CHAMBER OF COMMERCE & INDUSTRY QUEENSLAND

invigorating

# Submission to Senate Economics Committee

## Competition within the Australian banking sector

30 November 2010

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## Contents



***Quotes from Queensland Business Operators:***

*"Banks altering conditions or changing policy once you have already signed, my business can not ring the bank and instruct I've changed our agreement but it seems ok for the bank to"*

*"Failure to reward good customers, and failure to compete to attract good customers"*

*"Second Tier/regional Lenders need to be able to buy their money at the same rate as the big 4"*

*"BOQ resisted our efforts to have our loan interest rate, merchant service fee rate and other charges reduced simply because they thought we wouldn't take up other offers because it would cost us too much to move"*

*"Because we have our home secured with one institution for the purpose of shares etc for our future retirement we were unable to take a small business loan or even an overdraft with ANZ for a short term. We only wanted $30K for 3 months. ANZ declined the overdraft and at another time a small loan of $20K for the short term to buy new equipment. We have been with ANZ for over 30 years and are very unsatisfied with their customer relations. Their Ads make me very cynical when they are played"*

*"Being Westpac our bank, when we need to operate out of the usual procedures, we have to deal by phone with the main branch, and we don't really know who we're dealing with"*

*"Operating by text book with small business, instead of understanding and looking at track records of the business"*

*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

## 1.0 Introduction

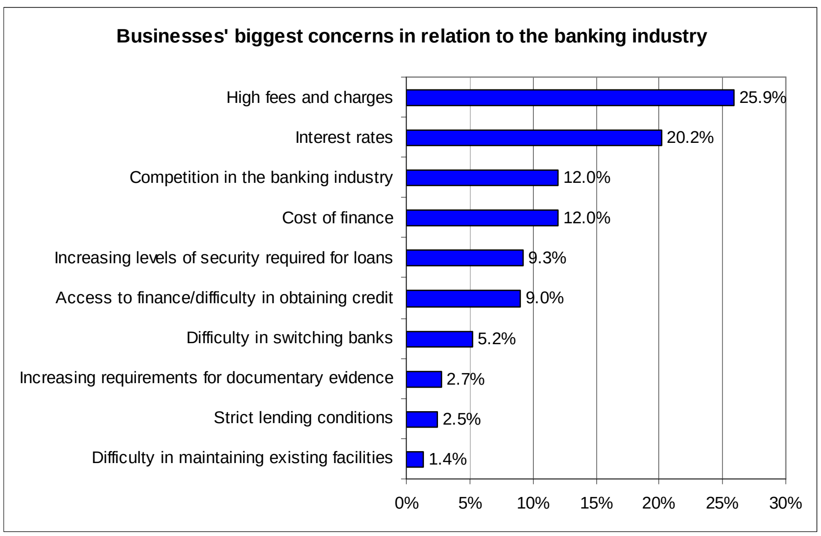
1.1 The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide constructive input into the Senate Economics Committee's review of Competition within the Australian banking sector. A full profile of CCIQ and its membership is provided in Appendix One.

1.2 Interest rates, availability of credit, cost of funding and terms and conditions of available credit are crucially important for the Queensland business community and are greatly influenced by competition in the Australian banking sector.

CCIQ has received feedback from nearly 500 Queensland businesses[1] on their relationship with their bank and comments on competition within the Australian banking sector. In turn the Chamber has received confirmation from 46 Queensland business operators that they would be prepared to appear before this Inquiry to give evidence on their interaction and experiences with their lending institution. This submission relies heavily on both the quantitative and perhaps more importantly the qualitative responses from these actual businesses.

1.3 Unfortunately since the onset of the global financial crisis (GFC), the major banks have become more risk averse and overly conservative in their business lending. Accordingly, banks have increased their risk margins for business loans and tightened their standards and terms for new loans through lower loan-to-valuation ratios (LVRs), stricter collateral requirements and higher interest coverage requirements. This has resulted in an effective lessening of competition in business lending.

1.4 Accordingly businesses cite the following concerns in relation to the banking industry.




*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

1.5 CCIQ recognises that the banks have a fiduciary responsibility to run their businesses in a manner that minimises risks that in turn delivers a profitable and strong foundation. Indeed the strength of the sector helped secure our response to the global financial crisis and ensured Australia emerged more quickly and less affected than all other advanced economies.

1.6 However Queensland businesses are looking to our lending institutions for genuine vision and offerings that focus on a strong economy and not just their shareholders. Ultimately financial institutions must have a broader responsibility for economic development in Australia. Subsequently it is essential that the issues of concern for business be addressed.

[1] *These businesses were representative of the business community with 45.5% classified as small (annual turnover less than $2 million), 48.4% classified as medium (annual turnover between $2 million and $50 million) and 6.2% classified as large (annual turnover more than $50 million).*

1.7 CCIQ's submission reveals a range of instances of banks tightening lending criteria which has threatened the ongoing viability of many businesses. Changes in lending requirements have undermined the feasibility of existing business plans and required small businesses to alter their strategy, resulting in them either shelving plans for expansion, downsizing, or in some cases exiting the market altogether.

1.8 In this environment, it is important that the Senate Inquiry makes recommendations that are proactive in fostering the ability of businesses to operate and grow and that insufficient and diminishing competition in the Australian banking sector does not impede the ability of these businesses to operate moving forward.

***Quotes from Queensland Business Operators:***

*"In essence a review of our overall Australian economic conditions, outside of mining, is needed. A true government review would result in fairer Banking conditions ie easing of interest rates and regulations, greater competition in the banking, manufacturing, agricultural industries and hopefully a stable and growing economy but don't hold your breath because it will not happen with the Federal Government who obviously do not understand the implications of the high cost of their own borrowings from China and others. Movement in their lenders interest rates would significantly impact on the Australian budget bottom line but this seems to go unheeded"*

*"Banks, in particular the CBA, have become exploitative and cite increased costs as an excuse for interest rate rises beyond RBA increases whilst making huge profits and paying massive, disproportionate executive salaries. Whilst shareholders' interests are important, inflexible business practices and onerous costs make transfers of loans difficult, diminishing competition and locking customers into a credit trap from which it is difficult to extricate themselves whilst the banks extort massive profits. This diversion of funds to banks diminishes resources for smaller entities stifling opportunity and investment in other sectors of the economy. Whilst it benefits shareholders to make money, money alone does not further the wellbeing of the community and society. Development of infrastructure and services does and current bank business practices inhibit such development through lost opportunity within the broader community"*

*"I believe the staff in the banking industry are inexperienced and have to go to a higher authority. They certainly can't give advice these days on the best way to set up a loan or advise on lending choices. If you find a staff member of a bank who is helpful, gives service and has good knowledge of a product you certainly will stick with them because they are not the norm"*

*"In many respects the banks are protected through regulation which creates barriers to entry. Therefore they have a greater responsibility to the community than the narrow perspective of their shareholders. That is, using the protections afforded to them solely to maximise profits alone is repugnant. To announce large profits on the one hand and claim that the cost of funds justifies increasing interest rates beyond the RBA rises is hypocritical and reeks of abuse of market power. After all the banks are a monopoly in Australia and like all groups that can exercise market power, need regulation to ensure that does not occur to excess. The only other solution to breaking up the monopoly power enjoyed by the banks is to introduce real competition into the market. The caveat of course is to do so without unduly weakening the underlying strength of our banking system. Foreign banks have been chased offshore before by excessive regulation. Therefore, if we open up the market to allow genuine competition, the corollary is to reduce regulation to allow that competition to occur. Seeking the right balance between regulation and competition and their effects upon the underlying strength of the system is of course the art and science of what is required and will require detailed analysis"*

*"We are a small business and we have had the toughest year since the business began almost 20 years ago. We believe the interest rates and the govt have had a direct impact on the construction industry on the gold coast. We believe it is a number of factors combined that has brought this about. Some of the issues being interest rates, council fees on development/construction, banks not lending money"*

*"It would appear that the Reserve Banks is focusing on one sector, only namely mining resources, when considering interest rates etc. Whilst mining is a large portion of the balance of payments, the majority of Australians do not work in that industry and would appear to be left out of considerations. If others industries such as agriculture, building, tourism, education etc were considered, focus on interest rates would be somewhat different. These industries are in need of a large injection of cash flow to balance out the entire Australian Economy"*

*"Banking institutions need to considered that not all businesses operate with the same risk levels and each business needs to be assessed on its own merit rather than using the standard computer model for all businesses. These models do not take into consideration any unusual factors for individual businesses or the customers' ability to manager cash flow peaks and trough & grow their businesses in changing markets"*

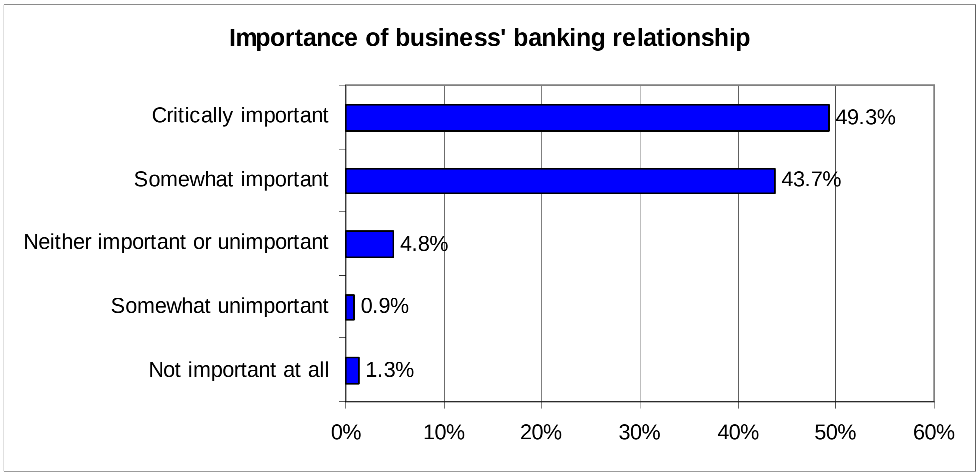
*"The banks and financial institutions reducing your Credit limits without notifying the customers. example we had a facility of $1 million line of credit when come to use some of this to purchase some new capital equipment discovered that it had been reduced to nil and no notification was forwarded to us. We only became aware after we had signed the purchase order for the equipment. This has happened twice to our firm once by the NAB 2005 the other is just this year"*

*"Bought new machine - $157k. Tried to arrange finance with Commonwealth Bank - they were feeding us through the wringers. Went to a finance Company [Centrepoint] - they were able to arrange finance at a better rate – through the Commonwealth Bank. The Business banking manager made things as difficult as possible for the finance company representative and ourselves - hence the machinery arriving prior to finance. This would not have happened 10 years ago. The banks are promoting people within the company according to their years of service – not their level of expertise. We now have people who are working at the upper levels of their expertise - and not doing it very well. If they were working for a private company they probably would have got the push years ago"*

*Source: CCIQ banking survey of Queensland businesses, November 2010*

## 2.0 Importance of the banking relationship

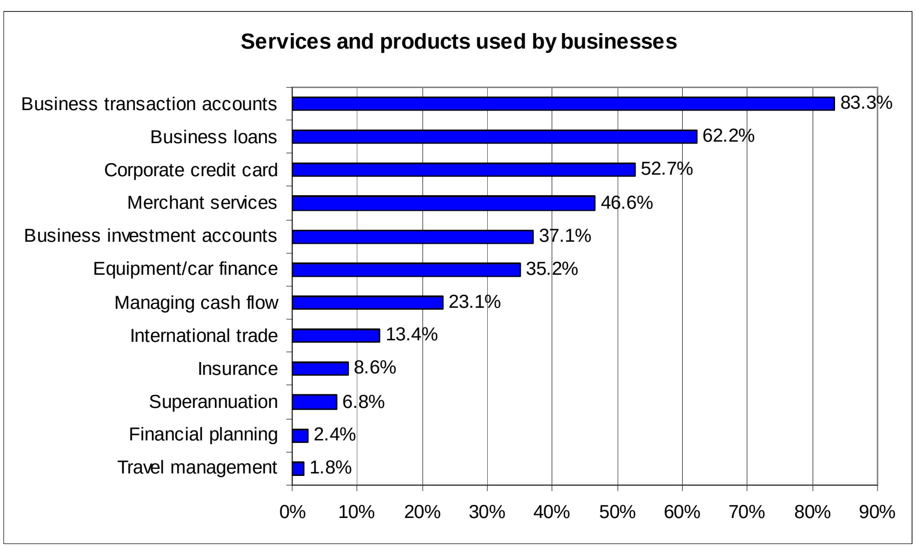
2.1 The Australian banking sector has a profound influence on the Queensland Business Community and unsurprisingly the vast majority of Queensland businesses (93%) indicate that their banking relationship is important or critically important to their business.




*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

2.2 The most common bank product used by Queensland businesses are business transaction accounts, followed by business loans and corporate credit cards. More than one in three businesses also access merchant services, business investment accounts and equipment/car finance. Other products and services used by businesses include:

- Managing cash flow;
- International trade (ie foreign exchange, export/import services);
- Insurance;
- Superannuation;
- Financial planning;
- Travel management;
- Trust accounts;
- Debtor financing; and
- Settlement facilities.

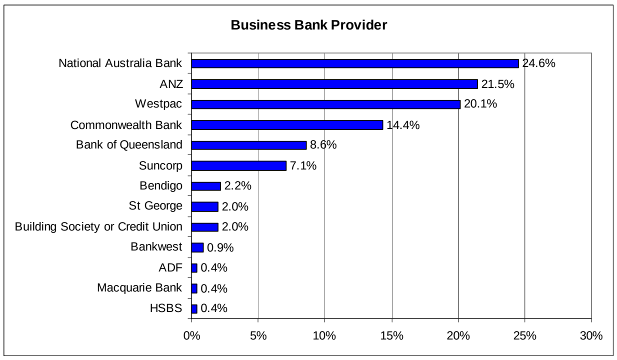


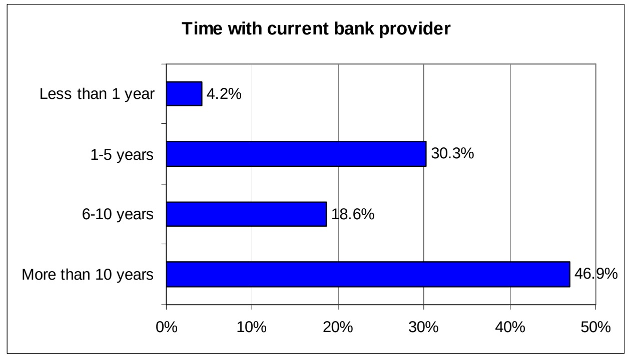

*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

## 3.0 Dominance of the Major Banks

3.1 Anecdotal evidence suggests the global financial crisis has allowed the major banks to improve their market share and profitability at the expense of smaller banks and financial institutions. This reduction in competition in the banking sector has been responsible for the increase in interest margins and has made it easier for the banks to shift greater amounts of risk off their balance sheets through stricter lending requirements.

3.2 CCIQ is concerned about diminishing competition in retail banking and the likely detrimental impact on business borrowers. Currently the majority of Queensland businesses (80.6%) bank with the big 4 banks (NAB, ANZ, Westpac and Commonwealth Bank). 8.6% bank with the Bank of Queensland and 7.1% bank with Suncorp. Other institutions including the Bendigo, St George, Building Societies and Credit Unions meet the banking needs of a significantly smaller proportion of Queensland businesses.



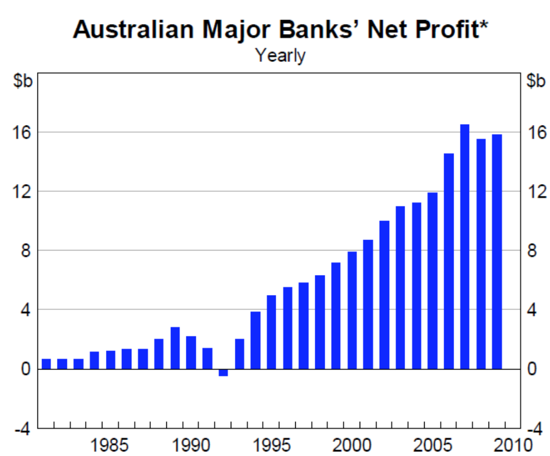




*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

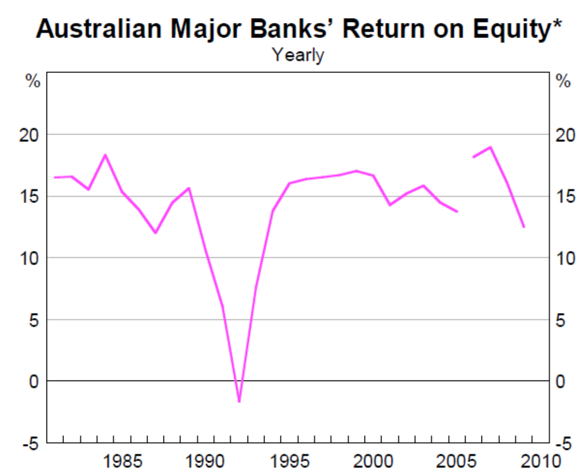
3.3 Almost half of Queensland businesses (46.9%) have been with their banks for more than 10 years. Those businesses that bank with the big 4 banks are more likely to have done so for more than 10 years compared to those that bank with the smaller institutions/second tier banks (52.1% of big 4 bank' customers had been with their bank for more than 10 years compared to 26.6% of second tier bank customers). Only 4.2% of businesses had been with their bank for less than a year.

3.4 The decline in retail banking competition following more recent merger and acquisition activity (such as St. George Bank and Bankwest) by the major banks and reduced lending by smaller banks and non-bank financial institutions has further limited the avenue for small business to access finance for working capital, investment and business expansion.

3.5 Australia's major banks are subsequently recording record profits. In 2010, the major banks net profit was almost $16 billion, double the level of profits made 10 years ago. The major banks return on equity is also high compared to other industries.




* Excluding abnormal items. In 2006 the banks began reporting on an AIFRS rather than an AGAAP accounting basis.
Source: RBA




* Excluding abnormal items. In 2006 the banks began reporting on an AIFRS rather than an AGAAP accounting basis.
Source: RBA

## 4.0 Satisfaction with the Banks

4.1 The majority of businesses appear to be relatively satisfied with their bank. CCIQ has asked Queensland businesses to rank their bank from 1 to 10 (with 1 being very dissatisfied and 10 being very satisfied) on a range of areas. Key points from this analysis include:

- 60% of businesses are satisfied with their bank's overall performance;
- Nearly 70% of businesses scored their Banks as satisfactory or better in terms of customer service;
- The range of products and services offered by the Banks also scores well with nearly 70% of businesses indicating that they are satisfied or better;
- Businesses were less satisfied with the interest rates provided to their business. Only one in three businesses rated their bank as satisfactory or better in this area; and
- It is important to note that banks other than the big 4 tended to be ranked higher in all of the areas surveyed which is demonstrated in the table below.

Table 1. Ratings given to the banks overall as well as to the Big 4 and second tier banks

| | Overall | Big 4 Banks | Second Tier |
|---|---|---|---|
| *Overall* | | | |
| Very Satisfied (rating 9 or 10) | 8.9% | 6.3% | 17.0% |
| Indicated Satisfaction (rating 6-10) | 60.0% | 57.3% | 68.1% |
| Indicated Dissatisfaction (rating 1-4) | 21.7% | 24.1% | 13.8% |
| Very Dissatisfied (rating 1 or 2) | 7.6% | 8.9% | 3.2% |
| *Customer service* | | | |
| Very Satisfied (rating 9 or 10) | 16.1% | 12.7% | 26.6% |
| Indicated Satisfaction (rating 6-10) | 67.8% | 64.4% | 78.7% |
| Indicated Dissatisfaction (rating 1-4) | 19.0% | 20.9% | 12.8% |
| Very Dissatisfied (rating 1 or 2) | 7.7% | 8.8% | 4.3% |
| *Products and services* | | | |
| Very Satisfied (rating 9 or 10) | 11.3% | 10.2% | 14.0% |
| Indicated Satisfaction (rating 6-10) | 68.6% | 67.2% | 74.2% |
| Indicated Dissatisfaction (rating 1-4) | 11.5% | 11.9% | 10.8% |
| Very Dissatisfied (rating 1 or 2) | 3.5% | 3.7% | 3.2% |
| *Ability to access finance* | | | |
| Very Satisfied (rating 9 or 10) | 16.4% | 14.6% | 20.9% |
| Indicated Satisfaction (rating 6-10) | 60.6% | 59.2% | 64.0% |
| Indicated Dissatisfaction (rating 1-4) | 22.1% | 23.0% | 19.8% |
| Very Dissatisfied (rating 1 or 2) | 12.0% | 12.5% | 10.5% |
| *Interest rates* | | | |
| Very Satisfied (rating 9 or 10) | 5.5% | 4.0% | 10.2% |
| Indicated Satisfaction (rating 6-10) | 33.9% | 31.7% | 38.6% |
| Indicated Dissatisfaction (rating 1-4) | 42.5% | 45.0% | 35.2% |
| Very Dissatisfied (rating 1 or 2) | 18.6% | 20.7% | 11.4% |

*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

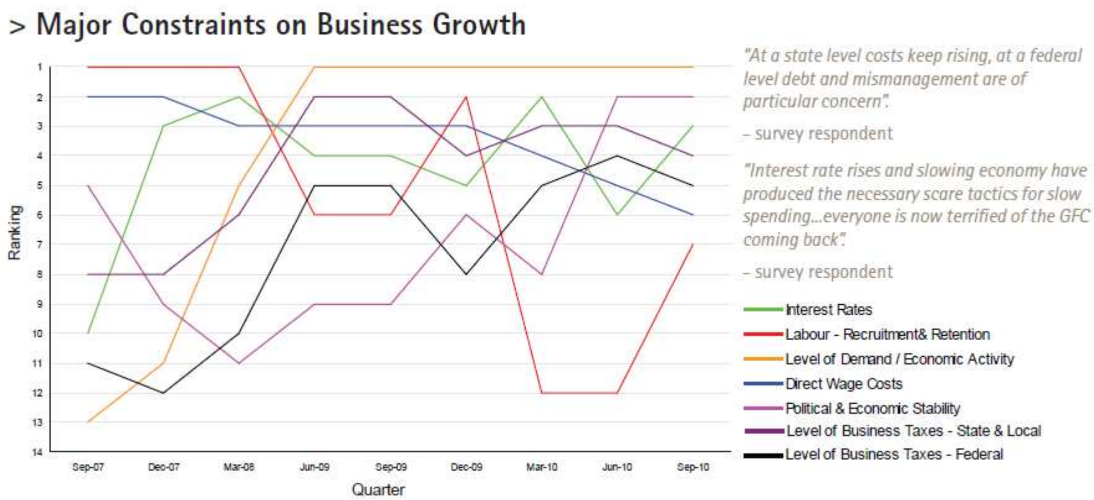
4.2 Approximately half of Queensland businesses indicated that their bank manager adequately understood their business and the associated risks and opportunities. Many of the smaller banks, such as the Bank of Queensland, received praise in relation to their hands on approach with businesses. However many businesses acknowledged that their bank or relationship manager was restricted by the decisions made by those higher in the chain. Some concerns raised by businesses included:

- They did not know who their bank manager was;
- The manager was constantly changing and therefore businesses were required to continue "re-educating" their bank managers on their business;
- The manager was not proactive, with interaction occurring only when the business contacted them;
- Bank managers struggle to understand niche or emerging industries.

## 5.0 Interest rates

5.1 Interest rates and the threat of future rate rises continue to erode consumer confidence and spending which impacts significantly on business growth. However of particular relevance to this inquiry CCIQ has previously estimated that each 25 basis point increase in interest rates costs Queensland businesses $360 million per annum to service debt.

5.2 Indeed interest rate decisions were a key issue for Queensland businesses in this quarter's Pulse Survey. Businesses are significantly concerned that the RBA and in turn the Australian banking sector are not cognisant of small business and regional areas which are still struggling and have not experienced any significant economic recovery. Businesses indicate that further interest rate rises would cause finance servicing costs to increase and consumer confidence and spending to fall to levels where business viability and the ability to maintain employment will be challenged.

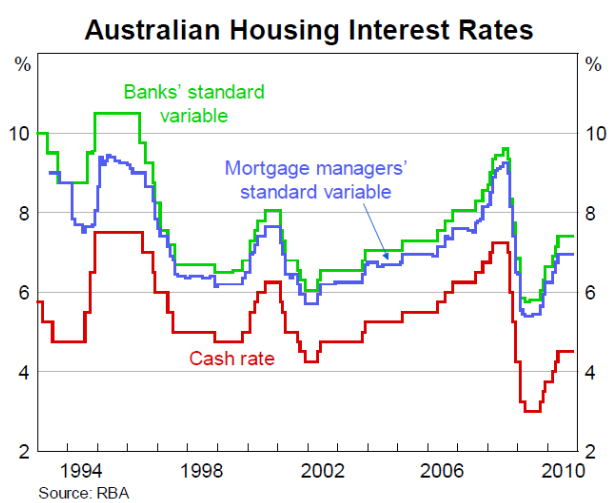


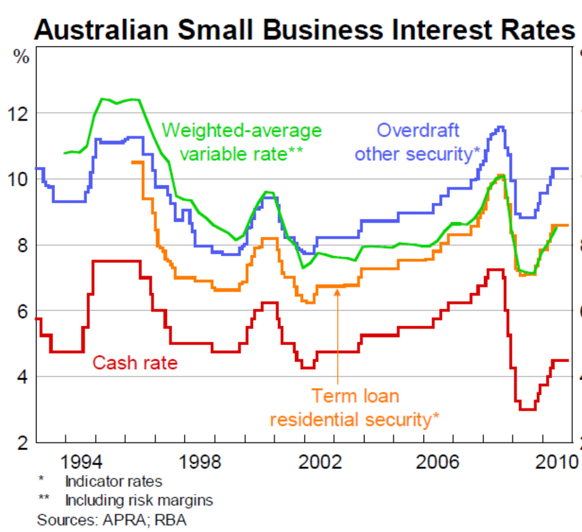

*Source: Commonwealth Bank CCIQ Pulse Survey of Business Conditions – September Quarter 2010*

5.3 Key findings from CCIQ's survey on the Australian banking sector include:

- Three in four businesses have had their interest rate on existing loans increase.
- The vast majority of businesses (90%) did not believe there is justification at present for the banks to be increasing interest rates above the official interest rate (eg CBA 45 bp, ANZ 39 bp, NAB 43 bp and Westpac 35 bp following the November 2010 Reserve Bank of Australia decision).

5.4 It is clearly evident that the increases in lending rates relative to the cash rate have been much larger for small business loans than housing loans since June 2007.



5.5 One of the key issues raised by Queensland businesses during the global financial crisis was the reluctance of banks to pass on official interest rate reductions to business customers when rates were coming down. Interest rates are now on the rise yet these businesses have not experienced any of the benefits of a low interest rate period.

Table: 2 Official Cash Rate compared to Interest rates for business, housing and personal loans

| | Cash Rate | Small business | | | | | | | Large business | | Housing loans | | | Personal loans | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Variable | | | | | | 3-year fixed | Weighted-average rate on credit outstandin | | Banks | | | Term loans (unsecured) | | Revolving credit Credit cards | |
| | | Residential-secured | | Other | | Small overdraft | Weighted-ave rate on credit | | | | Variable | | 3-year fixed | | | | |
| | | Term | Overdraft | Term | Overdraft | | | | Variable | Bills | Standard | Discounted | | Fixed | Variable | Standard | Low rate |
| Jul-2007 | 6.25 | 8.30 | 9.05 | 8.90 | 9.70 | 10.35 | | 8.70 | | | 8.05 | 7.45 | 7.70 | 12.35 | 12.60 | 17.80 | 11.15 |
| Aug-2007 | 6.50 | 8.55 | 9.30 | 9.15 | 9.95 | 10.60 | | 8.65 | | | 8.30 | 7.70 | 7.80 | 13.05 | 13.35 | 18.10 | 11.15 |
| Sep-2007 | 6.50 | 8.55 | 9.30 | 9.15 | 9.95 | 10.60 | 8.80 | 8.70 | 7.35 | 7.30 | 8.30 | 7.70 | 7.75 | 13.05 | 13.35 | 18.10 | 11.15 |
| Oct-2007 | 6.50 | 8.55 | 9.30 | 9.15 | 10.00 | 10.65 | | 8.95 | | | 8.30 | 7.70 | 7.85 | 13.05 | 13.45 | 18.20 | 11.35 |
| Nov-2007 | 6.75 | 8.80 | 9.60 | 9.40 | 10.30 | 10.90 | | 9.20 | | | 8.55 | 7.95 | 8.20 | 13.25 | 13.80 | 18.55 | 11.55 |
| Dec-2007 | 6.75 | 8.95 | 9.75 | 9.55 | 10.45 | 11.00 | 9.10 | 9.50 | 7.60 | 7.65 | 8.55 | 7.95 | 8.35 | 13.45 | 13.85 | 18.55 | 11.75 |
| Jan-2008 | 6.75 | 9.05 | 9.85 | 9.65 | 10.55 | 11.15 | | 9.30 | | | 8.70 | 8.10 | 8.45 | 13.60 | 13.90 | 18.55 | 11.75 |
| Feb-2008 | 7.00 | 9.35 | 10.15 | 9.95 | 10.85 | 11.45 | | 9.90 | | | 9.00 | 8.35 | 8.70 | 13.70 | 14.15 | 18.95 | 11.95 |
| Mar-2008 | 7.25 | 9.70 | 10.55 | 10.30 | 11.20 | 11.85 | 9.70 | 9.70 | 8.00 | 8.00 | 9.35 | 8.70 | 8.95 | 14.00 | 14.55 | 19.50 | 12.30 |
| Apr-2008 | 7.25 | 9.85 | 10.65 | 10.45 | 11.35 | 11.95 | | 10.10 | | | 9.45 | 8.80 | 8.95 | 14.10 | 14.60 | 19.50 | 12.55 |
| May-2008 | 7.25 | 9.90 | 10.70 | 10.50 | 11.35 | 12.00 | | 10.05 | | | 9.45 | 8.85 | 8.95 | 14.10 | 14.65 | 19.50 | 12.60 |
| Jun-2008 | 7.25 | 10.00 | 10.80 | 10.60 | 11.45 | 12.10 | 10.00 | 10.15 | 8.10 | 8.20 | 9.45 | 8.85 | 9.30 | 14.10 | 14.65 | 19.50 | 12.65 |
| Jul-2008 | 7.25 | 10.10 | 10.90 | 10.70 | 11.60 | 12.25 | | 9.70 | | | 9.60 | 8.95 | 9.40 | 14.50 | 14.90 | 19.70 | 12.90 |
| Aug-2008 | 7.25 | 10.10 | 10.90 | 10.70 | 11.60 | 12.25 | | 9.05 | | | 9.60 | 8.95 | 8.90 | 14.50 | 14.90 | 19.95 | 12.95 |
| Sep-2008 | 7.00 | 9.95 | 10.80 | 10.55 | 11.45 | 12.05 | 10.10 | 8.85 | 8.10 | 8.05 | 9.35 | 8.75 | 8.50 | 14.45 | 14.85 | 19.95 | 12.90 |
| Oct-2008 | 6.00 | 9.40 | 10.20 | 10.00 | 10.95 | 11.55 | | 7.85 | | | 8.35 | 7.70 | 7.30 | 14.10 | 14.85 | 19.80 | 12.85 |
| Nov-2008 | 5.25 | 9.20 | 10.00 | 9.80 | 10.75 | 11.45 | | 7.05 | | | 7.75 | 7.10 | 6.90 | 14.30 | 14.60 | 19.35 | 12.70 |
| Dec-2008 | 4.25 | 8.35 | 9.15 | 9.00 | 9.95 | 10.50 | 8.40 | 6.80 | 6.30 | 6.05 | 6.85 | 6.20 | 6.25 | 13.90 | 14.25 | 18.85 | 12.45 |
| Jan-2009 | 4.25 | 8.30 | 9.10 | 9.00 | 9.95 | 10.50 | | 6.50 | | | 6.85 | 6.20 | 5.85 | 13.80 | 14.10 | 18.60 | 12.25 |
| Feb-2009 | 3.25 | 7.30 | 8.10 | 8.00 | 8.95 | 9.50 | | 6.50 | | | 5.85 | 5.20 | 5.65 | 13.60 | 13.75 | 17.95 | 12.15 |
| Mar-2009 | 3.25 | 7.20 | 8.05 | 8.00 | 8.95 | 9.50 | 7.25 | 6.65 | 5.35 | 5.00 | 5.85 | 5.20 | 5.60 | 13.60 | 13.50 | 17.95 | 12.10 |
| Apr-2009 | 3.00 | 7.10 | 7.90 | 7.90 | 8.80 | 9.40 | | 6.90 | | | 5.75 | 5.10 | 5.85 | 13.60 | 13.50 | 17.90 | 12.05 |
| May-2009 | 3.00 | 7.10 | 7.90 | 7.90 | 8.80 | 9.40 | | 7.20 | | | 5.75 | 5.10 | 6.05 | 13.60 | 13.50 | 17.90 | 12.00 |
| Jun-2009 | 3.00 | 7.10 | 7.90 | 7.90 | 8.80 | 9.40 | 7.15 | 7.70 | 5.35 | 5.00 | 5.80 | 5.15 | 6.50 | 13.85 | 13.50 | 17.90 | 11.95 |
| Jul-2009 | 3.00 | 7.10 | 7.90 | 7.90 | 8.80 | 9.40 | | 7.80 | | | 5.80 | 5.15 | 6.50 | 13.85 | 13.50 | 17.90 | 11.95 |
| Aug-2009 | 3.00 | 7.10 | 7.90 | 7.90 | 8.80 | 9.40 | | 8.10 | | | 5.80 | 5.15 | 7.00 | 13.95 | 13.50 | 17.90 | 11.95 |
| Sep-2009 | 3.00 | 7.10 | 7.90 | 7.90 | 8.80 | 9.40 | 7.15 | 8.15 | 5.45 | 5.15 | 5.80 | 5.15 | 7.15 | 14.15 | 13.50 | 17.90 | 11.95 |
| Oct-2009 | 3.25 | 7.35 | 8.15 | 8.15 | 9.05 | 9.65 | | 8.70 | | | 6.05 | 5.40 | 7.60 | 14.25 | 13.75 | 18.10 | 12.10 |
| Nov-2009 | 3.50 | 7.55 | 8.35 | 8.35 | 9.25 | 9.80 | | 8.50 | | | 6.30 | 5.65 | 7.60 | 14.25 | 14.00 | 18.45 | 12.25 |
| Dec-2009 | 3.75 | 7.85 | 8.70 | 8.60 | 9.55 | 10.10 | 7.75 | 8.40 | 6.00 | 5.75 | 6.65 | 6.00 | 7.60 | 14.60 | 14.25 | 18.65 | 12.65 |
| Jan-2010 | 3.75 | 7.85 | 8.70 | 8.60 | 9.55 | 10.10 | | 8.40 | | | 6.65 | 6.00 | 7.70 | 14.65 | 14.25 | 18.70 | 12.75 |
| Feb-2010 | 3.75 | 7.85 | 8.70 | 8.60 | 9.55 | 10.10 | | 8.30 | | | 6.65 | 6.00 | 7.70 | 14.75 | 14.25 | 18.70 | 12.80 |
| Mar-2010 | 4.00 | 8.10 | 8.95 | 8.85 | 9.80 | 10.35 | 8.10 | 8.55 | 6.20 | 5.80 | 6.90 | 6.25 | 7.75 | 14.80 | 14.50 | 18.95 | 13.00 |
| Apr-2010 | 4.25 | 8.35 | 9.20 | 9.10 | 10.05 | 10.60 | | 8.60 | | | 7.15 | 6.50 | 7.80 | 14.90 | 14.75 | 19.20 | 13.20 |
| May-2010 | 4.50 | 8.60 | 9.45 | 9.35 | 10.30 | 10.85 | | 8.30 | | | 7.40 | 6.75 | 7.75 | 15.05 | 15.00 | 19.45 | 13.30 |
| Jun-2010 | 4.50 | 8.60 | 9.45 | 9.35 | 10.30 | 10.85 | 8.50 | 8.25 | 6.45 | 6.25 | 7.40 | 6.75 | 7.55 | 15.05 | 15.00 | 19.45 | 13.35 |
| Jul-2010 | 4.50 | 8.60 | 9.45 | 9.35 | 10.30 | 10.85 | | 8.20 | | | 7.40 | 6.75 | 7.50 | 15.05 | 15.00 | 19.45 | 13.35 |
| Aug-2010 | 4.50 | 8.60 | 9.45 | 9.35 | 10.30 | 10.85 | | 8.05 | | | 7.40 | 6.75 | 7.15 | 15.05 | 15.00 | 19.45 | 13.35 |
| Sep-2010 | 4.50 | 8.60 | 9.45 | 9.35 | 10.30 | 10.85 | | 8.50 | | | 7.40 | 6.75 | 7.45 | 15.00 | 14.75 | 19.45 | 13.40 |
| Oct-2010 | 4.50 | 8.60 | 9.45 | 9.35 | 10.30 | 10.85 | | 8.50 | | | 7.40 | 6.75 | 7.45 | 15.00 | 15.00 | 19.45 | 13.40 |
| Jul 07 - Oct 10 | -1.75 | 0.30 | 0.40 | 0.45 | 0.60 | 0.50 | -0.30 | -0.20 | -0.90 | -1.05 | -0.65 | -0.70 | -0.25 | 2.65 | 2.40 | 1.65 | 2.25 |

*Source: Reserve Bank of Australia, November 2010*

5.6 Key points from Table 2 include:

- Lending rates relative to the cash rate are much larger for small business loans than housing loans since June 2007. Small businesses are paying a margin of 4.10 percentage points above the cash rate on average for bank finance, compared to a margin of 1.95 percentage points for large businesses and 2.90 percentage points for mortgage customers at the end of October 2010, despite these small business loans being residentially secured.

- Furthermore since mid-2007, the standard variable rate on home lending has increased by 1.10 percentage points <u>relative to the cash rate</u>, while the variable rate of small business residentially secured lending has increased by around 2.05 percentage points.

- Since 2007 the cash rate has come down by 1.75 percentage points and the standard variable rate on home lending has decreased by 0.65 percentage points yet small business loans secured by residential property have gone up by 0.30 percentage points.

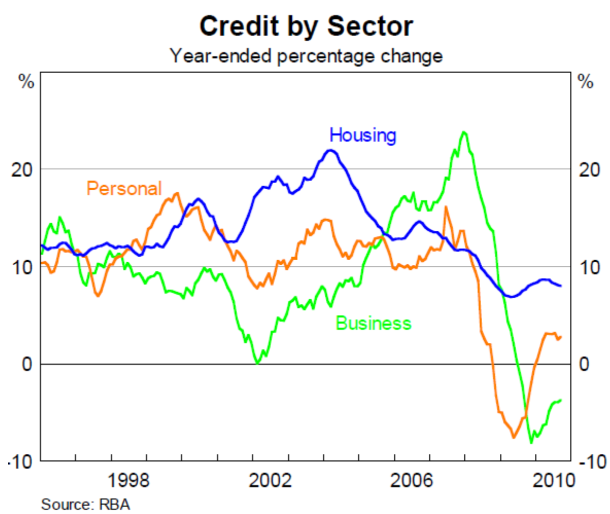
- Increasingly for small business their primary means of finance is through credit card facilities. Using the same techniques of analysis as above credit card rates have decreased in their relative competitiveness by the most.

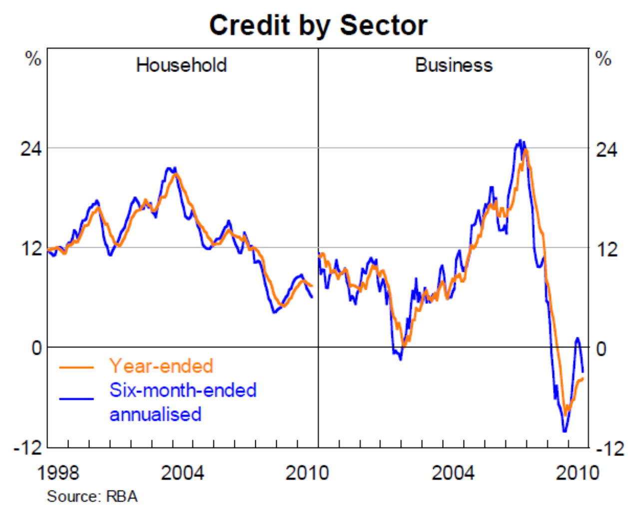
5.7 In the most recent 25 bps rate hike by the Reserve Bank in November 2010, the major banks have increased their standard variable mortgage rates by 35 to 45 bps, almost double the increase in the cash rate arguing that their funding costs have become more expensive. However, in the November 2010 *Statement of Monetary Policy*, the Reserve Bank noted that on aggregate, the major banks funding costs have seen little change over recent months. CCIQ is of the view that lending rates of late are more a reflection of the market dominance of the major banks as opposed to the true cost of finance.

## 6.0 Access to finance

6.1 Small businesses have experienced profound difficulties in obtaining, retaining and renegotiating finance from Australian banks for business expansion, investment and short-term cash flow assistance. Unlike larger businesses, small businesses rely heavily on finance from financial institutions for their working capital and new capital expenditure e.g. on machinery, plant and equipment as well as opportunities for overall expansion. Enhancing the capacity of businesses to access finance will go a long way towards increasing Queensland jobs.

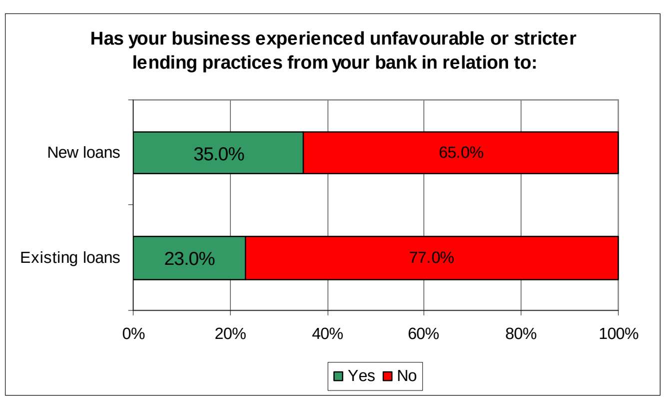
6.2 Businesses, particularly small businesses, are facing significant difficulties in accessing finance for a number of reasons, primarily due to banks since the GFC becoming more risk adverse and overly conservative in their small business lending through increased risk margins and non-price loan conditions. Without a strong flow of capital at an affordable rate to the small business community, Queensland will not see a strong private sector led recovery in jobs and the economy. These difficulties have occurred even when the customer has had a long established relationship and a history of meeting commitments.




6.3 According to CCIQ's Banking Sector Survey one in two Queensland businesses have attempted to obtain finance in the last 12 months or were currently in the process of doing so. Whilst difficulty in accessing finance varies dramatically, very few businesses indicated that this process has been easy (40% stated that it had been very difficult to obtain finance).

6.4 Additionally more than one in four businesses had experienced unfavourable or stricter lending practices from their bank in relation to existing loans. This number increased to more than one in three businesses for new loans.




*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

6.5 The types of unfavourable or stricter lending practices businesses have experienced from their bank for existing loans includes:

- Higher serviceability or interest coverage ratios;
- Lower loan to value ratios;
- Additional fees and charges;
- Additional security and administration requirements;
- Ongoing review, tightening and more stricter enforcement of terms, conditions and covenants;
- Calling in the loan;
- Higher interest rates compared to other lending institutions;
- Reneged on previous agreements;
- Stricter with certain facilities such as overdrafts;
- Greater focus on cash flow rather than assets;
- Difficulties around re-financing of existing loans.

6.6 Businesses are experiencing similar issues in relation to bank lending practices for new loans. Additional concerns raised in relation to new loans included:

- Enhanced legal requirements for larger investments;
- Ongoing requests for financial and other business information;
- Longer delays;
- More inflexible;
- Reduced loan types available, particularly no interest only loans.

*Quotes from Queensland businesses in relation to new and existing loans:*

*"Bogus covenants triggering reviews for late reports, etc followed by capital repayments and interest rate hikes"*

*"Excessive charges for unused overdraft facilities"*

*"NAB requires excessive security, required real estate valued at double funding sought"*

*"Processing times and guidelines are stricter now then 2 years ago"*

*"Revalue everything for less and want the difference back"*

*"Stricter controls not taking into account long term low risk customer's reputation"*

*"They have reduced my ability to obtain access to finance. Gave me an equipment loan but restricted my access to loan equity at the same time"*

*"Want loans repaid when they were previously interest only"*

*"Asset backing value has been increased, ie. will only loan up to 60% was 70%"*

*"Greater requirements for securities and lower LVRs"*

*"Requiring more financials than ever before"*

*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

6.7 The increasing difficulties in accessing finance has had many implications for businesses including:

- Impacting on cash flow;
- Increasing business costs and reduced productivity;
- Missed opportunities such as expansions, projects, or acting on market demand;
- Requiring the business to seek out alternative sources of finance (such as other bank providers or selling off investments);
- Loss of staff and clients;
- Reducing the services and/or products offered by the business;
- Changing their relationship with key stakeholders such as suppliers;
- Additional hoops to jump through such as increased security and ongoing valuations;
- Increasing the difficulty of decision making and reducing future certainty;
- Adding additional stress and frustration during a time of economic downturn;

- Credit card finance has become increasingly common and means the small business operator has to pay more than double the interest rate charges for a credit card than a residential-secured business loan, which places significant additional pressure on small business.

*Quotes from Qld businesses about the implications of difficulties in obtaining finance over last 12 months:*

*"Battling to survive the downturn"*

*"Can not expand. Stop all development projects. Put us in a very bad position because the properties that they valued 18 months ago they re-valued to half of what it was and want their money back. A year ago they finance 75% and now only 50% and ask for the difference which is impossible to give back at such a short time frame. Will need to retrench staff and close business"*

*"Delay in the ability to complete our contractual obligations on time"*

*"It has occupied large amounts of my time. It has inhibited growth, has cost us a lot of money and the frustration and delays have been frustrating and very stressful"*

*"Slows the development of the business as well as makes everyday operations difficult"*

*"They need more security now, more than ever before in our 24 year relationship"*

*"We cannot grow which means we cannot employ extra staff"*

*"We desperately need access to $30K short term via bank overdraft or business loan, This was rejected even though we have banked with this bank for over 30 years and have never overdrawn and always had sufficient funds to cover all transactions. We had to work out a payment plan with some of our big suppliers to cover us for 3 months. This has happened several times over the past few years"*

*"We had to use our own savings and super fund money"*

*Source: CCIQ banking sector survey of Queensland businesses, November 2010*

6.8 Credit rationing by the banks, through tighter lending criteria and repricing of existing and new loans, will constrain small business ability to invest, grow and employ. CCIQ believes it is highly concerning that there are businesses with a viable future that are unable to grow and expand due to inadequate access to finance.

## 7.0 Bank Fees and Conditions

7.1 In addition to higher interest rate charges and greater difficulties in accessing finance, business borrowers are also facing higher bank changes or fees since the onset of global financial crisis. The range of charges and conditions also vary considerably between banks which adds further frustration to many business customers.

7.2 The majority of businesses rate the current level of their banks' fees and charges as high or very high. It is important to note that those businesses that banked with the second tier banks were more likely to look favourably upon the levels of fees and charges faced by their business.

Table 3. Ratings given to the banks in relation to the current level of fees and charges

| | 1 (Very high) | 2 | 3 | 4 | 5 (Very low) |
|---|---|---|---|---|---|
| Overall | 22.1% | 30.1% | 35.0% | 7.8% | 4.9% |
| Big 4 Banks | 24.8% | 31.4% | 32.1% | 6.9% | 4.7% |
| Other banks | 11.9% | 27.4% | 46.4% | 6.9% | 3.6% |

*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

7.3 Around half of the business community has had additional fees and charges added to existing facilities. The types of facilities and products that businesses have seen an increase in fees on have included:

- the overdraft limit;
- cash management account fees;
- electronic charges;
- merchant fees;
- deposits; and
- cheques.

7.4 The majority of businesses have not experienced a significant change in their loan conditions. However, 12% indicated that their loan conditions had changed despite repayments being met according to previously agreed terms. Some of the changes that businesses had experienced included:

- Being required to pay back loans that were previously interest only;
- Tightening of covenants;
- Significant increase in the frequency and level of information requested from the business.

7.5 There were also concerns around the security requirements for business loans, with 40% stating it was unreasonable. Businesses are under the impression that the level of security required by the banks for loans has been substantially increasing throughout the global financial crisis and has not eased.

*Quotes from businesses in relation to security for loans:*

*"Absolutely totally unreasonable. My net worth is a minimum of $5.5M and to arrange an overdraft of $300K was such a drama"*

*"Equity in Directors homes and other properties as security on assets that more than cover the original loan value"*

*"Our business has been established since 1964, we are a doctor's practice which is a very secure business and the security they wanted for a $35,000 loan to provide some renovation work was completely unreasonable"*

*"Would you agree that being made to take security over $5 million worth of assets for a $1 million loan as fair? I think not"*

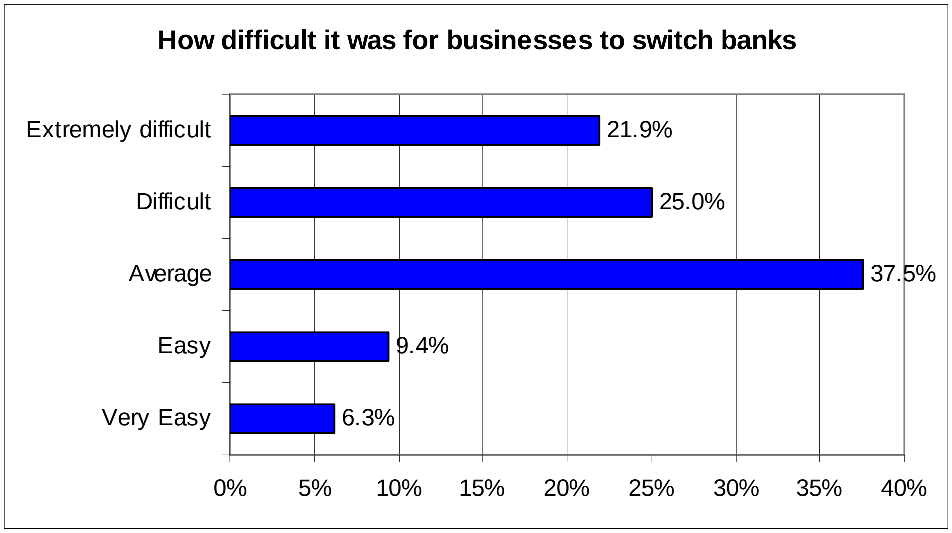
*"Security required is substantial - yes this is understandable but how do new people young people start out? - they don't have residential security"*

*Source: CCIQ banking sector survey of Queensland businesses, November 2010*

## 8.0 Switching banks

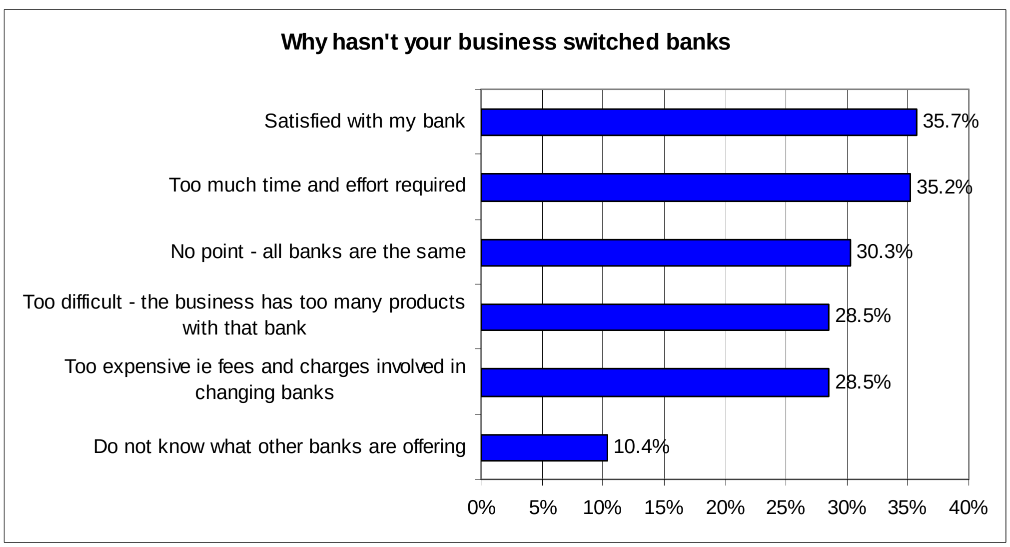
8.1 Any barriers to switching banks will further constrain banking competition in Australia. For true competition to be realised the barriers for customers to switch must be lowered and ideally removed in order to provide business customers with more opportunities to change providers if they choose to do so.

8.2 The majority of Queensland businesses (80%) have not attempted to switch banks. For those businesses who had switched banks, 46.9% found it to be difficult to extremely difficult. Only one in every six businesses had found this process easy or very easy.




*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

8.3 More than one in three businesses indicated that they had not switched banks because they were satisfied with their current provider. For those businesses who had considered changing banks, the level of fees and charges involved does not appear to be the main concern – it is the time and resources required to go through the process of change. For example, considerable time is incurred in administering direct debit and credit changes when transferring to another Bank. It is likely that the cost of resources involved in switching banks significantly outweighs the actual costs of fees and charges.




*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

8.4 The majority of businesses who had switched banks had spent less than $5,000 to do so, however almost 40% had spent more than $10,000 (refer to table 4). However these figures quoted by businesses are unlikely to take into account the significant cost attributed to the time and resources involved in switching banks, with the full extent of these costs likely to be unknown by the business itself.

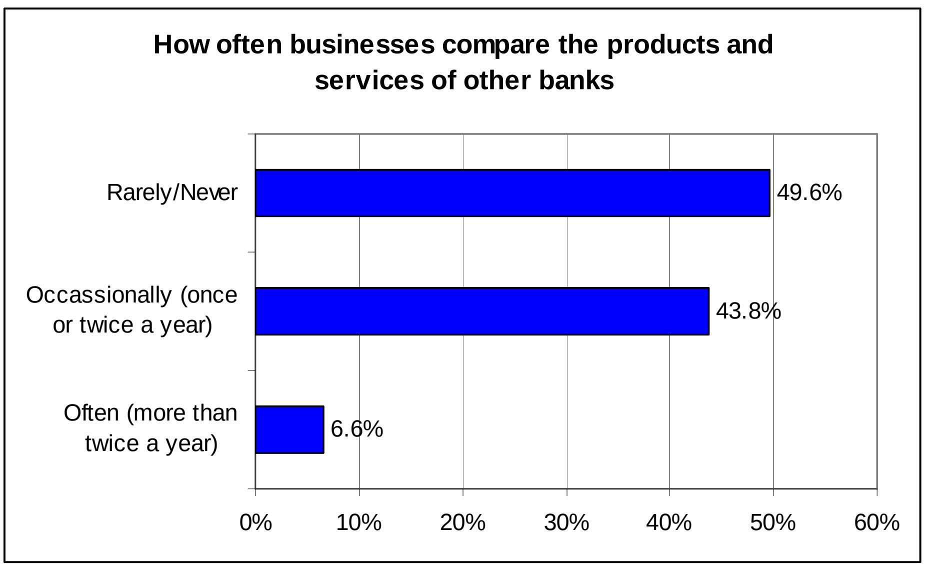
Table 4. Cost to business from switching banks

| Cost of switching bank | Percentage of businesses |
|---|---|
| Less than $1,000 | 26.1% |
| $1,000 to $4,999 | 30.4% |
| $5,000 to $9,999 | 4.3% |
| $10,000 to $20,000 | 26.1% |
| More than $20,000 | 13.0% |

*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

8.5 CCIQ has received anecdotal feedback that if exit fees were abolished, the second tier/regional banks would suffer significantly. The feedback was that if a small business left a bank within a year of obtaining a loan, the abolishing of the exit fees would actually lead to this bank receiving a negative return on investment. This issue could be overcome if the smaller lenders were able to access funds at the same cost as the big 4 banks. This would have a significant impact on barriers to switching banks as well as a positive impact on competition within the banking sector. Another positive change would be to implement portable business account details as a real solution to reducing the barriers to switching banks (discussed in sections 9 and 10).

8.6 Many businesses commented that when they had started the process of changing banks, their current bank had matched the deal offered by the competition. Others thought that due to depressed profits and trading conditions that other banks would not take them on in any case. There also appears to be a trend of businesses dealing with a number of banks at the same time to allow them to take advantage of the better deals on offer. However, there are also a large number of businesses who rarely compare the products and services of other banks to determine who has the better deal.




*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

*Quotes from business in relation to switching banks:*

*"If I did go to the expense of changing there is no guarantee that the 'new' bank is going to maintain or reduce fees in the future. They are all the same and there is no guarantee I would get a better long term deal"*

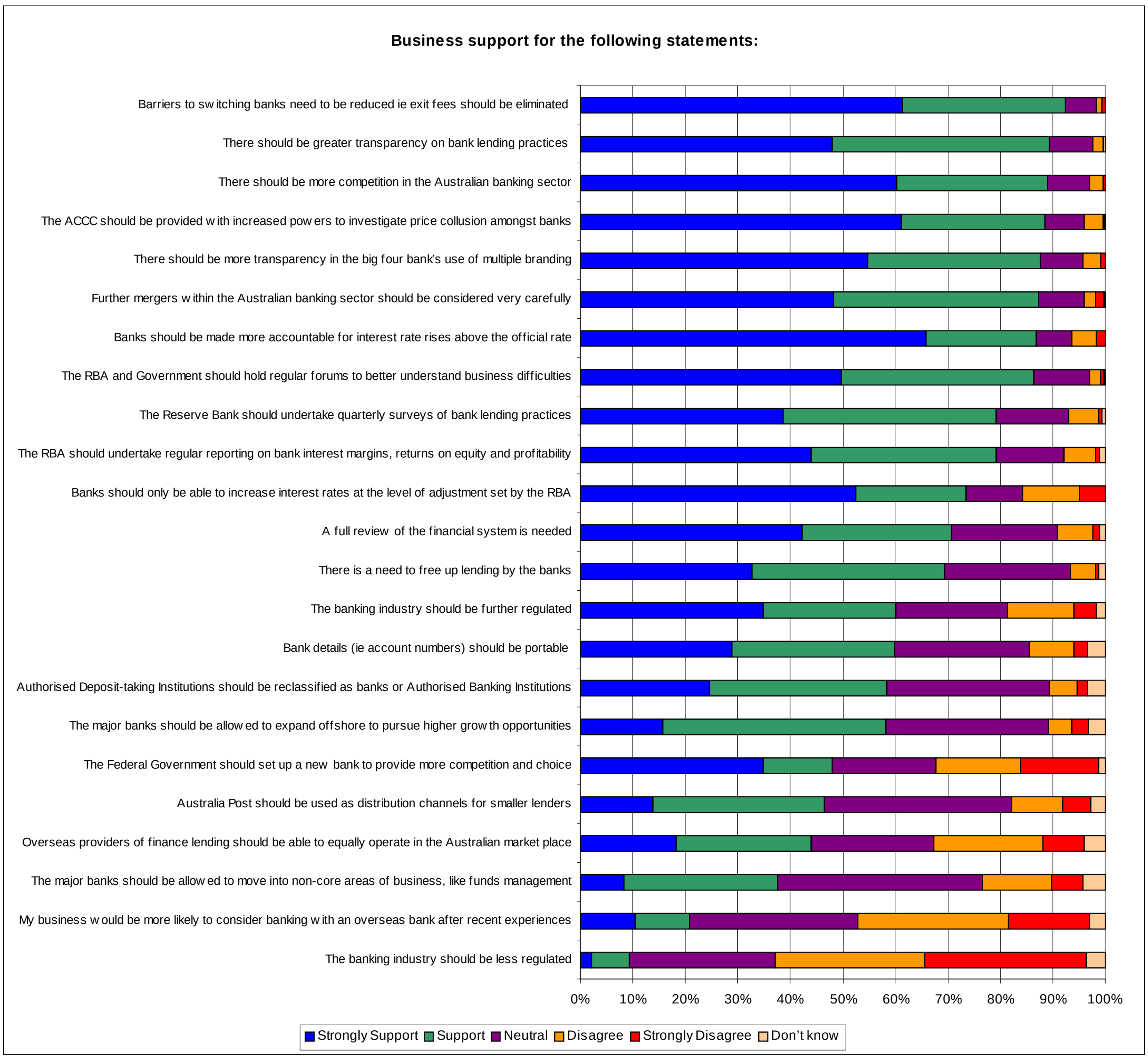
*"We did restructure our loans and this cost around $50,000 in break costs"*

*Source: CCIQ banking sector survey of Queensland businesses, November 2010*

## 9.0 Potential solutions

9.1 CCIQ has been active in gathering Queensland business community views on potential solutions to increase competition in the Australian banking sector. More than 80% of businesses supported the following proposals:

- Barriers to switching banks being reduced;
- Increasing transparency on bank lending practices;
- The ACCC being provided with increased powers to investigate price collusion amongst banks;
- Increasing transparency in relation to marketing when it comes to the big four bank's use of multiple branding. For example, customers should know that when they are dealing with St George, they are dealing not with an independent institution but an arm of Westpac;
- Seriously considering whether further mergers in the Australian banking industry should go ahead;
- Banks being more accountable for interest rate rises above the official rate;
- The RBA and Government holding regular forms to better understand the difficulties faced by businesses.




*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

9.2 There was also a significant level of support for:

- The Reserve Bank undertaking quarterly surveys of bank lending practices;

- The Reserve Bank undertaking more regular reporting on bank net interest margins, returns on equity and profitability;
- Banks only being able to increase interest rates at the level of adjustment set by the Reserve Bank (although see comment in 9.4);
- A full review of the financial system being undertaken;
- Freeing up lending by the banks;
- Further regulating the banking industry (although see comment in 9.4);
- Making bank details (such as account numbers) portable;
- Reclassifying Authorised Deposit-taking Institutions as banks or Authorised Banking Institutions;
- Allowing the major banks to expand offshore to pursue higher growth opportunities.

9.3 Other comments from businesses in relation to supported actions to increase transparency and competition in the banking sector included:

- Automatic transfers between old bank and new bank when switching providers;
- Enhance the product and service offerings to businesses;
- A third party that businesses can talk to in relation to concerns with the banking industry, such as the Australian Banking Ombudsman;
- Government placing caps on the level of charges, interest rates etc that banks can pass on to customers (although see comment in 9.4);
- Consistent terminology used across the sector;
- Same level of government guarantee provided to all banks no matter their size;
- Better access to funding for second tier banks;
- Reduce the paperwork required to change banks;
- Clearer and easy to understand information from the RBA on the reasons behind their changes to monetary policy.

9.4 CCIQ wishes to respond specifically to several suggested measures:

| **Measure** | **Remarks** |
|---|---|
| Ban on exit fees. | ▪ Exit fees should be cost reflective.<br>▪ In the main major banks rely very little on exit fees with this more an issue for the second tier banks.<br>▪ Exit fees would only benefit the small number of businesses inclined to switch banks where as more focus on entry fees would yield a better result for business. |
| 24 month freeze on bank's ability to increase interest rates beyond cash rate. | ▪ Regulation is not favoured by business and would pose the risk to reducing credit even further.<br>▪ Increasing bank competition is the preferred approach moving forward. The majority of businesses (60.5%) indicated that they would prefer action to increase competition in the banking industry over direct intervention by the Commonwealth Government to control banking fees, charges and interest rates. |
| Australia Post should be a distribution network for financial service providers, or possibly a lender in its own right. | ▪ Suggested solution in reality would only strengthen competition among second tier / regional banks and would not offer competition to the major 4 banks |

9.5 CCIQ is broadly supportive of the following recommendations made by the Senate Economics Committee inquiry into small business access to finance:

- Banks abolish exit fees on variable-rate loans. If banks do not do so by the end of 2010, then guidelines or regulations, or if necessary new legislation, should be used to compel them to do so;
- The Government retain the 'four pillars' policy of not allowing a merger between any of the four major banks;

- A moratorium be placed on approval of any further takeovers in the banking industry for one year, unless the bank being taken over is at imminent risk of failure;
- The *Trade Practices Act* be amended to inhibit firms achieving market power through takeovers or abusing market power and that 'market power' be expressly defined so that it is less than market dominance and does not require a firm to have unfettered power to set prices. A specific market share, such as, for example, one third (set based on international practice), could be presumed to confer market power unless there is strong evidence to the contrary;
- The Government request the ACCC, APRA and the Reserve Bank to provide a joint annual report to parliament on competition in the retail banking market in Australia, and the provision of finance to small business, but taking care not to increase unduly the reporting burden on financial institutions; and
- The Australian Bankers' Association meet with small business representatives to develop a code of practice for lending to small business.

9.6 As a general observation CCIQ believes that the Australian banking sector must ultimately broaden its values. The majority of Queensland businesses (90%) believe that banks have a crucial role in helping to shape and secure Australia's economic future by moving beyond a core responsibility to shareholders to assist businesses to grow and employ. It is unsurprising that Queensland businesses believe that banks' number one priority should be customers, followed by the Australian economy then shareholders. Only 11% of businesses believe the banks' number one priority should be shareholders.

*Quotes from businesses in relation to supported actions to increase transparency and competition:*

*"Banks should not be allowed to gouge interest rates, fees and charges to the point that give profit growth as we have seen this year, where turnover has not significantly increased to the same level"*

*"Break Fees and exit fees should be published regularly by the Big banks. At the moment they are calculated "behind closed doors" on a per loan basis. There are no clearly understood avenues of appeal against unfair break fees. If they exist, they need to be more high profile like the Telecommunications Ombudsman - create a Banking Ombudsman along similar lines. If there were advertised % rates for exit fees this would greatly increase transparency - even if this was in a table form - remaining term vs dollars outstanding = % etc"*

*"Feel bank CEOs & perhaps board members remuneration packages should be greatly reined in, hard to justify the obscene amounts paid when many average Australians are struggling"*

*"Government support to securitised funders to enable competitive pricing of funds. Major Banks get too many subsidies and benefits that 2nd tier don't get"*

*"Governmental support or guarantees and/or underwriting would assist the 2nd tier banks compete. Allowing to smaller institutions (that have not been swallowed up by the big 4) to have regulated lending at competitive rates 2. O/Seas banks to open more branches in Australia 3. Investigate the cost of funds borrowed from O/S and regulate the margins, reference rates and fees on the funds being lent. 3. Govt. operated Banks who are in a position to offer more competitive rates"*

*"Guarantee Deposits of Smaller Banks/credit Unions to a certain level and impose restrictions on all lending beyond a specified ratio. Fractional lending is out of control. Bring back a higher level of SRD's"*

*"Level playing field for all banks. Government should get out and stay out. Supply/demand will dictate the future as will customer service"*

*"Simple: just take away the government guarantee against insolvency for the Big 4, as this guarantee gives them an unfair advantage against the smaller banks"*

*Source: CCIQ banking survey of Queensland businesses, November 2010*

## 10.0 CCIQ Recommendations

CCIQ believes that increasing bank competition is the preferred approach moving forward. The majority of businesses (60.5%) indicated that they would prefer action to increase competition in the banking industry over direct intervention by the Commonwealth Government to control banking fees, charges and interest rates. Accordingly CCIQ recommends the following initiates for the Australian banking sector:

### 10.1 Recommendation

CCIQ supports the current four pillars policy, and is concerned about the potential for further mergers to reduce the number of second tier and regional banks. Mergers reduce competitive pressures in the banking sector. The Government should rule out any significant future merger and acquisition activity in the Australian banking sector which would consolidate the dominance of any one of the four major banks. CCIQ would encourage initiatives to assist in the development of a fifth or additional pillar to provide effective competition to the existing large banks.

### 10.2 Recommendation

The Government should promote a level playing field between major banks, regional banks, foreign owned banks and non-bank lenders. The Government should continue to remain open to new market entrants, both domestic and foreign, as a means of reinvigorating competition. New market entrants provide an essential source of competition, which would help to place downward pressure on the margins currently being enjoyed by the major banks. For example by phasing out the interest withholding tax (IWT) on most forms of offshore borrowing by financial institutions more quickly. In the 2010-2011 Federal Budget, the Government announced that:

- The rate of IWT will be reduced from 5 per cent to 2.5 per cent in 2013-14 and to zero in 2014-15 for Australian branches of overseas financial institutions with respect to borrowings from their parents; and
- The rate of IWT will be reduced from 10 per cent to 7.5 per cent in 2013-14, then to 5 per cent in 2014-15 for other offshore borrowings by financial institutions, including local subsidiaries of foreign banks.

CCIQ welcomes these budget measures, however the Government should quicken the pace of phasing out the interest withholding tax in order to ensure a level playing field.

### 10.3 Recommendation

Consideration should be given to explore new measures to reduce the cost of funds for Australian financial institutions especially the second tier / regional banks including equalisation of the fee applicable to the Australian Government Wholesale Funding Guarantee Scheme between the major banks and smaller banks. The fee differential between higher and lower rated banks has caused unintended consequences to overall banking competition, as smaller banks have to incur a higher guarantee fee, 30 to 80 bps higher than the major banks. As such the regional banks have not been able to compete effectively with the majors due to the higher funding costs.

### 10.4 Recommendation

The Government should explore the feasibility of a temporary small business loan guarantee scheme. Other countries have introduced guarantees on small business loans to assist with alleviating small business credit constraints:

- In the **United Kingdom,** the Enterprise Finance Guarantee, managed by the Department for Business Innovation and Skills, provides a loan guarantee scheme to facilitate business lending to SMEs.
- Under **Canada's** small business financing program, the Canadian government guarantees 85 per cent of eligible small business loans. The guarantee is provided to the small business in exchange for a fee, and in this way, the scheme is self financing.
- In the **United States,** the Small Business Administration (SBA) guarantees loans made to small businesses by financial institutions.

There is a valid role for Government to play in assisting small businesses to access the finance they need to operate and grow. Given the ongoing constraints that small businesses are facing in accessing finance, there is scope for the Government to give consideration to establishing a similar scheme in Australia.

**10.5 Recommendation**

The Reserve Bank or other related government agencies should conduct quarterly credit conditions surveying on bank and non-banks to assess trends and developments. At present there is a lack of publicly available information on changes in the availability of mortgage and business finance in Australia. Public information on the availability of finance will help inform policymakers on the needs for additional efforts designed to help borrowers especially the SMEs during an economic downturn. Additionally the Government should put greater pressure on banks to keep small business lending rates down, and publicise good and poor performance in this area by individual banks. While Governments are quick to name and shame those banks that increase interest rates outside the RBA cycle, or fail to pass on cuts in full, they have been less vocal when it comes to the circumstances of small business loans. The Government should draw as much public attention to small business lending conditions as it does to conditions for household mortgage holders.

**10.6 Recommendation**

In addition to this Senate inquiry process, the Federal Government should commission the Productivity Commission to conduct an inquiry into the degree competition in the provision of business financing. The study should examine:

- The impact of an increasing/decreasing number of participants in lending markets;
- The implication of repricing of risk to businesses;
- The changes that have occurred in the cost and availability of finance to business, especially smaller enterprises, over time; and
- International experiences in encouraging banking competition and their advantages and disadvantages if applied in Australia.

**10.7 Recommendation**

Australian banks should implement education and training programs to improve risk assessment skills amongst their business lending managers and credit departments, in particular on small businesses and start-up lending.

**10.8 Recommendation**

The RBA and/or related government departments or agencies should conduct regular forums to better understand difficulties faced by small business which will inform additional efforts designed to help the small business sector.

*Additional quotes provided by businesses:*

*"Our business has only been operating for 18 months and has already outgrown our premises. We have exceptional growth and figures, but yet have been told by Westpac and multiple other financial institutions that we can't get a business loan until we have 2 full financial years figures. We need to expand now or we will miss the opportunity, we need to employ more staff now but don't have the room and we will lose customers in the meantime while we are waiting to get our 2 years of figures. It was easier last year to get $100k to start the business than what it is to borrow $100k to expand a successful business"*

*"Suncorp gave us temporary overdrafts over an approx 9 month period which we always paid back in the allowed amount of time. Then they cut us off from temporary overdrafts all together as they said they are "temporary". We have repeatedly asked for a permanent one considering our very good repayment history combined with great paying customers. ie Rio Tinto etc but they will only do it if we have a house or something to use as security. We have been in business for 3.5 years now & are forced to use debtor finance which we believe will end up costing our company upwards of $50K for the next financial year. We think this is horrid!"*

*"Trying to obtain a permanent overdraft unsecured. Both houses sit at 80% so there is no equity to use. I run an electrical contracting business in the Bowen basin in the current 2nd coal mining boom but all they can see is no equity to use. Financially my business is set to grow and at a rapid rate. I need the capital support to keep the business above water as terms of payment from my clients is up to 60 days from date of invoice. We invoice weekly to help manage it but that's a lot to carry if you talk wages, bills and activity statements for up to 60 days. The banks are out of touch with reality and think they look so good when they advertise record profits. Indicates to me the priority of banks to support the shareholder and CEO.. not the customer paying for those profits"*

*"We applied for finance to purchase a building and we had a deposit of 30%. History of solid credit funds in our On Line A/C. Also requested finance of some near new machinery to 50% of new value. Have had an unblemished record of dealings with Bank. Over draft facility rarely used . CBA would not entertain Equipment finance although we had a huge unused facility available. Would not even quote on our request for building finance. Obtained funds elsewhere with no problems"*

*Source: CCIQ banking sector survey by Queensland businesses, November 2010*

# > Chamber of Commerce & Industry Queensland Profile

Chamber of Commerce & Industry Queensland

Chamber of Commerce & Industry Queensland is the state's peak industry body, representing the interests of 25,000 businesses, across all industry sectors and in all regions. We champion business to gear up for the future today with the right set of solutions for success in tomorrow's world.

Chamber of Commerce & Industry Queensland is a non-government organisation that seeks to work with Government and other groups to shape Queensland's economic and social environments in a way that promotes business growth and community prosperity.

Chamber of Commerce & Industry Queensland is called upon by thousands of enterprises to deliver a broad range of business services including business representation, business compliance, business skills, business safety, business sustainability, business connections and business globally. We are commercially-minded and expertly-qualified.

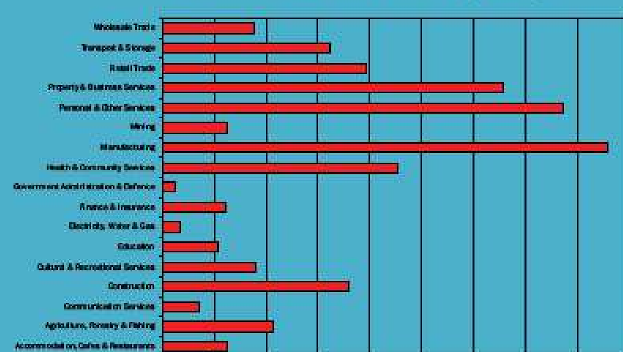
Chamber of Commerce & Industry Queensland is a founding member and influential partner of the Australian Chamber of Commerce and Industry (ACCI) and part of the worldwide network of Chambers of Commerce and affiliated business service organisations.

Chamber of Commerce & Industry Queensland has in excess of 3,700 members across 8 regional offices and represents over 135 local chambers of commerce and 60 trade and professional associations.

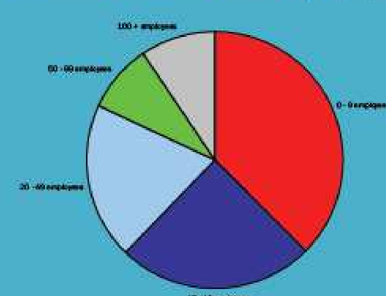
Our vision is to invigorate business success in Queensland.


The diversification of Chamber of Commerce & Industry Queensland's membership is illustrated in the following charts:

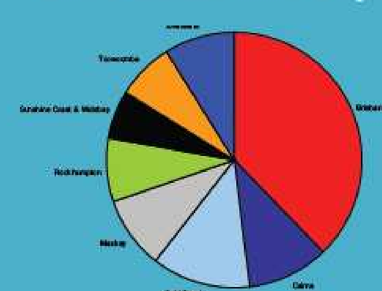
Commerce Queensland members by Industry




Commerce Queensland members by Employment Size




Commerce Queensland members by Region



# CCIQ - Solutions for Business Success

Chamber of Commerce & Industry Queensland (CCIQ) represents over 25,000 businesses in Queensland. We are committed to ensuring our customers have the right tools to achieve real results in their business.

At CCIQ we harness the results of our research, lobbying and policy achievements to offer the best possible business support solutions to invigorate growth statewide, nationally and globally. By joining CCIQ you support the organisation that supports the Queensland business community.

Membership also ensures you are an integral part of an organisation dedicated to providing first class services to assist Queensland industry with relevant and practical business solutions. Not only is membership your connection to information, industry best practice, training and consultancy services, it also allows you to take advantage of the many benefits CCIQ offers.


Our success is success for all Queensland businesses.

Chamber of Commerce & Industry Queensland members are informed and connected business people. Whether you run a small business or form part of a large industry sector, call us today to take advantage of the opportunity to associate yourself with the CCIQ brand.

**Visit www.cciq.com.au or phone 07 3842 2244 for more information.**

Invigorating Business

Chamber of Commerce & Industry Queensland

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