Executive Summary

Institut für Mittelstandsforschung
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Fintechs: Opportunities for SME Financing ?

Arthur Korus, Jonas Löher, Sebastian Nielen, Philipp Pasing

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Executive Summary

In recent years, fintech firms have developed innovative financing options for companies. This study examines the chances these new options bring to small- and medium-sized companies (SMEs). A primary focus of this study is on digital lending. In addition, the relationship between fintechs and traditional credit institutions is discussed, and the effects of the Corona crisis are examined.

Fintechs often operate in niche markets

The new financing solutions address different target groups: While crowdfunding, crowdinvesting and initial coin offerings (ICOs) tend to target young companies or ventures, digital lending primarily offers opportunities for established SMEs. Fintechs perform strongly in areas where lending processes can be standardized or digitalized. They often operate in niche markets that have not been very lucrative for banks, such as small unsecured loans or short-term working capital financing.

SMEs benefit in different ways

Fintechs can make some financing possible for SMEs. They can also speed up financing processes and offer better loan terms than traditional lenders. They also provide innovative solutions for internal funding, which is especially beneficial for smaller companies. These activities increase the pressure on established banks to adapt their existing offerings and integrate these new fintech solutions. Consequently, banks are increasingly collaborating with fintechs. Accordingly, SMEs also benefit from the new offerings within existing banking relationships.

Established banks have structural advantages

Despite significant growth rates in recent years, online lending still plays a minor role in SME financing. Fintechs still face many challenges to attract customers and grow in the future: For example, there is a long-established basis of trust between established banks and SMEs. This trust and individual advice are still decisive for the choice of the financing partner. Furthermore, SMEs' lack of digitization and automation of processes can also mean that they do not cooperate with fintechs because they lack the technical prerequisites.

Corona pandemic has changed the demand for capital

During the pandemic, SMEs postponed their investments or financed them through promotional banks. This behaviour prevents fintechs from further developing their business model. In addition, SMEs more often rely on proven partners during the crisis and fall back on the financing offers of their principal bank for necessary investments. Only companies with a lack of short-term liquidity have increasingly sought loans from fintechs. In the future, digital lending could receive a boost from the increased level of digitalization due to the pandemic.

The established corporate financiers are adapting

The company's principal bank will remain the first option for SME financing in the near future. However, this requires that the established banks continue to develop their business model further and see themselves as platforms that continuously integrate new services into their offering. In the long term, pay-per-use or blockchain technology has the potential for far-reaching changes in the financing landscape.

Fintechs increase the efficiency of the financial system

By increasing efficiency in matching supply and demand in corporate finance, fintechs will also strengthen the competitiveness of SMEs. In the future, economic policy should critically review its public financing support wherever new business models (by fintechs) can now solve financing problems in line with the market.