

# Rethinking default rates: Why time to resolution defines European credit opportunity

Zach Lewy, chief executive and chief investment officer at Arrow Global, explains why measuring defaults alone is insufficient and why resolution timelines hold the real key to unlocking value in European markets.

**I**N MY PREVIOUS ARTICLE, published in the October edition of *Alternative Credit Investor*, I discussed how structural shifts and local dynamics are reshaping private credit in Europe. I highlighted the importance of fragmentation, the limitations of relying on short-lived dislocations, and the opportunities presented by smaller local deals. I now turn to a subject where over-reliance can be misleading: default rates.

Default rates are frequently cited as leading indicators of distress. In Europe, they can be misleading. Unlike the United States, where legal processes are fast and standardised, Europe's jurisdictions vary dramatically in how long it takes to work through troubled assets. Resolution timelines are often extended by procedural complexity, inconsistent enforcement, and regulatory variation.

In some US states, a distressed loan can be resolved in three months. In Europe, the process may take two years, five years, or even decades. At Arrow, we reviewed a bankruptcy claim in Italy that began in 1982 yet

still presented a live investment opportunity 40 years later. These are not exceptions. They are features of a system where resolution is slow, fragmented, and complex.

This reality has two major implications. First, the headline default rate only signals the start of a process. A default does not equate to an immediate investment opportunity. Second, it is the backlog of unresolved positions that matters most. These create a layered inventory of assets in transition that may be far removed from the initial point of stress.

## **Duration awareness and the road ahead**

We view this lag as an opportunity. Much like a half-life decay process, some dislocated assets resolve quickly, while others take years and require patient capital and specialist restructuring. The key is not to chase volatility but to identify assets that are fundamentally sound yet trapped in legacy structures, misaligned covenants, or outdated business plans.

Our model is built for this environment. With more than 4,500 professionals, regulatory

permissions across eight Western European countries, and over 35 million assets under management, Arrow is structured to operate in markets where friction is high, but value can be unlocked. In total, we manage €125bn (£108.3bn) of assets, giving us both the scale and the operational depth to act decisively when opportunities emerge. In many cases, we are already the incumbent servicer. Borrowers may be paying directly into our accounts, and asset-level data is integrated into our systems. This embedded position allows us to move quickly when opportunities emerge.

Duration awareness is critical. In jurisdictions where time to resolution is long, the ability to underwrite and manage assets across that timeline becomes a decisive differentiator. Investors who rely solely on reported defaults may miss the broader picture. The real opportunity is defined not by new defaults, but by the backlog of unresolved exposures. This distinction is critical for institutional allocators seeking to balance risk and reward.

Technology will also play a part. Artificial intelligence



and blockchain may not yet be transformative, but they hold promise in improving capital velocity; that is the speed at which capital can be deployed, recycled and redeployed, across fragmented jurisdictions. For Europe to close the growth gap with the US and more dynamic markets, transaction speed must increase without undermining regulatory integrity. Better data transparency, standardised servicing, and enhanced underwriting tools could shorten resolution timelines and increase system-wide efficiency.

The contrast with the United States is striking. In the US, securitisation and risk transfer

enable higher velocity of capital. Europe, by contrast, has prioritised resilience with higher capital ratios and stricter oversight. This has strengthened stability but constrained velocity. Achieving both safety and speed will be Europe's next challenge.

Importantly, time to resolution is not just a legal consideration. It is a fundamental variable in investment outcomes. The longer an asset remains unresolved, the greater the operational costs and the heavier the drag on returns. Our integrated model minimises inefficiencies by controlling as much of the servicing, asset management, and restructuring

process as possible. This creates stronger margins of safety and more predictable results for investors.

Looking ahead, resolution timelines will become an increasingly important factor in credit underwriting. Investors will need to assess not only creditworthiness and collateral value but also the practical realities of how long assets take to resolve. Those who can incorporate duration risk effectively into their models will have an edge in sourcing and executing transactions that others may avoid.

In addition, it is worth considering the societal and behavioural trends that shape these opportunities. Changes in remote working practices, the reduced relevance of certain office assets, and the increased appeal of Southern European hospitality are examples of how long-term behaviours can interact with resolution timelines. Investors who combine a clear understanding of macroeconomic shifts with the patience required to manage extended resolution timelines will be better placed to capture opportunities that are not immediately obvious but become valuable over time.

At Arrow, we believe that successful investing in this environment demands more than capital. It requires presence, insight, and operational execution. As the credit cycle evolves, we remain focused on identifying resilient assets, managing resolution timelines, and delivering strong risk-adjusted outcomes for our investors. Together with the themes introduced in my October article, this provides a framework for navigating the complexity of European private credit and real estate markets in the years ahead. ■