2 Fee and commission income in Europe

Net interest income has been and will continue to be under pressure for some years given the on-going very low interest rate environment in developed economies. Understanding fee and commission (F&C) income, which is typically the second source of revenue for banks, its past evolution and breakdown helps to identify determinants of banks' profitability and current and future opportunities and threats for this revenue stream.

F&C income represents a larger share of operating income in France and Italy than in Spain or Ireland (consolidated statistics)

Net interest income is the main source of revenue for European banks, but it is more important for Spanish and German banks (65% of operating income) than for Italian (56%), British (54%) or French banks (51%). For Spain this is explained by the banks’ intrinsically retail-oriented business model and the traditionally low commission environment with cross-subsidization of services with net interest income. In turn, F&C income ranges from 15% in Ireland, 23% in Spain, 26% in the UK, 27% in Germany to 33% in France and Italy.

When F&C income is measured against operating expenses, Spanish banks display a higher ratio, closer to that of French and Italian banks. This is the result of Spanish banks better than average efficiency.

F&C income has proved to be more resilient throughout the crisis than net interest income

With the exception of Greek and Irish banks, which have experienced a significant downsize of their banking sectors, across the remaining systems analysed, most have recovered their pre-crisis F&C revenue level. For Nordic banks current F&C income is 30-40% higher than that in 2008.

For Spanish banks F&C income accounts for 20% of revenues and 43% of expenses

Before the crisis, F&C income (excluding the international activity of BBVA and Santander) accounted for slightly above 20% of operating income and almost 50% of operating expenses. Throughout the crisis its contribution to revenues decreased and has not recovered yet. Net interest income accounted for almost 60% of operating income (the peak was in 2009) and now is just below 50%. From 2009 to 2014 net interest income fell 37%, F&C income fell 7% and operating income fell 18% (supported by the comparatively better evolution of F&C income).

Collection and payments services used to be the most important F&C income for Spanish banks but it was recently surpassed by fees from sales of non-banking financial products

In 2003 collection and payment fees accounted for almost 60% of total F&C but now only represent around 1/3 (innovation and new competitors are probably behind this downward trend). These include fees from credit and debit cards, current accounts, bills received, transfers and other payment orders, cheques and others. Fees from sales of non-banking financial products (mutual, pension and investment funds, insurance) currently account for the largest share of F&C and they are gaining importance (in part resulting from the unattractiveness of deposits’ remuneration). The third major component is related to fees from securities.
On-going regulatory and industry initiatives will likely put downward pressure on F&C

Although in the short run the outlook for F&C income is positive, the on-going regulatory and industry initiatives will put downward pressure on this revenue particularly in F&C related to payments. The Payments and Services Directive 2 fosters standardization, competition and lower prices for customers; which together with the cap on interchange fees is likely to evolve into a world of virtually zero interchange fees, where volume and value-added services will be even more important. Other regulatory reforms such as the MiFID II and the banking structural reform will also reduce F&Cs for certain market-related activities. It will be important to focus on value-added, customer centric solutions to ensure trust and loyalty from customers and be able to benefit from new business opportunities where collaboration with new players will be crucial.
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