



Media Release

Business customers shun bank mergers amid falling sentiment

(7 May 2007 – Australia) Business customers who currently bank with a non-Big Four bank would prefer their bank to merge or be taken over by a foreign or regional bank rather than one of the domestic Big Four banks, according to research by East & Partners.

In light of recent debate on consolidation in the banking sector sparked by Bank of Queensland's proposed merger with Bendigo Bank, East asked business customers in the March Business Banking Sentiment Index to rate the likelihood of them moving elsewhere if their bank was subject to a merger or takeover.

Using a scale of 1 being 'would definitely NOT switch' and 10 being 'would definitely switch', SMEs (businesses turning over A\$5 to 20 million a year) rated the notion of being swallowed up by a Big Four bank 8.24. SMEs rated the likelihood of changing if a foreign bank moved in 6.45 and 5.50 in the case of another regional bank or St George taking over.

Larger companies in the Lower Commercial (or Middle Market) segment (A\$20 to 100 million turnover) were even less enthusiastic, rating the chance of moving elsewhere 8.50 in the case of a Big Four bank; 6.50 for a foreign bank; and 6.00 for a regional or St George.

Interestingly, Micro Businesses (A\$1 to 5 million turnover) were the least jaundiced of the three segments – 7.83, 5.68 and 4.50 respectively – an indication of the lack of feeling or attachment to banks generally in this small business segment.

“In many cases, SMEs and middle market customers have made a strategic choice not to bank with one of the Big Four so the idea of becoming one of their customers by default does not appeal at all,” East & Partners financial markets analyst Zoran Knezevic said.

“It is revealing that a foreign bank, which on the face of it would be less well known to Australian business customers than a Big Four bank and potentially less committed to the domestic market in the long term, is viewed more favourably than large Australian banks,” he said.

Businesses also saw industry consolidation in a negative light. Some 76.5 percent of all the businesses (Micros, SMEs and Lower Commercial enterprises combined) interviewed in March's Business Banking Sentiment Index said they viewed a potential merger or acquisition of their current bank as negative.

Only 7.7 percent of businesses believed a merger or takeover would be beneficial in terms of service. The remaining 15.8 percent of businesses said they were neutral.

“Australian businesses are negative about potential industry consolidation because they will have less choice in a market where there is much room for improved service, and where smaller and regional banks have performed better than larger banks,” Mr Zoran Knezevic said.

Elsewhere in the Business Banking Sentiment Index, the Sentiment Score fell to a new low of 42.1 points (out of 100) in March 2007. But there was a mixed performance across the market and many banks experienced improvements in customer sentiment.

(The Sentiment Score is an aggregated metric comprising four different measures of customer sentiment – Empathy, Satisfaction Loyalty and Advocacy. All of these scores are a rating given by customers, not a response to a Yes/No question.)

St George continues to lead the market on overall customer sentiment with Bank of Queensland and HSBC following behind. In the March Index, St George customers awarded their bank an overall Sentiment Score of 56.6 points, ahead of BOQ and HSBC customers who gave their banks Sentiment Scores of 53.8 and 51.0 points respectively.

Additional evidence that Australian businesses are warming to new propositions from banking providers is offered by the strong performance of BankWest in the business banking markets. East's Index for March finds that business customers nominated BankWest as the fourth "top of mind" business bank, after National Australia Bank, ANZ and Westpac and ahead of Commonwealth Bank and St George.

All of the Big Four domestic banks except the CBA saw their sentiment scores rise marginally during March 2007.

NAB's Sentiment Score rose from 46.4 to 46.5 points and ANZ score moved from 43.8 to 43.9 points, while Westpac's score grew from 37.3 points in February to 37.5 points in March 2007. CBA's score continued to erode palpably, declining from 34.1 points in the previous Index to 32.9 points in March.

About East & Partners' Business Banking Sentiment Index

The East & Partners Business Banking Sentiment Index is a monthly survey of business customer sentiment towards banks, providing a monitor of customer satisfaction, loyalty, advocacy and empathy towards business banks. Each month East & Partners' research team conducts telephone interviews with a sample of 500 businesses nationally, turning over A\$1 to 100 million per annum, comprising:

- Micro Business 175 (\$1-5m turnover enterprises)
- SME 175 (\$5-20m turnover enterprises)
- Lower Commercial 150 (\$20-100m turnover enterprises)

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