

Bank Fees in Australia

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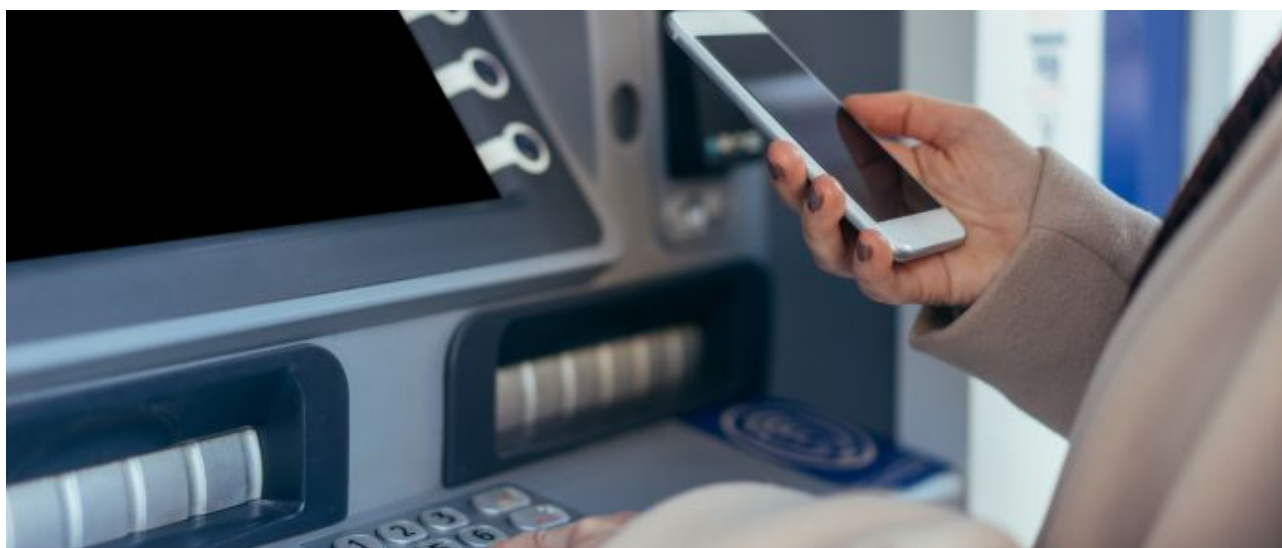


Photo: hsyncoban – Getty Images

Abstract

This article updates Reserve Bank research on bank fees charged to Australian households, businesses and government. Over the year to June 2023, total fees charged by banks fell by around 4 per cent. Fees comprised just 5 per cent of banks' total revenue over the period, while over 50 per cent came from interest earnings on loans. By customer, most fees were paid by large businesses, as was the case in previous years. However, fee earnings from businesses and government declined over 2022/23, in part reflecting lower merchant services fees. On the other hand, fee income from households increased, driven by higher revenue from charges on credit cards related to international travel and increased revenue from break fees on term deposits.

Introduction

Since 1997, the Reserve Bank has collected information on the fees charged to households and businesses by banks through their Australian operations. This article adds to and builds on this information by covering the year to June 2023.^[1] The 2022/23 data captured 45 lenders, which account for around 88 per cent of total credit outstanding.

During 2022/23, inflation reached its highest level since 1990, the cash rate increased by 325 basis points, credit growth eased significantly, and economic growth slowed following a strong rebound after the COVID-19 pandemic. Increases in

the cash rate flowed through to higher interest rates on deposits and on loans to households and businesses (Graph 1). Although inflation and higher interest rates weighed on real disposable incomes, household and business spending were supported by low unemployment, strong balance sheets and the ongoing effect of extraordinary policy support during the pandemic. International travel also recovered strongly after borders reopened in early 2022 (RBA 2023a).

Total fee revenue

Banks' total fee revenue fell over the year to June 2023, marking the sixth consecutive year of declines

Table 1: Bank Fees^(a)

	Households		Institutions ^(b)		Total	
	Levels (\$ million)	Growth (per cent)	Levels (\$ million)	Growth (per cent)	Levels (\$ million)	Growth (per cent)
2019/20	3,559	-10.2	7,881	-5.1	11,439	-6.8
2020/21	3,454	-9.5	11,545	-3.5	14,999	-4.9
2021/22	3,213	-7.0	11,255	-2.5	14,469	-3.5
2022/23	3,369	4.8	10,554	-6.2	13,923	-3.8

(a) There is a series break between 2020 and 2021 for all series; growth rates for the year to the end of June 2021 have been break-adjusted to account for series breaks. All figures have been rounded.

(b) Include businesses and government.

Sources: APRA; RBA.

(Graph 2). Lending fees declined as a share of assets, while deposit fees remained broadly steady as a share of total deposits, at a relatively low level. Fees contributed a modest and declining share of banks' income, comprising just 5 per cent of reporting banks' total revenue, compared with over 50 per cent from interest on lending (Graph 3).

By type of customer, the largest share of fees continued to be paid by large businesses, at over 40 per cent of total bank fees (Graph 4; Table 1). Most of the remainder was split roughly evenly between households and medium-sized businesses, with each paying just under one-quarter of total bank fees.

Fees charged to households

Fee revenue from households grew by around 5 per cent in the year to June 2023 (Table 2; Graph 5). A key driver of this growth was a rise in international travel, with more households using their Australian credit and debit cards overseas, for which banks often charge flat and/or transaction fees (Duncan 2023). Revenue from break fees on term deposits – charged when a depositor withdraws their funds early – also boosted fee income, as rising interest rates encouraged households to switch between deposit products (ASIC 2023).

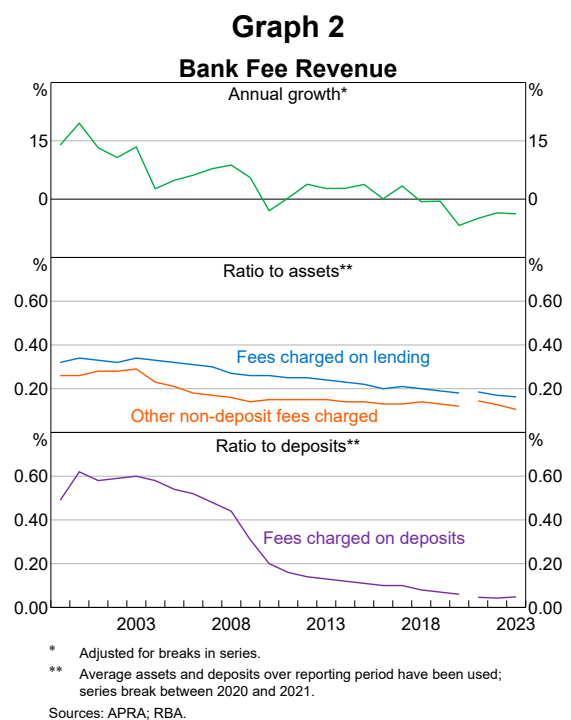
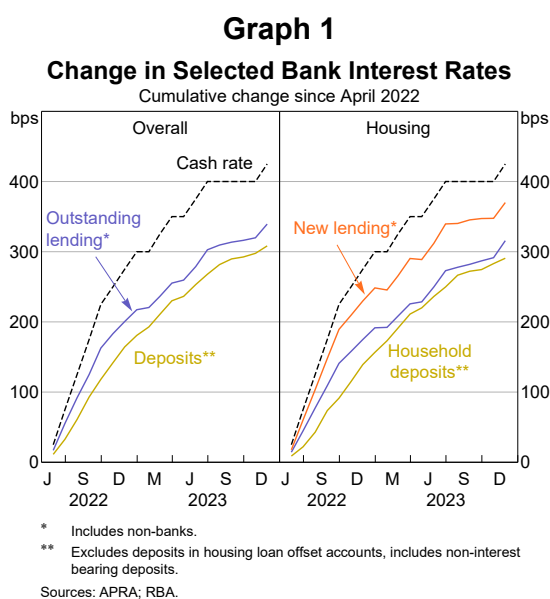


Table 2: Fees Charged to Households^(a)

	2020/21	2021/22	2022/23	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Loans	3,065	2,567	2,542	-1
– Housing	1,660	1,123	811	-28
– Personal	379	329	290	-12
– Credit cards	916	1,115	1,429	28
Deposits	457	606	796	31
Other	42	40	43	6
Total	3,454	3,213	3,369	5

(a) Levels for the year to the end of June 2021 have been break-adjusted to account for series breaks. All figures have been rounded.

Sources: APRA; RBA.

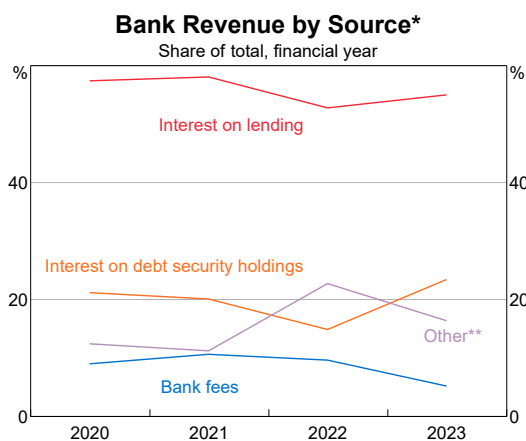
By contrast, earnings from fees on housing loans and personal loans declined year on year. Slower credit growth resulted in less income from establishment fees on new lending. Strong competition in the mortgage market further reduced housing loan fee revenue as banks offered financial incentives like cashback deals to attract customers; cashback deals are subtracted from fee earnings. As a result of these changes, credit cards overtook housing loans this year to be the largest source of banks' fee income from households (Graph 6).

The aggregate increase in revenue from fees on households over 2022/23 follows five years of declines. In previous years, banks removed fees partly in response to the 2018 Royal Commission

into Misconduct in the Banking, Superannuation and Financial Services Industry (ABA 2020). Competitive behaviour may also have played a role in the decline in total fees charged to households, as banks competed for market share. The ACCC (2023) Retail Deposits Inquiry noted that banks use fees to recoup operational costs from customers and recommended more transparency for consumers about these fees, which could affect banks' pricing decisions in the future.

Fee revenue from credit cards and personal loans

Credit cards are now the largest source of bank fees paid by households. Strong growth in credit card fee income in 2022/23 largely reflected increased

Graph 3

* Banks that report fee data; adjusted for series breaks.

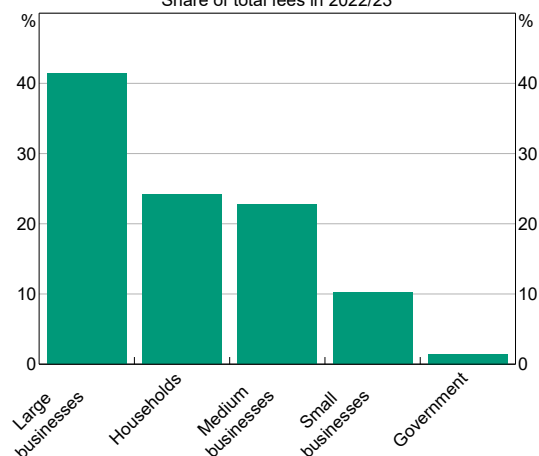
** Includes all other interest and non-interest revenue.

Sources: APRA; RBA.

Graph 4

Bank Fees by Customer

Share of total fees in 2022/23



Sources: APRA; RBA.

use of domestic credit cards while travelling overseas (Graph 7). Higher credit card fee revenue was mostly in the form of foreign currency conversion charges. Demand for foreign currency travel cards also boosted other fee income. The growth in credit card fee income was partially offset by a decline in revenue from missed payment fees, in line with the trend decline in the share of credit cards accruing interest.

Over 2022/23, credit card fees were a little under 1 per cent of the total value of credit card transactions, which is the highest share since the late 2000s. Account servicing charges – largely consisting of annual card fees – continue to be the main source of banks' credit card fee income, followed by transaction fees. Meanwhile, income

from fees on personal loans declined sharply over the period. Personal credit excluding credit cards declined year on year, reducing banks' earnings from establishment fees.

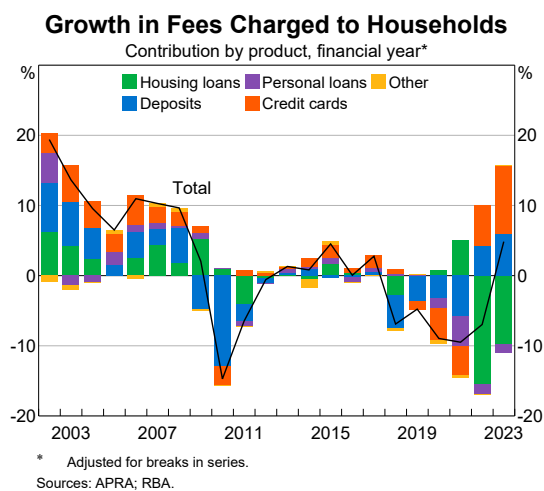
Fee revenue from home loans

Fee income from housing loans fell alongside easing housing credit growth and strong competition in the mortgage market (RBA 2023b) (Graph 8). Account servicing fees comprise most of the housing loan fees banks charge, capturing application, establishment and settlement charges on new mortgages. Banks continued to offer cashback deals in 2022/23 – where a lender offers an incentive to new customers for refinancing their home loan – reducing net earnings from fees. Banks have since largely withdrawn these cashback deals from the market (Bristow 2023). Revenue from housing loan break fees – which are charged when a customer terminates a contract early – also declined. As mortgage rates increased, there was less incentive for consumers to break their existing fixed-rate housing loan as there was unlikely to be a lower rate on offer.

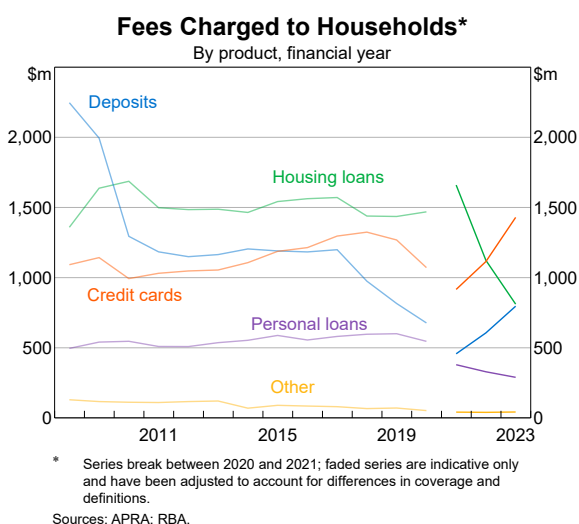
Fee revenue from deposits

Fee income on deposits grew strongly as households chose to exit term deposits early to take advantage of rising interest rates across deposit products (RBA 2023b). Banks' income from transaction and account servicing fees also rose, with increased international travel boosting

Graph 5



Graph 6



Graph 7

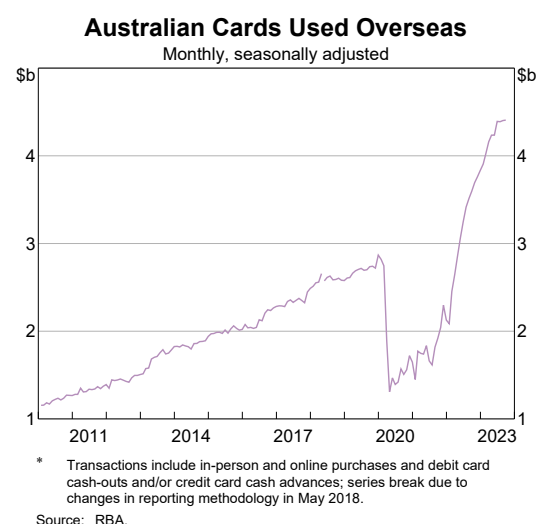


Table 3: Fees Charged to Institutions^(a)

	2020/21	2021/22	2022/23	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Loans	4,854	5,109	5,146	1
Merchant service fees	2,966	2,782	2,413	-13
Deposit accounts	505	546	577	6
Other ^(b)	3,219	2,819	2,417	-14
Total	11,545	11,255	10,554	-6

(a) Includes businesses and government. Levels for the year to the end of June 2021 have been break-adjusted to account for series breaks. All figures have been rounded.

(b) Includes bills of exchange.

Sources: APRA; RBA

demand for travel cards, foreign currency transactions and overseas ATM withdrawals.

Fees charged to businesses and government

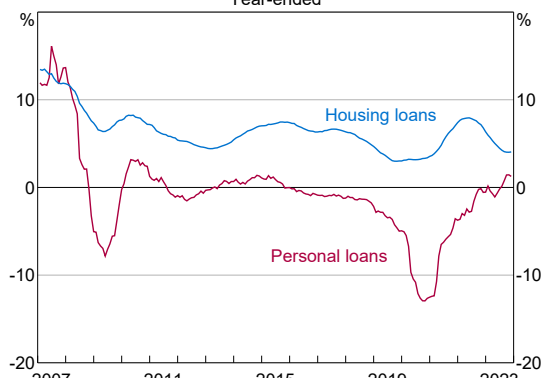
Total fees charged to institutional customers declined in the year to June 2023 for the fourth consecutive year (Table 3; Graph 9). Customer shares were stable, with large businesses continuing to pay the majority of banks' fees. This year's decline was driven by a decrease in fee income from merchant services (i.e. the fees charged to businesses and governments for providing payment processing services). This reflected the ongoing shift in consumer preferences away from credit cards and towards debit cards, which have lower merchant fees. Reported fees charged also declined because of the growing market share of

retail payments service providers not captured in the available data.

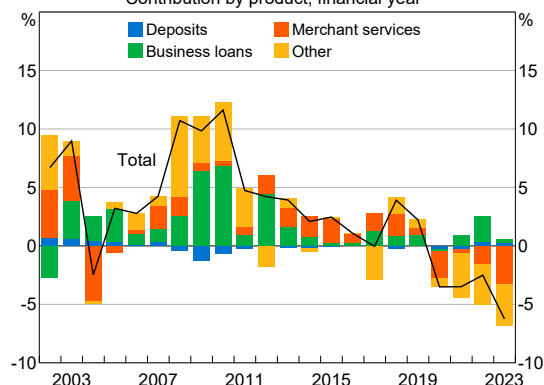
By contrast, growth in fees earned on business loans – the largest component of banks' institutional fee income – was largely flat due to slowing business credit growth. Nevertheless, fee income from these loans continues to comprise almost one-half of banks' total fee earnings (Graph 10). Fees on business loans are typically higher than housing loans, because business loans are larger and more complex.

Fee revenue from business loans

Fees charged on loans were flat over the year, reflecting the broad-based easing in business credit growth (Graph 11). As a result, revenue from fees on business loans fell as a share of business credit outstanding. As with households, the majority of

Graph 8**Household Credit Growth***
Year-ended

* Seasonally and break-adjusted; personal loans includes credit cards.
Sources: APRA; RBA.

Graph 9**Growth in Fees Charged to Institutions**
Contribution by product, financial year*

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

banks' institutional fee income continues to come from the application, establishment and settlement charges associated with loans. Large businesses pay most of these fees, but small businesses' establishment costs are relatively larger compared to their loans.

Fee revenue from merchant services

Merchant service fee revenue fell by 13 per cent over the year to June 2023 (Graph 12). Banks typically charge a combination of fixed fees (such as for card payment terminals) and transaction fees for each card payment. Fees earned on merchant services declined in line with the value of credit and debit card transactions.

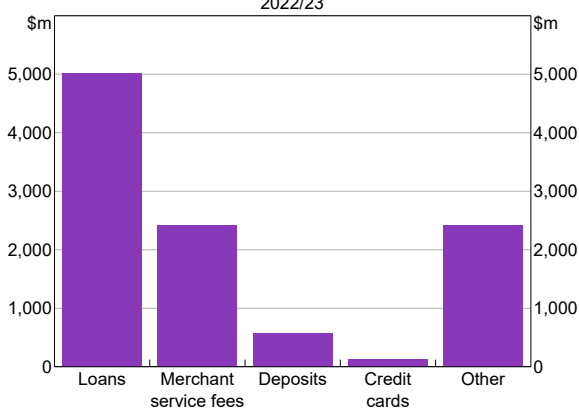
Structural changes in the merchant services market also contributed to lower income over the

reporting period. An ongoing shift to debit from credit cards has weighed on fee revenue, as debit cards typically attract a lower fee per transaction than credit cards (Graph 13) (Gill, Holland and Wiley 2022). This trend decline is partially offset by the growing share of debit card transactions on which fees are charged (Livermore *et al* 2023). In addition, some banks sold their merchant services business to entities not required to report their fee income to the Australian Prudential Regulation Authority, meaning these data are no longer captured (ANZ 2022; Bendigo Bank 2021).

Other fee revenue

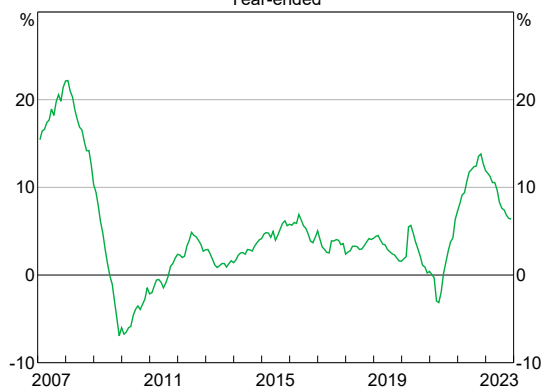
Other fees charged to institutions declined by 14 per cent over the reporting period. The reporting

Graph 10
Fees Charged to Institutions
2022/23



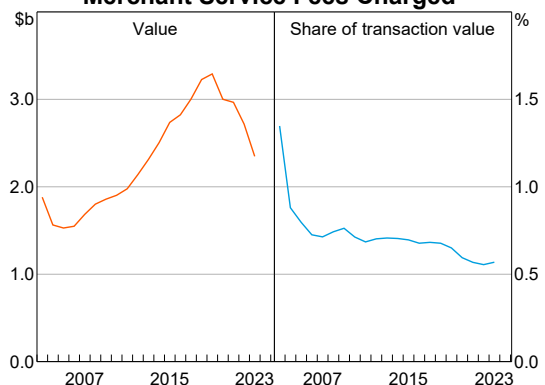
Source: APRA/RBA.

Graph 11
Business Credit Growth*
Year-ended



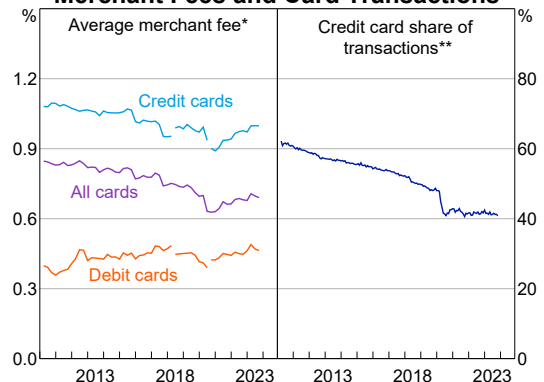
* Break and seasonally adjusted.
Sources: APRA; RBA.

Graph 12
Merchant Service Fees Charged*



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

Graph 13
Merchant Fees and Card Transactions



* Prior to changes in reporting methodology in June 2018, the average fee reported for scheme debit cards was slightly overstated and the average fee reported for scheme credit cards was slightly understated; the overall average fee was unaffected by the 2018 reporting change. There was also a change in the calculation of the average merchant fees for debit and credit cards in September 2020.

** By value; seasonally adjusted.
Source: RBA.

of 'other fees charged' was revised when the Economic and Financial Statistics Collection replaced the RBA Bank Fee Survey from 2020/21 (Sparks and Fitzpatrick 2022). Other fees charged now includes fees that were previously recorded as interest income. This year's decline reflects in part a fall in fee income from advisory and merger and acquisition services amid tighter financial conditions and a less favourable economic outlook. Lower fee revenue from commercial bills also weighed on banks' total fee revenue.

Conclusion

Fees charged by banks through their domestic operations represent a small share of banks' total earnings, declining to 5 per cent of total revenue in 2022/23. By customer, fee revenue from households increased, as households exited term deposits early amid rising interest rates and increased their demand for international card transactions. By contrast, institutional fee revenue fell over the period, reflecting lower merchant service fee income and a decline in income from other miscellaneous charges. Large businesses continue to account for the largest share of fees to banks, paying over 40 per cent of bank fees in 2022/23. ↗

Endnotes

- [*] The author is from Domestic Markets Department.
- [1] These data may differ from previous years due to data revisions affecting both the revised period and break adjustments. See Nunn (2023) for 2021/22 vintage data.

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