

Compliance Corner
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AI in Wealthtech: Navigating the Next Era of Wealth Management

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Artificial intelligence (AI) is no longer a fringe experiment in wealth management. It's now embedded in the foundations of how many registered investment advisers (RIAs) operate, how clients receive advice, and how value is created in a modern portfolio. This shift marks a turning point in the evolution of wealthtech, the evolving segment of the broader fintech industry leveraging disruptive technologies to provide cutting-edge investment services and novel investment programs. And with innovation comes legal and regulatory complexity that investment advisers need to consider as they incorporate AI-based systems.



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This article explores how AI is reshaping the wealthtech landscape and outlines several legal and regulatory considerations RIAs must keep in mind as they adopt AI-based products to provide asset and wealth management services.

The Rise of Intelligent Infrastructure and the Data-Driven Client Experience

The wealthtech sector has matured dramatically over the past decade. What began with digital (“robo”) advisers and digital account onboarding has evolved into a complex and diverse ecosystem of platforms, tools, and services. Today’s wealthtech firms are not simply digitizing

financial services—they're re-engineering how advice is delivered, portfolios are managed, and clients are engaged. Most recently, AI is at the center of this evolution.

AI now powers a wide range of functions within wealth platforms. Portfolio construction engines rely on it to analyze data, generate insights, and rebalance strategies in real time. Predictive analytics can help identify client behaviors and investment tendencies, sometimes before a client may be aware of them, by identifying when clients' financial behavior diverges from their stated risk profile, suggesting when it might be time to update a financial plan, and flagging inconsistencies in trading behavior. Natural language processing and generative AI are powering smarter, more personalized, more human-sounding chatbots and dashboards that are able to communicate findings in plain, personalized language. Compliance teams are deploying AI to detect anomalies and monitor transactions, communications, and user behavior for potential fraud, risks, or regulatory violations faster than many manual processes could.

What sets newer forms of AI, including systems based on generative AI and machine learning models, apart from traditional automation is their ability to learn and adapt. Unlike a static rules-based system, an AI model can synthesize new data inputs over time to capture information on market fluctuations, user behavior, cultural changes, or regulatory updates, among others, and recalibrate outputs accordingly. In wealth management, this opens up possibilities for more dynamic, customized, and scalable services that respond to clients' goals in real time. For high-volume clients, or those who simply want a more digital experience, this kind of engagement model can help an adviser provide services in a more engaging, efficient, and responsive manner.

Underlying all of this is data. From structured market data to unstructured sources like news, social media, and client behavior patterns, data is the raw material driving AI-powered platforms. Wealthtech firms are increasingly integrating alternative datasets to sharpen forecasts and deepen personalization. Some are building proprietary customer datasets, either in-house or through partnerships with other investment advisers or data providers.

Fiduciary Duties Still Apply

As AI systems become more autonomous and client-facing, they raise complex legal and compliance questions. Critically, investment advisers' fiduciary duties to their clients apply regardless of the tools or technologies used. In other words, while AI may change the tools used to deliver financial services, it does not alter the underlying legal duties advisers owe to their clients. Under the previous presidential administration, the SEC had proposed rules that would have required advisers to address conflicts of interest raised specifically by "predictive data analytics"—for example, when an AI-based system routes clients into trades that may increase

an investment adviser's fees. The SEC recently dropped consideration of those rules. AI still raises issues that investment advisers should consider in light of their fiduciary duties to clients, which include the duty to address their conflicts of interest.

AI makes applying an adviser's fiduciary duty more nuanced and complex. For example, it may not always be appropriate to act on a pattern surfaced by AI that could inform a client's investment strategy, especially if the pattern and recommended action is surprising and untested. RIAs need to ensure that AI-generated recommendations are well-vetted, avoid "hallucinations" and other issues associated with AI, and align with a client's preferences, objectives, risk tolerance, and financial situation. Systems that infer preferences from behavioral data should be treated cautiously and thoroughly tested to ensure their inferences align with a client's actual goals.

Fiduciary duties also raise complex questions about supervision. Engineers, coders, or data scientists who design trading logic, or modify models that affect client outcomes, may need to be supervised as "access persons" of an RIA, based on insights into client portfolios, an ability to predict trading outcomes, or even an ability to manipulate or take advantage of anticipated trading. That means these employees could be subject to reporting requirements, firmwide code of ethics policies, and personal trading restrictions, even if these individuals never interact with clients directly.

Appropriate supervision also requires RIAs that integrate third-party tools or partner with unregistered wealthtech providers to carefully vet those partners and their AI-based services to ensure the RIA's use of the services is consistent with an RIA's fiduciary duties. RIAs should consider appropriate contractual and other protections for themselves and their clients related to the services. In addition, RIAs should ensure that the data used within AI-based systems is reliable and that the RIA and its providers have the right to use those data. RIAs should also implement appropriate cybersecurity and data protection policies and procedures to safeguard client information and system integrity.

Finally, AI-driven platforms that execute large or coordinated trades could potentially move markets or create patterns that draw scrutiny. Best execution, trade surveillance, and conflict management policies should all account for the unique risks that come with AI-generated trading activity.

The use of AI can also raise issues under specific rules and regulations applicable to RIAs. For example, the data used to train AI systems may be governed under Regulation S-P and trigger client notification and consent requirements that an RIA must comply with. Regulation S-P may also result in the need to adopt more rigorous cybersecurity protections.

Mitigating Risks Through Better Governance

RIAs employing AI tools as part of their advisory services should be prepared for regulatory scrutiny. This means implementing and enforcing robust policies and procedures to ensure that the AI systems are operated in a manner consistent with the firm's fiduciary duties, updating Form ADV to accurately reflect the use of AI in the advisory process, and ensuring that all necessary agreements are in place with vendors and/or any entity whose employees are involved in developing or maintaining the AI systems.

Increasingly important is the issue of "black box" models. Regulators have signaled concerns with opaque systems that generate advice without clear oversight or human review. Regulators increasingly expect "humans in the loop": people who can review, validate, and override model outputs if necessary. RIAs are responsible for understanding how AI recommendations are generated and should be prepared to explain such processes to regulators.

RIAs must also manage:

- **Data governance:** Ensure proper consents for and protection of data used in AI training, especially in light of U.S. and global data privacy regimes like the GDPR, the CCPA, and Regulation S-P. Access to and use of data may also raise intellectual property concerns.
- **Cybersecurity:** AI-specific risks (e.g., data poisoning, model inversion, adversarial attacks) require controls that go beyond traditional cyber protocols.
- **Ownership and accountability:** Firms should clearly identify who is responsible for the system's behavior—whether built in-house or licensed.

To responsibly integrate AI, RIAs in the wealthtech space need to build a foundation of good governance. This means creating systems and policies that align with regulatory expectations and scale as technology evolves.

- **Model governance is the first step.** RIAs should document how each model works, what data it uses, what it's designed to achieve, and what its limitations are. Advisers should implement clear controls around who can modify the model and how performance is tracked.
- **Audit trails are essential.** If a client questions a recommendation, or a regulator asks for documentation, RIAs should be able to trace the logic behind a model's output and explain why it was reasonable and in a client's best interest.
- **Bias and fairness testing should be regular and ongoing.** As models evolve, they can drift or start reflecting unwanted correlations. Regular reviews, using both statistical and real-world testing, help ensure that outputs are consistent, fair, and non-

discriminatory. Various testing methods should be employed based on the features of a particular model and its associated risks, what the AI is used for, and the data involved.

- **Human-in-the-loop controls** should be preserved and documented.
- **Disclosures in regulatory filings, customer-facing products, and marketing materials** should be updated to accurately reflect the use of AI. Clients should understand how their information is used, how AI may influence recommendations, and what role humans continue to play in the process.
- **Policies and procedures should be updated and tailored** based on what types of AI the RIA is using. Regulatory expectations may vary based on whether an RIA uses traditional models, such as machine learning, or more advanced generative models.
- **Internal team structures matter.** Compliance and engineering teams need to be aligned, especially when AI systems touch regulated activities. This may require establishing information barriers and clearly delineating responsibilities.

RIAs should be prepared to discuss technical details of the model they're using with SEC examiners and be ready for enhanced scrutiny from regulators and clients.

Looking Ahead: Building Competitive, Compliant AI

The opportunity in AI-driven wealthtech is enormous. Personalized advice, real-time engagement, and dynamic risk management, provided all at once, are becoming the new standard. The challenge now is to build systems that are intelligent and explainable, fast and fair, scalable and supervised.

RIAs that succeed in this next phase will be the ones that embed compliance into their product DNA—not as a bottleneck, but as a competitive differentiator. That means involving legal and compliance teams early, building with auditability in mind, and engaging regulators proactively.

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