



# Beyond the big 4

The Australian finance market is complex and constantly changing. The clear dominance of the 'Big 4' banks has contributed to a perception that all lenders are the same but in fact consumers are spoilt for choice. There are around 55 banks in Australia, over 100 building societies and credit unions plus numerous non bank lenders.

Prior to the Global Financial Crisis (GFC) in 2008 second tier banks and non bank lenders had achieved market share over 15%<sup>1</sup> due to aggressive interest rate pricing and innovative offerings. Previously seen as lenders of last resort, non bank lenders had become familiar household names (eg RAMS, Aussie). Tired of dealing with the major banks, consumer support for the smaller players established them as a viable alternative. As a result the 'Big 4' were forced to respond to competitive pressure with pricing and product innovations.

The GFC then reduced access to credit globally and increased the costs of funds. The banks were effectively buffered by a government guarantee on deposits and had better access to funds. As a result, some smaller players were no longer able to compete and were quickly swallowed up by the banks.

The banks have since consolidated this strong position in the home lending market and currently have over 90% market share (approx 80% to the 'Big 4'). Building societies and credit unions' market share is around 7% with only 1% captured by non- bank lenders.

## So what is the difference between banks and non banks?

### Banks

- Banks are authorised deposit taking institutions (ADI's) and can use their own funds to provide home loans.
- They provide integrated banking packages including savings, transaction accounts and credit cards.
- Networks of branches provide additional service but contribute significantly to overhead costs.
- The 'Big 4' banks are generally perceived poorly by the public and have low customer service ratings compared to their competitors.<sup>2</sup>

### Second tier banks

- There are a surprising number of household names beyond the 'Big 4' including ING Direct, Macquarie Bank, Suncorp, St George, Bank of Queensland, Bank West, Adelaide Bank, Citibank and AMP.
- While some are now owned by the big banks it is worth considering their competitive offerings.

### Building societies and credit unions

- These non-profit cooperatives are owned by the people who use their services. Each member is both a customer and a shareholder.
- Rates can be very competitive.
- Member deposits are used to fund loans.
- Like banks they offer a wide variety of banking facilities with a focus on customer service.
- They are regulated in the same way as banks.

### Non bank lenders

- They do not hold an Australian banking licence so cannot accept deposits. They therefore source wholesale funding via investors, financiers, trusts and even the 'Big 4' banks.
- Mortgage Managers are part of this group but rather than sourcing wholesale funds, they arrange finance for individual loans, lend it out under their own brand and perform a customer service role for the term of the loan on behalf of the underlying lender.
- They do not have the overheads of an extensive branch or ATM network.
- The appeal for customers has been lower interest rates, more flexible lending criteria (eg for low doc or non-confirming loans) and higher loan to valuation ratios (LVRs).
- An emphasis on customer service, faster loan processing times and responsiveness are other selling points compared to the big banks.
- Low rates are however often balanced by higher fees.
- Clients are sometimes concerned about the financial security of these lenders, particularly with the potential of another global credit squeeze. Non bank lenders may be less able to access funds and therefore more likely to pass on higher costs via interest rate rises.
- They tend to have limited products and services so you might not be able to use them for all your financial needs.

### So do we recommend the 'Big 4' to clients?

They are strong competitors with broad product ranges. So of course we do if they have a solution which is not unsuitable for your circumstances. We may also recommend second tier banks or non bank lenders if their product, pricing and services are ideal for you. You will however have the confidence of knowing that we only recommend lenders with whom we have had good personal experience in acting for other clients.



Call our office today if you would like us to take the legwork out of your search for lenders.

<sup>1</sup> ABS & APRA.

<sup>2</sup> People's choice survey conducted by independent financial services comparison website Mozo ([www.mozo.com.au](http://www.mozo.com.au)).