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# The Asian deposit market

## “Available” or not….?

No matter how strong a bank is right now, in any part of the world, funding is tight.

European investors who were a large part of global bank funding are in retreat, and the US investor has seen better days. All this is resulting in the humble depositor continuing to be courted, in a dynamic which goes against the low interest rate environment in the wider economy.

This is how it is, in varying degrees, across Asia, where competition for deposit business is heating up. In Singapore, foreign banks are looking to regain their foothold and expand, and one way to do that is to offer attractive local currency interest rates for deposits.

They also need to boost their capital requirements for Basel III. Rates are low in Singapore, but ANZ has set the cat amongst the pigeons with its step up deposit which offers a better interest rate combined with the ability to withdraw funds each quarter. While most foreign banks are offering better than one percent on deposits, local banks are around 0.9, with promotional incentives.

The situation is much more aggressive in South Korea, where the local banking sector – traditionally one of the most volatile in the region – is in the grip of a deposit war occurring in the context of a strong consolidation / M&A environment (and the lingering spectre of bank runs). Depositors are being lured with interest rates of up to five percent, and a state owned bank is leading the charge – despite its advantage as a government controlled institution.

Hong Kong is a little different as one of the main games there is the opening of the local market to yuan denominated deposits. In that market, the early rush has peaked as the currency’s growth has plateaued, resulting in five consecutive months of falls to April in the size of yuan deposits.

Overall though, total deposits with authorised institutions rose one percent in April, boosted by growth in Hong Kong dollar deposits and foreign currency. With loans not increasing quite so fast, the Hong Kong dollar loan-to-deposit ratio edged down to 82.4 percent at end April against 82.5 percent the previous month.

| Indicative Three Month Term Deposit Rates | |
|---|---|
| Westpac (Australia) | 4.75 |
| ANZ (Australia) | 4.75 |
| ANZ (Singapore) | 0.75 |
| Bank Danamon (Indonesia) | 5.50 |
| Kookmin (Korea) | 5.50 |
| OCBC (Singapore) | 0.10 |
| Hang Seng (Hong Kong) | 0.10 |

The most interesting market, however, must be Indonesia, an economy which ratings agency Fitch describes as South-east Asia’s best performer, “especially in terms of profitability.” It is this which drove the US$7.3 billion deal for DBS to buy fifth ranked Bank Danamon Indonesia, and is prompting Australia’s Commonwealth Bank to double the number of its branches there to 150 over the next few years. Depositors are key to the growth of this market. Only half of Indonesians over the age of 15 actually have a bank account, which leaves an untapped market of 60 million - increasingly affluent - people.

Not only therefore are we seeing markets in Asia which are comparatively low priced in deposits and holding big deposit relative to lending volumes but markets which are also showing a very high growth outlook as retail customers continue to enter domestic banking systems. Beyond ANZ and its supra-regional strategy, just how are Australian and global banks looking to take share in either the region’s consumer deposit base or burgeoning SME and Micro business markets? And critically, just how are the in-country, domestic banks defending their turfs?