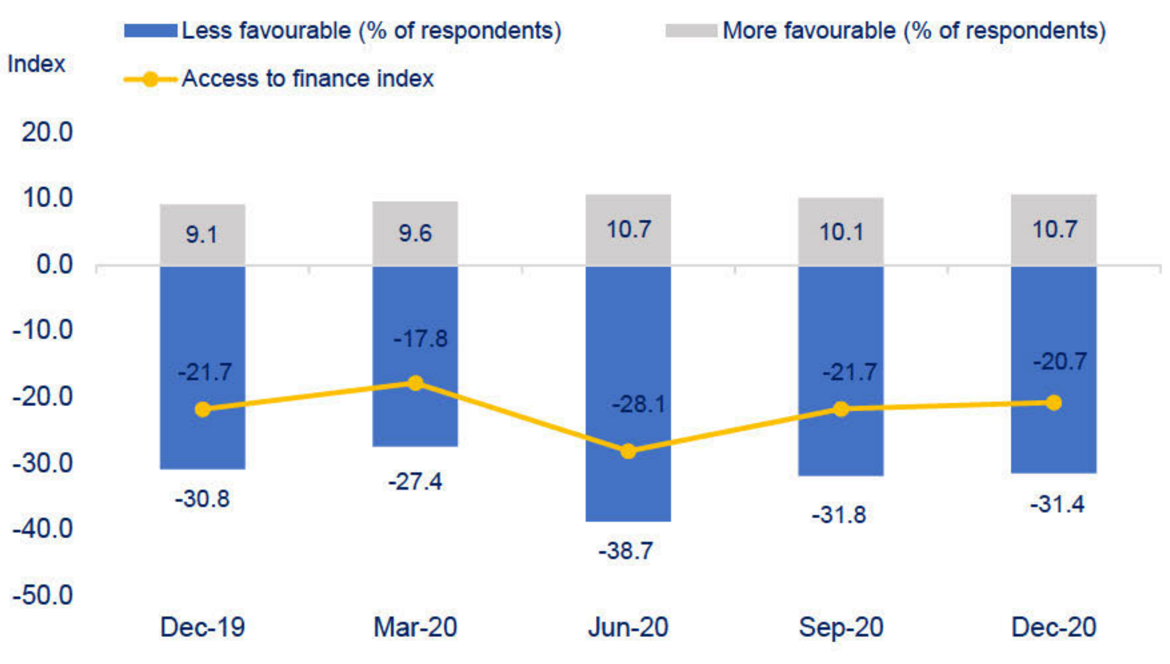
Question on notice: Feedback and further evidence regarding access to finance issues experienced by ACCI members and the implications for ABN holders (particularly small business owners).

Business Conditions Survey: How have the following factors changed over the past three months? Access to Finance (Source: NSW Business Chamber, time series 2019-2020)



*Index scores calculated as he percentage of respondents indicating the factor was more favourable minus those indicating the factor was less favourable. A positive number implies an improvement whereas a negative number implies a deterioration.

Business Conditions Survey (Source: NSW Business Chamber, March 2019)

Has your business noticed any difficulties obtaining finance since the banking royal commission commenced?	% of respondents
Yes - as a direct result of increased caution from the banks.	17.77%
Yes - due to other factors.	2.67%
No - we were able to obtain finance.	14.78%
Not Applicable - we did not seek finance.	63.68%
Other (please specify)	1.10%
Balls slower and dysfunctional but get there	
Did not seek finance but bank has tightened up on existing finance	
Yes - I had to change banks after more than 20 years.	

[redacted]

Business Conditions Survey: General feedback on access to finance (Source: NSW Business Chamber, Sept-Dec 2020, anonymised)

Access to bank funding is incredibly bureaucratic and slow, just too hard! I don't know why they are so difficult. Very out of touch with small business.
Access to finance - it has taken 7 months to get an overdraft (they said loan would be available but they kept changing the goalposts and instead recommended a more expensive overdraft which we had little choice but to take). Costs of changing our business to work remotely and generally differently in this new world. Office, infrastructure and Time costs working to adapt business model. Government has helped for sure. Banks were extremely slow and quite honestly not helpful. 7 months is not nothing as we got an overdraft but many would have gone under.
We had to make immediate changes to survive and continue to adapt. The banks need to be a lot more help, and it makes me angry they kept changing the goalposts with more and more questions each time when they initially said we were a good fit. We are profitable and as directors are financially fit so given they have little risk as gov backing, it is ludicrously naughty they are slow to lend, and then they did, they pushed us to a more expensive rate overdraft so they make more money presumably. We were lucky, many will have gone under. Government help has been excellent and necessary. However there should be more help to encourage hiring - e.g. extend Job Keepers or grants to get businesses hiring people. JK only pays if they were employed 1st march but now we want to hire part time marketing people to help us transition and get back to work and no help to do so. Surely that would be a win:win scenario.
The constant reporting to banks on monthly basis and ATO makes us spending more time on reporting and compliance than growing the business.
The fall in turnover due to benign conditions in NSW and QLD, plus the closure of VIC has severely impacted my turnover. In turn, the wharf issues are adding to the dilemma, and we are running out of stock, have stock arriving late, and the situation with shipping into NSW is absolutely untenable. The fact the Government has done nothing about the shipping issues is an absolute disgrace. The reduction in stock availability will hit my turnover and means I cannot fund future purchases of stock. If I reach out to the banks they are just as shocking as they have been for the last five years. The banks are abhorrent people and do not want to help small business. The Government props them up, the RBA gives them money, but they do nothing but line their own pockets. The big banks in Australia are terrible, terrible people.
Banking issues are just terrible. The banks are NOT supporting small business. The ability to find funds to support small business is a big, big issue.
Higher cost of goods generally need more than Jobkeeper – we need funds to kickstart the business despite what is being said, banks/lenders are not supporting small business. (as a result, business owners are tapping into their personal savings, to run their business)
While we did not opt for our bank to defer our loans during April to June, the bank did so automatically. While we had put funds aside to combat the accruing interest, when three months of interest came out in one hit, it really damaged our cash flow. While all of our costs have continued to go up (building insurances have gone up nearly 10% thanks to covid and bushfires) the demand for our product, the income and value of our product (commercial property) is steadily going down, with only worse days ahead.

[redacted]

What is the problem for small business owners?

- As a result of the overly cautious lending to small business, particularly to businesses formally receiving jobkeeper, business owners are struggling to manage their personal and business-related finances.

- The intermingled nature of personal and business finances means the banks are applying RLO's to business finance applications as they are taking an overly cautious approach to lending. This has been largely driven as a result of the Banking Royal Commission.[1]

- In a report by the RBA, titled 'The COVID-19 Outbreak and Access to Small Business Finance' it is found:

  'Following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, many banks have erred on the side of caution and applied responsible lending obligations for consumers to smaller businesses.

  Banks have noted in liaison that these standards are applied because there is often a blurred line between the personal and business finances of small business owners.

  These standards reportedly continue to be applied despite the Australian Securities and Investments Commission (ASIC) reiterating that these obligations should not apply to lending for business purposes.'

- Lending to small business is currently regulated between the NCCP Act, APRA and the ABA Banking Code.

- The legal burden of responsibility falls heavily on the lender to provide credit only in cases where they can demonstrate very strong financials of customers. This is based on out-of-touch and duplicative RLO's found within the NCCP Act.

- Businesses have intermittent cash flow and the seasonal nature of some businesses lead to choppy cash flow. This presents an issue for banks to prove under RLO's the customer's ability to meet regular servicing repayment schedule/intervals. This is also affecting personal loan applications for ABN holders.

- The proposed reforms will enable the banks to provide more tailored, targeted and better suited loans to ABN holders to better manager personal and business-related finances. It will also drive innovation in the credit assessment process.

- The government has introduced improved consumer data reforms and comprehensive credit reporting laws that can provide better information to lenders about the applicant's credit worthiness and credit history. RLOs are no longer required. The proposed reforms will remove the duplication.

[1] See pagehttps://www.rba.gov.au/publications/bulletin/2020/sep/pdf/the-covid-19-outbreak-and-access-to-small-business-finance.pdf

[redacted]

Australian Chamber of Commerce and Industry

Why are banks overly cautious with extension of lending to ABN holders (for personal and business-related finances)?

- A trigger for a bank's cautious approach (asking for greater financial data) is a business who is refinancing from one bank to another (includes personal finance applications).
- Banks are conscious of demonstrating 'responsible lending' – they don't want to be caught out which is making them more cautious. This means they require comprehensive information about the business including personal finances leading to extended loan applications and approvals.
- The government has recently introduced the comprehensive credit reporting laws, that provide banks with detailed information about the applicant's credit history and credit worthiness. This is also combined with improved access to consumer credit data (reforms also recently introduced).
- Because of the prescriptive nature of the RLO's, banks are more inclined to give money to businesses with strong financial income and minimal discretionary spending only. Those with a temporary financing gap (as illustrated in the survey examples above) are left out because the RLO's are spilling over into business lending applications as a result of bank's cautious approach.
- Banks continue to pursue whether 'the information is reliable and accurate?' If there are real or perceived anomalies the bank will continue to request more detailed financials. It is difficult to distinguish personal and business finances without assistance from professional service firms in many cases. This delays applications for credit.
- Most bank credit/lending managers will want end of year financial statements and/or 6 months management accounts (if midway through FY). It is important to note that this can cost significant $ for small business and a lot of accountants just do not currently have the time and capacity to do this. Recently introduced comprehensive credit reporting reforms and consumer credit data will provide the bank with this information, hence reforming NCCP Act will remove the duplication (associated with the documentation required).
- It is a myth to suggest that the proposed reforms will lower lending standards. It removes duplication and will provide banks with the opportunity to create better suited financial products for ABN holders.
- We're relying on competition between banks to drive good lending outcomes (hence the inclusion in our submission regarding the broader banking competition issue).
- It is also important to note that the point of switching banks can often be the greatest cause of friction. In particular, information demands from a new bank to provide a loan exceed those from an existing bank where information is readily available and relationships are already established. Comprehensive credit reporting and consumer data will abate some of this.
- The time taken to reach a decision is as material in some cases as the decision itself. One of the main obstacles to quick decision making appears to be the information demands and the process through which this is managed, rather than the particulars of a given business's risk profile.

[redacted]

- Having accepted JobKeeper is seen by banks as a flashing red light on a business's dashboard, even though many businesses accepted it in the early days of the pandemic, who are now performing well again. Having graduated off JobKeeper does not appear to be treated as a sign of business health.
- Again, implications for business owners with interlinked personal and business finances now struggling to access cash from ADIs. The comprehensive credit reporting reforms and improved access to credit data will reduce the need for this information and the friction/delay it creates.
- Maintaining the prescriptive and out-of-touch nature of the current laws will drive a greater number of businesses to non-ADI lenders. This comes with all sorts of risks to the economy.