



EXPERT ADVISORY & CONSULTING SERVICES

# RIA & Wealth - AI Risk

AI

Effective AI risk management is essential for RIAs and wealth managers because AI-driven advice and automation touch clients' finances, trust, and regulatory obligations—so unmanaged model failures, bias, data misuse, or vendor lapses can cause financial loss, fiduciary breaches, regulatory sanctions, and lasting reputational damage. Strong AI risk practices ensure suitability and fairness of recommendations, protect client privacy, provide explainable decisions and audit trails for regulators, and embed human oversight and incident response to catch anomalies early. By combining rigorous data governance, independent validation, continuous monitoring, vendor controls, and clear escalation paths, firms safeguard clients, meet compliance expectations, and preserve the advisor–client relationship that underpins their business.

## CLIENT SUITABILITY & RISK PROFILING

**Define suitability criteria:** Map risk tolerance, time horizon, goals, liquidity, tax and ESG constraints to product/strategy buckets.

**Validate profiling inputs:** Use standardized questionnaires and KYC/account checks; flag inconsistencies.

**Regularly re-assess profiles:** Trigger periodic and event-driven re evaluations (life events, large flows).

**Document decisions:** Record model outputs, advisor inputs, rationale, and recommendations.

**Escalation paths:** Route ambiguous or high-risk profiles to senior advisors or compliance.

## DATA QUALITY, PROVENANCE & LINEAGE

**Source validation & freshness:** Verify sources, timestamps, and update frequency.

**Completeness & error monitoring:** Track missing values, inconsistencies, and error rates.

**Immutable lineage records:** Link derived features to raw sources and transformations.

**Data versioning:** Version training and inference datasets for reproducibility.

**Data quality SLAs:** Set accuracy, latency, and correction SLAs with owners and vendors.

## PRIVACY & CLIENT CONFIDENTIALITY

**Data minimization:** Collect/retain only what's necessary and document purposes.

**Access controls:** Enforce least-privilege roles and regular access reviews.

**Encryption & key management:** Encrypt data in transit/at rest with rotation policies.

**Pseudonymization/anonymization:** Use where feasible for analytics and modeling.

**Consent & DSAR handling:** Track consents and manage subject access/correction requests.

## MODEL PERFORMANCE, VALIDATION & BACKTESTING

**Pre-deployment validation:** Test metrics, backtests, and stress scenarios.

**Independent validation & acceptance:** Use independent validators and documented criteria.

**Cohort baselines:** Define performance baselines and acceptable ranges by cohort.

**Revalidation on changes:** Revalidate after major data, feature, or algorithm updates.

**Quantify business impact:** Translate errors into financial/client-harm metrics.

## EXPLAINABILITY & CLIENT TRANSPARENCY

**Client-friendly rationale:** Summarize recommendations in plain language with key drivers.

**Feature-level explanations:** Show top factors influencing decisions for advisors/clients.

**Disclosure templates:** Maintain standardized adverse-action and recommendation notices.

**Question & appeal channels:** Provide routes for client review, override, or appeal.

**Explainability artifacts:** Store explanations and rationale for audits.



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### REGULATORY & COMPLIANCE ALIGNMENT

**Regulatory mapping:** Identify applicable rules for each model/use case.

**Recordkeeping & reporting:** Maintain required records and reporting formats/timelines.

**AML/KYC integration:** Feed profiling outputs into AML/KYC workflows for escalation.

**Regulatory change monitoring:** Track rule changes and assess model impacts.

**Compliance sign-off gates:** Require compliance approval for high-impact deployments.

### HUMAN-IN-THE-LOOP CONTROLS & ESCALATION

**Review thresholds:** Set rules that mandate advisor review for high-impact cases.

**Override workflow:** Log advisor overrides with rationale and outcomes.

**Advisor training:** Train advisors on model limits and interpretation.

**Real-time alerts:** Alert on anomalous or high-risk recommendations.

**Escalation matrix:** Define contacts and steps for disputes or model incidents.

### VENDOR & THIRD PARTY RISK MANAGEMENT

**Due diligence:** Assess vendor model practices, data sources, and resiliency.

**Contract terms:** Include SLAs, security, privacy, audit, and exit clauses.

**Ongoing monitoring:** Monitor vendor performance, drift, and compliance.

**Contingency plans:** Prepare fallback, data retrieval, and transition plans.

**Validation evidence:** Document independent validation of third-party models.

### MONITORING & INCIDENT RESPONSE

**Drift detection & thresholds:** Monitor covariate/label/concept shifts with alerts.

**Performance dashboards:** Track live KPIs and errors by client segment.

**Fairness monitoring:** Test for disparate impact across protected attributes.

**Incident playbooks & rollback:** Define triage, rollback, notification, and remediation steps.

**Post-incident RCA:** Conduct root-cause analysis and track remediation to closure.

### AUDITABILITY, DOCUMENTATION & CHANGE/VERSION CONTROL

**Model inventory:** Maintain single-source inventory with owners and versions.

**Immutable logs:** Record data, training runs, parameters, and approvals.

**Change management:** Require testing, sign-offs, and rollback capability for changes.

**Standardized reports:** Produce templated validation and audit reports.

**Retention policy:** Define retention and secure storage for artifacts per requirements.