

The Future Outlook of Asset-Based Finance

Whitepaper



Contents

1. Introduction	02
2. Robust growth and evolving landscape	03
3. Increased demand for flexible technology solutions	09
4. Unlock operational efficiencies with modern technology	10
5. Conclusion	12

01

Introduction

The asset-based finance sector has witnessed significant growth over the past two years, driven by a combination of robust demand for flexible financing solutions and technological advancements. This whitepaper explores the key factors contributing to this growth and examines the future outlook for the sector.



02

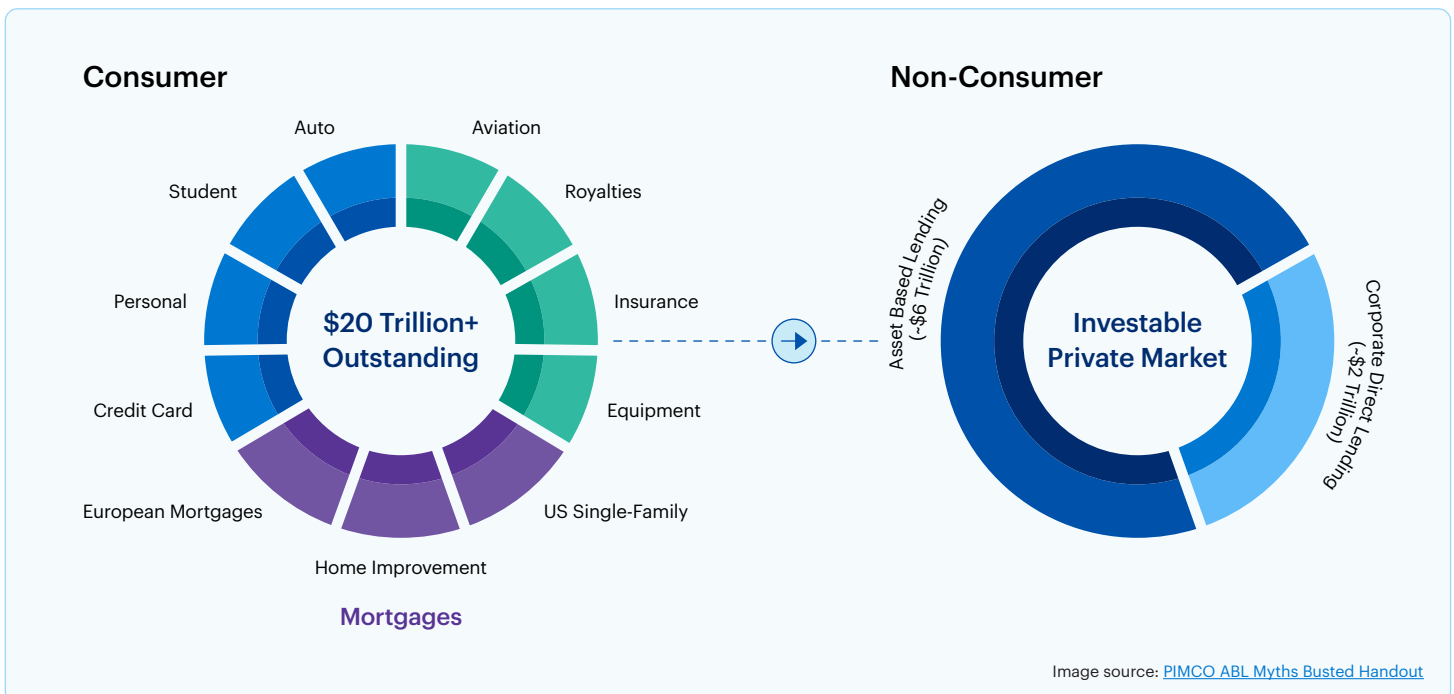
Robust growth and evolving landscape

Asset-based lending is a unique asset class, characterized by its alternative and customized nature, which lacks a standard definition. Discrepancies in market size data from various sources make it challenging to ascertain an exact figure.

By a relatively conservative definition, the asset-based financing (ABF) market has been reported by Research and Markets to have increased from \$571.6 billion to \$663.5 billion USD over 2023-2024, and is expected to continue at a CAGR of 16.39%, projecting \$1.65 trillion USD by 2030¹. KKR offers a broader definition, forecasting growth to

exceed \$7.7 trillion within a similar timeframe², while PIMCO estimates the US market to be approximately \$20 trillion today³. This wide variance in market estimates is due to the use of different definitions and underlying data, but the consensus is clear: the ABF market is vast and shows considerable potential for continued growth.

Large enterprises have been the leading borrowers in this segment thus far, holding a 61% share in 2023⁴, but this current growth is particularly notable among small and medium enterprises (SMEs), which have increasingly turned to ABF for its flexibility and accessibility.



¹ Source: [Asset-Based Lending Market Forecast Report 2025-2030](#), Research and Markets, 2024

² Source: [Asset-Based Finance: A Fast-Growing Frontier in Private Credit](#), KKR, 2023

³ Source: [Asset-Based Lending: Common Myths and Misconceptions Busted](#), PIMCO, 2024

⁴ Source: [Asset Based Lending Market](#), Market.US, 2024

Economic conditions

Inflation and interest rates

The persistent high inflation and mounting interest rates have caused traditional banks to heighten their lending criteria. Consequently, a void has been created, compelling companies to seek alternative financing, particularly when cash flow is constricted, or traditional loans are less attainable due to the increasingly stringent underwriting practices.

The interest rate structure of asset-based lending makes a strong case for borrowers, as well. The question remains of whether high rates could deter borrowers, but the loans' tendency towards a fixed-rate structure shields them from market fluctuations, preserving their appeal. ABF offers a stable cost structure, with 58% of loans being offered at fixed interest rates immune to market shifts, and may be the most viable option for SMEs in a climate where traditional loans are less accessible⁴. This predictability empowers borrowers to plan for their financial future with greater certainty.

“ABF offers a stable cost structure, with 58% of loans being offered at fixed interest rates immune to market shifts, and may be the most viable option for SMEs in a climate where traditional loans are less accessible...”



⁴ Source: [Asset Based Lending Market](#), Market.US, 2024

Economic uncertainty

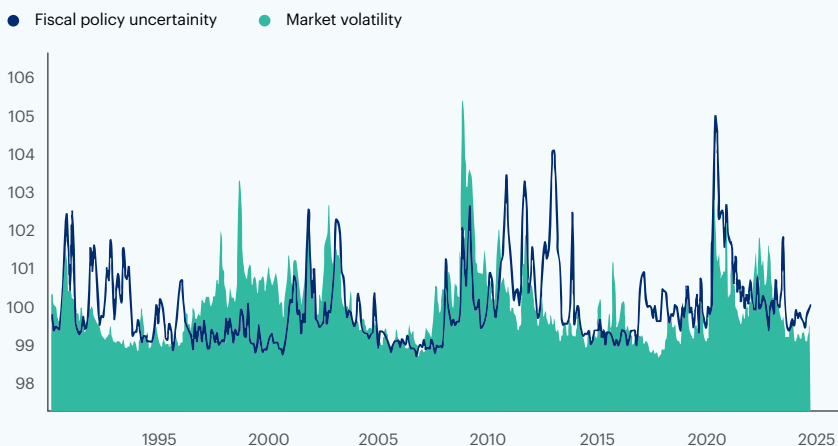
During economic volatility, businesses have increasingly turned to asset-based loans due to their flexibility and the ability to leverage existing assets for financing. The collateral-focused approach of ABF allows businesses to access necessary capital when traditional lenders become more stringent in their underwriting practices, providing an infusion of liquidity that could be crucial in enabling business growth. This trend has been particularly evident as companies face cash flow challenges amidst volatile market conditions and uncertain economic outlooks. ABF provides a viable solution for businesses to access the funds they need to navigate through tough times and continue operating.

For lenders, the current economic conditions have led to a need to diversify portfolios and a tightening of risk appetites. ABF investments offer an opportunity to access returns that are not correlated to traditional markets, are front-loaded, and are backed by high-quality collateral. The self-amortizing nature of these structures can provide a backstop for investors in challenging economic conditions. Additionally, ABF structures often include covenants and monitoring requirements, which can provide an added layer of protection to lenders, allowing for more control and visibility into the borrower's financial health and potentially reducing the risk of default.

“ABF investments offer an opportunity to access returns that are not correlated to traditional markets, are front-loaded, and are backed by high-quality collateral.”

Growing fiscal uncertainty increases market volatility

US fiscal policy uncertainty index and VIX (normalised to 100)



Source: Convera, Macrobond

* Source: [Asset Based Lending Market](#), Market.US, 2024

Market dynamics

Shift from traditional banking

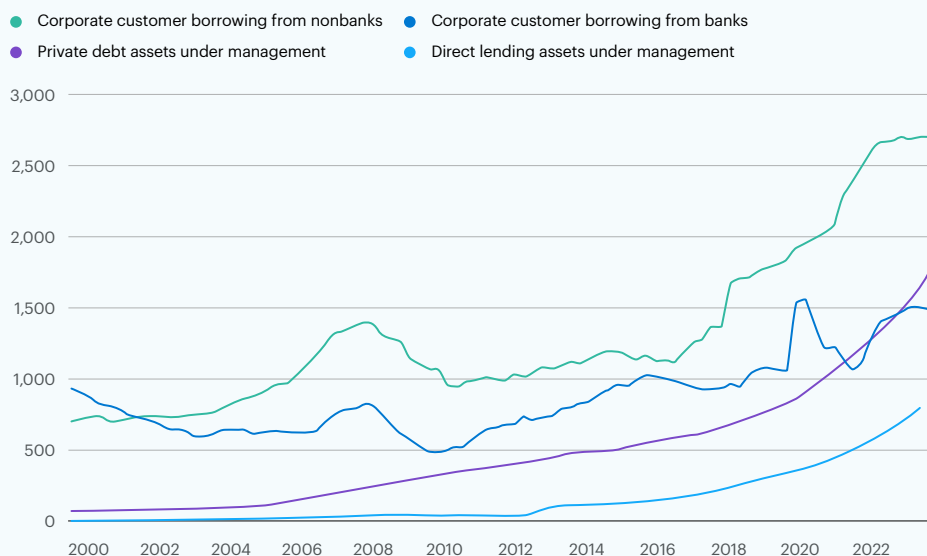
The pullback of traditional lenders from the market has significantly increased the demand for private capital sources. Tighter lending regulations and heightened scrutiny on loan portfolios have led traditional lenders to implement more stringent underwriting practices, tightening access to capital. As banks navigate evolving capital requirements and seek to optimize their balance sheets, ABF has emerged as a viable alternative for many borrowers seeking flexible and customizable financing options.

Banks are no longer the primary source of financing for businesses. In 2022, banks were responsible for 44% of corporate lending in the United States. Just one year later, that figure dropped to 35% as private credit firms stepped in.

Arcesium Blog

Corporate borrowing from nonbanks continues its steady growth, eclipsing bank borrowing

Borrowing from banks and nonbanks, 2000 to 2023 (US\$ billion)



Source: [Deloitte Center for Financial Services analysis of data from the Board of Governors of the Federal Reserve System, The Federal Reserve Bank of New York, and Preqin Ltd., 2024](#)

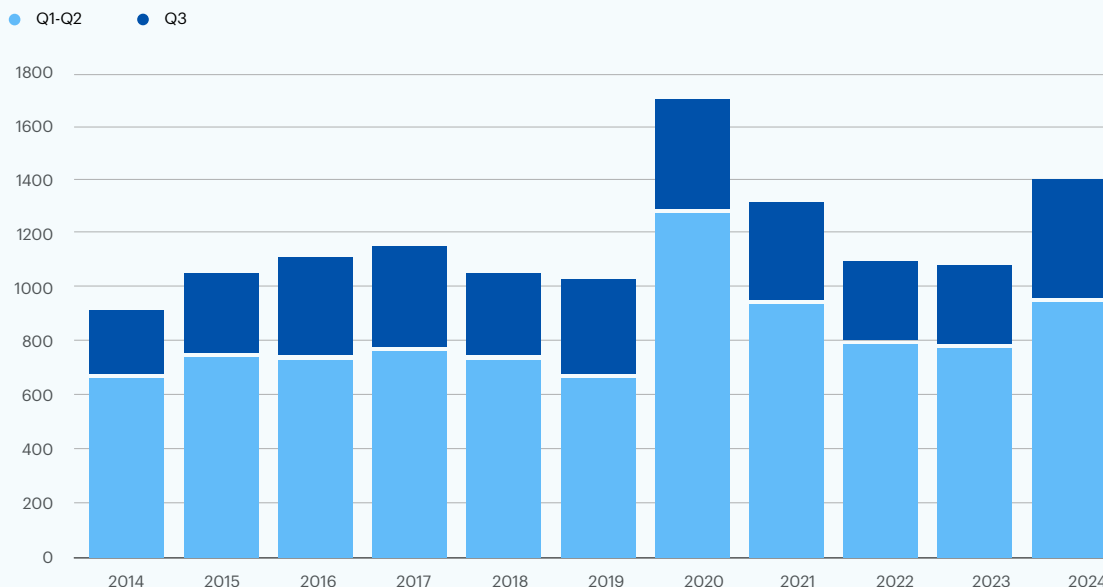
High corporate debt levels

Over the past several years, corporate debt has persisted at record levels, suggesting the potential need for additional financing without further straining cash flow. As of the close of 2020, the corporate debt assets to book value ratio stood at 68%⁵. In 2024, corporations set a new milestone by breaking four monthly issuance records, with over \$1.4 trillion of investment-grade US bonds being issued⁶.

“With many companies operating under high levels of debt, ABF offers a way to secure additional funding without further straining cash flow, making it an attractive option for businesses looking to manage their financial health and maintain stability.”

Additionally, asset-based loans are often structured as revolving lines of credit, meaning that businesses can access funds as needed, making it a more adaptable and efficient solution for managing debt. This has further contributed to the growth and popularity of asset-based lending in the market.

Year-to-date supply of US investment-grade corporate bonds (\$ billion)



Source: Dealogic
All yearly periods through September 30

⁵ Source: [Corporate Debt Historical Perspective](#), PwC, 2021

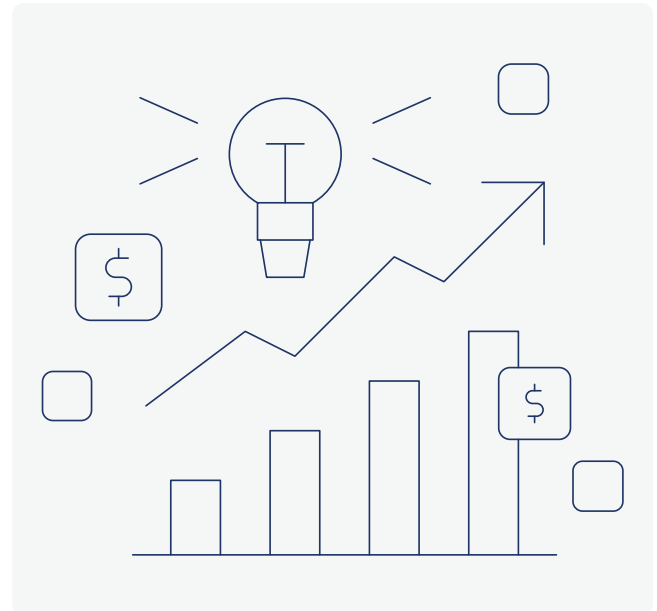
⁶ Source: [Companies may issue \\$1.5 trillion of US bonds in 2025](#), Goldman Sachs, 2024

Opportunities in emerging markets

Strong economic growth in emerging markets is expected to drive demand for ABF as businesses in these regions seek capital for expansion and operational needs. The expanding technology, healthcare, and energy sectors in emerging markets have cultivated a burgeoning global workforce, with projections suggesting a need for approximately 600 million jobs by 2030. In the developing world, SMEs are the backbone of business, constituting over 90% of enterprises and generating around 70% of job opportunities. This rapid growth necessitates access to financing, the scarcity of which ranks as the second most formidable barrier for SMEs.

SMEs, often constrained in their access to conventional banking facilities, require alternative financing solutions. This makes them a prime beneficiary of the growing activity in ABF, particularly in developing countries. The flexible and accessible nature of ABF allows them to unlock capital swiftly through leveraging their assets. Moreover, companies in industries such as agriculture, manufacturing, and construction, typically possess significant tangible assets that can be used as collateral including inventory, equipment, and real estate.

As emerging markets continue to grow, there is an anticipation of a heightened demand for ABF, which will, in turn, create a substantial opportunity for financial institutions to expand into new territories and stimulate their growth.



“The International Finance Corporation (IFC) estimates that **65 million firms**, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of **\$5.2 trillion** every year, which is equivalent to 1.4 times the current level of the global MSME lending⁷.”

⁷ Source: [Asset-Based Lending Market: Global Industry Analysis and Forecast \(2024-2030\)](#), Maximize Market Research

03 Increased demand for flexible technology solutions

ABF introduces a new dimension of complexity to financial operations, particularly in managing the middle- and back-office processes. The sheer volume of data points and transactions involved can be overwhelming. Firms need to handle a myriad of loan lifecycle events, including paydowns, reversals, charge-offs, and interest receipts. Each transaction, cash flow, or other lifecycle event may be reported from various sources, including alternative lending platforms, originators, and servicers, each with its unique data format and structure. Traditional methods like manual data entry and spreadsheet usage are no longer sufficient. They lead to inefficiencies, errors, and significant challenges in scaling operations. The lack of standardized systems and universal protocols exacerbates the issue, necessitating the development or adoption of tailored solutions to manage these new assets effectively.

To address these challenges, managers must invest in advanced technology that can seamlessly integrate with relevant sources, cleanse and centralize the data, and streamline the operations around asset-based loan accounting. Integrations with industry utilities such as alternative lending platforms and fund administrators ensures a smooth data flow and real-time visibility into positions, which is crucial for making informed decisions. The infrastructure should support comprehensive documentation, covenants, and cash-flow waterfalls to maintain transparency and compliance. Additionally, a robust, adaptable, and unified technology infrastructure is essential. It should be capable of handling the dynamic nature of ABF and supporting the entire transaction lifecycle, from origination to maturity. By doing so, firms can streamline their operations, reduce errors, and scale their ABF strategies more effectively.

Prominent companies operating within the asset-based lending market are actively engaged in developing platforms integrating advanced technology, particularly sophisticated trading technology, to drive revenues by enhancing returns, transparency, and customization¹.

¹ Source: [Asset-Based Lending Market Forecast Report 2025-2030](#), Research and Markets, 2024

04 Unlock operational efficiencies with modern technology

Data ingestion & management

ABF strategies depend heavily on extensive data sets, including loan tapes, borrower information, and credit ratings. Leveraging technology can significantly enhance the efficiency of collecting, organizing, and analyzing this information at scale. Automated data extraction processes eliminate the need for manual data entry, thereby minimizing the risk of human error.

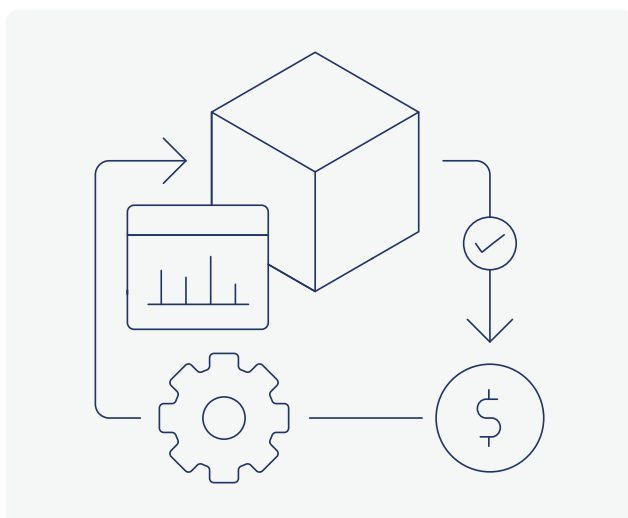
Advanced technology platforms that are domain-aware also facilitate effective data validation and normalization, allowing firms to maintain high standards of data quality while operating with streamlined teams. Robust data governance practices ensure that the information used is accurate, complete, and efficiently stored. By utilizing cloud-based solutions, managers can securely store and access vast amounts of data without incurring the costs associated with physical storage. This approach also enables real-time access to information, which enables informed and timely decisions in ABF strategies.

Accounting & reconciliation

Managing lifecycle events — from booking to accounting to reconciliation — can quickly become overwhelming, especially at high volumes. ABF introduces even more intricate lifecycle events compared to other credit strategies due to its customized nature. Compared to human intervention, implementing technology that adopts a programmatic approach to these diverse requirements is immensely advantageous.

The risks associated with human intervention begin with the challenge of sourcing talent with the necessary expertise and culminate in costly accounting errors, regulatory complications, and potential reputational harm. Traditional manual reconciliation methods are not only time-consuming and unscalable but also lack the transparency needed for effective oversight.

In contrast, advanced reconciliation technologies can link related components across various reconciliations, apply sophisticated matching logic for entity identifiers, and provide real-time visibility into the exception management process. These capabilities empower firms to swiftly identify and resolve discrepancies while adopting a more strategic approach to minimizing errors over time. By leveraging such technologies, organizations can enhance operational efficiency and maintain higher standards of accuracy in their financial processes.



Liquidity & risk management

Effective liquidity management requires firms to closely monitor their available capital, cash flow, payment schedules, and investor commitments to minimize risks and make informed decisions. One of the key advantages of technology in ABF is its capacity to provide a comprehensive overview of a firm's cash position. With advanced cash flow management tools, organizations can track their available cash, incoming payments, and anticipated cash inflows. Additionally, technology plays a crucial role in risk management by providing managers with a 360-degree view of the organization. Modern data analytics systems enable firms to analyze borrower data — such as credit scores, payment histories, and financial statements — to develop accurate liquidity risk profiles. Furthermore, having a 360-degree view, including borrower exposures, asset class allocations, performance metrics, and expenses, provides a holistic approach to risk management. This comprehensive perspective allows firms to make more strategic decisions and effectively navigate the complexities of ABF.

Performance tracking

Robust performance systems are essential for managing the diversity and complexity inherent in ABF investment strategies. Given that performance models can differ significantly across asset classes and that data required for inputs may be dispersed across multiple sources, calculating performance through intricate ownership structures can be a cumbersome process. The right technology layer will facilitate seamless centralization of these inputs, enabling on-the-fly performance reporting and offering the flexibility to adapt to various bespoke terms. Moreover, such systems will enhance the ability to respond to investor inquiries regarding performance drivers, quickly curating the data in self-service reporting tools that can deliver information in its most impactful and intuitive form. This capability not only strengthens investor relations but also fosters greater transparency and trust.



08

Conclusion

The ABF sector is on the cusp of significant expansion, fueled by the growing need for flexible financing solutions, technological advancements, and the reduced availability of traditional loans. The emergence of nonbank lenders and the integration of advanced technology platforms have further solidified ABF's position. While the sector faces challenges in managing complex middle- and back-office processes, its importance in both developed and emerging markets is undeniable. As ABF continues to innovate and adapt, it is poised to play an increasingly crucial role in the global financial ecosystem.

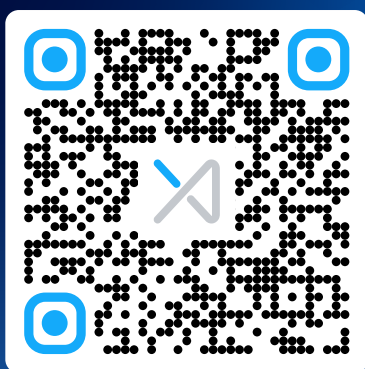
Looking ahead, the future of ABF is promising and ripe with opportunities. The ongoing digital transformation will likely lead to more sophisticated risk assessment models, streamlined processes, and enhanced customer experiences. As regulatory frameworks evolve

to better support alternative lending, we can expect to see increased standardization and transparency, further boosting investor confidence. Additionally, the expansion of ABF into new asset classes and geographic regions will open up new markets and diversify the sector's offerings. Investment managers seeking to launch and scale ABF businesses will find true scale with modern technology and sophisticated vendor partnerships. With these advancements alongside the impressive market size projections, ABF is well-positioned to become a cornerstone of modern finance, providing essential liquidity and support to businesses of all sizes and across various industries.



Need help with your ABF strategy?

Arcesium's Opterra™ and Aquata® operational and data platforms, along with Managed Services, can help you scale your asset-based finance strategy. Our advanced solutions are designed to provide the infrastructure, expertise, and scalability needed to navigate the complexities of ABF, ensuring that you can efficiently manage your portfolio, optimize liquidity, and drive growth in a rapidly evolving market.



Want to learn more?

Visit arcesium.com/submit-an-inquiry
or scan the QR code.

THIS PAPER IS PROVIDED SOLELY FOR THE INTERNAL USE OF ITS INTENDED RECIPIENT (FOR INFORMATIONAL PURPOSES ONLY) IN CONNECTION WITH THE EVALUATION OF A POTENTIAL BUSINESS TRANSACTION AND IS NOT, AND WILL NOT BE CONSTRUED AS, AN OFFER BY ARCESIUM LLC ("ARCESIUM"). NOTHING HEREIN SHALL BE CONSTRUED AS THE RENDERING OF ANY TYPE OF FINANCIAL, INVESTMENT, LEGAL, TAX, REGULATORY, OR OTHER ADVICE. NOTHING HEREIN CREATES, NOR WILL IT BE CONSTRUED TO CREATE, ANY CONTRACTUAL RELATIONSHIP BETWEEN ARCESIUM AND ANY THIRD PARTY. ARCESIUM MAKES NO COMMITMENT TO PROVIDE ANY PRODUCT OR SERVICE. RECEIPT OF AN INDICATION OF INTEREST DOES NOT PLACE ARCESIUM UNDER ANY OBLIGATION TO ENTER INTO A DEFINITIVE WRITTEN AGREEMENT. THE CONTENTS OF THIS PAPER AND ANY PRODUCT NAMES, CORPORATE NAMES, LOGOS, OR OTHER IDENTIFIERS OR SOURCE, BRAND, OR IDENTITY ON OR CONTAINED IN THIS DOCUMENT OR ITS ATTACHMENTS ARE THE CONFIDENTIAL TRADE SECRETS AND PROPRIETARY INFORMATION AND PROPERTY OF ARCESIUM OR ITS BUSINESS PARTNERS. ALL SUCH INFORMATION IS PROTECTED BY THE INTELLECTUAL PROPERTY LAWS AND TRADE SECRETS LAWS OF THE UNITED STATES AND ALL APPLICABLE INTERNATIONAL TREATIES AND CONVENTIONS. PRODUCT AND SERVICES DESCRIPTIONS, AND SIMILAR TERMS HEREIN, ARE INTENDED TO BE INDICATIVE ONLY AND UNTIL CONFIRMED IN A DEFINITIVE AGREEMENT SIGNED BY BOTH PARTIES, DO NOT CONSTITUTE A BINDING OFFER.