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Media Release
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Banks' e-Commerce Services Failing Business Customers

(Sydney – 7th April 2003) Australia's banks may have missed their window of opportunity to provide enhanced e-banking services to customers in the increasingly important commercial or middle-market, according to new research from banking industry analysts East & Partners.

The most recent round of East's "Australian Commercial Transaction Banking Markets" survey has just been released based on interviews with 652 chief financial officers or their equivalents in February.

East's Commercial research series looks at the so called "middle-market" of enterprises turning over between A$20-100 million a year – the engine room of the economy - of which there are around 6,500.

The survey found an increasing uptake of Internet Banking and Integrated e-Banking services from this sector, but identifies growing dissatisfaction with the way banks are delivering Other e-Services such as e-commerce applications and developing electronic communities of interest between industry groups.

While this area has been identified as being of increased importance to this sector, with 35.0 percent of enterprises engaging these products from their banks compared with 33.6 percent six months ago, there is also a marked decline in satisfaction levels.

Of all transaction banking product areas surveyed, satisfaction levels in this Other e-Services category were the only ones to register a decline - down by more than 25 percent.

This is important to the banks because Other e-Services has also been identified as one of the main factors driving an unprecedented level of account churn in this sector, a segment which is increasingly being targeted by banks. It suggests that a significant window of opportunity exists for non-bank service providers who can adequately cater to these growing needs.

The East survey showed that the commercial market is experiencing a rapid escalation in account churn with 16.0 percent (a huge 32.0 percent annualised level) of all mid scale customers actively considering a change in their transaction banker within the coming six months.

Based on the previous two rounds of this program we are seeing an actual conversion of this forecast churn level of around 50 percent – meaning that roughly half of these customers may end up making a move of banker, in whole or part, within six months.

This latest round of research has also found:

- That the trend for NAB and Westpac to lose market share as Current Principal Transaction Banker to CBA and ANZ is continuing. NAB is still the market leader, but its share fell from 23.9 percent six months ago to 23.2 percent. CBA is ranked second and continues to gain ground, moving from 22.3 percent to 22.7 percent. ANZ's share climbed from 19.6 percent to 19.9 percent, while Westpac's slipped from 17.6 percent to 17.2 percent.

- Fifth ranked St. George continues to pick up market share, up from 4.9 percent to 5.2 percent. Regional players such as Suncorp, the Bank of Queensland and Bendigo are also starting to make inroads as Secondary Transaction Bankers.

- Product uplift from these middle market corporates is increasing, with customers showing a higher engagement of transaction banking product types such as cash management, integrated e-banking, internet banking, receivables, payables, trade finance and other e-services.

This sector is becoming less sensitive to fee levels. Six months ago, 11.6 percent of respondents nominated a reduction in fees as the single most important change they wanted in their banking relationships, but this fell to 8.7 percent in the current survey.

Commenting on the report, East & Partners principal analyst Paul Dowling said: "This latest survey brings together several themes we have already identified – this commercial sector is becoming increasingly sophisticated in its product usage and increasingly discerning on what they want from their banks."

"Average account life is shortening and the market is showing an unprecedented level of churn. This is based not just on hot competition between banks for new customers but is driven by increasing expectations which, in turn, is being evidenced by rapidly dropping customer dissatisfaction."

"The fact that banks are also failing to deliver extended e-commerce applications to their customers is highly significant, and suggests that for all their efforts in the technology area, banks are struggling to understand the key business needs of their middle market business customers."

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