

Media Release

Banks battle to maintain dominance of UK's Business Foreign Exchange market

(15 January 2016 – United Kingdom) As businesses across the UK seek to minimise the risks of currency fluctuations, the business foreign exchange market shows strong growth as well as fierce competition, according to new research from market analysts East & Partners.

The firm's UK Business Foreign Exchange (BFX) report analyses FX market dynamics across three corporate segments: micro businesses; small- to medium enterprises (SMEs) with annual turnover of between £5 million and £20 million; and lower corporates with £20 million - £100 million turnover. It also reviews the respective BFX product categories of Spot FX, FX Options and Forward FX.

The research found that the UK's biggest banks continue to control the market across all three products. However, non-bank providers such as Monex and Western Union are making inroads in a number of areas, particularly in their Spot FX and FX Options market share.

The Spot FX market shows that three banks continue to enjoy significant market share: Barclays (14.7 percent), HSBC (13.6 percent) and Lloyds (10.8 percent), however, banks are slowly but steadily ceding market share to non-bank competitors, with Western Union taking a 3 percent Spot FX market share to move ahead of Monex at 2.2 percent.

Similarly, the FX Options market is dominated by two major banks: Citi and Deutsche Bank have increased their market shares to 11.9 percent and 11.1 percent respectively. At the same time non-banks now account for 8.3 percent of the total market after increasing their share by more than a third during 2015. This suggests that non-banks are increasingly successful in attracting more sophisticated customers.

"While high street banks continue to perform strongly, there are clear examples of other FX providers gaining market share, particularly in the Micro and SME segments," said Graham Buck, East & Partners Senior Analyst.

"Newer market entrants that differentiate their offerings by service quality or value for money can capitalise on any complacency from their more established competitors and gain ground across market, mind and wallet share," he added.

Western Union continues to enjoy the best customer satisfaction ratings within the UK BFX market, maintaining this position from previous rounds, while Deutsche Bank and UBS follow. Bank of China stands out as having significantly improved its customer satisfaction score for UK BFX, while Barclays' score has deteriorated significantly over the past year.

Further, small to medium sized businesses are increasingly understanding foreign exchange risks, and engaging with hedging products to minimise its impact on profit margins. Between December 2014 and December 2015, an additional 14.68 percent of Micro businesses and 12.77 percent of SMEs said they “regularly or occasionally” used FX Options.

“In the current climate of uncertainty, currency volatility and diminishing profit margins, more and more small businesses across the UK are putting in placing hedging strategies to ensure they aren’t bitten by heavy fluctuations on the Pound,” said Buck.

“Despite this growth, there remains an alarming high number of small businesses that are either not aware of, or not confident in, using currency and hedging strategies available to them,” he added.

About the Survey

East & Partners’ findings are based on telephone interviews conducted in November 2015 with more than 2,200 UK businesses across the above three categories. Micro businesses represented 50.7 percent of survey participants, SMEs 30.8 percent and lower corporates 18.6 percent. Respondents included corporate treasurers, CFOs, company accountants, CFOs and others responsible for the company’s FX and import/export activities.

Just over 40 percent of UK companies responding to the survey were in the manufacturing sector, 21 percent in wholesale, 7 percent in retail and 6.5 percent in financial services excluding banks. The remaining 25 percent included companies from a number of industries, spanning property/business services to transport/storage.

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APPENDIX

FX Options Market

Citi and Deutsche Bank dominate in the UK's FX Options primary market, having increased their market shares to 11.9 percent and 11.1 percent respectively. Two other providers steadily improving their position are NAB (Clydesdale, Yorkshire) with 5.8 percent and Western Union (1.9 percent).

Deutsche Bank and JP Morgan are the only providers with more than a 50 percent share of customer wallet in FX Options, with 57.1 percent and 56.9 percent respectively. However, these shares are slipping as lower corporates increasingly opt to use multiple providers rather than rely on a single one to meet their needs. Bank of China, which now has wallet share of 31.7 percent, is the only bank to have bucked this trend while ING has suffered the greatest slippage: only 17 percent of enterprises using ING as their primary bank also use them to execute options.

Customer satisfaction with FX options providers and their offerings appears significantly lower than for Spot FX, with dissatisfaction most marked among micros; possibly due in part to a lack of understanding about the product. While Bank of China still has relatively low market share, its customer sentiment rating is relatively strong and improving.

Forward FX Market

The latest East survey suggests that 95 percent of UK lower corporates now use Forward contracts to cover a portion of their FX exposure. By contrast, more than four in five (81.5 percent) micro businesses have yet to start using Forward contracts despite the growing availability of the product, suggesting many are still unaware of the structures available to them as small businesses.

In the primary market, Citi and HSBC remain the two dominant Forward contract providers with market shares of 11.0 percent and 10.5 percent respectively, although both have suffered some erosion in the past year. Barclays is steadily gaining ground and now has an 8 percent share.

While Monex and Western Union have established primary market shares of 3 percent and 2 percent respectively, non-banks have generally not made inroads into the Forward FX market to anything like the same extent as for Spot FX and FX Options products. This suggests that greater competition for business among the banks that are players in this market, which is preventing most players from growing their share.

This competition is also reflected in the share of customer wallet data for the primary market, where over the past year only BNP Paribas and Bank of China have distinguished themselves. The former maintained its wallet share at 27.7 percent, the latter managed a one percent increase to 21.6 percent. However, both still lag Deutsche Bank which - as with FX Options - again scores highly, managing a 43.3 percent primary wallet share of Forward FX products. RBC has suffered the biggest drop in wallet share over the past year, with its figure reduced to 21.6 percent.

Product satisfaction ratings for Forward FX show Deutsche, JP Morgan and Western Union as the providers with 'best of breed' status; each scoring above the average. Only two, RBC and Societe Generale, have seen their customer satisfaction ratings decline.

Spot FX market

Citibank has established a 9 percent share following a three percentage point rise since mid-2014. Bank of China now accounts for a 1.5 percent market share among both SMEs and lower corporates, doubling its percentage over the past 18 months albeit from a low base.

As the UK Spot FX market is highly fragmented, average wallet share in the primary market is correspondingly low at 23 percent and trending lower, due largely to customers' ability to change their provider fairly easily. Among the SME segment, Deutsche Bank ranks highly with a market-leading 34.1 percent, indicating that the bank has successfully developed a deeper relationship with its business clients.

Despite the dominant collective share of the 'Big Four' their product satisfaction rating is below the average for all providers. However, strong competition means that none of the players, bank or non-bank, can afford to be complacent.