

Media Release

SMEs Forcing Business Banking Rethink

(9 June 2015 – Australia) Small business owner's bank relationship is changing, with important implications for the Big Four, according to research conducted by East & Partners (E&P).

The report finds that close to half of all Small to Medium-sized Enterprises (SMEs) primarily engage with their business bank for transaction banking needs across Cash Management, Cross Border Payments or Payment Processing products.

Contrastingly in 2011, up to three quarters of all small businesses primarily considered their relationship with the bank to be lending based amid tighter credit conditions and shaky business confidence.

The findings are included as part of E&P's SME Transaction Banking program, presenting analytics based on interviews with 1,491 SMEs with turnover of A\$1 – 20 million per year.

Although the core transaction banking relationship is recognised as a key foundation for cross sell into associated treasury, business FX and risk management products, up to one in four SMEs intend to switch their primary transaction bank in the next six months.

When surveyed by E&P in 2010, only 10.4 percent of SMEs planned to change their primary business bank.

"Now entering the twentieth round, our research confirms that between eight to ten percent of small businesses with intent to switch will actually act upon it and respond to a competitor pitch, resulting in an annualised churn rate of fifteen percent" said E&P's Head of Markets Analysis Martin Smith.

Mind share continues to be a proven leading indicator of market share growth. Small business owners predominantly switch to a competitor that is 'front of mind' once they have decided to churn, however before they reach that point the biggest driver of 'churn intent' is a distinct lack of customer support.

Although SMEs determine customer support to be an integral element of their relationship with their bank, an overall satisfaction rating of 2.17 is considerably lower than associated service factors (on a scale where 1 = satisfied and 5 = dissatisfied).

BOQ stands out in the SME segment, achieving market share growth of 31.0 percent since 2013 based on significant mind share gains and a 3.5 percent advance in customer support satisfaction.

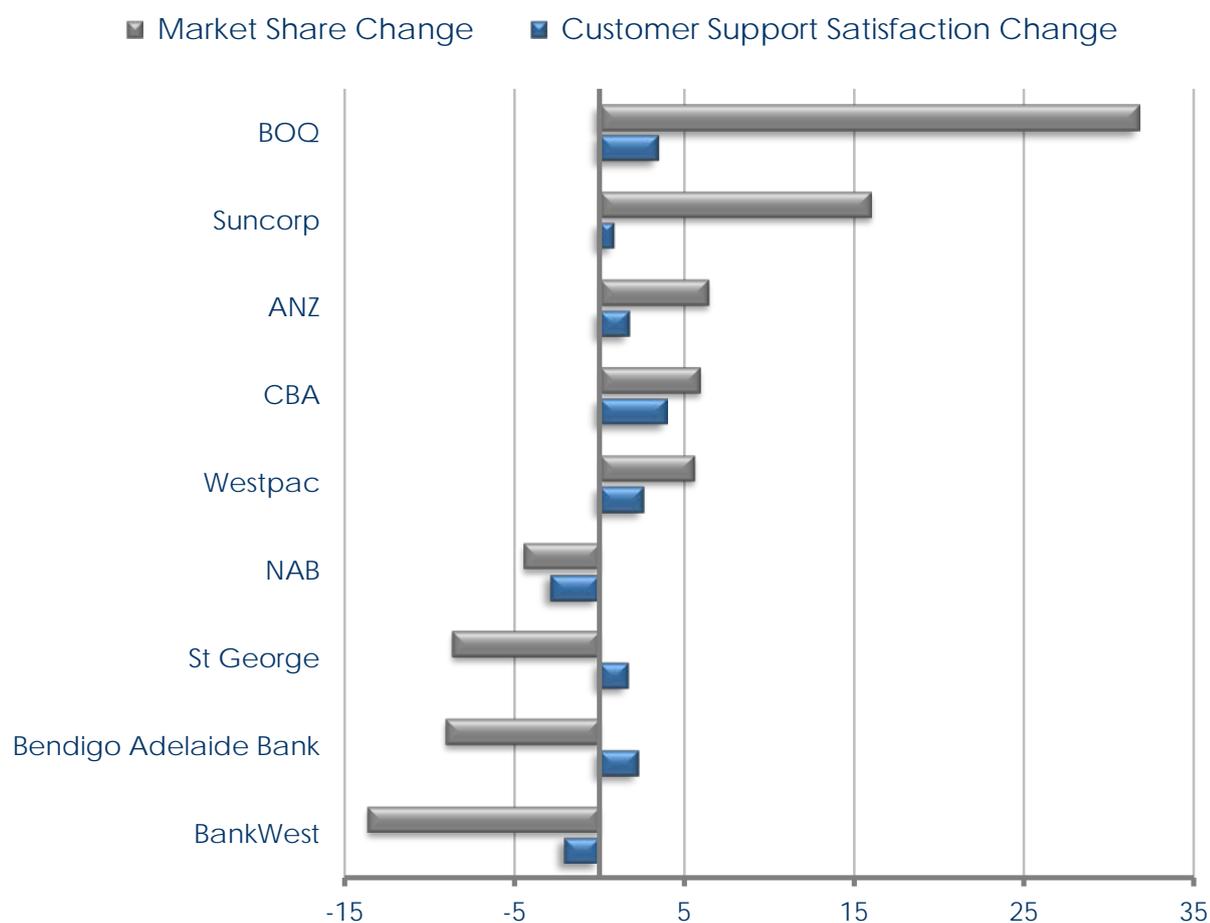
"Delivering customer support that exceeds expectations is an inherently challenging prospect for commercial banks, but the research clearly shows that dissatisfaction with customer support firstly leads to lower wallet share, then greater intent to churn" said Smith.

"SMEs are also becoming more comfortable actually undertaking the process of switching providers. We currently see three separate value propositions for the SME wallet, offered by the Big Four, non-Big Four and new entrants"

"The Big Four may currently represent over three quarters of all SME lending relationships, but the shift in precedence to transaction banking product demand favours non-bank alternatives offering streamlined multi-channel products, for example solutions directed at cash flow based lending as opposed to traditional secured lending products." he said.

Market Share and Customer Support Satisfaction Change

% Change 2013 / 2015



Source: East & Partners SME Transaction Banking Program

About East & Partners SME Transaction Banking Program

East & Partners Small-to-Medium Enterprise (SME) Transaction Banking Markets program delivers quality market intelligence on the banking behaviour of businesses in the A\$1 - 20 million annual turnover segment. The program comprises detailed trending analysis over twenty continuous rounds of reporting including account management, business development, service delivery and market strategy formulation.

Significant effort is being invested in building service propositions to this historically under-banked segment of the market at a time when small businesses are actively re-leveraging, driving many SMEs back to the large commercial banks. Conducting survey sweeps of 1,500 SME's twice annually, detailed data analysis includes:

- Transaction banking customer demographics and relationship positioning
- Bank market share and competitive positioning
- Service factor importance and customer satisfaction
- Mind Share, Market drivers and futures

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