Bank Fees in Australia During the COVID-19 Pandemic

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Abstract

The Reserve Bank's annual survey of bank fees shows that their fee income from both households and businesses in Australia declined notably over 2020 due to the disruption to economic activity caused by the COVID-19 pandemic.

Banks' overall income from fees declined in 2020

Since 1997, the Reserve Bank has undertaken an annual survey of the fees that banks earn through their Australian operations.[1] The survey focuses on fee income from the provision of loans, deposit services and payment services. The survey excludes fees from banks' funds management and insurance operations, and fee income from operations outside of Australia. The 24th annual bank fee survey included 15 institutions that represent around 90 per cent of the Australian banking sector by balance sheet size.[2] This article summarises the results from this latest survey, covering banks' financial years ending between March and December 2020. Accordingly, it primarily covers the period of the initial economic impact of the COVID-19 pandemic.[3]

Domestic banking fee income declined sharply in 2020, as the effects of the COVID-19 pandemic reduced spending and financial activity in the Australian economy (Graph 1; Table 1). This reflected reduced fee income from both businesses and households. Business fee income accounts for around two-thirds of banks' overall fee income, while households account for the remaining one-third of banks' fee income. The ratio of lending fee income to assets (loans) declined a little, continuing the trend of recent years. Deposit fee income decreased slightly relative to the value of deposits.

Fee income from households declined

Banks' fee income from households fell by 10 per cent in 2020. This is the largest decline in banks' fee income from households since the 2010 survey, when banks significantly reduced

Table 1: Banks' Fee Income[(a)]

	Households		Businesses		Total	
	Level	Growth	Level	Growth	Level	Growth
	$ million	Per cent	$ million	Per cent	$ million	Per cent
2017	4,490	3.3	7,922	3.4	12,412	3.4
2018	4,200	–6.5	8,134	2.7	12,334	–0.6
2019	3,963	–5.6	8,305	2.1	12,269	–0.5
2020	3,559	–10.2	7,888	–5.0	11,446	–6.7

(a) Growth rates and totals may differ from sub-totals due to rounding

Source: RBA

Table 2: Banks' Fee Income from Households[(a)]

	2018	2019	2020	Annual growth 2020	Average annual growth 2014–19
	$ million	$ million	$ million	Per cent	Per cent
Loans	3,230	3,149	2,898	–8.0	1.2
– Housing	1,170	1,160	1,188	2.4	–0.4
– Personal	354	348	313	–9.9	–1.0
– Credit Cards	1,706	1,641	1,397	–14.9	2.9
Deposits	914	755	617	–18.4	1.2
Other Fees[(b)]	56	59	44	–26.2	0.1
Total	4,200	3,963	3,559	–10.2	–1.0

(a) Growth rates and totals may differ from sub-totals due to rounding

(b) Includes banking-related fee income from households that cannot be directly related to an individual deposit or loan account (for example, travellers' cheque or foreign exchange fees)

Source: RBA

exception fees (which include dishonour, late payment and break fees) on deposit and credit card products. The decline in fee income in 2020 reflected a reduction in fee income from credit cards, household deposit accounts and personal loans as the economic effects of the COVID-19 pandemic led to reductions in household spending and associated transactions. On the other hand, fee income from housing loans increased alongside higher mortgage refinancing activity (Graph 2; Table 2). Fee income from households continued to consist largely of fees on credit cards (39 per cent), housing loans (33 per cent) and deposit accounts (17 per cent).

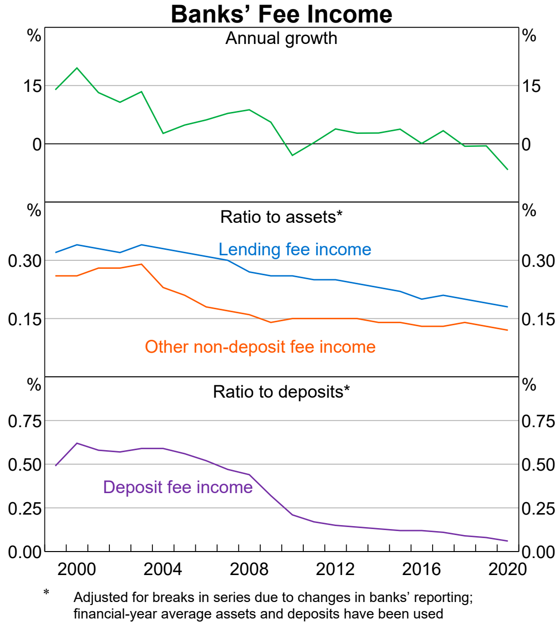
Fee income from deposit accounts declined by 18 per cent in 2020, reflecting broad-based declines in income from account-servicing fees, transaction fees and fees from other sources (for example, currency conversion, international cheque and money transfer fees). Banks noted that this reflected the impact of the COVID-19 pandemic, which reduced the number of transactions that consumers made using their deposit accounts, both domestically and abroad (for example, fewer international ATM withdrawals). The increased prevalence of fee waivers – either for certain customers or under certain conditions (such as when a minimum amount is deposited each month) – also contributed to the decline, continuing the trend seen in recent years (Crews and Lewis 2020).

Fee income from housing loans rose in 2020. This reflected an increase in account-servicing fees and other housing loan fee income, which was partly offset by lower income from transaction fees. The increase in fee income from housing loans is consistent with the high level of mortgage refinancing throughout 2020, as borrowers took advantage of the very low level of housing interest rates. When a borrower refinances their mortgage with another lender, they generally pay fees to both their new and previous lenders. These switching costs typically include an application or establishment fee for the new loan and a fee to discharge the old loan.

Income from fees on personal loans declined by 10 per cent in 2020; this includes fees associated with term loans, margin loans to households and

Graph 1

Banks' Fee Income

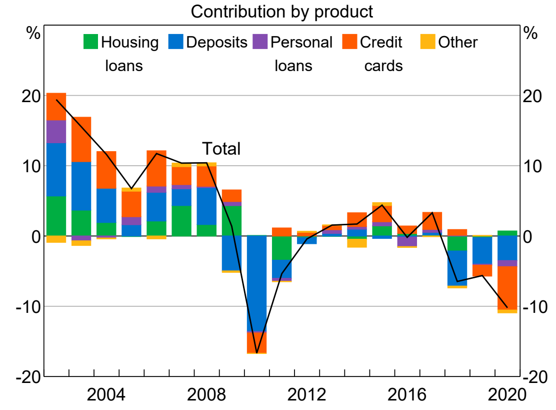


* Adjusted for breaks in series due to changes in banks' reporting; financial-year average assets and deposits have been used

Sources: APRA; RBA

Graph 2

Growth in Household Fee Income



Source: RBA

home-equity loans where the predominant purpose is not known. A reduction in account-servicing fees was partly offset by an increase in transaction and other fees. The reduction in income from fees on personal loans is consistent with the sharp contraction in personal credit over 2020, as spending opportunities declined following the introduction of the COVID-19 containment measures in March last year.

Similarly, households' use of credit cards and credit card debt outstanding declined at the onset of the COVID-19 pandemic, leading to a 15 per cent decline in banks' fee income from credit cards over 2020. As discussed above, this was the largest decline in fee income from credit cards since banks substantially lowered exception fees in late 2009. The decline in banks' fee income from credit cards was broadly based, reflecting declines in income from account-servicing fees, transaction fees (for example, foreign exchange and cash advance fees), and exception fees. A reduction in the number of credit card accounts also contributed to the decline in fee income. In contrast, changes in unit fees were mixed in 2020 – annual fees on rewards cards increased, while annual fees on non-rewards cards, foreign currency conversion fees and late payment fees all declined (Table 3).

Income from exception fees charged to households, which form part of fee income from deposit accounts, housing loans, personal loans and credit cards, declined again in 2020 (Graph 3). This largely reflected lower exception fees on credit card and deposit accounts, with banks noting COVID-19 relief packages as a contributing factor. The decline in exception fees is a continuation of the trend seen in recent years, as banks have removed or reduced informal overdraft fees following the Royal Commission into Misconduct in the Banking and Superannuation and Financial Services Industry in 2018. In contrast, exception fee income from housing loans rose, in part owing to increased early repayment and break fees because of mortgage refinancing activity.

Business fee income also declined

Total fee income from businesses decreased by 5 per cent over 2020, owing to lower fee income

Table 3: Unit Fees on Credit Cards[(a)]

	2018	2019	2020	Annual growth 2020 Per cent
Annual fees ($)				
– Non-rewards cards	54	54	53	−1.5
– Rewards cards	203	211	216	2.3
– All cards	138	140	138	−1.7
Other fees				
– Foreign currency conversion fees (per cent of value)	2.5	2.6	2.5	−5.0
– Late payment fee ($)	19	19	18	−0.7

(a) Simple average of advertised fees for cards issued by the major banks; only cards that are available to new cardholders are included in the sample; note that changes in the sample affect the average fee; includes fee-free cards; does not include any fee waivers or reductions; as at the end December of each year. Growth calculations are based on unrounded numbers.

Sources: Major banks' websites; RBA

Table 4: Bank's Fee Income from Businesses[(a)]

	2018 $ million	2019 $ million	2020 $ million	Annual growth 2020 Per cent	Average annual growth 2014–19 Per cent
Deposit accounts	571	572	533	−6.8	−0.8
– *of which: exception fees*	68	69	53	−22.3	10.8
Loans	3,240	3,317	3,328	0.3	1.8
– *of which: exception fees*	41	48	51	7.0	1.2
Merchant service fees	3,127	3,190	2,909	−8.8	5.6
Bank Bills	15	8.9	5.4	−39.1	−27.7
Other	1,182	1,218	1,112	−8.7	−1.1
Total	8,134	8,305	7,888	−5.0	2.4
– *of which: exception fees*	109	116	104	−10.3	6.2

(a) Growth rates and totals may differ from sub-totals due to rounding

Source: RBA

from both small and large businesses (Graph 4; Table 4). The decrease in fee income from businesses mainly reflected a fall in 'merchant service fee' income from processing card transactions (Graph 5; discussed below). Fee income from business deposit services and other sources also declined. Fee income from businesses continued to consist largely of fee income from loans (42 per cent) and merchant service fees (37 per cent).

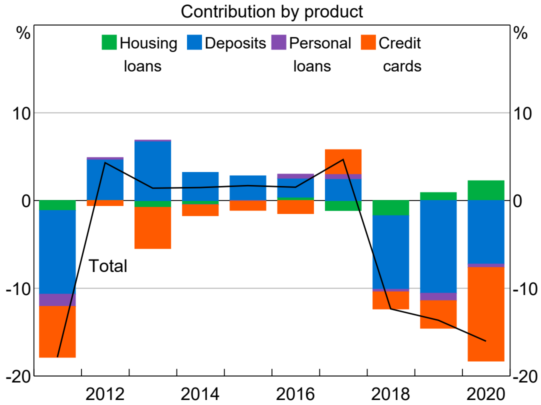
Fee income from business loans was little changed in 2020, as higher fee income from loans to large businesses was offset by lower fee income from loans to small businesses. The increase in fee income from large business loans primarily reflected an increase in fee income from account-servicing fees, though other fee income also increased. This is consistent with precautionary drawdowns of credit by large businesses at the beginning of the pandemic in 2020, while lending to small and medium-sized businesses was little changed over 2020 (Bank and Lewis 2021).

Merchant service fee income declined notably over 2020 (Graph 6; left hand side). These fees typically include a mix of fixed fees, such as for card payment terminals, and transaction fees for each card payment. COVID-19-related economic lockdowns reduced consumer spending for a time, which in turn led to fewer transactions being processed and fewer merchant service fees paid to banks overall.

Graph 3

Growth in Household Exception Fee Income

Contribution by product

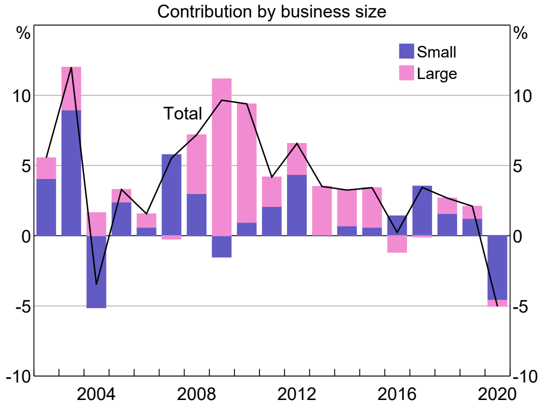


Source: RBA

Graph 4

Growth in Business Fee Income

Contribution by business size

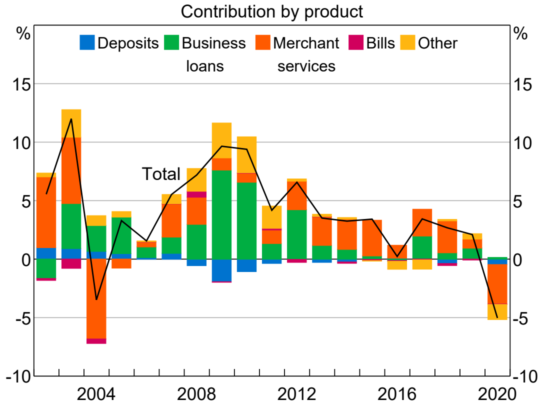


Source: RBA

Graph 5

Growth in Business Fee Income

Contribution by product



Source: RBA

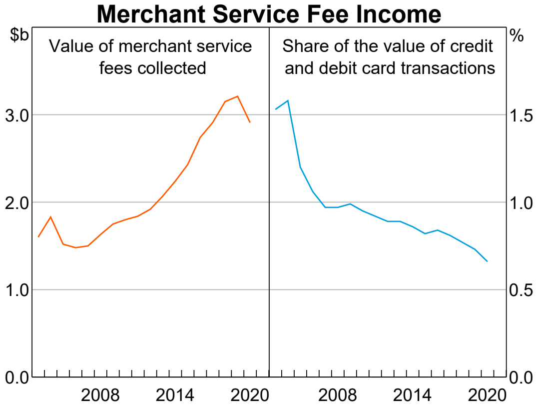
In addition to fewer transactions, merchant service fee income declined in 2020 because banks offered fee waivers to support businesses during the COVID-19-related lockdowns. These fee waivers also contributed to a decline in banks' merchant service fee income as a share of the value of credit and debit card transactions over 2020, or, in other words, a decline in the fee income per dollar transacted with credit and debit cards (Graph 6; right hand side). This decline in the share was also supported by an acceleration in the ongoing shift from credit to debit cards, as people reduced their use of credit cards during the pandemic (Reserve Bank of Australia 2020). Because debit cards typically attract a lower fee per transaction than credit cards, a shift from credit cards to debit cards leads to lower fees paid by merchants for the same number of transactions.

The decline in merchant service fee income in 2020 was the largest decline since 2004, when interchange fees – the fees paid by a merchant's bank to a cardholder's bank whenever a card purchase is made – declined significantly following the Reserve Bank's reforms to credit card interchange fees in 2003 (Reserve Bank of Australia 2005).

Fee income from business deposit accounts decreased by 7 per cent in 2020, largely reflecting reduced transaction fees and other fee income. The

Graph 6

Merchant Service Fee Income



Source: RBA

reduction in transaction fees is consistent with the slowdown in economic activity during 2020 because of the COVID-19 pandemic and the fee waivers that banks provided to businesses to support customers during this time. Around two-thirds of fee income from business deposits was for deposit services provided to small businesses.

Bank bill fee income also declined over 2020, which continues the trend seen in the past few years. This reflected businesses continuing to shift from bank bills to other, more flexible lending products, with some banks ceasing to offer bank bills in response.

Footnotes

[*] The authors are from the Domestic Markets Department.

[1] The data from the survey are published in the Reserve Bank's Statistical Table C9.

[2] Survey results have been affected by mergers and acquisitions among participating institutions, and by some changes in participants' reporting methodology. Where possible, data have been revised to reflect this.

[3] Improved data on bank fees are scheduled to be reported from November 2021 as part of the new Economic and Financial Statistics (EFS) collection – these data are designed to be more consistent across institutions, including because they will be based on a consistent reporting period. For more information on the EFS collection, see (Garner 2020).

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