

Press Release

Fintechs have a positive impact on SME financing

IfM Bonn: Competitive pressure leads to higher willingness of established banks to cooperate with fintechs

10.08.2021. During the past pandemic month, small and medium-sized enterprises (SMEs) financed their investments primarily via promotional loans (Förderkredite) or their principal bank. However, according to IfM Bonn researchers, fintech firms will play a more significant role in future SME financing. "Digital credits could have received a long-term push in the pandemic, as many SMEs have had positive experiences with services that take place exclusively digitally. Consequently, the openness for using fintech services has probably increased," reports Dr Jonas Löher. He has analysed the chances of digital financing for SMEs and the effects on the banking sector with his team. According to the study, digital SME financing has developed particularly positively where lending processes can be standardised or digitalised using historical data.

Small and medium-sized enterprises benefit from this development in several ways. For example, their search costs for financing providers reduce, as digital financing platforms often offer solutions from several lenders. SMEs are also more likely to obtain small loans and short-term working capital financing via fintechs than from a conventional bank - even if they cannot provide the usual collateral. Fintechs also offer innovative analytical tools that help SMEs to understand their financial situation better. These tools allow them to optimise their cash management and improve their internal financing options. At the same time, the increased competitive pressure has led established banks to question their business processes and collaborate with fintechs. Increasingly, they are acting as platforms that try to integrate the fintechs' financial solutions into their offerings. Accordingly, SMEs can also benefit from the new offerings within existing banking relationships.

Despite their increasing importance in the banking sector, the growth barriers for fintechs remain high. There is often a long-established relationship of trust between the house bank and SME management, which is still decisive for choosing a financing partner. Especially in the case of more complex financing needs, personal advice still seems to beat the algorithm. In addition, there are

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limits to digital lending, mainly where it is challenging to calculate risks with algorithms, as is the case with young, innovative companies, for example.

Nevertheless, the IfM researchers assume that digital financing will play a more significant role in SME financing in the future, for example, because of the increasing importance of blockchain technology. Innovative financing methods such as pay-per-use are also likely to increase in demand.