

Media Release

Business Banking Movers and Shakers in 2016

(14 December 2015 – Australia) Business banking will undergo a “changing of the guard” in 2016 according to industry analysts East & Partners (E&P) proprietary demand-side research.

Sustaining revived business borrowing demand, supporting small businesses’ growth ambitions and keeping pace with the frenetic fintech race emerge as the most powerful drivers of market share growth, or decline, in 2016.

Focus is turning away from inter-bank competition towards rapidly growing “disrupters” across payments, online lending and business FX products. New entrants add further context to the performance of Big Four and non-Big Four Banks in traditional transaction banking and account management functions.

“Business credit growth is back and confidence in domestic and international trading conditions has successfully withstood major knocks, however attention has firmly turned towards distinguishing the next banking and finance products ripe for disruption,” said E&P’s Head of Markets Analysis, Martin Smith.

“Structural issues continue to drag on corporate revenue forecasts, reflected most notably in disappointing capital expenditure forecasts that are either flat-lining or falling. Non-mining sectors are failing to fill the yawning mining investment gap. This is a major concern given business confidence continues to push higher yet willingness to invest in the business for further growth remains remarkably low market wide.”

E&P’s Business Banking Index shows that demand for new products and services in January 2016 is forecasted to increase strongly, by up to 23 percent. Despite positive sentiment expressed by nearly 1000 corporate treasurers interviewed for the program, a number of crucial pain points remain firmly in place.

Over two thirds of all small to medium sized enterprises are prevented from accessing credit due to a slow credit approval process. One in two cite restrictive conditions and undesired loan terms. A lack of industry expertise, slow onboarding and the need for more flexible terms continue to be nominated as major stumbling blocks by small business owners.

When asked to what extent their business would absorb increased collateral terms resulting from APRA’s requirement for banks to hold more capital against their loan books, more than half of Australian CFOs indicated they would change banks in response to increased covenant calls.

Consequently, non-Big Four banks such as BOQ, Bendigo Adelaide and Suncorp are in the box seat, with moves to allow banks outside of the Big Four and Macquarie to revise their standardised approach to credit risk, reducing the amount of capital held against loans and increasing competitiveness.

Australian businesses have actively refinanced loans at low rates yet largely not taken on new credit lines in the last year. Although this behaviour is now changing, the relationship is particularly prevalent in the institutional segment according to E&P's Deposit Funding and Debt Index.

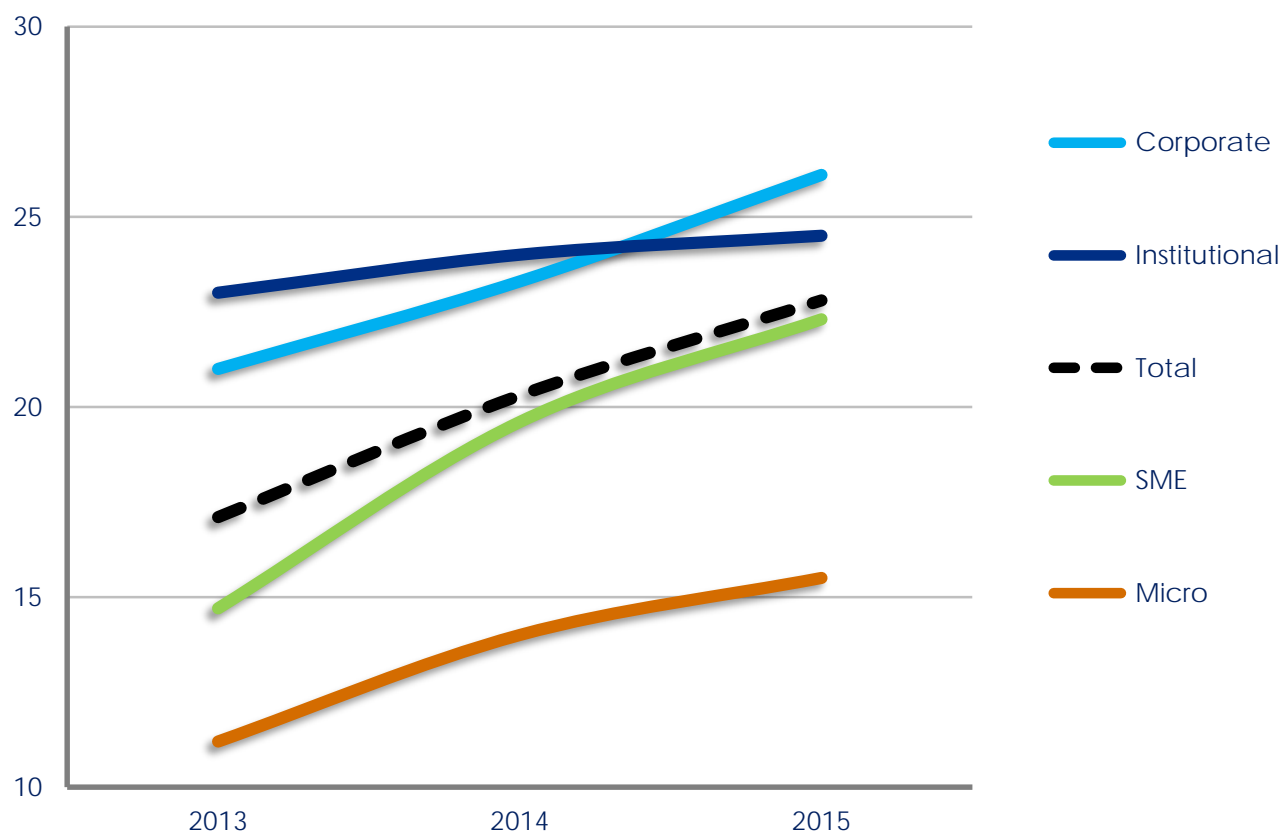
As recently as Q1 2014, institutional businesses exhibited a net borrower status - business lending balances were significantly higher than deposit balances. As of Q4 2015, the Top 500 Australian enterprises by revenue are depositing A\$2.00 into the banking system for every A\$1.00 they borrow.

Businesses viewed their core banking relationship as lending based as recently as 2012, yet now they view their bank primarily in a transactional sense. This relationship is replicated across all segments and suggests the banks will find it unfeasible to be 'everything to everyone'. We're witnessing a changing of the guard, a trend reflected abroad by banks such as HSBC shoring up falling ROE by focusing on core competencies," said Smith.

"This is a challenging proposition at a time when ANZ transitions from outgoing CEO Mike Smith to incoming CEO Shayne Elliot, CBA stimulates business lending to balance out the group's large residential mortgage portfolio, NAB's UK withdrawal accelerates as the Bank reinvigorates Australian operations and Westpac actively manages the Bank's digital transformation."

Change in Demand for Business Banking Services

-100% (decreasing) to 100% (increasing)



Source: E&P Business Banking Index

About East & Partners

East & Partners Pty Ltd, a leading specialist market research firm in the corporate and investment banking markets of the Asia Pacific, works across twelve countries in the region delivering both multi-client and proprietary market analysis services to the industry. The delivery of accurate quantitative analysis on the region's rapidly evolving demand for sophisticated transaction, debt, treasury, investment and advisory banking services and products has been uniquely addressed by East's "bottom up" research methodologies since 1987. East's research is based on many thousands of customer interviews conducted annually in Australia, New Zealand, China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand.

East & Partner's multi-client demand research and consulting work has been engaged by virtually every major bank in the region as well as international clients based in North America and Europe. The business was established as a primary market research firm for the Asia Pacific region in 1987 and is an employee-owned company. The geographic disbursement and language skills of our consulting staff have been a significant factor in East's continued success. This is all the firm does.

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