BusinessPlus+ Newsletter

Issue – September/October 2021

SME Bank Lending Insights Report 2021

A recently released report (completed in September 2021) on the Small Medium Business Enterprise ("SME") sector provides some useful information on: -

- **SME Growth across the various Australian states;**
- **SME investment priorities;**
- **Loan funding applications – new versus refinancing and success rates;**
- **Sources of funding – new versus existing and bank majors vs other lenders.**

Some of the major findings from the SME survey include the following: -

1. 46.1 percent of SMEs currently define themselves in a growth phase.

2. The larger the business, the greater the weighting towards outright growth and expansion. 39.2 percent of the A$1-10 million segment are currently in an expansion phase compared to 56.3 percent of the A$10-50 million segment.

3. One in ten SMEs are stuck in a contracting business phase (11.7 percent) while one in four are exiting outright (26.1 percent), interestingly highest in ACT / NT / TAS (43.7 percent) and WA (31.3 percent) and within Construction (30.4 percent) and Wholesale (28.2 percent) sectors.

4. Market wide, just under one in two SMEs applied for new funding in the last six months, with the majority of those comprised of small enterprises (59.7 percent) compared to medium enterprises (40.3 percent).

5. Among SMEs who successfully sourced new funding in full or partially in the last six months (72.3 percent), the funds were primarily allocated to cashflow/working capital requirements (91.1 percent), investment in new plant and equipment (48.1 percent) and COVID related provisions such as bridging finance or managing business closure (45.6 percent).

6. SMEs are more likely to borrow from the Big Four (34.4 percent) than a non-major (6.6 percent) or non-bank (9.2 percent). Noting non-bank financing preference is significantly more prevalent among smaller sized SMEs (11.3 percent) than larger sized (6.1 percent).

7. One in three SMEs plan to apply for a new loan in the second half of 2021 (34.4 percent) while a further 15.9 percent are reviewing their books and refinancing existing debt facilities. Decision making over sourcing finance from a new or existing lender is evenly split, with one in four seeking a new lender (23.4 percent) and a similar proportion turning to their current lender (26.8 percent).

8. In the last six months it took lenders on average 42 days to discharge SMEs existing loans when they change lender, 23 days to approve or reject a loan application/s and 20 days to settle the facility if successful.

9. The manufacturing sector is characterised by considerable lags on discharging loans when switching lender (47 days), loan approval (32.5 days) and settlement (24 days) relative to the market average. Conversely the wholesale sector enjoys sharper turnaround times for switching (35.8 days), approval (18.8 days) and settlement (20.5 days).

10. The ‘gap’ from reality to expectation is enormous for loan switching, approval and settlement, totalling 37 days for switching, 12 days for approval and 15 days for settlement. Major banks are falling well behind customer expectations, and this is likely to lead to elevated levels of customer switching, dissatisfaction and reduced trust.

11. WA based SME businesses are the most bullish in terms of new borrowing intentions, with almost two in three seeking new lending or refinance in the next six months. Lending intentions are largely even across sectors, with slightly greater than one in two manufacturing businesses intending to seek new lending or refinance. The construction, retail and services sectors are the most likely to switch away from their current lender for both new borrowings and refinancing.

For a copy of the full report from Judo bank, please click on the link **HERE**.