Human Expertise Meets Machine Intelligence: The Winning Formula for Modern Financial Planning

Learn how AI is augmenting, not replacing, human advisors. Discover how this collaboration is creating a more robust and personalized financial planning experience.

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By Susan Mangiero, CFA

The financial advisory industry is no stranger to transformation through technology. Budgeting apps, mobile payment tools, and robo-advisors are solutions borne from both necessity and innovation. Modern investors want convenience, transparency, personalization, and lower costs. Savvy financial planning firms seek growth, efficiency, and the ability to spend more time with their clients instead of shuffling paper. It's no surprise then that financial advisory companies are fast incorporating artificial intelligence, otherwise known as AI, to turbocharge their back- and middle-office operations and strengthen client communications. The net effect, when AI is used correctly and with oversight, is a win-win for both buyers and sellers of retirement planning and other financial products and services.

AI Basics

According to the IBM website, AI is "technology that enables computers and machines to simulate human intelligence and problem-solving capabilities." It's a broad term to describe diverse ways of analyzing data. Generative AI products like ChatGPT or Claude are characterized as "deep-learning models" that process unfiltered data through a training algorithm to produce output in the form of text, pictures, and videos that reflect patterns in the input. AI is not new. It's been around since World War Two. Since then, AI usage has mushroomed, largely due to a tsunami of cheap and widely available computational power. Andrew Ng, a computer scientist and Stanford University professor, refers to AI as the "new electricity," something that is expected to transform almost every industry in the near future.

Financial Advisers' Attitudes Towards AI

Michael Kitces, CASL®, CFP®, ChFC®, CLU, MSFS, MTAX, REBC®, RHU®, and Chief Financial Planning Nerd with Kitces.com, a knowledge portal for planners, says that "AdvisorTech is increasingly important for advisory firms to better leverage their precious

and finite human capital." He cites labor costs as "the biggest spend for an advisory business." Maureen Doyle-Spare, head of Banking, Financial Services & Insurance with UST, a global technology consulting firm, reinforces this notion. "Our philosophy is to help companies solve their business problems and drive outcomes by leveraging technology to help unlock new sources of value, create sustainable growth, and reduce their cost structures. We don't recommend they use technology for technology's sake. We ask our clients, both in the business and operations areas, what keeps them up at night and then design and deliver customized solutions for them." The applications of AI by wealth management firms are nearly unlimited, bounded only by regulations, customer preferences, and the willingness of company managements to innovate whenever possible.

AI Behind the Scenes

A well-run firm makes it easy for an investor, whether actively employed or retired, to receive information, set up appointments with their adviser, and deposit or withdraw money when needed. Investors don't want to think about the mechanics of processing transactions or the details of how their advisors track their changing needs. Individuals and businesses rightly want a seamless experience when it comes to managing their hard-own earned money or corporate assets. That's why AI is gaining attention from back-office and middle-office managers who strive to continually improve the behind-the-scenes support operations. (The back-office handles activities such as settlements, recordkeeping, and accounting. The middle-office takes care of activities that include risk management and compliance.)

Michael Watson, CFP®, ChFC®, CAP®, and director of Wealth Management with BPM LLP, says, "AI is not a mysterious black box but rather a tool to drive efficiency. This is important because becoming more efficient allows us to spend more time with clients." Kitces agrees, equating advisers' utilization of AI to what doctors do by automating tasks like billing. He says, "Advisory offices used to pay a full-time salary for someone to go through the mail and answer phone calls. We don't do that anymore because we don't have to."

The advantage of streamlining an advisory firm's operations, and the trickle-down benefits to its investor clients, is significant. As revealed in a recent Kitces.com survey of more than 1,000 respondents, financial advisers spend nearly one third of a typical week on tasks that include administration, client servicing chores, and meeting preparation. This leaves reduced time for person-to-person interaction with clients. Kitces predicts a continued growth in the utilization of AI-driven productivity tools that support those tasks that are "highly delegable" to automation such as client servicing and meeting preparation and follow-up.

Coincident with the typical adviser's schedule squeeze is an industry exodus of knowledgeable financial advisers. This mass exit of talent means a lower supply to meet a rising demand for investment advice. The U.S. Advisor Metrics 2023 Study by Cerulli Associates estimates a loss of 109,093 advisers to retirement in the coming decade. The Employee Benefit Research Institute reports that nearly fifty percent of workers who don't work with an adviser now plan to consult one in the future.

AI and the Client Relationship

AI adds value in other areas, notably in the way advisers prepare for client interactions, follow up client conversations, and provide clients with investment research about the economy, securities, and funds. BPM, an early adopter of AI, has developed OpenAi-based services in their Azure cloud and operates much like ChatGPT but is hosted and managed in their private cloud infrastructure. Watson extols the time saving aspect of AI. He says, "We don't copy and paste from AI but rather use generated answers as a starting point for us to create quality marketing and online learning resources for our clients. We always check sources like the U.S. Tax Code to ensure accuracy. BPM is likewise integrating AI with our customer relationship management (CRM) system. AI makes it so much easier to build standard templates we can tweak to remind clients about upcoming meetings, send birthday greetings or forward relevant information that is germane to someone's financial situation like a change in tax rates."

Doyle-Spare is enthusiastic about the exciting possibilities of AI, praising its abilities to democratize the investment industry by enabling wealth management firms of all sizes to improve the customer experience, manage risk, and ensure compliance. She cites the example of an award-winning financial wellness platform, built by UST at the request of one of their financial services clients. It relied on AI to facilitate interactive learning, simulate the economic needs of investors over their projected lives, and encourage real time chats between advisers and advisees. She says, "The project was a great success because invaluable information, otherwise hard to obtain, was pushed down to the adviser channel and then used in a meaningful way to build individual financial plans."

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AI and Emotional Literacy

As most everyone acknowledges, money is personal. Whether saving for retirement, trying to start a business, or sending a child to college, investors have goals that, unmet, disturb the status quo or diminish the likelihood of future success. They want their advisers to understand the emotional import of their stories and recommend action steps accordingly. It's no surprise then that behavioral scientists are partnering with artificial intelligence technologists to create products that promote a deeper back and forth about money.

A new AI-driven offering called Lydia, named after the original money, the Lydian coin, exemplifies this happy marriage of the brain and the heart. According to behavioral finance guru, Brian Portnoy, CFA®, and founder of Shaping Wealth, "Lydia is a powerful tool that allows advisers to concentrate on funded contentment, the idea that true wealth is the ability to underwrite a life that's meaningful to the investor." He adds, "Lydia empowers the financial adviser to do a significantly better job in being able to understand her clients, have better conversations, ask better questions, come up with better solutions, and ultimately drive better life outcomes." When asked about the trustworthiness of AI-infused output, Lydia's co-inventor, Andrew Smith Lewis, CEO and founder of Alai Studios, replies, "A large language model like Chat GPT hoovers up everything on the internet to develop and recognize patterns. What's unique about our product is that we're not asking

Chat GPT what it thinks about complex and nuanced conversations. We're asking our AI model to analyze highly curated content from Brian's team of psychologists who fathom the emotions about money. Our philosophy is to amplify human brilliance."

AI and Fiduciary Considerations

Although modern AI may seem like a brave new world, the fundamentals of fiduciary duties still prevail. According to ERISA expert, attorney Marcia Wagner, founder and managing partner of The Wagner Law Group, advisers who try to blame the robots for ill-conceived recommendations or inaccurate marketing statements will not fare well in a court of law. As she lays out, "A financial adviser who did not consider the use of AI in connection with investment practices, or who failed to exercise due diligence in his or her use of AI, could potentially be vulnerable to a challenge under ERISA that his or her failure to use AI, or his or her lack of due diligence in implementing AI, resulted in a flawed investment process, because under the circumstances then prevailing, a financial adviser should at least consider the use of AI, simply because of its capacity to accomplish tasks that humans could not provide." Wagner adds, "To be clear, I am not suggesting that a financial adviser who is not using AI in April 2024 is acting imprudently. He or she may simply want to proceed cautiously and wait for guidance from Federal regulators before adopting it as a significant aspect of his or her practice."

Financial advisers with non-ERISA clients are subject to a plethora of regulations and industry best practice guidelines. As Lili A. Vasileff, CFP®, MAFF®, CDFA®, and president of Connecticut-based Wealth Protection Management, an independent registered investment advisory firm, says, "Besides relevant laws, an adviser must be mindful of the CFP Board's Code of Ethics and Standards of Conduct to safeguard clients' privacy, manage conflicts, act in the best interests of each client, and much more."

The 2024 FINRA [Financial Industry Regulatory Authority] Annual Regulatory Oversight Report warns that any financial firm employing AI tools must pay close attention to how its use impacts areas such as books and records, cybersecurity, research, and vendor management. In 2023, the Investor Advisory Committee (IAC) of the U.S. Securities and Exchange Commission reiterated its earlier recommendations that advisory compliance programs "should be mindful of the unique aspects of algorithm-based investment models, including enhanced monitoring and/or conduct risk-based reviews of the use of artificial intelligence." The IAC members appropriately state, "While technology rapidly advances, humans are still responsible for creating and selecting inputs that affect the algorithms utilized by investment advisory firms."

Advisers like Sergio Fernandez, CFP®, and manager with BPM's Wealth Management unit, and group heads like UST's Maureen Doyle-Spare concur that a human being should always be part of the AI loop. Machine generated output can save time and reduce costs for financial planners and investors alike if the quality of inputs and the processing algorithm is solid. UST helps its clients with its unique DEI talent program, UST Step It Up. This initiative provides an accelerated and immersive technology development curriculum aimed at training and nurturing talent from local and diverse communities. According to the UST website, "Successful graduates will be able to secure employment at one of our client partners to build corporate experiences."

AI is Not a Fad

As Michael Kitces puts it, "I don't know of any financial adviser who isn't adapting technology tools to save time completing tedious tasks, reduce costs, and engage more fully with our investor clients. I think that will inevitably lead more advisers to adopt AI in the future. Good financial advisers need and want to know what matters most to their clients. It's all about helping the investor."

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Susan Mangiero, PhD, CFA®, MBA, MFA is a financial journalist, ghostwriter, and content strategist with articles, books, and thought leadership work appearing in more than one hundred business outlets. Her past work includes trading derivatives on Wall Street, launching a knowledge-sharing digital platform for institutional investors, teaching investments to corporate and university audiences, and testifying as an expert witness about retirement plan governance, financial advisory methods, and investment best practices. Learn more about Susan Mangiero by visiting https://www.linkedin.com/in/smangiero/.

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