

Research on Internet Finance and SME Financing Model and Risk

Hekun Song^{1,a,*}

¹School of Economics and Finance, Henan University of Economics and Law, Zhengzhou, Henan Province, China, 45000

a. 1156939564@qq.com

**corresponding author*

Abstract: The Internet finance industry is expanding quickly, and at the same time, it is closely linked to the growth of small and medium-sized businesses. This study discusses the history of Internet finance, the present state of the sector, its financing model, its role in financing small and medium-sized businesses, and further analysis of the risks associated with its financing model. At the same time, this paper also puts forward management suggestions for small and medium-sized enterprises, as well as ways and means to improve risk management. This paper analyzes the previous literature and data, and it can be concluded that Internet finance is a new form of financial business that makes full use of Internet technology to carry out profound changes in financial business. It refers to the emerging financial model that realizes financing, payment, and information intermediaries by means of Internet technology and mobile communication technology, which is different from the indirect financing of commercial banks and the direct financing of the capital market.

Keywords: Internet finance, small and medium-sized enterprises, enterprise financing, risk

1. Introduction

The Internet finance sector has advanced significantly and benefited from technical support as a result of its ongoing growth. Nowadays, Internet finance has derived many financing models. This paper will mainly introduce the impact of its financing models on small and medium-sized enterprises. With the growing scale of Internet finance, it also has different degrees of influence on the financing risks of small and medium-sized enterprises. The main part of this paper will discuss the following issues: What is the current status of the Internet finance industry's development? Does it have an impact on the development of small and medium-sized enterprises (hereafter referred to as SMEs)? If SMEs want to develop further, what are the management suggestions?

The Internet finance sector has advanced significantly and benefited from technical support as a result of the ongoing growth of the Internet sector. Nowadays, Internet finance has derived many financing models. This paper will mainly introduce the impact of its financing models on small and medium-sized enterprises. With the growing scale of Internet finance, it also has different degrees of influence on the financing risks of small and medium-sized enterprises.

2. Development Status of Internet Finance

With the improvement of computer technology, Internet finance has also made great progress. The Internet is applied more and more widely in the financial industry, and the financial business is also applied more and more to the Internet. Compared with the traditional financial industry model, Internet finance can connect with users more directly and reduce the risk and cost of financing. With the rapid development of the Internet, Internet finance has become the most dynamic area of China's financial industry.

Although our Internet development speed is relatively slow compared with other developed countries, the development prospects and market are very good. With the development of Internet technology, it is more convenient for small and medium-sized enterprises to raise financing. The Internet finance model enables integration between lenders and borrowers from many angles and platforms, which enhances the effectiveness of asset allocation and lowers transaction costs. The way the current financial system operates has been changed. In future developments, Internet finance will occupy a mainstream position.

3. Analysis of Financing Forms of Small and Medium Enterprises

For SMEs, there are three basic forms of financing available online.

3.1. P2P Network Lending

P2P is one of the most popular models in Internet finance. The so-called P2P model is peer-to-peer credit. Both parties can borrow and lend funds through the third-party platform. The fund supplier can not only be provided by one party, but can also be jointly provided by many parties to spread the risk of fund lending. In P2P mode, the identity information, loan interest rate and credit rating of both lenders and borrowers are very transparent. There is no direct connection between the borrower and the lender when trading on the lending platform. This reduces investment costs and borrowing risks. The P2P model greatly alleviates the problem of small loans and plays a great role in the financing of small and medium-sized enterprises [1].

3.2. Crowdfunding

Crowdfunding means that an entrepreneur can publish a project on the Internet to raise initial funds for the project, and the initiator will send the project content and funds to be raised to the crowdfunding project platform, which will publish the project on the platform after screening and review. Crowdfunding investors choose their favorite projects to fund. They will enter the financing platform, and after gaining an in-depth understanding of the financing party, the three parties will sign contracts respectively. Within a certain period of time, if the SMEs raises enough funds to meet the financing needs of the project, the project can be successfully carried out; otherwise, if the financing fails, the funds will be returned to the investor's account.

3.3. Third-party Payment

By the use of Internet technology, the third-party payment platform links banks and merchants, and the third-party payment institution is required to be an independent organization with certain guarantees of strength and repute. The buyer chooses the items and uses the account given by the third-party platform to pay for the loan. The third party then tells the seller of the arrival of the payment for the products and instructs them to be delivered. At present, there are some well-known websites in the market, such as Ebao, HSBC, Sande, etc. Many third-party platforms concentrate on developing the financing of small and medium-sized firms and addressing some of their issues as a

result of the intense competition on the Internet. The third-party payment platform is mainly designed to solve the transaction instability.

4. Risk Analysis of Internet Finance for SMEs Financing

4.1. Current Financing Environment of Small and Medium-sized Enterprises

Small and medium-sized enterprises play an irreplaceable role in China's economic development. In China, the number of small and medium-sized enterprises occupies a staggering 98 percent of the market share [2]. At present, the country has just lifted its epidemic risk control. The economy is gradually recovering. More and more small and medium-sized enterprises are reappearing in the market, across all walks of life. It has played an important role in the development of the market economy. However, many small and medium-sized enterprises are also facing severe challenges, due to their small scale, too few assets, and the pressure of market competition from many factors. As a result, it is difficult for small and medium-sized enterprises to get loans and financing from banks and financial institutions. Many small and medium-sized enterprises have their capital chains broken and cannot continue to develop in the market. The main problem facing small and medium-sized enterprises is the difficulty of financing. With the development of technology comes P2P, crowdfunding. Third-party payment platforms and other financing methods have played a great role in the financing of small and medium-sized enterprises.

4.2. Risks and Disappearance of P2P Financing Model

The P2P supervisory system is imperfect, has a low threshold, and has lax laws because of the quick development of information technology. There are many P2P lending companies on the market. However, many operators of P2P lending platforms do not have relevant team management experience and cannot reasonably control risks, which leads to the breakup of the capital chain of many online lending companies and huge losses to users. As a result, small and medium-sized enterprises find financing more difficult. As P2P lending companies in the market face a "thunder wave" of increased investment risk, many companies have shut down P2P businesses [3].

4.3. Risks of Internet Financial Crowdfunding

4.3.1. Investor Investment Risk

Compared with traditional crowdfunding, Internet financial crowdfunding spreads faster and can involve more investors, which can encourage the public to invest. Yet as a result, the bar for crowdfunding is too low, and a lot of investors don't know what they're buying, which significantly raises the security risk of investment funds. In addition, crowdfunding on the Internet will enable more people to know the project ideas, during which the commercial secrets of the project may be leaked and the plans and ideas of the project initiator may be stolen.

4.3.2. Legal Risk

Internet crowdfunding is a model with wide participation in Internet fundraising and an uncertain amount of fundraising, which increases the difficulty of legal supervision. Illegal fundraising may be involved. In recent years, equity crowdfunding has been a disaster area with a high number of illegal crowdfunding [4]. As crowdfunding has become more popular in our country recently, there are still many laws to be improved. During this period, criminals may take advantage of legal loopholes to engage in illegal activities such as illegal fund-raising and money laundering.

4.3.3. Technical Risk

All transactions on Internet crowd-funding platforms are completed in the Internet network environment. Although Internet technology is progressing, the Internet network environment is still harsh. Criminals use network loopholes and computer viruses to attack Internet platforms, and the security of users' funds cannot be guaranteed. It has had a major impact on the Internet finance industry.

5. Countermeasures for the Financing Risks of Internet Finance in SMEs

5.1. Improve Internet Technology and Platform Management

Big data and cloud computing help the Internet banking sector. With the Internet's rapid expansion, technology is updated and improved regularly. The technology used by the Internet finance industry is becoming more advanced, but there are also some hidden dangers. The Internet platform should invest in the infrastructure construction of the platform and introduce talents to improve the technical structure of the platform. Especially in the Internet defense technology, to ensure the safety of platform funds, but also to improve the level of the platform management team, improve the control of risks [5].

In order to increase the effectiveness of fund management for small and medium-sized businesses, the rate of money use should be precisely regulated. The management team should build a set of financing risk mechanisms to reduce the risk of fund use as far as possible.

5.2. Increase Innovation

In the current Internet finance industry, if small and medium-sized enterprises want to change their financing difficulties and risks, they should increase their innovation efforts, constantly put forward new financing methods, and issue new financing mechanisms and products. The state and government should continue to increase their oversight of and attention to online finance at the same time. To the greatest extent possible, raise the mutual understanding network's service standards and quality in the financial sector. Moreover, the connection between Internet finance and traditional finance should be strengthened to inject impetus into the positive development of small and medium-sized enterprises. Jointly explore and build a new model of development [6].

5.3. Improve Risk Awareness

Small and medium-sized enterprises should improve their awareness of financing risks under Internet finance. As the main body of Internet financing, small and medium-sized enterprises occupy the main share of the market and should establish risk awareness. Anticipate and prepare for market risks. Improve their own financial system analysis, and clarify the financial situation of the enterprise. The management team must make every decision carefully and investigate the background and qualifications of the financing platform. Promote the development and progress of small and medium-sized enterprises.

6. Conclusion

This paper mainly studies the influence and development trend of Internet finance on small and medium-sized enterprises, and how to further accelerate the development of Internet finance. And put forward a lot of current deficiencies. There are many areas for improvement mentioned in the article. Constantly increase innovation efforts, the government should improve relevant laws and regulations.

In the future, there must be more ways for Internet finance to better help small and medium-sized enterprises raise funds and solve their financing and supervision difficulties.

References

- [1] wang heun heun. *Internet financial under small micro enterprise financing risk and countermeasures [J]. Circulation of the national economy*, 2020, No. 2234 (02) : 152-153. The DOI: 10.16834 / j.carol carroll nki issn1009-5292.2020.02.073.
- [2] jie-qiong wang. *Internet financial under small micro enterprise financing risk and countermeasures [J]. Journal of the Chinese market*, No. 2020, 1039 (12) : 77 + 115, DOI: 10.13939 / j.carol carroll nki ZGSC. 2020.12.077.
- [3] WeiJiaXin. *Mode and development of the Internet financial research [J]. Journal of bohai sea economic outlook*, 2021, No. 321 (6) : 5-6. DOI: 10.16457 / j.carol carroll nki HBHJLW. 2021.06.003.
- [4] Quan Yan. *Analysis of financing risks and countermeasures of small and micro enterprises under Internet finance [J]. Time Finance*, 2017, No. 658(12):34-35.
- [5] Wang Quan. *Risk and Prevention of Crowdfunding model in the era of Internet Finance [J]. Time Finance*, 2017, No. 651(05):30-31.
- [6] Wang Yu. *Research on Risk regulation of Internet finance Crowdfunding Model [J]. Modern State-owned Enterprise Research*, 2015, No. 72(18):33.