



2 June 2020

Committee Secretary
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

By email: covid.sen@aph.gov.au

Dear Committee,

Senate inquiry into the Australian Government's response to the COVID-19 pandemic

The Australian Banking Association (**ABA**) appreciates the opportunity to provide a submission to the Senate's Select Committee into the Australian Government's response to the COVID-19 pandemic.

The ABA supports and advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

The COVID-19 pandemic has had a significant adverse impact on Australia and the world more broadly. The virus outbreak is first and foremost a public health issue but has expanded to become a major problem for economies across the globe. Many countries acted by imposing travel restrictions and strict self-isolation rules to curtail the spread of the virus. Governments and central banks responded to the economic impact of the virus by announcing fiscal and monetary policy measures designed to support consumers, businesses, and financial markets during these unprecedented times.

In Australia, our financial system was well positioned to withstand the COVID-19 shock. Australian banks had built up large capital and liquidity buffers and had made significant investments in operational resilience allowing them to absorb the impacts of the pandemic.

Since March 2020, the Government has announced three substantial packages designed to support our economy. The response was focused on individuals, households, businesses and employers, and the flow of credit.

The first package announced by the Government provided \$17.6 billion in support to both businesses and consumers. The Government also announced a measure to support lending to small businesses by providing the Australian Office of Financial Management with an investment capacity of \$15 billion to invest in wholesale funding markets used by small Authorised Deposit-taking Institutions (**ADIs**) and non-ADI lenders.

In March, the Reserve Bank of Australia (**RBA**) announced a suite of monetary policy measures to support the economy. The RBA cut the cash rate to 25 basis points, announced a target yield of 0.25 per cent on 3-year Australian Government bonds, and also established a Term Funding Facility to support the flow of competitively priced credit to small and medium-sized businesses. This package of



monetary policy measures has contributed to the reduction in bank funding costs and the decline in home and business loan interest rates to record lows¹.

The second package announced by the Government on 22 March provided further support to businesses, households and workers and established the JobSeeker payment, a new coronavirus supplement to support individuals. As part of this package, the Government also announced the establishment of the Coronavirus SME Guarantee Scheme. The Scheme was designed to support small and medium-sized businesses in getting access to working capital. The ABA's ten participating member banks have approved over 15,000 scheme applications with a total value of over \$1.45 billion².

The third package, the JobKeeper wage subsidy, was designed to support eligible employers in keeping staff employed by providing a wage subsidy to businesses that have been financially impacted due to necessary closures and falling demand. This subsidy was vital in ensuring the impact of COVID-19 on the economy was less severe through the continued employment of staff.

To date, a total support package of around \$260 billion has been announced that includes the fiscal and monetary support outlined. The prompt and extensive response by the Australian Government has been essential in supporting the economy during this unprecedented time and has assisted in alleviating the negative impacts of COVID-19.

Response of the banking industry to COVID-19

Australian banks understand the pivotal role they play within the Australian economy and community more broadly. The industry has previously supported the community in difficult times, this time was no different. Building upon the banking industry's bushfire relief packages announced in January, the industry launched a comprehensive and swift response to the COVID-19 crisis. The response incorporates initiatives on loan deferrals and lending, banking accessibility, and electronic conveyancing and electronic mortgages. These measures were designed to support consumers and businesses through this difficult time and intended to mitigate the impacts of COVID-19 on bank customers. A summary of the support the banking industry has provided to the Australian community and economy can be found at [Attachment A](#).

Support for personal customers

Mortgage deferrals

The impact of COVID-19 was felt by both businesses and households. To relieve some of the financial pressure felt by households, Australian banks announced support by providing those households impacted by COVID-19 with the opportunity to defer their home loan repayments for up to six months. The interest accumulated over the six month period of the loan deferral will be capitalised over the life of the loan, with bank customers given the choice of extending the term of their loan or increasing their monthly payments upon the conclusion of the six month deferral period.

As a requirement of the regulatory relief provided by the Australian Prudential Regulation Authority (**APRA**) in relation to the capital treatment of these deferred loans, banks are required to check in with the customer at the three month mark of the deferral period to assess the customer's position.

Our member banks have deferred 457,660 mortgages, amounting to around \$165.2 billion worth of home loans³. While the demand for mortgage deferrals has tapered, there are many Australians still seeking relief. In the week beginning 21 May 2020, over 14,600 loans were deferred worth around \$5.25 billion. Bank customers will continue to have the opportunity to seek a six month loan deferral until 30 September 2020.

¹ Reserve Bank of Australia, *Statement of Monetary Policy*, May 2020, available at <https://www.rba.gov.au/publications/smp/2020/may/pdf/statement-on-monetary-policy-2020-05.pdf>, page 59.

² As at 27 May 2020.

³ As at 27 May 2020.



Credit reporting

Australian banks wanted to ensure that the credit history of these customers was not adversely impacted by their decision to defer payments. The industry recognised that under normal circumstances, a significant portion of these customers would not be seeking a deferral on their loan repayments. As such, our member banks agreed to a set of principles to govern the reporting of the repayment history information of COVID-19 impacted customers, who had been granted a deferral, to ensure that it was conducted in a fair and consistent manner.

For those customers who were up to date with repayments when they were granted the repayment deferral, banks would report customers as showing that they had not missed any repayments during the six month period.

For those customers who were already behind in repayments when they were granted the repayment deferral, banks agreed to not record any repayment history information and would leave the field blank for the relevant product throughout the duration of the repayment deferral period. This ensured that the customer's arrears position would not be disclosed during the period of the deferral and is consistent with the current hardship arrangements that banks have in place.

Personal loans, credit cards and bank fees

The deferral of loan repayment relief was further expanded to encompass personal loans and credit cards by individual banks. Our member banks have deferred over 69,000 of these unsecured loans, worth around \$914 million⁴.

In addition to this, the banking industry has provided support to customers by waiving credit card fees and restructuring loans to the benefit of impacted customers.

Vulnerable and isolated customers

A key consideration for the ABA during the self-isolation restrictions imposed by the Government was ensuring the accessibility of banking services to all those in the Australian community. There are currently over half a million Australian bank customers who actively use a passbook account or transaction account with no linked debit card. These bank customers are required to enter bank branches to deposit and withdraw cash to purchase their goods and services.

Recognising the adverse impacts on these customers of business closures, a decline in the acceptance of cash by retailers, and the Government's rules in relation to self-isolation, the ABA along with the Customer Owned Banking Association submitted an urgent relief application to the Australian Securities and Investments Commission (**ASIC**). The application would allow banks to fast track the issuance of scheme or dual network debit cards to these in need customers. The relief application was approved promptly by ASIC with relief commencing from 25 April 2020 and valid till 30 September 2020. Some member banks had already begun contacting customers, and where the customer has agreed, issued them with a debit card.

In addition to this support, the ABA also implemented a communication strategy designed to raise awareness of scams and e-safety, culminating in the release of a scam fact sheet in twelve community languages. We also fast tracked the implementation of the new financial counselling authorisation form to enable financial counsellors to act on behalf of their clients more swiftly.

Support for business customers

98 per cent of businesses with a loan with an Australian bank are eligible for a loan deferral

The COVID-19 pandemic has caused disruptions to many businesses in Australia. To assist these businesses to remain viable and continue to contribute to the Australian economy, on 20 March, the ABA announced a Small Business Relief Package. The package allowed small businesses impacted by COVID-19 to defer loan repayments for six months. Originally, the threshold for eligibility was on loan facilities of up to \$3 million and was based upon an opt-in basis, allowing the individual business to

⁴ As at 27 May 2020.

assess whether they had been adversely impacted by COVID-19. Some banks provided deferrals for loans facilities of up to \$5 million.

Ten days on from the initial announcement, the ABA announced that the six-month deferral support would be expanded to capture larger businesses with total loan facilities of up to \$10 million. This ensured that around 98 per cent of all businesses with loans with Australian banks would have access to the opportunity to defer repayments for six months should they decide to do so. As a condition of the approval of the loan repayment deferral of commercial property landlords, they were required to provide an undertaking to the bank that for the six month deferral period, they would not terminate leases or evict current tenants impacted by COVID-19.

The industry's small business loan deferrals package was facilitated by relief from ASIC, APRA, and through an Australian Competition and Consumer Commission authorisation, allowing banks to coordinate the development of the package.

For these business loan deferrals, the interest accumulated over the six month period of deferral will be capitalised over the life of the loan, with the business customer given the choice of extending the term of their loan or increasing their monthly payments upon the conclusion of the six month deferral period.

To date, ABA member banks have deferred 211,292 business loans, which represents over \$58.3 billion worth of loans⁵. While the demand for business loan deferrals has declined, there are Australian businesses still seeking relief. In the week beginning 21 May 2020, over 2800 loans were deferred worth around \$732 million. Bank customers will continue to have the opportunity to seek a loan deferral for six months until 30 September 2020.

In addition, ABA member banks have waived fees and charges for businesses on a case by case basis and to date have waived the merchant fees of over 248,000 businesses⁶.

Lending to the economy

Bank lending

Australian banks have continued to support the Australian economy by ensuring the flow of credit. In March 2020, credit growth in the private sector rose 1.1 per cent⁷. It was the strongest monthly pace of growth since December 2007 and was mainly driven by a sharp rise in lending to businesses. Since March, our member banks have written 88,390 new business loans, worth over \$101.5 billion⁸. Of this, 13,362 loans were written to sole traders, worth around \$3.81 billion; 52,448 loans for small and medium-sized businesses, worth over \$15.42 billion; and 18,894 loans for large businesses, worth over \$84.5 billion.

Interest rates on these business loans have declined to historically low levels, with major banks lowering interest rates on unsecured loans to small and medium-sized businesses by up to 650 basis points⁹.

Banks have also approved increases to the limits of existing loan facilities. Over 9,960 revolving loan facilities had limits increased with a value of over \$4.17 billion. This has also applied to overdraft facilities, with over 13,200 facilities limits increased with a value of over \$3.98 billion¹⁰.

SME Loan Guarantee Scheme

Banks have continued to support small and medium-sized businesses through participation in the Government's SME Guarantee Scheme. This Scheme has assisted businesses in attaining fast access

⁵ As at 27 May 2020.

⁶ As at 21 May 2020.

⁷ Reserve Bank of Australia, *Growth in Selected Financial Aggregates*, March 2020, available at <https://www.rba.gov.au/statistics/frequency/fin-agg/2020/>.

⁸ As at 27 May 2020.

⁹ Reserve Bank of Australia, *Statement of Monetary Policy*, May 2020, available at <https://www.rba.gov.au/publications/smp/2020/may/pdf/statement-on-monetary-policy-2020-05.pdf>, page 68.

¹⁰ As at 27 May 2020.

to competitively priced working capital during the COVID-19 pandemic. Our member banks have approved over 15,000 scheme applications with a total value of over \$1.45 billion¹¹.

Supporting the Government's response to COVID-19

Following the announcement of the Government's JobKeeper package, the ABA released a statement on 5 April confirming businesses may be eligible for credit from their bank allowing businesses to pay their staff while waiting for the Government to issue the first payments. Soon after on April 23, the ABA issued another statement confirming banks were bolstering efforts to ensure businesses were being supported. Our major banks established dedicated JobKeeper Hotlines, designed to provide eligible businesses with a faster way to access temporary financial assistance options while these businesses awaited the Government's payments. Banks also brought JobKeeper-related applications to the front of call queues and worked with the Australian Taxation Office to accelerate the assessment process. As at 27 May 2020, our member banks had received over 28,400 JobKeeper inquiries and have approved over 10,140 JobKeeper bridging loans, worth over \$520.9 million. These loans were designed to bridge the gap between the announcement of JobKeeper and the first payments being made. It is anticipated that the demand for such loans will decline as more and more businesses receive the JobKeeper payment.

Flexible approach to regulation

The ABA acknowledges the Government's March 2020 announcement in relation to the exemption for six months of the application of the responsible lending obligations to the provision of credit to small business. The current responsible lending obligations do not apply to lending which is predominantly for business purposes. However, to fall within this exemption, a lender must undertake due diligence to confirm that the money borrowed meets this test. Providing this six-month exemption has assisted lenders in providing quicker and more efficient access to credit for small businesses in Australia. In addition, the recent announcement by the Government regarding changes to allow companies to convene annual general meetings, and other meetings prescribed under the Corporations Act, entirely online rather than face-to-face has provide certainty to companies and boards about how they can meet their legal obligations over the next six months.

The ABA welcomes the announcements made by the Government and ASIC regarding the six-month delay of the implementation of the Royal Commission recommendations and the Design and Distribution Obligation (DDO) regime, respectively. While the industry supports the implementation of the Royal Commission recommendations and the DDO regime, the delay has ensured that banks can fully focus on supporting bank customers and the economy during this crisis.

Recovery from the pandemic

As the COVID-19 infection slows and governments move to lift restrictions on a range of sectors, the focus of banks has turned to the task of economic recovery. With forecasts of high unemployment for a protracted period, anticipated declines in GDP and a significant drop in permanent migration, the recovery presents a substantial challenge. Australian banks have an important role to play in the recovery phase and are determined to step up for their customers and the broader community.

The banking industry understands the vital role that it will need to play in the recovery of the Australian economy. Our member banks provided support to bank customers during the pandemic and are aware that these customers will need support following COVID-19. To this end, banks will be working with individuals and businesses as their six-month deferral period comes to an end to minimise financial distress and hardship wherever possible. It is expected that as the Government restrictions ease, banks will have an ongoing critical role in supplying credit to both individuals and businesses so they have the cash flow and working capital required to re-open their business and can take advantage of new opportunities, innovate and compete, and implement new ways of doing business.

¹¹ As at 27 May 2020.



The COVID-19 pandemic has highlighted the need for Australia to modernise parts of legislation that govern how Australians access critical financial and banking services. Embedding these reforms as permanent changes to the way we do business is critical as their benefits are significant to the economy and relevant to the economic recovery beyond this pandemic.

The ABA is working with members on proposals for potential areas of Government reform with a focus on productivity and regulatory simplification that will underpin growth and assist in accelerating the recovery. These reforms will align with the Government's objectives and the ABAs focus of improving the flow of capital, increasing competition and building the digital future.

One obvious area ripe for reform is digital banking. The pandemic has triggered an acceleration in the need for digital banking and now is the time to assess whether these new ways of banking meet the demands of customers. Two obvious examples are e-signatures and paperless mortgages.

With the self-isolation rules imposed by the Government, it became apparent that bank customers would find it difficult to physically receive documents and have their signatures witnessed, such as for a mortgage relevant to the settlement of a property. The Commonwealth, NSW and Victorian governments have made changes under emergency response legislation to allow the use of electronic signatures and/or remote witnessing. These reforms were welcomed by the ABA as they have helped banks and customers to continue with business as usual including the processing of mortgages during the pandemic. The ABA is urging other state and territory governments to make these reforms. Queensland has issued temporary guidelines allowing e-signatures if wet signatures are not possible and the South Australian Government and Western Australian Government are considering these issues.

The ABA is also seeking reforms with state and territory governments to enable mortgages to become fully paperless. These reforms will help to improve accessibility to banking services for customers (including those with limited mobility, in rural and regional areas or otherwise have difficulties accessing services in a physical location), reduce transaction cost for both individual and business customers, and importantly facilitate digital banking and other digital businesses.

Conclusion

The COVID-19 pandemic is an unforeseen, once in a century shock. It has had ramifications across the Australian and global economy more broadly. The Australian Government and regulators have acted swiftly during this time by announcing a range of fiscal and monetary policy measures focusing on supporting individuals, businesses and employers. This support was also complemented by assistance from the banking industry through a comprehensive range of measures focusing on loan deferrals, lending and banking accessibility. Overall, these initiatives have assisted in softening the blow of the pandemic on the economy.

While the impacts of the COVID-19 will continue to be felt well into the future, the banking industry stands ready to support the Australian Government, the economy and the community as we recover from the coronavirus pandemic.

Thank you for the opportunity to provide this submission for the Committee's consideration.

Yours sincerely,

The Hon. Anna Bligh AC
Chief Executive Officer
Australian Banking Association



Australian Banking
Association

Attachment A – Banking Industry’s support through COVID-19

Supporting Australians and the economy through COVID-19



744,904
Loan deferrals

Bank Customer Support

Feb 14 – First COVID-19 waiving of fees, charges; loan restructures
Apr 06 – Credit Scores not affected by COVID-19 deferrals
Apr 29 – Debit Cards rolled out for vulnerable customers



\$224Bn
Total loans deferred



457,660
Mortgage deferrals

Bank Loan Deferrals

Mar 22 – 6-month business loan deferrals and mortgage deferrals
Mar 30 – Landlord relief for those who agree not to evict tenants
May 27 – 457,660 mortgages deferred, worth \$165Bn: 744,904 total loan deferrals, worth \$224Bn



\$165Bn
Of mortgages deferred



88,390
New business loans

New Business Lending

March – Credit grew by 1.1% (strongest since 2007)
Apr 08 – SME Guarantee Loans begin: to date \$1.45Bn approved
May 27 – 88,390 new business loans, worth \$101Bn



\$101Bn
Total business lending



10,145
JobKeeper loans

Bank JobKeeper Support

Apr 06 – Bank JobKeeper support begins
Apr 24 – Banks open dedicated JobKeeper hotlines
May 27 – Total JobKeeper loans now worth \$521M



\$521M
Of JobKeeper loans approved



15,057
SME Guarantee loan approvals

Banking Smarter

March – Call centres boosted to meet historic surge in demand with over 2,200 staff redeployed and more than 1500 new hires
Mar 25 – States and Commonwealth begin regulatory shift to e-signatures and e-witnessing of company documents
Apr 03 – Tap'n'go payments increased from \$100 to \$200



\$1.45Bn
Of SME Guarantee loans approved

