Fidelity Investments is suddenly fending off a fresh wave of AI suitors for its vast recordkeeping data trove, knowing it's like owning a lithium mine in 2000 -- and not knowing how clients, the SEC and others might see a sale

With 42 million customers and the nation's largest record-keeping business, Fidelity is sitting on oodles of now in-demand client data; so far, it's rejecting every bidder.

Author **Oisin Breen** July 28, 2023 at 5:38 PM

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Mihir Shah: The differentiation will be in combining first-party data with public data.

Money can't buy petabytes of client data -- at least at Fidelity Investments, which owns eight of them, and claims it's swatting back offers from corporate giants and start-ups alike to buy its records.

The Boston broker-dealer and record-keeper, with roughly $3.2 trillion in pension assets, is playing hard to get – or at least coy – with access to raw data in its digital vaults going back decades, Fidelity chief information officer and head of data Mihir Shah told Bloomberg last month.

Runik Mehrotra: The question is what data do they have that is deeply differentiated relative to what everybody else has.

A single petabyte equals about 1 quadrillion bytes, or around 1,000 terabytes. Fidelity's eight roughly equal the contents of 3.3 billion copies of Leo Tolstoy's epic “War and Peace,” a 1,296-page novel with 587,278 words.

Shah's message is that Fidelity is delighted that suitors see value in its bytes, but at the dawn of an AI revolution, it's holding fast to its trove.

Shah confirmed that were Fidelity to sell any data to AI developers, it would be anonymized and all personal identifying features would be removed.

“Fidelity has a strong commitment to innovation … including the responsible use and exploration of emerging technologies -- once the internet, today cloud and artificial intelligence,” says Shah, via email.

Bidding war

Buyers perceive value in Fidelity data because large-language models, or ‘AI’ – are wildly adept at seeing patterns but notoriously weak with accuracy. It thrives best with vast sample sizes of sector data to produce accurate insights.

The Fidelity data isn't just transaction records, Bloomberg adds, but more nuanced “customer call transcripts and face-to-face client interaction reports.”

Brian Murphy: The players whose data you'd want would include

Fidelity's reluctance to sell data to third-party bidders might just be a call to trigger a bidding war, according to technology expert Brian Murphy, founder and chief investment officer of Pariveda Investment Management in Mountain View, Calif.

"Was this perhaps brought to Bloomberg from Fidelity as a way of generating a bidding war? It wouldn't surprise me," he says, via email.

Fidelity, Schwab, Vanguard and brokerages.

Fidelity declined to say how many zeros are attached to the AI-sparked offers. It also declined to comment further on any bids, or how it intends to use its client data in future, beyond asserting its in a safe pair of hands.

Microsoft, which backs ChatGPT developer OpenAI, Google and Facebook, each of which are active in developing AI, all failed to respond to a request for comment.

On the money

Precisely how AI developers may reap ROI from data is unknown, for sure, but chatbots, investment recommendations, compliance, onboarding, CRM notifications and personalized financial plans make the list of possibilities.

Ari Sonneberg: We could see something from the SEC ... as soon as this October.

Fidelity data in-house, in combination with, say, a ChatGPT, could be used to build software that has potentially far greater value. AI in subsequent generations may take the value of the data to new extreme highs.

At least one firm, for example, offered to build Fidelity its own ChatGPT equivalent in exchange for access to its anonymized* data, Shah told Bloomberg.

The offer was worth a ballpark $40 million, according to Mehrotra – while the real value of access could be far higher.

A case in point: Facebook paid roughly $39.60 for each of WhatsApp's then-500-million users when it acquired the messaging application for $21.8 billion in 2014.

At year-end 2022, Fidelity administered 40.9 million retirement accounts, 37.1 million retail accounts and 8.2 million clearing and custody accounts.

Pioneers

Lastly, the race to iterate on-top of basic AI models, like ChatGPT, and build market-leading software for industries, including financial services, is also barely out of the starting gate.

Fidelity has the chance to establish a lead in at least one software vertical if it builds in-house.

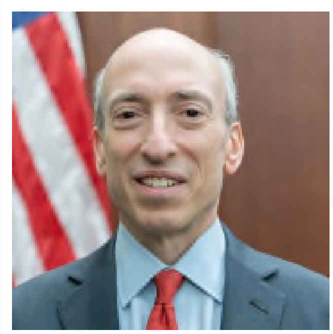
"The pioneers in the space have built the first layer infrastructure, but that's not where the most money is longer-term. It's going to come from optimizing [it]," Murphy explains.

"The killer app is going to allow for monetization of that data and allow end users to financially benefit from it as well. Fidelity takes 50% and the rest is split up among 'opt-in' users … either returned to you, or deposited in a tax-deferred account," he adds.

Uncharted territory

Fidelity's sale of the records it keeps, even though anonymized, could also draw opprobrium, lawsuits from clients or vastly increased scrutiny from regulators, given its status as the largest retirement recordkeeper in the United States.

The Securities and Exchange Commission has yet to figure out how it wants to regulate AI in finance.



SEC Chair Gary Gensler has another hot-button issue on his agenda.

"It is most definitely on the SEC's radar; this is uncharted territory in the financial world. But we will see the impact of AI there in many facets of the industry, sooner rather than later," says Ari Sonneberg, partner at the Wagner Law Firm in Boston, via email.

“We could see something from the SEC on the issue of AI, as it impacts conflict-of-interest and other securities regulations, as soon as this October,” he adds.

The SEC declined a request for comment.

The regulator is also likely to think deeply about just how AI might impact the 401(k) market, especially if plan-sponsors, like Fidelity, use it to help plan participants determine their investment

choices, according to Sonneberg.
“Would the plan sponsors, financial institutions and other plan fiduciaries still have fiduciary liability for possible losses incurred as a result of investments made using that AI technology?” He asks.

“Image is [also] certainly a concern for Fidelity, which is why I would bet they are leaning more towards utilizing their trove of data via some in-house AI mechanism that may be used by third parties, as opposed to selling the data to others,” he adds.

Solo or tandem?

Murphy and Sonneberg are not alone in doubting Fidelity's intent to build its own finance-specific ‘AI’. It's too much of a moving target.

“It doesn’t make sense to train your own AI from scratch, because you do all this work … then six months later, it’s obsolete,” says Runik Mehrotra, co-founder and chief investment officer of AI-tinged RIA software outsourcer Vise.

Shah's been at Fidelity 29 years, including 11.5 years as the chief technology officer of its asset management unit.

He led the movement of all its data to the cloud, beginning in 2019. He also slashed the firm's data storage costs by 40%, in part, by eliminating 18 of its old warehouses, with the remaining 17 to close by 2024.

"Cloud technology helps us unlock the potential of our data by allowing us to explore ways to gain better insights,” Shah explains.

No one stands alone

Fidelity is likely not the only firm receiving bids for data access.

Its custody peers, Charles Schwab Corp. and BNY Mellon sit on troves of similar data, even if Fidelity may boast of its heightened technology chops, thanks to its centre for applied technology.

Wirehouses, major investment banks are also likely to attract bids for their data with online transaction records, customer call transcripts and client interaction reports among many areas of AI interest, sources say.

The likelihood of prospective bids is “applicable to anyone with a vast storage of financial data”, says Murphy.

The rule of diminishing returns isn't applicable, so it isn't a case that the first to sell will net the largest benefit, he explains.

"This doesn't really apply to AI. The problem is specifically not enough data to optimize the models. I'd think the players whose data you'd want would include Fidelity, Schwab, Vanguard, and brokerages," he adds.

Pershing and Schwab did not respond to a request for comment.

Doing it differently

It is also possible that precisely the data Fidelity tracks, say, from its mammoth recordkeeping business, could mean it's sitting on a potential goldmine larger than any of its rivals.

“There’s nothing particularly interesting about how Fidelity keeps its data,” says Mehrotra.

"The question is what data do they have that is deeply differentiated relative to what everybody else has … because a lot of financial data is not actually that useful … [as] these models are biased towards language," he explains.

Shah answers that “question” by pointing to a particularly rich hybrid vigor in creating mega-patterns to draw across data sets.

“The differentiation will be in combining first-party data with public data to have a vertical, large-language model for financial services,” he told Bloomberg.

“We’ve already seen vertical large-language models coming up in scientific research and health-care industries," he added.

Yet, Shah sounds a note of caution about the idea AI is a potential industry panacea – one echoed by Mehrotra.

Current large-language-models are prone to "hallucination," and not trained to crunch numbers.

“We are exercising extreme caution with these new tools,” Shah said.

“With generative AI, you can’t fully trust the results.”

Dublin-native and Edinburgh-based Oisín Breen has spent seven years writing about finance, including five whirlwind years diving into the advisor world for RIABiz. A widely published and well regarded poet with two full collections under his belt, Breen is also an academic in English Literature with a deep fondness for his Scottish rabbit, Hessell. @Breen

Brooke Southall and Keith Girard contributed to the editing of this article.

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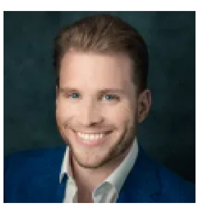

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Author **Brooke Southall** August 2, 2023 at 11:20 PM

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Kurt MacAlpine: 'The new name better reflects... our vision.'

Kurt MacAlpine is ripping the brand Band-Aid off dozens of RIAs across the country – a sacrifice of brand equity that undergirds the collective growth to $17 billion of AUM – but the ally had no choice, experts say.

The CEO of CI Financial Corp.(CI) is deleting -- “effective immediately” – all traces of the RIA World's household names, like RegentAtlantic, Budros, Ruhlin & Roe and Brightworth.

Instead, the RIAs became Corient, a brand name engineered largely by Dynasty Financial Partners for a 2015 Merrill Lynch breakaway. See: Why a $3 billion UHNW team in Newport Beach bolted Merrill Lynch and what breakaway bugs are reading into it

CI Financial bought Corient Capital in 2022 after it had grown to $5 billion of AUM.

“It’s the right time to adopt a new identity, one that conveys the value we offer and our distinct character and positioning in the marketplace,” said MacAlpine in a release, echoing the brand-change experts.

Joe Anthony: ‘Make no mistake, CI had to do something.’

The CI Financial branding question really only had one answer – even if it's a step backward to move forward, according to Joe Anthony, president of GregoryFCA in Ardmore, Pa.

“Make no mistake, CI had to do something with the brand name here in the U.S.,” he says. “There is not always a correlation between slam-dunk brand names and successful enterprises.

"There are a host of brand names that have been put into orbit in the RIA marketplace that didn't carry significant meaning at the start, that became something based on the success and momentum they achieved.”

Client oriented

“The name change will create some interesting SEM [search-engine marketing] opportunities for scrappy marketers at local, independent firms in cities where the legacy brands have been retired," Anthony continues.

"It could be an opportunity for the other firms coming up behind those that had been acquired.”

Ci Financial simply ended up putting the whole RIA under the brand of its Newport Beach, Calif. practice,

but not before trying on its own to come up with something…. snappy.
It consulted third-party experts – though the "partners" themselves were the final arbiters.

“The Corient name was selected through a rigorous, multi-step process," the release states.

"A third-party branding agency conducted extensive research and helped to identify a list of potential choices. More than 70 of the firm’s partners participated in focus groups, narrowing the initial list to two finalists.

"The ultimate selection was determined by a vote of all partners, who favored Corient by a wide margin. This approach demonstrates the firm’s unique, integrated structure and its differentiated approach to the business.”

The Corient name originated with one of the company’s legacy firms and has been thoroughly re-imagined through its new positioning and a newly designed logo.

The name is not without meaning. “The new name is derived from ‘client oriented’ and expresses the firm’s commitment to providing its clients with an unparalleled wealth management experience,” the release states.

CI continues to use the CI Private Wealth brand for its Canadian ultra-high-net-worth wealth management business.

Junk funk

CI’s U.S. wealth management business has $147 billion in assets under management, according to its press release.

It has already established a “Corient” ADV filed for the first time July 31. It states its AUM at $94.6 million. CI Financial has yet to bring all of its RIAs under the Corient ADV, the company said to explain the $53 billion differential.

The company employs 825 people, according to the ADV.

MacAlpine has been making a series of rapid fire since S&P Global Ratings cut CI Financial's debt to junk in May after the Canadian asset manager asked S&P to remove its rating. Shares tumbled afterward as investors soured on net debt that had nearly tripled since 2019 to C$4.1 billion.

It followed the shelving of its IPO plans.

On May 11, it announced that it had recapitalized to the tune of $1 billion, which would buy it seven years of runway. See: CI Financial got just the $1 billion face value it wanted for a 20% RIA rollup stake but at a 14.5% PIK, experts warn the deal's terms are brutal

The deal looked like victory snatched from defeat, though it raised eyebrows, too. Bain Capital provided the funding with tight terms that include the right to take control of the company in 2030.

After shares initially rallied on the Bain deal, they sharply reversed course as investors sussed the severity of the terms. See: CI Financial's Bain PIK deal sours shareholders, leads two analysts to downgrade and sends shares south, but CEO still has faith in IPO before 2030

Staying power

Anthony adds in an email that launching a new brand nationally "requires significant investment to have it resonate as well as the local and regional brands did in those markets.

"The new Corient would do well to make the notable, visible founders of their acquired firms part of an ambassador-style PR or ad program - a la Schwab's marketing - to make sure that the local connections can last."

Doing the rollout wrong could do more harm than good, but realistically, most clients will stick around.

"Several of the firms had strong brand recognition in their home markets," Anthony says. "My guess is that when ownership changed at those firms, clients that didn't like the disruption may have left.

"I'd presume that most firms kept a large percentage of their clients when they sold ownership to CI and that the clients will weather the name change as well."

MacAlpine projects confidence that clients will appreciate the enhanced 'clarity' the name brings.

“The unified Corient brand clarifies for clients that they benefit from the expertise of our entire network and the expanded services and capabilities made possible by our greater size and scale,” he said in the release.

All 48 brands listed on the ADV: *Balasa Dinverno & Foltz, Rgt Wealth Advisors, Regentatlantic, R.H. Bluestein & Co, Portola Partners Group, Portola Partners, Mccutchen Wealth Management, Mccutchen Group, Matrix Capital Advisors, Gofen And Glossberg, Galapagos Wealth Management, Doyle Wealth Management, Dowling & Yahnke Wealth Advisors, Corient Private Wealth Llc, Corient Capital Partners, Corient, Ci Surevest Private Wealth, Ci Stavis & Cohen Private Wealth, Ci Segall Bryant & Hamill Private Wealth, Ci Roosevelt Private Wealth, Ci Rgt Private Wealth, Ci Regentatlantic Private Wealth, Ci Radnor Private Wealth, Ci Private Wealth, Llc, Ci Private Wealth, Ci Portola Private Wealth, Ci Mccutchen Private Wealth, Ci Matrix Private Wealth, Ci Kore Private Wealth, Ci Inverness Private Wealth, Ci Gofen & Glossberg Private Wealth, Ci Galapagos Private Wealth, Ci Eaton Private Wealth, Ci Doyle Private Wealth, Ci Dowling & Yahnke Private Wealth, Ci Corient Private Wealth, Ci Columbia Pacific Private Wealth, Ci Budros Ruhlin Roe Private Wealth, Ci Brightworth Private Wealth, Ci Bowling Private Wealth, Ci Bluestein Private Wealth, Ci Bdf Private Wealth, Ci Bdf, Ci Barrett Private Wealth, Ci Avalon Private Wealth, Budros, Ruhlin & Roe, Brr, Bowling Portfolio Mangement*

Brooke lives on a houseboat, works in an office and juggles calls across the five time zones and four countries his small team works. He's out to prove an economic major can make a living as a journalist and that articles need not be a loss leader if they are written well and geared to an intelligent readership. @RIABiz

Keith Girard contributed to the editing of this article.

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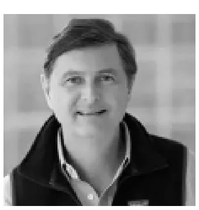

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