Bank Fees in Australia

Karl Sparks and Rachael Fitzpatrick[*]

Photo: Watchara Piriyaputtanapun – Getty Images

Abstract

This article updates previous Reserve Bank research on bank fees charged to Australian households, businesses and government. Since 2021, improved data on the fees charged by banks have been available from the new Economic and Financial Statistics collection, which replaced the survey on banks' fee income undertaken annually since 1997 by the Reserve Bank. The new data suggest that the overall fees charged by banks declined in 2021. This decline was broadly based across different categories, although total fees charged on loans (excluding personal lending) increased moderately, in part reflecting the higher volume of lending activity.

Introduction

Since 1997, the Reserve Bank has collected information on the fees banks charge households and businesses through their Australian operations. While this data was previously collected via the RBA Bank Fee Survey, in 2021 the survey was replaced with the Economic and Financial Statistics (EFS) collection.[1] This change has increased the population of reporting institutions and the coverage of fees charged; it has also improved the detail and consistency of reported data. Consequently, there has been a material change to the reported level of bank fees in Australia (which are captured in terms of the dollar value of fees charged). To provide an indication of the underlying *growth* in fees, growth rates presented in this article have been adjusted where possible for the effects of reporting changes. This adjustment uses information provided by reporting institutions, as well as a degree of judgement by the Reserve Bank. Where appropriate, growth rates have been rounded to reflect these adjustments. The changes to reporting are discussed in further detail in Appendix A.

Using the new EFS data, this article updates previous Reserve Bank research on bank fees and covers the year to June 2021. Accordingly, it primarily covers the period of recovery in economic activity after the initial effects of the COVID-19 pandemic and prior to the winter lockdowns later in 2021.

Table 1: Fees Charged by Banks

	Households		Institutions		Total	
	Level ($ million)	Growth (per cent)	Level ($ million)	Growth (per cent)	Level ($ million)	Growth (per cent)
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	7,881	–5.1	11,439	–6.7
2021[(a)]	3,301	–11	11,430	–3	14,731	–5

(a) There is a series break in the level of fees reported between 2020 and 2021, due to the change in data source. 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

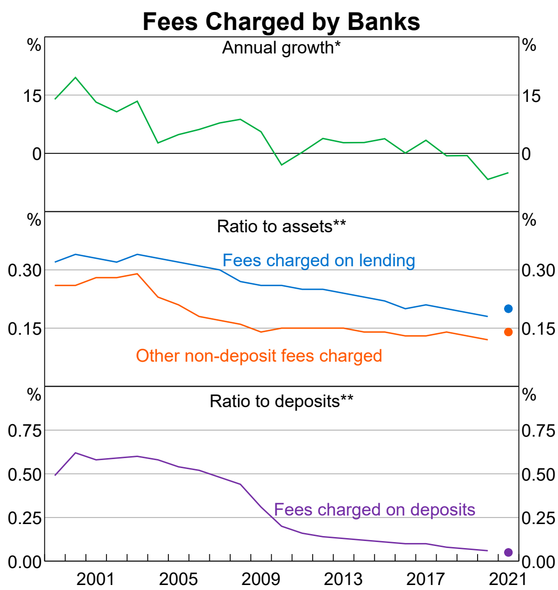
Total fees charged

Total fees charged by banks through their domestic operations are estimated to have declined in the year to June 2021, after also declining in the previous reporting period (Graph 1; Table 1). This reflected a decline in fees charged to households and institutions (which include businesses and governments). Fees charged on deposits as a share of total deposits edged lower again, continuing the declines seen for more than a decade. However, fees charged on loans and other non-deposit products as a share of total assets were higher than the prior reporting period. This is due to the expanded coverage of fees charged by banks in the new EFS collection. In particular, this expansion resulted in an increase in the reported level of fees charged on institutional lending products as banks were required to include fees otherwise treated as interest income in statutory accounts (see Appendix A). In the year, fees charged to households accounted for 23 per cent of total fees charged by banks, while fees charged to businesses and governments accounted for 76 per cent and 1 per cent of total fees, respectively.

Fees charged to households

Fees charged to households are estimated to have declined 11 per cent in the year to June 2021, after falling by 10 per cent in the prior reporting period (Graph 2; Table 2). The decline in fees charged in the year primarily reflected a decrease in fee income from credit cards, deposits and personal loans. The economic effects of the COVID-19 pandemic weighed on fees charged on credit cards – for example, border closures reduced international travel and the associated fee income from credit card activity. In addition, fees charged on deposits declined again as there was a further removal and reduction of fees by banks on certain deposit accounts and dishonour fees. Fees charged on personal loans also declined, in line with a reduction in personal credit in the reporting period. By contrast, fees charged on housing loans increased once more, alongside high levels of refinancing and new lending activity in the year. By product, fees charged to households were largely made up of fees on housing loans (39 per cent), credit cards (32 per cent) and deposit accounts (18 per cent); these shares were similar to those in recent years under previous surveys.

Graph 1



* 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

	2019 ($ million)	2020 ($ million)	2021[a] ($ million)	Annual growth[b] (per cent)
Loans	3,149	2,898	2,668	–6
– Housing	1,160	1,188	1,279	13
– Personal	348	313	337	–31
– Credit cards	1,641	1,397	1,051	–15
Deposits	755	616	590	–27
Other fees	59	44	44	–21
Total	3,963	3,559	3,301	–11

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

(b) 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

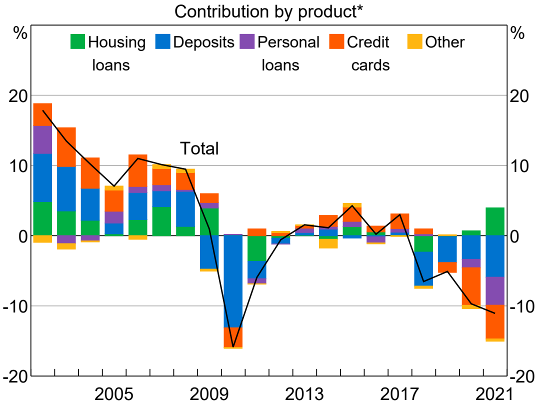
Fees charged on deposits are estimated to have fallen by 27 per cent in the year to June 2021, partly reflecting the removal and reduction of fees by some banks on certain deposits products and dishonour fees. Some banks also noted that COVID-19 affected deposits fees by reducing fee income from ATM withdrawals – which have declined notably since the onset of the pandemic – and foreign currency conversion fees (Lowe 2021). A reduction in exception fees from deposits also contributed as banks noted fewer instances of accounts being overdrawn in the year.

Fees charged on housing loans are estimated to have risen by 13 per cent, after increasing moderately in the prior reporting period. This increase partly reflected the high volume of new lending in the year. Demand for housing credit was supported by low interest rates, strong activity in housing markets and government policy measures targeted at first home buyers. In addition, high levels of refinancing are likely to have contributed to the increase in fee income from housing loans. This is because borrowers who refinance their mortgage with another lender generally pay fees to both the new and previous lenders; switching costs can include an application or establishment fee for the new loan and a fee to discharge the old loan. That said, these costs were often offset (in part or in full) by cashback offers from new lenders, which were widely available over the year. As part of the transition to the EFS collection, banks now report fee income from housing loans net of cashback offers (see Appendix A).

Graph 2

Growth in Fees Charged to Households

Contribution by product*



* Adjusted for breaks in series.

Sources: APRA; RBA

Fees charged on personal loans are estimated to have fallen by 31 per cent in the year to June 2021, continuing the declines seen in recent years. Fees on personal loans include fees associated with term loans, margin loans to households and home-equity loans where the predominant purpose is not known. The decrease in fees charged on personal loans is in line with a decrease in the stock of personal loans since the onset of the pandemic, as borrowers repaid this debt. Borrowers' capacity to repay debt was boosted by superannuation withdrawals and government assistance payments.

Fees charged on credit cards declined by 15 per cent in the year, after declining in the prior reporting period. This partly reflected a further decline in the amount of credit card debt outstanding; since the onset of the pandemic, households have reduced their reliance on this source of debt. In addition, ongoing international border closures, limited opportunities for overseas travel – and the associated credit card fees on overseas transactions. Finally, the total number of credit card facilities decreased by around 6 per cent over the year, which led to a reduction in account servicing fees on credit cards. The average account servicing fee paid by households was $73 per credit card account.[2]

Total exception fees and break fees charged to households are estimated to have declined further in the year to June 2021 (Graph 3). Exception fees are imposed in the event of a breach of contract; break fees are charged when a customer terminates a contract early. Exception fees on credit cards and deposit accounts declined, partly because some banks removed these fees. Some banks also noted fewer instances of deposit accounts being overdrawn, which resulted in a reduction in overdrawn and dishonour fees charged to households. This was consistent with higher deposit balances and the suspension of direct debit arrangements by some businesses during lockdowns. Exception fees have trended down in recent years, as banks have removed or reduced informal overdraft fees following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in 2018. By contrast, break fees charged on housing loans rose, in part owing to increased early repayment fees reflecting high mortgage refinancing activity. As discussed above, these fees would have been offset for some borrowers by cashback offers from the new lender.

Fees charged to businesses and government

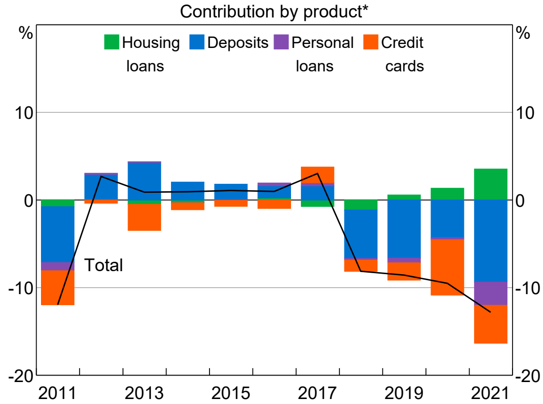
Total fees charged to institutional customers – businesses and government – are estimated to have declined in the year to the end of June 2021, after declining in the previous reporting period (Graph 4; Table 3). Fees charged to medium and large businesses made up one-third and one-half of fees charged to institutional customers, respectively (Table 4). By comparison, fees charged to small businesses accounted for 13 per cent of institutional fees; fees charged to governments made up only 2 per cent. In the past, fees charged to governments were sometimes reported under fee income from businesses in the RBA Bank Fee Survey, but they are now separately identified in the EFS collection. As a result, the series referred to as 'business' in previous bulletin articles has now been relabelled as 'institutional', although fees from governments are likely to have made up only a small share of these series. In addition, businesses are now split into three size categories (small/medium/large) instead of two sizes (small/large), and fees on corporate credit cards are now separately identified (see Appendix A for more detail on these changes and business size definitions). By product type, fees charged to institutions continued to largely consist of fees on loans (45 per cent) and merchant service fees (26 per cent).

Fees charged on loans (including credit cards) to institutions are estimated to have increased by 2 per cent in the year to the end of June 2021, after decreasing slightly in the previous reporting period. Fees charged to governments made up less than 1 per cent of fees on loans to institutional customers. The rise in fees charged on loans to institutional customers is consistent with the increase in the volume of business credit seen in the reporting year, reflecting the recovery in economic conditions after the initial economic impact of the pandemic. The increase in business

Graph 3

Growth in Exception and Break Fees Charged to Households

Contribution by product*



* Adjusted for breaks in series.

Sources: APRA; RBA

Table 3: Fees Charged to Institutions

	2019 ($ million)	2020 ($ million)	2021[(a)] ($ million)	Annual growth[(b)] (per cent)
Deposit accounts	572	532	537	−6
– of which: exception and break fees[(c)]	69	53	42	–
Loans	3,310	3,321	5,166	2
– of which: corporate credit cards	N/A	N/A	93	N/A
– of which: exception and break fees[(c)]	47	51	105	–
Merchant service fees	3,190	2,909	2,985	−1
Other[(d)]	1,227	1,117	2,742	−13
Total	8,298	7,881	11,430	−3
– of which: exception and break fees[(c)]	116	104	147	–

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

(b) Growth rates for the year to the end of June 2021 have been adjusted to account for series breaks, where sufficient information is available. This has resulted in a negative break adjusted growth rate for some series despite an increase in the reported levels of fees charged. This reflects increased coverage in fees charged under the EFS collection. See Appendix A for more details. These growth rates have been rounded to the nearest whole number.

(c) Excludes fees charged to governments from 2021.

(d) Includes bills of exchange.

Sources: APRA; RBA

Table 4: Fees Charged to Institutions

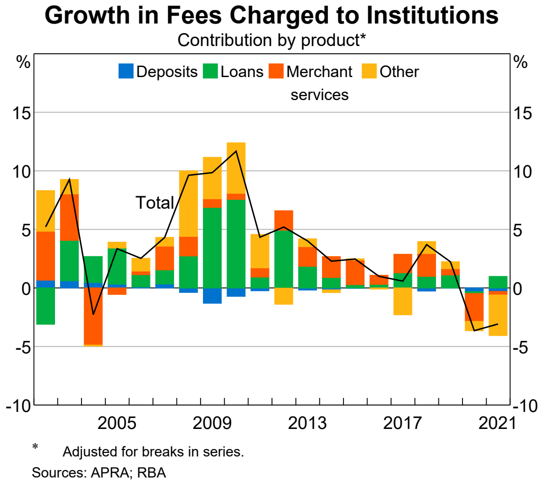
By institution size; share of fees charged

	2019 (per cent)	2020 (per cent)	2021[(a)] (per cent)
Small businesses	51	49	13
Medium businesses	–	–	32
Large businesses	49	51	53
Governments	–	–	2

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

Sources: APRA; RBA

Graph 4



loans was particularly pronounced for larger firms and industries that were less exposed to the adverse economic effects of lockdowns and pandemic-related changes in customer behaviour. Fees charged on corporate credit cards made up around 14 per cent of the fees on business loans.

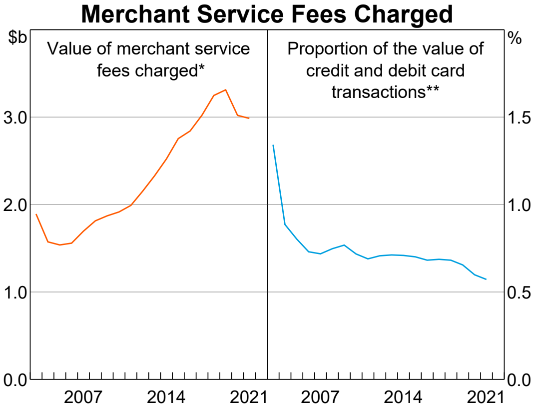
Merchant service fees – fees charged to businesses and governments for providing payment processing services – are estimated to have declined a little, following a notable fall in the previous reporting period (Graph 5, left hand panel). These often include a mix of fixed fees (such as for card payment terminals) and transaction fees for each card payment accepted by the business. While the total value of credit and debit card transactions recovered over the year alongside the reopening of the domestic economy, ongoing international border closures continued to limit transactions in Australia associated with cards issued overseas; this contributed to the reduction in merchant service fees as international transactions generally incur a higher fee than the equivalent domestic transaction. A reduction in these higher fee cross-border transactions also contributed to a decline in the average fee charged per dollar transacted with credit and debit cards (Graph 5, right hand panel). This decline was further supported by the ongoing shift from credit to debit cards, as people reduced their use of credit cards during the pandemic (Lowe 2021). Because debit cards typically attract a lower fee per transaction than credit cards, this shift led to lower fees charged to merchants for the same number of transactions.

Fees charged to institutions on deposit accounts are estimated to have decreased by 6 per cent in the year to June 2021, after decreasing by a similar amount in the previous reporting period. Some banks noted the reduction and removal of certain account and dishonour fees since the onset of the pandemic as a contributing factor. As with households, fewer instances of accounts being overdrawn also contributed. Around 45 per cent of fees charged to businesses on deposit accounts were collected from small businesses, while medium-sized businesses accounted for 21 per cent and large businesses made up 34 per cent. The majority of fees on deposits charged to small and medium businesses came from account servicing fees; by contrast, transaction fees made up the majority for large businesses.

Other fees charged to institutions are estimated to have fallen in this period. The reporting of 'other fees charged' (which is now presented inclusive of fees charged on bills of exchange) has been revised in the EFS collection. Banks are now required to report certain fees that were previously recorded as interest income for the purposes of the RBA Bank Fee Survey (see Appendix A). This definitional change has driven a sizable increase in the reported value of other fees charged.

Graph 5

Merchant Service Fees Charged



* Adjusted for breaks in series.
** Includes all four-party card scheme transactions acquired by reporting banks.
Sources: APRA; RBA

Conclusion

Total fees charged by banks through their domestic operations are estimated to have declined in the year to June 2021. This largely reflected a decline in fees charged on deposit accounts and credit cards, in part due to the continued effects of the pandemic. By contrast, fees charged on loans (excluding personal lending) increased moderately, in part reflecting a higher volume of lending activity in the year.

Appendix A: The Economic and Financial Statistics (EFS) collection

As with the previous RBA Bank Fee Survey, the EFS collection gathers information on the fees charged by banks on the provision of loans, deposit services and payment services. The collection excludes fees from banks' funds management and insurance operations, and fees charged by operations outside of Australia. The revised reporting form and instructions can be found within Reporting Standard ARS 730.1 ABS/RBA Bank Fees Charged (ARS 730.1).[3]

The transition from the RBA Bank Fee Survey to data collected via the EFS collection offers a number of improvements detailed in the sections below. It has also resulted in a number of breaks in reported series – for example, due to changes in the reporting methodology or the sample of banks filling out the report. To provide an indication of the underlying *growth* in fees, growth rates presented in this article have been adjusted where possible for the effects of breaks in series using information provided by reporting institutions on the impact of changes in methodology, along with expert judgement. Data for the *levels* of reported series are not adjusted for these series breaks and growth rates involving 2021 data should not be calculated from these unadjusted levels.

Reporting enhancements

More consistent data

Within the EFS collection, reporting periods and data collection definitions are now aligned across reporting institutions by requiring institutions to conform to common definitions and timelines per ARS 730.1. By contrast, the RBA Bank Fee Survey was collected on a best endeavours basis, which resulted in more variable data and depended to a greater degree on institutions' existing internal reporting practices and capabilities. For example, data were submitted according to individual institutions' financial years, which differ, ranging from year-ended March to year-ended December (Garner 2020). Under EFS reporting, all institutions report data for the year to the end of June.

EFS reporting standards also set out common definitions of counterparties (e.g. households, businesses, government) and finance purpose categories (e.g. whether the predominant use of the funds is for personal, commercial or housing purposes). This is in contrast to reporting under the RBA Bank Fee Survey, where some banks reported fees on the basis of banking product type instead of the purpose. This change most notably resulted in some banks' reclassifying fees charged from households to businesses, in particular small businesses. This reflected the fact that some financing via household retail products was in fact being used for business purposes (e.g. using a personal credit card for business purposes).

More comprehensive coverage

Data are now collected from institutions with total assets of $10 billion or more (on a domestic books basis), more than doubling the number of banks covered compared with the RBA Bank Fee Survey for 2020.

Another important enhancement offered by EFS reporting is that banks are now required to adopt systems to report on *all* fees charged, including fees (such as establishment fees) that are recorded as interest income in statutory accounts. The intention of the collection is to quantify fees faced by customers. This perspective is distinct from the accounting treatment of some fees, which had been the basis of some banks' reporting in the RBA Bank Fee Survey, in line with a best endeavours approach. As a result, more fees are now captured in the new collection. This is most notable for institutional lending and other fees charged (including bills of exchange), for which a material change in the level of reported fees can be observed. On the other hand, cashback offers are now netted off the reported fees charged.

More detailed data

Businesses are now split into three size categories (small/medium/large) instead of two (small/large). Under the RBA Bank Fee Survey, businesses were split into size categories based on banks' internal methodology. Now, banks use the methodology outlined in Reporting Practice Guide 701.0 and

Reporting Standard ARS 701.0 to determine business size.[4] Generally, businesses with a turnover greater than or equal to $50 million are classified as large businesses. For businesses with turnover of less than $50 million, the business is generally classified as medium when the reporting institution has an exposure of more than $1 million. When the exposure is less than $1 million, the business is usually classified as small. Fees charged to government entities – previously reported under the business category in some cases – are now also separately identified.

In addition, break fees charged are now separately identified from exception fees. These were previously reported under exception fees by some reporting institutions, although not consistently.

Endnotes

[*] The authors are from Domestic Markets Department.

[1] These data are published in the Reserve Banks's Statistical Table C9 and are subject to revisions. All series are affected by a series break between 2020 and 2021, which has resulted in a notable increase in the levels of fees charged to institutions. Historical survey results have been affected by mergers and acquisitions among participating reporting institutions and some changes in institutions' methodology (where possible, this has been reflected in revisions to data reported in previous years).

[2] This average fee includes all credit card accounts, including those with no annual fee.

[3] See Financial Sector (Collection of Data) (Reporting Standard) Determination No. 9 of 2021: Reporting Standard ARS 730.1 ABS/RBA Fees Charged. Available at <https://www.legislation.gov.au/Details/F2021L00306>.

[4] See APRA (2019) and Financial Sector (Collection of Data) (Reporting Standard) Determination No. 8 of 2022: Reporting Standard ARS 701.0 ABS/RBA Definitions for the EFS Collection. Available at <https://www.legislation.gov.au/Details/F2022L00228>.

References

APRA (Australian Prudential Regulatory Authority) (2019), 'Reporting Practice Guide: RPG 701.0 ABS/RBA Reporting Concepts for the EFS Collection', July.

Garner M (2020), 'Insights from the New Economic and Financial Statistics Collection', RBA *Bulletin*, September.

Lowe P (2021), 'Payments: The Future?', Address to the Australian Payments Network Summit 2021, Online, 9 December.