Australian Banking Association

Australian Banking Association
SME Lending Report

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Introduction

Small and Medium Enterprises (SMEs) are the lifeblood of the economy. Their recovery from the COVID-19 pandemic is critical as the nation charts a path back to prosperity. As lockdowns continued across the country in 2020 and 2021, business owners were thrown into uncertainty. Most are still managing the fallout.

Governments and banks have worked in partnership to help customers through to the other side of this global challenge, deferring loans and providing a wide range of support measures.

Banks have also lent billions of dollars to small and medium businesses throughout the pandemic, despite lower than usual demand. This report finds that of those small businesses which sought access to finance in mid 2021, three in four were successful.

Recent months reveal signs of a lending recovery.

In the three months to August 2021, $10 billion in new lending was made to small business, a 26% jump from $7.9 billion in the three months to August 2020. Lending to medium businesses jumped 49% from August 2020 ($13 billion) to August 2021 ($19.3 billion).

Collaboration with government has delivered innovative new products and services to those who need them. Banks have reported strong demand for the instant asset write-off, enabling the purchase of vital equipment. Homebuilder spurred investment and kept the largest small business sector—construction—busy, while the SME Loan Recovery Scheme provided cheap credit. Additionally, the Australian business growth fund was created to support SMEs as they seek to innovate, expand and create new jobs.

Partnering with small business is one of the most important roles a bank can play. Dedicated business bankers see it as their job to understand a customer's business. They make it their mission to be available to provide trusted support and fast responses.

Fortunately, Australia has not seen an increase in the numbers of SMEs going into administration relative to pre-COVID years, although there is evidence that many experienced a reduction in income.

In April 2020 as many as 73% of SMEs reported a decrease in revenue from the previous month. Some industries recovered quickly from this contraction while others were harder hit. SMEs in hospitality, tourism and accommodation suffered an extended period of revenue reduction with three quarters or more continually reporting a reduction in revenue each month for an entire year to March 2021.

Heading into 2022 we expect SMEs to re-emerge from a hibernating economy and banks are here to support them. In recent years we have seen that SMEs have a suppressed appetite for borrowing and a preference to save. This is not unexpected given the economic uncertainty of 2020 and 2021. However, interest rates are at all-time lows and opportunities for expansion are available.

Access to finance is essential for SME growth. In a 2019 report on SME lending, the ABA found that more than 80% of SME lending applications were accepted by banks. This report examines the same question from the SME perspective and finds a similar result. Most SMEs which seek access to finance also report that they receive it.

Yet banks do have to decline some loans for reasons of prudential management. This report finds that a business which fails to secure a loan is also more likely to report struggling with managing expenses, finding and retaining skilled staff, while also experiencing negative impacts of exposure to international markets.

While SMEs have faced uncertainty throughout the pandemic, banks acknowledge the rebuild and success of the sector is critical to Australia's economic recovery. Banks will continue to work with SMEs, governments and industry stakeholders to ensure product and service offerings for Australia's businesses directly assist the sector's strong economic rebound.

The Australian economy

The economy was supported throughout 2020 and 2021 by targeted and coordinated action of government and industry. Support measures put in place by the Australian Government included disaster payments, JobSeeker, JobKeeper and other measures totalling $291 billion in COVID-19 related support.

Banks also supported economic recovery by providing relief to customers through loan payment deferrals and other measures which eased financial pressure during an extended period of economic uncertainty. At its peak in 2020, more than 225,000, or nearly one in five, SME business loans worth more than $50 billion were deferred by Australian banks.

These combined initiatives meant that the economic contraction of mid-2020 was short-lived. Comparison against other economic contractions such as the GFC, 2000 dot-com bubble and the early 1990s recession shows that the economy rebounded faster than ever before.

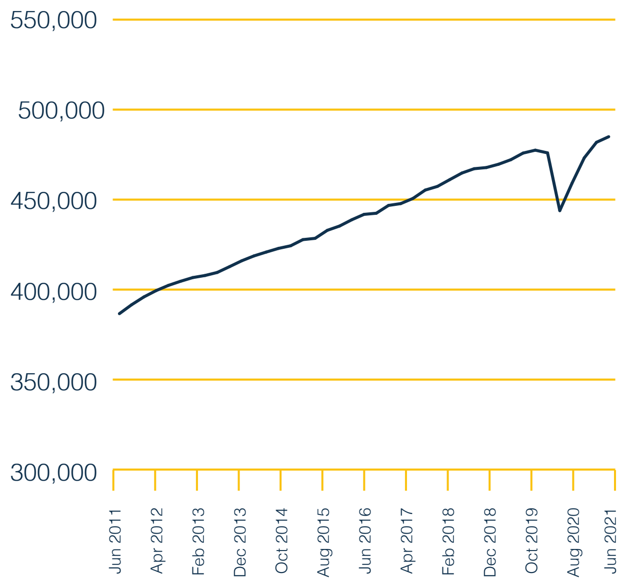
In terms of economic recovery, both income and expenditure have returned to long-term trend growth. National income, as measured by Gross Domestic Product, plummeted sharply in June 2020 before nearly returning to long-term trend levels in early 2021, Figure 1.

Retail sales, which had been growing steadily over the past decade, rose sharply in March 2020, before plummeting in April and May of the same year. While the upwards trend in sales continued through late 2020 and into 2021, actual sales show a more disorganised pattern than was seen prior to Covid-19, Figure 2.

Employment also remained strong during 2020 and 2021. After a sharp increase in the second quarter of 2020, the unemployment rate dipped to never-before recorded lows. While underemployment also peaked before falling again in late 2020. Underemployment did continue to rise during 2021, most likely due to the lockdowns of 2021, however this did not translate to an increase in unemployment.

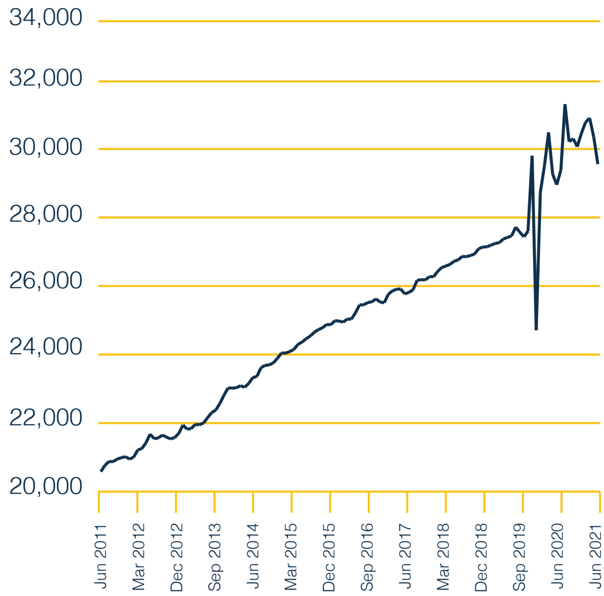
While consumer sentiment fell to thirty-year lows in early 2020, it rose to fifteen years highs in early 2021. Despite the lockdowns of 2021, it remains above the long-term average.

Figure 1: National Income, Chain volume measures, June 2011 – June 2021, $m



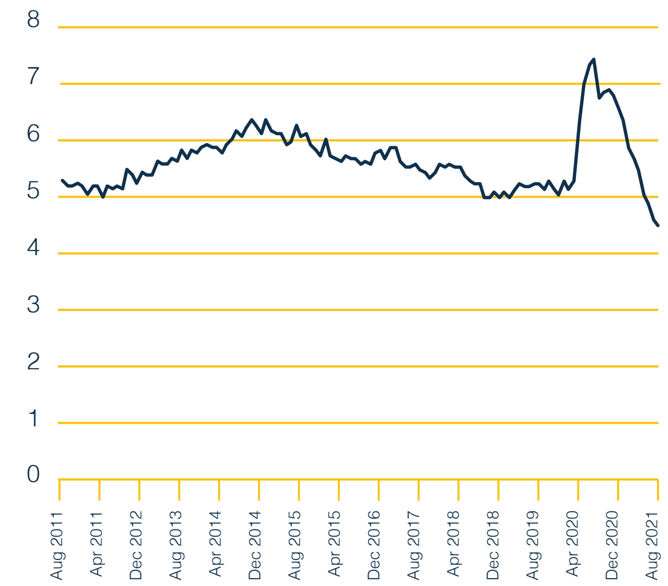
Source: RBA, Gross Domestic Product and Income

Figure 2: Retail Sales, Value, June 2011 – June 2021, $m



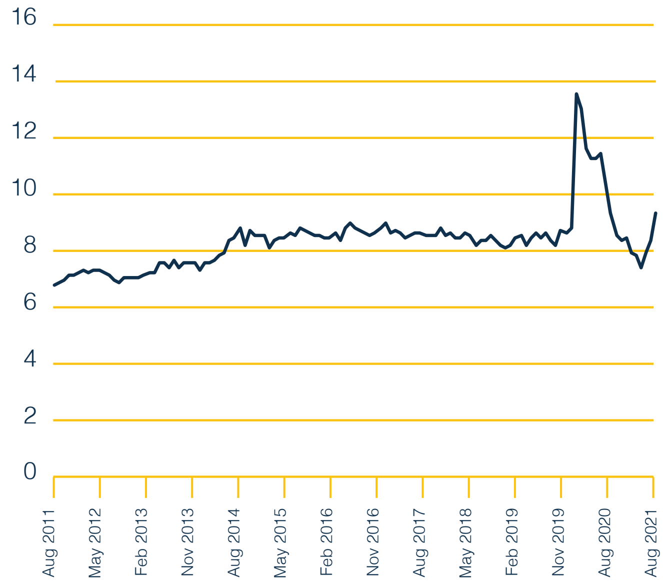
Source: RBA, Gross Domestic Product and Income

Figure 3: Unemployment Rate, August 2011 – August 2021, %



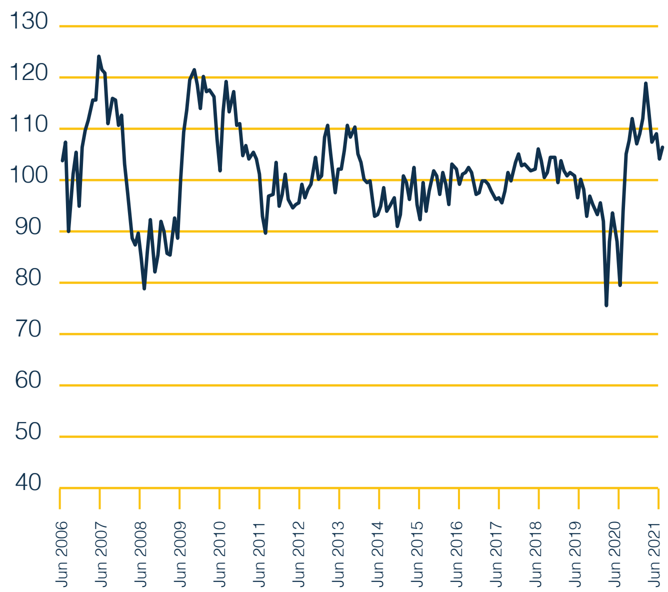
Source: ABS, Labour Force

Figure 4: Underemployment Rate, August 2011 – August 2021, %



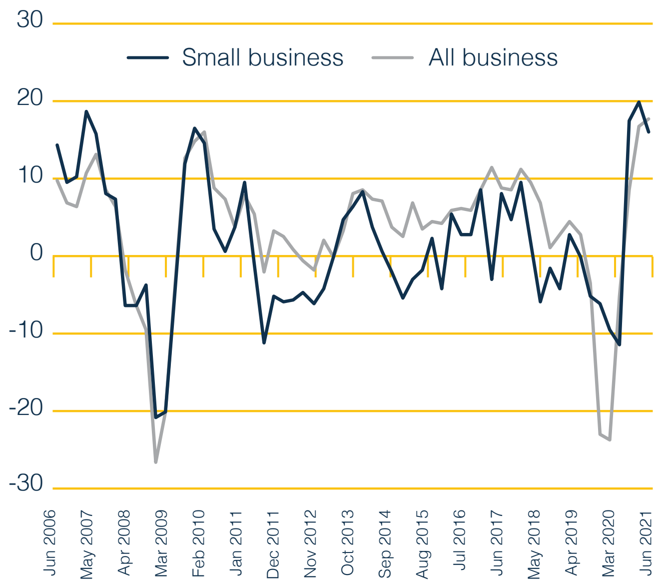
Source: ABS, Labour Force

Figure 5: Westpac Consumer Sentiment Index, June 2006 – June 2021, Index



Source: Westpac Consumer Sentiment, TradingEconomics.com

Figure 6: NAB Small Business Confidence, June 2006 – June 2021, Index

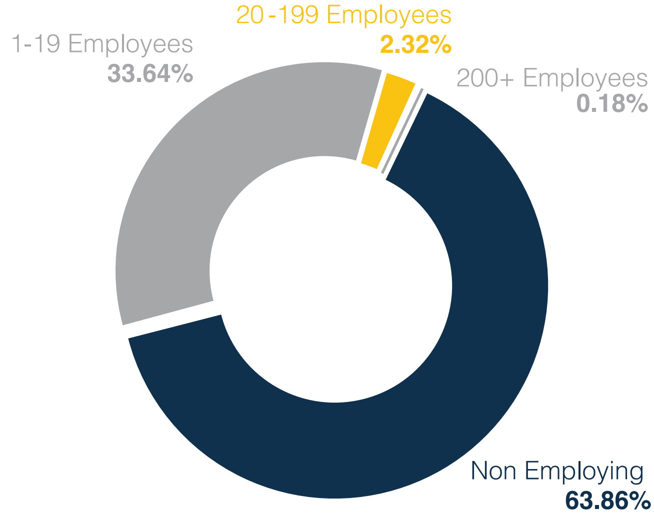


Source: NAB Quarterly small business sentiment; NAB Business Confidence; TradingEconomics.com

Profile of SMEs in Australia

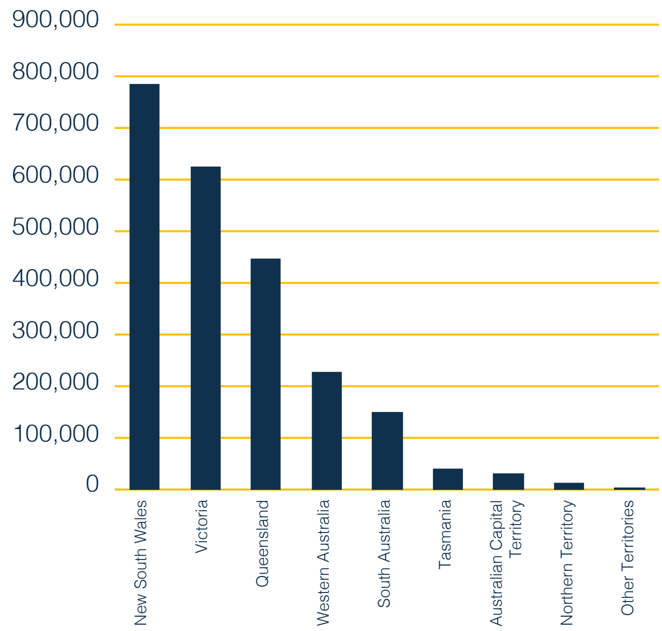
Of the 2.4 million businesses in Australia, the majority (2.35 million or 98 per cent) are small businesses. Nearly two-thirds of businesses are sole traders and more than a third employ 1-19 staff. The state with the largest number of SMEs is NSW, with 33% of all SMEs located in NSW. Overall, the distribution of SMEs by state follows the distribution of the population among states. The industry with the largest number of small businesses is construction (17%) followed by professional, scientific, and technical services (13%) then rental, hiring and real estate services (11%).

Figure 7: Australian businesses by size, 2020, %



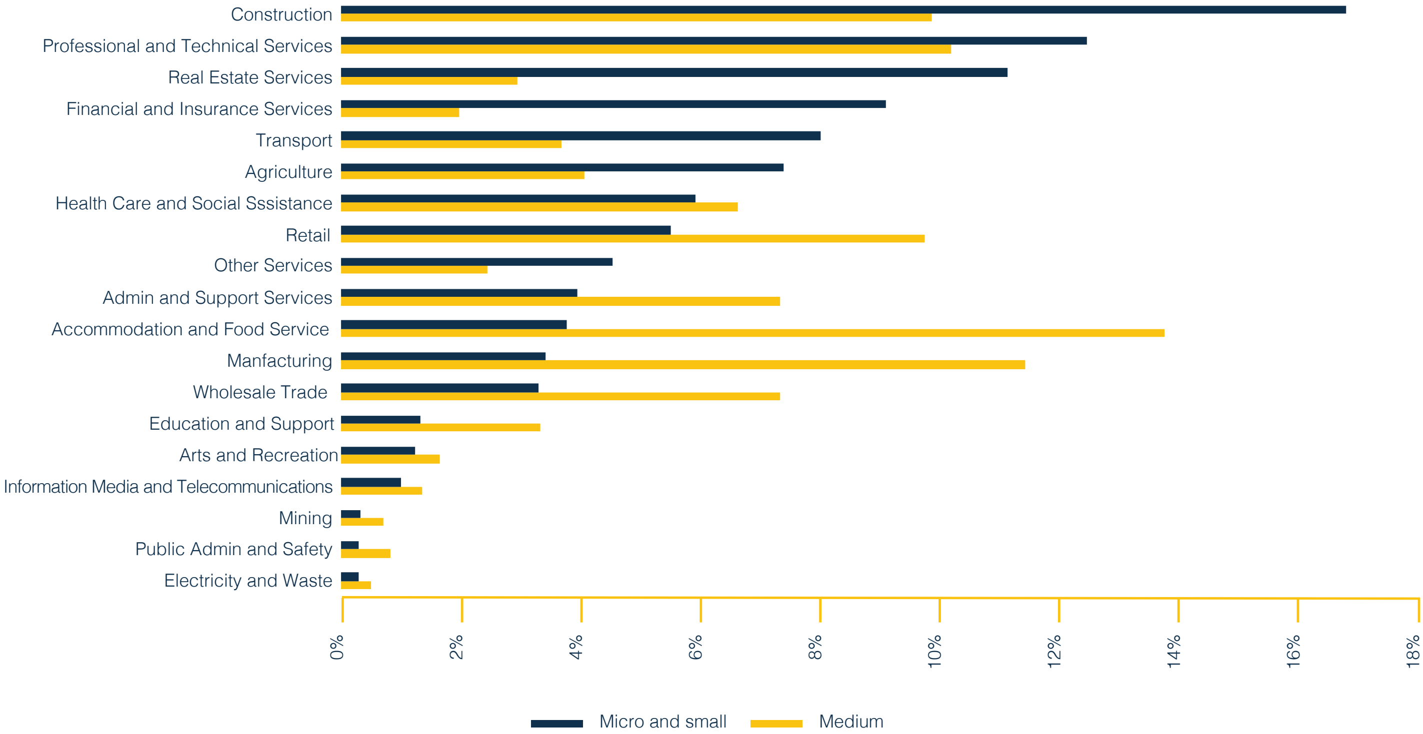
Source: ABS, Counts of Australian Businesses

Figure 8: SMEs by state, June 2020, N



Source: ABS, Counts of Australian Businesses

Figure 9: Industry, by business size, June 2016 – June 2020, %



Source: ABS, Counts of Australian Businesses

Most SMEs (73%) offer services or products directly to consumers, while a further 35 per cent offer products or services to other businesses and 8 per cent to Government.

Table 1: Business model, SMEs, June 2021, %

	%
Business to Consumer	73
Business to Business	35
Business to Government	8

Source: RFi SME Data
Note: Categories are not mutually exclusive, businesses can offer services or products to one, two, or all three categories.

The challenge for SMEs

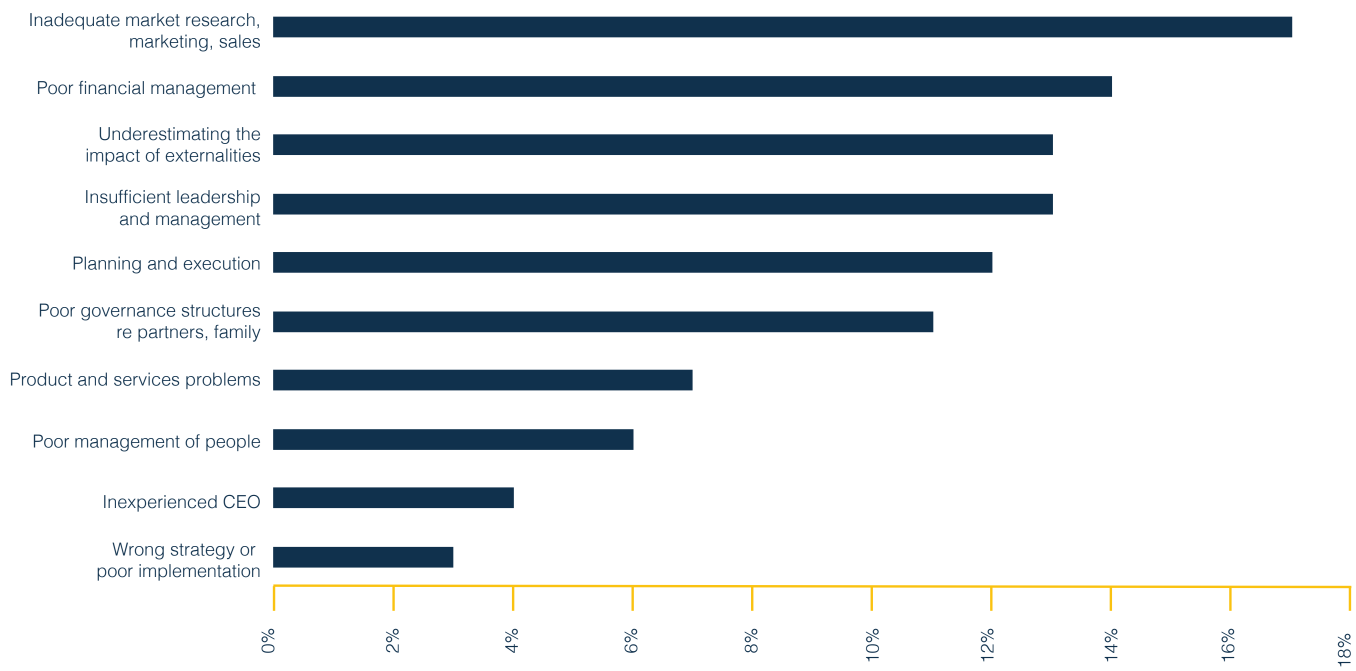
Small businesses are often the nurturing ground for entrepreneurs, start-ups and other enterprises. But growing new businesses can be challenging and survival isn't always easy. Small businesses have a lower survival rate relative to larger business with only 59 per cent of all micro businesses and 72 per cent of small business remaining alive after 4 years. The top reason for SME failure in Australia was found to be inadequate market research, marketing, sales.

Table 2: Businesses operating in June 2017 still operating in June 2021, by Employment Size, 2017 - 2021, N & %

	2017	2021	%
Micro	1,273,094	753,349	59
Small	808,580	587,798	72
Medium	52,229	43,787	84
Large	3,893	3,413	88
Total	2,137,796	1,388,347	65

Source: ABS, Characteristics of Australian Business

Figure 10: Reasons for failure for SMEs in Australia, 2014 – 2018, %



Source: University of South Australia, Australian Centre for Business Growth

Case Study:
Rowena – Royston Petrie Seeds

“So we spoke with our bank manager. They knew our situation, they knew our business. They were there for us.”

Royston Petrie Seeds is a family-owned business that produces billions of seeds each year, selling organic seeds across the world.

Like the majority of businesses in Australia, Royston Petrie Seeds was faced with unexpected challenges thanks to the pandemic.

“The pandemic has hit us hard in more ways than one. We were completely overwhelmed,” said Rowena Petrie, who is the daughter of founder Royston Petrie and now runs the business with her husband Daniel.

Rowena was fortunate that the pandemic quickly increased demand for their product, however this meant it created unexpected resourcing and supply challenges.

“It was almost like people were stocking up. We were working seven days but that in itself created problems. We were running out of stock,” she said.

“We source a lot from overseas because we can’t grow everything we sell. But then we had the added problem that there were no flights coming in. That was scary to think your business might have to shut down because you’ve got nothing to sell,” she said.

“We had some thoughts around how we could best reduce the stress on our staff by implementing some new machinery.

“So we spoke with our bank manager. They knew our situation, they knew our business. They were there for us.”

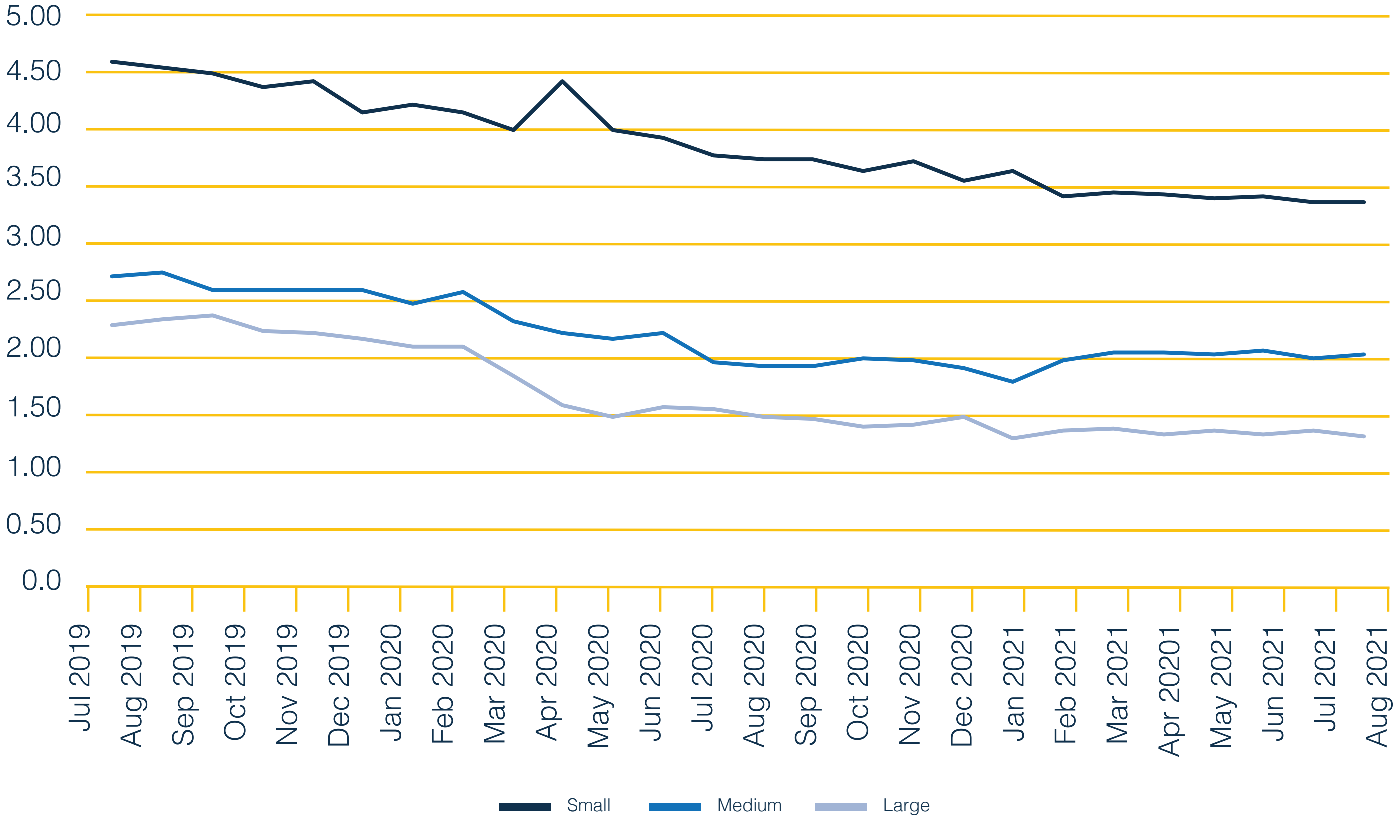
With the help of her bank and the federal government’s COVID-19 business incentives, Rowena was able to purchase new equipment that made the business more efficient, making it better for production while taking the pressure off her employees.

“Luckily, we were also able to capitalise on that instant asset write off and invest in equipment that we knew would benefit our business today, tomorrow but also into the future. I bought the machine of my dreams!”

SME borrowing at a time of record low interest rates

Interest rates for all business sizes have steadily decreased since 2019, when this data series first started being reported. Between June 2019 and June 2021, there was a 1.24 percentage point decrease in the interest rate for small business loans and a 0.69 percentage point decrease in the interest rate for medium business loans. The current average rate now for small businesses sits at 3.37%, 2.02% for medium businesses and 1.31% for large businesses.

Figure 11: Business average new lending interest rates, by business size, June 2019 – August 2021, %

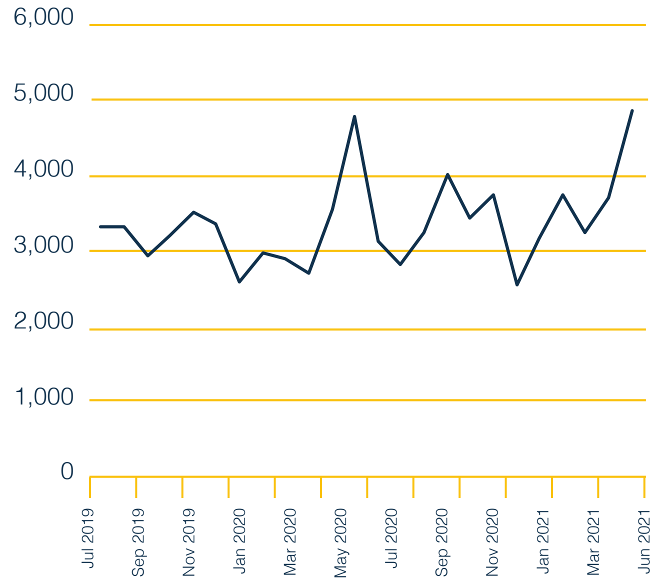


Source: RBA, Business Lending Rates

In the three months to August 2021, $10 billion in new lending was made available to small business, a 26% jump from $7.9 billion in the three months to August 2020. Lending to medium business outpaced this, with a 49% jump in lending from August 2020 ($13 billion) to August 2021 ($19.3 billion).

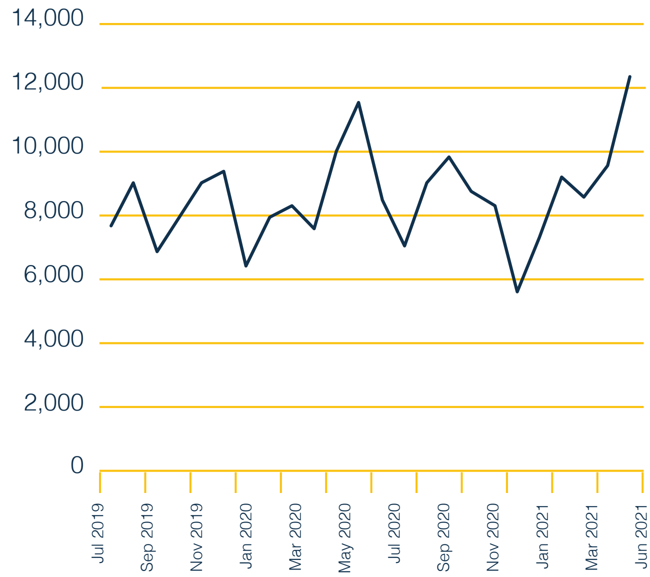
While there has been a recent slight uptick in new business loan commitments, future demand remains uncertain. In recent years SMEs have indicated their intention to decrease their borrowing products and rely more on savings and cash reserves. We see the most dramatic fall in borrowing intentions between December 2019 and March 2020, the early days of the COVID-19 pandemic. This illustrates the more cautious approach that SMEs have taken to both borrowing, while increasingly preferring to save during a time of widespread economic uncertainty.

Figure 12: New lending (including refinancing), Small business, Three month rolling average, July 2019 – June 2021, $m



Source: ABS, Lending Indicators

Figure 13: New lending (including refinancing), Medium business, Three month rolling average, July 2019 – June 2021, $m



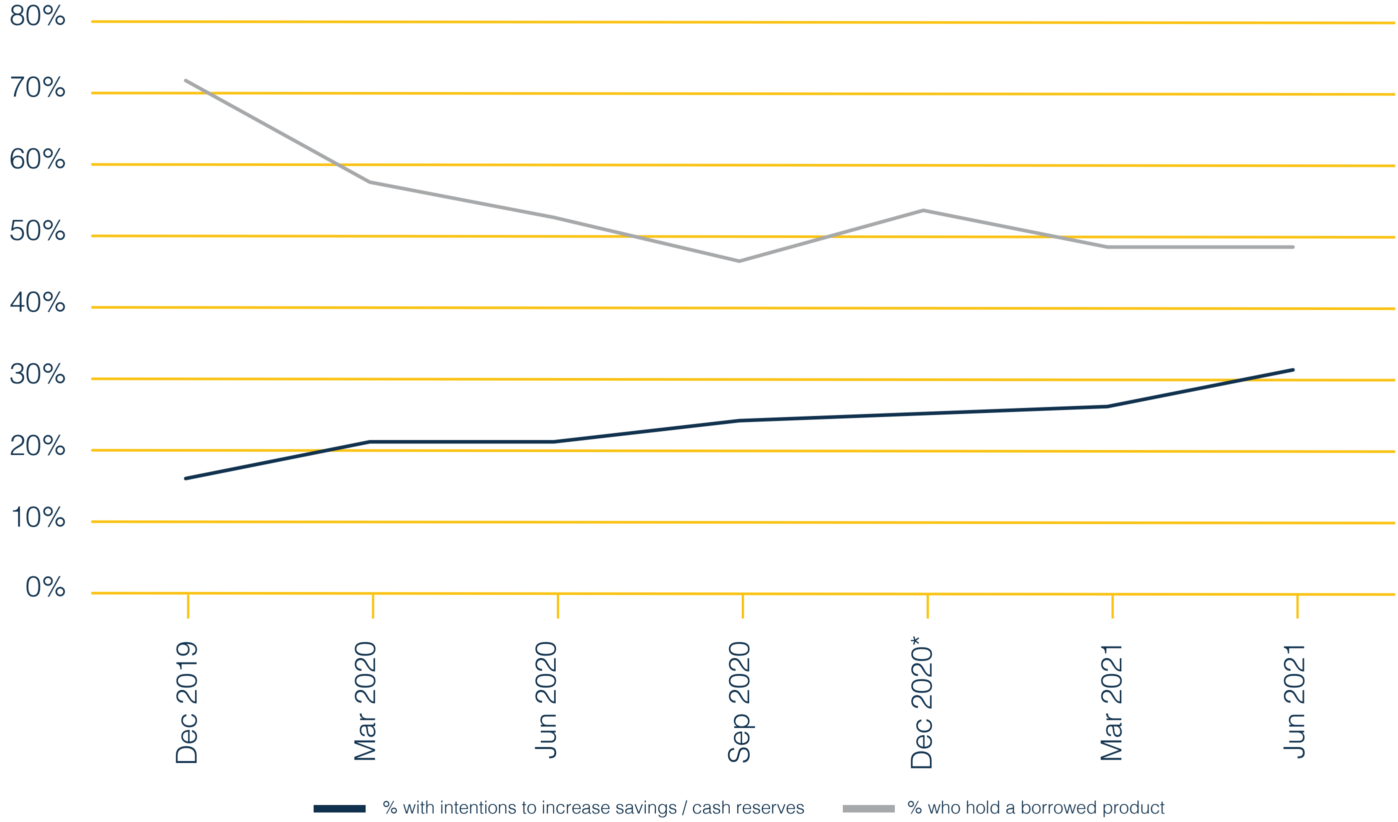
Source: ABS, Lending Indicators

Access to finance

Throughout 2020 there was a sharp decline in SMEs reporting they hold a borrowing product, coinciding with the experience of COVID-19. The proportion of SMEs who reported they held a borrowing product dropped from 71% in December 2019 to 50% in June 2021.

Despite the difficult business conditions during 2021 and the diminished preference for SME borrowing, few SMEs report difficulty in meeting their financial commitments. The majority of SMEs report meeting financial commitments to be easy or neutral. Overall, 41 per cent of SMEs report meeting financial commitments over the next three months as easy or very easy and 36 per cent are indifferent.

Figure 14: SME intentions to borrow or save, December 2020 – June 2021, %



Source: RFi SME Data June 2021. Note: Dec-20 data on intentions to increase savings/cash reserves is not available, therefore this figure is taken as an average of the previous and following quarters.

Table 3: SMEs ability to meet financial commitments over the next three months, by employment size, by industry, June 2021, %

	Small	Medium
Difficult	16%	17%
Neither difficult nor easy	36%	31%
Easy	41%	46%
No financial commitments over the next three months / Don't know	6%	6%

Source: ABS, Business Conditions and Sentiments

Given the continued fall in borrowing intentions, it is unsurprising that only 14% of small and medium businesses reported seeking finance in the three months to February 2021. Of these, three in five small businesses and four in five medium businesses reported success in obtaining it. These figures altered slightly in May 2021, where only one in ten small businesses reported seeking finance and three in four reported success in obtaining it, while 14% of medium businesses reported seeking finance with two in three reporting success.

The top reasons for seeking finance for SMEs in Australia were ‘maintaining short-term cash flow or liquidity’ and to ‘ensure survival of the business’.

In 2019-20, just over 45 per cent of businesses who sought finance and are classified as a micro-small business responded their reason for seeking finance was to maintain short-term cash flow and ensure survival of their business. In comparison, over 50 per cent of small businesses sought finance for liquidity reasons and just over a third sought finance for business survival.

Table 4: Outcome of funding sought by businesses, by employment size, February & May 2021, %

	February 2021		May 2021	
	Small	**Medium**	**Small**	**Medium**
Sought finance	14	14	11	14
Business was successful in obtaining funds	61	80	76	67
Funding application still in progress	15	10	10	22
Business was not successful in obtaining funds	18	6	13	12
Don’t know	5	6	n/a	n/a

Source: ABS, Business Conditions and Sentiments

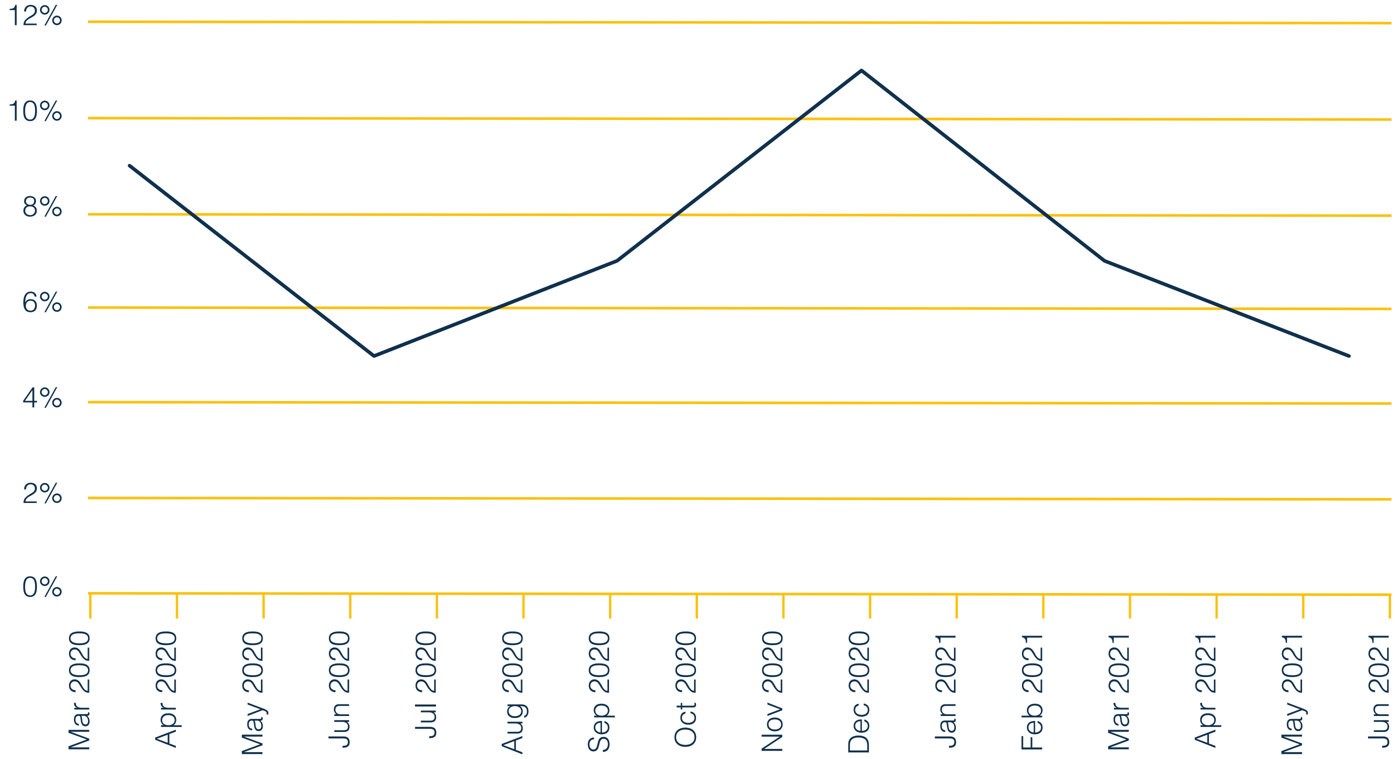
Table 5: Reasons for seeking finance, by employment size, 2019-20, %

Reasons for Financing	Micro-Small	Small
Businesses that sought debt or equity finance	11	16
Ensure survival of the business	45	37
Maintain short term cash flow or liquidity	47	54
Replacement of:		
- IT hardware	4	6
- Other equipment or machinery	24	36
Upgrade of:		
- IT hardware or software	7	10
- Other equipment or machinery	15	29
Purchase of additional:		
- IT hardware or software	5	9
- Other equipment or machinery	20	29
- Assets not related to expansion	3	7
Expand business	13	24
Introduce new improved goods or services or processes	11	17
Other reasons businesses sought debt or equity finance	11	4

Source: ABS, Counts of Australian Businesses

Ongoing tracking of SME access to finance shows a slightly lower proportion of SMEs reporting they have been declined finance compared to the COVID-19 specific data collection by the ABS. Over the past 15 months, between 5% and 11% of SMEs report that they have been declined finance. This discrepancy is likely due to slight variations in the methodology of the collection and the definitions of an SME[1].

Figure 15: SMEs that have been declined finance in the previous 12 months, March 2020 – June 2021, %



Source: RFi, SME Data

1. For example, the RFi collection may capture more 'medium' enterprises in their definition, weighting the proportion of SMEs that have been declined lower to reflect fewer medium enterprises being declined relative to smaller enterprises.

Appetite for finance

For the 86 per cent of businesses which did not report seeking finance in February 2021, the most common reason included already having sufficient funds (82% of small businesses and 88% of medium businesses reported this as a reason for not seeking additional finance). Unwillingness to increase debt was more commonly reported by small businesses than medium or large businesses (42% compared with 31% and 24%, respectively).

Small businesses were more likely to report the view that they were unable to meet eligibility requirements compared with medium and large businesses (10% compared to 7% and 4%, respectively). However, the most common reason for a business not to seek finance was either not needing finance, or not wanting to increase debt.

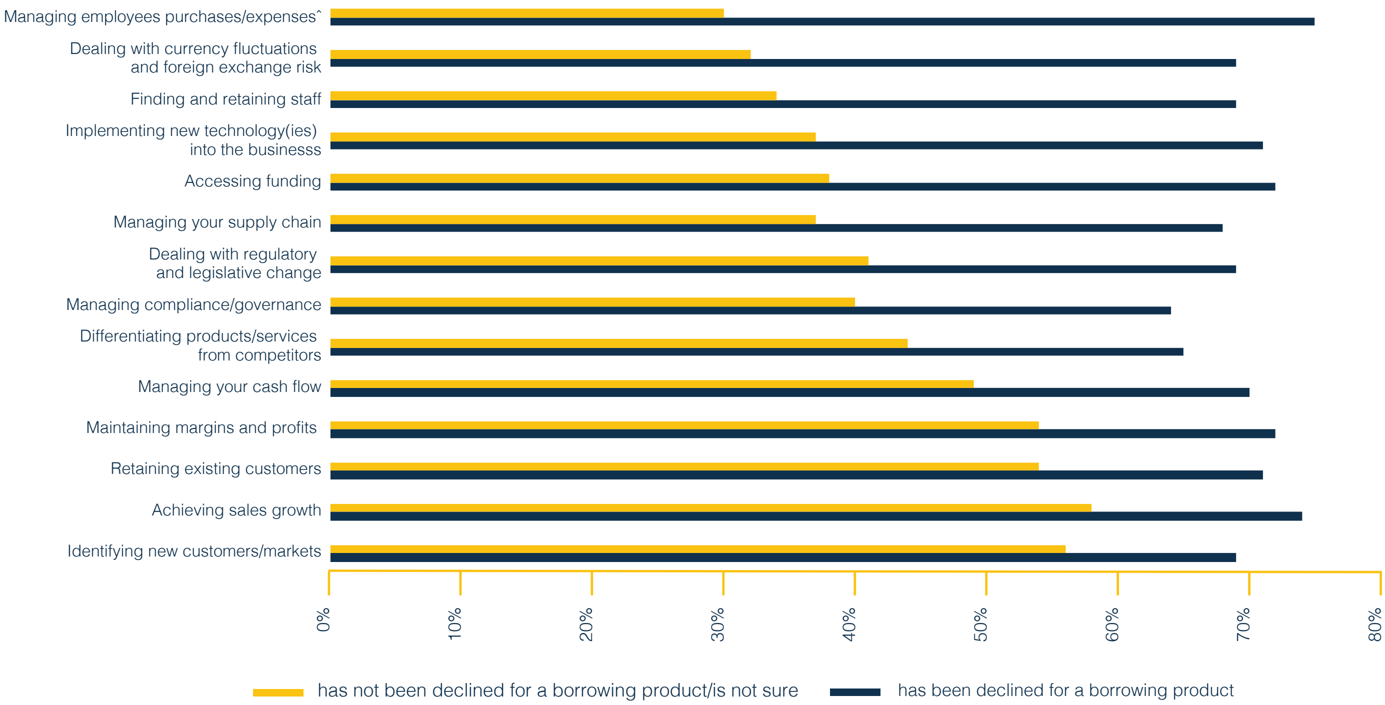
Table 6: Reasons for not seeking additional funds, February 2021, %

	Small	Medium	Large
Had sufficient funds	82	88	93
Had no requirements for capital expenditure or other investments	52	45	46
Unwilling to increase debt	42	31	24
Unable to meet eligibility requirements	10	7	4
Could not meet debt repayments	9	5	5

Source: ABS, Business conditions and sentiment
Note: Respondents could select multiple responses; therefore the columns will add to greater than 100%

Those SMEs who report having been declined for a borrowing product were also more likely to report facing challenges in their business. The chart following compares the proportion of businesses which report being declined for finance in the previous 12 months (grey line) and those which do not report being declined for finance (blue line). Across every single challenge, a greater proportion of those which reported being declined for finance also reported facing challenges in comparison to those which do not report being declined for finance.

Figure 16: Challenges faced by SMEs by whether business was declined for borrowing product, June 2021, %



Source: RFi, SME Data

Case Study:
Bouncing Back - I Love Butter

“As a single mother, with a small business, this support gave me so much peace of mind and even inspiration during a time of genuine fear and uncertainty.”

Sophia Ly is a single mother who successfully used a loan from the bank to turn her quiet COVID-suffering business into a booming online success story.

The first-time small business owner had built her first ever café, Nosh+ on Sydney’s lower north shore. It was a thriving business with many loyal customers. That was, until COVID-19 hit, sending her sales and family income crashing down.

“COVID came. It hit me really hard. Nosh+ became silent. The sales dropped dramatically in three weeks,” Sophia said.

Once customers stopped coming to Nosh+ for its delicious bakery treats, Sophia came up with an idea to get her baked goods to them: a delivery-only side business called ‘I Love Butter’.

With the help of a loan, I Love Butter became a business that delivers uncooked baked goods to homes across Sydney, so customers could cook them in their own ovens.

“We needed a fair bit of money to upgrade our kitchen to meet the local demands… through COVID, the banks were encouraging people to borrow their money. And I was like, hey, if you’re going to be here for me I might as well jump on board. It was a five day process before I got a phone call to say I got approved. I was like, yay!”

Sophia said within four weeks they were up and running, with a full commercial kitchen, taking orders online and delivering across the city.

“It was a good feeling. If anything at all, it empowers you,” she said.

“If the banks weren’t as responsive and efficient as they were I would never have been able to set up a new part of the business.”

“As a single mother, with a small business, this support gave me so much peace of mind and even inspiration during a time of genuine fear and uncertainty.”

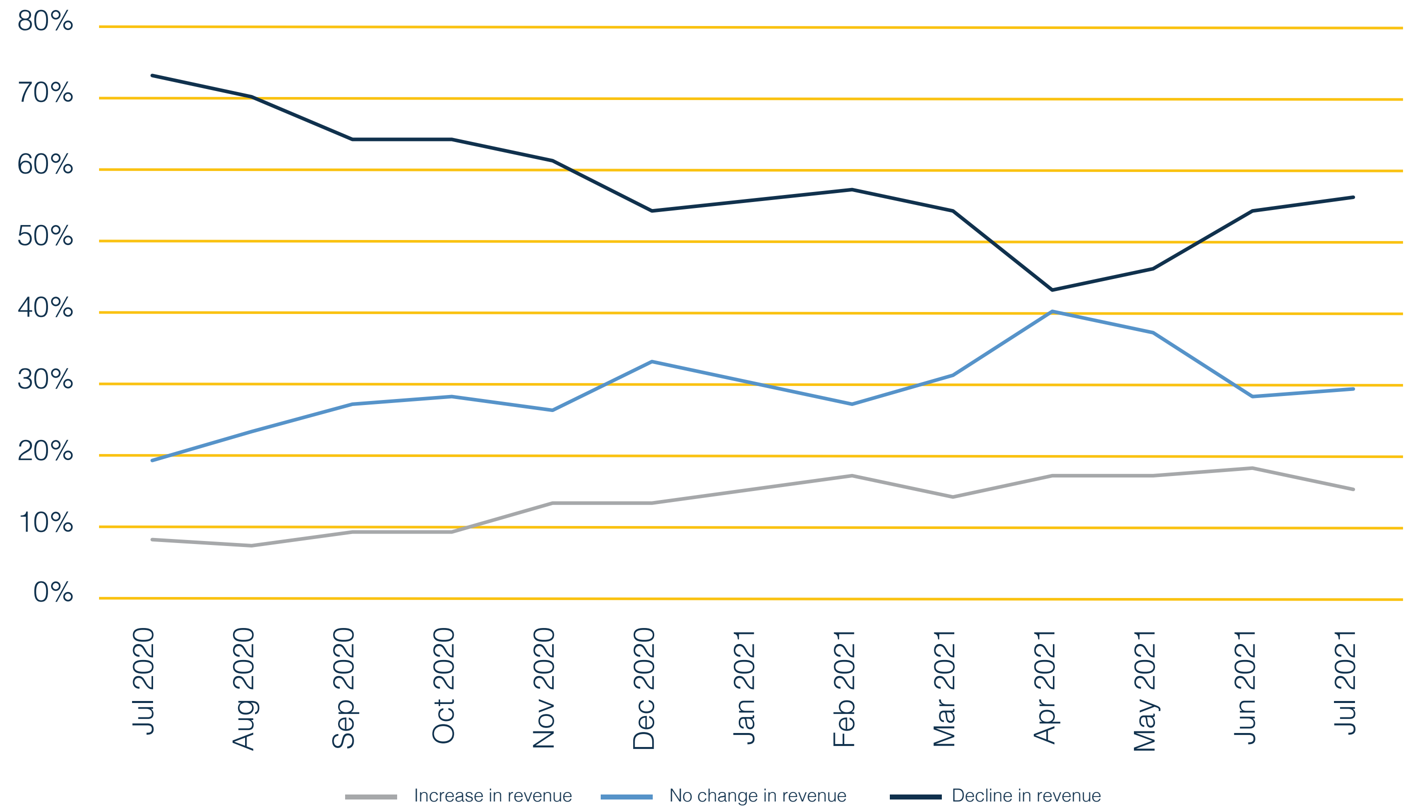
The SME experience of COVID-19 and move to digital ways of working

As a result of the economic uncertainty of recent times, businesses have had to pivot to changes in demand, changes in supply, methods of working and even the ways in which goods and services are delivered. Ongoing tracking of SMEs found that the proportion of SMEs that reported experiencing decreased revenues due to COVID-19 peaked at 73 per cent in July 2020 and fell to a low of 43 per cent in April 2021 before increasing to 56 per cent in June 2021.

Many SMEs experienced a reduction in revenue due to the nation-wide lockdown in the second quarter of 2020 and near nation-wide lockdown in the third quarter of 2021. Both lockdowns resulted in a drop in both consumer demand and business to business demand. The resulting loss of revenue was experienced across the board, regardless of industry, with at least half of all SMEs surveyed reporting a decline in revenue, Figure 18.

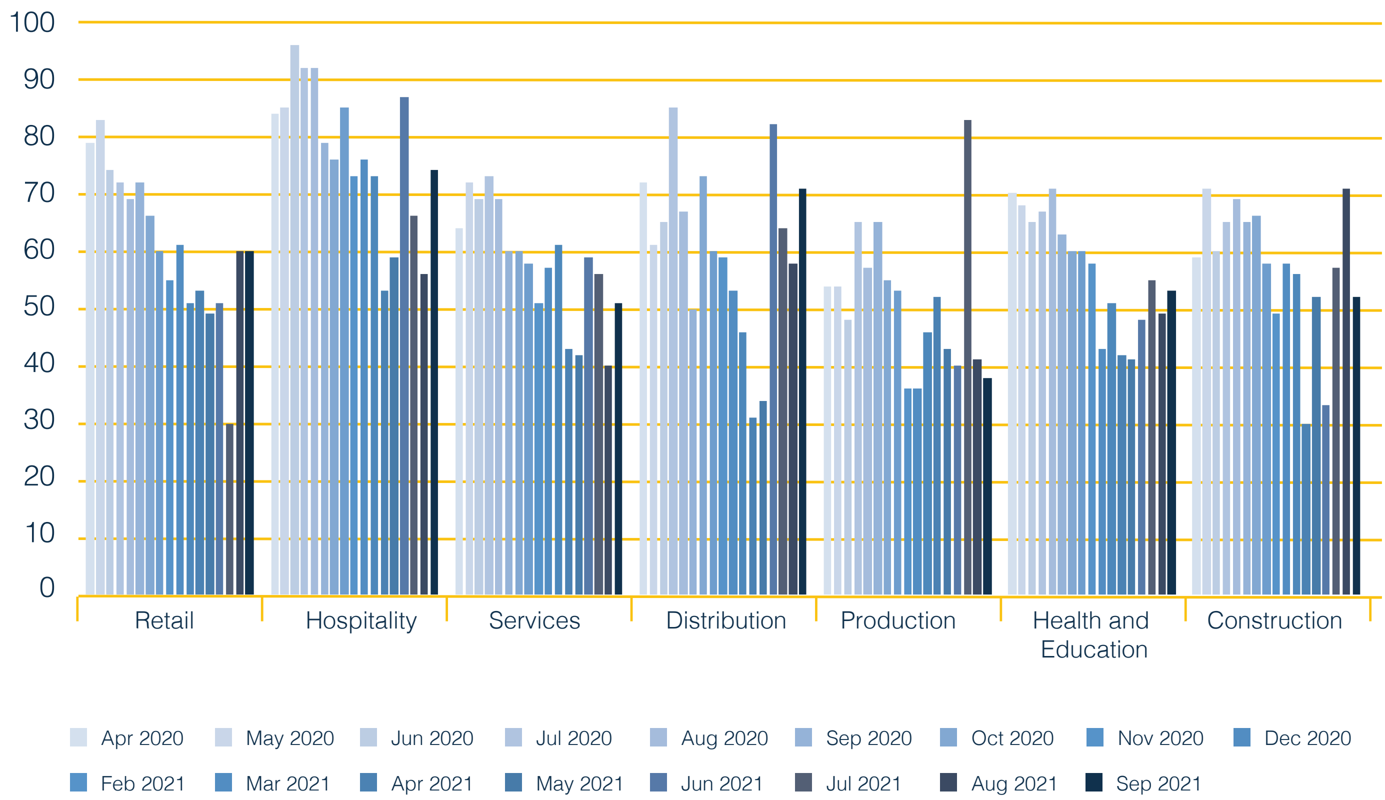
However, it was hospitality and retail businesses that were most likely to report a drop in revenue. From April 2020, at least three quarters of hospitality businesses reported a decline in revenue in every month until the following March. This peaked in June 2020 where nearly all surveyed hospitality businesses (96%) reported a decline in revenue. While a large proportion of retail businesses also reported a decline in income during the early days of the 2020 shutdown, this continued to fall until July 2021.

Figure 17: Reported change in revenue, SMEs, 2020-21, %



Source: ACA Research

Figure 18: Decrease in revenue by industry, SMEs, April 2020 – September 2021, %



Source: ACA, Covid-19 SME sentiment tracker

SMEs appear optimistic about their future prospects. Two in five SMEs reported a goal for the next 12 months of increasing annual revenue. In the same period only 4 per cent of SMEs reported planning to borrow more and only 5 per cent of SMEs reported expectations to take out business overdraft facilities. Instead, a larger proportion (17%) reported that they expect to reduce debt over the next 12 months.

Given SMEs appear to be wanting to increase profits without accessing or borrowing more funds, it is unsurprising that a large proportion report a goal of increased efficiency (34%) and launching new products or services (25%). What is surprising, is the high level of SMEs that report a goal of investing in their business. One in five (21%) reported wanting to invest more with the business, while slightly less reported wanting to invest in equipment or machinery (17%) followed by digital software (16%). There remains a question of where this investment will come from, given such a small proportion report wanting to take out further finance.

Table 7: Business goals for the next 12 months, June 2021, %

Business Goal	%
Increase annual revenue	40%
Improve efficiency	34%
Increase business savings / cash reserves	32%
Launch new products / services	25%
Invest more within the business	21%
Reduce debt	17%
Start operating via new channels (e.g. online, through apps)	17%
Invest in equipment / machinery	17%
Recruit new employees / employees with new or higher skills	16%
Invest in digital software (e.g. accounting software)	16%
Grow international sales	13%
Expand into new geographic markets	11%
Open new locations (e.g. new office, new store etc.)	10%
Invest in emerging technologies (data analytics, cloud computing, artificial intelligence etc.)	8%
Implement actions to use the business' funds more effectively (i.e. take out a new overdraft to improve cash flow)	5%
Begin dealing with new currencies	5%
Borrow more	4%
None of the above	15%

Source: RFi, SME Data
Note: Categories are not mutually exclusive, businesses can offer services or products to one, two, or all three categories.

Innovation

Many SMEs responded to the opportunities resulting from changing consumer demand in 2020/21. For example, hospitality businesses pivoted to providing take-away and other businesses in turn pivoted to support those changes (e.g. transport, delivery, manufacturing of disposable containers).

Yet innovation doesn't always come easily. The top reasons given by small businesses as barriers to innovation include lack of demand (23%), environmental factors (17%) and lower profit margins (16%). For medium businesses reasons included lack of skilled persons (22%), lack of demand (21%) and lower profit margins (20%). In contrast, lack of access to additional funds was only given as a reason by a small cohort of SMEs as a barrier for innovation.

Table 8: Business barriers to innovation, 2019-20, %

	Small	Medium	Large
Lack of customer demand for goods or services	23%	21%	16%
Environmental factors	17%	19%	20%
Lower profit margins to remain competitive	16%	20%	16%
Government regulations and compliance	12%	16%	14%
Lack of access to additional funds	12%	14%	10%
Lack of skilled persons in any location	11%	22%	24%
Cost of inputs	8%	12%	8%
Outstanding accounts receivable limiting cash flow	8%	13%	6%
Lack of skilled persons within the labour market	8%	17%	18%
Lack of skilled persons within the business	6%	14%	14%

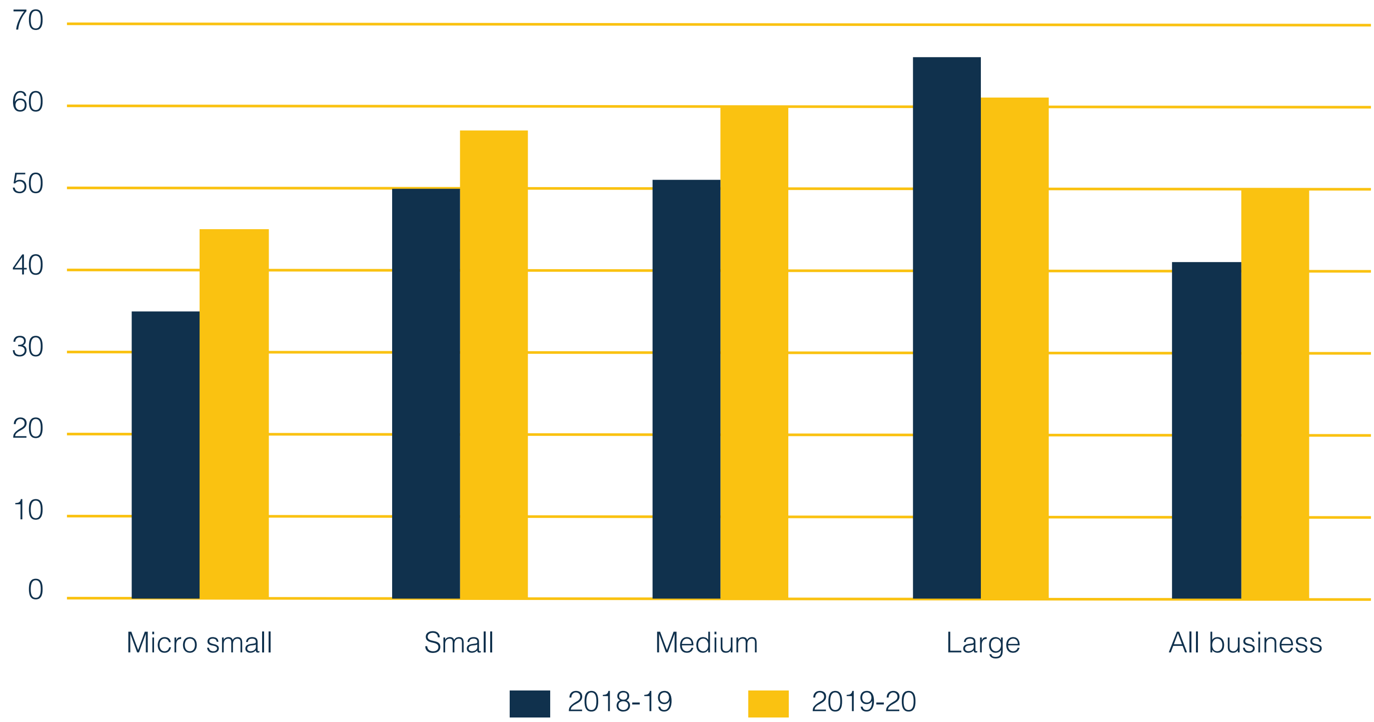
Source: ABS, Counts of Australian Businesses
Note: Categories are not mutually exclusive, businesses can offer services or products to one, two, or all three categories.

Digital transformation

SMEs are not immune from the digital revolution that is taking place in all parts of our economy. The number of businesses that received orders via the internet grew from 41% to 50% between 2018-19 and 2019-20. Online orders were less common in micro and small businesses (45% accepted online orders) compared with medium businesses (57%) and large businesses (60%).

Banks have also responded to meet the changing demands of both consumers and businesses for online engagement. A number of banks have built in-house analytics capabilities to improve their credit assessment process. This has resulted in lending products with an efficient loan assessment turnaround time on platforms that are easy for SMEs to access, such as through apps. In some cases, banks have partnered with technology companies to better understand SMEs needs for working capital, and also launching unsecured business lending products.

Figure 19: Businesses that received orders via the internet, by employment size, 2018-19 & 2019-20, %



Source: ABS, Characteristics of Australian Business

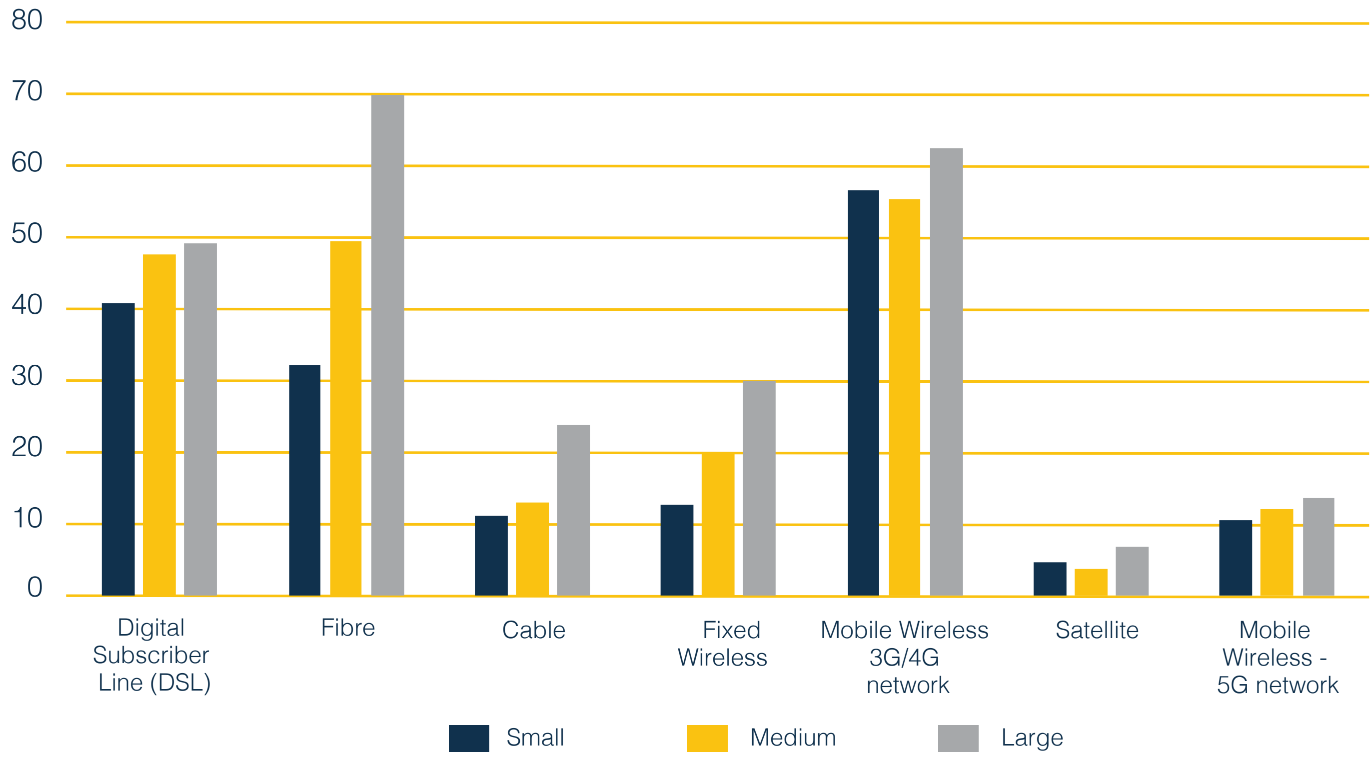
SME use of technology

Technology use is not limited to online orders, conducting business online is increasingly prevalent in all aspects of work. It is facilitated by faster internet speeds and new internet technologies. All businesses, regardless of size, are increasingly taking up mobile wireless, fibre and 5g internet technologies while moving away from DSL and fixed wireless.

Mobile wireless technology is the most common broadband connection among all size businesses, with more than half using this type of connection. Uptake of newer technologies such as fibre and 5G is more common among large businesses than SMEs though it has also increased amongst all business sizes.

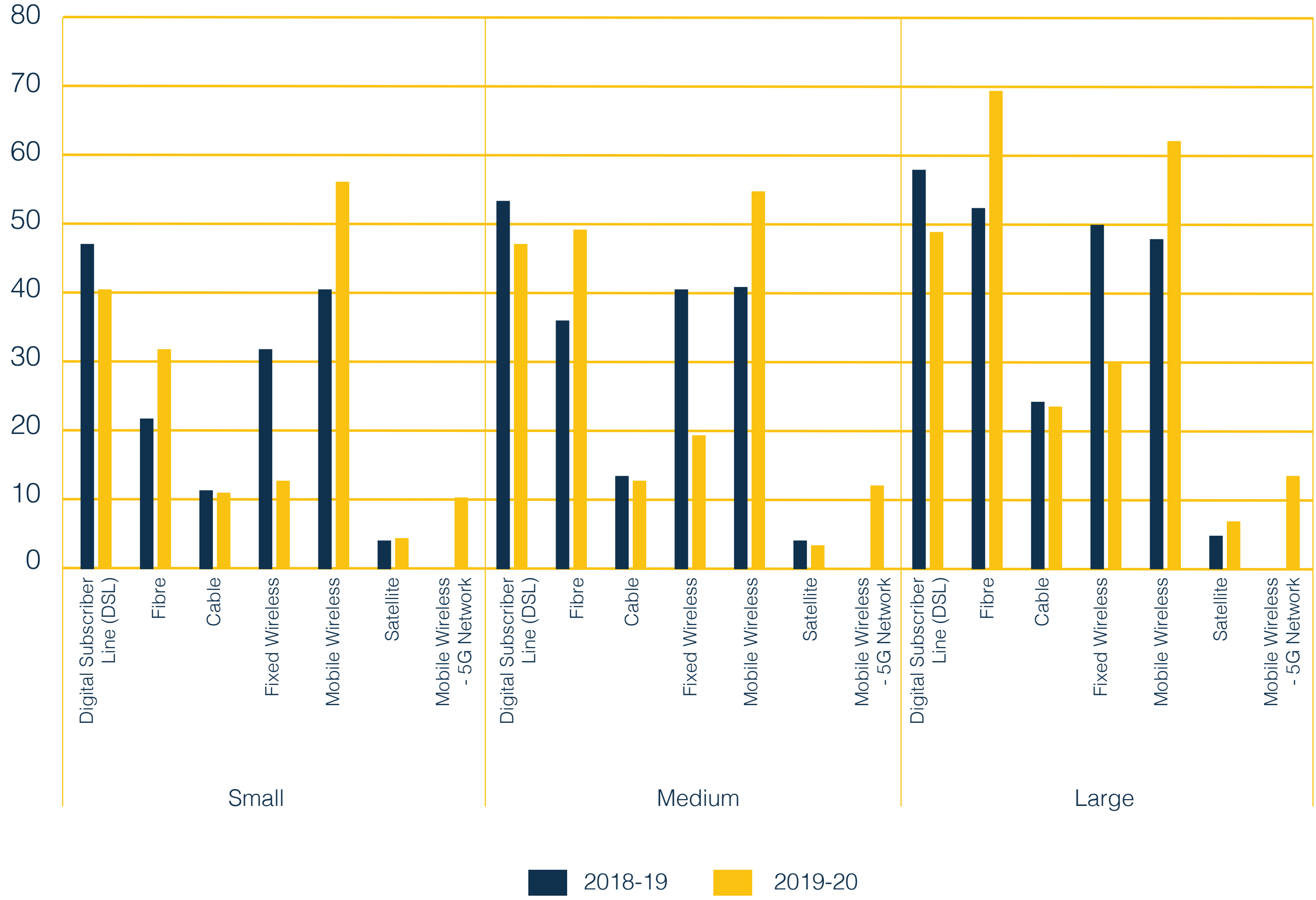
Technological advancements are occurring in both hardware (such as internet access) as well as software. Software technological solutions are often used to automate what are often tedious and manual processes. While we see uptake of technological solutions higher among large businesses, SMEs are increasingly making use of technological solutions to support their businesses. Accounting and invoicing software is used by the majority of SMEs. This may be reflective of the nature of these activities with both accounting and invoicing being an essential component of any business. Or it may be reflective of the popularity of the products themselves.

Figure 20: Types of broadband connection by business size, 2019-2020, %



Source: ABS, Characteristics of Australian Business
Note: Businesses can have more than one type of broadband connection, and results can add to greater than 100

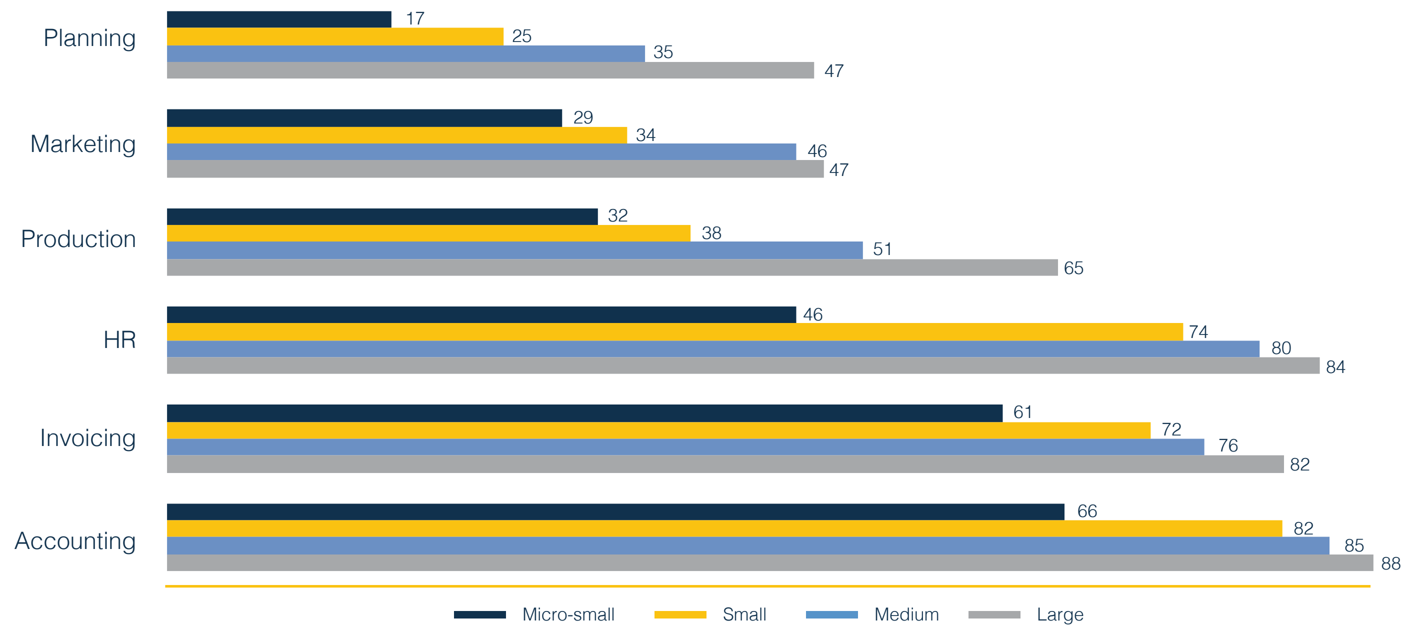
Figure 21: Types of broadband connection by business size, 2018-19 & 2019-2020, %



Source: ABS, Characteristics of Australian Business

Note: Businesses can have more than one type of broadband connection, and results can add to greater than 100; 5G was introduced between reporting periods and is therefore not captured in the 2018-19 data collection

Figure 22: Firms that use technology to a high extent by firm size and business process, 2019-20, %



Source: ABS, Characteristics of Internet Use

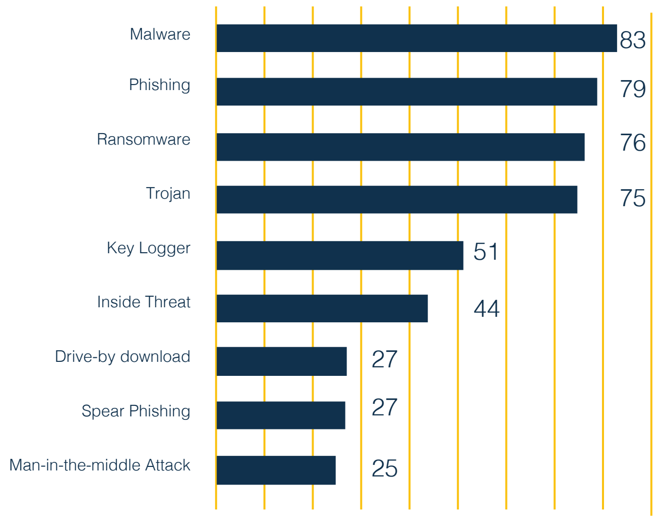
Scams and cyber attacks

Australians were increasingly targeted by scammers during 2021, with a reported $211 million in losses reported to September 2021, an increase of 89% from the same period in 2020[1]. On the other hand, card fraud has been in decline since 2016 and counterfeit and skimming of cards has reached all-time lows[2].

SMEs can be particularly vulnerable to scams and cyber-attacks. A 2017 study found that 20% of small businesses reported cybercrime each year, costing between $1,000 and $5,000[3]. We would expect the frequency and cost of these events to have risen in recent years, given the increase to consumers in general.

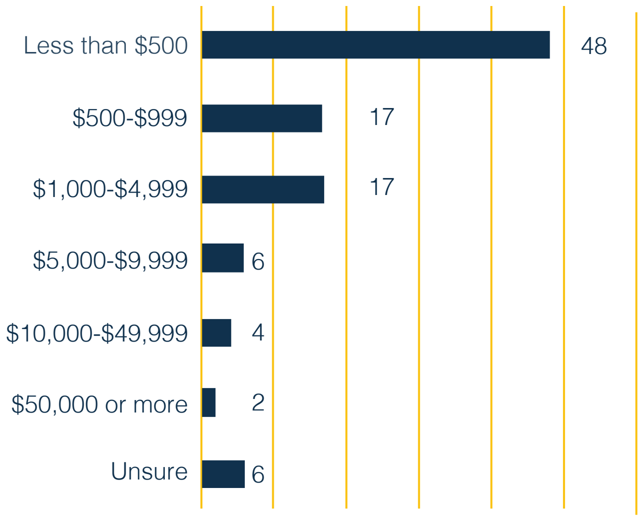
The majority of SMEs were aware of, and could explain, common cyber security risks including malware, phishing, ransomware and trojan attacks. Less well understood risks were drive-by download, spear phishing and man-in-the-middle attacks. One in ten SMEs were unable to identify or explain a single cyber security risk, while 15% were able to identify and explain all nine.

Figure 23: SMEs that can explain and understand cyber security risks, 2020, %



Source: Australian Cyber Security Centre, Australian Small Business Survey

Figure 24: Business annual cyber security expenditure, 2020, %



Source: Australian Cyber Security Centre, Australian Small Business Survey

1. ACCC (27 September, 2021) Losses reported to Scamwatch exceed $211 million, phone scams exploding, https://www.accc.gov.au/media-release/losses-reported-to-scamwatch-exceed-211-million-phone-scams-exploding
2. Auspaynet (2021) Australian Payment Fraud, https://www.auspaynet.com.au/sites/default/files/2021-08/Fraud_Report_2021.pdf
3. NSW Small Business Commissioner (2017) Cyber Aware, https://www.smallbusiness.nsw.gov.au/sites/default/files/2019-07/Cyber-Aware-full-report.pdf

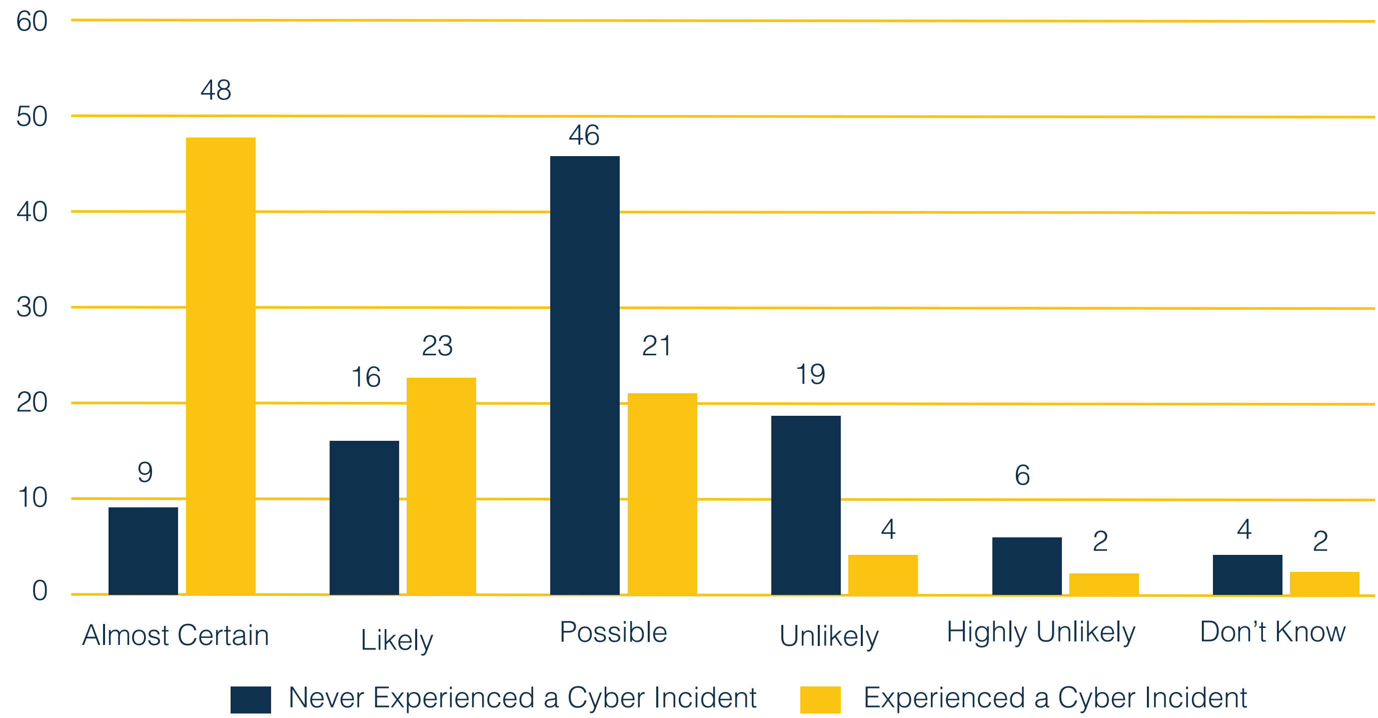
Despite the risk associated with cybercrime, nearly half of all small businesses reported spending less than $500 in 2020 on cyber security. Outsourced IT cyber security was more common among medium-sized businesses and larger 'small' businesses (i.e., 5-19 employees) than the smallest businesses.

The reason for the low spend on cyber security may be due to the low numbers of SMEs that have experienced it. SMEs that have experienced a cyber incident are more inclined to expect that they will again experience a cyber incident than those who report not having experienced a cyber incident (48% compared to 9%).

Figure 25: Distribution of businesses with internal or outsourced IT security by business size, %

Source: Australian Cyber Security Centre, Australian Small Business Survey

Figure 26: Expectations of a cyber incident in the next 12 months, 2020, %



Source: Australian Cyber Security Centre, Australian Small Business Survey

Note on definition of business size

This report draws on data from a range of sources. Each source varies in how it defines small, medium and large businesses.

Data drawn from the Australian Bureau of Statistics (ABS) relies on numbers of employees to define business size. A micro business has no employees, small business has 1-19 employees, medium business has 20-199 employees and large business has 200+ employees. ABS occasionally uses the category of 0-4 employees' category, which is referred to in this report as a micro-small business.

ACA Research also relies on employment size to define the size of a business, however, the ranges differ to those of the ABS. Micro businesses have 1-4 employees, small businesses have 5-19 employees, medium businesses have 20-99 and large businesses have 100-500 employees.

Data drawn from RFI is based on a business's annual turnover. RFI considers businesses that turnover less than $10m a small to medium enterprise.

Finally, data from the Reserve Bank of Australia uses a business size definition based on a business's turnover and value of outstanding finance. The RBA classifies a business as small if the business has a total credit exposure with a single financial institution of less than $1 million and an annual turnover of less than $50 million. A medium business is classified as having a credit exposure of $1 million or more in financing and a turnover of less than $50 million. A large business is a business that has a turnover of more than $50 million.

Notes

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