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In the News

Digitising Private capital
Funds Europe talks to Priya Nair about the challenges in bringing new technology to the private capital markets

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DIGITISING PRIVATE CAPITAL

FUNDS EUROPE TALKS TO RBC'S PRIYA NAIR ABOUT THE CHALLENGES IN BRINGING NEW TECHNOLOGY TO THE PRIVATE CAPITAL MARKET.

DIGITAL TRANSFORMATION MAY BE a pervasive concept within financial services but it has yet to reach all corners of the market. In particular, it has had a limited impact thus far in the private capital services space, says Priya Nair, managing director, Global Head of Product Management, Private Capital Services at RBC Investor & Treasury Services.

This is not to say there are no applications for new technology. It is more to do with the idiosyncrasies of the private capital world and its investors. Firstly, it is a varied marketplace dealing with real assets, from companies to real estate, that do not lend themselves to standard processes.

Secondly there are the characteristics of the typical private capital investor, who tend to be more individual than institutional and therefore not as driven by the demand for more operational efficiency and standardised processes.

Indeed, change occurs slowly within the private capital market, particularly around operations and there is a relative immaturity in technology adoption terms. For example, outsourcing is still a rarity among private equity managers. Manual processes are still commonplace, in part because the tangible assets involved (from real estate to private companies) do not lend themselves to digital technology.

But things are changing, says Nair. Slowly but surely, the specialist fund managers in the private capital space, a market that encompasses funds in private equity, real estate, private debt and infrastructure, are coming under the same regulatory requirements and operational challenges as their mainstream counterparts.

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"The market has been growing in scale and is slowly coming under more regulatory pressure to be transparent," says Nair. "There is a greater need to be more efficient and to deal with operational complexities."

For example, more private equity funds will come under either MiFID II or AIFMD reporting requirements, depending on their classification. There has also been a greater institutional interest in the private capital sector, as more pension funds look to alternative sources for greater returns. This has in turn brought more expectations of the same reporting standards and transparency levels seen in mainstream investment vehicles.

Nevertheless, these pressures are still greater for mainstream investment managers. The processes in the mainstream market are easier to scale, standardise and ultimately automate. And the threat of disruption from outside competition (big tech firms or more nimble start-ups with more efficient processes) is greater than for private capital service providers where a track record is still a necessity.

Motivations

There is also a difference in the characteristics and motivations of the typical private capital investors and what influences their choice of manager. The managers' expertise is the primary attraction rather than low fees or efficient processes.

Furthermore, there is a paradox at the heart of the effort to drive digitisation, says Nair. "On the one hand, investors are primarily looking to private equity and real estate fund managers to provide value through their expertise and the fact that they are different to their competitors. On the other hand, they are demanding a more generic standardised digital service from all of them."

In many ways, the typical private capital investor could not be more removed from the millennial investor looking to carry out their wealth management transactions on their smartphones. High-net-worth private investors are willing to pay high fees in return for managers' expertise and differentiation.

What is indisputable is that new technology has a role to play in the private capital world, says Nair. Advanced analytics can be used to create insights from the data that managers hold while distributed ledger technology (DLT) and robotic process automation (RPA) have become more relevant in terms of operational efficiency.

In the private capital world there are contracts that need to be exchanged between multiple parties. Technology such as DLT allows for replication across multiple systems. It can also be used to help with the KYC and AML requirements during the onboarding process.

The use of RPA is also becoming more prominent, says Priya. "Where you have data-intensive processes, RPA allows for scalability and to extract data more efficiently and with a clear audit trail. We have not yet seen its full impact but we have seen it used to address some of the more clunky processes carried out on Excel spreadsheets. It can reduce manual error and increase operational efficiency."

But how close are we to digitising the client experience? While it is difficult to see any private capital investors seeking a more 'cost-effective' service delivered by a chatbot or robo-adviser, is there a growing demand for more digital influence in some of the client-focused processes?

There has been some movement, says Priya. The use of RPA for client onboarding is increasing and the

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interest around applying DLT is also on the rise among private capital fund managers.

"It is definitely challenging and is in its infancy," says Priya. "There is also that paradox around standardisation. However, where there are processes involving multiple records and documents with large data sets, the technology is very relevant. It is possible to apply rules-driven technology to underpin the process and still retain the individual expertise that investors value from their managers."

As for the persistence of manual processes and the human intervention for which investors are willing to pay extra fees, there is a period of time when the fund is active and requires a lot of manual processes and those value-added elements, says Nair. This is also true in relation to extracting data insights and providing additional value to investors.

But once you've invested that initial capital, there is little else that happens actively and more opportunity to apply operational efficiency, freeing up managers to concentrate on another round of fund-raising.

"There is a little bit of push involved in promoting the digitisation of the market. It also depends on who you speak to. The operations staff are more open to the idea of digital technology. The fund accountants may be more focused on manual intervention initially. But if we have an idea of how to make processes more efficient and reduce errors, then everyone is interested."

Private capital managers looking to pursue the use of digital technology need to pick their partners, whether they be digital start-ups or incumbent providers who are themselves looking to partner with digital start-ups.

Asset servicers such as RBC are well started on their own digitisation paths. "Digital technology is an enterprise-wide initiative for us and is at the heart of the drive to futureproof our business," says Priya.

The challenge RBC now faces is to encourage the same demand for digital services and the value of data among the investors in the private capital services market, the last bastion of manual processes.

SPECIALISED SERVICES - Slowly but surely, fund managers in the private capital space are seeing the benefits of new technology, says Priya Nair.