

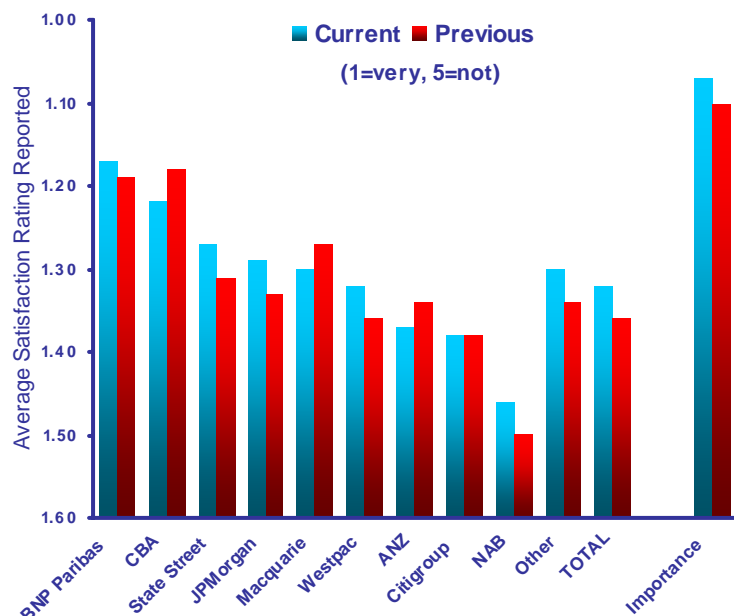
Australia's Funds Management Markets

Marriage of banking and wealth management remains a work in progress

With Australia's funds management industry worth more than A\$700 billion, it's no surprise the major commercial banks have made significant efforts in and acquisitions of wealth management companies over the past three years. But how well are they faring from a customer's perspective? East & Partners' research shows usage and importance of managed funds are on the increase in the three market segments where analytics on this subject are measured, the Corporate (A\$340 million + turnover); Commercial (A\$20 to 100 million); and SME (A\$5 to 20 million) markets.

Engagement of external funds management services among Australia's corporate companies is almost ubiquitous, with close to 100 percent of these Top 500 companies involved, mirrored by an increasing level of importance attached to such services. The performance of commercial banks and other service providers are also heading in a positive direction with satisfaction ratings on the rise. Despite the recent restructure which saw Colonial First State placed in a separate division within Commonwealth Bank, the CBA/Colonial business – the largest fund manager by assets in Australia – has been rated positively by corporates, due in large part to the positive "value for money" experience of its customers. Although its performance has been deteriorating over the past 12 months, particularly in product performance and customer support, CBA/Colonial is ranked second overall to BNP Paribas in the corporate market (see Exhibit 1), which despite having a small but growing customer base in Australia, is rated highly by its existing funds management customers.

Exhibit 1



Bankers and funds managers not the same species

Part of the challenge reflected in weaker performance experienced by customers for many service providers could well be attributed to the attrition experienced in wealth management expertise following several of the bank/fund manager acquisitions that have taken place. Fund managers and commercial bankers are culturally very different animals, and the extent of cross sell between the respective customer sets originally posited has been slow to occur, if at all. This seems to have been understood in the approach taken by ANZ which took a joint venture approach with ING. But chief executive John McFarlane said recently this business was underweight, and the bank is routinely linked with AMP.

That the bank/wealth management businesses are not yet well oiled machines is evidenced by inconsistencies in the performance of National Australia Bank/MLC and Westpac/BT. For example, Westpac is ranked second in product/service performance but is placed eighth in customer support by its corporate customers.

State Street further down the road than Big 4

State Street, which does not have the same integration issues as the banks, is a consistently strong performer across both the Corporate and Commercial segments. State Street is the leading funds manager to middle market companies with a 30.7 percent share of primary service relationships, significantly ahead of Westpac, which has 15 percent, followed by CBA, NAB, ANZ and St George. Usage of funds management is growing steadily in this segment with 53.5 percent of the market now engaging funds management services compared with 52 percent six months earlier. Importance ratings have also increased over the past six months as have satisfaction levels.

Interestingly, notwithstanding its relatively tiny usage of funds management services, the SME segment has reported declining customer satisfaction. It appears that small businesses have not really featured on service providers' radar just yet and that the service offering provided is not tailored to SMEs. This can be expected to change over the next two to three years as demand for wealth management services grows among SMEs. Given their demands are simpler than larger companies, this is an area that could provide real opportunity for commercial banks looking to offer full product, cradle to grave services to SMEs.

It is a segment that East sees as being most likely to deliver the cross sell and customer/product integration promises anticipated by commercial banks in their entry to the funds management space several years ago.

Exhibit 2

Funds Management

	Corporate (A\$340+ million)		Commercial (A\$20-340 million)		SME (A\$5-20 million)	
	Current	Previous	Current	Previous	Current	Previous
Importance (1=high, 5=low)	1.07	1.10	1.11	1.19	1.69	1.88
Usage (percent)	96.5	95.0	53.5	52.0	5.8	5.3
Satisfaction (1=very, 5=not)	1.32	1.36	2.02	2.06	2.83	2.79