

Business finance pivot: are marketplaces or banks better for SMEs?

 By [Lara Du Plessis](#)

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SMEs in South Africa haven't exactly been dealt the best card over the last three years, and on top of these challenges, they've still needed to focus on growing their small businesses. However, despite these challenges, the gross value-added by SMEs in South Africa increased from 18% in 2010 to 40%.



Source: [Pexels](#)

For these small enterprises to continue to succeed, fintechs, financial institutions and lenders need to drive financial inclusion and take care of their needs. So who are the role players in the lending space that are going to make this happen?

South Africa still has huge strides to make when it comes to financial support from the government and financial sector, however, there has been a major evolution in the SME lending space over the past few years. According to [OECD](#), there are 2.6 million SMEs in South Africa, most of which have at some point in their journey needed funding. In order to scale their businesses, and continue to employ more staff, there should be no boundaries to accessing finance. With 32% of SME business owners providing up to 10 jobs, there is a huge need to keep SMEs afloat as they contribute quite significantly to the employed sector and the economy.

Smaller alternative lenders have developed innovative credit decision models, which continue to challenge incumbents in the sector by providing better support for SMEs. The rise of marketplace lending has been fuelled by a need for efficiency and transparency. SMEs want options, and they want to know they are getting the best deal possible and they can only do this if they are able to compare offers and understand all the costs involved in the business loan.

Marketplace platforms facilitate borrower and lender connections. These platforms are designed for efficiency, and the borrower only needs to fill in one application to be matched with multiple lenders. The concept of a marketplace is that SMEs will be able to select the best finance suited to their needs right now. Traditional banks and large lenders often require a lengthier application process, and if SMEs want to compare these offers they need to do it manually.

Business owners and consumers in South Africa have long struggled with a trust factor, which means that going into a branch to apply for a business loan seemed like an obvious solution. However, according to [Boston Consulting Group](#), 86% of South Africans are now ready for digital banking as long as banks and lenders can provide ease of use and secure channels.



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So if marketplace lending seems like a no-brainer for business owners and lenders alike, what's holding these platforms back from taking over the market? The one downfall of this model is that some of these platforms could enable stacking, where an SME signs a loan contract from multiple lenders without the various lenders being aware. This could not only jeopardise the lenders involved as the business is highly likely to default on their debt repayments, but it also runs the risk of placing the SME under major financial stress. More recently, there are marketplace platforms that are making it their business to mitigate stacking by leveraging technology, where an applicant is only able to select one lender from their comparison page.

The future of marketplace platforms could evolve into a one-stop shop for all things lending related, or even merge into super app ecosystems where business owners could buy electricity on the same app they apply for funding. The possibilities are endless, and in reality, there is no real debate of what the better lending option is. Traditional banks will need to embrace the lending landscape transformation by updating their own technology or integrating with marketplace platforms. SMEs now have the power at their fingertips, and business finance marketplaces are enabling faster, better access to funding for entrepreneurs.

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