



# Business deposits...the race is on

Over recent months, the RBA has reversed the trend of cutting rates by raising the cash rate which in turn has led to swift action by the banks, shifting these rate rises on mortgage holders and business borrowers.

While the effects of these increased borrowings costs are partly offset by a corresponding rate rise on deposits, benefiting those with money tucked away in savings accounts, there is still clear daylight between the lending rates and deposit rates.

Despite these 'comfortable' margins, Australian banks are increasingly looking to re-engineer their assets and attract low-risk sources of funding fuelled by the backdrop of possible regulatory intervention and pressure to secure their funding books against adverse economic changes. With this in mind, domestic deposits fit the bill perfectly and are consequently one of the most desirable asset classes for the banks.

## Big 4 lead the way

So which banks are leading the race for this much sought after asset class?

East & Partners' research shows that the Australian Big 4 banks own the lion's share of business deposit relationships. At the beginning of 2008, approximately 64 percent of primary term cash deposit relationships in the middle market (businesses with yearly turnover from A\$20m to A\$340m) were owned by the Big 4 banks.

However, two years on, the Big 4 now has almost 85 percent of primary term cash deposit relationships. If you add to this figure the market shares of St George and BankWest, the Big 4's share is almost 95 percent of the entire market.

So it would seem that the Big 4 have been clear winners in the deposit race post a global financial crisis world. Businesses in Australia have flocked to the Big 4, no doubt in part being driven by the perception that this dominant club of banks has been a safe haven. At the same time, the majority of other banks have simply been viewed as being not as secure a custodian of a business's most prized of assets.

As a result, it appears to be a four horse race for business deposits, with the Big 4 simply jockeying for the number one position.

## New entrants

However, Australia's economy has been attracting overseas admirers for some time now, especially in light of its remarkably resilient performance over the past 24 months. It seems that the global financial crisis has been a mere drop in Australia's economic ocean with the economy bordering on becoming buoyant once again. Add to this the fact that the Australian deposits market is extremely concentrated, it will surely only be a matter of time before new entrants move in on this market. Indeed, with the dust beginning to settle for most of the international banks along with tarnished reputations and perceptions being repaired, perhaps it will not be too long before we see overseas banks ramp up their efforts to capture a slice of the Australian business deposits cake.

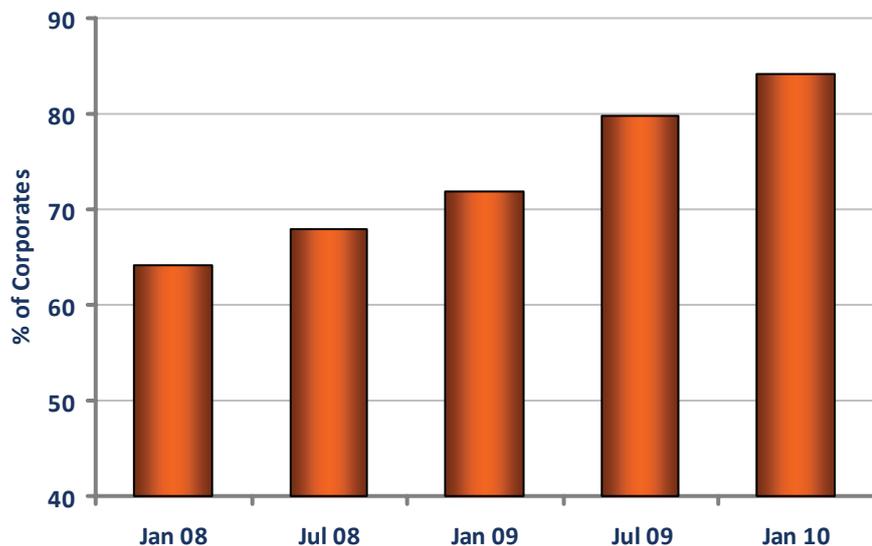
## Underpinning a business deposits strategy

In terms of entering the Australian business deposits market, it would seem most likely that high yield saving accounts will be a critical component underpinning the strategy of new players. Indeed, online accounts now provide an exceptionally cost effective, all encompassing channel. With this in mind, this space should see considerably increased competition over the short to medium term.

Either way, while the Big 4 currently lead the pack by a fair distance in the race for Australian business deposits, it would appear the time has now come for existing players, outside of the Big 4, to divert more effort on the race while a number of new players enter a race which clearly has a much sought after prize for the winner.

Big 4 Primary Suppliers Share—Term Cash Deposits

excludes St George & BankWest



Source: East & Partners' Corporate Banking Markets Report