques hold a promise to inform investment decisions and provide wealth management insights that cannot be derived from traditional softwares.

[1] Deloitte, (2019). Artificial intelligence: the next frontier for investment management firms.

[2] Medium, (2019). How Artificial Intelligence is transforming Asset and Wealth Managers Operations.

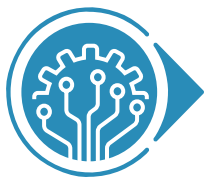
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# Top 5 Challenges in applying Artificial Intelligence (AI) in Wealth Management

Asset and wealth management can face certain challenges in implementing AI. These are:



**1. Cost** | Financial institutions are no strangers to large IT budgets, but the introduction of AI technology will entail significant upfront costs and ongoing maintenance costs. At least part of the high cost can be attributed to the new data sets that allow for these technologies and have attracted the attention of the industry. Identifying, cleaning and making sense of these data sets is no small feat, which is why one influential economist claims that it will become increasingly difficult for small companies to survive in the AI age. [3]



**2. Technology** | We are at the start of the AI revolution, and technology continues to evolve rapidly. This creates major challenges for those investing in AI applications because there is a significant risk of a latecomer leapfrogging. For most investment professionals and companies, keeping up-to-date with the latest trends is a real challenge, barring a privileged few. Having a large budget and top a prerequisite for staying ahead of the pack. Likewise, the exploration of new data sources is in its relative infancy in the alternative data space. There are many new data vendors entering the field, and it remains challenging to extract useful signals form the data avalanche. [3]

[3] CFA, (2019). AI pioneers in investment management.

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## The Future of Wealth Management in 2030

Evolution brings change and certainly the wealth management industry is no exception. Now more than ever, technology empowers clients and the millennial generation is starting to grow and develop financially. Future business model is shifting. By 2030 consumers will use a platform that not only manages their investments intelligently but also incorporates their ongoing cash management into their advice and automation. With the emergence of artificial intelligence and cloud computing, many investment management processes currently introduced by advisors will likely be fully automated using algorithms and machine learning to provide implementation with minimal adviser involvement, e.g. investment research, asset allocation, portfolio rebalancing. These tools will enable advisers to manage more customers and spend more time with them.



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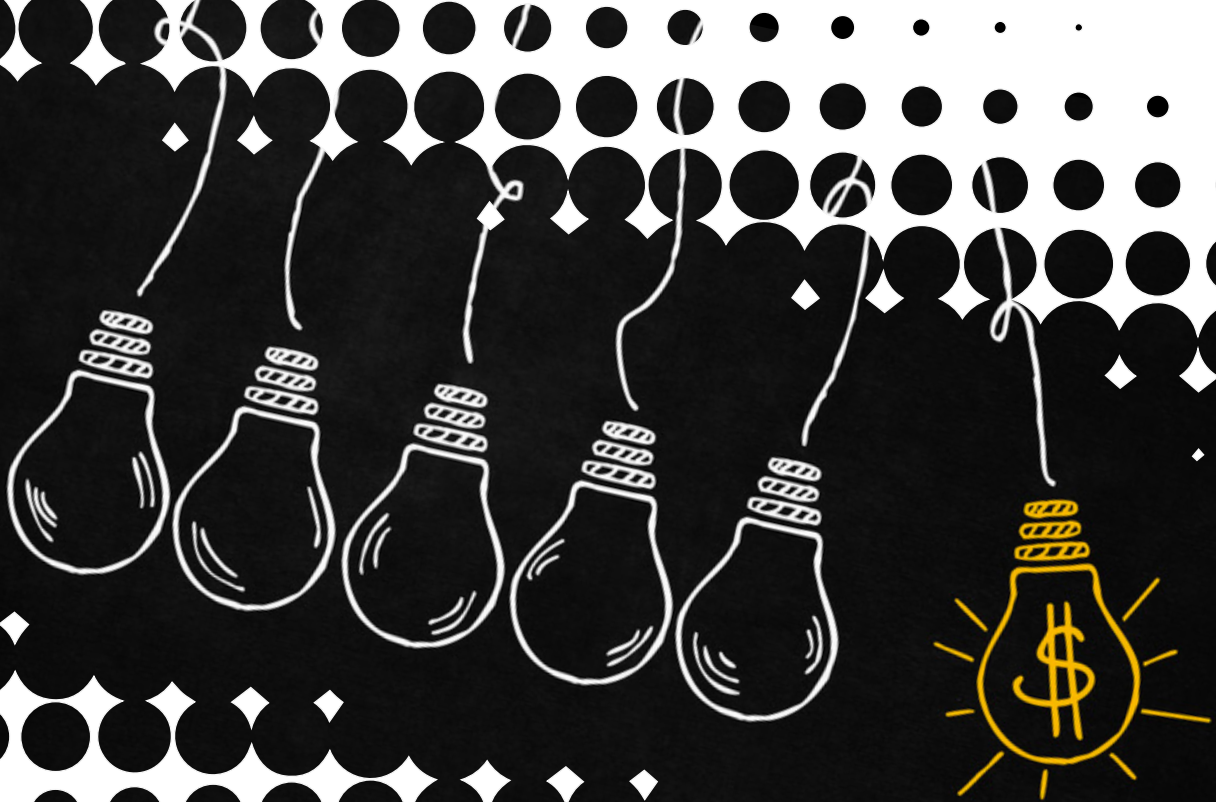
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