

Aligning conflicting manager interests when implementing Gen-AI initiatives front-to-back - A guide for financial services executives

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Abstract

Integrating the latest generative artificial intelligence (Gen-AI) technologies promises to redefine traditional industry practices and add value through increased productivity. Financial services executives must ensure the technology is adopted and scaled within their organizations. However, firms encounter difficulties in bringing use cases into production. One reason is that there are conflicts of interest between executives in the front-office and executives in the back-office when implementing Gen-AI. Issues often raised by back-office managers include concerns about safety, privacy, and accuracy. This paper studies the practical experience and lessons learned from implementing Gen-AI initiatives in a private bank. The objective is to explore the critical conflicts of interest between different manager roles regarding Gen-AI implementation. Finally, we provide seven guidelines for board members to effectively align these to enable organization-wide Gen-AI value generation and implementation. The paper offers theoretical and practical contributions for executives seeking to implement Gen-AI projects efficiently.

Keywords: Generative artificial intelligence, AI adoption, conflicts of interest, practice-based IS research, recommendations

1. Introduction

Artificial intelligence (AI) is a technology that can potentially significantly disrupt organizations (Benbya et al., 2020). It's primarily used to analyze data and make decisions based on pattern recognition to contribute to several potential organizational benefits, such as increased revenue potential, improved customer coverage, and leveraged operational efficiencies (Alsheibani et al., 2020).

Advances in traditional AI-based machine learning technology have led to the emergence of Gen-AI in November 2022, which has resulted in a paradigm shift in several industries. Gen-AI has the

potential to fundamentally change the processes by which data is analyzed, understood, and used for decision-making (Accenture, 2024).

Among these industries is the financial services industry, where integrating the latest artificial intelligence-based technologies promises to redefine traditional practices. It is estimated that Gen-AI will likely replace or at least assist with tasks that consume almost three-quarters of bank employees' time. Consequently, only 27% of the time employees spend on work has a low potential to be transformed. As a result, financial services firms have the potential to benefit from technology more than many other industries (Accenture, 2024). In terms of business value, a global study by Mc Kinsey estimates that Gen-AI can add between USD 200 and USD 300 billion new value to banks (McKinsey, 2023).

While enthusiasm for Gen-AI's potential has been high, concerns have been raised about safety, privacy, accuracy, copyright, and social manipulation (McKinsey, 2023). Another issue frequently highlighted is the potential for Gen-AI algorithms to produce inaccurate or misleading information, a phenomenon known as hallucination (McKinsey, 2023).

In the financial services industry, executives are increasingly becoming aware of the transformational impact of Gen-AI (The Boston Consulting Group, 2024). However, financial services firms encounter difficulties conceptualizing relevant prototypes and producing promising use cases (Accenture, 2024). One reason is that there are conflicts of interest between the different board and executive functions when implementing cases based on Gen-AI. While the interests of front-office functions in implementing AI lie primarily in exploiting profit and loss (PnL) effects, such as generating additional revenue or reducing costs, there is less interest in generating PnL effects for middle and back-office managers. Ensuring that the models are compliant and secure is of the utmost importance for these functions, particularly in compliance, privacy, and IT security. This may be due

to the fact that these managers are held to account for any potential risks that may materialize (European Commission, 2024).

Previous literature has demonstrated that research on the adoption and utilization of Gen-AI in the finance industry is limited. The existing literature on this topic is often narrowly focused on technical aspects, such as machine learning and network analysis (Sarlin & Mezei, 2019), machine learning-based credit rating prediction (Kao et al., 2020), or option volatility pricing (Han, 2021). Other research addresses recommendations for Large Language Model (LLM) finetuning in asset management environments (Guo et al., 2023).

These papers are, however, somewhat technical and do not address the respective organizations' practicalities and settings, nor the conditions or managers' interests under which they operate. How to align executives' interests front-to-back to systematically develop Gen-AI capabilities and push Gen-AI use cases into production is still a scarce field of knowledge in research and practice.

Hence, we answer the following research questions (*RQ1*): *What are the critical conflicts of interest between executive functions in financial institutions front-to-back?*

(*RQ2*): *What are the critical board initiatives and activities that incentivize executives to contribute to implementing Gen-AI initiatives front-to-back?*

A case study was conducted in a German private bank to address the research question. The study examined the AI and Gen-AI initiatives and projects that have been implemented since 2018. Nine semi-structured interviews were conducted with employees in various functions within the value chain front-to-back. Furthermore, one additional interview was conducted with a leading consultant in the field of Gen-AI in order to gain insight into their experiences with other financial institutions. The study analyzed the behaviors of managers in different roles within the financial services value chain.

Based on the findings, the paper explores the critical conflicts of interest between managers regarding implementing Gen-AI. It provides recommendations for executives to effectively align these interests to drive value generation and execute Gen-AI projects.

The paper is structured as follows: Section 2 provides background on Gen-AI, financial institutions' organizational structures, and respective managers' interests. Section 3 describes the methodology used in the case study. Section 4 provides a case study background from AI initiatives in a private bank. Section 5 outlines the different types of manager groups identified and discusses their behavioral

patterns. Section 6 provides recommendations for executives to manage and align potential conflicting interests, and section 7 concludes.

2. Conceptual Background

Gen-AI has recently gained much attention in financial institutions, as it comprises a set of technologies that can generate text, summarize documents, analyze large amounts of information, answer tailored questions, and create chatbots that can talk and interact with humans (Fahland et al., 2024). According to an analysis, almost all parts of the financial services value chain will be affected by disruption from Gen-AI applications (Oliver Wyman & Morgan Stanley, 2023). This is supported by a study by the Boston Consulting Group on the impact of implementing Gen-AI in asset management firms. The study points to the potential for a 10-15% improvement in operational efficiency. For some functions with highly standardized tasks, the range could be as high as 40-50%. In client relationships, the study estimates that gains of 30% in engagement and 5-10% in revenue can be achieved (The Boston Consulting Group, 2023).

Integrating Gen-AI use cases is an ongoing process that requires the input of technical expertise, a clear strategy, and the board's attention. It also requires the implementation of effective governance to ensure risk control and compliance (Van Giffen et al., 2023). In addition, executives must possess the requisite knowledge about Gen-AI to make informed strategic decisions (Berente et al., 2021) and build an AI-ready organization (Jöhnk et al., 2021).

The board of directors must supervise a dedicated Gen-AI strategy. The board's composition and background influence the quality of the firm's strategic decisions, and board accountability enhances firm performance, including innovation efforts (Hoskisson et al., 2002).

Research conducted by EY indicates the necessity for action to enhance the capacity of the board to oversee and facilitate innovation (EY, 2023). Typically, asset management boards comprise representatives from the front, middle, and back-office. The Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Investment Officer (CIO), Head of Product Management, and Chief Sales Officer (CSO) are common front-office and profit and loss (PnL) generating functions. The Chief Operating Officer (COO), Chief Technology Officer (CTO), and Chief Risk Officer (CRO) are considered to be middle office functions. Common back-office functions include the Chief Compliance Officer (CCO), the General Counsel, and the Head of HR (Hughes, 2005).

The interests of the various parts and roles in the financial services value chain are becoming increasingly divergent. Those in the front-office are primarily interested in exploiting the potential for PnL effects. However, those in the back-office have less interest in generating PnL. It is of the utmost importance to ensure that the Gen-AI models are secure and compliant, particularly in data protection, regulation, and IT security. The conflict between the desire to exploit the benefits of Gen-AI and the necessity to develop a framework to protect against reputational and regulatory risks represents a significant challenge with the potential to result in negative impacts on the implementation of Gen-AI within organizations.

The primary issue can be attributed to the prevalence of silo-like thinking among executives. The incentives associated with each silo do not encourage the comprehensive implementation of Gen-AI. To illustrate, consider the case of the implementation of a Gen-AI research assistant in asset management. Portfolio managers in the front office are interested in establishing this assistant to facilitate the analysis of more relevant information, thereby enhancing the efficiency and performance of investment decisions. Those employed in the back office are responsible for ensuring that all regulatory requirements for this tool are met and that potential risks are mitigated. It is unlikely that they would directly benefit from an improvement in the performance of investment strategies. However, they would be held responsible for any adverse risks that materialize. This leads to a silo on both sides, which could be a potential conflict for the effective implementation of this specific Gen-AI use case.

To help organizations develop and implement Gen-AI use cases, our research guides executives to 1.) understand the conflicts of interest in introducing Gen-AI use cases and 2.) provide recommendations that can be derived and addressed to ensure an efficient introduction of Gen-AI.

3. Research Design

Our research objective is to gain insights into the behavior of executives and managers in different parts of the financial institutions' value chain during the set-up and implementation of Gen-AI projects. Furthermore, we elaborate on key organizational

initiatives to align and incentivize executives to contribute to the efficient implementation of Gen-AI.

We are looking at a multi-year case study of a private bank in Germany to gain insights into the behaviors of managers when implementing Gen-AI initiatives in different roles within the financial services value chain. One of the authors has been employed by the company since 2018, has worked on the initiatives, and has access to the decision-makers. The exploratory study allowed us to examine in-depth the AI and Gen-AI initiatives and projects that have been implemented since 2018. Ten semi-structured interviews following an interview guide were conducted with involved managers at various functions within the bank's value chain. Interviewees included the CIO and the CSO from the Front Office and the COO and CTO from the Middle Office. The Head of Cloud Adoption, Head of IT Security, General Counsel, CCO and Head of Data Protection were all included from the back-office in the interviews. Furthermore, one additional interview was conducted with a leading consultant in the field of Gen-AI to gain insight into their experiences with other financial institutions. The objective of the interviews was to gain a deeper understanding of the behavioral patterns of different managers, their incentivization, and their interests in Gen-AI.

The bank is a private bank with business divisions in wealth and asset management, corporate banking, and investment banking. In 2018, the bank established a dedicated technology & innovation team to introduce new technologies and unlock AI's potential in the industry. This team combined AI experts and data scientists with traditional portfolio management expertise in the Wealth and Asset Management division¹.

The AI initiatives commenced with narrow AI-based machine learning algorithms trained on historical macro news data to predict market movements across asset classes. Since 2021, this approach has been available in several individual client mandates and a public fund with a total asset under management of EUR 4.5 billion².

In 2023, the advent of Gen-AI led to the expansion of the team's scope, with the implementation of LLMs becoming an additional priority. A vision for LLM implementation and several use cases have been defined. These use cases include, for example, an LLM-based assistant for equity portfolio managers. The model aggregates various

¹ Asset management is usually carried out as a division or a subsidiary of banks. Therefore, the research study conducted in asset

management can be fully applied to the entire financial services sector.

²As of September 2024

information sources utilized in the bank's equity research process (e.g., investor relations data, news, external broker research, meeting notes, transcripts, etc.) and makes the information available to our portfolio managers via a proprietary and customized LLM-based chatbot. This has been established strategically with Google as an infrastructure partner.

The initiative aims to significantly improve the efficiency of the bank's equity research process. It is expected that portfolio managers' time spent reading research will be reduced by 80% and that the amount of relevant knowledge will be increased by 5. Furthermore, the infrastructure can be extended to other use cases across the bank. The insights gained from AI initiatives and projects since 2018 are integrated into the findings and recommendations presented in this paper.

Our data was gathered while implementing the previously mentioned AI projects and several other AI pilots and through semi-structured interviews with directly involved managers. Particular attention was paid to implementing dedicated AI projects and use cases and the subsequent approval process. In particular, the interests of stakeholders and managers of different parts of the value chain were examined. Possible behavioral patterns and conflicts of interest of executives and managers are derived and explained on this basis.

Based on the findings from the case study, practical experiences, and feedback from the semi-structured interviews, recommendations, and guidelines for executives to manage potential conflicting interests and implement Gen-AI projects are provided. We also presented our findings in a follow-up to several study participants to verify our results.

4. Case study background of a private bank

The following section describes the experiences and challenges encountered by a German private bank in implementing AI and Gen-AI projects in asset management. The focus is on describing and analyzing the collaboration between different functions to derive guidelines from the identified problems.

In 2018, the bank formed a specialized technology team, integrating AI experts and data scientists in traditional portfolio management within the wealth and asset management division to leverage AI technologies. Initial AI efforts employed narrow-AI-based machine learning algorithms trained on historical macro news data to predict market movements across asset classes. In 2023, the team's scope expanded with the emergence of Gen-AI and

LLMs. A strategic collaboration with Google facilitated the development of an LLM-based assistant for equity portfolio managers. The model bundles the various information sources of the research process of the bank's equity portfolio managers (e.g., investor relations data, external broker research, meeting notes, transcripts, etc.) and makes the information available to the portfolio managers via a proprietary and customized LLM-based chatbot.

From the project's inception, the direct divisional managers provided the required financial resources to develop and implement the minimum viable product (MVP). This initially included creating a cloud sandbox environment and the subsequent implementation of a respective landing zone, as well as the first version of the LLM model.

Ten front-office employees were involved in the project, comprising five data scientists and AI specialists, three portfolio managers, and two front-office operations specialists. Several employees from various departments, including IT, legal, data protection, IT security, compliance, and cloud adoption, were involved in the project to oversee it from a governance perspective.

Initially, collaboration proved challenging due to the limited LLM-related expertise and past limited investment in cloud and AI technologies. This resulted in the governance units adopting a "nothing is allowed" approach.

Following a series of discussions, targeted steps were eventually released, commencing with the issuance of data packages and cloud permissions.

This led to significant delays in the application's progress, even though it was still in an early proof of concept (PoC) phase. This can be attributed to the front-office development team's inability to persuade the governance units to adopt a prototype approach. Furthermore, there was a lack of a clearly defined process or checklist to approve the respective governance units' development and utilization of relevant data.

The primary concerns were related to data privacy, information security, and data licensing. The lack of clarity and the absence of processes led to a reluctance among stakeholders to assume risk and grant approvals. This resulted in high complexity being introduced into relatively straightforward inquiries.

Initially, the problem was addressed by limiting the data included in the MVP to publicly accessible information only and by incrementally expanding authorizations.

However, the incremental expansion of permissions led to several inefficiencies and the potential for a "wild growth" of permissions. This was

due to a lack of conceptual permission planning, which could have been conducted beforehand. Permission decisions were made on a case-by-case basis, resulting in a highly fragmented system authorization landscape. Furthermore, this has led to an additional burden on the cloud officer, who was already facing personnel shortages.

After completing the minimum viable product (MVP) and its presentation to the executive board, additional resources were allocated to the respective governance units, and a consultant was engaged. In parallel, the board authorized several minimal open risks to permit the project to continue.

5. Types of Managers and their Interests

Our study identified three distinct types of executive/manager groups with varying interests. Front-office managers demonstrated a strong focus and interest in Gen-AI implementation and the related business impact or customer value creation. Middle Office managers exhibited a focus on process optimization or cost savings, coupled with a certain degree of strategic AI vision. On the other hand, back-office staff demonstrated limited focus on business impact or customer value but exhibited a strong interest and focus on compliance and privacy. This section will describe the role and responsibility of each type of manager and their respective interests.

5.1 Front-office Managers

The primary responsibility of front-office employees in financial services is interacting with clients and managing client relationships (Gabler, 2021). They serve as clients' primary point of contact, providing investment advice, addressing queries, and ensuring clients' investment objectives are met. This requires a proper understanding of each client's financial goals, risk tolerance, and investment preferences, enabling the development of tailored investment strategies (Omarini, 2015).

In addition to client management, front-office employees are involved in executing investment strategies. They conduct market research and analysis to identify potential investment opportunities and risks. Their insights and recommendations are crucial in making informed investment decisions that align with clients' objectives (Schroeter, 2013).

Furthermore, front-office roles in asset management include portfolio management and trading activities. These employees are responsible for conducting continuous assessments and rebalancing portfolios to optimize returns and manage risks (Schroeter, 2013). The typical executive roles within

the front office include the CEO, the CFO, the CIO, the CSO, and the Head of Product Management.

5.2 Middle-Office Managers

The role of the middle office employee in an asset management firm is to act as a link between the front-office, which is responsible for client-facing activities, and the back-office, which is responsible for operational processes. They usually do not directly contact customers (Omarini, 2015). This role is essential for ensuring the firm's investment activities' efficiency, accuracy, and regulatory compliance. The primary responsibility of middle office employees is risk management and compliance. This involves developing and implementing risk management frameworks and conducting stress tests and scenario analyses (Schroeter, 2013). In addition to risk management, middle office employees play an important role in performance measurement and reporting. They are responsible for tracking and analyzing investment portfolio performance and providing detailed reports to portfolio managers, clients, and regulatory bodies (Schroeter, 2013).

The middle office staff is also involved in trade support and operational efficiency. Furthermore, the middle office often maintains and enhances the firm's technology and data infrastructure, which supports investment decision-making, risk management, and performance reporting. This involves ensuring data integrity, implementing technology upgrades, streamlining processes, and improving data analytics capabilities (Schroeter, 2013). The typical executive roles within the middle office include the COO, CRO, and CTO.

5.3 Back-Office Managers

Back-office employees are responsible for supporting the firm's operational infrastructure. Their duties include ensuring the smooth and efficient running of all administrative and transactional processes, regulatory reporting, and adherence to all relevant financial regulations and industry standards (Schroeter, 2013). This also includes monitoring changes in the regulatory landscape.

In addition, back-office employees manage the firm's accounting and financial reporting functions.

Further important back-office responsibilities include compliance and legal duties. The back-office organization is responsible for ensuring its integrity and adhering to applicable laws, regulations, and internal policies. A robust and independent compliance and legal function can mitigate risks related to misconduct, money laundering, and other

forms of non-compliance (ECB, 2024). Furthermore, human resource management, which is responsible for planning, organizing, hiring, and controlling human resources, is also an essential back-office function. The typical executive roles within the back-office include the CCO, general counsel, head of human resources, COO, CRO, and the CTO.

5.4 Behavior patterns along the value chain

Figure 1 illustrates the typical composition of asset management boards and their respective focus areas for Gen-AI implementation. The board-level functions in Figure 1 are ordered from front-office to middle and back-office functions. The Gen-AI focus areas are ordered by decreasing PnL focus and are defined based on annual target agreements and the respective managers' incentivization.

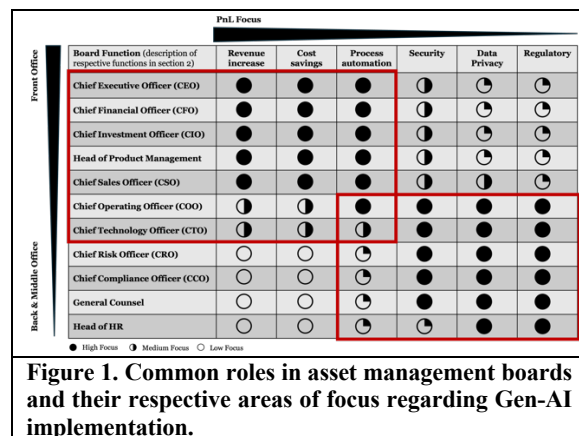


Figure 1. Common roles in asset management boards and their respective areas of focus regarding Gen-AI implementation.

The harvey balls indicate the focus of each board function in the respective focus category. These can be categorized as high, medium, or no focus. Analyzing the ratings in Figure 1 reveals different interests between executives' functions. In front-office functions, Gen-AI implementation focuses on profit-generating initiatives and process efficiency. This could be revenue growth due to better client coverage, better products, cost reduction, and efficiency gains due to automation and better processes. In particular, in asset management, the focus could also be on alpha³ generation, as Gen-AI enables research teams to consume more relevant information much faster.

Governance issues such as IT security, compliance, and regulation are not a priority for front-office staff, and it is assumed that these issues will be managed and approved by the appropriate functions in the back-office. In contrast, back-office functions focus primarily on ensuring that Gen-AI initiatives are

compliant, particularly in data protection, regulation, and IT security. Concurrently, there is a desire to utilize Gen-AI to automate internal control processes and documentation.

One potential explanation for the observed interest divergence between front and back-office staff is the asymmetric incentivization between these divisions. Front-office areas act as profit centers and are remunerated with a relatively large variable and performance-related component. In contrast, back-office staff are unlikely to receive significant performance-related remuneration.

This implies that front-office employees attempt to utilize and develop Gen AI initiatives to enhance their PnL, whether through product improvements, enhanced customer service, or cost reductions and operational efficiency gains, as they directly benefit from a higher bonus. Potential risks associated with Gen AI are less significant for this group.

In contrast, employees in the back-office are not directly remunerated for the potential profitability gains that may result from using Gen-AI. However, they are held accountable for any possible risks that may arise. This creates an asymmetrical distribution of interests, which could harm the implementation of innovative Gen-AI projects in the front-office.

Figure 1 illustrates the distinctive roles of COOs and CTOs, who are invested in both generating profit and governance-related matters. Consequently, they are well-positioned to act as intermediaries between front-office and back-office personnel and to assume responsibility for stakeholder management and cross-functional mediation regarding diverging interests in Gen-AI projects and initiatives.

The relationship between regulatory compliance and innovation is multifaceted and complex, and the factors above can reduce incentives to innovate. Therefore, in the following section, we elaborate in more detail on three dedicated back-office functions: 1. the chief compliance officer, 2. the data protection officer, and 3. the chief information security officer.

1. Historically, compliance officers have been inclined to adopt a skeptical approach to technological innovation. The potential financial, legal, and reputational risks associated with punitive regulatory actions have been identified as a key driver for compliance departments to adopt a "fear-based approach" to risk management, with a clear focus on the avoidance of regulatory scrutiny rather than on innovation, operational efficiency, or optimization (EY, 2023).

A study by the European Commission also indicates that lower compliance burdens positively

³ excess return of an investment strategy in relation to a benchmark.

affect innovation (European Commission, 2014). As AI tools become practical and potentially a key strategic advantage, compliance professionals will be compelled to rethink existing operational models and traditional approaches to risk management. Compliance organizations must monitor and adapt to these changes to remain effective (EY, 2023).

2. Gen AI systems have prompted data protection and privacy concerns. The data protection officer is tasked with ensuring that AI systems respect the rights and interests of individuals and is responsible for preventing any potential data protection damage that may result from using AI systems (PWC, 2024). As AI systems process vast amounts of data from various sources, the interests of the data protection office may conflict with the objectives and plans of a Gen-AI use case and project.

3. Financial institutions today often struggle to protect against cybercrime, and regulators have implemented cybersecurity laws to govern the strength and durability of these controls (EY, 2023). With the introduction of Gen-AI, the potential for unauthorized actors to access and manipulate AI models and underlying data will become an even more significant concern (EY, 2023). The Chief Information Security Officer will be responsible for redesigning cybersecurity frameworks to accommodate these incremental risks and combat the illicit use of AI tools for personal gain (EY, 2023).

Gen-AI is a nascent technology with a yet incomplete regulatory framework. Furthermore, the technology is highly dependent on data and frequently deployed in cloud infrastructures for scalability and performance reasons, raising further concerns regarding governance risks. Concurrently, establishing trust and accountability in using Gen-AI tools has yet to be demonstrated for these managers within the limited timeframe. This is despite the inclination of Chief Compliance Officers, Chief Data Protection Officers, and Chief Information Security Officers to assume responsibility for their risks and exercise caution. This stance may conflict with the interests of the front-office managers.

6. Guidelines for Executives

This section sets seven guidelines for executives to consider based on practical experiences gained in a private bank and the feedback from the semi-structured interviews. It provides recommendations on the critical board initiatives and activities that will incentivize executives to contribute to implementing Gen-AI initiatives from front to back. Each company and board situation is unique, so these

recommendations represent common themes that emerged from practical experiences in a German bank.

6.1 Establish a Gen-AI vision Front-to-Back

The process of developing a shared vision involves establishing a common set of values, a strategy, and a set of joint interests and objectives between the front-office and governance-related roles.

This process is particularly important to front-office managers as it can facilitate the implementation of promising AI use cases with PnL potential. A shared vision can encourage back-office managers with governance responsibilities to share their knowledge, thereby reducing the risk of conflicting interests and reducing the fear of negative consequences from back-office employees if potential risks from Gen-AI projects materialize.

Suppose all relevant parties are involved in a company-wide Gen-AI vision, which is supported by the board of directors. In that case, back-office managers will likely reconsider existing business models and traditional risk management approaches and support or even explore the potential of Gen-AI for their own applications. According to McKinsey's research, the most common barrier to AI adoption is the lack of a clear AI strategy (McKinsey, 2018).

One interviewee also confirms this, recommending that the topic of a Gen-AI vision be included in the annual strategy process. The objective is to secure the support of all board members, obtain the necessary funding, and define the initial prototypes and projects.

In summary, a Gen-AI vision communicates Gen-AI's transformative potential in a way that is accessible, relevant, and aligned with the goals of each stakeholder in the organization.

6.2 Implement Gen-AI-related objectives and incentivisation for all managers

In the context of introducing a vision, it is recommended that all managers involved in the implementation process are subject to a respective evaluation process. Consequently, it is proposed that the support and collaboration in introducing Gen-AI projects be incorporated into the job descriptions and, respectively, in the annual objectives of all employees, including those in middle-office and back-office roles.

Furthermore, the incentive structure for these employees could be revised. One potential approach would be introducing a variable remuneration component linked to implementing Gen-AI initiatives for all employees' front-to-back. One interviewee confirmed that approach and mentioned that consistent

manager objectives and the respective monetary incentivization of Gen-AI could serve to avoid the formation of functional silos that limit end-to-end Gen-AI implementation.

6.3 Assign responsibility to a dedicated AI board member

Figure 1 illustrates that COOs and CTOs are interested in generating PnL effects and in governance-related issues. Consequently, they can play an essential role in the interface between the front and back-offices. Given the significance of this interface function for Gen-AI integration and the generation of innovation, it is recommended that the COO or CTO to be the responsible executive for Gen-AI implementation and be tasked with stakeholder management and cross-functional Gen-AI implementation and enablement. Furthermore, it may be a solution to create a new and additional executive or board function with dedicated responsibility for AI implementation.

The interviewees confirmed that the board must possess expertise and familiarity with Gen-AI to evaluate use cases and make appropriate and efficient decisions. Executives do not need to possess specific programming skills; however, they must possess a comprehensive understanding of the fundamental principles of LLMs (Pinski et al., 2024).

6.4 Build up the right talent and common understanding

It is the responsibility of those in leadership positions to ensure that the relevant skills are developed and that the necessary talent is attracted to all areas of the value chain to guarantee the successful introduction, utilization, and further development of AI tools, as well as the establishment of a practical governance framework. This necessitates the capacity to identify potential errors in the outcomes. The executives ensure that the requisite competencies are cultivated and the requisite talents are recruited. This will preclude the existence of asymmetrical interests or blockades of initiatives due to a lack of expertise.

Ideally, the responsibility for AI implementation is not solely assigned to an individual with extensive AI expertise; instead, it is crucial to ensure that AI competence is widely distributed throughout an organization. Study results imply that continuous learning is particularly important, as the functioning and principles behind Gen-AI are constantly changing (Pinski et al., 2024).

6.5 Monitor regulations and implement checklists for thoughtful application

Gen-AI raises several regulatory concerns. It is therefore recommended that a regulatory working group be established or that the topic Gen-AI is integrated into an organization-wide regulatory oversight process/initiative. Furthermore, it is recommended that risk management programs are updated to consider Gen-AI considerations. In addition, an innovation committee should be established that involves business functions, legal, risk, compliance, and IT security. Furthermore, it is recommended that Gen-AI policies, corresponding checklists, and approval processes for new and future AI use cases be implemented. It is also recommended that clear roles and responsibilities for the adoption of AI be assigned to individuals or bodies within the existing governance structure.

6.6 Define minimum governance requirements for PoC development

To facilitate the advancement of research and experimentation with Gen-AI, it is recommended that only minimum and the most basic governance requirements be established during the conceptualization phase of a project. This approach allows for evaluating technical feasibility without investing excessive time and resources in governance during the early stages of a project. Once a proof of concept has been established and the project transitions to the subsequent phase, these governance requirements can be implemented. Furthermore, one interviewee mentioned that an efficient prioritization process of use cases is crucial. When evaluating potential use cases, impact and feasibility must be considered KPIs for prioritization. Only use cases with high impact and good feasibility should be prioritized.

6.7 Build validation capabilities and communicate successes to gain trust

The Gen-AI evaluation process is highly important, providing insight into the model's reliability and efficiency. Therefore, it is recommended that standard metrics and benchmarks be implemented for model evaluation. A structured approach is essential to comprehensively evaluate Gen-AI outcomes, focusing on a small, well-known, and representative dataset that has been carefully curated to avoid bias and assess model performance.

The targeted disclosure of validation outcomes and AI success stories can enhance employees' trust in

the technology, potentially encouraging them to overcome any reservations regarding the potential risks associated with Gen-AI.

7. Conclusion

The rapid advances in Gen-AI have created a wide range of exciting technologies and innovative application scenarios that businesses can now leverage. Financial institutions are also becoming increasingly aware of Gen-AI's transformative potential. Consequently, many companies are investing in use cases and research related to AI to reduce costs, increase productivity, and launch new products or services (Alsheibani et al., 2020).

However, there are significant challenges in bringing promising use cases into production. These challenges are multi-faceted and complex. Despite high levels of interest and the implementation of numerous initiatives, many companies are unsuccessful in adopting AI and leveraging it for their organizations (Jöhnk et al., 2021).

This paper examines the AI initiatives in the asset management division of a private bank in Germany through an exploratory case study approach. The objective is to explore the critical conflicts of interest between executives regarding Gen-AI implementation. Based on these findings, the paper provides recommendations to executives to effectively align these interests to push value generation and implement AI projects.

Our study demonstrates that the interests of employees in the front-office and those in the back-office are distributed asymmetrically when approving and implementing Gen-AI projects. While front-office areas are operating as profit centers, and their remuneration includes a large variable and performance-related component, which Gen-AI effects would potentially positively impact, the respective remuneration impact on back-office staff is likely insignificant. However, they are held accountable for any possible risks arising from the models.

The asymmetric interests of the parties involved have the potential to lead to skepticism and, ultimately, rejection of AI efforts. To align these conflicting interests, we propose seven guidelines for executives that should facilitate the efficient and compliant implementation of Gen-AI in financial institutions.

It is recommended that a Gen-AI vision be established from front-to-back and that governance-related roles such as compliance, IT security, data protection, and legal be integrated into that strategic process. Gen-AI-related objectives and incentivization

should be implemented for both front-office and back-office managers to address the challenge of an asymmetric incentivization structure.

We recommended that a dedicated AI board member be assigned responsibility to reduce conflicts of interest on the board level. As the COO, CTO, or even a potentially newly established function has an interface function, these roles would be well suited to this purpose.

Adequate talent and expertise should be built up in all parts of the value chain to prevent asymmetrical interests or blockades of initiatives due to a lack of expertise. To avoid project disapproval due to a lack of knowledge of current regulations or processes, we recommend implementing a regulatory monitoring process and using checklists for the thoughtful approval and application of Gen-AI projects.

Additionally, we recommend defining minimum governance requirements for PoC development. This approach allows for the quick evaluation of technical feasibility without investing excessive time and resources in a very early project stage. Furthermore, we recommend implementing validation capabilities to gain experience, establish a Gen-AI track record, and use that to foster trust in the technology.

Our study addresses the following research questions: 1. What are the critical conflicts of interest between executive functions in financial institutions front-to-back? and 2. What are the critical board initiatives and activities that incentivize executives to contribute to implementing Gen-AI initiatives front-to-back?

It provides theoretical and practical contributions for executives to implement Gen-A efficiently and ensure that potential conflicts of interest do not hurt innovation activities. The work is intended as a general overview.

8. Appendix

Function	Role	Estimated time allocation (weekly)
Front-Office	Data-Scientist / AI-Engineer	80%
	Data Scientist / AI-Engineer	80%
	Data Scientist / AI-Engineer	20%
	External AI Engineer / Cloud specialist	50%
	Front-End Developer	70%
	Portfolio Manager Equities	20%
	Portfolio Manager Equities	10%
	Portfolio Manager Equities	30%
	Operations Specialist / Project Manager	10%
	Operations Specialist / Project Manager	30%
Back-Office	Head of Legal	5%
	Data Protection Office	10%
	IT Security Office	5%
	Cloud Adoption	30%
	Head of divisional IT	10%
	Head of divisional Compliance	10%

Table 1. Employees involved in Gen-AI project

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