An Explore of Financing Source of Small and Micro-sized Enterprises Under Internet Financial Background

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Abstract. Currently China’s small and micro-sized enterprises are facing problems and difficulties in many ways. Among them financing is a most realistic issue concerning enterprises’ survival and development. From the beginning of “Internet plus” era, internet financing starts to widely serve the small and micro-sized enterprises with the feature of low-cost, mass data application and convenient usage. It makes finance more equal and flattening for small and micro-sized enterprises using its platform and resource advantage. Meanwhile, it provides new source for the small and micro-sized enterprises financing, enhancing the financing mode’s width and innovation and lowering its financing difficulty. It also contributes in the fund support and resource provision in the small and micro-sized enterprises’ future development.

1. The Definition of Internet Finance

Internet Finance is a new type of finance based on internet tools such as cloud computer, social internet and search engine to fulfill its fund finance, payment and information agent function. Internet finance combines internet and finance, and provides its service with more convenient experience, lower middle cost, more flexible structure, more extensive participation on the principle of “openness, equality, cooperation, and share” [1]. The internet finance normally refers to the financial innovation service that internet companies provide based on internet, such as Alipay, Tenpay, P2P loan, crowd funding, Yuebao, etc. From a broader mind, the internet finance also included the business which financial institutions operate through internet, such as e-bank, financial intermediaries.

2. The Current Situation of China’s Internet Finance

2.1 Large population of users with extensive coverage

With the wide spread of internet, China’s internet users are increasing steadily. Till June 2016, the amount of China’s internet users is around 710 million, including mobile phone internet users of 656 million. In Year 2016 the transaction volume of China’s third-party payment transaction is over 4.6 million, with an increase of 61.9% compare to previous year; the third-party mobile payment transactions are over 6.2 billion, with an increase of 33.4% over year 2015.

2.2 A varied and wide range of internet finance business

The mode of internet finance keeps innovated and enriched: it is operated from the original financial institutions only internet companies being involved till now; from the primitive online bank to a wider range of third-party payment, P2P internet loan, crowd finance, online sales of insurance [2]. Also, with the penetration of internet technology to finance field, the transaction cost and the level of information asymmetry are both lowering down, thus the efficiency of financial transaction is increased.

2.3 Internet companies provide financial service through dig out and analyse of mass data

Ali small loan can be a good example for internet companies’ operation mode: it provides non-guarantee and non-mortgage small loans to small and micro-sized enterprises and individuals
after their credit check and assessment, which is based on internet companies’ data collection and analysis technology. While JingDong mall, SuNing Mall’s supply chain financial mode is to provide their suppliers loans guaranteed by the suppliers’ future cash inflow, which is estimated by their suppliers’ evaluation system, checkout system, online bank, and bill process system.


3.1 Improve the accessibility of financial resources

The application of internet skill under the “openness and share” concept in the financial services improves the accessibility of financial resources. There are certain underprivileged excluded from the service of financial institutions and is lack of chains to gain financial service [3]. However, the internet finance mode does not have the time or geographical restriction. Through internet, those people can access to the financial resources they originally could not be able to access.

3.2 Provide the diversified service mode

The finance sources are completely from society through the mode of internet finance. The fund providers can be individuals or companies. Thus, the working capital is more flexible and the fund resources for the small and micro-sized companies are ample. Internet technology provides advanced ways in business process such as third party payment platform, breaking the geographical and time restriction of bank transfer of cash payment. By using a computer or a smart phone, transaction payment can be done anywhere and anytime, the transaction way and payment method under internet finance can be more convenient to meet the needs of flexible working capital. And also, the combination of internet technology and mobile terminal is a solid backup for the payment process [4].

3.3 Reduce the information asymmetry

Information asymmetry is a main risk of credit market. Small and micro-sized companies is featured by its lack of financial records, financial statements, mortgage, low transparency of information, therefore it is very difficult for bank to understand the real business status of small and micro-sized companies, so that information asymmetry is its biggest bottle neck of its financing activities. The openness and interaction of internet enable more efficient and convenient information spread and exchange: through social internet, varied company and personal information is recorded, the loaners and borrowers can check them up in the internet; banks can multifariously understand small and micro-sized companies’ operation and credit status; hence the level of information asymmetry can be reduced. The high information spread under internet era also increases the cost against default, because once small and micro-sized companies break the contract, the bad credit record will affect their credit rating and furthermore affect their financing.

3.4 Lower the transaction cost by internet “De Intermediary”

Under the internet finance mode, the small and micro-sized companies get their finance from online direct contact with fund providers: the fund providers announce their information on the internet platform, and the suppliers and demanders finalize the transaction through internet information selection, resource match, price match, transaction. During this process, they do credit assessment based on credit records provided by mass data technology, therefore they skip the channel of tradition before-loan and mid-term investigation, simplifying the operation and effectively reducing financing cost.

4. The Financing Mode of Small and Micro-sized Companies under Internet Finance

4.1 Small loans under e-commerce platform

Under the mode of e-commerce, merchants’ business information, sales results and credit status
are detailed recorded under the e-commerce platform. Through the mass data analysis, the e-commerce platform will understand the consumers’ consumption requirements and preferences, assess the merchants’ credit and risks, evaluate the companies’ loan application and conclude whether it is practical and a loan should be approved or not. The typical mode of small loans under e-commerce platform is Ali’s small loan company: it assesses applicants’ debt solvency and makes credit check through online platform, finally it provides non-guarantee, non-mortgage loans. It is featured by quick checkup and fast approval. By the cloud computerizing technology, the small and micro-sized enterprises’ mass data can be assessed and the online small loan providers can quickly and accurately make assessments and reactions toward large volume of loan applications.

4.2 P2P internet loan platform

P2P (peer to peer) internet loan platform originated in small loan market and it is an advanced stage of small loan market. The internet loan platform select and match fund providers and seekers. The borrowers seek for the potential group which is capable and willing to lend through the loan platform, and the lenders filter and select the attractive interest rate bear borrowers through internet platform. Through internet loan platform, mutual parties adjust their cash flow balance and complete their capital needs and supplies. P2P internet platform is characterized by flexible mode, low entry threshold and low cost. It soothes the financing difficulty of small and micro-sized enterprises, expanding investment channels for investors to accelerate the flow of funds and circulation.

4.3 Crowd financing platform

Crowd financing platform is an internet platform on which founders show their projects’ prospect to raise the fund they need. Whether they can get fund depends not only on their projects’ marketing future and marketing value, but also the likelihood of public preference and willingness-this makes the possible project a wider fund raising scope. The founder will hand in their projects to the crowd financing platform to be approved; the approved projects will be exhibited and broadcast on the crowd financing websites. If the potential investor is interested and willing to invest, he or she will provide fund through online payment. However, to regulate the various projects and the fund-raising market, all initiated projects must set up fund goals and fund raising time restriction: under the set days, if the amount fund raises is or over the set goal amount, the founders can access the raised fund, if not, the raised fund must be refunded in full amount [5]. Under this fund-raising environment, small and micro-sized companies have more opportunities to gain the capital they want; however, they need to have good projects to attract the investors.

5. The Financing Risk of Small and Micro-sized Companies Under Internet Financing Mode

The development of internet financing provides small and micro-sized companies new opportunities, greatly soothing their financing difficulties. Meanwhile, they need to pay the price for the internet financing’s flexible and high efficient service.

5.1 The risks brought by the internet financing and internet security

Internet finance provides convenient and quick service for small and micro-sized companies using its own mass data and information technology skills, and the small and micro-sized enterprises also bear certain security risk for the price of convenience they get from internet finance. The financing service is highly depending on the recording of mass data and cloud computer, and if something goes wrong in the latter, this will result in the untrue credit assessment of small and micro-sized companies and the following losses. Also, due to the fast spread of internet information, once there are security vulnerabilities in online platform, the small and micro-sized companies will face the losses of information leakage, account stolen, and assets impaired.

5.2 The operating risk in the internet finance industry

China’s P2P industry is still at its early stage and there are problems such as insufficient credit
risk management, high platform risk, and no specified Custodian institution. P2P’s operating risks are mainly the moral risk brought by low industry entry threshold, messy participants’ qualification and the ineffective operation of platform, financing risk arising from the process of fund raising and the insufficient management of staff, and the legal risk of illegal fund raising, the worst of which is fraudulent fund-raising.

6. Conclusion

The emergence of internet financing breaks the traditional financing mode and pounds on China’s commercial bank. More and more merchant banks attach importance to the financing problem of small and micro-sized companies and invent financial products suitable for them on light of new thoughts brought by internet financing. Internet finance produces new opportunities for financing of small and micro-sized companies from the advancement of mass data and cloud computerization. The future trend will see the continuously penetration and harmonization of internet finance and traditional merchant bank, and more personalized service for small and micro-sized companies.

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