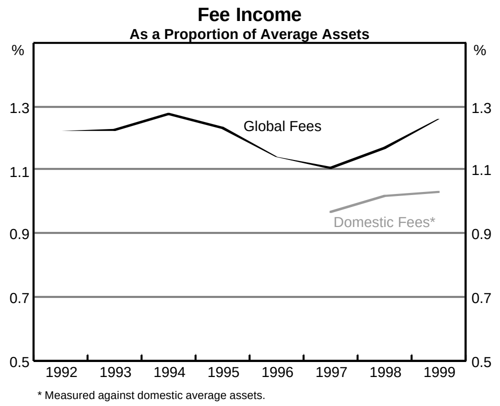
NOTES ON BANK FEES IN AUSTRALIA*

These notes update, and expand, the information on bank fees in Australia which was published in the in the Reserve Bank *Bulletin* of June 1999.[1] Ten additional banks have been included in the earlier survey of the six largest banks in Australia. The combined assets of the group of 16 banks account for 90 per cent of assets of all banks in Australia. In almost all cases, the additional banks have provided figures for 1997 and 1998 as well as for 1999.

As in the earlier report, the focus in these notes is on fees that banks earn in Australia from households and businesses in the course of taking deposits and making loans, as well as in providing payment services.[2] Such fees earned by these banks increased in aggregate by 13 per cent in 1999 to $5.4 billion, which represented 22 per cent of banks' total income that year. The rise in banks' fees has been a little faster in the past couple of years than the growth in assets, so the ratio of fees to banks' assets has tended to increase. This has been more noticeable in banks' offshore operations than in their domestic operations (Graph 1). Also, fees earned from banks' operations in Australia are lower, relative to assets, than those from their international operations.

Graph 1



Within fee revenue from banks' Australian operations, fee income from loans has increased less quickly than underlying business volumes, while fee income from deposits and transactions has tended to increase by more than this aspect of banks' business. This outcome is generally consistent with published fee schedules of banks which show fees on housing and small businesses loans falling in 1999, while some fees on deposits and on retail transactions have risen.

Households

About a third of fee income, or $1.8 billion, comes from households (Table 1). Loan fees are the main source of fee revenue from households. The rise in revenue from household loan fees in 1999 was somewhat below growth in lending to households. This

---

* These notes have been prepared for the information of members of the House of Representatives Standing Committee on Economics, Finance and Public Administration.

[1] Supplementary notes on small business fees were prepared for the Committee in November 1999.

[2] In addition, banks earn other non-interest income from funds management, trading activities and the like. They also earn non-interest income from their operations in other countries. Non-interest income from major banks' Australian operations accounts for about two-thirds of their total (global) non-interest income.

was because banks discounted establishment fees on housing loans in a highly competitive environment early in 1999.[3] On the other hand, growth in fees from personal loans in 1999 was strong, reflecting both growth in personal lending and rising charges, including on credit cards.

Fee income from deposit accounts has increased substantially faster than household deposit balances. Fees from providing transaction services have become notably more important than they used to be. Part of the growth in revenue from transaction fees reflects growth in the aggregate number of transactions but it also reflects higher charges.

Table 1: Banks' Fees From The Household Sector
$ Million

	1997	1998	1999	Per cent change in 1999
Fees from:				
Deposits	180	215	260	21
Loans				
– Housing	255	430	405	–6
– Other loans	285	270	355	31
Total	540	705	760	8
Transactions	165	330	430	30
Other services	275	305	325	7
Total households	1160	1555	1775	14

Table 2 shows details of charges for different types of transactions. Fees that banks charge on retail accounts rose across a range of services between 1998 and 1999, although the average account-servicing fee was unchanged (among banks which charge such a fee). Since mid 1999, one of the major banks raised the minimum balance required and the average account-servicing fee has tended to rise, although most transaction fees have been steady. As to the structure of transaction fees, fees on services from low-cost processes, such as internet and telephone payments, tend to be lower than fees from higher-cost processes, like counter withdrawals.

---

[3] As housing lending accelerated later in 1999 and into 2000, banks put establishment fees on housing loans back up. This might be expected to show up in their aggregate fee revenue in 2000.

Table 2: Major Banks' Fees On Household Accounts [(a)]

	1998	1999	Latest
Deposit accounts			
Account servicing ($ per month)[(b)]	4.00	4.00	5.00
Transaction fees (per transaction)[(c)]			
Own bank's ATM	0.55	0.60	0.60
Other bank's ATM	1.05	1.30	1.40
EFTPOS	0.45	0.50	0.50
Cheques	0.65	0.75	0.75
Counter withdrawal	2.00	2.15	2.15
Telephone	0.30	0.35	0.35
Internet	0.20	0.30	0.30
ATM balance enquiry from own bank's ATM	0.15	0.00	0.00
Memo items:			
Number of free transactions (monthly)[(d)]	8	8	8
Range of minimum balances required to waive account-servicing fee[(e)]	500	500-1000	500-2000
Housing loans ($)			
Establishment fee	550	500	600
Monthly fee	5.25	5.25	5.25

(a) This table is based on public information on selected, widely-used bank accounts.
(b) Predominant charge in 1998 and 1999 for banks with such a charge. The latest observation is an average reading.
(c) Most fees are based on costs after the number of free transactions has been exceeded.
(d) For banks with such a facility. Within this figure, most banks allow fewer free over-the-counter transactions.
(e) For banks with such a feature. One bank does not have an account-servicing fee.
Sources: *Cannex*, banks' brochures and web sites.

Businesses

Banks' earn about $3.7 billion in fees from businesses, split roughly evenly between small and large businesses. Details of fees from businesses are set out in Table 3. Fee income from small businesses grew by 5 per cent in 1999. Fees from loans and bills to small businesses rose by less than the increase in credit itself, due to the continuing tendency for loan charges to fall. These lower charges seem to have been maintained so far in 2000 (Table 4). On the other hand, there appears to have been some rise in administrative fees on bill facilities over the past few years.

For large businesses, the combined increase in fees from loans and bills was 13 per cent, about the same as growth in credit from the banks surveyed.

Growth in 1999 in revenue from merchant service fees – fees earned from businesses from card transactions – was again high but broadly similar to growth in turnover on credit cards. This mainly reflects the increasing popularity of credit cards as a medium for making payments.

Table 3: Banks' Fees From Businesses
$ Million

	1997	1998	1999	Per cent change in 1999
Fees from:				
Small business				
– Deposits	165	205	240	17
– Loans	500	625	655	5
– Bank bills	290	270	265	–2
Total	955	1100	1160	5
Large business				
– Deposits	50	50	60	20
– Loans	355	345	415	20
– Bank bills	535	545	595	9
Total	940	940	1070	14
Merchant services	570	730	935	28
Other services	390	460	490	7
Total business	2855	3230	3655	13

Table 4: Fees Paid by Small Business on a Loan of $100,000
(Average Of Major Banks)

	1997	1998	1999	Latest
Loan establishment fee ($)	925	890	740	740
Overdraft fee (% pa.)	1.10	1.05	0.95	0.95
Term Loan fee (% pa.)	0.35	0.40	0.45	0.45

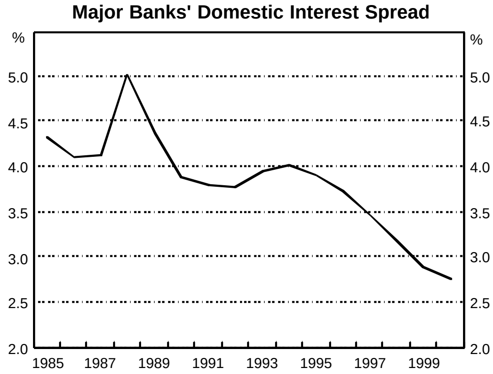
Source: Reserve Bank estimates based on information provided by banks.

Fees and Interest Margins

Banks' interest margins have contracted noticeably in recent years. This trend continued in 1999 as banks' overall domestic interest spread (measured as the average interest rate on loans less the average interest rate on deposits) fell by 0.3 of a percentage point, to 2.9 percentage points (Graph 2).[4] This interest spread has now narrowed by about 0.7 of a percentage point since 1997 and 1¼ percentage points since 1994; interest spreads for households and businesses have both fallen by about the same amount in this period.

[4] This spread fell by a further 0.1 of a percentage point to 2.8 per cent based on banks' interim results for 1999/2000. This narrowing of the interest spread, notwithstanding the rise in the structure of interest rates since late in 1999, implies that the average interest rate on banks' loans rose by less than the average cost of banks' funding.

Graph 2



As noted in the article in the *Bulletin* of June 1999, concern is sometimes expressed that banks have offset reductions in interest margins by raising fees. The latest information on fees and interest margins is consistent with the Bank's earlier conclusion that the fall in interest margins has significantly outweighed the rise in fees. In Table 5, the dollar value of aggregate transaction and account-servicing fees is expressed as a percentage of the dollar value of deposits; loan fees are expressed in a similar way relative to credit.

Table 5: Estimated Costs of Fees on Deposits or Credit

	Level of Fees as a Per Cent of Deposits or Credit		
	1997	**1998**	**1999**
Households			
Deposits			
– Transaction fees	0.10	0.16	0.20
– Account-servicing and other	0.13	0.14	0.16
Total	0.23	0.30	0.36
Loans	0.28	0.32	0.31
Business			
– Small business credit	1.65	1.74	1.65
– Large business credit	0.87	0.74	0.74
Average of business credit	1.12	1.04	1.00

The main features of these data are that:

- as a proportion of average household deposit accounts, account-servicing and transaction fees rose in 1999, from 0.30 of a percentage point to 0.36 of a percentage point;
- on average, across all household loans, the amount added by fees was little changed in 1999, at about 0.3 of a percentage point;
- borrowing fees for businesses added an average of about 1 percentage point to the cost of a loan in 1999, a little less than a year earlier. This was due to a fall in fees paid by small businesses. When combined with the fall in interest margins, this has led to a clear fall in the cost of financial services to small businesses.

Even though there was some rise in deposit and transaction fees in 1999, increases in overall bank fees did not offset reductions in interest margins. Long-term data are not available but indications are that the same conclusion applies, as the **fall** in interest margins on loans to households and businesses of about 1¼ percentage points in recent years is greater than the overall **level** of fees. For households, this conclusion is true even when account-servicing and transaction fees are added to the fees charged on loans.

Conclusions

The available data cover only a very short time period, so it is not possible to draw firm conclusions. But at this stage, the Bank's assessment is that:

- revenue from fees on household deposits and transactions is rising faster than underlying business volumes, reflecting rises in unit charges. Banks seem to be continuing to seek to recoup costs of providing payments services and administering household deposit accounts directly by fees rather than the previous practice of doing so indirectly through interest margins;

- revenue from fees on housing loans has fallen, though fees on other personal loans have continued to rise quickly; and

- revenue from fees on business loans has increased in line with underlying volumes for large borrowers, but significantly less quickly for small borrowers – ie for small business borrowers, fees per loan outstanding are falling.

The Bank's earlier overall conclusion, that the falling interest margins have not, on average, been offset by higher fees, continues to be supported by the latest data. This is particularly the case for housing borrowers and small business. However, banks' customers without a loan but with low balances and high transactions would not have benefited from these trends in banks' pricing practices.

Reserve Bank of Australia
SYDNEY

17 May 2000