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Deposits

The New Battle Ground in Business Banking

The implosion of capital markets funding for commercial banks in Australia as a result of North America's sub-prime mortgage lending crisis has refocussed attention on the importance of domestic deposits as the key plank in loan funding.

The Deposits market generally, both retail and to a lesser extent business, has been experiencing significant lifts in competitive stress over the past three years. The entrant of "disruptive" product offerings and pricing, in particular High Yield Online Deposits (HYODs), offering anytime entry/exit combined with high interest rates, has reshaped the market. ING and BankWest have been predominantly responsible for igniting this first wave of "reform" in Deposits, initially in the retail markets, and have been followed by all the domestic majors with refreshed term offerings and new HYOD product. Appeal in the business markets has grown from Micro and SME customers, where there is often a mix between retail/business banking applications, especially in the way in which Deposits behaviour interacts with the customer's wealth management objectives and is moving rapidly upmarket into the sub-A$150m customer turnover segment.

The Deposit Customer

One of the key challenges for providers has been the reduced "relationship value" flowing from such HYOD offerings; business customers in particular will rate shift without thinking twice and have ceased viewing their surplus deposits business as a central part of their relationship banking. Along with Spot FX, Deposits generally and HYODs in particular, evidence the lowest level of cross sell within primary banking relationships of all business banking products.

Interesting parallels are evident in this behaviour with dynamics East has been tracking for some time in the Spot FX markets where new entrants have also caused a weakening in traditional relationship based service provision and toward customer interactions which display much more commodity style buying behaviours.

Current East research has shown business customers willing to shift their Deposits business for as little as a 0.10% increase in rate. Most actively review their arrangements at least weekly and buy on the basis of two factors only – yield and low barriers to exit. Banks of course can't afford not to play in this online Deposit space given its extraordinary growth but are exercising caution and trying to manage just how large a proportion of their overall Deposits book fall into HYODs given its lack of relationship value. This balance has become even more difficult to achieve with the recent need to attract as much Deposits business as possible in order to maximise liquidity. Relationship Managers and Transaction Bankers have received the edict to go forth and pull as much liability balance in as possible.

The Business HYOD Market

Essentially this is a market that didn't exist five years ago and has come from nothing to a 2008 estimated value of A$46.3 billion and represent well over 10 percent of the total business Deposits marketplace.

In the short term success in this product market will be key to individual banks' abilities to fund their lending books and retain customers with broader product engagements. East sees a central element in achieving this being the effective integration of HYODs within banks' broader transaction banking strategies and solution offerings accompanied by the avoidance of "silo'd", stand alone product management which will only further encourage customer churn and act to increase funding costs for providers.

	A$ Billion	% of Total Business	%Growth
2004	9.9	2.9	—
2006	22.9	5.6	78.8
2008	46.3	12.3	51.1

Footnote: East & Partners is currently concluding a multiclient review of the Business Deposits market, building on work carried out in 2006 and welcomes client enquiry regarding this.

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