

19 March 2018

Commissioner Peter Harris AO
Chairman
Competition in Australia's Financial System inquiry
Productivity Commission
GPO Box 1428
Canberra ACT 2610

By email: financial.system@pc.gov.au


Dear Commissioner Harris

RE: DRAFT REPORT: COMPETITION IN THE AUSTRALIAN FINANCIAL SYSTEM

Thank you for the opportunity to provide comments on the draft report on Competition in the Australian Financial System released on 7 February 2018. Of particular note recognising that the five major providers in banking prioritise return on equity for their shareholders over competitively priced lending products consumers and small business.

We support the suite of draft recommendations in your report which combined have the potential to level the playing field between the majors and other providers of finance. In particular draft recommendation being 9.1, the provision of a broad schedule of risk weights for SME lending.

As raised in our initial submission the major banks defer to the prudential regulations as the driver of their lending practices. The major banks internal ratings-based (IRB) risk mode means they are required to hold the least capital against SME loans. Yet the majors centre their lending on low-cost secured retail. Implementing a schedule of risk weights will increase competition with reduced cost of capital for loans to SMEs by standard lenders.

Access to funding remains the number one barrier for SME's to start, grow and employ. As your report found loans to business have consistently declined and loans to owner-occupied and investor housing have risen to almost double those to business. It is therefore interesting to see your conclusion at 9.2 that access to finance does not appear to be a problem for small businesses.

We consider that the statistic cited that 90% of SMEs who applied for debt finance were successful only tells part of the story. Many small businesses are declined by the majors during the initial conversation. They do not get as far as lodging an application. This is supported in breakdown of the numbers as only 15 per cent of the businesses surveyed even sought debt of which only 30 per cent of those that sought finance were small businesses, defined as employing less than 20 people.¹

¹ ABS, Selected Characteristics of Australian Business, 2015–16, cat. No. 8167.0
The ABS survey included large business (200 or more persons).

We would also propose an addition to draft recommendation 10.5 Access to the new payments platform. In setting fees that participating entities can apply, transaction fees must be directly related to the costs of operating the system. Already the National Australia Bank has flagged a surcharge will apply to small businesses routing transactions over the NPP. Revenue generating fees must be banned. The NPP was built for the benefit all participants in our financial system, not just banks.

To your information request 10.1 we do consider open banking can be relied on for secure access to data. The development of a Consumer Data Right (CDR) will allow individuals to make their financial transaction history available not only to other banks but also non-bank lenders. We are participating in industry group for the development of standards. The aim is to develop standards that ensure accredited participants transfer, handle and remove data in a secure manner.

To your information request 17.1 we support option 2 being that the focus of ASIC be expanded to advance competition. As raised in your report there is an absence of evaluation of the impact on the community and competition of regulation. A key structural change that will be required is the creation of a Small Business Commissioner within ASIC. This Commissioner to take carriage of ASIC's small business strategy with the addition of evaluating the impact of regulations on access to finance for small businesses.

New entrants, innovative lenders and broader access to information will open the door for competition in the SME credit market. Looking overseas also provides models that the government could consider to further open competition are the British Business Bank and United States Small Business Lending Fund.

The British government provides funding through the British Business Bank to accredited bank and non-bank lenders for SMEs. The bank currently provides funding to support more than 59,000 SMEs with a total stock of finance in excess of GBP 3.4billion. The US government provides funds by taking an equity position in accredited lenders. The rate of interest returned to the government decreases proportionally to the value of lending provided to SMEs.

I trust these comments further assist you and we would be happy to discuss in more detail. Please feel free to contact either myself or Jill Lawrence

Yours sincerely,

Kate Carnell AO
Australian Small Business and Family Enterprise Ombudsman