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### **Statutory Review of the Payment Times Reporting Act 2020 Consultation Paper**

The Australian Institute of Credit Management (AICM) welcomes the opportunity to contribute to the proposed reforms to the Payment Times Reporting Act 2020.

AICM represents over 3,000 credit professionals who contribute to a resilient economy and drive successful business outcomes through:

- mitigating risk;
- maximising growth; and
- applying sound credit principles and practices.

Without our members, businesses are exposed to reputational damage, poor cash flow management and inefficient processes. Their employers are at risk of breaching regulatory requirements and not getting paid for hard won sales and services delivered.

AICM members work across all sectors of the economy as the custodians of cash flow they assess credit risk, manage credit terms, resolve disputes and manage the full life cycle of the credit relationship.

While our submission supports the majority of proposals, long lasting improvement to payment practices in Australia will only be achieved by shining a light on the full payment landscape, not just between small and big businesses.

AICM members manage the largest accounts receivable ledgers in the country (a list of the organisations is [here](#)), the majority represent entities captured by the reporting criteria i.e. well over \$100m revenue. These members are acutely aware that poor payment practices are not limited to payments from large businesses to small businesses. AICM members, repeatedly express frustration that very limited advancements have been made to improve the practices and achieve mutually beneficial payment times from large organisations.

AICM members are concerned that the isolated focus on small business will see the poor payment practices they experience with large businesses increase. These poor practices include mandated payment times of 90 days and more, onerous administrative processes, poor complaints/dispute handling and limited to no ability to contact accounts payable staff.

An increase in payment times and poor practices between large businesses is likely to have the following impacts:

- Reduce the ability of prompt payers to maintain or improve their payment times.
- Require large organisations to reduce credit terms to their customers including small businesses.
- Require additional financing costs or pressure to reduce expenses such as staffing.

Poor payment practices are a handbrake on the growth and prosperity of all Australian business as the lifeblood of trade, cash flow, is slowed down.

By incorporating payment times to all businesses into the scheme, AICM members believe a similar fundamental shift can be achieved with Accounts Payable teams as has been achieved with Collections teams when the implementation of Financial Hardship legislation created a cultural shift within the collections industry.

This shift has seen Collections teams repositioned into Customer Assistance teams, resulting in improved outcomes for consumers and financial benefits for creditors. Specifically Harvard Business School states *“After learning that most defaults were due to health, job or marital problems, National Australia Bank revised its debt collection department to shift from penalizing people in default to assisting them in developing a work-out plan, enabling more than 90% to meet their payments and get back to good credit standing, while saving the bank more than \$80 million in bad debt annually.”*<sup>1</sup> Showing significant wins for both creditor and customer, which could be replicated with legislation that encourages a similar shift in Accounts Payable.

Below we provide AICM Members views in relation to key aspects of the draft legislation.

### **Review to the objects of the act**

AICM members support the revised objects except for the exclusion of *“to make information publicly available to enable small businesses to make more informed decisions about potential customers”*.

Whilst acknowledging the complexity and difficulty of achieving this object and the reviews recommendation to amend *“this object to clarify that the purpose of the reported information should, instead, be to put reputational pressure on large businesses to improve their payment terms, times and practices.”* AICM members encourage maintaining this object with benefits including:

- Encourage good credit/business practices.
- Mitigate risks of insolvencies that often flow from cash flow pressures when providing credit to organisations with long payment times and poor practices.

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<sup>1</sup> Kramer, Mark R., and Hugh Foley. ["National Australia Bank: Looking Out for the Customer."](#) Harvard Business School Case 719-417, September 2018. (Revised March 2019.)

ASIC data as at December 2023 showed that “Inadequate cash flow or high cash use” was sighted as the nominated cause of failure in 52% of Initial external administrators' and receivers' reports<sup>2</sup>.

While it is a significant task to raise awareness of the register, a collaborative effort of all stakeholders can lift the relevance of the register and make a significant difference to the small businesses that are encouraged to make fully informed decisions. The AICM has received positive feedback from presentations made to industry groups and small businesses on good credit management practices where the register has been recommended as a key and free tool businesses to understand the cash flow impacts of trading with large entities.

### **Research and analysis to be published**

AICM members strongly support the detailed analysis and publishing of research leveraging the reported data and external sources.

The AICM has previously compiled academic reports utilising credit bureau data (see [AICM Overdue Credit Index report](#)) to provide insights to credit providers and other stakeholders and can see clear opportunities for this work to be leveraged to inform the credit community and reset payment practices.

### **Ministerial Direction - Slow Small Business Payers**

AICM members strongly support the new power for the Minister to require an entity, that is found to be amongst the slowest payers of small businesses, to publish on their website and other documentation that they are a slow small business payer.

However it is noted that the required two reporting periods before directions are made is a long time for small businesses trading with the slow payer to be exposed to these poor practices. This concern highlights the importance of encouraging small businesses to use the register and stay informed about the risks associated with slow payments.

### **Payment times reporting requirements**

AICM members are concerned about the requirement for entities in an insolvency process (Administration, Deed of Company Arrangement, Receivership, and Liquidation) to report, noting the regulator has the authority to reduce reporting requirements. The key areas of concern are:

- The reporting of payment information is futile as the entity is unlikely to emerge from the process in a similar form to what it entered therefore making any past payment behaviour irrelevant to the register or users.
- Reporting will be an additional burden on the Insolvency Professional running the process which will result in costs borne by creditors and/or distraction from their core objectives, with no benefit.
- Users of the register should be alerted to the insolvency rather than any payment practices.

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<sup>2</sup> ASIC [Series 3: External administrators' and receivers' reports](#)

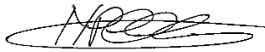
AICM Members recommend that reporting not be required from entities in an insolvency process and the Regulator be required to update the register on commencement of an insolvency process to alert users of the insolvency which could be achieved through linkages with ABR and ASIC registers.

### **Independent review after 5 years**

Noting our recommendations to expand the register to incorporate payment times to all entities AICM members recommend earlier review. Alternatively, a separate inquiry into the benefits of expanding reporting to incorporate payment times to all sizes of businesses, not just small businesses, and the economic benefits that would be achieved.

On behalf of our members the AICM appreciates the opportunity to contribute to the improvement of payment practices in Australia.

Yours sincerely



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