

# SME's discovering risk

Australian Small and Medium-Sized Enterprises (SME's) are increasing their engagement with hedging strategies as they become more sophisticated in their risk management.

New research from East & Partners shows the extent to which SME's are moving to manage both their interest rate risk and their FX exposures as they look to limit the impact of market volatility.

East's SME Banking Report, for example, looks at SME uptake of a range of banking products, from Spot FX through to internet banking and lending.

The April 2013 round of research in this segment, categorised as businesses with \$1-20 million annual turnover, reveals a significant uplift in SME engagement with hedging products for Australian currency term loans.

In October 2011, 60.8 percent of SME's were using hedging to manage their interest rate risk, and by April 2013 this had risen sharply to 65.3 percent.

Looking at the FX markets, a similar story emerges. A separate East research stream looks at SME engagement with banking products, and shows that the percentage of SME businesses using FX Options has gone from 5.5 percent back in April 2009 to 9.2 percent in April this year.

Similar gains are seen in the engagement with FX Forwards, and also other risk products such as interest rate swaps.

FX engagement by SME's is a strong growth area, and East's research reveals that engagement continues to gain momentum as businesses hedge their exposures as their FX volumes have increased.

Business FX volumes in Australia are worth around \$23 billion a day, and the Micro and SME market segments account for just under 17 percent of that.

Larger businesses will always have the lion's share of this market, but the increasing engagement of the smaller segments – not just with FX but also hedging their interest rate risk - tells us several things.

Firstly, from the point of view of banks and service providers, it offers the potential for more business, but also paves the way for more competition. We have already seen this in the FX markets, with non-bank providers such as Western Union and OzForex making inroads into the market shares of the major banks.

The changes also show us something about the evolution of Australian SME's. Not only are they increasingly looking outward and offshore with their businesses, which is requiring more FX engagement and, as a result, risk management, but they are clearly becoming more sophisticated in their understanding of risk.

SME's took much of the brunt of the fall out of the Global Financial Crisis and the sluggish economic conditions of the last few years.

East's research shows that some have learned much from the experience, and are now putting those learnings into practice.

**SME - Australian Currency Term Loans**

