

Media Release

Internet is king, say Aussie SMEs

(29 November 2016 – Australia) One in ten Australian small to medium enterprises (SMEs) declare they would prefer not to interact with their bank at all, new research from banking analysts East & Partners (E&P) reveals.

The SME Transaction Banking (STB) Markets Program, which interviews around 1,500 Australian firms with annual turnover of A\$1-20 million, found that more than twice the number of businesses wanted no interaction with their primary transaction banking provider than during the global financial crisis in 2008.

Over the same period, an additional 96 percent of businesses reported that the internet was their first contact preference, totalling to more than one in every three Australian SMEs.

The research shows that Westpac and Commonwealth Bank (CBA) are best positioned to take further advantage of the small business segment's shift to internet and electronic banking (e-Banking). Significantly, SMEs rated it equal first as the most important banking product category.

Westpac (34 percent) dominates share of mind for e-Banking services, achieving almost triple the mind-share for the service than CBA, its closest competitor. However, CBA are rapidly increasing their presence, more than doubling e-Banking mind share since 2009.

Meanwhile, less than one in four businesses nominate relationship managers as a preferred point of contact, a 63 percent decrease between 2008 and 2016. In contrast, product specialists have emerged as new method of preferred interaction, with around 31 percent of business owners citing them as key point of contact.

The research also highlights that while National Bank of Australia (NAB) controls overall primary market share in the SME segment, it has achieved the slowest growth rate of two percent year-on-year among its Big Four competitors since 2009. Again, CBA boasts the fastest growth rate (18 percent) among the major banks.

Importantly for banks, SMEs increasingly perceive their primary banking relationship as transaction orientated. The proportion of SMEs who primarily interact with their banks for credit needs fell below 50 percent from as high as 69 percent in 2013.

According to the research, the move away from lending relationships is magnified by a marked increase in SMEs' intention to switch transaction banks in the next six months. One in four business owners declared "highly probable" or "definite" intentions to move their transactional business elsewhere in the first half of 2017, representing a 50 percent increase over the last 3 years.

“The small business banking landscape is rapidly changing,” said Martin Smith, Head of Markets Analysis at East & Partners.

“As businesses and business owners become less tied down to their primary provider, whether it be via personal relationships, credit security or funding availability, they will seek out alternative account services and cash management providers based on price competitiveness, ease of use, tailored products and technological features.”

“Although small businesses currently bank holistically, they will soon enough spread their transaction banking needs across multiple providers as new digital technology and an increased focus on account portability lowers barriers to entry – particularly in the lending and payments markets.”

“As such, banks need to act, and act fast. Smaller, more nimble firms, including non-Big Four, alternative finance providers and fintechs are quickly encroaching on the long under-valued small business market,” he said.

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.

Conducting survey sweeps of around 1,500 SMEs 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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