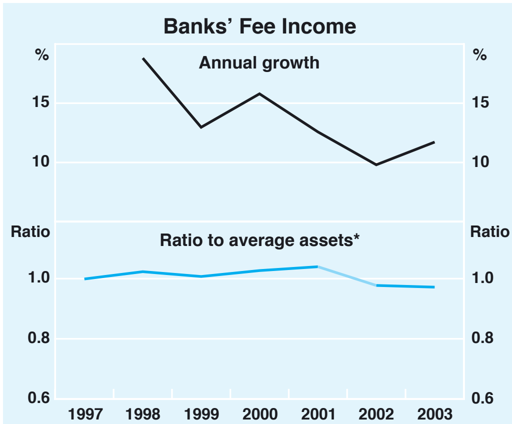
Banking Fees in Australia

This article summarises the results of the Reserve Bank's annual survey of fee income from commercial banks' Australian operations.[1] The survey has been undertaken by the Reserve Bank since 1997. The latest survey, relating to banks' 2003 financial year, covered 19 institutions accounting for over 90 per cent of the total assets of the banking sector in Australia.

Fees from Banking Activities

Total domestic fee income of the participant banks grew by 12 per cent in 2003 to $8.7 billion. This growth in fees was roughly in line with growth in domestic balance sheet assets, with the result that the ratio of fee income to average assets remained broadly unchanged from its 2002 level (Graph 1). As was the case in most previous years, banks' fee income from households grew more rapidly than their fee income from businesses. Despite this, household fee income still only accounts for just over one-third of total bank fee income (Table 1).

Graph 1



* Series break in 2002 due to change in banks' reporting of total assets.
Source: RBA

Households

Banks' fee income from households rose by 15 per cent in 2003, to $3.0 billion. This growth was slower than in 2002, but in line with average annual growth since 1998. Strong growth in fees from credit cards contributed most to the growth in 2003, with fee income from deposit accounts and housing loans also making substantial contributions (Table 2).

1. The focus of the survey is fee income earned by banks in the process of taking deposits, making loans and providing payment services. Other forms of non-interest income, such as income from funds management and insurance operations, are excluded from the survey. The survey relates to fees earned by each participant bank over the course of their respective financial years. The data from the survey are published in the RBA *Bulletin* Table F.6.

Table 1: Banks' Fee Income

	Households			Businesses			Total	
	$ million	Annual change Per cent	Share of total Per cent	$ million	Annual change Per cent	Share of total Per cent	$ million	Annual change Per cent
1997	1 162	na	29	2 880	na	71	4 042	na
1998	1 524	31	32	3 277	14	68	4 802	19
1999	1 724	13	32	3 701	13	68	5 425	13
2000	2 095	22	33	4 186	13	67	6 281	16
2001	2 262	8	32	4 810	15	68	7 071	13
2002	2 637	17	34	5 126	7	66	7 764	10
2003	3 039	15	35	5 634	10	65	8 674	12

Source: RBA

Fees from loans to households increased by 8 per cent in 2003 and accounted for around 35 per cent of total household fee income. Within this, fees earned on housing loans increased by 13 per cent, above the historical average pace of growth, while fee income from all other personal loans was broadly unchanged. The main factor driving the rise in housing loan fee income was an increase in the number of loans associated with strong housing market activity.

Fees from credit cards increased strongly in 2003, by 38 per cent. As a result, the banks in aggregate now earn almost as much from households in credit card fees as they do from fees on housing lending. The continued rapid growth in credit card spending, together with increases in annual membership fees and higher charges for overdrawn accounts, late payments and cash advances, contributed to banks' fee income from credit cards.

Fee income from household deposit accounts increased by 15 per cent in 2003, slightly above the pace of the past few years, but lower than average growth in the latter part of the 1990s. Fee income from account-servicing charges grew more strongly than transaction fees in 2003. Overall, it would appear that the rise in deposit fee income was mainly due to growth in the number of deposit accounts and transactions rather than increases in the cost of banking services. Fees on popular household transaction accounts offered by the major banks were mostly

Table 2: Banks' Fee Income from Households
$ million

	2001	2002	2003	Average per cent change 1998–2003	Per cent change in 2003
Loans	806	1 032	1 115	14	8
– Housing	486	601	680	9	13
– Personal	320	430	435	24	1
Credit cards	345	438	604	29	38
Deposits	868	943	1 085	16	15
Other fees	243	225	236	–1	5
Total	**2 262**	**2 637**	**3 039**	**15**	**15**

Source: RBA

unchanged in 2003 (Table 3). Some banks have recently moved towards more simplified fee structures which offer unlimited free electronic transactions in exchange for a fixed monthly account-servicing fee, with other banks charging for each transaction beyond a limited number of fee-free transactions.

The amount that individual households actually pay in deposit account fees varies according to the type of account, how often it is used, the account balance and the methods used for accessing the account. Fees on electronic transactions (such as ATM, EFTPOS, telephone and internet) tend to be lower than those on paper-based transactions (such as over-the-counter withdrawals and cheques). Most banks also offer fee exemptions to certain customer groups, such as pensioners, social security recipients and under 18s, and in recent years have broadened these fee exemptions to include a wider range of people. Banks typically also offer fee discounts or waivers for customers who have multiple products with the same bank or who maintain a sufficiently high account balance.

Businesses

Total fee income from businesses in 2003 was $5.6 billion, an increase of 10 per cent from the previous year, which is slightly below the historical average rate of growth of around 11 per cent (Table 4).

While merchant-service fees (mainly associated with credit card transactions) were one of the fastest growing components of business fee income in 2003, increasing by 12 per cent, the increase was below the historical average rate of growth of 19 per cent. In 2003, these fees increased particularly strongly for small businesses, which pay around three-quarters of all merchant-service fees. The increase in merchant-service fees appears to be broadly in line with the overall increase in the value of credit card purchases (Table 5). Note that the reduction in interchange fees due to credit card reforms introduced by the Reserve Bank did not take effect until 31 October 2003. The expected corresponding fall in merchant-service fees is therefore not captured in these results because, as mentioned earlier, the current

Table 3: Deposit Account Fees of Major Banks[(a)]
Dollars

	1995	1998	1999	2000	2001	2002	2003
Account-servicing (per month)[(b)]	2.00	3.50	3.75	3.75	3.75	5.25	5.25
Fees per excess transaction[(c)]							
– Counter withdrawals	1.00	2.00	2.15	2.15	2.75	2.50	2.50
– Cheques	0.70	0.65	0.75	0.75	0.90	1.00	1.00
– Own bank's ATM	0.40	0.55	0.60	0.60	0.65	0.60	0.60
– Other bank's ATM[(d)]	0.40	1.05	1.30	1.40	1.40	1.40	1.45
– EFTPOS	0.40	0.45	0.50	0.50	0.50	0.45	0.45
– Telephone	..	0.30	0.35	0.35	0.45	0.45	0.35
– Internet	..	0.20	0.30	0.30	0.25	0.25	0.25

(a) Average for four largest banks. Based on public information on selected, widely used accounts. As at June of each year.

(b) Some banks offer rebates/waivers based on either the transaction account balance or the overall 'relationship' balance.

(c) All accounts that charge a monthly account-servicing fee allow at least some fee-free transactions. Some accounts now offer unlimited free transactions for certain transaction types, in which case excess transaction fees will not apply.

(d) Includes balance enquiries.

Sources: Cannex; RBA

Table 4: Banks' Fee Income from Businesses[a]
$ million

	2001	2002	2003	Average per cent change 1998–2003	Per cent change in 2003
Small business	1 314	1 326	1 441	5	9
– Deposits	292	324	348	11	7
– Loans	685	645	709	2	10
– Bills	337	356	384	7	8
Large business	1 418	1 453	1 526	10	5
– Deposits	130	122	129	21	6
– Loans	615	643	734	16	14
– Bills	673	688	663	4	–4
Merchant-service fees	1 441	1 633	1 836	19	12
Other fees	637	714	832	12	16
Total	**4 810**	**5 126**	**5 634**	**11**	**10**

(a) Comparison of the small and large business results may be affected by differences in the definition of business sizes used by participant banks.

Source: RBA

survey relates to the banks' 2003 financial years which in most cases had ended by 31 October 2003.

Fee income from business loans increased by 12 per cent in 2003, with fee income from large business loans rising by more than that from small business loans. Total fee income from the provision of bank bill facilities was largely unchanged in 2003. Overall, the banks' combined fee income from loans and bill facilities increased by 7 per cent in 2003. As a ratio to the total amount of credit extended to the business sector, loan and bill fees were broadly stable, at around 1 per cent.

Fee income from business deposit accounts increased by 7 per cent in 2003, broadly in line with growth in the previous year. Within the total, income from account-servicing charges increased by more than transaction fee income. The increase in fee income from business deposit accounts appears to be due to increases in the number of accounts and transactions, with unit costs for operating business cheque accounts generally falling in 2003, in some cases offsetting the rises that occurred in 2002 (Table 6). In aggregate, the banks sourced around three-quarters of their business deposit fee income from small

Table 5: Banks' Credit and Debit Card Transactions

	2002[a]	2003[a]	Per cent change
Debit cards			
– Number of purchases (million)	714	766	7
– Value of purchases ($ billion)	39	42	7
Credit and charge cards			
– Number of purchases (million)	833	900	8
– Value of purchases ($ billion)	97	108	12

(a) Calendar year

Source: RBA

Table 6: Business Transaction Account Fees of Major Banks (a)
Dollars

	1995	1998	1999	2000	2001	2002	2003
Account-servicing (per quarter)	33	30	30	30	31	35	35
Fees per excess transaction							
– Cheque withdrawal	0.25	0.40	0.40	0.40	0.45	0.50	0.55
– Telephone transactions	..	0.35	0.25	0.20	0.15	0.20	0.15
– Internet transactions	..	0.25	0.20	0.15	0.15	0.20	0.15
Periodical payments							
– Own bank	1.30	1.15	1.65	1.65	1.65	1.85	1.45
– Other bank	2.20	2.95	2.95	2.95	3.20	4.65	3.40
Memo item:							
Number of free transactions (per quarter)	92	114	114	105	105	98	98

(a) Average for four largest banks. Based on public information on selected, widely used accounts. As at June each year.

Sources: Cannex; RBA

businesses, with the high share likely to reflect the greater number of small business accounts and transactions.

Relativity between Fees and Interest Margins

Previous Reserve Bank analysis has shown that the increase in bank fees has not offset the benefit that banks' customers have received from the reduction in banks' interest margins since the mid 1990s. The results from the 2003 bank fee survey do not change this conclusion.

Since the mid 1990s, the spread between the average interest rate received by major banks on loans and the average interest rate paid on deposits has fallen substantially, particularly for certain types of loans, such as residential mortgages, where there has been strong competition from the entry of non-bank lenders.

The reduction in interest margins is evident in Graph 2, which shows domestic net interest income of the major banks as a ratio to average assets; this ratio has fallen by around 1 percentage point since 1997. The ratio of fee income to assets has been relatively unchanged, at around 1 per cent, over the same period. Together, net interest and fee income of the major banks as a percentage of their assets has fallen from 4 per cent in 1997 to 3 per cent in 2003, confirming that the reduction in interest margins has more than offset the increase in fee income.

As noted in the past, this does not mean that all customers have been made better off by the changes. Customers with only deposit accounts, for example, have faced a significant rise in fees without any offsetting benefits in the form of lower interest margins. ✠

Graph 2