Commercial Asset Finance Brokers Association of Australia Limited

ACN 129 490 133

National Professional Body of the Equipment Finance Industry

27th November 2010

Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

By email: **economics.sen@aph.gov.au**

Senate Inquiry into Competition within the Australian Banking Sector

Background

The **Commercial Asset Finance Brokers Association of Australia Ltd (CAFBA)** welcomes the opportunity to respond to the Senate Inquiry into Competition within the Australian Banking Sector.

CAFBA represents Finance Broking firms whose prime area of business is the distribution Equipment Finance facilities to commercial clients. CAFBA members are career professionals who understand every aspect of the funding process, and recognise the potential difficulties which could be experienced by business borrowers in this market.

CAFBA-affiliated broking firms are small businesses whose client base is largely made up of other small businesses. This area of finance broking is long established and was well entrenched in business lending up to two decades before the growth of the distinctly separate Mortgage Broker market which emerged in the early 1990's.

CAFBA is the result of a 2007 merger between the Australian Asset Finance Association **(AAFA)** and the Australian Equipment Finance Association **(AEFA).** CAFBA now represents more than 150 member firms, comprising approximately 500 individual business writers. The

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combined annual volume of Equipment Finance transactions arranged by CAFBA members is approximately **$5 Billion per annum**. We are the only professional body in Australia which is specific to Commercial Equipment Finance broker.

Preamble

CAFBA members' area of practice is generally as an intermediary between banks and commercial borrowers, and is generally specific to providing Equipment Finance to those borrowers. Accordingly, our commentary and responses to the terms of reference below are in the context of the Equipment Finance sector.

Terms of Reference

Competition within the Australian banking sector, including:

(a) the current level of competition between bank and non-bank providers;

With reference to the Equipment Finance market, bank and non-bank lenders tend to operate in slightly different areas of the same market. Examples of Bank lenders who are active in this sector (and who are subject to the Banking Code of Practice) are:

1. National Australia Bank
2. Westpac
3. ANZ Bank (and Esanda)
4. Commonwealth Bank.
5. Bendigo and Adelaide Bank

Examples of Non-bank lenders in this market include bank-owned subsidiaries, general finance companies, smaller private "Leasing" companies and "point of sale" motor vehicle finance companies:

6. Macquarie Leasing Pty Ltd
7. BOQ Equipment Finance Ltd
8. St George Equipment Finance
9. Capital Finance Australia Ltd
10. Service Finance Pty Ltd
11. Morris Finance Ltd
12. BMW Australia Finance Ltd (and several other branded vehicle finance companies)

The banks listed 1 to 5 above offer finance and leasing facilities which are broadly similar to each other in terms of pricing, types and sizes of facilities available, credit criteria and borrower profile. These banks do rely on brokers to distribute their

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products, but they also have a retail presence which has diminished in some regional areas.

The non-bank lenders listed 6 to 12 above collectively cover a more diverse range of client types and transaction sizes, however they do not necessarily have a regional or retail presence and tend to rely on intermediaries and brokers such as CAFBA members to distribute their products.

The broker channel therefore becomes the third tier in the distribution of Equipment Finance products, accounting for $5 Billion annually. These financial products are sourced from the full range of bank and non-bank lenders listed above, as well as others.

Brokers are equipped to differentiate the features and benefits of each lenders' products, and inform their clients accordingly. This increases competition between all lenders, and the broker network extends well into rural and regional areas where many of these lenders are not represented, and those lending products would not otherwise be available to borrowers.

(b) the products available and fees and charges payable on those products;

It is a notable feature of the Equipment Finance market that interest rates and fees vary between some lenders and products. However this is an industry that caters for micro businesses through to major corporates, from "small ticket" finance to major infrastructure, and from riskier credit impaired borrowers through to "rated" institutional borrowers.

Accordingly, differences in costs are an accepted and normal part of business.

Across each demographic and product group, like-for-like products are readily comparable and normal market forces adequately maintain competition.

As a dedicated and well informed distribution channel of financial products, CAFBA members further enhance competition between lenders.

(c) how competition impacts on unfair terms that may be included in contracts;

CAFBA members are fully acquainted with the general terms and conditions of the financial products they provide to clients, and are equipped to identify unreasonable terms included in contracts.

Competition between lenders extends to these terms and conditions and is enhanced by the broker distribution channel.

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(d) the likely drivers of future change and innovation in the banking and non-banking sectors;

No comment from CAFBA.

(e) the ease of moving between providers of banking services;

With few exceptions, Equipment Finance facilities are written on a fixed rate basis, and are generally funded and priced against 3 or 5 year Swaps. (This is a major difference to the home loan market, which is usually written on a variable rate basis, funded and priced against Bank Bills.)

As Equipment Finance facilities are fixed and funded on a longer term, there is a genuine economic cost to bear when a borrower terminates an agreement early, so some exit fees do apply. However, borrowers in the Equipment Finance market are generally not inclined to pay out agreements early for the sake of switching lenders.

The more likely reason to pay out an agreement early would be to replace or upgrade plant, machinery or vehicles. In this circumstance, brokers recognise that reducing exit fees will maintain customer loyalty, and are in a strong position to influence and reduce the exit fees charged by lenders.

(f) the impact of the large banks being considered 'too big to fail' on profitability and competition;

Question is specific to Lenders; no comment from CAFBA.

(g) regulation that has the impact of restricting or hindering competition within the banking sector, particularly regulation imposed during the global financial crisis;

CAFBA has always held the view that it is not necessary to expand the current regulatory environment to business lending.

The entire process of consumer credit reform has been in response to market failures which occur outside the Equipment Finance Industry.

Business operators possess the necessary business, taxation and accounting acumen to understand the commercial finance agreements they are entering into. Consumer borrowers often do not understand the principals or obligations relevant to them. The remedy for the second group of borrowers is not relevant to the first.

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Regulatory intervention in the Business finance market would have adverse cost and time implications to Equipment Finance brokers, which would only serve to constrict commerce within the small to medium business sectors without delivering any corresponding benefit.

Equipment Finance Brokers meet the business community's need for prompt service and ongoing relationships are integral to the Equipment Finance Broker's business. To properly act on a client's behalf it is common for Equipment Finance Brokers to arrange and manage multiple credit facilities as instructed by clients, where the ability to settle immediately is critical to the client's business. Equipment Finance transactions often need to be discussed, approved, documented and settled within a matter of days (sometimes within one day).

The broader imposition of unnecessary consumer style protections would delay the provision of necessary finance facilities, and would ultimately disadvantage small business operators. For example the disclosure requirements of the NCCP would be logistically impossible in most instances, and impose time delays and costs, which would be to the detriment of the commercial borrower.

CAFBA and other professional bodies such as the MFAA have successfully conducted a self regulatory approach to maintaining ethical and probity standards in their respective areas of practice, and a further layer of intervention is unwarranted.

Most importantly, in the absence of any existing market failure, all of these imposts would provide no corresponding benefit to either business operators or consumers.

(h) opportunities for, and obstacles to, the creation of new banking services and the entry of new banking service providers;

Question is specific to Lenders; no comment from CAFBA.

(i) assessment of claims by banks of cost of capital;

Question is specific to Lenders; no comment from CAFBA.

(j) any other policies, practices and strategies that may enhance competition in banking, including legislative change;

Please refer to (g) above.

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(k) comparisons with relevant international jurisdictions;

No comment from CAFBA.

(l) the role and impact of past inquiries into the banking sector in promoting reform

Please refer to (g) above.

(m) any other related matter.

No comment from CAFBA.

Yours faithfully,
Commercial Asset Finance Brokers Association of Australia Ltd

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