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The impact of AI applications in wealth management

Introduction

A full 70% of global wealth managers agree that AI represents a paradigm shift in how their firms will operate over the next three to five years, improving front-end advisor productivity and streamlining back-end functionality. This article highlights our perspective on the most prominent areas that will be augmented by AI techniques and the competitive advantages firms are likely to experience.

AI applications will drive significant economic value for wealth managers that adopt and progressively deploy this technology. It will impact multiple parts of the value chain, creating competitive differentiation and increasing productivity. Globally, Canada was most bullish on the impact of AI, with 87% of Canadian wealth managers (70% at a global level) believing that AI will significantly change how their firms operate in the next three to five years.

A focal point for most wealth managers is driving operational efficiency across the value chain, from the sales and marketing function through to client-servicing use cases. Their current cost-to-income ratios range from 65% to 80%, with sub-scale wealth managers operating at the higher end. As market conditions and wage inflation create headwinds for wealth managers' earnings, AI capabilities can enable greater efficiencies to help boost their earnings growth and control their critical operating ratios.

Similarly, wealth managers are also focused on driving top-line growth and differentiation, particularly in advisor-led channels. Leading players typically generate between 5% and 10% of net new money as a percentage of assets under management through new advisor and client acquisition, contingent on market conditions. AI can impact both these value drivers, driving down cost-to income ratios as well as increasing advisor productivity to enable the capture of a greater share of flows.

Overall, there are five broad generative AI use cases in the wealth management sector that will have the highest economic impact. Advisor productivity and personalized client engagement will offer top-line impact and operational efficiency gains across client servicing and operations. We also anticipate a significant role for AI in mitigating risk related to regulatory compliance.

1. Advisor productivity

AI capabilities will allow advisors to spend more time with established as well as prospective clients and less time on administrative and servicing tasks. Among global wealth managers, 49% predict the use of AI for servicing clients within three years (69% among Canadian wealth managers), with use cases pertaining to preparing for client calls, synthesizing client meeting notes, updating CRM systems, and summarizing research and product documents for clients. In each of these use cases, AI augments the advisor's capabilities by auto-generating client-specific content, such as customized communication scripts for client conversations, summarized client call notes and next steps, and real-time, next-best-engagement actions for the advisor to follow through on. The impact is projected to lead to a 30% to 40% improvement in advisor productivity in the near to medium term. Over time, as AI's applications increase in sophistication and breadth across the wealth value chain, we expect productivity gains to increase even more, allowing advisors to both broaden and deepen their books.

2. Personalized client engagement

AI allows for the creation of personalized communications and marketing content at large, making advisor-to-client interactions more engaging and scalable (with 37% of global wealth managers in agreement). These systems analyze individual client data to initiate timely, relevant outreach, ensuring that clients receive tailor-made investment suggestions and insights, typically on behalf of the advisor, given the prevalence of "human in the loop" AI approaches today.

3. Client-servicing efficiencies

The deployment of AI in customer service centres will enable interactions to be tailored to the context of customers. It will assist in the creation of first drafts of documents, such as financial plans. The client onboarding process will be made more efficient and user-friendly via AI streamlined procedures. Moreover, chatbots equipped with extensive financial acumen and operational understanding will streamline customer support, potentially minimizing or even eliminating the need for most traditional call-in support or interactions with analysts/associates on advisor teams. These use cases will drive down cost-to-serve for clients, leading to efficiency gains of 25% to 50% across client servicing functions.

4. Technology and operational efficiency

AI will streamline back-office operations through process automation, from KYC (know your customer) procedures to compliance checks, reducing human error. These operational efficiencies will drive cost savings and improve service delivery. Further, 52% of global wealth managers (versus 63% of Canadian wealth managers) perceive the interlinkage between AI and cloud deployments to be at the forefront of operational efficiency gains.

5. Regulatory compliance

Wealth management is a heavy regulated sector, in which most business models must adhere to a fiduciary standard of "client's best interest." For example, advisors are expected to provide investment advice that avoids conflicts of interest and ensures that any investment solutions are suitable for that client based on their objectives, risk appetite, and preferences. Firms can be exposed to significant compliance risk (e.g., regulatory fines) and legal action (e.g., class-action lawsuits) should they be found non-compliant.

It's predicted that 49% of wealth firms globally (and 50% in Canada) will employ AI for compliance purposes, including analyzing advisor characteristics (e.g., investment strategies and trading behavior) to identify patterns of non-compliant behavior, quantify its impact, and generate alerts for risk/compliance teams to take remedial action. AI would not only improve this monitoring capability but also allow it to scale well beyond the scope and effectiveness of adding further FTE to back-office compliance teams.

An obvious note of caution for wealth management firms: be aware of the myriad of challenges posed by the implementation of this technology, not only the benefits. A structured, rigorous approach led by dedicated senior management is paramount to success in AI deployment and the navigation of the associated risks.

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