

“Implications of Establishing Inventory and Accounts Receivable as Collateral: A Case Study”

Kansai Gaidai University

Aki Kinjo

Asset Based Lending (ABL) is a lending technology that uses business assets, such as inventory and accounts receivable to secure the loan. ABL is an established form of lending in the US but was only recently introduced to Japan.

I argue that when such an asset is used as collateral, lenders can better generate information and manage the creditworthiness of the borrower by properly assessing and monitoring the collateral. That is the major contribution of ABL to the Japanese banking market, which has not been understood or promoted as it should be. ABL should not be regarded as a type of secured loan that simply substitutes the collateral from real estate with collateral in the form of inventory and accounts receivables.

The role of collateral in ABL has a different feature compared to real estate. Although real estate has been the predominant collateral used in Japan, its role has been limited to loss mitigation and prevention of moral hazard for the borrower. ABL provides unique features in addition to the role that real estate has traditionally provided as collateral.

This paper articulates the unique characteristic of ABL and the implication it has on Japan's lending market by (1) discussing the role of collateral by reviewing related literature, (2) presenting a case study conducted for a Japanese regional bank, (3) comparing how regulators treat ABL in Japan and the US, and (4) concluding with policy recommendations to further promote ABL.