

The growth in fees paid on home loans and credit cards is low given many more of these products are in the market.

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Big jump in card fees for banks

MICHAEL RODDAN
BANKING

Australian lenders are seeing a strong windfall from credit card fees, which have contributed to a 3.5 per cent increase in banks' income from fees last year to \$12.5 billion, according to the Reserve Bank's annual report on bank fees.

The solid rise outpaced the 3.1 per cent growth rate recorded in 2014, and comes at a time when banks are trying to escape the limelight amid increasingly loud calls for a royal commission into the financial services sector.

The RBA survey, which had been conducted each year since

1997, found the fees banks clawed from households increased by 2.9 per cent to \$4.3bn in 2015, which was the third consecutive year in which fees had grown.

Kelsey Wilkins, who works in the RBA's domestic markets department, said credit card fees were the single largest source of fee income for the banks, which increased "strongly" in the year — up 6.6 per cent to \$1.5bn in 2015, ahead of the prior year's 5.9 per cent growth.

The increases are far above the medium-term average increase for credit card fees of 2.6 per cent.

Some banks have responded to sluggish profits from credit cards with higher annual fees or increased cash advance fees as more

consumers are paying debts on time. Meanwhile, the increase in fees on home loans and personal loans was more moderate, while fee income from deposit products declined in 2015, Ms Wilkins said.

The benign state of deposit fees was thanks to higher use of contactless payments and the declining use of cash, which meant fewer ATM withdrawals and, therefore, fewer charges.

The big four banks recorded an interim profit of \$14.8bn for the most recent half year, down 3 per cent year-on-year.

Tony Pearson, chief economist for the Australian Bankers' Association, said bank fee growth was remaining low despite high transaction volumes.



"Households are paying an average of \$9 a week in bank fees — the same as what we were paying in 2004," Mr Pearson said. "When it comes to transaction accounts

— a product used by virtually every household — average fees are now at the lowest level in 15 years."

Mr Pearson said fees had fallen by \$1bn, or by more than 50 per cent, since the 2008 peak. Meanwhile, the number of transactions had surged by about 60 per cent over the same period.

Banks approved more than 900,000 new home loans last year, while the number of credit card accounts increased by more than 500,000 to 135 million.

"So, the growth in fees paid on home loans and credit cards is low given many more of these products are in the market," Mr Pearson said.

The RBA report found fee income from business banking rose

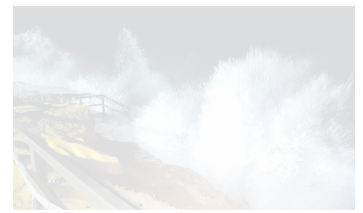
3.9 per cent last year, with small businesses bearing the brunt of higher fees from merchant fees and business loans.

Mr Pearson said growth in fees from businesses had been low over the past three years when compared with the increasing use of banking products and services.

"In particular, fees on business deposit accounts are at the lowest level since 1999," he said.

Ms Wilkins said this was mainly due to a reduction in deposits held by these customers.

"The decline in fee income was also the result of customer switching between deposit accounts in order to make use of lower fee products," Ms Wilkins said.



BILL HEARN

King tides add to the storm damage at Sydney's Collaroy

Battered insurers face another rough patch

RISK: Insurance companies are at risk of breaching their natural disaster allowances and are battering down the hatch for another weekend of wild weather along the east coast of Australia, as the damages bill from the storms earlier this month soars past \$200 million.

The weather warning is likely to have the nation's two largest insurers nervous, with both Insurance Australia Group and Suncorp grinding very close to their natural perils allowance after factoring in the costs from the severe low that ravaged the east coast.

Suncorp yesterday said it was expecting the damages bill from the early June catastrophe to total between \$60m and \$80m, in line with IAG's estimation for the costs of its claims. OBE is yet to update the market on its own damages bill.

The Insurance Council of Australia said yesterday the total insured losses from the storms that hit Queensland, NSW, Victoria and Tasmania had tripled over the past fortnight to \$2.5m, following almost 32,000 claims across the states.

"Since the ICA last updated the catastrophe data, insurers have received very large claims for commercial and marine damage, substantially lifting the overall losses from these storms," ICA chief executive Rob Whelan said.

Insurers have copped fierce selling over the past two weeks following the storms. IAG shares fell 5.6 per cent, Suncorp slumped 7.6 per cent and OBE was pushed 9.2 per cent lower.

IAG previously said it had received about 10,000 claims,

while Suncorp recorded 8000. While Suncorp's operations are concentrated in Queensland, IAG's business is focused in NSW, which was more severely affected by the storm. But the insurer's quota share agreement with Warren Buffett's Berkshire Hathaway has kept damages in line with its rival.

As the weather bureau is now predicting more storms and heavy rainfall this weekend along the east coast, the Insurance Council is urging policyholders to start preparing now to protect their property.

IAG said last fortnight's storms put its disaster claims close to the limit of its \$600m natural perils allowance for the 2016 financial year, while Suncorp said the impact of the east coast storms left its natural hazards costs "broadly in line" with the annual allowance. Both insurers are recovering from heavy damages last year.

On Tuesday, IAG's internal meteorology team updated management about the prospect of a low set to hit the east coast this weekend, putting the insurer on the war footing.

Mr Whelan said properties that were damaged in the storms almost two weeks ago may be especially vulnerable to the impact of this coming low.

"If policyholders suffer further damage, they should let their insurer know, which may see their claim further prioritised," he said.

Deutsche Bank analyst Kieren Chigley said the industry's total catastrophe costs were on track to hit about \$750m this financial year.

MICHAEL RODDAN

Crestone debuts with a tailored 'bespoke' business

Continued from Page 19

Australia I don't think this has been done before — where such a large number of clients and assets have been migrated from an incumbent bank system on to a new platform in one weekend after nearly a year of planning."

Mr Grounds said the bank opted to sell the wealth arm because it was "quite small in a global sense" and from a scalability perspective, it didn't hit the metrics.

He said Crestone would benefit from a partnership approach where there was "alignment between advisers, management and clients", noting UBS's investment bank had such a culture.

"The reality is this wealth business is really suited to a partnership," he said of the deal, which brings UBS into line with most foreign investment banks that leverage alliances rather than having in-house wealth arms.

UBS will provide Crestone with securities execution, clearing and settlement, research, access to capital markets deals and managed funds. "For us setting up Crestone made sense. I care about the people and the clients, so the best way is for them to create a partnership where they can invest in the business," Mr Grounds said.

Last month, rival Morgan

'In Australia I don't think this has been done before'

MATTHEW GROUNDS
UBS AUSTRALASIA CHIEF

Stanley took the axe to commissions for 157 advisers in its \$26bn wealth arm, warning that the industry was suffering "structural unprofitability" after years of rising costs and flat revenue.

Under Morgan Stanley's new pay "grid", many advisers' share of the first \$500,000 in revenue they write will decrease to 30 per cent, from 40 per cent.

Mr Chisholm said Crestone used a "number of different payment approaches" for advisers including a grid, but argued most advisers were owners and incentivised to boost the company's profits to reap dividends. He said 80 per cent of Crestone's revenue came from a basis-point charge on a client's assets under management — rather than on transactions — which was "probably 10-15 years ahead" of the industry.

"An assets under management fee model aligns interest of the client, the firm and adviser because you're all motivated to sustainably over the long term grow the value of that portfolio," he said.



RENEE NOWYTAGHER

UBS Australasia chief executive Matthew Grounds and Mike Chisholm of Crestone

But Crestone's formation has not been without hiccups, with advisers shrinking to 70, from about 90 a year ago. Of the 170 total staff spread across offices in Brisbane, Melbourne and Syd-

ney, 85 are shareholders. Under the new strategy, Crestone will put its sole focus on high net worth individuals and family offices seeking diversified, multi-asset-class portfolios.

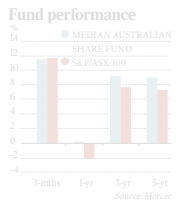
Fund managers outdo market in 'calm' May

MICHAEL RODDAN
INVESTMENTS

Fund managers outperformed the broader sharemarket in May, but their performance starts to fade compared with the index over the past three months.

The Australian market rose 3.1 per cent last month as financials and energy stocks surprised with strong rallies. However, the median of Australian shares funds — which tracks active managers — returned 3.8 per cent over the month.

The past 12 months have been strong for active managers with the median share fund outperforming the market by 2.3 per cent. Over the past three and five years, the median share fund manager has delivered 9.2 per cent



and 9 per cent, respectively, outperforming the broader market on both measures.

Mercer principal Clare Armstrong said it remained to be seen whether May was the calm before the storm of the Brexit vote.

The Australian sharemarket

has since tumbled 4.6 per cent over the first half of June as voter polls indicate an electorate increasingly hostile to the notion of Britain staying in the EU. Returns will be critical as many fund managers' performances will be measured for the year to June 30.

The strong market momentum in May came as a surprise to many. Over the past 36 years, the market has generally only moved an average of 0.23 per cent higher, well below April's average increase of 2.8 per cent, according to Bell Potter's Richard Coppleson.

But Ms Armstrong said April's strong investor sentiment continued in May, with healthcare and IT stocks the best performers.

"Although the drivers of performance for the year have become familiar, with the exposures to resources, energy and finan-

cials hurting the returns of many strategies, the last quarter was a different story, with larger names such as CBA and ANZ among the biggest positive contributors to returns," she said.

On the other hand, she said the most significant detractors from performance over the month were BHP, Rio Tinto and Westfarmers, notching absolute returns of 7.3 per cent, 12.8 per cent and 4.6 per cent, respectively.

As far as fund managers go, Bannell continued to be a frontrunner, with a return of more than 38 per cent over the year. Mercer said managers with a long-only or index-hugging strategy performed best over the three months to the end of May, but funds with targeted volatility strategies were ahead for the year, with returns above 9 per cent.

ANZ INTEREST RATES

Effective from 17 June 2016, ANZ will change the Standard Balance Transfer Annual Percentage Rates on the following ANZ credit cards to the rates set out below:

Consumer Credit Cards	Standard Balance Transfer Annual Percentage Rate
ANZ Rewards	20.99%
ANZ Rewards Platinum	20.99%
ANZ Rewards Black	20.99%
ANZ Free Days MasterCard®	20.99%
ANZ First	21.49%
ANZ Platinum	21.49%
ANZ Frequent Flyer	21.49%
ANZ Frequent Flyer Platinum	21.49%
ANZ Frequent Flyer Black	21.49%
ANZ Low Rate	21.74%
ANZ Low Rate Platinum	21.74%
ANZ Balance Visa	21.74%

These interest rates apply to Balance Transfers processed from 17 June 2016. Interest Rates are subject to change.



For further information on ANZ Credit Cards visit anz.com/creditcards Australia and New Zealand Banking Group Limited ABN 11 000 307 552 Australian Credit Licence Number 234527

ANZ INTEREST RATES

Changes to Interest Rates Effective 17th June 2016

ANZ Pensioner Advantage Account*	
Amount	Rate p.a.
Balances below \$2,000	0.25%
Balances between \$2,000 and \$44,600	1.50%
Balances over \$44,600	2.50%

ANZ Passbook Pensioner Advantage Account*	
Amount	Rate p.a.
Balances below \$2,000	0.25%
Balances between \$2,000 and \$44,600	1.50%
Balances over \$44,600	2.50%

ANZ Pensioner Advantage

- Interest rates are banded.
 - Interest rates are banded, and this product is no longer available to new business.
- Eligibility criteria apply, terms and conditions and fees and charges apply. All rates are variable and subject to change.



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