Australian
Finance
Industry
Association

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Ms Danielle Wood
Chair
Productivity Commission
Level 8, Two Melbourne Quarter 697 Collins Street
Docklands Vic 3008
Via email: BusinessDynamismInquiry@pc.gov.au

Dear Chair

PC INQUIRY INTO REDUCING BARRIERS TO BUSINESS DYNAMISM

The Australian Finance Industry Association (AFIA) is the only peak body representing the entire finance industry in Australia.[1] We appreciate the opportunity to respond to the Productivity Commission's (PC's) inquiry into reducing barriers to business dynamism in Australia.[2]

We represent over 150 members, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

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[1] Australian Finance Industry Association (afia.asn.au).
[2] Productivity Commission, *Reducing barriers to business dynamism*, 29 May 2026.

INTRODUCTORY COMMENTS

AFIA members play an essential role in the efficient allocation of capital across the economy, supporting the investment, resilience and growth of Australian businesses and particularly small and medium-sized enterprises (SMEs).

A competitive and diverse lending ecosystem is itself an important driver of business dynamism. While banks remain central to Australia's financial system, non-bank lenders, specialist financiers and fintech lenders have become increasingly important sources of SME finance. These providers often serve businesses that fall outside traditional credit models, including younger businesses, sole traders, technology-enabled businesses and businesses with limited property-based collateral. By increasing competitive pressure, expanding product choice and improving access to finance for underserved segments, non-bank and specialist lenders contribute directly to business formation, growth, innovation and productivity.

This submission focuses on SME access to finance as a core enabler of business dynamism. The Commission's call for submissions identifies barriers to business entry, expansion and exit, including regulatory and administrative burdens, access to capital markets, and businesses' ability to access finance outside capital markets, including through bank finance. AFIA strongly supports this focus. With 97% of businesses classified as "small business" across our economy, improving SME access to timely, appropriately structured and competitively priced finance is one of the most direct and practical ways to strengthen business entry, scale-up, innovation, capital deepening and productivity across the Australian economy. [3]

Productivity growth depends on businesses being able to adopt new technologies, invest in equipment and systems, manage cashflow volatility, and respond flexibly to changing market conditions. Those outcomes depend on a well-functioning and competitive finance system. Smaller businesses need access to working capital, equipment finance, technology finance, invoice and cashflow finance, and other specialist products if they are to invest and grow their businesses. Therefore, SME access to finance is not simply a financing issue, but a productivity and dynamism issue, which sits squarely within the Commission's terms of reference.

Australia's productivity challenge is increasingly concentrated in the "long tail" of smaller businesses, particularly in service sectors where improvements depend less on large-scale frontier innovation and more on the diffusion of technology, digital capability and better management practices. These are precisely the investments many SMEs struggle to fund. Smaller businesses often face higher financing costs, more limited collateral, shorter operating histories and greater administrative friction in the lending process, leading them to delay investment, underinvest in modern tools, or forgo growth opportunities.

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[3] Australian Small Business and Family Enterprise Ombudsman, *Number of small businesses in Australia*, citing ABS *Counts of Australian Businesses, including Entries and Exits*, Table 13, August 2025.

These SMEs are also sensitive to market conditions, with supply, trade and other disruptions having a disproportionate impact, especially as they scale up.

AFIA members see this challenge directly. Specialist SME lenders, non-bank lenders, fintechs and equipment financiers provide the forms of finance most relevant to modern small business needs: unsecured business loans, equipment and asset finance, embedded finance, invoice finance and fast turnaround cashflow facilities. These products serve SMEs that do not fit traditional bank credit models or lending criteria, including sole traders, microbusinesses, younger businesses, businesses with volatile income patterns, and businesses in service sectors, where intangible investment is critical.

The growing role of non-bank and specialist lenders is especially important in the current environment. AFIA's earlier productivity submission noted Reserve Bank evidence that small businesses continue to face challenges obtaining finance on terms that suit their needs, but that access to finance has improved over the past year, with credit becoming cheaper and more readily available, including unsecured credit or credit secured by non-physical assets. The RBA also attributed this improvement in part to stronger competition in the business lending market.[4] This is highly relevant to business dynamism, because businesses most likely to face financing frictions are often also those most likely to benefit from newer, more flexible, data-enabled lending models. Stronger competition and diversity in SME lending channels therefore support both better finance outcomes and stronger dynamism outcomes.

THE IMPORTANCE OF FINANCE TO BUSINESS DYNAMISM

Access to finance should be recognised as a foundational enabler of business dynamism. Businesses require capital at every stage of the business lifecycle: establishment, expansion, innovation, succession planning, restructuring and exit. Where finance markets function effectively, businesses can pursue productive investment opportunities, adopt new technologies and respond to changing market conditions. Where finance becomes constrained, business formation slows, investment is delayed and productivity growth weakens.

This relationship is particularly important for SMEs. Unlike larger businesses, SMEs generally have limited internal funding sources and limited direct access to capital markets. Therefore, external finance plays a critical role in enabling investment in vehicles, equipment, technology platforms, digital systems, workforce capability and working capital.

Therefore, the Commission's focus on business dynamism should encompass not only the regulatory settings that apply directly to businesses, but also the regulatory and policy settings that affect the availability, cost and diversity of SME and commercial finance. A financing system that supports entry, innovation and growth is a necessary condition for a more productive and dynamic economy.

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[4] Nick Harvey, Sharon Lai and Josh Spiller, 'Small Business Economic and Financial Conditions', *RBA Bulletin – October 2025*, (23 October 2025).

THE ROLE OF NON-BANK AND SPECIALIST LENDERS IN SME FINANCE

Non-bank and specialist lenders are a critical component of Australia's SME finance ecosystem. These providers expand lending capacity, increase competitive pressure, drive product innovation and serve segments of the market that may not be effectively reached through traditional banking channels.

The use of alternative credit assessment methodologies, digital delivery models and sector-specific expertise allow non-bank and specialist lenders to provide finance more quickly and efficiently than traditional lending models permit. This is particularly important for SMEs seeking working capital, equipment finance, technology investment funding or cashflow solutions.

The growth of non-bank lending has contributed to greater competition within financial services and broader access to finance for businesses. In many cases, these lenders support businesses that are growing, investing and creating employment but whose characteristics may not align with conventional bank credit frameworks.

Policy and taxation settings that inadvertently increase compliance costs, raise funding costs or create barriers to market entry can disproportionately affect non-bank and specialist lenders. This can reduce competition and limit the diversity of finance available to SMEs.

Therefore, the Commission should assess regulatory settings not only through a prudential or compliance lens, but also through the lens of market contestability and SME access to finance.

BARRIERS TO SME ACCESS TO FINANCE

A major barrier to SME finance is the accumulation of regulatory obligations that are not well calibrated to the commercial nature of business lending. AFIA has previously argued that many obligations affecting SME lending are either designed for consumer credit or implicitly modelled on large-bank operational structures, rather than on the risk profile and practical realities of small business finance. This creates cost, complexity and delay, particularly for lenders providing low-value unsecured finance, mixed-purpose lending, or fast-turnaround credit for working capital, equipment purchases and digital upgrades. Where regulation is not proportionate, it can act as a barrier to entry and a brake on innovation and credit supply.

A more proportionate framework for SME lending would allow lenders to assess and provide finance more efficiently, reduce unnecessary administrative burden, and support greater competition between banks, non-banks and fintech providers. For borrowers, the result would be faster access to credit, improved product fit, and greater capacity to invest in productivity-enhancing activities.

Importantly, reducing unnecessary regulation should not be interpreted as reducing standards. AFIA's Finance Industry Code of Practice sets clear standards for fair and responsible conduct in SME and commercial lending and reflects industry best practice. The AFIA Code demonstrates that strong customer outcomes and proportionate regulation can operate together. Therefore, regulatory settings should focus on streamlining and minimising obligations as well as eliminating duplication and unnecessary complexity, while continuing to support high standards of industry conduct.

Data and information asymmetry are also central to SME finance barriers. Access to high-quality, consented data can improve credit assessment, reduce decision times, lower origination costs and expand the range of businesses that can be served responsibly. AFIA has previously supported reform of the Consumer Data Right (CDR), but has emphasised that the framework should be refocused on high-value, evidence-based use cases rather than expanded into a broad, compliance-heavy regime. For SME and business lending, the key objective should be better and more efficient credit decisioning, not additional complexity. Fit-for-purpose data-sharing settings can increase access to finance, particularly for businesses that are underserved by traditional data models.

The Commission's focus on capital markets is also important. SMEs do not generally access bond and equity markets directly, but they are deeply affected by how funding and capital markets operate for the lenders that serve them. Non-bank and specialist lenders rely on a mix of warehouse funding, securitisation, private capital and other market-based channels to fund SME lending. Efficient and competitive capital markets therefore matter not only for large businesses seeking equity or debt directly, but also for the broader supply of credit through challenger and specialist lending channels. Where those funding channels become more expensive or uncertain, the cost and availability of SME credit is affected.

A well-functioning securitisation market is particularly important because it enables lenders to recycle capital and continue extending credit to businesses. Australia has developed a sophisticated securitisation market that supports competition in lending and helps diversify funding sources beyond the major banks. Policymakers should carefully consider the effects of regulatory, taxation and disclosure settings on securitisation markets, as changes affecting capital market funding can ultimately flow through to the price and availability of SME finance.

A longstanding structural challenge within SME finance is the reliance on real property security as a primary basis for credit assessment. Many newer businesses, service sector businesses and innovation-focused businesses have limited access to property-backed collateral despite having viable business models and growth potential. More modern approaches to credit assessment that incorporate cashflow data, business performance data and digital records can support better allocation of capital and allow productive businesses to access finance based on their commercial prospects rather than the availability of property assets. Regulatory and data frameworks should support, rather than inhibit, these lending models.

AFIA also notes that business dynamism is supported by finance products, services and technologies that help businesses manage transitions and restructure productively, not only by products that fund expansion. Equipment finance, asset-based lending, working capital facilities, cashflow and trade finance and specialist restructuring support can help viable businesses navigate temporary cashflow stress, invest in operational change, manage their assets and liabilities through financial and operational risk management strategies, or transfer ownership more efficiently. While insolvency and business exit frameworks are addressed separately by the Commission, the availability of commercial finance before insolvency becomes unavoidable is often critical to whether a business can restructure, survive or transition in an orderly way. Therefore, better SME access to finance can support not just business entry and growth, but business adaptation and recovery.

POLICY SETTINGS THAT SUPPORT SME INVESTMENT

AFIA welcomes the Australian Government's announcement that the Small Business Responsible Lending Obligations (RLO) exemption will be extended for a further 10 years from October 2026.[5]

The Government has stated that this measure will help small businesses access credit more easily and quickly, and avoid additional regulatory burdens and delays when seeking finance. AFIA considers this a significant and practical reform that directly supports SME access to finance and business dynamism. The extension provides an important degree of certainty for lenders and borrowers and recognises that small business lending should not be unnecessarily constrained by consumer-focused rules that are poorly suited to commercial borrowing arrangements and operational requirements.

This is consistent with AFIA's longstanding position that the exemption should be maintained on a durable basis.[6] Repeated short-term extensions created uncertainty for lenders, borrowers and the wider market and discouraged investment in better products, services, technology and processing capability for SME lending. A 10-year extension provides the medium-term certainty needed for that investment to occur.

AFIA also welcomes the Government's decision, announced as part of the 2026–27 Budget, to make the $20,000 instant asset write-off permanent from 1 July 2026 for eligible small businesses with aggregated turnover below $10 million.[7] The Australian Taxation Office (ATO) states that the permanent measure is intended to improve cash flow and reduce compliance costs, while noting that the measure is not yet law. AFIA has consistently supported a permanent and predictable approach to this policy, because short-term annual extensions create uncertainty for small businesses and their financiers and can delay investment decisions.[8]

A permanent instant asset write-off gives small businesses more certainty when deciding whether to invest in equipment, vehicles, technology and other depreciating assets, and allows lenders to assess borrower serviceability and structure finance with greater confidence. In practical terms, stronger after-tax cash flow in the years immediately following an asset purchase can improve repayment capacity, reduce financing risk and support broader access to asset-backed and equipment finance. That is especially important for smaller businesses with limited balance sheet strength but clear productivity-enhancing investment needs.

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[5] AFIA, *AFIA Responds to Treasurer's Statement on Fuel Market Disruption and Confirms SME Lenders' Support for Customers*, 1 April 2026.
[6] AFIA, *Extending the Small Business Responsible Lending Obligations Exemption*, 19 August 2024.
[7] The Hon Dr Jim Chalmers MP, *Backing small businesses with tax relief*, 12 May 2026.
[8] AFIA, *AFIA submission to Senate Inquiry into FY26 Instant Asset Write-Off Legislation*, 6 November 2025.

The permanent instant asset write-off complements finance market reform by strengthening both the willingness and capacity of SMEs to invest. Businesses are more likely to commit to productivity-enhancing assets when policy settings are stable and predictable, supporting faster digital adoption, operational upgrades and scale-up activity.

AFIA notes that, while tax policy is not intended to be the primary focus of this inquiry, certain proposed tax changes may still be relevant where they directly and indirectly affect SME access to finance. As AFIA has submitted elsewhere, changes to capital gains tax, negative gearing and proposed trust taxation settings may weaken borrower serviceability, reduce after-tax business exit proceeds relied on in business lending, and increase funding costs for smaller banks and non-bank lenders through capital markets and securitisation channels.[9] These effects could reduce the availability and affordability of finance for SMEs, particularly those relying on specialist lenders, and therefore operate as a practical barrier to business expansion and dynamism.

FINANCE MARKET CONTESTABILITY

Competition settings and entry pathways in the finance sector are central to this inquiry. Licensing complexity, slow decisions and unclear regulatory pathways can suppress new finance entrants and limit innovation in products and service delivery, including in SME lending. When entry mechanisms are proportionate and workable, new providers bring more competition, better technology, faster processes and improved product design. This matters particularly for SMEs, which are often the first to benefit from specialist credit models rather than traditional banking frameworks.

Credit reporting and data infrastructure reform can also support business dynamism by reducing frictions in credit allocation. Uncertainty around soft enquiries, data access rules and treatment of alternative data weakens competition and prevents smaller lenders from participating on equal terms with larger incumbents. A more modern credit information framework would support faster credit decisions and lower switching costs. For SMEs with non-standard profiles or limited traditional collateral, better data settings can determine whether a business can invest and grow or cannot.

AFIA also supports continued investment in Digital ID and the targeted expansion of the Consumer Data Right (CDR) to improve secure, consent-based data sharing. The 2026–27 Budget included substantial funding to maintain the security and reliability of the Australian Government Digital ID System and to support broader digital government infrastructure. These investments are important productivity reforms because trusted digital identity can reduce duplication, improve privacy and security, lower onboarding friction, and make it easier for individuals and businesses to verify information safely across the economy.

AFIA particularly welcomes the Budget measure to progress better use of ATO-held data through the CDR framework. For SME finance, securely sharing verified tax and income information with accredited

[9] AFIA, *AFIA Submission to Economics Committee Inquiry into Tax Reform Legislation*, 9 June 2026.

providers could materially improve credit assessment, reduce reliance on manual document collection, shorten loan approval times and reduce fraud and error. If implemented in a practical and proportionate way, ATO-held data in the CDR could become a high-value use case that supports more accurate, efficient and competitive SME lending while preserving customer consent, security and privacy.

These reforms should be designed with a clear focus on usability and commercial value. Digital ID and CDR will only support business dynamism if they reduce friction in real lending and business processes rather than adding new compliance layers. AFIA therefore encourages the Commission to recognise Digital ID, ATO-held data sharing and fit-for-purpose CDR settings as enabling infrastructure for a more dynamic, competitive and data-enabled finance market.

AFIA also encourages continued policy focus on reducing duplication in customer identification, verification and onboarding requirements. Digital identity initiatives, interoperable verification systems and more consistent use of trusted government-held data have the potential to materially reduce compliance costs and approval times while maintaining strong safeguards against fraud and financial crime. For SMEs, faster onboarding and verification processes can significantly improve access to timely finance.

AFIA encourages the Commission to treat SME access to finance as a matter of regulatory architecture, data infrastructure and market contestability, not only of capital supply. The most practical and high-impact reforms are reducing unnecessary regulatory friction in SME lending, improving credit information and data-sharing frameworks, preserving competition and entry pathways for non-bank and specialist lenders, and maintaining stable policy settings that make productive SME investment easier to finance. The Government's recent decisions to extend the Small Business RLO exemption for 10 years and to make the instant asset write-off permanent are practical demonstrations of what proportionate and predictable policy can achieve.

AFIA recommends that the Commission:

1. Recognise SME access to finance as a critical enabler of business dynamism and productivity growth.
2. Support proportionate regulation of SME lending that reflects commercial lending characteristics rather than consumer credit models.
3. Maintain policy settings that encourage competition between banks, non-bank lenders and specialist finance providers.
4. Promote efficient capital market funding channels, including securitisation and warehouse funding structures that support SME lending.
5. Support practical implementation of Digital ID and high-value Consumer Data Right use cases, including secure access to ATO-held data.
6. Improve regulatory recognition of cashflow-based and data-enabled credit assessment models.
7. Reduce administrative and compliance burdens that unnecessarily increase the cost and complexity of SME lending.

8. Ensure future regulatory reforms are assessed for their impact on SME finance availability, competition and business investment.

AFIA would welcome further engagement with the Commission on the operation of SME lending markets, the role of non-bank and specialist lending for SMEs, and the policy settings that improve access to capital for smaller businesses. AFIA and its members stand ready to provide further data, case studies and practical industry insight to assist the Commission.

Should you wish to discuss our submission or require additional information, please contact AFIA Senior Policy Advisor, David Delprat, at [redacted]

Yours sincerely

Diane Tate
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