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Banking News

SMEs in a banking bind



(9 May 2011 – Australia) Despite plummeting satisfaction levels amongst SME businesses across several relationship and product attributes, SMEs' banking relationships remain stickier than ever, according to business banking research specialists East & Partners' latest Australian SME Banking Markets report.

Prior to the global financial crisis the majority of SMEs regarded their transaction bank to be their primary banking provider or "home" bank. Post GFC this view amongst SMEs has dramatically changed, with nearly three quarters of businesses in this segment now nominating their lender, up from only a quarter in April 2008, as representing their primary banking relationship. This change has major impact over both the ways banks look to use this relationship as a cross sell platform and the way SMEs in turn look to engage with their bank(s).

Alongside this shift in perception of "home" bank, SMEs loyalty to the relationship started to decline, and satisfaction with the value for money they are receiving from their primary banking provider has deteriorated to new lows.

"This has created a new paradigm for the industry, one which will take time for both providers and SME customers to work through", said Paul Dowling East & Partners' Principal Analyst.

"Many SMEs now have reduced appetite for debt funded growth in their businesses, having deleveraged during the GFC and remain very cautious about near term futures for their businesses – not an especially powerful cross-sell platform for banks to leverage in chasing replacement revenue growth in a flat credit environment", he added.

Yet despite this, SMEs still remain bonded to their primary banking provider with levels of intended churn lifting only marginally since the GFC, due in part to bank credit conditions and in part to a perceived lack of choice in the market.

In April 2008 34.5 percent of SMEs said they would definitely, or it was highly likely, that they would be making a move within the next six months. Now less than 18 percent of businesses in this segment are looking to move.

"Actual conversion rates in outlook SME switching have also plummeted with a reduction from a pre-GFC average of 50 percent of customers changing all or part of their relationships to now less than 20 percent", Mr Dowling noted.

About East & Partners' Australian SME Banking Markets report

A detailed analysis of product usage, market share, share of customer wallet, bank by bank customer satisfaction performance, share of mind, account churn and buying characteristics for small to medium enterprises in the A\$1-20 million turnover segment across all core transaction, internet, debt, financial markets, working capital, asset management and advisory products every six months.

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