The challenges of technology

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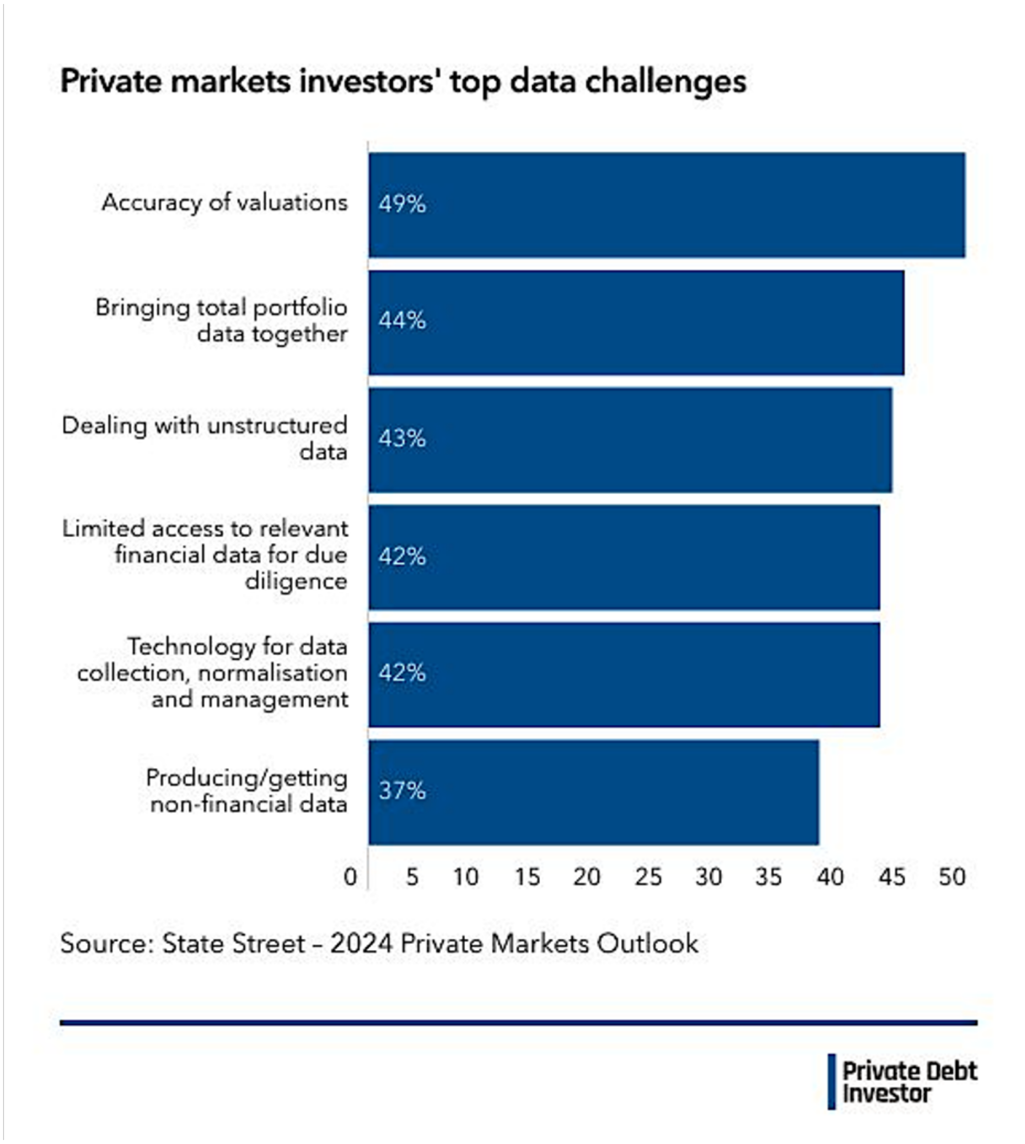

Private debt firms may need to make cutting-edge processes a higher priority.

When talking about what makes their business tick, private markets managers are usually keen to emphasise their focus on building relationships, on skilled teams of staff and expertise in chosen verticals. While these are no doubt crucial to building a solid platform in private credit, we don't hear so much about how all this is increasingly being augmented by technology solutions across the investment lifecycle.

A recent study of private markets by US-headquartered bank State Street found that “implementing cutting edge technology or data tools” was seen as a priority to meet investment market challenges among 26 percent of managers. A number of other tech-adjacent areas were also seen as a high priority, including “enhancing risk management processes” (38 percent) and “focusing on operational efficiency” (25 percent).

Clearly managers know they are going to have to do more with technology in the future than they do today, though it still seems a relatively minor concern compared to other issues. One challenge firms face is that a large part of their focus is on originating good quality credits and this often forms a major part of their USP, but managing every aspect of an investment is critical to good long-term portfolio management.

Areas where firms can enhance the complexity of their approach through technology could include pre-trade checks, core underwriting, trading and settlement and loan servicing and accounting. Additionally, different sub-asset classes within the private debt umbrella, such as peer-to-peer or SME lending, asset-based lending, or those that participate in public fixed income markets will also likely need further specialised tech to enable them to run these strategies.

Of course, most firms are using technology in their day-to-day business but often it is a patchwork of solutions adopted for specific roles. Often when new managers start, they will use relatively simplistic off-the-shelf solutions, but as firms grow there becomes a greater need to look at more specialist software solutions to help manage the demands of a major credit business.

One thing’s for sure: as the private debt asset class continues to grow and mature, technology adoption will need to be very much front of mind.