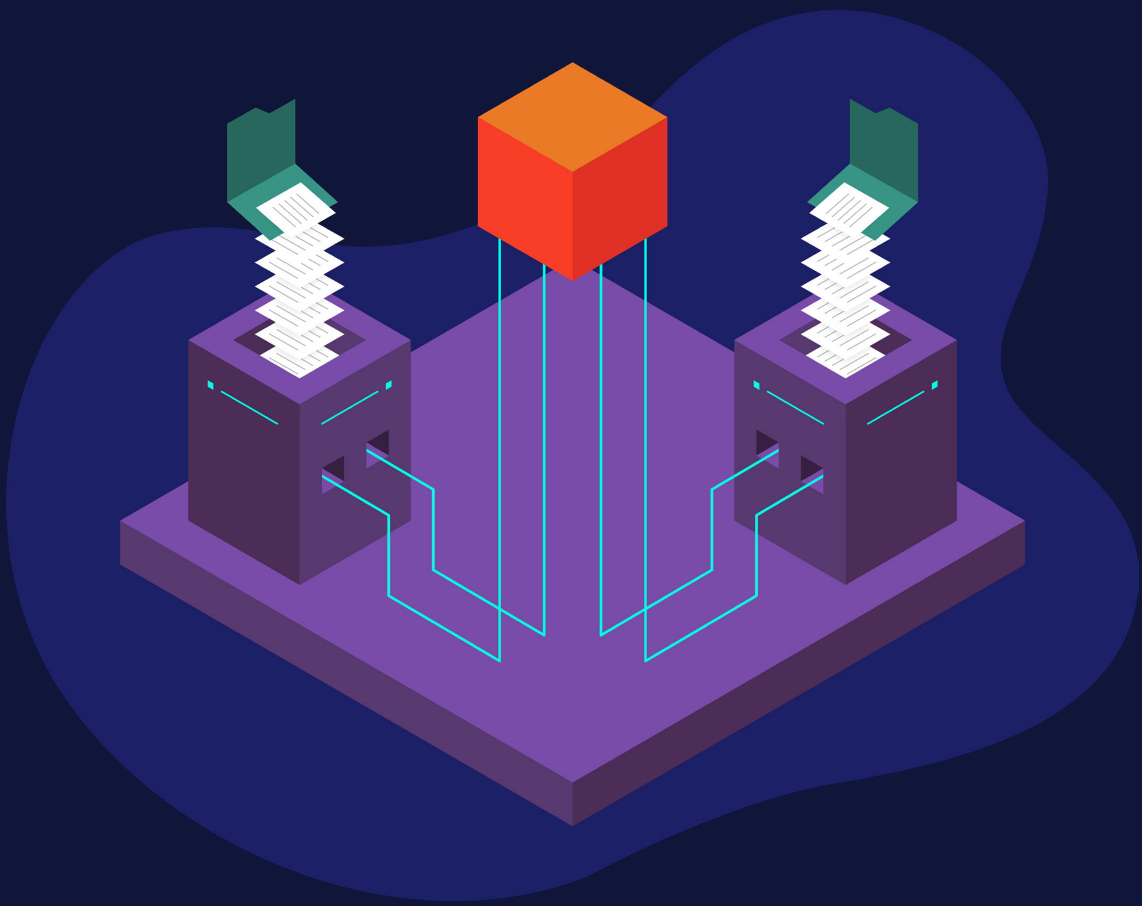
# Digitising private markets

How technology is helping financial institutions
to meet the growing demand for private investments



Delio

# Contents

# Executive summary

Private markets are playing an increasingly important role in the solutions that financial institutions offer to their wealthy clientele. Over the last decade, they consistently outperformed publicly listed investments, while changes in investor sentiment have driven increased demand for longer-term opportunities.

This change in approach has brought challenges for financial institutions; namely, how do they scale a part of their business that is operationally complex to deliver, requires strict regulatory governance and has traditionally been driven by personal relationships between client and adviser?

In simple terms, the answer is better use of technology as a tool that enables firms to overcome the challenges associated with private markets. Our research illustrates that while technology is now firmly embedded in the operating model of most financial institutions, its application as part of a private markets proposition is less mature. Only 26% of financial institutions reported that technology plays a core role in the delivery of their private markets offering. The slower adoption of technology appears to broadly reflect the fact that many institutions only started to develop a private markets solution in the last 12-18 months; therefore, we anticipate that there will be a significant acceleration in the adoption of digital tools over the coming years as propositions mature.

One of the primary drivers of any corporate technology project has to be a return on investment in one form or another; our research shows that financial institutions see digitisation as driving three main commercial benefits in relation to private markets. Improved operational efficiency (81%), enhanced client experience (54%) and more robust regulatory processes (47%) were highlighted as the areas where technology could add the most value.

This reflects Delio's own experience of supporting financial institutions over the last five years and, interestingly, is typical of most organisations regardless of scale, location or primary function.

Finally, it is perhaps impossible to publish a report in 2020 without mentioning the impact of Covid-19. While the worldwide pandemic has impacted nearly every aspect of business, the role that technology has played in overcoming this year's unique challenges cannot be overstated. This is reflected in our research, with 86% of firms reporting that they have accelerated their digital adoption as a result of Covid-19 and 71% making quicker decisions on technology projects specifically. Interestingly though, a significant minority of organisations believe that digitisation will not necessarily play a prominent role as we begin to adapt to the 'next normal'. More than a third of firms (35%) believe that they will still rely on traditional client engagement strategies in the short to medium term.

**74%** of financial institutions say that technology does not play a core role in delivering private markets services

**81%** of financial institutions say that technology would improve the operational efficiency of how they deliver private markets services

**86%** of financial institutions have accelerated their digitisation strategy as a result of Covid-19



While the economic, political and societal outlook certainly can't be predicted with confidence in light of this year's events, this figure is surprising given the widespread evidence that business models which rely heavily on 'in person' interaction are likely to be quickly overtaken by organisations that can deliver at least part of their service through digital channels. The growing importance of digital propositions is only likely to accelerate in light of recent events and institutions that fail to react to this trend are likely to be left behind, or at least face the expensive and time-consuming challenge of playing catch up further down the line.

Having developed private markets solutions for more than 70 international institutions over the last five years, Delio firmly believes that technology can add significant value at both an organisational and client level. However, we also understand the value of the client-adviser relationship and the trust that comes with personalised advice; that's why we see digital tools as an 'enabler' that allow firms to use data more effectively, streamline their operations and create elegant client experiences. We explore these topics in greater detail over the coming chapters.

Delio would like to thank all of the institutions that contributed to this research; we hope you find the insights useful. To contribute to the discussion, share your thoughts online via Delio's **LinkedIn** and **Twitter** accounts.

### Our research methodology

To shape this report, Delio gathered the views and opinions of financial institutions from across the world between January and August 2020. This included insight gathered from over 300 face-to-face or virtual meetings, quantitative survey data submitted by more than 45 institutions, and several detailed qualitative interviews. To ensure as broad a range of opinions as possible, contributing firms represent several specialist sectors and varying levels of technology adoption.

**Figure 1.1: Contributors to our research represented the following types of institutions:**

- Family office
- Angel network
- Corporate finance
- Banking
- Wealth management
- Venture capital
- Fund manager

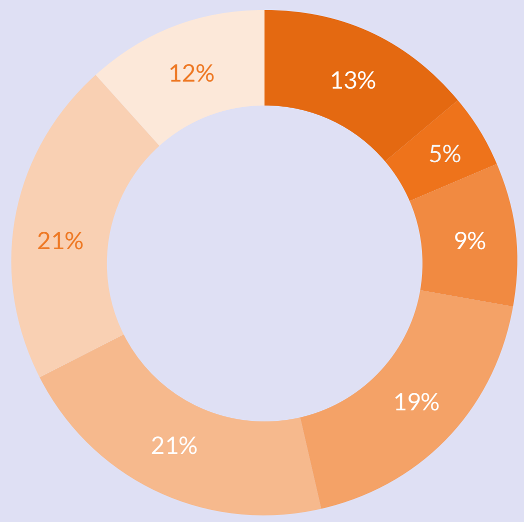
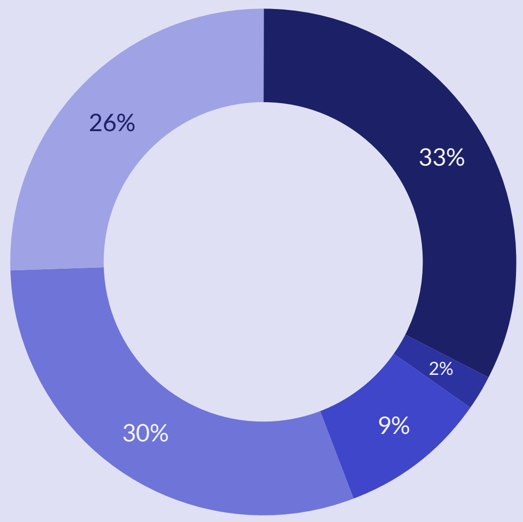



**Figure 1.2: And this is where their firms operate:**

- Europe
- North America
- Asia Pacific
- Middle East and North Africa
- Internationally



# Technology in financial services - A brief history

The impact of technology on the world of financial services cannot be overstated. While the roots of the relationship can be traced all the way back to the industrial revolution, it's in the last 50 years that the use of technology has accelerated dramatically, transforming the way financial services are delivered and consumed by clients.

From the introduction of ATMs in the late 1960s to the transformative impact of the internet and the move to online banking in the 2000s, technology has always played a vital role in the industry. Now, we find ourselves in a period that several leading commentators have termed as 'peak FinTech'. However, as we bask in an age of digital banks, blockchain, mobile payments and many other innovative technological advancements, it is perhaps easy to forget that financial institutions have been widely criticised for failing to adapt quickly enough to the opportunities that digitisation has offered them.

Of course, transforming the operational processes of a financial institution with hundreds of years of history and millions of customers is never going to be easy. In many cases, this challenge has been exacerbated by the speed at which technology has developed, particularly in the last 20 years; just as one transformational project is delivered, new digital tools emerge that make it look outdated or inefficient.

Similarly, several institutions have famously fallen into the trap of implementing technology into their business without paying due care and attention to core business competencies that surround it. There is little doubt that digital tools can offer transformative benefits for firms of all types, but only when areas such as regulatory governance and staff training are also considered as part of the change management process.

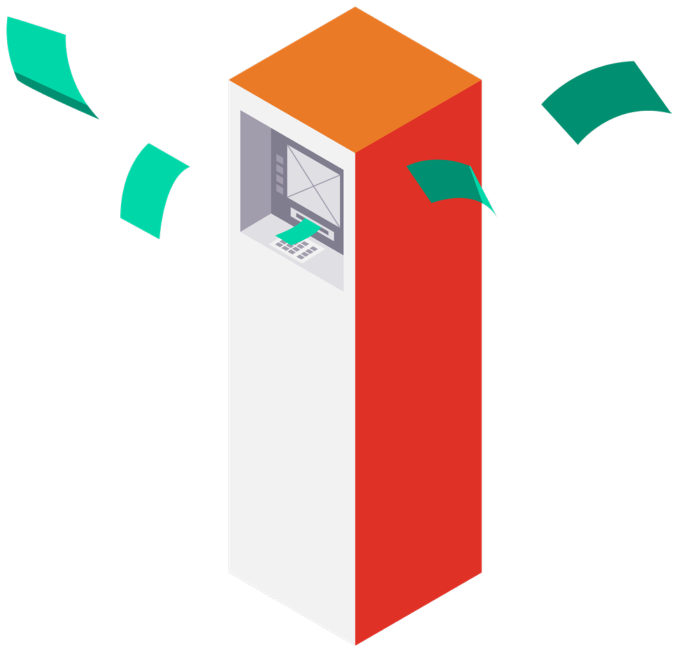
**The growing influence of FinTech**

The last few years have seen an unprecedented surge in the pace of technological innovation across financial services. 'FinTech' is now a commonly used term to describe a phenomenon that has disrupted the traditional world of financial services by delivering increased operational efficiency, profitability and customer satisfaction.

In real terms, this has created two distinct types of financial institution - traditional organisations that are embracing technology to enhance their proven business models and 'digital-first' businesses that are focused on delivering their services remotely through apps and online services only.

While 'digital adopters' and 'digital-first' companies tend to work in very different ways and at a different pace, the importance of technology in both of their business models is clear. For traditional financial institutions, this has driven a new form of collaboration with tech firms who have created digital solutions that help them to meet changing customer demands or, in some cases, solve problems that they didn't even realise existed. While many larger institutions still invest heavily on in-house technology teams, the option to collaborate with lean, agile tech specialists to bring services to market quicker has transformed the way they operate.

Meanwhile, the rapid rise of 'digital-first' financial institutions such as Revolut, Klarna and Funding Circle, particularly amongst younger age groups, is disrupting the market. Their ability to win millions of new customers in a relatively short period of time demonstrates the growing demand for financial services to be delivered digitally, with slick, client-centric tools winning favour with customers who value instant, mobile-friendly access to their finances more than face-to-face advice.



**How customers are driving technology adoption**

In simple terms, the rapid evolution of technology use in financial services is being driven by the consumers' demand for digital solutions. In today's 'mobile world', customers expect to be able to access, manage and transact their financial lives through digital tools; this is particularly relevant to Generation Zers and Millennials.

However, that is not to say that the future of financial services is a completely digital landscape. There are significant differences in expectations based on client demographics, with the age and wealth of customers influencing how they expect to be dealt with. For example, **PwC's 2019 report on consumer digital banking** illustrated that wealthy customers placed greater importance on 'in-person advice' than those with a lower level of investments and deposits.

Established financial institutions appear to be moving their business models to a 'technology plus advice' approach in an attempt to offer the best of both worlds. While they accept that the digitisation of financial services is undoubtedly here to stay, there is also a growing sense that a large proportion of their customers also value their ability to access face-to-face advice when required; this is particularly important for wealthier clients.



> ***"The FinTech industry is predicted to be worth $500bn by 2030"***
>
> **Source: UBS**

**Where next for technology in financial services?**

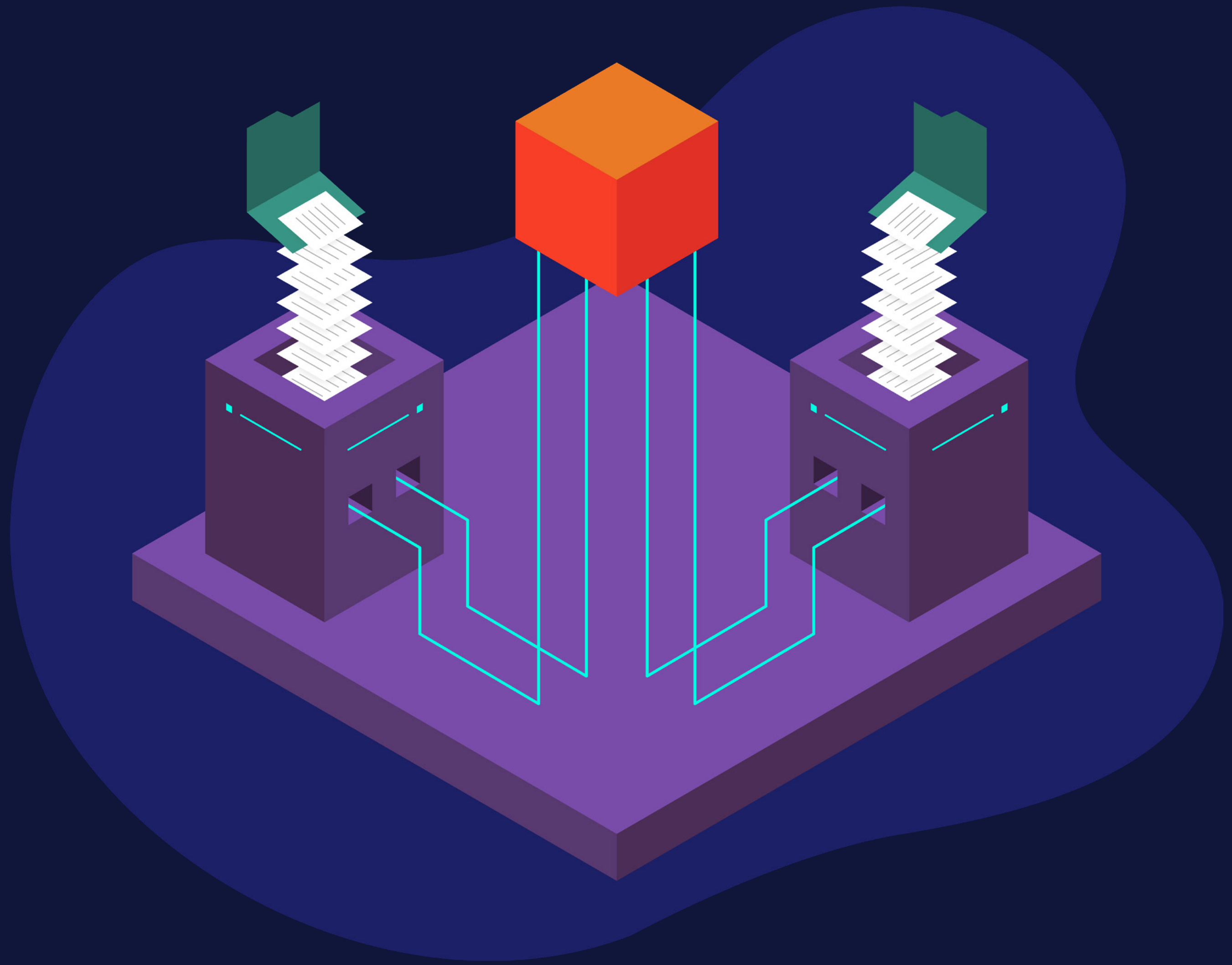
There can be little doubt that technology is now firmly entrenched in the delivery of mainstream financial services. Opening a bank account, applying for a loan and securing a mortgage are just some of the services that can now be conducted without the need for any face-to-face advice whatsoever. As little as 10 years ago, these services could not have been transacted without some form of human interaction, via an in-person meeting or phone conversation.

However, the infiltration of technology throughout financial services still has plenty of scope for maturity and development. Areas such as investments, wealth management and other specialist services have not necessarily seen the same rapid adoption of technology in recent years, yet the clients who utilise these services are demonstrating their increasing appetite for instant information that is available at the click of a button, not just through a meeting with their financial adviser.

The remainder of this paper will focus on one such area - private market investments. Once considered niche and high-risk, the last decade has seen significant and sustained growth in demand for access to unlisted investment opportunities, with private assets under management growing by 170% during this period (**McKinsey Private Markets Review 2020**).

Despite unprecedented investor demand and a consistently high rate of return, many financial institutions have been slow to react. As a result, they are only now beginning to explore the opportunities that an integrated private markets proposition can offer them and their clients. This paper will explore the role of technology in that journey, the commercial and operational advantages it can offer and what obstacles need to be overcome.

# Digitisation in private markets



**The growing demand for private markets**
Only a few years ago, many financial institutions believed there was no need to allocate to private markets. With the exception of a few larger private banks, the vast majority of players within the market focused on traditional assets and left their high net worth clients to tap into private markets in their own time and at their own expense.

However, a number of factors have driven a change in investor sentiment which has forced institutions to adapt their strategy.

**Consistent and significant returns**
McKinsey's Global Private Markets Review 2020 illustrated that the value of private equity assets has significantly outstripped public equities over the last 20 years, increasing eight-fold.

**Limiting exposure in volatile markets**
Given the economic volatility of the last 12 months, investors are looking to diversify their portfolio to a greater extent and are prepared to lock-in to the longer-term profile of private investments. Delio research showed that 69% of wealth management clients are increasingly seeking illiquid investments.

**Growing demand for ESG investments**
Investors are increasingly seeking to explore opportunities that balance financial returns with societal and/or environmental impact.

When combining these factors, financial institutions have been left with a clear decision to make - adapt their business model to satisfy the demand from their high net worth clients, or risk losing them as they seek to access private markets opportunities through other channels. However, with 1 in 4 wealth managers reporting that they had lost clients due to their inability to offer private market investments (Private Markets in Wealth Management, Delio, 2019), failing to adjust strategically exposes their assets under management to significant risk.

> ***Private market assets under management (AUM) grew by 10 percent in 2019, and $4 trillion in the past decade, an increase of 170%.***
>
> **Source: McKinsey Global Private Markets Review 2020**

## The operational challenges facing financial institutions

One of the main reasons many firms have been slow to move into the private markets space is because of the perceived operational and regulatory complexities associated with investments of this type. Financial institutions that formalise and scale their private market offerings are typically faced with several challenges that need to be overcome in order to ensure that their proposition is sustainable.

### Streamlining operational processes to deliver efficiency and profitability

For many firms, introducing clients to private market deal flow has been a manual, resource-intensive process. Sourcing appropriate investment opportunities, undertaking the required level of due diligence, connecting them with the right profile of investors and managing the processes that underpin any deal, all take time and effort. While this can be achieved using a traditional, client relationship approach, for many firms it is either prohibitively expensive or operationally impossible to grow their private markets offering in the long-term.

### Managing the unique regulatory complexities associated with private investments

The regulatory demands associated with a private markets proposition has traditionally been one of the biggest challenges for financial institutions. Ensuring that investors are only exposed to the right type of investment opportunity based on their profile, creating an auditable record of all client touchpoints and managing the documentation associated with deals can be a hugely involved process. However, if implemented correctly from the outset, a robust regulatory framework will act as the foundation for a successful and scalable private markets proposition.

### Scaling a private markets offering to drive revenue

While private investments are only likely to play a supporting role in a financial institution's wider proposition, a scalable offering that can be promoted effectively across their client base could help to drive significant revenue growth. Perhaps just as importantly, the ability to offer this type of value-added service is also likely to play an important role in retaining other assets under management. However, to achieve this level of scalability, institutions will need to develop robust operational processes that enable effective deal promotion, robust lifecycle management and an enhanced client experience.



> ***"Only 26% of financial institutions said that technology played a core role in how they deliver private markets services to their clients"***

### How is technology currently used in private markets?

As discussed earlier in this report, private markets have arguably been one area of financial services that benefited the least from the technological advancements the wider industry has seen in recent decades.

In our most recent research, 86% of financial institutions reported that technology plays a fundamental role in the delivery of their overall service. However, when looking specifically at the delivery of private markets related services, this figure drops to 68%. This significant discrepancy demonstrates that while the vast majority of firms have embraced technology as a tool for driving their business growth in general terms, it is being underutilised as part of their private markets offering.

This can be partially explained by the fact that some financial institutions have been slow to react to the growing appetite for private markets. As a result, their adoption of technology as a delivery tool for their proposition has lagged behind as well. However, industry commentators now believe that firms operating in private markets are beginning to realise the important role that data analytics and machine-learning algorithms have to play in their proposition (**Mckinsey's Global Private Markets Review 2020**).

David Newman, Co-Founder and Chief Commercial Officer at Delio, says that many firms are still attempting to offer access to private markets using manual, operationally inefficient processes as they build their wider proposition. "Over the last five years, I have spoken with several hundred institutions, from enterprise-level banks through to boutique wealth management firms, all of whom understand that offering access to private markets needs to be a fundamental part of their growth strategy.

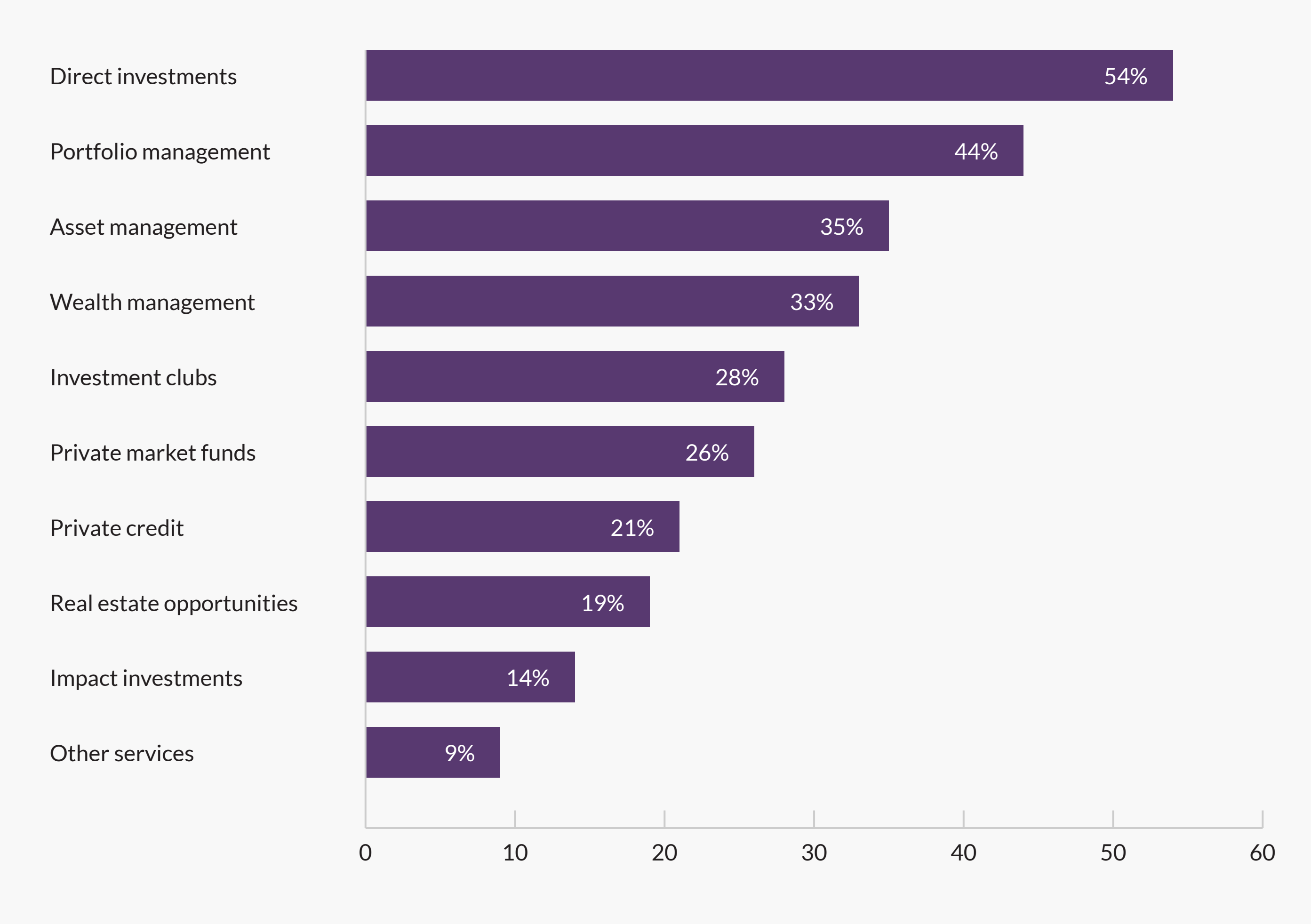
"However, many of these firms are reacting to client demand and have been caught on the back foot in terms of their proposition development. As a result, they are running their programmes with a short-term view that drains resources from their business - predominantly, well paid staff doing jobs that could be automated and enhanced through technology. While this may allow them to establish their offering in the short-term, they quickly realise that a scalable proposition needs to be underpinned by automated operational processes, reliable data and effective communications tools."

### Adoption of technology across private markets remains 'behind the curve'

While the concept of technology driving operational efficiency across businesses is now commonplace, its application in the world of private markets is more inconsistent. Delio's research found that the use of technology to deliver specific services varies greatly across institutions, with even 'core services' still being delivered without the aid of digital tools in the majority of cases.

The elements of an institution's private markets proposition that most commonly rely on technology to support their delivery include direct investments (54%), portfolio management (44%) and asset management (35%). At the other end of the scale, technology plays an even smaller role in the delivery of some specialist services, with less than 1 in 5 institutions using technology to deliver their impact investing proposition and access to real estate opportunities.

**Figure 2.1 Private markets services that are currently being delivered through digital tools:**






With the majority of institutions still not employing digital tools as part of their private markets service delivery strategy, industry commentators believe there will be an inevitable shift in approach over the coming years. KPMG's report on **digital transformation in private equity firms** argues that institutions "for the most part have been slow to the party in terms of automation and innovative technology, with most still familiarising themselves with digital innovation". The report predicts that firms that have been resistant to technological change thus far will soon have to adapt, warning that the adoption of a digitised approach is "essential if your firm is to compete in this new world."

Farid Tejani, Chief Technology Officer at Delio, believes that the next few years will see a significant shift in approach as organisations respond to greater demand for solutions that allow clients to 'self-service' as and when they need it. "Put simply, providing clients with digital access to your products and services is now an essential part of any financial institution's value proposition. A few years ago, organisations may have been able to spin an argument that face to face, personalised engagement reflected their differentiated approach to client relationships. However, the rapid advancement of high-quality digital tools, coupled with the world's increasingly 'digital-first' approach, means that this is simply no longer the case.

"The attitudes of wealthy individuals and investors are changing. They often operate internationally, are time poor and are juggling multiple personal and professional obligations. Therefore, they expect to be able to conduct their financial business at their convenience - whether that be online or through dedicated apps. That's not to say that the days of traditional, relationship management are gone - this is definitely not the case. However, the use of technology to supplement and enhance personalised service is very much the future of the sector."

### Where will technology have the greatest impact on private market operations?

Private equity firms that have embraced technology adoption report significant operational benefits of their approach. **KPMG** cite improvements in deal-making processes and increased operational efficiencies, but in many cases, technology has the potential to transform multiple aspects of a private markets offering.

Delio asked a variety of institutions to select the three areas of their business in which they felt technology would have the greatest impact. While the diverse range of responses supported the view that digitisation has far-reaching benefits, three key strands were common to firms regardless of their jurisdiction and areas of expertise.

*Investment planning, asset allocation and wealth management will continue to require a human element of advice and guidance, although technology will undoubtedly support these conversations more and more.*

Inigo Gallastegui, Head of Product Strategy, Marketing and Advisory Services, Santander Private Banking

**Increased operational efficiency**
4 out of 5 institutions surveyed stated that technology would have the greatest impact on their business processes and operational efficiency. This is perhaps not a particularly surprising revelation given the impact that technology has had on other common operational processes; however, given the particularly complex nature of private markets, it could be argued that the use of digital tools would have an even more transformative effect.

The **London Business School's study into the digitisation of private equity firms** illustrates that operational efficiency gains can be achieved at all stages of the investment lifecycle, from the investment process to fund administration and on to post-deal reporting. In many firms, these processes are often managed manually by staff which not only takes longer but also increases the risk of human error and regulatory non-compliance.

Inigo Gallastegui, Head of Product Strategy, Marketing and Advisory Services for Santander Private Banking, says that the use of technology has been proven to deliver operational efficiencies across core services. He argues that the logical next step is for financial institutions to extend digitisation projects to more specialist offerings.

"We have all seen the benefits of technology in relation to more transactional financial services. Accessing accounts online, making payments, applying for a mortgage - they can all be done online in a matter of minutes. While financial institutions perhaps could not be described as digitally fluent, technology is evolving and improving all the time.

More sophisticated financial products will be part of a second phase of technological evolution. Investment planning, asset allocation and wealth management will continue to require a human element of advice and guidance, although technology will undoubtedly support these conversations more and more."



**Improved regulatory and governance processes**
The regulatory complexities of private markets have long been seen as a barrier to many firms offering access to their clients. This was highlighted in **Delio's 2019 report on Private Markets in Wealth Management** which reported that 65% of firms felt that achieving full regulatory compliance was the main obstacle to them launching a private markets proposition.

In our most recent research, 50% of institutions said that technology would have the greatest impact on the governance of their private markets offering. Gareth Morgan, Delio's Chief Operating Officer and former Global Chief Risk Officer of HSBC's Private Wealth Solutions business, argues that robust governance and operational processes are inherently linked.

"A firm's governance of its private markets offering cannot be considered on a standalone basis. Instead, regulatory compliance needs to be fully integrated within a firm's business model and operational processes given that it will impact all aspects of a private markets proposition. Sourcing the deal, distributing information to potential investors and managing the various elements of a transaction all require strict scrutiny and a high level of expertise. Technology can support each stage of this process, adding control mechanisms to ensure that key tasks are completed, approved and recorded, significantly reducing the risk of non-compliant actions going undetected."

*If approached correctly, digital transformation will create a win/win environment for both clients and financial institutions.*

David Rasson, Innovation Lead, ING

**Enhanced client experience**
50% of financial institutions said that technology would help to deliver an enhanced experience for the growing number of clients wishing to take advantage of the opportunities afforded by private markets. 24/7 online access to investment opportunities, improved communication and rapid information exchange are just some of the ways in which digitisation is helping to improve investor relations and drive more targeted client engagement.

As discussed earlier in this report, some industry commentators have warned against an over-reliance on technology at the expense of the client-adviser relationship. This is a fair and warranted comment, particularly in relation to private markets where the complex nature of investment opportunities makes it essential for the investor to have a comprehensive understanding of the risks involved. Whether clients are accessing private investment opportunities on an advisory or introduction only basis, their adviser will play a significant role in educating their clients on the appropriateness of the opportunity.

This, however, is a good example of how technology can undoubtedly be used to add more value to client relationships, speed up investment decisions and ensure that financial institutions are having the right conversations at the right time. In this instance, technology could be used to profile an investor's suitability for certain deal types; this information could then be used to create automated governance processes that would prevent them from accessing any inappropriate deals or would automatically flag risk warnings.

This is just one example of how technology could act as an enabler for advisers, rather than replacing the important role that they play. David Rasson, who leads ING's Innovation team in Europe, feels that increased use of technology shouldn't necessarily mean that the client experience is de-personalised.

"If approached correctly, digital transformation will create a win/win environment for both clients and financial institutions. For me, technology offers the opportunity to personalise services like never before. Our ability to utilise data more effectively and then use it to offer highly personalised services will be vital. It will help us to offer more targeted services, delight our customers and reap the commercial benefits. However, a digital offering alone is not enough. It needs to integrate seamlessly with our in-branch experience and other offline engagement to be truly successful."

### More effective client engagement

Nearly 1 in 3 respondents (32%) said that technology would be key to them being able to offer access to private markets to a greater number of clients. While digital communications tools are now commonplace in most organisations, the promotion of private investment opportunities has traditionally relied on relationship managers connecting investors with deals based on their knowledge of the client's interests, investment strategy and appetite for risk. However, this approach obviously relies on a high degree of personal knowledge and isn't scalable.

The use of technology to centrally record the profile of potential investors enables the creation of highly targeted digital communications; instead of advisers having to send individual introductions to deals, firms can distribute information to clients based on specific criteria. This could include industries that they are interested in, deal value and any other metric that has been recorded about them. More than 1 in 4 institutions (27%) said that the ability of technology to provide improved access to client data and analytics would be a significant benefit to their organisation.

Gareth Lewis, Co-Founder and Chief Executive at Delio, says that technology should be viewed as a tool to enhance client engagement strategies, rather than a threat to the role of an adviser; "Many institutions have built their private markets strategy on the importance of investor relations, cultivated through face-to-face meetings. I believe that this remains a key activity for advisers; however, I also believe that technology can enhance the way in which advisers build relationships with their clients.

If I had an investment opportunity that I wanted to pitch to 50 clients, why wouldn't I want to share that information digitally beforehand to gauge their appetite? It would allow me to gain an understanding of who has a genuine interest and then personalise my follow-ups based on that insight. I would still build the relationship with my clients but I'd be doing so in a way that was more efficient and added greater value as their adviser."

# A changing landscape - Technology and private markets in the post-Covid-19 world

Society's increasing reliance on technology can be seen across almost all aspects of modern life. In a world that is more digitally connected than ever before, for many of us, technology is at the heart of our day-to-day lives - how we communicate, how we work, even how we socialise.

In many ways, the last 12 months has accelerated this societal trend at a rate none of us could have imagined. The huge worldwide impact of the Covid-19 pandemic has, amongst other things, thrust an even greater spotlight on how we use technology in our personal and professional lives. From a business perspective, it has also pushed many organisations to re-evaluate their digitisation strategies in a world where travel and face-to-face interaction were (and at the time of writing, still are) subject to severe restrictions.

Despite the prevalence of technology across mainstream financial services, the industry has long been seen as slow to adapt to the opportunities that new digital tools have offered. As we've already discussed in this report, the potential of technology to deliver greater access to private markets is only being partially fulfilled.

So how do financial institutions see their use of technology changing in the post-Covid-19 world? And what does this mean for private markets?

**The impact of Covid-19 on technology adoption**

Technology-based projects have long been associated with lengthy procurement processes and slow-moving change management programmes. As a result, projects that are designed to improve operational efficiency and enable more agile ways of working are often seen as cumbersome and ineffective. Of course, the main reason for this type of project failure is often due to how it is managed internally. Overly complex chains of command, poorly defined objectives and a lack of organisational focus are just some of the reasons why highly effective digital tools are not utilised to their full potential.

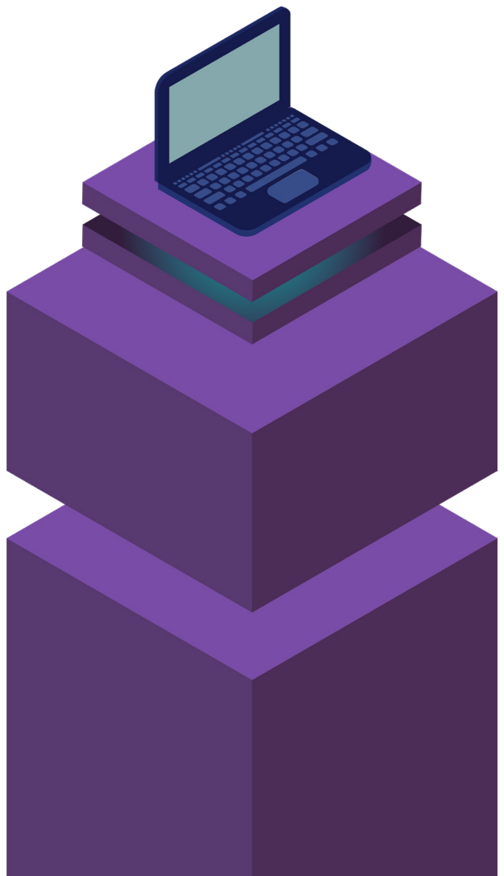
As the full extent of the Covid-19 pandemic became apparent in early 2020, financial institutions were left with a clear decision to make in respect of technology adoption - act quickly or risk being cut off from their clients altogether. Almost overnight, traditionally cautious, slow-moving organisations were signing off the use of video conferencing software, e-signature tools and other platforms to ensure that they could continue to service their clients.



> ***"86% of firms said that Covid-19 had accelerated their adoption of technology"***

David Rasson says that Covid-19 has highlighted how quickly organisations can respond to change and implement digital solutions when traditional barriers are removed; "The events of early 2020 has meant that ING has had to roll out digital projects much quicker than ever before. Within a couple of weeks of being placed in lockdown, we had 8,000 colleagues working from home. This quickly highlighted any problems in our operational processes, but we've also had to accelerate our thinking and decision making to a matter of days rather than weeks or months."

This view is echoed by Delio's wider research into technology adoption within financial institutions. Of those surveyed, 86% of firms said that Covid-19 had accelerated their adoption of technology, while 71% reported that they were making quicker decisions on technology projects. While the professional world adapts to a new way of operating, several questions will only be answered over the coming months and years; Will this shift to more rapid adoption and implementation of digital tools be maintained once we return to a 'normal' working environment? Or has 'normal' been redefined forever, with remote working and digital communication permanently replacing offices and face-to-face meetings?



**Business models are adapting to digitisation... But not universally**

The worldwide Covid-19 pandemic has impacted every business in some way. Whether that is in the form of lost revenue, workforce reductions or significant changes to how the organisation operates, it could be argued that the events of 2020 have created the most significant and rapid change that the world of business has ever experienced.

Financial institutions are now operating against a backdrop of an unprecedented global recession. Market volatility, a fluctuating political landscape and ongoing uncertainty over a long-term solution to the challenges posed by Covid-19 have meant that many firms are re-evaluating their business strategy and operating model. **Gartner** suggests that most business leaders will need to reconfigure their operating models through a 'respond, recover, renew' process that will enable their organisations to adapt to this new reality. Their research goes on to state that "different parts of the same enterprise may veer off from one another. Some could reduce or retire specific activities. Others could rescale or reinvent themselves. Yet more could essentially return to their pre-pandemic baselines."

So does this mean that financial institutions are universally re-evaluating their business models? And what role does digitisation have to play in this new world? Delio's research illustrates that 59% of financial institutions are changing their business model to incorporate a greater level of digitisation. One respondent stated that "the trading world has changed significantly due to Covid; technology can only improve how we communicate and transact in the future."

However, not all organisations have bought into the notion that increasing their use of technology is key to their future success. Nearly 1 in 3 (32%) financial institutions said that they would not be changing their business model to incorporate a greater level of digitisation, instead citing a combination of technology and human-led activity as being pivotal to their strategy. Of course, this could reflect that these organisations have already achieved a 'baseline' for technology adoption in their business and that digital tools are already well embedded across their operation. Given the pace with which technology adoption has accelerated in recent years, it is a reasonable assumption that even boutique financial firms are now operating with a fair degree of digital maturity.



**The role of technology in client engagement**

Client engagement has perhaps seen the greatest shift in approach as a result of Covid-19. Office closures, travel bans and social distancing has meant that client meetings, networking and events have had to stop almost overnight, which in turn has led to a huge spike in the use of digital communication tools such as video conferencing, webinars and mobile messaging.

For many, these methods of communication would have previously been considered to be a poor replacement for more traditional ways of managing client relationships. However, our enforced reliance on them over a prolonged period of time, coupled with reduced expenditure on travel, appears to have changed this perception. 63% of financial institutions said that Covid-19 has highlighted that they can no longer rely on traditional client engagement strategies and that they will move to a model incorporating greater use of digital tools.

Interestingly though, a significant proportion (37%) of firms said that they would not be abandoning their existing relationship management strategy; one contributor commented that "whilst technology is undoubtedly an important factor in enabling digital transformation, the human/technology hybrid model is probably the sweet spot in addressing clients' needs for private markets."

Financial institutions' reluctance to fully embrace digitisation is perhaps best reflected by their response to whether clients now expect them to move to a 'digital first' strategy. This statement polarised opinion, with 51% of firms agreeing and 40% disagreeing. Given the breadth of organisations interviewed as part of this research, it is perhaps unsurprising that there is such a difference of opinion; for example, an enterprise bank with thousands of branches worldwide are likely to hold a very different view to a boutique wealth management firm which can pivot its client engagement strategy with far greater agility.

So while a significant proportion of institutions are making greater use of technology to deliver their services to clients, it is somewhat premature to say that Covid-19 has created a truly 'digital-only' environment. How will this model evolve? Only time will tell; however, it's almost certain that the use of technology will play a pivotal role in the future of client engagement.

# Concluding remarks

Technology and financial services enjoy a long and interesting history together. The digital evolution of the sector has come a long way since the first ATMs appeared on street corners  50 years ago. In fact, the last decade has seen such accelerated growth that FinTech is now a highly established industry in its own right and is projected to be worth $500bn within the next decade **according to UBS.**

Despite the widespread adoption of technology across the industry, some parts of the financial services ecosystem have not fully embraced the opportunities that digitisation can offer. The world of private markets is a perfect example of this.

The last decade has seen the perception of private investments change significantly. Once considered a niche, high-risk sector with limited appeal to most investors, it has now become a core component of a well-diversified portfolio. The consistent performance of private equity and the volatility of the stock market means that the demand from investors is only likely to increase over the coming years.

As a result, financial institutions have had to adapt their offering accordingly. Many firms now offer, or are developing, propositions that will add value to their client relationships and protect their assets under management. And yet the operational processes that underpin these services are often driven by manual inputs, siloed data sets and disconnected workflows. This results in slow, inefficient business models that do not support scalable or compliant growth of a private markets proposition.

This is where technology can help. Implemented correctly, digital tools will enable institutions to offer their clients improved access to private investment opportunities while increasing their operational efficiency, mitigating regulatory risk and enhancing the client experience. Firms that have acted quickly are already stealing a march on their competitors and differentiating themselves through their use of technology to deliver a more holistic client experience.

Delio's research highlights that the adoption of technology to deliver access to private markets is still far from mature. It's also clear that while many institutions believe digital tools can significantly enhance the way they deliver their services, they will never fully replace the need for personalised advice, expertise and the trust that comes from long-standing human relationships.

One thing is clear, though; technology is transforming the way in which wealthy clients, investors and entrepreneurs access private markets. If institutions fail to modernise their services accordingly in the near future, they risk playing a long-term game of 'catch up' at a time when the digital evolution in financial services is accelerating at an unprecedented pace.



# About Delio

Since 2015, we have been at the forefront of digitally transforming the private markets landscape. Our mission is simple - we want to help financial institutions to connect their clients with private investment opportunities quickly, transparently and compliantly.

We place highly configurable technology in the hands of the world's most respected financial institutions to create, scale and streamline their end-to-end private investment propositions. This approach enables our clients to meet the rapidly changing needs of modern investors, while mitigating the challenges typically associated with the private market investments industry.

And while technology is at the heart of our business, we're more than 'just a fintech'. Our team possesses decades of expertise gained at some of the world's most respected financial institutions. This unique combination enables us to deliver cutting-edge technology that is underpinned by a deep understanding of the specific business, process and regulatory challenges that our clients face.

**We develop technology that transforms how you and your clients originate, distribute, transact and report on private markets.**

**We drive tangible value for your business through data insights, commercial solutions and regulatory knowledge.**

**We empower institution-to-institution, deal-by-deal connectivity across the private market space to engage a global audience.**

So, whatever your private market challenge, we are here to help. Visit our website or contact our team to find out how we can help you to transform your private market proposition.

**deliogroup.com**
**team@deliogroup.com**

**We look forward to transforming your private markets proposition**

T: +44 29 2105 1370
E: **team@deliogroup.com**
W: **www.deliogroup.com**

Our team is based in Cardiff, London, Geneva, Sydney, Dubai, New York, Singapore and Swansea.

Delio is authorised and regulated by the Financial Conduct Authority (FCA).