



**Rabobank New Zealand Limited**

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## **RABOBANK NEW ZEALAND SUBMISSION TO PARLIAMENT'S FINANCE AND EXPENDITURE COMMITTEE INQUIRY INTO BANKING COMPETITION**

### **Introduction to Rabobank New Zealand**

Rabobank is New Zealand's only specialist food and agribusiness bank. We are part of a large international banking co-operative group based in the Netherlands, with over 530 staff working from 27 offices across New Zealand.

Rabobank was originally founded in the 1890s by Dutch farmers as a small co-operative of banks to serve local rural communities. Rabobank Group has expanded to 37 countries to become a substantial global financial institution while retaining its strong co-operative ethos.

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

With longstanding relationships across some of New Zealand's leading food and agribusinesses, Rabobank takes a long-term view of supporting farmers, growers and food producers, who are a critical part of New Zealand's wider economic and social success.

It is within this context that we welcome the opportunity to make a submission to the Finance and Expenditure Committee's Inquiry into Banking Competition.

Before responding to the Inquiry's terms of reference, we thought it would be helpful to provide the Committee with some background about our business approach and our wider commitment to rural New Zealand.

## **An overview of Rabobank's business approach**

As a food and agribusiness banking specialist, Rabobank New Zealand's lending portfolio is focused wholly 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, or offer cash or retail branch services. Furthermore, 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 and our network of offices located throughout regional New Zealand.

Our business has grown significantly over the years and, as of June 30, 2024, we held 21.7 per cent of New Zealand's rural lending market, having provided 40% of all new lending to the rural sector over the first six months of 2024. Our total lending limits across rural and wholesale facilities to corporate food and agribusinesses now stand at \$17.2 billion.

In all, we have approximately 4,000 rural lending clients, 1,600 rural deposit/credit only rural clients and 31 wholesale (institutional) clients, in addition to approximately 54,000 customers in our Rabobank Online Savings business.

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

Our co-operative ethos remains in Rabobank's DNA today. This, and our long-term commitment to supporting New Zealand farmers and growers through commodity, economic and climatic cycles, is the foundation of our business model.

We believe this enduring 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 terms of customers feeling under undue pressure from a bank. This is something we are proud of and determined to continue. In addition, our Net Promoter Score across all our rural client segments is market leading.

## **Beyond the financials: Rabobank's wider commitment to rural New Zealand**

One of Rabobank's four strategic pillars is all about being a 'Meaningful Cooperative' in local communities. We deliver on this through a diverse portfolio of community partnerships and sponsorships. A summary of these partnerships can be viewed [here](#).

In 2021, Rabobank established the [Rabo Community Fund](#) in New Zealand, which has since contributed over \$2 million to more than 100 rural community initiatives across the country. The fund is based on the international Rabo Foundation, the global agricultural banking cooperative's social fund, which has operated for more than 45 years. The Rabo Community Fund is resourced by annual contributions from Rabobank New Zealand.

Rabobank also has a network of four New Zealand Client Councils, which promotes awareness of the issues and challenges most important to farmers, producers, their rural communities and the wider food and agribusiness sector.

The Client Councils – two in the North Island and two in the South – include some of Rabobank’s most engaged and progressive farmer and grower clients. They provide on-the-ground feedback and perspectives to Rabobank’s senior leadership and rural banking teams in terms of the products and services we provide to our clients.

In addition, the Councils are deeply connected to their communities, supporting a range of food and agri-related community projects, including:

- [Growing Future Farmers](#), a structured two-year educational course providing graduates with specialised agricultural industry training and development.
- [Surfing for Farmers](#), a programme encouraging farmers to take a few hours each week to head to the surf to reduce stress and improve wellbeing.
- Providing the [Grow agri-focused board game to over 150 secondary schools and George the Farmer](#) books to over 100 primary schools.
- Rolling out more than 30 Rabobank [Financial Skills Workshops](#) this year. Run by an independent facilitator, the free workshops are open to Rabobank clients and non-clients, covering a range of farm and business financial skills. Since they started in 2021, almost 1,500 Kiwi farmers have attended the workshops across New Zealand.
- Through the Rabo Community Fund, contributing \$30,000 a year to the [Rural Support Trust](#), which provides practical support to farmers and rural communities through networks of experienced local volunteers. We also support the Farm Business Advice Fund.

## Responding to the Banking Inquiry’s Terms of Reference

### **1. The state of competition in banking, including:**

#### **a. The price of banking services, with a particular emphasis on business and rural lending products**

As a specialist food and agribusiness bank, we have focused our comments on rural banking services and lending practices. Several factors go into the price of banking services to rural clients, including risk, service levels, capital and cost of funding.

- I. **Risk:** It is important to differentiate risk factors affecting rural clients, which are distinct from residential borrowers. These very different risk profiles 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 different risk profiles, the need to apply individualised credit risk assessments and higher risk weightings are all reflected in the interest rates applied to the sector.

While the security type (a mortgage over land) may be similar, that is really where the similarity ends, as we have set out in the following table:

Risk Type	Residential Borrower	Rural Borrower	Comments
<b>Income</b>	Stable. Predominately wages or income earned from relatively stable and predictable sources. Easily verified.	Variable. Income from production. Subject to climatic conditions and commodity prices over which a borrower has no control. Verifiable only over an extended period.	From a lender's perspective, residential borrower income is easily verified and because of stability, can be modelled for loan assessment purposes with a reasonably high confidence. Rural income on the other hand can be highly volatile and subject to many variables. 'Through the Cycle' modelling is typically used to assess a 'normalised' income stream to smooth out performance peaks, troughs and climatic events. Typically, this is subjectively and manually assessed by a lender.
<b>Expenses</b>	Relatively stable and predictable. Reasonable mix of fixed and variable expenditure allowing for scope to adjust discretionary expenditure in times of stress. Generally, not linked to income generation.	Largely variable (over which limited control can be exerted without affecting production – e.g. feed costs, fertiliser, fuel). Directly linked to production in that reducing farm inputs also reduces output and income.	Residential expenses can be modelled with reasonable certainty based on the homogenous nature of the borrowers (i.e. using household expenditure statistics). Assessment of farm working expenses is more bespoke in nature due to materially different farming systems and operational scale of each borrower.
<b>Land value</b>	Relatively stable and predictable.	Can be more volatile and linked to production efficiency.	Balancing the relative stability of residential security against a predictable earning and expenditure profile allows for a higher leverage ratio to be provided against the landed security. In contrast, the less predictable rural land values, matched with a potentially volatile earning and expenditure profile, necessarily means borrowers are offered a relatively lower level of leverage against the land security offered.
<b>Risk assessment</b>	Lower	Higher	

The above risk factors are reflected in the required models servicing these different asset classes. This is not a new development – these differences and the resulting interest rate differentials have been the case for many years.

- II. **Service levels:** The stability and predictability of the earning and expenditure profile of residential borrowers allows for the automation of credit provision. Borrowers can be grouped on the basis of their homogenous profiles, allowing a one-size-fits-all, transactional servicing model.

Residential customer exposures can be grouped and managed by exception, allowing for further automation of client monitoring – even to the point of debt recovery. On balance, therefore, this brings a lower cost for a lender to service residential borrowers.

Rural clients, on the other hand, because of the bespoke nature of their risk profiles, tend to be individually and subjectively assessed. They are typically managed in a relationship model (including being allocated a subject matter expert relationship manager, who becomes that client’s first point of contact with the bank) with portfolio sizes varying based on industry, scale and complexity.

These different service models also result in very different customer experiences.

At Rabobank, our agribusiness managers invest time and expertise to become strategic business partners to our farmer and grower clients.

This includes understanding both the financial and non-financial aspects of the client’s business, starting with the initial client onboarding phase of the relationship.

Furthermore, during times of volatility, business expansion and succession (which can be extremely emotive) farmers and growers lean on their bank relationship manager to help understand, manage and mitigate risk.

Challenges around succession are increasing, with both the average age of farmers and asset values rising, but with income not keeping pace. This will require more support from experienced rural bankers.

- III. **Capital:** Capital is a function of risk-weighted asset allocations prescribed by the Reserve Bank. Rabobank is mandated as a “standardised bank”, requiring us to 100% risk weight our agribusiness exposures, while our competitors use the “advanced” rating model, enabling them to have a lower risk weighting. This is reflected in Rabobank’s lower return on equity.

- IV. **Costing of funding:** The overall cost of funding reflects a bank’s funding mix. For Rabobank, our funding mix includes:

- Capital, which is prescribed to meet levels required by the Reserve Bank and reflecting equity being generally more expensive than debt.
- Wholesale funding, which reflects market pricing relative to the credit rating of the bank. For Rabobank, this is aligned to the credit rating of our shareholder in the Netherlands.

- And retail deposits, which reflect our ability to attract retail depositors in the market. For Rabobank, the cost of retail deposits generally needs to be slightly higher than the market, given that our asset classes do not include residential, business and/or transactional accounts.

**b. Profitability in banking, how has it changed over time, and how it compares to other OECD economies.**

Rabobank's return on equity over the last seven years has ranged between 5% and 7%, which is comparatively lower than our key competitors in the New Zealand market.

The key driver of this lower return on equity is the level of capital we hold to meet the Reserve Bank's capital requirements. For Rabobank, our risk weighting for the majority of assets is 100%, compared to competitors using the advanced capital model allowing an 80-85% weighting.

In addition, our actual returns are impacted by the cost of funding and operational costs. Rabobank's funding mix increases the cost of funds compared to competitors, given that capital is generally more expensive than debt. Furthermore, as a specialist food and agribusiness bank, we need to price our retail deposits slightly above the market to attract the volume of these funds.

Finally, the operational and regulatory costs for Rabobank are higher per unit due to the lack of scale compared to our competitors.

**c. The return on capital from business, rural and residential mortgage lending; the level of interest rates charged to each sector; and an assessment as to why there has been a change in the proportion of lending to the productive sector relative to residential mortgage lending.**

As we have said, Rabobank is focused wholly on the food and agribusiness sector and therefore we do not have return on capital comparisons between rural and residential lending. However, our commitment to the rural sector is reflected in our data on new lending to the sector.

Our specialist rural banking business has grown significantly in recent years, with Rabobank having provided 30% of new lending to the agriculture sector over the 15 years to 2023, according to the financial accounts of the top five agriculture lenders in New Zealand.

This growth momentum has continued this year, with Rabobank having provided 40% of new rural lending in the six months to 30 June 2024, according to Reserve Bank data.

**d. The effect of any bank lending policies relating to borrowers' emissions that result in additional lending costs and/or restrictions**

Like other large New Zealand organisations, from this year Rabobank has been required to publish [annual Climate Statements](#) as a Climate Reporting Entity under the Financial Markets Conduct Act 2013.

The Statements detail material climate-related risks and opportunities for our business, as well as climate-related metrics and targets. Furthermore, Rabobank New Zealand continues to integrate climate change considerations into governance, strategy and risk management processes, in line with requirements of the Aotearoa New Zealand Climate Standards issued by the External Reporting Board.

This will require us to increasingly factor clients' emissions into our business strategy – including rural lending.

We acknowledge that this all comes at a cost and will likely be increasingly reflected in lending practices (such as access to and cost of credit), as banks develop transition plans to meet national and international demands to support a lower emissions economy.

Already, we are seeing these additional requirements to collect and report on emissions-related data being felt by our rural clients. At Rabobank, we want to manage this process in a way that adds value to our rural clients and the wider food and agribusiness value chain.

Our approach is to collaborate with clients where we can and support alignment of their commercial goals with environmental practices, facilitating a transition to more sustainable and economically viable production systems.

With our own operational improvements only moving the emissions reduction needle so far, our sustainability efforts are focused on supporting our clients to reduce their own emissions to collectively help meet New Zealand's climate change commitments.

New Zealand farmers and growers have made significant progress in this respect. They are appropriately acknowledged as among the most efficient food producers in the world. It should also be remembered that the demands being asked of them are also being asked of farmers around the world.

At the same time, local and global regulators, along with customers across the global value chain and trade negotiators are, to varying degrees, asking that progress continues to be made in the carbon/emissions transition.

As we noted in our recent research white paper [Maintaining Our Emissions Edge](#), one report has noted that over 80% of New Zealand's exports are headed to countries with mandatory climate-related disclosures either in force or on the way.

Another factor is the emergence of Climate Border Adjustment Mechanisms (CBAM). The European Union is requiring all imports into the EU to comply with its soon-to-be-implemented CBAM and the EU Deforestation Regulation. Currently, levies apply only to a range of heavy industrial items such as steel and iron.

The United Kingdom, Australia and Taiwan are shaping as fast followers in this space.

More broadly, as part of a global organisation we want to contribute to feeding the world sustainably, transforming the way we produce and consume energy, and fostering prosperity in the communities in which we are active.

**e. The level of customer “switching”, how this has changed over time, and how this compares to other countries**

Currently, relatively flat growth across rural lending has resulted in what many of our experienced bankers regard as the most competitive market they have seen. All banks have an appetite to increase their market share.

Rabobank’s success to date is due largely to our single focus on rural banking, supported by our sector knowledge and networks, together with our long-term access to capital.

Data compiled by CoreLogic shows that over the past decade, Rabobank has posted positive gains through rural mortgage switches in all but two years, which has contributed to our overall and ongoing business growth.

**2. *Barriers preventing competition in banking:***

As a general observation, Rabobank believes the New Zealand rural banking market has a high degree of competition. It is not dominated by a single bank, with the rural lending market shares of all five of the largest banks ranging from around 14% to 24%.

With respect to Rabobank, we believe our rural lending rates are also competitive, as demonstrated by us having increased our rural lending market share from 16.7% in 2018 to 21.7% as at June 2024. This would not have been possible without us having a competitive overall client proposition.

As we have noted, rural banking has some specific characteristics and a particular relationship framework. Any new entrants to the rural banking market need to have experienced teams on the ground in rural and regional New Zealand with clear and specific skills tailored to the food and agribusiness sector.

In addition, rural banks need to be prepared to take a long-term view, banking their clients through adverse economic, commodity and climatic cycles, and have robust internal processes to identify, support and remediate clients in a timely manner when this is required.

In a nutshell, rural banking is far from a ‘paint by numbers’ proposition. What works for one farmer will not necessarily work for others, which means taking a dedicated, bespoke approach that recognises each customer’s capability, situation and requirements.

A ‘paint by numbers’ approach could set up many farmers and growers to fail, given the complexity of agribusinesses and the varied skills and resilience levels of many in the sector.

**3. *Any possible impact of the regulatory environment on competition and efficient access to lending:***

Rabobank enjoys an open and constructive working relationship with our two principal regulators, the Reserve Bank of New Zealand and the Financial Markets Authority.



In recent years, these regulators have worked with the industry and each other to avoid overlap as much as practicable, with the Reserve Bank focusing on prudential compliance and the Financial Markets Authority taking on the principal role of monitoring financial conduct.

However, managing regulatory compliance and regulatory change is a significant cost for all banks and one that falls disproportionately on smaller banks. By way of example, Rabobank New Zealand is currently engaged in no less than 13 regulatory change or uplift programmes and 17 prudential and non-prudential consultations.

In terms of capital requirements, as a specialist rural lender we cannot comment on the differentiated risk weights for residential and rural clients, other than to submit that these risk weights are a reasonable reflection of the relative risk profile of these market segments.

As we have noted, as a “standardised” bank Rabobank operates with a higher 100% risk weighting against rural assets compared to competitor banks that can apply risk weights of 80-85% for the same assets.

As we are competing in the same market, Rabobank is unable to extract a premium for this higher capital weighting, which is in turn reflected in our lower return on equity.

We also have a regulatory obligation to report our climate risk management activities and our impact, as we have set out in Section 1 (d) of our submission. We note that the guidance from the Reserve Bank on climate does not impose any additional obligations.

Regarding the competitive landscape and barriers to entry, we have addressed this in Section 2. However, we submit that the absolute capital requirements and significant infrastructure investment required to meet increasingly complex regulatory obligations are significant barriers to entry for new entrants.

#### **4. Rural banking:**

##### **a. Determine how and to what extent the RBNZ’s capital requirements and credit risk models influence lending rates to agriculture and horticulture businesses.**

Our views on the impacts of the Reserve Bank’s capital requirements and credit risk models are covered in Section 3. Within those parameters, we make the following additional comments about Rabobank’s lending approach to agricultural and horticultural businesses:

1. Rabobank sets 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, entity governance, 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 our 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 allows clients 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. The All In One loan also allows clients to fix online or over the phone with no documentation fees.
3. Rabobank has continued to support the agriculture and horticulture sectors through competitive interest rates, as demonstrated by us having grown our rural lending market share from 16.7% in 2018 to 21.7% in June 2024.
4. 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 (and continue to do so) with those seriously impacted to offer the following:
  - 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
  - Increasing staff numbers in the impacted areas to provide more dedicated and timely support
  - Further investing in our staff so they remain equipped to deal with the ongoing challenges

**b. Ascertain whether the RBNZ's approach to greenhouse gas emissions risk, including risk of government policy, has or is likely to result in further increases in lending rates to the agriculture and horticulture sectors.**

Please refer to our comments in Section 1 (d) and Section 3.

The reality is that the price of finance and access to it is likely to be impacted by policy risk more broadly. Inevitably, access to credit will become an issue for some farmers and growers.

We have also seen some rural clients losing confidence to expand and invest due to uncertainty around regulation and cost of capital, as evidenced by our recent Rabobank Rural Confidence surveys.

Equally, there are risks around a disorderly climate transition and therefore a need for the Government and regulators to take a balanced and, more importantly, a consistent approach to policy and regulatory settings.

New Zealand has a real opportunity in this area, recognising that New Zealand food producers are among the most efficient in the world.

That said, our farmers can and should be looking for ways to optimise production at the same time as operating within planetary boundaries – this is also good for their long-term performance and the creation of intergenerational wealth.

**c. Ascertain whether bank environmental and sustainability policies have or are likely to result in further increases in lending rates to the agriculture and horticulture sectors.**

We do not believe this applies to lending rates for the agriculture and horticulture sectors any more than it does to other sectors. See Section 1(d) and Section 3.

**d. Ascertain whether there is adequate transparency on lending rates for rural, residential and business lending.**

At Rabobank we take a transparent approach, with all rural clients being able to see lending rates at all times through their internet banking profile. Rates are updated daily, incorporating market movements and allowing clients to compare available rates. As we have said, Rabobank offers lending rates according to the risk profile of individual borrowers.

**e. Access to banking services, including access to cash services, especially in rural areas.**

Under our service model, Rabobank does not provide cash or retail branch services. Our rural client relationship managers are based in the regions and more specialised support is provided by teams in specialist hubs if required. Rabobank has never offered over-the-counter cash withdrawal services, with all transactional banking being completed online or through our call centres. Our rural clients have access to cash through our debit card offering and through New Zealand's extensive ATM network.

**5. Lending to Māori asset-holders, organisations, business and individuals:**

As a general comment, Rabobank takes the same approach to providing rural lending services to Māori asset holders and organisations as we do to other lending groups, but with a particular focus on tikanga Māori.

That means working closely with a variety of Māori agribusinesses to understand their strategic requirements and business objectives, as well as acknowledging their specific characteristics as Māori organisations, businesses and individuals.

We are continuing to evolve our support for this sector, noting Māori agribusinesses' vital importance to New Zealand, together with their unique contribution to our national history, culture and future. We also observe that it can be challenging to lend to some Māori asset holders and organisations because of additional collateral risk.

Having said that, well-capitalised businesses with diverse balance sheets make this less challenging and, in those cases, they are well supported.

## Conclusion

As a specialist food and agribusiness bank, Rabobank is fully committed to continue supporting our New Zealand farmer and grower clients and the wider rural sector over the long-term. As we have noted in this submission, our portfolio continues to grow consistently, which would not be possible without us having a competitive overall client proposition.

Our business model centres on one-on-one conversations with rural clients around their kitchen tables, where we strive to deeply understand their businesses and support them in managing both the opportunities and 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. We know this approach works and is valued, given our high client satisfaction levels.

We are also focused on attracting, retaining and continuing to develop the best people in rural banking. We want them to add value for our clients through deep, strategic relationships that cut through the noise, and challenge and support our clients to further improve their performance.

Rabobank believes that now is not the time for rural banking to become transactional in nature. This could bring unintended consequences, where some farmers seek such transactional support through inexperienced and unregulated providers.

As we have said in this submission, 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 distinct categories of bank lending, we submit that care should be taken in directly comparing rural lending interest rates with those prevailing for residential lending.

Rabobank New Zealand remains ready and willing to further work with policymakers 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 this submission. We would be happy to appear before the Committee and speak to the submission, if this would be of assistance.



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