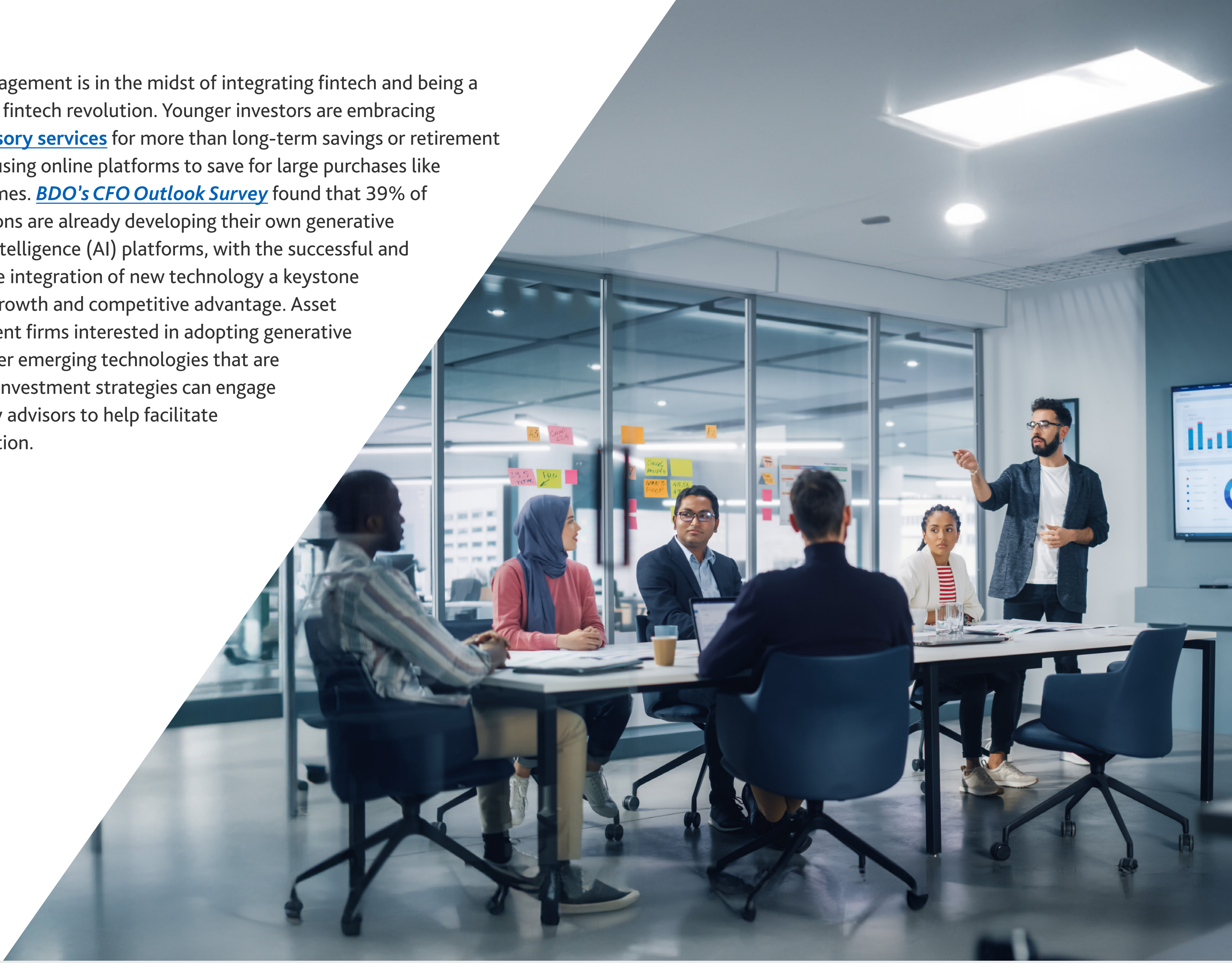
The Intersection of Fintech and Asset Management: Investing in the Future

Asset management is in the midst of integrating fintech and being a part of the fintech revolution. Younger investors are embracing **robo-advisory services** for more than long-term savings or retirement planning, using online platforms to save for large purchases like cars or homes. ***BDO's CFO Outlook Survey*** found that 39% of organizations are already developing their own generative artificial intelligence (AI) platforms, with the successful and responsible integration of new technology a keystone of future growth and competitive advantage. Asset management firms interested in adopting generative AI and other emerging technologies that are reshaping investment strategies can engage third-party advisors to help facilitate such adoption.



Technological Innovations: Opportunities and Challenges

Irrespective of sector, innovation can accelerate business growth. But seeking workflow efficiencies and cost optimizations also comes with challenges, including securely managing large troves of data and ensuring the right people and processes are in place to govern new systems. Generative AI, robo-advisory services, and natural language processing (NLP) models offer use cases for how emergent technologies are impacting the asset management industry.

GENERATIVE AI

Many large investment firms and hedge funds are already using generative AI. One of its most common use cases in asset management is customer service. Custom-made chatbots, for instance, can handle simple client requests instantly, freeing time for human wealth managers to focus on more strategic tasks. A sophisticated use of generative AI involves purpose-built and accurately trained algorithms that can analyze market data in real-time to execute trades at optimal times and prices. For example, High-Frequency Trading (HFT) systems use generative AI to make accurate, split-second trading decisions. Generative AI also has the power to help streamline risk management by collating large quantities of compliance data. Leveraging big data for expansive research can help wealth managers create highly specific investment strategies. These strategies can be tailored to — and even led by — growth investors who may not have a history of working with wealth managers and wish to exercise close personal control over their investments.

ROBO-ADVISORY SERVICES

For wealth management firms, automated investment platforms can lighten the day-to-day workload of portfolio managers by significantly reducing the need for client interactions. As with any new tool, there are upfront costs related to adoption and training. But robo-advisory services are on the rise and have the potential to expand the wealth management market due to their scalability and low overheads. Low-cost, algorithm-driven investment solutions are particularly appealing to the average investor, who appreciate the ability to interact with and update their own investment strategies in real time with minimal cost, via apps or proprietary platforms.

NATURAL LANGUAGE PROCESSING (NLP)

Natural language processing (NLP) models are AI systems designed to understand, interpret, and generate language through the analysis and manipulation of large quantities of text and speech. Asset management firms can leverage NLP models to help save time and costs by automating their monitoring processes — specifically with applications for uncovering risks, identifying suspicious transactions or messaging, and analyzing corporate filings. Asset managers can also use NLP models as part of a comprehensive research strategy; by training the models on legacy media, trade publications, social media and even online forums, wealth managers can stay abreast of investment trends, originating in increasingly disparate online communities and from non-traditional sources.

Regulatory Challenges and Solutions

Innovation drives new rules and regulations, as lawmakers work to keep pace with the latest technology. Asset management is no different from other industries where compliance can be a highly sensitive non-negotiable issue, and new laws regarding the use of generative AI are either already here or on the horizon in jurisdictions around the world.

DATA PRIVACY LAWS

The California Consumer Privacy Act (CCPA) came into effect on January 1, 2020, and was the first comprehensive privacy law in the U.S. spanning industries and providing rights to consumers regarding the collection, use, and disclosure of their personal data. Since then, many other states have followed California's lead and enacted some form of comprehensive data privacy law. Wealth management firms should keep an eye on regulatory developments as adoption of similar requirements grows.

Outside the U.S., the European Union (EU) set in motion the new age of privacy requirements with the **General Data Protection Regulation (GDPR)**, which came into effect in 2018 and is what many modern privacy laws are modeled after. This law enforces individuals' privacy rights, and includes additional concepts, like cross-border data transfer restrictions. The **EU AI Act**, which came into force on August 1, 2024, creates a framework to promote transparency and accountability for AI systems and imposes strict requirements for high-risk AI systems — like automated trading systems and client advisory systems — around data governance, risk management, and human oversight. Wealth managers working with assets or clients based in the EU must incorporate these rights and obligations into their AI offerings.

REGULATORY COMPLIANCE

Regulatory reporting is a use case where AI tools can help save time and operating costs, so long as there are appropriate guardrails in place. Human oversight and regular review of reporting and compliance processes remain essential to a robust risk management program.

Regulation is continually evolving and can be subject to rapid change, particularly around major elections. Many asset managers who have embraced emerging fintech — particularly in the startup sector — can see this change coming but may not have the in-house knowledge to adapt. Firms of all sizes should remain vigilant about potential policy change and may consider working with a third-party advisor to proactively meet the challenges of new regulations as they arise and are implemented.

CYBERSECURITY CONCERNS

When it comes to the threat of cyberattacks, the stark reality is that it is no longer a question of if an attack might happen, but when. Wealth management firms should have a plan in place to regularly review and update controls to help prevent data breaches. Dedicated risk management personnel should constantly monitor new technology before and after adoption — if a business does not have the experience or resources to handle internally, then external counsel should be sought through advisory services or flexible staffing.

Staying Ahead of the Curve: What Asset Managers Need to Know

Adopting emerging fintech innovations is an important step for traditional asset management firms to stay competitive and build growth. Investing in the technology itself is one step, along with acquiring successful fintech startups that are leaders in this space.

To embrace change and build a culture of innovation, wealth management firms should actively recruit talent that is both knowledgeable and experienced in integrating new AI technology into the asset management sector. This may require a flexible approach to staffing with a balance of employees from younger generations who have high levels of familiarity with emerging fintech, and managers who have successfully overseen organizational change. If your organization wishes to meet specific needs without adding headcount, external counsel can help with co-sourcing and outsourcing services. As fintech tools continue to advance the asset management industry, organizations can leverage the knowledge and experience of a third-party advisor. BDO can help wealth management firms and fintech companies in meeting their needs in a variety of ways including tax compliance, assurance advisory, data protection, and AI integration.

Have questions or want to learn more? CONTACT US!

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