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Fujitsu Consulting (FC) recently released their [Australian Bank Fee Survey 2009](#). The resultant publicity, typified by the [Daily Telegraph](#), has tended to focus on the headlines of Australian households paying close to \$1000 per year in bank fees, paying \$200 more than they “should” and paying 22% on average more than British households and 11% more than American households. Unusually for the topic of bank fees this note will not comment on whether they are too high, too low or perhaps too opaque. Instead this note will focus on the lack of substantiation behind the FC report’s primary quantitative findings. As headlines the claims are alluring. The aim of this piece is to explain why the headlines should be treated with caution.

The FC findings are based on a benchmarking of bank fees for Australia, USA and UK. The results highlighted appear to be FC projections for 2009. The total fees calculated by FC assume that all households use the full range of products and services, with “typical” transaction patterns for their particular customer segment, as indicated by FC surveys. This means that every household in a customer segment is assumed to have the transactions and uses of those surveyed and to pay fees for a full range of banking services: mortgage, credit card, transaction account, personal loan and other banking services.

These may appear to be innocuous assumptions. They can be tested by examining the total bank fees actually paid divided by the total number of households. Here a quite different picture emerges for Australia. Looking at the latest full year statistics, the Reserve Bank of Australia reports Australians spending \$4376M on bank fees in 2007.¹ The Australian Bureau of Statistics projects around 8.2M households in 2007.² This gives an average \$534 paid per household in banking fees in 2007. This is significantly less than the “close to \$1000” reported by FC, based on their assumption of households being segmented and using and paying for all bank services, at transaction levels and product mixes determined by surveys.

Now it is common to try to hold some factors constant in international benchmarking comparisons. While details are scant it appears that FC has tried to adjust US and UK fees to reflect what they would be if the US and UK had Australian transaction levels and product mixes for different customer segments. So we might not expect the FC reported fees to equal or even approximate the actual fees in the US and UK.

However if the Australian data has been used as the baseline for the benchmark, it is reasonable to ask, does the benchmark at least approximate the actual historical values for Australia in some way? Unfortunately it does not. The benchmark relied on for FC’s analysis is almost double the actual observed average fee levels. FC’s own reported graph on page 2 has fees estimated to rise less than 10% per year in 2008 and 2009, not the near doubling implied by their benchmarking process. What is going on here?

¹ Reserve Bank of Australia, table F06 Domestic banking fee income
http://www.rba.gov.au/Statistics/AlphaListing/alpha_listing_b.html

² Australian Bureau of Statistics, 3236.0 Household and family projections, Australia, 2001 to 2026, p62, median series value used.
[http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/DF2989BFFA7392E1CA256EB6007D63F4/\\$File/32360_2001%20to%202026.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/DF2989BFFA7392E1CA256EB6007D63F4/$File/32360_2001%20to%202026.pdf)

There are two obvious potential sources of error in the FC benchmarking approach. The most prominent potential source of error is the primary assumption made by FC – that all Australian households use a full range of products and services. If in fact a number of households only use a portion of available services then this would tend to overstate bank fees.

A second potential source of error is the use of customer surveys to determine typical transaction and product bundles. In fact one way to check the survey validity would be to see if an extrapolation of the results of the surveys to the nation as a whole would approximate the average total fee levels actually observed. As noted here they do not appear close.

Less obviously the treatment of conditional fees could explain the difference between the FC benchmark and the realised historical numbers. Observed historical fees inherently take into account the proportion of conditional fees that are ultimately paid. It is not clear what assumptions are made by FC in allowing for conditional fees.

It appears the FC benchmarking approach does not answer any question about the total level of fees actually paid by Australian households. Instead it appears directed at a different and more limited question - if everyone used all banking products and they had the transaction and product bundles equivalent to those obtained from some survey data then what would average fee levels be. This question has limited usefulness when it calculates an Australian fee level so starkly different from the observed average.

The significant difference between the FC results and observed results encapsulates the major criticism of this report – its use of a highly hypothetical fee to try to substantiate claims about the level of bank fees paid on average by households. Together with apparently nonsensical claims for UK regulation tying fees to costs leading to a drop in bank overdraft fees by 220% (such a drop would imply the banks now pay customers to take out the letters) this approach undermines the quantitative foundation of the arguments made – and means the headlines should be treated with extreme caution.

