

Media Release

Banks must overcome cynicism on path to SME riches

(26 May 2004 – Australia) Small to medium sized enterprises are taking a suspicious and cynical view of banks that have previously treated them as low priority but which are now targeting the segment with new product and service propositions, East & Partners has found.

East's inaugural research into Australia's SME banking markets (businesses turning over A\$5 to 20 million per annum) reveals banks are battling the SME sector's historically low product appetite and jaundiced view of banking relationships to capitalise on a market segment that is regarded as the "next big opportunity" for banks.

"SMEs have been somewhat neglected by banks for some time and are the banks are finding that in re-focussing on the sector, old attitudinal barriers are having to be overcome," East principal analyst Paul Dowling said.

"The average SME customer has historically engaged just enough product to run their business, typically wanting their bank to concentrate on getting their basic transaction and lending right.

"However, SMEs are growing in sophistication and require more from their service providers. This is presenting significant opportunities for banks that are able to establish strong relationships with these customers," he said.

East's report shows that SME product uptake is currently confined to core transaction, debt and deposits and FX usage.

However, SMEs are clearly saying that bank service and relationship management are more critical to them than most products, with the three most important being:

- Value for Money
- Understanding SME issues
- Loyalty to the Customer Relationship

The analysis, based on some 1300 interviews, and the first in a six-monthly series, shows that Commonwealth Bank of Australia is the leading transaction banker to SMEs with 20.4 percent of primary banking relationships, followed closely by National Bank of Australia with 19.6 percent. Next comes Westpac with 15.7 percent of SME banking relationships, ANZ with 12.5 percent, followed by St George with 6.9 percent.

"Although they are still the major players in the sector, the Big Four domestic banks are facing intense and growing competition for these customers from St George and the regional banks, which are presenting strong service and relationship propositions," Dowling said.

Banking Product Usage within the SME Market

N: 1297

% Using Product Line

April 2004

RELATIONSHIP BANKING

Deposits and Investments

On Call Accounts	100.0
Term Cash Deposits	83.9
Commercial Bills / CDs	23.7
Commercial Paper	7.2
Managed Funds	5.3

Debt

Overdraft Facilities	70.8
Australian Currency Term Loans	76.5
Foreign Currency Term Loans	5.5
Commercial Bills	7.1
Leases	54.7

Equity Raising

5.5

Corporate Advisory Services

6.7

Transaction Banking

Cash Management	100.0
Payables	46.5
Receivables	12.3
Internet Banking	77.8
Integrated e-Banking	4.9
Trade Finance	23.8

PANEL BANKING

Fixed Interest Rate Products	21.4
Spot FX	75.8
Swaps – FX	3.8
Swaps – Interest Rates	3.1
Options – FX	5.1
Options – Interest Rates	6.9
Forward Rate Agreements	3.9
Forward FX Contracts	5.1
Commodities Hedging & Risk Management	5.5

Source: East & Partners SME Banking Markets Report – April 2004

Importance of Relationship Issues to the SME Customer

N: 1297

Average Importance Ratings Reported

1 — 2 — 3 — 4 — 5

(important)

(unimportant)

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Relationship Management	1.96
Understanding Your Business Needs	1.90
Proactivity	2.03
Innovation	2.29
Loyalty to the Relationship	1.60
Quality of People	1.92
Pricing Competitiveness	1.73
Value for Money	1.44
Back Office Efficiencies	2.20
Documentation Quality	2.43
Knowledge of your Industry Sector	1.83
Understanding SME Issues	1.55
Customised Banking Solutions	2.04
Economic Information and Analysis	2.69

Source: East & Partners SME Banking Markets Report – April 2004

Positioning of the “Big 4” in the SME Market

% Share of Relationships

	Primary Transaction Bank	Secondary Transaction Bank	Primary Corporate Bank
Big 4 Domestic Banks	68.2	24.2	13.8
Regionals	9.6	3.8	2.5
Internationals	22.2	18.3	42.3
None	—	53.7	41.4
TOTAL	100.0	100.0	100.0

Source: East & Partners SME Banking Markets Report – April 2004

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