

Banks could work with SMEs, trade associations to lower borrowing risks: DPM Heng Swee Keat

By Choo Yun Ting

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SINGAPORE - Banks could work with small and medium-sized enterprises (SMEs) and trade associations to possibly lower companies' borrowing risks and interest rates, said Deputy Prime Minister and Finance Minister Heng Swee Keat on Wednesday (March 11).

If there are actions which SMEs can take to lower their risks, then interest rates can also be favourably considered, he added.

"Banks will be happy to lend to companies if the risk is commensurate with the returns, and in order to expect the banks to have lower returns, it means that the risks should be lowered."

"What is it that each SME can do, and the trade associations can do to lower the risk? If we can do that, everybody can benefit and we should be creative in looking for such solutions," said Mr Heng.

He shared these thoughts in an exchange with Institute of Policy Studies senior research fellow Faizal Yahya and OCBC head of global commercial banking Linus Goh at a Budget 2020 Roundtable jointly organised by The Straits Times and the Business Times, with OCBC Bank as the presenting sponsor.

Also on the panel was Ademco Security Group managing director Toby Koh and ST associate editor Vikram Khanna, who was the roundtable's moderator.

Dr Faizal said small companies will benefit from the Government taking on some of the higher loan risk, referring to the enhanced Enterprise Financing Scheme's Working Capital Loan announced at this year's Budget, under which the maximum loan quantum will be doubled to \$600,000 and the Government's risk-share on these loans will be increased to 80 per cent, up from 50 per cent to 70 per cent.

But the interest rates charged by banks "are still pretty high compared with those given to bigger companies", he said.

This has an impact on small companies' cash flow, Dr Faizal added, asking: "Is there a means where the Government could do more with the banks to bring down interest rate charges?"

OCBC's Mr Goh said that globally, interest rates are coming down as central banks respond to weakening demand and borrowing costs will be lowered as well.

Banks are reaching out to SMEs with improved offers, he said, adding that SMEs are proactively coming back to accept these loan offers, suggesting that financial institutions are "meeting the needs where it's at".

Noting that interest rates are set based on the risks of borrowers, Mr Heng said that the banks could possibly work with enterprises or the industry to lower the borrowing risk for individual

companies or the entire industry, which could lead to a favourable calibration of interest rates for businesses.

They could also work with the likes of the Association of Small and Medium Enterprises (Asme) to conduct training for SMEs to help them better understand what a risk-based approach means, he added.

Mr Goh said that banks have been using available data and digital connectivity to better understand the relationships between SMEs and their recurring trades, as well as the stability and certainty of their payments and orders.

This has allowed companies with better risks to be given better pricing, he added.

"The time is right, so we can leverage these capabilities we have... to help SMEs take advantage of their situations, not only to avail better solutions, but also to build a better business because they can direct the orders and business that they do towards a better risk profile," Mr Goh said.