



AUSTRALIAN BANKERS'
ASSOCIATION INC.

Strong banks – strong Australia

Fees for banking services

2016 report





Strong banks – strong Australia

This page is intentionally blank.



Strong banks – strong Australia

Table of Contents

| | |
|---|----|
| About the data | iv |
| Summary | vi |
| 1. Overview..... | 1 |
| 2. Bank service fees adjusted for asset growth..... | 2 |
| 3. Bank service fees and bank income and profits..... | 3 |
| 4. Households..... | 4 |
| 5. Housing loans..... | 9 |
| 6. Credit cards | 11 |
| 7. Transaction accounts - households..... | 13 |
| 8. Businesses | 16 |
| 9. Exception fees | 22 |
| 10. Bank service fees and low income earners..... | 25 |
| 11. Financial services prices | 27 |
| 12. Bank service points, improvements and customer satisfaction | 28 |
| Appendix 1: Bank service fees from households | 30 |
| Appendix 2: Bank service fees from businesses..... | 31 |



Strong banks – strong Australia

This page is intentionally blank.



Strong banks – strong Australia

About the data

This report has been prepared by the Australian Bankers' Association (**ABA**). It analyses data which have been submitted by banks for the Reserve Bank of Australia's (**RBA**) annual Banking Fees Survey. The survey has been conducted since 1997.

Survey reference period

The reference period for the collection of the survey data covers the 12 months to the end of June.

Global financial crisis

The data have been affected by the global financial crisis. It is widely recognised that the peak of the global financial crisis occurred in September/October 2008. Following this, the ability of businesses to access capital markets for their funding was severely constrained and many businesses returned to banks for their funding. This resulted in a higher than usual increase in bank service fees mainly from large businesses.

International fees data

The Banking Fees Survey is unique from an international perspective. No other comparable economies (e.g. UK, USA, NZ or Canada) conduct a similar survey. Studies of banking fees for countries other than Australia which attempt to provide international comparisons will be limited by the lack of detailed statistics. These studies often rely on advertised fee rates and include broad assumptions about the use of banking services. For example, fees associated with bundling/packaging of banking services are difficult to incorporate in data models but are captured in the RBA's survey.

Fees data – gross basis

Bank service fees statistics are 'gross' measures and are collected on a pre-tax basis.

Impact of changes in transaction and loan volumes on fees

Where possible, the statistics in this report are benchmarked against indicators of the volume of banking business. For example, while the survey results show that aggregate fees increased by a small amount this year, it does not show how this relates to changes in banking business volumes such as numbers of customer accounts, transaction volumes or loan volumes. To assist the reader, the ABA has produced a number of ratios which are benchmarked against official statistics produced by the RBA, Australian Prudential Regulation Authority (**APRA**) and Australian Bureau of Statistics (**ABS**). Some of these ratios allow readers to see how fees change as the volume of banking activity changes.

Coverage

The results from the RBA's survey differ slightly from the ABA's survey results contained in this report. The RBA includes more institutions in their survey but the impact of these institutions is small.

Bank fees survey results prior to 2001 have also been affected by coverage changes. Over the early life of the survey, new institutions were added to the survey or mergers took place with institutions which were not previously in the survey. While these effects continue now, the impact on the data was more significant prior to 2001.

A change in coverage may cause only a small impact at the aggregate level but may have a more significant effect at the product level. For example, if a bank purchases a home loan provider (which was not already in the survey), this may have little effect at the aggregate fee level, but it may have a noticeable effect on bank service fees received from home loans.



Strong banks – strong Australia

ABS price measures for financial services

The Banking Fees Survey collects the gross amount of bank service fees, in dollars. It does not produce an overall price measure for bank services.

The Banking Fees Survey provides information on only one component of the income of banks i.e. bank service fees. It does not incorporate the broader income sources of banks, nor does it provide information about usage volumes or changing consumer use of bank services.

The official measure which best captures price change for financial services is produced by the ABS as part of the Consumer Price Index (**CPI**) (see Financial services prices).

Exception fees

Exception fees include late payment fees and over-the-limit fees.

It is important to note that exception fees are included in the aggregate data for all sections of this report for which fees data are presented.

Revisions

The data are updated and revised over time. Revisions may affect the actual fees data or the underlying benchmark data used to construct ratios.

Previous releases

Refer to previous ABA reports:

Fees for Banking Services 2015 Report.

<http://www.bankers.asn.au/media/media-releases/media-release-2015/fees-for-banking-services-how-much-are-we-paying>

Fees for Banking Services Report 2014.

<http://www.bankers.asn.au/media/media-releases/media-release-2014/Low-Growth-in-Bank-Fees>



Strong banks – strong Australia

Summary

Total bank service fees increased by 3.4 per cent to \$12.5 billion in 2015.

Bank service fees have been growing less quickly than bank activity. The ratio of fees to assets, operating income, and pre and post-tax profit has now fallen to record lows.

Bank service fees from households rose by 3.2 per cent to \$4.3 billion, but remain well below the peak levels of six years ago.

Bank fees from households comprise 35 per cent of total bank service fees.

Over the past four years the average weekly bank service fees paid by households have been steady at around \$9.00 per week. With total household spending continuing to rise, bank service fees have fallen to less than a half of one per cent of total household spending in 2015 - this is a 17 year low.

Low income households pay less bank service fees on their transaction accounts than high income households. Households in the two highest income quintiles contribute around 60 per cent of these fees.

Around one third (35 per cent) of bank service fees paid by households relate to credit cards, 29 per cent relate to housing loans, while almost a quarter (24 per cent) are paid on transaction accounts.

Banks continue to achieve big efficiency gains in providing financial services to households. Bank service fees, as a proportion of home loan outstandings, are now the lowest on record. Credit card fees as a proportion of total credit accessed remain near the lowest in ten years.

Since the peak in 2008, fees paid on transaction accounts have halved while transaction volumes have increased by 60 per cent, showing that the unit cost of transaction banking is falling very rapidly.

Bank service fees from businesses rose by 3.4 per cent to \$8.1 billion in 2015.

Banks continue to drive efficiencies in the provision of financial services to businesses. Fees on business deposit accounts have fallen for eight consecutive years.

The increase in fees from lending to businesses of 1.4 per cent this year was less than the 5.2 per cent increase in business loan outstandings. And the increase of 9.2 per cent in merchant fees was less than the combined increase in the number of credit card and EFTPOS transactions at 10.6 per cent.

The price of financial services over the past year has increased by much less than essential items such as child care, education, health and property rates and charges.

Over recent years there has been a noticeable upward trend in customer satisfaction which was at a record 82.8 per cent at June 2015.¹

¹ Roy Morgan Research



Strong banks – strong Australia

This page is intentionally blank.



1. Overview

Aggregate bank service fees in 2015 were \$12.5 billion - increasing by \$404 million or 3.4 per cent over the past year. The increase is slightly higher than last year which saw a rise of \$338 million or 2.9 per cent.

Bank service fees from households increased by 3.2 per cent to \$4.3 billion, while for businesses it increased by 3.4 per cent to \$8.1 billion.

Bank service fees from households remain well below the peak of \$5.2 billion in 2009.

The growth rate for bank service fees from businesses this year continues the subdued growth seen over the past three years which has averaged 3.4 per cent.

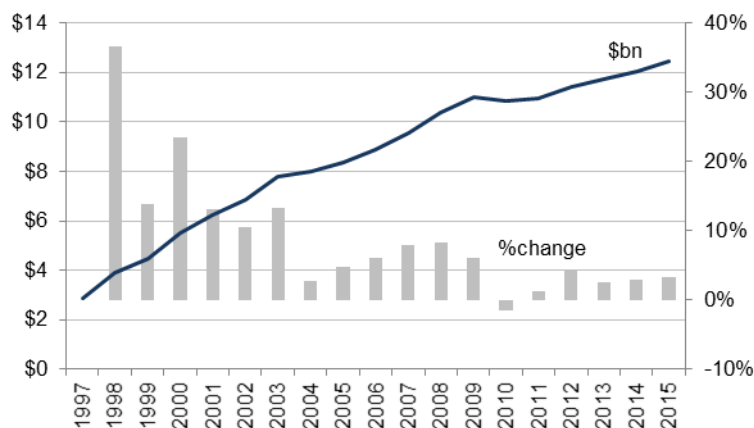
The higher growth in bank service fees paid by businesses over 2009 and 2010 reflected increased bank intermediation as a result of the global financial crisis (**GFC**).

Figure 1: Bank service fees (\$m)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Households | \$5,093 | \$5,168 | \$4,311 | \$4,080 | \$4,054 | \$4,118 | \$4,183 | \$4,318 |
| . change | \$449 | \$75 | -\$857 | -\$231 | -\$26 | \$64 | \$66 | \$135 |
| . %change | 9.7% | 1.5% | -16.6% | -5.4% | -0.6% | 1.6% | 1.6% | 3.2% |
| Business | \$5,275 | \$5,822 | \$6,514 | \$6,871 | \$7,364 | \$7,593 | \$7,866 | \$8,135 |
| . change | \$348 | \$547 | \$693 | \$357 | \$493 | \$229 | \$272 | \$269 |
| . %change | 7.1% | 10.4% | 11.9% | 5.5% | 7.2% | 3.1% | 3.6% | 3.4% |
| Total | \$10,368 | \$10,990 | \$10,825 | \$10,951 | \$11,418 | \$11,711 | \$12,049 | \$12,453 |
| . change | \$797 | \$622 | -\$164 | \$126 | \$467 | \$293 | \$338 | \$404 |
| . %change | 8.3% | 6.0% | -1.5% | 1.2% | 4.3% | 2.6% | 2.9% | 3.4% |

Source: ABA

Figure 2: Bank service fees



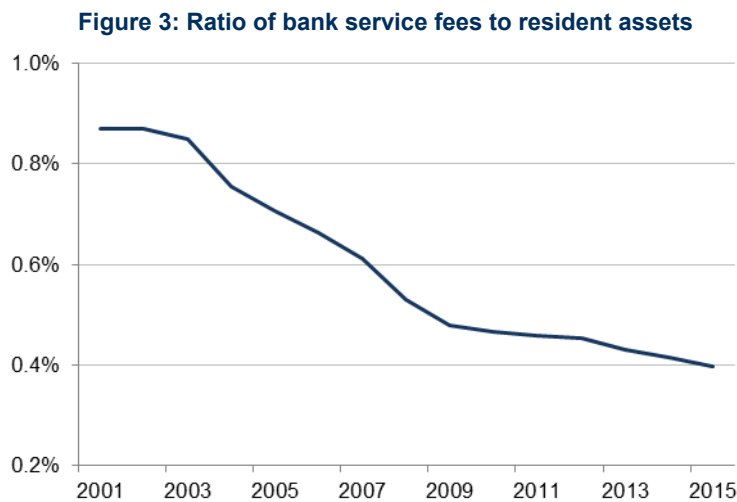
Source: ABA



2. Bank service fees adjusted for asset growth

In 2015 bank service fees grew less quickly than banking activity with the growth of 3.4 per cent being significantly less than the growth in banks' total resident assets of 8.0 per cent.

Over the past 14 years, there has been a downward trend in bank service fees as a proportion of banks' resident assets with the ratio more than halving over this time. In 2001 and 2002, this ratio averaged around 0.85 per cent but is now at a record low of 0.40 per cent.



Source: RBA

Over the past five years, bank assets have been growing, on average, by 5.5 per cent per year. This is almost twice the growth in bank service fees, which averaged 2.8 per cent per year over the same period.

Figure 4: Bank service fees and resident assets (%change)

| | Bank service fee | Resident assets |
|----------------------|------------------|-----------------|
| 2001 | 13.1% | 10.9% |
| 2002 | 10.5% | 10.5% |
| 2003 | 12.8% | 14.5% |
| 2004 | 2.7% | 14.7% |
| 2005 | 4.7% | 10.9% |
| 2006 | 6.0% | 12.7% |
| 2007 | 7.9% | 15.6% |
| 2008 | 8.3% | 22.9% |
| 2009 | 6.0% | 16.1% |
| 2010 | -1.5% | 1.6% |
| 2011 | 1.2% | 3.0% |
| 2012 | 4.3% | 5.5% |
| 2013 | 2.5% | 5.1% |
| 2014 | 2.9% | 6.0% |
| 2015 | 3.4% | 8.0% |
| Average last 5 years | 2.8% | 5.5% |

Sources: ABA, RBA

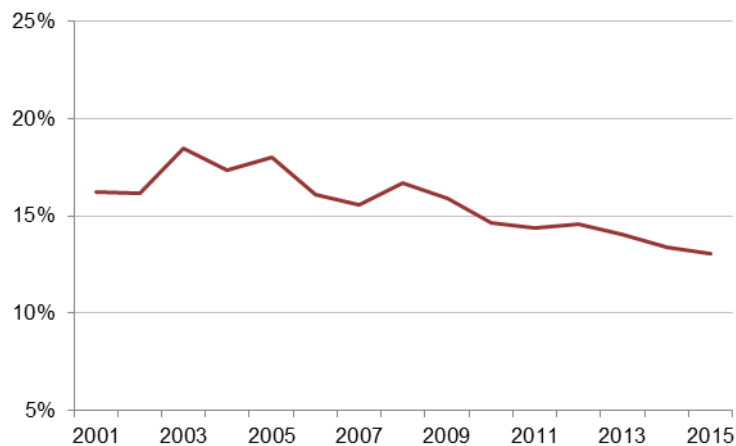


3. Bank service fees and bank income and profits

Bank service fees, as a proportion of banks' *operating income*, have been trending down for more than a decade.

In 2015 the ratio of 13.0 per cent is well below the peak of 18.4 per cent in 2003.

Figure 5: Ratio of bank service fees to operating income



Source: Banks' annual reports

The ratio of bank service fees to bank *profit* is at a record low.

The ratio of bank service fees to *net profit* before tax is now 27.1 per cent, the lowest level on record while the ratio of bank service fees to net profit after tax is also at a record low of 37.9 per cent.

The increase in the ratio over 2008 and 2009 was the result of a significant fall in profits. Bank profits over this two year period fell by 25 per cent on a *before tax* basis and 26 per cent on an *after tax* basis. As such, the increase in the ratio did not reflect a large rise in bank service fees; rather it reflected a large fall in profits.

Figure 6: Ratio of bank service fees to bank profits



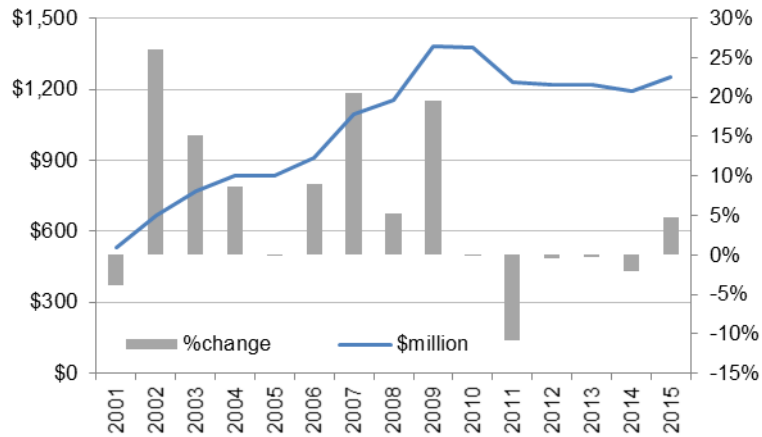
Source: Banks' annual reports



4. Households

In 2015 bank service fees from households were \$4.3 billion, an increase of 3.2 per cent, or \$135 million over the past year. Fees remain well below the high of \$5.2 billion reached in 2009.

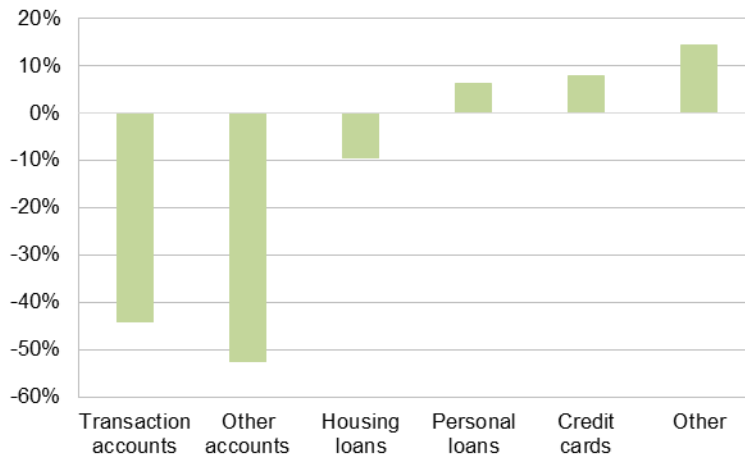
Figure 7: Bank service fees from households



Source: ABA

Compared with the peak in fees from households in 2009, aggregate bank service fees have fallen by 44 per cent for transaction accounts, and by 9 per cent for housing loans, while for personal loans and credit cards there have been small increases of 6 per cent and 8 per cent respectively.

Figure 8: Change in bank service fees paid by households by product (last six years to 2015)



Source: ABA

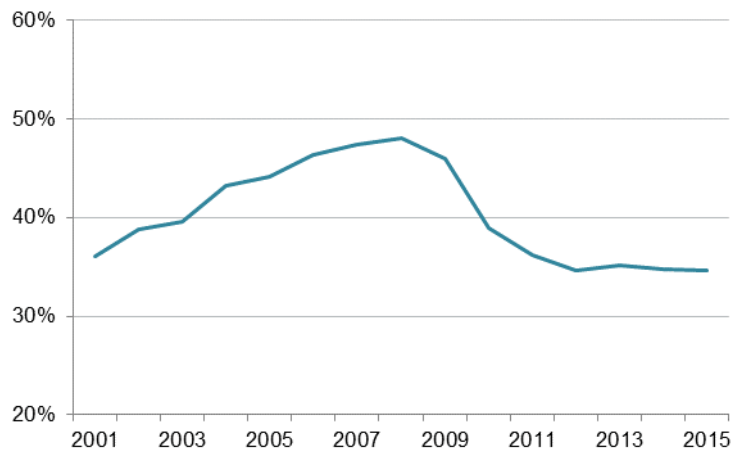


4.1 Contribution by households to total bank service fees

In 2015 bank service fees from households accounted for 34.7 per cent of all bank service fees - the second lowest proportion on record (since the first year of the survey in 1997). Over the past four years, it has been very stable at around 35 per cent.

From 2006 to 2009, households accounted for 46 per cent to 48 per cent of bank service fees.

Figure 9: Bank service fees – proportion from households

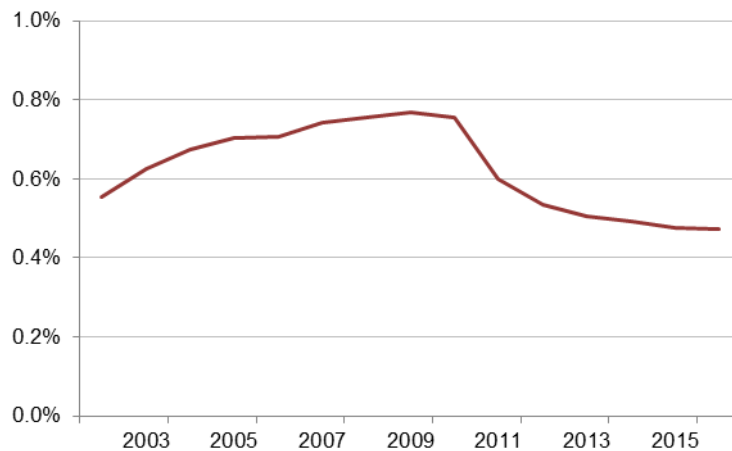


Source: ABA

4.2 Bank service fees as a proportion of household spending

There have been seven consecutive falls in the proportion of household spending² on bank service fees, falling from 0.77 per cent in 2008 to 0.47 per cent in 2015. Bank fees are now at the lowest proportion of total household spending in 17 years (since 1998).

Figure 10: Bank service fees from households as a % of HFCE



Sources: ABS, ABA

² ABS National Accounts, Household Final Consumption Expenditure (HFCE)

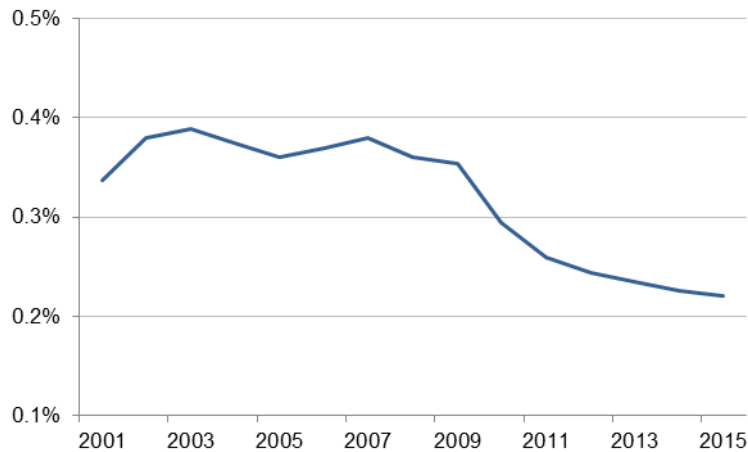


4.3 Proportion of bank service fees from lending to households

In 2015 banks' average loan outstandings to households were \$1.4 trillion.

Since 2007, the ratio of bank service fees to household loan outstandings has fallen from 0.38 per cent to a record low of 0.22 per cent this year (2015).

Figure 11: Bank service fees from households as a proportion of loan outstandings

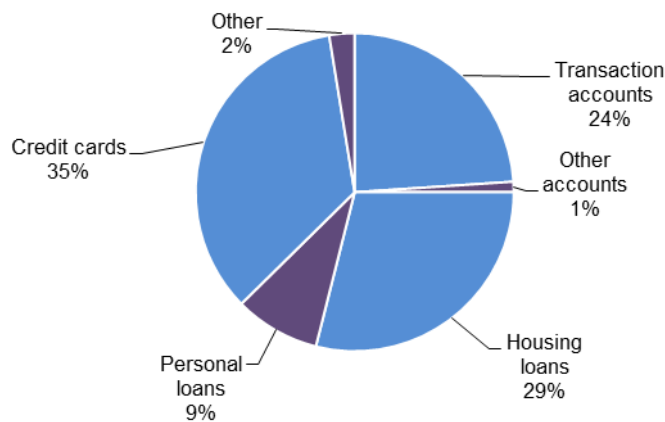


Source: ABA

4.4 Distribution of bank service fees from households by product

At 35 per cent, credit cards were the highest portion of bank service fees paid by households this year. This was followed by housing loans at 29 per cent.

Figure 12: Bank service fees from households – % distribution (2015)



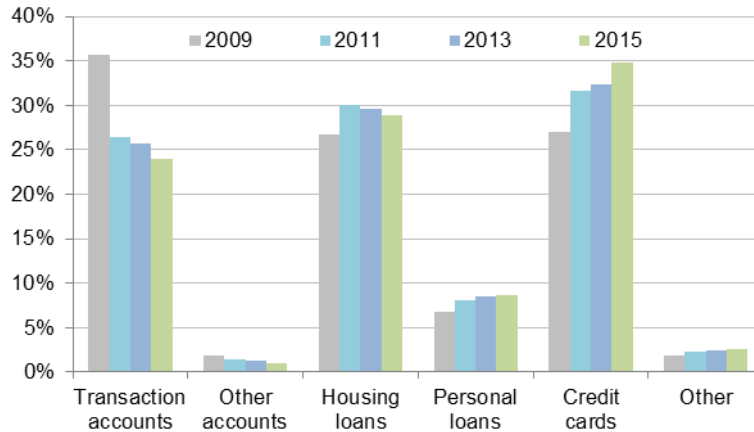
Source: ABA



In 2015 bank service fees from transaction accounts made up 24 per cent of total bank fees from households - the lowest on record.

The rising proportion of bank service fees for some bank products was largely the result of falls in fees on transaction accounts.

Figure 13: Distribution of bank service fees from households by product



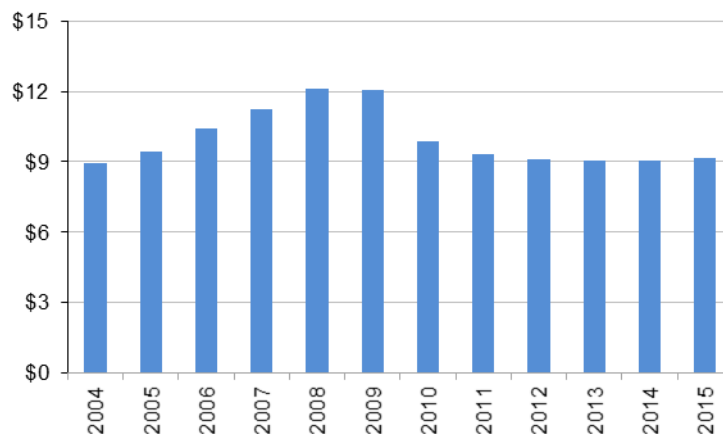
Source: ABA

4.5 Average weekly bank service fees paid by households

In 2015 there were 9.1 million households paying, on average, around \$9.15 per week in bank service fees. Over the past four years, the average weekly amount of bank service fees paid by households has been steady at around \$9.00 per week.

In 2008, the average weekly bank service fees paid by households reached a high of \$12.12 and is now 24 per cent lower.

Figure 14: Average weekly bank service fees by households



Source: ABA



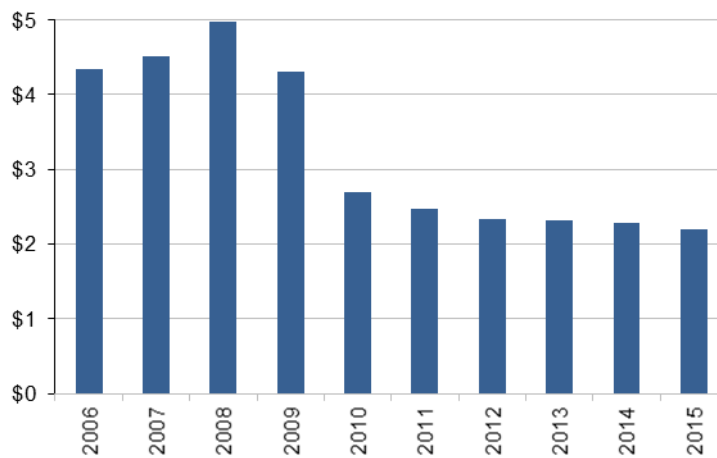
4.6 Average weekly bank service fees on household transaction accounts

Households that only have a transaction account paid, on average, \$2.19 per week on bank service fees over the past year, falling by 10 cents per week or 1.9 per cent lower than last year, and the smallest amount over the past decade.

Seven years ago (2008), the average weekly fees paid by households on transaction accounts reached a high of \$4.97 per week. Since then, it has fallen by more than half (56 per cent).

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

Figure 15: Average weekly bank service fees paid by households on transaction accounts



Source: ABA



5. Housing loans

At June 2015, there were around six 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 \$1.3 trillion.

Loans to owner-occupiers made up 61 per cent of housing loan outstandings while the remaining 39 per cent were to investors.

Not only do banks manage the large volume of home loans already on their loan books, they also process large volumes of new loans each year, and provide customers with a range of services associated with their loan.

Housing finance data from the ABS show that over the year ending June 2015, there were 575,646 new housing loan commitments made by banks to owner-occupiers. The value of these loans was \$198 billion.

The total number of housing loan approvals made by banks to both owner-occupiers and investors was estimated to be 925,725 with a value of \$342 billion over the year ending June 2015.

Figure 16: Banks' new housing loan commitments

| Banks | Owner-occupiers | | Investment housing (est) | | Total (est) | |
|-------|-----------------|--------------|--------------------------|--------------|-------------|--------------|
| | Loans | Value (\$bn) | Loans | Value (\$bn) | Loans | Value (\$bn) |
| 2001 | 433,833 | \$58.9 | 152,472 | \$24.8 | 586,305 | \$83.7 |
| 2002 | 477,393 | \$74.6 | 195,750 | \$36.7 | 673,143 | \$111.3 |
| 2003 | 474,216 | \$83.9 | 239,015 | \$50.8 | 713,231 | \$134.7 |
| 2004 | 487,066 | \$97.9 | 254,783 | \$61.4 | 741,849 | \$159.3 |
| 2005 | 477,826 | \$104.3 | 216,922 | \$56.8 | 694,748 | \$161.1 |
| 2006 | 543,135 | \$121.9 | 229,369 | \$61.8 | 772,504 | \$183.7 |
| 2007 | 572,034 | \$134.6 | 238,393 | \$67.3 | 810,427 | \$201.9 |
| 2008 | 559,246 | \$143.5 | 249,443 | \$76.8 | 808,689 | \$220.3 |
| 2009 | 550,706 | \$154.3 | 214,338 | \$72.1 | 765,044 | \$226.4 |
| 2010 | 513,446 | \$154.9 | 219,601 | \$79.5 | 733,047 | \$234.4 |
| 2011 | 454,057 | \$143.1 | 194,563 | \$73.6 | 648,620 | \$216.7 |
| 2012 | 500,418 | \$151.8 | 212,640 | \$77.4 | 713,058 | \$229.2 |
| 2013 | 522,138 | \$159.3 | 244,963 | \$89.7 | 767,101 | \$249.0 |
| 2014 | 570,727 | \$182.8 | 304,448 | \$117.0 | 875,175 | \$299.9 |
| 2015 | 575,646 | \$197.5 | 350,079 | \$144.1 | 925,725 | \$341.5 |

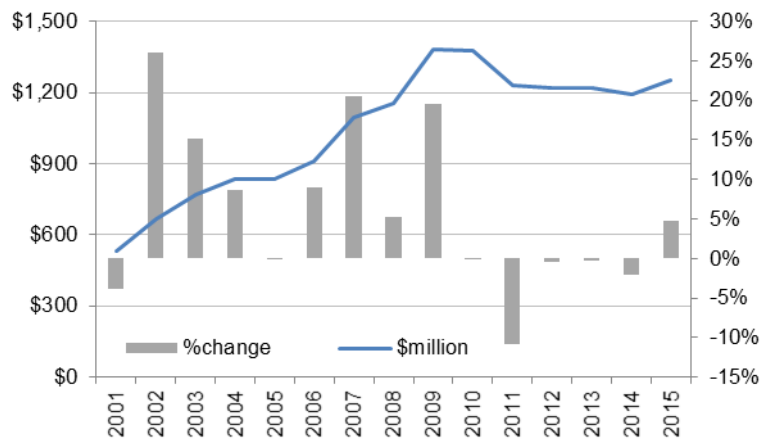
Source: ABS



Households paid \$1.25 billion in bank service fees on their housing loans this year (2015). This remains \$130 million below the peak of \$1.38 billion in 2008. This year sees the first rise in bank service fees from housing loans after five consecutive years of falls where total fees from housing loans fell by \$186 million or 13.5 per cent.

The sharp fall in housing loan fees in 2011 reflected the reduction or removal of a number of fees, such as exit fees.

Figure 17: Bank service fees from housing loans



Source: ABA

Bank service fees from housing loans as a proportion of home loan outstandings are just below 0.10 per cent – the lowest level on record, and have halved over the past decade.

Figure 18: Housing loans – ratio of bank service fees to loans on book



Source: RBA

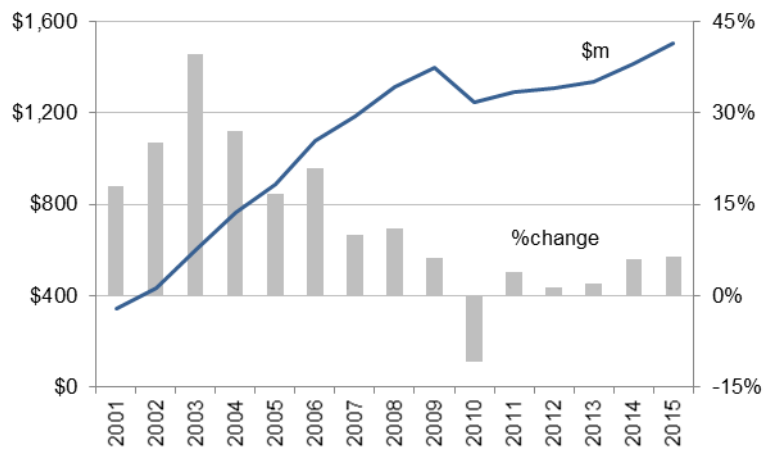


6. Credit cards

Bank service fees from credit cards were \$1.5 billion in 2015 - an increase of \$89 million or 6.3 per cent over the past year.

From 2009, growth in bank service fees from credit cards has been subdued. Over the seven years to 2015, the average growth in credit card fees per year has been 2.1 per cent compared with 20.9 per cent for the six years ending 2008. The \$151 million or 11 per cent fall in 2010 reflected the reduction and removal of a number of fees, such as exception fees.

Figure 19: Bank service fees from credit cards



Source: ABA

Credit cards are a very high volume bank service channel. At the end of June 2015, there were 16.1 million credit and charge card accounts in Australia - a net increase of almost 600,000 accounts over the past year. It is estimated that banks are the issuers for around 80 per cent of these accounts.

Over the past year, consumers made 2.2 billion credit card transactions with a value of \$295 billion. This was an 8.3 per cent increase in the number of transactions and a 4.9 per cent increase in the value of transactions. In addition there are hundreds of millions of repayment transactions made each year.

Figure 20: Credit and charge card aggregates (annual)

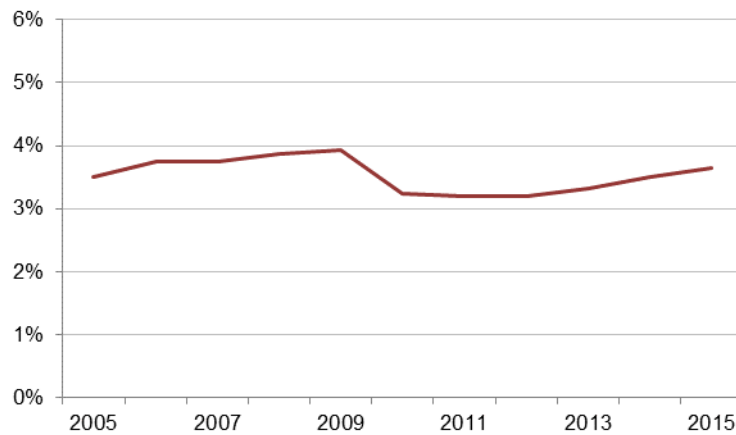
| | Accounts | Cash advances | | Purchases | | Total | |
|--------|----------|---------------|--------|-----------|---------|---------|---------|
| | | Number | Value | Number | Value | Number | Value |
| | m | million | \$bn | million | \$bn | million | \$bn |
| Jun-05 | 12.0 | 36.8 | \$11.2 | 1,156.9 | \$152.5 | 1,193.7 | \$163.7 |
| Jun-06 | 13.0 | 38.2 | \$12.2 | 1,238.1 | \$166.2 | 1,276.3 | \$178.4 |
| Jun-07 | 13.5 | 37.5 | \$12.5 | 1,304.3 | \$181.5 | 1,341.8 | \$194.0 |
| Jun-08 | 14.0 | 35.7 | \$12.8 | 1,391.5 | \$201.3 | 1,427.1 | \$214.1 |
| Jun-09 | 14.3 | 32.1 | \$12.2 | 1,438.5 | \$209.0 | 1,470.6 | \$221.2 |
| Jun-10 | 14.6 | 28.8 | \$11.3 | 1,528.5 | \$221.8 | 1,557.2 | \$233.0 |
| Jun-11 | 14.9 | 27.1 | \$10.6 | 1,622.9 | \$235.2 | 1,650.0 | \$245.8 |
| Jun-12 | 15.0 | 25.4 | \$9.9 | 1,711.1 | \$245.5 | 1,736.5 | \$255.4 |
| Jun-13 | 15.4 | 24.6 | \$9.6 | 1,832.7 | \$254.1 | 1,857.3 | \$263.7 |
| Jun-14 | 15.5 | 25.0 | \$10.0 | 1,994.6 | \$271.2 | 2,019.6 | \$281.3 |
| Jun-15 | 16.1 | 24.8 | \$9.7 | 2,162.6 | \$285.3 | 2,187.4 | \$295.0 |

Source: RBA



Credit card fees as a proportion of the total balances outstanding were 3.6 per cent - which is midway between the highest and lowest results over the past 10 years.

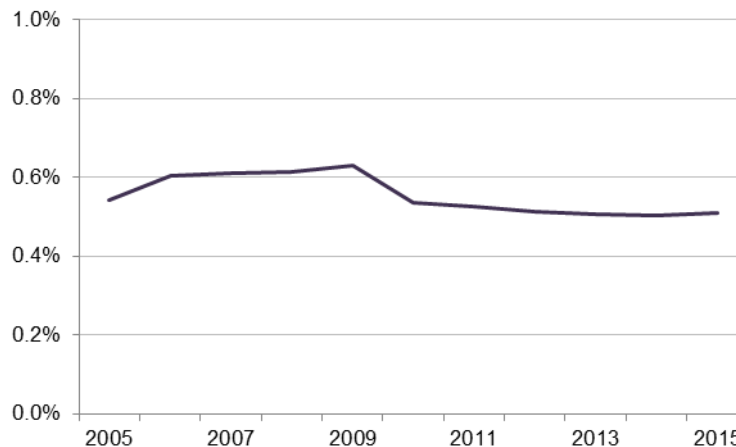
Figure 21: Credit card fees as % of balance outstanding



Source: APRA

Another way to view this is to consider the fees paid, as a proportion of the total value of credit accessed, using credit cards. A total of \$295 billion was spent (i.e. credit accessed) on credit cards over the year ending June 2015 while the fees paid were \$1.5 billion, a ratio of 0.5 per cent. Although this has remained virtually unchanged over the past 4 years, it is now at the lowest level in 10 years.

Figure 22: Credit card fees as % of value of transactions



Sources: ABA, APRA



7. Transaction accounts - households

For the vast majority of bank customers, their most regular experience with banking is through their personal transaction account which is used for day-to-day transactions or their investment account, generally used for savings.

Over the year ending June 2015 there were: 2.2 billion credit card transactions; 723 million ATM transactions; 4.1 billion EFTPOS transactions; 153 million cheques issued and processed, and 3.1 billion direct entry payments. Internet banking usage was over 4 billion in terms of both the number of value and non-value transactions.

Based on the payments data provided by the RBA, there were 10.2 billion transactions with a value of \$16 trillion over the year ending June 2015, an increase of 7.0 per cent in the number of transactions.

Each week, 200 million transactions take place. This does not include internet and mobile phone banking, over-the-counter or telephone banking transactions.

Figure 23: Selected payment statistics

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|----------------------|---------|---------|---------|---------|---------|---------|---------|
| Credit cards | | | | | | | |
| Accounts (million) | 14.3 | 14.6 | 14.9 | 15.0 | 15.4 | 15.5 | 16.1 |
| . Number (billion) | 1.47 | 1.56 | 1.65 | 1.74 | 1.86 | 2.02 | 2.19 |
| . Value (\$billion) | \$221.2 | \$233.0 | \$245.8 | \$255.4 | \$263.7 | \$281.3 | \$295.0 |
| ATMs | | | | | | | |
| . Number (million) | 861.7 | 829.6 | 827.5 | 830.6 | 794.1 | 760.6 | 723.5 |
| . Value (\$billion) | \$152.9 | \$149.5 | \$149.4 | \$150.7 | \$146.5 | \$144.5 | \$142.1 |
| EFTPOS | | | | | | | |
| . Number (billion) | 1.87 | 2.12 | 2.44 | 2.81 | 3.22 | 3.61 | 4.05 |
| . Value (\$billion) | \$129.9 | \$142.9 | \$160.0 | \$178.4 | \$197.6 | \$216.2 | \$235.5 |
| Cheques | | | | | | | |
| . Number (million) | 351.4 | 310.6 | 274.6 | 241.0 | 209.3 | 181.0 | 152.6 |
| . Value (\$trillion) | \$1.50 | \$1.50 | \$1.35 | \$1.24 | \$1.20 | \$1.23 | \$1.22 |
| Direct entry | | | | | | | |
| . Number (billion) | 2.22 | 2.38 | 2.54 | 2.66 | 2.78 | 2.98 | 3.11 |
| . Value (\$trillion) | \$12.0 | \$11.5 | \$12.1 | \$13.3 | \$13.4 | \$13.9 | \$14.1 |
| Total | | | | | | | |
| . Number (billion) | 6.77 | 7.20 | 7.74 | 8.27 | 8.86 | 9.56 | 10.22 |
| . Value (\$trillion) | \$14.0 | \$13.5 | \$14.4 | \$15.1 | \$15.2 | \$15.8 | \$16.0 |

Source: RBA

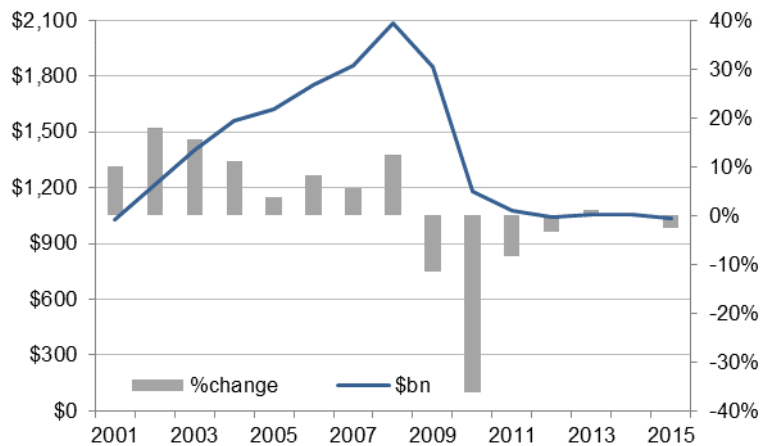


The amount of bank service fees paid by households on their transaction accounts over 2015 were \$1.03 billion, the lowest amount in 15 years. These fees have halved since the peak in 2008, falling by \$1 billion or 51 per cent, yet the number of transactions has increased by around 60 per cent over that same period.

From 2009 to 2012 fees from transaction accounts fell by \$1.04 billion compared with the peak of \$2.1 billion in 2008.

The large fall in bank service fees 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).

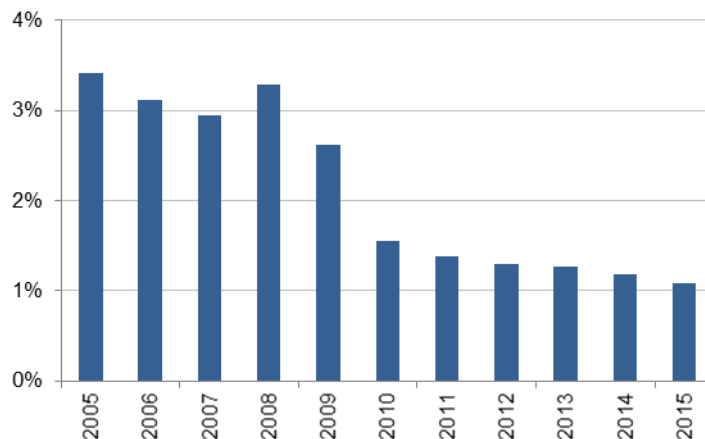
Figure 24: Bank service fees from transaction accounts



Source: ABA

Bank service fees paid by households on their transaction accounts make up only a small proportion (1.1 per cent) of total bank income.

Figure 25: Bank service fees from transaction accounts as a % of bank income



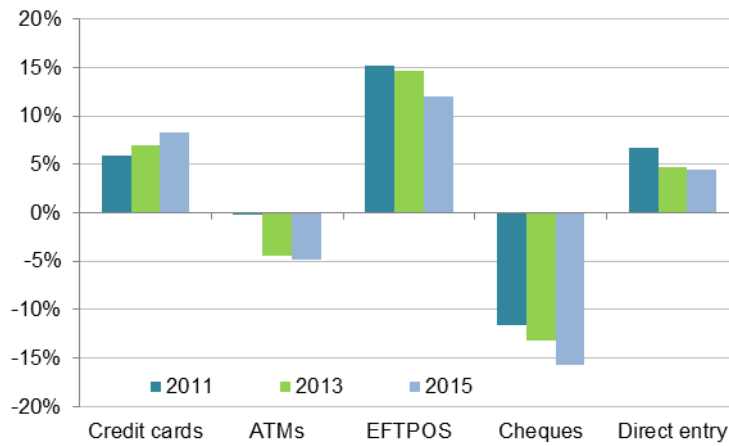
Source: ABA



It is estimated that transaction volumes increased by around 7 per cent this year while the value of fees from transaction accounts stayed the same.

Over the past seven years, fees on transaction accounts have fallen by 51 per cent while transaction volumes have increased by 60 per cent. That shows that the unit cost of transaction banking is falling very rapidly.

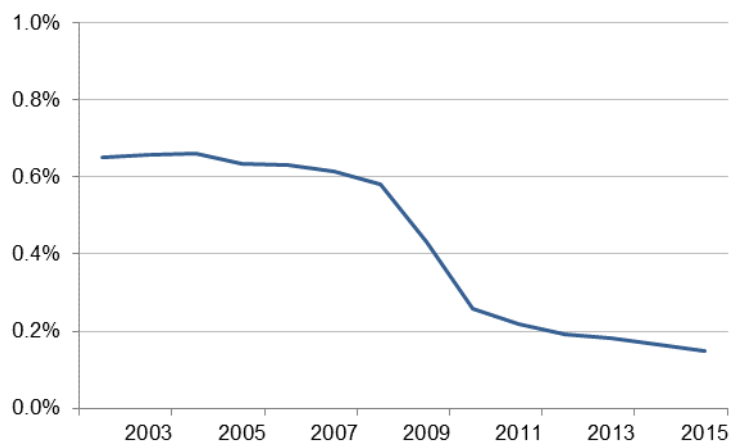
Figure 26: Growth in the number of transactions



Source: RBA

Bank fees from household transaction accounts are now at a record low of 0.15 per cent of total household deposits.

Figure 27: Bank fees on transaction accounts as a % of household deposits



Source: APRA



8. Businesses

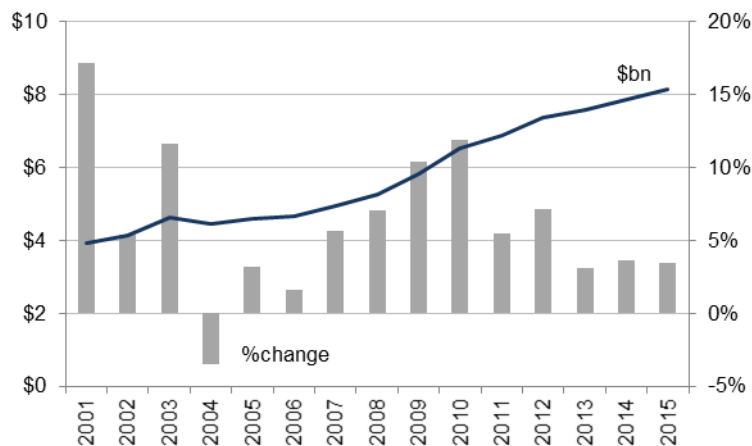
In 2015 bank service fees from businesses were \$8.1 billion. This was a 3.4 per cent or \$269 million increase over the previous year.

Bank service fees from businesses accounted for 65 per cent of all bank service fees over the past year, with households accounting for 35 per cent. The relative contribution from businesses is the highest since the survey commenced.

Over the three years prior to the onset of the GFC, growth rates for bank service fees from businesses were low. In 2004, there was a fall of 3.5 per cent, driven by a large 17 per cent or \$310 million fall in merchant fees.

Over the three years after the onset of the GFC (2008 - 2010), growth in bank service fees from businesses averaged 9.8 per cent per year. During this time, businesses increasingly turned to banks to support their financing needs as other capital markets tightened or closed entirely.

Figure 28: Bank service fees from businesses



Source: ABA

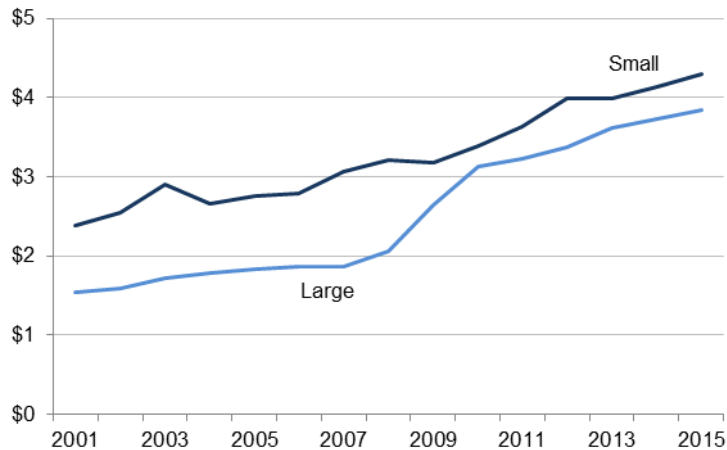


Figure 29: Bank service fees paid by small and large businesses (\$m)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Small business | \$3,211 | \$3,180 | \$3,392 | \$3,638 | \$3,991 | \$3,983 | \$4,132 | \$4,292 |
| . change | \$146 | -\$31 | \$212 | \$246 | \$353 | -\$8 | \$149 | \$160 |
| . %change | 4.8% | -1.0% | 6.7% | 7.2% | 9.7% | -0.2% | 3.8% | 3.9% |
| Large business | \$2,064 | \$2,641 | \$3,122 | \$3,233 | \$3,373 | \$3,611 | \$3,734 | \$3,843 |
| . change | \$202 | \$578 | \$481 | \$111 | \$140 | \$237 | \$123 | \$109 |
| . %change | 10.8% | 28.0% | 18.2% | 3.6% | 4.3% | 7.0% | 3.4% | 2.9% |
| Total | \$5,275 | \$5,822 | \$6,514 | \$6,871 | \$7,364 | \$7,593 | \$7,866 | \$8,135 |
| . change | \$348 | \$547 | \$693 | \$357 | \$493 | \$229 | \$272 | \$269 |
| . %change | 7.1% | 10.4% | 11.9% | 5.5% | 7.2% | 3.1% | 3.6% | 3.4% |

Source: ABA

Figure 30: Bank service fees paid by small and large businesses (\$bn)



Source: ABA



Results at the broad product level were:

- **Business deposit accounts** - this is the eighth consecutive year in which bank service fees have fallen. Compared with 2007, these fees are lower by \$249 million or 30 per cent. Deposit account fees paid by businesses are now at the lowest level since 1999.
- **Business loans** - the past three years have seen low growth in fees from business lending. This year (2015) the increase in fees of 1.4 per cent was below the 5.2 per cent increase in business loan outstandings. Large businesses accounted for 60 per cent of bank service fees from business loans.
- **Merchant fees** - increased by 9.2 per cent to \$2.65 billion this year (2015). The increase was lower than the rise in the combined number of credit card and EFTPOS transactions which increased by 10.6 per cent.

Note that in 2010 there was an extensive reclassification and recategorisation of component fees for bank bills which resulted in major revisions to these data. These changes impacted on the growth rate for that year with bank service fees paid by businesses for bank bills increasing by 75 per cent.

Figure 31: Bank service fees paid by businesses by product (\$m)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------|---------|---------|---------|---------|---------|---------|---------|
| Deposit accounts | \$708 | \$646 | \$624 | \$623 | \$606 | \$592 | \$587 |
| . change | -\$100 | -\$62 | -\$22 | -\$1 | -\$17 | -\$14 | -\$5 |
| . %change | -12.4% | -8.8% | -3.4% | -0.2% | -2.7% | -2.3% | -0.9% |
| Loans | \$2,263 | \$2,716 | \$2,885 | \$3,189 | \$3,273 | \$3,382 | \$3,431 |
| . change | \$439 | \$453 | \$169 | \$304 | \$84 | \$109 | \$49 |
| . %change | 24.1% | 20.0% | 6.2% | 10.6% | 2.6% | 3.3% | 1.4% |
| Merchant fees | \$1,795 | \$1,838 | \$1,910 | \$2,068 | \$2,241 | \$2,427 | \$2,651 |
| . change | \$52 | \$44 | \$72 | \$158 | \$173 | \$185 | \$224 |
| . %change | 3.0% | 2.4% | 3.9% | 8.3% | 8.4% | 8.3% | 9.2% |
| Bank bills | \$105 | \$183 | \$232 | \$244 | \$226 | \$204 | \$190 |
| . change | \$9 | \$79 | \$49 | \$12 | -\$18 | -\$22 | -\$15 |
| . %change | 9.1% | 75.1% | 26.6% | 5.1% | -7.2% | -9.6% | -7.1% |
| Other | \$951 | \$1,131 | \$1,220 | \$1,241 | \$1,247 | \$1,260 | \$1,276 |
| . change | \$147 | \$180 | \$89 | \$21 | \$6 | \$13 | \$16 |
| . %change | 18.3% | 18.9% | 7.9% | 1.7% | 0.5% | 1.1% | 1.3% |
| Total | \$5,822 | \$6,514 | \$6,871 | \$7,364 | \$7,593 | \$7,866 | \$8,135 |
| . change | \$547 | \$693 | \$357 | \$493 | \$229 | \$272 | \$269 |
| . %change | 10.4% | 11.9% | 5.5% | 7.2% | 3.1% | 3.6% | 3.4% |

Source: ABA



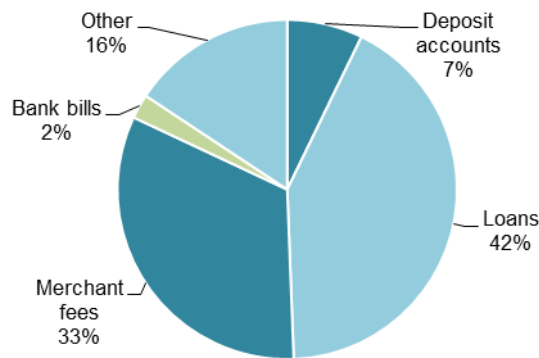
In 2015 fees from business loans accounted for 42 per cent of all bank service fees from businesses. This has been between 42 per cent and 43 per cent for the past six years.

For the past 11 years (from 2005) fees from business loans have been the highest contributor to total bank service fees from businesses. Merchant fees were the highest contributor for the six years prior to that (1999-2004).

This year, at 33 per cent, merchant fees were the second highest category of fees from businesses.

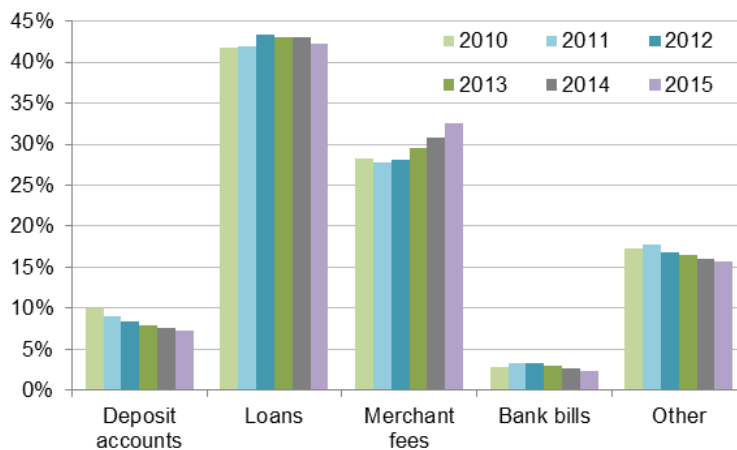
Bank service fees from business deposit accounts made up 7 per cent of total bank service fees from businesses - the lowest proportion on record. From 1997 to 2007, deposit accounts contributed 16 per cent to 20 per cent to total bank service fees from businesses.

Figure 32: Bank service fees from businesses (2015)



Source: ABA

Figure 33: Distribution of bank service fees from businesses by product

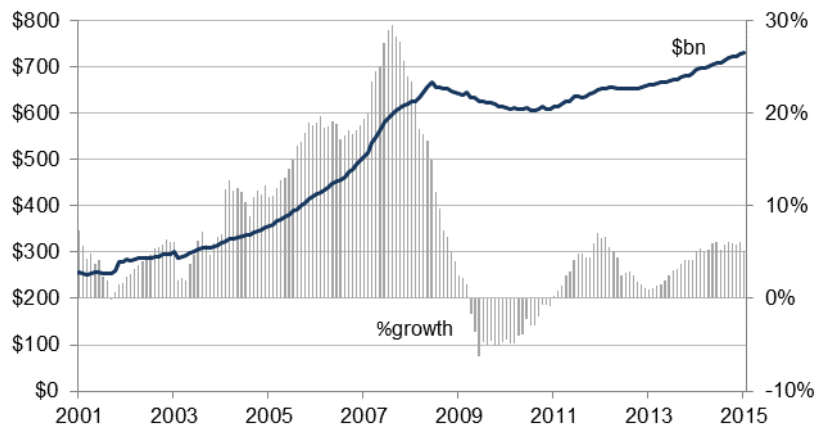


Source: ABA



Banks' business loan outstandings grew by 5.2 per cent to \$731 billion over the year to June 2015. Total business loan outstandings are now at a record level.

Figure 34: Business loan outstandings (banks)

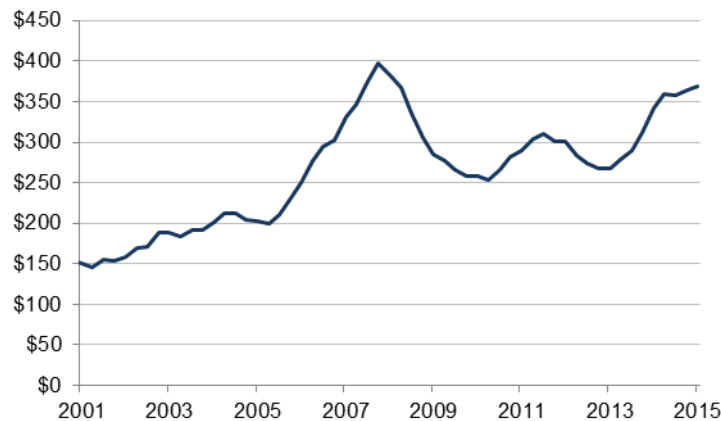


Source: RBA

There were \$369 billion in new loan commitments made to businesses over the year ending June 2015, increasing by 8 per cent over the past year.

The ABA estimates that there were 400,000 to 420,000 new loan commitments processed over the past year.

Figure 35: Banks' new business loan commitments (\$bn)



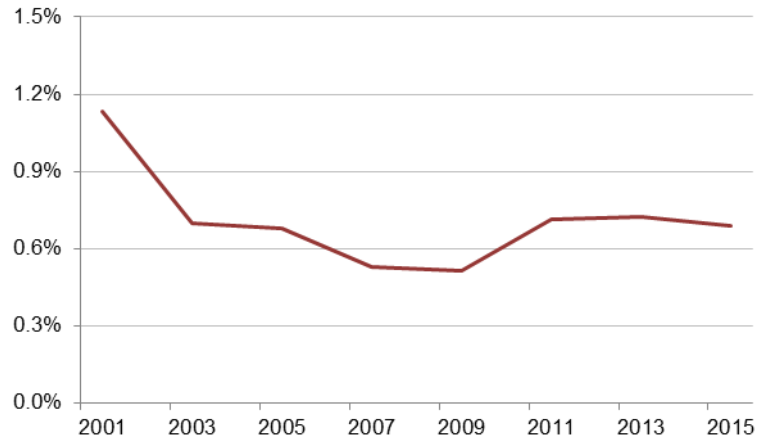
Source: RBA



The ratio of bank service fees from business loans to total business loan outstandings fell (in trend terms), over the period 2001 to 2008.

There was an upward movement over 2009 and 2010, but the last five years has been relatively flat – from 0.69 per cent to 0.74 per cent.

Figure 36: Business loans – bank service fees as a proportion of business loan outstandings



Sources: ABA/RBA



9. Exception fees

A total of \$685 million of exception fees were paid by households and businesses over 2015 - an increase of 1.2 per cent or \$8 million. This is the second consecutive year of very low growth in exception fees.

Households paid \$603 million in exception fees while businesses paid \$82 million.

Exception fees relating to credit cards are at the lowest level on record.

Exception fees paid by businesses have been largely unchanged for the past three years.

Exception fees accounted for 5.5 per cent of all bank service fees this year, the lowest proportion over the eight years for which data have been collected. This is less than half the proportion for the first two years for which exception fees data were collected.

Figure 37: Exception fees – summary (\$m)

| | 2009 | 2011 | 2013 | 2014 | 2015 |
|----------------------|----------------|--------------|--------------|--------------|--------------|
| Households | \$1,299 | \$550 | \$590 | \$594 | \$603 |
| Transaction accounts | \$674 | \$233 | \$296 | \$315 | \$332 |
| Other accounts | \$11 | \$2 | \$3 | \$3 | \$2 |
| Loans | \$614 | \$315 | \$290 | \$276 | \$269 |
| . Housing | \$61 | \$36 | \$34 | \$32 | \$32 |
| . Personal | \$42 | \$24 | \$25 | \$25 | \$19 |
| . Credit cards | \$510 | \$255 | \$225 | \$219 | \$212 |
| Other | \$0 | \$0 | \$0 | \$0 | \$0 |
| Business | \$197 | \$88 | \$81 | \$83 | \$82 |
| Small business | \$164 | \$74 | \$70 | \$73 | \$73 |
| Deposits | \$113 | \$43 | \$37 | \$36 | \$36 |
| Loans | \$52 | \$31 | \$33 | \$37 | \$37 |
| Merchant fees | \$0 | \$0 | \$0 | \$0 | \$0 |
| Bank bills | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other | \$0 | \$0 | \$0 | \$0 | \$0 |
| Large business | \$33 | \$13 | \$11 | \$10 | \$9 |
| Deposits | \$10 | \$7 | \$5 | \$5 | \$4 |
| Loans | \$23 | \$7 | \$6 | \$5 | \$5 |
| Merchant fees | \$0 | \$0 | \$0 | \$0 | \$0 |
| Bank bills | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other | \$0 | \$0 | \$0 | \$0 | \$0 |
| All businesses | \$197 | \$88 | \$81 | \$83 | \$82 |
| Deposits | \$122 | \$50 | \$41 | \$41 | \$40 |
| Loans | \$74 | \$38 | \$39 | \$42 | \$42 |
| Merchant fees | \$0 | \$0 | \$0 | \$0 | \$0 |
| Bank bills | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total | \$1,496 | \$638 | \$671 | \$677 | \$685 |

Source: ABA



Exception fees now comprise 0.72 per cent of banks' total operating income. This is the lowest result over the eight years since the data series commenced. In 2008 and 2009, the ratio was much higher, above 2.0 per cent.

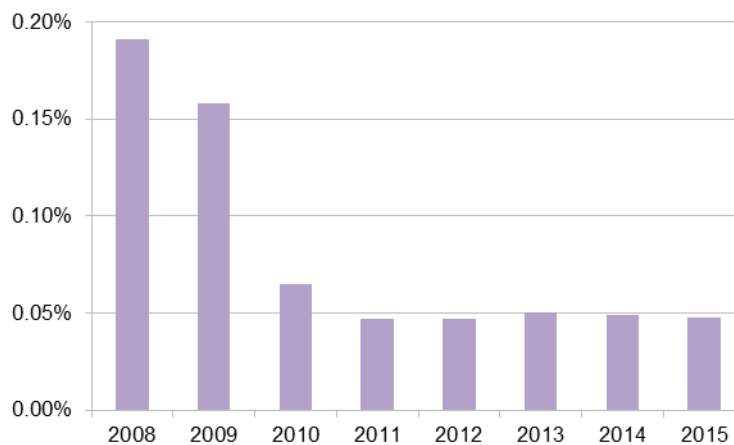
Figure 38: Exception fees as a % of operating income



Source: ABA

In 2015 exception fees on household transaction accounts remain around 0.05 per cent of total household deposits for the fifth consecutive year. This ratio was over three times that level in 2008 and 2009.

Figure 39: Exception fees on household transaction accounts as a % of deposits



Source: ABA



Households and businesses are active users of transaction accounts and credit cards. Over the past year \$16 trillion was transacted using ATMs, EFTPOS, direct entry and cheques. The amount of exception fees paid as a proportion of total transactions is 0.002 per cent and has remained at this very low level for the past five consecutive years.

Credit card transactions worth \$295 billion took place over the past year. Exception fees, as a proportion of credit card spending, was 0.07 per cent, a significant fall from 0.23 per cent six years ago.

Figure 40: Exception fees as a proportion of transaction value

| | 2009 | 2011 | 2012 | 2014 | 2015 |
|-----------------------------|----------|----------|----------|----------|----------|
| Exception fees (\$m) | | | | | |
| Transaction accounts | \$674 | \$233 | \$257 | \$315 | \$332 |
| Credit cards | \$510 | \$255 | \$252 | \$219 | \$212 |
| Transactions (\$bn) | | | | | |
| Transaction accounts | \$14,034 | \$14,037 | \$15,091 | \$15,775 | \$15,974 |
| Credit cards | \$221.2 | \$245.8 | \$255.4 | \$281.3 | \$295.0 |
| Ratio | | | | | |
| Transaction accounts | 0.005% | 0.002% | 0.002% | 0.002% | 0.002% |
| Credit cards | 0.23% | 0.10% | 0.10% | 0.08% | 0.07% |

Source: ABA



10. Bank service fees and low income earners

Households vary in their capacity to pay bank service fees and this raises the issue of access to banking services across households. A group of consumers requiring particular consideration are those on low incomes.

Analysis of data from the ABS Household Expenditure Survey reveal that:

- Households devote only a tiny proportion of their average weekly expenditure on bank accounts.
- Low income households are spending less on bank accounts when compared over a six year period; and
- Higher income households are paying the bulk of fees on bank accounts.

Note the ABS has flagged that the estimate for the lowest income quintile has a high relative standard error.

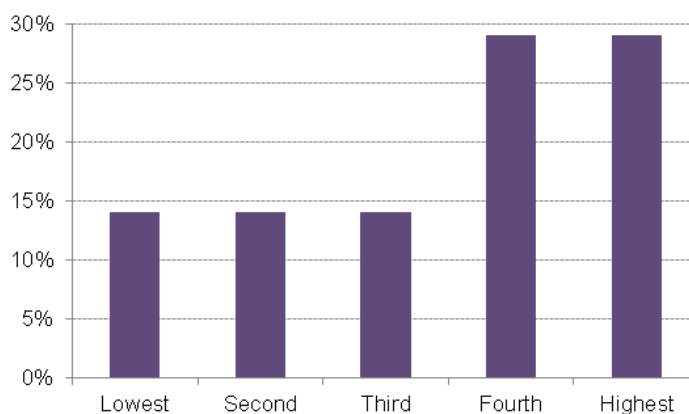
Figure 41: Duties, taxes and charges on financial institution accounts

| | Gross Household Income Quintile | | | | | All |
|---|---------------------------------|--------|--------|--------|---------|--------|
| | Lowest | Second | Third | Fourth | Highest | |
| Duties, taxes, charges on financial institution accts | \$1.54 | \$1.50 | \$1.52 | \$3.07 | \$3.09 | \$2.15 |
| %Share | 14% | 14% | 14% | 29% | 29% | |

Source: ABS

The chart below shows the share of the total expenditure on financial institution account charges across the five income quintiles.

Figure 42: Share of charges on financial institution accounts by income quintile



Source: ABS



Over the six years, between the two ABS Household Expenditure Surveys, the percentage of weekly spending on duties, taxes and charges on financial institution accounts by the lowest income quintile, has fallen from 0.34 per cent (in 2003-04) to 0.28 per cent (in 2009-10).

Figure 43: Proportion of average weekly income paid on financial accounts by lowest income quintile



Source: ABS



11. Financial services prices

The CPI allows comparison of price change across a broad range of items of household expenditure.

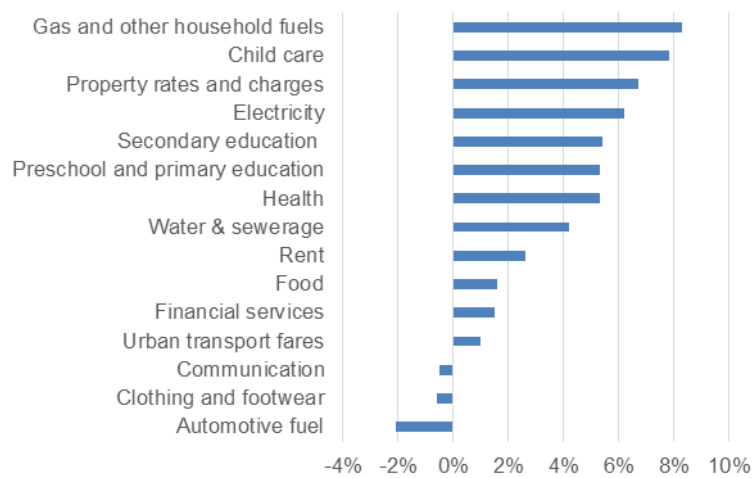
Figure 44 below shows the price change for a range of common items of expenditure by households. It shows that the increase in the price of financial services was low when compared with a range of items in the family budget, especially over the three years ending 2015.

Figure 44: Price change comparisons

| | Year to June 2015 | Avg 3 years pa |
|---------------------------------|-------------------|----------------|
| Gas and other household fuels | 3.4% | 8.3% |
| Child care | 8.5% | 7.8% |
| Property rates and charges | 6.3% | 6.7% |
| Electricity | -3.8% | 6.2% |
| Secondary education | 4.7% | 5.4% |
| Preschool and primary education | 6.3% | 5.3% |
| Health | 4.3% | 5.3% |
| Water & sewerage | -1.0% | 4.2% |
| Rent | 1.9% | 2.6% |
| Food | 1.3% | 1.6% |
| Financial services | 1.7% | 1.5% |
| Urban transport fares | -4.0% | 1.0% |
| Communication | -3.4% | -0.5% |
| Clothing and footwear | -0.9% | -0.6% |
| Automotive fuel | -10.6% | -2.1% |
| CPI | 1.5% | 2.3% |

Source: ABS

Figure 45: Price change over the three years to June 2015



Source: ABS



12. Bank service points, improvements and customer satisfaction

Bank service fees are payment for services provided by banks. As such, it would seem reasonable that customers would expect to receive good service from banks, along with improvements to banking products and services over time.

At the end of June 2015, banks maintained 5,480 branches making up 88 per cent of all branches in Australia.

Since 2001, there has been a net increase of 691 branches, a 14 per cent increase. There have only been two years (since 2001) where bank branch numbers have fallen.

Banks provide a further 2,130 service points such as agencies and rural financial centres, while Bank@Post now has 3,586 service points.

Access to banking services at ATMs or through EFTPOS has shown solid growth over recent years.

Figure 46: Summary of bank service channels

| | Number | % |
|-----------------------------------|---------|--------|
| Face-to-face: Total | | |
| Banks | 7,610 | 63.2% |
| Building Societies | 216 | 1.8% |
| Credit Unions | 622 | 5.2% |
| Other ADIs | 1 | 0.0% |
| Bank@Post | 3,586 | 29.8% |
| Total: All ADIs | 12,035 | 100.0% |
| Face-to-face: Branch Level | | |
| Banks | 5,480 | 88.3% |
| Building Societies | 198 | 3.2% |
| Credit Unions | 525 | 8.5% |
| Other ADIs | 1 | 0.0% |
| Subtotal: Branch | 6,204 | 100.0% |
| Face-to-face: Other | | |
| Banks | 2,130 | 36.5% |
| Building Societies | 18 | 0.3% |
| Credit Unions | 97 | 1.7% |
| Other ADIs | 0 | 0.0% |
| Bank@Post | 3,586 | 61.5% |
| Subtotal: Other | 5,831 | 100.0% |
| ATMs | 31,829 | |
| EFTPOS | 891,412 | |

Sources: APRA, APCA



Banks' continuing investment in technology provides customers with a greater range of products and services and improved accessibility to bank services such as:

- Internet and mobile phone banking.
- New products and services.
- Security and fraud.
- New bank branches – since 2001 there has been a net increase of 691 branches, a 14 per cent increase.
- Access points in remote areas – banks provide 451 branches in areas of lesser accessibility (i.e. moderately accessible, remote and very remote areas) and 401 ATMs.
- Extended trading.
- Technology investment – over 2015, banks' IT spend was \$6.3 billion. As a proportion of total operating expenses, banks' spending on IT has been increasing from 7.7 per cent in 2007 to 13.6 per cent now (2015).

Customer satisfaction data from Roy Morgan Research supports the fact that banks have been improving customer service. Over recent years, the data have shown a noticeable upward trend in customer satisfaction which was at a record 82.8 per cent at June 2015.

Figure 47: Banks' customer satisfaction



Source: Roy Morgan Research



Appendix 1: Bank service fees from households

| \$million | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Transaction accounts | \$2,088 | \$1,848 | \$1,179 | \$1,079 | \$1,043 | \$1,056 | \$1,059 | \$1,034 |
| . change | \$230 | -\$240 | -\$669 | -\$99 | -\$36 | \$13 | \$3 | -\$26 |
| . %change | 12.4% | -11.5% | -36.2% | -8.4% | -3.3% | 1.3% | 0.3% | -2.4% |
| Other accounts | \$107 | \$96 | \$72 | \$61 | \$53 | \$54 | \$51 | \$45 |
| . change | \$2 | -\$12 | -\$24 | -\$11 | -\$8 | \$1 | -\$3 | -\$6 |
| . %change | 2.0% | -10.9% | -24.8% | -15.4% | -12.5% | 2.1% | -5.7% | -11.6% |
| Housing loans | \$1,153 | \$1,379 | \$1,377 | \$1,228 | \$1,221 | \$1,218 | \$1,194 | \$1,250 |
| . change | \$58 | \$226 | -\$2 | -\$149 | -\$6 | -\$3 | -\$25 | \$56 |
| . %change | 5.3% | 19.6% | -0.2% | -10.8% | -0.5% | -0.2% | -2.0% | 4.7% |
| Personal loans | \$325 | \$354 | \$345 | \$328 | \$327 | \$350 | \$366 | \$376 |
| . change | \$9 | \$29 | -\$8 | -\$17 | \$0 | \$23 | \$16 | \$10 |
| . %change | 2.9% | 9.0% | -2.4% | -5.1% | -0.1% | 7.0% | 4.4% | 2.7% |
| Credit cards | \$1,313 | \$1,396 | \$1,245 | \$1,293 | \$1,309 | \$1,335 | \$1,414 | \$1,503 |
| . change | \$131 | \$82 | -\$151 | \$49 | \$16 | \$25 | \$79 | \$89 |
| . %change | 11.1% | 6.3% | -10.8% | 3.9% | 1.3% | 1.9% | 5.9% | 6.3% |
| Other | \$107 | \$97 | \$94 | \$91 | \$99 | \$103 | \$100 | \$111 |
| . change | \$20 | -\$10 | -\$3 | -\$3 | \$8 | \$4 | -\$4 | \$11 |
| . %change | 22.3% | -9.4% | -2.9% | -2.8% | 8.3% | 4.1% | -3.5% | 11.3% |
| Total | \$5,093 | \$5,169 | \$4,311 | \$4,080 | \$4,054 | \$4,117 | \$4,183 | \$4,318 |
| . change | \$449 | \$76 | -\$858 | -\$231 | -\$26 | \$64 | \$66 | \$135 |
| . %change | 9.7% | 1.5% | -16.6% | -5.4% | -0.6% | 1.6% | 1.6% | 3.2% |



Appendix 2: Bank service fees from businesses

| \$million | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Deposit accounts | \$808 | \$708 | \$646 | \$624 | \$623 | \$606 | \$592 | \$587 |
| . change | -\$28 | -\$100 | -\$62 | -\$22 | -\$1 | -\$17 | -\$14 | -\$5 |
| . %change | -3.3% | -12.4% | -8.8% | -3.4% | -0.2% | -2.7% | -2.3% | -0.9% |
| Loans | \$1,824 | \$2,263 | \$2,716 | \$2,885 | \$3,189 | \$3,273 | \$3,382 | \$3,431 |
| . change | \$150 | \$439 | \$453 | \$169 | \$304 | \$84 | \$109 | \$49 |
| . %change | 8.9% | 24.1% | 20.0% | 6.2% | 10.6% | 2.6% | 3.3% | 1.4% |
| Merchant fees | \$1,743 | \$1,795 | \$1,838 | \$1,910 | \$2,068 | \$2,241 | \$2,427 | \$2,651 |
| . change | \$108 | \$52 | \$44 | \$72 | \$158 | \$173 | \$185 | \$224 |
| . %change | 6.6% | 3.0% | 2.4% | 3.9% | 8.3% | 8.4% | 8.3% | 9.2% |
| Bank bills | \$96 | \$105 | \$183 | \$232 | \$244 | \$226 | \$204 | \$190 |
| . change | \$26 | \$9 | \$79 | \$49 | \$12 | -\$18 | -\$22 | -\$15 |
| . %change | 37.4% | 9.1% | 75.1% | 26.6% | 5.1% | -7.2% | -9.6% | -7.1% |
| Other | \$804 | \$951 | \$1,131 | \$1,220 | \$1,241 | \$1,247 | \$1,260 | \$1,276 |
| . change | \$92 | \$147 | \$180 | \$89 | \$21 | \$6 | \$13 | \$16 |
| . %change | 13.0% | 18.3% | 18.9% | 7.9% | 1.7% | 0.5% | 1.1% | 1.3% |
| Total | \$5,275 | \$5,822 | \$6,514 | \$6,871 | \$7,364 | \$7,593 | \$7,866 | \$8,135 |
| . change | \$348 | \$547 | \$693 | \$357 | \$493 | \$229 | \$272 | \$269 |
| . %change | 7.1% | 10.4% | 11.9% | 5.5% | 7.2% | 3.1% | 3.6% | 3.4% |