



Council of **Small Business**
of Australia

**Submission to the
Senate Economics Legislation Committee
Inquiry into Access of Small Business to Finance**

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Recommendations

The Council of Small Business of Australia recommends that the Commonwealth:

1. Expedites the process of implementing international banking protocols in Australia to encourage the participation of non-banking financial institutions in the provision of financing options to small businesses.
2. Regulate with respect to some of the high costs of switching banks that currently exist. For example, bank account number portability, like mobile phone number portability, has the capacity to promote choice, reduce costs and increase productivity.
3. Work with State and Territory governments to overcome other barriers to switching banks that are attendant on business loans for mortgage-secured businesses, such as stamp duty costs.
4. Reconsider the introduction of the proposed Australian Business Investment Partnership with a specific focus on small business, such as exist in the UK, China and Singapore, to meet the gap in the market that the banks are not filling when it comes to lending to small business.
5. Introduce a cash-loss carry back taxation policy which would improve small business cash flow, enabling small businesses to offset current losses against past years' profits and receive a refund of past tax paid.
6. Introduce or tighten regulations governing the transparency of fees, terms of conditions associated with small business loans, by reference to the requirements now demanded of retailers (unit pricing on shelves) and telecommunications service providers (whole of contract costs in mobile phone advertising).
7. Introduce or tighten regulations governing electronic funds transfer facilities provided by financial institutions to small businesses.

About the Council of Small Business of Australia

The Council of Small Business Organisations of Australia (COSBOA), is Australia's peak body exclusively representing the interests of small businesses.

Our goals are to:

- Promote and support the development of small businesses in Australia;
- Advocate to advance the interests of small business in Australia, including through policy change and regulatory reform;
- Foster an increased awareness and understanding of the role of small business in Australia amongst public servants and elected government officials, larger businesses, the media and the general community.

We engage our members and provide opportunities for them to influence outcomes affecting their business, and their industry. We act as a conduit for information from our members to Government and other organisations, and vice versa. A key activity for us is to facilitate introductions between member organisations and businesses with relevant customers, suppliers, service providers and regulators. Communication is the foundation of any good relationship, and we endeavour to be an active conduit for information.

We exist because small businesses don't have the time, the resources and often the expertise that is required to be alert to the myriad of legislative and regulatory change that affects them on an ongoing basis. Our efforts are focussed on providing accurate and timely input into decisions which will affect small businesses. Our members provide essential input to ensure the quality of our representation, as well as the substance and the credibility to back it up. Our relationship with Government is critical to ensure that we're aware of what's happening that might help or hinder business, and equally, to convey any new or emerging issues that need to be addressed to support the small business community.

Introduction

The Council of Small Business of Australia (COSBOA or the Council) welcomes the opportunity to submit its concerns and suggestions to the Senate Economics Legislation Committee's *Inquiry into Access of Small Business to Finance*. COSBOA is particularly pleased that the Senate has undertaken this Inquiry given the deep concerns that small businesses have held about their ability to access finance since the global financial crisis (GFC) hit at the end of 2008.

In his speech to the House of Representatives on a Matter of Public Importance of 10 February 2010, the Shadow Minister for Small Business Hon Bruce Billson MP drew to the Parliament's attention the 'Back to Business' survey of Australian small-medium enterprises jointly conducted by COSBOA and Telstra Business in January of this year.

The 'Back to Business' survey showed that small businesses in Australia have deep concerns regarding the cost and availability of credit. These concerns have not abated as confidence in the overall economy has recovered. While the approach of banks and other financial institutions to lending policies and practices may have been affected by economic conditions over the past two years, and the Government's response to those conditions, there remain underlying and fundamentally unreasonable aspects of the attitude of banks and other financial institutions to small business.

COSBOA does not take issue with the Government's decision to engage in significant economic stimulus measures, although it may have preferred those measures to have been directed at different outcomes, and acknowledges that those measures made a significant contribution to ensuring Australian economic resilience in the face of global circumstances. Furthermore, COSBOA notes recent concerns expressed by Chinese leaders that the global economy may be in danger of a 'double-dip' recession, and the commentary provided by former Prime Minister Keating that the Australian government may be required to be less 'sanguine' regarding its response to such difficult circumstances.

COSBOA contends, however, that the underlying issues which are the subject of this Inquiry are distinct from those circumstances, predate them and require a higher degree of public policy analysis and response than has previously been forthcoming. Whilst small businesses of course appreciate the many opportunities which have been provided to talk with the Commonwealth over the past year regarding the subject matter of this Inquiry amongst other matters, and the opportunities afforded by the Government initiatives such as the *Small Business Support Line (SBSL)*, COSBOA cannot assert that it has witnessed any concrete measures undertaken by the Federal Government to promote competition in the banking sector to help small businesses access finance. For these reasons, COSBOA will again outline the nature of the problems faced by small business in accessing finance, and propose a number of solutions it hopes will be given prompt attention by the Government. COSBOA is pleased to have had the advantage of the early submission by the Reserve Bank of Australia (RBA) and, while it will have more to say on the contentions therein should an opportunity for oral submissions arise, will make some limited responses in this submission.

Response to the terms of reference

This submission responds to the Committee's terms of reference in sequence.

Costs, terms and conditions of finance and changes to lending policies and practices affecting small business

Many banks operating in Australia have reaffirmed their commitment to small business and introduced new initiatives to cater to both their existing and prospective small business clients. In particular, ANZ should receive credit for its decision in 2009 (applauded by COSBOA at the time) to increase lending to the small business sector by \$8bn. The National Australia Bank also deserves special mention for its decision in January 2010 to abolish dishonor, periodical payment deferral and cash handling fees for their small business customers.

Unfortunately, contrary to the contentions of the RBA in its submission (contentions that fly in the face of public admissions by senior managers of Australian banks), it remains the case that the list of disadvantageous measures implemented by banks affecting the interests of small business far outstrips these more positive steps. This has been the subject matter of media analysis as recently as 27 March 2010, in an article in *The Weekend Australian* entitled 'Back of the queue', which included the following reflections from Australian Chamber of Commerce and Industry spokesperson Greg Evans:

...it's a systemic problem that is not really improving with a better economy.

"Banks have ratcheted up requirements in terms of security and serviceability," he said.

"The opportunity to access finance for small business is just not there."¹

COSBOA has previously made representations to the Government, through the Minister for Small Business amongst others, and remains concerned that changes in lending practices by some banks over the past year puts small business operators at a disadvantage in the marketplace. COSBOA and has consistently received evidence over the past two years of:

- The withdrawal of pre-approved loans, lines of credit, overdrafts, etc;
- A disproportionate increase in small business loan rates relative to mortgage and corporate loan rates;
- Higher credit assessment hurdles;
- Outright denial of access to credit (in circumstances where credit has previously been available);
- Re-assessment of already agreed loans and terms; and,
- The adoption of inappropriate lending policies (i.e., local managers turning a blind eye to the purpose of a given loan, offering a housing product for a business loan).

¹ *The Weekend Australian* (Inquirer section), 'Back of the queue', 27 March 2010, p.1.

Some banks have rescinded favourable conditions earned by sound, long-term clients. Examples include the ability to access uncleared cheque funds in cases where it was appropriate. Instead, more expensive and inconvenient high-cost overdraft facilities have been offered for small business clients.

In addition, COSBOA restates its concerns regarding:

- Increases to interest rates for business loans which it considers may be consequent upon, rather than coincidental to, lower residential mortgage interest rates linked to the RBA cash rate;
- The application of a 'high risk' assessment of small businesses by type of enterprise (e.g. all florists, all cafés) which does not recognize the individual circumstances of particular enterprises. As one small business owner says, "businesses with great ideas are not getting started because they don't fit the criteria set out by the banks..."²; and,
- The continuing impact of the high cost of interest on credit cards³. It is a reality that many small businesses rely on credit cards to meet expenses that would otherwise be the subject of specific new or extended lending but which institutions refuse to approve. Although not necessarily the purview of government, one small business owner suggests the creation of a credit card directly targeted at business featuring lower interest rates and 45 or 60 day payment terms.⁴

With particular regard to the issue of risk profiling, COSBOA notes comments attributed to National Australia Bank group executive of business banking Joseph Healy last October that 'he will not consider lowering risk premiums until next February or March at the earliest.'⁵ COSBOA has seen no indication from the market that risk premiums are soon to be lowered.

Based on representations made by member organizations of COSBOA, the Council considers that the RBA in its submissions unduly minimizes the significance of the impact of the higher standards in risk profiling on the diminution in applications for and receipt of credit by small business over the past year. Furthermore, COSBOA struggles to understand how banks can assert such high levels of risk, when the overwhelming majority of loans granted are those virtually entirely secured against residential property.

² COSBOA Small Business Banking and Finance Survey (preliminary results, 31 March 2010).

³ Radisich, J., Interview with *Lateline Business*, 8 April 2009

⁴ Above n.2.

⁵ Drummond, M., 'Big banks put the squeeze on small business,' *The Australian Financial Review*, 19 October 2009, p.53.

The importance of reasonable access to funding to support small business expansion and the sector's contribution to employment growth and economic recovery

COSBOA is pleased to see the Senate considering access to funding in terms of 'reasonableness.'

COSBOA contends that it is unreasonable that:

- Banking and financial institutions have drifted towards such a major disparity in lending practices between the interest rate charged for small business overdrafts secured against residential property and that attendant on corporate loans over the past decade.⁶
- Funds paid electronically by the customers of small businesses are immediately deducted from the customers' accounts yet are not available to the recipient business for between one and five days. This appears particularly repugnant given anecdotal evidence provided to COSBOA that certain large corporations have access to almost immediate transfer facilities.
- Banks absolve big business of the requirement to pay EFT fees on the basis of the volume of their transactions yet continue to charge small business. One small business owner says, 'we get sluggish 15c for each transaction but larger retailers get it for free simply because of their size and bulk transactions.'⁷
- Certain banks and financial institutions do not provide transaction records for declined electronic fund transfer attempts.
- Prospective and existing small business proprietors are only able to secure the most favourable conditions available at a given bank through engaging, at further cost, a broker familiar with the range of packages offered by that bank.
- Banks do not give due consideration to the good performance of individual established businesses when periodically assessing risk.
- Customers' bank accounts are debited by banks immediately upon making a purchase, but it takes between one to five days for the funds to be transmitted to the small business.

⁶ Reserve Bank of Australia, 'F5 Indicator Lending Rates', www.rba.gov.au/statistics/tables/xls/f05hist.xls, last viewed 26 March 2010.

⁷ Above n.2.

The state of competition in small business lending and the impact of the Government's banking guarantees

The *Australian Financial Review* reported on 19 October 2009 that:

Senior bankers concede the lack of competition in lending to small business means they are free to charge higher rates of credit, with larger companies having more financing options such as capital raisings or issuing commercial paper.⁸

COSBOA contends that the Government's banking guarantee operated to reduce competition in small business lending.

In order to increase competition amongst lenders to small business, COSBOA recommends that the Commonwealth:

1. Expedites the process of implementing international banking protocols in Australia to encourage the participation of non-banking financial institutions in the provision of financing options to small businesses.
2. Regulate with respect to some of the high costs of switching banks that currently exist. For example, bank account number portability, like mobile phone number portability, has the capacity to promote choice, reduce costs and increase productivity.⁹
3. Work with State and Territory governments to overcome other barriers to switching banks that are attendant on business loans for mortgage-secured businesses, such as stamp duty costs.

⁸ Drummond, M., above n.5.

⁹ Gans, J., 'Issues in Competition in Retail Banking', Submission to the House of Representatives Standing Committee on Economics: Inquiry into Competition in the Banking and Non-Banking Sectors', 2 July 2008, p.1.

Opportunities and obstacles to other forms of financing

It is interesting to note recent commentary by Robert Gottlieb in the *Business Spectator*, reporting that Stockland CEO Matthew Quinn has overseen the provision of loans to existing and prospective small business tenants unable to secure finance from banks.¹⁰ For COSBOA, whether or not corporations such as Stockland and Westfield could or should be seen as an opportunity for alternative sources of funding is a question that remains open.

Policies, practices and strategies to enhance access to small business finance that exist in other countries

COSBOA recommends that the Commonwealth consider:

4. Reconsider the introduction of the proposed *Australian Business Investment Partnership* with a specific focus on small business, such as exist in the UK, China and Singapore, to meet the gap in the market that the banks are not filling when it comes to lending to small business.¹¹

Other relevant matters

COSBOA recommends that the Commonwealth evaluates and takes action to implement the following reforms to aid small business access to finance for reasons outlined above:

5. Introduce a cash-loss carry back taxation policy which would improve small business cash flow, enabling small businesses to offset current losses against past years' profits and receive a refund of past tax paid.
6. Introduce or tighten regulations governing the transparency of fees, terms of conditions associated with small business loans, by reference to the requirements now demanded of retailers (unit pricing on shelves) and telecommunications service providers (whole of contract costs in mobile phone advertising);
7. Introduce or tighten regulations governing electronic funds transfer facilities provided by financial institutions to small businesses.

¹⁰ Gottlieb, R., 'Rise of the Reluctant Banker', *Business Spectator*, <http://www.businessspectator.com.au/bs.nsf/Article/Stockland-small-business-banks-Westfield-loans-deb-pd20100211-2K9UY?OpenDocument&src=srch> last viewed 26 March 2010.

¹¹ Radisich, J., 'Isn't it time banks gave back to small businesses?', *Dynamic Business Magazine*, 10 March 2010, p.40; see, for example, *China Today*, 'China launches venture capital foundation for small businesses,' 13 December 2009, http://news.xinhuanet.com/english/2009-12/13/content_12637974.htm, last viewed 31 March 2010.

Appendix 1 – Banking and small business discussion paper, March 2009

In March 2009 COSBOA prepared a discussion paper which was presented at the Minister for Small Business' banking and small business round table held in Melbourne. Much of the content of this paper is relevant to the Committee's terms of reference and overall deliberations, and is therefore attached for reference.

Appendix 2 – Results of COSBOA survey on access of small business to finance

COSBOA is currently undertaking a survey to provide the Committee with further quantitative and qualitative evidence to support the assertions in this submission. Preliminary data is referred to throughout the submission, and the final survey results will be forwarded to the Committee at the earliest opportunity.