



Australian Finance Industry Association Limited
ABN 13 000 493 907
L11 130 Pitt Street Sydney NSW 2000
02 9231 5877 www.afia.asn.au

8 November 2019

Mr Ben Crabb
Capital and Payments Unit
Markets Group
Treasury
Langton Cres
Parkes ACT 2600

By email: bgf@treasury.gov.au

Dear Mr Crabb

Treasury Consultation on the Australian Business Growth Bill 2019

The Australian Finance Industry Association [AFIA] welcomes the opportunity to comment on the exposure draft of the Australian Business Growth Bill 2019 [the Bill].

AFIA Background

By way of background, AFIA is the voice of a diverse Australian finance industry. AFIA supports our Members to ensure a fair, equitable and competitive market for customers through representation, insights and connectivity.

AFIA is uniquely placed to respond given our broad and diverse Membership of over 100 financiers operating in the consumer and commercial markets (including small-medium business and agri-finance). AFIA Members:

- include banks (major, regional and mutual/community-owned) and non-banks;
- range from ASX-listed public companies through to small businesses providing finance;
- operate via a range of distribution channels including bricks and mortar premises, intermediaries (finance brokers, dealerships, suppliers) through to online / digital access
- collectively operate across all states and territories in Australia in capital cities through to regional and remote areas: the majority operating across at least one border;
- have customers from all demographics, all age groups (legally able to borrow) in support of Australia's diverse and multi-cultural community with:
 - consumers ranging from high to low-income earners (including some whose main income source may be government welfare); many with substantial assets, others with few; single borrowers

- through to blended families; covering the whole range of employment scenarios, full-time, part-time, seasonal or casual employment.
- o commercial entities ranging from sole traders and partnerships through to the more complex corporates (e.g. trusts, corporate group) and government-entities some with no employees through to others with hundreds (if not thousands) of employees.
- provide a broad range of products:
 - o consumer: from personal unsecured loans, revolving products (including credit cards and interest free products coupled with lines of credit), loans secured by land or personal property; consumer leases of assets (including household/electrical/IT or cars) and buy-now, pay later solutions;
 - o commercial: asset or equipment finance (finance/operating lease, secured loan or hire-purchase agreement or novated leases); working capital solutions (online unsecured loans; debtor and invoice finance; insurance premium funding; trade finance; overdrafts; commercial credit cards) together with more sophisticated and complex finance solutions.

AFIA KEY POSITIONS SUMMARY

At a macro level, AFIA supports the development of the Bill, and the establishment of the Australian Business Growth Fund (**the Fund**) as it aligns with one of our key objectives, namely to support fair, sustainable and competitive funding for small and medium-sized business owners in order to increase accessibility to affordable finance and potentially reduce the cost of credit provided to small and medium enterprises.

As AFIA and its Members provide a broad range of commercial lending products nationally (as outlined above, such as asset or equipment finance; working capital solutions together with more sophisticated and complex finance solutions), we believe we are well placed to add value to the development of any policies.

As we outlined in our submission on the Australian Business Securitisation Fund in January 2019, the Fund (and the enabling Bill supporting its creation) allows potential insights into new market segments where there is a current lack of scale or loss history. Over time, these insights will provide a deeper understanding about underwriting and investing to small and medium sized business in lieu of the traditional channels and mechanisms thereby attracting potential new investors to the segment.

AFIA'S INSIGHTS - PROCESS

To examine this issue AFIA engaged with our Members. The AFIA team itself also has a good understanding of how the UK Business Growth Fund (link [here](#)) came into operation. We liaise regularly with some of the founding shareholder directors on developments, so our submission focuses on sections in the Consultation Paper where Members had some feedback or were seeking greater clarification and general commentary on next steps.

We note, however, that while generally the position put by AFIA represents the general view, there may be variances at individual member level on specific matters. These will get captured through the relevant member's organisationally targeted submission.

AFIA KEY ISSUES

1. Clause 18 – Appropriation of Consolidated Revenue Fund

AFIA and its Members support the Government's desire to increase lending to small businesses and to quickly open alternative sources of capital. However, there is a lack of clarity as to what could occur if the appropriated amount of \$100m is not received.

AFIA Recommendation

AFIA recommends that if the Government does not receive the anticipated funds from the banks and superannuation providers, that the Government be prepared to increase the appropriated amount from \$100 million as a higher level of initial investment is likely to have a more meaningful impact and is likely to encourage further investment.

2. Further detail to be provided as to the operation of the Fund

AFIA notes that there is little detail provided in the Bill as to how the fund is to operate or any detailed terms.

AFIA Recommendation

AFIA and its Members recommend that when establishing the rules for the Fund, that a consultation period of at least 30 days is provided, so that relevant stakeholders can be consulted appropriately.

3. Further work to increase SME lending

AFIA notes the current uncertainty in the marketplace which is impacting on business confidence and investment and the broader Australian economy.

In part this is occurring following the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry as:

- Some financial institutions are becoming more risk averse and conservative in their assessment processes leading to reduced borrowing capacity;
- Financial institutions are seeing increased regulation in one area being used directly or indirectly (say through external dispute resolution schemes) as a benchmark from which other sectors are held to account albeit such regulation may not be suitable or appropriate;
- Lenders are seeing that the regulatory outcomes for perceived poor judgement calls are becoming too onerous and pose too much potential reputational risk and are effectively withdrawing from the market.

AFIA and its members support Commissioner Hayne in his Final Report, when he says:

- 'the responsible lending provisions of the NCCP Act do not apply to lending for business purposes. As I said in the Interim Report, the evidence and submissions provided to the Commission did not reveal any great appetite to change [this] lending framework. The submissions received by the Commission following this Interim Report were consistent with this trend. I do not consider this surprising: extending the responsible lending obligations in the NCCP Act would likely increase the cost of credit for small business and reduce the availability of credit. I am not persuaded that the benefits to be gained in individual cases from applying the NCCP Act to small business outweigh the overall costs of taking that step. I therefore do not consider that the NCCP Act should be amended to extend its operation to lending to small businesses'.

As the Fund is looking to move into potential new market segments, it will be critical to better understand:

- The terms of reference for the Fund;
- How and where it will be complimentary or diverge from the current marketplace; and
- How it will align with the current and proposed changes to the regulatory framework including integration into external dispute resolution schemes

AFIA Recommendation

AFIA recommends that further work is undertaken by the Government in establishing the Fund and as part of this, AFIA and its Members would be delighted to be key stakeholders and part of any working groups.

Next steps

We welcome the opportunity to discuss our feedback further or provide additional information to Treasury. Please contact me at karl@afia.asn.au or Chalisa Parekowhai, Associate Director, Policy at chalisa@afia.asn.au or both via 02 9231 5877.

Kind regards



Karl Turner

Chief Executive Officer (Acting)