

How can fintechs broaden SMEs' access to financing?

Video transcription

Increasing **access to financing for small and medium-sized enterprises (SMEs)** is a **way of boosting economic growth** in a country or region. These firms play a crucial role in driving **job creation**.

However, **SMEs have more difficulties accessing finance** than larger firms, mainly because it's harder for them to provide the information needed to prove their creditworthiness.

The fintech sector – firms that specialise in the use of new technologies in finance – has seen remarkable growth in recent years. Thanks to their innovative solutions, **fintechs are able to broaden SMEs' access to financing**.

But this could also weaken traditional banks' incentives to establish relationships with SMEs. Indeed, greater competition from fintechs could make lending to SMEs less profitable for banks, at least in some segments.

With this in mind, using a simple theoretical model we have analysed **how competition between traditional banks and these new players can affect the financial inclusion of SMEs**.

Our analysis shows that **this impact will depend on** two factors:

- fintechs' ability to cater to **traditionally underserved sectors**, and
- how well they compete for **traditional banking customers**.

Financial inclusion could even increase if fintechs manage to position themselves in new market segments without too great an impact on the competition.

Our findings have led to the following **recommendations**:

- First, there should be **certain limits on banks' data-sharing requirements regarding borrowers' creditworthiness**. This would protect the incentives to establish relationships with new borrowers, by allowing banks to hold on to at least some of the valuable new customer data.
- Second, **the regulatory playing field** between fintechs and traditional banks engaging in similar activities **should be levelled**, to help ensure that they compete on an equal footing. Banks would thus be better placed to build and retain relationships with certain business segments.
- Lastly, given that fintechs do not necessarily increase the financial inclusion of SMEs from an economic standpoint, the **market entry regulations for new fintechs should weigh up the costs and benefits**, considering their efficiency and competitiveness.

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