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## REVIEW INTO SMALL AND MEDIUM-SIZED BANKS – ISSUES PAPER

The Australian Finance Industry Association (AFIA) is the only peak body representing the entire finance industry in Australia.<sup>1</sup> We appreciate the opportunity to respond to the Council of Financial Regulators' (CFR) Review into Small and Medium-sized Banks.<sup>2</sup>

We represent over 150 bank and non-bank lender (NBL) members, including 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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<sup>1</sup> [Australian Finance Industry Association \(afia.asn.au\)](https://afia.asn.au).

<sup>2</sup> Council of Financial Regulators, [Review into Small and Medium-sized Banks](#), December 2024.

## **INTRODUCTORY COMMENTS**

### **Key observations**

- Australia's financial system architecture is sound and broadly in good shape, although it is exhibiting signs of unresponsiveness to changing market dynamics and emerging economic conditions, and thus experiencing some difficulties.
- Australia's financial system has been extremely successful in navigating past challenges and crises, but as technologies, business models and customer expectations and preferences continue to develop at pace, deeper consideration needs to be given to whether the system is supportive of new innovations and nascent sectors.
- Australia now faces a considerably different set of challenges than those that originally characterised the financial system. For example, macroeconomic conditions have altered, the productivity challenge remains poignant, savings and investment settings have changed with the scale of superannuation, and there has been a step change in technological development. Consideration has to be given to whether the system is responding to the same degree as these challenges are presenting.

A robust financial system must be able to respond and adapt to changing and volatile environments. In particular, the contemporary conditions and challenges that face financial firms today include:

### **A marked step change in technology and its use**

Technological and innovation penetration is now ubiquitous in the financial system and has arguably taken place at rates quicker than forecasted by policymakers. Although it is well understood that the COVID-19 global pandemic expedited the use of digital payments, what has been less understood are the step changes that have taken place across all facets of the financial provision supply chain – including customer banking and financial services interfaces (backend systems), customer communications and interactions (frontend systems), consumer protection and integrity (regtech), treasury, accounting and financial management functions, and credit assessment and transaction approvals. A future financial system must not only be able to accommodate the adoption of such technologies but must also be able to provide a spur to their continued development.

### **Vastly different macroeconomic conditions**

The current system was largely a response to the Global Financial Crisis (GFC) and the need to strengthen the financial system to protect against contagion and the risk to financial stability and security. The macro conditions that followed the GFC were largely one of a low inflation worldwide and low interest rates. These conditions have altered markedly, especially since the COVID-19 global pandemic.

Although interest rates and inflation increases have begun to show signs of stabilising worldwide, the broad consensus is that interest rates will remain elevated for some time, with 'neutral' rate settings being reassessed, including by central banks around the world. This challenges economic growth prospects and places unique pressures on sectors dependent on borrowing costs, such as housing and business

investment. Furthermore, productivity growth remains weak, and the shift to services, especially in health and ageing where productivity growth has traditionally been challenging, can be expected to place further pressure on living standards.

### **Housing affordability**

Arguably the sector where the macroeconomic conditions are likely to impact the most is the housing sector, and in particular housing affordability. With interest rates elevated and real disposable incomes soft, the challenge of housing affordability remains acute, not just in Australia. The financial system will increasingly be required to respond to the affordability challenge with products that meet the needs of first-time buyers or the marginal borrower. Furthermore, for existing borrowers, cost of living pressures and the living standards crunch will prompt greater competition behavioural responses facilitated by the ease of technological improvements mentioned previously. The challenge for policymakers will be the extent to which the financial system balances the need to “back in” competitive impulses towards greater access to housing finance.

### **Culture and conduct post the Financial Services Royal Commission**

Following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Hayne Royal Commission) in 2017-2019, the financial system has undergone marked changes in culture and practices in response to its findings.<sup>3</sup> Although these changes were buttressed with legal and regulatory change, the sector overall has responded with large scale organisational process investments that will not be reversed. The “sunk costs” of these long run investments indicates that financial firms will continue to emphasise harm minimisation as part of their normal day to day business conduct.

### **A growing superannuation pool**

At the time of the Financial System Inquiry (Murray Review) in 2014, the superannuation guarantee was 9.5 per cent with funds under management of \$1.85 trillion.<sup>4</sup> Today the equivalent figures are 11.5 per cent and \$4.1 trillion.<sup>5</sup> Furthermore, despite previous understandings that with an ageing society the superannuation sector would inevitably move into a draw down phase, increasing workforce participation (especially among older workers) and immigration has seen this development deferred.

Although the Retirement Income Review in 2020 touched on the role of superannuation, the integration of the super sector into the broader financial system architecture was a lesser consideration. For example, issues such as the extent of substitution across savings modes, interaction with the tax system, and the role of superannuation in the provision of wholesale finance. Although these issues are not particularly new, the growth in the super sector has given them an extra sharpness that the broader financial system must be cognisant. Furthermore, since the Murray Inquiry a range of initiatives (such as, the First Home Super Saver scheme) suggest an even closer interaction between different arms of the financial system.

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<sup>3</sup> Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, ([4 February 2019](#)).

<sup>4</sup> APRA, *APRA releases quarterly superannuation statistics for June 2014* ([21 August 2014](#)).

<sup>5</sup> APRA, *APRA releases superannuation statistics for September 2024* ([27 November 2024](#)).

## Competition in Australia's financial system

Australia's financial system is fundamentally sound and competitive, with a world-class payments system, that is delivering strong results for consumers, businesses and the economy.

In its recent Financial Stability Review, the Reserve Bank of Australia (RBA) found that Australian banks in particular have maintained prudent lending standards and are well positioned to continue supplying credit to the economy.<sup>6</sup> In the last five years, revenue has grown by 4.0 per cent in the finance industry, reaching an estimated \$422 bn by 2024.<sup>7</sup>

RBA Assistant Governor, Mr Brad Jones, recently proclaimed that Australia's payments system is fast, efficient and reliable by global standards.<sup>8</sup>

Furthermore, Australia's economy has been remarkably resilient, with consistently positive economic growth since emerging from the 1992 recession (except for the COVID-19 global pandemic recession in 2020). Although inflation has been stickier in Australia than in comparable economies, employment has remained strong and interest rates have not climbed as high as they have in countries, such as the United Kingdom or the United States. Australia has maintained its AAA credit rating from all three major credit rating agencies, one of only nine economies to have this distinction.<sup>9</sup>

Previously, the Murray Inquiry found competition in the financial system to be "generally adequate", and the financial system's ability to fund the economy to be strong:

*'Australia has a well-functioning equity market, a sophisticated wholesale financial market, and a privately owned banking and insurance system that provides a range of competitive retail products and services.'*<sup>10</sup>

The Issues Paper, published by the CFR in consultation with the Australian Competition and Consumer Commission (ACCC), paints a relatively positive picture of competitiveness in Australia's finance industry.<sup>11</sup> Since 2009 and following the GFC, the share of the major banks in the credit market has declined substantially, with small and medium banks, NBLs and foreign branches increasing their market share.<sup>12</sup> NBLs in particular have roughly doubled their market share in personal lending, with the major banks' share declining to only half the market over the last 15 years.<sup>13</sup>

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<sup>6</sup> RBA, [Financial Stability Review](#), September 2024, p. 31.

<sup>7</sup> IBIS World, Finance in Australia ([December 2024](#))

<sup>8</sup> Mr Brad Jones, Assistant Governor (Financial System), RBA, [The Future of the Payments System](#) (12 December 2024).

<sup>9</sup> The Hon Dr Jim Chalmers MP, Treasurer, [Australia's AAA credit rating reaffirmed following MYEFO](#) (13 February 2024).

<sup>10</sup> Financial System Inquiry, [Final Report](#), 7 December 2014, p. 14.

<sup>11</sup> CFR, [Review into Small and Medium-sized Banks – Issues Paper](#), December 2024.

<sup>12</sup> Ibid. pp. 5- 6.

<sup>13</sup> Ibid.

Since 2020, the median net interest margin (NIM) for small and very small banks has exceeded that of major banks.<sup>14</sup> The return on equity (ROE) for major banks had fallen from 20 per cent in the last two decades to roughly 11 per cent.<sup>15</sup>

In March 2024, the House of Representatives Standing Committee on Economics noted that falling NIMs and ROEs, increased rates of customer churn and innovative productive offering and services from smaller and customer owned banks represented signs of competitive tension upon the market share of the major banks.<sup>16</sup> In KPMG's *Australian Big Four Banks: Full year 2024 results analysis*, it was found that the average NIM decreased by 7 basis points to 180 basis points in FY24, with major banks identifying competition from new entrants and NBLs as a cause.<sup>17</sup>

In 2018, the Productivity Commission (PC), in its inquiry into *Competition in the Australian Financial System* found that technological innovation in Australia's financial system gave customers speed and convenience in addition to other price benefits.<sup>18</sup>

However, the PC also found that small banks and NBLs did not represent a competitive pressure upon the major banks:

*'The smaller banks and non-bank financial institutions typically follow the pricing trend set by the major banks, and are not a significant competitive constraint on the major banks' market power.'*<sup>19</sup>

Furthermore, the PC noted that stability had been prioritised over competition in financial services since the GFC:

*'Given the size and importance of Australia's financial system, and the increasing emphasis on stability since the global financial crisis, the lack of an advocate for competition when financial system regulatory interventions are being determined is a mistake that should now be corrected.'*<sup>20</sup>

Since the GFC, Australia's financial system has seen significant regulatory reform and overhaul. The cumulative scale and impact of regulation had grown significantly, often without sufficient regard to the effect said regulation may have on efficiency, competition and innovation. AFIA members have noted that the breadth and speed of regulatory change relevant to the finance industry has been challenging, creating a large compliance burden and costs, particularly for smaller financial firms with smaller teams and fewer resources.

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<sup>14</sup> Ibid. p. 14.

<sup>15</sup> Ibid. p. 13.

<sup>16</sup> House of Representatives Standing Committee on Economics, Parliament of Australia, [Better Competition, Better Prices – Report on the inquiry into promoting economic dynamics, competition and business formation](#), (2024), p. 111.

<sup>17</sup> KPMG, [Australian Big Four Banks: Full year 2024 results analysis \(8 November 2024\)](#).

<sup>18</sup> Productivity Commission, [Competition in the Australian Financial System – Inquiry Report](#) (29 June 2018), p. 2.

<sup>19</sup> Ibid. p. 37.

<sup>20</sup> Ibid. p. 2.

While recognising the recent publication of the first version of the Regulatory Initiatives Grid (RIG) as a positive step, AFIA is of the view that a holistic approach to regulatory reform and change should be adopted by government and financial regulators, one which leverages the inherent strengths of Australia's financial system. Although Australia has the right conditions and dynamics to encourage competition and innovation, great care needs to be taken to ensure these conditions are as strong as possible. The regulatory structure of Australia's financial system plays a central role in enabling efficiency, competition and innovation.

### **Non-bank lending**

The Issues Paper sets out the various classes of finance institutions in Australia's lending markets and financial services industry, from very small, small, medium and major banks to non-bank lenders (NBLs) as well as branches of foreign banks.

NBLs are distinct from bank lenders in that they are non-deposit taking financial institutions and do not require a banking license. They are also distinct from private credit in that the debt is usually issued or traded on public markets. They are customer facing financial institutions, which provide financing as regulated registered financial corporations (RFCs). Non-bank lending business includes the provision of residential and commercial mortgages, consumer lending, business lending, auto financing and other specialised financing.

NBLs account for an estimated 5 per cent of the financial system, in terms of total financial system assets.<sup>21</sup> In FY23, NBLs represented \$74 billion of the total mortgage market (real estate and construction loans), receiving an estimated total of \$38.6 billion in total revenue in FY24.<sup>22</sup> Furthermore, NBLs contribute immensely to the Australian economy, with providers directly employing over 12,000 people in the Australian economy.<sup>23</sup> Buy Now, Pay Later (BNPL) providers alone supported close to 150,000 local jobs in FY23.<sup>24</sup>

According to RBA data, non-bank lending has grown rapidly in Australia, predominantly driven by lending associated with real estate and housing mortgages as well as motor finance and specialised business lending. On average, mortgage-related non-bank lending has grown on average by almost 15 per cent on a six-month annualised basis since 2015.<sup>25</sup> On the revenue side, non-bank lending revenue is estimated to reach almost \$40 billion in FY25, backed primarily by increased loan up take on the back of higher interest rates, with the average loan book of \$4.6 billion across diverse sectors, including housing and automotive loans, and various forms of business and consumer lending.<sup>26</sup>

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<sup>21</sup> RBA, *Non-bank Lending in Australia and the Implications for Financial Stability*, (16 March 2023).

<sup>22</sup> Larry Schlesinger, *Australian Financial Review*, 'Non-bank lending worth \$74b, could double in five years', (2 January 2024).

<sup>23</sup> AFIA data.

<sup>24</sup> AFIA, *BNPL Injects \$22.9 Billion into the Australian Economy in FY23*, (28 June 2024).

<sup>25</sup> RBA, *Non-bank Lending in Australia and the Implications for Financial Stability*, (16 March 2023).

<sup>26</sup> IBIS World, *Non-Depository Financing in Australia – Market Research Report* (September 2024), and Kanga News, *Non-Bank Yearbook*, Oct/Nov Supplement Vol 19 Issue 145.

According to data provided to the Kanga News *Oct/Nov 2024 Non-Bank Yearbook*, residential mortgages make up 42 per cent of NBLs loan portfolios, followed by business lending at 21 per cent and consumer lending at 16 per cent.<sup>27</sup> As at the end of 2023, commercial mortgages made up 8 per cent of NBLs loan portfolios, with 16 per cent overall share of the commercial real estate debt market.<sup>28</sup>

Catering for a unique and growing market, NBLs provide specialised lending products to customers, particularly in the nonconforming market.<sup>29</sup> Using forensic credit assessment processes based on deep expertise over a long period of time assisted by innovative technology, NBLs can service customers outside the risk appetites of major banks for various reasons, including higher regulatory burdens on authorised deposit taking institutions (ADIs) and an emphasis on scaled consumer lending by major banks.

Non-bank lending has become increasingly popular with Small and Medium-sized Enterprises (SMEs), with 47 per cent preferring non-bank products over traditional lending products in 2023, a 50 per cent increase on 2022.<sup>30</sup>

Non-banking lending has also become increasingly popular with consumers, with over 50 per cent of perspective home buyers indicating they would consider borrowing from a NBL in the next five years, attracted by competitive rates, unique customer service offerings and efficient processing times for loan approvals and origination.<sup>31</sup>

According to our latest consumer research conducted by Pyxis Polling for AFIA, both consumer and SME customers identified 'efficiency' and being responsive to customers as the most important characteristic for the finance industry, ranking higher than innovation. Efficiency refers to various factors including speed and convenience (as noted above by the PC), but also customisation, reliability, interoperability, and additional customer value, such as through resources and tools to enhance financial literacy and money management as well as digital interfaces streamlining transactions and disclosures.

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<sup>27</sup> Ibid.

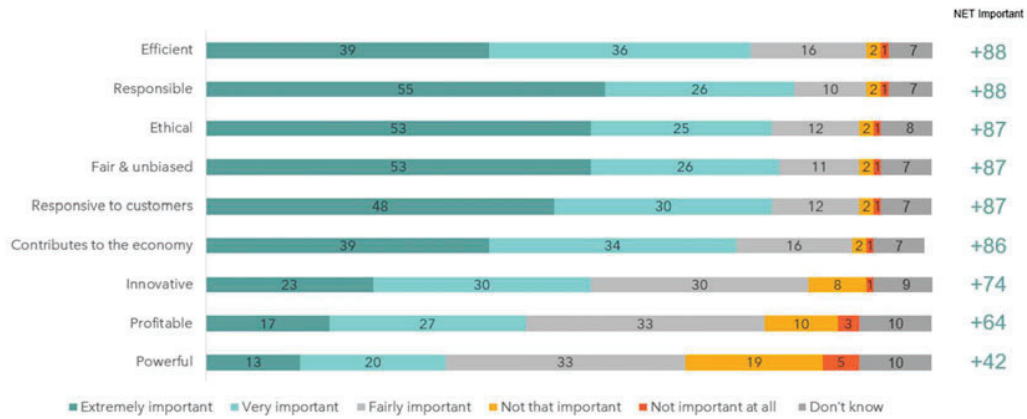
<sup>28</sup> Ibid. and Larry Schlesinger, *Australian Financial Review*, 'Non-bank lending worth \$74b, could double in five years', ([2 January 2024](#)).

<sup>29</sup> Nonconforming loans are those loans made outside the traditional credit assessment criteria of major banks, where nonconforming borrowers may be riskier than 'prime' borrowers, but not to the extent that they may be considered 'subprime'. For example, customer types often deemed nonconforming can include self-employed or consultants, with irregular income patterns or other factors that may impact standardised credit assessments.

<sup>30</sup> Prime Capital, *Non-bank lending preferred by nearly half of Australian SMEs*, ([May 2023](#)).

<sup>31</sup> Mina Martin, *Australian Broker*, 'Home buyers eye non-bank loans' ([4 June 2024](#)).

## The number #1 thing Australians want the Finance Industry to be is efficient



How important is it that the Australian Finance Sector has the following characteristics? Base: Australian Residents (combined Payments & Lending surveys) n=3132



Non-banking lending has begun to provide competitive tension in Australia's lending market in a higher interest rate economic environment. Traditional forms of financing are being supplemented by specialised financing options catering to unique customer needs, contributing to financial inclusion and driving greater economic sustainability. The emergence and growth of the NBL sector reflects the inherent dynamism and competitiveness of the Australian financial system, and the market structure that enables that competition and innovation.

AFIA encourages the CFR and the ACCC to consider technology neutral policy options that leverage the strengths of our financial system to enhance existing mechanisms and avenues for competitive dynamism, rather than intervening in the market to favour a particular business model, sector or industry. While often well intentioned, government interventions in markets can often lead to inefficiencies, reduced incentives for innovation, and ultimately higher costs for customers.

### IMPROVING ACCESS AND REDUCING THE COST OF FUNDING

As noted in the Issues Paper, the funding profiles for lenders can vary significantly. While utilising deposits, major banks source a larger proportion of their funding from short-term debt and long-term debt (senior unsecured bonds, covered bonds and hybrid securities), whereas smaller banks rely on deposits for a greater proportion of their funding.<sup>32</sup>

Additionally, smaller banks have less exposure to wholesale funding markets both domestically and internationally, which the Issues Paper links to lower long-term credit ratings compared to major banks.<sup>33</sup>

<sup>32</sup> Issues Paper, p. 8.

<sup>33</sup> Ibid., pp. 8-9.

Although the implied funding cost gap between major banks and smaller banks has closed over the last 10 years, this is largely reflective of smaller banks relying more on deposits for funding rather than issuing new funding in wholesale markets where major banks have a cost advantage.<sup>34</sup>

### Securitisation in Australia

The RBA recently noted the strength of the securitisation market in Australia, with the level of asset-backed security (ABS) issuance in 2024 well above that of the yearly average across the decade from 2013 to 2023.<sup>35</sup> Since at least 2018, there has been a greater number of non-bank ABS issuers than bank ABS issuers, with NBLs making up the majority of ABS issuance ever since.<sup>36</sup>

As non-deposit holders, securitisation is a crucial source of funding for NBLs. The shift to non-bank lenders in the securitisation market has been attributed to the availability of alternative sources of funding for banks as well as the flexibility of the business models in the NBL sector in terms of risk appetite and the fact that they are not bound by prudential standards like banks.<sup>37</sup>

According to the RBA, residential mortgage-backed securities (RMBS) account for three-quarters of the Australian ABS market, and it is estimated that RMBS constitute up to three-quarters of the funding for NBLs.<sup>38</sup> NBLs now account for the majority of RMBS issuance in Australia on an annual basis.<sup>39</sup> RMBS issuance by non-banks in Australia continue to grow at significant volumes.<sup>40</sup>

Non-bank issuance of auto and equipment ABS has also grown significantly in the last several years, with the RBA noting that banks withdrawing from motor financing in 2021 and the subsequent takeover of their existing vehicle loan books by NBLs as partly contributing to this change in the market.<sup>41</sup>

RBA Head of Domestic Markets David Jacobs has offered an explanation of the expansion of non-bank ABS issuance in Australia:

*‘What explains this flexibility on the part of the non-banks? Non-banks tend to focus more on certain parts of the lending market where banks have more limited risk appetite – those differences in risk appetite reflects several factors, including prudential capital requirements. Non-banks are not directly bound by the same prudential requirements as banks, precisely because they do not take deposits. As a result, they have more flexibility to extend loans based on their business models and risk appetite around lending standards. Banks do set limits on the risk metrics of the loans funded through the*

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<sup>34</sup> Ibid., pp. 10-11.

<sup>35</sup> David Jacobs, Head of Domestic Markets Department, RBA, *A Stocktake of Securitisation in Australia*, (2 December 2024), Graph 1.

<sup>36</sup> Ibid., Graphs 3 and 4.

<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

<sup>39</sup> RBA, *Non-bank Lending in Australia and the Implications for Financial Stability*, (16 March 2023), Graph 11.

<sup>40</sup> Mina Martin, *Australian Broker*, ‘MA Money secures \$500m RMBS issuance’, (9 October 2024).

<sup>41</sup> David Jacobs, Head of Domestic Markets Department, RBA, *A Stocktake of Securitisation in Australia*, (2 December 2024).

*warehouse facilities they provide non-banks. But non-banks still have greater flexibility in extending credit.*<sup>42</sup>

Mr Jacobs also notes that this evolution in the Australian securitisation market has the potential to benefit the Australian financial system in terms of competition and improved availability to credit:

*'In all, this changing shape of the securitisation market speaks to some of the potentially beneficial roles it can play in the Australian financial system. Securitisation provides market-based funding to a diverse range of lenders that, in turn, provide important competition to bank-based financing and reach some households and businesses with more limited access to traditional bank credit.'*<sup>43</sup>

The strength of the Australian securitisation market makes it a powerful market-based tool embedded within our financial system through which competitive tension can be inserted into the lending market. There may be rules governing warehouse financing and forward flow arrangements that could be amended to make it easier for financial firms to undertake securitisation. Furthermore, additional investment interest in Australian issued ABS and RMBS would help deepen the securitisation market, provide reliable investment returns for institutional investors, including superannuation funds, and improve efficiency in capital mobilisation.

### **The AOFM and government involvement in securitisation**

The primary role of the Australian Office of Financial Management (AOFM) is to manage Australian Government debt, ensuring it can meet its spending, investment and debt payment obligations, and to borrow money on behalf of the government by issuing bonds or Australian Government Securities (AGS). The AOFM has one key objective, which includes advancing macroeconomic growth and stability:

*'The AOFM's activities are focused on delivering to the following policy outcome: the advancement of macroeconomic growth and stability, and the effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and cash for the Australian Government.'*<sup>44</sup>

During the COVID-19 global pandemic, the government introduced specific stimulus and emergency measures to support the flow of credit and mitigate the initial economic shocks and turmoil in financial and capital markets. These measures included:

- the Reserve Bank's Term Funding Facility (TFF), which provided liquidity support to the lending markets through banks.
- the Structured Finance Support Fund (SFSF) via the AOFM, providing liquidity to securitised lenders, especially to facilitate lending to SMEs.

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<sup>42</sup> Ibid.

<sup>43</sup> Ibid.

<sup>44</sup> Australian Office of Financial Management, *Annual Report 2018-19*, (2019).

- the AOFM's Forbearance SPV to assist smaller lenders impacted by forbearance arrangements in their securitisation vehicles and funding warehouses. 40 non-bank lenders and one bank were supported through the program, with commitments peaked at estimated \$3.8 billion.<sup>45</sup>

### Term Funding Facility (TFF)

The TFF was introduced by the RBA on 19 March 2020.<sup>46</sup> Although the TFF was successful in ensuring the supply of credit during the COVID-19 global pandemic and economic downturn, and it assisted in restoring confidence in financial and capital markets, it may have had a dampening effect on competition.

At the time of closure to new drawdowns, \$188 billion of funding to ADIs was outstanding under the TFF.<sup>47</sup> The supply of very low-cost credit to ADIs did provide banks with a price advantage in lending compared to other lenders and credit providers. While the measure was necessary at the time and temporary, concluding on 30 June 2024, this emergency measure reflects the tension between financial stability and competition priorities when making policy decisions affecting financial and capital markets. It also highlights how a well-intentioned market intervention can have adverse and unintended consequences. With hindsight, the scale, extent and duration of the scheme could have been different and/or adjusted to achieve a more proportionate and targeted outcome.

### Structured Finance Support Fund (SFSF)

Occurring simultaneously to the RBA's TFF, the government announced support for the securitisation market on 19 March 2020.<sup>48</sup> The SFSF was legislated to support securitised lenders, allocating \$15 billion via the AOFM to stabilise funding markets during the COVID-19 global pandemic.<sup>49</sup> The SFSF supported lenders during the pandemic who were at risk of losing market access. As of 31 December 2024, \$3.8 billion in cumulative investment commitments had been made by SFSF, with \$1.36 billion in public securitisation market investments made from March to July 2020.<sup>50</sup> In 2021, the AOFM told AFIA members that the SFSF was implemented in a way to avoid supplanting private investment:

*'We see it as entirely consistent with the SFSF's mandate to step aside for other investors and allow them to replace us in warehouse facilities. This has caused some confusion among some of the originators we've supported, many of whom have assumed we will act like other investors who, having incurred the upfront cost of due diligence coming into a transaction are prepared to compete by tightening spreads in line with the market. Far from being in a position to compete, we are required to manage the SFSF in such a way as to avoid crowding out private sector investment.'*<sup>51</sup>

<sup>45</sup> Michael Bath, Head of Global Markets and Business Strategy, AOFM, *ABSF/SFSF Funding Update: AFIA Webinar* (11 November 2021).

<sup>46</sup> RBA, 'Term Funding Facility to Support Lending to Australian Businesses' (19 March 2020).

<sup>47</sup> Ibid.

<sup>48</sup> The Hon Josh Frydenberg MP, Treasurer, 'Government to invest up to \$15B in support of SME lending', (19 March 2020).

<sup>49</sup> AOFM, [Background and Legislation](#).

<sup>50</sup> AOFM, *Quarterly SFSF Update*, (January 2025).

<sup>51</sup> Michael Bath, Head of Global Markets and Business Strategy, AOFM, *ABSF/SFSF Funding Update: AFIA Webinar* (11 November 2021).

The SFSF and Forbearance SPV were critical market interventions, both necessary to not just support turmoil in financial and capital markets globally, but also to offset the introduction of the TFF. Lessons learned from the GFC where various governments supported and guaranteed their banking systems, caused severe side-effects in the financial and capital markets, with the NBL sector exposed. The establishment of a fund by the AOFM to support the securitisation market was eventually introduced in Australia, but not before a number of NBLs cancelled their RMBS issuance and slowed their lending as a result of market stress and uncertainty. Funding available through the SFSF partly counteracted this trend, as the RBA noted in October 2020:

*'Funding availability has since improved, partly as a result of the Government's Structured Finance Support Fund (SFSF) ... The SFSF has purchased ABS directly at issuance and in the secondary market (freeing up capacity for investors to recycle these funds into new issuance), and invests in securitisation warehouses. RMBS (and other ABS) issuance by non-bank lenders has now resumed and is at similar levels to recent years... This improvement in funding availability has allowed non-bank lenders to start pricing loans more competitively... For some, support from the SFSF (in the form of investments in warehouses) has reduced pressure.'*<sup>52</sup>

The existence of the SFSF and the AOFM's experience during the GFC and ongoing investment capabilities in the market was critical to the ability to re-establish a fund, and the speed at which this could be done, for the COVID-19 global pandemic crisis. While the investments made by the AOFM in Australia's public securitisation market were well below the allocated \$15 billion, the fact that the government announced the measure to support the securitisation market and established the fund was critical to restoring confidence in our financial and capital markets. It was particularly notable that the government announcement on the SFSF was made concurrently with the RBA's announcement about the TFF, thereby instilling confidence across Australia's financial system.

As the impact of the COVID-19 global pandemic was unfolding, with borders shutting, economies closing and financial systems under strain, AFIA was working with the government and AOFM to ensure Australia's financial system was reinforced. Members noted that support from the AOFM via the SFSF and the Forbearance SPV during the pandemic was greatly appreciated by the market, and that the guidance and flexibility provided by the AOFM made the onboarding process straightforward, allowing for the swift delivery for much-needed funding to participating originators. With the SFSF supporting industry sponsored warehouse and securitisation transactions, the AOFM took a pragmatic approach and provided assistance where it was most impactful. This reflects the AOFM's extensive experience and leadership in capital markets.

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<sup>52</sup> RBA, *Financial Stability Review*, (October 2020), p. 40.  
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Although these combined measures, both the TFF and SFSF, helped stabilise the Australian financial system during the COVID-19 global pandemic, particularly in the initial period of the crisis, these market interventions have had lasting impacts.

AFIA believes that the government should ensure the AOFM is properly resourced to better served to enhance the organisation's readiness to administer emergency measures at times of distress in Australia's funding markets. In January 2025, with \$71 million worth of public market investments outstanding, the AOFM announced that they would sell the SFSF's remaining public RMBS in the last week of January 2025.<sup>53</sup> Although the legislation establishing the SFSF remains in place, this brings to an end the SFSF's investment in Australia's public securitisation market.<sup>54</sup> This follows the cessation of SFSF involvement in private warehouse markets and the end of market participation in the Forbearance SPV.

Although the SFSF provided crucial support to the Australian securitisation market during the COVID-19 global pandemic crisis and aftermath, it is not correct to assume that the SFSF (or similar fund) is no longer needed. It is inevitable that future economic and financial crises will impact our financial and capital markets and require similar 'emergency interventions' in our lending markets. It would be foreseeable that in such a situation of significant global and/or domestic stress or turmoil, market interventions in financial and capital markets would be warranted by both the RBA and the government. It will be important for a mechanism to be available to be called upon by the government, and thus, for the AOFM to maintain a function and investment capabilities in this area. Consideration should also be given to providing greater flexibility to the discretion of the Minister to scale the fund in times of severe liquidity disruptions.

### **Australian Business Securitisation Fund (ABSF)**

Prior to the SFSF, the government established the \$2 billion Australian Business Securitisation Fund (ABSF) to support small and medium enterprise (SME) lenders.<sup>55</sup>

In a recent Treasury Portfolio Budget Statement, the Government explained the rationale for the ASBF given the status of SME securitisation:

*'While the securitisation market for residential mortgages in Australia is well developed, the Australian SME securitisation market is constrained by a lack of scale. Low volumes of capital raisings tend to deter potential investors from committing to the task of due diligence needed to enter the market. The Australian Business Securitisation Fund is used to invest in SME loan securitisations and over time this will help to establish a track record in lending against the type of collateral new to the securitisation market. It will also help SME lenders to obtain credit ratings and in turn promote broader investor interest.'*<sup>56</sup>

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<sup>53</sup> AOFM, *Quarterly SFSF Update, (January 2025)*.

<sup>54</sup> [Structured Finance Support \(Coronavirus Economic Response Package\) Act 2020](#).

<sup>55</sup> [Australian Business Securitisation Fund Act 2019](#).

<sup>56</sup> Commonwealth of Australia, [Portfolio Budget Statements 2024-25](#), Budget Related Paper No 1.15, Treasury Portfolio, p. 120.

Further to this, the ABSF is described as a competition measure for smaller lenders and major banks, and to “fill niche gaps in the lending market that are otherwise underserved in Australia”.<sup>57</sup>

The AOFM has noted that given the small size of the fund relative to the large market gap for small business lending, they see the ABSF as primarily a market development mechanism:

*‘I have noted previously that the \$2 billion in funds available to the ABSF is small relative to the gap within the small business lending market which, depending on who you ask, is between \$20 billion and \$100 billion. This has caused the AOFM to interpret its mandate as primarily one of market development, with the aim of building out the market infrastructure to attract additional private sector investment to this sector over time. This is quite different to the short term gap-filling that was done both via the SFSF in recent times and by the AOFM in the RMBS market during the Global Financial Crisis.’<sup>58</sup>*

Although a 2022 Treasury review found that the settings and investment mandate of the ABSF remain appropriate, it also underscored the importance of the role of the AOFM in administering the fund.<sup>59</sup> The role of the AOFM in securitisation market development should be further explored, in a way consistent with its mandate to borrow on behalf of government at the lowest cost to the taxpayer.

Some AFIA members participated in the ABSF, noting their positive experience as the fund helped crowd in international capital into their respective sector, driving competition. As time went on, the crowding in effect from the ABSF meant that its funding was no longer needed as other investors were progressively attracted. ABSF supported frequent issuances also assisted a gradual lifting of rating caps by rating agencies for some participants. The management skills, efficiency, and experience of the AOFM team in administering the ABSF was also commended, noting that the ABSF represents a positive example of how markets can be developed.

However, it was also noted that the ABSF was a relatively expensive process, and the initial operational and information requirements were quite demanding for applicants. According to the AOFM, the ABSF focused on providing credit for SMEs that was not secured by property, which restricted the ability of some lenders to participate.

AFIA believes consideration should be given to reviewing how the ABSF could be improved to ensure increased industry engagement. Getting the ABSF right could also spur on further securitisation of SME loans, through a further crowding in of investment. We reiterate our recommendations to the 2022 Treasury review, including further resourcing to the AOFM, a simplified application process, greater

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<sup>57</sup> Ibid.

<sup>58</sup> Michael Bath, Head of Global Markets and Business Strategy, AOFM, *ABSF/SFSF Funding Update*: AFIA Webinar ([11 November 2021](#)).

<sup>59</sup> Treasury, *Australian Business Securitisation Fund Review*, ([1 April 2022](#)), p. 10.

communication on why applications were not supported, continued updates on AOFM investment activities and promoting standardised data reporting.<sup>60</sup>

### Updating the role of the AOFM and deepening the corporate bond market

Ensuring a consistent supply of credit by debt capital markets is consistent with the AOFM's objective to advance macroeconomic growth and stability. The precedents set by the ABSF and SFSF, indicate the potential for the AOFM to play a larger role in deepening and developing Australia's debt capital markets, such as our corporate bond markets. A strengthened AGS market, through more long-term debt programs, would deepen and incentivise a more sophisticated corporate bond market.

Australia has a smaller and shallower debt capital markets compared to peer jurisdictions, which makes it more susceptible to larger economic shocks and less supportive of growth. This was recognised in the Murray Inquiry:

*'... some funding markets in Australia, including the corporate bond and venture capital markets, appear underdeveloped compared with those of some international peers.'*<sup>61</sup>

In October 2021, the House of Representatives Standing Committee on Tax and Revenue found that corporate bonds offer investors the ability to diversify their investment profiles, ensuring Australia is not exposed to any single class of investment product.<sup>62</sup> The report recommended that the government raise awareness about the benefits of corporate bonds, increase bond trading transparency, streamline disclosure requirements, review the regulatory regime for issuance, and investigate the impact of tax incentives to support the development of an Australian corporate bond market.<sup>63</sup> The Committee said:

*'The Committee believes that to facilitate the growth of a strong corporate bond market, there is a need to reduce the regulatory burden, minimise the cost of issuance, and increase flexibility in relation to redemption, bond tenor, financial ratios, and trustees.'*

*'... corporate bonds do not attract the same level of tax concessions as other investment options, such as shares or real estate. In addition, the Committee heard that Australian investors may be disadvantaged in comparison to offshore investors, due to differential tax treatment.'*<sup>64</sup>

AFIA encourages the government to consider the recommendations of this inquiry and to determine what measures should be taken to deepen the Australian corporate bond market. This would have positive implications for Australia's debt capital markets and increase the stability and resilience of Australia's financial system and economy as well as provide additional investment opportunities for institutional

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<sup>60</sup> AFIA, Submission to Australian Business Securitisation Fund Review, ([4 March 2022](#)).

<sup>61</sup> Financial System Inquiry, *Final Report*, 7 December 2014, p. 14.

<sup>62</sup> House of Representatives Standing Committee on Tax and Revenue, Parliament of Australia, *The Development of the Australian Corporate Bond Market: A Way Forward*, (October 2021), p. 22.

<sup>63</sup> *Ibid.*, pp. 22, 43 & 58.

<sup>64</sup> *Ibid.*, pp. 42 & 57.

investors, such as superannuation funds seeking greater domestic and fixed income asset classes in their portfolio mixes to generate and/or hedge returns as well as manage members' drawdowns.

We have seen some organic growth in Australian corporate bond issuance, with bond issuance in Australia doubling in the last decade, built off more involvement from Asian investors and domestic superannuation funds.<sup>65</sup> With superannuation funds being encouraged to look for less volatile longer-term investment opportunities, the market environment could be increasingly ripe for a more sophisticated corporate debt market that meets this need for stable long-term returns.<sup>66</sup> Longer-term Treasury bonds issued by the AOFM could help set the precedent for this.

Previously, the AOFM has floated the possibility of further opportunities to incentivise private sector investment based on their experience implementing the SFSF:

*'In the course of our activities implementing the SFSF, which stretched to 45 approved warehouse investments financing 34 originators, it became clear to us that there are probably opportunities for encouraging private investment that extend beyond standardising loan performance data. We are thinking about how the documentation of warehouse facilities and in particular inter-creditor rights can be simplified. We may have more to say on this in time. While we can neither compel nor regulate, we can use our mandate to provide an example for the market. It is plausible that we could demonstrate what we think is the right balance of intercreditor arrangements for the AOFM by publishing examples of combinations that work for us.'*<sup>67</sup>

With this in mind, AFIA believes consideration should be given to expanding the role of the AOFM, giving them an explicit mandate to support and develop Australia's debt capital and securitisation markets. Furthermore, consideration should be given to the potential for ongoing funding to support certain debt markets and public policy priorities, including SME finance, housing affordability, aged and disability care, emissions reduction and net-zero transition, in addition to emergency funding through periods of financial crisis.

The AOFM is currently a non-corporate Commonwealth entity (NCE) listed under the *Public Governance, Performance and Accountability Act 2013* (Cth) and staffed through the Department of the Treasury.<sup>68</sup> Unlike most other Treasury portfolio agencies, the AOFM as an entity does not have any enabling legislation, rather it is authorised by the Treasurer to exercise the Treasurer's power to issue Treasury Bonds under the *Commonwealth Inscribed Stock Act 1911* (Cth) as a delegated agency.<sup>69</sup> Similarly, under

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<sup>65</sup> David Jacobs, Head of Domestic Markets Department, RBA, *A Stocktake of Securitisation in Australia*, (2 December 2024), Graph 1.

<sup>66</sup> Hannah Wootton, *Australian Financial Review*, 'Super admits its size is a risk but says 'what is the alternative?'' (7 January 2025).

<sup>67</sup> Michael Bath, Head of Global Markets and Business Strategy, AOFM, *ABSF/SFSF Funding Update: AFIA Webinar* (11 November 2021).

<sup>68</sup> Department of Finance, *PGPA Act Flipchart and List* (2 January 2025).

<sup>69</sup> AOFM, *Information Memorandum – Treasury Bonds* (1 March 2024).

the enabling Acts for both the ABSF and SFSF, power is granted to the Treasurer to make investments via these funds, who then delegates these powers to the AOFM through a Direction.<sup>70</sup>

In the Explanatory Memoranda for the legislation establishing these funds, the government notes that the AOFM is a small agency with the CEO being the only SES equivalent position.<sup>71</sup> In FY24, the AOFM has 51 ongoing employees, up from 40 employees in FY19 when the ABSF was established.<sup>72</sup>

AFIA recommends the CFR consider ways for the AOFM to be established with a firmer institutional basis perhaps through legislation, to reflect the importance of the AOFM's management of the AGS market, and their role in an increasingly sophisticated Australian securitisation market as a quasi-standard setter. This would have the effect of increasing the formal independence of the AOFM, which would in turn have credibility benefits for the government's debt management policies.<sup>73</sup> Any changes should maintain the AOFM's accountability to the Treasury and the Treasurer, and follow international best practice for Debt Management Offices (DMOs) with delegated legal authority.

Given the unique position of the AOFM in the securitisation market, and its status as the issuer of AGS on behalf of government, we believe this review should look at how the AOFM could be enhanced to play a greater role in developing and diversifying Australia's securitisation market as well as strengthening Australia's debt capital markets, particularly our corporate bond market. This could mean legislative change to establish the AOFM as a separate corporate government entity under its own purpose legislative mandate, or consideration of mechanisms for government to make the AOFM's securitisation mandate more explicit, combined with more resourcing and clearer ongoing and emergency mandates.

AFIA members are increasingly engaging with the Clean Energy Finance Corporation (CEFC), with AFIA hosting a webinar with the CEFC's Head of Debt Markets in June 2024 and facilitating connections into the NBL sector.<sup>74</sup> This is important as the CEFC diversifies its partnerships moving beyond initial initiatives with the major banks and Macquarie Bank. We note and welcome the government announcement to increase CEFC funding by \$2 billion.<sup>75</sup> With many of our members helping fund the net-zero transition through green finance in collaboration with the CEFC, the CFR should consider ways the structure and experience of the CEFC could be leveraged to inform an updated AOFM that could contribute to stronger Australian securitisation market across all lending areas, in addition to a deeper corporate bond market.

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<sup>70</sup> AOFM, [Background and Legislation](#).

<sup>71</sup> Australian Business Securitisation Fund Bill 2019, [Explanatory Memorandum](#), p. 13. & Structured Finance Support (Coronavirus Economic Response Package) Bill 2020, [Explanatory Memorandum](#), p. 182.

<sup>72</sup> Australian Office of Financial Management, Annual Report 2023-24, (2024).

<sup>73</sup> Tal Sadeh & Eyal Rubinson, *Regulation and Governance (2014) 18*, '[Agency independence and credibility in primary bond markets](#)', 1332-1368.

<sup>74</sup> [Opportunities in Climate Finance — AFIA](#)

<sup>75</sup> The Hon Anthony Albanese MP, *Media Release*, 'Albanese Government builds Australia's future with new investment in Clean Energy Finance Corporation, (23 January 2025).

Examples of engagement by AFIA members and their experience with the CEFC partnerships can be found in Attachment A.

## PROPORTIONATE REGULATION

One of AFIA's strategic priorities is to advocate for a proportionate, scalable and targeted regulation to ensure our regulatory framework is fit for the future and conducive to economic growth. We also advocate for a safe and transparent financial system with appropriate guardrails to protect consumers. This review presents an opportunity for policymakers and financial regulators to look holistically at regulation in the finance industry, to ensure that we have the overall balance right, particularly as macroeconomic conditions change and technologies, business models and customer preferences evolve and further develop.

### RG 209 Credit licensing: Responsible lending conduct

Responsible lending obligations (RLOs), as set out in Chapter 3 of the *NCCP Act 2009* ('the Act'), lay out clear standards for responsible lending to ensure the necessary steps are taken by lenders to protect consumers from entering into unsuitable credit arrangements.

In December 2019, the Australian Securities and Investments Commission (ASIC) released updated guidance for credit licensees and applicants setting out ASIC's views on the RLOs.<sup>76</sup> This guidance, RG 209, was released to set out clear standards for lending and to inform credit providers on how they should assess prospective borrowers' suitability for credit.

AFIA supports the aims of the RLOs, which protects both consumers and the integrity of the finance industry. However, we believe that the RLOs must be administered in a flexible way to allow lenders to undertake credit assessments and make lending decisions that align with the realities of different borrower profiles and loan types as well as customer expectations regarding access to credit.

RLOs, wherever possible, should not be implemented in a manner to be unnecessarily prohibitive of certain types of lending practices and/or assessment processes, which would make lending to certain cohorts of borrowers increasingly difficult and prohibitive. To do so would result in financial exclusion and a loss of access to credit for many Australians. Furthermore, the RLOs should not stifle digitisation in finance or impede tech-enablement in finance products and services. To do so would not only adversely impact on efficiency, competition and innovation in our finance industry, but be contrary to customer expectations.

We note RG 209's updated guidance predated the appeal judgement in *Australian Securities and Investments Commission v Westpac Banking Corporation*, widely known as the 'Wagyu and Shiraz'

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<sup>76</sup> ASIC, *ASIC updates responsible lending guidance*, (9 December 2019).

decision, in June 2020.<sup>77</sup> ASIC exercised its right to appeal the primary decision after the updated guidance had been published, to clarify the application of the law in the interests of both consumers and lenders, and to guide industry to understand their obligations.

At the time, ASIC Commissioner Sean Hughes said:

*'We decided to appeal because we consider that the decision creates uncertainty about what a lender is required to do to comply with its obligation to make an assessment of whether a loan is not unsuitable for the borrower. And, if the judgment is to be understood as standing for the proposition that a lender may do what it wants in the assessment process (as His Honour found), then we consider that to be inconsistent with the legislative intention of the responsible lending regime ... Put simply, we believe that the judgment left it too unclear what steps are required of a lender. We are seeking clarity by appealing ... Notwithstanding our appeal in the Westpac case, we consider that ASIC should still provide updated guidance mindful that the appeal has not yet been heard.'*<sup>78</sup>

This case revealed areas where regulatory guidance for the RLOs, under RG 209, may not be fit for purpose in terms of assessing a customers' suitability for a loan. In the meantime, industry has grappled with how to balance regulatory obligations with flexible and scalable approaches to credit assessment, presenting a regulatory constraint on efficiency and innovation, and subsequent competition in the finance industry.

Given the 'Wagyu and Shiraz' decision, as well as changes in consumer expectations and technological advances since 2019, AFIA's position is that RG 209 should be updated to be responsive to incorporate that flexible approach underscored by the appeal decision. Fundamentally, this case sets out the importance of proportionality and flexibility in the RLOs and that credit assessments should consider both regulatory standards in tandem with practical realities in lending. An updated RG 209 should allow lenders to adjust credit assessments based on the risk level of each product and borrower profile, as per the judicial reasoning in the Westpac case. RG 209 should also be updated to keep pace with the technological advances reshaping the finance industry, reflecting consumer expectations for efficiency.<sup>79</sup>

In the August 2019 *ASIC v Westpac* landmark decision on the boundaries of the RLOs, Justice Nye Perram held that a lender 'may do what it wants in the assessment process' and is not obliged under the responsible lending provisions of the *NCCP Act 2009* (Cth) to consider a prospective borrower's actual/declared experiences when assessing whether a loan will be suitable for consumers. As the

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<sup>77</sup> Federal Court of Australia, *Australian Securities and Investments Commission v Westpac Banking Corporation* [2020] FCAFC 111, (26 June 2020).

<sup>78</sup> Sean Hughes, Commissioner, ASIC, *ASIC's Vision for a Fair, Strong and Efficient Financial System for all Australians*, (14 November 2019).

<sup>79</sup> Both consumer and SME customers identified 'efficiency' as the most important characteristic for the finance industry in recent research conducted by Pyxis Polling & Insights for AFIA.

revised RG 209 guidance was released prior to the outcome of ASIC's appeal against the primary decision, an inconsistency has resulted between the regulatory guidance and the case law instruction.

In the Full Federal Court decision on ASIC's appeal in June 2020, the Court reaffirmed the primary decision that lenders must obtain adequate information about customers' financial situations, but also allowed flexibility in how lenders make credit assessments.<sup>80</sup> Furthermore, the Court confirmed that there is no statutory requirement for lenders to necessarily consider a prospective borrower's actual living expenses as ASIC contended, with Justice Gleeson stating:

*'The language of the Act does not support the degree of prescription contended for by ASIC. Rather, the Act leaves it open to the licensee to decide:*

- (1) What inquiries it will make... provided that those inquiries are reasonable;*
- (2) What steps it will take to verify the consumer's financial situation... provided that those inquiries are reasonable; and*
- (3) How it will use the results of its inquiries and verification to make the unsuitability assessment, provided that it in fact assesses whether the contract will be relevantly unsuitable for the particular consumer and noting that the licensee is otherwise motivated by the Act to refrain from entering into an unsuitable contract.<sup>81</sup>*

AFIA submits that RG 209 should be updated by ASIC to reflect this fundamental judicial reasoning, where scalable methods of assessing affordability are permitted, provided lenders continue to ensure that loans are suitable for the consumer. Scalability should be a core aspect of any responsible lending compliance framework, to ensure that inquiries and verifications are proportionate to both the consumer's financial situation and the complexity of the product being offered.

At the product level, members understand that the products they offer are not homogenous, with products ranked by complexity, which is influenced by factors such as average loan size and other product features (e.g. loan-to-value ratios or the nature of the assets being financed).

At the consumer level, members agree that scalability allows for differentiation based on the likelihood of default. Our members put customers at the heart of their systems, policies and practices, and scalability at the customer level ensures that no customer is placed at risk of detriment, which also would expose the lender to risk.

AFIA also recommends that a revised RG 209 should clarify how the Household Expenditure Measure (HEM) can be used in conjunction with declared expenses to provide a well-rounded view of a consumer's financial capacity. In the Westpac appeal, Justice Lee supported the use of benchmarks like the HEM alongside declared living expenses:

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<sup>80</sup> Westpac [2020] at [141].

<sup>81</sup> Ibid.

*'It was Westpac's job to assess suitability and although not determinative, for my part, it is far from intuitively odd that Westpac would focus on independent, objective data as represented by the HEM Benchmark and use the Declared Living Expenses in the way it did (through the use of the "70% Ratio Rule").'*<sup>82</sup>

Furthermore, the concept of 'conceptual minimum', which arose during this case, also needs further clarification in a revised RG 209. This case highlighted that discretionary expenses should not be used to dictate whether a loan is affordable, and that lenders aren't required to make judgements about a credit applicant's lifestyle choices and decisions about how and where an applicant may spend their disposable income.

As Justice Lee stated upon the Westpac appeal:

*'It is plain that a consumer may choose to, and can be expected to, forgo particular living expenses in order to meet their financial obligations under a credit contract.'*<sup>83</sup>

To ensure that the requirements for lenders in assessing a consumer's ability to meet their financial obligations reflects the Westpac decision, AFIA submits that clearer regulatory guidance is needed on how conceptual minimum applies when assessing both fixed and variable living expenses.

Furthermore, AFIA also recommends that RG 209 should be updated to better reflect the use of technologies in finance, particularly in credit assessment processes and transaction approvals. Technology is driving operational improvements and efficiencies, with speed to decision a significant factor for customers. Technology is also empowering consumers and businesses, with customisation of product and service offerings another significant factor for customers. Technology is also allowing financial firms to integrate resources and tools into their digital product and service offerings, enhancing financial literacy and money management.

In AFIA's view, there are a number of changes, alterations or additions that should be made to RG 209 to better ensure scalability of RLOs and technology neutrality. This includes amending RG 209 to include consideration of the Consumer Data Right (CDR) framework, the growing use of data-driven and automated decision-making, in addition to artificial intelligence (AI) systems in the context of responsible lending. BNPL products should also be included in an amended RG 209, which can provide insights into how technological advances are impacting on finance and how scalable RLO can be operationalised.

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<sup>82</sup> Westpac [2020] at [173]

<sup>83</sup> Ibid. at [172]

## Prudential Standards

Prudential regulation, as defined by the Australian Prudential Regulation Authority (APRA), is a legal framework focused on the financial safety and stability of financial institutions and the broader financial system, and APRA's role is to ensure that its regulated entities can meet the financial commitments they make to a core group of customers.<sup>84</sup>

Currently, APRA's prudential regulation applies to banks and other authorised deposit-taking institutions (ADIs), insurance companies and superannuation funds. NBLs are not covered by prudential regulation, but non-bank corporates are required to register with APRA to be a Registered Financial Corporation (RFC) and regularly report their financial position and lending activity if they extend credit and have debt assets greater than \$50 million.<sup>85</sup>

The RBA has previously stated that because NBLs are by definition non-deposit-taking institutions, they are therefore not prudentially regulated.<sup>86</sup> That is, they do not hold deposits and are not banks because they do not hold a banking license, and only banking licensees are prudentially regulated. Nevertheless, the nexus between a financial entity and the need for prudential regulations lies not with the exact financial activity that entity is undertaking, but rather the risk that those entities pose to the stability of the broader financial system. This has generally been assessed by measuring the size and growth-rate of the market share of the sector or industry in question.

Noting that the non-bank share of housing credit and business credit were roughly 5 per cent and 9 per cent respectively in the last few years, the RBA concluded in its most recent Financial Stability Bulletin that the overall risk to financial stability in Australia from non-bank lending remains 'contained', given it is a small share of outstanding credit.<sup>87</sup>

It should be noted that although NBLs are not prudentially regulated themselves, their funding structure may be, because the vast majority of funding for non-bank mortgage lenders comes from debt securitisation mostly through warehouse facilities.<sup>88</sup> Australian banks, which are prudentially regulated, mostly provide the warehouse facilities for Australian NBLs. As a result of this relationship, NBLs essentially operate under a form of 'quasi-prudential regulation' as the quality of the underlying loans are scrutinised by the securitisation process as per APRA's warehousing rules in conjunction with the expectations of rating agencies.

As the RBA concedes:

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<sup>84</sup> [What is prudential regulation? | APRA](#)

<sup>85</sup> RBA, *Non-bank Lending in Australia and the Implications for Financial Stability*, (16 March 2023).

<sup>86</sup> RBA, *Financial Stability Review, Box D: Non-bank Lending for Property*, (April 2019).

<sup>87</sup> RBA, *Financial Stability Risks from Non-bank Financial Intermediation in Australia*, (18 April 2024).

<sup>88</sup> RBA, *Non-bank Lending in Australia and the Implications for Financial Stability*, (16 March 2023), p. 32. & Graph 9.

*'Furthermore, banks impose lending standards for loans originated through their warehouse facilities, such as limits on LVRs. Banks are incentivised to do this by APRA's capital requirements; in 2018, APRA increased the required capital banks must hold against loans in warehouse facilities to be similar to that required if the bank directly held the loan. This helps to limit the scope for deterioration in lending standards and deviations from APRA's prudential requirements.'*<sup>89</sup>

Although APRA is empowered under the *Banking Act 1959* (Cth) to make rules for NBLs if they deem their activities to contribute a material risk of instability to Australia's financial system, AFIA submits that the case for any changes to regulation of NBLs has yet to be made.<sup>90</sup> Indeed, the absorption of non-banking lending into the purview of APRA's tiered prudential system would essentially end the distinction between "non-bank and bank" in terms of credit provision within a regulatory context, as it would by all intents and purposes make the former term meaningless, and thereby nullify any competitive pressure that non-bank lending provides to our lending markets. Furthermore, banks by holding deposits, like other prudentially regulated entities (such as, superannuation and insurance), owe their customers financially, and this liability is another reason for the distinction between regulation of banks and NBLs.

AFIA encourages the CFR to look holistically at the structure of Australia's financial system and to consider whether the accompanying regulatory framework and its administration continues to get the balance right; supporting efficiency, competition and innovation, while also providing financial stability and consumer safeguards.

With the rise of digital banks (or 'neobanks') and other businesses engaging in financial services (such as, digital platforms) globally, new technologies and changing consumer preferences is driving new forms of business models that do not rely on legacy systems and/or sit outside traditional regulatory categories.<sup>91</sup>

The current regulatory framework has been designed around mitigating financial failure and contagion in the financial system, rather than necessarily having a view to improving economic growth and prosperity. Although a key focus of any regulatory framework, namely prudential regulation, should be to mitigate risk to financial stability, the source of those risks has evolved significantly since the Murray Inquiry, and even more so since the Wallis Inquiry in 1998.

For instance, the superannuation sector has grown exponentially since the introduction of the Superannuation Guarantee in 1992. With \$4 trillion in funds under management, the super sector is expected to exceed the \$5.3 trillion banking sector.<sup>92</sup> As the super sector grows and makes changes in investment and liquidity operations, the interconnectedness of sectors can create new, different or

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<sup>89</sup> Ibid., p. 32.

<sup>90</sup> Herbert Smith Freehills, *Private credit in Australia – the regulated "unregulated"*, (6 September 2024).

<sup>91</sup> Stripe, *Neobanks 101: What they are, how they work, and whom they're for*, (2 July 2024).

<sup>92</sup> Michael Stutchbury, *Australian Financial Review*, 'Big super is being put to the stress test', (17 November 2024).

greater shocks to the financial system. We note and welcome the announcement of APRA that they will be conducting a system-wide stress test in 2025.<sup>93</sup>

Whereas digital banks have struggled to penetrate the banking sector despite the introduction of the restricted ADI licence in Australia in 2018.<sup>94</sup> The framework establishes the eligibility criteria, minimum initial and ongoing requirements, and application of the prudential and reporting standards during the restricted phase of operation. The framework enables eligible entities to conduct a limited range of business activities for two years as they build their operations, resources and capabilities. As the 'neobank' sector reduces, the regulatory and compliance burden and costs as well as the administrative risks should be better examined with a view to supporting this nascent sector and reducing barriers to entry. We note that a significant number of restricted ADI licences have been revoked by APRA.

The regulatory and compliance burden for new entrants and smaller financial firms is significant. For example, we note recent commentary on the potential adverse impacts on competition in the banking sector due to regulatory rules, administration practices and associated compliance costs discussed by the US Federal Reserve Chair, Jerome Powell and committee members at the US Senate Banking Committee hearing on 11 February 2025.<sup>95</sup>

In AFIA's view, the response to these evolving market structures should not be to force new entrants into legacy regulatory frameworks, rather, regulatory frameworks should evolve to reflect the evolving market structure for all financial firms and market participants to ensure efficiency, competition, innovation and consumer choice is not constrained.

Therefore, we believe the CFR should be looking at a number of features of the evolving market structure:

- the changes in market dynamics, especially the role of superannuation and private credit as investors in debt and equity within lending markets.<sup>96</sup>
- the stratification of existing ADI rules and how to better support new entrants with lower barriers of entry into the banking sector – this could include more flexible capital and liquidity obligations for smaller ADIs, greater scalability with administration processes associated with the restricted ADI license to support lower barriers to entry.
- the emergence of other businesses in financial services, including digital platforms.<sup>97</sup>

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<sup>93</sup> APRA, *APRA Chair John Lonsdale's speech to AFR Banking Summit*, (26 March 2024). APRA Chair subsequently confirmed at the ASIC Forum that the system-wide stress test would focus on a shock to the super sector and then more broadly to the banking sector and financial system (15 November 2024).

<sup>94</sup> APRA, *APRA finalises new Restricted Authorised Deposit-taking Institution licensing framework*, (4 May 2018).

<sup>95</sup> US Senate Committee on Banking, Housing and Urban Affairs, United States Congress, *The Semiannual Monetary Policy Report to the Congress*, (11 February 2025).

<sup>96</sup> It should be noted that ASIC commenced a review into Australia's private markets in 2024, in particular the emergence of some large institutional investors and private credit funds and the associated governance processes and practices, including their asset valuation and liquidity management practices. We believe public and private markets have an important role in Australia's financial system, which was also acknowledged by ASIC in their Key Issues Outlook published on 24 January 2025. ASIC, *Key issues outlook 2025*, (24 January 2025).

<sup>97</sup> It should be noted that digital platforms are a focus of new laws before the Parliament, with proposed changes to the Payment Systems (Regulation) Act to capture digital payments, including but not limited to mobile wallets. Additionally, the current

Overall, AFIA believes that a holistic approach to financial regulation would be better suited to fostering and encouraging competition in the banking and the finance industry, rather than localised market interventions which purport to ‘level the playing field’, but in reality, may in fact distort markets as well as potentially inhibit competition and innovation and hinder economic growth and prosperity.

### Macroprudential Policy Framework

In November 2021, APRA commenced a review into its macroprudential policy and determined that it remained appropriate, particularly for the NBL sector.<sup>98</sup> Submitting to the inquiry, AFIA noted its concern that any potential extension of macroprudential policy to non-bank lending would have adverse and unintended consequences for customers, such as financial exclusion and a contracted lending market.<sup>99</sup> More recently, APRA has reaffirmed its position that there is no need to apply macroprudential policy to non-bank lenders, which AFIA supports.<sup>100</sup>

In November 2024, APRA announced no changes to its existing macroprudential settings, with the mortgage serviceability buffer remaining at 3 per cent for ADIs. With continued uncertainty regarding the economic outlook, APRA considered ‘current setting of the serviceability buffer at 3 percentage points to be appropriate’.<sup>101</sup>

AFIA supports the objective of macroprudential policy, which is to mitigate risks to financial stability at a system-wide level, rather than at an institutional level. Although APRA has powers to extend macroprudential policy to non-bank lenders under the *Banking Act 1959* (Cth) if their activities materially contribute to risks of instability in the Australian financial system, APRA decided that there is no need to apply the policy to non-bank lenders in their most recent assessment.<sup>102</sup>

NBLs, in addition to smaller ADIs or specialised digital banks offer financial services to a unique customer base outside the risk appetite of major banks. Although APRA allows ADIs the discretion to make exceptions to the use of the mortgage serviceability buffer on a case-by-case basis when lending to customers, APRA notes this accounts for only 5 per cent of new house loans in 2024.<sup>103</sup> This reflects the different risk appetite of banks compared to non-bank lenders as a result of differing credit assessment practices. Given the more forensic, individualised approach to credit assessments and lending practices by non-bank lenders, a system-wide macroprudential buffer would be inappropriate at its current settings for this sector.

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consultation on a new digital competition regime should be noted, which intends to impose consumer protection on large tech companies and digital platforms. We believe it is important for these new laws to be passed and introduced, respectively, so the RBA can licence all payments providers and so the ACCC can monitor compliance, consumer protections, and anti-competitive behaviour of all significant providers in digital services, especially as these may interconnect with financial services.

<sup>98</sup> APRA, *Macroprudential Policy credit measures*, (14 June 2022).

<sup>99</sup> AFIA, *Submission to Macroprudential Policy Framework: Consultation*, (28 February 2022).

<sup>100</sup> APRA, *Update on APRA’s Macroprudential Policy Settings*, (27 February 2023).

<sup>101</sup> APRA, *Update on APRA’s Macroprudential settings – November 2024*, (November 2024).

<sup>102</sup> APRA, *Update on APRA’s Macroprudential Policy Settings*, (27 February 2023).

<sup>103</sup> APRA, *Update on APRA’s Macroprudential settings – November 2024*, (November 2024).

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In AFIA's view, any potential extension of macroprudential interventions into lending practices of non-APRA regulated entities such as NBLs may result in adverse and unintended consequences, such as the reduced provision of credit to those who need it and can be appropriately serviced by specialist lenders, and thereby financial exclusion. For smaller ADIs, specialised digital banks and NBLs, it is vital that any changes to or the imposition of macroprudential settings do not impact household or business access to finance as well as efficiency, competition and innovation in the finance industry.

### **Resilience requirements and resolution arrangements**

Some members raised issues about APRA's implementation of resilience requirements and resolution arrangements for smaller ADIs, raising questions about whether the framework is fit for purpose and whether further clarity on what balance is appropriate. The Issues Paper raises this matter as a regulatory interaction constituted by potential trade-offs, noting the impact that subsequent regulatory capital costs have on competition.<sup>104</sup>

Australia has a relatively immature resolution framework compared to comparable jurisdictions, which potentially contributes to the low-risk appetite for financial firm failure in the prudential framework, and thereafter the implicit credit rating support that larger, institutionally and systemically important financial firms enjoy.

## **A MODERNISED REGULATORY FRAMEWORK**

One way of fostering greater competitiveness in lending markets and competitive pressure in the finance industry is to ensure regulatory categories/definitions and their administration by the relevant regulatory authority is consistent and transparent. This should include a clear demarcation of how a regulatory framework should apply to a certain entity or business.

Another way of ensuring our regulatory framework is modernised is through more accountability and clarity of reform priorities and administration by our financial regulators. It is critical for efficiency, competition and innovation that Australia's regulatory framework continues to support well-functioning markets, strong consumer safeguards, and competition and innovation in the finance industry.

In this regard, AFIA notes the recent publication of the first version of the Regulatory Initiatives Grid (RIG), which lists reform priorities in the financial services space by regulators and government over the next two years.<sup>105</sup> As the Treasurer stated when announcing the RIG:

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<sup>104</sup> Issues Paper, p. 19.

<sup>105</sup> The Hon Dr Jim Chalmers MP, Treasurer, *Media Release*, 'New tool to streamline and better coordinate financial sector regulation', (19 December 2024).

*'A regulatory grid will help financial services businesses engage with the Government and regulators more effectively and allow regulators to avoid duplication, build shared strategic priorities, and focus on how to best implement reforms. It will also allow entities to allocate their resources more efficiently when implementing regulation – reducing compliance burden and costs. The grid will give financial services providers – particularly medium-sized and smaller players – clear visibility of regulation that might impact their businesses and will support engagement with proposed reforms and their implementation.'*<sup>106</sup>

AFIA welcomed the release of the first edition of the RIG in December 2024, noting that the RIG should ensure regulatory reforms are not just more transparent and better coordinated, but can overtime help address the cumulative impact of regulation.<sup>107</sup>

Furthermore, AFIA believes that a commitment to more formalised channels of engagement with the industry by financial regulators could go a long way in providing new entrants and smaller players with the certainty and clarity they need to provide competitive pressure in their sector.

### **Restricted ADI license**

AFIA believes that the restricted pathway for a business to become an ADI should be encouraging new entrants into the banking sector. However, the prospect of bank entrants in the Australian market has declined in the last few years, as noted in the recent House Economics Committee report *Better Competition, Better Prices*, suggesting the regulatory framework is not working as intended.<sup>108</sup>

Despite this decline, interest still remains from technology-centric, disrupter fintechs interested in becoming licensed banks in Australia.<sup>109</sup> We also recognise the potential of the restricted ADI license in allowing non-bank lending businesses to scale up their operations and enter the banking sector.

APRA announced changes to their Restricted ADI licence requirements in August 2021, noting the launch of the Restricted ADI licensing pathway in 2018.<sup>110</sup> AFIA supported these measures at the time, however, the Restricted ADI licence requirements have not resulted in encouraging and ensuring new ADIs are equipped to succeed.

The requirements and processes for ADI licensing are onerous, require significant workloads, capital and reporting expectations. To promote further competition and innovation, as noted above, AFIA recommends that APRA conduct a further review of the Restricted ADI license requirements and the CFR consider ways to collaborate on pathways to reduce barriers to entry for nascent sectors.

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<sup>106</sup> The Hon Dr Jim Chalmers MP, Treasurer, *Media Release*, 'Better coordinated financial sector regulation', (11 March 2024).

<sup>107</sup> AFIA, *Media Release*, 'AFIA Welcomes Federal Government's Commitment to Greater Transparency on Financial Sector Regulation', (19 December 2024).

<sup>108</sup> House of Representatives Standing Committee on Economics, Parliament of Australia, *Better Competition, Better Prices – Report on the inquiry into promoting economic dynamics, competition and business formation*, (2024), p. 129.

<sup>109</sup> Andrew Cornell, *Capital Brief*, 'Revolut closing in on Australian banking license', (23 January 2025).

<sup>110</sup> APRA, *APRA finalises new approach to licensing and supervising new banks*, (11 August 2021).

## Regulator engagement with smaller ADIs, specialised digital banks and NBLs

AFIA believes that greater formalised transparency by financial regulators when determining regulatory settings would assist not only in compliance with regulatory requirements but also shed greater light on the rationale of certain decision making which can thereafter inform government on what reform is needed.

AFIA members offer competitive pressure to traditional finance through unique product and service offerings and innovative technology. To ensure they succeed, smaller finance entities need greater access to top decision makers at regulators, comparable with major financial institutions.

AFIA notes and welcomes the recent announcement from ASIC Chair Joe Longo at ASIC's 2024 Annual Forum of a Simplification Consultative Group made up of industry groups and others to look at regulatory complexity and efficient administration:

*'Their task will be to identify how we, ASIC, can more efficiently and more effectively administer the law. How the levers and guidance available to ASIC can be more helpful. The fundamental approach of this group will be to listen to consumers, investors, and industry and challenge us to simplify and streamline how these issues are addressed... Fresh thinking is required. We want to hear it. We want to engage with the ideas. I want this group to reinvigorate national discussion about complexity... The focus has to be making the most difference as quickly as possible for consumers and investors, for businesses large and small and for directors... These are issues that have built up over decades and as the ALRC's report earlier this year has shown, there are no silver bullets. But I encourage all of you to work with us so we can make progress... While the focus of this regulatory simplification work will start with ASIC, through this process I expect we will gain insights and ideas for new mechanisms that can provide more analysis and recommendations for reform. Ultimately, we want to establish a consensus about what needs to be done, to ensure we tend towards simplicity for future regulatory development and implementation.'*<sup>111</sup>

The Simplification Consultative Group should be an opportunity for industry to speak frankly with the regulator on how the law is administered and to seek ways for regulatory obligations to be streamlined and simplified so that we can have the competitive pressure produced by new entrants and evolving technology.

Building on this, AFIA recommends that the CFR consider the need for a broader engagement group across all CFR members, which would include assessing the changing market dynamics and the global competitiveness of Australia's regulatory framework in lending markets.

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<sup>111</sup> Joe Longo, Chair, ASIC, *ASIC Annual Forum 2024: Bridging generations – regulating for all Australians*, (14 November 2024). Australian Finance Industry Association  
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The Finance Industry Council of Australia (FICA) is made up of the leading financial services professional bodies from across the industry, including banking, insurance, lending, private equity and securities.<sup>112</sup> FICA has recently commenced a more formalised engagement program with ASIC on cross-sector regulatory initiatives. We believe consideration should be given to having an engagement group that includes all FICA and CFR members and the ACCC, to ensure a holistic view of Australia's financial system.<sup>113</sup>

Additionally, the Government's RIG would greatly benefit from a FICA-CFR engagement program. Looking to the next RIG update in September 2025, AFIA recommends the CFR arrange an engagement forum with FICA to inform the next edition.

## **SUMMARY OF RECOMMENDATIONS**

1. Streamline and simplify securitisation processes and warehousing rules to improving funding accessibility for all lenders.
2. Maintain the Structured Finance Support Fund (SFSF) (or similar fund) for future emergency market intervention in times of significant global and/or domestic stress or turmoil as well as review and improve the Australian Business Securitisation Fund (ABSF) to attract more participants.
3. Institutionalise and update/enhance the role of the Australian Office of Financial Management (AOFM).
4. Consider options to deepen Australia's corporate bond market, with an advisory role for the AOFM.
5. Revise the Australian Securities and Investments Commission's (ASIC) RG 209 to better reflect the outcome of the ASIC v Westpac case as well as to better provide for scalable RLOs and technology neutrality.
6. Maintain the existing status of non-bank lenders (NBLs) as outside direct prudential regulation by the Australian Prudential Regulation Authority (APRA).
7. Consider regulatory structural changes to reflect Australia's evolving market structure, including consideration of growing sectors such as superannuation and private credit, regulatory stratification in banking, and the emergence of digital platforms in financial services.
8. Clarify the resilience and resolution requirements for authorised deposit-taking institutions (ADIs).
9. Simplify and reduce the complexity of the Restricted ADI pathway.
10. Ensure ASIC's Simplification Consultative Group is an opportunity for regulatory streamlining and frank industry engagement.
11. Create a formalised engagement forum for the Finance Industry Council of Australia (FICA) and the Council of Financial Regulators (CFR) to inform the RIG.

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<sup>112</sup> [Finance Industry Council of Australia \(fica.asn.au\)](https://www.fica.asn.au).

<sup>113</sup> It should be noted that AFIA has previously and continues to advocate for the ACCC to become a member of the Council of Financial Regulators.

## CLOSING COMMENTS

AFIA's consumer and SME polling suggests Australians are more interested in efficiency in financial services, above that of other priorities. Customers are becoming increasingly overwhelmed financially and economically, particularly by the big issues facing our economy with inter-generational implications.

Australia's financial system architecture is sound and our finance industry is world-class, with the capacity to continue to innovate, evolve along with changing customer expectations and preferences, and ensure efficient capital mobilisation to help solve our long-term economic challenges. SME finance, housing affordability, age and disability care and net-zero transition are but four long-term economic challenges and issues that require creative thinking from policymakers, decision-makers and financial regulators, and a whole-of-economy approach.

Access to finance by SMEs is critical to our economy. According to a report by Square and the Council of Small Business Organisations of Australia (COSBOA), 44 per cent of small business owners are looking for greater access to low interest loans.<sup>114</sup> As the Productivity Commission has previously noted in 2021, Australian SMEs are three times more likely to seek debt finance rather than equity, and one in six SMEs apply for debt finance.<sup>115</sup> The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) has called for further scrutiny of SME access to finance, noting that access to finance has been a long-standing challenge in the Australian economy.<sup>116</sup>

In terms of housing affordability, the finance industry has a central role to play. All things held equal, a consumer should be able to have easy access to a home loan if they have the capacity to service the loan. Large government interventions in the market may have the opposite effect as intended. Home ownership will not be for everyone, but the government has a role to play in ensuring Australians have access to housing and alternative arrangements. However, we should be looking to leverage the finance industry's strengths to achieve these objectives, rather than market interventions. Therefore, the CFR should be looking at reforms which can leverage Australia's strong and innovative financial services industry to meet the needs of Australians in terms home ownership and home construction, with affordable housing options for owners and renters.

Age and disability care is an increasing challenge for Australia, with costs increasing and service options not keeping pace with needs, preferences and expectations. In 2022, 21.4 per cent of Australians had a disability, compared to 17.7 per cent in 2018.<sup>117</sup> Additionally, 17.1 per cent of Australians were aged over 65 years, compared to 15.9 per cent in 2018. Alternative funding arrangements will be needed for post-retirement living and disability care, and this will require innovative solutions from the finance industry.

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<sup>114</sup> COSBOA, *Square & COSBOA report reveals two-speed recovery as SMEs struggle to maintain resilience in a tough economy*, (14 August 2024).

<sup>115</sup> Productivity Commission, *Research Paper*, 'Small business access to finance: The evolving lending market', (September 2021), p. 2.

<sup>116</sup> ASBFEO, *Media Release*, 'Ombudsman shares RBA concern over small business access to finance', (17 March 2021).

<sup>117</sup> Australian Bureau of Statistics, *Disability, Ageing and Carers, Australia: Summary of Findings*, (4 July 2024).

In terms of emissions reduction and energy transition, Australia should maintain its policy ambitions in terms of sustainability despite international political developments. This means expanding the opportunities for green finance, including but not limited to further leveraging the CEFC partnerships to scale public and private investment. **Attachment A** provides examples of engagement by AFIA members and their experience with the CEFC partnerships.

A simplified and modernised regulatory framework is key to ensuring lending markets are able to address the problems of today and tomorrow in line changing customer expectations and preferences. AFIA's recommendations should be considered in conjunction with a wider focus on the changes in Australia's financial services market composition, as innovative and modern technologies change the face of our lending markets and the financial ecosystem. Any regulatory initiatives should be technology neutral and enabling of innovation, recognising the productivity and efficiency dividends these developments bring to our economy and well as the prosperity and wellbeing benefits these bring to our society.

Rather than seeing competition as a rival priority with financial stability, AFIA encourages the CFR to look at the challenge differently. An outward and optimistic approach, with a focus on efficiency, competition and innovation is key to Australia's economic growth and prosperity in a more competitive, geoeconomically and geopolitically troubled world. A profitable, competitive, productive and thriving finance industry should contribute to stability in our financial system, rather than detracting from it.

I would appreciate the opportunity to discuss our recommendations and provide the review 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 at

[Redacted]

Yours sincerely

[Redacted]

[Redacted]

## ATTACHMENT A: AFIA MEMBERS' ENGAGEMENT WITH THE CEFC

### Taurus Motor Finance: Green car loans for EV uptake

Taurus Motor Finance, supported by the CEFC, has introduced discounted green car loans to make EV ownership more affordable for Australian consumers. In 2022, the CEFC committed \$20.5 million to Taurus, enabling approximately \$100 million in green finance to accelerate EV uptake. Eligible borrowers benefit from reduced interest rates compared to loans for internal combustion engine vehicles.

This initiative addresses a significant barrier to EV adoption—cost—while leveraging government collaboration to foster decarbonisation in the transport sector, which contributes 18 per cent of Australia's greenhouse gas emissions. By partnering with the CEFC, Taurus demonstrates the effectiveness of green car loans in stimulating demand for EVs and advancing supporting infrastructure, such as smart charging networks.

### Metro Finance: Empowering SMEs with clean energy financing

Metro Finance is helping SMEs adopt clean energy technologies through its MetroEco initiative, supported by a \$50 million CEFC commitment. Metro provides discounted loans for EVs, solar PV systems, batteries, and energy-efficient equipment, delivering a 1 per cent discount on standard loan rates, with CEFC and Metro each backing a 0.5 per cent reduction.

'Through the New Vehicle Efficiency Standard and our latest CEFC investment with Metro Finance, we are putting the power back in the hands of small business and helping to ease cost-of-living pressures,' said Climate Change and Energy Minister Chris Bowen.

For SMEs, which account for 98 per cent of Australian businesses, these discounts are crucial for upgrading to energy-efficient machinery and vehicles. For example, an SME taking out a \$60,000 loan for an EV could save around \$1,700 in interest over five years. A previous \$50 million tranche put more than 4,000 EVs on Australian roads by December 2024, with significant take-up of Tesla and BYD EVs.

### Plenti: Advancing home energy upgrades

Plenti is driving household energy efficiency through its partnership with the CEFC under the Household Energy Upgrades Fund (HEUF). With a \$60 million CEFC commitment, Plenti offers discounted green loans for solar PV systems, home batteries, and energy-efficient upgrades.<sup>118</sup> Customers can receive an additional discount of 0.6 per cent by joining a Virtual Power Plant (VPP) via Plenti's GreenConnect platform, enabling total annual discounts of up to 3.3 per cent per annum.

For example, a \$25,000 green loan could save a customer over \$3,500 in interest over seven years compared to standard rates. This type of public-private partnership helps address high upfront costs, empowering consumers to reduce energy bills and household emissions.

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<sup>118</sup> CEFC, *Media Release*, 'CEFC identifies \$850m in potential green loans, announces Plenti as first HEUF commitment', ([31 May 2024](#)).

### **CBA EV Access Program**

The CBA is supporting essential workers in accessing EVs through its EV Access Program, backed by a \$150 million commitment from CEFC.<sup>119</sup> The program provides discounted loans to CBA customers earning less than \$100,000 annually, as well as police, teachers, firefighters, healthcare workers, and other essential personnel. Through this initiative, eligible customers can receive interest rate discounts of 1.0 to 5.0 per cent on EV-specific loans compared to traditional vehicle financing. For example, a \$40,000 loan with a five per cent discount over seven years could save customers more than \$8,000 in interest.

Recognising that many essential workers rely on personal vehicles for commuting due to irregular shift work, particularly in cities like Melbourne and Sydney, this initiative helps improve their transport accessibility while reducing their carbon footprint. Additionally, by increasing consumer demand for EVs, the program supports the development of a second-hand EV market, further enhancing affordability and accessibility.

This investment aligns with CEFC's broader efforts to encourage EV adoption across Australia, including funding for electrified bus fleets and charging infrastructure. By reducing financial barriers for essential workers, the CBA EV Access Program plays a crucial role in driving the shift towards low-emission transport and supporting national emissions reduction goals.

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<sup>119</sup> CEFC, *Case Study*, 'CBA puts essential workers in the EV driving seat', ([December 2024](#)).  
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