3 July 2026

Ms Danielle Wood
Chair
Productivity Commission

By email only: BusinessDynamismInquiry@pc.gov.au

Dear Ms Wood,

Arca submission to Reducing barriers to business dynamism in Australia inquiry

Thank you for the opportunity to provide a response to the **call for submissions** to the Productivity Commission's inquiry into Reducing barriers to business dynamism in Australia (the **inquiry**).

Arca is an industry association focussed on the use of data for credit and risk management. We bring together Australia's leading credit providers and credit reporting bodies to improve data protection and use and to make credit more visible, accessible and easily understood. Our vision is to make credit work for all Australians. While Arca's Members collectively account for the vast majority of consumer lending in Australia, many of our Members also lend to business customers. We also engage with specialist commercial-only credit providers in our subsidiary organisation's role as administrator of the Principles of Reciprocity and Data Exchange.

Our submission focuses on the ability of businesses to access capital outside of capital markets, which the Productivity Commission has identified as an issue it will consider.

We raise two issues which affect the lending to small and medium enterprises (**SMEs**), specifically:

- The rules around accessing repayment information in Australia's (consumer) credit system, which prevent specialist SME lenders from accessing the same information as their competitors; and
- The absence of a tailored credit reporting system for SMEs.

These issues reduce competition amongst lenders and affecting the availability of finance for SMEs. Improved access to capital would support a better operating environment for Australian businesses, including supporting entrepreneurialism and business dynamism.

Credit reporting improves access to finance

Like other developed economies, Australia's credit market is supported by a consumer credit reporting system, under which:

- Credit providers (**CPs**) share certain types of data about their customers and the loans they have provided to credit reporting bodies (**CRBs**);
- CRBs securely hold this information, and for each consumer develop a rating or a score which is an indication of the relative creditworthiness of that individual (i.e. the risk that that consumer will default on a further loan); and
- CPs then access this information (including the CRB score or rating) – including information supplied by other participants – for limited purposes, including to allow them to assess whether to approve an application for credit or to offer assistance to customers at risk of defaulting on their loans.

In this way, the credit reporting system provides an easy to access, objective source of truth for credit providers assessing new loan applications and managing their existing portfolios. It empowers CPs to make better lending decisions, extend credit to debtors who would not otherwise receive loans[1] and to support their customers during times of hardship. Australia's credit reporting system exists to address information asymmetries which otherwise prevent the efficient operation of the credit market, and as such is an important piece of the nation's economic infrastructure.

International bodies such as the World Bank and the OECD have recognised the important role of credit reporting and how it can benefit borrowers and support productive use of capital.[2] The benefits of a 'comprehensive' credit reporting system – one which contains positive data about loans and repayments – has been recognised by the Australian Law Reform Commission, the Financial System Inquiry,[3] and the Productivity Commission.[4]

Recent evidence collated by Arca found that comprehensive credit reporting has led to:

- **Higher, better credit scores:** Once comprehensive data is considered, more individuals are seen as a lower credit risk, receiving higher credit scores and better access to loans. Those scores are themselves better predictors of risk, giving credit providers greater comfort to lend and allowing better decisions.
- **Improved financial inclusion:** Comprehensive data has supported higher approval rates, giving more consumers access to credit. This includes loans to those with previous defaults: credit providers will now lend based on recent positive behaviour. The comprehensive data has also supported innovation, which means that previously customers ineligible may now receive a loan offer of some form, and that the lowest risk borrowers can receive cheaper credit.
- **Faster decisions and simpler applications:** Fewer complex steps need to be taken by loan applicants, with fewer information requests and fewer files needing extensive reviews.
- **Improved competition:** Smaller, innovative credit providers have been able to enter the market and compete using comprehensive data, which places downward pressure on prices. More competition also drives improvements to service delivery and user experience.

Although Australia's credit reporting system relates to consumer lending, the data it contains is also relevant to lending to SMEs, especially new businesses. For many new SMEs, the consumer credit history of the directors is especially relevant to their creditworthiness, and/or the distinction between 'consumer' and 'commercial' history is blurred given the SME owners home is often the primary security.

While comprehensive credit reporting system provides clear benefits for borrowers, they are not made available to many SMEs. These sorts of benefits could be better leveraged for lending to SMEs if the following two issues were addressed.

Issue 1: Unequal access to repayment information affects SME lending

Australia's comprehensive credit reporting system contains information about whether an individual has met their payment obligations for a given month. However, this information, known as repayment history information (RHI), is only able to be supplied and accessed by lenders who hold an Australian credit licence (i.e. those who lend to consumers).

Where the CP provides both consumer and commercial lending, it will hold a credit licence and can access RHI in the context of SME credit (for instance, for the individual director or guarantor of the SME). The financial standing and behaviours of a SME's directors and guarantees are essential inputs for lenders determining whether to lend and if so, on what terms.

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[1] There is significant empirical research evidencing the fact that sharing data increases access to credit. **Turner and Varghese** (2010) found that "The sharing of positive data significantly increases credit access while reducing the share of non-performing loans in a portfolio" (p32).

[2] See the World Bank's **General Principles for Credit Reporting** and the OECD's **The Economic Consequences of Consumer Credit Information Sharing: Efficiency, Inclusion and Privacy**.

[3] **Financial System Inquiry: Final Report** (2014) pages 190-192. We draw particular attention to the publications quoted at footnotes 106 and 107 on page 191.

[4] See, for instance, the Productivity Commission, **Data Availability and Use**, Report No 82 (2017), pages 20, 102-103 and 555-558.

However, commercial-only lenders do not hold credit licences, and are unable to access RHI to determine whether to provide that same SME with credit. These rules place commercial-only lenders at a significant commercial disadvantage when compared to other credit providers, hampering competition. The ultimate cost of the restriction is borne by the SME, who experiences more limited access to credit and/or a slower and more complicated application process.

Arca has long advocated for removing the credit licence restriction for accessing and removing RHI, on the basis that doing so would improve financial inclusion for Australian consumers.[5] However, there are also real benefits available for the SME lending market and, in turn, small business's ability to access capital. Even if the RHI restrictions are not fully removed, at a minimum they should be tweaked to provide a more level playing field for commercial-only lenders seeking to provide appropriate finance to SMEs.

Issue 2: No tailored credit reporting regime for SMEs

Australia's comprehensive credit reporting system only incorporates data relating to consumer lending.

Designing and implementing a credit reporting system for small business lending has the potential to generate the same benefits for SMEs as the ones that have been realised for consumers, namely:

- Improved access to appropriate credit;
- Simpler application processes and faster decisions; and
- Improved competition and innovation in small business finance.

The productivity Commission's own research has shown that using new technology and data sources has supported lending to SMEs - establishing a credit reporting system for the sector would further support SME lending and business dynamism.

Designing a credit reporting system for small businesses will be a substantial piece of work, and designing some of the detail may detract from other areas of focus of this Inquiry. As such, we suggest that the Productivity Commission examine the potential benefits of greater data use supporting access to capital and, if appropriate, make high level recommendations about the need for further focused work. A taskforce made up of industry, Government and small business participants may be the best vehicle for considering the design, dataset and sharing arrangements for a SME credit reporting system.

Thank you once more for the opportunity to make this submission. Please feel free to contact Arca if you have questions or would like further information.

Yours sincerely,

Richard McMahon

General Manager – Government and Regulatory

[5] See Arca's submission to the Review of Australia's Credit Reporting Framework at pages 84 to 87.