



# A spicy month in business banking

## Yet more competitive levers pulled in Australian banking markets

If a week's a long time in politics, the past month has been an eternity in the Australian banking markets. The US driven credit crunch, BankWest's huge branch expansion plans, the merger of Adelaide Bank and Bendigo Bank, and St George Bank chief executive Gail Kelly's move to Westpac, have all added spicy ingredients to an already tasty market.

Fall out from the US sub-prime mortgage market has reached these shores, rocked several boats (large and small), and given the lie to the notion that all's perennially well in the banking markets. For some time now, older and wiser commentators have pointed out that many individuals working in banking today have only ever experienced a benign credit environment and a strong Australian economy. While the credit environment is still very sound, the general feeling is that the peak of the market's current credit cycle has been reached. The repricing of risk off the back of liquidity pressures emerging from the sub-prime mortgages market in the US brings this into sharper focus. In business lending, younger and younger business development focussed business bankers are aggressively tapping the growth aspirations of SMEs, and driving coveted market share growth in business lending. How successfully a credit downturn will be managed by bankers who were in short trousers when Australia experienced "the recession it had to have" is debatable.

As East & Partners has consistently said, the ferocity of competition in the Australian business banking markets is the key dynamic driving both provider and customer behaviour. Pencil sharpeners have been going into overdrive and margins flattened as banks vie for new business and stave off competitors. Business customers are of course responsive to finer pricing but they want a relationship with their banks. East's latest SME Banking Markets report shows that 60.2 percent of these businesses want to interact with a relationship manager but only 17.7 percent have one.

As if competition wasn't intense enough, one of the catalysts of this competition over the past few years, HBOS/BankWest, is upping the ante even further, announcing it will open 160 new branches on the east coast over the next three to four years, 35 of which will be devoted to business banking. The Bank's balance sheet strength and improving customer satisfaction performance has seen it acquire 4.7 percent of primary relationships with SMEs in transaction banking and 5.5 percent market share in term debt in a relatively short time. Its impact on staffing has been keenly felt and will be considerably more so in coming years, making the "people" issue even more acute. The challenge for BankWest, as it is for all providers, is to maintain service levels while growing. At the moment, the Bank is experiencing

very low churn in transaction banking. Conversely, all Big 4 domestic business banks are witnessing double digit churn in core customer relationships, weak spots that can be exploited by both an aggressive BankWest, and also banks such as St George and Bank of Queensland which have strong, service as opposed to product based, relationship models.

The impact of BOQ's would be suitor Bendigo Bank's merger with Adelaide Bank on the business banking markets is unlikely to keep rivals awake at night in the same way the BankWest roll out might but the combined entity leapfrogs Suncorp in transaction banking to Micro Businesses and SMEs. A combined network of 360 branches and individual product strengths, such as Adelaide Bank's invoice discounting and factoring businesses, means the merged Bank is well positioned to grow its share of business customers.

Finally, a week after being named one of BOSS magazine's 'True Leaders', Gail Kelly has taken her leadership skills to Westpac. During her time at St George, the Bank significantly grew its share of the middle markets, and cemented its position as a leading relationship banker with consistently high customer satisfaction. In an interview conducted two years ago, Kelly told East that the culture of the organisation was "something I spend most of my time thinking about". She moves from a bank with negligible customer churn in business banking and an established relationship model to a much larger one which is technically excellent in many areas but is losing customers primarily because of customer dissatisfaction with service and relationship issues. If Kelly is able to help drive further transformation of Westpac's business customer relationship culture, which East's numbers show has bottomed out, the Bank will truly move to the next level and the market's goal posts will click another notch higher.

Current Primary Transaction Bankers to Micro Businesses	% of Total January 2007 (N: 2463)
Big Four	71.2
Regionals *	18.5
<b>Bendigo/ Bank of Adelaide</b>	<b>3.9</b>
Suncorp	2.6
Internationals	1.5
Other	2.3
TOTAL	100.0

\* Includes St George Bank