

## Deposit and Lending Markets Primed for Impact

(23 September 2013 – Australia) Business depositors have continued their exit from tied into free deposits as interest rates have come down and smaller businesses re-leverage, according to the latest research from industry analyst's East & Partners.

East's Deposit Funding and Debt Index for August shows how the relationships between Tied and Free Deposits, Term versus On Call volumes and Deposit to Lending ratios have become more fluid in 2013, with important ramifications for the market share of the Big Four banks and their ratios of deposits to lending.

Since July 2011 tied business deposit volumes have halved, from 42.9 percent to a current 22.9 percent of total business deposits.

Smaller businesses have transferred from Tied Deposits to Free Deposits with the most enthusiasm, increasing Free Deposit volume by over 25 percent in the last two years.

The top 500 Institutional sized businesses have almost entirely shifted to Free Deposits, with a mere 5.5 percent of volume allocated to Tied deposits.

The Corporate segment has maintained the highest proportionate volume of On Call deposit volume, increasing from 33.6 percent to 46.2 percent since July 2011.

NAB has the most to lose in business deposit and lending markets, accounting for almost a quarter of all primary relationships.

Business DFDI ratios, which show the ratio of deposits to borrowing by market segments, indicate smaller businesses are capitalising their operations in an entirely different way to that of CFO's of large businesses.

The business banking DFDI ratio for SME's has plunged from 2.51 to 1.47 in the last year, meaning that for every \$1 they borrow from the banking system, SME's have \$1.47 in deposits.

The business banking DFDI ratio for Institutional businesses has jumped from 0.45 to 0.69 in the same period, and they are now depositing 69 cents for every dollar borrowed as opposed to 45 cents per dollar in July 2012.

Martin Smith, Senior Markets Analyst at East & Partners notes: *"With interest rates low, businesses clearly want ready access to their deposits so they can deploy them quickly, whether that be for business expansion, investment or working capital."*

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*Events unfolding in global markets will provide a telling indicator of how robust deposit and lending growth in Australia really is and which way sentiment will shift.*

*The feeling that markets are holding their breath and continuing to save for a rainy day that 'must' come is palpable. The trigger for businesses to turn from paying down debt towards new leveraged undertakings lies in confidence and sentiment”.*

### Tied versus Free Deposits by Segment

*% of Total Market*

|                | Estimated Tied versus Free Deposit Volumes |                           |                           |                           |
|----------------|--|---------------------------|---------------------------|---------------------------|
|                | Tied Deposits<br>Jul 2011                  | Tied Deposits<br>Jul 2013 | Free Deposits<br>Jul 2011 | Free Deposits<br>Jul 2013 |
| Micro Business | 71.4                                       | 45.8                      | 28.6                      | 54.2                      |
| SME            | 61.3                                       | 33.2                      | 38.7                      | 66.8                      |
| Corporate      | 39.7                                       | 15.1                      | 60.3                      | 84.9                      |
| Institutional  | 20.8                                       | 5.5                       | 79.2                      | 94.5                      |
| TOTAL          | 42.9                                       | 22.9                      | 57.1                      | 77.1                      |

*Source: East & Partners Deposit Funding & Debt Index – August 2013*

### About the East & Partners Deposit Funding & Debt Index

East & Partners monthly Deposit Funding and Debt Index (DFDI) provides insightful research supporting the implementation of bank funding strategies within a constrained and competitive lending market. The industry benchmarks are based on monthly deposit and lending data released by the Australian Prudential Regulation Authority (ARPA). Capturing trending data across core deposit funding and lending metrics allows unique insights to be derived, including business to retail deposit volume ratios, deposit and lending market share, rate triggers for deposit switching, deposit churn levels and tenure of term deposits.

Note: Business Depositor Segments

- › Institutional – A\$725 million plus
- › Corporate – A\$20-725 million
- › SME – A\$5-20 million
- › Micro – A\$1-5 million

For more information or for further interview based insights from East & Partners on this DFDI, please contact:

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