

1 April 2010

Mr John Hawkins  
Committee Secretary  
Department of the Senate  
Parliament of Australia  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

By email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Mr Hawkins,

## **Inquiry into Access of Small Business to Finance**

### **Introduction**

The Westpac Group, which includes the lending businesses of Westpac Banking Corporation (Westpac), St George, BankSA and RAMS, is pleased to provide a submission to the Senate Standing Committee on Economics' inquiry into Access of Small Business to Finance. This submission focuses on addressing term of reference (a): the costs, terms and conditions of finance and changes to lending policies and practices affecting small business. It also provides general information for the Committee on the Westpac Group's small business lending activities for general context.

### **Our approach to our small business customers**

This submission uses the term 'Small to Medium Enterprise' (SME) to describe the businesses the subject of this inquiry. The definition of SME varies across the Westpac Group, and no doubt across the entire industry. For example, in Westpac, an SME is generally classified as a business with a total aggregate exposure (total borrowings) of up to \$1 million, whereas businesses up to \$2 million in total borrowings are managed as an SME customer at St George.

St George's smaller SME customers are generally managed by the branch network, while SME customers with over \$500,000 in lending are given a dedicated relationship manager with support from a business support centre. Similarly, depending on their lending requirements, BankSA small business customers are managed either by the branch network, via a dedicated relationship manager or a specialist within the Business Banking Centre (BBC).

On these definitions, SME customers make up approximately 5 per cent of Westpac's loan portfolio and 12 per cent of the St George portfolio.

The growth of this customer sector is a strategic priority for the Westpac Group, demonstrated by recent investments in establishing business centres, additional customer facing staff and the specialised support of these customers through the recent global financial crisis.

Supporting this priority, Westpac commenced a significant investment in grassroots banking in 2009, including bringing back the local Bank Manager and empowering branches to better support local communities. The 18 month program is well progressed - Westpac has created over 1,300 roles which include 530 new Bank Managers and 59 regional managers and will have recruited over 700 new branch staff by mid-year to support our renewed focus on customer-facing representation. Business customer representation has also been increased, with 150 new commercial bankers recruited in 2009 and another 50 are expected to have been recruited by the middle of this year.

St George has similarly significantly increased the numbers of its SME relationship managers in the past two years. The recent creation of Small Business Experts, the development of a Business Mentoring program and the extension of the business support centre's operating hours to 24 hours a day, seven days a week, highlights this approach.

### **The Impacts of the Financial Crisis**

The Committee would be aware of the impact of the dislocation in funding markets that occurred in 2008, triggering the financial crisis. There is no doubt that the financial crisis had significant impacts on both the cost and availability of funds across the economy. The resulting economic downturn in Australia led to slowing business credit demand.

In the face of de-leveraging and increased bad debts in the Australian market, as well as the impacts of the financial crisis and funding requirements, most Australian financial institutions have introduced or maintained more prudent lending practices.

### **Lending through the crisis**

Whilst acknowledging the perception and public concern about access to finance generally over the past year, in our view some of these views are overstated or have contributed to a misunderstanding about banks' appetite for SME lending. As publicly reported in the Westpac Group's 2009 Full Year Result, our approximate one per cent decline in business lending in that year was in line with system lending. Analysis of this data highlights that much of this decline was demand-driven and symptomatic of cyclical economic conditions.

In Westpac's view, the decline in lending is a result of a combination of factors: business customers prudently paying down debt, thereby reducing their gearing, and an increase in applications falling short of underwriting standards. The latter is supported by an increase in credit bureau default rates for customers applying for credit. This implies a higher proportion of SME customers applying for credit have a greater risk of defaulting on their debt. Similar outcomes were seen across the Westpac, St George and BankSA businesses.

Importantly, Westpac's rate of overriding adverse credit bureau decisions has remained steady in order to support more SME borrowers and overall approval rates have remained high at above 85%.

It should be noted that during the past 18 months, Westpac has made no major changes to key SME credit policies relating to debt service cover, interest cover, Loan-to-Value-Ratios (excluding commercial property) or other credit policies in the past year. This demonstrates

Westpac's willingness to continue to support SME customers and provide capital for continued growth in the Australian economy.

In pricing banking services for our SME customers, the Westpac Group has taken into account a range of factors including the expected increase in losses and provisioning and pricing for risk as a result of the business cycle, as well as higher capital charges and increases in the cost of wholesale funds.

Complaint levels during this period also remained relatively steady; Westpac experienced no material change in the number of complaints from our SME customers throughout the financial crisis. In fact, complaints data for Westpac over 2008 and 2009, which includes complaints regarding access to finance and related matters, details a slight decline in the number of complaints lodged. Of these, over 77 per cent of complaints were resolved at the first point of contact, and nearly 84 per cent were finalised within 5 days.

### **How we assist our SME customers**

For customers experiencing financial distress, the Westpac Group is well-placed to provide appropriate support with its Assist programs. Westpac Assist was launched in November 2007 and extended to SME customers in April 2009. Similar programs, St George Assist and Business Assist, were launched in 2009.

These programs provide specialised support to SME customers experiencing financial difficulty. As expected at this stage in the business cycle, we have seen an increase in customers experiencing financial distress through the financial crisis, and our proactive approach through our Assist programs has allowed us to provide strong support to affected customers.

Our Business Assist team has taken 10,450 calls from our business customers since the service commenced in April last year. Business Assist Solution Specialists provide each business customer with personalised assistance to determine the most appropriate options to suit their circumstances.

Supporting our business growth through education and coaching is an important part of Westpac's SME customer strategy. In 2009, our program of workshops for business was boosted by more than 30 per cent, enabling over 5,000 customers to attend expert sessions on issues such as cash flow, the economy and business planning.

Westpac has also expanded the operations of the cash-flow solutions group. Formed in April 2007, this group unites a specialist team of experts who help customers in cash flow management. Recognising that business owners need more from their bank than debt arrangements, we have increased our transactional and advice capabilities.

### **The Westpac Group wants to earn more SME business**

Westpac's goal is to be the leading bank in the SME market and has invested heavily in front line services to assist new and existing customers.

In the past year Westpac has placed approximately 380 local business bankers in branches as part of a program to triple the number of local business bankers across Australia. The addition of over 600 bank managers across Australia has also benefited small businesses.

Westpac's business banking centres provide advice tailored for business on issues such as managing their cash flow, traditional banking needs, equipment finance, building wealth and trade. Westpac invested more than \$50 million last year, opening 20 new branches and 5

specialist business banking centres, bringing the network of one-stop shops for business around the nation to 61.

SME customers have been identified as a key priority segment for both St George and BankSA and will continued to receive investment which focuses on increasing the number of SME relationship managers across Australia.

### Conclusion

The Westpac Group is committed to supporting our SME business customers through this difficult period. We are continuing to lend to the SME sector in a prudent way that ensures that our customers have appropriate levels of debt and access to advice and banking services to support their businesses.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Victoria Somlyay', with a stylized flourish at the end.

**Victoria Somlyay**  
Head of Government & Industry Affairs  
Corporate Affairs & Sustainability