Bank Fees in Australia

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Abstract

This article updates previous Reserve Bank research on bank fees charged to Australian households, businesses and government. Over the year to June 2022, total fees charged by banks through their domestic operations were little changed from the previous reporting period. Strong growth in business credit added to fee income in the year, while overall fee income from households declined amid heightened lending competition in the housing market. Lending growth continued to outpace growth in fee earnings, and total fee income as a share of banks' incomes decreased slightly.

Introduction

This article updates previous research on bank fees and covers the year to June 2022.[1] Since 1997, the Reserve Bank has collected information on the fees charged by banks to households and businesses through their Australian operations. The year to June 2022 was the second year these data were collected through the Economic and Financial Statistics (EFS) collection, which has improved the detail and consistency of reported data.[2] This year's data captured 40 lenders, which account for around 88 per cent of total credit outstanding.

The context for the results for this period includes the rapid recovery in activity following the end of the COVID-19 lockdowns in 2021, strong growth in credit and the increase in the cash rate of 75 basis points over May and June 2022 (RBA 2022b). Interest rates on deposits and on loans to households and businesses increased over the reporting period as financial institutions responded to actual and anticipated increases in the cash rate (Graph 1).

Total fees charged

Total fees charged by banks through their domestic operations were little changed in the year to June 2022, after declining over the previous five years (Graph 2; Table 1). Fee income as a share of assets and deposits edged lower, as lending and deposit

Table 1: Bank Fees(a)

	Households		Institutions		Total	
	Levels ($ million)(b)	Growth (per cent)(c)	Levels ($ million)(b)	Growth (per cent)(c)	Levels ($ million)(b)	Growth (per cent)(c)
2019	3,963	−5.6	8,305	2.1	12,269	−0.5
2020	3,559	−10.2	7,881	−5.1	11,439	−6.8
2021	3,301	−11.1	11,130	−3.2	14,431	−5.1
2022	3,213	−2.7	11,261	1.2	14,474	0.3

(a) Financial year.

(b) There is a series break between 2020 and 2021 for all series.

(c) Growth rates for the year to the end of June 2021 have been break adjusted to account for series breaks and rounded.

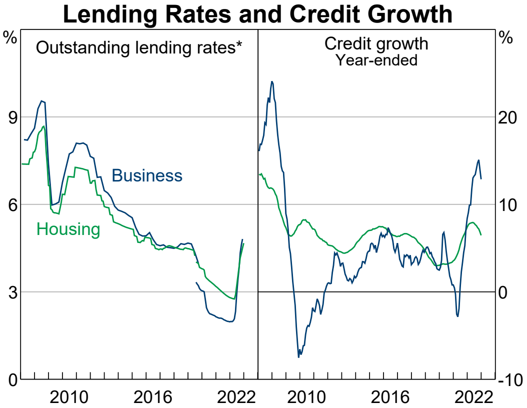
Sources: APRA; RBA

growth outpaced growth in fee earnings. Total fee earnings decreased slightly as a share of banks' total income to comprise less than 10 per cent of reporting banks' income, compared with around 50 per cent from interest income on lending.[3]

Underlying the stability in aggregate fee income, there was an ongoing reduction in fees charged to households; this was offset by a modest increase in the larger component of fee income – fees charged to institutions (businesses and government). Reporting institutions again earned the bulk of their fee income on charges to medium and large business customers; fees charged to these customers comprise around 65 per cent of total banks' fee income (Graph 3).

Graph 1

Lending Rates and Credit Growth



* Data from EFS collection from 2019.

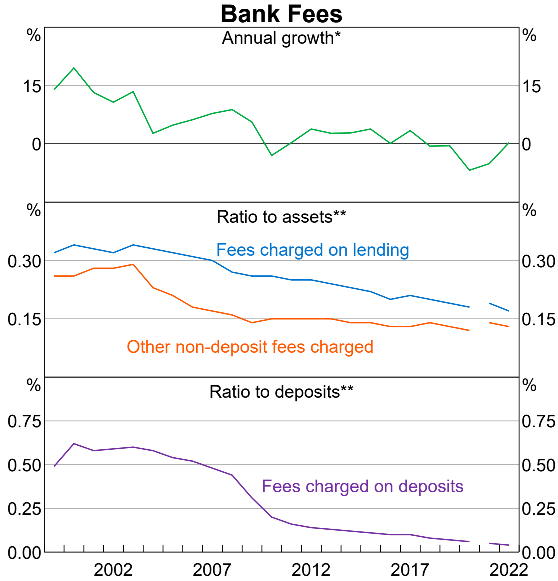
Sources: APRA; RBA

Fees charged to households

Fees charged to households decreased by around 3 per cent in the year to June 2022 as fee income from housing loans fell, driven by strong competition (Graph 4; Table 2). The decline occurred despite strong growth in housing lending. Fees charged on credit cards increased and fees on personal loans declined modestly, broadly reflecting shifts in spending patterns corresponding to the impact of the recovery from the COVID-19 pandemic. Most of the fees charged to households were from fees on housing loans and credit cards

Graph 2

Bank Fees



* Adjusted for breaks in series.

** Average assets and deposits over reporting period have been used; series break between 2020 and 2021.

Sources: APRA; RBA

Table 2: Fees Charged to Households[(a)]

	2020	2021[(b)]	2022	
	($ million)	($ million)	($ million)	(per cent)
Loans	2,898	2,668	2,567	–4
– Housing	1,188	1,279	1,123	–12
– Personal	313	337	329	–2
– Credit cards	1,397	1,051	1,115	6
Deposits	616	590	606	3
Other	44	44	40	–9
Total	3,559	3,301	3,213	–3

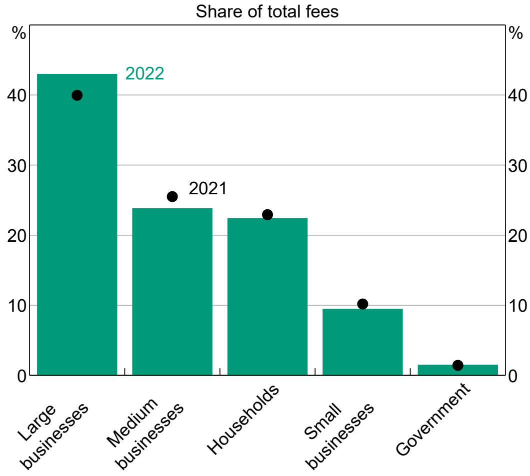
(a) Financial year.

(b) There is a series break between 2020 and 2021 for all series.

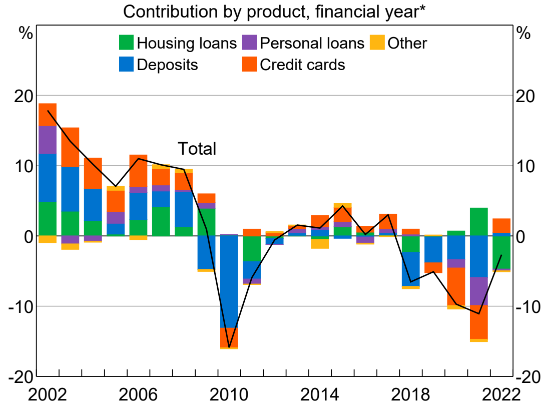
Sources: APRA; RBA

(each with a 35 per cent share), followed by deposits (19 per cent).

Fee income from households has fallen since 2018. Much of this fall reflects banks reducing or removing fees on certain products. In previous years, fees were removed partly in response to the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Banking Royal Commission). Competitive behaviour may also have played a role in the decline in fees charged to households, as banks competed for market share (Graph 5). In the year to June 2022, fees charged to households continued to decline, mainly owing to heightened competition for housing loans. Some banks also continued to simplify their fee policies, as has been the trend in recent years.

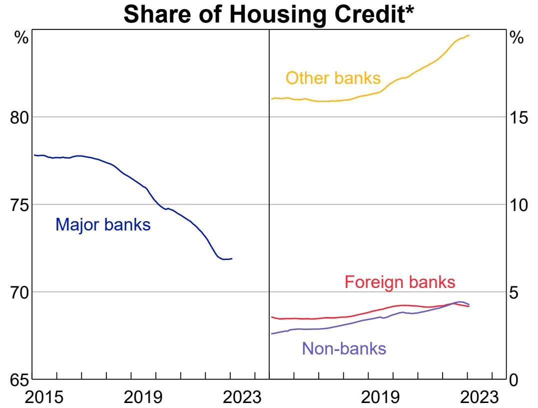


Sources: APRA; RBA



* Adjusted for breaks in series.

Sources: APRA; RBA



* Seasonally and break adjusted.

Sources: APRA; RBA

Fees charged on housing loans decreased sharply in the year to June 2022, as strong competition in the mortgage market reduced fee earnings. In particular, a number of banks sought to compete for new customers by offering cashback deals – where a lender offers an incentive (often cash-in-hand) to new customers – for refinancing their home loan (RBA 2021).[4] As at June 2022, at least 27 lenders were offering cashback home loan deals to customers, ranging from $1,000 to $10,000 provided as cash or through waived or reduced Lender's Mortgage Insurance premiums (Ritchie 2022). These offers were widely taken up, with housing loan commitments for external refinancing reaching historical highs (Graph 6). A decline in housing loan break fees – fees charged when a customer terminates a contract early – further reduced fee income (Graph 9). This reflects the increase in fixed interest rates since early 2022; higher advertised fixed rates reduce the incentive for consumers to break their existing fixed-rate housing loan as there is unlikely to be a lower fixed rate on offer. The high volume of new lending in the year partly mitigated the fall in fee earnings from housing loans. Borrowers who take out a new housing loan generally pay an application or establishment fee for the new loan and, for some fixed-rate borrowers, a fee to lock in a fixed interest rate over the time it takes to process the loan application.

Fees charged on personal loans – which include fees associated with fixed-term loans, margin loans to households and home-equity loans where the predominant purpose is unknown – continued to fall in the year to June 2022. The fall in fee income from personal loans was in line with the trend decrease in personal credit to mid-2022 (Graph 7).

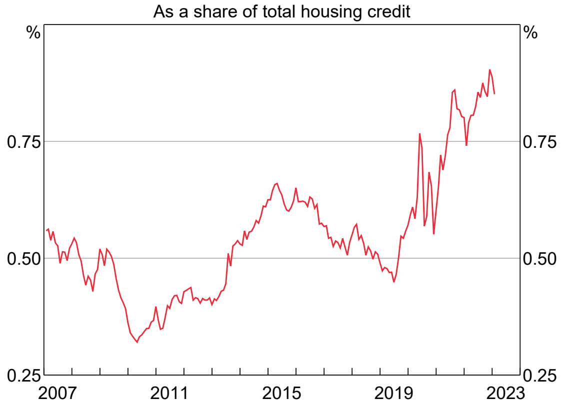
Fees charged on credit cards (which make up around one-third of fees collected from households) increased over the reporting period, after declining sharply in recent years. Banks saw an increase in fee income from credit card fees on international transactions, consistent with international borders reopening and a recovery in Australian card spending overseas (Graph 8). The increase in fee income from credit cards occurred despite a steady decrease in the number of credit card facilities, which fell by around 1 per cent over the year to June 2022. The average account servicing fee paid by households increased slightly, to around $83 per credit card account.

Fees charged on household deposits increased in the year to June 2022. Higher fee income from term deposit accounts drove much of the increase in deposit fees, in line with the strong growth in term deposits since early 2022 (Carse, Faferko and Fitzpatrick 2023). Fees charged on transaction deposit accounts also increased slightly over the reporting period. An increase in exception fees charged – pre-determined charges that are

Graph 6

Housing Loan Commitments for External Refinancing*

As a share of total housing credit



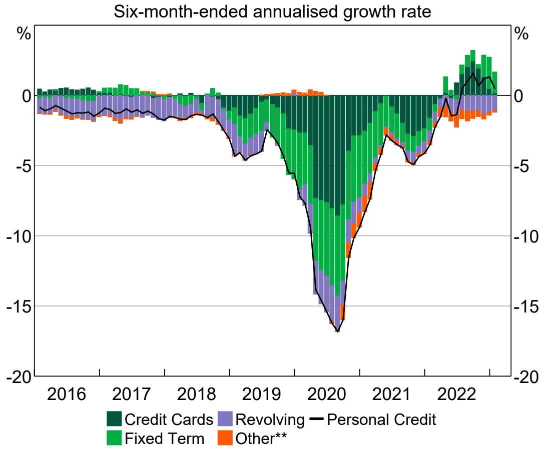
* Seasonally and break adjusted.

Sources: ABS; RBA

Graph 7

Contribution to Personal Credit Growth*

Six-month-ended annualised growth rate



* Seasonally and break adjusted.

** Other includes leasing and unclassified securitised loans.

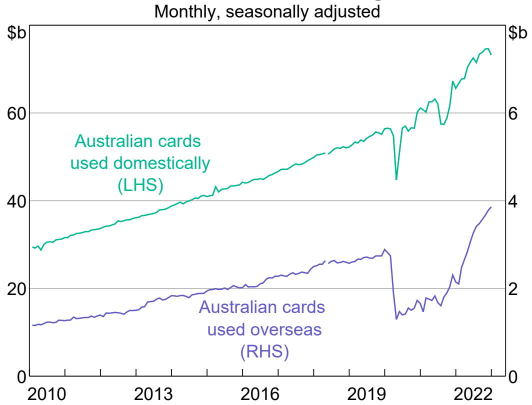
Sources: APRA; RBA

imposed in the event of a breach of contract – across all household deposit accounts contributed to the higher fee income (Graph 9). This was a reversal of a trend decrease in exception fees on deposit accounts over recent years and was partly driven by an increase in late payment and overdraw fees. As interest rates increase there is also greater incentive for customers to break their term deposit before it matures, which typically incurs a fee. Despite the increase in household deposit exception fees, these fees remained well below levels prior to the Banking Royal Commission, which recommended changes to the Banking Code to remove overdraft and dishonour fees on basic accounts (Australian Banking Association 2020).

Graph 8

Australian Card Usage

Monthly, seasonally adjusted



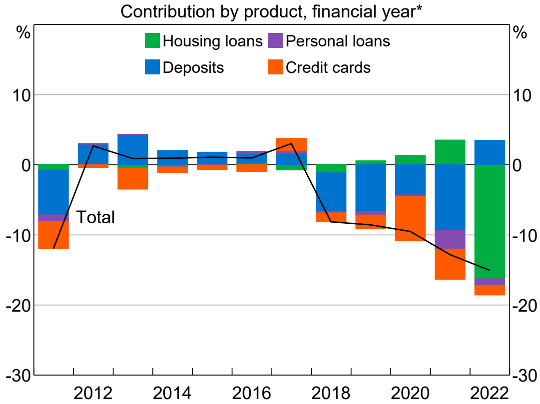
* Transactions include in-person and online purchases and debit card cash-outs and/or credit card cash advances; series break due to changes in reporting methodology in May 2018.

Source: RBA

Graph 9

Growth in Exception and Break Fees Charged to Households

Contribution by product, financial year*



* Adjusted for breaks in series.

Sources: APRA; RBA

Fees charged to businesses and government

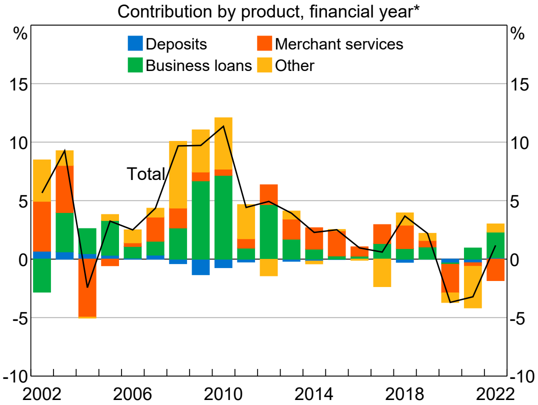
Total fees charged to institutional customers increased in the year to June 2022, as strong growth in lending to medium and large businesses contributed to higher fee earnings (Graph 10; Table 3). The increase occurred despite a decline in fee income from merchant services – fees charged to businesses and governments for providing payment processing services – reflecting the incompleteness of the recovery in international tourists visiting Australia and a shift in merchant services towards the non-bank sector. Fee income from lending to institutions provides a substantial component of bank earnings as fees on business loans are typically higher than housing loans, consistent with the complex structure and larger average size of business loans.

Fees charged on loans to institutions (which account for around 45 per cent of fees from institutions) increased by 5 per cent over the reporting period, consistent with strong growth in business credit. Lending to businesses grew by more than 13 per cent in the year to June 2022, its fastest pace in more than a decade (Graph 1) (RBA 2022a). Over the year, this growth was most pronounced for lending to medium and large businesses, and to the property services and finance industries. Lending growth was also notable for complex loan products, such as syndicated loans. Syndicated lending – where funds are jointly provided by two or more lenders – grew by more

Graph 10

Growth in Fees Charged to Institutions

Contribution by product, financial year*



* Adjusted for breaks in series.

Sources: APRA; RBA

Table 3: Fees Charged to Institutions[a]

	2020 ($ million)	2021[b] ($ million)	2022 ($ million)	2022 (per cent)
Loans	3,321	4,866	5,109	5
– of which: corporate credit cards	N/A	93	94	0
– of which: exception and break fees[c]	51	105	45	–60
Merchant service fees	2,909	2,985	2,782	–7
Deposit accounts	532	537	552	3
– of which: exception and break fees[c]	53	42	40	–5
Other[d]	1,117	2,742	2,819	3
Total	7,881	11,130	11,261	1
– of which: exception and break fees[c]	104	147	85	–42

(a) Financial year.

(b) There is a series break between 2020 and 2021 for all series.

(c) Excludes fees charged to governments from 2021.

(d) Includes bills of exchange.

Sources: APRA; RBA

Table 4: Fees Charged to Institutions[a]

By institution size; share of fees charged

	2020 (per cent)	2021[b] (per cent)	2022 (per cent)
Small businesses	51	13	12
Medium businesses	–	33	32
Large businesses	49	52	54
Government	–	2	2

(a) Financial year.

(b) There is a series break between 2020 and 2021 for all series.

Sources: APRA; RBA

than 18 per cent in the year to June 2022 for reporting institutions, compared with around 5 per cent average annual growth over the past decade.[5] Borrowers that take out a new business loan generally pay an application or establishment fee, and these fees can be larger for complex or bespoke loans. However, growth in business lending outpaced growth in fee income, and fee income from business loans as a share of banks' business credit fell over the reporting period.

Merchant service fees fell by 7 per cent over the year to June 2022 (Graph 11). These are often a mix of fixed fees (such as for card payment terminals) and transaction fees for each card payment, and make up around one-quarter of fees charged to institutions. Fees for merchant services have fallen in recent years, as COVID-19 lockdowns and border closures led to fewer transactions being processed. While the value of card spending increased over the year alongside the increase in economic activity, the closure of Australia's international border over the first half of the reporting period and the slow recovery in international arrivals weighed on merchant service fees. The average fee charged per dollar transacted with credit and debit cards declined because higher fees are typically levied on international transactions than on equivalent domestic transactions.

Structural changes also contributed to lower merchant service fee income over the reporting period. An ongoing shift from credit to debit cards has weighed on fees, as credit cards typically attract a higher fee per transaction than debit cards; debit cards accounted for over 58 per cent of total card transactions in the reporting period (Gill, Holland and Wiley 2022). Additionally, ANZ's joint venture with Worldline resulted in a reduction in reported bank fee income, as a greater share of merchant service fees is now distributed to a non-bank entity (ANZ 2022) and therefore is no longer included in the EFS collection. Available data suggest that, even abstracting from this shift in market structure, merchant service fees would have decreased – but by a smaller amount.

Fees charged to institutions on deposit accounts (which account for around 5 per cent of fees from institutions) increased slightly, following a 6 per cent fall in the previous reporting period. Most fees charged on institutional deposit accounts are collected from small businesses, although the share collected from large businesses increased in the year to June 2022 (Graph 12). The increase in fees charged on business deposit accounts largely reflects an increase in account servicing fees for large businesses, and in transaction fees for all business sizes. In particular, some banks noted higher fee income from fund transfer services, including international transfer services. Additionally, following a pause in 2021 as banks opted not to implement certain charges during the pandemic, there was an increase in certain account and dishonour fees. This increase also reflected in part an uptick in the instances of accounts being overdrawn.

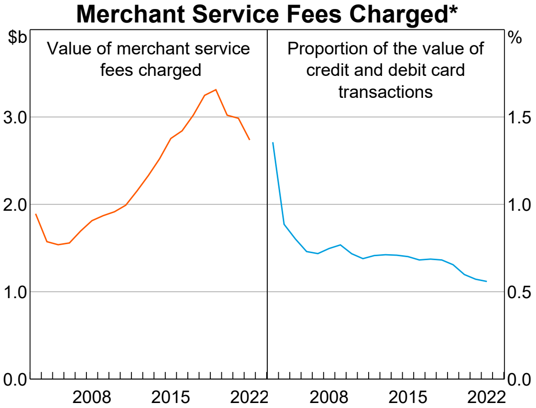
Other fees charged to institutions increased by 3 per cent over the reporting period. The reporting of 'other fees charged' was revised as part of the EFS collection, and now includes a range of fees that were previously recorded as interest income for the purposes of the RBA Bank Fee Survey (Sparks and Fitzpatrick 2022). This series was supported by an increase in advisory and financial services fees, but was weighed down by lower fees on commercial bills, international transaction services and merger and acquisition services.

Conclusion

Total fees charged by banks through their domestic operations were roughly steady in the year to June 2022, after declining for the previous five years. Fees charged to households decreased over the year, as elevated competition in the mortgage market reduced fee earnings from housing loans. By contrast, fees charged to institutional customers increased, with very strong growth in business credit increasing fee income from business loans. Lending and deposit growth continued to outpace growth in fee earnings, and total fee income as a share of banks' incomes also decreased slightly. ✈

Graph 11

Merchant Service Fees Charged*

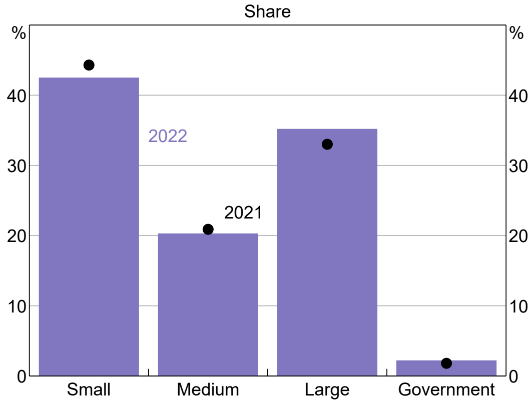


* Adjusted for breaks in series.
Sources: APRA; RBA

Graph 12

Business Deposit Account Fees

Share



Sources: APRA; RBA

Endnotes

[*] The author is from Domestic Markets Department.

[1] For the 2021/22 financial year, see Sparks and Fitzpatrick (2022).

[2] These data are published in the Reserve Bank's Statistical Table C9 and are subject to revisions. All bank fees series are affected by a series break between 2020 and 2021, which has resulted in a notable increase in the reported levels of fees charged to institutions. For more information, see Sparks and Fitzpatrick (2022).

[3] Total income earned in accordance with Australian Accounting Standards and Australian Reporting Standard ARS 730.0, reported quarterly.

[4] As part of the EFS collection, banks report fee income from housing loans net of cashback offers (Sparks and Fitzpatrick 2022).

[5] A syndicated loan is a loan where the funds are jointly provided by two or more lenders (RBA 2005). Though there is a single loan agreement, each participant to a syndicated loan maintains a separate claim on the portion of the loan that it has provided. Through a syndicated loan, large businesses can access larger loan sizes than are typically available through a single lender.

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