



FinTech Australia



Fintech Lending to Small and Medium Sized Enterprises — project outline

June 2017

Contents

Why does Fintech matter for Small and medium sized enterprises? 3

Survey—Fintech lending to SMEs 4

Scope of the survey 4

Process 5

Research partnership 5

FinTech Australia 5

Neil Slonim and theBankDoctor.org 5

Australian Small Business and Family Enterprise Ombudsman 6

Why does Fintech matter for Small and medium sized enterprises?

1. In 2015–16, there were almost 2.2 million small and medium sized enterprises (SMEs) actively trading in the Australian economy.¹ SMEs account for over two thirds of employment and around 57 per cent of industry value added.²
2. According to the Australian Bureau of Statistics, the key reasons why small and medium sized enterprises (SMEs) seek debt or equity finance are, and in no particular order, to maintain short-term cash flow, replace or purchase equipment or machinery, to ensure the survival of the business or to expand the business.³
3. However, CPA Australia reports that less than half of the 508 surveyed small businesses found it easy or very easy to access external finance in 2016.⁴
4. Fintech is a fast-growing nascent industry with an important role to play in improving SME access to finance. Innovative fintech solutions can assist small businesses manage their cash flow and working capital and can provide more stable and secure funding.⁵
5. The fintech industry has the potential to fill a gap left by traditional bank lenders in the marketplace, particularly as awareness, trust and confidence in alternative lending grows.
6. But with the massive growth in the number and variation of fintech products, it becomes more difficult for SMEs to make informed decisions about which products and lenders will suit their circumstances.
7. theBankDoctor.org reports, “many small business owners don’t realise how borrowing from a fintech lender is different to borrowing from a bank”. Further, “it is not easy for small business owners to assess whether borrowing from a fintech lender is the best option for them, and if so, which lender they should choose”.
8. Some reasons why SMEs may find it difficult to compare and understand fintech lending products include:
 - **Cost of servicing loans is unclear:** A comparative or annual rate makes it easier for SMEs to compare how much it will cost to service business loans with different fintech lenders. Information about fees and charges is also required in order for SMEs to understand the total cost of loans. This information is not provided by all fintech lenders.
 - **Financial literacy of SMEs:** Even when all information is disclosed by fintech lenders, SMEs may have trouble making comparisons. For instance, it can be difficult for SMEs to determine if fintech lending products are right for them when lenders publish rates of varying repayment frequencies or use different terminology in their agreements.
 - **Not knowing the risks:** Related to financial literacy, not all SMEs receive independent advice about what they can afford to borrow or the risks in offering security for a loan. Practises such as loan stacking can also be risky for SME borrowers.

¹ ABS definition of SMEs, 0–199 employees. ABS, Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2016, cat. No. 8165.0, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8165.0>

² ABS, Australian Industry, 2015–16, cat. No. 8155.0, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8155.0>

³ ABS, Selected Characteristics of Australian Business, 2014–15, cat. No. 8167.0, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8167.0>

⁴ The survey is based on businesses with less than 20 employees. CPA Australia, The CPA Australia Asia-Pacific Small Business Survey 2016 – Market Summary: Australia, <https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/professional-resources/business-management/small-business-survey/small-business-survey-2016-market-summary-australia.pdf?la=en>

⁵ The Treasury, Backing Australian FinTech, Economic benefits of FinTech, <http://fintech.treasury.gov.au/economic-benefits-of-fintech/>

- ***Introducers can muddy the comparative waters:*** Engaging a broker or introducer can help an SME make a decision about which fintech lender is right for them. But SMEs should be asking what commission an introducer would receive and whether there is a limited choice of fintech lenders in the introducer’s portfolio.
 - ***Different measures of customer satisfaction can confuse potential borrowers:*** Review agencies and other comparison sites allow borrowers to compare and/or rate their fintech experiences. However, not all lenders participate in or use these sites in a consistent way.
9. The Fintech Lending to SMEs Survey will collect information from fintech lenders that can shed light on some of these issues. Survey results will be published in a report that will help SMEs to better understand their fintech borrowing options. The survey results will also inform fintech lenders how they can help SMEs by improving the transparency of their lending products and by clearly communicating the rates, costs, terms and conditions of their products.
10. Further details about the survey, the report and the research partners are below.

Survey—Fintech lending to SMEs

11. This is a joint research project between the Australian Small Business and Family Enterprise Ombudsman (ASBFEO), FinTech Australia and theBankDoctor.org.
12. This survey will be used to produce a report that aims to:
- 12.1. Help SMEs make better informed decisions as to what fintech products and lenders best suit their needs.
 - 12.2. Determine whether the market is providing sufficient transparency for SMEs to make informed decisions about loan products.
 - 12.3. Identify “best practice” strategies that can inform efforts by the fintech industry to self-regulate transparency and standards.
13. Overall, the outcomes of this research can be used to improve the experience for SME borrowers and to enhance the prospects for sustainable growth of alternative SME lending.

Scope of the survey

14. In undertaking this research, the project team will consider:
- The accessibility and variability in fintech lending products;
 - Transparency and disclosure of pricing and fee structures, e.g. fees and charges applied to SME loans and fees paid to brokers and introducers;
 - The role and reliability of loan calculators for communicating alternative lending features to SME borrowers;
 - Transparency of penalties and other charges applied when a borrower’s circumstances change, e.g. if a borrower pays early, late, cannot pay or wishes to terminate a loan agreement.
 - Terminology used in loan documentation, including standard form contracts;
 - If standard form contracts meet the Unfair contract term legislation;
 - What responsible lending looks like in the fintech industry;

- Suggestions from the industry about improvements to transparency and standards.

Process

15. The survey questions have been carefully designed to ensure that commercial-in-confidence information is not requested from survey respondents.
16. FinTech Australia has provided a glossary list to standardise terms used in the survey.
17. The survey is run by ASBFEO and will be open for around 3–4 weeks. Both members and non-members of FinTech Australia are invited to respond to the survey.
18. Survey findings will be published.
19. The project team may choose to source additional information about fintech lenders from other sources, including publicly available information from websites. This strategy may be employed to obtain information about non-respondents to the survey.
20. ASBFEO has final sign-off for the report. The final report will make note of which fintech lenders do not respond to the survey.
21. ASBFEO will decide if, and what survey information will be published with the final report.
22. The final report and survey data, if any, will be published on ASBFEO's website with appropriate branding and links to the project team's websites.
23. Further details about all research partners are below.

Research partnership

FinTech Australia

24. FinTech Australia is a national fintech Industry Association. FinTech Australia is a not-for-profit organisation and is less than a year old. Members include over 100 start-ups, venture capital funds, hubs and accelerators across Australia that specialise in fintech.
25. Fintech lending has grown rapidly in Australia with a large variation in products and offerings. FinTech Australia has a role to ensure there are continued prospects for innovation, investment and growth in this industry.⁶
26. FinTech Australia is committed to taking a proactive approach to ensure the industry is operating in a healthy manner and protecting its consumers. This is essential for maintaining consumer trust and the future growth of the industry. To this end, the organisation has started thinking about what self-regulating transparency and standards might look like.
27. The research project will inform FinTech Australia's efforts in this area, including the introduction of a voluntary charter and glossary of commonly used terms by the industry.

Neil Slonim and theBankDoctor.org

28. Neil Slonim is a former senior career banker who established theBankDoctor.org in 2013 as an independent not-for-profit online resource centre that helps SMEs deal with the challenges of funding their business.

⁶ It should be noted that FinTech Australia's interests are broader than SME lending.

29. Neil is widely regarded as an independent expert in small business finance and sees the fintech sector playing an increasingly significant role in enabling small businesses to access debt finance. However for the sector to fulfil its potential as a reliable alternative source of debt finance, Neil maintains borrowers need to have a greater awareness and understanding of how fintech lenders operate.
30. Neil wants SMEs to be able to answer the following three questions:
- Is this the right product for my circumstances?
 - Do I really know how much it is going to cost me?
 - Am I satisfied that I'm not going to be able to get a materially better deal elsewhere?

Australian Small Business and Family Enterprise Ombudsman

31. The Australian Small Business and Family Enterprise Ombudsman was launched on 11 March 2016 to firstly help provide small businesses and family enterprises with assistance should they find themselves involved in a dispute. Secondly, to provide them with a voice to ensure their concerns and ideas are heard by our law-makers at all levels so that policies and regulation are put in place that are small business-friendly.
32. The Ombudsman is supportive of FinTech Australia's plans to self-regulate industry transparency and standards and believes this would be complementary to the Australian Securities and Investments Commission's (ASIC's) engagement with the industry.
33. The research will provide information about the variation of alternative financing for SMEs. It will also give some much needed insight into the potential traps that small businesses can fall into when accessing finance through fintechs.
34. The research project will stimulate discussion and provide impetus for improved industry self-regulation.