



CBA acquisition of BankWest: back to the future?

The recent opportunistic purchase of BankWest by the Commonwealth Bank (CBA) brings further changes to Australia's banking landscape that has already been reshaped by the global credit crisis. The past five years were marked by intensifying competition in all parts of the Australian banking markets and saw the "challengers", led by St George and BankWest, successfully nibbling away at the market dominance of the Big Four banks.

With CBA now swallowing up BankWest, Westpac's acquisition of St George and Suncorp being courted by a variety of suitors, the Big Four banks are once again starting to reassert their alpha status in the Australian market.

Irrespective of whether the BankWest franchise remains 'independent' in its operations and even if the fire of the St George dragon continues to burn in the market, both of these challengers are now effectively in the stables of the Big Four banks.

When it comes to market share in the business banking markets, CBA's acquisition of BankWest is a significant boost to its already lofty footprint. In particular, the combined strength of these two brands means that CBA will emerge as the biggest business transaction bank across all turnover segments. This is an important position to occupy since transaction banking is the stickiest of all the banking relationships and one which is regarded as the most important by business customers.

This market consolidation will result in CBA being propelled into the position of the biggest transaction banker in the SME segment, with nearly one in four customers now belonging to one of the bank's franchises. This means that National Australia Bank (NAB) will be nudged down into the second spot in a market segment which it has traditionally dominated. This is a major change in the market landscape – even the combined market share of Westpac and St George falls short of NAB's and CBA's customer reach in transaction banking.

The considerable transaction banking footprint in the SME segment gives CBA a strong platform to cross-engage with customers across other product lines such as deposits and in lending. Doing so however will mean getting in the ring with the incumbents in each particular market. For instance, NAB's position as a lender to SMEs remains head-and-shoulders above the combined market share of either Westpac and St George or CBA and BankWest.

The latest round of consolidation in Australia's business banking markets will therefore bring substantial changes to the competitive dynamic. The range of unique offerings associated with the larger number of providers in the market will almost surely shrink. On the other hand, intensifying skirmishes between the Big Four banks are equally likely as some banks look to leverage their greater footprint while others brace themselves to defend their hard won market share gains.

Primary Transaction Bankers to SMEs – Market Shares after Consolidation

	% of Primary Relationships	Change in Market Share Ranking
CBA & BankWest	24.4	↑
NAB	23.3	↓
Westpac & St George	22.9	—
ANZ	10.6	—