zensar

A Mature Mind to **Manage Wealth**

How the growing maturity of artificial intelligence is all set to deliver value for a new set of admirers – wealth management firms

White Paper

Wealth management firms are usually quick to adopt innovative technologies, but AI has been a sticky subject for long, seen as being particularly unreliable and risky. However, our recent surveys show that the AI landscape today is sufficiently mature and ready to deliver tangible benefits to the industry.

Coming in out of the cold

Wealth management firms have always been quick to adopt innovative technologies. In the case of Artificial Intelligence (AI) however, this has not been the case and it has had to endure a long and hard winter of general neglect. Even though Alan Turing's logical framework on building intelligent machines was first published in the 1950's, the lack of computing prowess proved to be an insurmountable barrier to its widespread acceptance. However, as processing power became significantly cheaper over the decades and data became more available, it is only in recent times that AI has been increasingly proving its ability to deliver significant value.

Today, along with several other industries, wealth management firms too are keenly watching AI's growing successes. And it does appear that the winter of rejection is finally thawing and the summer of AI's embrace by the world of high finance is at hand.

AI's changing fortunes

A survey of CXO's and other leaders across industries such as healthcare, manufacturing, government, consumer and financial services conducted by Zensar found that 75% of the respondents attributed AI to be a priority. But that begs the question, what really is driving this drastic turn in fortunes for a technology once side-lined as being too farfetched or risky to implement?

Currently, several trends indicate that wealth management firms have begun adopting AI. Many firms having completed their transition from legacy to digital and are now looking to make the next logical step – the transition to cloud. As this happens, the corollary is self-evident. With cloud computing providing cheap storage for large data sets as well as massive processing power — both of which are required to train new AI models — it is far easier for a cloud-ready or a cloud-native organization to adopt AI.

However, there are other drivers too, like the rise of pandemic-induced remote working, which is reducing facetime for effective communication. Also, the changing millennial demographics are making new customer engagement models and hyper-personalization an urgent necessity. Further, the growing shift to cloud and newer engagement models is birthing data security worries and setting regulators on edge. Faced with a constant barrage of new regulations, financial firms are looking to minimize compliance expenditures and improve efficiency. AI with its ability to allow hyper-personalized communication, new engagement models, diverse security threat analyses in real-time, and meaningful information from vast unstructured regulatory data can equip organizations to harness these trends for competitive advantage.

Minding the money

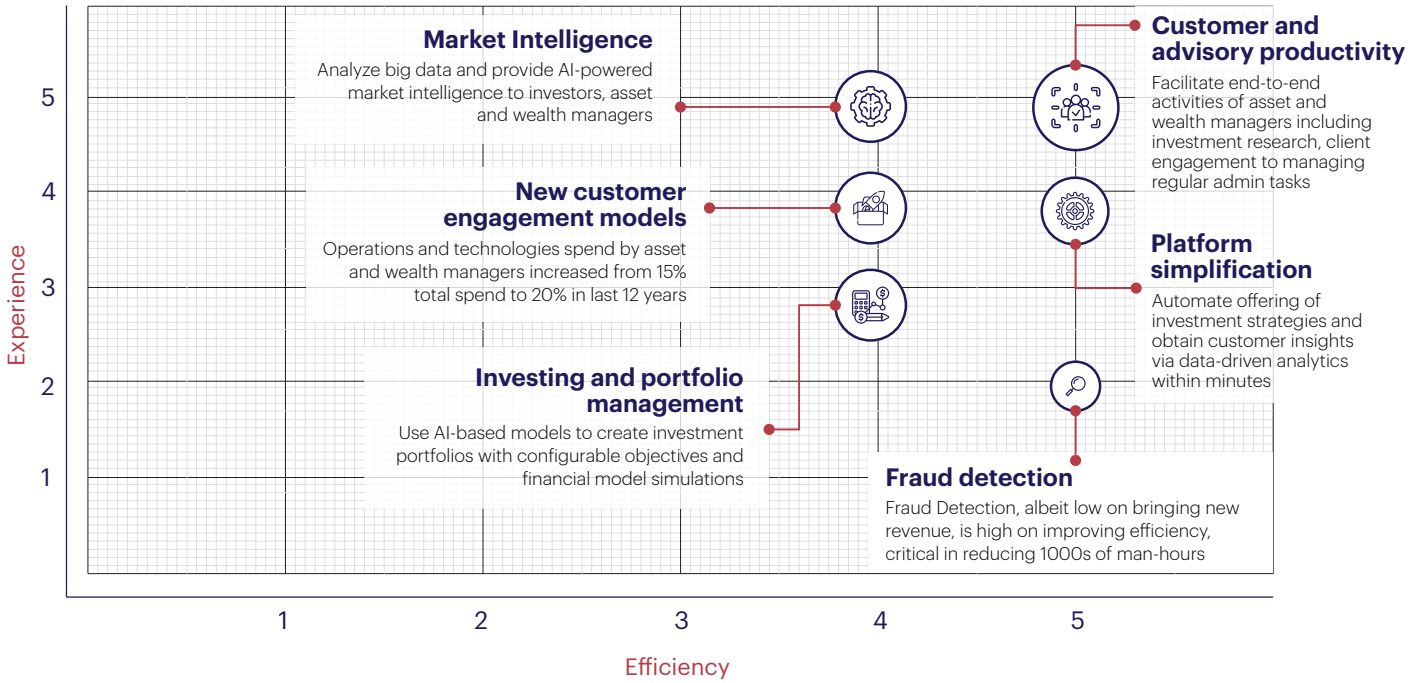
As AI gains traction and matures as a technology, what specific benefits do wealth management firms stand to gain?
The current maturity of AI is eminently capable of delivering value under three broad areas:

Efficiency: improving the bottom-line through reducing costs especially in "non-core" areas

Experience: improving experience through offering insights on customer touchpoints

Revenue impact: impacting the top-line through enhancing the effectiveness of conventional functions

This translates into six real-world benefits for wealth management firms as depicted below. These benefits not only vary positionally within the experience, efficiency, and revenue impact dimensions but also on the spectrum of tasks – from the core to the mundane.



Legend

Revenue impact
The size of the circles indicate the revenue impact of the strategic initiative

Our view of the impact of a few strategic initiatives the industry has taken across three dimensions – experience, efficiency and revenue impact

Customer and advisor productivity:

Today, both advisors and their customers need to wade through a deluge of information from a variety of data sources and types for making complex investment decisions. AI along with machine learning, NLP, and decision analytics can help with real-time market and stock level insights and recommended priority actions. Thus, it can aid in making the decision process less taxing for both advisors and customers.

New models for customer engagement:

One of the lasting impacts of the pandemic is likely to be a lengthy continuation of remote working and reduced face-to-face interactions. Especially for wealth management the quality of customer care will remain challenging, hence, AI-powered and always-on digital assistants interfacing via voice, chat, or video can be differentiators and they could drive a hyper-personalized service that delights customers.

Intelligent Automation:

AI-backed intelligent automation can make laborious and time-consuming complex processes such as preparing investment strategies for clients, tax aware rebalancing, and tax loss harvesting much simpler.

Market intelligence:

Today, we have widespread availability of Big Data across global markets and asset classes from multiple sources. Pattern recognition using AI on such wealth of intelligence comprising both structured and unstructured data can revolutionize forecasting and trading.

Investing and portfolio management:

AI can be a powerful tool for investment and portfolio managers to optimize asset allocations and outperform the market. It can correlate the impact of global events on asset prices, anticipate the movements of markets, and analyze social media chatter. AI can also be used to create investment portfolios with configurable objectives and simulations of financial models.

Fraud detection, risk management, and regulatory compliance:

Using AI for fraud detection can exponentially improve efficiency and reduce costs by reducing thousands of hours of manual effort. Similarly, it can manage vast numbers of holistic risk sensitivities including market risk, counterparty credit risk, and non-financial risks while providing more granular and much faster visibility. When it comes to the constantly changing and increasingly stringent fiduciary standards, AI can enable the generation of agile and efficient responses by summarizing huge sets of regulatory content, news, and deadlines across agencies into meaningful information and actions.

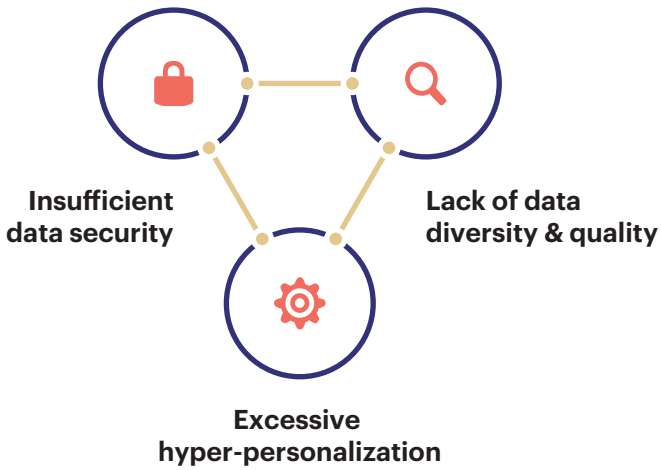
Thinking through the challenges

While current conditions are accelerating the real-world adoption of AI, certain wealth management processes do pose some unique challenges that require consideration:

Insufficient data security:
As remote working may become a permanent way of life; data security has become a priority for many firms. Especially, within a data sensitive wealth management industry, data security challenges can be quite difficult to overcome consistently. Firms will need to think through the necessary security safeguards for AI's data supply chain so that both regulators and clients can be at ease.

Lack of data diversity & quality:
Data from diverse sources is a crucial foundation for AI training models, yet it is data quality that determines the value and reliability of the AI insights. Because the quantity and quality of data in the wealth management industry is insufficient, unfiltered, and biased, firms looking to get the most out of AI will need to institute data-quality programs and enhance their data availability. This may require using means such as simulating datasets to create synthetic data.

Excessive hyper-personalization:
AI-enabled hyper-personalization could make financial advice and cross-selling dynamics too intrusive. Overselling could result into an unpleasant experience for customers and could also attract huge regulatory fines for mis-selling. The situation amplifies with the lack of quality data and hence, expert human oversight is essential to ensure that customers are not misled, misinformed, or disadvantaged.



Thoughts for the road ahead

AI has come in out of the cold and following through on its successes in other industries looks all set to disrupt the wealth management industry next. Wealth managers have much to lose by continuing to sit on the fence. Neglecting AI will lead to their firms ceding space to more technologically adept and innovative upstarts, and eventually they too will have to adopt the technology due to competitive pressures.

Thus, it is imperative for wealth managers who haven't begun leveraging AI yet to take the first steps towards building their cognitive platforms. While doing so, it is necessary to experiment with pilot projects, keep realistic expectations, and build the right technology partnerships in case internal competencies are lacking. This will help forward-looking wealth managers stay ahead of the AI adoption curve and reap the benefits of being early movers. The others who continue to ignore the trends pointing to imminent disruption will do so at their own peril, and inevitably lose in a world where wealth management will be synonymous with AI.

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