Technology fragmentation within the private credit lifecycle

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Introduction

The private credit market has seen a steady rise over the past decade as institutional investors focused on the benefits of increased diversification without sacrificing meaningful returns. Specialized nonbank financial institutions, such as investment funds, pension funds, insurance, and sovereign wealth funds have lent over $2.1 trillion globally in assets and committed capital with about three-quarters of this activity concentrated in the US. The market share of private credit is now nearing that of syndicated loans and high-yield bonds,[1] signaling a significant shift in the financial landscape.

This market emerged about three decades ago to serve companies that were too large or risky for commercial banks and too small to raise debt in public debt markets. In recent years, the market has grown rapidly as features such as loan speed, flexibility, and customization have proven to be invaluable to borrowers. Institutional investors, such as pension funds and insurance companies, have eagerly invested in funds that, though illiquid, offered higher returns and less volatility to match investors' underlying liabilities.

To support this growth, a large number of third-party technology providers have flooded the market to address unique operational challenges related to this asset class, thereby leading to the fragmentation of technology providers. The fragmentation has also introduced notable challenges in navigating and choosing the most suitable technology solution from the extensive range of options available.

[1] International Monetary Fund, "Fast-Growing $2 Trillion Private Credit Market Warrants Closer Watch," IMF Blog, April 8, 2024 (accessed May 6, 2025)

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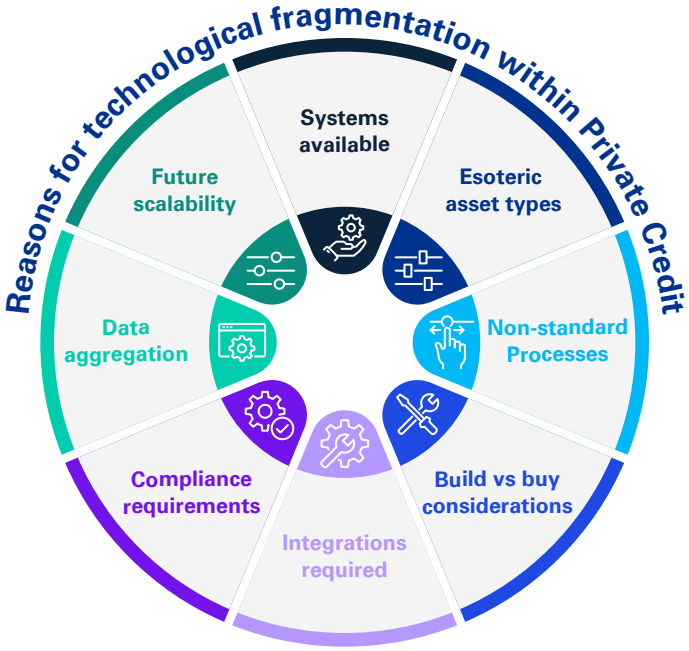
Causes of technological fragmentation within the private credit lifecycle



Historically, private credit was considered a niche asset class and was overlooked by large technology vendors due to its limited market size and highly customized transaction lifecycle activities. Existing technology solutions for large public debt transactions were unable to handle the nuances of private credit, forcing investors to fit transactions into systems not designed for this purpose.

This market environment spurred the development of numerous specialized third-party technology providers, each focusing on specific aspects of the private credit lifecycle (i.e., specific software solutions emerged to handle complex syndicated loan structures, accommodate nonstandardized repayment schedules, or effectively model varied scenario analyses tailored to the unique risk profiles of private credit transactions).

As a result, the current private credit technology landscape is crowded and disjointed, with a diverse mix of technology providers, both small and large, each focusing on key areas within the private credit transaction lifecycle. The broad spectrum of private credit investment vehicles—such as direct lending, business development companies (BDCs), and asset-based lending, among others—adds an additional layer of complexity. Each fund manager uses these technologies to fit their internal processes, custom requirements, and operational integration needs.

The market currently largely lacks a comprehensive, end-to-end solution that bridges the various stages of capital raising, deal origination, client relationship management, execution, portfolio management, compliance, accounting, and reporting, which are essential to enable synergies and efficiencies in a growing asset class.

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Challenges of technology fragmentation within private credit

Integration issues between systems—both internal and external—are common

Integrating multiple systems can be a significant challenge, especially when dealing with more than four disparate systems such as a deal origination system, a portfolio management system, a data warehouse, and an investment accounting system. This challenge is further complicated when integrating a proprietary system, like a compliance system, that was not originally designed to manage private credit assets. To mitigate these issues, it is essential to select solutions that prioritize integrations and offer the flexibility to connect with various systems using application programming interfaces (APIs), secure file transfer protocols (SFTP), webhooks, and extract-transform-load (ETL) tools.

Customizing platforms is essential to address unique asset types

The fragmentation of technologies also impacts asset-level transactions, as a technology may be selected to address a particular operational challenge for a specific private credit investment vehicle but may not be useful for a different private credit investment vehicle. For instance, a system may excel at handling retail investment structures and publicly traded regulations of a BDC, but the same system may not be as effective for managing loan participation among multiple lenders and complex credit agreements of a broadly syndicated loan. Certain platforms, particularly those with limited customizability, may struggle to effectively manage these critical data points for unconventional assets.

Manual intervention is often needed for operational support between systems

The lack of a true solution can lead to a heavy reliance on manual processes. This involves manually entering and reconciling a lot of data, from borrower information to loan terms and syndication details, across different systems like customer relationship management (CRM), trading, and portfolio management. Additionally, manually orchestrating reporting processes not only increases the risk of human errors but also hinders the scalability of operations. Engaging third-party service relationships to maintain these redundant processes adds even more complexity.

Clients focused on solving one aspect of the private credit transaction lifecycle may not realize that adding another system can create data challenges that grow harder to solve as the organization expands. If not carefully considered from the start, fixing the resulting inefficiencies may cost more.

Performing a detailed vendor evaluation with considerations to integrations, upstream and downstream data impacts, and existing data infrastructure can minimize the risk of fragmentation.

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Data integration challenges within organizations

Fragmented systems can lead to data chaos in private credit management. A firm operating in private credit encountered significant challenges due to technological fragmentation. They used various systems for different aspects of the private credit transaction lifecycle, such as a CRM system to store loan terms and borrower details, and a trading system to manage the buying and selling of loan portions. Problems arose when repayment terms were renegotiated, and updates in the CRM system failed to reflect in the trading system. Further complications occurred when trying to synchronize unique identifiers, like the security master in the portfolio management system with the borrower's legal entity identifier in the CRM system. This disjointed approach resulted in data inconsistencies and a lack of cohesive integration, making efficient management of private credit positions difficult.

Multiple referential data sources can be a significant challenge

Managing private credit positions depends a lot on data from sources like the security master, legal entity identifier, and fund master. However, keeping this data accurate and consistent gets much harder when you add more technology platforms and related data sources to the mix. To avoid these issues, having a single, standardized reference point is crucial to ensure data uniformity and integrity.

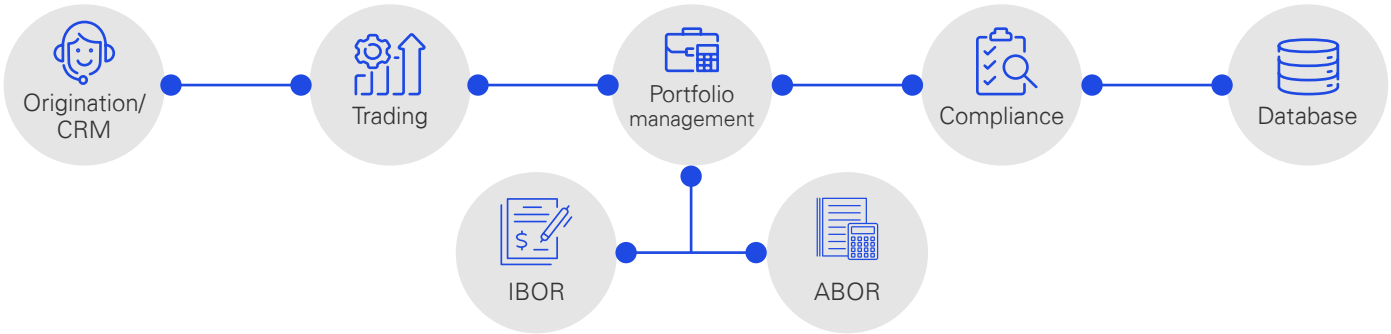
Data reconciliation is a big need

Having multiple technologies can make data integration a challenge, especially when actions from one platform don't flow correctly to another. This often leads to inconsistencies, inaccuracies, and misalignment of data. For example, credit rating updates for issuers and assets might show up in a risk management system but not in the loan management system, causing breaches in limits during investment decisions. Firms often have to resort to manual data updates as a temporary fix, which introduces potential risks and significant reconciliation needs between systems.

Organizations can struggle with a limited view of summarized data

When data is scattered across multiple platforms, it can be tough to get a comprehensive, 360-degree view of operations, which affects decision-making. Disparate systems make it hard to quickly access essential data during major credit events. For example, if a lender suddenly declares insolvency, funds without centralized data might struggle to understand and quantify their exposure, potentially underestimating their risk and leading to inaccurate response strategies.

Data integration challenges between systems



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Use case: How to solve data fragmentation with integrated technology solutions

An established asset manager, primarily investing in fixed income, private credit, public equity, and private equity, leveraged a broad technology stack for various activities within the private credit transaction lifecycle. They also used multiple systems for the same activity across different business units. The client implemented different systems for performance, trading, risk, accounting book of record (ABOR), investment book of record (IBOR), security master, CRM/deal pipeline, document management, and portfolio management. This led to a wide range of issues for the organization:

- Data capture issues and manual processes where data for certain asset types with covered warrants, futures exposure, repo linkages, residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized mortgage obligations (CMO), etc., was manually keyed in, generally forced into a standard template, and duplicated across multiple tools.
- Referential data sources were scattered among various systems, leading to inconsistencies and difficulties maintaining an accurate, uniform security master for data elements like unique identifier, issuer details, asset type/subtype, price information, and ratings.
- Managing a broad technology stack also led to challenges in maintaining oversight on risks, deal pipeline, trading activities, and performance metrics.
- Fragmentation hindered unified reporting and analysis creating a major issue to get their portfolio's overall status or granular insights into specific investments with reports such as credit monitoring report, price/rating change report, compliance detail reports, and portfolio holdings reports.
- No uniformity in procedures between departments resulting in the lack of audit trails and essential document management.

To solve these issues, the client engaged KPMG to help conduct a current-state assessment, design a target operating model, conduct gap assessment as compared to industry leading practices, and implement a front-office solution that acted as a single point of reference. This allowed for a clear path to reporting and elimination of manual reconciliation needs.

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Conclusion

Organizations frequently encounter challenges due to data being scattered across multiple platforms, which limits their ability to gain a comprehensive view of their operations. This fragmentation complicates decision-making and risk management, particularly during critical events such as sudden lender insolvency. To address these issues, implementing robust data integration and centralization strategies is crucial. By doing so, organizations can ensure they have accurate and timely information, enabling them to make better-informed decisions and effectively manage risks.

How KPMG can help

KPMG professionals provide industry-specific experience, technical skills, and practical knowledge along with a trusted name to help meet your private credit needs across all stages of the investment lifecycle:

- **Current-state assessments.** A thorough assessment can uncover system functionality gaps, integration issues, and data inconsistencies that can hinder private credit transactions and portfolio management. These assessments, which compare a client's current state to industry leading practices, provide a thorough view of strengths and weaknesses. This enables a mitigation roadmap to bridge the gap towards a target state, enhancing scalability, efficiency, and risk reduction.
- **Target operating model design.** Creating a target operating model assists in pinpointing the systems best suited to address particular private credit transaction and maintenance challenges, ensuring optimal utilization without redundancy. A strategic and streamlined technology stack can significantly enhance a private market manager's ability to scale, operate efficiently, and minimize risks.
- **Vendor evaluation/selection assessments.** Vendor evaluations, supported by robust current and future business requirements, are crucial for any technological overhaul and consolidation. These assessments help ensure that the selected private credit systems meet business needs in terms of functionality, integrations, and data, while also providing a positive user experience.
- **Implementation.** To help ensure a successful implementation, it is critical to engage an adviser with private credit industry experience. Such an adviser can help navigate implementation challenges and ensure that the functionalities meet key business requirements, stay on scope, on time, and on budget.

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The full suite of private credit services from KPMG

Operation and Technology

- Current/future assessment to industry leading practices (tech, data, process, people)
- Target operating models and interim operating models
- Operational readiness support
- Services and technology vendor selections
- Implementation services (systems, integrations, data, and project management support)
- Data governance, architecture, and management

Accounting

- Accounting policies and technical accounting support
- SEC-complaint financial statement support
- Oversight and monitoring of fund admins
- Shadow administration services
- High-risk reporting support
- Core audit services

Internal Audit and Controls

- Current state documentation and remediation design of key financial reporting processes and controls
- Design SOX governance framework
- Quarterly and annual testing services
- Assess and prepare SOX BDC compliance capability (302, 905, 404)

Tax Consulting

- Tax structuring, policy, and election; shareholder reporting and structuring consultation
- Regional investment company qualification consultion
- Tax impact of anticipated portfolio investments
- Corrdination with required timing for nontax requirements (SEC, state rules)

Tax Compliance

- Tax provision and financial reporting
- Tax return preparation and filing Annual and quarterly regulated investment company qualification testing
- Shareholder reporting

Valuation Services

- Valuation policies and procedures gap analysis/ documentation
- Workflow and process efficiency technology solution and tools to enhance data access, reporting and analytics
- Supplement existing valuation process, co-sourcing services, model build and valuation assistance
- Third-party independent valuations and/or positive assurance services

Core Due Diligence

Due diligence for lenders traditionally focuses on three key areas:

1. Asset-based due diligence
2. Securitization due diligence
3. Cash flow due diligence

The value our KPMG team can bring to clients includes:

- Real-time feedback during the underwriting process
- Ability to leverage proprietary analytical and benchmarking tools to drive deal insights
- Working at deal speed to meet tight deadlines
- Large resource pool available for multinational transactions with decentralized operations
- Access to subject matter professionals through KPMG on ermerging issues impacting leaders and borrowers

Turnaround and Restructuring

When your company is faced with challenging times and complex decisions. the professionals at KPMG can help you navigate options with the following wide-ranging business and planning solutions:

- Turnaround and restructuring
- Corporate finance
- Tax restructuring
- Valuation
- Accounting advisory
- Transaction services
- KPMG forensic

BDC Launch Services

KPMG can support the launch of BDC throughout the pre-filing and pre- and post-launch phases, providing expertise and support in these key areas:

- Accounting
- Tax
- HR, legal, compliance, investor reliance
- SOX
- Operations and technology

CLO Solutions

Our tax, advisory, accounting, technology and risk assessment services can assist clients throughout the CLO Lifecycle. Our CLO services include:

- Agreed-upon procedures (AUP) services
- Tax services
- Advisory services

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We would like to thank our contributors:
Aditya Bhat, Michael Gelfand, Whitney La Bounty, Anthony Pieters, and Jack Wilson

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DASD-2025-17893