

# REVIEW OF SUPPLY CHAIN FINANCE

SUBMISSION TO THE AUSTRALIAN SMALL BUSINESS AND FAMILY ENTERPRISE  
OMBUDSMAN

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3 March 2020

## INTRODUCTION

1. ANZ welcomes the opportunity to provide a submission in response to the Australian Small Business and Family Enterprise Ombudsman's (**the Ombudsman**) Supply Chain Finance Review Position Paper (**the Paper**).
2. With 500,000 small business customers, ANZ understands that small businesses are often more cash flow dependent than larger businesses.
3. For more than 15 years ANZ's contracts with its suppliers, including small businesses, have included standard payment terms of 30 days from receipt of a correctly rendered invoice. This is consistent with the Business Council of Australia's 2017 Supplier Payment Code. We will continue to monitor developments in government policy on this issue.
4. One of the products that ANZ offers to existing ANZ customers, is payables financing (**PF**). In most cases, this involves a larger buyer (ANZ's customer) and their suppliers, some of which may be small businesses.
5. Appropriately implemented, PF can help both buyers and suppliers optimise their working capital, strengthen their supply chain and grow their relationship with each other. ANZ does not support the use of PF as a means to increase payment terms and disadvantage suppliers, particularly small business.

## 30 DAY SUPPLIER PAYMENTS

6. ANZ's standard payment terms for its suppliers are 30 days from receipt of a correctly rendered invoice. We work with our small business suppliers to help them provide us with the information required to expedite payment. In 2018-19 ANZ paid small businesses on time 99.6 per cent of the time.
7. To assist our small business suppliers, ANZ uses purchase order-based supply processes, provides new suppliers with an 'on boarding' pack to guide them through our processes, and frequently communicates with our supplier base, including through webinars.
8. We have also expanded the use of corporate credit cards for ANZ staff to use for low value, infrequent purchases to provide faster settlement for suppliers.
9. ANZ is also a signatory to the Business Council of Australia's (BCA) Supplier Payment Code, a voluntary, industry-led code which enshrines the importance of prompt and on-time payment to suppliers through a set of best practice standards. As reported in the ANZ 2019 Environment, Social and Governance Supplement, on average, a payment is made in around 16 days from receipt of the invoice from an eligible Australian small business supplier.

## SMALL BUSINESS DEFINITION

10. ANZ agrees that the use of multiple definitions of small business across state and Commonwealth legislation and various government bodies can be administratively difficult. We note that the Federal Government is currently consulting on its Payment Times Reporting Bill and Rules, which defines small business as a business with turnover of less than \$10 million.
11. ANZ's standard payment terms do not distinguish between small businesses and other businesses; we pay all suppliers within 30 days of receiving a correct invoice.

## PAYABLES FINANCE

12. As the Position Paper notes, supply chain finance is a legitimate and effective tool to free-up working capital. The International Chamber of Commerce and other global partners to the Global Supply Chain Finance Forum share this view.<sup>1</sup>
13. ANZ does not offer PF as a stand-alone product. Instead, PF is provided to support existing ANZ customers (buyers) with their supply chain. **Attachment 1** summarises ANZ's PF product.
14. Before agreeing to offer PF, ANZ undertakes due diligence of a buyer's commercial relationship with their suppliers including the payment terms being offered against their cash conversion and trade cycles. This is to ensure that terms agreed by the buyer and supplier reflect industry norms. In some industries, such as some agricultural sectors, the industry norm may involve long payment periods.
15. When looking at a possible new PF program, ANZ makes an assessment of the entire financial position of its customer (the buyer), including trade creditors, to determine whether a PF product is suitable. We also detail the exposure under PF when requested to prepare audit confirmations. This provides transparency of the PF program that the buyer has with ANZ.
16. ANZ does not use artificial intelligence or dynamic discounting algorithms to adjust discount rates based on the individual circumstances of suppliers. Our discount rate is based on the credit profile of the buyer and is applied in a uniform manner within each PF program.
17. From a small business supplier's perspective, participating in a PF program allows the business to access working capital without the time and cost of applying for finance. PF programs also enable small businesses to use their assets for other purposes instead of locking them into working capital financing arrangements. Pricing of PF is reflective of the

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<sup>1</sup> Global Supply Chain Finance Forum Message on Payables Finance, 13 February 2020, <https://fci.nl/news/gscffmessageonpayablesfinance-finalversion.pdf>

credit risk of the buyer and therefore a small business supplier is able to benefit from a cheaper source of funds, particularly when compared to an unsecured debt facility.

## ATTACHMENT 1

18. In summary, a typical PF program offered by ANZ works as follows:
- a) ANZ enters into a payables service (buyer) agreement (**Buyer Agreement**) with a buyer, permitting the buyer to request that certain invoices received from its supplier are paid by ANZ to the supplier on the invoice due date (**the Payables Service**).
  - b) ANZ separately enters into a payables service (supplier) agreement (**Supplier Agreement**) with a supplier to the buyer under which the supplier may elect to have invoices for which ANZ has provided a Payables Service paid early.
  - c) The buyer acquires goods or services from the supplier and the supplier issues an invoice to the buyer.
  - d) The buyer requests ANZ to provide the Payables Service under the Buyer Agreement in respect of the invoices issued by the supplier. The buyer does not select invoices to be paid early as part of its request to ANZ. Early payment is separately facilitated through the Supplier Agreement between ANZ and the supplier.
  - e) If ANZ accepts a request from the buyer, ANZ will notify the supplier and the supplier may request early payment of the relevant invoices.
  - f) If ANZ accepts the supplier's request for early payment, ANZ will pay the supplier for the relevant invoices at a discount to their face value based on the length of the period between the early payment date and the invoice due date. The discount rate applied will be commensurate with the credit rating of the buyer. Upon payment by ANZ, the rights in respect of the invoices (the receivables) are transferred to ANZ.
  - g) If the supplier does not elect early payment, ANZ will pay the supplier on the invoice due date on behalf of the buyer without any deductions (ie at the full face value).
  - h) On or before the due date for each invoice for which ANZ has provided the Payables Service, the buyer will pay to ANZ the face value of all invoices irrespective of whether or not ANZ has paid the supplier early in relation to any of those invoices.
19. The below illustrates how ANZ's PF product works where a supplier has requested early payment:



**ENDS**