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Submission to the Financial System Inquiry

Financial System Inquiry
GPO Box 89
Sydney NSW 2001

Thank you for the opportunity to provide input to this important inquiry.

COSBOA has been working with the finance sector, particularly the Australian Bankers Association, on small business finance issues for some time. One of our member organisations, CAFBA (the Commercial Assets Finance Brokers Association) has contributed substantially to this process and we recommend that our response to the interim report be read in conjunction with CAFBA's response.

Differences between big and small business – it is all about trust, process, resources and communications

Our approach to this issue is based on achieving productivity and health in the small workplaces of Australia by creating simpler and easier to understand processes. This in the end also creates a better environment for innovation and growth from within the small business community.

We should first note some of the differences between big and small business.

A small business owner is closely connected with his or her business, they do not make a profit the same way as a big business instead they make an income and a living. Measuring success is not about a share price, it is about income, time with the family, lifestyle, interaction with customers, interaction with suppliers, happy and productive employees and personal health.

There are very rarely experts in finance employed directly by a small business person. Therefore what is a drain on a small business person is not necessarily a drain on a big business.
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In the end the bigger problem for small business people is that by nature they are trusting and optimistic. Indeed if they were not of that ilk they would not ever start or purchase their own business. A small business person should not be ridiculed for possessing these personality traits. The people who make comments "*it is their own fault if they sign a dodgy contract*" or "*why do*

they go into business when they don't understand finance" are not in touch with the great number of businesses in Australia.

Finance issues for small business

Access to finance is best organised by intermediaries such as business finance brokers.

After reviewing the process for obtaining loans for businesses that want to grow it is obvious that specialist intermediaries will add value to what banks and other institutional financial businesses can provide. The partnership between banks and brokers is in the main good and transparent and should be enhanced not ignored.

SME Finance database – not suitable

The suggestion of a small and medium sized enterprise finance database to reduce information asymmetries between lenders and borrowers is not feasible and would add extra process and compliance to an already busy process. It seems a complicated answer to a problem that can be resolved within the market place if barriers are removed.

Standard Business Reporting (SBR)

We were surprised that SBR did not get a mention in the interim report. SBR is the future of communications between business and government and it has been shown to also enhance small business financing. There is a bank in Europe that provides a discount on loan interest rates for small businesses that use SBR enabled software. SBR is also a mechanism for enabling faster and more efficient communications between businesses, particularly small business to their financial institutions.

We recommend that the secretariat of the inquiry contact the SBR team in the Australian Taxation Office and receives a briefing on this process. It is not a panacea but it will improve process and communication as well as business viability.

Crowd sourcing

The Corporations and Markets Advisory Committee (CAMAC) has produced reports and information on this new way of funding and this must be investigated further by the FSI.

Credit card costs

We note the difference in costs between card schemes, and cannot see any logical basis for this. The merchant service fees for American Express and Diners Club payments are significantly higher than those for MasterCard and Visa. This is the result of differing regulations applying to what are, in effect, the same services: card payment processing.

This has created an unfair situation where small businesses are forced to either absorb the higher card acceptance costs, or pass on the cost to customers in the form of a surcharge. Neither of these outcomes are desirable for the business or the customer. For merchants, high card acceptance fees are a significant cost to their business. Levying a surcharge, however, is unpopular with cardholders and can have a negative impact on the business-customer relationship.

Another distortion occurs where a merchant passes on a flat rate surcharge to customers for *all* types of cards. This means MasterCard and Visa are subsidising the more costly American Express and Diners Club cardholders. This creates confusion for customers and means there is a lack of accurate pricing signals to customers about the true cost of card processing.

We are calling on the FSI to address this two-tier regulatory system. American Express and Diners Club need to be regulated in the same way as MasterCard and Visa in order to bring down the overall cost of card acceptance for small business.

Ends