FUNDS

Private equity

Introduction

Technologies like Artificial Intelligence (AI), robotics and blockchain are increasingly impacting the way private equity firms operate. Early adopters are reaping the benefits of applying new technologies to business processes, especially time-consuming manual tasks that can now be safely automated.

According to private equity firms responding to research that Intertrust commissioned in September 2018, the sector appears broadly positive and optimistic about how technologies will bring even greater value to their organisations and their clients in the near future.

Private equity firms are acutely aware of the impact that digital innovation will have on their sector, particularly in the areas of AI and blockchain. This reflects growing levels of interest in using AI for handling large volumes of investor queries more efficiently by recognising questions being asked and recommending responses. There is a second trend for firms to favour the use of blockchain for KYC-related activities.

Majority of private equity firms will appoint senior technology leaders to the board

KEY FINDINGS

82% of private equity professionals believe firms will appoint senior technology leaders to the board

91% of respondents believe that AI will disrupt their sector within five years compared to an average of 77% across all sectors

58% think blockchain will disrupt their sector, slightly higher than the average of 57%

56% of respondents say digital innovation is having the greatest impact on the efficiency of back office systems, with 59% predicting this will be the case in five years' time

Building tech know-how at the top

Senior management teams in private equity firms are likely to increase in size between now and 2023 as they establish technology roles at a C-suite level with a mandate to drive strategic change. 82% of private equity professionals believe firms will appoint senior technology leaders to the board, higher than any other sector analysed for our 'Disruptive Technology in Financial Services' report and greater than the average of 78%, underlining the particular importance of selling top tech talent into the private equity sector.

The current focus, however, is on operational effectiveness rather than large-scale disruption, with over half of respondents reporting that digital innovation is currently having the biggest impact on the efficiency of back office systems. But predictions for the impact of innovative technologies beyond the back office in five years' time underline respondents' awareness that disruptive change is happening.

Innovation drives proliferation of new fintech companies

Financial services firms offer most value through innovation

Looking at the impact of technology on different sectors, private equity firms overwhelmingly believe that financial services creates the most potential for value creation through technological innovation, ahead of healthcare, consumer, energy, industrials and TMT.

This is being driven by the proliferation of new fintech companies that offer disruptive services such as P2P lending and aggregated financial management. However, there are signs that new ventures offering primary healthcare services may well catch up with fintechs in the coming years.

Cybersecurity is the biggest risk

The biggest technology risk identified by private equity firms when assessing target companies is cybersecurity or data breaches, not surprising given the impact on reputation and potential consequences such incidents can have, underlined by the recently introduced General Data Protection Regulation (GDPR).

The need to change business models and tech skills shortages come further down the list of concerns, reinforcing the notion that while private equity firms understand the impact that innovative technologies will have on their businesses, there are operational challenges that still need to be addressed today.

Smart contracts are still five years away

Smart contracts to replace manual processes

In line with this, respondents believe it will take nearly five years for manual processes around legal agreements to be replaced by smart contracts or similar technology. Only 12% think smart contracts will replace manual processes in between one and two years.

- 91% of respondents believe that AI will disrupt their sector within five years compared to an average of 77% across all sectors
- 58% think blockchain will disrupt their sector, slightly higher than the average of 57%
- The majority of respondents (82%) from private equity firms say that they will create senior technology roles in the next five years
- 56% of respondents say digital innovation is having the greatest impact on the efficiency of back office systems, with 59% predicting this will be the case in five years' time

If you would like to discuss further, please get in touch with us

Michael Johnson
Director, Fund Services
michael.johnson@intertrustgroup.com