

ARITA National Conference

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Strengthening trust and confidence in banking

****CHECK AGAINST DELIVERY ****

Introduction

I start by acknowledging that we come to gether here today on the traditional land of the Wurundjeri people of the Kulin Nation. I gratefully acknowledge their care and custodianship of our country for thousands of years and pay my respects to their elders, past and present.

Thank you for the invitation to speak with you today. I realise that the conference is drawing to a close and many of you have been here for both days, no doubt gaining a lot of interesting insights, so I will keep my comments brief.

I'm not an insolvency expert by any means, but I thought you'd be interested to know some of the cultural change underway in banks to deliver better products and services to customers, including small businesses.

The invitation for me to come here today recognises what is a strong and mutually beneficial relationship between the banking sector and the restructuring and advisory sector.

Banks know that your industry also plays, but is rarely credited for, an integral corporate advisory role when small businesses are going through tough times.

It is in everyone's interests – small business, customers, banks, and the broader economy – that we continue to find ways to constructively work together.



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Over the past year, two independent reviews were set up by the banking industry which identified where reform was needed. This, of course, is on top of the many parliamentary inquiries and reviews into banks' small business lending practices.

As we all know, most businesses in Australia are small businesses and their success is an integral part of the ongoing prosperity enjoyed by all Australians.

The changes that banks are making will:

- Give more certainty to small business customers in their loan arrangements through a plain-English explanation of terms and conditions, and the removal of general adverse material change clauses from small business loan contracts
- Help prevent businesses from getting into financial difficulty, and
- Make it easier for businesses when things do go wrong.

Small business lending

Australia's banks have a long history of supporting a competitive and profitable small business sector in good times and in bad. About half of our 2 million small businesses have credit facilities. Banks' small business lending book is valued at almost \$273 billion, growing by almost \$9 billion over the past year. Lending to agriculture sits at \$67 billion, an increase of \$3 billion over the past year.

Banks recognise that businesses go through ups and downs and can get into financial difficulty. When they do, banks go to great lengths to resolve the issues and to restore a business customer to financial health.

That said, banks' lending practices have received a lot of attention in recent times.

There was the joint parliamentary committee inquiry into impaired loans, which tabled its report last year, which examined cases of small businesses which were in financial difficulty and how they



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were treated by their bank. The findings of this inquiry were referred to the Australian Small Business and Family Enterprise Ombudsman, who examined some of these same cases and made recommendations on how banks can improve their relationship with small business customers. I note Kate Carnell spoke with you yesterday.

And, in addition to all the past and present parliamentary inquiries, there's currently a Senate inquiry into lending to primary industries. I am representing the ABA at that inquiry tomorrow.

Hardship

We all know that sometimes business can be tough. No-one wants businesses, especially small businesses, to fail. The ABA is very concerned about any business that fails but the data can be a bit tricky unless you view it in its entirety.

I note that Australian Bureau of Statistics data shows that the number of small businesses has been growing for the past three years by 91,600 businesses to a total of 2.1 million small businesses. This is a good sign. The number of small businesses is rising, not falling.

Over the past financial year, the entry rate was higher than the exit rate. This has been so for the past three years with 876,000 entries and 784,000 exits over that time. Small businesses exit for a range of reasons beyond hardship so that's a pretty good result.

But sometimes things go wrong. The bank's preference is always to work with a customer to try and find a solution that can help to turn the business around.

Banks will work with small business owners and farmers to identify appropriate solutions if a customer indicates – or the bank identifies



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– that they are experiencing financial difficulties, have missed payments, or are struggling to manage their financial obligations.

It is better for customers to speak with their bank early and explain their situation, rather than missing repayments and going into arrears or taking decisions without advice which might cause problems later. The sooner the better, and usually the more options there are available.

Banks are putting in place reforms to restore trust and confidence in the industry, which will also assist small business and agribusiness customers.

So let me touch on those now.

Reforms

First, the Code of Banking Practice

An independent review into the Code of Banking Practice was completed this year, which measured how bank conduct standards are meeting community expectations. The Code, first introduced in 1993, is the banking industry's customer charter on good banking practice. The Code is incorporated into the terms and conditions of loan agreements.

It has evolved over time to continue to improve standards and practices within banks, which has led to better outcomes for bank customers and prompted improved practices across the financial services industry.

The independent reviewer consulted widely with consumer groups, regulators and other interested parties on a diverse range of issues and presented 99 recommendations to the industry. We are currently writing the new Code – in good old plain English – so bank customers can better understand their rights and responsibilities when dealing with banks, and banks will be more accountable to customers. Many of the reforms I'm talking about today will be captured in the new Code.



For example, the new Code will have a clear commitment to ethical behaviour by banks. We are also seeking ASIC approval of the new Code so customers can have confidence in the Code.

Second, the definition of small business

Banks are expanding the definition of small business beyond what is required by law, so that any business with turnover of up to \$10 million, 20 or less employees (or 100 employees in manufacturing) and loans under \$3 million is classified as a small business. The previous definition of small business in the Code considered the employee test only.

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 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 small businesses and primary producers more time to arrange alternative finance when a facility is not going to be renewed (three months for small businesses and up to six months for agribusinesses)

Third, non-monetary covenants

Importantly, banks will also reduce the number of non-monetary covenants that could result in enforcing a loan. This means banks will no longer be able to call in a loan when a small business or primary producer is making their payments on time, other than in exceptional circumstances such as loss of licence to trade or committing fraud.

The fourth area of reform is how banks appoint receivers

Another area of reform the ABA has been working on with industry associations like ARITA is the development of **new** guidelines and



minimum standards for banks when working with small businesses, commercial or agricultural businesses which are in financial difficulty.

This includes how to reduce potential conflicts of interest when using investigative accountants and insolvency practitioners.

A similar guideline is being developed that outlines improved customer communication and fair and transparent practices when banks appoint an external valuer to assess the market value of a property that is being used for security on a loan.

Both these guidelines, which are due to be published in a month or so, will contain a specific section for customers, including a question and answer guide, to assist people who need to deal with banks in these circumstances.

Other reforms

Complaints handling

Banks have made substantial efforts to improve complaints handling with the appointment of new customer advocates. These advocates are tasked with helping customers directly resolve a complaint or escalating significant complaints to the top, all the while ensuring the bank better understands the customer's point of view.

If customers aren't satisfied with how a bank resolves a complaint, we think it should be easier for them to get help externally. The industry supported the Federal Government's Ramsay review, which brought about the Australian Financial Complaints Authority, a new one-stop-shop to help customers resolve problems with financial institutions, rather than the current multiple schemes that exist now.

We think it is vital that more customers can get help without the need to go through expensive legal processes.



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Farm debt mediation

In a similar vein, the ABA is advocating for a better way for agricultural businesses to get help in times of financial difficulty. The best way to do this is through a nationally consistent, mandatory farm debt mediation scheme.

Farm debt mediation is designed to help farmers and lenders discuss workable solutions to financial difficulties, with the help of an independent mediator. It is less expensive and quicker than resolving a debt dispute through the legal system.

At the moment farm debt mediation varies across states and territories, for some it is mandatory but for others it's voluntary, so the industry believes that a national model will help ensure all farmers are treated fairly.

As well as developing these guidelines, and apart from the review of the Code, the banking industry is also making changes to how it rewards staff and third parties.

Sedgwick

An independent review into remuneration, commissions and other payments, headed up by former Australian Public Service Commissioner Stephen Sedgwick, looked at payments received by retail banking staff for selling products like credit cards, mortgages and personal loans to individual and small business customers.

The clear aim of the review was to identify whether commissions, bonuses or other incentives might motivate bank staff to focus on their financial interest rather than their customers'.

Banks have agreed to adopt all recommendations of the review, including decoupling sales targets from financial incentives.

This move away from a sales based incentive culture will be a profound change for the industry, but one that I think is needed to ensure people can trust banks to do the right thing by customers.

Banks understand people's concern that financially rewarding staff to sell products may not necessarily lead to the best outcome for



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the customer. These reforms will help ensure that lending products are suited to the needs of small business.

Meaningful change such as this takes time, but it is happening right now. Some banks have already announced plans to start implementing the reforms this year, while others have been moving in this direction for some time now.

Conclusion

So, as you can see, there is a fair bit of effort being put in by banks to strengthen trust in banking and better serve customers. We know there's a lot more to do and as always, we're grateful for the support of industry associations like ARITA in helping us produce better outcomes for customers.

Thank you once again. I'm happy to take a few questions.