



# Easter Predictions

## Business Banking in 2008

The bull run enjoyed by Australia's banking industry over the past five years has irrevocably changed course, due primarily to the softening of the housing market and the current sub-prime crisis. Business banking is the new growth area and profit frontier.

These are the key dynamics East & Partners view as directing market behaviour over the next 12 months:



Banks will use the **liquidity crisis** as a rationale to lift pricing across their portfolios, in a return to more "normalised" risk – reward balance. This will occur for the next two quarters, until one of the majors breaks ranks in an effort to lift market share.



**Deposit markets** will be the most competitive segment as banks look to the retail market to fund the majority of their lending books.



**Foreign bank** to acquire a regional Australian bank or big second tier lender to consolidate an Asia growth strategy in 2008.



Banks will aggressively market interest rate and currency **risk management** products and achieve a threefold increase in middle market engagement of these products by early 2009.



Effective, balanced and innovative **channel management** will become the key to new business generation and customer acquisition into 2009.



Natural **business lending** growth forecasts 2008/07:

- SME 19.2%
- Corporate 16.6%
- Institutional 20.4%

However, credit availability will be the key controller of market growth.



Business **customer churn** levels slowing progressively during 2008:

- SME -9.2%
- Corporate -6.6%
- Institutional -4.7%

But all still double digit.



High **customer satisfaction** performance becoming the norm in 2008. No longer the dominant builder of pipeline for business banks nor the key differentiator for customers who will be looking beyond this for:

- Strategic partnerships especially in transaction services
- Packaged, business-intuitive banking solutions
- Fresh added-value contributions from their bankers that are advisory led, including business networking / introductions across the bank's customer networks.



Significant **market share gains** in business lending and business deposits by the Big 4 as customers focus on "safety":

- Lending** 11.7% aggregate growth in primary lending relationships
- Deposits** 14.9% aggregate growth in primary deposit relationships

