

28 September 2017

Cameron Hutchison  
Chair, Intergovernmental Agreement on  
National Drought Program Reform review  
Department of Agriculture and Water Resources  
Email: [IGAreview@agriculture.gov.au](mailto:IGAreview@agriculture.gov.au)

Dear Mr Hutchison,

## Review of the Intergovernmental Agreement on National Drought Program Reform

The Australian Bankers' Association (**ABA**) welcomes the opportunity to provide this submission to the review of the Intergovernmental Agreement on National Drought Program Reform (**IGA**).

With the active participation of 24 member banks in Australia, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and the community, to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

### Opening comments

The banking industry has been a critical supporter of the agriculture sector since the late 1800's working with farmers across rural and regional Australia. Current bank lending to the agricultural sector is approximately \$65 billion.<sup>1</sup>

Banks understand that agriculture is cyclical and see the income pressures facing farmers in their dealings with their agribusiness customers. Banks make substantial efforts to work with farmers and rural communities and can put in place various arrangements during difficult times to make repayments more manageable (e.g. deferral of scheduled loan repayments, waiving fees and charges, holding interest rate margins steady, restructuring loans, debt consolidations). These arrangements are assessed on a case-by-case basis by banks according to their own practices and the unique circumstances of their customers.

### The Better Banking Reforms

In April 2016 the ABA and banks announced a comprehensive package of reforms<sup>2</sup> to improve customer experience and create a better culture in banks. The reform program covers six initiatives to improve remuneration practices, complaints handling and dispute resolution, whistleblower protections and banking standards through the Code of Banking Practice (**the Code**), as well as remove poor conduct from the industry and support a stronger regulator. The most recent progress report from former auditor-general Mr Ian McPhee AO PSM, who is overseeing the implementation of the reforms, is at Appendix 1.

The ABA would like to highlight two areas of reform that will deliver tangible benefits for farmers, including during times of financial difficulty.

### New Code of Banking Practice

The Code of Banking Practice sets standards for fairness, transparency, behaviour and accountability for banks, beyond legislative requirements, that customers – individuals and small businesses – can expect from their bank.

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<sup>1</sup> Agriculture in Australia: activity and financing, 19 September 2016, p 18 (see attachment)

<sup>2</sup> [www.betterbanking.net.au/](http://www.betterbanking.net.au/)



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An independent review of the Code was completed in early 2017 and the ABA is aiming to publish a new Code by the end of 2017. The ABA is seeking The Australian Securities and Investments Commission's (**ASIC**) approval of the new Code.

The new Code will have a greater focus on small business and agribusiness lending and there will be significant changes that will make a real difference to small businesses. For example, banks will be required to:

- Simplify loan contracts so they're written in plain English and are easier to understand.
- Provide a longer notice period to customers about changes to loan conditions or decisions on rollover, which will help businesses with future planning.
- Provide primary producers more time to arrange alternative finance, a minimum of three months, when a facility is not going to be renewed.

Importantly, banks are also reducing the number of non-monetary covenants that could result in enforcing a loan. Banks will no longer be able to call in a loan when a small business or farmer is acting lawfully and making their payments on time, other than in exceptional circumstances. The remaining covenants will be explained in plain English and summarised in loan contracts for small businesses.

### **New industry guidelines for the use of third party experts**

The ABA is working with member banks and relevant stakeholders on new industry guidelines that will outline fair and transparent practices for banks in:

- 1) The appointment of receivers, external administrators and liquidators for small businesses or farmers.
- 2) Valuation practices, including fuller explanations of the purpose of the valuation and the expected practices in the appointment of valuers for small business and farming properties.

The industry guidelines will be finalised by late 2017.

### **Current IGA arrangements**

The ABA and banks support the current initiatives included within the IGA:

#### **Farm management deposits (FMD)**

FMDs are a successful risk management tool that assist farmers to manage the volatility of farm incomes. The ABA and banks support doubling the deposit limit from \$400,000 to \$800,000 to assist farmers setting aside increased reserves for risk management purposes, and we support the change to early access provisions for farmers during severe drought.

The Government also made changes that allow for FMD to be used to offset farm loans. The provision of FMD offsets is a commercial decision for individual banks.

#### **Farm household allowance**

The farm household allowance provides eligible farming families experiencing financial hardship with income support for up to three years. Anecdotal feedback from member banks indicate that the direct household support payments has been particularly valued by farm families experiencing hardship.

#### **Concessional loans**

Banks are currently consulting with the Federal Government on the scope and operation of the new Regional Investment Corporation (**RIC**) which will administer the previous drought concessional loan program. The ABA is therefore not in a position to comment on the future scope and operation of the RIC. Banks are hopeful that the RIC will maintain a focus on supporting viable farm businesses that are experiencing temporary financial difficulty.



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### Rural financial counselling

The banking industry believes rural financial counselling plays an important role in assisting farmers experiencing financial difficulties. The ABA recommends ongoing government funding and support for rural financial counselling to assist farmers experiencing financial difficulties.

While many rural financial counsellors provide an excellent service, the experience of our members across Australia indicates that there is a reasonable variation in the formal education, skills and capabilities of rural financial counsellors. Some are insufficiently qualified. The IGA should consider ways to increase professional qualifications and training opportunities for rural financial counsellors. For instance, longer-term funding and investment in training would encourage well-qualified financial counsellors to the profession.

### Issues that should be considered by the IGA review:

#### National approach to farm debt mediation

Farm debt mediation can help farmers in financial difficulty to re-establish financial viability or exit the industry with their heads held high. Currently the process varies across Australia.

Experience in NSW, where there has been a legislated system of farm debt mediation since 1994, indicates that the vast majority (90%) of mediation cases result in an agreement between the bank and farmer.

The ABA recommends that the next IGA include a national model of compulsory farm debt mediation, modelled on the NSW system, to help ensure all farmers are treated fairly across Australia. This would provide greater certainty for customers and streamline operations for banks, especially when customers' properties cross multiple states.

#### Farm business improvement

The ABA supports the promotion of improved financial literacy and best practice in farm business management and will work with the Federal Government and other rural stakeholders on any future improvements to financial literacy information for farmers.

Banks have specific resources to assist agribusiness customers, including dedicated areas of their websites. Agribusiness specialist bank staff are also essential in helping their customers build knowledge about their financial and business circumstances, including legal, accounting, financial, environmental and social considerations.

Improvements in farm business management techniques and planning are the most effective way to prepare for drought and other potential risks. The banking industry would also welcome an expansion of Government programs that provide independent business advice and assistance to farmers. This may include improving skills in financial management and planning, insurance and risk management and succession planning.

### Concluding comments

The banking industry has a strong role to play in providing ongoing support and investment to the agricultural industry and is progressing a significant reform program to ensure better products, better service and a better culture in banks.

If you have any questions or would like further information please contact Amanda Pullinger, Policy Director – Retail Policy on (02) 8298 0411 or by email [apullinger@bankers.asn.au](mailto:apullinger@bankers.asn.au).

Yours sincerely,

*Signed by*

Amanda Pullinger  
Policy Director  
02 9298 0411  
[apullinger@bankers.asn.au](mailto:apullinger@bankers.asn.au)