



Media Release

Transaction banking not lending is key to customer hearts and minds

(8 May 2006- Australia) Despite the well publicised battle taking place among banks and other providers to lend to middle markets businesses, it is transaction banking services which really win the “hearts and minds” of these customers, according to East & Partners.

East’s latest Commercial Treasury Banking Markets Report asked businesses in the A\$20 to 340 million turnover segment who they viewed as their principal banker. It was the first time this question was included as part of the study.

Almost 55 percent of these businesses nominated their transaction banker as their “principal banking relationship” in contrast with slightly more than 34 percent who said it was their lender.

“The findings of this report confirmed what we’ve been hearing anecdotally for two to three years, that businesses are really starting to view their transaction banker as their principal banking relationship – not their lender,” East & Partners principal analyst Paul Dowling said.

“Much of the reporting around the banks’ interim results focuses on their business lending performance, and of course it’s a huge part of their business, but lending is increasingly commoditised, the margins are thin, money’s becoming cheaper so it becomes a volume game,” he said.

“Transaction banking services is a much stickier area and offers banks a platform to sell these customers other products. Of course, the level of service middle markets customers receive determines the extent of the relationship with their banker but generally speaking customers are less likely to switch transaction banking providers than they do lenders,” Mr Dowling said.

“Another important issue in the business lending markets is the amount that is being sourced through brokers. We estimate that more than 27 percent of middle-market companies will be borrowing via third party channels by 2007. This compares with around 22 percent currently.

“It’s harder to engage with customers when you don’t really own the relationship, which is increasingly the scenario in business lending. This isn’t the case with transaction banking which provides a much deeper engagement with the customer,” Mr Dowling said.

<i>Middle Market Primary Banking Relationships</i>	
N: 861	% of Commercials
Transaction Banker	54.9
Lender	34.1
Advisory / Investment Banking	6.6
Financial Markets Provider	4.4
TOTAL	100.0

Source: East & Partners Commercial Treasury Banking Markets Program

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