

Media Release

Regulatory Wheels in Motion

(3 February 2014 – Australia) Regulatory change is likely to have a major impact on business debt and deposit levels over 2014 at the Big Four banks, according to banking analysts East & Partners.

ANZ, CBA, NAB and Westpac are all considered “Domestically Systemically-Important Banks” (D-SIBs) in line with strict Basel III liquidity requirements, and this status is likely to impact on the banks’ appetite to extend credit and lend, and also their need for deposit funding. The changes could also lead to some re-pricing of deposits and lending.

Under the D-SIB regulations, set to be enforced from early 2015, the Big Four must have an appropriate level of high quality liquidity assets to ensure they can satisfy necessary obligations within a one month timeframe.

East’s Deposit Funding and Debt Index (DFDI) monitors the ratio between deposits and lending in the banking system, and DFDI ratios – which have drifted lower as businesses have re-leveraged – could be impacted just as credit demand starts to increase, particularly among smaller businesses.

The need for banks to shore up capital will also impact on their ability to fund share buy backs and special dividends for shareholders.

Under the new regulations, an estimated \$8 billion in cumulative reserve capital among the Big Four would be required to absorb losses in the event of a month long crisis. This effectively means that loans and deposits will be priced differently to allow for the provision of more High Quality Liquid Assets (HQLAs).

The RBA has stated that liquid liabilities, for example deposits with sub 3 month maturities, would become more expensive for banks to offer. Rates for On Call accounts were suggested by RBA Deputy Governor Guy Debelle as ‘an inaccurate reflection of the true cost to banks providing this type of liquidity’.

According to East & Partners Deposit Funding and Debt Index, smaller businesses increasingly prefer Term Deposits with longer tenors than those of larger corporates. Close to 40 percent of Micro Term Deposit funds are allocated to 6 month Term Deposits, compared to a mere 20 percent of Institutional 6 month Term Deposits.

79.5 percent of Australia’s Top 500 institutional sized businesses prefer Term Deposits with a 3 month tenor, compared to 68.8 percent of SMEs and 62.2 percent of Micro businesses.

Term Deposit Tenors by Segment

% of Total Market

Term Deposits	Micro	SME	Corporate	Institutional	TOTAL
3 months	62.2	68.8	77.9	79.5	73.8
6 months	36.7	30.0	21.1	20.0	25.3
12 months plus	1.1	1.2	1.0	0.5	0.9
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: East & Partners Deposit Funding & Debt Index – December 2013

East's Senior Markets Analyst Martin Smith suggests share buybacks and special dividends will be difficult to distribute to shareholders during the reweighting of capital reserves.

"Australian businesses so far appear unfazed by the potential of higher capital costs being passed on, but this may change as the year progresses."

"Regional banks and smaller lenders have a distinct opportunity given they are not required to hold additional capital reserves. Business lending has remained on the sidelines as mortgage lending kicks into overdrive. A more level playing field could see significant changes"

"The way the Big Four react to these changes and defend their hard fought deposit and lending market share will provide an excellent indication of future competitive positioning between the banks"

About the East & Partners Deposit Funding & Debt Index Program

East & Partners' monthly Deposit Funding and Debt Index (DFDI) provides insightful research supporting the implementation of bank funding strategies within a constrained and competitive lending market. The industry benchmarks are based on monthly deposit and lending data released by the Australian Prudential Regulation Authority (ARPA). Capturing trending data across core deposit funding and lending metrics allows unique insights to be derived, including Business to Retail deposit volume ratios, Deposit and Lending Market Share, Rate triggers for deposit switching, Deposit churn levels and Tenor of term deposits.

Business Depositor Segments:
Institutional – A\$725 million plus
Corporate – A\$20-725 million
SME – A\$5-20 million
Micro – A\$1-5 million

For more information or for further interview based insights from East & Partners on this Deposit Funding & Debt Index report, please contact:

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