Playing the niches

Strategies for foreign banks in Australia

For an open and increasingly global focussed economy, Australia's banking industry has long been a very cosy – and domestically dominated – club.

Not that the politicians and regulators haven't made attempts at opening it up.

After decades of insularity, the foreign banks piled into Australia in the 1980s and their attempts to crack the local market were a large part of the corporate excess of the 1980s. Since then, foreign bank involvement in Australia has tended to be niche based, albeit some quite large, such as investment banking, project finance, trade finance, debt and wealth management.

The only foreign bank to achieve any real scale in the retail market has been Citi, while others such as HSBC seem to have made various attempts, without really making a breakthrough into the mass consumer market.

Mention must be made of ING and even GE, and now there are rumblings that Sony Bank wants to enter the Aussie online mortgage market. You can be sure there won't be a huge branch network.

But at the end of the day, even a global behemoth such as the Bank of America hasn't thought it worthwhile to get an Australian banking license, such is the stranglehold of our Big Four.

In the aftermath of the global financial crisis we have witnessed an exodus of the last wave of foreign banks along with significant capital repatriation to home country balance sheets.

We've said goodbye to HBOS, SocGen, TD and WestLB, while other banks such as RBS, which once had a significant presence, have put parts of their business up for sale.

Not only are more Asian banks participating in syndicated loans for Australian corporates as a result, but we will soon be more acquainted with the likes of Malaysia's CIMB together with the Bank of China, China Construction Bank and the Industrial and Commercial Bank of China (ICBC), China's third largest lender.

But are Australian businesses open to engaging with foreign banks in the domestic market? Research from banking analysis company East & Partners show that the size of the business customer and the specific area of product need dictates a company's likelihood of using a provider new to the market. Institutional enterprises are more likely to use a new provider in FX and Deposits while SME's and Micro Businesses are more interested in new players in Transaction Services and Lending.

The barriers to entering the mainstream market might not be enshrined in regulation, but they exist for all to see in the market.

With margins in the Australian market remaining attractive and macro trends remaining relatively strong, new entrants looking to add value to the existing banking landscape can also take heart from the reception they can expect from the domestic business markets. Clear and differentiated strategy will be essential but competitive execution will represent the tipping point for success.

Likelihood of using a provider new to the Australian Market

	Average Likelihood Reported 1 — — 2 — — 3 — — 4 — — 5 (very likely) (not at all)					
	Transaction Services	**Borrowing**	**Deposits**	**Trade Finance**	**Foreign Exchange**	**Asset Financing**
Micro	1.36	1.20	3.17	1.83	1.65	1.36
SME	1.55	1.31	2.77	1.66	1.44	1.49
Corporate	2.06	1.77	1.81	1.54	1.32	1.85
Institutional	4.27	1.96	1.28	1.32	1.18	1.99
Total	2.23	1.54	2.30	1.60	1.41	1.66

Source: East & Partners Business Banking Index – 2012