AFIA

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Senator Katy Gallagher
Committee Chair, Select Committee on COVID-19
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Email: covid.sen@aph.gov.au

Dear Ms Gallagher

SENATE SELECT COMMITTEE ON COVID-19 INQUIRY INTO THE AUSTRALIAN GOVERNMENT'S RESPONSE TO THE COVID-19 PANDEMIC (THE INQUIRY)

The Australian Finance Industry Association (AFIA) appreciates the opportunity to respond to the Inquiry.

AFIA represents over 100 providers of consumer, commercial and wholesale finance in Australia including retail banks, finance companies and fintechs, which provide innovative consumer products and specialised finance to meet small to medium enterprises (SMEs) working capital, cashflow and investment needs. For more information about AFIA, please see **Attachment A**.

AFIA's role as an industry body is to drive industry leadership and represent members' views, facilitate self-regulation through industry codes, and to work with the Federal Government, financial regulators, and other stakeholders to promote a supportive environment for the financial services industry.

OUR SUBMISSION

Over the past three months, AFIA has worked closely with the Federal Government, including the Treasurer, Treasury, financial regulators, the Australian Office of Financial Management (AOFM), as well as other key stakeholders on a range of issues, including actions necessary to address the immediate impact of the COVID-19 crisis on our economy and community.

Our submission focuses on the Government's economic response and the finance industry's actions to address the immediate and ongoing challenges for Australia due to the COVID-19 pandemic. We make a number of recommendations on how we can continue to work together through a recovery action plan to preserve the key tenors of our financial system and support the long-term recovery of our economy.

Our recommendations aim to ensure our policy settings and business practices continue to help Australia and Australians adjust to the coronavirus now and into the future, through:

- Continued access to simple, innovative, and affordable credit for households and businesses
- Continued competition in the lending market and innovation in the financial services industry,[1] and
- Support for smaller lenders to continue to support their customers through the ongoing response and economic recovery as well as on the other side of the COVID-19 crisis.

[1] The Productivity Commission Inquiry Report – Competition in the Australian Financial System notes that the Australian financial system is dominated by large players, with the costs of funds being the single largest expense for all lenders in the Australian financial system, which in turn is a key influence on the ability to compete: http://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system-overview.pdf

AFIA believes the path to achieve these goals and to support a fast, broad, and sustainable economic recovery should be based on the following recommendations:

1. **Support a business-led recovery – in particular, SMEs and their lenders**
2. **Strengthen consumer and business confidence**
3. **Support actions for urban and regional economies**
4. **Build a modern Australian economy**
5. **Enable industry to safely re-open**

Australia's economy is in a state of flux, with businesses looking to re-open in a COVIDSafe manner. We believe that to support ongoing response and economic recovery, the Government and the finance industry need to work on a rolling program of support measures as this crisis unfolds and the longer term impacts manifest across our economy. These support measures will need to involve broad measures of economic stimulus as well as targeted measures for specific sectors, in particular the lending markets, which are critical to rebuilding our economy.

INTRODUCTORY COMMENTS

Firstly, AFIA commends the Federal Government for acting decisively in the national interest to support households and businesses and address the significant economic consequences of the COVID-19 pandemic.

The Government's economic packages[2] have injected significant liquidity into the financial system, supported the flow of credit to businesses and households, helped underpin confidence in the market, and helped Australia maintain its AAA credit rating.

The JobKeeper and JobSeeker programs have provided vital income support to many Australians and helped businesses to retain employees as much as possible. In addition, initiatives undertaken by the State and Territory governments have supported the Federal approach and helped businesses manage the impact of the downturn caused by the necessary introduction of travel restrictions and social distancing measures to stop the spread of the coronavirus.

Secondly, AFIA acknowledges the decisions taken by the National Cabinet to agree a framework for re-opening our economy and for the actions by the State and Territory governments to ease restrictions in a way that minimises the risk of a 'double dip' caused by a second wave of the coronavirus. AFIA is strongly of the view that if restrictions are lifted in a manner that means businesses re-open and then are closed, due to the need for a further lockdown, many SMEs would not be financially viable. This in turn would cause significant damage to consumer and business confidence, and ultimately, prolong our economic recovery.

The National Cabinet is clearly cognisant of the impacts of a further lockdown on our economy, with containment strategies such as the COVIDSafe app, widespread community testing and localised containment rings being deployed to mitigate the risk of a second, nation-wide lockdown. These decisions and actions have not been easy and while some parts of our community are frustrated and concerned, on balance, we strongly believe avoiding a second wave of the coronavirus (arising from likely community transmission) is not only desirable from a health perspective, but essential from an economic perspective.

The immediate and collective action of Australian Governments, businesses and citizens has resulted in Australia being in an enviable position to deal with the ongoing health and economic challenges caused by the COVID-19 pandemic. We encourage our Government and business leaders to continue to work together on this common purpose of protecting Australians from the coronavirus and supporting Australians as we re-open and rebuild the economy.

[2] Coronavirus SME Guarantee Scheme, Structured Finance Support Fund (SFSF) administered through the Australian Office of Financial Management (AOFM), the $90 billion term funding facility to banks administered by the Reserve Bank of Australia, and the JobKeeper Program.

RECOVERY ACTION PLAN

AFIA strongly supports the Government's objectives and initiatives to deal with the immediate impact of the COVID-19 crisis on our economy by shoring up the banking system and stabilising the capital markets, all of which is aimed at promoting **access to credit** and **competition in financial services**.

Further measures to support our ongoing response and economic recovery must also have these objectives. It is critical for smaller lenders to be able to access lower cost funding from a variety of funding sources so they can continue to operate and provide lower cost borrowing solutions for their customers.

RECOMMENDATION 1: SUPPORT A BUSINESS-LED RECOVERY – IN PARTICULAR, SMEs AND THEIR LENDERS

While there have been some positive signals of improvements in consumer and business confidence, confidence remains at very low levels and there is substantial market volatility and economic uncertainty[3]. The market and non-market responses to the COVID-19 crisis have had, and will have, a significant impact on small through to large businesses and consumers. The COVID-19 crisis is a financial crisis but it is not a liquidity crisis in the financial system, as with the global financial crisis in 2008; it is a financial crisis that has, and will, continue to substantially impact the real economy – with a number of analysts referring to this crisis as "The Great Recession".

AFIA believes it will be critical for additional actions to be taken by Australian Governments and the finance industry to ensure support for households and businesses through the next months, as we anticipate economic activity will return in different ways, at different times, for different businesses and industries. This makes the specialised finance products offered by smaller lenders even more important for our ongoing response and economic recovery.

Support for small businesses and the supply chains in our economy will be essential to a business-led recovery

According to the Government[4]:

- Just under 5 million people worked for small businesses in June 2018, which was equivalent to 44% of all people employed in selected industries in the private sector.
- Small businesses accounted for 34% of Industry Value Added (IVA) and 29% of all wages and salaries paid in selected industries of the private sector in 2017-18.
- The IVA generated by the small business sector increased by 24% from $335 billion in 2012-13 to $414 billion in 2017-18.
- Employment growth in small businesses accounted for just under 60% of total employment growth in the private sector between June 2013 and June 2018.
- Small businesses accounted for 57% of jobs growth (as distinct from growth in employed persons) between 2012-13 and 2016-17.

The Prime Minister announced that the new JobMaker plan will reset for growth with a long-term focus on ensuring Australian industries are highly competitive and able to succeed in global markets[5]. Furthermore, the Prime Minister identified key sectors to leverage and build on our strengths, including financial services, mining and resources, agriculture, manufacturing, medical and research, digital technology, and energy.

AFIA supports this approach and believes a business-led recovery should focus on:

- Leveraging our financial system and ensuring a whole of financial system approach to our economic recovery

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[3] Westpac-Melbourne Institute Index of Consumer Sentiment and NAB Monthly Business Survey
[4] Small Business Sector Contribution to the Economy
[5] http://www.pm.gov.au/media/address-national-press-club-260520

- Promoting business investment to support business growth, particularly in our key sectors – financial services, mining and resources, agriculture, manufacturing, medical and research, digital technology, and energy sectors
- Adopting and adapting technology, with the acceleration of the digital transformation due to the COVID-19 crisis leveraged to promote research and development (R&D) and drive productivity
- Adjusting to new realities and undertaking necessary reforms, including due to the impacts from changes in domestic and foreign investment, international trade, and other externalities
- Building household and business financial resilience, including mitigating risks and addressing the likelihood Australians will be more cautious and concerned about their financial security, and
- Creating public and private partnerships, recognising that the low cost of borrowing should be taken advantage of by governments, with investment in infrastructure and major projects.

Support for smaller lenders will be important to ensure access to credit and competition and innovation

Smaller ADIs, non-bank lenders and fintech lenders (together referred to as 'smaller lenders') play a critical role in our economy, especially where other lenders do not have the business infrastructure, technology, risk appetite or have chosen not to serve certain parts of the economy.

As at April 2020, smaller lenders equated to around $100 billion in credit facilities and between 3 – 4 million Australian customers, both consumer and small business.

Smaller lenders:
- Provide specialised products, services and technologies and are critical to ensuring the flow of credit and liquidity, especially to SMEs
- Make sure businesses have access to a diversified pool of working capital and the cashflow support they need to best match their business needs, thereby reducing business risks and costs
- Support economic supply chains with tailored finance solutions that assist businesses improve their financial, customer and supplier management practices and productivity, and
- Deliver continued innovation and ensure ongoing competition and choice for households and businesses, which is especially critical as we move into the open banking regime and as digital transformation is accelerated due to the COVID-19 crisis.

Smaller lenders are well-placed to meet different customer needs through their specialised products, services and technologies and business models that put customer relationships ahead of scale and are better equipped to tailor finance solutions and packages that meet the credit and liquidity needs of these critical businesses during the ongoing response and recovery phase. This is primarily because they have key resources who understand industry cycles and dependencies – including import and export markets, and asset use, utilisation, and value – be it hard or soft assets; initial, in life, refurbishment/alternate and residual value assessment.

Smaller lenders provide term loans, and also offer a range of secured and unsecured credit facilities and alternative sources of credit and liquidity to SMEs, which include, but not limited to:
- Motor vehicle and fleet management finance for businesses critical to supply chains
- Asset and equipment finance for businesses in mining, agricultural, manufacturing, infrastructure, and transport and logistics sectors
- Crop and agri-finance for primary producers and farmers
- Cashflow finance for businesses across the retail sector (including Buy Now Pay Later providers), and
- Working capital, merchant, trade, and debtor finance (i.e. inventory and invoice finance, supply chain finance, merchant cash advance, revolving and other lines of credit, commercial credit cards, insurance premium finance) for businesses across the economy.

One of the key successes in financial services over recent years in Australia, which has led to global recognition, is the innovative nature of our financial service providers – how they continue to adapt and improve the customer experience, move deeper into digital offerings and tailored solutions, and continue to meet customer demands. This is increasingly being focused around speed of service coupled with customer relationships is going to be critical as we move through the recovery phase of the crisis[6].

Unfortunately, around 80 AFIA members providing these finance solutions are outside the scope of the existing Government initiatives announced to support smaller lenders and their customers, including the Structured Finance Support Fund, Coronavirus SME Guarantee Scheme (SMEG Scheme) as well as the JobKeeper Program.

AFIA recommends:

1. Maximising the impact of the Government's support for the economy and ensuring the existing initiatives deliver the intended economic outcomes

Many non-ADI lenders are unable to participate in the Government's support measures due to their funding arrangements and/or nature of their specialised credit facilities, which are designed to match the business needs of SMEs to ensure these businesses manage their risks and minimise their costs. Therefore, strategies are needed to maximise the impact of existing initiatives and ensure they continue to meet certain needs and evolve to accommodate needs as the crisis unfolds.

Attachment B details the challenges faced by smaller lenders and why they have been unable to, or unable to easily, participate in the existing Government initiatives, and some options to maximise participation of smaller lenders, ensure these initiatives work as intended, and adjust these initiatives to ensure there is support for the long-term recovery of our economy.

2. Identifying programs and initiatives that are needed to support our economic recovery in Australia

AFIA believes further Government and industry action is needed so a **whole of financial system approach** is taken that supports liquidity for smaller lenders. This is not only important from a competition perspective, but from a practical perspective – to drive economic recovery, households and businesses will need fast and effective finance solutions. Over-reliance on the larger lenders will inevitably result in delays as these financial institutions struggle to work through customer contacts.

Understandably, in the earlier stages of this crisis, the Government's support measures targeted certain immediate and forecasted needs, however, as we move into the ongoing response and economic recovery phases, the needs of customers, particularly SMEs, will become more varied. Some small businesses went into 'hibernation' but are now looking to re-open in very different conditions. Other businesses are adjusting so they can recover in a very different form. Many businesses are critical participants in the supply chain in Australia, such as ensuring our supermarkets are stocked with food and other essential items, our health and medical sector have they supplies they need, and our farms in regional Australia have the equipment and supplies they need. Smaller lenders offer specialised products that meet these needs.

Attachment B and **Attachment C** provide more detail about potential solutions to ensure smaller lenders have the availability of capital at the right cost so they can on lend to SMEs.

In summary, AFIA recommends:

- Extend/replicate the Coronavirus SME Guarantee Scheme and broaden the current eligibility criteria by including more product options than a mandatory 6-month repayment moratorium.
- Incentivise ADIs and investment banks to fund smaller lenders who then lend funds to SMEs.
- Create a **Smaller Lender and Fintech Sector Fund**.

[6] A 2016 Deloitte and World Economic Forum Report into the future of financial services in Australia noted that the financial services industry is a significant contributor to Australia's current and future prosperity, and that any disruptions and opportunities for growth should be carefully considered.

Additionally, AFIA and our members will continue to work with several third-party solution providers on how to potentially create a single or a series of multi-seller funds. We recognise this is a time consuming and complex task, in part due to the lack of homogeneity across SME products, but if we are able to find a workable solution, it will continue to reinforce the innovative nature of Australian financial services providers, which the Prime Minister has recently recognised.

To support a business-led recovery, it will be critical smaller lenders are supported to continue to provide specialised finance products, particularly to SMEs. Measures that lower funding costs for smaller lenders will deliver the following outcomes:

1. Ensure smaller lenders continue to serve the unique needs of SMEs needing low-cost, short term credit and working capital to match their specific operations and commitments to suppliers, equipment providers and insurers, which will be crucial to minimise their business risks and costs, so these businesses are well-positioned on the other side and not facing large debts and other liabilities, and so they can protect and create jobs.
2. Maximise the flow of affordable credit to households and businesses across different channels (especially sectors in our economy that have to date been under-served by the larger lenders that focus on secured and term loans, rather than short term, unsecured credit facilities) and help households and businesses maximise their financial resilience and reduce financial pressure on them, now and into the future.
3. Support access to lower cost capital for all lenders so lower borrowing costs can be passed on to existing and new customers at competitive rates and offset the anti-competitive impact of the significant liquidity support provided to the larger lenders and help to 'level the playing field' between larger lenders and smaller lenders.
4. Enable smaller lenders to offer longer upfront commitments to repayment moratoriums for existing customers, where needed and particularly for those sectors and businesses that have been and will continue to be severely impacted by restrictions introduced to manage the spread of coronavirus (noting the banks are able to meet this longer upfront commitment due to the very low cost capital available to them via the RBA's term funding facility and their business models, which means they can cross-subsidise because they do not provide specialised product and service offerings to specific markets and SME needs).
5. Ensure financial inclusion, particularly to SMEs, which rely on information, guidance and support tailored to their businesses from smaller lenders that tend to have deeper industry-based skills and capability, and to consumers, which need innovative retail solutions, particularly online payments and credit, vital to ensuring economic and social participation, particularly in a COVID-19 world.
6. Underpin competition, innovation and choice through a range of financing products, services and technologies that households and businesses need during the COVID-19 crisis and ensure a vibrant, world-leading financial services ecosystem in Australia.

RECOMMENDATION 2: STRENGTHEN CONSUMER AND BUSINESS CONFIDENCE

AFIA has identified several areas for further action and consideration to support consumer and business confidence, bring forward business investment, and leverage Australia's competitive advantages (see **Attachment D**).

In summary, AFIA recommends:

- Delivering support for business investment.
- Providing cashflow assistance for businesses.
- Extending the JobKeeper Program to targeted areas of the economy.
- Developing the Australian corporate bond market, and
- Reducing regulatory red tape and compliance burdens.

RECOMMENDATION 3: SUPPORT URBAN AND REGIONAL ECONOMIES

Australia's economy is highly interconnected, with urban and regional locations dependent on supply chains, particularly in the most COVID-19 impacted parts of our economy – tourism, travel, and aviation industry as well as food, hospitality, and events management industry. AFIA believes that economic recovery plans need to target leveraging existing economic successes, reinventing existing businesses and industries to adopt and adapt technology, and rebuilding essential economic connections. **Attachment E** outlines proposals for supporting urban and regional economies, recognising the interconnectivity between sectors, economies, and supply chains.

RECOMMENDATION 4: BUILD A MODERN AUSTRALIAN ECONOMY

AFIA believes that the finance industry has the expertise to support a transition to a modern economy, which will be important in a post COVID-19 world. A modern economy needs to be focused on planning, investment, and sustainability. **Attachment F** identifies proposals for building a modern Australian economy.

RECOMMENDATION 5: ENABLE THE ECONOMY TO SAFELY REOPEN

AFIA has made several recommendations to the NSW Government. We encourage other States and Territories to consider similar as part of safe return to work plans. **Attachment G** provides details of business continuity and return to work proposals relating to kickstarting our economy and supporting a safe re-opening of our economy.

CLOSING COMMENTS

AFIA's recommendations are consistent with our guiding principles to:

- Promote simple, convenient, innovative, and affordable credit to finance Australia's future, including maximising access to credit for customers able and willing to service their commitments and minimising the likelihood or incidence of customers entering unsuitable credit contracts
- Foster competition and innovation in Australia's financial services industry, which enables our members to grow, expand and thrive as key participants in the lending market and other markets, and
- Generate greater financial and economic participation by consumers and small businesses in Australia's financial system and economy, and social participation to create financial wellbeing.

If the banks are the shock absorbers of the economy, smaller lenders are the pistons of a longer-term recovery.

Support for smaller lenders is going be crucial for a fast, broad, and sustainable recovery – this can be achieved through a combination of actions and initiatives that focus on the needs of households and businesses, now and into the future.

I would appreciate the opportunity to discuss our recommendations and provide the Inquiry with further information about the specialised products, services and technologies offered by smaller lenders.

Should you wish to discuss our submission or require additional information, please contact me or Karl Turner, Executive Director, Policy & Risk Management at karl@afia.asn.au or 02 9231 5877.

Yours sincerely

D. Tate

Diane Tate
Chief Executive Officer

ATTACHMENT A: AFIA BACKGROUND

The Australian Finance Industry Association (AFIA) is the voice of a diverse Australian finance industry.

AFIA represents over 100 providers of consumer, commercial and wholesale finance in Australia, which includes:

- Major, regional and mutual/community owned banks
- Providers of consumer finance, including home loans, personal loans, consumer leases, credit cards, buy now pay later services, and debt purchasers
- Providers of land finance, including residential and commercial mortgages and bridging finance
- equipment financers, including commercial equipment financing ranging from agri-equipment to small ticket equipment financing
- Motor vehicle financiers, including consumer motor finance, novated motor finance, small business motor finance and heavy vehicle finance
- Fleet leasing and car rental providers, and
- Providers of commercial finance, including secured and unsecured loans and working capital finance to businesses, including small businesses.

AFIA's members range from ASX-listed public companies through to small businesses providing finance, which operate via a range of distribution channels, including through 'bricks and mortar' premises (physical branches and other outlets), via intermediaries (including finance brokers, dealerships, retail suppliers), and through online access or platforms (traditional financial institutions and fintechs).

AFIA's members collectively operate across all states and territories in Australia and provide finance to customers of all demographics from high to low-income earners and to commercial entities ranging from sole traders, partnerships and across the corporate sector in Australia.

AFIA's members provide a broad range of products and services across consumer and commercial finance, a snapshot of these include:

- Consumer: home loans, personal unsecured loans, revolving products (including credit cards and interest free products coupled with lines of credit), personal secured loans (secured by land or personal property); consumer leases of household assets (including household goods, electrical/IT devices or cars) and buy-now, pay later services.
- Commercial: land, asset or equipment finance (finance/operating lease, secured loan or hire-purchase agreement or novated leases); business finance and working capital solutions (secured loans, online unsecured loans; debtor and invoice finance; insurance premium funding; trade finance; overdrafts; commercial credit cards), together with more sophisticated and complex finance solutions.

For further information about AFIA, please see here.

ATTACHMENT B: CHALLENGES FOR SMALL LENDERS WITH PARTICIPATING IN GOVERNMENT SUPPORT SCHEMES AND POTENTIAL SOLUTIONS

AFIA believes the Government's economic support packages and initiatives have been incredibly important to address the immediate crisis and provide support to the lending market and businesses across our economy.

The speed at which these programs were introduced is remarkable – we acknowledge the hard work by the Federal Government, the AOFM and Treasury.

However, while these Government initiatives are of benefit to many of the finance industry incumbents, the measures will not necessarily, readily, or clearly support several smaller lenders or the ongoing needs of their customers, particularly SMEs.

AFIA has identified five potential solutions that will ensure smaller lenders have the availability of capital at the right cost so they can on lend to SMEs:

1. Extend/replicate the Coronavirus SME Guarantee Scheme and broaden the current eligibility criteria, including more options than a mandatory 6-month repayment moratorium – we commend Treasury on developing the scheme's initial infrastructure in an engaging and collaborative manner. To accelerate SMEs being able to get access to primarily working capital funding to enable them to grow and employ more Australians, we recommend scaling the scheme and extending the period and support from the Government from 30 September 2020 to 30 June 2021.
2. Incentivise ADIs and investment banks to fund smaller lenders who then lend funds to SMEs – an initial over-reliance on the larger ADIs through the RBA's Term Funding Facility has resulted in delays in the distribution of funding as these financial institutions struggle to work through customer contacts. Therefore, incentivising larger ADIs and investment banks to prioritise capital allocation to smaller lenders will ensure all lenders are able to serve the needs of businesses and households as fast as possible and in ways that suit their increasingly more complex and varied needs.
3. Create a new $5 billion **Smaller Lender and Fintech Sector Fund** (see **Attachment C**).
4. Increase resourcing to the AOFM to accelerate the assessment of smaller lenders and their ability to access the SFSF and the Forbearance SPV, particularly but not only, where these smaller lenders are participating lenders in the Coronavirus SME Guarantee Scheme.
5. Incentivise third party solution providers to create a single or a series of multi-seller funds that can then be packaged up and presented to the AOFM.

We recognise that points 1 and 2 above are more easily implemented with minimal changes required to existing or new legislation being created. However, a longer-term solution that will continue to encourage innovation and competition is a new, flexible fund to support smaller lenders support their customers as the crisis unfolds and as business activity requires specialised finance solutions through our ongoing response and economic recovery.

AFIA and our members will continue to work with several third-party solution providers on point 4 above and how to potentially create a single or a series of multi-seller funds. We recognise this is a time consuming and complex task, in part due to the lack of homogeneity across SME products, but if we are able to find a workable solution, it will continue to reinforce the innovative nature of Australian financial services providers, which the Prime Minister has recently recognised.

AFIA recommendations:

The following table outlines the various Government initiatives to stabilise our financial system and support our economy, where there are gaps in these measures to support smaller lenders and recommendations about how to ensure these crisis measures work as intended.

Initiative	Commentary	AFIA recommendations
RBA term funding facility (TFF) Provides banks with access to at least $90 billion in funding at a fixed interest rate of 0.25% Primary beneficiary = ADIs	Measures have specifically targeted the banks expecting liquidity support to flow through the financial system. Non-ADI and specialist lenders are excluded from the TFF. The majority of smaller lenders rely on wholesale funding from the larger banks (senior financiers). Unfortunately, funding arrangements are still be negotiated some months after the initial COVID-19 impact. Resource constraints are understandable, however, the impact is smaller lenders have been restricted in what they are able to do to provide repayment moratoriums to their customers due to lending covenants in their funding arrangements with senior financiers and/or establish new funding arrangements in order to overcome these restrictions. Larger ADIs are incentivised to lend to SMEs and businesses. Smaller lenders would satisfy these criteria, and therefore should be able access funding from banks at an appropriate discount. It is not clear this is happening. RBA and media reports indicate that the TFF has not been used by the major banks due to a confluence of events, which may also be influencing negotiations between senior financiers and smaller lenders.	Treasurer and Reserve Bank Governor reaffirm the purpose of the TFF to provide liquidity across the financial system and drive lower cost capital for smaller lenders, businesses, and SMEs. AFIA notes that banks are an important conduit to this source of funding, and we encourage the Government to ensure that banks continue negotiations with smaller lenders to ensure smaller lenders get the benefit of the TFF. An initial over-reliance on the larger ADIs through the TFF has resulted in delays in the distribution of funding as these financial institutions struggle to work through customer contacts. To address this, we recommend the RBA increase and incentivise ADIs, and to improve diversification, investment banks to fund smaller lenders who then on lend funds to SMEs. Key to the success of this will be to look at means of reducing ADIs capital at risk say through: • Varying the current arrangement in the TFF whereby for every extra dollar of loans by ADIs to smaller lenders, (currently reads business/SMEs) ADIs have access to an additional five dollars of funding from the Reserve Bank – we understand that there remains capacity within the TFF to allow this to occur • Reducing the risk weighted asset requirements for these loans within ADIs so internal return on target equity capital employed hurdle rates can be at least met or exceeded, which allows for the reallocation of existing resources or hiring new skills and capability • Providing ADIs with a 50% - 80% Government guarantee to cover any default by smaller lenders – similar to the 50% Government guarantee they are offering lenders who fund SMEs through the COVID-19 crisis. ADIs already have existing capability to assess the credit worthiness of smaller lenders. ADIs currently provide bi-lateral, securitised, 'club' and syndicated facilities to them. Reducing ADIs 'capital at risk' should increase appetite to provide more funding and ensure the pricing provided to the smaller lender reflects the application of the guarantee, the lower cost of TFF funding, and the benefits of any other conditions. It may also provide an optional back-to-back grace period of 6-months for small lenders before repayments need to be made to the ADI, if required.
Coronavirus SME Guarantee Scheme (SMEG)	AFIA notes and congratulates the Government for approving 41 lenders to participate in the SMEG Scheme - 29 banks and 12 non-bank lenders.[7]	To accelerate SMEs being able to get access to primarily working capital funding to enable them to grow and employ more Australians, we recommend scaling the SMEG Scheme and extending the period

[7] http://treasury.gov.au/economic-response-coronavirus-coronavirus-sme-guarantee-scheme/list-participating-lenders

Initiative	Commentary	AFIA recommendations
The Government to provide $40 billion to support lending to SMEs (including sole traders and not-for-profits). Government will guarantee 50% of new loans issued by eligible lenders to SMEs. Primary beneficiary = Financiers offering SME unsecured products that have a guaranteed 6-month repayment moratorium	The original purpose of mandating a 6-month repayment moratorium as a pre-requisite for meeting the definition of an eligible product was the correct decision to make at the time. It was simple, easy to understand (from both the customers' and financiers' perspectives), easy to execute and allowed essential, but limited, funding to occur as businesses reacted to the magnitude and depth of the COVID-19 crisis. At the time, we also did not know how long it would take for Australia to 'flatten the curve' – with initial estimates, indicating it could take as long as 6 months. However, feedback from our members indicates that adjustments to the SMEG Scheme would address some practical issues: 1. SMEs indicating that the mandatory 6-month moratorium and product definition parameters do not meet their financing needs 2. SMEs indicating that they are reluctant to take on more debt than is necessary at a time of national and global flux where pre-COVID-19 business models may look very different in a post COVID-19 world 3. SMEs credit quality not meeting smaller lenders' risk appetite 4. Smaller lenders not wishing to unnecessarily rely on the Government's 50% guarantee 5. The time needed to agree new term sheets with existing or new senior financiers and package them such that they meet the requirements of the SFSF, and smaller lenders can fund at scale 'off balance sheet' through securitisation vehicles 6. The time taken for the term sheet and scope of the Forbearance SPV Fund to be drafted and outlined so smaller lenders can better understand the mechanics behind how this Fund will acquire COVID-19 arrears The last two comments are not criticisms of the AOFM – they have worked extremely well with our members, however, there are resource constraints. Additionally, BNPL providers are generally excluded.	and support from the Government from 30 September 2020 to 30 June 2021. As part of this, we recommend: 1. Permitting existing 'in market' short term, credit facilities to also be deemed an eligible product, such as: a. Crop finance to support the agriculture sector b. Asset and equipment finance for businesses in mining, infrastructure, and transport and logistics sectors. We note the Australian Bureau of Statistics (ABS) reports that the total capital expenditure (capex) decreased by 1.6% in quarter 1 of 2020, with data suggesting this figure is set to only worsen through quarter 2 and beyond as businesses scale back spending[8] c. Inventory and invoice finance to support the manufacturing sector including the advanced manufacturing growth centre initiative[9] d. Merchant cash advance to support the retail sector e. Commercial credit cards for employees f. Working capital, trade and debtor finance, insurance premium finance, and supply chain finance to support businesses across sectors – such as the construction industry and the home builder initiative[10]. 2. Permitting the option of offering a customer 0, 2, 4 or 6-months forbearance so it better meets their needs and matches asset acquisition/ working capital management needs with liabilities. 3. Permitting refinance of legacy debts to occur and if servicing capacity is created through this process, offer additional funds in a prudent manner. 4. Permitting finance secured by any form of security that is not a mortgage over land in registerable form so it allows for restaurant fit out/refurbishment, the finance of 'soft assets' such as telephony systems for onshoring activities, amounts owing from major supermarkets for food/the supply chain to be financed. 5. Adjusting the risk sharing model and replicate similar initiatives overseas where governments have been willing to take on 80%/100% default risk (or provide smaller lenders with a higher risk share – say from 50% to 80%) and/or take on some of the initial credit risk by making repayments for the initial moratorium period. The alternative is to explicitly permit higher interest rates (i.e. maximum APR of 29.9%).

[9] http://www.amgc.org.au/
[10] http://treasury.gov.au/coronavirus/homebuilder

Initiative	Commentary	AFIA recommendations
Structured Finance Support Fund (SFSF) and Forbearance Special Purpose Vehicle (SPV) Australian Office of Financial Management (AOFM) will invest $15 billion in securitisation and structured finance markets, to support lending to consumers and SMEs. Primary beneficiary = Financiers who have existing warehouse facilities.	AOFM has determined the terms and conditions to access the fund, with lenders offering working capital (including short term, unsecured credit facilities) assumed to be in scope for the SFSF. However, smaller lenders are excluded: • Bilateral, syndicated, or other facilities – liquidity constrained due to timing of case-by-case processes and/or restrictions in existing funding arrangements • SFSF eligibility criteria limits access to only those lenders who currently fund their balance sheet via securitised or similar warehouse facilities • Fund via commercial paper and the bond primary and secondary capital markets – general liquidity in these markets has significantly reduced – even at increased spreads. AFIA worked with the AOFM and other industry participants – we note the Forbearance SPV has been established to assist to mitigate the impacts on securitisation vehicles, particularly those sponsored by smaller lenders[11]. The AOFM is continuing to work with the Australian Securitisation Forum to find an appropriate solution for the impacts on securitisation vehicles (specifically those sponsored by smaller lenders) of forbearance arrangements arising from COVID-19 hardship – terms sheet for the Forbearance SPV. AFIA worked with the Treasurer's office and the AOFM – we note that the Treasurer has amended the Structured Finance Support Direction to ensure all smaller lenders may be able to participate in the SFSF[12]. AFIA worked with the Reserve Bank – we note the Reserve Bank announcement to broaden eligibility of corporate debt securities as collateral for domestic market operations[13]. This will help normalise the cost of capital in corporate bond markets (noting some smaller lenders use corporate bonds and commercial paper as a source of funding).	To solve for the problem that smaller lenders are encountering with senior financiers in re-negotiating existing funding arrangements, we recommend: • Finalising the term sheet for the Forbearance SPV • Increasing resourcing to the AOFM to accelerate the assessment of smaller lenders and their ability to access the SFSF – this would still mean that smaller lenders who do not use securitisation would remain out of scope • Removing the operational requirement to demonstrate a multiplier effect • Incentivising third party solution providers to create a single or a series of multi-seller funds – – the third party would facilitate and package up tranches and provide these to the AOFM for funding. We recognise this last task is time consuming and complex in part due to the lack of homogeneity across SME products. While funds for asset finance or working capital could be established, complexity comes because say within asset finance, there are primary, secondary and tertiary asset classes – each class has a different risk: reward profile, which makes first loss/cross collateralisation equalisation potentially challenging and in-life monitoring time consuming. Similar complexity occurs within working capital say around term and the nature of product (revolving vs amortising). However, it would enable the AOFM to: • Prioritise funding to smaller lenders participating in the SMEG Scheme, and • Ensure smaller lenders with securitisation and structured finance capabilities are more readily able to participate in the SFSF, particularly those with funding less than $50 million and where funding is due in the shorter term.
Australian Business Securitisation Fund (ABSF) The AOFM will invest $250 million in ABS market, to support lending to SMEs.	AOFM has determined the terms and conditions to access the fund with lenders offering working capital (including short term, unsecured) assumed to be out of scope for the ASBF, with the ASBF targeted towards larger finance companies.	See above.

[11] http://www.aofm.gov.au/sfsf/sfsf-update-21-may-2020
[12] http://www.aofm.gov.au/sfsf/sfsf-update-11-may-2020
[13] http://www.rba.gov.au/mkt-operations/announcements/broadening-eligibility-of-corporate-debt-securities.html

<table>
<tr><th>Initiative</th><th>Commentary</th><th>AFIA recommendations</th></tr>
<tr><td>Primary beneficiary = Non-ADI specialist lenders</td><td></td><td></td></tr>
<tr><td>JobKeeper Payment

Government to provide $1,500 per fortnight per employee for up to 6 months.

Primary beneficiary = Business that has:
Turnover <$1 billion and their turnover has fallen by more than 30%
Turnover >$1 billion and their turnover has fallen by more than 50%</td><td>The Government has determined the policy settings for the JobKeeper Program, with the Tax Commissioner able to exercise discretion in relation to how the GST turnover test (basic test) is applied.

AFIA worked with the Treasury and ATO – we note changes were made to accommodate different revenue impacts on businesses, with a more flexible calculation methodology (and alternative tests).

However, the wages subsidy was not well-designed for all ‘services’ businesses. The “GST turnover” basic test excludes many AFIA members because their service is input-taxed (AFIA data indicates total facilities of approx. $30b and 30 smaller lenders impacted).

Some lenders have been able to be eligible, with an aspect of their business attracting GST. However, this exacerbates the anomaly and results in different treatment of lenders across the financial services industry.

Tax Commissioner can approve alternative calculations for the basic test (alternative tests) but is not able to permit an alternative turnover test which would be more appropriate for services-related businesses and businesses deemed essential goods and services, and thus outside the GST regime.</td><td>1. The Treasurer use the ministerial discretion to permit the Tax Commissioner to provide an ATO ruling to accept an alternative “turnover” test, where other elements of the basic test or alternative test are met.
2. Given the sharp adjustment that is likely to occur when 6 month repayment moratoriums offered by the banks come to an end, the demonstrated increase in consumer confidence that has occurred when payments have been made and the boost to the retail sector (refer illion and Alphabeta data[14]), extend the JobKeeper Program to 28 February 2021 to support:
a. Most impacted sectors and businesses, especially those where travel restrictions and social distancing measures will likely have a longer negative impact on a return of business activity (see Attachment F).
b. Sectors and businesses where the Government wants to see accelerated growth – the working capital requirements necessary to fund such growth is unlikely to be able to cover a stepped increase in fixed costs such as wages.</td></tr>
</table>

[14] http://www.alphabeta.com/illiontracking?utm_source=illion&utm_medium=email&utm_campaign=real-time-economic-tracker

ATTACHMENT C: SUPPORTING SMALLER LENDERS SUPPORT THEIR CUSTOMERS, PARTICULARLY SMEs, THROUGH A NEW FUND – SMALLER LENDER AND FINTECH SECTOR FUND

AFIA believes it is important to ensure that the existing Government initiatives should be adjusted to ensure they work as intended and also to ensure they continue to benefit our financial system and economy.

However, AFIA proposes that as we move into the ongoing response and economic recovery phases, new initiatives will be needed to support markets as well as solve for the challenges facing a number of small lenders in accessing the existing Government initiatives and to ensure a level playing field in the lending market.

AFIA recommendation:
AFIA believes the Federal Government should create a new, flexible fund up to **$5 billion** to support smaller lenders support their customers – **Smaller Lender and Fintech Sector Fund**.

We recommend the new fund be administered through Treasury in consultation with the RBA and AOFM to ensure their expertise in assessing applications can be incorporated.

The fund could leverage work already being undertaken on the Forbearance SPV[15] as it has already determined an approach to the viability testing of portfolios and operators through:

- Leveraging and sensitising existing cashflow models of originators so as to form a view on their overall viability and ability to draw and repay funding
- Reviewing and sensitising audited operator internal models
- Looking at historical repayment, default, and loss experience of operators, and
- Reviewing asset class viability.

The fund would have multiple purposes and outcomes, but essentially:

- Solve for the challenges facing smaller lenders in accessing the existing Government initiatives and ensure a level playing field in the lending market, and
- Provide an alternative source of funding for smaller lenders as well as take a **whole of financial system approach**.

In doing so, the Government will be able to:

- Ensure national confidence in the support program for our economy and community and that the measures are implemented as intended and are achieving the intended policy objectives.
- Demonstrate it has supported financial inclusion and access to affordable finance, particularly for SMEs, as well as supporting the maintenance of competition and innovation during the COVID-19 crisis, and through the ongoing response and economic recovery.
- Support innovative smaller lenders to emerge and remain credible from the COVID-19 crisis, and allow AFIA members to continue to fund their customers and help them navigate through this period without having to pass on any additional costs and/or being limited in what support they can offer their consumer and SME customers.
- Complement measures already introduced and position and support Australia's ongoing response and economic recovery.

[15] The Australian Securitisation Forum (ASF) and AOFM have developed a structure that will enable the SFSF to invest in new senior ranking debt securities issued by a newly constituted "Forbearance" SPV. That SPV will then advance funds to securitisation trusts and warehouses who wish to draw liquidity advances to compensate for the missed interest component of scheduled payments not received as a result of the borrower being granted a payment holiday or moratorium due to the impact of COVID-19: http://www.aofm.gov.au/sfsf/sfsf-update-23-april-2020

Objectives	Description	AFIA members observations of the current marketplace that will be overcome if the fund is implemented
1. *Free up liquidity for smaller lenders*	The fund would enable existing lending covenants in funding arrangements between smaller lenders and senior financiers (including domestic banks, international banks, and institutional investors) to be adjusted without causing disruption to the agreements. This is important to solve issues in existing funding arrangements preventing smaller lenders offering longer periods of hardship assistance for their customers, by freeing up liquidity in the 'back book' by curing arrears related covenant breaches and unlocking undrawn limits to receive new receivables up to existing limits. The fund would also free up liquidity for insurance premium financiers that provide short term loans to fund insurance premiums. The maintenance of insurance cover during this period is critical for businesses – potential 'under insurance' is already a material issue for small business. Supporting insurance premium financiers will not only help their ability to support their SMEs, but also potentially complement other forbearance measures that may involve the insurance industry and ensure problems in the lending market are not replicated in the insurance market[16]. This is also important so smaller lenders can remain competitive and match the banks by providing 6-month repayment moratoriums, where practical, and where needed by their customers. It should be noted that the nature of some shorter term credit facilities means this form of forbearance is not possible or appropriate – that said, it would be the intention of smaller lenders to provide up to '6 month moratorium' for those products that are similar to the banks' offerings and can accommodate this approach as a suitable option for hardship assistance.	• Many lenders are still seeking consent from their senior financiers to be able to apply to be part of the SMEG Scheme and the SFSF. • Offshore senior debt seems to have less of an informed view of the Australian Governments' initiatives and are taking longer to consider applications to deal with breach of lending covenants. • Accessing finance is challenging – availability and price: o Limited to no appetite for mezzanine tranches o If there is appetite, mezzanine funding is highly variable and expensive (i.e. wider credit spreads for AAA tranches. reduced limits for AAA tranches) o Limited appetite to negotiate portfolio parameters by investors o Liquidity pressure is also increasing at the investor level (i.e. superannuation funds o Limited appetite from the private debt market o Senior funders are not looking for new relationships in the current environment • Some senior financiers have either said "no" to extending facilities or are only able to assist in small size facilities (<$100m). • While there is a slowdown in economic activity in April, if there is an increase in economic activity and credit remains dormant then demand will increase for funding from the AOFM. Potential funding ranging typically from $50m to in excess of $2.5bn, however, some smaller lenders may seek <$50m. • The AOFM and Treasury are to be acknowledged for their efforts, however, they have limited resources - may be due to multiple factors (i.e. expertise, security clearance, conflicts of interest, etc) – resource constraints is leading to delays in being able to respond to demand/inquiries from smaller lenders and response rates and a general concern that they will not be able to meet lenders timelines.
2. *Enable smaller lenders to access funding at the same costs as banks*	The fund would enable smaller lenders to lower capital costs, noting 0.25% is available to the banks through the $90 billion TFF. This is important so smaller lenders can pass on lower borrowing costs to existing and new customers and goes towards levelling the playing field between the banks and smaller lenders. The difference in the cost of capital between larger lenders and smaller lenders is resulting in anti-competitive impacts.	• Some banks are taking a long time to process, and this may be leading to actual or perceived liquidity issues for smaller lenders. Offering a direct facility will by-pass banks that are struggling to resource re-negotiations and process workouts with smaller lenders. • Matching the 0.25% interest rate would help to level the playing field and enable smaller lenders accessing the SMEG Scheme to deliver more affordable rates without impacting their own financial viability. • The Government has facilitated the larger lenders to significantly increase their activity in

[16] http://www.accc.gov.au/public-registers/authorisations-and-notifications-registers/authorisation-register/suncorp-group-limited-on-behalf-of-itself-and-other-providers-of-insurance

Objectives	Description	AFIA members observations of the current marketplace that will be overcome if the fund is implemented
	Access to the fund should consider the diverse nature of products offered by smaller and specialised lenders and the ways in which these raise liquidity.	SME lending markets by providing them lower cost funding, a 50% guarantee, and a mandate to deliver funding as quickly as possible. This means the existing funding, risk and information asymmetry is exacerbated. Some AFIA members are concerned this will result in the banks being able to, and being supported to, increase their market share (where a market failure already exists – note the need for the establishment of the ABSF to support SME lending). This will have an anti-competitive impact in SME lending, even further in the mid-long term. • Target smaller lenders and overcome existing lending convents (market practices) and rules in the existing initiatives (i.e. AOFM demonstrate a multiplier effect with the SFSF, Treasury requirement for a 6-month repayment moratorium, etc). • Some AFIA members are concerned some larger lenders are taking advantage of their cheaper pricing and making inflated NIMs by either offering liquidity at very inflated levels (more than the quoted 130bps difference between ADI offerings) or taking the opportunity to amend lending covenants more broadly as part of re-negotiations.
3. *Support liquidity to smaller lenders to then assist SME business and working capital needs*	The fund would enable smaller lenders access to liquidity support for working capital needs, where repayments and originations have decreased, and therefore reduced cash inflows for their own operations, so they can in turn provide additional support for the working capital needs of their SME customers. This is important so smaller lenders can continue to operate, retain employees, offer longer periods of hardship assistance to their customers, and provide additional support to their SME customers, including covering repayments for business commitments often embedded in contracts (i.e. supplier and insurance contracts). As intermediaries, smaller lenders must be able to cover their own cashflow while they are supporting the cashflow of their customers. This is particularly important given smaller lenders are, generally, unable to access the JobKeeper Program because of the GST turnover test (noting smaller lenders' supplies are input-taxed). Smaller lenders are well-placed to provide tailored products to SMEs, however, the cost of capital is resulting in anti-competitive impacts. AFIA notes that while the 'hibernation strategy' is no longer the primary focus, with many customers actively/proactively reverting to full repayments, some households and businesses will need longer support through the COVID-19 crisis and economic recovery.	• The TFF means banks have access to capital (liquidity), and in turn this means the banks can provide longer periods of forbearance to their customers. ABA announcement and banks' public commitment has set a market expectation that customers receive 6-month deferrals on loan repayments (6-month moratorium). • APRA has provided relief to ADIs regarding the treatment of 'COVID arrears' for the purpose of prudential regulation (i.e. capital treatment), this approach hasn't been passed through the system meaning smaller lenders are disadvantaged. Smaller ADIs and non-bank lenders who would like to give longer upfront repayment relief (i.e. 6-month repayment moratoriums to their customers), but would likely trigger lending covenants in funding structures related to the number of days past due (DPD) a loan is allowed to accrue before it requires the lender to contribute cash from their balance sheet. In any significant volume, this would have the consequence of causing a liquidity issue for the smaller lender – therefore, lending, and commercial restrictions prevent certain hardship assistance options. • Additional suggested solutions: o Leverage the AOFM's Forbearance SPV – fiscal solution whereby the Government through a new vehicle provides liquidity relief for deferrals of non-bank lender unsecured short term loans, such that deferred interest repayments are calculated weekly, and paid by the Government to the

Objectives	Description	AFIA members observations of the current marketplace that will be overcome if the fund is implemented
		lender, with this same amount being repaid by the lender to the Government as and when customers commence paying this accrued but unpaid interest, ideally at greater than 27 weeks from payment due date. ○ TFF discounts tied to supporting smaller lenders and encouraging senior financiers to permit a temporary breach of lending covenants, and thereby passing through the same approach to COVID arrears as being adopted by the larger lenders.
4. *Provide choice to smaller lenders*	The fund would complement the Government's other measures and ensure support for smaller lenders unable to easily access the SFSF and/or SMEG Scheme, because they fall outside the mandate or rules for these initiatives due to their existing funding arrangements and the specialised nature of their SME products, services and technologies. This is important so smaller lenders can access alternative funding sources and help reduce their overall cost of capital so they can pass these savings onto their consumer and SME customers through lower borrowing costs and longer periods of hardship assistance. Adjustments to the SFSF and the SMEG Scheme would ensure these initiatives continue to meet the needs of SMEs, however, this new fund would ensure a broader range of smaller lenders and SMEs would benefit from Government support and lower borrowing costs for the credit facilities they need.	• The Government's initiatives do not cater to all smaller lenders (non-ADI lenders, fintech lenders), as the initiatives are very much based around securitisation and structured finance abilities – not all smaller lenders have infrastructure in place to undertake securitisation or structured finance. Smaller lenders are not sure if they would be granted funding support in a public transaction by the AOFM even if they were able to invest in, and develop, the necessary capabilities – noting some AFIA members are investigating/ progressing plans to develop such capabilities.

ATTACHMENT D: STRENGTHENING CONSUMER AND BUSINESS CONFIDENCE

AFIA has identified several areas for further action and consideration to support consumer and business confidence, bring forward business investment, and leverage Australia's competitive advantages.

1. Delivering support for business investment.

AFIA members, particularly SME lenders, equipment finance, and agri-finance members welcome the Government's fiscal stimulus package to incentivise business investment, facilitate business and economic growth in the short term, and encourage a stronger economic recovery in the longer term. We note that the Australian Bureau of Statistics (ABS) reported that total capital expenditure decreased by 1.6% in Q1 2020 and the data suggests this figure is set to only worsen through Q2 2020 and beyond[17].

AFIA commentary:
AFIA believes that certain stimulus initiatives should be expanded and extended to facilitate business and economic growth and encourage a stronger economic recovery. There are several practical issues with incentivising business investment in the short term, however, longer term incentivisation will be an important feature of a business-led recovery.

The instant asset write-off scheme[18] ends on 30 June 2020 and is contingent on the relevant assets being manufactured, delivered, and installed by that date. Due to disruption in international trade, freight, and supply lines, our members have reported that delivery of purchased goods has caused delays of up to 60 to 90 days. We also note that installation of goods is also being impacted by the various rules introduced to limit the spread of the coronavirus in Australia and other countries. Therefore, many businesses will not be able to obtain the benefit of the instant asset write-off scheme if it is not extended past 30 June 2020.

Similarly, when the backing business investment scheme was announced in April 2020 many businesses went into 'hibernation' shortly thereafter. Therefore, many businesses did not have access to the benefit of the scheme.

AFIA recommendations:
- Increasing the turnover threshold of the Scheme to global revenue of $1billion or adding an EBITDA threshold of less than $50 million.
- Amending the conditions from delivery by 30 June 2020 to purchase orders placed by 30 September 2020 and installation or operation by 31 March 2021 and 30 June 2021 accordingly.
- Improving mechanisms to allow passive lessors to pass the benefit onto their lessees.
- Maximising and broadening the appeal and take up of this benefit by amending it to an instant rebate at the company tax rate, rather than a deduction against taxable income.
- Extending the Backing Business Investment from 30 June 2021 to 31 December 2021 so that businesses coming out of hibernation can access the scheme.

We believe these changes would lead to a more sustainable increase in demand from SMEs.

2. Providing cashflow assistance for businesses.

AFIA commentary:
- AFIA members, particularly small business lenders, equipment financiers, agri-finance, fintech, working capital members welcome the assistance being provided by the Government to support small businesses to manage cashflow challenges and help businesses retain their employees.

[17] http://eastandpartners.com/publications/banking-news/weakest-australian-capex-since-2009-with-more-pain-to-come
[18] http://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/Instant-asset-write-off/

- Many SME customers are experiencing immediate and significant cashflow and liquidity issues – especially in certain industries (being food, hospitality and events management, tourism, travel and aviation, and associated sectors, such a car rental).

AFIA recommendations:

- Supporting AFIA's proposal for a **Smaller Lender and Fintech Sector Fund** (see **Attachment C**).
- Establishing a fund for interest-free loans, with the program administered through the finance industry and subject to certain restrictions based on, say, vulnerable sectors, such as tourism, hospitality, and associated sectors, such a car rental, for business up to $50 million turnover.
- Encouraging States and Territories to extend support, such as:
  - Providing additional SME grants.
  - Continuing a temporary waiving of payroll tax for eligible businesses.
  - Providing smaller lenders with relief on payroll tax by increasing the threshold to $5 million for FY21 for the next two years or provide a 25% reduction cap to business with less than $50 million in wages.
  - Supporting an input credit for the GST and Luxury Car Tax paid on vehicles purchased in 2020 by members and their franchisees that can be used to improve underlying cashflow and assist prevent an influx of rental vehicles into the second hand market with a negative impact on residual prices and flow into an already stressed new car market.
  - Offsetting or reducing workers compensation insurance premiums given increased remote working.
  - Providing longer term guidance on safe work practices for remote working.

3. Extending the JobKeeper Program, potentially to targeted areas of the economy continuing to experience financial distress.

AFIA recommendations:

illion and AlphaBeta have provided market data[19] [20] that indicates retreating early from Federal measures would see a significant drop in spending among consumers. Financial assistance must be tapered and strategies for targeted, longer term support should be explored.

If consumer spending falls, businesses will need to review their wage structures, which will lead to potential further increases in unemployment, which decreases consumer confidence, which leads to decreased economic activity. Measures should seek to avoid an economic spiral, with government programs aimed at underpinning consumer and business confidence.

Programs should support industry verticals:

- That are likely to continue to experience stress (e.g. food, hospitality, events management; tourism, travel, and aviation; and associated industries, such as car rental providers), and/or
- Where investment is needed in order to stimulate growth and push the economy forward faster and/or address the trajectory of business activity re-opening in different ways and times across the economy.

The aim of this approach is maintaining consumer and business confidence to underpin restoration of employment as quickly as practical and for financiers to be a part of their continuing investment and finance needs.

19 http://www.alphabeta.com/illiontracking?utm_source=illion&utm_medium=email&utm_campaign=real-time-economic-tracker

20 http://www.smh.com.au/business/the-economy/spending-would-collapse-without-crisis-payments-to-households-20200516-p54tk8.html

4. Developing the Australian corporate bond market.

AFIA commentary:

- The Reserve Bank's recent action to broaden eligibility of corporate debt securities as collateral for domestic market operations has had an immediate impact on normalising the cost of capital and unclogging the corporate bond market. The bond market is an important source of funding for some smaller lenders.
- Historically, corporate bonds have been issued by larger companies in Australia and purchased by overseas or institutional investors. Innovations in the corporate bond market enable greater access for issuers and investors.
- Investor demand for corporate bonds should be greater, with superannuation funds and asset managers offering annuities and other wealth products, needing to have a diversified pool of assets and fixed income assets, which provide capital stability and regular interest income, particularly in a low interest rate environment. Australia's ageing population means corporate bonds are well-suited to the investment preferences for investors transitioning to retirement.
- Companies are likely to be seeking longer term funding certainty in their debt financing. Unlike equity raisings, bond issuance does not have dilutive impacts on company ownership.
- Government issuance and repo program will support development/redevelopment of the corporate bond market.

AFIA recommendations:

AFIA believes there is merit in exploring regulatory reforms to create a deep, mature and liquid corporate bond market, including disclosure and liability provisions. We support greater ability to use technologies, incorporation by reference and other methods to streamline disclosures for investors. We also support clarity regarding management requirements for documentation, which leads to unnecessary time and cost for issuance. In addition, 'simple bonds' should be issued relying on continuous disclosure requirements, rather than lengthy prospectuses, and potentially accompanied by a term sheet or similar.

AFIA notes the House of Representatives Standing Committee on Tax and Revenue[21] is examining the impact of the tax system and corporations laws on the corporate bond market, and whether there are investment biases towards other asset classes. We believe reforms should build on previous reforms to simplify requirements for corporate bonds, expand the capital raising options for corporate issuers, including smaller lenders, and improve product choice and investment diversification for investors.

5. Reducing regulatory red tape and compliance burdens.

AFIA commentary:

The COVID-19 pandemic has resulted in the temporary easing of regulatory requirements to enable businesses to accommodate alternative ways of doing business and continue to support their customers.

The Federal Government and financial regulators have taken various actions to address immediate legal and regulatory issues to ensure business continuation during the COVID-19 crisis, including formal and informal regulatory relief. It is essential for lenders to be able to concentrate on the immediate priorities, therefore we welcome temporary measures that will ensure lenders can facilitate the provision of credit and conduct other business activities to ensure they continue to service their customers through this difficult time, including provision of information, guidance and hardship assistance for customers, as fast and easily as possible. We believe these measures should be adopted permanently.

Similarly, the more collaborative and agile working mode of the Australian Governments has led to the end of the Council of Australian Governments (COAG), to be replaced with a more focused purpose and reform agenda.

[21] http://www.aph.gov.au/Parliamentary_Business/Committees/House/Tax_and_Revenue/CorporateBondMarket/Terms_of_Reference

We note the Government's work in deregulation reform with changes made to the food and agriculture, hospitality and other industries[22] and urge the Government to continue to look at ways to reduce the compliance burden on Australian businesses so these businesses can remain competitive and continue to innovate. We support a targeted and streamlined reform agenda.
We also note the statement by the Council of Financial Regulators[23] and the Australian Financial Complaints Authority (AFCA) regarding their 'facilitative and constructive' approach to regulation and modifying its approach to regulation and dispute resolution to take into account the unprecedented circumstances that lenders have operated in during the COVID-19 crisis[24].

Specifically, we commend the Federal Government and regulators for:

- Agreeing to temporary measures that will ensure lenders can facilitate the provision of credit and conduct other business activities to ensure they continue to service their customers through this difficult time, including provision of information, guidance and hardship assistance for customers, as fast and easily as possible.
- Deferring certain regulatory reforms for 6 months, particularly the comprehensive reform program in response to the recommendations made by the Financial Services Royal Commission. The deferment will allow lenders and finance businesses to continue to focus on supporting their customers and employees and continue their operations in a sustainable way.
- The temporary amendment of continuous disclosure laws to enable listed companies to provide earnings guidance more confidently without being exposed to the threat of class actions.
- Allowing for the postponement of AGMs and allowing for AGMs to be held online, which allows for compliance with social distancing rules and provides for flexibility for members through this period.
- Amending the Electronic Transactions Act and its counterpart in each state to facilitate the execution of documents electronically – which has allowed for the finance industry to continue to enter into transaction and provide finance through this period.

AFIA will work with stakeholders to ensure that the legal and regulatory settings imposed on lenders promote market efficiency, competition and innovation, and consumer protection, and unnecessary obligations are permanently removed to promote the use of technology, such as electronic disclosures to customers, virtual corporate meetings, electronic loan origination, settlement, etc.

AFIA recommendations:

- Supporting digital transformation across our economy through digital identification and specifically efforts to embed digital ID, electronic signatures and similar across government and business transactions. For example, various Federal and state statues require 'wet signatures' or similar to facilitate transactions. A review should be conducted to identify and update legal obligations to allow digital ID in Australia.
- Reviewing the Corporations Act, and other financial services statutes, to remove obligations that require lenders to provide written communications and disclosures to customers and/or to shareholders to comply with companies and financial services laws as supported by ASIC's Regulatory Guide 221. (We note the Financial System Inquiry and Treasury responses[25] and the Productivity Commission and Treasury reviews on simplifying Corporation Law requirements and facilitating innovative disclosures – we recommend regulatory reforms from these reviews could be reinstated.)
- Harmonising laws across States and Territories to streamline powers of attorney and create a central registry for instruments. (We note the Australian Law Reform Commission review of elder abuse and the Royal Commission into Aged Care Quality and Safety. Several recommendations from these and other reviews to improve cross-jurisdictional protections and help protect the financial wellbeing particularly of older Australians could be progressed by the National Cabinet.)

[22] http://www.pm.gov.au/media/new-measures-delivering-deregulation-australian-business
[23] http://www.cfr.gov.au/news/2020/mr-20-01.html
[24] http://www.afca.org.au/news/media-releases/afca-sets-out-how-it-will-work-with-regulators-consumers-and-industry-taking-account-covid-19-challenges
[25] http://treasury.gov.au/sites/default/files/2019-03/p2014-FSI-01Final-Report.pdf

Furthermore, we recommend that, in the coming weeks, months and years and in the road to recovery, the financial regulators and AFCA, in their approaches to any action including complaints management, consider the enormous impact the COVID-19 crisis has had on lenders as well as the quick and decisive action that these lenders have had to take to continue to support customers and to provide relief to those customers impacted by the crisis.

ATTACHMENT E: SUPPORTING ACTIONS FOR URBAN AND REGIONAL ECONOMIES

Australia's economy is highly interconnected, with urban and regional locations dependent on cross-sector business activity and supply chains, particularly in the most COVID-19 impacted parts of our economy – tourism, travel, aviation, including car rental, manufacturing and retail, as well as food, hospitality, and events management.

The increased uncertainty and interconnectivity of businesses across the supply and value chain through advancements in technology and globalisation means a ripple effect has been created, which is likely to be significant and longer term.

This is also highlighted in the GDP data. In line with predictions, GDP in the March quarter of 2020, saw the Australian economy contract by 0.3% while annual growth fell by 1.4%. This contraction, which contrasts with a 0.5% growth in the prior quarter, is the first decline in GDP since the March quarter 2011[26]. A second quarter of negative growth is expected in the June quarter, with Australia in a recession and an end of nearly three decades of continuous growth.

Key data from the National Accounts – March Quarter reinforces our recommendations (below) as it highlights that the biggest spending falls were in those areas most severely affected by travel and social distancing restrictions such as travel, restaurants and cafés, and arts and recreation.

AFIA recommendations:
AFIA believes that economic recovery plans need to target leveraging existing economic successes, reinventing existing businesses and industries to adopt and adapt technology, and rebuilding essential economic connections. Therefore, AFIA strongly supports Government and industry initiatives that kickstart those parts of our economy that have a multiplier effect across our urban and regional centres – for example, food production and agricultural businesses in regional areas are important supply chains to hospitality businesses in our cities.

Investing in building Australia as a financial and technology hub

AFIA notes the reports prepared by Mark Johnson in 2009 and 2016 about creating Australia as a financial services centre and the initiatives, reforms and investment incentives required to promote and export Australia's financial services. Australia is highly regarded for the innovative nature of our financial service providers – how they continue to adapt and improve the customer experience, move deeper into digital offerings and tailored solutions, and continue to meet customer demands, which are increasingly being focused around speed of service coupled with customer relationships. Several of our members are examples of our global success. Digital transformation has been accelerated due to COVID-19, with businesses now adapting and adopting technology as part of their business model. This is an opportunity for fintech to support improved productivity.

[26] Australian National Accounts: National Income, Expenditure and Product, March 2020

Supporting primary producers and farmers in rural and regional areas

AFIA notes various initiatives responding to natural disasters, including drought, bushfires, and floods. Our members advise that the conditions for many primary producers and farmers, particularly in NSW, is improving with the hope of higher crop yields next year. Crop finance will be important, however, government grants and assistance will be needed to support immediate cashflows for many primary producers and farmers. Business assistance will also help build/rebuild and improve enterprise management and export capability, this is particularly important as global trade risks emerge that are likely to impact negatively on Australian agricultural exports. We also support clean energy finance, noting several our members are leaders in this finance and technology.

Reviving, investing in and supporting the Australian manufacturing sector

AFIA notes the National COVID-19 Coordination Commission is focused on strategies to support and invigorate Australia's manufacturing sector, with considerations being given to investments that centre around new and emerging technologies, such as 3D printing, automation (i.e. driverless cars and robotics), the 'internet of things', smart factories, servitisation[27], AI, machine learning and virtual reality.

As our smaller lenders have the skills and capability to understand these nuanced sectors of the manufacturing industry (say through the provision of asset finance or working capital solutions), they will be integral in supporting the financing of the sector through innovative equipment and supply chain financing arrangements.

As part of the revitalisation of Australian manufacturing, we recommend a review of tax, energy, industrial relations and government procurement policies with considerations to be given to changes involving broadening and increasing the GST in exchange for lower company and personal income tax rates, the requirement for 25% of government procurement (including defence/biotech etc) to be locally sourced[28], consolidation research and innovation funding, including closer Federal and state co-operation to promote start-ups and establish tech clusters, and deeper collaboration between business and research bodies. This will allow us to learn from the UK experience[29].

Supporting the retail and motor sectors

The Australian retail and motor sectors have faced significant competition and changes to their business models over recent time. Both will be integral to re-open the economy in a measured and safe way so as to build consumer sentiment and confidence. The finance associated with supporting these industry verticals and potential regulatory changes has been foreshadowed in the Financial Services Royal Commission Roadmap. As part of any plan looking at how recommendations are implemented, it will be critical to ensure that any solution properly balances consumer protection with potential over-regulation, which leads to decreased access to finance for these key sectors.

[27] Servitisation is the process of building revenue streams for manufacturers from services.

[28] We note that Queensland will be the first state in Australia to set a target to buy from more local small and medium-sized businesses, from July 1, Queensland will introduce a new target with 25% of all government purchases to be from Queensland small and medium sized businesses with the target to be extended to 30% by 30 June 2022: http://statements.qld.gov.au/Statement/2020/5/30/palaszczuk-government-boosts-support-for-queensland-small-and-medium-businesses

[29] UK has specialised in higher technology-based industries (e.g. pharmaceuticals and aerospace), this has been driven by technology and non-technological innovation and investment in skills, knowledge as well as branding, software, marketing and training which has led to new, between quality and more sophisticated products and more innovative business models and processes. The UK Government has made significant investment in manufacturing innovation projects: https://www.gov.uk/government/news/over-18-million-to-go-to-manufacturing-innovations as well as transformational digital technologies to improve design and production processes https://www.pwc.co.uk/industries/assets/2019-annual-manufacturing-report-final-web.pdf with the UK setting up the Made Smarter Commission – which is intended to drive digitalisation of the sector: https://www.madesmarter.uk/governance-partners

Supporting food, hospitality, and events management in CBD locations

AFIA notes the interconnectivity between urban and regional economies, with benefits to be multiplied where recovery targets support for these connections and supply chains. For example, many regional businesses provide food and other supplies to the hospitality sector and businesses located in our cities. Additionally, many in the arts and entertainment sector are connected to the hospitality sector in our urban and regional locations.

Support for initiatives to fast-track COVIDSafe re-opening of restaurants, cafés, licensed premises, and events will mean regional businesses and the arts and entertainment sector will also see the economic benefits. The national framework agreed by the National Cabinet was an important step in re-opening our economy and providing the parameters for the States and Territories to make decisions based on their circumstances. The reality is that social distancing measures will impact on hospitality businesses across Australia for some time, and potentially until a vaccine is produced and widely distributed.

Therefore, it will be important for restrictions to be eased that permit 100 (and then 100+) patrons and remove the 1 person per 4sqm rule (replaced with alternative measures and supported by the 1m/1.5m social distancing rule) as soon as practical so these businesses can re-open and for operational plans prepared by the industry to be shared more broadly with other businesses as soon as possible, so they can make appropriate plans to ensure safe participation by their employees and support economic recovery in the sector. We note that developments in New Zealand are likely to be useful to inform longer-term rules in Australia.

Supporting regional development and tourism

AFIA notes that regional economic recovery will be closely linked to urban economic recovery, with many regional businesses in the supply chain servicing the food, hospitality, and events management industry in urban locations.

In addition, supporting domestic and regional tourism will be an important part of any regional development plan, with consideration to be given to domestic tourism campaigns, promoting regional Australia as a tourism destination, revamping and re-invigorating National Parks and Wildlife websites to make it easier for tourists to search for accommodation thereby strengthening the connection between regional destinations and residents in both capital cities.

Car rental providers will be an essential component of this recommendation. The car rental sector has been severely impacted by the COVID-19 crisis. Specific sector support is needed, including:

- Relief on registration, stamp duty and taxes for new car registrations until at least 1 January 2021 and then review the situation depending on what happens in the intervening period and easing restrictions.
- Refunding registration costs on deregistered vehicles without car rental providers having to physically hand back all number plates.
- Not requiring a roadworthy assessment before re-registering all cars and vehicles that are currently registered, noting cars and vehicles in these rental fleets are new.

AFIA has been successful in getting agreement on these support measures for car rental providers from the Queensland and Tasmanian governments. The Victorian Government has agreed to aspects but is now reconsidering the package. The South Australian Government had already substantively implemented our recommendations and the Western Australian Government is still considering our package but recognises the need to support the car rental providers as part of boosting tourism longer term. The NSW Government is considering the package.

ATTACHMENT F: BUILDING A MODERN AUSTRALIAN ECONOMY

AFIA believes that the finance industry has the expertise to support a transition to a modern economy, which will be important in a post COVID-19 world. A modern economy needs to be focused on planning, investment, and sustainability.

Elements to be considered in a modern economy include:

- Planning, property, and infrastructure – design and use requirements for working and living spaces – we note a post COVID-19 environment is likely to be very different, with our population connected in different ways. This will impact public transport, entertainment, commercial property and workplaces, retail, and public areas and there needs to be better integration between land use and investment planning.
- Agriculture and manufacturing – production and distribution of goods and services has been disrupted by the COVID-19 pandemic, with businesses restructuring and transforming overnight. Customer demand and business dynamics are unlikely to revert. Business processes are likely to integrate with more direct channels. Financial services and technology will underpin productivity and efficiency gains across other industries. For example, robotics in the medical industry, 3D printing in manufacturing household goods, and AI to provide real-time customer service across industries.
- International trade and finance – we anticipate that there will be adjustments from pre COVID-19 globalisation. This will impact international imports and exports as well as domestic supply chains.
- Water and energy policy – the COVID-19 pandemic has seen a significant intertwining of health/social, economic and environmental risks – we note the various natural disasters impacting Australia prior to the COVID-19 crisis focused decision-makers and the public on the importance of identifying and mitigating risks to our natural resources as well as ensuring preparedness for managing future natural disasters. Sustainable water and energy supplies are essential to support more efficient economic activity as well as new ways of living for citizens with energy policy being crucial to lower energy costs to support the re-emergence of the Australian manufacturing sector. Securing supply of affordable energy for the domestic market will be integral in the revitalisation of many domestic industries.
- Investing in both traditional and non-traditional research and development (R&D) – investment in innovation activities including traditional and non-traditional R&D in a large number of sectors, such as biotech and pharmaceuticals will be integral to ensure that the Australian economy grows and can withstand future crisis. Consulting firm PWC highlighted that the Australian level of R&D spending had room for improvement pre-COVID-19[30], with the country spending only 1.9% of GDP. This figure is on the low end compared with other similar economies and is below the Organisation for Economic Co-operation and Development (OECD) average. The economic benefit to Australia from R&D investment is characterised by increased employment and increased export income, a more educated population, higher paying jobs, greater knowledge transfers, and greater tax revenue for the government from employees and companies. We support Innovation and Science's Report into Stimulating Business Investment in Innovation,[31] particularly noting that there is a role for government to coordinate, facilitate and act as a catalyst for innovation, and develop new markets for businesses, through grants and other support mechanism, including public private partnerships, for example, through financing arrangements for innovation from innovative smaller lenders.
- Leveraging technology to support the recovery and produce lasting change – virtually overnight, businesses have undergone transformational change through supporting customer demands via digital and omni channel, reconfigured supply chains, licenses, and equipment to support remote work and reframing workforce collaboration. Investment in technology and technology policy to support workers, consumers and supply chains will need to continue to accelerate the recovery. Focus and investments should be on enhancing digital innovations and presence, modernising customer support operations, scaling automation pilots, and creating resilient IT architecture.[32] As part of this, it will be important for the Government to provide support and create an environment where both the public and private sectors are making those integral investments.

[30] http://www.pwc.com.au/important-problems/australia-rebooted.pdf
[31] http://www.industry.gov.au/sites/default/files/2020-02/stimulating-business-investment-in-innovation.pdf
[32] http://www2.deloitte.com/au/en/pages/covid-19/articles/shaping-the-future-through-digital-business.html

- Reskilling and upskilling for disrupted industries – we support the need to reskill existing workforces as we face a fundamental shift in the skills required of employees. Accelerated digitisation, coupled with remote ways of working, means reskilling and upskilling is required. Prior to COVID-19, 75% of businesses reported they were concerned about shortages of digital skills within their industry. While Australia has helped grow its skilled workforce through immigration, we may not be able to rely on this post-COVID-19. Investment in education in targeted at areas of national demand, including information technology, engineering, and mathematics through online learning platforms.[33]
- Financial wellbeing – we believe that economic and social participation are essential for financial wellbeing. The finance industry will play a critical role in supporting households and businesses adjust to the new normal and navigate the decisions they will need to make about their pre and post retirement consumption, including through the COVID-19 crisis. We support the Government making financial advice tax deductible like other professional services, i.e. tax advice. We note the Government (and/or ASIC) could partner with the finance industry to provide financial literacy solutions, particularly as unemployment is impacting a broader range of individuals and families, which is putting pressure on traditional social security and community services, and noting the excellent work done by ASIC through the MoneySmart program.

AFIA Recommendations

With this in mind and in addition to specific recommendations about creating Australia as a financial and technology hub, we make the following recommendations:

1. Initiatives specifically targeted to restoration of communities and economies due to the recent drought, bushfires, and floods as part of regional development and recovery responses.
2. Incentives to leverage global capability, foster customer demand, and create sustainable markets. Our initial thoughts include:
    a. Mining and resources – critical sector modelling conducted to identify comparative advantage mineral production, noting Australia maintains trade advantages, but noting the COVID-19 crisis will impact production and trade of commodities.
    b. Major infrastructure projects – making new investments and bringing forward capital expenditure projected in previous budget commitments, with a focus on infrastructure and community projects across Australia, and ensuring also that there is an integration of land use and investment planning through investing in mechanisms such as city deal models, collaboration areas and innovation districts which are demonstrating improved place outcomes[34].
    c. Property – identify how tax and development incentives can help support consumer demand and domestic and foreign investment in the property sector, particularly to offset the impact of changes in immigration.
    d. Telecommunications, transport and logistics – identify road, rail, aviation and maritime options for supply chains to integrate public and commercial transportation requirements and integrate with renewed thinking about better use of telecommunications and interactive service delivery, noting lack of reliable, efficient and affordable options for regional communities, which exacerbates access to services, such as health and education and hampers the development of and investment in resources projects for the supply of domestic and international markets. Investments in areas such as rail and roads will improve mobility which will in turn improve liveability, unlocking economic value and social prosperity, enhancing sustainability, and boosting safety.
    e. Agriculture and manufacturing – identify how technology can be embedded in businesses to deliver productivity and efficiency gains, supported by AFIA members that are asset and equipment finance specialists. Additionally, markets can be better used to manage current and future water risk.
    f. Energy – finance clean, renewable, affordable and alternative energy initiatives for households and businesses, develop market-based solutions to address the challenges in energy composition, production and supply, and support and incentivise transition in tradition energy markets, supported by AFIA members that are specialists in the energy market. Additionally, markets can be better used to manage current and future emissions and climate-related risk.

[33] http://www.pwc.com.au/important-problems/australia-rebooted.pdf
[34] http://www2.deloitte.com/au/en/pages/infrastructure-and-capital-projects/articles/taking-precinct-approach-infrastructure-development.html

g. Fintech – investment to match states funding commitments and as part of creating Australia as a financial and technology hub.
h. Workforce skills – investment in online educational programs to address skills shortages and maximise labour utilisation, with businesses taking up technologies, including robotics, 3D printing, and AI, and the shift in workforce and labour requirements.
i. Traditional and non-traditional R&D – new policies that support local R&D will be needed[35], with further investment in R&D through grants and other business support programs including public/private partnerships to fund innovation programs.

ATTACHMENT G: ENABLING INDUSTRY TO SAFELY RE-OPEN

AFIA members took early action to support their employees and customers, making arrangements to shift their business operations, keep servicing their customers, and ensure their people were actively employed. Many of our members instigated their business continuity plans in early February, staging the implementation of changes to minimise the impact on their businesses.

Unfortunately, some of our members had to undertake business restructuring to protect their businesses, which resulted in job losses, particularly those established businesses already and directly impacted by travel restrictions and social distancing measures as well as those emerging sectors that would now not realise high-growth business forecasts.

Additionally, some of our members advise that their business customers in the tourism, travel and aviation industry and food, hospitality and events management industry became immediately financially distressed, with cashflow, repayment, and other financial pressures. These businesses have been undertaking business restructuring, temporarily or permanently reducing their workforce, adjusting, suspending, or closing operations, but are now looking at opportunities to re-open. Social distancing measures will obviously define the extent to which these businesses will be able to operate, noting these industries are particularly critical to Australia's economy.

Business continuity plans

AFIA and our members business continuity plans include:

- Introducing workplace practices consistent (and in many cases above and beyond) Federal and State government and Chief Medical Officer directions to ensure workforce health and safety
- Adopting distributed working arrangements, including rostering and/or remote/teleworking
- Ensuring key personnel were distributed therefore lower the probability of coronavirus cross contamination
- Diverting resources and reprioritisation of their workforce towards high demand services, including customer contact centres
- Announcing and implementing support packages for customers, including repayment relief and hardship assistance
- Scaling up credit, risk, and operational management, including mitigating funding and supply chain vulnerabilities
- Developing a risk assessment matrix specifically for COVID-19 illness with action lists based on risk level (suspected, confirmed, cluster)
- Increasing the frequency of remote interactions with key regulators, such as ASIC, and other stakeholders, such as AFCA, and consumer advocates to ensure improved crisis communications and coordination, including raising understanding of how lenders are working collaboratively with their customers and how others are interacting with their key constituents
- Implementing employee support and counselling programs and where practical, making these services available to customers
- Implementing WHS protocols including:

[35] http://home.kpmg/au/en/home/insights/2020/05/predictions-after-covid-19/supply-chains-manufacturing-become-local-agile-smart.html

- Hand sanitisers in all common spaces
  - Clean desk policy with regular office cleaning of all surfaces
  - All external meetings cancelled
  - All work travel cancelled
  - Medical clearances for return to work
  - Signage in all workplace areas, including toilets
  - Social distancing in meeting rooms, common spaces, and lifts/stairs
- Developing and publishing resource kits, materials, online training, and other guidance for customers, employees, and others, and
- Testing scenarios and other contingencies with their business operations, customer base and workforce.

Initial return to work plans

Return to work plans are evolving and will be heavily dependent on Federal and State government decisions, health and workplace safety advice, and more detailed plans around public transport and movement – in particular as it relates to CBD locations.

Initial plans for returning the workforce to the office involve a combination of actions including:

- Surveying people to determine demand for a return to the office
- Maintaining distributed working arrangements to minimise pressure on public transport and address employee concerns with safe travel to and from work
- Developing a staged approach to returning to work, with flexibility to respond to changing scenarios (i.e. infection rate reversion)
- Training for leaders/managers to oversee hybrid teams (i.e. remote/teleworking plus in office)
- Introducing new employee support programs, ranging from providing free city parking for those employees seeking to avoid public transport, recognising the likely impact on traffic congestion, providing additional and free physical and mental health services (exercise programs, telehealth appointments, etc)
- Staggering start times for employees returning to work to minimise pressure on public transport and access to buildings
- Allocating employees to cross functional teams and alternating attendance week on/week off to maintain appropriate social distancing measures and manage other risks
- Expanding video conferencing facilities with less reliance on domestic travel for business purposes
- Ensuring inhouse temperature and health checks for employees attending the office
- Reviewing policies around sick leave and carers leave, noting likely increases to meet individual and family requirements
- Undertaking more regular office cleaning programs, and
- Continuing to remote working unless key meetings need to be held in the office, noting many finance businesses have banned travel and meetings for their employees, with these bans being reviewed, but currently being maintained.

AFIA recommendations: Actions to support employees return to work

AFIA has made several recommendations to the NSW Government, and would encourage the National Cabinet to consider similar actions as part of safe return to work plans:

1. Where practical, continue to align and coordinate key policy actions, public messages, and timing of implementation through the National Cabinet. This approach recognises the interconnectivity of States and Territories as well as urban and regional economies across Australia.
2. Coordination between SafeWork Australia, state agencies and major commercial property landlords to examine and identify appropriate and workable plans to overcome challenges with restrictions on public transport and building access, which may result in employers delaying their employees return to work, and undermining actions to stimulate business activity in the food, hospitality and events management industry and re-open our economy.
3. Agreement on, and communication about, timelines for re-opening of state borders – it will be important for business activity to be rebuilt based on clear parameters and timeframes, and without inappropriate constraints on cross-jurisdictional business and interstate workforces.

While this approach is critical for businesses more generally, the finance industry also needs to make its own plans based on forecasts and other modelling for economic activity that impact on loan origination and other business activity for lenders.

4. Introduce initiatives to ‘test and learn’ population movement strategies and making changes to ensure CBD locations are more pedestrian and bike friendly.

We would be happy to provide further information about recommendations relating to States and Territories, understanding this relates to workplace health and safety, social distancing, and travel restrictions.