

BANKING CHARGES IN THE DIGITAL AGE

Critical Evaluation Of Banking Charges In The Era Of
Automatization And Self-Service

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Contents

- **Research Question**

- To what extent are bank charges justified within the European Union in the digital age considering automation and self-service?

- Basic Terminology

- Developments In European Banking

- Digitalization And Automation Of The Banking Industry

- Developments Of Banking Charges In Europe

- **Financial Institutions**

- Corporations involved in monetary transactions
- E.g. banks, insurance companies, trust enterprises, holding firms, National Bank

- **Bank**

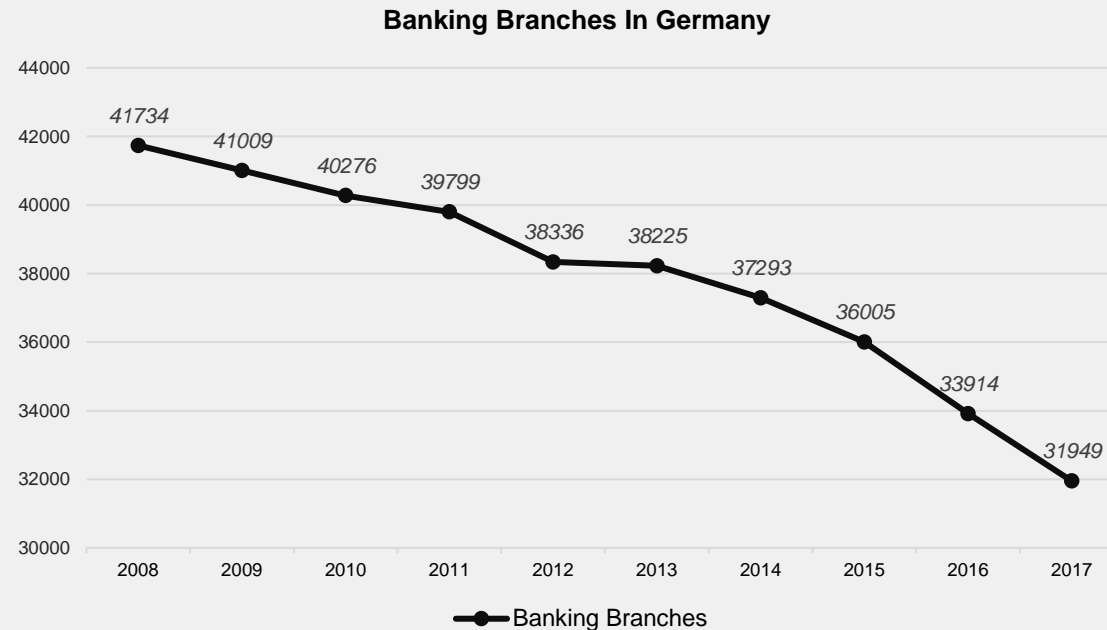
- Corporate Bank
 - Profit-oriented
 - Tasks like deposits, loans, currency exchange, investments
- National Bank
 - Holds sovereign position
 - Macroeconomic duties
 - E.g. Österreichische Nationalbank (OENB), European Central Bank (ECB)

Banking Fees

- Charged for special services the customer consumes with fixed amounts charged
- Can mostly be determined by banks themselves
- **Taxes**
 - Enforced by the government
 - Without immediate benefit return
 - E.g. Gains Tax (in Austria 25% on earnings based on capital)
- **Interest**
 - Cost of borrowing money
 - Defined by a rate
 - Key interest rates specify reference rates

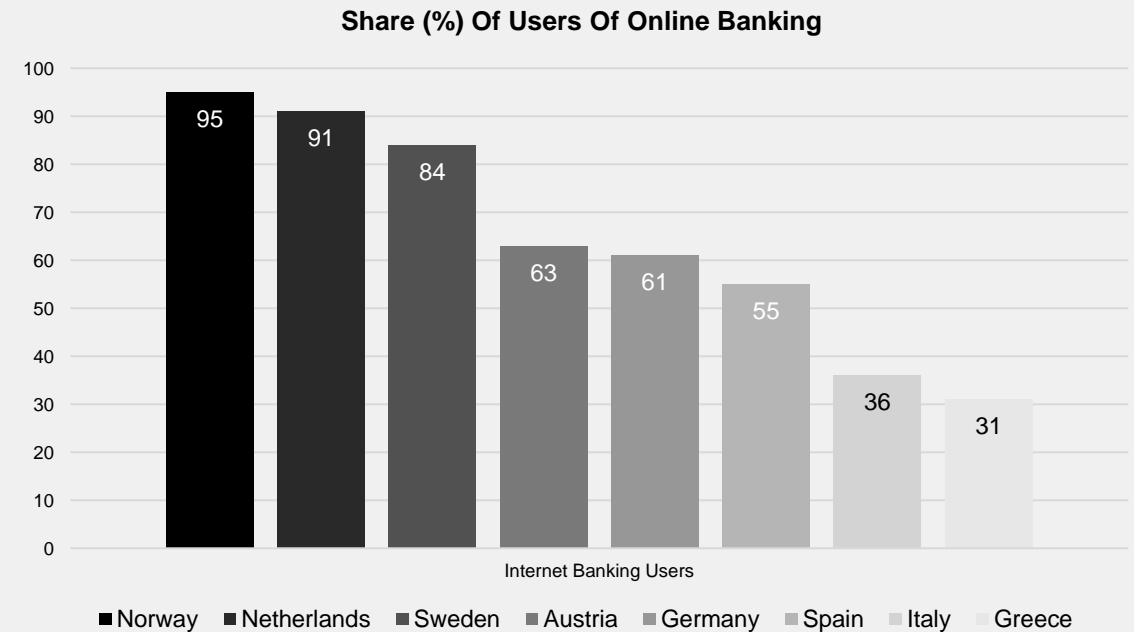
Modern Developments

- Number of bank employees and branches decreases
- Financial institutions raised capital reserve and reduced complex trading models



Digitalization Of The Banking Industry

- Traditional banks are forced to restructure their business models
- Usage of internet enabled cost reduction and profit enhancement possibilities
- Customers benefit from convenient services
- **FinTech** (Financial Technology Industry)
 - Provide financial services based on technological innovations
 - Operate in areas like finance and investment, payment, data security and monetization
 - Startups (N26, Klarna) and BigTechs (Google, Apple) enter the market
 - Increasing competition for traditional banks



Automation Of Banking Processes

- Replacement of human labor by machines
 - Providing easier and more convenient services
 - Advantages when it comes to data-based procedures
 - Computers establish themselves as decision makers in areas like lending evaluation and factoring
 - E.g. ATMs, online banking, various payment methods
- **Self-service models**
 - Services independent of direct employee involvement
 - Possibly reduces marginal costs per interaction (depending on demand effects)



Banks' Monetary Structure

- **Income Structure**

- Net interest income represents largest part of income streams regardless of type of bank
- Amount of noninterest income grew since 2008 (in Austria about 10% in 2017)
- The existing literature differentiates fees and commission, trading and other noninterest income
- Revenues based on fees and commission represent almost 70% of noninterest income (about 26% of total income)
- Differences between bank types and ownership structures (e.g. investment banks with less net interest income)

- **Cost Structure**

- Decreasing cost due to staff and branch reduction
- Increasing fixed costs provoked by technological assets
- Additional investments in Research & Development

Kok, C., Mirza, H., & Pancaro, C. (2017). Macro Stress Testing Euro Area Banks' Fees And Commissions . Frankfurt: European Central Bank.

Campbell, D., & Frej, F. (2009). Cost Structure, Customer Profitability, and Retention Implications of Self-Service Distribution Channels: Evidence from Customer Behavior in an Online Banking Channel. Boston: Harvard Business School.



Determinants Of Banking Fees

- Interest Rates determine net interest income, therefore impact the flexible and stable revenues based on fees and commission → Key interest rates
- Market competitiveness and industry concentration
- Revenues based on charges in the recent past
- Stock market returns
- Economic and financial cycle, resp. real GDP growth

Banking Fees In Europe



▪ Italy (High fees)

- Italian banking industry is volatile due to huge amount of distressed debt
- Net interest income declined compared to 2011, while banking fees generally increased
- Banking Fees are relatively high, which can be explained partially by the already defined determinants

GDP-PC	30,000
	36%
	5.0
GDP-GR	0.8%

▪ Netherlands (Low fees)

- Dutch banking industry is dominated by three major banks (ING, Rabobank, ABN Amro)
- The “Big Three” operate less than 800 branches in 2019 (ERSTE Bank in Austria has about 1,000)

GDP-PC	47,000
	91%
	1.0
GDP-GR	2.6%

Conclusion

- Consideration of more than two factors is crucial, in order to evaluate the issue critically
 - Economic Cycle and GDP growth rate
 - Development of key interest rates
 - Adoption of new technologies by customers
 - Market competitiveness
- The characteristics of banks' income structure lead to extreme developments regarding charges
- New technologies involve cost reduction as well as additional expenses
- Complex products with corresponding fees make comparisons and evaluations complicated

THANK YOU

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