

Bank Funding Strategies – Deposit Taking Behaviour Shifting

(25 November 2013 – Australia) Australia’s smallest and largest businesses are changing their deposit patterns and now represent more than 50 percent of total business deposits, according to the latest research from banking analysts East & Partners.

East’s latest Deposit Funding and Debt Index (DFDI) report shows that deposits from Micro businesses turning over \$1 to \$5 million and Institutional businesses with revenues of \$725 million and more now represent 52.0 of all business deposits in the banking system, up from 40.0 percent in 2011.

Shifting balances between Australian banks deposit volumes raises important questions over what determines an effective bank funding strategy, in addition to which sources they are derived from. The argument of which bank is performing this balancing act best can be viewed through their relative performance against changes in overall actual deposit balances. East’s Deposit Funding and Debt Index (DFDI) highlights changes in deposit and lending balances of Australian banks over time.

Institutional businesses represent 25.1 percent of total business deposit volumes, slightly exceeding the proportion of SME deposits of 20.9 percent. The Corporate segment maintains the highest proportion of total business deposit volumes with 27.1 percent, marginally greater than the Micro Business segment proportion of 26.9 percent. Total business deposit volumes have only increased in the Micro business segment within the last month (businesses turning over less than \$5 million per annum). SME, Corporate & Institutional Business segments have all recorded proportional declines in business deposit volumes.

A longer term view of trending business deposit volumes depicts a somewhat similar picture, with Micro business deposits volumes increasing from 20.1 percent to 26.9 percent at the same time as SME volumes decreased from 23.5 percent to 20.9 percent. Corporate deposits fell proportionately the most over the last two years, from 36.5 percent to 27.1 percent. Institutional enterprises have increased deposit volumes from 19.9 percent to 25.1 percent over the same period.

Business Deposit Volumes by Segment

	2011	2012	2013
Micro Business	20.1	21.9	26.9
SME	23.5	25.3	20.9
Corporate	36.5	33.1	27.1
Institutional	19.9	19.7	25.1

Source: East & Partners Deposit Funding & Debt Index Program

East & Partners Pty Ltd

Level 39, 2 Park St Sydney NSW 2000 Australia

phone: +61 2 9004 7848 fax: +61 2 9004 7070

www.east.com.au

ABN: 23 151 025 599

The propensity of business segments to increase borrowings against deposit balances is also captured within East's DFDI research. All businesses turning over less than \$725 million per annum have increased loan balances relative to deposits.

This strongly forming trend is evident in business lending volumes. Overall business lending to Micro, SME and Corporate segments have markedly increased throughout 2013; however Institutional borrowing has plummeted from 43 percent to 33 percent of total business loans since August 2012.

The shifting balance of deposit taking by segment reflects broadly divergent bank funding strategies. A higher ratio indicates more deposits relative to lending balances. Westpac has maintained the highest deposits to lending ratio of 1.06, currently the only bank among the Big Four to attract more deposits than what it lends to its customers.

Non-bank ADI's in the 'Other' category exhibit a rising level of lending balances relative to deposits with 0.26. In the last two years ANZ and NAB have undertaken divergent capital allocation strategies, with NAB reducing its business banking ratio from 1.20 to 0.80 while ANZ has reduced its ratio further to 0.64. CBA maintains a 'middle of the road' business deposits to lending balances ratio of 0.91, changing minimally in the past two years.

The standout ratio change is attributed to Macquarie however, dropping from 4.31 to 1.76 as the bank deploys its considerable cash balances in the form of an intermediated assault on residential mortgage markets. Regional banks maintain a higher ratio than the Big Four, however this may change in 2014 as banks outside of the 'too big to fail' Big Four push for a level playing field on capital adequacy ratios.

Senior Markets Analyst Martin Smith considers the Big Four to be ramping up their pitch for deposits and aren't pulling any punches in the deposit war that rages on.

"Ongoing changes in overall deposit balances provides an excellent indication of which banks are doing the best job of targeting underlying changes in deposit taking behaviour between business segments"

"Although the Corporate segment continues to represent the largest volume of business deposits, Micro Businesses are exhibiting the most growth. Reduced funding costs and greater competitiveness among the Big Four have made it difficult for the regionals and non-bank ADI's to compete, however their current positioning towards small business deposits is prudent given the latest DFDI results"

About the East & Partners Deposit Funding & Debt Index report

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.

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 Deposit Funding & Debt Index report, please contact:

Sian Dowling
Marcomms & Client Services
East & Partners
t: 02 9004 7848
m: 0420 583 553
e: sian.d@east.com.au