PYMNTS INTELLIGENCE

February 2024

The Role of Business Cards in Easing the SMB Credit Crunch

B2B and Digital Payments Tracker® Series

What's Inside

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Need to Know

It's Been a Challenging Year for Small Businesses

While 77% of small businesses surveyed in 2022 expressed confidence in their ability to access funding in the form of business credit, a 2023 survey saw that figure turned on its head, with the same share of small business owners — 77% — reporting concern over their access to needed capital. High interest rates and tighter lending standards have had an outsize impact on small businesses this past year, with 61% finding it hard to obtain affordable credit.

More than half of these businesses are also worried about their current lines of credit, with 60% saying that rising interest rates are straining their ability to service existing debt. Inflation continues to threaten small firms' bottom lines, as 71% of owners note that inflationary pressures have worsened since the beginning of

2023. Further, small businesses largely said the economy has deteriorated since 2022 rather than improving or staying the same. For many, these conditions have exacerbated fears of having to close their doors.

Small businesses suffered a reversal of confidence in their access to credit in 2023.

77%
Share of small businesses that were confident in their ability to access credit in 2022

77%
Share of small businesses that are concerned about their ability to access credit in 2023

Need to Know

Many SMBs are relying on personal funds to get by.

Recent PYMNTS Intelligence research found that more than half of small to mid-sized businesses (SMBs) report having no current access to traditional business credit whatsoever. In April, 42% of SMBs reported having access to standard business financing from banks. By July, this share had dropped to 39%.

Big-bank lending to small businesses has been on a downward slide since mid-2022, and even small-bank lending to SMBs remains significantly lower than before the pandemic. As a result of the increasingly challenging credit environment, roughly one-third of SMBs have resorted to using owners' personal credit cards to stay afloat.

SMBs are bearing the brunt of the current banking credit crunch.

39% — **Share of SMBs that report having access to traditional business credit from banks**

33% — **Share of SMBs that have relied on personal credit cards to keep operating**

Need to Know

Business cards offer numerous advantages to SMBs navigating tough times.

The current lending crunch is also driving entrepreneurs to seek out other alternative funding sources, such as business credit cards. In contrast to typical business loans or personal sources of financing, business cards offer multiple benefits, including easier qualification than bank loans, significantly higher credit limits than personal cards, and perks such as cash-back, travel and mileage-earning rewards.

According to a recent poll, nine in 10 new business owners who used business cards as their primary startup funding source would recommend them to other entrepreneurs, and nearly one-quarter cited fast access to funds as their motivator for using this method.

Business owners are turning to business cards as an alternative means of navigating a tough lending climate.

91%

Share of owners using business cards as their primary startup funding source who would recommend them to other entrepreneurs

23%

Share of business owners who were motivated by quick access to funds in tapping business cards as their primary startup funding source

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News and Trends

With Fewer Credit Options, SMBs Seek Alternatives

Big-bank lending to small businesses has fallen every month since June 2022, dipping almost two percentage points year over year in August 2023 to 13.2%. Even at small banks, whose risk exposure is reduced by their processing more government-backed small business loans, approval rates rose only minimally, from 18.9% in July to 19.1% in August. Moreover, these rates are starkly lower than pre-pandemic levels — such as in 2019, when small banks typically granted more than 50% of business loan requests.

Smaller and mid-sized banks have suffered inordinately from recent banking collapses due to depositors transferring their funds elsewhere. These lenders have also borne the brunt of a cratering commercial real estate market, in which they made a larger investment than bigger banks. The result is that they have less money to lend. Small business loan approval rates were slightly higher from institutional investors and alternative lenders, at 27.4% and 29.5%, respectively, though these creditors tend to charge higher interest rates.

"If you are a small business looking for funding, you will have a difficult time securing it from big banks. We have seen it for more than a year. [In addition,] in recent years, smaller banks became more active in commercial real estate loans and did not see the bottom falling out in the commercial real estate market. Many mid-sized banks have high exposure in commercial real estate. This situation can only hurt small business lending."

ROHIT ARORA
CEO

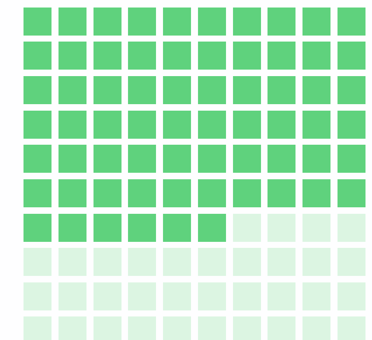
biz2credit

News and Trends

Small businesses are using more personal funds than bank or government financing

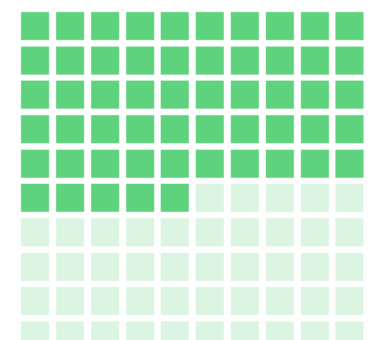
Last year marked the first time since 2020 that small businesses were more likely to seek traditional bank financing than pandemic-related funding, according to the 2023 report of the annual Small Business Credit Survey (SBCS), a collaboration of all 12 Federal Reserve Banks based on a poll of 8,000 small businesses across the United States. Surprisingly, however, the survey also revealed that over the past five years, small firms were more likely to use personal sources of funding than either government sources or financial institutions (FIs).

Two-thirds of surveyed firms reported using owners' personal savings or funding from friends or family in the past five years. Meanwhile, only 55% of firms used government funding, and 51% funded their businesses through FIs or lenders.



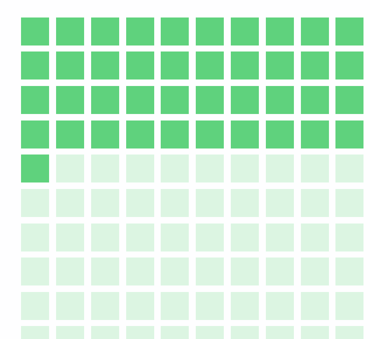
66%

Share of U.S. small businesses that used personal or family savings or funding in the past five years



55%

Share of U.S. small businesses that used government funding over the past five years



51%

Share of U.S. small businesses that used funding from an FI or lender over the past five years

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Leveraging Business Cards to Navigate the SMB Credit Crunch

As volatility continues to be the watchword in the economic forecast, SMBs are the small craft caught in the headwinds. With banks tightening lending standards and government relief on the wane, many small businesses feel as if they have been left to sink or swim. Conditions are driving them to seek alternative financing — including their own personal funds and borrowing from family and friends.

Business credit cards have been around for decades, but new and smaller businesses may be less familiar with them. As an alternative to traditional business loans or personal credit cards, business cards hold several powerful advantages for SMBs and can play an important role in their cash flow strategies. Like any tool, business cards come with strict instructions for use, as well as a list of precautions. However, as SMBs consider their options for keeping afloat in the present era, business cards are well worth adding to their navigational suites.

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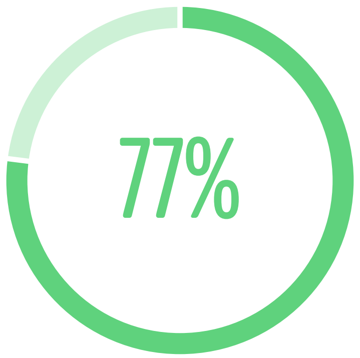
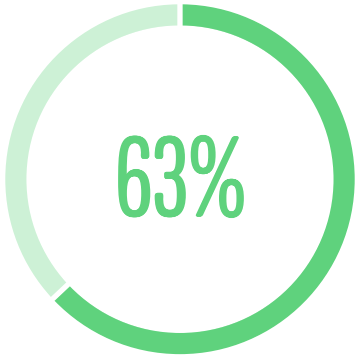
Business cards offer important advantages over other forms of credit for small businesses.

Business cards are sometimes equated with "corporate cards," but in fact, business cards do not require businesses to be incorporated and, in general, are one of the easier types of business financing for which to qualify. This makes the tools available for use by every size of business from sole proprietorships on up — including side gigs. Business cards offer numerous benefits over personal financing, including significantly higher credit limits than personal cards, as well as multiple perks, such as cash-back, travel and mileage-earning rewards.

Small business owners point to numerous advantages of using business cards as their source of funding.



Share of owners using business cards as their primary source of startup funding who named increased access to capital as the cards' main advantage



Share of business owners using business cards as their primary source of startup funding who attributed their businesses' success to using this method of financing

More than three-quarters of new entrepreneurs in a recent survey named increased access to capital as the chief advantage of business cards, as compared with only 64% of those using personal cards. Moreover, 63% of owners using business cards as their primary source of startup capital attributed their businesses' success to this method of financing.

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Business cards can be an essential instrument in an SMB's cash management toolbox.

Given their greater ease of access and the availability of zero-interest promotions, business cards can serve as an indispensable financing tool for many small businesses. Having a card allows an SMB to take advantage of the card's grace period or a low- or no-interest incentive to manage irregularities in cash flow.

Business cards can be an indispensable cash management tool.

1. They can be used in place of cash transfers to pay vendors or expenses, thus improving cash flow and adding liquidity to the operating cycle.

2. While check and other payment usage can be difficult to track, business cards streamline expense tracking and reporting to a single source, offering customized features such as payment due-date alerts and employee maximums.

3. The cards' perks and rewards can serve as a passive source of income, potentially even covering new hiring, inventory or expansion expenses.

4. A business card can help build a company's credit and improve its credit score, thus allowing the business ultimately to qualify for a loan or other type of credit at a lower interest rate.

A recent study found that many SMBs use their business cards in this manner, revolving card balances to maintain a cash buffer for emergencies, even if they have sufficient cash to pay their balances in full each month. Small businesses that are more cash-constrained are more likely to revolve their card balances each month, while those with more cash liquidity are less likely to revolve their balances.

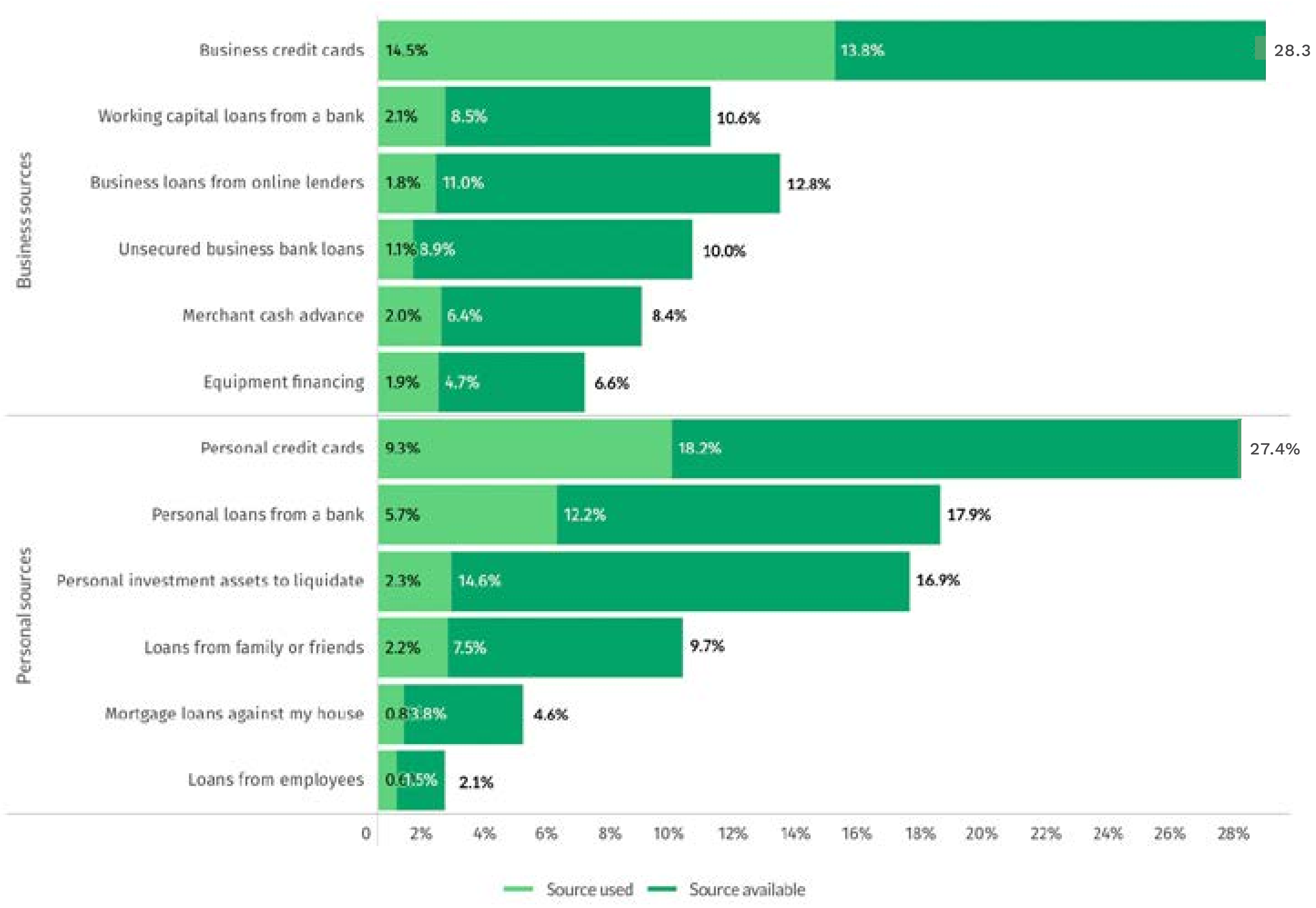
Chart of the Month

SMBs Use Cards More Than Any Other Business Financing

SMBs are more apt to hold and use business cards than any other form of business financing, according to recent PYMNTS Intelligence data. While less than 13% of SMBs report having access to forms of business financing such as business loans from online lenders, working capital loans from banks or unsecured business bank loans, 28% of SMBs hold business cards. However, SMBs have much greater access to personal resources to meet business contingencies. A nearly equal share of owners, 27%, report having personal cards, and 18% and 17%, respectively, say they have access to personal loans from banks and personal assets they could liquidate for business purposes.

Small businesses’ access to and use of credit

Share of firms with access to and use of select credit sources for business contingencies



Source: PYMNTS Intelligence
What's Next in Credit, November 2023
N = 509: Complete responses from SMBs generating annual revenues of $10 million or less, fielded July 5, 2023 – July 21, 2023

Insider POV

How Data Is Driving the Future of Small Business Credit

HICHAM OUDGHIRI
Co-founder and CEO

enigma

"More SMBs are moving toward FinTechs and online lenders and away from traditional financial institutions. Traditional FIs have made lending a little harder, and the community banking ecosystem has been rocked by what we've seen over the last few months [in the wake of recent bank failures]."

PYMNTS Intelligence interviews Hicham Oudghiri, co-founder and CEO at Enigma, and Anthony Peculic, head of banking as a service and cards, FinTech banking at Cross River, about how the financial pressures on SMBs are shaping a move toward data-fueled alternative financing.

Small to mid-sized businesses are a resilient sector, Oudghiri told PYMNTS Intelligence in a recent interview. That's why a pullback in lending by banks, both big and small, is not deterring SMB owners from seeking financing. What is changing is where they are seeking it.

"More SMBs are moving toward FinTechs and online lenders and away from traditional financial institutions," Oudghiri said. "Traditional FIs have made lending a little harder, and the community banking ecosystem has been rocked by what we've seen over the last few months [in the wake of recent bank failures]."

Insider POV

This trend is helping to propel tech-savvy alternative lenders to the forefront of the small business credit market. For both lenders and borrowers, making the most of this opportunity means having the best know your customer (KYC) data possible.

Oudghiri explained that for lenders to determine whether an SMB is an acceptable credit risk, they need data about these applicants that is both strong and trustworthy — the kind of data that crosses platforms such as his daily. Harnessing this information can allow lenders to make speedier — and more affirmative — decisions about loan risk.

"This all falls under the bucket of knowing your customer, or potential customer, really well," Oudghiri said.

Innovations in funding solutions are also vital for addressing the evolving needs of SMBs — particularly digital products. Cross River's Peculic agrees that the past few years have been full of challenges for SMBs. As pandemic-support resources such as the Paycheck Protection Program (PPP) dried up, SMBs have faced rising inflation and interest rates, making traditional funding sources less accessible and affordable.

"It is definitely a perfect storm, and not in a good way," Peculic told PYMNTS Intelligence.

According to Peculic, these challenges have been compounded by underwriting practices that may not adapt well to the unique requirements of SMBs and their frequent lack of credit history.

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Insider POV

"What has happened in the industry is you either have large corporate financing solutions or you have consumer lending products, and small businesses get lost in the middle," he said.

In addition to the need for better KYC data, Peculic points to the need for unique digital SMB lending solutions that can see past traditional metrics to provide a more inclusive window on SMB potential. Again, data is the linchpin for these solutions, the most promising of which include alternative credit scoring, predictive modeling and access to real-time data. Alternative credit scoring methods can evaluate SMBs' creditworthiness beyond traditional credit scores to offer a more accurate assessment of their prospects. Similarly, predictive modeling uses advanced data analytics to help lenders identify suitable financing options.

"We have to think as an industry, 'How do we get more money into the hands of businesses that are legitimate and have a lot of promise?'" Peculic said.

Banks and online lenders also can offer alternative financing, especially short-term options that can help SMBs gain the funding they need to purchase inventory or pay bills while navigating economic headwinds.

As the FinTech industry evolves, it has the potential to play a critical role in empowering small businesses. The solutions it offers promise to drive prosperity — not just for SMBs but also for the economy as a whole.

What's Next

SMB Demand Will Fuel Substantial Growth in Business Card Market

The global commercial card market is in for a considerable rise over the next four years. Valued at $33.5 billion in 2021, the market is projected to grow at a compound annual growth rate (CAGR) of 6.9% to reach $50 billion by 2027. Increasing demand for small business cards around the world is expected to have a direct impact on this growth.

About

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multilingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

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