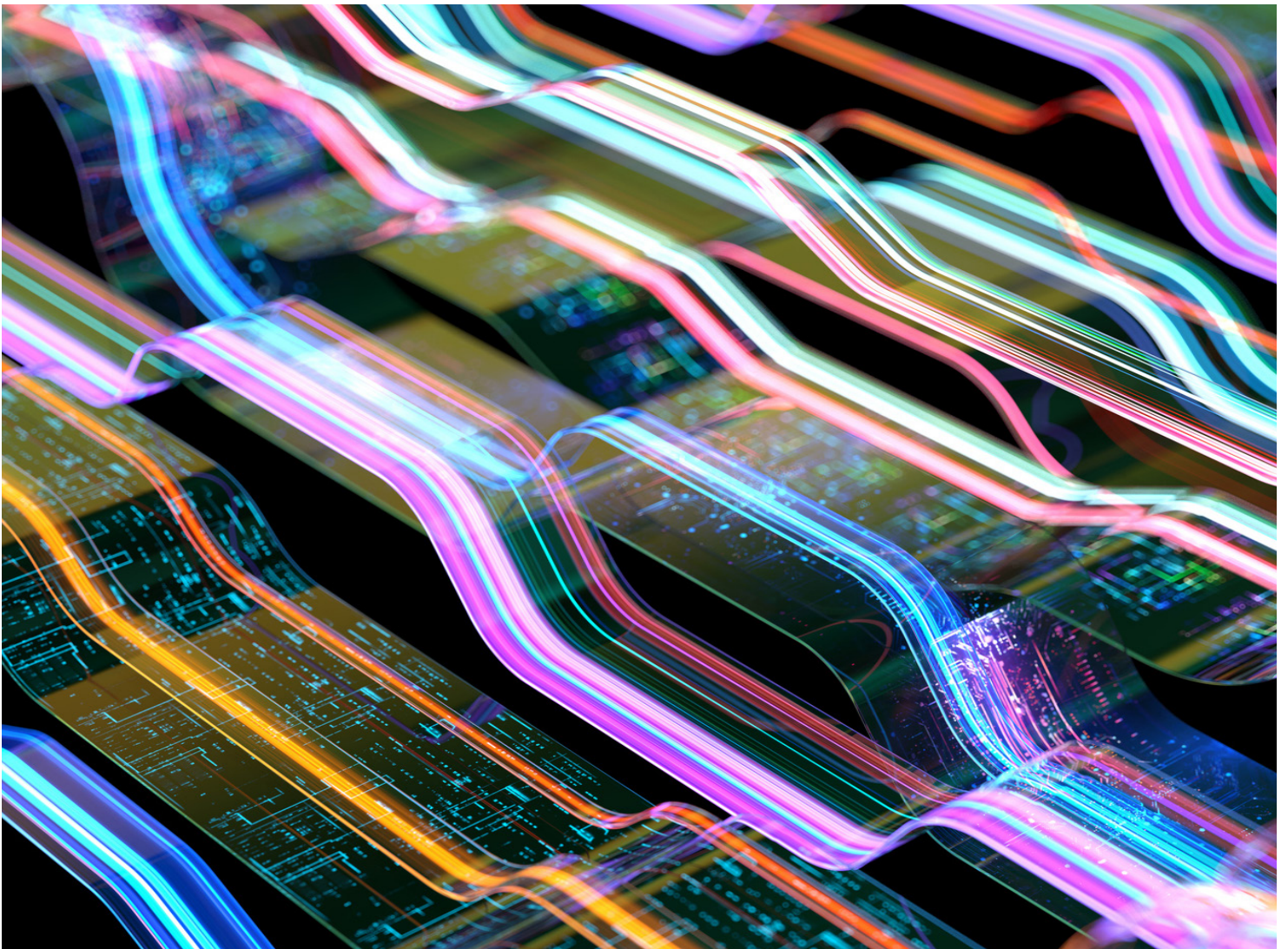


AN FTI CONSULTING REPORT

# How Financial Institutions Can Leverage Technology and AI to Manage Risk Ahead of Mergers, Acquisitions and Divestitures



Mergers, acquisitions and divestments can be high risk events for financial services institutions. Unknown or unmitigated compliance gaps that lie hidden in a customer portfolio can come to light during due diligence, potentially resulting in diminished valuations or loss of interest from acquiring parties. If undiscovered, these gaps may also result in unexpected claw-backs in the future.

Technology and artificial intelligence have a significant role to play in supporting financial services organisations with quickly and cost effectively assessing the health of a customer portfolio and identifying potential breaches of regulations and policy.

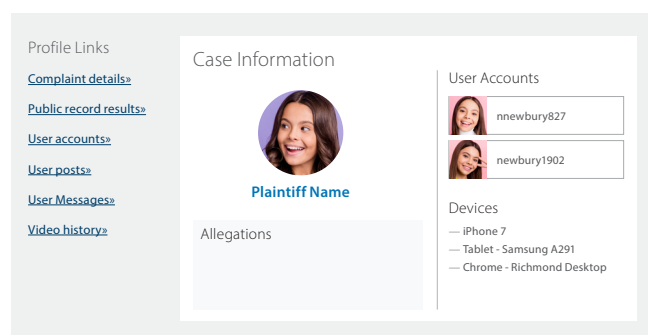
For financial institutions looking to sell or divest customer portfolios, a robust risk and compliance assessment is integral to maximising the potential value and improving the overall posture for a successful transaction. The scope of such an assessment should seek to determine if there are specific material compliance issues evident from a review of signed contracts, know your customer documentation, communications at time of sale, notices and ongoing customer management.

These reviews should be scoped with the client and then be informed by a portfolio-wide assessment to focus on key risks and compliance issues. For example: dated products that may not have kept pace with changing regulations and products that require suitability assessments at the time of sale and on an ongoing basis.

Once high-risk segments of a portfolio have been identified, technology can be applied to stratify the customer base and build files to sample customers for review. A typical customer file would comprise: original signed contracts, records of any advice provided, outcomes of suitability assessments, customer onboarding, ongoing KYC, notices, and voice, electronic and written customer communications.

A key role of technology and AI at this stage would be normalisation and structuring of the data. This may include high quality scanning of paper and transcription of audio recordings into searchable text, entity extraction to associate historical communication records to the customers in question, fact extraction from contracts, and other documents to determine key attributes (e.g., names of counterparties, dates, obligations, agreed pricing, etc.).

Once complete, all data associated with a customer can be organised in structured and consistent customer file to facilitate downstream AI-assisted review.



AI-assisted review will focus on key risk and compliance aspects for the customer file in question. Example areas of review may include the following.

**AI-powered contract review workflows** to compare signed customer contracts and other communications against templates to identify non-compliant or missing clauses and notices that would constitute a regulatory issue.

**Use of generative AI to summarise** suitability assessments from transcripts and other communications captured at time of sale. Also, generative AI can be deployed to provide a first pass review and assessment if key requirements were met. For example, whether the customer had the knowledge and experience relevant to the specific product; if the customer's financial situation bears potential future losses; and whether the product fits within financial risk tolerance.

The output from the assessment will be an informed opinion on the likelihood of a widespread systematic compliance failure within the portfolio in question. This opinion can provide critical input to support the overall due diligence process and inform the negotiation strategy.

Any gaps identified would be indicative of poor first line oversight, second line testing and third line insurance, which could lead to regulatory scrutiny in terms of such weaknesses being present in other parts of the business and thus require immediate attention.



## CASE STUDY

## FTI Consulting Supports Client and Counterparty File Remediation Programme

**Situation:** A large European bank was restructuring the range of products and services it offered its clients from head office and branches. It commissioned a review which yielded a strategy to exit acting as a broker dealer in equities and structured products. A competitor expressed interest in purchasing the structured products business within its London office, however had concerns in light of recent scrutiny in Europe and the U.S. that the KYC files for clients and know your business files for counterparties would not meet its own internal or external regulatory requirements.

**Our Role:** FTI Consulting worked to design a remediation process aligned to the overarching divestment timeframe. An initial risk assessment was performed, followed by an outreach programme to ensure contact with clients and counterparties was with bank staff to protect the relationships, as they were being transferred to the competitor. A refresh of files was executed, including screenings for sanctions, adverse media and compliance controls.



**Our Impact:** Completion of the file review and a completion plan was provided where outstanding information requests were in the process of being responded to. The execution of the file remediation programme and the completion plan provided the purchaser with the reassurance required to proceed with the purchase of the equities and structured product business.

## CASE STUDY

## FTI Consulting Helps Major National Bank Deliver Cross-Functional Single Source of Truth for Communications Data Compliance

**Situation:** A major national bank engaged FTI Consulting to provide access to this single source of data for multiple end-user teams across the organisation while supporting the unique business needs of each group.

**Our Role:** The team developed a solution to convert archive data for viewing within the various platforms used across the bank, including e-discovery and data privacy platforms.

**Our Impact:** The solution impacted numerous stakeholder groups across the organisation who needed access to communications data to perform their work and maintain compliance with varying obligations. The results brought data derived from multiple communications channels into a single consolidated source, providing greater efficiency of search, review, redaction and production for legal and compliance purposes.



## About FTI Consulting

Experts across FTI Consulting bring decades of experience at the forefront of delivering technology and AI solutions for legal, risk and compliance, tuned to the needs of financial services institutions. The team provides a deep understanding of what risk and compliance means for financial services operating within the U.K. and Europe regulatory spheres, and includes a bench of legally qualified document reviewers with domain and industry experience. FTI Consulting's communications experts regularly advise financial institutions on how to reposition following a merger, acquisition or divestment, and establish a clear roadmap for future success.

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