Bank Fees in Australia

Introduction

This note outlines the results of the annual survey of the fee income of Australian banks for 2000.[1] This survey covers the fees that banks earn in the process of taking deposits, making loans and providing payment services to households and businesses within Australia.[2] Results from the survey were first published in the Reserve Bank *Bulletin* in June 1999.

The main findings of the survey are that:

- banks' fee income, in aggregate, continues to grow strongly, though only a little more strongly than banks' assets;
- fees paid by households are growing faster than fees for business, with fees on household transactions growing particularly quickly;
- the rise in fee income has offset only a small part of the reduction in banks' interest margins over recent years.

Banks' Income from Fees

The total domestic fee income of banks in 2000 amounted to $6.3 billion, an increase of 14 per cent from the previous year, a little faster than the increase in banks' assets for the year (Table 1). With banks' interest income growing more slowly than banks' assets (because interest margins have fallen due to increased competition) banks' fee income has increased as a proportion of their total income; it currently represents 24 per cent of their total income, up from 21 per cent in 1997.

Table 1: Banks' Fee Income

	$m	Per cent change
1997	4 123	na
1998	4 804	17
1999	5 478	14
2000	6 256	14

1. Since its inception, the number of banks surveyed has expanded to cover 18 banks representing 91 per cent of total assets of the banking sector in Australia. Most banks have provided figures back to 1997. Figures for 1997 incorporate estimates for the excluded banks.
2. Banks also earn income from other areas, including funds management, trading activities and from overseas operations.

Table 2: Banks' Fee Income in 2000

	$million	Share of total fees %	Percentage change since 1999
Fees from:			
- Households	2 148	34	18
- Business	4 108	66	12
Total fee income	**6 256**	**100**	**14**

Fee income from businesses accounts for about two-thirds of total fee income, with income from household fees the other third (Table 2). While fee income from households is smaller than that for businesses, it has been growing faster.

Households

Households pay account-servicing fees on deposit and loan accounts, as well as transaction fees mainly arising from their use of deposit accounts. Of the $2.15 billion in fees from households, loan fees contribute the largest share at present, while transaction fees have been the most rapidly growing component in recent years (Table 3).

Several factors account for the overall growth in bank fees paid by households. An important underlying factor has been volume growth – that is, growth in the number of transactions, the number of deposit accounts and the volume of lending – though this does not account for all of the growth. Bank lending to households grew strongly in 2000, to be $15^{1}/_{2}$ per cent higher than the previous year. However loan fee earnings grew more rapidly, partly reflecting an end to the discounting of home-loan establishment fees. Also, the average fee per credit card on issue has risen, reflecting increases in the annual fee charged by several banks and a decline in the share of credit cards on issue that do not carry an account-keeping fee (and have no interest-free period).

Although loan fees are the largest source of banks' fee income from households, most

Table 3: Banks' Fees from the Household Sector
$million

	1997	1998	1999	2000	Annual average per cent change from 1997 to 2000	Per cent of total fees earned from households in 2000
Deposits	189	218	266	317	19	15
Loans						
- Housing	288	430	402	482	19	22
- Personal	190	149	184	222	5	10
- Credit card	112	123	162	227	27	11
Total loans	590	702	747	932	16	43
Transactions	174	345	470	573	49	27
Other fees	274	306	331	327	6	15
Total households	**1 227**	**1 572**	**1 814**	**2 148**	**21**	**100**

public discussion has focused on the costs incurred in running a bank account. These costs generally consist of a flat monthly account-servicing fee, which customers can avoid by maintaining monthly balances above a certain level, and transaction fees that are incurred when using an account. The amount households pay in transaction fees varies according to how often an account is used and the method of payment (i.e. cheques, over-the-counter withdrawals, ATM transactions and EFTPOS). Total transaction fees paid in 2000 amounted to $573 million, of which over 80 per cent were fees from deposit accounts. Table 4 outlines the average charges on a standard household deposit account of the major banks for a range of transactions and shows how these have changed in recent years.

Since 1995, the average monthly account-servicing fee has increased, as has the minimum balance required in order to avoid paying this fee. The average charge per transaction differs significantly between transaction types, as banks have sought to use the fee structure to encourage customers to move their transactions into the less costly electronic channels. Over-the-counter withdrawals have experienced a large increase in their average charge since 1995, though the charge for cheque transactions has changed little over the same period.

In assessing the impact of changes in bank fees it should be noted that not all customers are required to pay the standard charges summarised in Table 4. Most banks waive account-keeping and transaction fees for customers whose home loan is with the bank, and most also provide exemptions for certain groups, such as customers under the age of 18 and students. Concessions are also often granted to people with a disability and to customers in rural locations who are unable to use ATM facilities, with these customers

Table 4: Transaction Charges of Major Banks [(a)]
Dollars

	1995	1998	1999	2000	Latest
Deposit accounts:					
Account-servicing (per month)[(b)]	2.00	4.00	5.00	5.00	5.00
Transaction fees (per transaction)					
- Counter withdrawals	1.00	2.00	2.15	2.15	2.75
- Cheques	0.70	0.65	0.75	0.75	1.00
- Own bank's ATM	0.40	0.55	0.60	0.60	0.65
- Other bank's ATM	0.40	1.05	1.30	1.40	1.40
- EFTPOS	0.40	0.45	0.50	0.50	0.50
- Telephone	na	0.30	0.35	0.35	0.50
- Internet	na	0.20	0.30	0.30	0.20
Memo items:					
Number of free transactions (monthly)[(c)]	11	8	8	8	8
Range of minimum balances required to waive account-servicing fees ($)	300–500	500	500–2 000	500–2 000	2 000

(a) Based on public information on selected, widely used accounts. As at June.
(b) Predominant charge for banks with such a charge.
(c) For banks with such a facility.

typically charged reduced rates for over-the-counter transactions. In addition several of the major banks have recently announced the introduction of new arrangements for low-cost bank accounts for social security recipients.

Business

In 2000, businesses paid fees to the banks of $4.1 billion. The main components of this fee income are summarised in Table 5.

Fees on business loans (including bank bill lines) accounted for around half of fees paid by businesses. These fees represented a little less than 1 per cent of the value of business loans outstanding, down from 1.1 per cent in 1997 as these fees have increased at a slower pace than the growth in business credit. Merchant-service fees, which banks earn from card transactions, have been one of the fastest growing components of business fees, increasing in line with the volume of credit card transactions. Banks' fee income from this source now accounts for slightly less than 30 per cent of total fee income collected from businesses, and is equivalent to 1³/4 per cent of the value of credit card transactions. Fees paid by small businesses have grown more slowly than those from large businesses in recent years, partly reflecting a decline in small business loan charges, especially for overdraft loans (Table 6).

Have Increases in Fees Offset Reductions in Interest Margins?

Changes in bank fees since the mid 1990s have occurred against the backdrop of falling bank interest spreads (measured as the average interest rate received less the average interest rate paid). Since 1997, the interest spread of the major banks has fallen by three-quarters of a percentage point to 2.7 percentage points. This brings the decline in spreads since the most recent peak in 1994 to 1.3 percentage points (Graph 1).

In earlier analysis published by the Reserve Bank it was concluded that these reductions in net interest margins in recent years have

Table 5: Banks' Fees from Businesses
$million

	1997	1998	1999	2000	Annual average per cent change from 1997 to 2000	Per cent of total fees earned from businesses in 2000
Small business						
- Deposits	165	207	226	271	18	7
- Loans	514	623	634	643	8	16
- Bills	292	271	264	279	-2	7
Total	971	1 101	1 124	1 192	7	29
Large business						
- Deposits	51	49	86	115	31	3
- Loans	355	347	444	542	15	13
- Bills	536	543	599	629	6	15
Total	941	939	1 129	1 286	11	31
Merchant-service fees	590	730	933	1 163	25	28
Other fees	394	462	478	466	6	11
Total business	**2 895**	**3 232**	**3 664**	**4 108**	**12**	**100**

Table 6: Major Banks' Small Business Loan Fees*

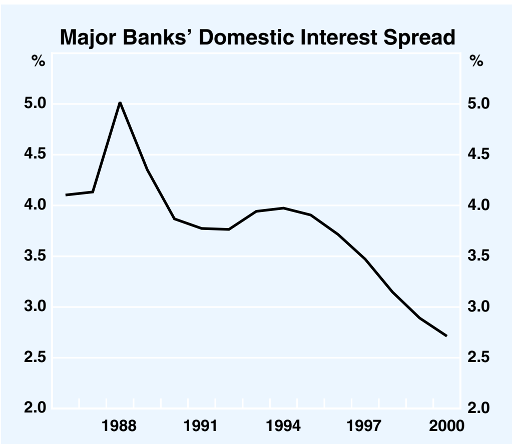
	1997	1998	1999	2000
Standard $100 000 loan:				
Establishment fee ($)	925	840	740	740
Overdraft fee (% pa)	1.12	1.02	0.93	0.93
Term loan fee (% pa)	0.37	0.41	0.45	0.45
Contribution of fees to effective interest rates:				
Yearly fee on 5-year overdraft[(a)]	1.30	1.19	1.08	1.08
Yearly fee on 5-year term loan[(b)]	0.55	0.58	0.60	0.60

* Average for year to September

(a) This takes the annual line fee for an overdraft loan and spreads the establishment fee over the life of the loan.

(b) This takes the annual service charge for a term loan and spreads the establishment fee over the life of the loan.

Graph 1



significantly exceeded the increases in banks' fee income. This conclusion continues to be supported by the data for 2000. A summary of the main components of fee income, expressed as a percentage of the applicable deposit or credit aggregates, is presented in Table 7; this calculation allows the movements in fees to be expressed in a form comparable to changes in interest margins.

Expressed in these terms, the area in which the largest fee increases have occurred has been in business and household deposit accounts. As a proportion of household deposits, transaction and account-servicing fees increased between 1997 and 2000 by 0.23 of a percentage point; in total these fees now amount to 0.46 per cent of the average deposit account balance. There was a smaller increase in household loan fees over the same period. For businesses, the level of loan fees has typically been larger as a proportion of the outstanding balances than is the case for the household sector, but these fees have generally been declining as a proportion of outstanding balances in the past few years. In broad terms then, these data suggest that, where fee increases have occurred, they have been relatively small as a proportion of outstanding balances compared with the overall reductions in interest margins.

It is also informative to compare the changes in banks' fee and net interest income at an aggregate level. These figures, expressed as percentages of total assets, are shown in Graph 2. While there have been large aggregate increases in fee income in dollar terms, the increase in relation to assets has been quite small, since assets have also been growing rapidly. Banks' total fee income as a percentage of assets increased by less than 0.1 of a percentage point since 1997 compared with the decline of three-quarters of a percentage point in the interest spread. Hence at an aggregate level, the reduction in interest margins has significantly outweighed the rise in fees.

Table 7: Estimated Cost of Fees
Level of fees as a per cent of deposits or credit

	1997	1998	1999	2000
Households				
Deposits				
- Account-servicing	0.13	0.13	0.16	0.18
- Transaction fees	0.10	0.17	0.22	0.27
Total deposits	0.23	0.30	0.38	0.46
Loans				
- Housing	0.18	0.23	0.19	0.20
- Personal	0.79	0.56	0.62	0.64
- Credit card	1.50	1.41	1.57	1.79
Total loans	0.32	0.35	0.34	0.36
Business				
Deposits	0.40	0.53	0.58	0.65
Loans				
- Small business	1.65	1.69	1.57	1.49
- Large business	0.86	0.73	0.75	0.76
Total loans	1.12	1.02	0.99	0.97

These aggregate data do not, of course, mean that the developments in fees and interest margins have made all customers better off. The extent to which individual customers are better or worse off will depend on many factors including the number and type of transactions they typically undertake and whether or not they have loans as well as deposits. Benefits are likely to have been greatest for borrowers, especially household borrowers, since they have gained significantly from lower interest margins in recent years and have also been partly insulated from higher bank fees. By contrast, customers who do not have a loan, who have a low balance, or those with a high volume of transactions, will not have benefited from these trends. ✠

Graph 2