



Opportunity Knocks?

The ongoing economic crisis could genuinely be providing the Big 4 banks with a 'once in a career' opportunity

The opinion that 'opportunities will arise from the current economic crisis' is a viewpoint that is growing in momentum, increasingly popularised by world leaders looking to put a positive political spin on a negative situation. If this viewpoint is applied literally, then most western countries are rapidly establishing themselves as lands of opportunity.

When applying this line of reasoning from the standpoint of the Australian Big 4 domestic banks, the view does appear to hold credence.

The past twelve months have seen a dramatic change in the Australian banking landscape. The end of 2008 saw CBA cherry picking BankWest from HBOS while the UK bank, along with its UK and US peers, reeled from the effects of the global financial crisis. HBOS eventually relinquished its control to new owners and subsequently, significant government intervention further muddied the waters of the UK banking sector.

Prior to CBA's opportunistic purchase and before the term credit crunch became part of everyone's vernacular, the International and Regional banks had built up significant market share in key product areas. These 'tier 2' banks in the Australian banking market were no longer viewed as 'bit part' players and were more than just an irritant to the Big 4 bank's dominant market share.

However, the dramatic events that have unfolded in the global economy, have taken their toll on many of the world's banks, severely tarnishing their reputation and future positioning. Irrespective of whether they are still open for business in Australia, a number of International banks have gone through a series of complicated re-structures that have required extreme government sponsorship. The competitive banking landscape has been further affected as the Regional banks have taken cover amidst the economic carnage.

Throughout this stream of unprecedented economic events and crises, the Australian Big 4 banks have fared remarkably well. In relative terms, their bad debt provisioning has been, to date, a mere drop in the ocean. A direct result of this is that their market capitalisation, while obviously being effected, has held up to the extent that all the Big 4 Australian banks are now members of the club of the world's biggest banks. Put simply, in a time of severe

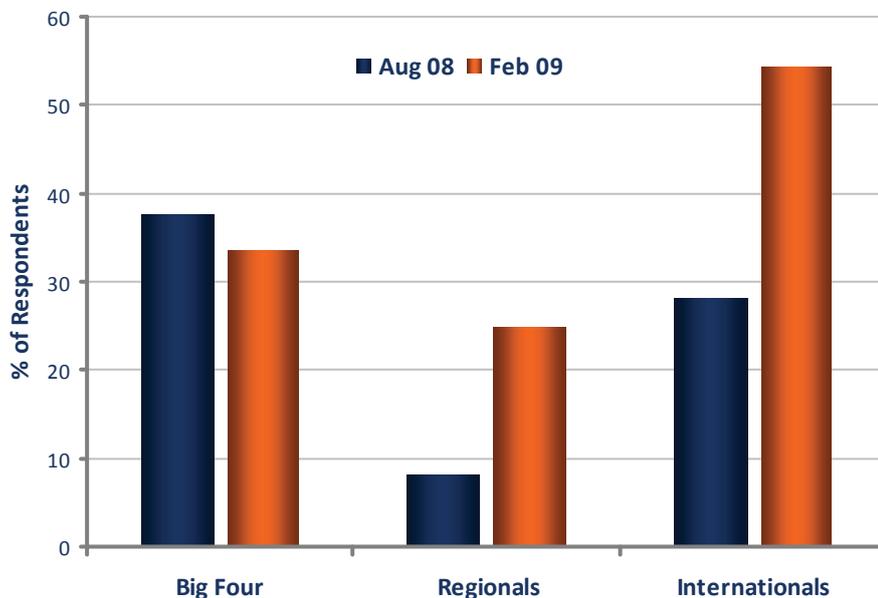
uncertainty the Big 4 Australian banks have developed a priceless piece of image collateral – being 'a safe house'.

East & Partners (East) has been keeping a watchful eye on this phenomenon and has been tracking the flight to safety of Australian business bank customers. With this in mind, the latest edition of East's monthly Business Banking Satisfaction Monitor (BBCSM), reveals that the number of businesses who intend to switch some or all their business has, for the first time, fallen. However, what is particularly salient about this is the fact that the switching intentions among customers of the International and Regional banks have significantly increased, while the number of businesses intending to switch from the Big 4 banks has actually fallen.

Clearly, business customers of the Big 4 are becoming 'stickier' as a result of the economic uncertainty while, at the same time, customers of the International and Regional banks are arguably ripe for the picking. How the Big 4 address this 'once in a career' opportunity will be interesting to see. Simply taking advantage of seemingly vulnerable business customers does not build the foundation for a sustainable business model, and when it comes to banking relationships business customers have long memories. Equally, having a sticky customer that engages few products from their provider does little to grow a bank's bottom line.

Whatever the Big 4 banks do to reap the potential rewards that are on offer from their business customers, the current economic crisis has indeed presented a significant opportunity – an outcome that will no doubt please the political spin doctors.

Intention to Switch All or Some of Business in the Next Six Months



Source: Business Banking Customer Satisfaction Monitor