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Mr Mark Cameron
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By email: Primary.Production@parliament.govt.nz

RABOBANK NEW ZEALAND SUBMISSION TO PARLIAMENT'S PRIMARY PRODUCTION COMMITTEE BRIEFING ON RURAL BANK LENDING

Thank you for the invitation to make a written submission on the Primary Production Committee's Briefing on Rural Bank Lending.

By way of background, Rabobank is New Zealand's only specialist food and agribusiness bank. We are part of an international co-operative group based in the Netherlands, with over 500 staff working from 27 offices across New Zealand.

Rabobank was originally founded in the 1890s by Dutch farmers as a small cooperative of banks to serve local rural communities. Rabobank Group has now expanded to 36 countries to become one of the world's leading financial institutions.

Bringing together our deep connections to the New Zealand rural sector, our specialist research expertise and our extensive international reach, we work closely with our farmer and grower clients under our local mission and ambition of 'Growing a Better New Zealand Together'.

With our co-operative origins and longstanding relationships across some of New Zealand's leading food and agribusinesses, Rabobank takes a long-term view of supporting farmers and food producers, who we believe are critical to New Zealand's wider economic and social success.

It is within this context that we welcome the opportunity to make a submission on the Primary Production Committee's Briefing on Rural Bank Lending.

An overview of Rabobank New Zealand's business

As a food and agribusiness banking specialist, Rabobank New Zealand's lending portfolio is wholly focused on the New Zealand food and agribusiness value chain, including Kiwi farmers and growers, farm input companies, processors and exporters. We do not provide residential and consumer lending and we do not lend to businesses outside of the food and agribusiness value chain.

Since establishing in New Zealand in the 1990s, Rabobank has become one of New Zealand's largest rural lenders and a significant provider of financial products and services to food and agribusinesses. We are located close to our clients, with our head office in Hamilton, in the heart of the vibrant agricultural region of Waikato, and with offices located throughout regional New Zealand.

Our business has grown significantly over the years and, as of December 31, 2023, we held 21.4 per cent of New Zealand's rural lending market, with total lending of \$16.6 billion. In all, we have approximately 4,000 rural lending clients and 31 wholesale (institutional) clients, in addition to approximately 53,000 customers of our Rabobank Online Savings business.

To date, 100% of our profits in New Zealand have remained in this country, financing our ongoing and growing commitment to supporting Kiwi farmers and growers. We see this as a compelling point of difference for us in the New Zealand marketplace.

Our cooperative ethos remains in Rabobank's DNA today. This, and our long-term commitment to support New Zealand farmers and growers through the cycles, is the foundation of our business model.

We believe this long-term commitment to the rural sector has contributed to Rabobank consistently rating the highest of all banks in Federated Farmers' biannual banking survey in terms of customer satisfaction and customer communication, and the lowest in customer perceptions of feeling under undue pressure from a bank. This is something we are proud of and determined to continue.

Differences between personal and rural bank lending

We note that the Primary Production Committee initiated this briefing and called for submissions after members had heard from some farmers and others in rural communities about "a disparity between rural and urban bank lending practices".

We would note that there are a number of important differences between personal and rural lending, which are reflected in the interest rates passed on to customers. These reflect applicable risk and capital weightings. We have outlined some of these main differences in the following table:

PERSONAL AND RURAL BANK LENDING CONSIDERATIONS					
	Income	Outgoings	Asset prices	Risk profile	Credit risk assessment
Personal	Generally fixed and stable	Largely fixed and predictable	Stable and tagged to inflation	Low	Homogenous, standardised
Rural	Variable and tagged to production and commodity price movements	Variable	More variable, tagged to production and commodity price movements	Medium-high	Bespoke

These factors are reflected in local regulatory settings for calculating risk weighted assets, which require New Zealand banks to hold a significantly greater proportion of capital against rural lending than for residential lending.

For rural lending, the combination of a different risk profile, the need to apply individualised credit risk assessments to rural loans (which are more costly than standardised, often automated, residential loan assessments) and higher risk weightings are all reflected in the interest rates applied to the sector.

This is not a recent development – these differences and the resulting interest rate differential has been the case for many years.

Furthermore, from a global perspective, different risk weightings between residential and rural lending are not uncommon, as this is the case in other markets in which Rabobank operates.

We would note one final variable: There is a different application of rural risk weightings between “Standardised” and “Internal Ratings Based” banks, which creates an uneven playing field. That being said, we support any process that improves the transparency of agribusiness lending and the key variables influencing lending interest rates in the sector.

Rabobank’s approach to setting rural lending rates

We submit that any direct comparison of rural and residential interest rates should take these differences into consideration.

With that in mind, we make the following additional comments about Rabobank’s lending approach:

1. We set lending interest rates for rural clients on a case-by-case basis. We employ a thorough process that takes account of each client’s circumstances, including sector exposures, variability in both income and costs, commodity outlooks, business plan information, the current and forecast financial position and any other relevant risk factor to calculate an individual probability of default. This is combined with an assessment of the Bank’s ability to recover a loan in default through any collateral provided. As each client’s circumstances are different, interest rate margin variability is common.

2. Rabobank's core lending product – the All In One Loan – was designed specifically for farmers and growers and provides clients with flexibility to manage their farm business finances. The loan gives them the ability to access capital quickly by redrawing funds when they need them, as well as the freedom to pay down debt in good times with no penalties if they repay the variable rate loan early.
3. We believe our rural lending rates are competitive, as demonstrated by us having grown our rural lending market share from 16.7% in 2018 to 21.4% in 2023.
4. The New Zealand rural banking market has a high degree of competition and is not dominated by a single bank, with the rural lending market shares of all five of the largest banks ranging from 14% to 24%.
5. Rabobank takes a flexible approach to supporting our clients when disasters or emergencies strike. For example, in the aftermath of Cyclone Gabrielle last year we worked one-on-one with those seriously impacted to offer the following as appropriate:
 - Deferring scheduled principal payments
 - Waiving break costs on early redemption of term deposits to allow access to needed funds
 - Waiving fees on loan increases necessary for rebuilding operations
 - Waiving fees for equipment finance contract changes
 - Labour support from local Rabobank employees to help with the clean-up
 - Extending our Employee Assistance Programme services to both clients and employees
 - Financial support to local community and sector causes
 - Participating in the Government's North Island Weather Event Loan Guarantee Scheme

Rabobank's broader commitment to rural New Zealand

Beyond supporting our clients in a financial and business sense, Rabobank takes a broader approach to supporting rural organisations and communities, which we believe are critical to New Zealand's economic and social fabric. This is extremely important to our own people, who live and work in those communities.

Our commitment to strengthening rural communities includes:

- The Rabo Community Fund, which was set up three years ago to financially support a range of initiatives benefitting rural and regional communities across New Zealand. Financed by an annual contribution from Rabobank New Zealand, the Community Fund contributed \$800,000 to 35 rural community projects in 2023.
- Rabo Community Fund projects include financial skills workshops for farmers and food producers; Growing Future Farmers, a two-year educational course providing graduates with specialised agricultural industry training and development opportunities; and Surfing for Farmers, a summer programme that gets farmers off-farm and into the surf to enhance mental health and wellbeing.
- Our network of four regional Client Councils (two in the North Island and two in the South Island). Our Client Councils are groups of leading and dedicated Rabobank

clients who work with us to address key industry and community challenges in farming and agribusiness, and to provide valuable feedback about our business and how we can improve our client experience.

- Rabobank New Zealand was one of six founding private sector shareholders in the AgriZero^{NZ} joint venture with the Government in 2023. AgriZero^{NZ} aims to take pressure off New Zealand farmers and growers by providing them with access to affordable and effective tools and technology to cut their emissions, while they concentrate on their farm efficiencies, production, and profitability. We have committed \$4 million to this initiative from 2023 to 2025.
- Rabobank has consistently supported our clients with submissions on proposed legislation and regulations affecting rural New Zealand, across issues including freshwater management, agricultural emissions and seasonal workforce pressures.

Conclusion

As a food and agribusiness banking specialist, Rabobank is absolutely committed to continue supporting our clients and the wider rural sector over the long-term. As we have noted, our portfolio has grown strongly over the years, which would not have been possible without us having a competitive overall client proposition.

Our business model centres largely on one-on-one conversations with clients around their kitchen tables, where we strive to really understand their businesses and support them in managing the opportunities and their challenges coming their way. Rabobank New Zealand's strategy is to further grow our business by supporting existing clients and exploring new opportunities with other leading agribusinesses.

As we have said, we believe our rural lending rates are competitive and that the rural banking market more generally is also competitive, with a number of institutions present.

Because of regulatory requirements around risk-weighted capital applying to different categories of bank lending, we submit that care should be taken in directly comparing rural lending interest rates with those prevailing for personal lending.

Rabobank New Zealand remains ready and willing to further work with policymakers and others in the interests of ensuring New Zealand farmers and growers can continue to make a meaningful contribution to our national economy.

Thank you again for the opportunity to make a submission on the Briefing on Rural Bank Lending. Please contact me if you require further information.



Todd Charteris
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