Clear Signs of life in Corporate Banking

Signs of early "green shoots" of new growth among Australian businesses are reinforced in East & Partners' most recent Corporate Banking Markets report, which looks at the banking needs of organisations with turnover of between A$20-530 million a year.

East has already identified some encouraging signs of increased demand for new borrowings in Australia's SME markets, and this latest research from East's Corporate Banking Markets service delivers more evidence to support the markets being at a tipping point back toward growth. Of the structured sample of close to 900 corporates researched, 47.1 percent are planning new borrowings over the next six months (24.1 percent were unsure). Only 28.0 percent have no such plans.

East followed up with a further set of questions for those intending to borrow, asking them the purpose of the funds. While working capital to fund growth is the dominant application for planned new borrowings, an increasing number – 6.7 percent in the recent research – have business acquisition as their reason for borrowing.

This is reinforced by plans around future product engagement, where 21.1 percent have increasing needs for Merger & Acquisition advice and 37.7 percent have Equity Raising as a key area of need; both results climbing over the past six months.

In terms of panel banked product needs, corporates are looking to further engage more with a range of risk products, including FX Options, Spot FX, Forward FX Contracts and Interest Rate swaps, results which combine to deliver a picture of heightened engagement and activity.

Added to other East research, showing for example a strong upswing in demand for asset and equipment finance in the second half of this year, an increasingly positive scenario begins to emerge of Australian corporates engaging offshore and also looking to grow either at home or abroad, in some cases by acquisition.

All this is good news to corporate bankers, but there is a note of caution. As they look to grow, corporates are showing more of an inclination to change their primary corporate banker. The proportion looking at a change in banking provider as either definite, highly probably or possible increased to 31.3 percent in this most recent research round.

The banks themselves have very little to do with this, with over 90 percent of corporates reporting no approaches or solicitations from rival banks wanting to poach their business having been experienced in the past six months.

Instead, these decisions are increasingly influenced by conversations with colleagues and professional friends, co-shareholders and directors, who are overwhelmingly used as the trusted source of advice on financial management and their banking relationships.

A declining 3.4 percent of corporates say that their bankers are the main source of their advice.

This adds up to a challenge for corporate bankers. As the "green shoots" begin to sprout in 2013, are they adding enough value to their relationships with corporate clients as those clients look to engage with more products in order to drive their growth?

Reasons for Planned Borrowing in Next Six Months

	% of Total	
	Jul 2012 (N: 394)	Jan 2013 (N: 421)
Working capital to fund growth	75.9	73.4
Business acquisition	6.1	6.7
Capital expenditure	5.8	5.5
Special development projects	3.0	3.6
Release capital / equity from the business	2.3	2.1
Other	6.9	8.7

Note: sums to over 100 percent due to multiple responding prior to January 2013

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