Bank Fees in Australia

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Abstract

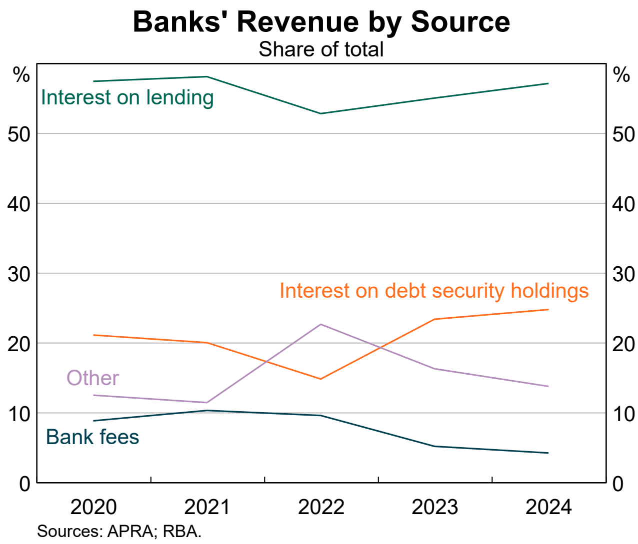
This article updates RBA analysis of bank fees charged to Australian households, businesses and government. Over the year to June 2024, the value of total fees increased by around 5 per cent – the first increase in seven years. Fee income from households increased by 10 per cent, mainly reflecting fee income from credit cards and personal loans. A modest rise in fee income from housing loans also contributed. Fees charged to businesses and governments rose modestly due to growth in lending and an increase in fees charged on deposit accounts. Fees from merchant customers for providing payment processing services were unchanged after declining strongly over the previous four years. As a share of assets and deposits, fee revenue remained stable at a relatively low level.

Introduction

This article updates previous RBA research on bank fees, covering the year to June 2024. Since 1997, the RBA has collected information on the fees charged to households and businesses by banks through their Australian operations. The 2023/24 data captured 48 lenders, which account for around 88 per cent of total credit outstanding.[1]

Monitoring bank fees over time is important in understanding the costs Australians incur for accessing and using banking services. Bank fees comprise a relatively small share of banks' total revenues. Fees contributed around 5 per cent of reporting banks' total revenue in 2023/24; this share was similar to that of 2023 but lower than the few years prior (Graph 1).

Graph 1



Banks charge fees to their household, institutional and government customers for the services they provide to them. These services include the provision of loans, deposit services and payment services. The fees broadly fall into the following categories:

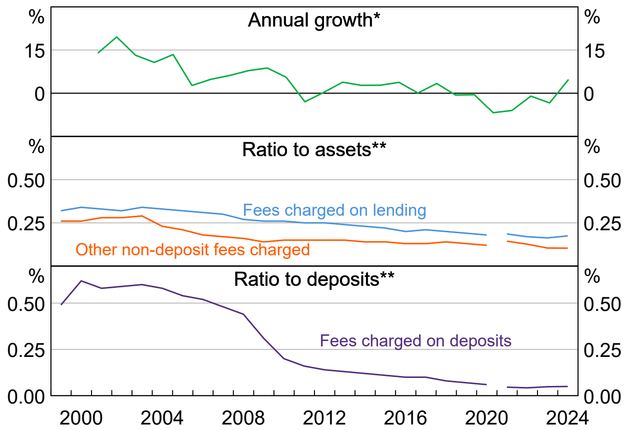
- **Account servicing fees** charged to cover account keeping costs. These include regular servicing fees (such as annual and monthly credit card fees) and application, settlement and establishment fees for loans.
- **Transaction fees** charged for transactions made. These include fees for international transactions, ATM withdrawals from deposit accounts, and drawdowns and redraws for loans.
- **Merchant fees** charged to merchant customers for providing payment processing services. These include transaction fees and fees such as joining and payments terminal rental fees.
- **Other fees** include break fees (charged when a customer terminates a contract, such as a fixed-term deposit or loan, early) and exception fees (charged when a customer breaches a contract, such as making a late payment on a loan or having insufficient funds in their deposit account).

Total fee revenue

Banks' total revenue increased by 5 per cent over the year to June 2024. This was the first annual increase in total fee revenue in seven years (Graph 2).[2] As a share of assets and deposits, fee revenue remained stable at a relatively low level. By type of customer, large businesses continued to pay the largest share of fees, comprising around 40 per cent of total bank fees (Graph 3; Table 1). Households and medium-sized businesses each paid around one-quarter of total bank fees, while small businesses accounted for just below 10 per cent of total fees.[3]

Graph 2

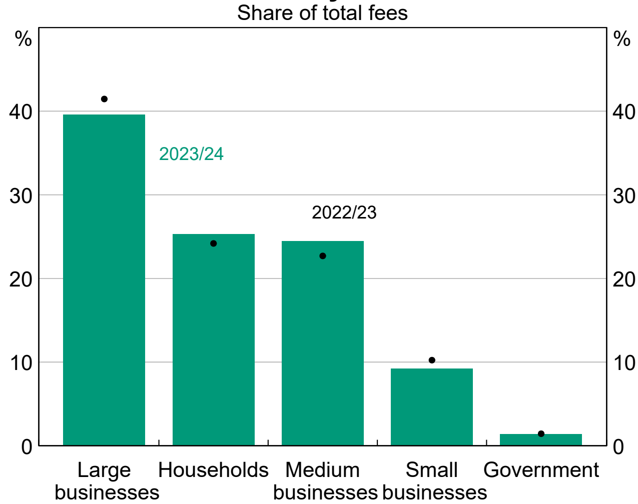
Bank Fees



* Adjusted for breaks in series.
** Average assets and deposits over reporting period; series break between 2020 and 2021.
Sources: APRA; RBA.

Graph 3

Bank Fees by Customer



Sources: APRA; RBA.

Table 1: Bank Fees[a]

Year	Households		Institutions[b]		Total	
	Levels ($ million)	Growth (per cent)	Levels ($ million)	Growth (per cent)	Levels ($ million)	Growth (per cent)
2020/21	3,363	–13.3	11,276	–3.6	14,640	–6.0
2021/22	3,223	–4.2	11,270	–0.1	14,493	–1.0
2022/23	3,386	5.1	10,620	–5.8	14,006	–3.4
2023/24	3,711	9.6	10,963	3.2	14,674	4.8

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

(b) Include businesses and government.

Sources: APRA; RBA.

Fees charged to households

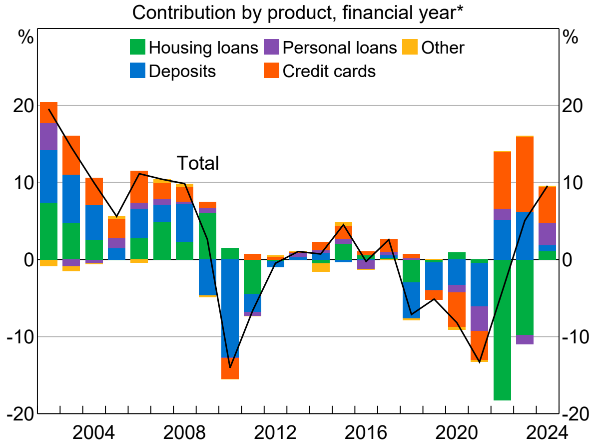
Fee revenue from households grew by 10 per cent in the year to June 2024 (Graph 4; Table 2). Key drivers of this growth were fee income from credit cards and personal loans. Fee revenue from credit card fees increased by 11 per cent, mainly reflecting a rise in overseas spending. With more households using their Australian credit and debit cards at overseas businesses, banks earned more fees on international transactions and foreign currency conversions. Earnings from fees charged on personal loans also grew strongly in the year as personal credit grew for the first time since 2015.

There was a modest increase in earnings on fees charged for housing loans, following large declines in the previous two years. Easing competition in the mortgage market resulted in many banks withdrawing financial incentives such as cashback deals, which are offered to attract new or refinancing customers and subtract from fee earnings (Ung 2024). A modest pick-up in new housing loans and housing credit growth, alongside elevated levels of external refinancing over the year, supported a small increase in volume of housing loans on which fees were charged.

Graph 4

Growth in Fees Charged to Households

Contribution by product, financial year*



* Adjusted for breaks in series.

Sources: APRA; RBA.

Table 2: Fees Charged to Households[(a)]

Product	2021/22 ($ million)	2022/23 ($ million)	2023/24 ($ million)	2023/24 Year-ended growth (per cent)
Loans	2,577	2,539	2,832	12
– Housing	1,113	818	856	5
– Personal	329	290	390	34
– Credit cards	1,115	1,431	1,586	11
Deposits	606	805	831	3
Other	40	43	49	13
Total	3,223	3,386	3,711	10

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

Sources: APRA; RBA.

Fee revenue from credit cards and personal loans

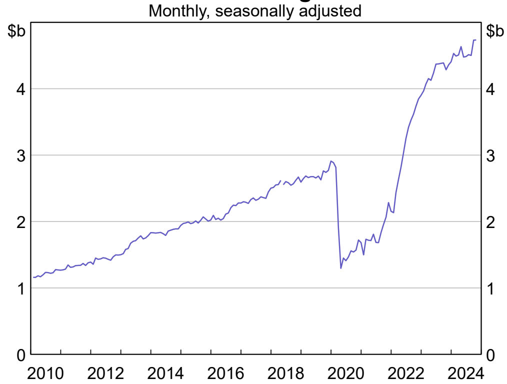
Credit cards are the largest source of bank fees paid by households. Strong growth in credit card fee income in 2023/24 largely reflected increased use of domestically issued credit cards at overseas businesses (Graph 5). Higher credit card fee revenue was mostly in the form of foreign currency conversion charges. The increase in credit card fee revenue was more modest than that over the previous two years, where growth in overseas spending was stronger (Dunphy 2024). Revenue from missed payment fees was little changed over the year, in line with a relatively stable share of credit cards accruing interest.

Fees from personal credit (excluding credit cards) increased strongly year on year. This reflected growth in establishment and transaction fees, consistent with the increase in personal credit growth over the year.

Graph 5

Australian Card Usage Overseas

Monthly, seasonally adjusted



* Transactions include in-person and online purchases and debit card cash-outs and/or credit card cash advances; series break due to changes in reporting methodology in May 2018.

Source: RBA.

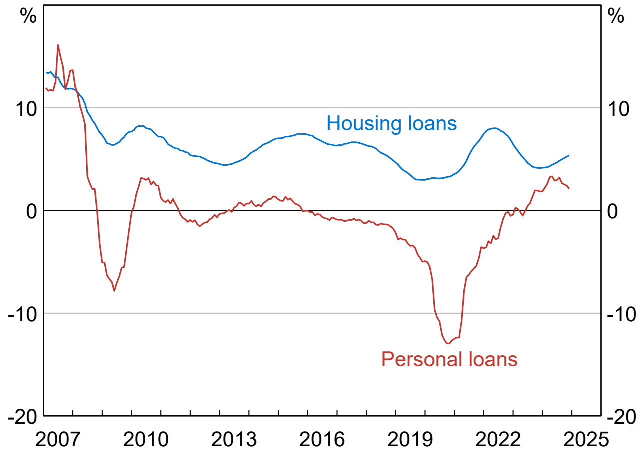
Fee revenue from home loans

Fee income from housing loans increased by 5 per cent in the year to June 2024. This increase partly reflected banks withdrawing cashback deals for new and refinancing borrowers in 2023. Despite this, external refinancing activity remained elevated over the year, in part because many households with maturing fixed-rate loans sought either to negotiate a new loan with their existing lender or refinance externally with another lender (RBA 2023). This supported growth in earnings from fees for negotiating and establishing new loans, as well as discharging previous loans. Fee income from housing loans was also supported by a pick-up in new housing loans over the year (Graph 6).

Graph 6

Household Credit Growth*

Year-ended



* Seasonally adjusted and break-adjusted; Personal loans includes credit cards.

Sources: APRA; RBA.

Exception fees, which are charged when a household is late in making their mortgage payment, increased in the year to June 2024; this follows a larger increase in the previous year, and is due to a rise in the number of households that have fallen behind on their mortgage payments since late 2022 (RBA 2024).

Fee revenue from deposits

Fee income from household deposits grew modestly over the year. Income from transaction and account servicing fees increased, reflecting a rise in overseas spending by households using their debit cards (which generate fees from foreign currency conversions and international transactions). Fees charged to households for exiting term deposits early remained at elevated levels in the year to June 2024 as customers withdrew from their existing term deposits to seek higher returns.

An ASIC (2024) report has found that some larger banks kept at least two million low-income Australians on inappropriate high fee accounts between November 2021 and November 2022. ASIC had provided their key findings and recommendations to the banks in July 2023, including recommendations for refunding or freezing fees to impacted customers. While banks have started responding to the recommendations, the majority of fee refunds is expected to occur during 2024/25.

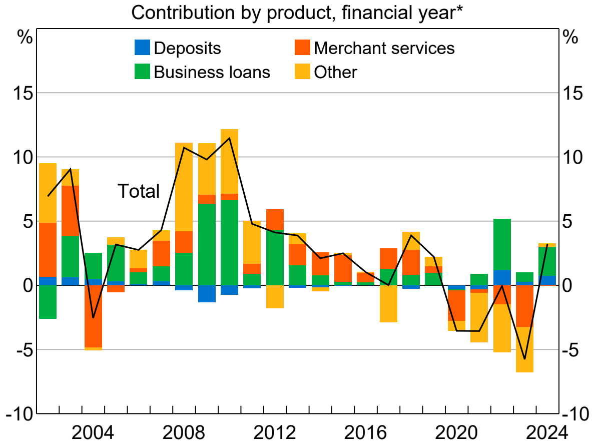
Fees charged to businesses and government

Total fees charged to institutional customers increased modestly in the year to June 2024, following four years of declines (Table 3; Graph 7). Fees on business loans are the largest component of banks' institutional fee income, comprising half of earnings from fees charged to institutions, and around one-third of earnings from all customers. The overall increase in this type of fee revenue mainly reflected higher earnings from fees charged on business loans, consistent with strength in business credit growth over the year. Large businesses paid the highest share of banks' fees from all customer types, although this share declined relative to the previous year. This decline was largely due to changes to APRA's reporting standards, which expanded the exposure and business turnover thresholds for small and medium businesses, leading to the reclassification of some large businesses to medium businesses (APRA 2024).

Graph 7

Growth in Fees Charged to Institutions

Contribution by product, financial year*



* Adjusted for breaks in series.

Sources: APRA; RBA.

Table 3: Fees Charged to Institutions[(a)]

Product	2021/22 ($ million)	2022/23 ($ million)	2023/24 ($ million)	2023/24 Year-ended growth (per cent)
Loans	5,123	5,205	5,445	5
Merchant service fees	2,782	2,413	2,409	–0
Deposit accounts	546	580	660	14
Other[(b)]	2,819	2,423	2,449	1
Total	11,270	10,620	10,963	3

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

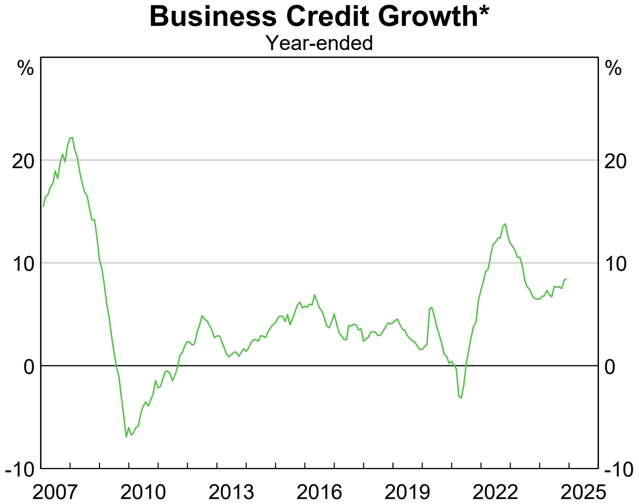
(b) Includes bills of exchange.

Sources: APRA; RBA.

Fee revenue from business loans

Fees charged on business loans increased by 5 per cent over the year, reflecting strength in business credit growth (Graph 8). Revenue from fees on business loans as a share of business credit outstanding remained stable year on year. As with households, the majority of banks' institutional fee income continues to come from the application, establishment and settlement charges associated with loans. However, these charges tend to be larger relative to loan sizes as compared with households, which is likely to reflect the greater complexity of business loans.

Graph 8



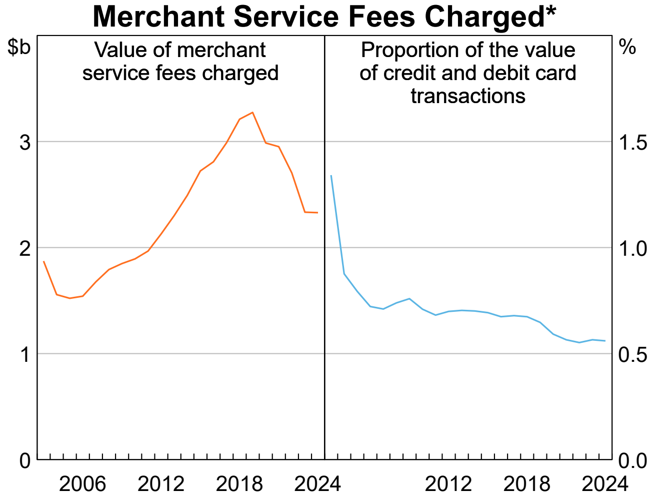
* Seasonally adjusted and break-adjusted; lending to non-financial businesses.

Sources: APRA; RBA.

Fee revenue from merchant services

After declining by around 30 per cent over the previous four years, merchant service fee revenue was flat over the year to June 2024 (Graph 9). This mainly reflected little change in average per-transaction fees across all card types over the year.

Graph 9

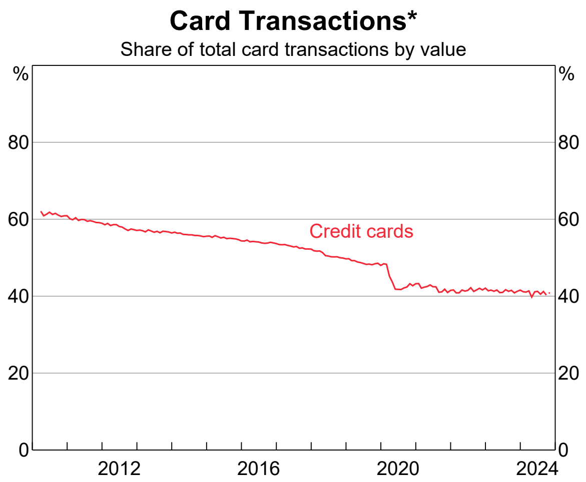


* Adjusted for breaks in series. Excludes interchange payments related to four party schemes, and is net of rebates and concessions.

Sources: APRA; RBA.

The decline in merchant fee income in the previous four years was partly driven by declines in the average fee per transaction, reflecting factors such as a shift from credit to debit cards that typically attract a lower fee per transaction and competitive pressure from non-bank payments service providers, including the entry and expansion of foreign payments entities in Australia (Graph 10; Gill, Holland and Wiley 2022). In recent years, some banks have sold off their merchant services business to entities that are not required to report their fee income to APRA, and this has also driven the decline in merchant fee income (Dunphy 2024).

Graph 10



* Seasonally adjusted; there was a series break due to changes in acquiring data collection in October 2024.

Source: RBA.

Fee revenue from business deposits

Fee revenue from business deposits increased by 14 per cent over the year, mainly reflecting a large increase in transaction fees. Prior to this, business deposit fee earnings had been steadily declining since 2007, resulting in its contribution to total fee revenue earned from institutions declining from 18 per cent in 2007 to 6 per cent in 2024.

Other fee revenue

Other fees charged to institutions increased by 1 per cent over the reporting period. Other fees include miscellaneous fees relating to activities such as deed transmissions and guarantees. Fee revenue from commercial bills declined over the year, and has been declining as a share of other fee revenue in recent years.

Conclusion

Fees charged by banks through their domestic operations represent a small share of banks' total earnings, accounting for 5 per cent of total revenue in 2023/24. By customer, large businesses continued to contribute the highest share to banks' total fee revenue, followed by households and medium businesses. Banks' total fee revenue increased for the first time in seven years, supported by a reduction in home loan cashback offers and increases in new housing loans, a pick-up in personal and business credit growth, and a further rise in overseas spending by households. Merchant service fee revenue was unchanged.

Endnotes

* The author is from Domestic Markets Department.

1 These data may differ from previous years due to data revisions and break adjustments.

2 The trend decline in total fees over previous years mainly reflects consecutive falls in household fee revenue. Some of this decline is from banks removing fees in response to the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Competitive behaviour may also have played a role (Dunphy 2024).

3 Businesses are defined as small, medium and large based on the reporting institution's exposure to the business and the business's annual turnover. A business is classified as small if the exposure is less than $1.5 million and turnover is less than $75 million, medium if the exposure is greater than or equal to $1.5 million and turnover is less than $75 million, and large if turnover is greater than or equal to $75 million (APRA 2024).

References

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