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Explore the Impact of China Fintech Loans on the Financing of SMEs

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Abstract: As an important part of the economy, small and medium-sized enterprises (SMEs) play an important role in the recovery of the economy after the epidemic, but the financing difficulties of SMEs have been exposed but not solved. Fintech is the core force to practice inclusive finance and an important breakthrough to improve the financing constraints of SMEs. Fintech loans rely on big data to conduct credit evaluation and risk management for SMEs and play an important role in expanding corporate financing channels, accelerating loan efficiency, and reducing financial discrimination. First, this paper summarizes the financing status of SMEs in China and then subdivides Fintech loans. From the perspectives of bank Fintech loan use and Fintech loan company development, this paper presents the impact of Fintech loans on SME loans and the relationship between different Fintech loans and summarizes the shortcomings of Fintech loans in resolving the financing problems of SMEs. Finally, based on the current research status and objective reality, it provides suggestions for future research directions.

Keywords: Fintech Loan, small and medium-sized enterprises (SMEs), banks, fintech loan enterprises

1. Introduction

As an important component of the economy, small and medium-sized enterprises (SMEs) have contributed to promoting employment, promoting technological innovation, and driving economic growth. However, financing issues have been restricting the development of SMEs. The main reasons for the difficulty in breaking financing constraints are the defects in the financing system, mainly through indirect financing, and the financial constraints of SMEs themselves. Although macroeconomic policies have made many efforts to alleviate financing constraints, the results have been minimal.

Fintech has a disruptive potential and is an important breakthrough in helping SMEs resolve financing constraints [1]. The application of fintech in the field of financing and loans can help solve the financing constraints of SMEs. In recent years, a considerable amount of literature has confirmed the positive role of fintech loans in lending to SMEs

Sheng (2020) confirmed that fintech has promoted the expansion of credit supply channels for SMEs [2]. Fintech lending does not require financial institutions to act as intermediaries between lenders and borrowers [3]. Connecting borrowers and lenders through the Internet can alleviate financial discrimination to some extent. In addition, Fintech has increased the possibility of SMEs

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borrowing at lower interest rates [4]. These technologies improve loan efficiency by shortening the application process, thereby helping borrowers quickly obtain funds [3], which may enhance the ability of SMEs to utilize funds at the appropriate time. The development of fintech has to a considerable extent resolved the information asymmetry in the financial market. SMEs do not need to provide any collateral and guarantees when obtaining loans, which to some extent alleviates financial constraints and reduces the financing costs of SMEs.

This article takes the Chinese market as the research background, and through reviewing and summarizing recent literature, first of all, explains the objective reality of China's financial market and SME financing. Secondly, fintech loans are subdivided into bank fintech loans and fintech loan enterprises, presenting relevant conclusions on the relationship between the two and SME financing, and discussing the correlation between the two. Then summarize the shortcomings of fintech loans in resolving the financing problems of SMEs. Finally, suggestions for future focus on current research are proposed.

2. Formation of Financing Constraints for SMES

SMEs have played an important role in creating employment opportunities and economic momentum. They are the engine of job creation and the seedbed for cultivating entrepreneurial talent and innovation. Compared to large companies, small businesses are flexible in keeping up with changing markets, responding to new opportunities, and adapting faster to capture economic growth. The development of SMEs has always been a fundamental issue of concern for policymakers and practitioners in developed and developing countries [5], especially when economic growth and development are very low or non-existent. COVID-19 has caused sharp fluctuations in China's financial market, and SMEs are a force that cannot be ignored in economic recovery.

However, access to financing remains one of the biggest constraints on the survival, growth, and productivity of SMEs. Lack of funds has hindered the production and operation of enterprises, making it difficult to expand their scale to meet market demand, reducing their technological innovation capabilities and future development space, and even causing the brain drain of enterprises. Analyzing the causes of the financing difficulties of SMEs can be attributed to the combined effects of macro and micro constraints.

2.1. Macro Constraints on Financing for SMES

From a macro perspective, first of all, there are defects in China's financial financing system [6]. By comparing the financial market structures of China and the United States, it is pointed out that the overall size of China's financial market and economic aggregate are still not compatible, and the internal development is uneven. In the bond market, although the control on SME bond financing has been gradually relaxed, SMEs have received limited social recognition. In the stock market, the opening of the GEM Science and Innovation Board has opened up a new way for SMEs to finance the market, but the application process for listing conditions has gradually moved closer to the main board market. Due to various limitations of direct financing for SMEs, bank loans are still the main financing method, which has exacerbated the financing difficulties of SMEs.

Moreover, the government's policy inclination is limited, and its effect on improving the financing of SMEs is not significant. Taking the commonly used monetary policy as an example, Li pointed out that the financing interest rate of SMEs is rigid in adjusting monetary policy [7]. Although the People's Bank of China has implemented a series of "structural" monetary policy tools to guide financial institutions to increase corporate credit, the current overall scale is insufficient to meet the direct financing needs of all SMEs.

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2.2. Micro Constraints on Financing for SMES

From a micro perspective, SMEs themselves have limited scale and weak risk resistance capabilities, and lack security and collateral when applying for financing [8]. Secondly, managers of SMEs are relatively lacking in financial knowledge, making it difficult to formulate appropriate financial plans and manage financing funds, posing certain financial risks. Moreover, the current profitability and operational performance of SMEs lack transparency, making it difficult for investors to understand the true situation of the enterprise and make investment decisions [9]. In addition, some SMEs have delayed their debts due to poor management, which has led some SMEs to enter a vicious circle of credit.

Currently, the financing difficulties of SMEs are influenced by the macro-financial environment and policies, and they also have their limitations. Therefore, in solving their financing constraints, it is necessary to improve the financial system structure in the future. Policymakers should also enhance the support and effectiveness of financial policies on the ground. At the same time, enterprises themselves should also improve financial management, strengthen credit construction, and improve the problem of insufficient credit.

In addition to resolving existing problems, new driving factors need to be introduced to solve the financing problems of SMEs In the US market, the decrease in bank loans has no impact on employment, wages, and new business creation, mainly because financial companies and fintech lending institutions have gradually become the main providers of credit for SMEs [10]. Unlike the US market, the Bank of China still plays an important role in promoting the development of SMEs, and the introduction of fintech will be a breakthrough in resolving the financing constraints of SMEs.

3. Internal Bank Fintech Loans and SME Financing

According to the Financial Stability Board and the International Organization of Securities Commissions (2017), "fintech" can be broadly defined as technology-supported financial innovation, while fintech loans refer to the application of fintech in the field of loan financing. Globally, China is becoming a leading fintech loan market. Fintech loan technology is widely used within the internal banking system. Banks are the main source of financing for SMEs, and fintech loan technology indirectly affects the financing of SMEs.

In recent years, many studies have demonstrated the promoting effect of fintech loan technology on banks:

First, in solving the problem of SMEs with low credit ratings and unable to obtain loans, Fintech loans use alternative data to more accurately portray SMEs, that is, add data forms such as social media data and Internet search data to conduct credit evaluation on borrowers, which enables some enterprises classified as subprime loans according to traditional bank standards to be assigned to "better" loan ratings, this allows them to obtain credit at a lower price.

Secondly, from the supply side, the development of fintech promotes the credit extension of commercial banks. Luo et al. (2022) stated that Fintech's "technology spillover effect" can help commercial banks extend their service radius, broaden customer acquisition channels [11], increase the supply of credit resources, and improve the lengthy loan processing process for SMEs, low refinancing efficiency, and limited financing channels.

Thirdly, digital technology has played an important role in improving the efficiency of financial services provided by commercial banks to all people and microenterprises [12], Fintech can enable rapid lending of funds, which is conducive to improving the ability of SMEs to utilize funds at appropriate times [13].

Fourth, banks use fintech to analyze the unique features of corporate loan needs, timely identify dishonest behaviors, and achieve a timely and accurate understanding of needs and risks. This can

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help banks enhance their ability to provide personalized financial loan services to different enterprises.

Another point worth noting is that the impact of fintech is heterogeneous in terms of bank type and bank size. Due to their significant differences in terms of asset size, business scale, strategic position, and operational system, small and medium-sized banks are not as good as large banks in terms of asset size, technical level, human resources, and financial strength. However, large banks are often required to comply with more regulatory requirements, and it is relatively difficult to adapt to technological development. Therefore, the impact of fintech on small and medium-sized banks is more significant. For SME credit, fintech has different effects on different types of banks [14]. It has a positive impact on the credit supply to large banks and SMEs, while fintech hurts the advantages of small banks in lending to SMEs. Large banks develop loan technology to simplify information transmission and reduce the cost of remote information acquisition, which can disperse loan decision-making. However, small banks lag behind large banks in the proficiency of using fintech, resulting in a decline in the advantages of their original organizational structure.

4. Fintech Loan Enterprises and Financing for SMES

The development of fintech lending enterprises has played a positive role in resolving the financing problems of SMEs Due to the COVID-19 pandemic, enterprises have even more frequently turned to fintech [15]. The growth and development of fintech loan companies have brought more financial inclusiveness, which can cover areas that are difficult for banks to cover [16], and has unique characteristics in solving financing problems for SMEs.

First of all, fintech loan companies have innovated their financing products, introducing small loans, unsecured loans, and other products for SMEs, which can meet different financing needs. Compared to bank financing, fintech loan companies have flexible and customizable advantages. Secondly, from the perspective of financing mode, Wang (2017) believes that fintech loan enterprises have a positive impact on the financing mode of SMEs [17]. The most typical of these are P2P financing and crowdfunding models, which alleviate the loan problems of SMEs to a certain extent through the rapid turnover of funds and efficient allocation of credit resources. Crowdfunding mode uses Internet platforms to showcase entrepreneurship and prospects, and to raise funds from individuals. This financing method has the advantages of low thresholds and strong targeting. Finally, the development of fintech loan companies promotes competition in the financial market, which has a particularly significant "competitive effect" on commercial banks. Fintech companies, with their characteristics of efficiency, convenience, and low cost, continue to expand customer channels and seize the market share of commercial banks [18]. Hua et al. (2019) also believe that the "competitive effect" promotes bank innovation, reduces product and service update costs, and improves risk control capabilities [19]. At the same time, the balance of market forces in commercial banks will enable the "customer competition effect" to occupy a favorable position, such as appropriately extending the loan term for SMEs to retain customers, which is conducive to reducing the repayment pressure and probability of dishonesty of SMEs [20].

Fintech loan enterprises are a new force to improve the financing constraints of SMEs. However, at present, China's fintech loans still have many shortcomings in solving the financing constraints of SMEs, mainly reflected in the following aspects:

First, the development of fintech loans has led to data security issues, and the risk of information disclosure by SMEs is increasing. Secondly, China's fintech regulation has not fully kept pace with the development of fintech loans, and some companies have evaded regulation through gray areas. Moreover, some fintech loan companies deliberately obscure and hide loan product information, and information asymmetry puts borrowers at risk. In addition, some Internet finance platforms charge higher interest rates, which meet the timeliness and convenience of loans, but bring higher financing costs to enterprise financing, which does not substantially solve the financing difficulties of SMEs. Finally, the fund reserves of fintech loan enterprises are not as good as those of banks, and a large amount of credit demand will expose the vulnerability of the fintech loan model in the face of oversupply [21].

5. Conclusion

In this article, we review the literature on fintech loans and small and medium-sized enterprise loans. Under the combined effect of the imperfect financial market in China and the limitations of SMEs, the financing difficulties of SMEs have been difficult to solve. With the development of fintech, the financing problem will usher in a turnaround.

This article explains the problems of financing for SMEs in China, then presents how bank Fintech loans and Fintech loans affect the financing of SMEs Finally, it shows the shortcomings of Fintech loans in resolving the financing problems of SMEs This article summarizes that fintech loans mainly resolve financing difficulties by portraying more accurate credit portraits, increasing credit channels, and improving financing convenience. However, at the same time, the development level of fintech loans is relatively limited, and there is still great potential for development. Therefore, the following suggestions are proposed for future research:

First of all, fintech companies are gradually encroaching on the market share of commercial banks. What level of competition between the two is the most advantageous solution to the financing constraints of SMEs? Secondly, fintech loans, while filling the credit gap for SMEs, will bring technical and regulatory risks. The cross-cooperation between fintech loans and fintech supervision should receive attention. Third, SMEs should strengthen information construction, enhance cooperation and communication with financial institutions, promote the continuous improvement of fintech loans, and ultimately form a closed-loop development of SMEs Therefore, the role of enterprises in assisting the development of fintech loans is worth discussing.

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