

## **Banks, trade associations can help SMEs understand risk-based approach to loans**

**By Sharon See**

***The Business Times*, 12 March 2020**

BANKS and trade associations can do more to help small businesses understand the risk-based approach to loans, so that these businesses can take action to qualify for more favourable interest rates, Deputy Prime Minister and Finance Minister Heng Swee Keat suggested on Wednesday.

This suggestion was made during a discussion at the ST-BT Budget Roundtable 2020, which was sponsored by OCBC Bank, on whether bank interest rates could be lowered to alleviate cash flow issues particularly for smaller companies.

During Budget 2020, Mr Heng said the working capital loan component of the Enterprise Financing Scheme will be enhanced for a year, with the maximum loan quantum doubled to S\$600,000 and the government's risk-share on the loans raised to 80 per cent.

Roundtable panellist Faizal Yahya, senior research fellow at the Institute of Policy Studies, said: "From a small company's perspective, it's great that the government takes up some of the loan risk, but essentially the interest rates are still pretty high compared to those given to bigger companies."

Fellow panellist Linus Goh, head of global commercial banking at OCBC Bank, said global rates are already coming off, with central banks responding to a weakening global demand. This has helped to lower borrowing costs, he said.

At the same time, OCBC announced in February a package of tailored support to provide borrowers more flexibility in their existing commitments.

But Mr Heng said banks can do more. Given that interest rates are based on the risk of the borrower, he said banks could work together with trade associations to offer online training for SMEs on what a "risk-based approach" to lending means.

This can help them to take action to lower their risks and help them qualify for more favourable rates, he said.

This would benefit both the lender and the borrower, he noted, adding that Singapore should be creative about looking for such solutions.

Concurring, Mr Goh said digital connectivity and the use of supply chain management systems like the Network Trade Platform (NTP) has helped reduce uncertainty.

"There, you have a very clear understanding of orders that are made by anchor buyers, the relationship to their suppliers who are SMEs, the recurring nature of those trades, the stability of the orders that come and certainty of repayment. All of those are already measured differently, so therefore better risks are treated with better pricing," Mr Goh said.

Earlier in the discussion, Mr Heng said the NTP has helped to boost buyer and seller confidence, by allowing the transit of goods and digital payments to be tracked, even during the current economic uncertainty.

This is markedly different from the situation during the global financial crisis in 2009, when trade was stalled by a lack of confidence.

"During the global financial crisis, trade dried up not because there was no demand, but because trade finance and trade insurance dried up. And trade finance and trade insurance dried up because there was a lack of confidence in both parties," Mr Heng said.

He said the NTP has allowed the flow of finance, data and insurance to be better integrated, adding that a trial is now ongoing with some major ports in the world, particularly in China.

Mr Heng said a task force under the Committee of the Future Economy is looking at challenges and how the government can better support SMEs, as he called for innovative solutions to improve their efficiency.

While making innovation pervasive in Singapore is a critical part of the economy's longer term transformation, Mr Heng said beyond long-term problems, they can also help to solve immediate problems.