



H I V E
TRUST. WORTHY. AI

AI Adoption

A Practical Guide for Financial Advisors in 2024



TABLE OF CONTENTS



Preface



Introduction



The Advent of Large Language Models in Financial Advisory



Gen AI Common Use Case in a RIA



Risks, Ethical, and Regulatory Considerations



AI Adoption Readiness Scorecard



AI Adoption Strategies & Roadmap



What Does the Future Look Like?

Preface

American household net worth reached an all-time high in 2023.

Yet a mere 35% of Americans are currently engaging with professional advisors to develop a financial plan. This gap becomes even more pronounced when considering the future workforce composition, with millennials and Generation Z expected to constitute 75% of the workforce by 2025¹. Surprisingly, although a staggering 79% of individuals within these younger generations express a keen interest in enhancing their financial planning², the majority find themselves without access to the necessary advisory services. This discrepancy highlights a critical opportunity for the financial advisory sector to bridge the gap and cater to the burgeoning demand for financial planning among younger demographics.

On the other hand, the financial advisory sector has evolved from selling financial products to an Assets Under Management (AUM) based fee-only approach, which prioritizes the investment portfolio management and financial planning. The AUM mode, however, doesn't work for most Americans due to the barrier of investable assets threshold. An emerging model that does not rely on AUM—such as subscription or hourly rates—is gaining traction. This model democratizes financial advice, making it accessible to a broader audience without the barrier of asset thresholds.

Yet there's one problem: comprehensive financial planning is a labor intensive process and **it takes an average of 35 hours for a financial advisor to produce and deliver the first year financial plan**³. These financial advisors need to scale their services efficiently to extend their reach and offer high quality financial planning services while running a profitable practice.

The introduction of Large Language Models (LLMs) and other AI technologies offers a promising bridge to this untapped potential.



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RIAs often express skepticism towards AI, citing concerns over trust and the irreplaceable value of human relationships. Such statements as “I would never trust AI with my practice” and “My service is solely relationship-based, and my client would never use an AI chatbot” are common sentiments that underscore the resistance to change within smaller practices.

This ebook will aim to demystify AI misconceptions, present facts, and showcase how it can be a powerful ally rather than a foe. We will explore how AI can complement the irreplaceable human elements of our profession, such as judgment, empathy, and ethical consideration. Embracing AI is not about replacing human expertise; it’s about augmenting it. After you read this, you will be able to leverage the capabilities of AI and efficiently scale your services in 2024!

Happy reading!



Photo Credit, Shutterstock AI: In 2023, AI tools became widely available. This image was created by AI tools in minutes.

Introduction

As we embark on the transformative journey of 2024, the landscape of financial advisory practices is being reshaped by digital innovation and the burgeoning influence of Artificial Intelligence (AI) in the RIA sector.

This concise eBook traces back to the pivotal moment of early 2023, when ChatGPT emerged as a global phenomenon, aiming to demystify AI. Our objective is to provide actionable insights into how small RIAs can harness AI in their daily practice and enhance the services offered to clients. Reflecting on the evolution of the Registered Investment Advisor (RIA) industry from large wirehouses focused on selling financial products to an Assets Under Management (AUM) model, and more recently to a subscription-based model, has been paralleled by significant technological transformations.

Central to our exploration is the imperative of AI adoption, structured around answering the critical questions of Why, When, What, and How. We delve into the compelling reasons why small RIAs cannot afford to overlook AI, highlighting the risks and missed opportunities that

accompany resistance. To tackle the “When, How, and What,” we introduce an AI Adoption Readiness Scorecard and Roadmap, tailored for small RIAs. This tool is designed to guide firms in assessing their readiness and navigating the path towards strategic and secure AI adoption.

Concluding our narrative, we will envision the future of AI in the RIA industry. Anticipating trends, innovations, and potential disruptions, we aim to equip readers with a forward-looking perspective, preparing them to lead in a rapidly evolving professional landscape.

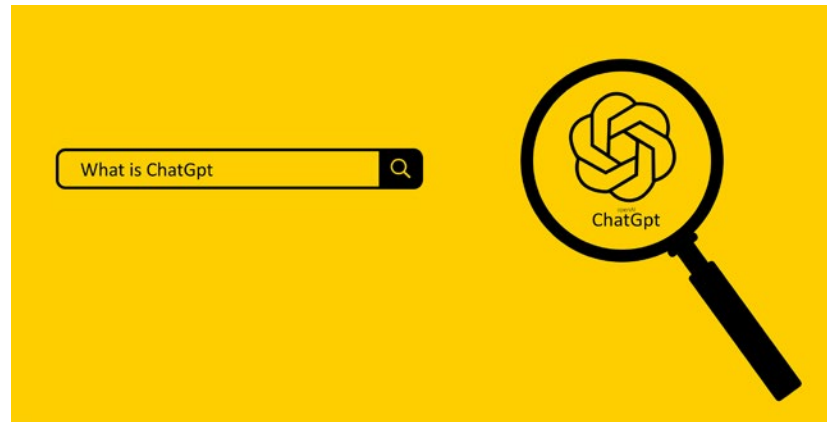


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CHAPTER ONE

The Advent of Large Language Models in Financial Advisory

The advent of Large Language Models (LLMs), such as GPT (Generative Pre-trained Transformer), marks a revolutionary stride in the intersection of artificial intelligence (AI) and financial advisory services. LLMs' ability to understand, generate, and process natural language at an unprecedented scale offers profound implications for the financial advisory sector. This chapter explores why financial advisory presents one of the most compelling use cases for LLMs and delves into the potential impacts of this technology on the provision of advisory services.

The Unique Fit of LLMs in Financial Advisory

Financial advisory, at its core, is a service that relies heavily on communication, trust, and personalized advice. LLMs, with their sophisticated natural language processing capabilities, align perfectly with these requirements for several reasons:

1. Personalization at Scale: LLMs can generate tailored advice and communications, factoring in individual client needs, preferences, and financial situations. This capability allows advisors to maintain a high level of personalized service across a broader client base.

2. Efficiency in Information Processing:

The ability of LLMs to swiftly sift through vast amounts of financial data, regulations, and market trends enables financial advisors to provide timely, data-driven advice. This efficiency supports advisors in staying ahead in a rapidly changing financial landscape.

3. Enhanced Client Engagement: LLMs can facilitate more engaging and accessible client interactions by interpreting and responding to client queries in natural language. This can improve the client experience, making financial advice more approachable and understandable.

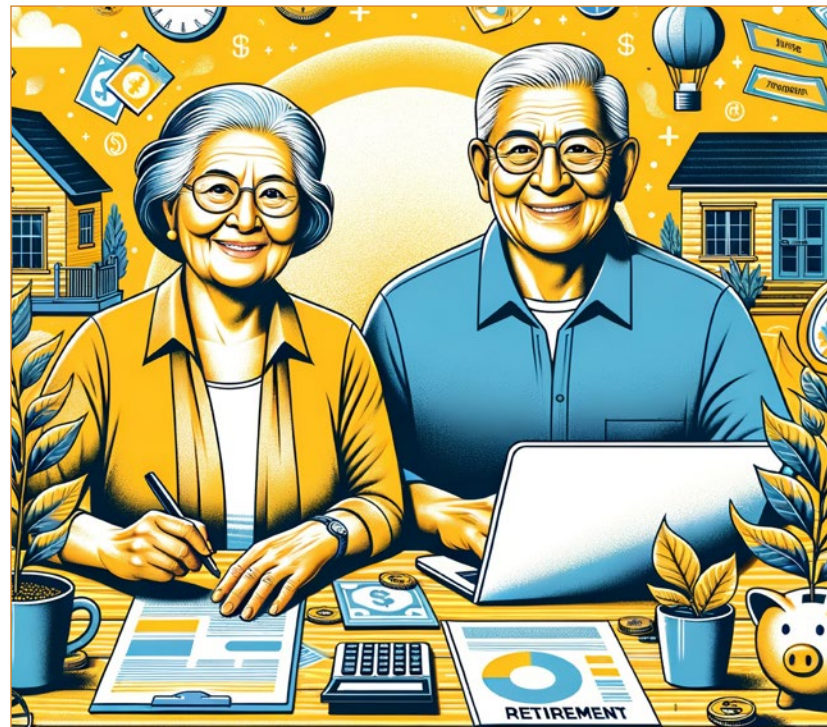


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Potential Impacts of LLMs on Financial Advisory Services

The integration of LLMs into financial advisory services is poised to transform the industry in several key areas:

- 1. Democratization of Financial Advice:** By enabling advisors to offer personalized advice at scale, LLMs can help democratize access to financial advisory services. This technology can lower the cost and accessibility barriers, allowing a broader segment of the population to benefit from professional financial advice.
- 2. Enhancing Decision-Making with Data:** LLMs can process and analyze data from a multitude of sources to provide comprehensive market insights and predictions. This capability can augment financial advisors' decision-making processes, leading to more informed investment strategies and financial planning advice.
- 3. Operational Efficiency and Cost Reduction:** The automation capabilities of LLMs can streamline many routine tasks such as report generation, portfolio analysis, and compliance checks. This efficiency not only reduces operational costs but also allows advisors to allocate more time to strategic activities and client relationships.
- 4. Innovation in Service Offering:** LLMs open new avenues for service innovation, such as real-time financial monitoring, predictive analytics for financial planning, and interactive educational content. These innovations can enhance the value proposition of financial advisory services, fostering client loyalty and attracting new clients.





CHAPTER THREE

Gen AI Common Use Cases in a RIA

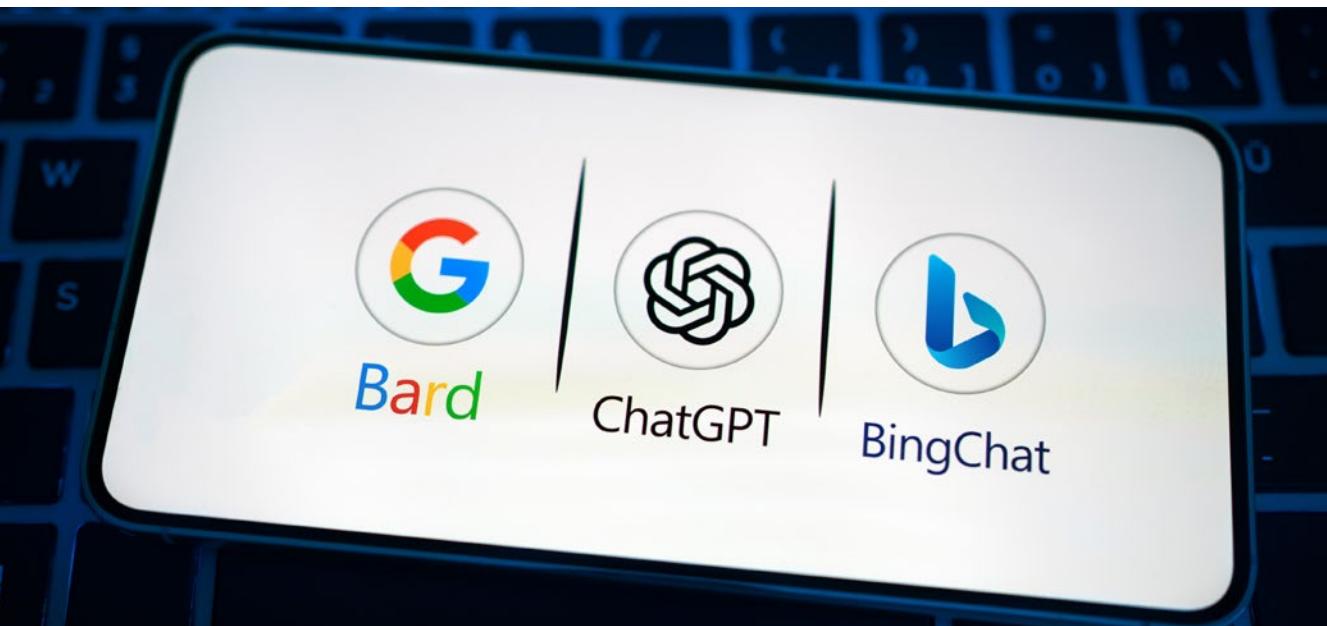


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Today Gen AI can be readily and securely applied to the following daily tasks and activities in a RIA office:

Personalized Financial Planning

Gen AI algorithms analyze clients' financial data, including their income, expenses, investments, risk tolerance, and life goals, to create customized financial plans. This allows RIAs to offer tailored advice that precisely meets individual client needs, enhancing client satisfaction and loyalty.

Automated Client Communications

Utilizing natural language processing, Gen AI can draft personalized communication, such as emails, newsletters, and reports, based on the client's financial situation and preferences. This capability ensures clients are kept informed and engaged, without overwhelming the advisor's workload.

Market Analysis and Investment Insights

Gen AI sifts through vast amounts of market data, research reports, and financial news to identify trends, risks, and opportunities. Advisors are equipped with deep insights and predictive analytics, enabling more informed investment decisions and strategic planning.

Operational Efficiency in Portfolio Management

Gen AI optimizes portfolio management by automating the analysis of investment options, rebalancing portfolios, and monitoring for compliance with regulatory standards. This automation reduces the time and resources required for portfolio management tasks, allowing RIAs to focus on higher-value activities.

Risk Assessment and Compliance

By analyzing historical data and current financial regulations, Gen AI can identify potential risks in client portfolios and ensure compliance with

industry standards. RIAs can proactively address compliance and risk management, minimizing legal and financial repercussions.

Client Onboarding and Data Collection

Gen AI streamlines the client onboarding process by automating data collection, initial assessments, and setting up client profiles. This makes the onboarding process more efficient and less time-consuming, improving the client's initial experience with the advisor.



Will AI Replace Me?

No, AI will not replace you. Yet, your peers who are supercharged with AI and capable of delivering enhanced services to a broader client base more efficiently and at a lower cost will.



CHAPTER FOUR

Risks, Ethical, and Regulatory Considerations

Risks, Ethical, and Regulatory Considerations

The adoption of Artificial Intelligence (AI) in the financial advisory sector heralds a new era of efficiency, personalization, and strategic insight. However, this transformative journey is not without its challenges. Risks, ethical dilemmas, and regulatory considerations form a complex landscape that RIAs must navigate to harness AI's potential responsibly and securely. This chapter delves into these critical aspects, outlining the current landscape, ongoing progress, and future directions to ensure the secure adoption of AI in financial advisory services.

Current Landscape and Risks

The integration of AI within financial advisory services brings forth a spectrum of risks, ranging from data privacy breaches to algorithmic biases. Data privacy concerns are paramount, as financial advisors deal with sensitive client information. The risk of unauthorized access or data breaches can lead to significant reputational damage and financial loss. Furthermore, algorithmic biases, stemming from flawed data or assumptions, can lead to skewed advice or discriminatory practices, inadvertently harming certain client segments.

Ethical Considerations

Ethical considerations in AI adoption revolve around transparency, accountability, and fairness. The “black box” nature of some AI systems can obscure how decisions are made, challenging the principle of transparency crucial in financial advisory relationships. Ensuring that AI-driven recommendations are explainable and that clients understand the basis of the advice they receive is vital for maintaining trust. Accountability for AI's recommendations and actions, particularly in scenarios where advice may



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lead to financial loss, raises questions about liability and redress. Fairness must be safeguarded to prevent any form of discrimination in advisory services, ensuring equitable treatment of all clients.

Regulatory Frameworks

Regulatory frameworks are evolving to keep pace with technological advancements, aiming to ensure that AI adoption in financial advisory services remains compliant with industry standards and protective of consumer rights. Regulators are increasingly focusing on AI governance, risk management practices, and ethical guidelines to mitigate potential harms. Compliance with existing financial regulations, such as those pertaining to fiduciary duties and data protection (e.g., GDPR in Europe, CCPA in California), is being extended to include AI-specific considerations. However, the rapid development of AI technologies often outpaces regulatory updates, creating a dynamic environment where RIAs must remain vigilant and proactive.

Progress and Future Directions

Efforts to ensure the secure adoption of AI in the financial advisory sector are multifaceted. Industry consortia and regulatory bodies are developing frameworks and best practices for ethical AI use. These include guidelines for data handling, algorithmic transparency, and accountability measures. On the technological front, advancements in AI explainability and secure AI models (e.g., federated learning) are helping address privacy and bias concerns.

Financial advisory firms are increasingly adopting robust AI governance models, incorporating risk assessments, ethical considerations, and compliance checks into their AI strategies. These models are designed to ensure that AI tools are used in a manner that aligns with both the firm's values and regulatory requirements.

Ensuring Secure Adoption

For RIAs, ensuring the secure adoption of AI entails a comprehensive approach:

- 1. Ethical AI Use:** Adopting ethical guidelines for AI use that encompass fairness, accountability, transparency, and privacy. This involves training staff on ethical AI practices and implementing oversight mechanisms.
- 2. Regulatory Compliance:** Staying abreast of evolving regulations and integrating compliance into the AI development and deployment process. This includes engaging with regulators and participating in industry discussions on AI governance.
- 3. Risk Management:** Implementing robust risk management frameworks that address the specific risks associated with AI, including data security, algorithmic bias, and operational resilience.



- 4. Client Engagement:** Maintaining open lines of communication with clients about how AI is used in their advisory services, including the benefits, risks, and choices available to them.

The journey toward AI adoption in the financial advisory industry is a path paved with opportunities and challenges. Navigating this terrain requires a balanced approach that embraces innovation while diligently addressing risks, ethical considerations, and regulatory compliance. As the landscape evolves, RIAs committed to secure and responsible AI adoption will not only enhance their service offerings but also fortify the trust and confidence of their clients. The future of financial advisory in the era of AI advancement is bright, contingent on the industry's collective commitment to navigating its complexities with foresight, responsibility, and integrity.



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CHAPTER FIVE

AI Adoption Readiness Scorecard

Scorecard: Is Your Firm Ready for AI?

Okay, I think I’m ready.. Now how ready am I?

In the rapidly evolving landscape of artificial intelligence (AI), assessing your firm’s readiness to adopt AI technologies is crucial. The AI Adoption Readiness Scorecard is designed to help RIAs understand where they stand on the path to integrating AI into their practices. This self-assessment tool considers five key factors, offering insights into how prepared your firm is to embrace the future of AI.

Category	Description	Scale (0-5) (0 = not at all, 5= very much)
AI Trust Factor	How much do you trust AI in general?	
AI Familiarity Factor	How familiar are you with AI tools as a user as well as a professional?	
Firm Goal Factor	Are you looking to grow your client base in the next few years?	
FOMO Factor	Do you feel you need to adopt new technologies to remain competitive and retain your clients?	
Tech Stack Status	How much is the technology integrated into your practice?	
Total Score		

Each factor is scored on a scale of 0 to 5, with a total maximum score of 25.



Scoring Interpretation

20-25: Early Adopters

Firms scoring in this range are considered early adopters. These firms are forward-thinking and intend to stay ahead of the curve in the AI era. They are likely to embrace new technologies proactively, understanding the strategic advantage that AI can offer in enhancing efficiency, accuracy, and client satisfaction.

5-19: Majority Adopters

Those scoring within this bracket are majority adopters. These firms adopt new technologies cautiously and gradually, often waiting to observe tangible success and benefits from their peers before making a commitment. This approach reflects a balanced perspective, weighing the potential risks and rewards of AI adoption.

Below 5: Late Adopters

Firms with scores below 5 are classified as late adopters. These firms are at risk of acting only when the adverse effects of non-adoption become evident, such as losing clients or facing a decline in business. The danger for late adopters lies in the potential permanent loss of clients and the increasing gap between them and more technologically advanced competitors. As AI technologies advance and other professionals become more efficient, the RIA profession will see a significant shift. The capacity of AI-enhanced services will grow and demand for human financial advisors will decline. The late adopters might be forced out of the profession for good.

The AI Adoption Readiness Scorecard serves as a critical tool for RIA firms to gauge their preparedness for the AI revolution. Understanding your score and the associated category can help your firm make informed decisions about adopting AI technologies. Embracing AI not only ensures that your firm remains competitive but also opens up new opportunities for growth and innovation in an increasingly digital world.

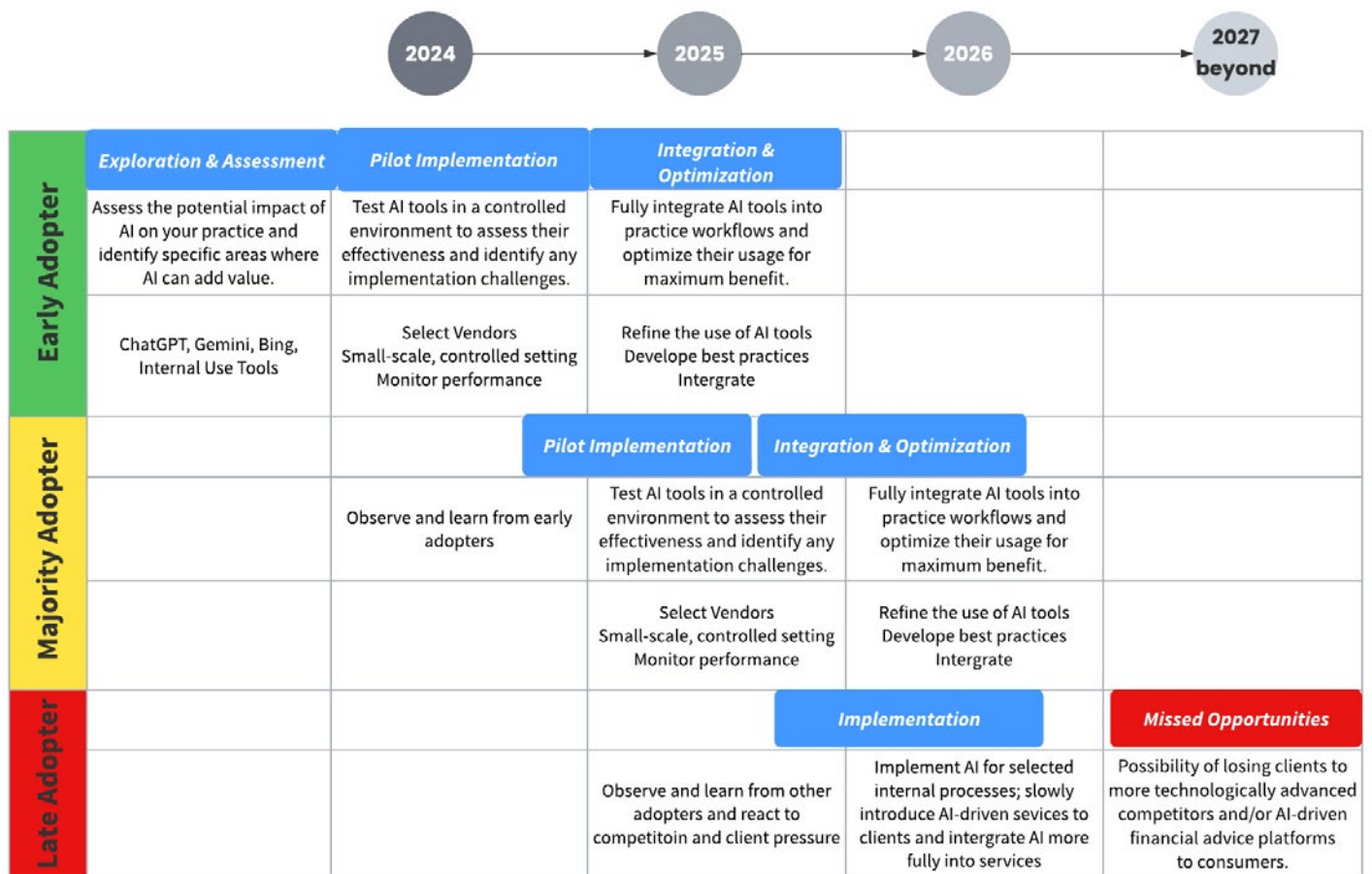


CHAPTER SIX

AI Adoption Strategies & Roadmap

AI Adoption Strategies & Roadmap

Adopting AI is not without its challenges, but a structured approach can mitigate risks. This section outlines a roadmap for integrating AI into your practice, highlighting the progression through various phases from 2023 onwards. It categorizes firms into early adopters, majority adopters, and late adopters, each with distinct timelines and actions and underscores the importance of strategic planning and adoption timing to leverage AI effectively within the RIA firm context.



How to Work with Your AI Assistant Today

Prompting your AI assistant is very much akin to instructing your junior associates. RIAs should approach the interaction with clear, specific, and structured prompts that guide the AI towards delivering the desired output. These strategies ensure that the interactions with LLMs yield accurate, relevant, and actionable outputs. Below are strategies along with sample prompts that can be utilized in different contexts:

1. Client Financial Plan Creation

Strategy: Be specific about the client's financial situation, goals, and constraints. Include details such as age, income, risk tolerance, and financial objectives.

Sample Prompt: "Generate a comprehensive financial plan for a 35-year-old client with an annual income of \$100,000, a moderate risk tolerance, aiming for retirement at 65, and looking to invest in a mix of stocks and bonds. Include a savings strategy, an investment plan, and a risk management approach."

2. Market Analysis Report

Strategy: Frame the prompt with clear parameters, such as the specific market segment, time frame, and key factors of interest.

Sample Prompt: "Provide a detailed analysis report on the current trends in the technology stock market over the last quarter, focusing on major movers, the impact of recent regulatory changes, and future outlook. Include data on performance metrics and analyst predictions."

3. Client Communication

Strategy: Use prompts that reflect the tone and content suitable for your client base, specifying the type of communication (e.g., email, newsletter) and the key message to convey.



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Sample Prompt:“Draft an email to clients summarizing the key outcomes of the latest Federal Reserve meeting, its implications for the stock market, and how it affects their investment strategy in layman’s terms. Ensure the tone is reassuring and informative.”

4. Compliance and Regulatory Updates

Strategy: Ask for concise summaries or analyses of specific regulations, highlighting how they impact RIA operations or client portfolios.

Sample Prompt:“Summarize the latest SEC regulations on ESG reporting requirements for RIAs, focusing on the implications for client reporting and portfolio management. Suggest steps to ensure compliance.”

5. Investment Strategy Development

Strategy: Detail the investment goal, time horizon, and any specific considerations (e.g., ethical investing, sector focus) to tailor the strategy.

Sample Prompt:“Develop an investment strategy for a client interested in sustainable and ethical investments with a 10-year time horizon, aiming for a 7% annual return. Include asset allocation recommendations and risk assessment.”

6. Educational Content for Clients

Strategy: Specify the topic, target audience knowledge level, and desired takeaways to ensure the content is both engaging and informative.

Sample Prompt: “Create an educational guide on the basics of bond investing for beginners, including types of bonds, risk/return profile, and how they fit into a diversified portfolio. Use simple language and examples.”

7. Operational Efficiency Improvement

Strategy: Describe the current process or issue in detail and ask for specific suggestions on automation, streamlining, or enhancement.

Sample Prompt: “Identify ways to automate the quarterly portfolio review process for our clients, including data collection, analysis, and report generation. Focus on reducing manual work and improving accuracy.”

By crafting prompts that are detailed, specific, and aligned with the task at hand, RIA professionals can leverage LLMs effectively to enhance their productivity, improve client service, and stay informed on market and regulatory developments.



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CHAPTER SEVEN

The Future of AI in Financial Planning

What Does the Future Look Like?

As the financial advisory industry strides into the future, the integration of Artificial Intelligence (AI) promises to reshape the landscape for Registered Investment Advisors (RIAs). This chapter explores the transformative potential of AI advancements, painting a picture of a future where technology and human expertise converge to offer unprecedented value in financial advisory services.

Enhanced Personalization and Efficiency

The cornerstone of the future RIA model lies in the unparalleled personalization and efficiency brought about by AI. Tailored financial planning, once a time-intensive process, will become significantly more efficient, allowing advisors to manage a larger client base without sacrificing the quality of advice. AI-driven analytics will enable the crafting of investment strategies that precisely meet individual client needs, factoring in a myriad of personal and financial variables at a speed and accuracy beyond human capability.



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Predictive Analytics and Proactive Advisory

AI's predictive analytics will empower RIAs to anticipate market trends and client needs with remarkable precision. Advisors will transition from reactive to proactive roles, offering insights and adjustments to clients' portfolios ahead of market movements or life changes. This forward-looking approach will not only protect clients' assets but also seize growth opportunities, enhancing client trust and engagement.

Democratization of Financial Advice

The AI era will democratize financial advice, making it accessible to a broader audience. Automated tools and platforms will lower the cost of delivering advisory services, breaking down the traditional barriers of entry for clients with smaller portfolios. This inclusivity will expand the market for RIAs, opening new avenues for growth and service diversification.

The Role of Human Judgment and Ethical Considerations

Despite AI's advancements, the human element will remain irreplaceable in the RIA sector. The nuanced understanding of a client's life goals, ethical considerations, and the empathetic delivery of advice are facets where human advisors excel. AI will augment these capabilities, not replace them, ensuring that the advisory process remains grounded in human values and ethics.

Compliance and Security in the AI Age

As AI becomes integral to financial advisory services, compliance and security will take center stage. RIAs will need to navigate the complexities of using AI within the regulatory frameworks, ensuring client data protection and ethical AI use. Transparency in AI-driven decisions and maintaining a secure digital infrastructure will be paramount for sustaining client trust and regulatory compliance.

Continuous Learning and Adaptation

The AI era will necessitate a culture of continuous learning and adaptation among RIAs. As AI technologies evolve, so too will the strategies and tools at the disposal of financial advisors. Staying abreast of technological advancements and integrating new AI capabilities into services will be essential for RIAs aiming to lead in the competitive landscape.

The future of RIAs in the era of AI advancement is not just about technological transformation but about the synergistic potential between AI and human advisors. This future landscape is one where AI amplifies the reach, efficiency, and impact of financial advisory services, while human advisors enrich the process with empathy, judgment, and ethical guidance. Together, they will forge a new paradigm in financial advisory, where every client, regardless of portfolio size, receives personalized, proactive, and highly informed advice. This is the future of RIAs — a future that is as promising as it is inevitable, marked by growth, inclusivity, and the relentless pursuit of excellence in serving clients' financial goals.



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Ready to Begin Your AI Journey?

Contact HIVE to discuss implementing
AI Assistants for Financial Planning at your firm.

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