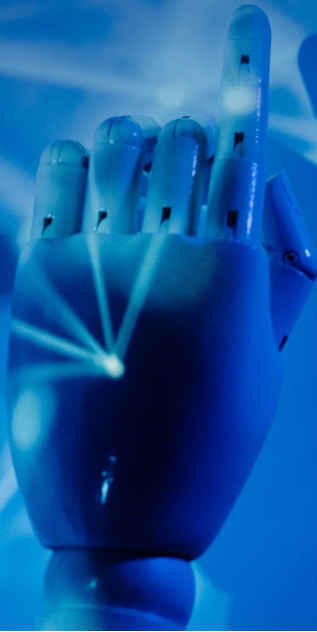# TNP
HARNESS THE UNPREDICTABLE

POSITION PAPER

AI SHIFTS INTO HIGH GEAR IN THE CIB SECTOR

A wave of AI-driven change redefines the landscape of Corporate and Investment Banking

SUMMARY

EXPLORE ALGORITHMIC TRADING

STUDY FRAMEWORK

Finance has long been at the forefront of adopting new technologies to enhance performance. However, recent improvements in artificial intelligence (AI) stand out for their potential to revolutionize real-time data analytics, speed and efficiency.

AI offers corporate and investment banks unparalleled opportunities to streamline processes, enhance decision-making, and optimize profitability. It already supports various use cases in investment banking and asset management, including algorithmic trading, market analysis and portfolio management, financial security and fraud detection, and regulatory compliance.

Daily, huge amounts of money sums are traded across financial markets in various funds, asset classes and products. The frequency and volatility of these transactions can vary significantly due to low latency and high request volumes.

Machine learning support

Machine learning enables financial institutions to monitor market conditions closely and anticipate events that may impact the prices of various market instruments. Deploying machine learning facilitates simultaneous analysis of multiple internal and third-party data sources, providing a significant competitive edge in the market. This approach offers additional benefits:

- Facilitating automatic and simultaneous verification of multiple market conditions.

- Executing trades at optimal prices while comprehending associated risks.

- Minimizing human error through end-to-end automated processing (STP) capabilities.

Until recently, algorithmic trading parameters were largely determined by humans. However, there is a growing trend where machines themselves are shaping investment decisions. BlackRock is increasingly leveraging AI self-learning mechanisms to develop computer code for its exchange-traded fund business. Similarly, JPMorgan employs machine learning applications in select buy-side trading strategies to enhance management of market volatility.

FINANCIAL SECURITY

A MAJOR COMPLIANCE ISSUE

In recent years, anti-money laundering (AML) has emerged as a significant compliance concern for banks. Concurrently, there is a growing emphasis on the environmental, social, and governance (ESG) practices of financial institutions.

Regulators, customers and society at large are increasingly urging banks to enhance transparency in their business practices.

The strategic challenge they face is to establish high reputation on sustainability, financial strength, exceptional service and trustworthiness.

Traditionally, AML implementation and detection processes have often relied heavily on manual tasks..

STRENGTHENING THE COMPLIANCE SYSTEM

Over the past few years, there has been a proliferation of FinTech and RegTech solutions addressing a wide range of KYC and AML challenges for financial institutions. In investment banking, where illicit funds can be freely moved on financial markets, control processes involve analyzing client geographical location, political exposure, ties to organized crime, and any sanctions or embargoes.

Automating these checks using reliable internal and third-party sources, enables fast identification of low and high risk customers. It also prompts additional checks that require detailed human analysis.

Over time, as financial institutions leverage machine learning and AI capabilities to swiftly detect and recognize established patterns associated with money laundering, they can enhance their risk management and oversight practices significantly.

This advancement should facilitate the establishment of proactive and predictive insights related to suspicious activity reports (SARs), politically exposed persons (PEPs), high-risk customers, incomplete customer datasets, ongoing regulatory complaints, or unresolved AML alerts.

FACILITATE MARKET ANALYSIS AND PORTFOLIO MANAGEMENT

AI can also be used to manage and optimize investment portfolios. It can analyze financial market data, investor preferences, and asset management objectives to recommend asset allocation and risk management strategies.

Predictive analytics models can generate forecasts and recommendations based on data analysis, helping banks with their investment decisions.

By optimizing the use of customer and market data, financial institutions should be able to further customize their clients' experience on their investment platforms: JPMorgan Chase is now able to better match its various researches and financial analysis via personalized recommendations.

REGULATORY CONSTRAINTS: A BETTER RESPONSE

The growing regulatory pressure requires colossal human, financial, technical efforts and requires financial institutions an ever-increasing capacity to adapt to the new landscape.

AI IN SUPPORT OF SOVEREIGN AUTHORITIES (FINANCE, RISK)

To meet increasing prudential and risk management demands, AI can translate these standards into computer language, potentially lowering costs associated with interpreting and implementing regulations. Examples include transaction reporting obligations under MiFID II, derivatives regulations under EMIR, and temporary securities sales regulations under SFTR.

AI could enhance the speed, quality and relevance of selecting reported data and transmitting it to the authorities.

It can flag or 'self-correct' anomalies (such as errors or blank fields) that could affect the measurement of prudential risk for the institutions involved. AI is also useful in the context of prudential obligations applicable to regulated entities, particularly for the needs of optimizing regulatory capital, through which banks have saved 5% to 15% of their risk-weighted assets.

Some institutions are using AI to reduce the cost of their asset mobilization obligations as collateral, related to EMIR requirements on derivative transactions (need for Initial Margin coverage), while others are optimizing their stress tests through better modeling of their financial market activities by taking into account a large amount of relevant data, allowing them to detect "biases" and to implement more efficient and transparent models.

TNP AND THE CRSF CONTRIBUTE TO THE DISCUSSION OF THESE ISSUES

The scrutiny of algorithmic control, the social and organizational impacts of AI, and regulatory initiatives will be examined through a survey conducted by Place and a series of articles facilitated by TNP and CRSF.

The findings will be disclosed in the upcoming session. According to its statute, CRSF's mission is to reflect on the objectives, actors, functioning, and impacts of financial regulation and supervision. Comprising 40 professionals from the financial sector, CRSF aims to spread out the opinions and recommendations of its members through the publication of independent viewpoints and the organization of events. The purpose of the CRSF is to design the most relevant proposals to promote simplified and responsible financial sector regulation, serving the common good. These proposals are intended to be presented to policymakers, supervisors, regulators, and the public. The CRSF's focus is on financing, sovereignty and competitiveness, emphasizing simplified and responsible regulatory frameworks .TNP's support for the CRSF involves corporate sponsorship aimed at promoting the European financial industry.

ABOUT TNP CONSULTANTS

Founded in 2007, TNP Consultants is a European consulting firm specializing in the strategic, operational, digital and regulatory transformation of companies.

TNP operates in the fashion and luxury, insurance, banking, transport, energy, automotive and public sectors.

Its teams are currently present in three geographical zones: continental Europe (France, Luxembourg, Italy, Switzerland, Germany, Monaco), Africa (Morocco, Tunisia, Ivory Coast), Asia and the Middle East (India, United Arab Emirates).
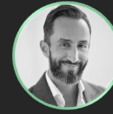
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