



SUBMISSION TO TREASURY

ON THE FINANCIAL SYSTEM INQUIRY FINAL REPORT

We welcome the opportunity to respond to the Government's request for submissions on the Financial System Inquiry's final report issued on December 7th 2015.

Our area of interest is SME access to and cost of finance. Our [second round submission](#) addressed this topic by providing:

1. General commentary on how difficult it is for SMEs to access funding to establish and grow their businesses.
2. Analysis of the possible policy options highlighted in the Interim Report as potentially being able to address the challenge of SME access to funding.
3. Additional suggestions the Inquiry might consider.

Whilst the Inquiry has produced numerous useful recommendations addressing big issues such as the safety of the banking system and protection of retail investors' funds, the same cannot be said for the issue of SME access to finance where many small businesses continue to struggle to access competitive financing options particularly from the Big Four banks.

We believe SMEs have been short changed by the Inquiry's final report. In the 315 page final report, the plight of SMEs was confined to one appendix of less than two pages and none of the 44 recommendations were directed specifically at the SME sector. Further, it was disappointing that several policy options canvassed in the interim report did not find their way into the final report.

When responding to questions regarding the lack of focus on SMEs in the final report, FSI Chairman David Murray noted "small businesses are riskier than some other businesses" and the Australian Bankers Association's Steven Munchenburg said that small business lending was a "challenging area".

It seems that the Inquiry found the whole issue of funding for SMEs all too hard. Australia cannot afford this problem to remain unresolved. We need to find ways of helping people finance the establishment and growth of their own businesses. Whilst this is clearly a challenge it is not insurmountable.

In the interests of continuing to explore ways to improve SME access to competitive

finance we offer the following suggestions:

1. Incentives for banks lending to SMEs that don't have property security.

Banks prefer to lend to SMEs when they can take property security. We need to explore ways in which banks and government can work together to encourage and reward banks for lending to SMEs without property security. For instance, banks are effectively rewarded for home loan lending because they are required to have less capital allocated, why can't banks also be rewarded for lending to SMEs without bricks and mortar security.

2. Government intervention by making or guaranteeing loans to SMEs.

Governments generally don't have strong track records in picking winners in business but this is not to say it cannot be done. The South Australian Government recently announced the [Unlocking Capital For Jobs](#) program which provides financial support in the form of guarantees to enable businesses to obtain bank loans where they do not have the balance sheet strength to access finance.

3. Enhanced role for Australia Post.

We need to look no further than across the Tasman to see how Australia Post could establish a banking operation. Kiwi Bank Ltd, a subsidiary of the government owned NZ Post operates from post offices across NZ mainly as a retail bank but it now also has a successful and growing business banking division.

4. Encouraging big superannuation funds to invest in securitised SME loan portfolios and venture capital funds.

SME lending could become an attractive alternative asset class for super funds and venture capitalists. Tax incentives could be offered to encourage these funds to support viable SMEs that are unable to obtain bank finance.

5. Encouraging SMSFs to invest and lend to SMEs.

Currently many SMSFs receive tax breaks by taking on debt to invest in property. This does nothing to grow the economy or create jobs. Better to give these SMSFs tax breaks for investing in and lending to growing Australian SMEs that will add to GDP and employment.

6. Improving financial literacy of SMEs.

The FSI final report highlights the need to improve financial literacy of retail investors and superannuates but financial literacy is also a big issue for many SMEs who lack a practical understanding of how to deal with lenders and either don't know who to turn to for advice or are concerned about the cost or independence of such advice.

The banks offer some excellent free online resources although they could focus even more on improving the financial literacy of their SME clients (for example explaining the differences between the role of debt and equity in funding a business) and this in turn would help rebuild trust between the banks and their business clients.

Like the banks, government at all levels offer some useful resources and materials to help SMEs and start-ups for example the [Australian Small Business Advisory Service](#) although advice re obtaining funding is rather basic. As a suggestion, government bodies could engage retrenched and retired bankers to provide hands on personalised advice to small businesses on how to go about obtaining finance.

Accountants who perform the critical role of trusted advisor to SMEs are uniquely positioned to play a role in improving the financial literacy of their clients. Professional bodies such as CPA Australia and the ICA can help their members and enhance their role as trusted advisors by equipping them with skills to help their clients obtain finance.

7. SME representation on bank boards.

In the longer term, the interests of SMEs would be enhanced if there were non-executive directors on bank boards who really understood this sector. Currently not one of thirty-seven NEDs on the Big Four bank boards has a SME background. Perhaps bank board diversity targets should be extended beyond gender to include the SME sector.

Conclusion

Australia can ill afford to leave the problem of SME access to finance to market forces. Government needs to lead by driving greater collaboration with banks, non bank lenders, business advisors, SMEs and their representative bodies in order to identify and implement policies to enable this sector to fulfil its potential. More than ever Australia needs a thriving SME sector.



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By way of background, I am former senior career banker who spent over thirty years with the NAB Group in various roles including business banking and credit. I left NAB in 2008 to establish Slonim Consulting a banking advisory and advocacy practice. In 2013 I founded theBankDoctor a free online resource centre that provides practical and independent advice to help SMEs better understand and deal with their bank.