

Banks, SMEs can work together to lower borrowing risks

By Choo Yun Ting

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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 yesterday.

If there are actions that SMEs can take to lower their risks, then interest rates can 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," he said. "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."

Institute of Policy Studies senior research fellow Faizal Yahya 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 in this year's Budget, under which the maximum loan quantum will be doubled to \$600,000.

The Government's risk-share on these loans will be increased to 80 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 firms' cash flow, Dr Faizal said, adding: "Is there a means where the Government could do more with the banks to bring down interest rate charges?"

OCBC head of global commercial banking Linus 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 the loan offers.

Noting that interest rates are set based on the risks of borrowers, Mr Heng said 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 to conduct training for SMEs to help them better understand what a risk-based approach means, he added.

Mr Goh said 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 payments and orders. This has allowed companies with better risks to be given better pricing, he added.

"We can leverage these capabilities we have... to help SMEs," he said.