Data vs Relationships – Who Wins?

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In corporate America, as well as increasingly in Europe and Asia, I see two business models evolving – one based upon data and the other deeply rooted in relationships. What do I mean? There are companies like Amazon, Google, Uber and Netflix who have very limited personal relationships with their clients – the way they market and sell their products and services is leveraging data and giving a user experience facilitating a transaction or a sale. We can buy things from Amazon and we can take a ride on Uber. Even in enterprise sales, where Amazon is a big player and so is Microsoft now, most sales, marketing and delivery decisions are based upon data and not upon any specific relationship.

Contrast that with businesses that completely rely upon relationships – businesses like law firms, consulting firms, investment banking in financial services, restaurants, physicians where the experience is very personal etc. Sales of enterprise software, technology products etc. is also based upon a sales team that has strong personal relationships. These are businesses that are conducted based upon personally knowing somebody, trusting their skills and judgement and transacting based upon that relationship. Of course there is a track record and credentials and market acceptance, but the primary mode of conducting business is based upon relationships.

With the advent of artificial intelligence and machine learning where certain human functions can be replicated by technology – in my view, we are nearing a new paradigm.

This new paradigm ***values data as much as personal relationships*** – in fact the relationship has transitioned from being one between people to one between a human being and an application or interface, most likely on a mobile phone. Ray Kurzweil at Google predicts that by 2027 computers will surpass human intelligence and such technology will be available in devices much smaller than iPhone. In fact, the knowledge of all 8+ billion humans will be available on a compact iPhone-like device leveraging cloud computing, big data and AI.[1]

How does this impact the asset management and finance industries?

Fundamentally, humans with certain skills will be valued less for what they are doing now while humans combined with technology have the capacity to become more productive, resourceful and capable then we ever have been. At our Linedata Exchange Event in London last week, I mentioned that while the asset management business is transforming, it is also growing. The real challenge to this industry is not from ETFs or fintech companies like Prosper, Lending Club or other Wealth management platforms based on Bitcoin, it is from technology companies like Amazon, Google, Apple, who can decide to move the financial industry by having tremendous capabilities and scale in ingesting large quantities of data and making decisions based on it. Amazon has already doled out more than $2.5 billion in small loans to its sellers till now[2]. Granted, these could also serve as tools for experienced managers, but the risk is that as information (data) becomes easily available (commoditized), and machine learning and AI replace humans in analyzing this information to provide insights, *the relation brokers lose importance* and this contributes to huge deflationary pressure on asset managers fees and the value proposition of their offering. *UNLESS*, the industry starts leveraging the same tools, combined with expertise in asset management and financial products, it will be hard to continue to provide the same level of value to clients.

This outcome is not imminent, and may take years to be realized, but is one trajectory that is worrisome for all of us in the industry. If you can imagine, Amazon has only been around for 23 years being founded in 1994. With the faster pace of change now, this could be a reality in 15 – 20 years. In fact, Blackrock is already using machine learning to build analytics around social media and web search data for its quant research, while, Merrill Lynch too has begun exploring AI for picking investment opportunities missed by conventional analysts. While these are examples of early adapters, asset managers could increasingly look at AI and machine learning for enhanced data analytics that could compliment traditional processes." [3] Firms like Blackrock are well positioned because they combine both models, relationship-based as well as data-based, leveraging technology. It would behoove most other firms to start searching for their answer if they want to thrive in the long term.

In my next blog post I will examine the changing relationship between asset owners and asset managers and how this creates a new dynamic for our industry.

At Linedata, we are currently going through a digital transformation of our business, – with our 1250 employees, 700 clients, 20 offices and 2.5 Trillion in assets under management, we see the opportunity to lead by example and create a business model that embraces both relationships and data.

Our business model helps managers with both forces, as a full front to back provider of both software and services. Linedata's global asset management technology solutions help companies scale, automate, and create efficiencies, while our services help companies remain agile and focused on creating a sustainable long term business model.

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About the author

Jayesh Punater is the Global Head of Linedata Gravitas [4] and has more than 25 years of experience working in entrepreneurial, high growth companies servicing the financial industry.

Linedata Gravitas a leading provider of middle office and technology services to the asset management industry, combining dedicated professionals, industry standard processes and world-class technology to create smart scale and reduce operational risk and overall costs.

Linedata was most recently named "Best Technology Provider" in the HFM European Service Awards 2017, Linedata Gravitas was named "Best Alternative Investment Outsourcing Platform" in the 2016 Wealth & Finance International Awards and "Most Innovative Hedge Fund Solutions Provider, US" in the 2016 Acquisition International Awards. The company has also been recognized as "Best Middle Office

Solution" in the 2015 HFM US Hedge Fund Services Awards and "Best Outsourced Solution" in the 2015 HFM US Technology Awards.

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