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Addressing technology implementation failures in private markets

Use these strategies to avoid common pitfalls

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Introduction

Private market firms frequently introduce new systems across their front, middle and back office to improve monitoring and reporting, ensure compliance, streamline operations, and automate workflows. However, many of these implementations are delayed or fail altogether due to inadequate planning and overlooked complexities. This can result in higher costs, operational bottlenecks, and even regulatory non-compliance.

Executives in the C-suite can avoid these pitfalls by understanding and addressing the five key reasons for technology implementation failures within private markets. This paper delves into these reasons and provides actionable recommendations to help facilitate success with technology implementations.

Five key reasons why
Technology implementations fail in private markets

Underestimating complexity.
Bespoke investments and unique transaction lifecycles often lead to an inability to seize opportunities.

Data quality issues.
Poor data quality undermines technology effectiveness.

Integration challenges.
Complex integration with legacy systems leads to data silos and increased costs.

Poor vendor selection.
Choosing the wrong vendor can lead to gaps in functionality and overly complex customizations.

Unclear requirements.
Ambiguous requirements lead to development churn and misalignment.

1 Underestimating complexity

The private market transaction lifecycle and the infrastructure needed to support it are naturally complex. This is due to the bespoke nature of the investment products, the varied needs of internal and external stakeholders, and the increased risk factors from a lack of universal industry standards. Underestimating this complexity and its effect on future system requirements and implementation is a common mistake.

For example, selecting a technology solution that can't handle complexities like diverse fundraising structures, bilateral private transactions, self-generated data, and intricate fund/entity structures can lead to major functionality gaps and operational inefficiencies. Customization and configurability are essential for managing these complexities, ensuring effective portfolio management, and fully capturing investment opportunities.

KPMG recommendation

Assess and document your current state

Perform a thorough evaluation to analyze and document your current business processes, procedures, application architecture, and data flows. Documenting these complexities will help identify pain points, limitations, and key risks that hinder the organization from achieving its business objectives. Leveraging these insights can enable you to account for the complexities when defining the future state model.

An example checklist for conducting a current state assessment should include the following questions:

- ☑ What key business processes and workflows are in place?
- ☑ How effectively are existing systems and processes meeting the organization's private markets strategy?
- ☑ How effectively is the organization's current portfolio management process performing in the private markets?
- ☑ What are the key challenges or pain points the organization is facing in its current state?
- ☑ What applications and systems are currently in use to support private markets infrastructure?
- ☑ What types of data are critical to operations and how is it being governed?
- ☑ Who are the key stakeholders involved in the processes being assessed?

2 Data quality issues

Data quality is a fundamental pillar for successful technology implementation in private markets. Inaccurate, incomplete, or inconsistent data can significantly undermine the effectiveness of new technology once it is deployed. Data quality issues often arise from inconsistent data definitions between existing systems, data alteration to fit legacy systems that are not suited for private market investments, and poor data governance protocols.

For example, forcing unique private assets into standardized public asset systems without having comprehensive data controls in place can compromise data quality substantially. This can result in issues such as inaccurate cash projections, risk categorization, holdings, and payment schedules in the new system. Inadequate data quality not only erodes trust among new users but also poses a significant threat to the efficacy of new technologies once they are operational.

> **Unreliable or inaccurate data can quickly erode user confidence in the system, severely hampering adoption and utilization and potentially compromising system performance and reliability, leading to costly setbacks.**

KPMG recommendation

Define and standardize data governance

Before implementation, private market firms should assess their current data landscape, including data sources, storage systems, and governance practices. It is critical to establish future data governance frameworks, create standardized data dictionaries, and define data quality and security standards. Engaging the right stakeholders throughout this process can result in a strong foundation for successful implementation and effective data utilization. Developing a post-implementation data monitoring plan is an important step in maintaining data quality. Organizations can consider developing data quality metrics/KPIs and regularly review quality with relevant stakeholders.

3 Integration challenges

Integrating new technologies with existing external and internal systems is crucial to create a unified ecosystem and meet the promise of enhanced technical functionality and operational efficiency. Integration challenges often arise due to the complexity of interfacing new solutions with legacy systems, particularly in the private markets sector. Data mapping is often the most time-consuming part of these implementations.

Failure to fully plan and execute integrations can lead to data silos, data inconsistencies, and a significant increase in implementation time and cost. A common data mapping issue arises when integrating a new loan origination system with an existing portfolio management platform.

For example, the new system might record borrower information and loan terms using a sophisticated, granular schema, while the legacy platform uses a more simplified structure with fewer data fields or different naming conventions. Critical details such as the borrower's creditworthiness, detailed repayment schedules, and covenants might not have direct counterparts in the old system. This misalignment requires extensive data mapping and transformation efforts to ensure that all relevant data points from the new system are accurately and meaningfully translated into the corresponding fields in the legacy platform, maintaining data integrity and usefulness across both systems.

KPMG recommendation

Create a thorough data dictionary

Successful integrations require robust APIs, middleware solutions, and thorough coordination between internal and external teams. To mitigate integration challenges, KPMG recommends creating a data dictionary that defines data fields for thorough data mapping. It is also important to define integration mechanisms and the corresponding rules upfront. Defining data sets, such as referential data and position data, along with the implementation sequencing, is pivotal. Promoting effective project management and proactive escalations to key internal and external stakeholders can further ensure a successful integration.

4 Poor vendor selection

Selecting the right technology vendor ensures a successful implementation. The vendor's product should meet both the current and future needs of your business and tech team. A poor vendor selection process can result in problems like inadequate functionality, missing features, poor support, and the need to replace the technology, which can be costly and time-consuming.

In some cases, the chosen technology may become extremely difficult to switch out due to tight integration with proprietary systems or lack of data portability options. This can lead to vendor lock-in, limiting flexibility, increasing switching costs, and creating dependence on the vendor for future upgrades. Additional complexities can arise if the chosen vendor lacks deep private market knowledge and the size and scale to be successfully implement the technology.

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KPMG recommendation

Conduct thorough vendor due diligence

Invest time in the necessary due diligence to assess the vendor's product fit, size and stability, support capabilities, and track record. Develop a scoring methodology to uncover nuances in private market capabilities and use a tiered selection approach to evaluate the population of vendors. Negotiate a detailed contract that clearly outlines deliverables, timelines, performance metrics, and escalation procedures. Consider conducting a pilot project or proof of concept with select private asset transactions, positions, or funds before committing to a full implementation. This helps to assess the vendor's capabilities in a real-world scenario and validate their promised capabilities.

5 Unclear requirements

Another reason for private market technology implementation failures is the absence of clear and formally approved requirements that articulate the specific business and technology needs to support private assets. It is crucial for any technology initiative in private markets to have well-defined goals at the portfolio management, transaction processing, workflow transition, compliance monitoring and internal/external reporting levels. These goals must be tightly aligned with the business needs and objectives of the organization.

When requirements are missing, ambiguous, or misaligned, internal and external teams will struggle to understand the specific problems the technology is meant to address. This lack of clarity can result in development churn and wasted resources, as the implementation process becomes misaligned with the unique requirements of private markets.

Stakeholders, such as credit analysts, portfolio managers and risk officers, need to agree on a clear roadmap for success and establish specific criteria for evaluating results tailored to the private markets sector.

KPMG recommendation

Planning and mobilization phase

Dedicate a planning and mobilization phase prior to the implementation kickoff to define detailed requirements and align on objectives among key stakeholders, including investment management, fund accounting, and compliance teams. It is strongly recommended to obtain formal sign-off on these requirements before proceeding to the build stage.

Case study:

Private market implementation pitfalls

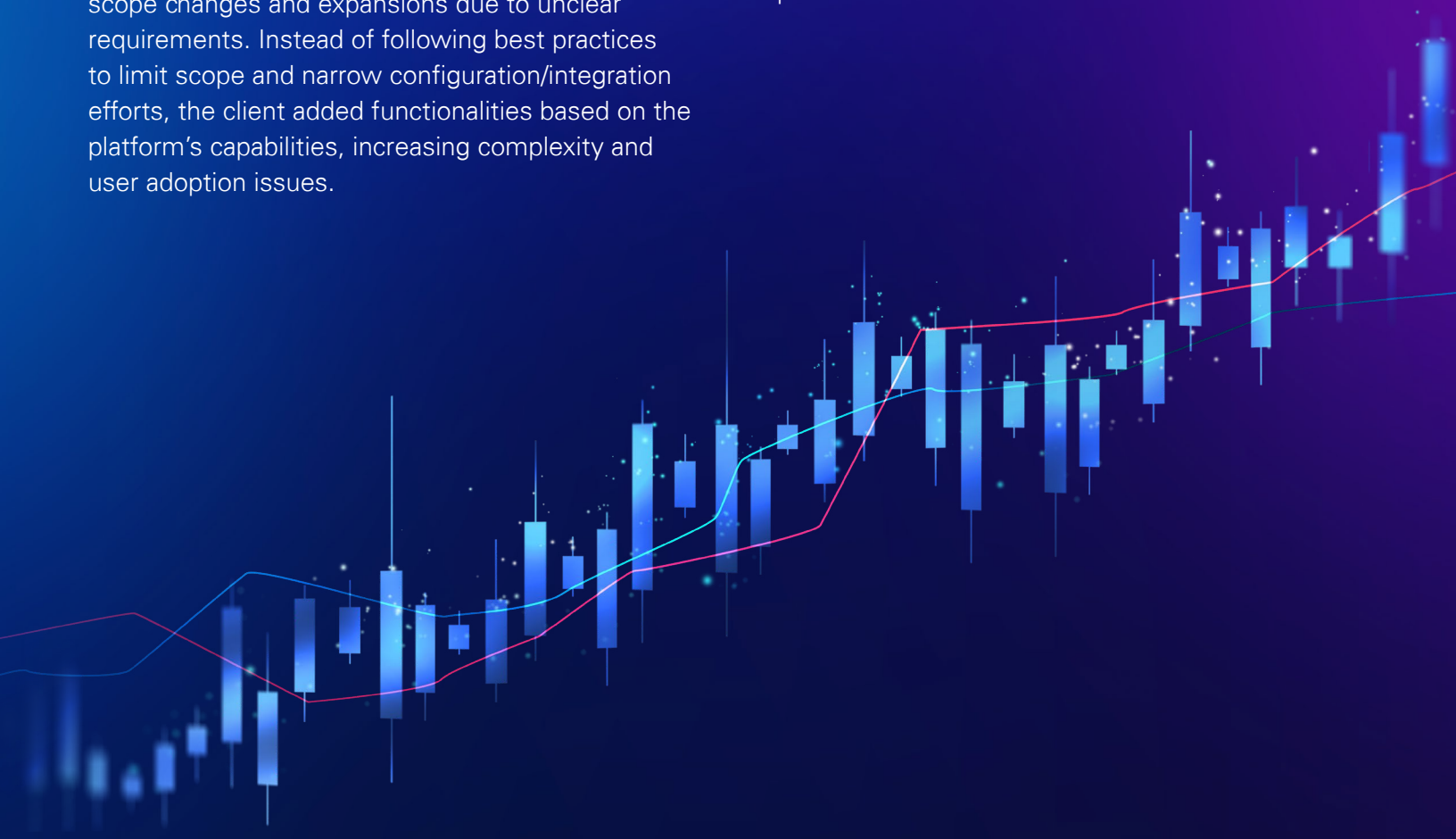
A client faced scalability issues in managing their private markets investments due to poor data quality, unreliable management reporting, and internal audit findings. To enhance their portfolio management, they decided to implement a specialized front-end system. However, they encountered several challenges during the process.

The project started with a broad vision and high-level requirements. The request for proposal (RFP) included vague evaluation parameters, leading to multiple vendors qualifying. The chosen vendor was selected based more on user perceptions than a comprehensive assessment of capabilities.

In the early stages, the client struggled with scope changes and expansions due to unclear requirements. Instead of following best practices to limit scope and narrow configuration/integration efforts, the client added functionalities based on the platform's capabilities, increasing complexity and user adoption issues.

The client also aimed to integrate with market data providers without fully understanding the associated costs and complexities. This led to data quality issues, especially with disparate sources of referential data. The lack of a single, reliable data source caused inconsistencies between system modules, making it difficult to link, correlate, and aggregate data effectively.

These critical oversights—such as not finalizing requirements, identifying a golden source of data, and addressing integration challenges—led to delays and budget overruns. The client now questions the selected vendor's ability and is rethinking their approach to vendor selection and system implementation.



A path to successful implementation

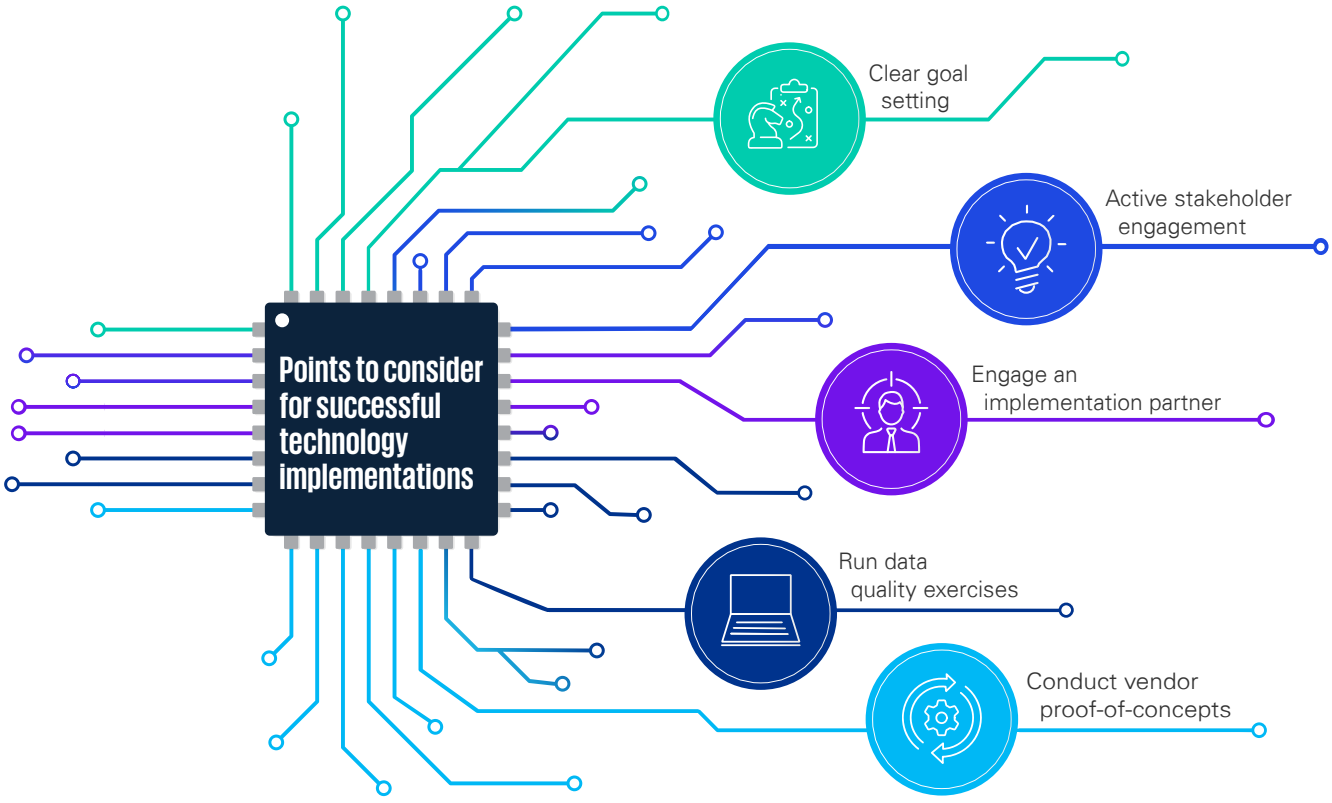
To address the challenges in this paper, you need a holistic approach that involves comprehensive planning, clear goal-setting, and active stakeholder engagement. Collaborate with an implementation partner who has the necessary experience orchestrating wide-ranging private market system implementations. This ensures that common, yet critical pitfalls are deftly avoided during the technology rollout.

Invest the time you need to assess the depth of project complexity, meticulously document detailed requirements, conduct in-depth vendor evaluations, and run in-house data quality exercises. Engage in proof of concepts for necessary integrations to further fortify the process. By addressing these factors proactively, you can significantly enhance your chances of successful technology implementations.

In doing so, you pave the way for operational efficiencies and increased competitiveness in the market. Though intricate, this journey promises smoother operations and a strategic edge in the ever-evolving private market landscape.

How KPMG can help

KPMG can assist with your private markets technology implementation by offering planning, technology selection, and implementation services tailored to your needs. We support vendor selection, system integration, data migration, and customizing solutions, and can help manage risks, provide user training, and employ change management strategies to facilitate smooth adoption. KPMG also helps optimize system performance through regular reviews and ongoing support, to keep your technology solutions functional and effective.



Author

Matthew Clark
Managing Director, Advisory

Matt is a managing director in the Capital Markets Advisory Services practice at KPMG with more than 20 years of domestic and international financial services technology and transformation experience. Matt specializes in alternative investments and private markets. Matt's KPMG clients include diverse financial services companies such as single- and multi-strategy investments managers, pension funds, insurance asset managers, and industry technology and service providers.

We would like to thank our contributors:
Aditya Bhat, Michael Gelfand, Anthony Pieters, Kathy Wheeler, and Jack Wilson

For more information, contact us:

Matthew Clark
Managing Director, Advisory
KPMG US
917-828-3402
matthewclark@kpmg.com

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