



21 July 2021

Ms Courtney Bryant  
Assistant Secretary, Drought Policy Branch  
Department of Agriculture, Water and the Environment  
[droughtpolicy@agriculture.gov.au](mailto:droughtpolicy@agriculture.gov.au)

Dear Ms Bryant,

## Shared responsibility in drought support

The Australian Banking Association (**ABA**) 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 ABA welcomes the opportunity to provide further feedback to help build a common understanding of shared responsibilities to drought. The ABA recognises that drought in Australia is not a new phenomenon, and the focus on drought should not be restricted to times of drought. The impacts of drought are enduring and challenging. They remain part of life for Australia's farmers and rural communities and an issue that requires collective responsibility from the private and public sectors.

### Access to finance

Banks in Australia play a critical role in the agriculture sector by adhering to a well-regulated system of providing finance to customers to support business growth for a sustainable future.

Banks are risk-based businesses and are expected to manage a variety of risks by regulators. When banks make lending decisions, they are obliged to ensure that their credit decisions reflect the risks associated with the loans they issue. They need to assess the ability of the loan to be repaid on time to ensure that they have made sufficient provisions to meet depositor demands for their funds.

Climate change is an increasingly relevant issue that governments, regulators, investors, and financial institutions around the world have identified as a risk that must be considered when making business or lending decisions. If not managed effectively, climate change can create a debt risk for banks and an equity risk for farmers.

Australian regulators are moving in-line with international regulators, governments, and agencies by clearly signalling their expectation that banks should prepare their businesses for the risks posed by climate change. This is evident in the Australian Prudential Regulation Authority's draft guidance for the management of risks of climate as well as commencing Climate Vulnerability Assessment ('stress testing') with major Australian banks.

Apart from the prominent need to access finance to support the acquisition of property and working capital, finance also enables farm businesses to prepare for times of drought. The finance sector provides customers with funds to avail new technology and devices that can improve in their farming and agricultural needs. Funding may be used for investment in areas such as water savings and modern irrigation technologies, as well as the purchase of equipment to assist in groundwater conservation. All these new technologies and investments can help increase efficiency and production and ensure farm businesses are more drought resilient for the future.



## Support during periods of financial hardship

Banks in Australia have a strong history of helping agri-business customers through difficult times. Banks provide a range of services to help farming customers experiencing not only the effects of drought but also natural disasters or other circumstances outside their control.

Agribusiness bankers and/or specialist customer support teams are ready to assist farming customers in need. Banks proactively encourage those experiencing financial difficulty to contact their bank to discuss a range of support options available which may include:

- deferring scheduled loan repayments;
- waiving fees and charges;
- consolidation and restructuring existing loans to help make repayments more manageable; and
- waiving of fees and notice periods on Cash Deposit and Farm Management Deposit accounts.

These policies and practices are specifically designed to manage the impact of drought and natural disasters for those customers requiring much-needed support.

As well as the range of services banks in Australia provide, provisions were included in the Banking Code of Practice in 2018/9, as recommended by the Royal Commission which are also aimed at supporting farmers in times of drought. These include:

### *Charging default interest during drought and natural disasters*

- 179A. a) *Where you are a farmer, and we have provided you with a loan for the purposes of a farming operation, we will not charge default interest (or any fee instead of default interest) on that loan during any period that the land you use for that operation is in drought or subject to natural disaster.*

### *Farm debt mediation*

198. *Before we enter a farm debt mediation with you, we will inform you that you may have a right, as an alternative to farm debt mediation, to make a complaint to our external dispute resolution provider.*
199. *If we do not reach an agreement at a farm debt mediation and decide to make a complaint to our external dispute resolution provider, we will give our consent for the external dispute resolution provider to consider the complaint. This paragraph only applies where your complaint would have been excluded by our external dispute resolution provider because it had previously been the subject of a farm debt mediation.*

Additionally, member banks have adopted principles regarding how they will deal with distressed agricultural loans outlining that they will:

- be managed by experienced agricultural bankers;
- offer farm debt mediation as soon as a loan is classified as distressed;
- manage every distressed loan on the footing that working out will be the best outcome for bank and borrower, and enforcement the worst;
- recognise that appointment of receivers or any other form of external administrator is a remedy of last resort; and
- cease charging default interest when there is no realistic prospect of recovering the amount charged.



## A trusted source of information

Banks in Australia are trusted partners to provide customers with up-to-date tips, tools, and resources specifically to assist agribusiness customers. These include dedicated areas of their websites and experienced Agribusiness specialist bank staff who are essential in helping their customers build knowledge about their financial and business circumstances. A range of resources are made available to support customers in developing business plans, receiving up-to-date industry insights and educational resources, including sustainable practices and drought case studies.

Banks are governed by clear demarcations when it comes to providing advice. Agribankers provide general advice to their customers, commonly including recommendations to discuss their situation with a Rural Financial Counsellor, seek independent legal advice, or obtain assistance from their accountant.

While the ABA seeks clear distinguishment between the role the finance sector has to play and how other professional services can contribute, the banking industry believes these additional stakeholders play an essential role in assisting farmers experiencing financial difficulties and preparing for drought. These services can provide guidance regarding farm business management techniques and future planning which can include some of the most effective ways to prepare for drought and other potential risks.

Further stakeholders the ABA recommends the Department of Agriculture, Water and the Environment engage include groups such as agronomists, farm group specialists, and other non-bank lenders such as asset finance and equipment finance providers.

Additionally, the banks recognise the importance of ensuring transparency and cooperation regarding the provision of information. Currently, banks in Australia have specified regulatory requirements regarding the provision of information as part of the usual data collection and sharing process. We recommend this current information (where appropriate) is leveraged by the Government due to various reasons, including competition and commercial considerations.

Finally, we wish to highlight that member banks remain committed to working with the Government to share general insights regarding current and emerging customer trends to ensure the most appropriate support can be provided.

## Current in-drought support measures valued by industry

The ABA welcomes the Government's continued support regarding the existing provisions of in-drought support measures.

Farm management deposits (FMDs) are a valuable risk management tool to assist farmers in managing the volatility of farm incomes, especially in drought times. FMDs are a useful tool, with members highlighting that the scheme is commonly used by farmers who are profitable, understand what it takes to be sustainable and mitigate future risk. Suggested improvements for FMDs for the future include the simplification of tracking and time stamping for deposits and the consideration to extend to companies and trusts.

The Regional Investment Corporation (RIC) "provides low-cost finance to farm businesses that are in financial need of assistance, to recover from short-term hardship, but are assessed as financially viable over the long-term and able to repay<sup>1</sup>". Over the past few years, the scope has expanded to include lending to first-time farmers and those undertaking succession planning. While mindful of the expanding scope of RIC, the finance sector remains supportive of objectives in the legislative instrument, which highlights loans have been designed to support farm businesses to prepare for, manage through, and recover from periods of drought.

Various additional federal and state government schemes such as the Drought Transport Subsidy and Donated Fodder Transport are also valued measures by bank customers.

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<sup>1</sup> <https://www.legislation.gov.au/Details/F2021C00016>



## Australian Banking Association

The banking industry would welcome expanding government programs that provide both farming good practice and independent business advice and assistance to farmers in an accessible way. This may include improving skills in financial management and planning; insurance and risk management; and succession planning.

An issue to consider is the link between drought preparedness and making it easier for farmers to identify best practices (benchmarking). One of the challenges banks find is a lack of clear guidelines for customers on what constitutes the best past practice for drought preparedness and how we can work with them. We appreciate that this work is completing further research to look at the links between drought management practices and long-term financial performance across industries.

Yours sincerely

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