

Small Businesses Matter: Increasing Small Business Access to Capital in the Digital Age

Financial Innovations Enhance Small Business Lending

Innovations in small business financing promise to make lending faster and more efficient. Both traditional and nontraditional lenders are **digitizing** and using **alternative datasets**, **risk-based pricing**, and **artificial intelligence** to modernize lending practices.

Digitization

- Bringing existing processes online
- Incorporate new technologies and data into operations

Benefit: Digitization can streamline the tedious and lengthy traditional underwriting process by facilitating the sharing, storage, and analysis of applicants' data.

Alternative Datasets

- Use of unconventional sources of information by lenders to gain additional insight into applicant's risk profile
- Those sources get integrated with standard measures such as credit score

Benefit: Lenders develop holistic views of small businesses' financial health and performance.

Risk-based pricing

- Considers individualized data points to create specific risk profiles for borrowers
- Does not rely solely on standardized data and predetermined thresholds

Benefit: Lenders can better assess borrower risk; borrowers can be assured of adequate loan terms.

Artificial Intelligence

- Improves lenders' ability to analyze data, identify patterns, and create consistency in underwriting for borrowers with similar risk profiles
- Machine learning helps predict answers to frequently asked customer questions, improving performance for both live agents and chatbots

Benefit: Speeds up decision making but also helps prevent fraud and mitigate security threats.

Guiding Principles for Future Small Business Lending Policy

1. Establish guidelines and best practices for use of alternative data
2. Ensure small business owners understand their lending options and how decisions are made
3. Encourage responsible innovation in lending
4. Monitor the inclusion of fintech lenders into government-guaranteed lending and incorporate new technologies with existing lenders
5. Create greater flexibility in government small business programs



Read BPC's report, [Small Businesses Matter: Increasing Small Business Access to Capital in the Digital Age](#), to learn more about innovations in small business lending and for guidance for policymakers.

