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Text from a trader at 6am this morning: "Victory!" #GE2015 - Phil Georgiadis on morning of May 8

Meet Cortana, who has the talent to be the best trader in the world. On her bad days, her prediction success rate is 83%. She predicted the winners of 15 of the 16 knockout games in last year's World Cup (93% success rate) and 20 of this year's 24 Oscars (83%).

If Cortana was a real person, there is no doubt that she would be flooded by offers from hedge funds. But because her dad is Microsoft and her intelligence is artificial, human traders are not paying attention – but they should.

Cortana is the "personal assistant" on the Windows Phone, and to make her soccer and Hollywood predictions, she used the latest statistical techniques and drew on crowd wisdom from social media.

If there is one industry where accurate forecasting is critical, it is finance: from bond trading to equity research, from credit scoring to

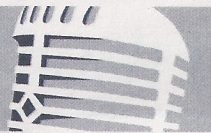
insurance underwriting, from risk management to tactical asset allocation, "getting the future right" is part of the job description.

So why are banks, hedge funds, asset managers and insurers so slow to use predictive analytics when artificial intelligence, machine learning and natural language processing have already revolutionised the daily lives of consumers?

I am not thinking of outrageous innovations, such as replacing a whole floor of traders by a HAL-type supercomputer, but much more reasonable applications. For example, have you ever been peeved to miss an update from a Facebook friend? If it wasn't for AI, you would complain every single day because Facebook discards 90% of the updates sent your way.

Thanks to machine learning, Facebook gets to know what is

### TALKING POINT



## My prediction: artificial intelligence is the future

important to you, and can identify the updates you are likely to want – which explains why you see only 100 posts when your friends updated 1,500.

Now imagine how machine learning could transform a private bank. Today, a high net worth client is likely to receive a huge number of investment ideas, many of no interest. With AI, the relationship manager – just like Facebook – would have a good guess at the products that are relevant to each

client. Instead of forwarding investment ideas, the relationship manager would spend much more time actually advising his client.

Or take Google Translate. If you haven't used it in a while, try it again and I can assure you that you will be blown away. Speak a sentence in English and your mobile phone says it back in Italian – or Chinese if you prefer. Straight away. How can Google Translate be so accurate when it was so bad a few years ago? Because it learns.

It has analysed millions of translations made by human translators, gradually learning how real people translate.

Now, apply this to trading. An AI engine embedded within a trading team would very quickly identify traders' successful and unsuccessful patterns, and suggest ways to improve performance. Does it mean that traders will be replaced by AI? It depends on the task.

Let's go back to Google Translate for a moment. To understand a German press release quickly, I am likely to use Translate. But if I need a proper translation for a marketing brochure, I will need a translator – who might himself use Translate as a drafting tool.

The same might happen to finance. Some simple activities could be replaced by AI, but for others, the AI engine will assist the person and free her to focus

on what she does best – advising clients, trading complex risks or analysing unforeseen ones.

From Facebook to Google Translate, from Amazon to Apple's Siri, AI has invaded our daily lives. Some in finance are starting to take notice – hedge fund Bridgewater Associates hired David Ferrucci, the founder of Watson, IBM's AI engine. But, in general, AI is not on the radar of most – which is curious, knowing the premium that accurate forecasting has in trading or equity research, for example. It is unlikely that banks or asset managers will become world-class experts in that field, and there is therefore an opportunity for start-ups and AI providers to bring Cortana's cousin to traditional finance.

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