

# Bank Fees in Australia

Stephanie Crews and Michelle Lewis<sup>[\*]</sup>



Photo: Vicki Smith – Getty Images

## Abstract

The Reserve Bank's 23<sup>rd</sup> annual bank fees survey shows that, overall, banks' income from fees declined in 2019. Fee income from households decreased, largely driven by lower fees from deposit accounts. A number of reforms related to merchant services contributed to banks' fee income from businesses growing at a slower pace than in recent years.

## Banks' overall income from fees declined in 2019

The Reserve Bank's annual bank fee survey provides information on the fee income earned by banks through their Australian operations.<sup>[1]</sup> The survey focuses on fee income from the provision of loans, deposit services and payment services. The 2019 survey included 15 institutions, capturing 90 per cent of the Australian banking sector by balance sheet size.<sup>[2]</sup> Fee income from operations outside of Australia and from funds management and insurance operations are not covered by the survey. This article summarises the results from the latest survey, covering banks' financial years ending in 2019.<sup>[3]</sup>

Domestic banking fee income declined in 2019 (Table 1). This was driven by lower fee income from households, which more than offset an increase in

fee income from businesses. Fees charged to households accounted for around one-third of banks' fee income and fees charged to businesses accounted for the remainder. The ratio of lending fee income to assets (loans) declined a little, continuing the trend of recent years (Graph 1). Deposit fee income was broadly stable relative to the value of deposits.

## Fee income from households decreased ...

Banks' fee income from households declined by 7 per cent in 2019, which followed a similar decline in 2018, and compares with modest growth in the preceding few years. The recent declines were primarily driven by decreases in fee income from household deposits (Graph 2, Table 2). Fee income from households continued to be largely made up of fees on credit cards (43 per cent), housing loans

**Table 1: Banks' Fee Income**

	Households		Businesses		Total	
	Level \$ million	Growth Per cent	Level \$ million	Growth Per cent	Level \$ million	Growth Per cent
2016	4,349	-0.2	7,695	0.9	12,043	0.5
2017	4,490	3.3	7,959	3.4	12,449	3.4
2018	4,203	-6.4	8,189	2.9	12,392	-0.5
2019	3,917	-6.8	8,383	2.4	12,300	-0.7

Source: RBA

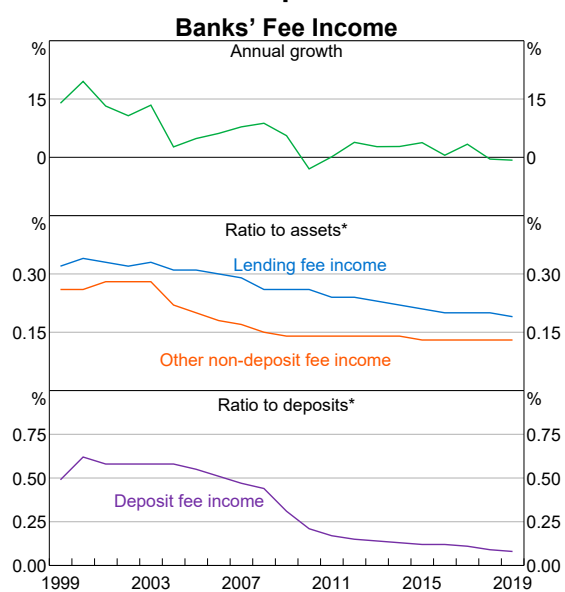
**Table 2: Banks' Fee Income from Households**

	2017 \$ million	2018 \$ million	2019 \$ million	Annual growth 2019 Per cent	Average annual growth 2013-18 Per cent
Loans	3,284	3,235	3,114	-3.7	2.2
– Housing	1,265	1,175	1,087	-7.5	-0.4
– Personal <sup>(a)</sup>	349	354	325	-8.2	0.2
– Credit Cards	1,670	1,706	1,702	-0.2	4.9
Deposits	1,138	912	744	-18.4	2.2
Other Fees <sup>(b)</sup>	67	56	59	5.4	-11.9
Total	4,490	4,203	3,917	-6.8	0.5

(a) Fee income from personal loans in 2016 was affected by a transfer of assets

(b) Includes banking-related fee income from households that cannot be directly related to an individual deposit or loan account (e.g. travellers' cheque or foreign exchange fees)

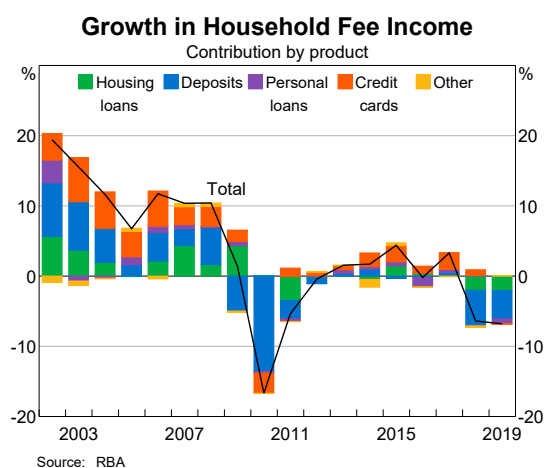
Source: RBA

**Graph 1**

\* Adjusted for breaks in series due to changes in banks' reporting; financial-year average assets and deposits have been used

Sources: APRA; RBA

(28 per cent) and deposits (19 per cent). All components of household fee income declined in 2019, except for banking-related fee income that cannot be directly related to an individual deposit or loan account ('other' fee income).

**Graph 2**

**Table 3: Unit Fees on Credit Cards<sup>(a)</sup>**

	2017	2018	2019	Annual growth 2019 Per cent
Annual fees (\$)				
– Non-rewards cards	69	54	54	–1.2
– Rewards cards	208	203	211	3.8
– All cards	150	138	140	1.4
Other fees				
– Foreign currency conversion fees (per cent of value)	2.8	2.5	2.6	3.5
– Late payment fee (\$)	18	19	19	–0.1

(a) Simple average of advertised fees for cards issued by the major banks; only cards that are available to new cardholders are included in the sample; note that changes in the sample affect the average fee; includes fee-free cards; does not include any fee waivers or reductions; as at December of each year. Growth calculations are based on unrounded numbers.

Source: RBA

Fee income from deposit accounts fell by 18½ per cent in 2019, reflecting broad-based declines in account-servicing fees, transaction fees and fees from other sources. Some banks noted lower transaction fees due to a reduction in ATM fees and the removal of transaction fees related to specific products. This follows a sharp decline in fee income from deposit accounts in 2018 due to a number of banks abolishing the ATM withdrawal fees charged to cardholders from other financial institutions from late 2017. The reduction in fee income from transaction fees on deposits is also consistent with the decline in ATM use in recent years as consumers have increasingly switched from cash to electronic payment methods (Caddy *et al* 2020). The increased prevalence of fee waivers was also noted by some banks as the reason for reduced account servicing fees.

Fee income from housing loans declined by 7½ per cent in 2019, reflecting a decrease in account-servicing fees and lower volumes of new and refinanced housing loans over much of the survey period. Income from fees on personal loans declined by 8¼ per cent. This was largely driven by a reduction in account-servicing fees, although banks also noted that volumes of new personal loans declined over the year.<sup>[4]</sup> More recently, many banks have removed some fees, such as those for repayment holidays, in response to COVID-19.

Banks' fee income from credit cards declined a little, in contrast to previous years where it had typically contributed to growth in banks' fee income from households. Banks' income from account-servicing fees on credit cards increased, but this was more than offset by declines in transaction and exception fees (which includes dishonour, late payment and break fees). Some banks cited a reduction in late fees due to the use of SMS alerts to remind customers of payment due dates. Changes in unit fees were mixed in 2019 – annual fees on rewards cards and foreign currency conversion fees increased, while annual fees on non-rewards cards and late payment fees declined only marginally (Table 3).

Income from exception fees charged to households declined again in 2019 (Graph 3).<sup>[5]</sup> This largely reflected lower exception fees on transaction deposits. Some banks noted that a contributing factor was the removal of informal overdrafts, which resulted in a decline in honour and dishonour fees. The removal of these overdrafts was consistent with one of the recommendations of the Royal Commission into misconduct in the Banking and Superannuation and Financial Services Industry. Income from exception fees charged to households on credit card products was also a driver of the decline, partially due to a lower volume of late payment fees.

**Table 4: Bank's Fee Income from Businesses**

	2017	2018	2019	Annual growth 2019	Average annual growth 2013-18
	\$ million	\$ million	\$ million	Per cent	Per cent
Deposit accounts	601	583	584	0.1	-1.0
– of which: exception fees	62	70	69	-0.3	11.1
Loans	3,243	3,278	3,371	2.9	2.0
– of which: exception fees	44	41	49	19.6	-0.7
Merchant service fees	2,911	3,146	3,213	2.2	7.0
Bank Bills <sup>(a)</sup>	27	15	9	-38.9	-22.6
Other	1,162	1,169	1,206	3.2	-1.5
Total	7,959	8,189	8,383	2.4	2.8
– of which: exception fees	106	111	118	7.0	5.8

(a) Levels have been revised due to a financial institution reporting on a different basis in 2019. Levels have been back-cast to ensure consistent reporting.

Source: RBA

### ... while fee income from businesses increased slightly

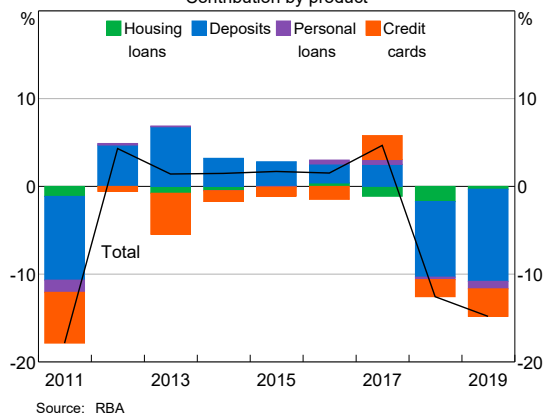
Total fee income from businesses increased by 2½ per cent in 2019, due to higher fee income from both small and large businesses (Graph 4, Table 4). Growth in fee income mainly reflected increases in business loan fees and 'merchant service fee' income from processing card transactions (Graph 5). The contribution to fee income from business deposit services was little changed. Fee income from businesses continued to consist largely of fee income from loans (40 per cent) and merchant service fees (38 per cent).

Fee income from business loans increased by 3 per cent in 2019, reflecting higher fee income from large businesses, while fee income from loans to small businesses declined slightly. The increase in fee income from large businesses mostly reflected an increase in fee income from account-servicing fees, though fee income from transaction services and exception fees also increased. The increase in fee income from business loans is consistent with higher volumes of loan approvals over the survey period.

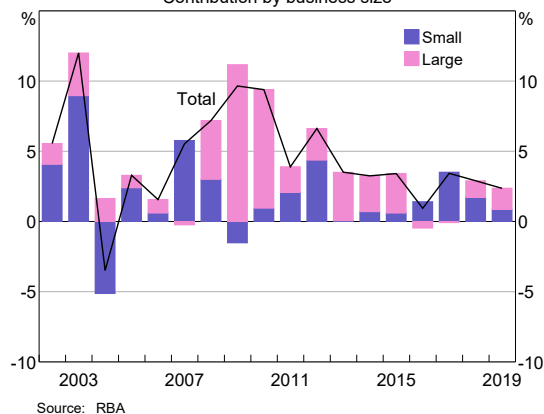
Merchant service fee income as a share of the value of credit and debit card transactions declined further in 2019 (Graph 6). This reflected the

**Graph 3****Growth in Household Exception Fee Income**

Contribution by product

**Graph 4****Growth in Business Fee Income**

Contribution by business size



continued shift from credit to debit cards, where the latter usually has lower fees, and declines in the average (per transaction) merchant fee for each type of card. The decline in the economy-wide costs of card acceptance has been driven to a significant extent by the various reforms and policy initiatives undertaken by the Payments System Board since the early 2000s (Occhiutto 2020). The implementation of least-cost routing by a number of major financial institutions starting in mid-2018, which allows businesses to direct contactless debit card transactions to the network that costs them the least to accept, is also likely to have contributed to downward pressure on unit fees paid by merchants.

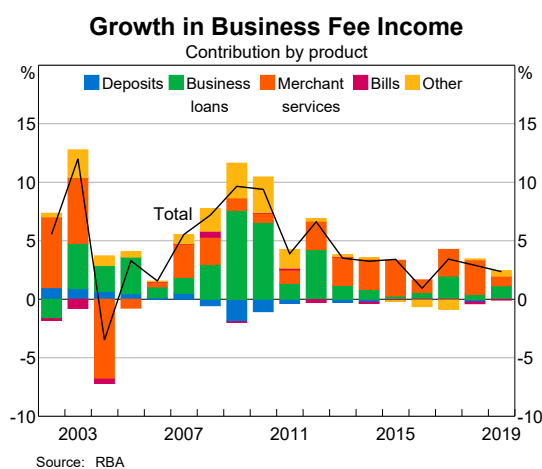
Fee income from business deposits was little changed in 2019, as a slight increase in deposit fees received from small businesses was offset by a decrease in fees from large businesses. Around two-thirds of fee income from business deposits was for

deposit services provided to small businesses. The growth in deposit fee income from small businesses was a result of increased collection of account-servicing fees. The income from transaction and other fees from small businesses decreased. The decline in deposit fee income from large businesses was due to a reduction in account-servicing and other fee income.

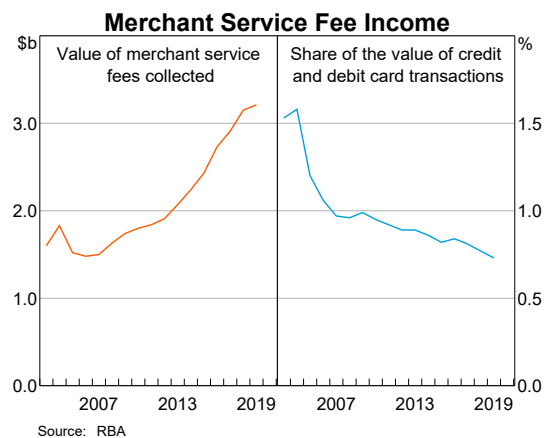
Bank bill fee income declined over 2019, which continues the trend seen in the past few years. This reflected businesses continuing to shift from bank bills to other, more flexible lending products. Bank bill fee income from both large and small businesses declined.

In recent months, to assist businesses who are under pressure from the impacts of COVID-19, several banks have announced that they have temporarily removed or reduced fees for card acceptance services and waived some other fees on business products (such as those establishing a loan and on deposits). ✖

**Graph 5**



**Graph 6**



## Footnotes

- [\*] The authors are from the Domestic Markets Department.
- [1] The data from the survey are published in the Reserve Bank's Statistical Table C9 and are subject to revisions.
- [2] Survey results have been affected by mergers and acquisitions among participating institutions and some changes in participants' methodology (where possible, this has been reflected in revisions to data reported in previous years).
- [3] All data from the survey are based on individual banks' financial years, which differ across banks, but range from the year ending March to December 2019. (The data in

Table 3 were not collected through the survey and are instead based on calendar years). Improved data on bank fees are due to be reported from March 2021 in the new Economic and Financial Statistics (EFS) collection – these data are designed to be more consistent across institutions, including because they will be based on a consistent reporting period. For more information on the EFS collection, see Bank, Durrani and Hatzvi (2019).

- [4] The personal loan category includes fees associated with term loans, margin loans to households, and home-equity loans where the predominant purpose is not known; the category excludes credit card lending.

[5] Exception fees form part of fee income from deposits, housing loans, personal loans and credit cards.

## References

Australian Prudential Regulation Authority (2018), 'Reporting Standard ARS 730.1', December, viewed 17 April 2020. Available at <[https://www.apra.gov.au/sites/default/files/ars\\_730.1\\_absrba\\_fees\\_charged\\_1\\_0.pdf](https://www.apra.gov.au/sites/default/files/ars_730.1_absrba_fees_charged_1_0.pdf)>

Australian Prudential Regulation Authority (2019), 'Modernised economic and financial statistics', July, viewed 17 April 2020. Available at <<https://www.apra.gov.au/modernised-economic-and-financial-statistics>>.

Bank J, K Durrani and E Hatzvi (2019), 'Updates to Australia's Financial Aggregates', *RBA Bulletin*, March, viewed 17 April 2020. Available at <<https://www.rba.gov.au/publications/bulletin/2019/mar/updates-to-australias-financial-aggregates.html>>.

Caddy J, L Delaney, C Fisher and C Noone (2020), 'Consumer Payment Behaviour in Australia', *RBA Bulletin*, March, viewed 17 April 2020. Available at <<https://www.rba.gov.au/publications/bulletin/2020/mar/pdf/consumer-payment-behaviour-in-australia.pdf>>.

Commonwealth of Australia (2019), 'Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry', Final Report, February.

Occhiutto K (2020), 'The Cost of Card Payments for Merchants', *RBA Bulletin*, March, viewed 17 April 2020. Available at <<https://www.rba.gov.au/publications/bulletin/2020/mar/the-cost-of-card-payments-for-merchants.html>>.

Reserve Bank of Australia (2019), 'Review of Retail Payments Regulation: Issues Paper', November, viewed 17 April 2020. Available at <<https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf>>.