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Can generative AI spark innovation in asset and wealth management?

Introduction

If ever an industry needed a spark of inspiration and a vision for a creative new future, it would be asset and wealth management. Caught between declining fees, rising costs, and shifting investor preferences, leaders of asset and wealth management firms have been trimming expenses, rethinking products, and investing heavily in digital transformation.

These efforts have helped but have not changed the fundamentals. Now comes generative AI at just the right moment to help organizations reimagine their missions, operating models, cost structures, and value propositions. Gen AI has the potential to reshape investing and change how money managers advise, inform, and engage their clients. It can also help with the cost issues that have been so difficult to solve. Expectations for it are enormous.

Exploring the art of the possible

Imagine, for example, a generative AI tool for asset managers that could review the day's news and trading activity and recommend portfolio adjustments in real time? Or how about a program for wealth managers that could automatically generate a letter to a specific client suggesting a meeting agenda with news and investment ideas that have been pre-cleared by compliance? Or a system that could do all the research and back testing to validate a new ETF idea?

None of this is futuristic. Generative AI technology is advancing quickly and putting such applications within reach. The immediate challenge is keeping up with what's available and achievable to help asset and wealth management leaders come up with product and service strategies—and operating efficiencies—to help their companies compete more effectively.

First, the basics. Generative AI is a branch of artificial intelligence that uses deep learning techniques to generate content from massive amounts of data. Like all AI, generative AI tries to mimic human cognitive abilities to analyze and synthesize data and draw conclusions. Unlike previous AI programs, however, generative is scalable and easy to use by all kinds of employees.

With minimal training, non-programmers can create prompts that can instantly yield results that might take a human researcher days to produce. So generative AI can be introduced into many kinds of jobs to extend the capabilities of employees, especially those in higher value-added white-collar work, whose jobs have not been fundamentally changed by technology.

Generative AI adoption is already happening. KPMG has surveyed executives on their intention to adopt generative AI twice, in March and June, and found growing commitment. In March, 50 percent of executives said they were likely to allocate budget to generative AI in the next six to twelve months. Among financial services executives the figure was 64 percent. By June, executives were talking about increasing those investments—nearly 40 percent said they would increase investment by 50 to 99 percent. And 45 percent said they expect to double investment.

In other words, it is safe to assume that your competitors are ramping up their generative AI efforts. Meanwhile, in many organizations, employees are jumping in and trying programs like ChatGPT on their own. And non-traditional competitors are racing ahead and aggressively applying generative AI in business-shifting ways. Fintechs are moving quickly, partly because they are "digital native" organizations that have less legacy system baggage and lighter regulatory oversight. In July, for example, Savvy Advisors, an RIA that offers a platform for independent financial advisors announced a new platform that uses generative AI to automate and streamline

processes including new account onboarding, client portfolio recommendations, ongoing financial planning and, personalized communications across multiple marketing channels.

41%

percent of executives planning to double investments in generative AI
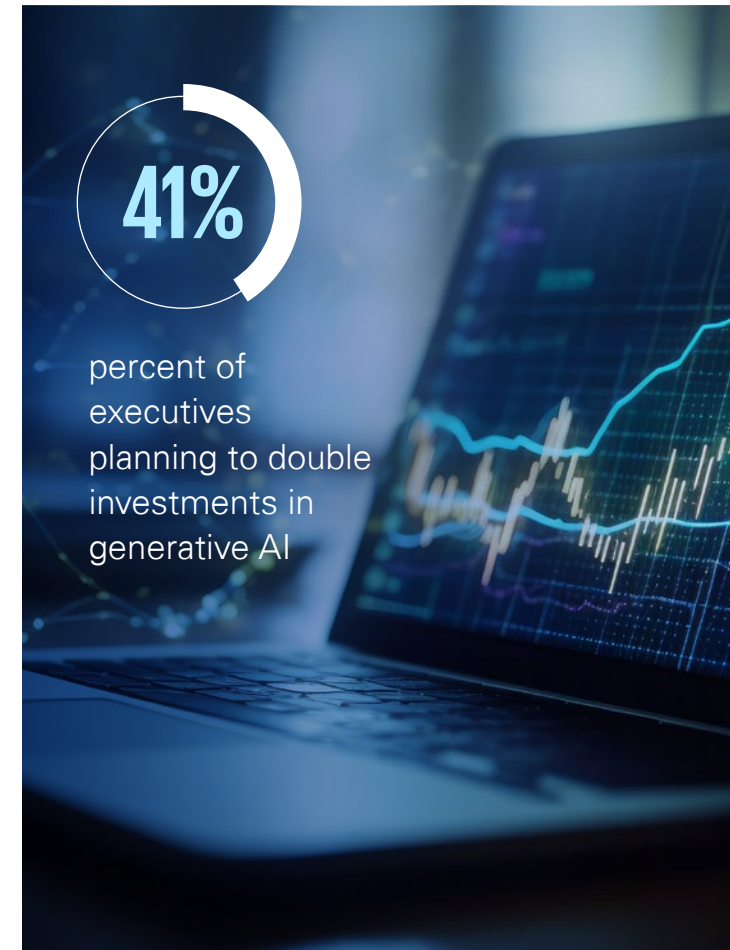
Where generative AI will likely have an impact in asset and wealth management

Asset managers and wealth managers can think about a broad range of tasks and processes that can be streamlined with help from generative AI. Here we look at four general uses of generative AI, such as generating content, and how they might apply in asset and wealth management:

Synthesizing information

Generative AI can sort and synthesize large sets of structured and unstructured data. This capability will be applicable in:

❯ Forecasting

❯ Sentiment analysis

❯ Portfolio optimization

Monitoring change

Generative AI can help spot subtle shifts in trading data and uncover trends that might prompt different investment choices or indicate irregularities. This could be of great use in:

❯ Compliance (including scanning for regulatory changes)

❯ Risk management (including flagging violations of policy and contracts)

❯ Cyber security

Decision support

Generative AI can support decision making by recommending possible actions or remediations based on data and published information. This could include:

❯ Offering personalized financial advice

❯ Suggesting ways to optimize a managed portfolio

❯ Providing suggestions for sales

Generating content

Publicly available tools such as ChatGPT have shown how good generative AI can be at generating content that approximates what a human might write—or paint or draw. For asset and wealth management companies, there are many opportunities in content creation.

❯ Client communications

❯ Training materials (written and video)

❯ Charts

❯ Drafting compliance reports

Use cases in asset and wealth management

Personalized financial advice

Generative AI can generate personalized financial advice based on user inputs, such as risk tolerance, investment horizon, and financial goals. This can help asset management firms scale their advisory services and improve customer engagement.

Content generation

Generative AI can be employed to create marketing materials, educational content, and thought leadership pieces on various topics related to asset management. This can help firms build their brand and engage clients more effectively.

Performance reporting

Generative AI can sort through a tremendous amount of data, regulatory expectations and rules.

Risk management

Generative AI can help in identifying potential risks, such as market volatility or credit risks, by analyzing historical data and market trends. This can enable asset managers to develop more resilient investment strategies and mitigate risks.

Sales and distribution

Generative AI could use open source and KPMG data to determine the next best action for sales.

Market research and analysis

Generative AI can be used to generate summaries, insights, and trend analysis from vast amounts of financial data, news, and research reports. This can help asset managers stay up to date with market developments and identify investment opportunities.

Forecasting

Digitize data to view how different variables drove how you valued an investment versus how it is performing to help make decisions about future deals.

Portfolio optimization

Generative AI can be utilized to analyze large datasets and identify optimal asset allocations based on user preferences, market conditions, and other relevant factors. This can help asset managers make better-informed investment decisions and improve portfolio performance.

Sentiment analysis

Generative AI can be used to analyze social media, news articles, and other sources to gauge investor sentiment and anticipate market movements. This can help asset managers make more informed decisions and adjust their strategies accordingly.

Automated customer support

ChatGPT can be used to develop chatbots or virtual assistants to handle customer queries related to account management, transaction processing, and general inquiries. This can lead to faster response times and reduced support costs.

Internal communication and training

Generative AI can be used to quickly write internal communication and training materials, making it easier for employees to access relevant information and learn about new policies, products, or market updates. Materials can always be up to date.

ESG monitoring

A properly tuned generative AI tool can help companies quickly understand the ESG implications of investments. The technology excels in analyzing "less structured" data that can be measured in different ways.

Barriers to adoption

As our executive surveys have shown, leaders across industries are eager to get started with generative AI, but also have concerns about risks and challenges. Chief among these for financial services leaders are lack of skilled talent to develop and implement generative AI, cyber security threats to the models or training data, legality of the outputs from foundational models, and finally, the risks around cost of investment. Asset and wealth managers also must be sure that results are accurate, that client data is safe, and that the work done by generative AI does not violate any regulatory or fiduciary rules. These concerns may explain why financial services executives, compared with their peers in other industries, are more conservative in their estimations of the potential impact of generative AI.

While financial services leaders are concerned about regulatory implications, they are also confident that they can handle those. Three-quarters said the uncertain regulatory landscape impacts their generative AI investment decisions, they also said they are prepared to handle any regulatory developments.

Leaders are also increasingly confident that they can handle the risks. In March, only 28 percent of survey respondents were confident that their organizations could mitigate AI risk. In June that figure had risen to 77 percent, and 81 percent of financial services leaders said they were confident or extremely confident that their firms could mitigate generative AI risks. We believe this has to do with the rapid upskilling for generative AI and more knowledge about how to fit the new technology into their existing controls mechanisms.

To deal with these risk concerns, asset and wealth management companies should approach the problem in a multidisciplinary way. Representatives from risk, legal, compliance, cybersecurity, and IT all need to be part of the generative AI team. With proper oversight and planning from these experts, companies should be able to mitigate generative AI risks without delaying implementation—and quickly getting value from generative AI.

Another huge barrier to adoption of generative AI is the lack of data foundations within asset and wealth management institutions. The pandemic helped accelerate the move to cloud and helped change leadership thinking about investments in data, but the journey is far from complete. Data quality remains a challenge for asset and wealth managers. Companies rely heavily on third-party data, but little investment has gone into enriching the data and accelerating its use within these institutions.

81%
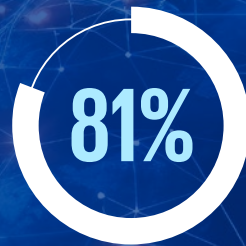
percent of financial services executives who are confident that their firms can mitigate generative AI risks

Getting started

01 Assess your business

Do you take risks? Are you first adopters of new technology? How do your customers respond to disruptive change, even if it creates new value? What regulatory or risk considerations do you need to keep in mind? Determining your organization's maturity and its comfort with generative AI will dictate how quickly and completely you dive in.

02 Align the building blocks for success

Be clear about what success looks like and build the support structure necessary to get there. That includes having clear leadership commitment, establishing a center of excellence for the business with representation across functional areas like legal and HR, getting data in order, and preparing for generative AI's impact on the workforce.

03 Pick use cases

Wise selection can make the difference between the success and failure of your generative AI strategy. Once you have the business case, use a structured methodology to determine if the application can be built (see "Can it work?"). Start small. Start with projects that require a low level of effort for a big business return. Successful proofs of concept will validate leadership's investment in the technology.

Can it work?

Before fully committing to developing a generative AI application, determine its viability and scope:

- **Planning:** Identify the core tasks and describe their interactions. Determine the human and subject matter expertise needed for these tasks. Map the data flows and dependencies necessary to arrive at the desired goal.

- **Data validation:** Define the types of data needed (text, video, structured, unstructured). Link tasks to data types and decide what processing/transformation is required. Assess the availability of data (quality and completeness), enterprise readiness for technology, and the skills available to execute. Is the data ready to be consumed by the AI tool?

- **Scoping:** Set clear success criteria. Map these to individual tasks that together form the end solution. Establish project milestones that demonstrate meaningful success. Identify points along the way when value can be realized without finishing the whole use case.

04 Build a place to experiment

Innovating, testing, failing, and rebuilding are necessary steps for accelerating adoption of generative AI. Provide the tools, environment, and support so enthusiastic teams with approved use cases can start testing quickly. This will be the place to incubate new ideas.

05 Job redesign

Job redesign is essential for realizing value from generative AI. The promise of generative AI is in its ability to extend the capabilities of employees and give them more time for productive work. The tool can sift through hundreds of documents for specific data or perspectives, so a research analyst can spend more time on new investment ideas or products. But to capture the value, employees will need training in the new technology and their roles need to be redefined (i.e., specifying the new tasks on which the employee should focus).

06 Get moving

Once you've identified and scoped a few use cases, start building them, then expand their scope as you prove out the value. There's no need to identify every use case across the business before you get started (but do account for how an implementation in one process might impact another). Early success builds momentum for adoption across the organization.

We recommend starting small and reaching for achievable goals—getting some quick wins. For example, look for opportunities where you can leverage generative AI to perform the legwork to augment the capabilities of knowledge workers and enable them to use their time in higher value work. This might include automating routine documentation, conducting sentiment analysis on client communications, and drafting uniform contracts. Those applications that touch the client without human intervention, such as responding directly to customer queries, require an extra level of care and a thorough assessment of the technology's capabilities.

The time for adoption is now

To move quickly, while addressing the challenges we outline above, companies cannot do it all by themselves. They will need to understand what they can and should do—what is core and proprietary and what can be bought off the shelf—and find partners that can help. Creating an ecosystem that includes codevelopers and partners with a broader range of expertise can help accelerate the generative AI journey. Find partners that can not only support execution, but also help develop ideas and use cases.

Within the organization, top leaders should show that they are committed to generative AI and share the excitement that employees have for the possibilities of the new technology. They can commit to financial support for generative AI experimentation and building a rigorous framework for use case selection and adoption—informed by the business's risk appetite and cultural readiness, sand guided by the potential to create value.

How KPMG can help

An early and enthusiastic advocate for the power of AI, KPMG is well positioned to help your organization leverage generative AI. Drawing on our deep experience in machine learning and natural language processing, we can help guide your organization through strategy, use case development, vendor selection, and implementation—and then provide ongoing support to help you enhance your investment in this transformative technology. We understand both the promise of generative AI and the process and cultural changes that will be required to realize its full potential.

KPMG also recognizes that all users of generative AI have a responsibility to learn about the technology's risks and how to control those risks to prevent harm to customers, businesses, and society. Those risks may grow and evolve as AI technology advances and becomes more pervasive. We help clients build responsible AI programs, which helps avoid the risk disruptions.

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