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Media Release

Banks focus on fees, not rates

(30 September 2013 – Australia) Banks have dramatically reduced their upward repricing of loans to Australia's corporates and are focussing instead on fee income as a means of maintaining revenues, according to the latest research from East & Partners.

East's bi-annual Corporate Banking Markets report showed that where in January 2012, 42.2 percent of corporate businesses reported upward pre-pricing of their loans in the previous six months, that figure had halved to 21.9 percent in July 2013.

At the same time, the average percentage change in the interest rate for those businesses which experienced rate rises has fallen from an average 1.5 percent change.

Interest Rate and Transaction Fee Increase in Last Six Months

	% of Total	
	Jan 2012 (N: 893)	**Jul 2013** (N: 897)
Interest Rate Change in Last Six Months - Loans		
Up	42.2	21.9
Average % Change	*1.5*	*0.6*
Interest Rate Change in Last Six Months - Deposits		
Up	59.9	64.9
Average % Change	*1.2*	*0.4*
Transaction Fee Change in Last Six Months		
Up	57.7	62.2
Average % Change	*5.8*	*3.3*

Source: East & Partners Corporate Banking Markets Report – July 2013

Some corporates are also reporting their loans are being re-priced downwards. In July, 3.6 percent said their interest rates had fallen in the last six months, while no corporates reported this in January 2012.

Meanwhile, banks have continued to increase the fees they charge corporate clients for corporate and treasury services. East's research shows that where 57.7 percent of corporates reported, in January 2012, that the transaction fees had been increased in the last six months, that figure is now at 62.2 percent. While banks have shown a willingness to lower, or at least not hike rates for a majority of their customers they are still increasing rates on corporate deposits.

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In a clear sign that the deposit war in the corporate banking market is continuing, 62.2 percent of corporates say the interest rates on their deposits had been increased in the last six months, against 58.8 percent in January 2013.

Senior Markets Analyst Martin Smith comments that the Big Four continues to be the lender of choice for the middle market due to their ability to absorb changes in underlying lending conditions.

"It is clear that the deposits war is being waged by the Big Four's ability to maintain higher interest rates on savings – but how long can it last?

"Corporate sized businesses are continuing to evolve and adapt to changes in underlying lending market conditions, requiring their lender to be flexible and responsive to changes in product importance and customer satisfaction metrics."

"The Big Four have maintained market share dominance by lowering interest rates on loans over the last two years, while maintaining revenue through elevated transaction fees."

"Marginally more businesses are planning to borrow for business acquisition (8.6 percent) and special development projects (4.2) percent, but the overwhelming driver remains working capital to fund growth (71.4 percent)."

About the East & Partners Corporate Banking Markets report

The biannual Corporate Banking Markets report closely examines over 900 businesses with an annual turnover of A$20-725 million. The increasingly prominent 'middle market' is quantified across treasury, debt, corporate finance and advisory markets by Wallet Share, Product Cross Sell, Customer Satisfaction and Mind Share. Product sectors include Commercial Bills/CDs, Commercial Paper, Overdraft Facilities, Term loans, Commercial Bills and Forward FX Contracts. These sectors provide unique and precise benchmarks by which banks can discern their relative strengths and weaknesses.

For more information or for further interview based insights from East & Partners on this Corporate Banking report, please contact:

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