Analysis of Impact of the Internet Finance to the Small and Medium Enterprises in China

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Abstract: ***The vigorous development of the Internet+era has made the combination of Internet and Finance becoming a mainstream trend. Internet Finance is taking advantage of its unique meries to provide a new opportunity to solve the financing difficulties of smes. Compared to the financing methods of traditional financial institutions. On solving the problem of financing difficulties for small and medium enterprises, Internet Finance provides a more diverse, more nimble, more efficient new financing pattern choice. Based on the overview of small and medium-sized enterprise financing way and the traditional Internet financial advantages, this paper discusses the financing problems and the reasons of small and medium-sized enterprises. And does deep analysis on the advantages and disadvantages of Internet finance to solve the financing problems of small and medium-sized enterprises, and regional influence and industry influence. Finally, the paper gives relevant policies and suggestions to alleviate the financing difficulties respectively from Internet finance and small and medium enterprises how to effectively use the Internet finance.***

Keywords: small and medium enterprises, Internet finance, financing methods

1. Introduction

With the proposal of "Mass Entrepreneurship, Mass Innovation", the number of SMEs in China is increasing, and it continues to play its important role in promoting economic growth, increasing fiscal revenue, alleviating employment pressure, adjusting economic structure, and promoting technological innovation. Due to the decline of the international economic situation in recent years, China has also entered a "new normal" period, and the economic growth rate has gradually slowed down under the new normal. In addition, SMEs themselves have small development scales, low credit ratings, and ability to deal with risks Weaknesses and other deficiencies make the problem of difficult financing more prominent, which is an important reason hindering the steady development of SMEs[1]. The emergence of Internet finance has made up for the shortcomings of traditional financing models and opened up a new financing idea and channel for SMEs. Internet finance is a new way to conduct traditional financial services with the help of high-tech information technology.

1.1 Features of Internet Finance

The Internet is convenient and efficient, and the speed of its information dissemination cannot be underestimated. This flexible feature is superior to traditional financing models. Therefore, compared with the traditional model, Internet finance not only reduces costs, but also simplifies tedious financing procedures and maximizes operational efficiency. In the past two years, the development of Internet finance has grown rapidly, and new financial services represented by Alipay, a subsidiary of Alibaba Group, have grown rapidly at home and abroad[2]. The phenomenon of using the Internet for consumption and financial management can be seen no matter when, where, and by any industry. From the large shopping mall counters to the small merchants in vegetable markets, Internet finance has become more and more integrated into all aspects of people's daily life, and it is constantly infiltrating. Therefore, Internet finance has a vast market space, and the future prospects will be incalculable. Internet finance is still in its infancy, and its operational instability has increased financing risks. This often makes some SMEs with poor management, blocked product sales, and insufficient competitiveness bear the brunt. At present, many small and medium-sized enterprises have still not been properly resolved due to poor management and unsmooth financing channels. According to this, they are still in a crisis situation of loss and imminent failure. Therefore, SMEs still have many thorns in their financing.

As small and medium-sized enterprises continue to realize their broader development, their need for capital is no longer sufficient for internal financing alone. Therefore, external financing has been favored by SMEs and has been heavily used. A small number of reputable and large-scale small and medium-sized enterprises can obtain financing funds from banks, bonds, and stock markets. More and more small and medium-sized enterprises can only choose internal sources of funds to expand production. Borrow. These unfavorable factors have greatly restricted the sustainable development of SMEs.

Although the Chinese government has promulgated and implemented a variety of preferential policies and measures for financing incentives for small and medium-sized enterprises, subjective and objective disadvantages such as insufficient collateral and assets scales, incomplete guarantee financing systems, and low credit ratings exist, commercial banks and other financial Institutions still do not allow SME financing loan projects.

1.2 Reasons for SMEs' difficulty in financing

If an enterprise wants to achieve sustainable development, it must still rely on its accumulated capital. Own funds are the basis for ensuring its long-term development. The small scale of SMEs, the narrow scope of services, and the immature products will lead to weak market competitiveness, and they cannot increase their strength by owning sufficient funds[3]. As a result, free financial capital and equity cannot be effectively used for development. This is the main reason why small and medium-sized enterprises cannot get funds from commercial banks. This is due to the lack of management experience, operating income, small scale and vulnerability to market changes. In addition, there are obvious deficiencies in the financial audit system for SMEs. Most financial reports used by small and medium-sized enterprises do not express bank standards. Banks doubt their authenticity, so it is difficult to obtain financing from banks.

Small and medium-sized enterprises are greatly affected by market changes. To ensure their continued development, they must frequently use funds to deal with unexpected conditions. In order to ensure that the risks of SME financing are minimized, banks will spend a huge amount of manpower, material resources, and financial resources to strictly review the credit status and financial data of SMEs before lending. All these increase the financing cost of SMEs, increase the burden of SMEs in repayment in disguise, and then increase the risk of enterprises failing to pay interest due, which will undoubtedly become a “stopper” on the financing path. Of course, some enterprises will turn to private lending in order to avoid this phenomenon. Although compared with banks, private lending requirements are low, procedures are simple, and no collateral is required. However, high interest rates on private lending will also increase financing costs. The lack of a loan guarantee system makes commercial banks more hesitant in lending[5]. Because SMEs' own development is not complete, most guarantee institutions are unwilling to guarantee them, and SMEs do not have high-quality assets that can be used for mortgages, which hinders the way for SMEs to use the guarantee system for financing. In the existing financial markets, investment and financing investors often suffer from information asymmetry, which makes the capital market appear in the form of "credit rationing" [4]. Without exception, SME financing faces serious information asymmetries, and investors lack sufficient information. In order to protect their rights and interests, they often add some restrictive clauses to the contract; and the financier can't find it because of information problems. To the investors who can provide funds for themselves, these are intangible increases in the financing costs of SMEs, exacerbating the difficulty of financing.

2. Analysis of the Pros and Cons of SMEs

Internet finance has an undeniable contribution to reducing the cost of SME loans. In view of the asymmetric information, banks need to spend a certain amount of cost to evaluate and organize the information of small businesses, and because of the unstable operation of SMEs in the early stage, commercial banks also need to track their subsequent operating conditions. These costs will be calculated invisibly. In the financing cost of SMEs. The Internet financial model can use the Internet's big data, cloud computing and other technologies to directly grasp the specific information and production and operation status of SMEs, which effectively solves these problems of commercial banks.

Internet finance has emerged with the development of network technology, and has unique advantages for data collection and processing. Internet finance itself gradually develops and relies on the ability to efficiently process information and analyze data. The collected data is collected directly through the network and clients. The data is continuous and time-efficient. The collected dynamic data is electronic. The form exists, and the system can automatically correct data errors without the need for input conversion. Therefore, Internet finance is more efficient in acquiring and processing data than traditional finance, and can quickly and accurately screen out the required data. The powerful cloud computing data of the Internet makes information data open and transparent, which helps alleviate the information asymmetry between traditional financing institutions and SMEs. The main body of the Internet financial platform attracts fund providers through higher yields, and uses third-party payment platforms to solve the transaction costs of both the supply and demand of funds at a lower price.

Internet finance mainly relies on computers to complete its business transactions, which has greatly increased the speed of its financing services. With the gradual implementation of regulatory measures, the Internet financial industry will continue to standardize and work to eliminate unqualified platforms, and compliant and legal Internet financial platforms will become pillars. In addition to the standardization of the platform market, the financing process has also been vigorously monitored. Strengthening supervision from all aspects is conducive to providing a perfect financing environment for SMEs.

However, Internet finance will also have a negative impact on SMEs. The biggest reliance of Internet finance on SME financing services is its big data advantage. While seeing this advantage, the security issues it brings cannot be ignored. The information of Internet finance is completely open and visible, and can be backed up indefinitely. The speed of information dissemination is almost comparable to the speed of light. A slight leak of data will cause unpredictable serious consequences. Therefore, making every effort to ensure the security of financing data has become the response of Internet finance Great challenge.

In addition to the market, interest rates, and moral hazards that the traditional financial industry will encounter, due to the special nature of the industry, Internet finance must also deal with its own unique risks. A little attention will cause legal problems. Compared with the non-public network of the traditional financial industry, the fully open network communication system used by Internet Finance is vulnerable to virus attacks. For start-up SMEs with insufficient security measures, it will cause great damage and loss. Therefore, how to deal with various risks in the mutual gold industry has become a difficult issue.

The Internet financial model provides more convenient and efficient financing channels for SMEs, but Internet finance does not have a strict credit supervision system like banks. This online financing model is not very binding on the compliance of SMEs. It is easy to cause bad debt losses due to overdue repayment or bankruptcy. This is the so-called most frequent credit problem.

3. Recommendations

Banks should actively use Internet thinking and big data technologies to expand the scale of online financing; they can also actively explore investment-loan linkage business models to promote the development of technology-based SMEs.

Internet finance, as a new financial force, has played a great advantage in the sales of financial products, but it is slightly inferior in terms of financial product design. Therefore, Internet finance should actively make up for this deficiency. First of all, the Internet financial platform must increase the design of innovative financial products in accordance with customer needs, and combine the advantages of the Internet to give play to its own advantages to develop credit products with flexible loans and repayment methods for SMEs. Secondly, most Internet financial platforms belong to Internet companies, so there is no shortage of scientific and technological talents, and more of them lack highly sophisticated financial talents. Therefore, Internet financial companies should actively introduce financial talents and cooperate with relevant universities and research institutions to develop financial products that meet their corporate positioning.

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