



Bank Fee Income - 2014

Overview

Aggregate bank service fee revenue in 2013 was \$11.6 billion. This is an increase of \$299 million or 2.6% over the past year. The increase this year is substantially less than for last year which saw a rise of \$437 million or 4.0%.

Across the two broad customer segments this year, bank service fee revenue increased by 2.3% to \$4.14 billion for households, while for businesses it increased by 2.8% to \$7.50 billion.

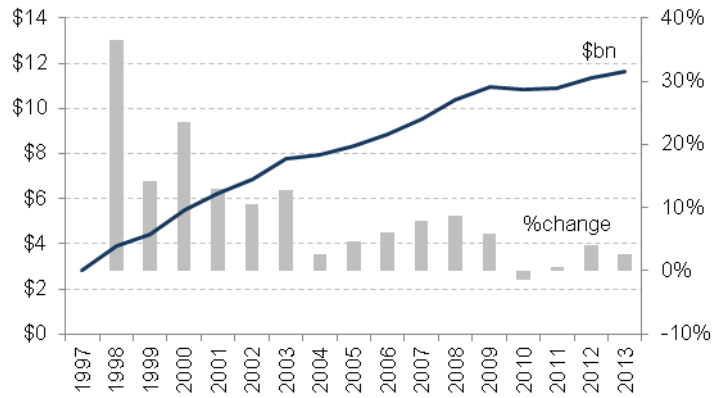
This is the first rise in bank service fee revenue from households since 2009. Bank service fee revenue from households peaked at \$5.17 billion in 2009. It is now \$1 billion or 20% less than this peak.

At 2.8%, the growth rate for bank service fee revenue from businesses in 2013 is the smallest growth rate since 2006. Fee growth for businesses over 2009 and 2010 reached 10.1% and 12.2%, reflecting increased bank intermediation as a result of the global financial crisis.

Table – Bank service fee revenue

\$million	2006	2007	2008	2009	2010	2011	2012	2013
Households	\$4,181	\$4,613	\$5,092	\$5,168	\$4,311	\$4,069	\$4,044	\$4,137
. change	\$437	\$433	\$479	\$76	-\$857	-\$242	-\$25	\$93
. %change	11.7%	10.4%	10.4%	1.5%	-16.6%	-5.6%	-0.6%	2.3%
Business	\$4,661	\$4,922	\$5,275	\$5,808	\$6,514	\$6,829	\$7,291	\$7,496
. change	\$76	\$261	\$353	\$533	\$706	\$315	\$462	\$205
. %change	1.7%	5.6%	7.2%	10.1%	12.2%	4.8%	6.8%	2.8%
Total	\$8,842	\$9,535	\$10,367	\$10,976	\$10,825	\$10,899	\$11,335	\$11,635
. change	\$513	\$694	\$832	\$609	-\$151	\$73	\$437	\$299
. %change	6.2%	7.8%	8.7%	5.9%	-1.4%	0.7%	4.0%	2.6%

Bank service fee revenue

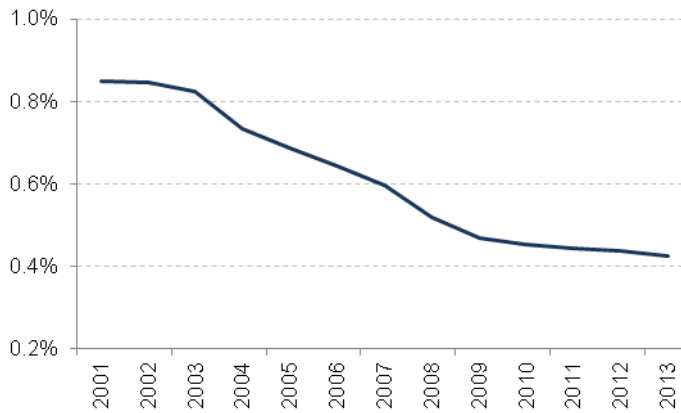


Bank service fee revenue adjusted for asset growth

Growth in bank service fee revenue should be considered in the context of growth in banking business.

The chart below shows that over the past 12 years, there has been a downward trend in bank fees as a proportion of banks' resident assets. In 2001 and 2002, this ratio averaged around 0.85%. It is now at a record low of 0.43%.

Chart – Ratio of bank service fee revenue to resident assets



Source: RBA

Bank service fee revenue and bank income and profits

Bank fees as a proportion of banks' operating income have been within a range of 13.5%-18.0% since 2001. Over the most recent three years (2011, 2012 and 2013), the ratio has been at the lower end of this range.

This year, the ratio is 13.5%, the lowest level since 1998.

For the ten years from 2000 to 2009 this ratio was above 15%, falling below 15% in 2010 (13.9%).

Chart – Ratio of bank service fee revenue to operating income



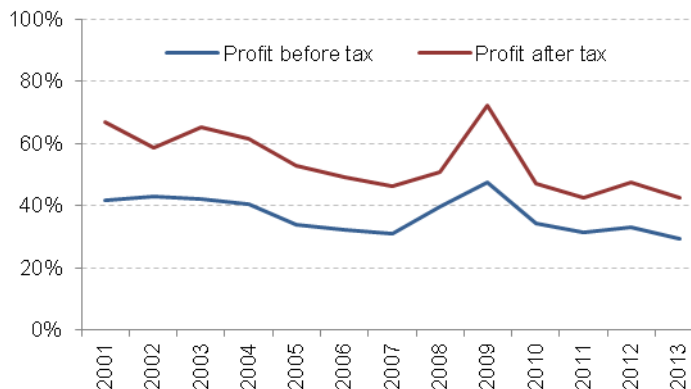
Source: Banks' operating income is sourced from banks' annual reports.

The ratio of bank fees to bank profit is at near record low levels.

In terms of net profit before tax, the ratio is now at 29.4% the second lowest level on record. For net profit after tax, the ratio is 42.7%, a record low.

The increase in the ratio, over 2008 and 2009, was a result of a significant fall in profits. That is, bank profits over this two year period fell by 25% on a *before tax* basis and 26% on an *after tax* basis. As such, the increase in the ratio does not reflect a large rise in fee income; it reflects a large fall in profits.

Chart – Ratio of bank service fee revenue to bank profits



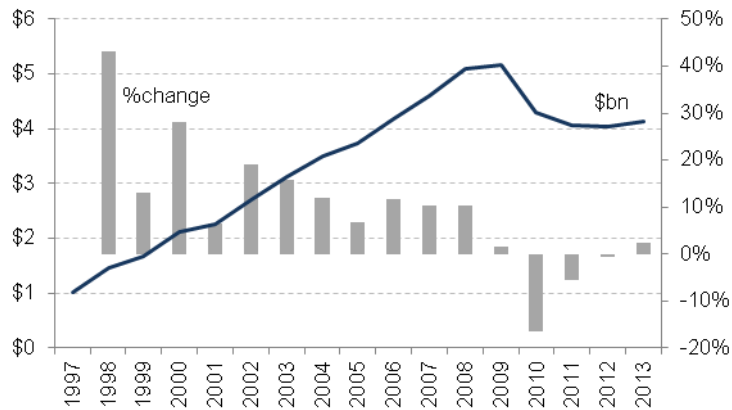
Source: Profit data are sourced from banks' annual reports.

Households

For 2013, bank service fee revenue from households was \$4.14 billion, an increase of 2.3% or \$93 million over the past year. This is \$1 billion less than the high of \$5.17 billion four years before (2009).

Over the three consecutive years, 2010, 2011 and 2012, bank service fees paid by households fell by a total of \$1.1 billion or 22%.

Chart – Bank service fee revenue from households



The following chart shows the large falls in bank service fee revenue paid by households compared with the highest year of fees from households, four years ago (2009).

Compared with four years ago, five of the six broad household product categories have experienced a fall in bank service fee revenue. In particular, fees from transaction accounts are 44% or \$818 billion lower compared with four years ago (2009).

The amount that customers pay in bank fees for housing loans is \$153 million or 11% lower than the high of 2009 and for credit cards, bank fees are \$33 million or 2% less.

Chart – Change in bank service fee revenue paid by households since 2009

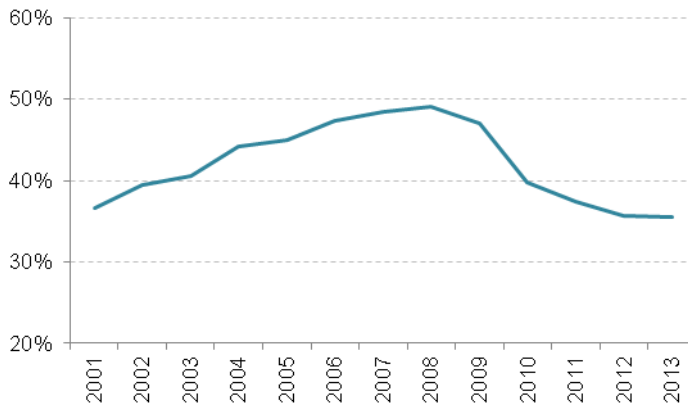


Contribution by households to total bank service fee revenue

This year, 2013, bank service fee revenue from households accounted for 35.6% of all bank service fee revenue, the lowest share on record (since the first year of the survey - 1997).

Over the four years from 2006 to 2009, households accounted for 47% to 49% of bank service fee revenue.

Chart – Bank service fee revenue: proportion from households

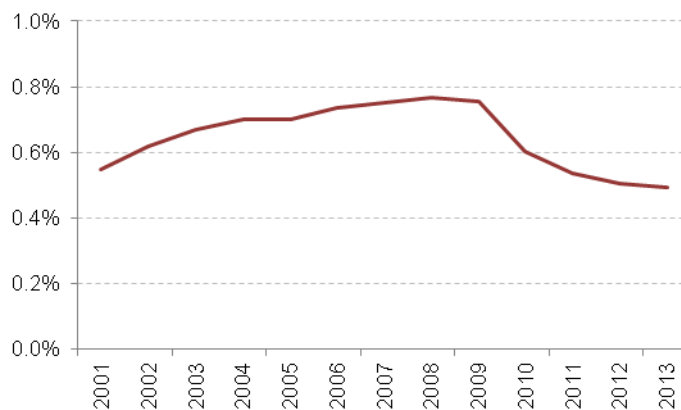


Bank service fee revenue as a proportion of household spending

It is useful to compare the amount of bank fees paid by households against total household spending, using the ABS National Accounts aggregate – Household Final Consumption Expenditure.

This year saw the fifth consecutive fall in the proportion of household expenditure on bank fees. That is, it fell from 0.77% in 2008 to 0.49% in 2013. The current level of 0.49% is the lowest since 1999.

Chart – Bank service fee revenue from households as a % of HFCE



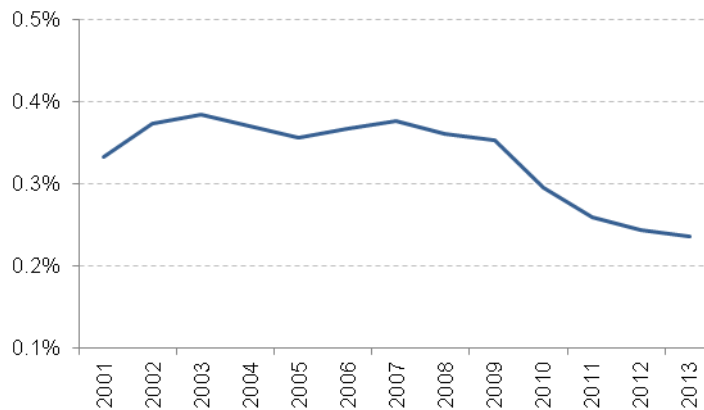
Source: ABS National Accounts - Household Final Consumption Expenditure.

Proportion of bank fees from lending to households

Over the past year (2013), bank fee revenue from loans to households was only a small fraction (0.24%) of total lending to households. It was the lowest level since 1997 (the first year of the survey). This ratio was in a tight range of 0.36% to 0.38% for seven years from 2002 to 2008.

Over the past six consecutive years, since 2007, the ratio has fallen from 0.38% to 0.24% in 2013.

Chart – Bank service fee revenue from households as a proportion of loan outstandings



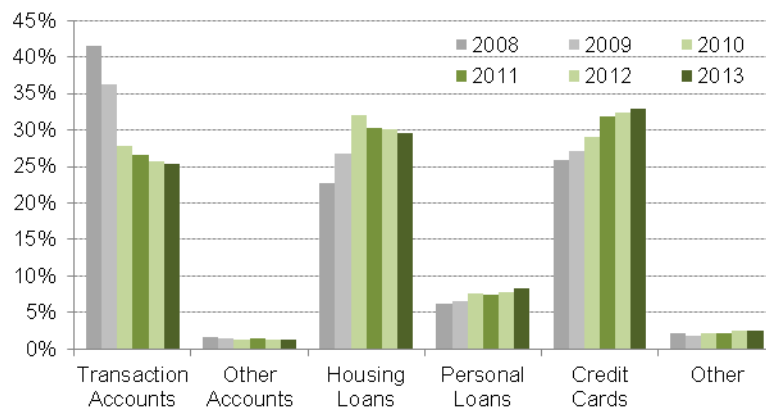
Contribution by product to bank fees paid by households

In 2013, credit cards were the highest contributor to bank service fee revenue from households, at 33%. This was followed by housing loans at 30%.

Over the ten years from 1999 to 2008, bank fees from transaction accounts was the highest contributor to bank fees from households, ranging from 41% to 46% of total bank service fee revenue from households. This contribution has fallen significantly over the past five years. Since 2008, the proportion of fees from transaction accounts has fallen from 42% to 25%. This has seen the value of these fees fall by 50% or \$1.1 billion, compared with five years ago.

The proportion of bank service fee revenue from credit cards has grown considerably over recent years. This has been the result of large falls in fees on transaction accounts, not by rises in fees for credit cards.

Chart – Distribution of bank service fee revenue from households by product



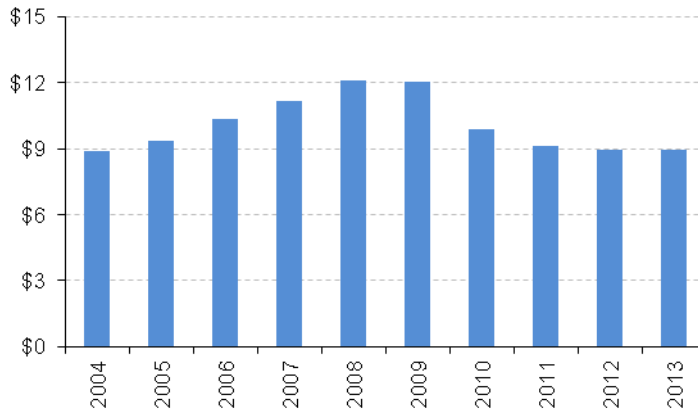
Average weekly bank fees paid by households

In 2013, there were 8.9 million households paying, on average, around \$8.98 per week in bank fees. This is a small increase of 5 cents per week or 0.5% over the past year.

In 2008, the average weekly bank service fees paid by households reached a high of \$12.12, but have fallen by \$3.14 or 26% since then.

The average weekly value of fees paid by households has been steady over the past three years, very close to \$9.00 per week over that time.

Chart – Average weekly bank fees paid by households



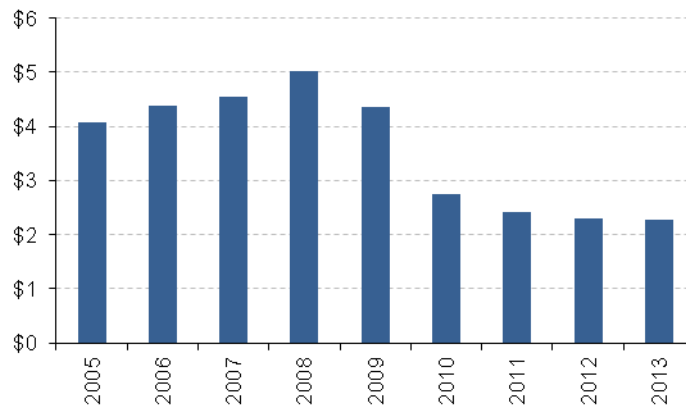
Average weekly bank fees paid on household transaction accounts

For households who only have a transaction account, the average weekly bank fees were \$2.27 this year, the smallest amount over the past decade.

Average weekly fees paid on transaction accounts fell by 3 cents per week or 1.3%, compared with last year. Five years ago (2008), the average weekly fees paid by households on their transaction accounts reached a high of \$5.02 per week. Since then, it has fallen to less than half this amount, a fall of \$2.75 per week or 55%, to \$2.27 now.

The data below have not been adjusted to account for the many customers who have multiple transaction accounts.

Chart – Average weekly bank fees paid by households on transaction accounts



Housing loans

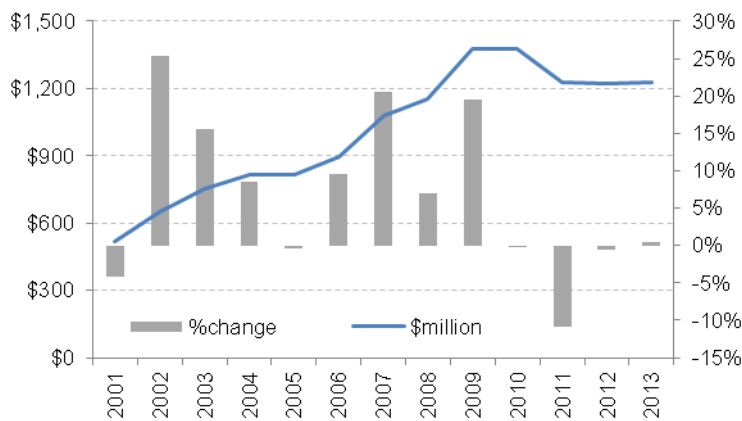
At the end of June 2013, there were around 5.6 million active home loans with banks, including owner-occupier and investor home loans. The total value of lending for home loans on the books of Australian banks was over \$1 trillion. Just over two-thirds (68%) of housing loans with banks are with owner-occupiers while the remaining 32% are for housing investment. That is, banks provide 3.8 million loans to Australian households to purchase their own home while there are 1.8 million housing investment loans which assist Australian households with their investment strategies.

Housing finance data from the Australian Bureau of Statistics (ABS) shows that over the year ending June 2013, there were 519,310 new housing loan commitments made by banks to owner-occupiers. The value of these loans was \$158.8 billion. Furthermore, the ABA estimates that this will rise to 762,011 if new investor loans are added.

Over the last three years, 2011, 2012 and 2013, there has been little change in the amount of fees households pay for their housing loans. Bank fees from housing loans were \$1.2 billion for each year (varying only to the third decimal place \$1.226 billion in 2011, \$1.221 billion in 2012 and \$1.228 billion in 2013).

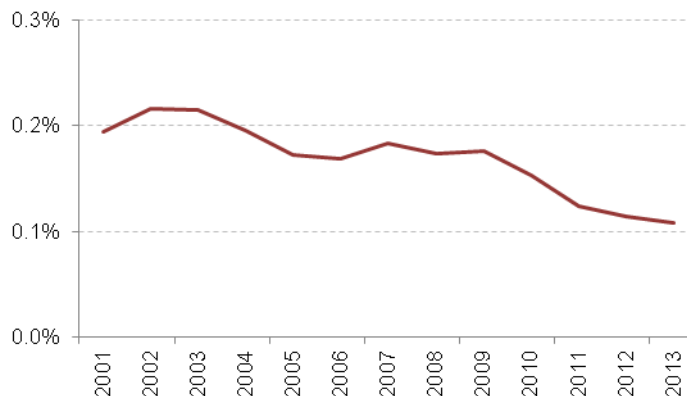
A high of \$1.38 billion was reached in 2009. For the past three years these fees have been 11% less than the peak in 2009. The fall in bank service fee revenue from housing loans was a result of reductions or removal of a number of fees such as exit fees.

Chart – Bank service fee revenue from housing loans



Bank service fee revenue from home loans, as a proportion of average home loan outstandings, is now at the lowest level on record. The total value of bank service fee revenue collected from housing loans is much less than 1% (0.11%) of the total value of housing loans being managed by banks.

Chart – Housing loans: ratio of bank service fee revenue to loans on book



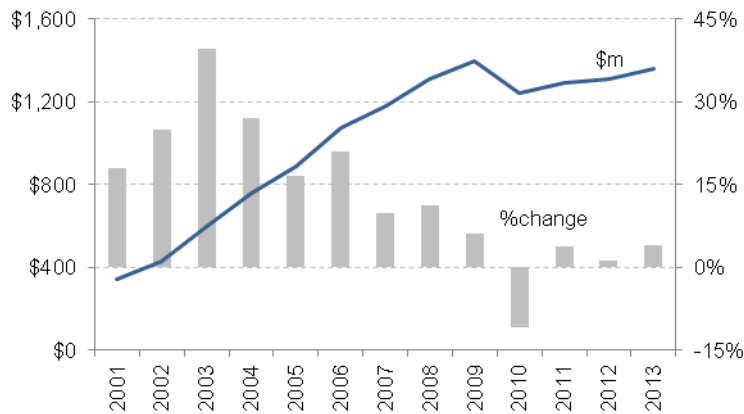
Source: Value of home loans is sourced from RBA Bulletin Table D5.

Credit cards

Bank service fee revenue from credit cards was \$1.36 billion in 2013, increasing by \$53 million or 4.1%. Results for the last four years remain below the high of \$1.40 billion reached in 2009.

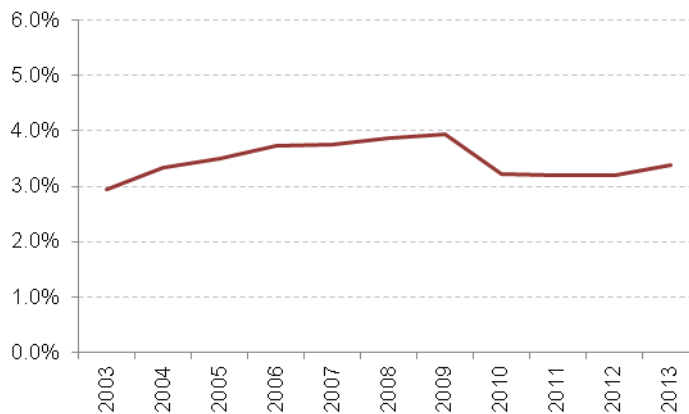
Over the past three years, ending 2013, average growth per year for bank service fee revenue from credit cards has been 3.1%. This compares with average growth of 21.5% per year over the three years ending 2006. In 2010, credit card fees fell by a large \$151 million or 10.8%. This was the first fall on record.

Chart – Bank service fee revenue from credit cards



Credit card fees as a proportion of balance outstanding were 3.4% this year (2013), the same as the five year average.

Chart – Credit card fees as % of balance outstanding



Source: Credit card balances sourced from APRA Monthly Banking Statistics.

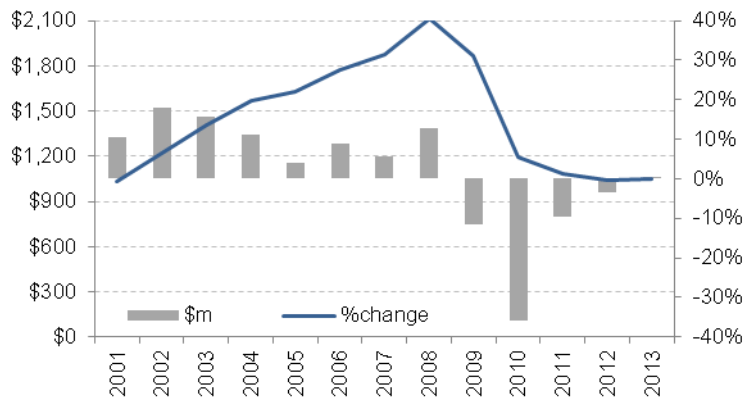
Transaction accounts - households

Over 2013, the amount of bank fees paid by households on their transaction accounts was \$1.05 billion, a small rise of 0.5% or \$5 million over the past year.

Over the prior four years, fees from transaction accounts fell each year resulting in a total fall of \$1.07 billion over that period or a 51% fall.

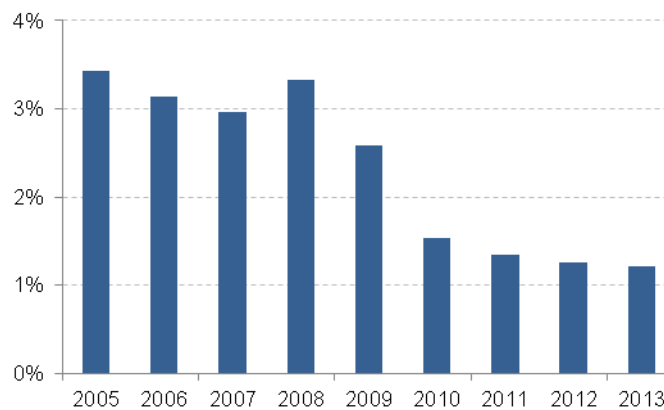
The large fall in bank service fee revenue from transaction accounts has been seen across all sub-categories of transaction account fees i.e. account keeping fees, transaction fees, and other fees (including exception fees).

Chart – Bank service fee revenue from transaction accounts



Bank fees paid by households on their transaction accounts makes up only a small proportion of total bank income. In 2013, this was at a low of 1.2%. In 2008, it was 2.7 times this level at 3.3%.

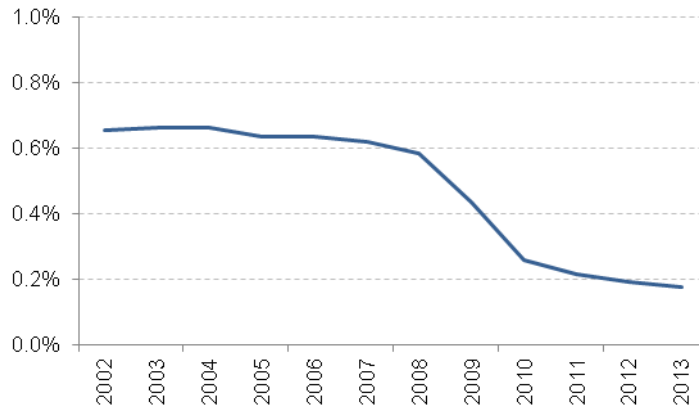
Chart – Bank service fee revenue from transaction accounts as a % of bank income



Another way to view the data is to measure bank fees from household transaction accounts as a proportion of total deposits of households held with banks.

Bank fees from household transaction accounts were at a record low of 0.18% of total household deposits in 2013. For the seven years from 2002 to 2008 this ratio averaged 0.6%.

Chart – Bank fees on transaction accounts as a % of household deposits



Source: APRA monthly bank statistics for data on household deposits with banks.

Businesses

In 2013, bank service fee revenue from businesses was \$7.5 billion. This is a 2.8% or \$205 million increase over the previous year. It is the smallest increase in both dollar and percentage terms since 2006.

Bank fees from businesses accounted for 64.4% of all bank service fee revenue over the past year (2013). Households accounted for 35.6%.

The 64.4% contribution from businesses is the highest contribution since the first year of the survey (1997).

Small businesses accounted for 53% of bank fees from businesses in 2013, down significantly from 63%-65% in the early years of the survey (prior to 2001). Correspondingly, the contribution from large businesses has increased from 35%-37% (prior to 2001) and has been between 46%-48% over the last four years.

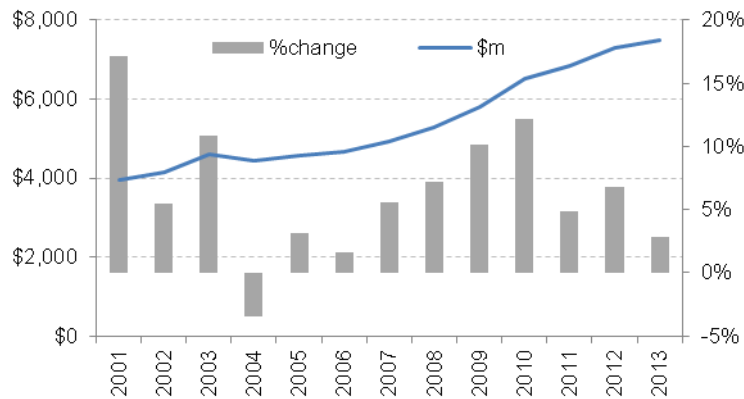
The very large number of small businesses, around 2 million, in comparison to 90,000 medium and large businesses, is one factor that causes fees paid by small businesses to exceed that of large businesses. For example, small businesses pay 2.5 times the amount of fees on deposit accounts than large businesses.

A similar result occurs for merchant fees where small businesses pay 3.3 times the level of fees when compared with large businesses.

Over the three years prior to the onset of the global financial crisis, growth rates for bank service fee revenue from businesses were low. In fact, in 2004, there was a fall of 3.5%, driven by a large 17% or \$310 million fall in merchant fees. For 2005 and 2006, there were small increases in bank fees paid by businesses of 3.1% and 1.7% respectively.

In the three years after the onset of the global financial crisis (2008, 2009 and 2010), growth in bank service fee revenue from businesses averaged 9.8% per year. During this time, businesses increasingly turned to banks to support their financing needs as other markets tightened or closed entirely.

Chart – Bank service fee revenue from businesses

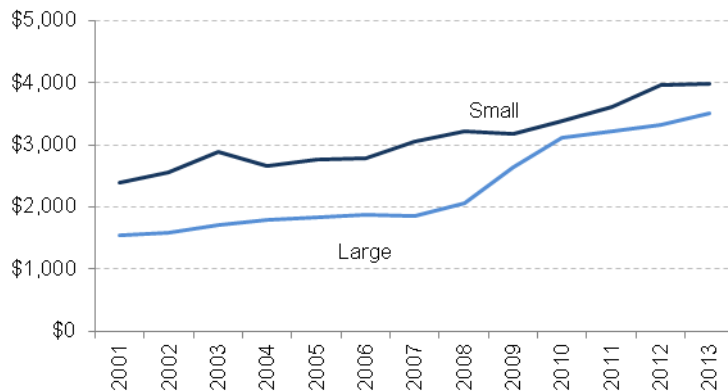


For small businesses there was a small 0.7% increase in bank fees this year, while for large businesses fee growth was \$176 million or 5.3%.

Table – Bank service fee revenue from businesses

\$million	2006	2007	2008	2009	2010	2011	2012	2013
Small business	\$2,788	\$3,060	\$3,211	\$3,174	\$3,392	\$3,612	\$3,964	\$3,993
. change	\$35	\$272	\$151	-\$37	\$218	\$219	\$352	\$29
. %change	1.3%	9.7%	4.9%	-1.1%	6.9%	6.5%	9.7%	0.7%
Large business	\$1,873	\$1,862	\$2,064	\$2,634	\$3,122	\$3,218	\$3,327	\$3,503
. change	\$42	-\$11	\$202	\$570	\$488	\$96	\$110	\$176
. %change	2.3%	-0.6%	10.8%	27.6%	18.5%	3.1%	3.4%	5.3%
Total	\$4,661	\$4,922	\$5,275	\$5,808	\$6,514	\$6,829	\$7,291	\$7,496
. change	\$76	\$261	\$353	\$533	\$706	\$315	\$462	\$205
. %change	1.7%	5.6%	7.2%	10.1%	12.2%	4.8%	6.8%	2.8%

Chart – Bank service fee revenue paid by small and large businesses (\$m)



Results at the broad product level were:

1. **Deposit accounts** - fees on *deposit accounts* in 2013 saw a fall of \$20 million to \$603 million, the lowest level since 1999. This was the sixth consecutive year in which bank service fee revenue has fallen for business deposit accounts. Over that period, fees have fallen by \$232 million or 28%.
2. **Business lending** - after experiencing growth rates of over 20% in both 2009 and 2010, fees from bank loans have been growing at a much slower pace over the past three years 5.1% in 2011, 10.4% in 2012 and 2.1% in 2013 – the lowest growth rate since 2002. The significant increase in loan fees paid by large businesses over 2009 and 2010 was a direct result of the global financial crisis. As global capital markets became severely constrained and corporate treasuries closed, businesses approached banks for their funding needs. This year, 2013, the increase in fees of 2.1% was against a 3.0% increase in business loan outstandings. Small businesses saw the first fall in fees from lending since 2004.
3. **Merchant fees** - increased by 7.9% in 2013 to \$2.2 billion. The combined number of credit card and EFTPOS transactions, however, increased by 12% over the same year. Merchant fee reform saw merchant fees fall by \$343 million or 19% over 2004 and 2005.

Table – Bank service fee revenue paid by businesses by product

\$million	2007	2008	2009	2010	2011	2012	2013
Deposit accounts	\$835	\$808	\$708	\$646	\$624	\$623	\$603
. change	\$23	-\$27	-\$100	-\$62	-\$22	-\$1	-\$20
. %change	2.8%	-3.2%	-12.4%	-8.8%	-3.4%	-0.2%	-3.2%
Loans	\$1,671	\$1,821	\$2,246	\$2,712	\$2,851	\$3,148	\$3,212
. change	\$70	\$150	\$426	\$466	\$138	\$297	\$65
. %change	4.4%	9.0%	23.4%	20.7%	5.1%	10.4%	2.1%
Merchant fees	\$1,632	\$1,743	\$1,795	\$1,838	\$1,910	\$2,068	\$2,232
. change	\$130	\$111	\$52	\$44	\$72	\$158	\$164
. %change	8.7%	6.8%	3.0%	2.4%	3.9%	8.3%	7.9%
Bank bills	\$73	\$99	\$108	\$187	\$236	\$262	\$254
. change	\$5	\$26	\$9	\$79	\$50	\$26	-\$8
. %change	6.6%	36.1%	9.0%	73.0%	26.5%	11.0%	-2.9%
Other	\$711	\$804	\$951	\$1,131	\$1,208	\$1,190	\$1,194
. change	\$34	\$93	\$147	\$180	\$77	-\$18	\$4
. %change	5.0%	13.0%	18.3%	19.0%	6.8%	-1.5%	0.3%
Total	\$4,922	\$5,275	\$5,808	\$6,514	\$6,829	\$7,291	\$7,496
. change	\$261	\$353	\$533	\$706	\$315	\$462	\$205
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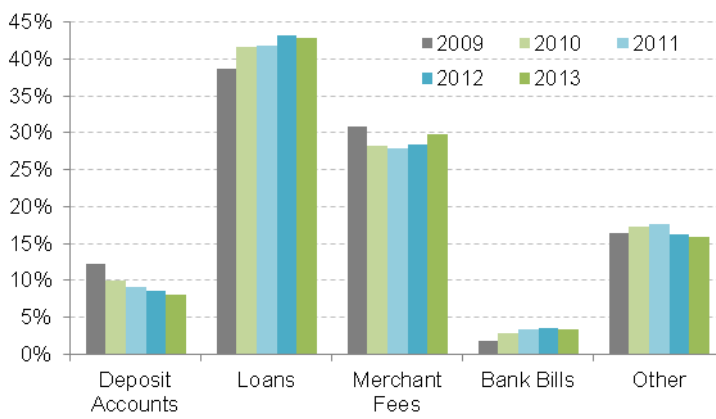
In 2013, bank fees from business loans accounted for 43% of all bank fees from businesses, the same as last year. The past two years have seen the highest contribution from this category on record. Fees from business loans have been the highest contributor to total bank fees from businesses for the past nine years (from 2005). Merchant fees were the highest contributor for the six years prior to that (1999-2004).

Merchant fees were the second highest category of fees from businesses at 28% in 2013.

Bank fees from deposit accounts held by businesses accounted for 8% of total bank fees from businesses in 2013, the lowest proportion on record. For eleven years, from 1997 to 2007, deposit accounts contributed 16% to 20% to total bank service fee revenue from businesses.

The chart below shows that over the past five years (from 2009 to 2013), fees from business loans were the highest contributor to bank service fee revenue from businesses while merchant service fees were the second highest contributor.

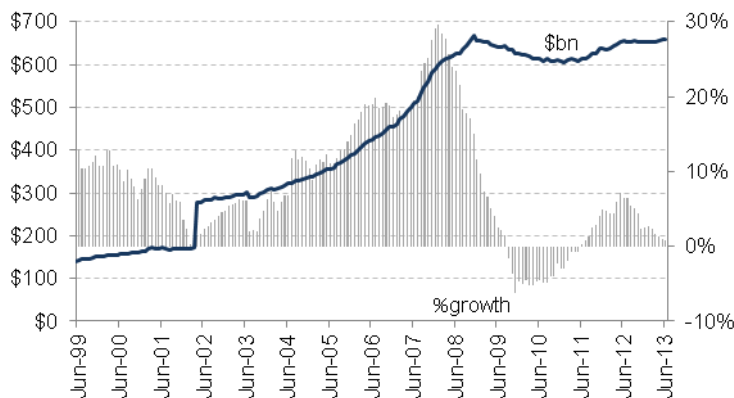
Chart – Distribution of bank service fee revenue from businesses by product



The chart below shows that banks' business loan outstandings were \$660 billion at the end of June 2013 compared with \$655 billion at the end of June 2012, growing by 0.8% over the year.

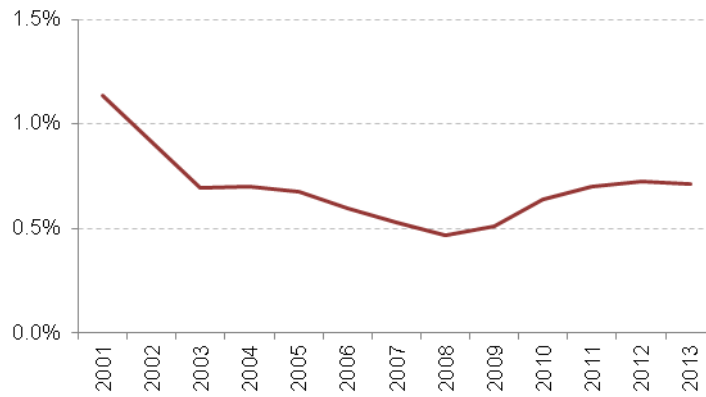
Although growth is low, the chart shows that the total volume of business loan outstandings is at a record level.

Chart – Business loan outstandings (banks)



The ratio of total bank service fee revenue from business loans to total loan outstandings for businesses fell, in trend terms, over the period 2001 to 2008. It turned upwards over 2009 and 2010 but for the last three years it has been flat (from 0.70% to 0.72%).

Chart– Business loans: Bank service fee revenue as a proportion of business loan outstandings



Exception fees

This is the sixth year that exception fees have been included as part of the annual Banking Fees Survey.

Over 2013, a total of \$653 million of exception fees were paid by households and businesses falling by \$1 million or 0.2% over the past year.

In 2013, households paid \$579 million in exception fees while businesses paid \$73 million.

Over 2010 and 2011, there were very large falls in exception fees. Over these two years, total exception fees fell by \$870 million or 58%. For households, the fall over 2010 and 2011 was \$755 million or 58% while for businesses it was \$116 million or 59%.

This year, 2013, exception fees accounted for 5.6% of all bank service fee revenue, the lowest proportion over the six years for which data have been collected. This compares with over 13% for the first two years of the survey.

Exception fees relating to credit cards are at the lowest level on record and so too are total exception fees paid by both small and large businesses.

Table – Exception fees: summary

\$million	2008	2009	2010	2011	2012	2013
1. Households	\$1,184	\$1,305	\$669	\$550	\$572	\$579
Transaction accounts	\$688	\$674	\$297	\$233	\$257	\$290
Other accounts	\$13	\$11	\$2	\$2	\$3	\$2
Loans	\$483	\$619	\$370	\$315	\$312	\$287
. Housing	\$34	\$65	\$44	\$36	\$35	\$30
. Personal	\$34	\$42	\$33	\$24	\$25	\$26
. Credit cards	\$415	\$510	\$293	\$255	\$252	\$232
Other	\$0	\$0	\$0	\$0	\$0	\$0
2. Business	\$203	\$197	\$112	\$81	\$81	\$73
Small Business	\$174	\$164	\$96	\$67	\$69	\$63
Deposits	\$121	\$113	\$54	\$36	\$39	\$37
Loans	\$53	\$52	\$42	\$31	\$29	\$26
Merchant fees	\$0	\$0	\$0	\$0	\$0	\$0
Bank bills	\$0	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0	\$0
Large Business	\$29	\$33	\$16	\$14	\$13	\$10
Deposits	\$11	\$10	\$6	\$7	\$6	\$5
Loans	\$18	\$23	\$10	\$7	\$7	\$6
Merchant fees	\$0	\$0	\$0	\$0	\$0	\$0
Bank bills	\$0	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0	\$0
All Businesses	\$203	\$197	\$112	\$81	\$81	\$73
Deposits	\$132	\$122	\$60	\$43	\$46	\$42
Loans	\$71	\$74	\$52	\$38	\$36	\$31
Merchant fees	\$0	\$0	\$0	\$0	\$0	\$0
Bank bills	\$0	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0	\$0
3. Total	\$1,387	\$1,502	\$781	\$631	\$654	\$653

In 2013, exception fees represented 0.76% of banks total operating income. This is the lowest proportion over the six years since the data series commenced. In 2008 and 2009, the ratio was much higher, above 2.0%.

Chart – Exception fees as a % of operating income

