

Bank competition for deposits heats up in Australia

MELBOURNE, AUSTRALIA: A recent report by independent market analyst Datamonitor has found that competition for household deposits in Australia has heated up. The global financial crisis has forced banks to strengthen their balance sheets, and retail deposits have become more attractive as other sources of funding have dried up.

The major banks currently hold a majority of Australian household deposits, but fundamental changes to the industry promises to shake up the competitive dynamics of the market. "Deposits continues to be a focal point for product innovation and competition", comments Petter Ingemarsson, senior analyst and author of the study. "In the next several years, product convergence promises to create a whole new product category, as online savings accounts assume the functionality of transaction accounts."

Competition for household deposits has increased

The global financial crisis has made deposits more attractive for banks and consumers alike, and growth in outstanding household deposits has picked up over the last two years. Between April 2007 and April 2009 outstanding bank household deposits grew from A\$304 billion (about R1989 billion) to A\$429 billion (about R2806 billion), corresponding to a growth rate of 18.8% per year. Besides providing a stronger balance sheet, retail deposits have several important advantages for providers of financial services. Transaction accounts almost invariably determine which institution a consumer regards as their main financial institution, building customer loyalty.

"Moreover, transaction accounts are 'sticky' products, in that switching providers is perceived as inconvenient by established customers" adds Ingemarsson. Deposit products in general and transaction accounts in particular also offer opportunities for cross selling other financial products.

The major banks currently control a majority of household deposits

Although Commonwealth Bank (CBA) is the largest bank in terms of household deposits with A\$125 billion (about R818 billion) on its books, the heightened competition over the last half year has seen its growth rates of deposits falter somewhat. ANZ and Westpac have increased their market share during this period. The two largest bank groups, CBA/Bankwest and Westpac/St. George, currently hold more than half of outstanding bank household deposits.

"The global financial crisis has in some ways benefited the major Australian banks", comments Ingemarsson, "Smaller competitors have been choked and consumer sentiment has swung towards larger established financial institutions, which has left the major banks with a dominant grasp in several product categories."

Current trends promise fundamental changes

One of the most important recent developments has been the convergence between different product types in the deposit market. Savings accounts have become much more accessible, with several online savings accounts offering ATM card access, bill payment functionality and funds transfer options. Research shows that a high proportion of transaction account customers mainly use their account for such basic features, and that a growing number never want to visit a branch. Datamonitor forecasts this development to continue as more providers start offering accounts with competitive savings rates, debit card access and payment functionality.

Consumers will increasingly abandon traditional transaction accounts for these combined accounts, in much the same way as many younger consumers no longer have a land phone line but have migrated entirely to mobile or internet based communication. "The new combined transaction/savings account promises to revolutionise the deposit market in Australia over the next several years", concludes Ingemarsson.

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