



Media Release

Banks not yet focussed on Trade Finance for SMEs

(14 September 2005 – Australia) SMEs have learnt to rely on vanilla lending products such as overdrafts and term loans to support their trade activities because their banks are not talking with them about Trade Finance facilities, according to East & Partners.

East's latest six-monthly report on Australia's Trade Finance markets shows that just 17.4 percent of SMEs (companies turning over between \$5 and 20 million per annum) currently engage Trade Finance services and products from their transaction bankers.

East's report estimates the total Trade Finance market in terms of fees and transaction charges to be worth \$1043 million with the SME segment accounting for \$155.8 million of this figure. (These figures exclude lending income).

"Penetration of Trade Finance services among SMEs is still very low but this presents a huge upside and opportunity for service providers looking to target the segment with trade propositions," East & Partners principal analyst Paul Dowling said.

The report reveals that less than four percent of Commonwealth Bank's SME customers engage trade services from the bank. Around 10 percent of Westpac's customers and roughly 11 percent of National Australia Bank and ANZ customers also engage Trade Finance offerings from their incumbent bank.

International banks Citigroup and HSBC have the largest proportion of their own SME customers also engaging Trade Finance services.

"Australia is a trading nation and clearly there are more SMEs exporting and importing than is indicated by the number of businesses using Trade Finance services in the segment," Mr Dowling said.

"It could be that banks are reluctant to offer Trade Finance facilities to their SME customers because they're unsure of their credit quality, particularly in cases where a customer may not have a long history with its banker," he said.

"SMEs looking for a line of credit to support their trading activities are typically taking on overdrafts and term loans, which tend to solve any credit challenges for their bankers, but these kinds of vanilla lending products offer less flexibility for businesses," Mr Dowling said.

East’s report shows that SMEs which are engaging Trade Finance services are not happy with what they are receiving from their providers. This is borne out in both poor customer satisfaction ratings and the accelerating levels of SME businesses looking to switch (see Table below).

More than 41 percent of SMEs indicate they are considering switching trade provider.

“The SME share of the Trade Finance market is set to grow more quickly than the overall market and it’s a segment that offers service providers much better margins than they’re currently finding in the commercial and corporate segments. There’s real opportunity here for someone,” Mr Dowling said.

<i>Forecast SME Churn in Trade Finance</i>		
	% of SME Customers Likely to Look at a Change in Trade Financier in the Next 12 Months	
	August 2005	February 2005
Very Likely	20.0	18.9
Possibly	21.5	20.7
Unlikely	36.2	39.6
Definitely No Plans	15.4	12.7
Not Sure / Don’t Know	6.9	8.1
TOTAL	100.0	100.0

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