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Senator Jane Hume

6 March 2019

Chair

Senate Standing Committee on Economics (Legislation)

PO Box 6100

Parliament House

Canberra ACT 2600

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

Dear Senator

Australian Business Securitisation Fund Bill 2019

The Australian Finance Industry Association [AFIA] welcomes the opportunity to comment on the *Australian Business Securitisation Fund Bill 2019* [the Bill].

AFIA Background

As you may recall, AFIA is well placed to represent the finance sector given our broad and diverse membership of over 100 financiers operating in the consumer and commercial markets. This includes a range of members providing access to finance for small business borrowers to start, sustain and grow their businesses. Distribution channels include the broad range from bricks & mortar presence, intermediated / vendor / supplier introduced business and online or digital channels. Further background on AFIA is available through: www.afia.asn.au.

Treasury Consultation

AFIA was invited to facilitate Treasury's consultation on the implementation of the Government's \$2B Australian Securitisation Fund by engaging our small business lending member and others involved in this segment that would potentially look to take up the funding opportunity that this Bill (if enacted) would facilitate. AFIA joined with the Australian Securitisation Forum (ASF) with Treasury representatives to work to design an implementation framework to maximise the potential offered by this initiative.

This submission reflects the close consultation with the ASF during the development of the Bill.

AFIA supports the ASF's submission. We understand, given the consultation, that ASF would equally support the AFIA submission. While representing different market segments and components of the securitisation market, both the ASF (looking from the perspective of the wholesale funders / securitisers) and AFIA (from the view of the small business lenders/financiers) have common ground in their support of fair, sustainable and competitive funding for small and medium-sized business owners to access affordable debt-finance. This policy objective underpins the Bill introduced by the Government. We also note that promotion of the small and medium-sized business sector has bi-partisan support.

As Senators would be aware, for many small and medium sized businesses access to affordable finance can be extremely challenging. Without this, these businesses miss out on the opportunity to invest in and grow their businesses with a knock-on effect to the economy. Anecdotally, there are reports that small and medium sized businesses face considerable challenges in obtaining finance¹. A key issue reflected in the pricing of that finance is often the cost of the capital or funding of the financier (often a small business in its own right) looking to on-lend.

The key objective of this Bill is to increase the availability and reduce the cost of alternate funding for providers of small business finance, more particularly in the non-ADI segment, with the intention this will be reflected in the price of finance provided to small and medium enterprises. This will be achieved by the Fund providing securitisation funding for non-major bank lenders. Securitisation allows lenders to sell packages of loans to investors so they can take these proceeds to make new loans. This means the Fund will support market segments on the journey to securitisation.

Secondly, there are market segments that are currently not suitable for securitisation including new participants innovating and disrupting via digital means to enhance competition in the market. There is an opportunity over time for the Fund to develop a greater understanding about underwriting and investing to the small and medium enterprises (in lieu of the traditional securitisation rating methodologies) for finance offered by these non-major bank financiers and thereby attract new investors to the segment.

We note that the Government has committed to provide \$2B of targeted funding to be managed by the Australian Office of Financial Management (involved in the residential backed mortgage securities

¹ RBA, *Access to Small Business Finance*, accessed 4 March 2018 [here](#).

market in 2008). Further, any returns from the Fund will be re-invested to benefit small and medium sized businesses.

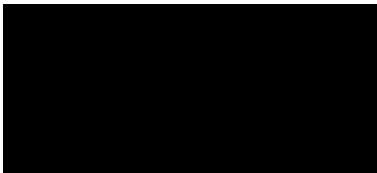
AFIA Position + Recommendation:

AFIA supports the Bill and recommends its passage given that there should be bipartisan support to achieve the underlying objective of reducing the funding costs of small business financiers with the flow-on benefits of enhanced access and affordable finance for small and medium sized businesses. All Australians will benefit from a stronger and more dynamic economy that will be the outcome.

Next steps:

Should you wish to discuss our feedback further, or require additional information, please contact me at [REDACTED] or Karl Turner, Chief Operating Officer, Executive Director, Policy & Risk Management at [REDACTED]

Kind regards



Helen Gordon
Chief Executive Officer