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The significance of online credit platforms for SMEs: digital third-party financing still a niche product

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The onward march of digitalisation has not stopped at corporate finance. And so it is now possible to arrange financing through online credit platforms operated by digital service providers in the internet. However, little is known about the significance of digital third-party financing for SMEs in Germany. The KfW SME Panel now presents representative results for the first time.

The findings show that digital third-party financing for small and medium-sized enterprises (SMEs) via online credit platforms is still very much the exception: In 2018/2019, around 77,000 SMEs used this option to arrange financing worth a total of EUR 3.4 billion over the two-year period. Although this mostly comprised small-scale financing, it nevertheless plays an important role for the enterprises in question in terms of their external financing. There was only a small amount of movement in 2020/2021. In the short term, this indicates rather slow growth in the importance of online credit platforms. Above all companies with high financing requirements (for example for investment, innovation, digitalisation) and companies that are active online and internationally plan to make above-average use of online credit platforms.

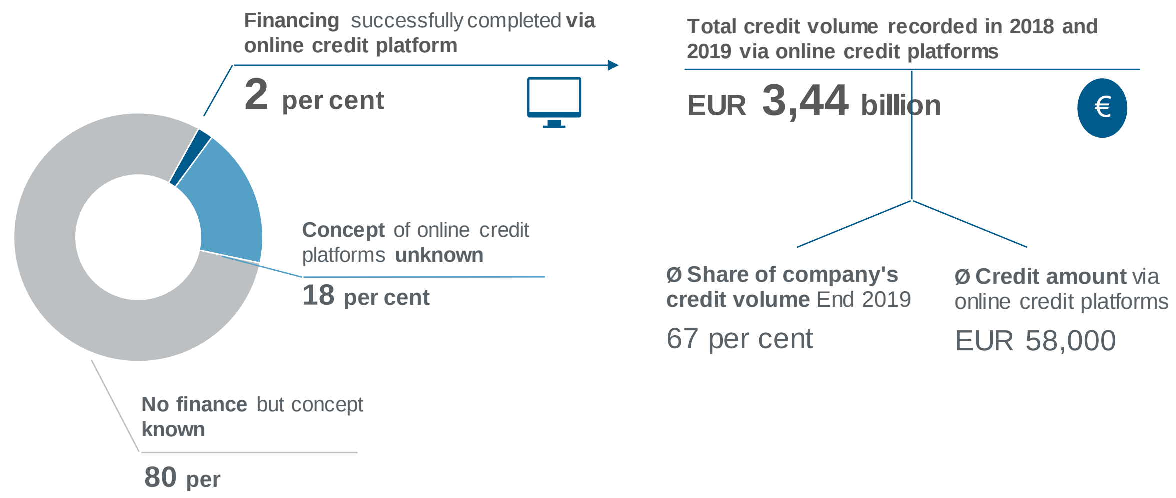
The advantages and disadvantages of digital service providers as opposed to traditional (principal-bank) financing are clearly distributed according to the companies: rapid financing approvals and simpler application procedures are a definite plus for credit platforms. On the other hand, the lack of personal contact and trust in the financing partner are clearly competitive disadvantages. Here, the extremely close and frequently long-term ties between SMEs and their banks – coupled with personal relationships – come into play.

However, the coronavirus crisis may be paving the way for change. The closure of bank branches in the wake of the pandemic has boosted the use of digital communication channels. The providers of digital financing services, such as online credit platforms, could benefit from this development in future.

The corporate finance market has long been in the process of becoming more diverse and more digital. In particular FinTechs – young enterprises with innovative digital technologies in the financial services sector – are pushing ever harder into the interface between companies and banks. As online credit platforms, they also want to compete with the traditional services offered by the SME's principal banks. Many of these credit platforms have muscled into the market in recent years, aiming to find favour with small and medium-sized enterprises by offering faster and simpler application procedures and bespoke financing services.

The term "online credit platform" is understood here as a collective term for digital platforms as a source of external funding. We differentiate between three types of credit platform, depending on the depth of penetration in the credit value

Figure 1: Use of credit platforms by SMEs in 2018 and 2019



Source: KfW SME Panel 2020.

Note: This paper contains the opinion of the authors and does not necessarily represent the position of KfW chain: 1. Purely comparative portals on which, in response to an enquiry, SMEs are offered specific credit services from numerous financing partners; 2. Sales portals on which the financing products of one or a small number of partner banks are offered; and 3. Credit marketplaces that bring together private borrowers and private and institutional investors in a crowd-lending approach (see info box).

In recent years, online credit platforms have without question attracted greater attention. But are they really serious competition for traditional lenders, such as banks and savings banks? In the framework of the KfW SME Panel[1], a representative data-based assessment of the significance of online credit platforms for financing the medium-sized enterprise sector in Germany was undertaken for the first time. The focus was on sales platforms and credit marketplaces; purely comparative platforms were not considered.

Credit financing for SMEs via online credit platforms still very much the exception

The results of the study show: for SMEs, borrowing via online credit platforms still plays a relatively minor role (Figure 1, left side). In 2018 and 2019, around 2% of all companies successfully arranged financing via a platform of this kind. This encompasses short- and long-term bank loans, including current account loans and working capital loans.

Almost one in five SMEs is fully unaware of the online credit platform concept (18%). In other words: 82% of all enterprises are at least familiar with the possibilities offered by these financing options. The great majority of SMEs are therefore aware of the corresponding concepts but did not use a platform for financing or borrowing purposes in 2018 and 2019 (80%). Online credit platforms are therefore currently a long way from being used across the SME sector as a whole.

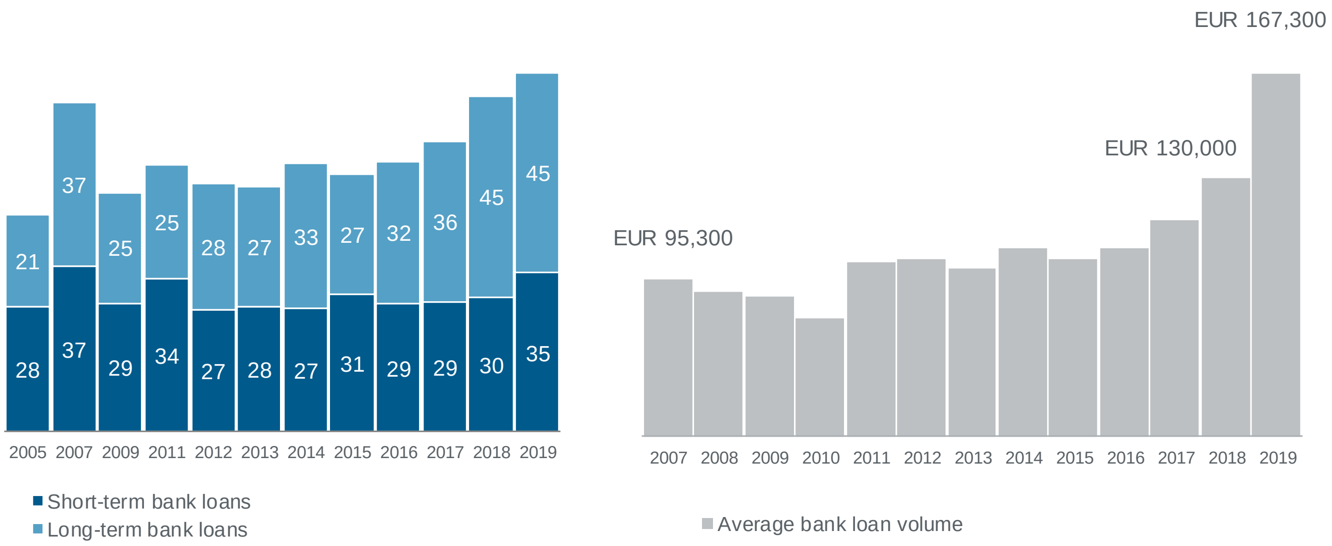
Average financing volumes still low

In 2018 and 2019, SMEs took out an aggregated credit volume of around EUR 3.44 billion via online credit platforms (Figure 1, right-hand side). The average financing amount in this period amounted to EUR 58,000, while half of all the financing arrangements were for amounts up to a maximum of EUR 30,000 (median value). Assuming an equal distribution over the two years, the average aggregate amount is around EUR 1.7 billion per year.

The average size of the loans taken out via the platforms is reasonable and much smaller than the average investment loans arranged by SMEs. According to the KfW SME Panel, the average volume of bank loans taken out to finance new investments was most recently at EUR 167,000[2] – almost three times as high as the financing arrangements via online credit platforms. It follows that online credit platforms tend to be used for small-volume financing. This can be seen as an indication that online platforms are used to a greater extent for working capital financing. Working capital loans are often small scale and generally required at short notice. We presume that the comparatively rapid approvals issued by digital service providers play a major role here (see also Figure 8 and the corresponding section).

Figure 2: Credit financing for SME investments

Left-hand side: Aggregate borrowing volumes for investment financing in EUR billion according to repayment periods



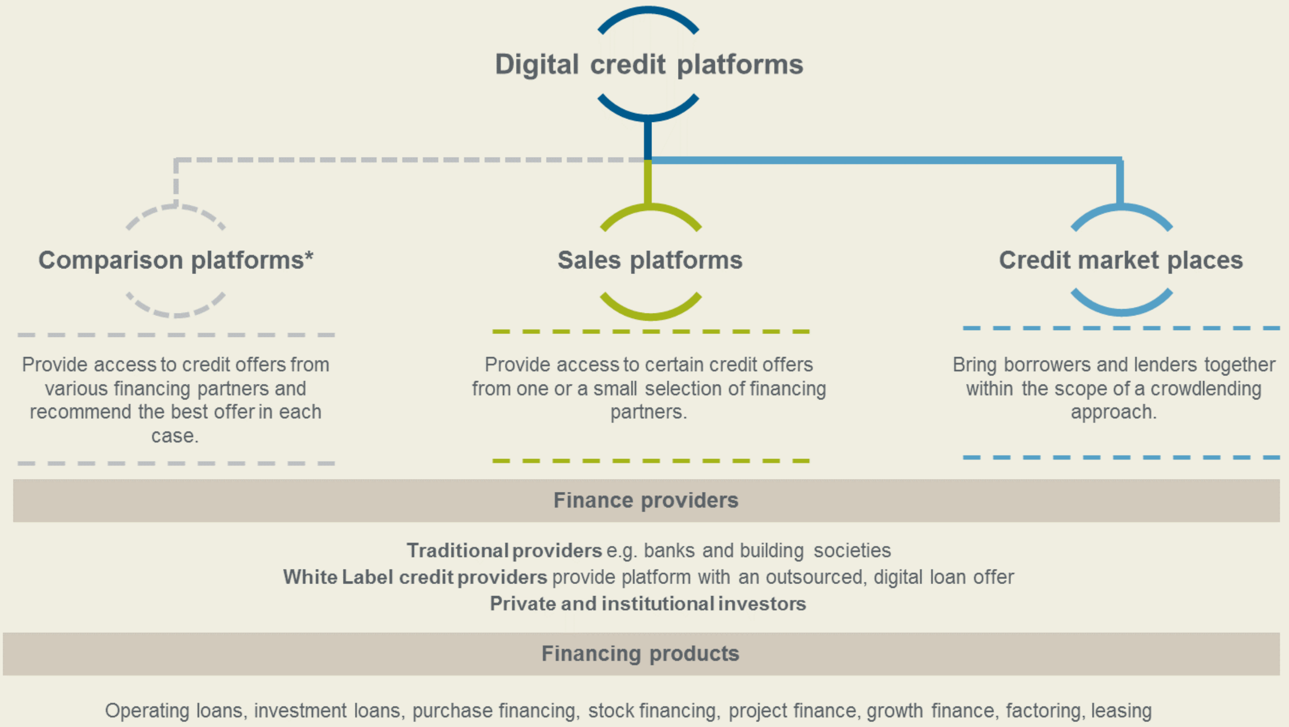
Source: KfW SME Panel 2006-2020.

Info box: Online credit platforms

Online credit platforms are digital platforms for sourcing external funding. These platforms are generally operated by FinTechs – young enterprises as a rule that want to offer their clients tailored financial services more simply, more quickly and at lower cost. They set store in particular in innovative digital technologies. Initially focusing chiefly on the private client sector, they have increasingly turned their attention to corporate clients in recent years. The emergence of online credit platforms is thus part of a global trend towards greater digitalisation in financial services.

As FinTechs generally do not have banking licences, they have to work with partner banks in order to be able to offer loans. A wide range of cooperation forms has consequently emerged on the market between FinTechs and banks/savings banks. We can basically differentiate between three types of credit platform, depending on how deeply they penetrate the credit process value chain – overlaps are possible (Figure 3).[3] However, all three forms have one thing in common: the loan application process is digital and automated. As a rule, only the most important financial information is needed from the company in order to ascertain its creditworthiness (e.g. annual financial statements, business evaluations, bank statements). In a very short space of time, applicants are informed whether financing is possible. A broad range of financing products is on offer, e.g. working-capital loans, investment credits, growth credits through to leasing, factoring, procurement financing and subordinated loans.

Figure 3: Types of online credit platform



Note: *Due to their purely intermediary nature, comparative platforms were not included in the quantitative analysis of this study.

Sources: Barkow Consulting/Solarisbank, independent research.

Comparison platforms

Digital comparison platforms function as an intermediary between borrowers and numerous financing partners. Company-relevant documents are rapidly prepared using digital processes, and the most appropriate financing services are then recommended to the company. These platforms thus create greater transparency and allow more detailed comparisons of conditions and prices. For banks and savings banks, they open up further sales opportunities – in particular cross-regional.

Sales platforms

In contrast to comparison platforms, sales platforms are operated by only one or a small number of financing partners. These can be traditional lenders (e.g. ING Diba for Lendico) or white label lenders (e.g. Solarisbank).

Credit marketplaces
Digital credit marketplaces penetrate furthest into the bank value chain. They basically adopt a crowd-lending approach. Interested enterprises first post a financing enquiry on the platform. Using the financial information supplied by the company, a data-based risk analysis is carried out as the basis for determining individual financing conditions. If the company has received and accepted the offer of a loan, this loan is then offered for sale to investors. As there is generally no need to provide collateral, smaller companies with limited assets also have a good chance of arranging loans on digital credit marketplaces. However, compared to secured loans, interest rates tend to be higher. As the regulations require institutions that grant loans to have a banking licence, these credits are not extended by the platform itself but by a fronting bank. This then sells the loan claim or transfers the loan commitment to a company associated with the platform. This company then sells and transfers the loan claim in tranches to the investors that have previously provided a financing commitment via the platform.

Credit platforms nevertheless of great importance in individual cases

For companies that have used online credit platforms for their financing projects, this financing option is very important: up to the end of 2019, the average share of financing arranged via online credit platforms compared to the overall loan portfolios of the companies – including short- and long-term bank loans, current account loans and working capital loans – amounted to a considerable 67%. At one in two companies, the proportion was a full 100%. In other words, these SMEs managed all their external financing requirements via online credit platforms. This indicates that in this (albeit small) segment, a complete substitution rather than an extension of traditional bank financing has taken place.

Traditional credit financing via banks and savings banks dominates in the SME sector

For providers of digital third-party financing however, securing a significant portion of all external financing in the SME sector in Germany is presumably still a bumpy road. This is primarily due to the is traditional and extremely close relationships between SMEs and the banking sector in this country. Most companies have stable business relationships with their principal banks that have developed over many years: around 90% of all SMEs have relations to such a bank going back an average of 20 years.[4] Gaining a foothold in such a well-established framework can be difficult and time consuming.

Traditional bank finance plays a correspondingly major role in the provision of credit to SMEs. Alone in 2019, borrowing for investment financing from banks and savings banks reached EUR 81 billion, the highest level to date (Figure 2, left side). This means that over one third of the annual investment volume of small and medium-sized enterprises (SMEs) is met through bank loans (36%, around half is accounted for by company-own funds). Of this, around EUR 35 billion was taken as short-term bank loans or used as current account loans/overdraft facilities and EUR 45 billion was accounted for by long-term loans.

It is not currently possible to put an exact figure on the proportion of financing provided by credit platforms in relation to overall credit financing for SMEs. It is possible, however, to make a rough estimate. For this purpose, we assume that the annual financing volume of around EUR 1.7 billion via online credit platforms is accounted for in full by SME loans for investment purposes. This would then give us a share of 2.1% of SME credit volumes for online credit platforms in 2019. However, this would not take account of working capital loans, which are not recorded in the framework of the KfW SME Panel. If all other financing objectives are taken into account (and added to the stated EUR 81 billion), the share of the online credit platforms decreases correspondingly. The figure of 2.1% stated above is therefore to be taken as the upper limit.

Around 35,000 – 40,000 financing arrangements for SMEs each year

A glance at the number of borrowers also gives a clear indication of the still growing market for online credit platforms. In 2018 and 2019, a total of 77,000 SMEs successfully arranged financing via the platforms (2% of all companies, see above).

It is unclear, however, what proportion of the total amount falls in each of the two years under study. We do know that 86% of the borrowers using an online credit platform made only a single financing arrangement, 8% arranged financing twice and 6% three or more times. It therefore seems plausible to assume a roughly equal distribution of between 35,000 and 40,000 borrowers each year.

For a comparatively new business segment, such as the digital credit market, these are positive figures. However, a comparison with some parameters of the KfW SME Panel shows that there is still plenty of room for improvement:

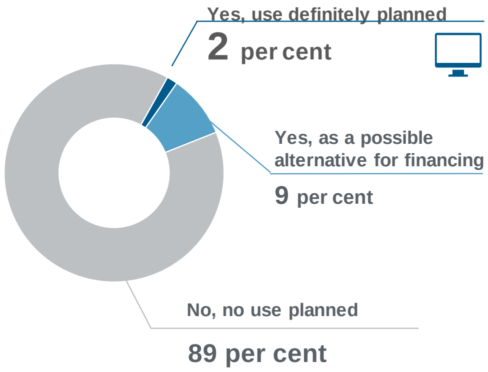
– In 2019, around 485,000 SMEs used bank loans in order to finance their investment projects.[5] In the previous five-year period, the average annual figure was almost 580,000 enterprises. Here, the focus is solely on companies taking out loans for investment purposes.

– In 2019, around 2.2 million companies arranged at least one business appointment at the branch of a bank or savings bank (for example for consultations in connection with a business account, negotiations on investment loans, working capital financing etc.). This corresponds to 57% of all medium-sized enterprises in Germany.

Interim conclusion: Digital credit platforms have been a niche service provider thus far

Until the outbreak of the coronavirus crisis, digital third-party financing via online credit platforms had been unable to establish itself across the SME sector as a whole. Platform-sourced lending remained primarily a niche product until the end of 2019 – although there was talk of certain growth potential. In summary: with few exceptions, comparatively small-scale financing volumes were involved, but for a large proportion of the companies in question, and these assume a significant role in their external financing.

Figure 4: Planned use of online credit platforms in 2020 and 2021



Source: KfW SME Panel 2020.

Online credit platforms only marginally more important in 2020 and 2021

The expectations recorded in the survey in spring 2020 regarding the use of credit platforms in 2020 and 2021 indicate little change in the importance of credit platforms in the short term. Of the SMEs that are familiar with the online credit platform concept, around 2% were certain about their plans to arrange credit financing via a platform in 2020–2021 (Figure 4). A further 9% at least considered online credit platforms as a possible financing option. In other words, around 11% of SMEs said they at least intended to use the platforms, although the actual implementation of their plans naturally remains unclear. In contrast, 89% of the SMEs stated they would not use these platforms in the two-year period – despite the general level of awareness.

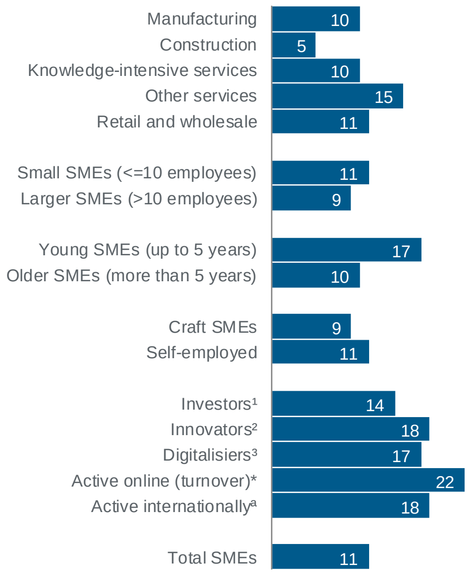
SMEs with increased financing requirements are very interested in credit platforms

There are only minor differences between SMEs that intend to arrange financing via online credit platforms ("certain" and "possible" grouped together) and businesses that do not. From a sectoral perspective[6], SMEs in the other services segment plan to use credit platforms somewhat more frequently, whereas their use by SMEs in the construction sector is below average (Fig. 5). The size of the company makes hardly any difference. The average number of employees also provides little indication of significant structural differences (6.3 FTE for users vs. 7.8 FTE [7] for non-users). On the other hand, younger companies plan to use online credit platforms much more frequently than older companies (17 vs. 10%).

The levels are noticeably higher for businesses that have higher financing requirements due to their business activities: investors (14%), innovators (18%), internationally active companies (18%) and SMEs engaged in digitalisation activities (18%) are clearly more likely to be in the group of companies that want to use online credit platforms. In particular, companies with online sales are twice as likely (22%) to intend to use credit platforms compared to the SME average.

Figure 5: Proportion of companies intending to use online credit platforms in 2020 and 2021

Proportion per segment, in per cent



NB: [1]Company implemented investment project(s) in 2019. [2]Company developed successful innovations in the period 2017–2019. [3]Company concluded digitalisation project in the period 2017–2019. *Company recorded turnover via online sales channels in 2019.
[a]Company recorded turnover abroad in 2019.

Source: KfW SME Panel 2020.

Planned volumes show a moderate increase – more large tickets planned

In terms of planned financing, there is a slight increase as compared with 2018 and 2019. Companies in the group that, with greater certainty, are planning to borrow via online credit platforms are aiming for total financing of around EUR 3.8 billion for 2020/2021.

Average financing amounts have grown to a planned EUR 111,000, around double the figure from the reference period. While the median value has increased to EUR 50,000, the average values for 2020 and 2021 have been driven even more strongly by a higher proportion of large-volume financing plans. Again assuming an equal distribution of the plans over the two years, the average would be around EUR 1.9 billion per year. However, due to the impact of the coronavirus crisis on corporate financing requirements, there may be deviations from the expectations expressed in spring 2020.

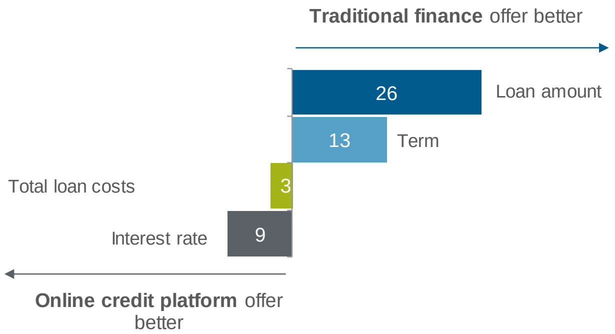
Borrower assessments: platforms lead on interest but lag behind on loan amounts

Online credit platforms are in competition with the traditional lending services offered by banks and savings banks. Credit platforms gain points above all for speed, the minimum effort involved and the comparatively low financing costs. Those companies that successfully arranged financing via online credit platforms in 2018/2019 were requested to compare the various components of the credit offer they received with an offer from a traditional lender. The assessments of the credit offers from online credit platforms show that traditional credit financing from banks and savings banks has the edge over online credit platforms for the actual borrowers (Figure 6).

The gap appears particularly marked in terms of the loan amount: Here, the balance of advantage points for traditional bank loans as opposed to online credit platforms is highest at +26. This assessment is in line with the fundamental insight that the average financing amounts at online credit platforms are considerably lower (see above). But also with regard to the term of the loan – especially in this context flexibility and closeness of fit – traditional financing partners perform better from the company's perspective. The balance is +13 advantage points.

Figure 6: Ex-post offer comparisons by the actual users of online credit platforms

Figures show the balance as a percentage



Note: A five-point scale was used for the assessment, with the middle category representing a neutral rating. The balances show the proportion of responses for "advantage for traditional financing" minus the proportion of responses for "advantage for the credit platform". Only companies that arranged credit financing from an online credit platform in 2018 and 2019 are included.

Source: KfW SME Panel 2020.

No financing partner variant appears to have a clear lead with regard to the overall costs of the loan (+3 in favour of online credit platforms). In contrast, online credit platforms have the edge in terms of interest rate: from the company perspective, online credit platforms – here with a balance of +9 – achieve a considerably better rating than traditional bank financing.

Platform users with a poor equity base

Why did companies nevertheless opt for financing via a credit platform, despite the fact that traditional loan financing clearly had a better rating in some important areas? In addition to time and cost, one possible reason could be lack of access to traditional credit finance. This may also explain why digital finance accounted for such a considerable share of the overall credit volume for a large proportion of platform users (see section above) – there were perhaps no alternatives.

At the latest with the implementation of Basel II in 2007, banks and savings banks had to gear their lending more closely than before to the creditworthiness of potential borrowers. The more risky the borrower, the more equity capital the credit institution must keep in reserve. The loan thus becomes more expensive or in some cases is not granted at all. As a result of this regulatory framework, a company's creditworthiness has a significant influence on its chances of successfully negotiating a loan.

Many medium-sized enterprises have responded to this development by bolstering their own equity capital – an important indicator of a company's financial stability. The average equity ratio of German SMEs has risen considerably since the turn of the millennium and reached a new record of around 32% prior to the outbreak of the coronavirus crisis. But not all were able to keep pace. Some 28% of medium-sized enterprises had comparatively low capital cover at the end of 2019 (equity ratio below 10%). This primarily affects small and young companies. These enterprises often do not have a credit history or an established relationship with the lender. They therefore find it harder to provide credible assurances that they represent a low risk. Their success ratio in loan negotiations is thus noticeably lower than is the case for larger firms.[8]

In contrast to banks, credit platforms – in particular credit marketplaces – can generally pass on the loan default risk to the investor (who then receives higher interest as risk premium). They are therefore able to cover segments of the business sector that, because of their risk profile, are either unable to avail themselves of the services of traditional credit institutions or are faced with unfavourable conditions if they do. This also explains why many online credit-platform users evaluate the interest rates of digital loans as more advantageous than those offered by traditional lenders.

A comparison of the equity ratios of the users and non-users of online credit platforms confirms the differing risk profiles (Fig. 7). With an average equity ratio of around only 20%, the equity buffer of platform users is markedly less robust than that of the companies that have not used credit platforms to date (31%) or are not familiar with them (36%). To date, credit platforms have therefore appealed in particular to companies with a higher risk profile.

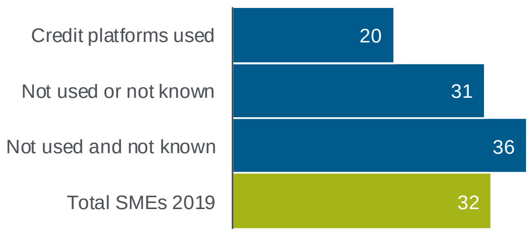
Clear distribution of the advantages and disadvantages of financing alternatives in some cases

In addition to the companies that used online credit platforms in 2018/2019, all SMEs that were familiar with the concept or that planned to use these platforms in 2020/2021 were asked to assess various conditions that, in their view, favoured borrowing via online credit platforms or using traditional credit financing (for example from a branch of their principal bank) (Figure 8). 52% of SMEs are of the opinion that online credit platforms have a (small or clear) lead in terms of the speed of financing approval. Only 21% of the companies ascribed such an advantage to traditional bank financing. Online credit platforms also have a clear advantage in terms of simpler application procedures (39 vs. 26%).

An undecided verdict was recorded in the assessments of a broad range of criteria. Neither of the two variants was deemed by the companies to have a clear advantage with regard to transparency and documentation, collateral requirements and creditworthiness checks.

Figure 7: Average equity ratio in relation to the use/non-use of credit platforms in 2018/2019

in per cent



Source: KfW SME Panel 2020.

Personal interaction is a clear competitive disadvantage for platforms, primarily because SMEs are very loyal to their principal bank

In contrast, it is clear for the companies where the advantages of traditional bank financing lie: as far as aspects of personal interaction play a role, SMEs feel that traditional bank financing has a lot going for it. Both in terms of personal availability (68%) and trust in the financing partner (65%), traditional bank financing has a big lead.

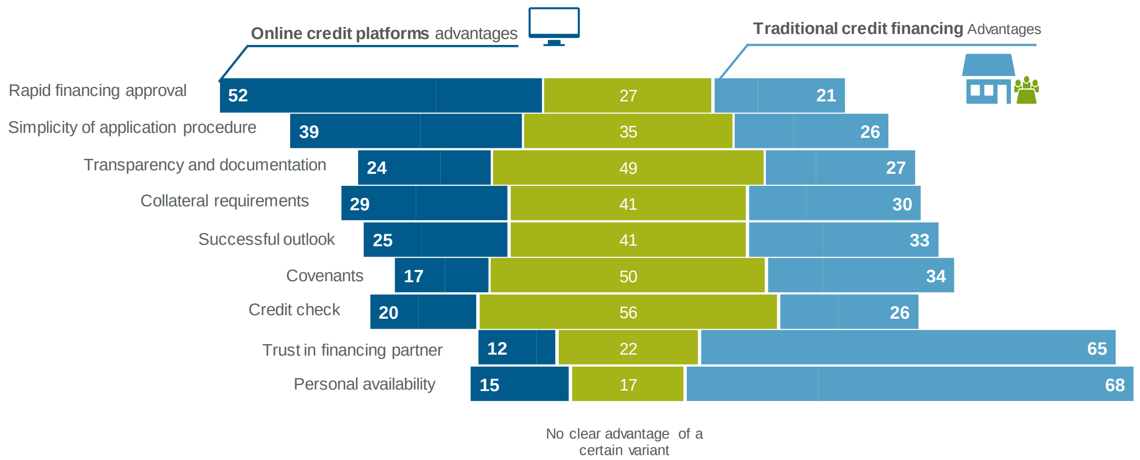
Here, the extremely close and frequently long-term ties between many SMEs and their banks come into play (see above). This presumably inhibits strong growth among digital service providers. Why? A number of advantages are generally associated with close relations between a company and its principal bank: the asymmetrical distribution of information means that lenders often have great difficulty or incur high costs in assessing overall creditworthiness or the chances of success of the investment projects to be financed. In many cases, there is no credit history and the company has little possibility of proving its low-risk status. The costs to the credit institutions of eliminating these information deficits are considerable. As a result, they may add risk premiums to the interest rate and require more collateral or documentation, or generally lend less and charge more.

Relationships between companies and lenders that have grown over time and through repeated transactions can reduce these information asymmetries. And “soft information” also flows better. This information is not included in company statistics and reports but is nevertheless drawn on in risk assessments and can play a significant role in credit decisions. Examples are management qualities, the reliability or life situation of the owner, the long-term strategic objectives of the company, possible succession scenarios or the extent to which the entrepreneur adopts a risk-averse or risk-friendly approach.

Furthermore: many company owners or managers have known the advisors at the credit institutions personally for a long time – new market players, such as online credit platforms, do not have such advantages. For new competitors in this environment, breaking into an established network, securing market share and gaining a foothold across the SME sector is presumably a major challenge at first.

Figure 8: The advantages and disadvantages of online credit platforms and traditional credit financing from the SME perspective

Response distribution as a percentage



Note: Included are companies that have already concluded a credit financing transaction via an online credit platform, companies that have planned to do this in 2020 and 2021, or companies that at least consider this a possible financing option. The question was: “Online credit platforms are in competition with traditional lending services offered by banks and savings banks. If you compare these with regard to the following aspects: What in your view spoke or would speak in favour of obtaining a loan via an online credit platform or from a traditional lender (for example a branch of the principal bank)?”.

Source: KfW SME Panel 2020.

Almost three quarters of SMEs (still) see no need to use online credit platforms

The fact that medium-sized enterprises have – at least so far – obtained sufficient third-party financing via other channels is also reflected in the fact that 71% currently see no need to use online credit platforms (Figure 9). Among those companies that are familiar with the concept, this is the chief reason for rejection. However, for 20% of the companies this does not apply. In principle, there is potential here for the credit platforms.

A little more than half of the companies (52%) reject the opportunities offered by digital third-party finance because they generally do not want to use external sources of funding. In future, mobilising these SMEs will tend to remain difficult. At the same time, this shows the pronounced self-financing capacity of SMEs – not least due to the extremely positive equity build-up since the start of the millennium.[9] Previous studies have also shown that many SMEs value their (financial) independence and therefore do without third-party financing wherever possible.[10] At the same time, the lack of a personal business partner is an inhibiting factor: 55% of SMEs give this as a reason for not using online credit platforms.

In contrast, lack of trust in digital services (31%), lack of transparency (25%) and data protection considerations (24%) play a markedly smaller role. Few companies put down high cost as an argument. Only around one in ten companies sees this as a reason for not using platforms.

Coronavirus pandemic paving the way for digital credit platforms?

In spring 2020, the coronavirus crisis also hit the SME sector with full force.[11] As a result of the pandemic containment measures, the sales of many SMEs suffered partial or almost total collapse. The result was an increased demand for liquidity, which many companies met through borrowing. In the first half of 2020, there was therefore a noticeable increase in the demand for loans. However, there was a marked fall in the demand for bank loans in the second half of 2020 as a result of the moderate economic recovery, the broad range of financial assistance made available by government and subdued investment activity overall. This downwards trend continued in the first quarter of 2021. An upturn in new credit business is not expected before the middle or towards the end of the year.[12]

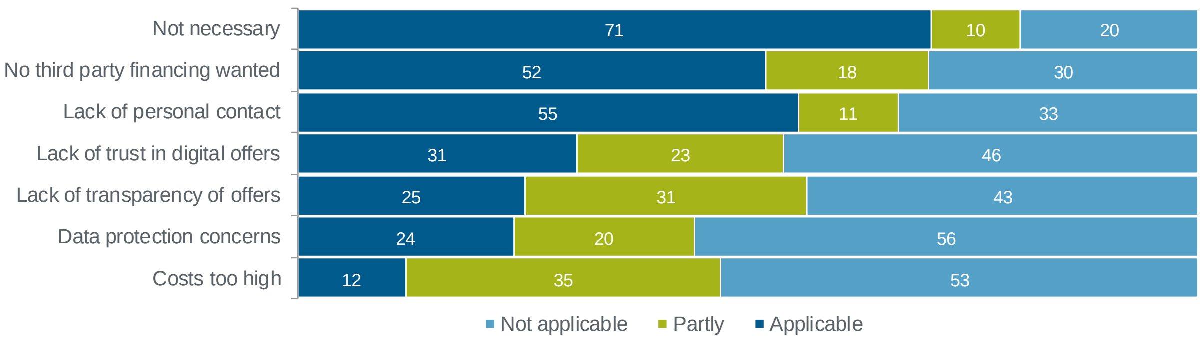
Even if the expected figures for 2020/2021 still give no clear indication of an increase in the use of online credit platforms, the coronavirus pandemic nevertheless has the potential to pave the way for the broader acceptance of digital financial services. Firstly, because banks and savings banks have temporarily closed many of their branches in order to restrict personal contacts and to protect customers and staff. Recently, it has been increasingly reported that some of these branch locations will not be opening after the coronavirus pandemic and will remain permanently closed. The coronavirus crisis is therefore likely to have accelerated the decrease in the number of bank branches. We expect that this will accelerate the transition towards digital channels of communication between companies and credit institutions and so provide considerable impetus to digital solutions in the area of financial services. Online credit platforms could benefit from this.

In addition, many SMEs have expanded their digitalisation activities in reaction to the crisis – up to January 2021, around one in three SMEs did this.[13] And increasing digitalisation will presumably not stop at the financial departments of the companies'. This could also bolster the acceptance of alternative – digital – financing services.

The crisis has also taken its toll on company balance sheets. In mid-May, around one in four SMEs reported equity ratios below pre-crisis levels.[14] The creditworthiness of some companies is therefore likely to deteriorate – which could make borrowing from traditional lenders more difficult. A slight tightening of the credit restrictions has already been observed in recent months.[15] In the search for alternatives, companies could turn their attention more towards online credit platforms.

Figure 9: Reasons for not using of online credit platforms

Response distribution as a percentage



Note: Included are only those companies that have so far not concluded a credit financing transaction via an online credit platform and that are basically familiar with the concept of online credit platforms. The question was: "Why has your company to date not considered financing via an online credit platform?"

Source: KfW SME Panel 2020.

Conclusions

Our assessments based on the KfW SME Panel show: digital loans via online credit platforms are still a niche product and will remain so in the short to medium term. The innovative technological solutions developed by the credit platform operators – together with other FinTechs – have made the market for financial services more dynamic. Nevertheless, financing will remain a matter of trust for many SMEs. Personal contact to experienced advisors is likely to remain hard to replace, also in the future.

However, alternative financing products – such as digital credits – should not be judged solely in terms of how strongly they compete with traditional financing partners. Their added value should be seen rather in the extent to which they too can give companies access to third-party funding, companies that perhaps because of their risk profile have so far fallen through the cracks in services offered by traditional financing partners. After all, they make a valuable contribution to expanding the range of financing options for SMEs. With a view to the financing of important future investments in the fields of digitalisation and climate action – a topic German SMEs will have to tackle in the coming years – this could be of great importance.

At the same time, there are also many opportunities for traditional lenders, such as banks and savings banks, to cooperate with online credit platforms and to benefit from this development. Through digital services, it is not only possible to expand the customer base but also to consolidate existing customer relations. Some traditional financing partners have already started developing and offering their own platform solutions. Others have stepped up their cooperation with digital comparison platforms and sales platforms. And in the meantime, there are also more banks on the investor side of credit marketplaces.

Database: The KfW SME Panel

The KfW SME Panel (KfW-Mittelstandspanel) has been conducted since 2003 as a tracking survey of small and medium-sized enterprises in Germany. The basic population of the KfW SME Panel includes all private-sector companies from all industries with annual turnover of up to EUR 500 million.

With a database of up to 15,000 companies a year, the KfW SME Panel is the only representative survey of the German SME sector, making it the most important source of data on issues relevant to the SME sector. The main survey of the 18th wave was conducted in the period from 12 February 2020 to 22 June 2020.

Further information and the current annual report can be obtained at:
www.kfw-mittelstandspanel.de.

[1] For the most recent edition of the KfW SME Panel with comprehensive results on the status of small and medium-sized enterprises in Germany, see Gerstenberger, J. and Schwartz, M. (2020), KfW SME Panel 2020:Coronavirus pandemic has dampened expectations for 2020 – SMEs entered the crisis from a strong position, KfW Research

[2] For detailed information on investment financing and borrowing by SMEs see: Gerstenberger, J. and Schwartz, M. (2020), KfW SME Panel 2020:Coronavirus pandemic has dampened expectations for 2020 – SMEs entered the crisis from a strong position KfW Research, especially from p. 21.

[3] Solarisbank (2019), Der digitale SME Kredit in Deutschland (*The digital SME credit in Germany* – our title translation, in German only) - A study by Barkow Consulting in cooperation with Solarisbank.

[4] KfW Research provides continuous support for the change processes in Germany's banking sector. Reliable and representative data on the bank connections of SMEs in Germany were collected and presented most recently in 2020. For more details see Schwartz, M. and Gerstenberger, J. (2021), Mittelstand fährt Besuche in Bankfilialen zurück – die Corona-Pandemie dürfte digitalen Kommunikationskanälen Auftrieb geben (*SMEs scale back visits to bank branches – the coronavirus pandemic could well boost digital communication channels* – our title translation, in German only), Focus on Economics No. 313, KfW Research.– Schwartz, M. and Gerstenberger, J. (2019), German SMEs very loyal to their principal bank, Focus on Economics No. 243, KfW Research. Moreover, structural changes are regularly discussed, see: Schwartz, M.; Dapp, T.; Beck, G. and Khussainova, A. (2017), Branch closures: German banks are shifting up a gear amid Herculean challenge of digitisation, Focus on Economics No. 181, KfW Research. – Bernhardt, K. and Schwartz, M. (2014), The network of Germany's bank branches is dwindling, KfW Research, Focus on Economics, No. 49, and Bernhardt, K. and Schwartz,M. (2015), *25 Jahre freier Bankenmarkt in Ostdeutschland – Deutlicher Rückbau seit Wiedervereinigung (25 years free banking market in eastern Germany – noticeable scaling back since reunification – our title translation, in German only),* Focus on Economics, No. 99, KfW Research.

[5] A large portion of enterprises concentrated on short-term loans in 2019 as well. approx. 240,000 SMEs took up a short-term bank loan or made use of overdraft facilities (-11% compared with 2018). Around 116,000 SMEs took up a long-term bank loan (+2%), and some 129,000 SMEs arranged loans with various maturities (-32%).

[6] Under services, we differentiate between the two sub-sectors knowledge-intensive services and other services (excluding retail and wholesale). Knowledge-intensive services comprise service sub-sectors with an above-average share of university graduates in total employment, or services with a strong focus on technology. These include, for example, architecture and engineering firms, law firms, tax and management consultancies, data processing and telecommunication services. The definition is based on what is known as the NIW/ISI list of research-intensive industries and services, which in turn follows the Federal Statistical Office's 'Classification of Economic Activities (WZ 2008)'. Other services include, among other things, businesses in the fields of nursing, education and training, culture and sport. Also included are businesses in the health and social sector or gastronomy and the hotel trade. Manufacturing comprises R&D-intensive manufacturing and other manufacturing enterprises. Research- and development-intensive (R&D intensive) manufacturing is defined as those manufacturing sub-sectors whose average research and development intensity (R&D intensity: ratio of R&D expenses to turnover) is higher than 3.5%. The definition is also based on the NIW/ISI list of research-intensive industries and services, which in turn follows the Federal Statistical Office's 'Classification of Economic Activities (WZ 2008)'. Engineering, medical technology, instrumentation and control technology, vehicles, pharmaceuticals and office equipment are of particular quantitative importance.

[7] As opposed to showing the number of persons in gainful employment, the FTE concept maps actual labour demand. FTE employees are calculated from the number of full-time employees (including business owners) plus the number of part-time employees multiplied by the factor 0.5. Apprentices are not included.

[8] Gerstenberger, J. and Schwartz, M. (2020), KfW SME Panel 2020: Coronavirus pandemic has dampened expectations for 2020 – SMEs entered the crisis from a strong position, KfW Research

[9] For more on the current development of equity ratios in the SME sector see Gerstenberger, J. and Schwartz, M. (2020), KfW SME Panel 2020: Coronavirus pandemic has dampened expectations for 2020 – SMEs entered the crisis from a strong position, KfW Research. --- Gerstenberger, J. (2020), Corona-Krise setzt Eigenkapitalquoten der Mittelständler unter Druck *(Corona crisis puts pressure on SME equity ratios* – our title translation, in German only), Economics in Brief No. 199, KfW Research; Gerstenberger, J. (2021), Licht am Ende des Tunnels – die Lage im Mittelstand entspannt sich *(Light at the end of the tunnel – the situation in the SME sector is improving* – our title translation, inGerman only), Focus on Economics No. 333, KfW Research.

[10] Gerstenberger J. (2018), Hohe Eigenkapitalquoten im Mittelstand: KMU schätzen ihre Unabhängigkeit (*High equity ratios: SMEs value their independence* – our title transaltion, in German only), Focus on Economics No. 206, KfW Research. Gerstenberger J. (2018), Kreditverhandlungen – warum so viele KMU darauf verzichten (*Credit negotiations – why so many SMEs stop short* – our title translation, in German only), Focus on Economics No. 207, KfW Research.

[11] To date, KfW Research has observed and evaluated the consequences of the coronavirus crisis on SMEs in five special studies within the framework of the KfW SME Panel. You will find the results here: Schwartz, M., and Gerstenberger, J., (2020), SMEs are firmly in the grip of the coronavirus crisis but (still) holding on strong, Focus on Economics No. 286, KfW Research. Schwartz, M., and Gerstenberger, J., (2020), Coronavirus crisis in Germany's SMEs:Return to full economic activity still far off, but gradual opening has eased pressure on liquidity, Focus on Economics No. 294, KfW Research. Schwartz, M. and Gerstenberger, J. (2021), Zwar belastet die Corona-Krise den Mittelstand auch zu Jahresbeginn, allerdings bleibt die Lage trotz Lockdowns stabil *(Although the corona crisis is putting a strain on SMEs at the beginning of the year, the situation is stable despite the lockdown* – our title translation, in German only), Focus on Economics No. 315, KfW Research, Gerstenberger J. (2021), Licht am Ende des Tunnels – die Lage im Mittelstand entspannt sich *(Light at the end of the tunnel – the situation in the SME sector is improving* – our title translation, in German only), Focus on Economics No. 333, KfW Research.

[12] Schönwald, S. (2021), KfW Credit Market Outlook: June 2021: Sharp drop in lending – base effect overstates weakness, KfW Research.

[13] Zimmermann, V. (2021), KfW SME Digitalisation Report 2020:Digitalisation activity fell before Corona, ambivalent development during the crisis, KfW Research.

[14] Gerstenberger J. (2021), Licht am Ende des Tunnels – die Lage im Mittelstand entspannt sich (*Light at the end of the tunnel – the situation in the SME sector is improving* – our title translation, in German only), Focus on Economics No. 333, KfW Research.

[15] Herold, J.G. (2021), KfW-ifo-Kredithürde: April 2021: Large companies find it easier to access loans again – banks remain restrictive for SMEs, KfW Research.