

## Australian Business Securitisation Fund Exposure Draft – public consultation submission from Scottish Pacific

January 16, 2019

Lauren Hogan  
Financial System Division  
The Treasury, Langton Crescent  
Parkes ACT 2600  
By email: [absf@treasury.gov.au](mailto:absf@treasury.gov.au)

Dear Ms Hogan,

Following is a submission regarding the proposed Australian Business Securitisation Fund legislation. As an established participant in the SME lending sector of thirty years standing, Scottish Pacific welcomes this opportunity to make a contribution to the public consultation process.

### Overview

The Government has released for public consultation an exposure draft of the Australian Business Securitisation Fund Bill 2018 and explanatory materials, and investment mandate for the Australian Business Securitisation Fund.

The \$2 billion Australian Business Securitisation Fund aims to invest in warehouse facilities and securitisations backed by small and medium enterprise (SME) loans, providing additional funding to smaller banks and non-bank lenders to on-lend to SMEs on more competitive terms and promoting the long-term development of the securitisation market for loans to small and medium enterprises.

### Scottish Pacific's role within the SME lending sector

[Scottish Pacific](#) has been involved in SME lending and supporting the small business sector in Australia since 1988 and is interested in ensuring the broadest and best access to funds for this vital business sector.

As Australasia's largest specialist SME working capital provider, we have helped thousands of business owners access working capital, most commonly via invoice finance and trade finance facilities secured to the SME's accounts receivable. These funding options are tailored towards improving cash flow to generate the funds that small and medium sized businesses need, regardless of where they sit in the business life cycle or in the economic cycle, and without the need for real estate security.

Scottish Pacific lends to small, medium and large businesses with revenues ranging from \$500,000 to more than \$1 billion, whose customers generate more than \$18 billion in sales each year. We work directly with SMEs and with a range of introducers: accountants, banks, commercial finance brokers and other business advisers.

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## Current borrowing environment for SMEs

- i. Scottish Pacific's September 2018 *SME Growth Index* found increasing numbers of SMEs are forecasting growth but are worried about how they will fund that growth.
- ii. Against the backdrop of the Hayne Royal Commission, there is a growing sense that the banks, the traditional funders of Australian SMEs, are finding it increasingly difficult to help SME business owners.
- iii. The banks' risk-weighted appetite, focused on real estate security, limits the lending available to Australia's SMEs. ASBFEO's *Affordable Capital for SME Growth* report states that home ownership in the key entrepreneurial period of life (ages 25-34), has fallen by more than 30% over the past 25 years. This declining home ownership trend, along with the current uncertainty around major metropolitan housing markets, could have a major impact on business owners' ability to access funds.
- iv. *SME Growth Index* research by East & Partners found fewer than 10% of SMEs want to use property to secure business loans. 56% would prefer a loan secured against non-personal assets, with an additional 23% indicating a preference to borrow against business receivables (ahead of 22% who preferred an unsecured overdraft facility).
- v. This research also found SMEs are looking at alternatives to banks to access finance, including invoice finance, fintechs, government grants and crowdfunding. Given that so few want to use property as security, sector-wide education is required to highlight to SME owners the range of low-risk borrowing options that are not secured against property.

## Observations on Securitisation Fund draft legislation

Given our knowledge of and involvement within the SME lending sector, Scottish Pacific would like to bring to the attention of Treasury the following key points regarding the proposed Securitisation Fund:

### 1. *Fund size and scope*

Scottish Pacific recognises the support for the vital SME sector that is behind the intent of this legislation. The plan to inject \$2 billion into the small business loan market is an unprecedented effort to boost lending to the sector.

Providing a source of wholesale funds for smaller lenders at interest rates comparable to rates available to the major banks could increase competition in the market for lending to small to medium enterprises.

It may ease the lack of competitive pressure within the sector (ASBFEO estimates the major banks' share of lending to small business at over 80% market share). For this reason, it is worthwhile increasing the supply of affordable capital for smaller lenders to provide more lending products to the SME market.

Our view on the best way for the Fund to have positive impact:

- 1.a. Given the multi-billion dollar lending need of the SME sector in Australia, the impact that the Fund will have, along with the associated lending activity it stimulates, remains uncertain. For the initiative to be successful, a further injection of funds and a review of the release structure may be required.
- 1.b. We believe it is vital to focus the Fund on the areas of the market where it will have the most positive and sustainable impact on the SME sector and the broader Australian

economy. We are pleased to see that the Fund intends to support segments of the market where there are identifiable gaps.

### *Importance of rated programs*

We support the proposed Fund's use of rated programs. This approach will be improving the ability of lenders to help even more business owners, rather than supporting irresponsible lending by new entrants in the market.

### *2. Access to funds versus awareness of options*

Despite much public commentary around improving SMEs' access to funds, our observation is that in reality if an SME really wants an injection of capital, it is available to them.

The lack of awareness regarding options, rather than the availability of funds, is the sticking point for improving SMEs' access to funding.

ASBFEO's *Affordable Capital for SME Growth* inquiry report cites ABS statistics that only 15% of all businesses apply for debt or equity finance, and 90% are approved – with the vast majority of SMEs not even applying for funding.

This data is complemented by our [SME Growth Index](#) research polling more than 1200 business owners nationally, undertaken independently by East & Partners. September 2018 *SME Growth Index* results show that 85% of business owners do not actively keep an eye out for business credit facilities. Only 13% review their funding options annually, and almost half either haven't done so for many years, or only review "when a need arises".

We would suggest that nationally, and despite the efforts of bodies including ASBFEO, there is a poor level of awareness by business owners about funding options. Figures cited at a 2018 RBA roundtable provide just one example - the total Australian market for debtor finance is approximately 4,500 but nearly 65,000 SMEs would meet the criteria for this style of funding.

SMEs can end up in a situation where they are staying with their banks out of habit. This means they might not be looking for, or be aware of, other credible funding options.

The solution to this dilemma, which does impact the size and success of the SME sector in Australia, is not just provision of money to the wholesale market but requires a wholehearted effort at changing the culture of small business thinking about business lending options.

Business owners would benefit from a clear understanding of the benefits and risks of different forms of capital, education about how much capital they require and what type of product best fits their needs.

To address this awareness gap, Scottish Pacific is working with ASFBEO to create a guide for SME lending, which will help business owners to understand the broad range of small business finance options available and find appropriate solutions for various needs. Scheduled for release in April 2019, the guide will also be a valuable tool for advisers such as accountants and brokers to better understand this growing market and serve their clients' needs.

### 3. *Scottish Pacific collaboration to assist establishment of Fund*

We welcome the Federal Government's move to boost SME access to finance. Given Scottish Pacific's depth of knowledge about this business sector we would be keen to play a role in shaping and developing the Fund, to help ensure that it has maximum positive impact within this important sector.

We would encourage the Government to consider the broader industry input provided by AFIA, the ASF, and other key industry bodies. We would also encourage the Government to take a long-term view to improving SME awareness of finance options as well as access to finance.

Yours sincerely,

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