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Media Release

Deposit switching rises with volatility – a challenge for the banks

(3 December 2012 – Australia) Businesses with funds in On Call Deposits are increasingly planning to switch accounts in the coming months, according to new research from leading industry analysts East & Partners.

Easts' latest Deposit Funding & Debt Index (DFDI) reveals that 42.9 percent of businesses, across all business segments, are planning to move all or some of their deposit volumes to alternative providers in the next month, with larger institutions showing the greatest inclination to also move out of Call deposits into short tenor term deposits.

Corporates (companies with between A$20 million and A$530 million annual turnover) report an intended churn level of 43.1 percent, while Institutional business (A$530 million plus) reports a 51.1 percent intention to switch in the coming month. Although SME customers have the lowest switching intentions, a significant 34.8 percent are nonetheless intending to shift provider.

Business Churn Levels in On Call Deposits by Segment

Segment	Customers Who Have Switched In Past Month	Customers Planning to Switch in Coming Month
Micro Business	35.5	36.3
SME	32.2	34.8
Corporate	40.5	43.1
Institutional	48.8	51.1
TOTAL	39.5	42.9

Source: East & Partners' Deposit Funding & Debt Index Report – October 2012

The high Corporate and Institutional churn levels are associated with lower thresholds for the rate differentials required to switch. Corporate customers are prepared to switch deposit balances at a rate differential of only 0.06, while Institutional business will do so at an even thinner differential of 0.05. The SME market has the highest rate switching trigger of +0.08, reflecting their lower intended churn levels.

East & Partners' Head of Markets Analysis Lachlan Colquhoun comments, "Business depositors particularly at the bigger end of town are gaming the banks as rates come down and they can go hunting for the best rates – and increasingly so in shorter tenor term product."

"Banks want stickier money, partly as a result of their upcoming Basle III regulatory requirements and also for their funding needs, so there is some tension evident here between the banks, the interest rate environment, and the liquidity / return requirements of business." Mr Colquhoun added.

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About East & Partners' Deposit Funding & Debt Index

A monthly analysis across Australia's total business and consumer deposit and lending markets, enhancing data provided by APRA. The ADI data is overlayed with a set of demand-side analyses based on East & Partners' continuous whole-of-market customer research programs to produce the Index's set of ratio indicators. The Index focuses on critical market measures including business versus retail deposit volume ratios, the ratio of deposit versus lending by bank by market segment, deposit market share and the total market deposit funding index.

Also reported each month are unique segmentations based on depositor size and, importantly given BASEL III's impact, the Index also splits On Call and HYOD deposit volumes by segment from Term Deposits across 3, 6 and 12 month tenures – hot and sticky deposit business flows, tied versus free deposit balances, deposit churn forecasts and rate triggers for depositor switching.

Note: Business Depositor Segments:
› Institutional – A$530 million plus
› Corporate – A$20-530 million
› SME – A$5-20 million
› Micro – A$1-5 million

For more information or for further interview based insights from East & Partners on this DFDI Index, please contact:

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