

Chapter 7

Improving financial literacy and codes of conduct

Introduction

7.1 Small business will be better placed to benefit from a competitive market, and place pressure on banks to make the market more competitive, if they have a stronger understanding of financial markets.

Financial training

7.2 The Australian Industry Group recommends enhanced financial training for small business.¹ A positive step here is that the Australian Securities and Investments Commission (ASIC) is developing a small business portal on its consumer website Fido, which should be finalised in the first half of 2010. ASIC explains:

The purpose of the portal is to explain concepts relating to small business credit, to suggest options for a small business in financial difficulty, and to direct small business to other sources of advice and information.²

7.3 Treasury refer to Government initiatives in this area:

The Government is funding a suite of measures to address these information needs. Initiatives include a network of small business advisory services, a small business support line, a one-stop-shop website, and assistance for small businesses to get on-line. The Government provided \$10 million in the 2009-10 Budget to establish the Small Business Support Line, which acts as a launching pad for small business owners seeking specialist advice in areas such as obtaining finance, cash flow management, retail leasing, personal stress and hardship, and marketing.³

7.4 The New South Wales Business Chamber thought this was an area in which government could do more:

It certainly puts a lot into financial literacy from the consumer credit point of view. I think some of those arguments probably also apply to small business finance.⁴

NSW Business Chamber notes that one of the issues facing small businesses in accessing finance may be a lack of understanding about the

1 Dr Peter Burn, Australian Industry Group, *Committee Hansard*, 12 April 2010, pp 45-47; and AiG's *Submission 14*, p. 10.

2 Australian Securities and Investments Commission, *Submission 17*, p. 5.

3 Treasury, *Submission 50*, p. 16.

4 Mr Paul Orton, Director, Policy and Advocacy, New South Wales Business Chamber, *Committee Hansard*, 12 April 2010, p. 99.

range of financial products available. While most small businesses will be broadly aware of debt and equity, and the different roles these can play, financial tools and concepts such as venture capital, factoring, discounting and business angels are generally less well understood. In this regard, we note the success of the Government's Financial Literacy Foundation, and the role that this organisation has played in raising consumer awareness about everyday financial literacy issues. The Government may wish to consider development of similar informational products or web-based tools for small businesses, particularly focused on access to finance. Dissemination of this information could be promoted through existing Government channels and websites, complemented by promotion through industry association member networks.⁵

7.5 Some lenders also raised the issue:

An area that could lead to an improvement in our ability to satisfy demand for small business lending could be through provision of assistance to small business owners in preparation of business plans and financial forecasts. A well prepared and researched application stands a much better chance of favourable consideration than one which lacks suitable preparation. We find that many applicants aren't sufficiently informed about requirements of financiers. We only lend against tangible property or cash security and often get asked for finance of up to \$500,000 where the applicant doesn't have any security available. Some sort of education program would be beneficial.⁶

We have also increased the volume of financial education that we deliver to this segment specifically via Westpac Financial Education, particularly focusing on small businesses managing their cash flow in this climate of uncertainty and increasing costs.⁷

[ANZ Bank has] ... provided support and tools to small business customers through our free small business workshops series (run Australia-wide) and our online small business hub (www.sbhub.com.au).⁸

ANZ also provides its small business customers with an online small business hub, which is an online business tool to give them access to lots of information. They can do online courses, see webinars and access information on topics such as cash flow planning, and there is also a chat room. One of the things our small business customers like is to talk to other

5 NSW Business Chamber, responses to questions on notice.

6 Unnamed building society or credit union, cited in Abacus, *Submission 42*, p. 3.

7 Ms Sian Lewis, General Manager, Retail Business Banking, Westpac Banking Corporation, *Committee Hansard*, 12 April 2010, p. 70.

8 ANZ Bank, *Submission 40*, p. 3. See also their evidence, *Proof Committee Hansard*, 10 May 2010, p. 28.

small business customers. The online chat room allows them to talk to each other and to seek other views.⁹

7.6 So did some customers:

A free service assisting farmers develop a better understanding of the business lending process and how to enhance the quality of their loan application would overcome some of the obstacles faced by farmers in the capital raising process.¹⁰

7.7 CPA Australia was another group to recommend:

...the government work with lending institutions to develop information and education products that improve small business knowledge of the wide range of financing options that may be available to them; help small business choose the mode/s of finance that best suit their needs; and assist small business understand what they may need to do to attract finance from a wider range of sources.¹¹

7.8 One bank described a mentoring programme:

It is open to existing and referred customers. Customers of ours may refer members of their value chain and colleagues. It is a day-long program where we have experts who come in and provide some speeches. They also have workshop-type setups where they go through some really structured approaches to business planning, looking at financial capacity, options to grow and how to manage risk.¹²

Comparing financial products

7.9 Treasury referred to:

There are websites available that address some of the issues that you have been talking about—comparing different products.¹³

7.10 The Council of Small Business in Australia took up this point:

The only website that I am aware of that in fact compares small business loans was set up by the Victorian government, the Office of Small Business in Victoria. It was so good that it was essentially borrowed and shared more

9 Mr Nick Reade, General Manager, Small Business Banking, ANZ Bank, *Proof Committee Hansard*, 10 May 2010, p. 28.

10 NSW Farmers' Federation, *Submission 43*, p. 5.

11 CPA Australia, *Submission 46*, p. 2.

12 Dr Anthony Poiner, General Manager, National Segments and Operations, St George Bank, *Committee Hansard*, 12 April 2010, p. 70.

13 Mr Lonsdale, Treasury, *Proof Committee Hansard*, 10 May 2010, p. 6.

broadly by the Commonwealth government, and it is promoted through business.gov.au.¹⁴

Codes of conduct

7.11 CPA Australia notes that Canadian and Irish banks have specific codes of conduct relating to lending to small business and suggests the Australian banks could adopt a similar practice.¹⁵ Among the provisions of the Canadian and Irish codes commended by CPA Australia are the following:

- banks recognise the need for open communications with their SME customers. This entails banks committing to outline joint responsibilities and ensuring all information provided about a credit facility is clear and comprehensible and that key items are brought to the attention of the borrower.
- for those SMEs applying for credit, the banks should make the following information available:

directions on how to apply for credit

an explanation of the requirements needed to obtain bank credit (such as security, interest coverage, loan to valuation ratios and information and documentation requirements). Where possible, this information should be customised where the bank imposes varying requirements on different businesses

an estimate on how long it will take before a credit decision will be made.

- each application for credit by an SME should be judged on its own merits
- when a credit application is approved, the bank should inform the customer about the terms and conditions of financing, including information on default, fee details, charges and interest rates and further information needed by the bank both before and after the loan is granted.
- if credit is declined, the bank should inform the customer about:
 - the main reason(s) for the decision
 - the requirements necessary for the bank to reconsider the application (if applicable)
 - information on alternative sources of financing

14 Ms Jaye Radisich, Chief Executive Officer, Council of Small Business of Australia, *Proof Committee Hansard*, 10 May 2010, p. 76.

15 CPA Australia, *Submission 46*, p. 12.

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- sometimes customers will experience significant change in their business conditions (which occurred for many businesses during the crisis). In these circumstances, banks should carefully review the existing arrangement before deciding what action (if any) should be taken
 - if there are changes made to the terms, conditions, fees or lending margins of an existing SME credit facility (whether a general change or a change specific to a client), such as requiring additional information and requiring such information with increased frequency, banks should inform the customer/s as soon as possible. Banks should provide clients with a minimum of 15 days' notice of such changes (unless there are exceptional circumstances).
 - having regard to the nature, liquidity and value of collateral, a bank should not impose unreasonable collateral requirements for providing credit facilities, having regard to the value of credit being offered.
 - a bank must not impose unreasonable personal guarantee requirements on borrowers
 - a bank must promptly, at the request of the borrower, return any security held by the bank, to the borrower when all facilities for which security is pledged, has been repaid.
 - a bank must have in place procedures for handling of arrears cases without prejudicing a bank's regulatory and/or legal obligations and legal rights, a bank must:
 - give the borrower reasonable time, having regard to the circumstances of the case, to resolve the arrears case
 - endeavour to agree an approach that will assist the borrower to resolve the arrears problem
 - advise the borrower of any possible impact of the default on the other accounts held by the borrower.
 - a bank should explain to borrowers the basis on which interest is calculated. Where a bank charges an interest margin on a credit facility, it must notify affected borrowers promptly of such changes.
 - nothing in a code for SME lending should prohibit a bank from acting with all necessary speed to withdraw credit when there is reasonable suspicion of fraud etc.¹⁶

Committee view

7.12 The Committee commends the Australian Securities and Investments Commission for developing a small business portal to explain concepts relating to

16 CPA Australia, *Submission 46*, pp 13-14.

small business credit and those banks which have also developed online tools for small businesses.

7.13 The Committee sees merit in a specific code of conduct being developed to cover small business lending.

Recommendation 6

7.14 The Committee recommends that the Australian Bankers' Association meet with small business representatives to develop a code of practice for lending to small business.