WEALTHTECH @ WILSON

The AI in Wealthtech Field Guide

A CHANGING WEALTH MANAGEMENT ECOSYSTEM

The wealthtech industry is deploying AI to create more **efficient, bespoke, user-driven, and data-intensive** portfolio management strategies, and to **streamline** analytics and administration.

AI can be used in a vast number of ways:

- portfolio optimization
- predictive analytics for client and customer behavior
- communications with clients and customers
- algorithmic trading and rebalancing
- compliance automation and monitoring
- more efficient linking of accounts across vendors and service providers
- improved trade execution

AI can be used to **enhance benchmark assessments** and enable novel ways of uncovering signals that may **generate alpha**, and it can leverage vast client and customer data to more finely tailor recommendations.

RAPID EVOLUTION OF MODELING AND TRADING SERVICES

AI can incorporate a **wide range of alternative data sources**: Customer data held by a company or its partners, data scraped from websites, historical data on economic, political, cultural, and social trends, and many others.

These data can be used by AI-based systems to **quickly identify macro- and microeconomic trends and variables** that predict them – which can produce **pioneering and nuanced insights** for modeling and trading advice.

AI programs may also help wealthtechs better understand **customer behavior, goals, and preferences** (including those a customer may not identify themselves) and how they intersect with the big picture. This can allow wealthtechs to **generate better analytics and more tailored recommendations**.

AI may help identify **more optimal trading opportunities** to further generate better returns.

Generative AI can help wealthtechs **communicate with their customers** in a more efficient and tailored way using chatbots or similar tools.

THE LANDSCAPE OF BASIC REGULATORY REQUIREMENTS

For wealthtechs that are not already registered investment advisers or broker-dealers, **AI-based systems may trigger a registration requirement with the Securities and Exchange Commission or state regulators.**

For example, **analytics can turn into regulated "advice"** when they are personalized, client-facing, and designed to influence investment decisions.

Technology with a **"black box"** component that could be misunderstood by customers may also be **subject to regulatory scrutiny**.

Data usage considerations are also key. Consider carefully how client data may be used for training purposes, whether your wealthtech has the right to use the data, and any required disclosures or consents. Any use of AI to make eligibility decisions, such as creditworthiness or sophistication levels, should be particularly considered for any bias or potentially discriminatory outcomes, and may require heightened disclosures in certain jurisdictions.

Regulators also expect written cybersecurity policies that specifically cover AI and machine learning environments. **These should include ongoing testing, vulnerability scans, breach response, and patch management as well as clear data governance controls**—particularly for client-identifiable information used in models. Firms should **ensure that employees are aware of who owns the AI stack**—data scientists, CTO, CCO, etc.

IDENTIFICATION OF FIDUCIARY AND BEST INTEREST OBLIGATIONS

Regulators expect advisers and brokers to adopt policies and procedures designed to address these obligations.

For example, **AI-driven investment decisions should be understood, monitored, and supervised, with a "human in the loop."** This means understanding AI logic and limitations for explainability and transparency **without over-relying on "black box" modeling**. It also means rigorous performance testing, backtesting, and stress-testing. Models should be **tuned and recalibrated** as markets and clients evolve, and the firm should document model logic and updates.

Where AI identifies client preferences and recommendations that are not obvious to a client, advisers and brokers need **to consider whether they are truly in the client's best interest.**

Advisers and brokers also need **to disclose and address potential conflicts of interest** that may arise based on operation of the AI system—for example, where a system could favor trades that direct fees to an adviser or its partner.

Advisers and brokers also need to consider **how best to supervise engineers and coders**, who may need to be treated as supervised securities professionals based on their insights into trading systems, **even if they have no client or customer contact**.

AI systems could also potentially result in block or similar bulk trading that may result **in market movements that a broker or adviser could be responsible for**.

MAPPING RISK MITIGATION STRATEGIES

Tactics to consider include:

- Implement an **AI model governance framework**

- **Audit trails**: record how and why decisions were made

- Regular testing and validation of models— **triangulate various testing methods** based on the features of a particular model and associated risks, calibrated to what AI is used for, the data involved, and other factors

- Maintain **human-in-the-loop** controls

- **Disclose AI use clearly** in official filings (such as Form ADV), customer-facing products, and marketing materials

- **Tailor policies by AI type**—for example, traditional machine learning may be easier to govern than generative models, and regulators may expect differentiated controls

- Engineer role design — **consider "information walls" and role delineation** to avoid unintended regulatory triggers

- Prepare to **engage with examiners on technical details of AI use and expect deeper scrutiny during exams**

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Our wealthtech practice specializes in collaborating with clients that apply new technologies to wealth and investment management programs in a way that **minimizes regulatory risks and obligations** in a compliant fashion, is **commercially viable**, and **supports client business goals**.

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