T|N Thought Networks

Expert insights on surveillance in the age of AI

Innovating asset management compliance

ROUNDTABLE 3

'*The reality is AI is becoming integral to our lives, and its responsible use, in line with a firm's existing code of conduct, is essential. AI will be a core cultural driver of the future, and firms need to adjust their mindsets to recognise that employees will use it in their daily work lives, even if that is technically prohibited by policy.*'

SHLOMIT, VP DATA SCIENCE, SHIELD

Exploration and adoption of AI varies across asset managers

Communications surveillance: whilst rules-based communications surveillance systems remain prevalent, firms are starting to explore how large language model (LLM) technologies can augment those established systems, for example utilising LLM chat functionality to summarise and identify risk factors in an alert. Those who have explored AI use test cases have observed a step change in false positive rates.

Transcription services: firms employing AI-assisted transcription tools in voice surveillance have observed material improvements.

Trade surveillance: whilst firms are not generally using AI within trade surveillance models at present, some firms are exploring using AI to prioritise and risk score generated trade alerts.

Administrative functionality: some firms have adopted an in-house closed AI chat system to drive administrative efficiencies, such as editing emails, and others have deployed solutions such as Co-Pilot to enhance the performance of daily tasks. These firms are monitoring whether users are complying with internal guardrails, which are typically centred on the use of confidential, sensitive or inside information and trading decisions. Firms continue to explore ethical questions relating to the impact of AI technologies on employee behaviour, and have noted the prevalence of hallucination bias, and the need for employee vigilance to verify the information provided.

Policy chatbots: a number of firms are testing the use of policy service chatbots to address simple compliance queries and summarise policy obligations. Some effective use cases have been noted, including the giving of advice on codes of ethics, but firms acknowledge such services require careful calibration, and many remain in test phases. These use case tests have had some unintended benefits, for example highlighting ambiguities in a firm's existing code of conduct.

Insights on conduct and culture

- Sub-cultures can exist and their values can conflict, particularly in international firms operating across borders. The FCA's Senior Manager and Conduct Regime (SMCR) has been helpful in driving the adoption of global principles, but jurisdictional variances in values remain and need to be carefully navigated.

- Firms recognise the value of a clear and well-communicated end-to-end discipline and misconduct process, promoting the use of an oversight body, such as a conduct and compliance committee.

- Data remains key to evidencing good conduct outcomes. Broader conduct and culture data points can both be used to identify higher risk surveillance areas, and be shaped by surveillance data, to provide a universal, holistic view on conduct. These can include:

- Teams experiencing high numbers of regretted leavers
- Repeat policy breaches
- Engagement with training, including late training and failures
- Issue self-escalation

- Positive reinforcement can be as important as disciplinary outcomes, but harder to articulate. Firms recognise that good conduct should be highlighted and factored into annual performance measures, but continue to reflect on when a positive behaviour is the minimum expectation of a highly regulated industry, and when is it considered 'above and beyond'.

- Some firms have pursued a strategy of viral cultural change, focusing on changing behaviours bottom-up. Such strategies focus on identifying specific individuals and pressure points who are well-connected, and live the behaviours, visible and influential role models who drive replication of behaviour.

- Expressly deducting financial compensation for particular or repeated violations of policy can effectively prevent repeat problematic behaviours, but comes at the risk of a culture of openness, and must both have a clear framework and be seen to be fair, and account for mitigating circumstances.

Four practical steps to align AI use with good conduct outcomes

01 **Create AI usage guidelines, not policy:** AI technology is fast moving, and the language of AI, and AI Agentic technologies changes quickly with it. Internal governing policies are quickly obsolete, with nimble updates often roadblocked by policy governance. Regularly reviewed guardrails or guiding principles can be more effective.

02 **AI use should be within the parameters of the firm's existing code of conduct:** principles of probity, integrity and confidentiality are technology agnostic; a firm should ensure AI use is aligned with its conduct framework, and AI usage guidelines should integrate with and reflect on established employee obligations.

03 **Firms should consider undertaking independent assurance verification:** firms need to verify whether AI technologies are being used for their designed purposes, as well as for compliance with AI usage guidelines, in order to understand whether they are creating new risks.

04 **Employees need to be trained on how to use AI technologies:** in particular, employees need to know how to curate effective questions, how generative AI technologies differ to traditional search engines, and how use of AI is within the confines of the firm's existing code of conduct.