

Thought leadership

What's next in private credit?

In conversation with Huw van Steenis



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Key takeaways

- 1 Insurance and wealth are transforming private credit:** The insurance sector and wealth market have become major sources of capital, fundamentally changing the nature and scale of private credit investments.
- 2 Semi-liquid structures are expanding access:** Innovative fund formats, like evergreen and interval funds, are making private credit more accessible to a broader range of investors, although the market remains experimental and subject to regulatory scrutiny.
- 3 Strategic reassessment of credit:** Rising interest rates have prompted institutions and individuals to reconsider credit allocations, with private credit offering attractive yields and new opportunities for portfolio diversification.

Private credit is a dynamic and evolving component of the global financial markets. In this briefing, Huw van Steenis, Vice Chair of Oliver Wyman, and Emma Matebalavu, Partner and head of Global Financial Markets at Clifford Chance, discuss the latest trends shaping private credit. Their conversation explores how insurance and wealth are driving new growth, the rise of innovative semi-liquid fund structures, and the strategic reassessment of credit as an investment in a higher interest rate environment.

Private capital's new growth engines: insurance and wealth

The private capital market is undergoing significant transformation, driven by two powerful sources of growth. Historically, large pools of capital from pension funds, endowments and family offices have formed the backbone of the industry and still represent around 45% of assets at major firms. "However, there have been two turbochargers in recent years – the insurance sector and wealth", says Huw van Steenis. "We estimate that 60% of the funds raised in the past three years have come from insurance companies. This is changing

the nature of private credit, as insurers need highly rated, investment-grade paper, which is very different from non-performing or leveraged loans", he says.

The second major driver is the wealth market. Traditionally limited to ultra-high-net-worth individuals due to long fund durations and complex cash flow management, new funds are now broadening access van Steenis says: "About one in six dollars coming in this year are from the wealthy, versus maybe one in nine last year, reflecting a 40% year-on-year increase in inflows from that market."

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Huw Van Steenis
Vice Chair, Oliver Wyman

Semi-liquid structures: innovation and experimentation in private markets

Innovation is reshaping access to private markets through what might loosely be called *evergreen funds* – structures designed to offer access to individuals' semi-liquid private assets, such as credit, but on a quarterly basis. These funds vary by jurisdiction, with different names and different rules. In the US, the largest source of growth is in private or non-traded business development corporations (BDCs) and interval funds (40-Act vehicles offering regular liquidity). In Europe, structures such as Long-Term Asset Funds (LTAFs), European Long-Term Investment Funds (ELTIFs) and closed-end funds are gaining traction.

The benefit of semi-liquid funds lies in their flexibility. As van Steenis puts it: "Individuals want the knowledge that there could be liquidity, and quite frankly, the safety blankets that they could redeem if they need to. If you're an investor committing anywhere from half a million upwards, then you want to know that you can probably have access to the money and the ability to crack the piggy bank open."

Growth figures are striking: non-traded BDCs are expanding at around 45% annualised, interval funds at 50% and LTIFs at 40%, based on SEC data to June. This momentum, combined with attractive fee structures, makes the space "highly appealing for managers" van Steenis says. One leading firm has this year alone doubled its product offerings for wealthy clients.

Yet the market remains experimental. Managers are testing new formats, including ETFs – though there are questions about placing illiquid assets in daily traded vehicles. Blended funds – combining public and private assets to bridge the liquidity gap – are another area of focus. As van Steenis says: "The blurring of the line between public and private markets is a theme we shall see more of." However, he adds: "With this experimentation comes learning. We do have to accept, too, that not all vehicles will work. Conduct authorities will be keen to keep on top of the innovation."

Why is credit regarded as a good investment for institutions?

For 16 years, with zero or negative interest rates, credit wasn't especially attractive – except for opportunistic plays or regulatory requirements to hold government bonds. "Since we have had the biggest increase in interest rates for 45 years, there's a strategic reassessment of people's allocations towards credit, as investors can now earn 6.5 to 8.5% from credit", says van Steenis.

It's also important to consider the different types of investors and what they need from their portfolios. For insurance companies, the pressure is on. If competitors are offering annuities with 30 to 50 basis points more, clients will move. That's prompting many US

insurers to seek better returns – not just for policyholders, but also for shareholders and their own bottom line. Insurers – once seen as conservative and slow-moving – have become some of the most active investors globally, even as others lean towards passive strategies.

For individuals approaching retirement, the challenge is different: ensuring that they don't outlive their savings. Even in Australia – which van Steenis says is arguably the world's best retirement savings market – many retirees do not spend all of their large pots as they are driven by uncertainty about longevity. Retirees naturally fret about outliving their savings. Finding ways of enhancing yield – maybe even the guaranteed portion – is increasingly important.

What is the current definition of private credit?

Private credit defies easy definition, not least because of its breadth. At its core, private credit refers to non-bank lending – debt provided directly to companies, often in bespoke, privately negotiated transactions. But the term encompasses a wide range of strategies. Huw van Steenis outlines four key categories:

1. Direct lending: As an example, a loan of 50 million dollars, pounds or euros to mid-market companies. Since the global financial crisis, large banks – especially globally systemic ones – have largely exited this space, rarely engaging in loans under US\$100 million. This has left a significant opportunity in the mid-market, particularly in the US and increasingly in Europe.
2. Acquisition finance: Over half of deals now involve some form of private credit. This shift was driven by regulatory changes, such as the 2012 Federal guidance that imposed hard limits on leveraged lending by US banks.
3. Opportunistic credit: A more fluid category, often involving hedge fund sidecar vehicles. These vehicles are typically less transparent and not well disclosed, but they play a growing role in the ecosystem.
4. Investment-grade alternatives: Often asset-backed, these include speciality finance such as auto loans, equipment leasing and real estate. In the US, this market is worth around US\$5.5 trillion, with non-bank lenders accounting for roughly a third. Yet private credit still represents 5 to 7% of that total – suggesting significant room for growth.

He adds that one of the reasons that private credit is hard to define is that there is a gap in available data. "Typically, industry data does not capture separately managed accounts by insurers, nor does it count business development corporations, which is where all the wealth is."

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Emma Matebalavu
Head of Global Financial Markets

Are there barriers to uptake in Europe?

Funding strategic assets in Europe is crucial, but to understand the barriers it helps to break down the market into three broad segments. First, there's the classic leasing space – equipment, autos, commercial trucks – which represents a €950 billion market across geographic Europe (including the UK and Switzerland). Yet private credit holds only around a 1.5% share. Most of this market is still dominated by banks, so access often depends on going via them.

The second barrier is regulatory. One example is securitisation in Europe. As van Steenis says: "The way securitisation rules in Europe were codified in response to the financial crisis. As a result, insurers are highly disincentivised from owning securitisations as they have been experiencing penal risk charges. Without insurer demand, it's difficult to restart the securitisation market at scale. We see some progress and are watching keenly."

The third issue is data. Many of these assets are relatively young and lack long-term performance histories. That makes it harder to model risk and build investor confidence.

Emma Matebalavu adds that EU law and regulation around insolvency has been a "disincentive" to the restart of the European securitisation market since the financial crisis onward. "In the US, very significant capital is being invested in data centre ABS. Would that be possible here?", she asks. "There's a lot of focus and enthusiasm in Europe around AI and data centres and I hope that policymakers can see that through to make things work as efficiently as in the US."

"My sense is that the proposals the EU published reduce the risk weights on a number of assets, but it still doesn't solve this issue", says van Steenis. He adds that what is striking is that the creditors behind data centres are often hyperscalers with deep cash reserves and exceptional creditworthiness. In contrast to the TMT boom, where many issuers were sub-investment grade, today's market is underpinned by much higher-quality credit.

And yet, "our financial pipes have some blockages, such as securitisation", he says. As a result, US investors are stepping in to finance

European data centres, then swapping it back into dollars. So, the cost of capital in Europe is higher to cover the cost of the swap.

What role do banks play in the evolving private credit ecosystem?

"There's a lot of discussion about disintermediation. I don't think there's a single answer, as it depends on what the banks are trying to solve", says van Steenis.

A few years ago, tensions were high. Banks were frustrated as capital shifted from their leveraged finance books to private credit firms. But the landscape has evolved. Today, there's a more pragmatic mix of competition and collaboration. "There are times where the firms can partner and there are times when they're going to compete", he says.

In areas like direct lending and smaller acquisition finance – where higher risk weights limit bank participation – private credit firms often step in. One model sees the private credit firm take the riskier tranche, create a fund, and the bank lends against the senior piece. "It's a retranching of the loan book", he explains. "I argued in the Financial Times last year that private credit in that scenario was like Ozempic to the banking industry – you are letting them shed weight to private credit and retaining the more senior risk. While the analogy drew some criticism, the point stands: private credit can help banks streamline their balance sheets."

While there is accommodation and partnership, tensions persist, particularly in investment-grade deals. In recent transactions ranging from US\$3 billion to US\$7 billion, private credit firms have acted as both arranger and sponsor. "The banks are very upset about that because they want to be the arranger, take the fee, and parcel stuff out", he says. In some cases, banks are reorganising to become more fleet of foot to lead deals and structure them on their own terms. The result is a dynamic mix of rivalry and alignment.

Looking ahead, regulatory shifts could tilt the balance again. In the US, potential deregulation may mean that "at the margin, banks will have a slightly easier time, and private credit will have to work that little bit harder", van Steenis says.

Can private credit and CLOs meet the financing demands of a new global CapEx cycle?

“We’re going through an extraordinary wave of CapEx”, says van Steenis. “The most visible driver is the AI-data centre-energy nexus, with estimates ranging from US\$1 trillion to US\$3 trillion in investment over the next five years.” The West is also focusing on national security and resilience – particularly defence and energy. That shift is bringing more assets back onshore and fuelling a surge in long-term infrastructure spending.

“According to EU figures, which I think are too low, Europe alone faces around €5 trillion in CapEx needs over the next decade. Personally, I think it’s actually higher. And banks, alone, can’t finance this. Many of these projects require long-dated capital that doesn’t sit comfortably on bank balance sheets”, he says.

This opens the door for private credit and securitised vehicles like CLOs to play a greater role. But it’s not just about supply, it’s also about investor appetite. There is a shift in how asset owners are constructing portfolios, says van Steenis: “Clients are barbellising their portfolios between cheap, cheerful ingredients – index funds, ETFs, swaps – and looking for real alpha in something more interesting.”

That barbell strategy, long established in equities, is now taking hold in fixed income. In the US retail market, for example, the share of fixed income assets held in ETFs or index funds has risen from 14% in 2020 to over 20% today. This is benefiting private credit and CLOs. “People are saying they don’t want to get just the index return, they really want to go to an interesting manager with an interesting bet – and that’s the super league of private credit firms which are scaling rapidly.” The top three firms alone have US\$1.5 trillion of credit – bigger than Deutsche Bank’s balance sheet, bigger than that of Bank of America.

What about transparency?

On the investment grade side, because the assets are rated, they’re typically sliced for securitisation (although they don’t have to be) and placed on insurers’ balance sheets. Looking at state-level regulation – Bermuda, for

example – there is a lot of detail. Insurance regulators there have quite a lot of visibility.

“When it comes to leveraged loans or mid-market credit, there’s much less data”, says van Steenis. “There are a couple of concerns. One is, as a central banker, you want your finger on the pulse of the credit cycle. As a recidivist banking analyst for many years, I can say the bank lending surveys, which used to be a wonderful proxy for economic growth, have completely collapsed. They just don’t work and that really annoys central bankers.”

Second, if there’s a problem, you’d want to be able to see it. Many of these leveraged loans were written when interest rates were close to zero “We do need better data. Whether it comes from conduct authorities or macroprudential regulators is up for debate, but I suspect it will come bit by bit. The FSB, when thinking about non-bank financial institutions, is dealing with a category so broad it’s useless. What they’ll need to do is say ‘I want data around non-bank credit formation and getting a better sense of the health and well-being of that sector’”, he adds.

Is the risk in private credit sufficiently dispersed among the right investors?

“Private credit as a whole is not systemic”, says van Steenis. “It could be in years to come, but I think at the moment it’s not.”

There are two main reasons. First, mid-market lending and leveraged finance were recognised as risky from the outset – they were non investment-grade or cuspary triple Bs. “Systemic risks never come from things that you know were risky when you wrote the loan”, he says. They stem from assets perceived as safe, accumulated in excess – commercial real estate in the 1980s, subprime mortgages rated triple A – which were not.

Secondly, banking crises are typically driven by asset/liability mismatches. But much of the capital in private credit comes from locked-up sources – ultra-high-net-worth investors or insurers with long-duration liabilities. “They just don’t need to recall their money. One has to remain – it could be in the future, but I just don’t think it is today”, van Steenis says.

“Private credit as a whole is not systemic. It could be in years to come, but I think at the moment it’s not.”



Huw Van Steenis
Vice Chair, Oliver Wyman

What could a future stress scenario look like?

“One lesson from 20 years as a banking analyst is to ask: what risk isn't priced in that could hit your capital structure or business model? Right now, markets expect rate cuts in the US, driven by softening jobs data. But what if current policy is to run the economy hot – with tax reforms, a CapEx boom and resilient growth? It's not impossible to see interest rates going back up by the end of next year”, says van Steenis.

As inflation expectations rise, long-dated yields have climbed – the US 30-year is up 30 to 40 basis points. Sovereigns are issuing fewer long bonds, and the US administration is eyeing stablecoins as a new buyer. But stablecoins can only buy short bills, not bonds, shortening duration just as the economy heats up. If the long end of the curve gets out of sync, higher rates could trigger stress – or even distress – dependent on the scale of the shock.

He adds: “For me it's much more likely to be a macro scenario than a micro one.” Still, he flags the risk of a mis-selling scandal or a smaller player blowing up and causing ripples. The key question is how well those ripples are managed.

Where are the most compelling opportunities in private credit?

There are three major themes shaping private credit over the next three to five years, says van Steenis.

First is the continued growth of private investment grade. Insurers are key here, especially in Europe, where recent partnerships and acquisitions suggest momentum is building.

Secondly, the recycling of petrodollars. With elevated energy prices, capital from regions like Norway and the Middle East is flowing into productive assets. “The wealth created through petrodollars has been extraordinary”, he notes, highlighting ongoing partnerships between private equity firms and sovereign funds.

Thirdly, democratisation – expanding access beyond the ultra-wealthy to the merely wealthy and mass affluent. van Steenis says: “Like all experiments, not all will succeed, but it signals the earnest interest private market firms have in democratising private assets.”

Are private and public markets converging?

There is growing convergence between private and public markets, with blurred lines emerging across asset classes and investor types, van Steenis says.

From the asset allocator's perspective, the key question is whether private credit sits in the alternatives bucket or the credit bucket. Historically, it's been treated as part of alternatives – “just bits and pieces” – which kept allocations small. Many large allocators, like endowments and pension funds, have focused on equity-like returns to meet long-term liabilities. “Take one of the largest Australian funds – probably one of the best-run funds in the world – it has just 2% in private credit”, he notes. “I think it might double again this year.”

But insurers are shifting the narrative. CLO managers now see private credit as simply credit – whether liquid, senior or esoteric – and that mindset is spreading to sovereign wealth funds and endowments. “This consideration of it moving from the alternatives bucket to the credit bucket is playing out”, says van Steenis.

Blended vehicles are also gaining traction. Interval funds in the US, such as those launched by Capital International and KKR, combine public and private credit with flexible allocations – 40 to 60% either way – and low minimums.



Huw van Steenis

Huw is Vice Chair at Oliver Wyman. He also serves as a member of the investment committee of the Oxford Endowment and member of the Climate Advisory Board of NBIM, the Norwegian sovereign wealth fund.

WSJ's Financial News listed him as one of the Most Influential in European Finance in 2024 and 2025.

Previously he served as Senior Advisor to Mark Carney, when he was Governor at the Bank of England and led the van Steenis Report.

Huw worked at Morgan Stanley for 14 years, spending much of his time there as Global Head Banks and Diversified Financials research. During this time, he and his teams won numerous awards. He has served Senior Advisor to the Chief Executive of UBS, co-Chair of the World Economic Forum's global future council on Finance and a Trustee of English National Opera. Huw regularly writes for the Financial Times and other publications.

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