

Strategic Brief

Fee-Free Banking: The Step Forward

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The logo for RFI (Research Foundation for Financial Innovation) consists of the letters 'RFI' in a white, sans-serif font, centered within a dark blue square.

RFI

Intelligence
to bank on

Introduction

The competition for deposits has grown strong over the past few years, with banks increasingly offering aggressive propositions in the deposit space. In 2009 there was an outburst of competitive fee cutting from Australian retail banks, which begun to take effect in the early months of 2010. This report will seek to understand the reasons behind these competitive moves and how consumers are likely to react to them. The report will also suggest how banks can sustain profitability with fee-free banking.

Scope and methodology

The report uses data from surveys conducted online by RFi, as well as historical and current data available from the ABS, APRA and RBA. The data is used to:

- Investigate why banks are fighting for deposits
- Examine why fee-cutting could attract consumer deposits
- Predict consumer reaction to fee-cutting
- Suggest how fee-free banking can be sustainable

Highlights

Australians have been paying more in fees than other countries, which suggest that retail banking in Australia is behind international standards. Reducing fees and offering fee-free banking will allow Australian banks to keep up with international standards, while lessening funding pressures.

RFi asked transaction account holders how important, on a scale of 1 to 7, various features were on their account. The mean importance scores for fee features were noticeably high, with 'No/low monthly fees' receiving the highest importance score of 5.97, indicating that fees play a large part in the affiliation consumers have with their deposit products. However satisfaction scores were lower than importance scores, suggesting it is imperative for banks to improve fee structures in order to attract and retain depositors.

Reasons to read this report

- To understand why fee-free banking is an essential step in the current competitive Australian market
- To examine the importance of fees to the Australian depositor and their likely reaction to fee-cutting
- To identify how to make fee-free banking profitable and sustainable