

The Asia Conundrum

Australian banks have the strengths to play in Asian markets

For most Australian banks the Asian markets have been akin to the Sirens in Ulysses: very alluring but there's a good chance they'll tempt you to destruction if you're not careful. As a result, Australian banks have tended to dip their toes in the water, taken strategic stakes here and there, but with the exception of ANZ, have variously moved in and back out of Asia over the years. During this time China has emerged to be the biggest (or most beautiful) Siren of all; its size and potential difficult to ignore but requiring long term commitment without provoking murmuring from shareholders. But given these same shareholders' expectations of continued double digit profit growth and the inevitable slowing of the Australian (and New Zealand) economies, it would be surprising if Australian banks weren't seriously looking at Asian markets.

A natural product springboard into Asia is Trade Finance. Even Australian domestic banks which are publicly stating they have no interest in expanding into Asia are providing Trade services to their customers in the region. Generally, the smaller Australian banks have taken an "own-the-customer but outsource" transaction execution through white labelling agreements with partners such as ABN Amro. The Big Four domestic service providers have rediscovered Trade and have refreshed their product platforms and go to market propositions, with a firm focus on enhanced e-Trade solutions. For the most part, however, Australian banks have not been as good at providing Trade services as many of their counterparts operating in the Asian markets. This can be put down to the inherent trading nature of much small to middle market Asian business.

But Australia's businesses are also traders and for bankers, Trade service and product excellence can deliver large upside to their overall customer proposition and act as a substantial originator of associated business, especially in FX, Cash and Payments.

Asian Traders better served than their Australian counterparts

East & Partners has been researching the corporate markets in 10 Asian markets – Hong Kong, Singapore, Malaysia, Indonesia, South Korea, Taiwan, Thailand, China, India and the Philippines for several years – interrogating the 100 largest corporates in

each of these countries on their banking experiences. Typically, customer satisfaction with banks' Trade finance offerings is higher in these markets than those reported by their Australian counterparts in our Top 500 program. Why is this? In part, because booming housing markets meant there were plenty of rich pickings to be had domestically without the need to look offshore. All the while Asian markets have been busily trading with each other and banks in Asia have become Trade dominated as a result. International Banks with a strong Asian focus such as HSBC, Deutsche, Standard Chartered, and JPMorgan top the customer satisfaction rankings in Trade; HSBC has brought this expertise into the Australian market and is one of its leading performers. Trade expertise and a strong international network means these banks are in a position where they can look to cherry pick corporate Trade clients in the Australian market.

As for Australian banks, an indicator of the lack of engagement with Trade internationally is the fact that no Australian banks are participating in the SWIFTNet Trade Services Utility (TSU) pilot aimed at developing a fully automated, common bank to bank platform for corporate customers, which began last December.

On the other hand, Asian regional and domestic banks have been considerably less strong in the Payments and Cash Management space, two product areas where Australian banks excel with their integrated transaction banking platforms. Interestingly, a recent global report by BCG indicated that payments revenue is set to decline in Europe and the US because of market saturation and a single pan-European payments area. However, according to BCG, payments in China will grow at almost 13 percent each year up until 2013. Payments revenue will also boom in Indonesia, the Philippines and Thailand. This is reflected in East analytics on forecast penetration and uplift levels among Asian business for a "click up" in what is being offered to them in Cash and Payments.

Given the respective strengths of Australian banks in Cash and Payments and international banks in Trade, could there be mutual market opportunities for both sets of banks in the Australian and Asian markets?

Total Market Product Importance and Satisfaction Ratings - Asian Corporate

	Importance	Average Rating Reported			
		Overall Satisfaction	Product Performance	Customer Support	Value for Money
		1 – 2 – 3 – 4 – 5 (high) (low) (satisfied) (dissatisfied)			
	Overall Rating				
Account and Transaction Facilities	1.05	1.81	1.69	1.89	1.85
Integrated e-Banking Service	1.56	2.14	2.17	1.95	2.29
Internet Banking Service	1.09	2.09	2.19	2.04	2.03
Receivables	1.23	2.16	2.21	2.07	2.20
Payables	1.25	1.83	1.88	1.74	1.87
Trade Finance	1.46	1.90	1.92	1.85	1.92