WHERE KNOWLEDGE IS POWER

INDUSTRY REPORT K6200

# Finance in Australia

Accountable: Big banks pay the price as Royal Commission remediation costs reduce profitability

James Thomson | March 2022

# Contents

## Recent Developments

### ANZ’s Suncorp Bank acquisition increases banking sector consolidation

In July 2022, ANZ announced its intention to buy Suncorp Group’s banking division, Suncorp Bank, for $4.9 billion. Suncorp Bank was the country’s sixth-largest bank before the deal. The acquisition is likely to reinforce the status quo of the big four banks in Australia. The acquisition also has the potential to increase rates for borrowers as options for alternative lenders decrease.

### Inflation pressures cause the RBA to raise interest rates

Concerns regarding inflation have prompted the RBA to raise interest rates. Surging demand and supply chain turmoil due to the COVID-19 pandemic, compounded by geopolitical tensions abroad, have contributed to the high inflation pressures. The RBA has therefore increased the cash rate target three times over the four months through August 2022 to limit spending and tame inflation. Rising interest rates are likely to increase the cost of borrowing and subdue business confidence, while simultaneously taming inflation.

*IBISWorld analysts continually monitor the economic impact of current events. The above headlines are expected to impact this industry. The content in this report will soon be updated to reflect their significance.*

This section last udpated August 11, 2022

# About IBISWorld

IBISWorld specializes in industry research with coverage on thousands of global industries. Our comprehensive data and in-depth analysis help businesses of all types gain quick and actionable insights on industries around the world. Busy professionals can spend less time researching and preparing for meetings, and more time focused on making strategic business decisions that benefit you, your company and your clients. We offer research on industries in the US, Canada, Australia, New Zealand, Germany, the UK, Ireland, China and Mexico, as well as industries that are truly global in nature.

# About This Industry

## Industry Definition

The Finance subdivision covers firms that provide banking and finance and investment trusts in Australia. The most significant industries in the Finance subdivision are domestic banks, foreign banks, non-depository financiers and financial asset investors. The subdivision excludes auxiliary finance and insurance service providers.

## Major Players

Commonwealth Bank

Westpac

NAB

ANZ Banking Group

## Main Activities

**The primary activities of this industry are:**

Building society operation

Financial asset investment service provision

Credit union operation

Banking service provision

Money market dealing

Non-depository financing

**The major products and services in this industry are:**

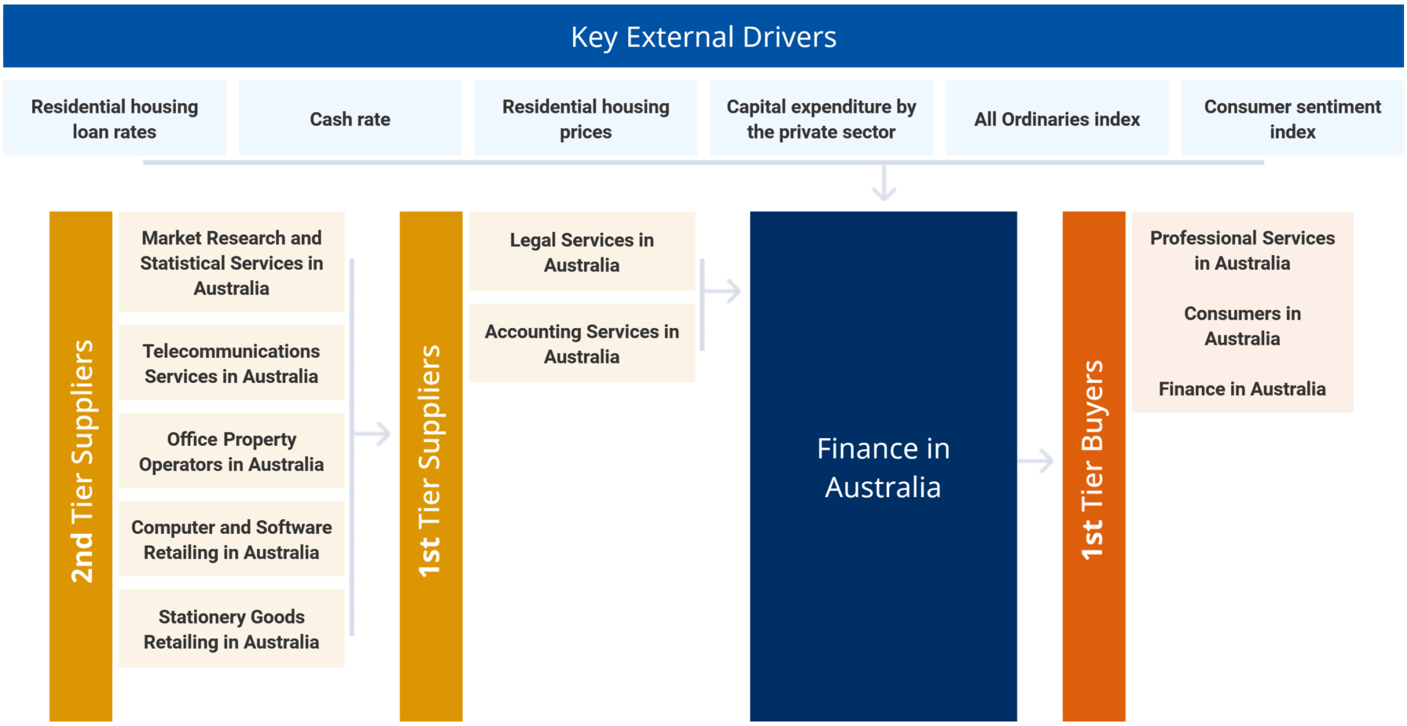
Home loans

Business loans

Consumer credit

Other products and services

## Supply Chain




### SIMILAR INDUSTRIES

Credit Unions and Building Societies in Australia
Complementor

Non-Depository Financing in Australia
Complementor

Money Market Dealers in Australia
Complementor

National and Regional Commercial Banks in Australia
Complementor

### RELATED INTERNATIONAL INDUSTRIES

Global Commercial Banks

Commercial Banking in the US

Banks in the UK

Banking in New Zealand

# Industry at a Glance

## Key Statistics

**$185.1bn**
Revenue

| Annual Growth 2017–2022 | Annual Growth 2022–2027 | Annual Growth 2017–2027 |
|---|---|---|
| -2.4% | 7.8% |  |

**$40.0bn**
Profit

| Annual Growth 2017–2022 | Annual Growth 2017–2022 |
|---|---|
| -7.8% |  |

**21.6%**
Profit Margin

| Annual Growth 2017–2022 | Annual Growth 2017–2022 |
|---|---|
| -7.1pp |  |

**53,967**
Businesses

| Annual Growth 2017–2022 | Annual Growth 2022–2027 | Annual Growth 2017–2027 |
|---|---|---|
| 5.2% | 4.2% |  |

**226k**
Employment

| Annual Growth 2017–2022 | Annual Growth 2022–2027 | Annual Growth 2017–2027 |
|---|---|---|
| -0.5% | -0.1% |  |

**$30.5bn**
Wages

| Annual Growth 2017–2022 | Annual Growth 2022–2027 | Annual Growth 2017–2027 |
|---|---|---|
| -2.0% | 0.9% |  |

## Key External Drivers

% = 2017–22 Annual Growth

**0.3%**
Consumer sentiment index

**1.3%**
Capital expenditure by the private sector

**5.2%**
Residential housing prices

**-36.3%**
Cash rate

**-3.2%**
Residential housing loan rates

**6.0%**
All Ordinaries index

## Industry Structure

### POSITIVE IMPACT

Capital Intensity
Low

Barriers to Entry
High / Steady

### MIXED IMPACT

Life Cycle
Mature

Revenue Volatility
Medium

Concentration
Medium

Industry Globalization
Medium / Increasing

### NEGATIVE IMPACT

Industry Assistance
Low / Steady

Regulation & Policy
Heavy / Increasing

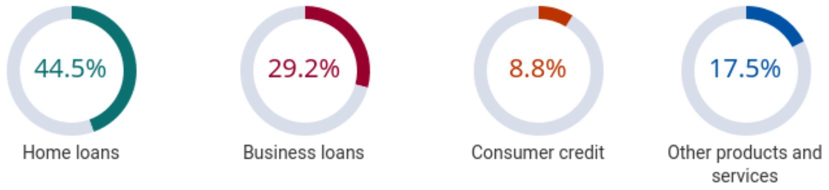
Technology Change
High

Competition
High / Increasing

## Key Trends

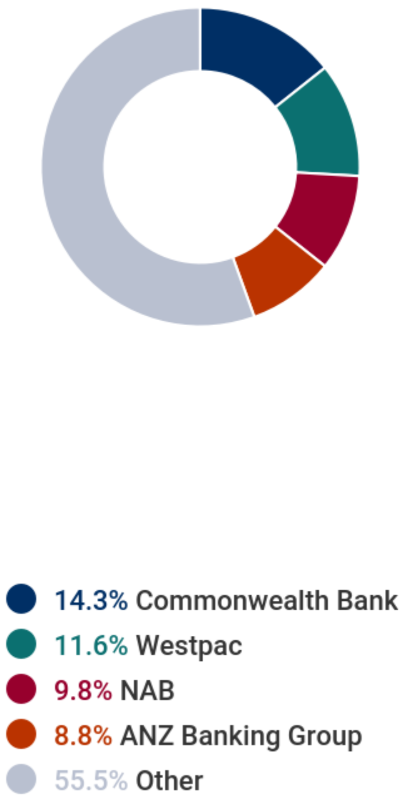
- Declining interest rates have significantly contributed to falling subdivision revenue
- Profitability has declined due to higher capital requirements and remediation costs
- Smaller and non-bank lenders have increased their share of the mortgage market
- Subdivision revenue is forecast to increase on the back of higher interest rates
- Profitability is forecast to rise over the long term, with less pressure on net interest margins
- Subdivision operators are projected to face more reforms and higher regulatory costs
- Major players have streamlined their operations and refocused on their core banking businesses

## Products & Services Segmentation




Finance
Source: IBISWorld

## Major Players




Finance
Source: IBISWorld

## SWOT

### S STRENGTHS

High & Steady Barriers to Entry
Low Imports
Low Product/Service Concentration
Low Capital Requirements

### W WEAKNESSES

Low & Steady Level of Assistance
High Competition
Low Profit vs. Sector Average
High Customer Class Concentration
Low Revenue per Employee

### O OPPORTUNITIES

High Revenue Growth (2017-2022)
High Revenue Growth (2022-2027)
High Performance Drivers
All Ordinaries index

### T THREATS

Cash rate

## Executive Summary

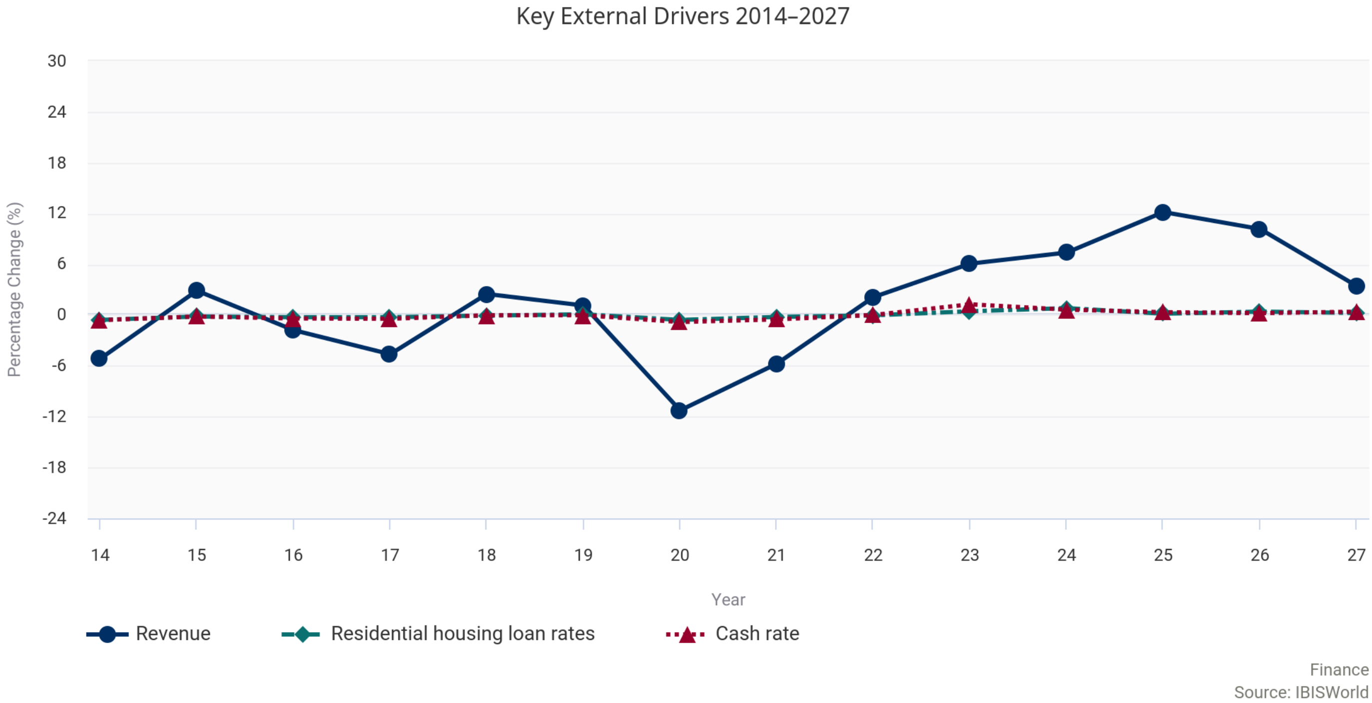
# Accountable: Big banks pay the price as Royal Commission remediation costs reduce profitability

The Finance subdivision's operating environment has been challenging over the past five years, due to falling interest rates. Residential property prices have risen over the period, supporting demand for mortgages. However, volatile business confidence over the period has limited growth in capital expenditure from the private sector and overall demand from commercial clients. Overall, subdivision revenue is expected to decline at an annualised 2.4% over the five years through 2021-22, to $185.1 billion. Subdivision revenue is anticipated to rise by 2.1% in 2021-22, as most operators have wound down deferrals on loan repayments that were offered at the height of the COVID-19 pandemic.

The RBA's efforts to stimulate economic growth have helped drive down funding costs to support profitability for lenders. However, more recent higher capital requirements and remediation costs for the major banks following the Financial Services Royal Commission have weighed on net interest margins and caused subdivision profit margins to fall over the past five years. In addition, subdivision operators have made provisions to cover the cost of the COVID-19 pandemic due to the financial hardship faced by borrowers. The major players have also offloaded or are seeking to sell their less profitable ventures overseas, along with businesses generating lower returns (such as wealth management and life insurance businesses), to refocus on core banking operations.

The subdivision's outlook is forecast to be positive over the next five years. The major banks account for a large proportion of the subdivision, and their performance will heavily influence movements in the subdivision's revenue. The economy's recovery from the COVID-19 pandemic, business confidence, consumer sentiment, property market conditions and global economic growth will also influence the subdivision's performance. Interest rates are projected to rise over the next five years, helping banks capitalise on the loan books built up over the past five years. However, the subdivision faces challenges in higher capital requirements and tighter lending standards. Overall, subdivision revenue is forecast to grow at an annualised 7.8% over the five years through 2026-27, to $269.5 billion.

# Industry Performance




## Key External Drivers

### Residential housing loan rates

Mortgages make up a significant part of revenue for subdivision operators. Residential housing loan rates represent the price of mortgages for borrowers. When residential housing loan rates increase, banks and other lenders typically charge higher interest rates on mortgages, which in turn positively affects subdivision revenue. Residential housing loan rates are expected to fall slightly in 2021-22.

### Cash rate

The cash rate influences the interest rate that banks typically charge on their loan portfolios as it can affect their cost of funding. A higher cash rate typically leads to banks charging higher interest on outstanding balances, boosting subdivision revenue. However, a lower cash rate can pose a threat to the subdivision. The cash rate is expected to fall in 2021-22.

### Residential housing prices

The property market's performance can influence investor confidence, household wealth and demand for lending products. Higher housing prices increase the value of loan portfolios and demand for mortgages, subsequently generating greater interest income from mortgages and positively affecting subdivision revenue. Residential housing prices are expected to rise in 2021-22.

### Capital expenditure by the private sector

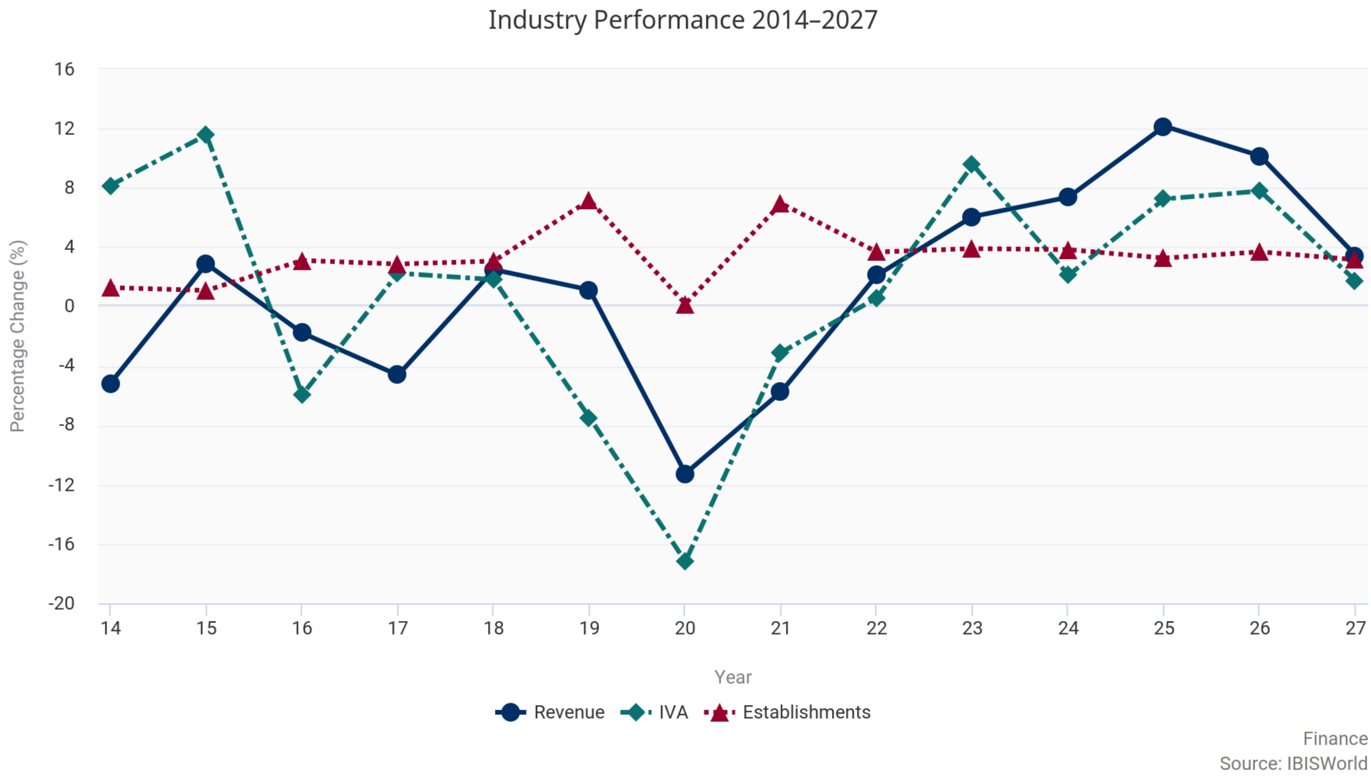
Capital expenditure by the private sector measures investment made by businesses. Greater investment requires more savings or borrowings to finance new projects or expansion. Businesses tend to borrow more as capital expenditure increases, generating more revenue for the Finance subdivision. Capital expenditure by the private sector is expected to rise in 2021-22.

### All Ordinaries index

The sharemarket's performance affects the value of funds under management, investor confidence, asset values and household wealth. The All Ordinaries index is a leading indicator of economic activity and measures the sharemarket's performance. Investment income tends to increase as the All Ordinaries index rises, positively affecting the Finance subdivision and providing an opportunity for subdivision operators. The average of the All Ordinaries index is expected to rise in 2021-22.

**Consumer sentiment index**

Consumer sentiment significantly influences spending and saving patterns. Positive sentiment is generally accompanied by higher spending across the economy. High consumer sentiment indicates that consumers are more willing to spend on big-ticket items. These items tend to be financed by credit, which typically leads to greater borrowing by consumers. As retail clients account for a large proportion of the market, consumer sentiment strongly influences the subdivision's performance. The consumer sentiment index is expected to fall but remain positive in 2021-22.




## Current Performance

## The Finance subdivision is a significant part of the Australian economy and financial system, as firms and financial institutions in the subdivision control a vast amount of assets.

Ongoing macro-economic and geopolitical changes have led to uncertainty surrounding the global economy and financial system over the past five years. Slowdowns in several economies across the globe and concerns about China's economic sustainability have affected Australia's economic performance over the period. Domestically, growth in private capital expenditure over the period has supported demand for credit. Additionally, a strong residential property market has supported demand for mortgages over the past five years. However, falling interest rates have driven a decline in subdivision revenue over the period. The COVID-19 pandemic and subsequent lockdown periods have also increased financial hardship among households and businesses over the past three years. Consequently, subdivision revenue is expected to decline at an annualised 2.4% over the five years through 2021-22, to total $185.1 billion. However, subdivision revenue is anticipated to rise by 2.1% in 2021-22 as lending activity increases and deferrals on loan repayments during the COVID-19 pandemic wind down.

**DOMESTIC BANKS**

### Domestic banks account for most of the Finance subdivision's revenue.

The big four banks are expected to account for almost 50% of total subdivision revenue in the current year. As a result, the subdivision's performance largely follows the performance of national banks, which is closely linked to the cash rate and market interest rates. In an effort to stimulate the economy, the RBA has lowered the cash rate to historic lows over the past five years. The RBA has made six cuts to the cash rate since June 2019, which has weighed on the subdivision's performance.

The low cash rate and interest rates have provided some opportunities for the National and Regional Commercial Banks industry, the Foreign Banks industry, and other mortgage lenders. The low interest rates offered by these lenders have fuelled growth in the residential property market and increased residential property prices over the past five years, helping to grow these banks' loan portfolios. However, lower interest rates have driven down interest revenue derived from residential mortgages and the overall loan portfolio of banks, preventing them from fully capitalising on growth in assets. Outside of subdivision activities, the major banks have also offloaded or are seeking to exit their wealth management and life insurance businesses, along with overseas ventures, to refocus on core banking operations in Australia. The higher regulatory costs for banks associated with these activities, especially the remediation costs following the Financial Services Royal Commission and costs related to alleged anti-money laundering breaches, have constrained subdivision profitability. Furthermore, APRA have implemented risk capital add-ons for several banks following breaches and higher operational risk. Falling net interest margins have also weighed on subdivision profit margins, as interest rates approach zero.

The major banks have raised interest rates on their lending products at times over the past five years. In late 2018, higher funding costs, as a result of monetary policy abroad, also prompted banks to lift interest rates on many of their products. However, several cash rate cuts in 2019 forced banks to pass on some of the savings to customers. Additionally, the RBA cut the cash rate twice in March 2020 and again in November 2020 due to the COVID-19 pandemic, placing further downward pressure on market interest rates. This development has weighed on operators' net interest margins and profitability over the past five years. Banks have also faced higher capital requirements and remediation costs over the period, decreasing the subdivision's profitability.

### DEMAND FOR CREDIT

## Demand for credit has varied across different parts of the economy.

In the retail market, the large value and volume of mortgages has significantly increased subdivision assets over the past five years. Property prices have surged over the period, as demand for owner-occupied housing loans has increased. Government initiatives to support first home owners have driven demand for mortgages over the past five years, supporting subdivision revenue.

In comparison to the residential market, demand for credit in the commercial market has been subdued. Volatile business confidence over the past five years has limited growth in private capital expenditure and demand for business loans, particularly during the COVID-19 pandemic. While a weak Australian dollar has made Australian goods more competitive on the international market, mining exports, such as iron ore, have primarily benefited from this trend. Some businesses have been reluctant to make significant investments, which has limited demand for credit from these markets.

### MAJOR PLAYERS

## Previously, the major banks sought growth abroad and through mergers and acquisitions.

However, the banks have since shifted towards offloading divisions with lower returns, exiting businesses abroad and streamlining operations to focus on core banking operations in Australia. Changes in the regulatory landscape, especially regarding higher capital requirements and the findings from the Financial Services Royal Commission, have prompted the banks' renewed focus. These events have led to the major banks selling or seeking to exit their wealth management and life insurance divisions, due to these businesses' weaker returns and high regulatory costs. The four major banks have also sought to reduce their branch numbers as banking and financial services are increasingly delivered through digital channels. This trend has led to subdivision employment numbers falling over the past five years, despite enterprise numbers increasing.

The four major banks' subdivision market share has fallen slightly over the past five years, as they have faced increasing competition from smaller lenders and non-bank lenders in the mortgage market. Smaller lenders and non-bank lenders have captured a greater share of the mortgage market, as the major banks have tightened lending standards and faced increased scrutiny following the Financial Services Royal Commission. The emergence of neobanks, buy now pay later services, and other financial technology companies has contributed to an increasingly competitive landscape for the subdivision.

## Historical Performance Data

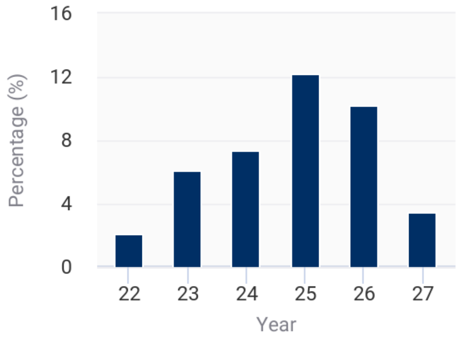
| Year | Revenue ($m) | IVA ($m) | Establishments (Units) | Enterprises (Units) | Employment (Units) | Exports ($m) | Imports ($m) | Wages ($m) | Domestic Demand ($m) |
|---|---|---|---|---|---|---|---|---|---|
| 2012-13 | 228,592 | 82,979 | 48,892 | 37,915 | 230,504 | N/A | N/A | 30,643 | N/A |
| 2013-14 | 216,838 | 89,771 | 49,520 | 38,575 | 229,753 | N/A | N/A | 32,124 | N/A |
| 2014-15 | 223,086 | 100,166 | 50,064 | 39,185 | 223,734 | N/A | N/A | 34,009 | N/A |
| 2015-16 | 219,117 | 94,221 | 51,623 | 40,419 | 229,966 | N/A | N/A | 34,079 | N/A |
| 2016-17 | 209,001 | 96,349 | 53,106 | 41,907 | 231,068 | N/A | N/A | 33,801 | N/A |
| 2017-18 | 214,212 | 98,109 | 54,737 | 43,536 | 224,242 | N/A | N/A | 32,850 | N/A |
| 2018-19 | 216,645 | 90,774 | 58,664 | 47,052 | 220,042 | N/A | N/A | 32,270 | N/A |
| 2019-20 | 192,288 | 75,185 | 58,781 | 50,048 | 223,449 | N/A | N/A | 31,873 | N/A |
| 2020-21 | 181,263 | 72,868 | 62,870 | 51,699 | 226,262 | N/A | N/A | 31,305 | N/A |
| 2021-22 | 185,118 | 73,307 | 65,187 | 53,967 | 225,628 | N/A | N/A | 30,516 | N/A |

# Industry Outlook

## Outlook

**In addition to the economy's recovery from the COVID-19 pandemic, business confidence, consumer sentiment, residential property market conditions and global economic growth prospects will likely dictate the Finance subdivision's performance over the next five years.**

Industry Outlook
2022–2027




Finance
Source: IBISWorld

The cash rate and market interest rates are forecast to rise over the period as the economy rebounds from the COVID-19 pandemic. This trend is anticipated to benefit the subdivision, as firms have built up a sizeable lending portfolio over the past five years. However, concerns over rising inflation and the ongoing Russia-Ukraine conflict may negatively affect consumer sentiment and business confidence early in the next five-year period. Overall, revenue for the Finance subdivision is forecast to grow at an annualised 7.8% over the five years through 2026-27, to $269.5 billion.

Subdivision enterprise numbers are projected to rise over the next five years, due to an increasing number of mutual organisations, neobanks and foreign banks. Foreign banks generally service the business market, especially Asian banks facilitating Asian companies expanding into the country. Australia is considered an attractive place for investment given the relative health of its economy. These foreign banks, and the emergence of neobanks and other financial technology providers, are also forecast to contribute to growth in subdivision wage costs. Subdivision profitability is projected to rise slightly over the next five years as lenders recover from potentially sizeable credit impairments during the COVID-19 pandemic, and pressure is reduced on net interest margins.

### BANKING

**The big four banks' strategic focus is projected to continue shifting due to potential developments across several of their key products and markets, including residential property lending, and divesting wealth management and insurance arms.**

The banks have streamlined their operations and refocused on their core banking businesses over the past five years. This shift in focus will likely support a recovery across the lending sector, as will a projected rise in interest rates and lending activity following the COVID-19 pandemic. Higher interest rates will allow lenders to generate more revenue on their lending portfolio. Capital expenditure by the private sector is also projected to increase as the economy recovers over the next five years. However, the subdivision will likely face headwinds in the short term due to the ongoing COVID-19 pandemic, flooding in parts of Queensland and New South Wales, and ongoing global tensions, such as the Russia-Ukraine conflict. Although most banks have closed deferrals on loan repayments, credit impairment charges are likely to remain higher in the short term as economic conditions gradually improve.

### REGULATION

**APRA has introduced a range of measures to ensure banks and other financial institutions are more resilient and compliant, and will likely introduce more reforms over the next five years.**

These reforms include the Basel III reforms that were set to come into effect in January 2022, but were delayed to January 2023 due to the COVID-19 pandemic. Financial institutions are likely to apply tighter lending standards during the COVID-19 pandemic to avoid any increases in bad debts, while also seeking to meet increased capital requirements. APRA has also imposed additional capital add-ons for some banks, as they face higher operational risks and alleged breaches of anti-money laundering laws.

The big four banks currently hold an overwhelmingly large portion of the residential mortgage, consumer and business lending markets, highlighting the financial system's reliance on the major banks. In July 2015, APRA increased the capital requirements on residential mortgage exposure for the major banks and those using the internal ratings-based approach. The statutory authority also imposed extra capital requirements on the major banks in 2018-19 until they resolve all cultural and governance risks. Capital adequacy will likely increase further as APRA seeks to bring capital benchmarks to an unquestionably strong level, while also making changes to risk weights to discourage banks from issuing higher risk loans.

The fallout from the Financial Services Royal Commission is likely to continue weighing on subdivision revenue growth over the next five years. Lending activity and credit growth may slow due to changes to the mortgage broking landscape, while financial institutions will likely implement tighter lending standards. Tighter lending standards are forecast to affect retail consumers through mortgage lending, and loans provided to small and medium enterprises.

## Performance Outlook Data

| Year | Revenue ($m) | IVA ($m) | Establishments (Units) | Enterprises (Units) | Employment (Units) | Exports ($m) | Imports ($m) | Wages ($m) | Domestic Demand ($m) |
|---|---|---|---|---|---|---|---|---|---|
| 2021-22 | 185,118 | 73,307 | 65,187 | 53,967 | 225,628 | N/A | N/A | 30,516 | N/A |
| 2022-23 | 196,370 | 80,315 | 67,740 | 56,570 | 224,347 | N/A | N/A | 30,764 | N/A |
| 2023-24 | 210,863 | 82,026 | 70,345 | 59,260 | 223,891 | N/A | N/A | 31,286 | N/A |
| 2024-25 | 236,511 | 87,982 | 72,648 | 61,737 | 224,784 | N/A | N/A | 32,434 | N/A |
| 2025-26 | 260,562 | 94,844 | 75,332 | 63,885 | 225,038 | N/A | N/A | 32,977 | N/A |
| 2026-27 | 269,501 | 96,481 | 77,719 | 66,288 | 224,660 | N/A | N/A | 31,940 | N/A |
| 2027-28 | 284,065 | 99,707 | 80,213 | 68,786 | 224,444 | N/A | N/A | 31,305 | N/A |

## Industry Life Cycle

**The life cycle stage of this industry is ⊖ Mature**

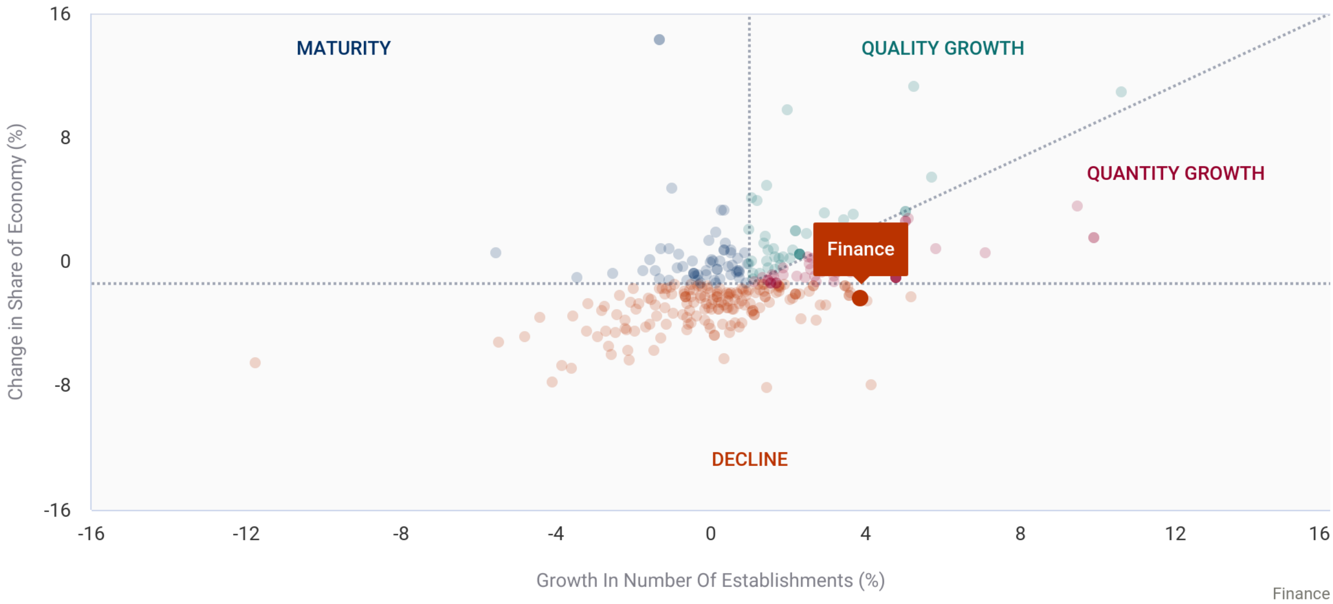
LIFE CYCLE REASONS

**Opportunities have arisen from growth in other finance-related industries**

**New products, payment systems, and online and mobile platforms are driving change in the subdivision**

**Increasing regulation and continued dominance of major players characterise the subdivision**

Indicative Industry Life Cycle




Finance
Source: IBISWorld

The Finance subdivision is currently in the mature stage of its life cycle. Industry value added, which measures the subdivision's contribution to the economy, is forecast to rise at an annualised 0.01% over the 10 years through 2026-27. This represents an underperformance of overall GDP, which is projected to grow at an annualised 2.3% over the same period. This indicates the subdivision's contribution to the overall economy is shrinking. The subdivision exhibits several traits of being in a mature stage of its life cycle. Lower interest rates and a high level of competition have constrained the industry's performance over the past five years. In addition, regulation is increasing following the Financial Services Royal Commission, while the banks continue to be affected by customer remediation costs. Furthermore, the subdivision's major players are a well-established and dominant part of the market.

Nevertheless, the subdivision has scope for new products and technology. New and innovative payment systems are emerging, while online and mobile technology that help deliver financial products and services have come to the forefront of technological innovation in the subdivision. Neobanks, online-only lenders and other financial technology are emerging and becoming an alternative to traditional banking.

# Products & Markets

## Supply Chain

### Key Buying Industries

**1st Tier**

- Professional Services in Australia
- Consumers in Australia
- Finance in Australia

### Key Selling Industries

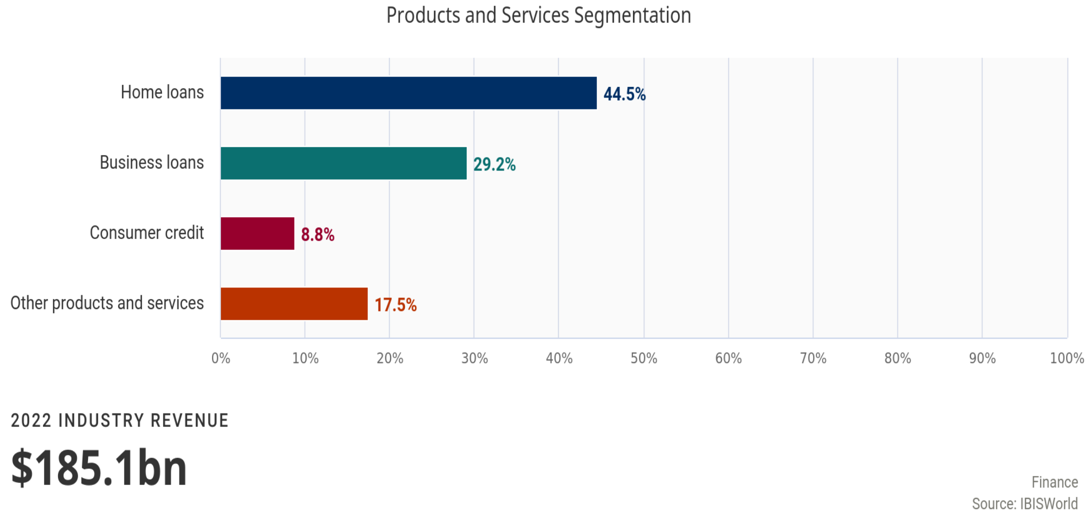
**1st Tier**

- Legal Services in Australia
- Accounting Services in Australia

**2nd Tier**

- Market Research and Statistical Services in Australia
- Telecommunications Services in Australia
- Office Property Operators in Australia
- Computer and Software Retailing in Australia
- Stationery Goods Retailing in Australia

## Products & Services




### Mortgages, business loans and consumer loans are the primary sources of revenue in the Finance subdivision.

The larger operators typically earn interest on loans and charge fees for administrative tasks and late payments. Despite generating a small amount of revenue, deposit and transaction accounts provided by deposit-taking institutions represent some of the subdivision's most significant products. Deposits allow lenders to raise capital to fund lending instead of turning to wholesale markets to source funding.

#### HOME LOANS

### Home loans are issued to homebuyers, who can be further segmented into owner-occupiers and investors.

A mortgage is usually secured against the dwelling purchased and may come with several features. The repayments can be made monthly, fortnightly or weekly, with repayments comprising an interest and a principal component. Some mortgages only charge interest and require the principal amount to be paid back in full at the end of the term. Mortgage terms tend to vary, but are typically between 25 and 30 years. Interest rates vary depending on these characteristics and the cost of funding at the time the loan was issued. Interest rates can also be fixed or variable, or a combination of both. Rising residential property prices and low interest rates have supported greater demand for home loans and refinancing of mortgages over the past five years. Additionally, government initiatives to support first-home buyers have driven demand for mortgages over the period. Most mortgage repayment deferrals during the COVID-19 pandemic are expected to have wound down by the end of 2020-21, increasing turnover from home loans in 2021-22. Overall, home loans have risen overall as a proportion of subdivision revenue over the past five years.

#### BUSINESS LOANS

### Business loans are issued to companies as a source of finance.

These loans can be used to fund inventory purchases and investments in new machinery. Loans can also be used as bridging finance to support the business before cash is generated from operational activities. Business loan terms tend to be highly flexible. Like mortgages, business loans are offered with fixed or variable interest. Repayment can consist of interest only, or principal and interest components. The loans can be secured against a pool of assets that a business owns. If a large portion of assets is made up of debtors owing money to the business, loans can be secured against those debtors. Lenders often impose covenants on the issued loans that specify financial conditions that borrowers must maintain or meet.

Loans can be extended through lease financing, where a lender acquires the asset and leases it out to a borrower. Companies that require heavy machinery, but do not have the funds to purchase it, often use this type of arrangement. Banks and other lenders provide this service and generate revenue from interest, fees and the resale of assets. Volatile business confidence has constrained demand for business loans over the past five years, especially during the COVID-19 pandemic. However, a low interest rate environment and a slight increase in capital expenditure by the private sector is expected to support demand for business loans over the period. Overall, this segment has slightly fallen as a share of subdivision revenue over the past five years, due to growth in the home loans segment.

#### CONSUMER CREDIT

### Personal lending primarily occurs through personal loans, credit cards and margin lending.

Personal loans are extended to the public for a range of purposes. These loans usually vary from $5,000 to $50,000, with the duration and interest rate dependent on the borrower's ability to service the loan. As most of these loans are unsecured, the applied interest rates tend to be higher than those for business and home loans. Margin loans provide financing for investment in financial assets (primarily stocks) and are collateralised against the assets purchased. Credit cards come with a range of features, including different credit limits and interest rates. However, interest rates applied on credit card debt tend to be high, given these loans are often unsecured. Consumer credit has declined as a proportion of subdivision revenue over the past five years, due to an increasing amount of balances not accruing interest and the emergence of other forms of payment, such as buy now pay later services.

#### OTHER PRODUCTS AND SERVICES

### Other products and services that subdivision participants offer include deposits and transaction accounts, cash management trusts, common fund trusts, listed unit trusts and unlisted unit trusts.

These products are typically provided for investment purposes, but can also act as a source of funding for banks and other financial institutions. This product segment has declined as a share of subdivision revenue over the past five years, due to growth in the home loans segment.

## Demand Determinants

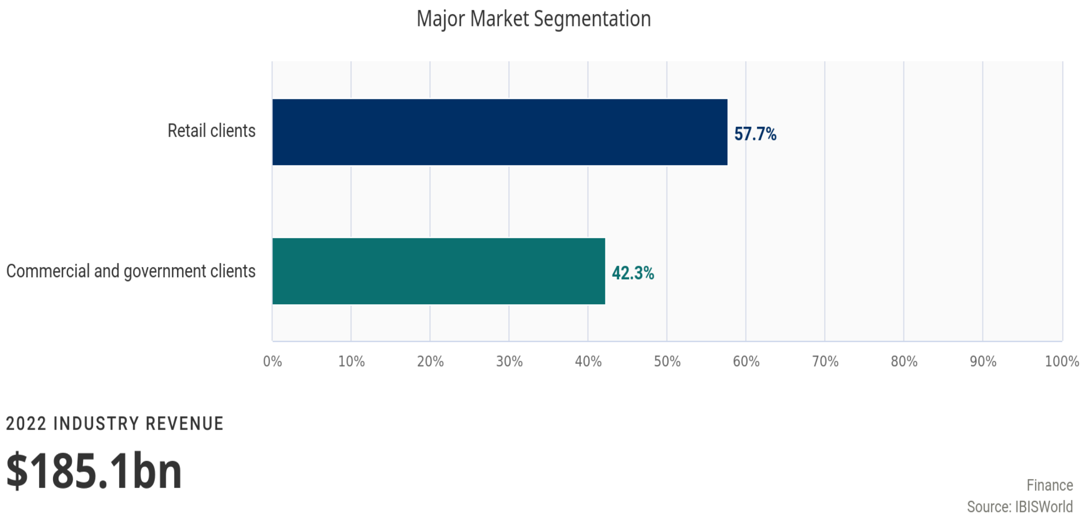
### Economic and financial market conditions influence demand for financial services.

Conditions in financial markets influence investment returns, household wealth and savings rates and can lead to changes in interest rates. Economic conditions influencing disposable incomes can affect the consumption of goods and services supplied by the subdivision. Household savings and wealth influence household demand for financial services. The cost of various financial products, services and accounts can also affect demand for the subdivision.

Market interest rates dictate the price of most industry products, which include mortgages, business loans and consumer credit. Lower interest rates typically encourage households and businesses to take on more credit as it is cheaper to borrow. Conversely, higher interest rates make it more expensive for consumers and businesses to borrow and spend.

Home loans, where consumers acquire finance to purchase a home, drive a large proportion of demand for financial products. A strong residential property market, driven by higher real estate prices, typically leads to more mortgages. Higher property values also increase the value of loans taken out by households. While the COVID-19 pandemic has led to businesses and households running into financial hardship, a low interest rate environment and government incentives, such as the HomeBuilder scheme, have supported demand for mortgages.

## Major Markets




### The Finance subdivision services all sectors of the Australian economy including other financial institutions.

The major markets can be broadly split into two categories: retail clients and commercial and government clients.

#### RETAIL CLIENTS

### Retail clients primarily deal with authorised deposit-taking institutions (ADIs) and account for the majority of their revenue.

ADIs account for an overwhelming majority of the subdivision's revenue. As a result, retail clients represent a significant market for the Finance subdivision. Retail clients take out mortgages, borrow money through personal lending, use credit cards and hold deposit accounts. Retail clients have increased as a share of subdivision revenue over the past five years, as mortgage activity has increased due to rising residential property prices and record low interest rates. More subdued credit demand from commercial clients has further supported this market. Lenders have also wound down deferrals on mortgage repayments during the COVID-19 pandemic, increasing revenue from retail clients in the current year.

#### COMMERCIAL AND GOVERNMENT CLIENTS

### Unlike retail clients, commercial clients make transactions on a larger scale, which compensates for the smaller number of these clients.

Commercial clients make up a significant market for the subdivision. Commercial clients often require loans on a significant scale, and also make use of commercial banking facilities. Volatile business confidence over the past five years, has constrained demand from this market segment. However, capital expenditure by the private sector is expected to rise over the period, limiting the overall decline in this market segments share of revenue.

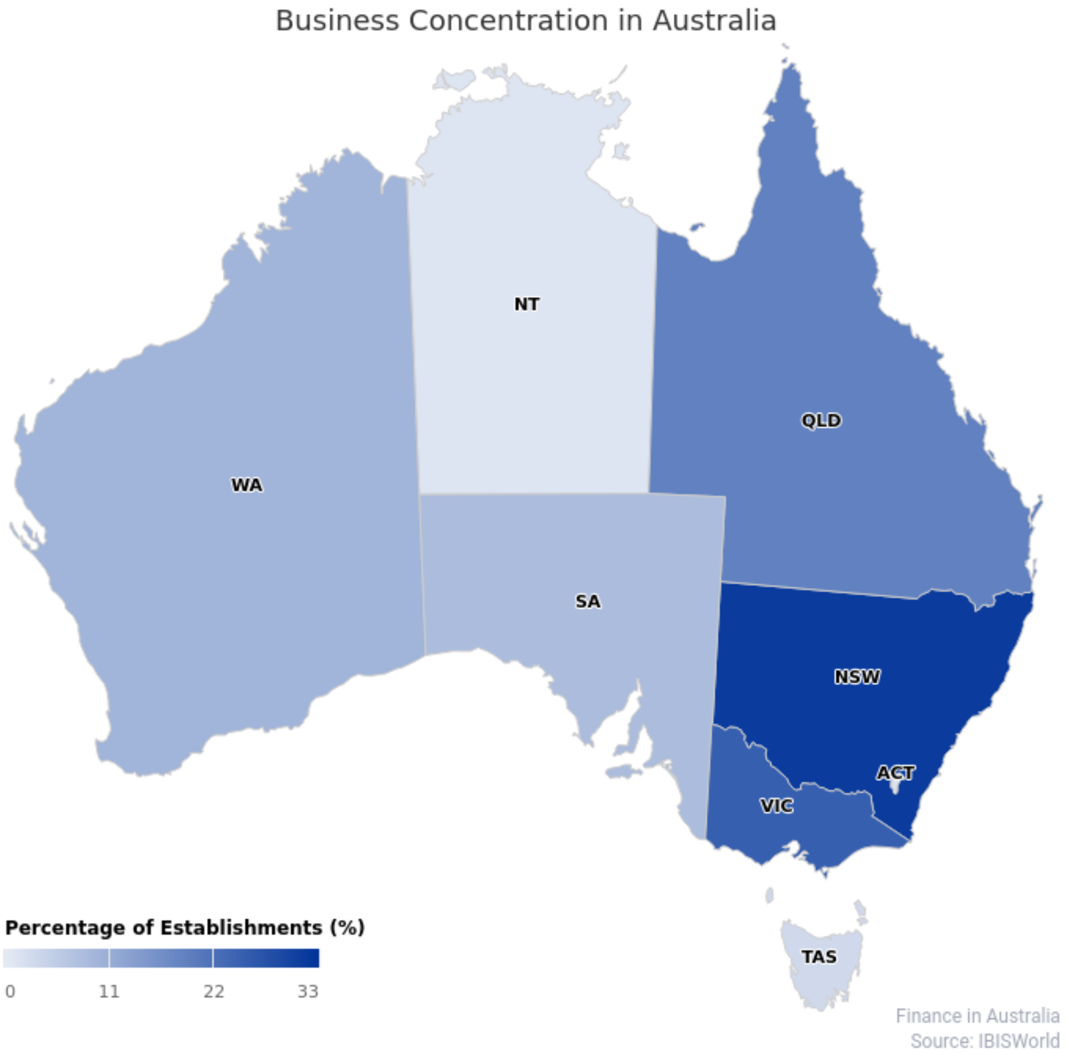
Governments make up another market for the subdivision. Governments primarily issue long-term debt in the form of bonds (treasury securities). These are then distributed and traded by various financial institutions in the subdivision. Overall, the commercial and government clients market has declined as a share of subdivision revenue over the past five years, due weaker demand from commercial clients and greater growth in the retail clients market.

**Exports in this industry are ✓ Low and Steady**

**Imports in this industry are ✓ Low and Steady**

Australia's Finance subdivision has a relatively low level of imports and exports of financial services. Financial service imports and exports cover financial intermediary services conducted between residents and non-residents. The low level of cross-border transactions is likely due to the regulation surrounding the Finance subdivision and the required licenses to operate in the local market. As a result, the provision of financial products and services is typically limited to within domestic borders.

## Business Locations

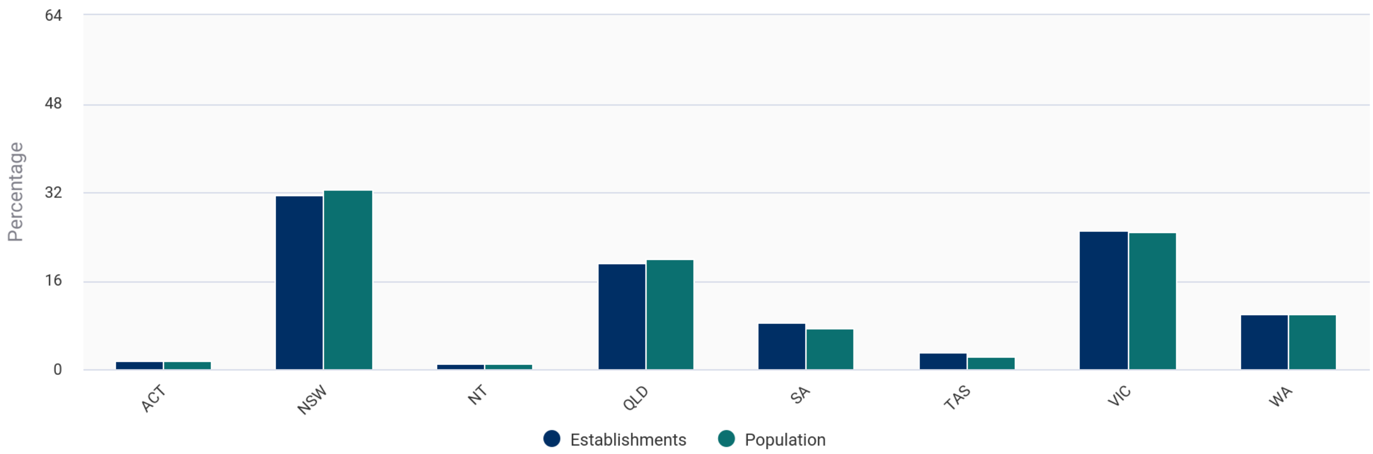



The distribution of establishments in the Finance subdivision is largely aligned with the distribution of the population, because all households and businesses require financial services. The distribution of establishments largely follows the spread of locations in the Financial Asset Investing industry, primarily due to the sheer volume of entities in this industry. Elsewhere, the domestic banks, foreign banks, building societies and credit unions also influence the distribution of establishments, given the significance of branch networks for these operators.

In the subdivision, New South Wales accounts for almost one-third of these branches, with Victoria and Queensland accounting for approximately 25% and 20% respectively. Importantly, these three states account for over 75% of all establishment locations. Outside of New South Wales and Victoria, states tend to be underrepresented relative to their share of the population, but on a per capita basis, some regional and rural areas are better represented than their metropolitan counterparts.

Of the four major Australian banks that operate nationally, ANZ Banking Group and National Australia Bank have their head offices located in Melbourne, while Westpac and Commonwealth Bank are headquartered in Sydney. Head office locations are a reflection of the historical roots of banking institutions in Australia. Furthermore, they demonstrate the importance and demand for banking products and services within these regions, although they operate nationwide branch networks. Regional banks typically have their head offices located in the capital city of the state in which they were established and are concentrated in that area, with most of their clients and business operating in the region. Banks need to have a presence near their client base to provide easy access to their products and services. The temporary closure of branch networks across Australia during the COVID-19 pandemic may potentially influence the distribution of establishments over the long term by accelerating the continued shift towards self-service, online and mobile banking.

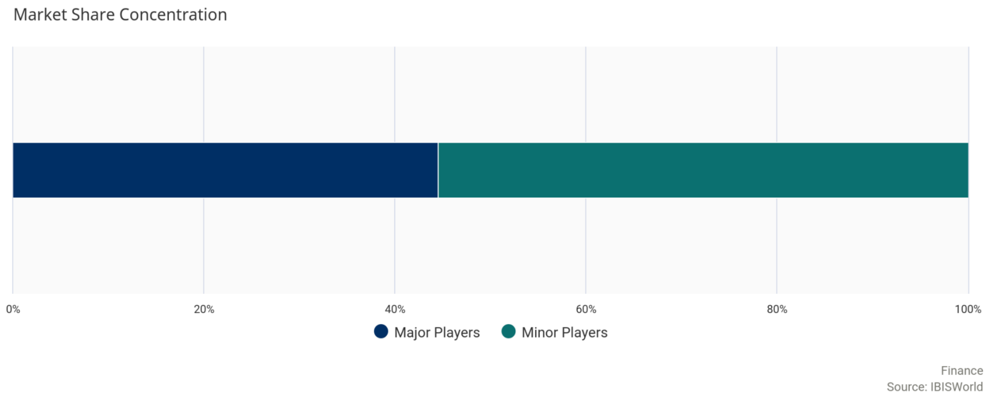
**Distribution of Establishments vs Population**




Finance
Source: IBISWorld

# Competitive Landscape

## Market Share Concentration




**Concentration in this industry is ⊝ Medium**

The Finance subdivision is characterised by moderate market share concentration. The four major banks, Commonwealth Bank of Australia (CBA), Westpac, NAB and ANZ, dominate the subdivision. These banks operate across several industries in the subdivision and together account for almost 50% of subdivision revenue. The big four banks' market shares have declined slightly over the past five years, largely due to their performance during the COVID-19 pandemic. Smaller lenders and non-bank lenders are also increasing their share of the mortgage market. While there was previously a focus on mergers and acquisitions or growth in other regions like Asia, the major banks have now sought to streamline their operations and refocus on their core banking businesses. APRA's decision to lift capital adequacy requirements has further prompted this shift, having placed added pressure on the banks to raise capital. The major banks have also sold or are seeking to exit their wealth management and insurance businesses as returns have dwindled and regulatory costs have increased following the Financial Services Royal Commission.

## Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

**Having an extensive distribution/collection network:**
Financial institutions that have an extensive distribution network can benefit from having a wider customer reach. Their network can be geographically broad, based on branches, or involve arrangements with aligned financial adviser networks.

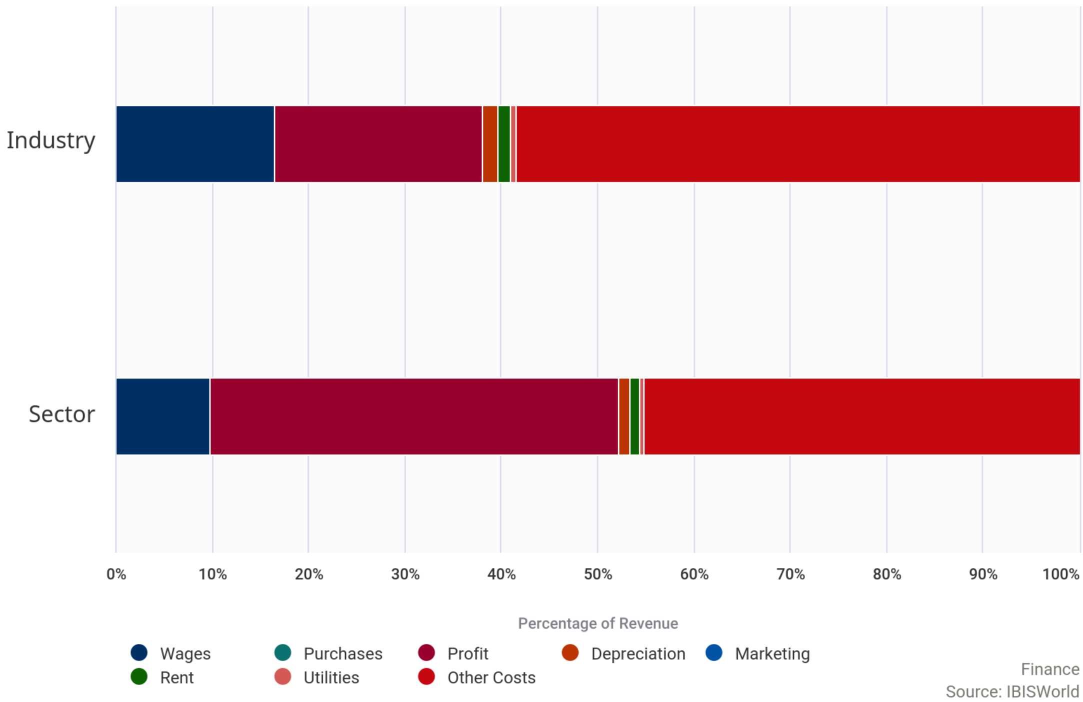
**Ability to pass on cost increases:**
Banks must be able to pass on interest rate hikes on their funding source to customers to maintain their net interest margin and profitability. Similarly, they need to be able to pass on interest rate cuts to attract and retain customers.

**Having a good reputation:**
Financial institutions benefit from having a strong brand and reputation. During periods of uncertainty, customers tend to perceive size and reputation as security.

**Ability to effectively manage risk:**
Financial institutions must be able to effectively manage their portfolios' risk and return to operate successfully in the subdivision and withstand unforeseen events.

## Cost Structure Benchmarks

Cost Structure 2022

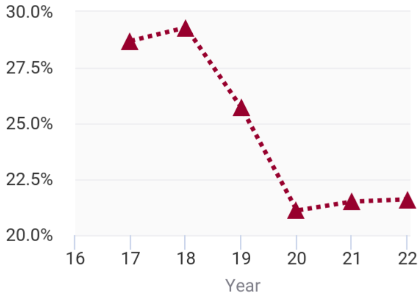



Finance
Source: IBISWorld

### Profit

Net interest margins are a key driver of profitability for many subdivision operators. The net interest margin represents the difference between the borrowing and lending rate for lenders. The RBA has cut the cash rate six times since June 2019, which has significantly lowered interest rates in the market. While this trend has led to cheaper funding for lenders, it has also weighed on their net interest margins. Subdivision profitability has also been affected by the remediation costs incurred by the major subdivision operators following the Financial Services Royal Commission. Higher capital adequacy requirements implemented by APRA have also weighed on subdivision profitability. Furthermore, the volume of bad debts is expected to rise as some borrowers run into financial difficulty caused by the COVID-19 pandemic and lockdowns. As a result, subdivision profitability has declined over the past five years.

Profit as a Share of Revenue 2017-2022

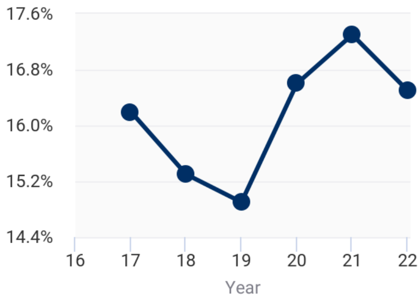



Finance
Source: IBISWorld

### Wages

Wages make up a significant proportion of the subdivision's cost structure. The Finance subdivision is labour-intensive and employs highly skilled and experienced staff. Despite financial institutions increasingly outsourcing some requirements, labour is still required for many in-house roles. The subdivision's major players have sought to retain or employ technology specialists to drive automation and growth in their digital channels. For some industries in the Finance subdivision, a significant proportion of wages also includes bonuses. Despite subdivision operators adopting more technology and automation over the past five years, wages have increased slightly as a share of subdivision revenue. This is mainly due to revenue declines during the COVID-19 pandemic.

Wages as a Share of Revenue 2017-2022

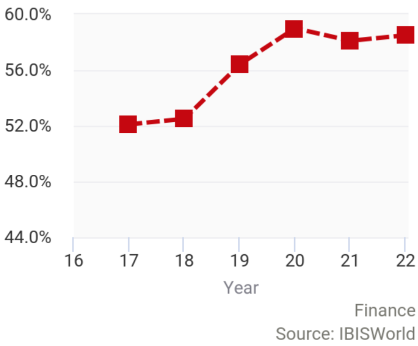



Finance
Source: IBISWorld

### Other Costs

Other expenses incurred by the subdivision include depreciation, utilities, rent, bad and doubtful debts, and marketing and administrative costs. Bad and doubtful debts occur when a borrower is unable to make repayments and the lender is forced to write off the loan, resulting in loan loss provisions. Other costs have increased as a share of subdivision revenue over the past five years, largely due to the remediation costs incurred by the larger financial institutions following the Financial Services Royal Commission. In addition, provisions for credit losses are anticipated to increase due to the COVID-19 pandemic, as several lockdowns have put households and businesses in financial hardship.

Other Costs as a Share of Revenue 2017-2022




### Interest expense

Interest expense is the major cost incurred by subdivision operators. This component varies among companies based on the line of products and services they provide. Interest expense also depends on market interest rate conditions, types of liabilities, different maturities and competition in lending markets. For example, credit unions and mutual banks source most of their funding from depositors, while major banks also use wholesale capital markets. Other financiers, which provide leasing finance, tend to rely solely on wholesale markets. Interest expense has decreased as a share of subdivision revenue over the past five years, largely due to the falling cash rate reducing funding costs for financial institutions. This factor, combined with overall higher capital requirements for major banks, has placed upward pressure on funding costs over the three years through 2021-22.

## Basis of Competition

**Competition in this industry is ⚠ High and the trend is Increasing**

### The Finance subdivision is characterised by a high level of competition.

Participants in the subdivision offer a range of financial services. Subdivision firms compete to attract and retain customers on the basis of price, reputation and presence. However, financial services firms face little external competition.

Price is an important basis of competition. The price of services can affect demand and alter investment returns. Interest rates are a significant point of difference and represent the cost of borrowing for clients. Subdivision firms face a high level of competition for borrowing, as the cost of switching between lenders is often low for clients.

The reputation of subdivision operators is important, as consumers, businesses and investors can often have substantial funds tied up in accounts, investments and retirement products. As a result, reputation and the resilience of the brand can help build trust and the perception that the large incumbent players exhibit a lower level of risk relative to newer players. The damage to the major banks' brands following the Financial Services Royal Commission has led to the rise of smaller lenders and non-bank lenders in the mortgage market. Similarly, firms that have a strong track record in investing are more likely to attract a greater inflow of funds.

Subdivision firms benefit from having an extensive distribution network. Subdivision participants compete based on their retail points of presence, access to brokers and agents, and ability to service a range of consumers. Access to growing retail deposits and overall lower borrowing costs have benefited the major banks over the past five years. However, lower barriers to entry and an overall cheaper cost of funding have led to greater competition, as the larger banks have faced increased competition from smaller banks, non-bank lenders and emerging neobanks that have sought to disrupt the lending market.

## Barriers to Entry

**Barriers to Entry in this industry are ⊘ High and the trend is Steady**

The Finance subdivision exhibits high barriers to entry. Many financial institutions, particularly the large banks, operate across several different industries. The big four banks have substantial resources and dominate the markets in which they operate. Additionally, major players in industries such as banking benefit from economies of scale and their cost-to-income ratio is generally lower. This factor makes it harder for prospective entrants to compete successfully.

Funding is one of the biggest barriers to entry. New entrants that do not have the necessary scale and access to retail depositors have to rely heavily on wholesale markets to raise funds. Larger institutions typically have better access to wholesale funds given their scale, which often means they have the capacity to price loans more competitively than smaller rivals.

Furthermore, firms must establish a distribution network and build a client base. Enterprises that require agents and brokers cannot guarantee the success of their products. If the business needs to set up a network of retail outlets, it takes time to build a retail portfolio and seek out suitable locations. However, increased use of technology to deliver financial services has lessened the effects of these barriers to entry, as it can reduce the need to invest in branches. This trend has been demonstrated by the competitiveness and emergence of online players and neobanks such as ING Bank and Judo. Smaller players may instead focus on servicing a niche market as a specialist lender rather than becoming a national player.

Finally, new firms must meet numerous regulations regarding ownership restrictions, licences and capital requirements. Many businesses in the subdivision typically require an Australian Financial Services licence to operate. APRA's regulatory framework is also constantly evolving, which can lead to high compliance costs for prospective entrants.

**Barriers to Entry Checklist**

| | |
|---|---|
| Competition | High ⚠ |
| Concentration | Medium ⊖ |
| Life Cycle Stage | Mature ⊖ |
| Technology Change | High ⚠ |
| Regulation & Policy | Heavy ⚠ |
| Industry Assistance | Low ⚠ |

## Industry Globalization

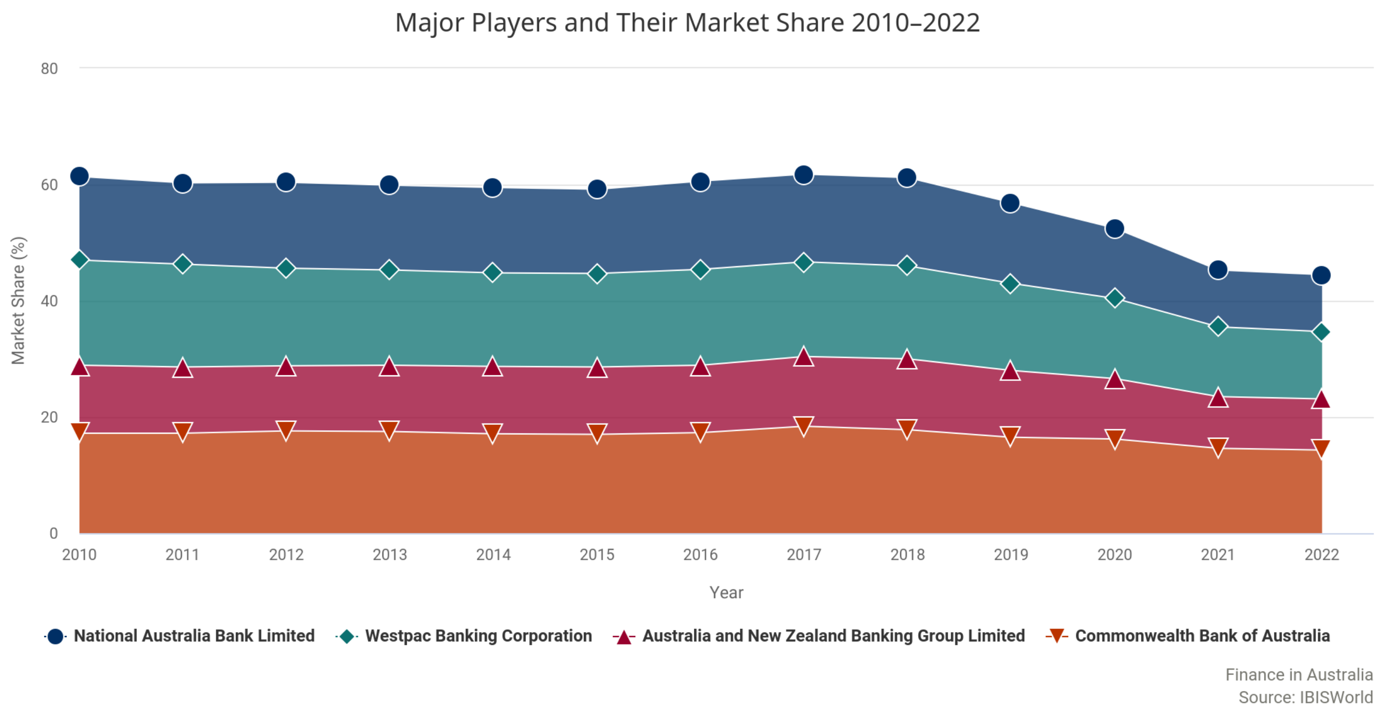
**Globalization in this industry is ⊖ Medium and the trend is Increasing**

The Finance subdivision is characterised by a moderate level of globalisation. Imports and exports in the subdivision are relatively low, as services are generally only provided within national borders. Although the subdivision has a relatively low level of cross-border operators, particularly compared with financial centres in the United States and the United Kingdom, the subdivision is moderately globalised as it includes foreign banks and financial institutions.

Major players in the Finance subdivision generate the bulk of their revenue from domestic operations with only a limited international presence. Australian banks have traditionally been focused on domestic lending, but have generated some revenue from international operations. NAB previously had operations in the United States and the United Kingdom, but have since sold and exited from these businesses. ANZ also aggressively expanded into Asia over the past decade and previously had plans to generate between 25% and 30% of profit from the region in the future. However, the bank has since focused on streamlining its operations in Asia.

Many major overseas banks also have established offices in Australia. Foreign banks in Australia provide a range of services, but are particularly active in commercial lending and investment banking services. The presence of foreign operators has increased over the past five years, particularly at the corporate and institutional level, as they seek to support Asian and other foreign companies expanding into Australia.

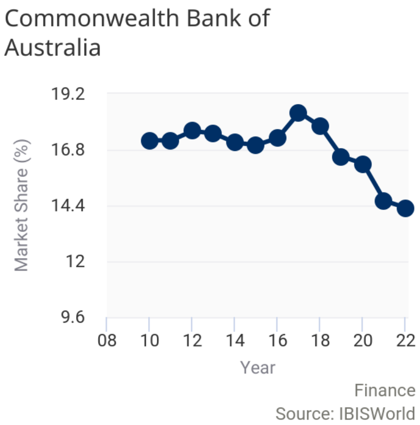
# Major Companies




## Major Players

### Commonwealth Bank of Australia

**Market Share: 14.3%**




The Commonwealth Bank of Australia (CBA) is one of the largest companies in Australia and a leading financial institution. The Commonwealth Government owned CBA until it was converted into a public company in 1990. The bank then listed in 1991 and was fully privatised in three stages between 1991 and 1996. The Commonwealth Bank of Australia is headquartered in Sydney.

CBA provides a range of services to retail and corporate clients. Its business operations can currently be divided into five main segments: Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, New Zealand, and International Financial Services and Corporate Centre. In 2013, the ACCC approved CBA's acquisition of 80.0% of Aussie Home Loans, providing a substantial boost to the group's distribution network. CBA then fully acquired the company in August 2017. As part of its strategy to focus on its core banking operations, CBA had previously planned to demerge its wealth management and mortgage broking businesses, but this was delayed after the findings of the Financial Services Royal Commission were released. In November 2019, CBA entered into a joint cooperation agreement with AIA Group in regards to its Australian life insurance business, CommInsure Life. The transaction was completed in April 2021. In May 2020, CBA announced it had reached an agreement to sell 55.0% of its stake in Colonial First State to KKR, a global investment firm. In June 2021, CBA announced that it had entered an agreement to sell its Australian general insurance business, CommInsure General Insurance, to Hollard Group.

#### Financial performance

CBA is the largest issuer of credit cards and the largest provider of home loans in Australia. CBA's subdivision segment revenue is expected to fall at an annualised 5.2% over the five years through 2021-22, to $26.5 billion. This result represents an underperformance of the overall subdivision. Foreign banks and non-depository financing businesses have continued to take market share in the Finance subdivision over the period, resulting in CBA underperforming the overall subdivision. Consistent cash rate cuts over the past five years have also placed downward pressure on CBA's interest income. However, lower interest rates have helped reduce borrowing costs for CBA, which has supported profitability over the period. This factor is anticipated to be offset by higher capital requirements, remediation costs and potential credit losses following the COVID-19 pandemic.

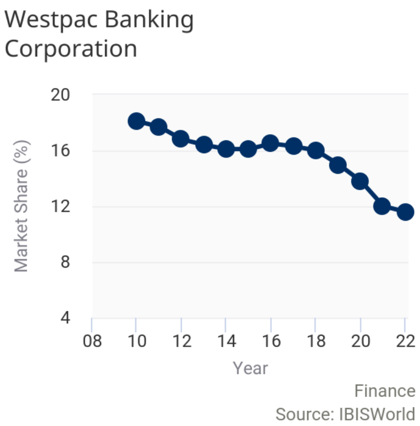
**Commonwealth Bank of Australia - subdivision segment performance***

| Year | Revenue ($b) | Growth (% change) |
|---|---|---|
| 2011-12 | 38.1 | N/C |
| 2012-13 | 34.7 | -8.9 |
| 2013-14 | 32.7 | -5.8 |
| 2014-15 | 33.2 | 1.5 |
| 2015-16 | 33.0 | -0.6 |
| 2016-17 | 34.6 | 4.8 |
| 2017-18 | 35.0 | 1.2 |
| 2018-19 | 34.0 | -2.9 |
| 2019-20 | 30.2 | -11.2 |
| 2020-21 | 26.0 | -13.9 |
| 2021-22 | 26.5 | 1.9 |

Source: IBISWorld
Note: *Estimate

### Westpac Banking Corporation

**Market Share: 11.6%**




Westpac Banking Corporation is an Australian publicly listed financial institution that provides a range of banking and financial services. Established in 1817 as the Bank of New South Wales, the company changed its name to Westpac Banking Corporation in 1982. The bank is split into several different business segments including Consumer, Business, Westpac Institutional Bank, Westpac New Zealand, Specialist Businesses and Group Businesses. The St. George, Bank of Melbourne, BankSA and BT brands operate in the Consumer Bank and Business Bank divisions, while RAMS is also part of the Consumer division.

Following the Financial Services Royal Commission, Westpac absorbed its wealth management division into its consumer and business divisions and sold its personal financial advice business to Viridian. APRA also launched an investigation into Westpac regarding an alleged breach of anti-money laundering laws in December 2019, which has led to additional capital requirements for the bank. In June 2020, the bank also completed its exit from BT Investment Management business. In June 2021, Westpac announced it will sell its motor vehicle dealer finance and novated leasing businesses to Angle Finance. In July 2021, the bank completed the sale of Westpac General Insurance Limited and Westpac General Insurance Services Limited to Allianz.

#### Financial performance

Westpac's subdivision-related revenue is expected to fall at an annualised 6.9% over the five years through September 2022 to $21.5 billion, underperforming the overall subdivision. This underperformance stems from cash rate cuts over the past five years, which have weighed on company interest income. Westpac's profitability has also been constrained by customer remediation costs; regulatory costs, such as the AUSTRAC proceedings; and credit impairments due to the COVID-19 pandemic.

**Westpac Banking Corporation - subdivision segment performance***

| Year** | Revenue ($b) | Growth (% change) |
|---|---|---|
| 2011-12 | 36.5 | N/C |
| 2012-13 | 32.4 | -11.2 |
| 2013-14 | 30.7 | -5.2 |
| 2014-15 | 31.3 | 2.0 |
| 2015-16 | 31.4 | 0.3 |
| 2016-17 | 30.7 | -2.2 |
| 2017-18 | 31.5 | 2.6 |
| 2018-19 | 30.9 | -1.9 |
| 2019-20 | 25.7 | -16.8 |
| 2020-21 | 21.3 | -17.1 |
| 2021-22 | 21.5 | 0.9 |

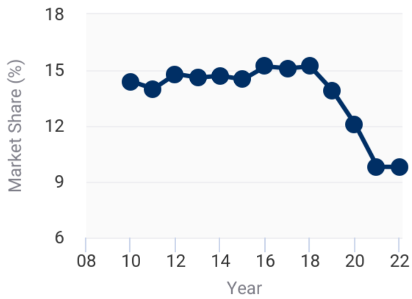
Source: IBISWorld

Note: *Estimate **Year end September

### National Australia Bank Limited

**Market Share: 9.8%**

National Australia Bank Limited




Finance
Source: IBISWorld

National Australia Bank Limited (NAB) is an Australian publicly listed financial institution that provides a range of financial and banking products and services. Most of NAB's earnings are generated in Australia and New Zealand. In Australia, NAB provides a range of financial products and services to retail, business and institutional customers across its Personal Banking, Business and Private Banking, and Corporate and Institutional Banking segments, with a strong focus on business lending.

NAB has reduced its exposure to higher risk segments to focus on its core Australian and New Zealand businesses over the past five years. In May 2021, the company completed the sale of its wealth management business, MLC, to IOOF Holdings. Additionally, in May 2021, NAB announced it will proceed with the acquisition of 86 400 after being approved by the Federal Court. This development is expected to support UBank's growth in the digital banking sector.

### Financial performance

NAB's subdivision-related revenue is expected to fall at an annualised 8.5% over the five years through September 2022, to $18.2 billion. This result represents an underperformance of the overall subdivision. NAB's focus on business banking has weighed on its performance, as net interest margins on its business loans have fallen over the past five year. NAB's profitably has also declined over the period due to higher regulatory costs, customer remediation costs and COVID-19 related credit losses.

| National Australia Bank Limited - subdivision segment performance* | | |
|---|---|---|
| Year** | Revenue ($b) | Growth (% change) |
| 2011-12 | 32.0 | N/C |
| 2012-13 | 29.0 | -9.4 |
| 2013-14 | 28.1 | -3.1 |
| 2014-15 | 28.2 | 0.4 |
| 2015-16 | 28.9 | 2.5 |
| 2016-17 | 28.4 | -1.7 |
| 2017-18 | 29.9 | 5.3 |
| 2018-19 | 28.7 | -4.0 |
| 2019-20 | 22.6 | -21.3 |
| 2020-21 | 17.4 | -23.0 |
| 2021-22 | 18.2 | 4.6 |

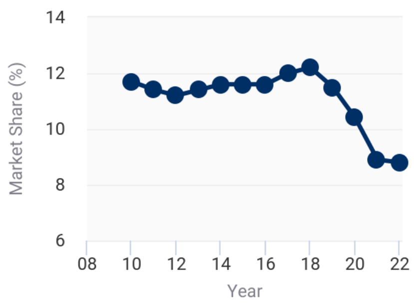
Source: IBISWorld

Note: *Estimate **Year end September

### Australia and New Zealand Banking Group Limited

**Market Share: 8.8%**

Australia and New Zealand Banking Group Limited




Finance
Source: IBISWorld

Australia and New Zealand Banking Group Limited (ANZ) is an Australian publicly listed company. The group is headquartered in Melbourne and was established in 1835 as the Bank of Australasia. ANZ provides a range of banking and financial products and services and divides its business segments according to geographical location and the nature of banking activities. The bank's segments include Australia Retail and Commercial, New Zealand, Institutional, Pacific, Technology, Services & Operations and Group Centre.

The group has focused on streamlining its operations over the past five years by divesting its wealth business and shifting to an institutional focus abroad. In June 2019, ANZ completed the sale of its life insurance business, OnePath Life, to Zurich Financial Services Australia. In February 2020, the group completed the sale of OnePath Pensions & Investments business to IOOF Holdings.

#### Financial performance

ANZ's subdivision-related revenue is expected to fall at an annualised 6.4% over the five years through September 2022 to $16.2 billion, underperforming the overall subdivision. The decline in cash rate over the past five years has constrained interest income growth. The company's profitability has also fallen over the period due to rising customer remediation costs, higher regulator costs and COVID-19 related credit impairment charges.

| Australia and New Zealand Banking Group Limited - subdivision segment performance* | | |
|---|---|---|
| Year** | Revenue ($b) | Growth (% change) |
| 2011-12 | 24.2 | N/C |
| 2012-13 | 22.5 | -7.0 |
| 2013-14 | 22.2 | -1.3 |
| 2014-15 | 22.6 | 1.8 |
| 2015-16 | 22.1 | -2.2 |
| 2016-17 | 22.6 | 2.3 |
| 2017-18 | 24.1 | 6.6 |
| 2018-19 | 23.6 | -2.1 |
| 2019-20 | 19.3 | -18.2 |
| 2020-21 | 15.8 | -18.1 |
| 2021-22 | 16.2 | 2.5 |

Source: IBISWorld

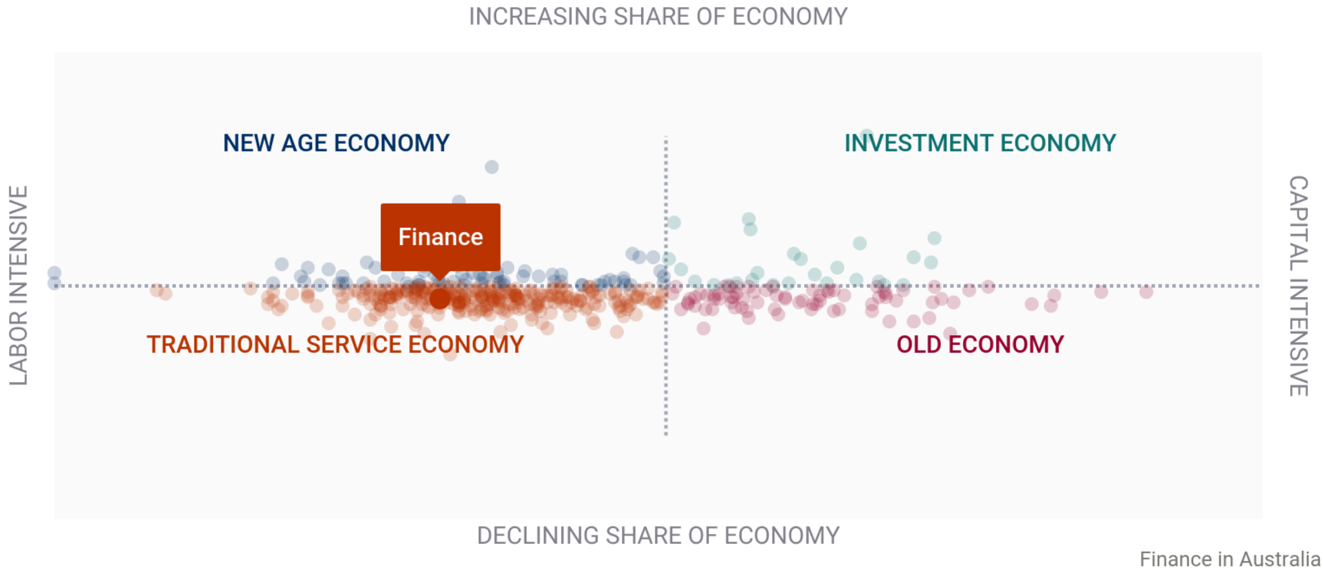
Note: *Estimate **Year end September

## Other Companies

Other companies in the subdivision include a range of authorised deposit-taking institutions, such as smaller banks, credit unions and building societies. Examples of these companies include Bendigo and Adelaide Bank, Bank of Queensland, Credit Union Australia and Newcastle Permanent. Other subdivision institutions include investment banks dealing in the money market, and non-bank lenders such as Resimac and Pepper Money.

# Operating Conditions

Costs of Growth: Targeting Capital vs. Labor




Finance in Australia
Source: IBISWorld

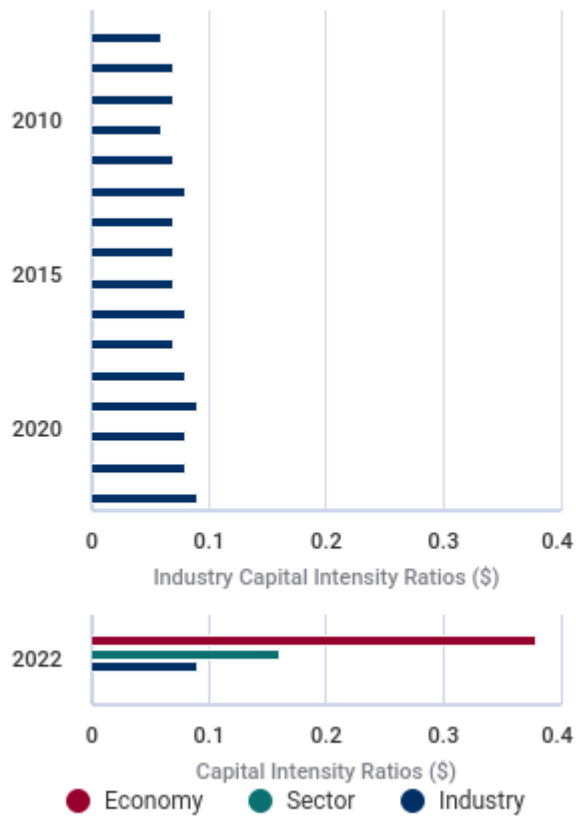
## Capital Intensity

**The level of capital intensity is Low**

The Finance subdivision exhibits a low level of capital intensity. For every dollar paid as wages, an estimated $0.09 is spent on capital investment. To maintain and enhance margins, businesses have sought to cut costs and reduce employment where possible, instead focusing on boosting productivity to facilitate profit margin growth. The most common method in driving productivity gains has been through investment in automation and technology. The major banks have also introduced many features through their online and mobile banking platforms, while also enhancing their mobile payment capabilities through their smartphone applications to further integrate their company into the day-to-day lives of consumers. This is in response to the constant technological disruption occurring across the finance sector, where there are a growing number of operators emerging across areas such as banking, payments and lending.

Improved technology has increased automation, information management and subdivision efficiency. Many operators are enabling customers to conduct their day-to-day banking through online and mobile platforms, which has reduced the need for labour-intensive roles. However, there are limits to productivity rises, and reduced labour inputs in areas such as retail banking can affect customer service, which can be detrimental to the brand. On the other hand, some emerging financial institutions like online-only banks and neobanks have opted to operate on a branchless model, providing customers with a fully digital banking experience.

Capital Intensity Ratios




Finance
Source: IBISWorld

## Technology & Systems

Potential Disruptive Innovation: Factors Driving Threat of Change

| Level | Factor | Disruptive Effect | Description |
|---|---|---|---|
| Very Low | Rate of Innovation | Very Unlikely | A ranked measure for the number of patents assigned to an industry. A faster rate of new patent additions to the industry increases the likelihood of a disruptive innovation occurring. |
| ⚠ High | Innovation Concentration | Likely | A measure for the mix of patent classes assigned to the industry. A greater concentration of patents in one area increases the likelihood of technological disruption of incumbent operators. |
| Medium | Ease of Entry | Potential | A qualitative measure of barriers to entry. Fewer barriers to entry increases the likelihood that new entrants can disrupt incumbents by putting new technologies to use. |
| Very Low | Rate of Entry | Very Unlikely | Annualized growth in the number of enterprises in the industry, ranked against all other industries. A greater intensity of companies entering an industry increases the pool of potential disruptors. |
| Medium | Market Concentration | Potential | A ranked measure of the largest core market for the industry. Concentrated core markets present a low-end market or new market entry point for disruptive technologies to capture market share. |

The rate of new patent technologies entering the industry is low, which limits the potential for innovations. A low rate does not mean that innovations cannot occur, just that the likelihood of some innovation materializing as a threat is lower. However, the concentration of technologies is high in this industry. This suggests that industry operators have exposure to potentially unforeseen areas of innovation.

Industry operators are exposed to a low rate of new entrants and a moderate level of entry barriers. This combination of factors creates an environment where entry trends are not a key threat of disruption.

### The Finance subdivision faces a high level of technology disruption.

The subdivision has changed significantly over the past decade, as banking and financial services have become increasingly digitised. The way Australians conduct their everyday banking has changed as people have adopted contactless payments, mobile wallets, online and mobile banking, and buy now pay later services. The banking experience is becoming increasingly digital as more services are offered through smartphones. Furthermore, several neobanks have recently obtained their banking licence, allowing them to operate in the subdivision with an entirely branchless network and with new infrastructure built for this branchless model.

Payment processing has undergone significant change. Contactless payment technology from Visa and MasterCard has revolutionised the way consumers pay for purchases. Banks now also offer smartphone payment through apps such as Apple Pay, Google Pay and Samsung Pay. The New Payment Platforms have also been a major breakthrough for the subdivision, with real-time payments and transfers being offered through PayID. PayID uses a mobile phone number, email address or an ABN linked to a bank account to receive payment. BPAY, through its Osko system, is the first service to offer real-time payments for customers and currently has over 70 participating financial institutions.

**The level of technology change is ⚠ High**

### The Finance subdivision is characterised by a high level of technological change.

Technological developments have significantly affected the subdivision, providing efficiency and productivity improvements.

Technology has increased economies of scale in back-office operations involving large volumes of transactions and information processing. It has also transformed distribution networks, and led to financial services being increasingly delivered through online and mobile banking and lending platforms.

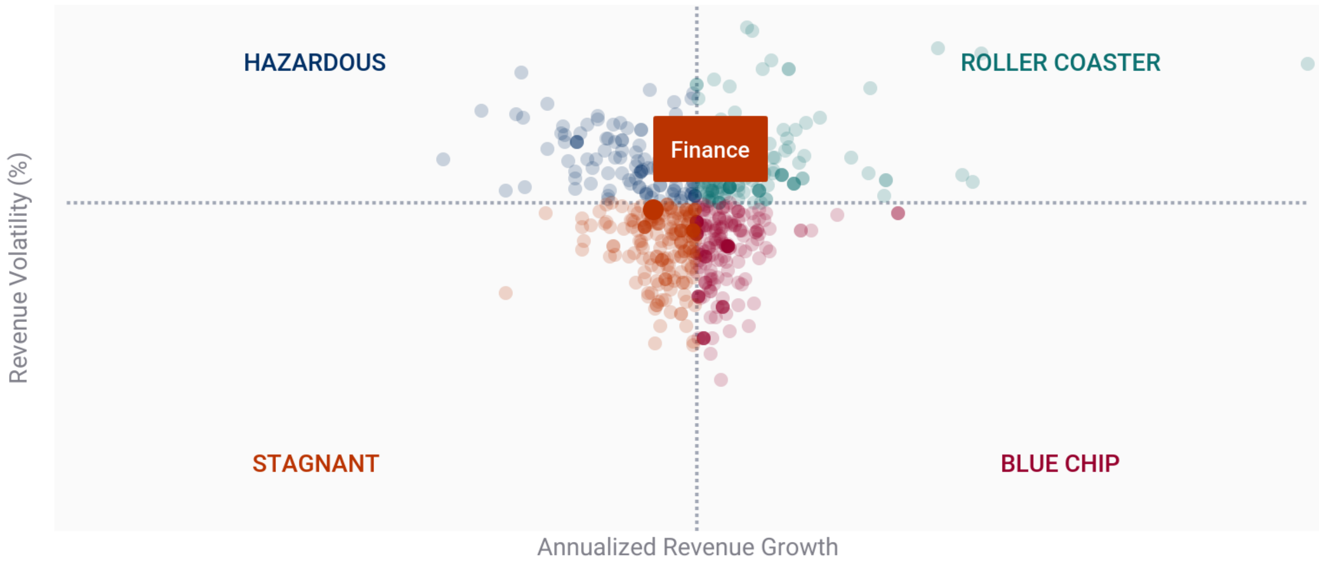
Banking services are increasingly shifting from over-the-counter to self-service through smart ATMs, and online and mobile banking. This evolution has stemmed from banks aiming to reduce costs, but also making the delivery of banking and financial services more efficient. This trend has been demonstrated by ING's success in penetrating the market. While online and mobile platforms used for transactions and account information have been particularly relevant in banking, insurance and superannuation have also used this technology to enhance customer service and reduce labour intensity.

The subdivision is constantly upgrading and improving the delivery of services. Despite high technology costs, advances have lowered the barriers to entry for some industries. Growth in online banking and financial services has allowed operators to expand without establishing a bricks-and-mortar presence or branch network. This trend has been highlighted by the emergence of online-only operators and neobanks over the past five years. Furthermore, the New Payments Platform, which offers real-time payments through various channels for households and businesses, has further driven the subdivision towards the digital delivery of banking and financial services.

## Revenue Volatility

**The level of volatility is ⊝ Medium**

Volatility vs. Growth




Finance
Source: IBISWorld

### The Finance subdivision is characterised by a moderate level of revenue volatility.

The subdivision primarily generates revenue from interest received on loans issued and fees from services provided. As a result, the level of revenue generated is linked with the value of loan portfolios and the prevailing interest rates in the market or the value of funds under management. Additionally, movements in equity markets, exchange rates and exposure to international markets further add to revenue volatility.

Revenue volatility tends to rise in times of economic instability and uncertainty, such as during the COVID-19 pandemic. Fluctuations in consumer and business confidence, lending activity and financial markets generally lead to abrupt changes in revenue streams. Fluctuations in the sharemarket and large movements in the cash rate typically contribute to revenue volatility for operators in the Finance subdivision.

## Regulation & Policy

**The level of regulation is ⚠ Heavy and the trend is Increasing**

### The Finance subdivision is highly regulated.

Operators in the subdivision are generally overseen by one or more of the following: the Reserve Bank of Australia; the Australian Prudential Regulation Authority; and the Australian Securities and Investment Commission. Several important regulations and policies cover the subdivision. The Four Pillars policy is an Australian Government policy that ensures there are no fewer than four major banks to maintain appropriate competition in the banking sector. The main regulation is the Banking Act 1959, which requires that banks (that cooperate under specific state legislation) must be authorised to carry on banking activities. Deposit-taking financial institutions, including banks, building societies and credit unions, are regulated under the Banking Act.

The main prudential frameworks that apply for authorised deposit taking institutions (ADIs) relate to capital adequacy requirements. On 1 January 2013, new capital requirements came into place for ADIs under Basel III, requiring financial institutions to maintain a higher amount of Tier 1 capital (retained earnings, equity and cash). Although these requirements provided more stability in the financial system, they came at the expense of higher funding costs for ADIs. In July 2015, APRA announced an increase in capital requirements for residential mortgage exposures in an effort to temper surging property prices and a potentially overheated property market. This increase, which took effect on 1 July 2016, helped to narrow the mortgage risk weights between financial institutions that use the internal ratings-based approach (primarily the four major banks and Macquarie) and ADIs that use the standardised approach. In July 2017, APRA announced a further increase of the capital adequacy requirements to an unquestionably strong benchmark. Although this increase was initially scheduled to take effect on 1 January 2020, APRA has temporarily relaxed these benchmarks in the wake of the COVID-19 pandemic to promote continued lending and credit availability within the economy. On 21 July 2021, APRA announced a roadmap for phasing in the new capital adequacy requirements, which are due to come into effect from January 2023.

Several subdivision operators have also come under scrutiny in the Financial Services Royal Commission, which was established in December 2017. The Royal Commission has generally investigated the misconduct that has related to consumer lending practices, financial advice and small and medium enterprise lending. It has revealed poor conduct and financial advice given to clients, fraudulent documentation and a breach of responsible lending obligations by several financial institutions in the subdivision. The final report provided a list of recommendations, most of which the Federal Government has agreed to implement or take action on. The fallout from the Financial Services Royal Commission has led to the major banks and other financial institutions coming under intense scrutiny and incurring significant remediation costs.

**MODERN SLAVERY ACT 2018**

### In November 2018, the Federal Government passed the Modern Slavery Act 2018.

The act, which came into force on 1 January 2019, is a new reporting requirement for larger Australian businesses. Companies that generate annual consolidated revenue of at least $100.0 million have to report on how they act to mitigate the risks of modern slavery in their operations and supply chains. The NSW Government has also been considering its own state-based version of the report, which would require businesses with consolidated annual revenue of at least $50.0 million to report. The NSW Modern Slavery Act 2018 was due to come into force on 1 July 2019, but was delayed for further consultation on the day it was set to be implemented. The NSW Government has been attempting to introduce necessary amendments to the NSW Act to establish greater harmonisation with the Commonwealth's Modern Slavery Act 2018. The NSW Act commenced on 1 January 2022.

The Finance subdivision is exposed to various modern slavery risks across its operations. Risks can be present in the provision of IT and technology services, call centre operations, supplier of office and IT equipment, property and facilities management services, transport and delivery services and something as simple as manufacturing of corporate clothing. Larger institutions like the major banks may also operate in foreign jurisdictions, where other laws relating to modern slavery apply, such as the UK Modern Slavery Act. The major banks are at higher risk of exposure to modern slavery given the sheer number of suppliers and range of sectors from which they purchase goods and services.

## Industry Assistance

**The level of industry assistance is ⚠ Low and the trend is Steady**

### The Finance subdivision receives minimal direct assistance.

Some operators in the subdivision benefit from the Banking Act 1959, which allows no other institution to represent themselves as a bank unless they are a licensed bank. APRA also has the power to protect depositors by appointing an administrator to manage a bank or financial institution in distress.

Several industry associations represent operators in the subdivision, including the Australian Banking Association, the Australian Financial Markets Association, the Australian Securitisation Forum and the Customer Owned Banking Association. These associations primarily represent the subdivision and operators when working with governments and regulators. They may also provide research and help promote industry activities, while also maintaining a code of conduct or standards for subdivision operators.

As part of its response to the economic impact of the COVID-19 pandemic, the RBA has sought to promote lending to SME businesses by offering three-year funding to authorised deposit-taking institutions (ADIs) through its term funding facility. The Federal Government is also helping to fund smaller ADIs and non-ADIs through an investment of $15 billion in securitisation markets that the Australian Office of Financial Management will oversee. This investment will provide support to smaller lenders that may not have access to the term funding facility provided by the RBA.

# Key Statistics

## Industry Data

| Year | Revenue ($m) | IVA ($m) | Establishments (Units) | Enterprises (Units) | Employment (Units) | Exports ($m) | Imports ($m) | Wages ($m) | Domestic Demand ($m) |
|---|---|---|---|---|---|---|---|---|---|
| 2012-13 | 228,592 | 82,979 | 48,892 | 37,915 | 230,504 | N/A | N/A | 30,643 | N/A |
| 2013-14 | 216,838 | 89,771 | 49,520 | 38,575 | 229,753 | N/A | N/A | 32,124 | N/A |
| 2014-15 | 223,086 | 100,166 | 50,064 | 39,185 | 223,734 | N/A | N/A | 34,009 | N/A |
| 2015-16 | 219,117 | 94,221 | 51,623 | 40,419 | 229,966 | N/A | N/A | 34,079 | N/A |
| 2016-17 | 209,001 | 96,349 | 53,106 | 41,907 | 231,068 | N/A | N/A | 33,801 | N/A |
| 2017-18 | 214,212 | 98,109 | 54,737 | 43,536 | 224,242 | N/A | N/A | 32,850 | N/A |
| 2018-19 | 216,645 | 90,774 | 58,664 | 47,052 | 220,042 | N/A | N/A | 32,270 | N/A |
| 2019-20 | 192,288 | 75,185 | 58,781 | 50,048 | 223,449 | N/A | N/A | 31,873 | N/A |
| 2020-21 | 181,263 | 72,868 | 62,870 | 51,699 | 226,262 | N/A | N/A | 31,305 | N/A |
| 2021-22 | 185,118 | 73,307 | 65,187 | 53,967 | 225,628 | N/A | N/A | 30,516 | N/A |
| 2022-23 | 196,370 | 80,315 | 67,740 | 56,570 | 224,347 | N/A | N/A | 30,764 | N/A |
| 2023-24 | 210,863 | 82,026 | 70,345 | 59,260 | 223,891 | N/A | N/A | 31,286 | N/A |
| 2024-25 | 236,511 | 87,982 | 72,648 | 61,737 | 224,784 | N/A | N/A | 32,434 | N/A |
| 2025-26 | 260,562 | 94,844 | 75,332 | 63,885 | 225,038 | N/A | N/A | 32,977 | N/A |
| 2026-27 | 269,501 | 96,481 | 77,719 | 66,288 | 224,660 | N/A | N/A | 31,940 | N/A |

## Annual Change

| Year | Revenue (%) | IVA (%) | Establishments (%) | Enterprises (%) | Employment (%) | Exports (%) | Imports (%) | Wages (%) | Domestic Demand (%) |
|---|---|---|---|---|---|---|---|---|---|
| 2012-13 | -8.67 | 2.96 | -3.53 | -4.49 | 0.22 | N/A | N/A | -0.79 | N/A |
| 2013-14 | -5.15 | 8.18 | 1.28 | 1.74 | -0.33 | N/A | N/A | 4.83 | N/A |
| 2014-15 | 2.88 | 11.6 | 1.09 | 1.58 | -2.62 | N/A | N/A | 5.86 | N/A |
| 2015-16 | -1.78 | -5.94 | 3.11 | 3.14 | 2.78 | N/A | N/A | 0.20 | N/A |
| 2016-17 | -4.62 | 2.25 | 2.87 | 3.68 | 0.47 | N/A | N/A | -0.82 | N/A |
| 2017-18 | 2.49 | 1.82 | 3.07 | 3.88 | -2.96 | N/A | N/A | -2.82 | N/A |
| 2018-19 | 1.13 | -7.48 | 7.17 | 8.07 | -1.88 | N/A | N/A | -1.77 | N/A |
| 2019-20 | -11.3 | -17.2 | 0.19 | 6.36 | 1.54 | N/A | N/A | -1.23 | N/A |
| 2020-21 | -5.74 | -3.09 | 6.95 | 3.29 | 1.25 | N/A | N/A | -1.79 | N/A |
| 2021-22 | 2.12 | 0.60 | 3.68 | 4.38 | -0.29 | N/A | N/A | -2.52 | N/A |
| 2022-23 | 6.07 | 9.56 | 3.91 | 4.82 | -0.57 | N/A | N/A | 0.81 | N/A |
| 2023-24 | 7.38 | 2.12 | 3.84 | 4.75 | -0.21 | N/A | N/A | 1.69 | N/A |
| 2024-25 | 12.2 | 7.26 | 3.27 | 4.17 | 0.39 | N/A | N/A | 3.66 | N/A |
| 2025-26 | 10.2 | 7.79 | 3.69 | 3.47 | 0.11 | N/A | N/A | 1.67 | N/A |
| 2026-27 | 3.43 | 1.72 | 3.16 | 3.76 | -0.17 | N/A | N/A | -3.15 | N/A |

## Key Ratios

| Year | IVA/Revenue (%) | Imports/ Demand (%) | Exports/ Revenue (%) | Revenue per Employee ($'000) | Wages/ Revenue (%) | Employees per estab. (Units) | Average Wage ($) |
|---|---|---|---|---|---|---|---|
| 2012-13 | 36.3 | N/A | N/A | 992 | 13.4 | 4.71 | 132,940 |
| 2013-14 | 41.4 | N/A | N/A | 944 | 14.8 | 4.64 | 139,821 |
| 2014-15 | 44.9 | N/A | N/A | 997 | 15.2 | 4.47 | 152,006 |
| 2015-16 | 43.0 | N/A | N/A | 953 | 15.6 | 4.45 | 148,191 |
| 2016-17 | 46.1 | N/A | N/A | 905 | 16.2 | 4.35 | 146,283 |
| 2017-18 | 45.8 | N/A | N/A | 955 | 15.3 | 4.10 | 146,493 |
| 2018-19 | 41.9 | N/A | N/A | 985 | 14.9 | 3.75 | 146,652 |
| 2019-20 | 39.1 | N/A | N/A | 861 | 16.6 | 3.80 | 142,643 |
| 2020-21 | 40.2 | N/A | N/A | 801 | 17.3 | 3.60 | 138,356 |
| 2021-22 | 39.6 | N/A | N/A | 820 | 16.5 | 3.46 | 135,251 |
| 2022-23 | 40.9 | N/A | N/A | 875 | 15.7 | 3.31 | 137,126 |
| 2023-24 | 38.9 | N/A | N/A | 942 | 14.8 | 3.18 | 139,739 |
| 2024-25 | 37.2 | N/A | N/A | 1,052 | 13.7 | 3.09 | 144,291 |
| 2025-26 | 36.4 | N/A | N/A | 1,158 | 12.7 | 2.99 | 146,537 |
| 2026-27 | 35.8 | N/A | N/A | 1,200 | 11.9 | 2.89 | 142,170 |

Figures are inflation adjusted to 2021-22

# Additional Resources

## Additional Resources

Australian Bureau of Statistics
http://www.abs.gov.au

Australian Prudential Regulation Authority
http://www.apra.gov.au

Reserve Bank of Australia
http://www.rba.gov.au

Australian Financial Markets Association
http://www.afma.com.au

## Industry Jargon

**FUNDS UNDER MANAGEMENT**
The collective value of assets under the management of an investment or portfolio manager.

**LOAN LOSS PROVISIONS**
A charge for bad and doubtful debts.

**NET INTEREST MARGIN**
Net interest income as a portion of interest revenue.

## Glossary

**BARRIERS TO ENTRY**
High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

**CAPITAL INTENSITY**
Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labour; medium is $0.125 to $0.333 of capital to $1 of labour; low is less than $0.125 of capital for every $1 of labour.

**CONSTANT PRICES**
The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the Australian Bureau of Statistics' implicit GDP price deflator.

**DOMESTIC DEMAND**
Spending on industry goods and services within Australia, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

**EMPLOYMENT**
The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

**ENTERPRISE**
A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

**ESTABLISHMENT**
The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

**EXPORTS**
Total value of industry goods and services sold by Australian companies to customers abroad.

**IMPORTS**
Total value of industry goods and services brought in from foreign countries to be sold in Australia.

**INDUSTRY CONCENTRATION**
An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

### INDUSTRY REVENUE

The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

### INDUSTRY VALUE ADDED (IVA)

The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

### INTERNATIONAL TRADE

The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

### LIFE CYCLE

All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

### NONEMPLOYING ESTABLISHMENT

Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

### PROFIT

IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

### VOLATILITY

The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

### WAGES

The gross total wages and salaries of all employees in the industry.

WHERE KNOWLEDGE IS POWER

# IBISWorld helps you find the industry information you need – fast.