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What Are Fintechs and How Can They Help Small Business?

Online financial service companies are filling a gap, especially as companies have altered how they work.

By Paul Sullivan

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This article is part of our continuing Fast Forward series, which examines technological, economic, social and cultural shifts that happen as businesses evolve.

Dominick Pietrzak, who owns a film-production company in Brooklyn, was among the small business owners to receive a coveted and potentially forgivable loan in the first round of the Paycheck Protection Program. How he did it was, in retrospect, the result of a convergence of very unlikely events.

As a business with just one full-time employee — himself — he first applied for the New York City Employee Retention Grant Program while he was watching Mayor Bill de Blasio talk about the program on television. Three days after seeing the announcement on TV and applying, a few thousand dollars was in his bank account.

For the Small Business Administration's P.P.P. loan, the most coveted of the early relief efforts, he first tried to apply through his bank, Capital One, but they were not taking applications. That bank, in fact, did not get its system running until the program's first round was out of money.

But that turned out to be a stroke of luck for Mr. Pietrzak. Searching for a way to keep his small business afloat, he took a chance and answered an offer from his bookkeeping company, Bench, an eight-year-old financial technology start-up.

Bench, he said, connected him to Fundera, a seven-year-old lending platform for small companies. On a Sunday he signed closing documents from Cross River Bank in New Jersey — which he had never heard of — and two days later found the P.P.P. money in his bank account.

"I was a little skeptical with Fundera and Cross River Bank, but I just kept trying and redoing the application and eventually it went through," Mr. Pietrzak said. "There were some hiccups with the site, but after I did the application a few times, it went through."

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In the end, hiccups included, he received the kind of service and financial support in the early days of the program — from two little known fintech entities and a little-known bank founded in 2008 — that many small business owners with well-established traditional banking relationships did not get.

"Prior to this crisis you had fintechs specializing in the under-$50,000 loans," said John Pitts, the head of policy for Plaid, a fintech company that serves as a link between fintech apps and some 11,000 financial institutions, and a former deputy assistant director of intergovernmental affairs at the Consumer Financial Protection Bureau. "It's not surprising you don't see this cohort well served" by the big banks.

One thing the pandemic has revealed is that fintechs, largely online financial service companies once reserved for younger people with lower earnings and savings, have proven to be savvy and effective intermediaries in the age of the coronavirus.

When it came to offering the crucial financial support small business owners were seeking in the pandemic, some of these fintechs held their own or bested more established financial service firms that struggled to roll out promised programs. Through their technology, these companies can meet their clients' financial needs online — the 21st century equivalent of the relationships brick and mortar banks once promoted.

"We sit on top of a network of 100 banks," said Everett Cook, chief executive and co-founder of Rho Business Banking. "It gave us a fair perspective of what was going well and what was going poorly."

Mr. Cook said Rho looked to give customers access to loans at any institution that had money available, providing more flexibility than business owners who went to a single bank found. "We saw lots of customers come to us because they were in the queue of a top-five bank," he said. "The large banks prioritized the businesses they knew. That created a flood of applications for everyone who didn't fall into that box."

Many fintechs found that the demand for their services, which had been steady before the crisis, grew almost exponentially as companies shifted employees to working from home. Rippling, a San Francisco-based fintech that provides support for payroll and benefits and manages computers and access to company databases and software, began attracting customers who had been resistant to change their processes but who now had fewer options.

"Any exogenous shock to the system favors companies that can move quickly and take advantage of those things," said Parker Conrad, Rippling's co-founder and chief executive. "All the reticence about doing things online evaporated in an instant. That's a dynamic that impacts not just fintechs but technology companies more broadly who are trying to automate business processes that are offline."

In May, Mr. Conrad said new sales were up 65 percent so far this year.

New technology companies were also able to take data they could aggregate quickly — in this case information needed for the loan applications — and deliver it electronically and quickly to local credit unions. The credit unions, in turn, could help their customers.

Cortney Keene, co-founder of Keene Perspectives, an educational company in White River Junction, Vt., that works with autistic children, needed a loan to help support her 20 employees. Her business shut down when the stay-at-home orders were issued, and she laid off 17 workers.

She used Gusto, a fintech payroll company, to organize the data for her loan applications as soon as early guidance on the payroll loans came out. She then got funding through a local credit union in Vermont. "We'd be seriously cutting services without the P.P.P. loan," she said.

Edward Kim, co-founder and chief technology officer of Gusto, which is eight years old, described what his company did in the early days of the crisis as "getting all the gnarly parts into one document to get this loan approved as quickly as possible so someone at a bank isn't scrutinizing it."

While more established payroll companies aimed to do the same thing, Gusto's low-cost online model meant it had more small businesses as clients — with average monthly payrolls from $20,000 to $28,000. Given the early confusion around how the Small Business Administration would work with financial institutions, Gusto focused on streamlining the process of collecting the needed information so banks could disburse the money.

What all these companies are counting on is that businesses, forced to do things differently in the crisis, will continue to use fintechs for more of their needs.

"Things were already moving in this direction," Mr. Conrad said. "What would have been holding people back was the inertia. Once people move, the inertia works in the other direction. Who wants to go back to filling out insurance paperwork with a pen and trying to find a fax machine? No one."

Paul Sullivan is the Wealth Matters columnist. He is also the author of The Thin Green Line: The Money Secrets of the Super Wealthy and Clutch: Why Some People Excel Under Pressure and Others Don't. @sullivanpaul

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