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Australia's banking landscape set for dramatic change in 2004

(Sydney 28th August 2003) The Government's economic reform agenda has greatly benefited Australia's banking industry and prospective new international tax arrangements will further enhance Australian banks' ability to compete in foreign markets, according to Parliamentary Secretary to the Treasurer, Senator Ian Campbell.

Speaking at the launch of banking research and analyst firm East & Partners' *Corporate Banking 2003* publication, Senator Campbell said removing company tax from Australian banks' core profits from their foreign operations would give banks greater freedom to grow their business.

"Removing an Australian tax impediment from the movement of those profits and to corporate restructuring should greatly aid banks' business flexibility," Senator Campbell told a 150-strong audience of Australia's senior bankers and financial services professionals.

He said that in addition to macro structural changes, the Government had also introduced the Corporate Law Economic Reform Program, known as CLERP, as part of an ongoing program to modernise business regulation in Australia.

"It's designed to ensure that we improve productivity, and promote business activity and economic development," Senator Campbell said.

East & Partners principal analyst Paul Dowling concurred with Senator Campbell, saying regulatory change, in particular CLERP 9 and Basel II, would have a significant impact on bank capital regulation and management.

Mr Dowling said the story for the banking sector in 2004 would be its increasing competitiveness, with international banks making greater inroads into local markets, investment banks cross selling product and services into advisory clients, and regional banks pressuring the middle commercial markets.

"The commercial markets (A$20 to $100 million turnover segment) will be a huge area of focus for Australia's banks in 2004. Our research shows that a third of commercial enterprises are being competitively hit for their business," Mr Dowling said.

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“Average account lifetimes are dropping as a result and an astonishing 22 percent of commercial businesses are telling us they are actively looking to change their service provider relationships in whole or part by mid-2004,” he said.

Other key signposts for 2004 highlighted by Mr Dowling:

- Corporates that are currently serviced by 7.8 banks will grow to an average of 10 by the end of 2004
- Lending demand in the commercial market is forecast at 11 percent
- Demand for debt by corporates is slowing to 3 percent
- Merger and acquisition activity will kick-start with a jump in deals flowing from an already building pipeline
- Regulatory change will lead to major spending on IT, particularly on banks’ CRM infrastructure
- Collective share of the corporate market by the big four banks will continue to fall
- Credit and debit card churn will accelerate and card users will rationalise their holdings

“The winners in 2004 will be those banks which deepen the relationships they enjoy with their existing customers through effective cross selling and superior client service delivery. Client service, particularly in the commercial sector, will be the critical differentiator in 2004,” Mr Dowling said.

East & Partners’ *Corporate Banking 2003* is the second annual forecast of Australia’s business banking markets. The publication contains contributions from Australia’s major and regional banks, industry associations, professional services firms, ratings agencies, academics and East’s own research.

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