

Small Business Banking : Issues and Statistics

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1. Introduction

The provision of accessible, affordable and efficient banking services is essential for the proficient management of any small business. This paper considers the banking options available to small businesses in Australia, including the costs, the level of competition and the level of service available.

This paper presents a brief introduction to the issues and the data currently available. That data shows that small business pay around \$1.4 billion each year in bank fees, that this amount increases by more than 15% each year. Conversely, one in four bank branches has closed since 1996 and the level of small business satisfaction with banks has fallen from 78% in 1993 to 68% in 1999.

2. Bank fees

This section considers the fees and charges payable by small business for using typical bank services.

2.1 Current fees for small business accounts

Three general types of bank accounts are available for small business – basic business accounts, business cheque accounts and premium business accounts.

The ‘big four’ Australian banks (National Australia Bank, Westpac, ANZ and the Commonwealth) completely dominate the small business banking market with between 80 and 90% of the small business deposit and lending assets in each state. Since 1995 the number of banks offering general small business accounts has fallen from 15 to 10 through a series of mergers.

The big four banks provide very similar basic small business bank accounts, and there is no evidence of competition on price between the four banks. The main choice offered to small business is between paying for transactions ‘up front’ or paying ‘as they go’.

Close inspection of the accounts also exposes a range of fees and charges which are not generally publicised by banks. These include a ‘business name search fee’ which varies between \$35 and \$50 and is paid by the small business in advance of them opening a new account.

The big four banks do not pay any interest on the majority of the accounts listed below. Some of the banks only pay interest on accounts with balances exceeding \$5,000 and then only on the amount above \$5,000. None of the cheque accounts assessed pay any interest.

Basic Business Banking Accounts

	Monthly Service Fee	Number of Free Transactions	Excess Transaction Fees: Over Counter	Excess Transaction Fees: Electronic	Interest Paid
Commonwealth	\$15	40	\$0.95	\$0.25	No
National	\$20	50	\$0.60	\$0.45	Yes (\$5000+)
ANZ	\$10	50	\$0.60	\$0.40	Yes (\$5000+)
Westpac	\$4.40	12	\$2.20	\$0.71	No

Note that all the accounts have a setting up fee which includes a business name search. This fee varies between \$35 and \$50. The NAB, CBA and ANZ offer to waive the monthly service fee if a minimum balance of \$5000 is maintained.

In a recent development, the CBA charge their customers a cash handling fee of 0.25 per cent of all deposits and withdrawals if made over the counter. The fee is charged on the amount above a certain limit – currently \$3,000.

Basic Business Cheque Accounts

	Monthly Service Fee	Number of Free Transactions	Excess Cheque Fee	Excess Transaction Fees: Over Counter	Excess Transaction Fees: Electronic	Interest Paid
Commonwealth	\$2	No	\$0.55	\$0.95	\$0.25	No
National	\$5	10	\$0.45	\$0.60	\$0.45	No
ANZ	\$15	40 (10 branch)	\$0.40	\$0.60	\$0.30	No
Westpac	\$5.50	16	\$0.44	\$0.93	\$0.18	No

2.2 Merchant Fees

Merchant fees are paid by small business to banks for clearing and processing the proceeds of credit card and electronic payments. The merchant fee also includes a hidden interchange fee resulting from the payment clearing arrangements between banks.

With regard to credit cards, the merchant and interchange fees are set as a proportion of the cost of the product or service that is being sold and paid for. Normally, the level of the fee is set in accordance with the size of the business. While the Australian Competition and Consumer Commission and the Reserve Bank of Australia are currently inquiring into the system, there currently exists very little regulation of this area. Big banks have tended to

exploit the relative weakness and lack of choice for small businesses by levying a higher merchant fee on smaller businesses.

The amount of total merchant fees paid by business was \$750 million in 1998 and is likely to have risen significantly since that time. The proportion of this figure borne by small business is not known but is likely to be more than half (small business generally bears just over half of other business bank fees in Australia).

2.3 Small business fees as a proportion of total fees

Banks are increasingly deriving a greater proportion of their profits and revenues from applying direct fees on consumers and business. According to the KPMG Financial Institutions Performance Survey 2001, the Australian non interest income of the major banks' total income averages above 20 per cent.

However, the most recent published information available on bank fees specifically paid by small business is for the years 1997 and 1998, and is attached in Appendix 3. New data will shortly be available from KPMG and the Reserve Bank of Australia which will provide a much needed update on this issue.

The 1998 data showed that small business paid \$1.015 billion in direct fees and charges and (estimated) \$375 million in merchant fees. This \$1.39 billion from small business compared to a total fee income from consumers, small and large business of \$4.5 billion in 1998.

2.4 Growth in fees

Unfortunately, there is very little published data on the growth in fees for small business banking. The Reserve Bank did find that small business bank fees had risen 15% between 1998 and 1999, but no other published data is available.

Data on total bank fees has shown that they have increased between 15 and 30% each year since 1996.

3. Service

This section considers the level of satisfaction amongst small business customers with their bank, and also considers some of the key factors in the provision of quality small business service.

3.1 Satisfaction levels

As can be seen from the figures in Appendix 2, small business satisfaction levels with banks have fallen significantly between 1993 and 1999. Only 68% of small business were happy with their bank in 1999. The more detailed data shows that satisfaction levels vary significantly between banks, and that the satisfaction level for ANZ crashed spectacularly between 1995 and 1999.

The main concerns of small business were:

- ◆ Poor / no service
- ◆ No personalised service
- ◆ Too many fees
- ◆ Fees too high
- ◆ Don't understand SMEs
- ◆ Not efficient
- ◆ Long queues/lack of staff
- ◆ Closed branch

The 1999 data also indicates that only 36% of small business customers are satisfied that they receive value for money in terms of the service received for the fees paid, however only 8% of small business customers change banks each year.

3.2 Bank Branch Closures

Bank branch closures have been the most prominent issue facing Australian bank consumers over the past 5 years. The impact that bank branch closures have had on small business has been the subject of several studies, which all conclude that closures place significant pressure on small business and can lead to the closure of individual businesses and a wider economic downturn in the local community..

This is especially pertinent in those suburbs where only a basic shopping centre exists. Those shopping centres tend to cater for staples and may also include a few other specialised shops and small businesses. The closure of the local bank branch has facilitated a consumer migration to centres where all their traditional shopping and banking needs are catered for. This leaves the remaining small businesses in a difficult position and in many cases can lead to their closure.

Since 1996 one in four bank branches has closed in Australia – a total loss of around 1700 branches.

4. Trends for small business banking

This section considers some of the key trends in small business banking and issues relating to access, affordability and service.

4.1 Online banking

Online banking is marketed to small businesses as being a highly cost-effective and efficient way to manage their business banking. Amongst other things, online banking enables small businesses to make and receive payments electronically and reduce the reliance on more expensive traditional delivery channels.

However, the initial process is quite complex, time consuming and expensive. The software packages offered by the big four banks vary in cost between \$500 and \$1000. Obviously, any business wishing to utilise the potential of this service would also require the provision of a

computer and modem. It could take small a small business a considerable period of time to make online banking 'break even'.

4.2 Introduction of new fees

Small business face an ever increasing array of individual fees and charges. For example, the newly issued ANZ booklet "Small business fees and charges" is 45 pages long and lists over 260 individual fees and charges.

The most recent fee to attract detention is the CBA administration fee for deposits above \$3,000. This fee will have a significant impact on small business and is likely to be followed quickly by the other major banks.

4.3 Call centres

Since 1995 each major bank has been introducing call centres for the management of small business accounts. Less reliance is now placed on local branch managers. Data is currently being collected on the extent of this trend and its impact on customer service.

Appendix 1 – Branch closures

Number of branches in Australia 1993 - 2000¹

Year	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Total
1993	2439	1983	1118	577	644	162	34	107	7064
1994	2366	1823	1114	564	629	156	35	103	6790
1995	2344	1679	1129	561	632	152	61	97	6655
1996	2245	1680	1137	539	606	150	53	98	6508
1997	2089	1546	1213	484	531	132	40	86	6121
1998	1899	1388	1127	447	520	119	37	78	5615
1999	1850	1274	1061	447	486	118	41	81	5358
2000	1710	1217	953	426	460	115	40	82	5003
% Change 93-00	-30%	-39%	-15%	-27%	-29%	-30%	+17%	-24%	-29%

Location of branches in Australia 1993 – 2000

Metropolitan ²	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Total
1993	1397	1294	542	338	402	60	19	106	4158
1994	1374	1248	539	344	428	53	17	102	4105
1995	1364	1123	541	355	426	58	27	96	3990
1996	1290	1116	532	347	412	58	25	98	3878
1997	1168	996	534	296	348	48	23	86	3499
1998	1049	892	487	274	342	46	22	78	3190
1999	1066	791	461	271	315	38	24	81	3047
2000	979	759	416	229	303	51	23	78	2838
% Change 93-00	-30%	-41%	-23%	-32%	-26%	-15%	+21%	-27%	-32%

Elsewhere ³	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Total
1993	1042	689	576	239	242	102	15	1	2906
1994	992	575	575	220	201	103	18	1	2685
1995	980	556	588	206	206	94	34	1	2665
1996	955	563	605	192	194	92	28	0	2629
1997	921	550	679	188	183	84	17	0	2622
1998	850	496	640	173	178	73	15	0	2425
1999	784	483	600	176	171	80	17	0	2311
2000	731	458	537	197	157	64	17	4	2165
% Change 93-00	-30%	-34%	-7%	-18%	-35%	-37%	+13%	+400%	-25%

¹ All 1993 to 1999 figures are from the Reserve Bank of Australia. 2000 figures are from the Australian Prudential Regulation Authority.

² Metropolitan includes major cities and their immediate surrounds.

³ "Elsewhere" includes regional towns, remote areas and rural communities.

Number of major bank branches in Australia 1993-2000

ANZ	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Total
1993	352	365	208	132	95	38	8	11	1209
1994	331	356	207	121	96	39	9	11	1170
1995	331	336	217	121	98	38	35	10	1186
1996	315	325	210	119	128	36	27	10	1170
1997	262	277	188	105	113	29	12	9	995
1998	228	204	163	80	105	24	8	8	820
1999	220	219	162	84	78	26	10	8	807
2000	217	221	160	82	76	26	10	8	800
% Change 93-00	-38%	-29%	-33%	-38%	-20%	-32%	+25%	-28%	-34%

Commonwealth	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Total
1993	518	751	226	92	118	25	5	21	1756
1994	504	639	226	90	113	25	5	20	1622
1995	489	513	223	90	111	24	5	19	1474
1996	462	486	215	86	104	23	5	19	1400
1997	440	450	212	84	101	22	6	19	1334
1998	416	385	195	79	99	19	6	19	1218
1999	395	362	183	75	91	19	6	20	1151
2000 ⁴	371	336	173	69	82	19	6	20	1076
% Change 93-00	-28%	-55%	-33%	-25%	-31%	-34%	+20%	-5%	-39%

NAB	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Total
1993	390	369	264	84	105	10	7	19	1248
1994	383	364	265	79	105	11	7	19	1233
1995	379	355	262	76	105	11	7	19	1214
1996	369	342	255	76	104	12	7	17	1182
1997	359	317	242	70	95	12	7	17	1119
1998	337	293	226	61	93	13	7	16	1048
1999	346	299	232	64	100	12	7	18	1078
2000	338	294	221	61	101	13	7	18	1053
% Change 93-00	-13%	-20%	-16%	-27%	-4%	+30%	0%	-5%	-16%

Westpac	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Total
1993	465	297	215	85	133	29	11	20	1255
1994	407	257	189	70	122	26	11	18	1100
1995	406	255	189	67	121	25	11	18	1092
1996	388	232	186	64	109	25	10	17	1031
1997	356	212	170	53	110	22	10	17	950
1998	354	325	175	54	109	19	10	15	1061
1999	343	218	162	53	105	19	11	13	924
2000	244	176	117	43	89	15	10	10	704
% Change 93-00	-48%	-41%	-46%	-49%	-33%	-48%	-9%	-50%	-44%

⁴ This figure does not take into account the CBA Colonial merger.

Appendix 2 – Satisfaction levels

Yellow Pages Small Business Index: “Attitudes to Banks and Other Financial Institutions”, November 1999.

Happy with bank service

	August 1993	August 1995	August 1999
Happy	78%	78%	68%
Not Happy	22%	22%	32%

Happy with main financial institution

	August 1995	August 1999
ANZ	82%	54%
CBA	74%	73%
NAB	83%	60%
Westpac	71%	80%
Other financial institutions	89%	86%

Reason not happy

	August 1995	August 1999
Poor / no service	43%	42%
No personalised service	18%	27%
Too many fees		27%
Fees too high	33%	25%
Don't understand SMEs	24%	11%
Not efficient	5%	7%
Long queues/lack of staff	2%	7%
Closed branch		7%

Appendix 3 – Business bank fees

Reserve Bank of Australia, “Bank fees in Australia”, Bulletin June 1999.

All figures are in millions of dollars:

	1997	1988	% of total
Small Business			
Deposits	150	165	5
Loans	475	585	19
Bills	285	265	9
Total	910	1,015	33
Large Business			
Deposits	45	45	1
Loans	345	340	11
Bills	530	540	17
Total	920	925	29
Merchant fees	585	750	24
Other	380	410	14
Total	2,795	3,100	100