

MOODY'S

How is GenAI transforming asset management amidst regulatory pressures and ambiguity?

Moody's experts weigh in on the nuanced ways the industry is adapting.



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Asset management's AI-driven evolution

A blueprint for GenAI transformation

The asset management industry is at a pivotal moment, with technological advancements poised to fundamentally reshape the financial services landscape. Among the most transformative innovations is Generative AI (GenAI), a sophisticated technology that is redefining how asset managers operate, make decisions, and engage with clients.

As the global advance of GenAI continues its rapid march forward, regulatory and compliance concerns are naturally top of mind for finance market participants. However, the current regulatory environment remains a patchwork, with different countries espousing unique perspectives. In the EMEA region, for instance, the European Union (EU) has taken the lead with the proposed Artificial Intelligence (AI) Act, setting stringent guidelines aimed at promoting transparency, accountability and human oversight. In the United States, Congress and the Biden Administration have yet to coalesce around a comprehensive regulatory framework, while several states have either implemented or are contemplating their own legislation in the absence of federal action.

Even so, federal [AI regulation](#) remains an important topic of debate among policymakers and regulators. We anticipate more detailed guidance from Washington, especially as the technology becomes more integrated into financial markets. Additionally, states like New York and California have expressed concerns about AI perpetuating biases or discrimination. California, in particular, [has already issued executive orders](#) aimed at addressing these issues.

Practitioners must proactively engage with emerging regulatory frameworks to achieve compliance while capitalizing on this new technology – waiting for the dust to settle could mean ceding ground to more agile competitors and ultimately be left behind – and left out – in this transformative era.



Advantages and benefits of GenAI

Immediate gains

A

STREAMLINED REPORTING AND CLIENT COMMUNICATIONS

Effective communication with clients is a cornerstone of asset management. GenAI aids in this process by automating the creation of reports, charts, and memos, resulting in communications that are consistent, precise, and delivered efficiently. This capability is particularly valuable in enhancing client relationships and trust.

The automation of report generation through GenAI significantly reduces manual effort and increases the speed and accuracy of client communications. This not only enhances the quality of client interactions but also positions asset managers as proactive and responsive to client needs.

B

RESEARCH CAPABILITIES

Asset managers operate in an environment where time management is critical. GenAI can be an immediate asset to help alleviate this challenge by automating routine tasks such as data analysis, report generation, and market research, allowing professionals to focus on high-value activities. This automation can reduce the time spent on labor-intensive tasks, like research, helping asset managers to deepen their analyses and explore more opportunities without extending work hours.

Moreover, GenAI's ability to process vast amounts of data far surpasses traditional methods, leading to substantial productivity gains. Studies across financial institutions have shown significant increases in operational efficiency and research consumption, with users reporting large increases in visits, page views, and the amount of research consumed.

One example of these gains is found with [Moody's Research Assistant](#), where usage observations show individuals that engage with the GenAI platform consumed up to 60% more research compared to previous research processes, maximizing their ability to include relevant data and insights into their decision making process. Additionally, there was an average decrease in time spent performing this analysis of 27%.

These metrics illustrate how GenAI is not only streamlining operations but also helping asset managers to access data more comprehensively, thereby enhancing their ability to make informed decisions.

Long-term goals

A

BETTER DECISION-MAKING AND INSIGHT GENERATION

In today's fast-paced financial markets, the ability to rapidly process and analyze data is essential. GenAI supports asset managers with enhanced data processing capabilities, achieving more effective analysis of macroeconomic trends, sector performance, and in-depth financial metrics, allowing for more efficiencies in portfolio optimization.

Asset managers leveraging GenAI have reported substantial increases in the research they consume, resulting in not just time savings, but allowing a far more comprehensive and complete review of available information. This increased research capacity supports more accurate and informed decision-making, particularly in critical areas such as thematic research, credit analysis, and strategic pivoting. These capabilities allow asset managers to act swiftly on emerging opportunities, as well as proactively manage risks by continuously monitoring market conditions, news and analysis, confirming that their strategies are aligned with the latest market developments.

B

STRATEGIC OPPORTUNITIES

Firms that leverage GenAI effectively are positioned to set themselves apart from their peers. Leveraging the ability to provide accelerated insights in a variety of use cases can provide significant differentiation in the market.

As an example, AI can help asset managers deliver highly personalized client and investor experiences. With its ability to quickly and efficiently analyze vast amounts of data, AI can help tailor recommendations, portfolio strategies, assessments on the impact of shifting macroeconomic factors and general communications based on individual client preferences and goals. This personalized approach can heavily influence client confidence and facilitate alignment on the investor's unique evolving needs.

Additionally, AI can enhance risk assessment by processing real-time market data and identifying emerging trends and risks more effectively than traditional methods. This allows asset managers to make quicker, more informed decisions that optimize portfolio construction and allocation to achieve a balance between maximizing returns and minimizing risk. AI's ability to digest a wide range of variables and scenarios helps asset managers to fine-tune their strategies, improving overall performance and giving them a competitive edge in a rapidly changing market environment.

Key industry concerns



DATA GOVERNANCE AND SECURITY

Asset management firms have reported particular concerns around data governance and how data is ingested into AI systems. The accuracy, consistency, and reliability of the data used by AI systems is critical for maintaining the trustworthiness of AI-driven insights. Moreover, protecting sensitive financial data from breaches or unauthorized access is paramount.



REGULATORY AND LEGAL COMPLIANCE

The regulatory environment around AI will continue to evolve, and asset management firms must evolve with these changes. Compliance with existing and developing AI-specific regulations by AI systems and partners is a significant concern. Asset management firms must also develop and maintain AI platforms that are transparent, auditable, and compliant with both current and evolving regulatory frameworks.



BIAS AND FAIRNESS: ETHICAL AND REPUTATIONAL RISKS

[Concerns exist that AI systems may inadvertently perpetuate or exacerbate biases, leading to unfair or discriminatory outcomes.](#) Such biases can not only damage a firm's reputation but also attract regulatory scrutiny. Achieving fairness and transparency in AI-driven decision-making is essential to manage these risks, build trust with clients, and maintain a competitive edge in an increasingly AI-driven financial landscape. Addressing bias early is crucial for safeguarding both ethical integrity and compliance.



EXPLAINABILITY

Another issue for asset managers is the need for explainable AI, which means that users can understand how AI systems arrive at their conclusions. This transparency is critical for building trust with clients and stakeholders, as it allows for greater accountability and informed decision-making. Without clear insights into AI processes, decisions can appear opaque, leading to potential scepticism and increased regulatory scrutiny. Developing AI models that are explainable not only strengthens client relationships but also helps asset managers demonstrate compliance and ethical integrity in their use of advanced technologies.



RESOURCE AND SCALABILITY CONSTRAINTS

Smaller firms often operate with tighter budgets, making it challenging to invest in advanced AI technologies. The cost of acquiring, implementing, and maintaining AI systems can be prohibitive, particularly when compared to larger firms with more substantial financial resources. Smaller firms may also find it difficult to scale AI solutions across their operations. Implementing AI in a way that is effective, scalable and cost-effective requires careful planning and resources that smaller firms might lack.

Pathway forward

The integration of GenAI into asset management practices is not just about operational efficiency — it's also a strategic move that can impact investor relations and market positioning. By adopting GenAI, asset management firms can offer more personalized and efficient services providing the potential to improve workflows and investor relations across the organization.

However, it's vitally important — and advantageous — that any third-party provider maintains a firm grasp of the regulatory landscape's evolving intricacies. Longstanding and reputable organizations with a deep-seated connection to the financial services industry and a time-proven approach to delivering responsible technologies will be the most ideal partners. This collaboration provides a framework to capitalize on the opportunities of adopting GenAI and remain confident in regulatory compliance.

A

THE RIGHT GENAI PLATFORM

Identifying the appropriate GenAI solution provider is critical and should be evaluated on specific criteria.

→ REGULATORY EXPERTISE

Ensure the AI provider has credible experience in the industry, as well as a deep understanding of current and emerging regulatory frameworks relevant to asset management, including specific regional requirements like those from the SEC, Colorado, or the EU's AI Act. This is crucial for maintaining compliance as regulations are further developed.

→ PROACTIVE MONITORING WITH ABILITY TO SCALE

Select a provider that actively monitors regulatory changes and updates, offering regular insights and adjustments to their AI solutions to align with new requirements. A good provider should have internal processes in place that allow them to scale quickly and responsibly as regulations are issued.

→ TRANSPARENCY AND ACCOUNTABILITY

Look for commitments to transparency and accountability for their AI tools and platforms, and a commitment to adhere to regulatory standards, where applicable. This transparency builds trust, but also makes it easier for your firm to demonstrate compliance to both regulators and stakeholders.

B

ADOPTION STRATEGY

To fully leverage the potential of GenAI, firms should develop a clear adoption strategy. This roadmap should identify areas where GenAI can have the most immediate impact, such as research and analysis.

→ CHANGE MANAGEMENT

Implementing any new technology requires a shift in daily workflows and processes. A successful strategy includes encouraging users to embrace these technologies as tools that augment their expertise rather than replace it.

→ STAKEHOLDER ENGAGEMENT

Promote alignment with the GenAI adoption strategy across key stakeholders within the organization. This includes securing buy-in from leadership and from other team members. Developing KPIs to measure adoption may also be beneficial.

→ PRIORITIZE HIGH IMPACT USE CASES

To accelerate the deployment of GenAI models, organizations should focus on identifying high-impact use cases and look to scale as frameworks are established.

C

FOSTER A COLLABORATIVE HUMAN-AI APPROACH

Effective deployment of any GenAI solution is complimentary to human expertise.

→ HUMAN-AI COLLABORATION

A highly competitive use case across the financial services industry and particularly in the Asset Management space for AI has emerged around data gathering, processing, and analysis. Asset managers should therefore leverage GenAI to handle the heavy lifting of data collation, while using their expertise to validate, interpret and apply the insights generated.

Additionally, as asset managers continue to integrate GenAI into their operations, ongoing education will be crucial, not just on the technical aspects of GenAI, but also around ethical AI best practices – arguably where human oversight will be most needed.

→ UPSKILLING AND TRAINING

As generative AI becomes more widespread, with platforms like ChatGPT boasting over 200 million weekly active users, many employees will already be familiar with LLMs or other AI technologies. Specific and regularly updated training focused on financial and asset management AI platforms, particularly around regulatory and compliance issues, will be essential moving forward.

To more quickly maximize ROI and enhance the quality of AI outputs, firms should also prioritize upskilling users in effective prompting. This targeted training will empower users to develop the technical capabilities needed to effectively deploy GenAI-enabled applications, ultimately driving significant performance improvements.

D

FURTHER COMPLIANCE READINESS

While aligning with the right GenAI provider is critical there are steps individual firms can take to further manage compliance and security risks.

→ PROACTIVE REGULATORY ALIGNMENT

As GenAI platforms are integrated into workflows, it is essential that they are designed with evolving security standards in mind, managing data securely and in compliance with regulations. Organizations should aim to foster open communications with their regulators, allowing them to have a seat at the table while also gaining a competitive edge over their peers.

In addition, while formal regulatory guidance specifically for GenAI is still emerging, firms should consider benchmarking their practices (or their vendors) against existing AI-related guidelines, such as the Federal Reserve's SR 11-7 (Guidance on Model Risk Management), to confirm they are prepared for future regulatory developments.

→ DATA SECURITY PROTOCOLS

Implement stringent data security protocols to protect sensitive financial information. This includes working with AI vendors that prioritize data security and have robust measures in place to prevent breaches.

Looking ahead: The future of asset management

Generative AI is set to play an increasingly central role in the future of asset management. As the technology continues to advance, its applications will expand, offering new opportunities for innovation, efficiency, and enhanced client engagement.

Emerging trends, such as the integration of GenAI with other advanced technologies like blockchain and quantum computing, could further transform the financial landscape. Additionally, the continuing evolution of regulatory and compliance guidelines from disparate governing bodies will doubtless impact the way the technology is shaped and developed.

It is critical, therefore, to partner with a GenAI provider that brings experience, expertise, and forward-looking approach. By choosing the right partner and preparing for these changes now, asset managers can be positioned to lead the way in the next phase of data-driven finance. As the future of asset management is shaped by the power of AI, those who embrace this paradigm shift will be the ones to drive the industry forward.





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