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# Finding growth in a recovering market

Banking outlooks have been decidedly pessimistic for the past five years, with little surprise given ongoing regulatory changes wrought by the GFC.

Banks seeking to kick start sluggish ROE growth are dubbing 2013 the year of 'Big Data', with critical importance placed on payments technology improvements to deliver a clearer understanding of customer metrics. Retaining customers and improving overall wallet share has never been more important in such a slowly recovering market.

The pressure placed on Australian Banks to comply with Basel III higher capital requirements may subside in the wake of changes to the deadline for minimum capital requirement increases from 2015 to 2019, and a broadened definition of what constitutes 'liquid assets'. These new provisions free up much needed capital for lending and generating new revenue streams, and prevents what is largely a European and US compliance requirement potentially inhibiting growth in Australia.

Keeping up with payments technology advances is a resurgent focus for banks and businesses seeking a competitive edge over their competitors in the year ahead. Average credit card balances have fallen 2.3 percent in 2012 according to RBA data released recently, with 60 percent of credit card customers paying off their debt in full to avoid charges. This reflects a growing shift from credit to debit card transactions according to East & Partners latest Merchant Payments report. Debit cards now account for 50.2 percent of business receivables, an increase from 46.1 percent over the last 12 months.

Businesses expect the AUD to remain elevated in the short term before depreciating towards the end of the year. RBA minutes indicate cash rate cuts through the latter half of 2012 were intended to stimulate flagging non-mining sectors such as tourism and retail that are showing signs of strain from the sustained high AUD.

The RBA rate cuts last year may help to improve consumer and corporate confidence, though banks may be reluctant to reduce their interest margins and pass on any future cuts as they struggle with their own funding costs.

A prolonged length of time in the current lower interest rate environment is also expected to result in capital flows from cash into equities, with the Australian share market achieving a fresh 20 month high. This trend is also evident for investors shifting funds from HYOD accounts earning a return of 3.5 percent in 2012 to equities earning a return of 17.9 percent over the past year.

As deposits remain the most important source of bank funding it is imperative customer retention is maximized through insightful advocacy programs.

East & Partners' latest Institutional Transaction Banking Report shows that the likelihood of business customers making a move to another Primary Banker in the next six months has risen by 1.1 percent over the past six months:

**Likelihood of Changing Primary Banker in the Next Six Months**

| | % of Total | |
|---|---|---|
| | May 2012 (N: 441) | Nov 2012 (N: 443) |
| Definitely making a move | 7.9 | 8.4 |
| Highly probable | 17.9 | 18.5 |
| Possible | 17.9 | 18.1 |
| Unlikely / improbable | 35.4 | 38.1 |
| Definitely not | 20.9 | 16.9 |
| TOTAL | 100.0 | 100.0 |

*Source: East & Partners' Institutional Transaction Banking Report – January 2013*

This figure illustrates the need for banks to establish flexible strategies for dealing with the unique challenges facing the banking industry in 2013, most notably better service levels, lower cost and more advanced payments technology solutions in order to retain and build their valuable customer base.

With the GFC and European Debt crisis still fresh in financial pundits' memories, the Australian banking industry will be hoping to avoid the repeated 'one step forward, two steps back' approach that has defined the current financial markets recovery.