

PRIVATE FINANCE

COMMITTEE OF INQUIRY INTO THE AUSTRALIAN
FINANCIAL SYSTEM

On 18 January 1979, the Australian Treasurer announced the establishment of a Committee to inquire into the Australian financial system, under the chairmanship of Mr J. K. (later Sir Keith) Campbell.*

The Committee was asked to inquire into and report on the structure and methods of operation of the Australian financial system, and on the current regulation and control of the system. The Committee was asked to make recommendations for the improvement of the structure and operations of the financial system; on its regulation and control; concerning the existing legislation relating to the financial system; and on such other matters as the Committee believed relevant to the generality of its inquiries.

The Committee's survey of the issues was based on submissions from interested parties (including the Australian Treasury and the Reserve Bank), public hearings, studies specifically commissioned for the Inquiry, and discussion with many individuals, corporations, industry groups, and government officers both in Australia and overseas.

The Interim Report of the Committee was tabled in the Commonwealth Parliament on 28 August 1980 and was published. It surveyed the present structure and methods of operation of the financial system and the levels and methods of government intervention in the financial system. In addition, it identified the issues that had emerged from submissions to the Inquiry and from the deliberations of the Committee to that stage.

Unless the Committee was asked to treat a particular document as confidential, all documents submitted to it were made available to the public. The release of such information and the Interim Report was thought to have enabled wider discussion of the facts and issues. The Final Report of the Committee was presented to the Australian Treasurer on 29 September 1981 and was also published.

The Committee's Final Report is a document of over eight hundred pages. The recommendations it contains cover many aspects of the Australian financial system—they are summarised in pages 758–822 of the Report. The Committee described its main concern as being to promote a financial system that is efficient, competitive, and stable. The Committee's study of efficiency led it to recommend the abandonment of a wide range of direct controls and a shift to almost total reliance on open market methods of intervention in domestic financial markets. It also recommended reduced levels of intervention in foreign exchange markets, freer entry conditions to banking, and disposal of some government-owned financial institutions. The Committee was confident that if official barriers to entry and participation were removed (and if the Trade Practices Commission operated effectively) the financial system would be strongly competitive. The Committee looked critically at the effectiveness of the present system of prudential regulation of banks and other financial intermediaries, and in some areas suggested more rather than less government involvement, although with emphasis on increased flexibility of regulation, whenever the Committee thought it possible.

* Sir Keith Campbell died in April 1983.

BANKING

Banking in 1981*Banking deposits*

Total deposits with the major trading banks (MTBs) in Australia rose by 12 per cent (\$3,024m) during the year, to reach \$28,151m at the end of 1981. This growth rate was slightly lower than the 13.4 per cent (\$2,978m) increase in 1980. In 1981, term deposit growth (including certificates of deposit) was particularly strong at 20.6 per cent, well above the 8.8 per cent rise of the previous year, while growth in current deposits slowed to 2.4 per cent, down from 19.2 per cent in 1980. As a result the ratio of current deposits to total deposits fell from 46.9 per cent to 42.9 and trading banks experienced considerable pressure on their cost of funds.

Savings bank deposits in Australia increased by \$1,606m (7.1 per cent) to \$24,305m in the year ended December 1981, lower than the growth of \$2,123m, (10.3 per cent) in the year ended December 1980. Investment accounts increased by 15.8 per cent and their ratio to total deposits increased over the year from 40.8 per cent to 44.2 per cent, so that savings banks also experienced cost-of-funds pressures as their low-cost passbook deposits declined as a proportion of total deposits.

Bank lending

New lending commitments by the MTBs in 1981 peaked in September at \$204m a week, and averaged \$177m a week during the year, compared with \$156m a week in 1980. MTB loans, advances, and bills discounted increased by 13.5 per cent (\$2,515m) in the year to December 1981, greater than the 12.2 per cent (\$2,026m) growth for 1980.

The level of all savings bank housing and other loans outstanding in the year ended December 1981, increased by \$1,636m, (12.9 per cent) to reach \$14,337m, compared with an increase of \$1,360m (12 per cent) in the year ended December 1980. The proportion of housing and other loans outstanding to total deposits rose over the year from 56 per cent in December 1980 to 59 per cent.

Banking in Victoria

MTB deposits in Victoria totalled \$7,015m at the end of 1981, an increase of 14 per cent (\$859m) on the previous year. Victoria's share of national deposits was 24.9 per cent at December 1981, an increase of 0.4 percentage points on 1980.

Savings bank deposits in Victoria grew by \$712m (8.5 per cent) over the year ended December 1981 to reach \$9,076m, compared with an increase of \$836m (11.1 per cent) for the previous corresponding period. In December 1981, Victoria's share of all savings bank deposits in Australia was 37.3 per cent, up from 36.8 per cent a year earlier.

In December 1981, savings bank deposits in Victoria averaged \$2,308 per head of population, compared with the Australia-wide average of \$1,636. The substantial difference between the Victorian and Australian figures is partly explained by the relatively greater importance in Victoria than in some other States of banks as repositories for household savings.

The banks and the Campbell Report

On 17 November 1981, the Final Report of the Committee of Inquiry into the Australian Financial System (the Campbell Committee) was tabled in the Commonwealth Parliament (see also page 449). The document, the first such report since 1936-37, has many implications for the future development of financial institutions, particularly banks. The Committee, established in January 1979, was asked to inquire into and report on: (1) the structure and methods of operation of the Australian financial system; and (2) the regulation and control of the system, and to make recommendations on these matters and on existing relevant legislation.

The main thrust of the Campbell Committee's final report was that direct controls on financial intermediaries not only distort the system but they also hinder, rather than help,

the Government in achieving policy objectives. The Committee gave strong support to the concept that an efficient capital market is one in which there is freedom to compete. Recognition was given to the banks' argument that their competitive ability had been restrained—and hence their relative asset growth curbed—because of official intervention in the market. Institutions which had not been so controlled, such as finance companies, building societies and merchant banks, had been able to achieve asset growth which was relatively stronger than that of the banks. The Committee recommended that a very wide range of existing controls on the financial system be removed.

Recommendations of particular interest to the banking industry included the proposed reforms to monetary and banking policy; a range of prudential controls for depositor protection; issue of banking licences to new domestic banks and to foreign banks; and market determined interest and exchange rates.

To maintain influence over growth in monetary aggregates, the Committee proposed increasing use by the Reserve Bank of open market operations, with the authorities buying and selling government debt at market-determined rates of interest. This would replace the instruments of direct bank regulation such as Statutory Reserve Deposits (required to be held at the Reserve Bank), the Liquid assets and government securities (LGS) ratio, interest rate controls, and lending guidelines. The Committee saw open market operations as the principal future instrument of monetary policy—that is, the means for affecting, in general, the ability of the public to spend and, in particular, the ability of banks and other financial intermediaries to lend—the latter through alteration of the liquidity base which financial institutions use to make new loans.

As an interim measure, the Committee proposed the introduction of a variable (cash) reserve ratio (VRR) over and above each bank's prudential minimum liquidity ratio. This would be the only direct monetary control instrument, similar to the present Statutory Reserve Deposit (SRD) ratio, but carrying a near market rate of interest. The Committee recommended that banks, along with their finance company and other subsidiaries, should be considered as consolidated units when the ratio was being determined. This mechanism would be used by the Reserve Bank, in the same way as SRD, to directly alter the free margin of liquidity and thus control the banks' ability to lend.

In the longer term, after the system adjusted to deregulation and securities markets developed sufficient depth, the Committee believed that the need for the variable reserve ratio on banks to supplement open market operations would disappear.

A recommendation central to the proposed reform of monetary policy was the removal of all existing controls on bank deposit and lending interest rates, as well as the abolition of all maturity controls. (There was some deregulation in this area during the period of the Committee's deliberations when, in December 1980, the ceilings on interest rates for trading and savings bank deposits were abolished.) The Committee noted that direct interest rate controls involved economic costs: they diverted funds to possibly less efficient intermediaries or channels of finance; they blunted the competitive and innovative drive of controlled institutions; and they tended to cause an uneconomic degree of fragmentation in the intermediation industry. The implication of market determined interest rates would be greater volatility, in both directions, than previously experienced. Interest rates may not necessarily be higher over the longer term, however, as it is argued that market efficiencies would be a factor tending to produce lower rates.

Another of the important issues considered by the Committee was the participation of non-residents in Australian financial intermediation. The Committee did not favour a continuation of the existing policy of total prohibition on foreign bank entry and recommended that foreign banks be granted licences. However, it regarded the number and country of origin of such banks as matters for political decision and made no recommendations in these areas beyond the suggestion that initially the rate of entry should be carefully managed.

In the period since the release of the final report, the government and monetary authorities have introduced a number of the Committee's recommendations. In March 1982, there was an announcement of major initiatives to improve banks' competitive ability and, in particular, to attract a greater flow of funds into savings banks. Initiatives included substantial changes to the savings bank regulations and easing of deposit maturity controls on both trading and savings banks. Further developments were the

increase in the rate of interest paid on Statutory Reserve Deposits, and the removal, from 1 July 1982, of the quantitative controls on trading bank lending. A further significant decision, announced in June 1982, was the introduction of a tender system for selling Treasury Bonds and new arrangements for the sale of Australian Savings Bonds, under which the Treasurer assumes responsibility for setting the terms and conditions; this was previously under Loan Council control.

Further references: *History of banking in Victoria, Victorian Year Book* 1961, pp. 625-9; *Commonwealth banking legislation*, 1966, pp. 648-50

Reserve Bank of Australia

The Reserve Bank of Australia is Australia's central bank. The functions, powers, and responsibilities of the Reserve Bank are spelled out in the *Reserve Bank Act* 1959, the *Banking Act* 1959, the *Financial Corporations Act* 1974, and the regulations under those Acts. Although a major purpose of the Bank is the formulation and implementation of monetary policy, it operates a substantial banking business and provides a range of financial services. It is banker to governments, banks, and certain financial institutions; manages the note issue; and, through its Rural Credits Department, makes short-term loans to rural marketing authorities and co-operative associations of primary producers. As agent for the Commonwealth Government, the Bank distributes coinage and manages stock registries for Commonwealth Government securities. Internationally, the Bank deals with banks in foreign exchange, provides forward exchange facilities, administers exchange control, and is the custodian of Australia's gold and foreign exchange reserves.

Further reference: *Victorian Year Book* 1978, p. 511

AUSTRALIA—RESERVE BANK: CENTRAL BANKING BUSINESS (INCLUDING NOTE ISSUE DEPARTMENT): AVERAGE LIABILITIES AND ASSETS (\$m)

Particulars	1977-78	1978-79	1979-80	1980-81	1981-82
Liabilities—					
Capital and reserves	46	46	46	46	46
Special reserve—					
IMF Special Drawing Rights	222	276	373	407	393
Australian notes on issue	3,549	3,950	4,416	4,958	5,572
Statutory Reserve Deposit accounts of trading banks	1,121	870	1,272	1,632	1,975
Other deposits of trading banks	42	33	16	9	13
Deposits of savings banks	1,123	1,093	657	393	146
Other liabilities	2,282	2,815	4,296	4,865	4,040
Total	8,385	9,083	11,076	12,310	12,185
Assets—					
Gold and foreign exchange	2,720	3,236	4,553	5,496	4,673
Australian notes and coin	35	38	41	50	48
Cheques and bills of other banks	5	4	5	7	7
Commonwealth Government securities—					
Redeemable in Australia—					
Treasury bills and notes	2,315	2,300	3,378	3,759	4,054
Other	2,453	2,590	2,315	2,281	2,531
Bills receivable and remittances in transit	82	86	137	158	200
Loans, advances, and all other assets	775	829	647	559	672
Total	8,385	9,083	11,076	12,310	12,185

AUSTRALIA—RESERVE BANK: RURAL CREDITS DEPARTMENT: AVERAGE LIABILITIES AND ASSETS (\$m)

Particulars	1977-78	1978-79	1979-80	1980-81	1981-82
Liabilities (excluding capital and contingencies)	483.1	549.3	381.9	224.1	292.3
Assets (loans, advances, etc.)	549.3	619.4	455.8	302.5	378.6

Foreign exchange developments

Foreign exchange business in Australia is governed by the Banking (Foreign Exchange) Regulations of the *Banking Act* 1959. These regulations prohibit persons from entering into foreign exchange transactions without authority from the Reserve Bank and also provide that exchange rates used in the conversion of Australian currency into foreign currency, or *vice versa*, must be those fixed or authorised by the Bank. With minor exceptions, related to travel business, the Reserve Bank has to date authorised only banks in Australia to deal in foreign currencies.

Exchange rates

Australia has a managed, flexible exchange rate supported by a framework of exchange controls (relating to both spot and forward transactions).

Until late 1971, the exchange rate for the Australian dollar was linked to sterling. In December 1971, the Commonwealth Government decided on a fixed link of the Australian dollar to the US dollar rather than to sterling. On 25 September 1974, the direct link with the \$US was replaced by a peg to a trade-weighted basket of currencies. The Reserve Bank continued to publish each day the exchange rate for the Australian dollar in terms of US dollars but its value was varied from day to day against the \$US (and other currencies) so as to maintain constant the value of the \$A in terms of a basket of currencies of countries with which Australia trades, weighted in accordance with the trading significance to Australia of each country.

Since November 1976, the arrangement for setting the exchange rate has comprised a *variable* link to the trade-weighted currency basket, rather than the fixed peg. Under these arrangements, frequent small shifts in the relationship of the \$A to the "basket" of currencies may occur through adjustments to the trade-weighted index.

AUSTRALIA—TRADE-WEIGHTED INDEX OF VALUE OF AUSTRALIAN DOLLAR

Date	Mid-rate (a) (\$US = \$A1)	Trade-weighted index (b) (May 1970 = 100)
28 September 1979	1.1298	83.5
31 December 1979	1.1055	83.3
31 March 1980	1.0831	84.4
30 June 1980	1.1576	85.0
30 September 1980	1.1690	85.8
31 December 1980	1.1807	87.1
31 March 1981	1.1684	88.8
30 June 1981	1.1480	92.9
30 September 1981	1.1414	93.8
31 December 1981	1.1279	90.5
31 March 1982	1.0503	88.8
30 June 1982	1.0223	88.2
30 September 1982	0.9493	83.8

(a) The rate is the mid-point of the outer limits set by the Reserve Bank at which banks in Australia may deal for spot transactions.

(b) Index of average value of \$A vis-a-vis currencies of Australia's trading partners.

Forward exchange

Facilities, which are underwritten and regulated by the Reserve Bank are provided by the trading banks to allow Australian exporters and importers to offset their forward exchange risks and to fix from the outset the amount of Australian currency they are to receive or pay under contracts written in foreign currencies. Since June 1974, to be eligible to use these facilities, a trader must lodge an application with a bank within seven days of a coverable exchange risk being incurred.

The lack of access to officially supported forward facilities has made room for private sector initiatives to provide alternative facilities for trade or capital transactions. One such initiative, the currency hedge market, has been operating on a loosely structured basis for some years. The Australian banks have also provided currency hedging facilities since June 1979. In March 1980, the Sydney Futures Exchange established a currency futures market.

Exchange control

Without the prior authority of the Reserve Bank, residents may not undertake external transactions and non-residents may not undertake transactions in Australia. Exchange control at present is mainly concerned with the regulation of the inflow and outflow of capital. Administratively, this also requires a surveillance of current account transactions (exports, imports, dividends, freight, etc.). A brief history of exchange control in Australia, an outline of its legal basis, and a summary of the main current policies are contained in the booklet *Exchange Control* published by the Reserve Bank.

Commonwealth Banking Corporation

The Commonwealth Banking Corporation, established under the *Commonwealth Banks Act 1959*, came into being on 14 January 1960, and is the controlling body for the Commonwealth Trading Bank of Australia, the Commonwealth Savings Bank of Australia, and the Commonwealth Development Bank of Australia.

The Corporation Board consists of three *ex officio* members, namely, the Managing Director and Deputy Managing Director of the Corporation and the Secretary to the Commonwealth Treasury, plus eight members (who include the Chairman and Deputy Chairman) appointed from private enterprise other than the private banking industry.

It is the duty of the Board, within the limits of its powers, to ensure that the policy of the Corporation and the banking policy of the Trading Bank, of the Savings Bank, and of the Development Bank are directed to the greatest advantage of the people of Australia and have due regard to the stability and balanced development of the Australian economy.

Commonwealth Trading Bank of Australia

The Commonwealth Trading Bank of Australia is a member bank of the Commonwealth Banking Corporation and at 30 June 1982, had a network of 1,311 branches and agencies throughout Australia. It also has a comprehensive network of correspondent banks overseas and branches in London, New York, Singapore, and Norfolk Island, an agency in Los Angeles, and representative offices in Hong Kong, Tokyo, and the Cayman Islands.

The Bank is one of the largest Australian trading banks, offering a full range of domestic and international banking facilities including portfolio management services, nominee and Bankcard services. The Bank offers financial support to both individuals and businesses through personal loans, overdrafts, leasing, and commercial bill facilities.

Through its subsidiaries Travelstrength Limited and CBFC Limited (both jointly owned with Commonwealth Savings Bank of Australia), the Bank provides a full travel service for both customers and non-customers and caters for general finance needs including leasing, hire purchase, and commercial and personal loans. Equity interests are held in the merchant bank Australian European Finance Corporation and in Australian Resources Development Bank Limited, Primary Industry Bank of Australia Limited, Resources and Investment Finance Limited, and the National Bank of Solomon Islands Limited.

**AUSTRALIA—COMMONWEALTH TRADING BANK:
DEPOSITS, ADVANCES, AND NUMBER OF ACCOUNTS**

Year	Deposits repayable in Australia (average for month of June)			Advances	Number of accounts
	Bearing interest	Not bearing interest	Total		
	\$m	\$m	\$m	\$m	'000
1978	2,730	1,430	4,160	3,002	1,685
1979	3,140	1,738	4,878	3,397	1,769
1980	3,495	1,960	5,455	3,736	1,801
1981	3,884	2,216	6,100	4,110	1,902
1982	4,291	2,356	6,647	4,739	1,935

Commonwealth Savings Bank of Australia

The Commonwealth Savings Bank of Australia (CSB) is the largest savings bank in Australia, having total assets at 30 June 1982 of \$9,184m. Deposits with the CSB are guaranteed by the Commonwealth Government.

The CSB offers a wide range of savings facilities including individual, joint, and trustee accounts as well as higher interest investment accounts, Keycard accounts (which also attract a higher interest rate than normal passbook accounts), and Christmas Club accounts. Societies and clubs are also catered for with passbooks and special cheque accounts. The CSB, jointly with the Commonwealth Trading Bank operates Travelstrength Limited and CBFC Limited. Travelstrength Limited provides a full travel service for existing and non-customers alike while CBFC Limited caters for general finance needs including leasing, hire purchase, and commercial and personal loans.

At 30 June 1982, amounts on deposit with the CSB totalled \$8,655m. The CSB was conducting 8,564,000 active accounts and its services were available through an Australia-wide network of 1,266 branches and sub-branches as well as 5,484 agencies.

The CSB maintains the largest commercial on-line computer system in Australia with 2,739 terminals installed at branches and over 8,200,000 accounts being processed by computer.

The CSB's depositors' balances are invested widely in the development of Australia; apart from advances (mainly for housing) of \$4,837m outstanding at 30 June 1982, investments in Commonwealth and State Government securities totalled \$1,593m, and in local and semi-governmental securities amounted to \$2,305m.

During 1981-82, the CSB remained Australia's largest lender for housing and approved housing loans totalling \$930m, providing 36 per cent of all housing loan finance made available by savings banks. A feature of the CSB's housing lending programme in 1981-82 was the continuing demand for its house insurance scheme. Housing loan borrowers may, if they choose, insure their homes against fire and certain other risks with the CSB's insurance scheme, the premiums being paid monthly with the housing loan instalment.

In 1981-82, the CSB continued its long established programme of support to local and semi-government bodies by providing loans of \$207m for the supply of community services.

The Commonwealth Savings Bank and the Commonwealth Trading Bank provide special services to facilitate the assimilation of newcomers to Australia through the Australian Financial and Migrant Information Service in London, Migrant Information Services in all mainland cities and selected regional areas, and agencies conducted at hostels.

**AUSTRALIA—COMMONWEALTH SAVINGS BANK: NUMBER OF
ACTIVE ACCOUNTS, AMOUNT AT CREDIT OF DEPOSITORS,
LOANS AND ADVANCES OUTSTANDING, ETC.**

At 30 June—	Number of active accounts	Amount at credit of depositors	Loans and advances outstanding	Commonwealth and other securities held (a)
	'000	\$m	\$m	\$m
1978	8,149	6,554	3,197	2,965
1979	8,234	7,093	3,540	3,322
1980	8,286	7,521	3,937	3,427
1981	8,402	8,097	4,271	3,972
1982	8,564	8,655	4,837	3,921

(a) Includes loans to local and semi-government bodies.

Commonwealth Development Bank of Australia

The Commonwealth Development Bank of Australia (CDB), which commenced operations in 1960, provides finance for purposes of primary production and for the establishment or development of business undertakings (including undertakings relating to primary production), particularly small undertakings. In fulfilling its lending function, the CDB provides finance which, in its opinion, would not otherwise be available on reasonable and suitable terms and conditions. It therefore supplements the lending activities of other banks or sources of finance.

Within the above broad outlines, an over-riding consideration in determining the administrative policy of the CDB is the need to ensure that the funds it has available for lending are applied towards those proposals which have the more important developmental and economic features.

Finance is usually made available by means of medium to long-term loans, repayable over a period suited to the circumstances of each individual borrower.

With regard to rural activities, loans are made available for farm development such as clearing, fencing, irrigation, water conservation, pasture improvement, and erection of farm buildings including dwellings. Also, loans are made for purchase of farm properties, plant and machinery, and livestock. The CDB also provides finance to the fishing industry, mainly for purchase or construction of fishing boats.

The words "business undertakings" are interpreted as applying to all kinds of businesses including service industries, manufacturing, retail and wholesale trade, professions, tourism, mining, accommodation, and leisure industries. The CDB is obliged to ensure that the finance it provides to business undertakings will assist in their establishment or development and is particularly concerned with assisting smaller undertakings.

Assistance is given for capital expenditure but does not extend to working capital unless it is connected with CDB financed capital expenditure.

In addition, the CDB also provides finance under hire purchase or other approved instalment payment arrangements for the acquisition of income earning plant, equipment, and motor vehicles used in primary production and business.

The CDB has a well-qualified staff of specialist rural officers, investigating accountants, and engineering consultants, and under its charter provides advice and assistance with a view to promoting the efficient organisation and conduct of primary production and business.

Loan approvals for the year ended 30 June 1982 numbered 2,402 for a total amount of \$113m and equipment finance approvals numbered 4,600 for a total amount of \$65m.

**AUSTRALIA—COMMONWEALTH DEVELOPMENT BANK:
OUTSTANDING LOAN BALANCES AT 30 JUNE
(\$'000)**

Type of industry	Rural loans		Type of industry	Business loans	
	1981	1982		1981	1982
Beef cattle	54,995	53,449	Manufacturing	40,383	40,926
Sheep	84,495	90,667	Transport, storage, and communication	2,618	3,380
Dairying	38,642	45,137	Retail and wholesale	11,301	14,029
Other livestock	20,517	19,922	Building and construction	2,216	3,016
Wheat	71,308	81,904	Fishing	23,066	23,702
Other grain crops	20,471	23,180	Tourism	10,806	13,276
Fruit	13,789	14,552	Sawmilling	1,118	1,182
Other rural industry	32,752	39,815	Other business and services	12,842	14,486
Total	336,969	368,626	Total	104,350	113,997

Further reference: Australian Resources Development Bank Ltd, *Victorian Year Book* 1970, pp. 688-9

State Bank of Victoria

General

The State Bank of Victoria, formerly known as the State Savings Bank of Victoria, which was established in 1841, is constituted under Victorian statutes and operates branches and agencies throughout Victoria. It is directed by a Victorian Government appointed board of seven commissioners, who exercise control through the general manager and his three deputies.

The State Bank is the largest bank in Victoria, having assets of \$5,900m at 30 June 1982. The total deposits of its 4,289,288 operative accounts amounted to \$4,783m, which represented approximately 50.5 per cent of all savings bank balances, or 27.8 per cent of all bank balances in Victoria. Depositors' balances have increased from \$528.6m at 30 June 1956, the year in which private banks entered the savings bank field, to \$4,783m at 30 June 1982.

The Bank increased the number of its branches and sub-branches from 267 in 1956 to 541 in 1982 in order to provide banking facilities for an expanding population and to maintain its

market share. Many existing branches were rebuilt or modernised during this period to provide attractive premises for clients and staff.

In 1962, the State Bank of Victoria became the first bank in Australia to install a computer. At 30 June 1982, 413 branches were directly linked to the computer by telegraph line. The computer also processed many Head Office accounting functions.

The Bank provides a full range of banking services for both business and personal customers. Interest bearing deposits are accepted through passbook, statement savings, deposit stock and investment accounts, school bank, coupon club accounts and term deposits. An amendment to the State Savings Bank Act in 1957 enabled the Bank to provide cheque accounts which, except in the case of certain non-profit organisations, do not bear interest.

The Bank's funds are principally invested in loans to semi-governmental, municipal, and other public authorities within Victoria; loans on the security of first mortgage over freehold land for houses and farms; overdrafts to businesses and individuals; secured and unsecured loans for personal and other purposes; and in Commonwealth Government Securities. The Bank has also invested funds in its 25.8 per cent shareholding of Tricontinental Holdings Limited in order to diversify its interests into the merchant banking field.

The Bank's powers were extended significantly in 1973 by amendments to the Savings Bank Act. A notable change, aimed at assisting decentralisation, was a provision enabling the Bank to lend funds to the newly established Victorian Development Corporation.

A new legislative provision introduced after the 1973 Victorian Budget required that, from 30 June 1974, one-half of the annual net profits of the Savings Bank Department would be paid into Consolidated Revenue. This provision was consistent with the general practice of other government banks in Australia.

Amendments to the State Savings Bank Act in 1978 and 1980 extended the overdraft lending powers of the Bank. In conjunction with other lending operations, this new facility enabled the Bank to offer a full, competitive banking service to business and individuals. The 1980 amendment also provided for a change of name to the State Bank of Victoria, a title more in keeping with the Bank's present banking status.

In November 1980, the Bank's main branch was transferred from nearby temporary premises to the new State Bank Centre head office complex at the corner of Bourke and Elizabeth Streets, Melbourne. In June 1981, administrative departments moved from other temporary locations to permanent quarters in the Centre.

Lending

Housing and farm loans

The State Bank of Victoria has been the largest single source of housing finance in Victoria since it introduced low cost long-term mortgage loans in 1910. At 30 June 1982, 125,991 housing loan borrowers owed a total debt of \$2,336m.

In less direct ways the Bank provides further assistance to home buyers. Overdraft accommodation has been provided to co-operative housing societies and, at 30 June 1982, \$47.7m was owed to the Bank by co-operative societies. The Bank also provides funds to the Home Finance Trust which, at 30 June 1982, owed the bank \$5.3m.

Rural interests are well served by long-term mortgage loans or short-term personal loans. In addition, the Bank is a shareholder in the Primary Industry Bank of Australia Limited (P.I.B.A.) and supplements its traditional lending to the rural sector with loans re-financed through P.I.B.A. Advances to farmers totalled \$9.6m in 1981-82 and at 30 June 1982, \$47m was outstanding from 1,224 borrowers.

Personal loans

Secured and unsecured personal loans were introduced by the Bank in 1963. These short-term loans are available for a wide range of purposes, such as to assist in the purchase of a dwelling, home improvements, to establish or carry on a business, travel, and to purchase a motor vehicle or other consumer items. At 30 June 1982, 93,434 personal loan borrowers owed a total debt of \$323m.

Loans for essential services

Houses require such services as water, power, and sewerage, while such amenities as made roads, nearby baby health centres, and recreation areas are also important adjuncts to family living. The Bank lends considerable support to the semi-governmental and municipal

authorities responsible for providing these services; the amount invested with them at 30 June 1982 was \$883m.

Loans to churches, schools, social organisations, etc.

The Bank is a source of finance for the erection of churches, school buildings, and community halls, and for the provision of associated amenities. The advances to borrowers during 1981-82 totalled \$1.3m.

Overdraft lending

Following amendments to the State Savings Bank Act which were proclaimed during 1978, the Bank extended overdraft lending to small business customers in April 1979. Further extensions to overdraft powers resulted from amendments to the Act passed in December 1980. These amendments enabled the Bank to provide overdraft facilities to any customer.

Other facilities

School banking

The State Bank of Victoria's school bank system was introduced in 1912. At 30 June 1982, banking was provided at 1,873 schools for 552,329 depositors whose balances totalled \$14.4m. A new coupon-book system was launched successfully in more than 500 Victorian schools in 1981-82.

Foreign currency transactions

In May 1979, the Bank became a participating member of the newly formed Inter-Bank Foreign Currency Hedge Market to enable customers dealing in foreign trade and capital transactions to obtain cover against exchange risks associated with their forward commitments.

Secondary securities market

In September 1981, the Bank established a secondary market for the purchase and sale of securities of certain semi-government authorities. This facility was established to assist small holders wishing to sell securities prior to maturity, and to aid development within Victoria by making the securities of Victorian semi-governmental authorities more marketable.

Business development loans

In September 1981, the Bank introduced development loans to finance the establishment or expansion of primary production or industrial enterprises which in the past might have been handicapped in borrowing from traditional lenders because of insufficient equity levels or security.

Automatic teller machines

In November 1981, a pilot scheme launching EASY BANK, the Bank's automatic teller machines, was implemented at 22 branch locations, enabling various transactions to be carried out between 7 a.m. and 11 p.m. seven days a week. The facility proved popular, and plans were made to extend it from late 1982.

New investment services

Three new investment facilities were introduced during 1981-82 to meet specific customer needs. They were State Bank Investment Accounts, Statement Savings Accounts and 28 Day Income Accounts. Additionally, the call period on the Bank's Deposit Stock was reduced from one month to 14 days.

Other services

A Christmas Club has operated since November 1964 and a Calendar Club with a variable term arrangement since 1971. For the year ended 30 June 1982, \$27.4m was paid out to members of the Christmas Club, and \$7.3m to members of the Calendar Club.

The Bank also provides other services such as safe deposit facilities, Bankcard, and facilities for interstate and overseas travellers.

**VICTORIA—STATE BANK OF VICTORIA: DEPOSITORS' ACCOUNTS AND
TRANSACTIONS**

Year	Depositors' accounts		Transactions		Interest paid
	Number	Amount	Deposits	Withdrawals	
	'000	\$'000	\$'000	\$'000	\$'000
1977-78	3,691	3,126,660	12,088,914	12,063,166	163,599
1978-79	3,804	3,467,642	14,098,620	14,031,665	177,729
1979-80	3,897	3,872,408	16,755,830	16,581,587	194,761
1980-81	4,027	4,259,855	22,167,363	22,093,467	241,094
1981-82	4,289	4,780,813	29,178,667	29,117,050	337,103

**VICTORIA—STATE BANK OF VICTORIA:
ADVANCES AND BALANCES
OUTSTANDING FOR MORTGAGE AND
OTHER LOANS (a)
(\$m)**

Year	Advances			Balances outstanding at end of year
	Housing (b)	Farms	Churches, etc.	
1977-78	351.0	4.1	1.1	1,503.5
1978-79	352.6	6.6	1.4	1,704.9
1979-80	439.5	8.0	1.5	1,959.4
1980-81	461.4	10.0	2.5	2,165.5
1981-82	475.9	9.6	1.3	2,358.1

(a) Excludes personal loans and loans to finance the extension of electric power lines in rural areas.

(b) Excludes loans to co-operative housing societies and deposits with the Home Finance Trust.

The general reserves of the State Bank of Victoria at 30 June of each of the five years to 1982 were: 1978, \$92.2m; 1979, \$110.8m; 1980, \$127.2m; 1981, \$151.2m; and 1982, \$183.7m.

Further reference: *History of the State Savings Bank, Victorian Year Book 1961*, pp. 630-4

Trading banks

Merger of trading banks

In August 1980, the Committee of Inquiry into the Australian Financial System (see page 449) submitted its Interim Report which was followed in November 1981 by the publication of the Final Report.

During these two years, there have been significant developments in the trading banks. In February 1981, a new trading bank—the Australian Bank Ltd—was granted a licence by the Commonwealth Government to carry on banking business in Australia. Its operations began in August 1981.

During 1981, two mergers of existing trading banks were announced. The Bank of New South Wales merged with the Commercial Bank of Australia to form a new organisation—Westpac, and the National Bank of Australia Ltd merged with the Commercial Banking Company of Sydney Ltd to form the National Commercial Banking Corporation. Both new entities began their operations late in 1982.

Statistics on major trading banks

The following tables show operations of trading banks in Victoria. The first table illustrates the changing pattern of lending, particularly in regard to Personal Loans, Bankcard, and Leasing.

**AUSTRALIA—MAJOR TRADING BANKS: LOANS, ADVANCES,
BILLS DISCOUNTED BY TYPE OF LOAN
(June average)**

Type of loan	1970		1977		1979		1981	
	\$m	Per cent of total	\$m	Per cent of total	\$m	Per cent of total	\$m	Per cent of total
Personal instalment loans	65	1.5	1,116	9.2	1,830	12.2	2,986	15.1
Leasing (a)	16	0.4	8,816	72.6	392	2.6	736	3.7
Other overdraft	3,588	81.5			9,555	63.6	11,522	58.4
Temporary advances to wool buyers	135	3.1	117	1.0	157	1.0	215	1.1
Term loans	484	11.0	1,261	10.0	1,619	10.8	2,046	10.4
Farm development loans	79	1.8	372	3.1	572	3.8	836	4.2
Bills discounted	34	0.8	178	1.5	234	1.6	359	1.8
Bankcard outstandings	288	2.4	654	4.4	1,016	5.2
Total	4,401	100.0	12,148	100.0	15,012	100.0	19,714	100.0

(a) Residual value leasing only.

**VICTORIA—MAJOR TRADING BANKS: ADVANCES TO CATEGORIES
OF BORROWERS
(\$m)**

Classification	At second Wednesday of July—				
	1978	1979	1980	1981	1982
Resident borrowers—					
Business advances—					
Agriculture, grazing, and dairying	301.6	333.1	356.8	429.5	476.4
Manufacturing	717.8	697.3	910.7	803.5	974.0
Transport, storage, and communication	57.5	58.9	70.3	99.1	89.0
Finance	293.1	253.3	269.9	270.4	309.9
Commerce	408.4	471.3	520.7	574.3	718.0
Building and construction	130.3	128.1	125.1	148.0	130.8
Mining	83.9	100.7	106.5	69.9	86.0
Other businesses	409.2	361.5	423.2	525.2	476.7
Unclassified	72.1	106.1	96.4	102.3	197.9
Total business advances	2,474.0	2,510.3	2,879.5	3,022.3	3,458.7
Advances to public authorities	58.9	53.2	52.8	92.1	98.4
Personal advances	1,184.6	1,400.7	1,521.4	1,817.1	1,881.0
Advances to non-profit organisations	39.7	39.5	42.4	47.3	59.8
Total advances to resident borrowers	3,757.2	4,003.8	4,496.0	4,978.8	5,497.9
Non-resident borrowers	2.6	4.8	11.7	13.8	2.8
Grand total	3,759.8	4,008.5	4,507.8	4,992.6	5,500.7

**VICTORIA—MAJOR TRADING BANKS: AVERAGES (a) OF DEPOSITS
AND ADVANCES, MONTH OF JUNE 1982
(\$'000)**

Bank	Deposits repayable in Australia			Loans (b), advances and bills discounted
	Not bearing interest	Bearing interest	Total	
Commonwealth Trading Bank of Australia	402,604	719,033	1,121,637	970,716
Private trading banks—				
Australia and New Zealand Banking Group Ltd	739,851	1,304,533	2,044,384	1,343,637
Bank of New South Wales	325,743	851,553	1,177,296	762,708
The Commercial Bank of Australia Ltd	337,190	772,942	1,110,132	727,072
The Commercial Banking Co. of Sydney Ltd	182,333	351,097	533,430	351,138
The National Bank of Australasia Ltd	480,825	1,184,419	1,665,244	1,096,080
Total	2,468,546	5,183,578	7,652,123	5,251,351

(a) Averages of amounts at close of business on Wednesday of each week.

(b) Excludes loans to authorised dealers in the short-term money market.

**VICTORIA—MAJOR TRADING BANKS: AVERAGES OF DEPOSITS (a)
AND ADVANCES
(\$'000)**

Month of June—	Deposits repayable in Australia			Loans (b), advances and bills discounted
	Not bearing interest	Bearing interest	Total	
1978	1,832,957	2,774,974	4,607,931	3,688,647
1979	2,061,679	2,812,602	4,874,280	3,986,840
1980	2,285,381	3,444,116	5,729,498	4,416,155
1981	2,636,820	3,921,116	6,557,936	4,964,251
1982	2,468,545	5,183,578	7,652,123	5,251,351

(a) Averages of amounts at close of business on Wednesday of each week.

(b) Excludes loans to authorised dealers in the short-term money market.

The following table shows the average weekly amounts for June each year debited by trading banks to customers' accounts. Particulars relate to the operation of all trading banks transacting business in Victoria and, in addition, the Rural Credits Department of the Reserve Bank and the Commonwealth Development Bank. Debits to Commonwealth and Victorian Government accounts at Melbourne city branches are excluded from the table.

**VICTORIA—TRADING BANKS: AVERAGE
WEEKLY DEBITS TO CUSTOMERS' ACCOUNTS
(\$m)**

June	Average weekly debits	June	Average weekly debits
1975	3,334.9	1979	7,050.1
1976	4,442.3	1980	7,854.9
1977	5,209.3	1981	8,871.0
1978	5,552.6	1982	13,027.4

VICTORIA—TRADING BANKS: NUMBER OF BRANCHES AND AGENCIES

Bank	At 30 June 1981		At 30 June 1982	
	Branches	Agencies	Branches	Agencies
Major trading banks—				
Commonwealth Trading Bank of Australia	186	71	191	72
Australia and New Zealand Banking Group Ltd	295	57	295	58
Bank of New South Wales	211	5	213	5
The Commercial Bank of Australia Ltd	181	23	181	29
The Commercial Banking Co. of Sydney Ltd	151	16	152	14
The National Bank of Australasia Ltd	242	53	242	49
Total major trading banks	1,266	225	1,274	227
Other trading banks—				
Bank of New Zealand	2	—	2	—
Banque Nationale de Paris	1	—	1	—
Australian Bank Ltd	1	—
Total other trading banks	3	—	4	—
Total all trading banks	1,269	225	1,278	227
Melbourne metropolitan area	792	121	799	120
Remainder of Victoria	477	104	479	107

Private savings banks

Private savings banks have been operating in Victoria since January 1956, when two banks commenced operations in this field, and by July 1962, seven banks were participating in this business. However, recent developments in the structure and operations of the banking system (as outlined by the Committee of Inquiry into the Australian Financial System) will affect their number.

**VICTORIA—PRIVATE SAVINGS BANKS:
DEPOSITORS' BALANCES AND
PROPORTION OF ALL
VICTORIAN SAVINGS BANK DEPOSITS**

At 30 June—	Deposits in Victoria	Proportion of deposits with all savings banks in Victoria
	\$'000	per cent
1978	2,059,088	31.4
1979	2,260,139	31.4
1980	2,389,071	30.5
1981	2,630,784	30.5
1982	2,814,775	29.7

At 30 June 1982, private savings banks had 1,085 branches and 503 agencies throughout Victoria.

The following table shows the amount of depositors' balances in each savings bank in Victoria at 30 June 1978 to 1982:

VICTORIA—SAVINGS BANKS: DEPOSITS

Savings bank	Depositors' balances at 30 June—				
	1978	1979	1980	1981	1982
	\$'000	\$'000	\$'000	\$'000	\$'000
State Bank (a)	3,126,660	3,467,642	3,872,408	4,259,855	4,780,843
Commonwealth Savings Bank of Australia	1,366,780	1,478,579	1,577,267	1,731,301	1,879,276
Private savings banks—					
Australia and New Zealand Savings Bank Ltd (b)	675,553	733,416	769,846	827,262	874,844
The Bank of Adelaide Savings Bank Ltd (b)	4,466	5,393	4,749	—	—
Bank of New South Wales Savings Bank Ltd	452,941	494,292	525,669	567,246	604,331
Bank of New Zealand Savings Bank Ltd	703	949	1,190	1,317	1,550
The Commercial Savings Bank of Australia Ltd	272,616	306,751	327,163	366,358	389,921
C.B.C. Savings Bank Ltd	243,433	268,048	285,531	325,764	332,920
The National Bank Savings Bank Ltd	409,376	451,290	474,923	542,837	611,209
Total deposits	6,552,528	7,206,360	7,838,746	8,621,940	9,474,894
	\$	\$	\$	\$	\$
Deposits per head of population	1,719	1,878	2,029	2,206	2,400

(a) Including school bank and deposit stock accounts, but excluding balances held in London.

(b) From 1 October 1980, the Australia and New Zealand Savings Bank Ltd merged with the Bank of Adelaide.

FINANCIAL INSTITUTIONS (OTHER THAN BANKS)

Total assets and development of the institutions

Financial institutions specialise in borrowing and lending funds. They act as intermediaries between holders of surplus funds (i.e., funds surplus to their current spending or investment requirements) and seekers of funds (whose current and/or future fund requirements exceed their holdings of liquid funds). This intermediation activity can be distinguished from direct financing where lenders and borrowers actually meet or where firms, for instance, raise capital from primary lenders. The success of financial intermediaries is dependent on their ability to satisfy the needs of borrowers and lenders efficiently. In this context their ability to meet not only existing needs but emerging demands is of paramount importance.

In line with the rapid transformation of the Australian economy over the last twenty years, the range and variety of financial institutions have expanded considerably. Some general factors contributing to the growth of the Australian private financial sector include

changes in the industrial structure of the economy, changing levels of incomes and wealth, and changes in community spending patterns. These factors have in turn led to altered preferences for asset acquisition—between physical and financial assets—and to the development of preferences for particular types of financial assets. Price expectations, anticipated income levels, community views on real and nominal rates, and the general level of business and consumer confidence also play a part in the eventual demand for financial assets.

The expansion of the financial sector has been paralleled by the development of a range of government policies and regulations for social and economic objectives. These have been implemented with the aim of protecting lenders through limiting risks on some claims, influencing the allocation of funds and/or by affecting the relative attractiveness of different sorts of liabilities and assets. Official controls exercised upon some of the financial institution groups, e.g., in portfolio structure (particularly the holding of government securities), officially controlled interest rate ceilings, and asset ratio requirements, have been instrumental in affecting relative rates of growth between finance groups.

The following table shows the categories of financial organisations operating in the Australian economy:

AUSTRALIA—TOTAL ASSETS OF FINANCIAL INSTITUTIONS

Financial institutions	At 30 June—				
	1977	1978	1979	1980	1981 (p)
AMOUNT OF TOTAL ASSETS (\$m)					
Trading banks	23,432	r25,010	r29,494	r34,578	41,172
Savings banks	17,294	19,026	21,040	22,684	24,886
Other banking institutions	1,105	1,197	1,354	1,648	1,782
Other banks (consolidated) (a)	40,578	r44,005	r50,366	r57,354	66,126
Reserve Bank	8,057	8,679	10,247	12,007	11,880
Life offices and pensions funds (b)	r18,478	r20,915	r23,362	r26,298	30,005
Non-life insurance offices	5,935	6,195	7,984	r8,844	9,700
Finance companies	12,785	14,438	15,877	17,780	21,807
General financiers	1,008	1,267	1,663	1,960	2,376
Money market corporations	3,356	3,873	4,932	6,460	8,597
Permanent building societies	6,386	7,496	9,023	10,860	12,587
Terminating building societies	1,117	1,242	1,374	1,463	1,565
Authorised money market dealers	1,144	r1,499	1,579	1,698	1,810
Credit co-operatives	1,066	1,342	1,760	2,192	2,700
Pastoral finance companies	760	824	951	1,257	1,239
Other financial institutions (c)	r2,116	r2,178	r2,602	r3,552	4,334
Total	r102,786	r113,953	r131,720	r151,725	174,726
PROPORTION OF TOTAL ASSETS (per cent)					
Trading banks	22.8	r21.9	r22.4	r22.8	23.6
Savings banks	16.8	16.7	16.0	15.0	14.2
Other banking institutions	1.1	1.0	1.0	1.1	1.2
Other banks (consolidated) (a)	39.5	r38.6	r38.2	r37.8	37.9
Reserve bank	7.8	7.6	7.8	7.9	6.8
Life offices and pension funds (b)	r18.0	r18.4	r17.7	r17.3	17.2
Non-life insurance offices	5.8	5.4	6.1	r5.8	5.6
Finance companies	12.4	12.7	12.1	11.7	12.5
General financiers	1.0	1.1	1.3	1.3	1.4
Money market corporations	3.3	3.4	3.7	4.3	4.9
Permanent building societies	6.2	6.6	6.8	7.2	7.2
Terminating building societies	1.1	1.1	1.0	1.0	0.9
Authorised money market dealers	1.1	1.3	1.2	1.1	1.0
Credit co-operatives	1.0	1.2	1.3	1.5	1.5
Pastoral finance companies	0.7	0.7	0.7	0.8	0.7
Other financial institutions (c)	r2.1	r1.9	r2.0	r2.3	2.5
Total	100.0	100.0	100.0	100.0	100.0

(a) Discrepancies in totalling "trading banks", "savings banks", and "other institutions" are a result of netting effects.

(b) Includes public and private pension funds.

(c) Includes unit trusts, land trusts and mutual funds, and investment companies.

Historical development

It should be noted that the importance of these financial institutions cannot be exclusively gauged from their size, or even relative sizes. Some may be quite important as brokers between borrowers and lenders, while holding very small assets on their own account. Aspects such as competitive relationships between groups and changes in roles or functions are not evident, and a clear distinction is difficult between some of the categories, e.g., finance companies and merchant banks.

The commercial banking sector which in 1953 had almost 52 per cent of total assets was, twenty-five years later, in a less dominant position with about 38 per cent. This relative decline was greatest during the 1950s when increasing financial needs encouraged the growth of more specialist intermediaries and restrictive monetary policies tended to weaken the banks' competitive position—banks subsequently acquired direct and indirect equity interests in finance companies and merchant banks.

During the 1960s, official policies and attitudes became directed towards improving the competitiveness of the banking system and ensuring that controls were more market-oriented. Trading banks recorded a 7.4 per cent annual growth rate compared with 9.5 per cent for all institutions during the 1960s, reflecting the steady decline in demand deposits as a proportion of investors' portfolios. Banks have generally sought to provide a fairly comprehensive range of financial services, while other financial institutions have tended to concentrate on specialist areas or in new and more rapidly expanding sectors of finance. However, over recent years there has been a clear strengthening of banks' competitiveness compared with other institutions. On the borrowing side greater flexibility has been introduced in fixed deposit terms; the ceiling on bank deposit interest rates was removed in December 1980 and in August 1981 the minimum term for certificates of deposit was reduced to 30 days. On the lending side, new arrangements allowing banks greater discretion in the setting of overdraft rates have been of prime importance in enabling trading banks to recoup ground lost previously to other financial intermediaries.

Major factors affecting the growth of savings banks over the last twenty years have been the entry of the private savings banks in the 1950s and, in more recent times, the pressing competition of the permanent building societies. During the 1970s, the growth rate of the building societies has been very rapid, reflecting such factors as rising incomes, expectations within the community as to the standard of housing demanded, and the widening of the deposit gap. The societies' ability to service the demand for larger loans and higher percentage (of valuation) loans has been facilitated by the introduction of mortgage insurance in 1965.

Inflation has brought major problems for the life insurance industry. It has eroded the value of sums insured on one hand and, on the other, has increased operating costs and reduced investment returns.

Instalment credit companies, now more commonly called finance companies, have exhibited strong growth in recent years (a compound annual rate of growth of 11.4 per cent in the ten years to 1970 with rather faster growth since). Their annual growth rate of over 30 per cent in the 1950s was effectively checked by the economic measures of November 1960. Reflecting the need to find new outlets for funds, these companies have moved away from their early pattern of financing mainly consumption spending and now lend as well to business and land development companies. Housing and construction also form a significant segment of their lending spectrum.

The assets of money market corporations or merchant banks more than doubled in the years 1970 to 1972 after exhibiting rapid growth during the late 1960s. From 1974 to 1977, their growth was slower but regained its impetus in 1978. The number of companies in this sector has risen strongly and the scope of their operations has increased. These institutions offer a wide range of services including accepting and discounting of commercial bills, the arrangement and provision of short or medium-term finance, operations in short-term money market activities, and underwriting or sub-underwriting security issues. Many also specialise in corporate advice and portfolio management services. (Time series data of balance sheet items and some other activities of most of these money market corporations have only become available since July 1976 in official statistics.)

Credit co-operatives have shown a very rapid expansion over recent years. Based on the principle of mutual co-operation, they enable borrowers to obtain funds at reasonable conditions and investors to derive a satisfactory return.

Changes in the growth rates and relative importance of financial institutions have in many ways been influenced or affected by official policies and the changing structure of the Australian economy since the Second World War. New demands by a resource rich economy could not only call forth new government directions and needs but new initiatives. Officially sponsored structural changes in both the financial system and the economy may also alter the rules and environment under which financial institutions have to operate. (See pages 449-52 for recent developments.)

Finance companies

General

In the 1960s, finance companies were the major providers of credit for private consumption expenditure through hire purchase and other instalment credit. As a source of credit they responded to the needs of borrowers with relative freedom and were able to fill gaps in those areas where official control of banking limited the banks' ability to respond to the changing needs of the financial market. The 1970s saw finance company emphasis on consumer instalment credit change to a more balanced portfolio of business and consumer loans. These changes were necessitated because of changing conditions.

Finance companies are defined as incorporated companies which are engaged mainly in providing to the general public (businesses as well as private persons) credit facilities of the following types: hire purchase and other instalment credit for retail sales, wholesale finance, personal loans, other consumer and commercial loans, factoring, financial leasing of business plant and equipment, and bills of exchange. The finance companies covered in these statistics, insofar as they provide instalment credit for retail sales, are also included in the statistics of instalment credit for retail sales (see pages 466-7). Incorporated finance companies which are not subsidiaries of other finance companies and have total balances outstanding on finance agreements of less than \$500,000 are excluded.

Companies mainly engaged in financing the operations of related companies ("related" as defined in the Companies Act) are included if they finance:

- (1) The sales, by unrelated business, of products of related companies, or
- (2) the sales of related companies where the related companies write agreements with the general public.

Excluded from the statistics are companies lending funds to:

- (1) Related companies to enable such companies to finance their sales;
- (2) related finance companies; or
- (3) related companies which are not engaged in providing credit facilities to the general public.

Also excluded are the following classes of financial and quasi-financial institutions: banks; life insurance companies; fire, marine, and general insurance companies; authorised dealers in the short-term money market; pastoral finance companies; investment companies; unit trusts, land trusts, mutual funds, and management companies for the foregoing trusts and funds; pension and superannuation funds; building societies; friendly societies; and credit unions.

VICTORIA—FINANCE COMPANIES: AMOUNTS FINANCED, BALANCES OUTSTANDING, AND COLLECTIONS (a)

(\$m)

Year	Instalment credit for retail sales	Personal loans (b)	Wholesale finance	Finance for housing (c)	Other commercial loans (d)	Total
AMOUNTS FINANCED (e)						
1977-78	340.2	208.0	1,175.2	231.4	391.4	2,346.2
1978-79	341.6	224.1	1,421.3	167.7	419.6	2,574.3
1979-80	298.0	239.5	1,536.2	158.2	514.9	2,746.8
1980-81	326.5	r243.3	r1,671.6	r185.7	r601.0	r3,028.2
1981-82	378.6	268.6	1,903.3	227.5	782.6	3,560.7

**VICTORIA—FINANCE COMPANIES: AMOUNTS FINANCED, BALANCES
OUTSTANDING, AND COLLECTIONS (a)—continued**
(\$m)

Year	Instalment credit for retail sales	Personal loans (b)	Wholesale finance	Finance for housing (c)	Other commercial loans (d)	Total
BALANCES OUTSTANDING						
1977-78	607.2	370.8	330.9	652.6	747.0	2,708.5
1978-79	609.5	412.4	384.6	541.8	807.4	2,755.7
1979-80	572.1	423.0	423.3	497.2	898.1	2,813.7
1980-81	575.7	439.2	451.4	472.7	1,018.0	2,957.0
1981-82	737.8	486.1	459.8	544.1	1,139.7	3,367.6
COLLECTIONS AND OTHER LIQUIDATIONS OF BALANCES (f)						
1977-78	441.3	247.8	1,164.4	335.8	411.9	2,601.2
1978-79	488.6	276.8	1,406.7	336.5	480.6	2,989.2
1979-80	476.5	316.5	1,572.9	278.5	572.8	3,217.3
1980-81	463.3	324.0	1,714.8	249.1	637.6	3,388.8
1981-82	486.1	334.6	1,982.5	270.6	765.7	3,839.5

(a) The statistics of finance companies presented from July 1978 are not completely comparable with those for earlier periods, especially the figures for housing, other commercial loans and total, because of changes in coverage and size criteria.

(b) Includes loans to persons for alterations or additions estimated to cost less than \$10,000 to existing dwellings.

(c) Includes loans to persons for alterations or additions estimated to cost more than \$10,000 to existing dwellings.

(d) Includes loans for the purpose of developing land into residential blocks.

(e) The actual cash provided. It excludes initial deposits, hiring charges, interest, and insurance.

(f) Covers cash collections of capital repayments, hiring charges, interest, and insurance and other liquidations such as bad debts, debts written off, and rebates for early payouts.

Instalment credit for retail sales

Instalment credit schemes which relate primarily to the financing of the retail sales of consumer commodities are covered by these statistics. The term instalment credit is defined as relating to schemes in which repayment is made by regular predetermined instalments (either by amount or by percentage of amount financed or balance outstanding) and includes schemes such as hire purchase, time payment, budget accounts, and personal loans.

From July 1973, businesses covered by these statistics are incorporated finance companies (as defined on page 465), retail establishments which come within the scope of the Census of Retail Establishments (see Chapter 18 of this *Year Book*), and unincorporated finance businesses provided that their outstanding balances on instalment credit schemes are \$500,000 or more for the whole of Australia. Banks, credit unions, and insurance companies financing retail sales of consumer commodities are at present excluded. Also excluded are credit schemes which do not involve regular predetermined instalments, credit transactions which relate mainly to financing of "producer" type goods (e.g., plant and machinery, tractors, and commercial type vehicles), and credit transactions involving sale of land and buildings, property improvements, travel, services such as repair and maintenance work, and the leasing and rental of goods. A detailed account of the scope of these statistics may be found in the publication *Instalment Credit for Retail Sales, July 1981* (5631.0), issued by the Central Office of the Australian Bureau of Statistics.

**VICTORIA—INSTALMENT CREDIT FOR RETAIL SALES
(INCLUDING HIRE PURCHASE), AMOUNTS FINANCED BY
COMMODITY GROUPS (a)**
(\$m)

Year	Motor vehicles, etc., amounts financed by finance companies	Household and personal goods			Total
		Finance companies	Other business	All business	
1977-78	279.5	60.7	82.1	142.8	422.3
1978-79	279.5	62.2	69.3	131.5	411.0
1979-80	231.2	66.7	74.5	141.3	372.5
1980-81	248.7	77.8	82.7	160.5	409.3
1981-82	297.8	80.6	94.0	174.6	472.4

(a) Excludes hiring charges, interest, and insurance.

**VICTORIA—RETAIL HIRE PURCHASE OPERATIONS:
AMOUNTS FINANCED BY COMMODITY GROUPS FOR ALL BUSINESSES (a)
(\$m)**

Year	Motor vehicles, etc.				Household and personal goods	Total
	New	Used	Other (b)	Total		
1977-78	70.4	110.6	26.5	207.6	51.6	259.2
1978-79	70.1	122.5	26.3	218.9	49.3	268.2
1979-80	60.5	100.9	22.1	183.6	56.7	240.2
1980-81	71.6	100.5	23.0	195.1	65.0	260.1
1981-82	95.9	116.7	24.0	236.6	59.8	296.4

(a) Excludes hiring charges, interest, and insurance.

(b) New and used motor cycles, boats, caravans, trailers, motor parts, and accessories.

Short-term money market (authorised dealers)

The short-term money market in Australia includes nine dealer companies which specialise in the business of borrowing money, investing borrowed funds in an approved range of assets, and buying and selling such assets. Four of these companies have head offices in Melbourne and five in Sydney, but representation is Australia-wide.

Known as authorised dealers, each of these dealer companies has been accredited by the Reserve Bank. Such accreditation has significance both for the dealers and for their clients, the most important aspect being that by acting as "lender of last resort" the Bank provides liquidity to dealers, in that they can borrow from the Bank against their holdings of certain Commonwealth Government securities and to that extent have an assured source of funds to repay loans. The Bank does not, however, accept responsibility for the repayment of a dealer's individual loans or for his solvency generally.

The Bank not only lends to the nine dealers and trades in securities with them, but provides a range of other facilities which contribute towards the efficient operation of the market. It maintains special clearing accounts for dealers, by means of which funds can be quickly transferred from one point in Australia to another. It also maintains a safe custody system for dealers' holdings of Commonwealth Government securities, which makes possible the safe and rapid movement of security for loans from one lender to another.

**AUSTRALIA—SHORT-TERM MONEY MARKET: AUTHORISED DEALERS:
LIABILITIES CLASSIFIED BY TYPE OF CLIENT AT 30 JUNE (a)
(\$m)**

Clients	1978	1979	1980	1981	1982
All trading banks	335.0	354.3	333.1	453.0	301
Savings banks	135.8	133.1	203.6	132.1	124
Insurance offices	68.4	74.7	75.5	56.9	71
Superannuation, pension, and provident funds	25.4	72.2	33.0	31.1	28
Hire purchase and other instalment credit companies	17.4	27.4	7.3	13.5	11
Companies, n.e.i.	364.8	314.6	322.0	285.3	235
Commonwealth and State Governments	150.6	212.2	130.6	136.3	187
Local and semi-government authorities, n.e.c.	175.8	207.6	168.1	156.8	117
All other lenders (including marketing boards and trustee companies)	92.1	108.2	102.5	101.8	109
Total	1,365.3	1,504.3	1,375.5	1,366.8	1,184

(a) Liabilities to Reserve Bank as lender of last resort are excluded.

Interest rates paid by authorised dealers on the great bulk of clients' loans are re-negotiated daily and average levels reflect the substantial day to day variation in funds' positions. The pattern of payments by the Commonwealth to the States each month whereby large amounts are disbursed in the beginning and middle of the month, has a substantial influence. Rates paid may reflect not only earnings (including expected capital gains) on assets held by dealers but, at the margin, also a wish to avoid transactions' costs in selling and buying back securities, or being locked into last resort loans.

**AUSTRALIA—SHORT-TERM MONEY MARKET: AUTHORISED DEALERS:
INTEREST RATES**
(per cent per annum)

Month	Interest rates on loans accepted during month				Weighted average interest rate on loans outstanding (a)
	At call		For fixed periods		
	Minimum	Maximum	Minimum	Maximum	
June 1979	1.00	18.25	3.10	11.00	7.75
September 1979	1.00	17.85	2.60	12.65	8.89
December 1979	2.50	18.15	5.00	12.11	8.56
March 1980	3.00	18.70	4.60	12.00	9.25
June 1980	1.00	18.80	5.50	13.00	10.34
September 1980	1.00	18.85	4.80	14.50	9.81
December 1980	1.00	18.20	2.00	12.60	9.43
March 1981	1.00	18.20	5.10	13.25	11.11
June 1981	5.00	21.76	11.75	15.00	13.04
September 1981	1.10	22.60	6.11	15.65	12.91
December 1981	2.50	19.00	7.30	15.10	12.78
March 1982	3.00	23.90	8.00	18.00	14.85
June 1982	1.00	26.10	4.00	19.25	14.88

(a) Weighted average of rates paid on all days of the four or five weeks ending on the last Wednesday of the month.

The Bank maintains close supervision over the categories of assets which the dealers may hold. The great bulk of dealers' assets normally comprises Commonwealth Government securities (including Treasury notes) maturing within five years with lesser amounts in securities issued by public authorities and bank paper. Also, a small part of dealers' funds may be held in non-bank commercial bills and such other assets as they might choose, including securities with longer than five years to maturity. It is against Commonwealth Government securities up to five years to maturity that dealers may borrow under the last resort arrangements.

The business conducted by a dealer—borrowing funds for short terms, holding a portfolio of selected assets, and trading in those assets—is a highly individual one, and considerable scope exists for differences in the pattern of business pursued by the different members of the market. Dealers are, however, expected to trade readily in, and thereby broaden the market for, Commonwealth Government securities. While their portfolios and turnover are dominated by Commonwealth Government securities, paper issued by public authorities and short-term private sector securities comprise a sizeable part.

**AUSTRALIA—SHORT-TERM MONEY MARKET: AUTHORISED DEALERS:
SELECTED ASSETS (FACE VALUE) (a)**
(\$m)

Month and year	Commonwealth Government securities (b)			Commercial bills (c)	Banks' Certificates of Deposit (b)
	Treasury notes	Other	Total		
June 1979	176.7	1,069.5	1,246.2	190.2	18.3
September 1979	40.8	1,210.8	1,251.6	192.1	16.9
December 1979 (d)	314.6	902.4	1,217.0	160.9	19.8
March 1980	609.3	771.4	1,380.7	151.0	13.6
June 1980	93.6	1,180.6	1,274.2	228.9	58.1
September 1980	262.7	935.3	1,198.0	243.8	43.0
December 1980 (d)	945.3	634.8	1,580.1	157.2	15.8
March 1981	788.2	765.0	1,553.2	181.6	12.8
June 1981	581.9	813.1	1,395.0	257.9	25.2
September 1981	553.8	620.4	1,174.2	338.5	33.9
December 1981	285.3	861.6	1,146.9	316.5	24.6
March 1982	808.3	590.7	1,399.0	210.2	28.0
June 1982	375.1	672.1	1,047.2	265.6	85.2

(a) Average of weekly figures.

(b) Within five years of maturity.

(c) Accepted or endorsed by banks.

(d) Holdings on one Wednesday of the month have been excluded.

Cash Management Trusts

Similar in concept to the "money funds" of the United States, which have operated there for eleven years, the first cash management trust in Australia was launched by the Hill Samuel merchant bank in December 1980. By September 1982, fourteen trusts in the industry had funds invested of \$2,300m. Several of these trusts have their head office in Melbourne, and all are represented there.

The growth and public acceptance of cash management trusts was an important feature of the capital market during 1982.

The trusts achieve their combination of security, liquidity, and high yield by pooling investors' funds to purchase short dated securities in the money markets. Most trusts purchase only government and bank securities with a maximum maturity of 12 months. Several trusts also provide a capital guarantee to investors.

Funds placed with the trusts are at 24 hour call and, for this reason, the average maturity pattern of the trusts is much shorter than 12 months. By the end of 1982, the cash management trusts held about one per cent of financial assets.

Building societies

The provisions of the *Building Societies Act 1874* made it compulsory for building societies to effect registration. Current legislation regulating the activities of these societies is embodied in the *Building Societies Act 1958* and subsequent amending Acts. Further information on this subject may be found in Chapter 11 of this *Year Book*.

VICTORIA—PERMANENT BUILDING SOCIETIES

Particulars	1977-78	1978-79	1979-80	1980-81
Number of Societies	53	52	51	44
	\$'000	\$'000	\$'000	\$'000
INCOME AND EXPENDITURE				
Income—				
Interest from loans	128,299	151,345	187,052	214,381
Interest from deposits	16,086	15,524	14,929	18,063
Income from holdings of securities	6,839	14,821	20,970	27,359
Other income	4,851	5,569	6,871	7,072
Total	156,075	187,259	229,822	266,875
Expenditure—				
Interest on shares	28,596	38,037	45,426	49,037
Interest on deposits	86,312	101,226	123,984	149,925
Interest on loans	1,673	1,590	2,225	2,646
Other expenditure	29,758	38,155	47,366	56,899
Total	146,339	179,008	219,001	258,507
LIABILITIES AND ASSETS (a)				
Liabilities—				
Share capital and reserves—				
Non-withdrawable shares	18,886	22,774	26,318	26,384
Withdrawable shares	337,725	444,118	514,918	514,440
Statutory reserves	7,736	8,183	9,672	10,478
Other reserves (b)	11,746	14,312	16,783	17,757
Deposits	973,733	1,222,901	1,497,151	1,744,243
Loans	22,759	21,588	28,374	35,259
Other liabilities	9,315	10,440	12,249	15,054
Total	1,381,900	1,744,316	2,105,465	2,363,615
Assets—				
Amount owing on loans	1,113,424	1,371,054	1,644,039	1,874,674
Cash on hand	813	2,236	3,954	4,546

VICTORIA—PERMANENT BUILDING SOCIETIES—*continued*

Particulars	1977-78	1978-79	1979-80	1980-81
	\$'000	\$'000	\$'000	\$'000
LIABILITIES AND ASSETS (a)— <i>continued</i>				
<i>Assets—continued</i>				
Deposits with banks	118,790	90,960	88,901	80,957
Deposits with other institutions	27,206	49,602	65,943	61,692
Bills, bonds, and other securities	90,350	190,538	245,543	268,167
Accounts receivable	3,740	3,937	5,279	9,050
Physical and other assets	27,577	35,989	51,806	64,529
Total	1,381,900	1,744,316	2,105,465	2,363,615

(a) At the balance dates of societies within the financial year shown.

(b) Includes accumulated surpluses and deficits.

Co-operative organisations

In December 1953, the Victorian Parliament passed the Co-operation Act, now known as the *Co-operation Act* 1958. The Act provides for the formation, registration, and management of co-operative societies which are classified into various kinds according to their objects.

The Act permits the Victorian Treasurer to guarantee the repayment of any loan raised by a society for the implementation of its object. At 30 June 1980, 625 guarantees were in force, the amount involved being \$15,158,803; while in 1981, 669 guarantees were in force, and the amount involved was \$16,851,118.

Under the direction of the Treasurer, the Act is administered by the Registrar of Co-operative Societies. He is assisted by an advisory council constituted under the Act.

VICTORIA—REGISTERED CO-OPERATIVE SOCIETIES AT 30 JUNE
(number)

Type	1977	1978	1979	1980	1981
Producer	71	71	67	70	68
Trading	91	90	99	106	108
Community settlement	19	23	26	29	28
Community advancement	869	888	928	1,002	1,028
Credit	218	214	213	213	210
Associations	3	4	4	4	4
Total	1,271	1,290	1,337	1,424	1,446

Co-operative organisations operating in Victoria may also be registered under the provisions of the Companies Act, the Industrial and Provident Societies Act, and the Co-operative Housing Societies Act. Details relating to co-operative housing societies are given on page 260. In recent years, a considerable number of co-operative credit societies which extend credit facilities to members to enable them to finance the purchase of household durables, or to discharge financial liabilities, etc., have also been registered under the Co-operation Act.

One of the outcomes of the Review of Commonwealth Government Functions in 1980-81 was the discontinuation of the Australian Bureau of Statistics collection relating to the producer and consumer co-operatives. The year 1978-79 was the last for which statistics were available. However, the Registrar of Co-operative Societies in Victoria collects similar data for the co-operatives societies registered under the *Co-operation Act* 1958.

VICTORIA—CO-OPERATIVE ORGANISATIONS: CREDIT SOCIETIES

Particulars	1976-77	1977-78	1978-79	1979-80	1980-81
Number of societies	205	205	199	193	186
Number of members	206,955	241,026	280,228	326,393	366,735



A ploughing match on the Moonee Ponds Creek (inset) was the beginning of the Royal Agricultural Society's Royal Melbourne Show. This photograph illustrates the Annual Grand Parade of present day Royal Shows.

Royal Agricultural Society of Victoria

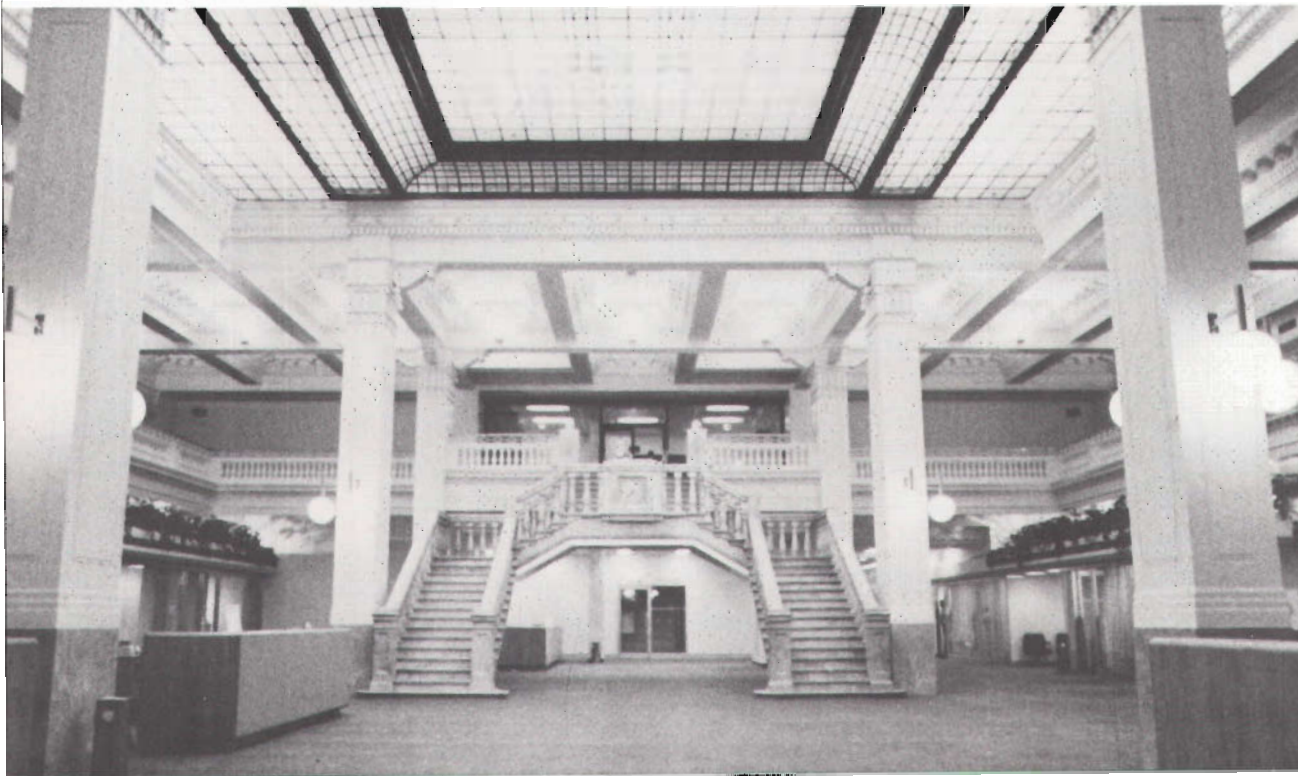


The Bank of New South Wales and the Commercial Bank of Australia amalgamated in 1982 to form the Westpac Banking Corporation. Their new Melbourne head office banking chamber is shown.

Westpac Banking Corporation

The restored banking chamber of the recently merged National Bank of Australasia and the Commercial Banking Company of Sydney now known as the National Australia Bank.

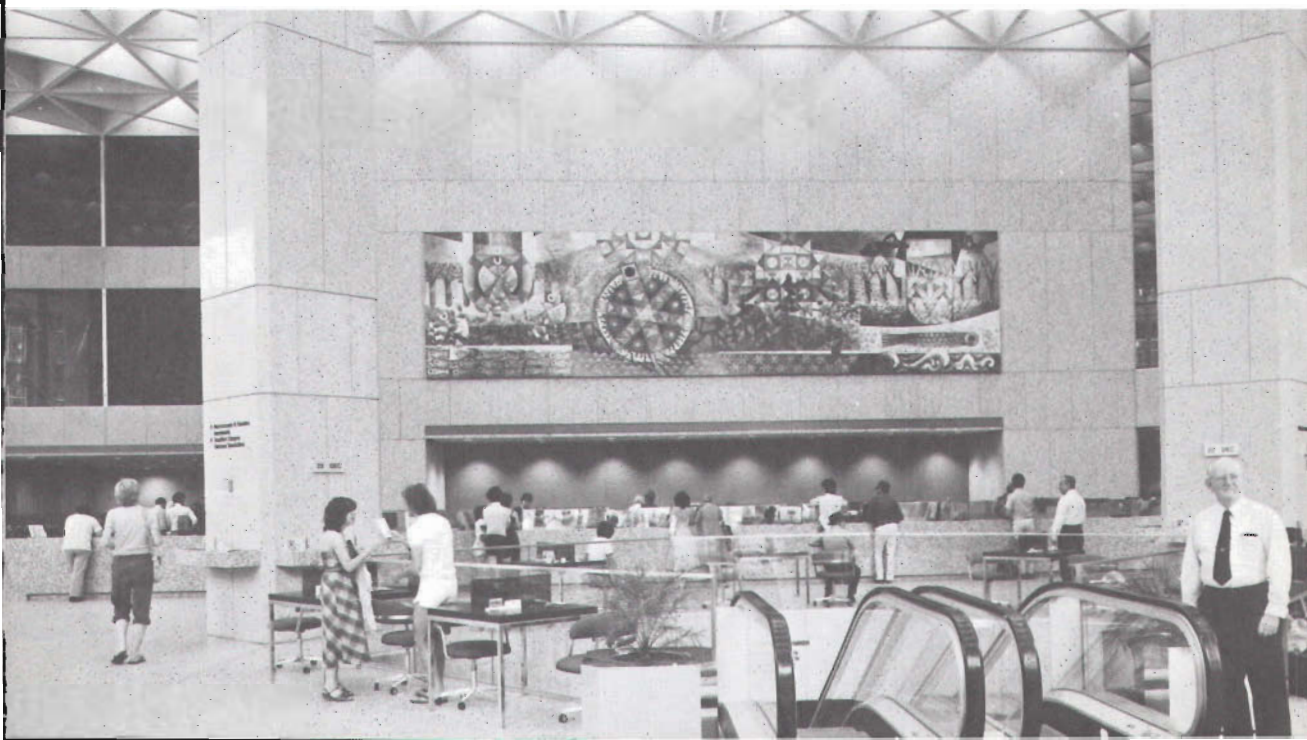
National Commercial Banking Corporation of Australia Limited





The new State Bank centre at the corner of Elizabeth and Bourke Streets, Melbourne, headquarters of Victoria's oldest bank. The centre is a complex of banking chambers and administrative departments, commercial offices, and retail arcades. (Below) is the new banking chamber.

State Bank of Victoria





A giant dust storm, a result and symbol of one of Australia's worst droughts, swept across Victoria from the south-west. The dust storm, which reached Melbourne at 3 p.m. on 8 February 1983, reduced visibility to a few metres in the city and suburbs.

Bureau of Meteorology

The State Emergency Service undertakes one of many rescue operations performed in 1982.

State Emergency Service



VICTORIA—CO-OPERATIVE ORGANISATIONS: CREDIT SOCIETIES—*continued*

Particulars	1976-77	1977-78	1978-79	1979-80	1980-81
	\$'000	\$'000	\$'000	\$'000	\$'000
INCOME AND EXPENDITURE					
Income—					
Interest from loans	21,031	29,019	40,142	56,843	75,992
Interest from deposits	1,298	1,758	3,759	5,383	6,694
Other income	941	1,485	1,676	2,640	3,981
Total	23,270	32,262	45,577	64,866	86,667
Expenditure—					
Interest on deposits	12,255	17,392	26,592	39,056	53,573
Interest on loans	497	686	617	1,052	1,213
Wages and salaries	4,715	6,121	7,664	9,551	12,185
Other expenditure	5,044	6,485	9,387	12,576	16,840
Total	22,511	30,684	44,260	62,235	83,811
LIABILITIES AND ASSETS (a)					
Liabilities—					
Paid up share capital	1,865	2,192	2,566	3,002	3,393
Statutory reserves	193	387	638	933	1,237
Other reserves (b)	-91	1,240	2,690	4,797	7,033
Deposits	192,733	265,306	395,133	537,080	642,584
Loans	7,297	8,475	8,915	16,152	14,644
Other liabilities	1,246	1,683	2,143	3,001	4,106
Total	203,243	279,282	412,085	564,967	672,998
Assets—					
Amount owing on loans (c)	173,929	233,191	336,639	462,437	555,250
Cash on hand	519	687	1,266	1,639	1,783
Deposits	18,191	30,250	54,365	67,180	65,803
Bills, bonds, and other securities	4,013	7,093	6,700	12,738	21,023
Physical and other assets	6,591	8,062	13,115	20,973	29,140
Total	203,243	279,282	412,085	564,967	672,998

(a) At the balance dates of credit societies within the financial year shown.

(b) Includes accumulated surpluses and deficits.

(c) Net of unearned interest and allowance for doubtful debts. These figures are not of unearned interest and allowance for doubtful debts.

Life insurance*History*

The first Australian life office was formed in 1836, but it was not until the second half of the nineteenth century that life insurance gathered strength in Australia. The first mutual office with headquarters in Victoria was established in 1869. Several North American offices established operations in Australia during the 1880s, but they were forced to transfer their policies to Australian offices and to withdraw from the market in the early 1920s by changes in the New York law under which they operated. Since 1945, several United States of America companies, not subject to New York law, have opened up or acquired life offices in Australia. By 1901, Australian life offices were competing in many parts of the then British Empire; several offices still operate in Great Britain, New Zealand, and South Africa.

Structure

The life insurance industry in Australia is organised largely along mutual, or co-operative lines. More than 65 per cent of the business is handled by wholly mutual offices—with no shareholders—where the policyholders themselves own the business and where all surplus funds accrue to them.

A significant part of life insurance, however, is conducted by share capital companies which offer life insurance services to the public. There are statutory limitations on the funds which these offices may pass on to shareholders rather than to policyholders.

Most of the wholly mutual offices are Australian controlled and several share capital offices are Australian owned or controlled. However, many share capital offices are

owned by foreign insurance groups. The majority of life offices, particularly the major mutual offices, offer Australia-wide facilities. There are 46 registered life offices in Australia and, in addition there are government life offices in New South Wales, Queensland, and South Australia, the latter having begun operations in March 1978.

There are several industry associations which aim to maintain and promote high standards within the industry. They include:

- (1) The Australian Insurance Institute—the professional, educational, and examining body associated with both the general and life insurance industries. It co-ordinates the activities of the various State institutes, which include the Insurance Institute of Victoria; and
- (2) The Life Insurance Federation of Australia—a national life insurance industry organisation, which was formed on 30 April 1979. Forty-two private enterprise life insurance companies joined together to form the Federation. This association replaced the Life Offices Association of Australia and the Association of Independent Life Offices which ceased functioning.

Economic and social significance

The economic and social significance of life insurance lies in the accumulation of a substantial pool of funds which represents protection for, and the savings of, millions of Australian policyholders. In June 1982, life offices held assets in Australia with a value in excess of \$17,100m. There were 7.1 million policies in force covering about 4 million persons for sums insured of more than \$146,000m.

Life insurance is important to the community for a number of reasons. It provides an avenue for individuals to pool risks and thereby to reduce uncertainty by sharing the losses associated with premature death. This function of life insurance also relieves governments of certain social welfare responsibilities.

Life insurance is important also because the funds which are accumulated are the result of contractual savings programmes. This form of savings is significant because its inbuilt compulsive element provides both the public and private sectors of the economy with access to a predictable supply of long-term capital funds as well as enabling policyholders to participate in a wide range of investments.

Types of life insurance

There are three main forms of life insurance: whole of life, endowment, and term. All three forms can be obtained in a variety of combinations and are often sold under special product names by different life companies. Over recent years, some life offices have developed policies which separate the life cover from the savings element. These are commonly known as “unbundled contracts”. Under some contracts the entire premium may be devoted to the savings elements. Unbundled policies may be either “investment account” or “investment linked”. There are also two quasi-life insurance policies: pure endowment and annuity.

Whole of life. These policies give lifetime protection, with the sum insured and any accrued bonuses paid on death. It provides basically for dependants.

Endowment. In these policies the sum insured and any accrued bonuses are payable on survival to a specified age or on prior death. They give family protection and a systematic method of saving for retirement, repayment of loans, educational expenses, etc.

Whole of life and endowment policies may be “with profit” (participating in the distribution of bonuses) or “non-profit” (not participating in the distribution of bonuses), the choice depending on the level of premium paid.

Term. These policies provide inexpensive, “death only” cover within a specified period. The policies expire if the insured life survives the period, and no benefit is paid. There are several variants: renewable term, decreasing term, and convertible term, with the option to convert to whole of life or endowment insurance at a later date with no need of proof of medical fitness.

Pure endowment. In these policies the sum insured is payable only if a person lives to a pre-determined age. On prior death, premiums plus interest are returned.

Annuities. These are contracts under which a life office pays a fixed regular amount from a particular date until the death of the annuitant or to some earlier pre-arranged date. The premium, or consideration, is paid as a lump sum, or by instalments if the commencement of the annuity is deferred.

Ordinary life insurance. These are policies on which premiums are paid yearly, half-yearly, quarterly, or monthly.

Industrial (Collector) life insurance. These are policies where premiums are collected periodically (usually monthly) by life office agents from policyholders' homes. They constitute a costly operation which has lost popularity in recent years.

Superannuation. These are benefits provided either by lump sum payments on retirement or pensions to retired employees or self-employed persons or their surviving dependants. Superannuation schemes conducted by life offices account for about one-third of total Australian superannuation business.

Investment account policies. The premium, after deduction of the cost of life cover and expenses, is paid into an investment account. After payment of tax, interest is credited to the account. The account is capital guaranteed.

Investment-linked (or unit-linked) policies. The benefits payable are expressed in units each representing a share in a portfolio of investments managed by a life office. Policies do not have a guaranteed value because the price of the units fluctuates as the market value of the underlying investments changes and as investment income accrues.

Marketing

The bulk of life insurance is sold on commission through agents, or representatives, of life offices. The most common variant of this theme is the practice of the major Australian life offices selling through tied or in-house agents. Other intermediaries are free to direct business to these offices but no commission is paid.

Some sectors of the industry operate through brokers, virtually independent agents, who place business on behalf of their clients. The broking system in life insurance is not as developed as it is in general insurance.

Statistics

The State-by-State break-down of life insurance figures is not reliable. The figures have been distorted by the widespread practice of placing policies on the Australian Capital Territory register, although the policyholder is not a resident of the A.C.T. Such policies are shown in the published statistics as A.C.T. business.

Care should also be taken when using the figures for "Policies discontinued or reduced". This term includes death claims, maturities, surrenders, forfeitures, and transfers to other States, or overseas.

AUSTRALIA—LIFE INSURANCE BUSINESS WITHIN AUSTRALIA: SELECTED ASSETS HELD IN AUSTRALIA BY LIFE INSURANCE COMPANIES (a) (\$m)

Class of assets	At end of December—				
	1977	1978	1979	1980	1981
Fixed assets—					
Property	2,542.9	2,831.9	3,124.8	3,527.7	3,961.5
Furniture	30.3	30.5	39.2	42.0	42.7
Total fixed assets	2,573.2	2,862.4	3,164.0	3,569.7	4,004.2
Loans (excluding advances of premiums)—					
On mortgage—					
Rural	83.8	76.8	72.1	67.8	76.3
Housing	505.4	501.8	486.2	497.3	535.7
Other	708.7	679.3	673.6	692.1	727.2
On policies	292.0	297.0	301.5	320.0	344.3
To controlled companies	54.3	68.2	78.3	100.3	127.0
To building or housing societies	6.2	7.1	6.8	8.5	7.3
Other	24.9	41.6	49.3	83.3	84.5
Total loans	1,675.3	1,671.8	1,667.8	1,769.3	1,902.3

AUSTRALIA—LIFE INSURANCE BUSINESS WITHIN AUSTRALIA:
SELECTED ASSETS HELD IN AUSTRALIA BY LIFE INSURANCE COMPANIES (a)—continued
(\$m)

Class of assets	At end of December—				
	1977	1978	1979	1980	1981
Investments—					
Government securities	2,507.8	2,706.9	2,887.3	3,096.8	3,420.6
Local and semi-governmental securities	995.5	1,121.1	1,199.3	1,342.6	1,483.5
Debentures	755.7	800.9	827.3	794.2	749.6
Secured and unsecured notes	164.5	165.9	169.8	224.2	239.0
Preference shares	69.9	69.0	70.1	68.4	70.6
Ordinary shares	1,831.5	2,075.0	2,496.8	3,221.4	3,405.8
Holdings in controlled companies	76.7	127.4	125.2	167.1	226.2
Other	85.6	86.1	94.2	178.2	237.0
Total investments	6,487.2	7,152.3	7,869.9	9,092.9	9,832.3
Cash—					
On deposit—					
Banks	0.4	0.4	0.2	5.6	2.3
Other	55.7	87.5	169.3	109.6	343.4
On current account and in hand	6.1	12.2	51.6	92.0	187.1
Total cash	62.2	100.1	221.1	207.2	532.8
Total selected assets	10,797.9	11,786.6	12,922.8	14,639.1	16,271.6

(a) Items shown are the balances according to the companies' ledgers in respect of the statutory funds as at the date for which the information was supplied, without adjustment for any accrued or outstanding interest or other items which had not been brought into account as at that date. Figures include those for State Government insurance offices.

There is no official direction of life office investment in relation to the safeguarding of policyholders' funds, although there are statutory taxation requirements for investment in government securities (see Taxation, below). The Life Insurance Commissioner, nevertheless, maintains a surveillance over the industry (see Regulation of the industry, page 475).

Taxation

Life offices

Life offices are taxed on the basis of their investment income (as distinct from premium income), less associated expenses and a deduction deemed necessary to meet long-term policy liabilities.

In its 1973-74 Budget, the Commonwealth Government reduced the allowable deduction for policy liabilities under section 115 of the Income Tax Assessment Act from 3 per cent to 2 per cent. In the 1974-75 Budget, this deduction was further reduced to 1 per cent and the rate at which tax was levied was increased up to the normal rate for companies.

Rebates for policyholders

In the 1975-76 Budget, the Commonwealth Government replaced the system of concessional deductions, including those for certain levels of life insurance premiums and superannuation contributions, with a General Rebate which credited taxpayers with expenditure of \$1,350 on what were previously concessional deductions—for medical, educational, and other expenses, and life insurance premiums and superannuation contributions. A 40 per cent tax rebate was applied.

In the 1977-78 Budget, the General Rebate was discontinued with the introduction of tax-free threshold income. Nevertheless, concessional expenditure over a total of \$1,590 was allowed as a rebate at the basic rate of tax—32 cents in the dollar. In the 1978-79 Budget, this basic rate was raised to 33.5 cents in the dollar, but lowered to 33.07 cents in the 1979-80 Budget and to 32.0 cents in the 1980-81 Budget. The 1982-83 Budget provides for a rate of 30.67 per cent for 1982-83 and of 30 per cent in subsequent years. The components of the concessional expenditure allowance remain unchanged, including \$1,200 for life insurance premiums and superannuation contributions.

However, from 1980-81 the position is different for persons who are self-employed or who are employees not covered by employer sponsored superannuation arrangements. Such persons are entitled to deduct from their assessable income up to \$1,200 per year in respect of contributions made by them to a qualifying superannuation fund. Any contributions in excess of the \$1,200 can be included in rebatable expenditure items up to the existing limit of \$1,200, giving these persons a total allowance of up to \$2,400 in respect of life insurance and superannuation contributions.

The proceeds of life insurance policies are tax-free in policyholders' hands, the income having been taxed at the life office stage. One-twentieth of a lump sum superannuation benefit is treated as taxable income in the hands of the recipient in the year it is received, but investment income from the re-invested sum is taxable as normal income. Superannuation benefits in the form of a regular pension are, with some exceptions, treated as fully taxable income.

Regulation of the industry

The life insurance industry is regulated by the Commonwealth *Life Insurance Act 1945* which gives the Life Insurance Commissioner control over the registration of offices and wide ranging powers over life office affairs in the interests of policyholders. Investigations can range from company financial matters to the treatment of individual policyholders' complaints. The State Government insurance offices in New South Wales, Queensland, and South Australia do not come under the jurisdiction of the Life Insurance Act, although they voluntarily supply the statistics which the Act requires from the private offices.

Current problems

Inflation has brought major problems for the life insurance industry. It has eroded the value of sums insured and it has increased operating costs. Continued pressure on policyholders' cash flows, the growth of superannuation and increasing attention to short-term investment avenues have led many policyholders to switch to cheaper term insurance (which contains no savings element). This has long-term implications for the industry's ability to accumulate and generate investment funds for both the public and private sectors of the economy.

VICTORIA—LIFE INSURANCE: PREMIUM RECEIPTS AND POLICY PAYMENTS (INCLUDING ANNUITIES) (\$m)

Year	Premiums received (including single premiums)	Payments			Total
		Claims	Surrenders	Annuities and cash bonuses	
1976	428.6	139.4	126.9	4.0	270.3
1977	450.7	157.9	149.6	4.3	311.8
1978	487.3	182.3	166.3	3.8	352.4
1979	511.8	189.5	215.6	4.1	409.2
1980	584.4	219.3	228.7	5.6	453.6

VICTORIA—LIFE INSURANCE: NEW POLICIES ISSUED (EXCLUDING ANNUITIES) (a)

Particulars	1976	1977	1978	1979	1980
Ordinary and industrial business—					
Number of policies	134,221	125,857	127,953	121,374	113,952
Sum insured \$m	2,410.7	2,608.9	2,948.1	3,286.5	3,402.3
Annual premiums \$m	28.9	29.0	30.9	33.2	33.5
Superannuation business—					
Number of policies	22,039	22,045	18,778	15,799	19,967
Sum insured \$m	2,190.4	2,145.2	2,152.3	2,465.6	3,110.0
Annual premiums \$m	49.6	55.5	55.3	53.1	71.3
All combined—					
Number of policies	156,260	147,902	146,731	137,173	133,919
Sum insured \$m	4,601.1	4,754.1	5,100.4	5,752.1	6,512.3
Annual premiums \$m	78.5	84.5	86.2	86.3	104.8

(a) Industrial business has been combined with ordinary business since October 1978.

**VICTORIA—LIFE INSURANCE: POLICIES DISCONTINUED OR REDUCED
(EXCLUDING ANNUITIES) (a)**

Cause of discontinuance	1978		1979		1980	
	Number of policies	Sum insured	Number of policies	Sum insured	Number of policies	Sum insured
		(\$m)		(\$m)		(\$m)
Ordinary and industrial business—						
Death or disability	8,958	29.5	8,604	31.0	7,534	28.1
Maturity, expiry, etc.	55,695	187.8	54,807	228.0	49,916	288.6
Surrender	95,422	771.8	107,688	981.9	102,468	1,082.4
Forfeiture	28,790	448.4	30,070	503.0	25,994	537.2
Other (b)	-8,695	-169.9	16,164	277.2	2,448	68.2
Total	180,170	1,267.6	217,333	2,021.1	188,360	2,004.5
Superannuation business—						
Death or disability	507	21.8	432	24.3	379	19.4
Maturity, expiry, etc.	1,698	138.4	1,466	111.9	1,475	112.8
Surrender	7,925	866.2	6,961	837.9	7,375	1,023.4
Forfeiture	1,197	30.8	1,362	40.6	1,326	46.1
Other (b)	2,637	335.4	15,586	309.9	2,977	10.9
Total	13,964	1,392.6	25,807	1,324.6	13,532	1,212.6
All combined—						
Death or disability	9,465	51.3	9,036	55.3	7,913	47.5
Maturity, expiry, etc.	57,393	326.2	56,273	339.9	51,391	401.4
Surrender	103,347	1,638.0	114,649	1,819.8	109,843	2,105.8
Forfeiture	29,987	479.2	31,432	543.6	27,320	583.3
Other (b)	-6,058	165.5	31,750	587.1	5,425	79.1
Total	194,134	2,660.2	243,140	3,345.7	201,892	3,217.1

(a) Industrial business has been combined with ordinary business since October 1978.

(b) Includes net loss or gain resulting from transfers, cancellations of, and alterations to, policies, etc.

**VICTORIA—LIFE INSURANCE: BUSINESS IN EXISTENCE
(EXCLUDING ANNUITIES)(a)**

Particulars	1976	1977	1978	1979	1980
Ordinary and industrial business—					
Number of policies	2,035,699	1,969,964	1,917,747	1,821,788	1,747,380
Sum insured \$m	12,203.2	13,652.6	15,333.1	16,598.5	17,996.2
Annual premiums \$m	226.2	232.9	239.6	242.2	248.2
Superannuation business—					
Number of policies	120,434	128,226	133,040	123,032	129,467
Sum insured \$m	7,131.9	8,244.6	9,004.3	10,145.3	12,042.7
Annual premiums \$m	185.7	212.1	230.9	250.9	287.6
All combined—					
Number of policies	2,156,133	2,098,190	2,050,787	1,944,820	1,876,847
Sum insured \$m	19,335.1	21,897.2	24,337.4	26,743.8	30,038.9
Annual premiums \$m	411.9	445.0	470.5	493.1	535.8

(a) Industrial business has been combined with ordinary business since October 1978.

General insurance

Introduction

The general insurance industry provides security for policy owners in the event of loss, and by its investments, holds readily convertible assets to cover unforeseen or unexpected claims. Insurance companies also invest capital in many large-scale projects. As the national body of the general insurance industry, the Insurance Council of Australia Limited (ICA) promotes the role of the industry to governments and the community.

The ICA has two principal functions: it explains the interests of the general insurance industry in Australia and it provides a statistical, technical, and information service to the industry. The main areas in which the ICA represents the insurance industry include dealings with governments, other trade and business organisations, the media, and

consumers. The ICA seeks to provide effective representation for its members to these groups.

For some time, the ICA has been concerned with disaster mitigation and alleviating the trauma experienced by victims of natural disasters. Consequently, the ICA in association with the Chartered Institute of Loss Adjusters and the Council of Loss Adjusters, representing the loss adjusting professions, has established the Insurance Emergency Service (IES).

The IES is intended to speed up the processing of insurance claims in the event of a major disaster. The agreement provides for the pooling of administrative and technical resources by the members of the IES to enable claims to be assessed and paid promptly. The service operates in liaison with governments who have recognised its work in situations where a catastrophe takes place.

The general insurance industry in Victoria comprises: property and liability insurance companies (of which most are members of the ICA), representatives of Lloyds insurance brokers, Victorian Government insurance offices, local representatives of overseas reinsurance companies, and independent private brokers.

The insurance industry contributes to the stability of commercial activity in the community by providing protection for a wide range of risks. Some examples of the policies available are listed below:

VICTORIA—TYPES OF GENERAL INSURANCE POLICIES

Type of policy	Type of policy	Type of policy
Aviation hull	Employers liability	Leisurecraft
Baggage	(including workers	Livestock
Boiler explosion	compensation)	Marine hull
Burglary	Fidelity guarantee	Personal accident
Business interruption	Fire	Plate glass
Cargo in transit	Houseowners and	Pluvius
Cash in transit	householders	Public liability
Credit insurance	Industrial special	Travel
Crop (fire and hail)	risk	Wool (sheep's back to store)

Workers compensation cover and motor vehicle third party insurance are compulsory by law in all States.

Statistics

The following tables show premiums and claims relating to general insurance business undertaken by authorised insurers and government instrumentalities in Victoria for the years 1977-78 to 1980-81. These statistics are not directly comparable with those published previously, including those for 1977-78. Details relating to stamp duty, fire service charges, management expenses, and investment income were not collected as part of this collection for 1978-79 and 1979-80.

In many instances brokers have no knowledge of claims made by the insured on overseas insurers in respect of business placed through them. Because of this, no details of claims were collected from brokers for 1978-79 and 1979-80. For 1978-79 and 1979-80, premium details for brokers have been collected on an Australia-wide basis, although previously details were collected on a State basis. Accordingly, the data series on premiums by State for 1977-78 have been adjusted to exclude details for brokers.

In general, business is classified to the State where the policy is recorded and may not necessarily indicate the State of location of the risk. Due to the centralised record keeping of brokers (usually in the major capital cities) it is considered inappropriate to classify their business by State.

Premiums comprise the full amount receivable in respect of direct insurance and facultative reinsurance business written or renewed within Australia (including business placed overseas by Australian brokers) during the year less outward facultative reinsurance within Australia, stamp duty and fire service charges paid, and returns, rebates, and bonuses paid or credited to policyholders. (Facultative reinsurance is a contract whereby an insurance company cedes parts of individual risks to a reinsurance company.)

Premiums are not adjusted to provide for premiums unearned at the end of the year and consequently the amounts differ from *earned premium income* appropriate to the year.

Claims comprise, for direct insurance and facultative reinsurance business, payments made during the year, plus the estimated amount of outstanding claims at the end of the year, less the estimated amount of outstanding claims at the beginning of the year. Salvage and other amounts recoverable, including outward facultative reinsurance claims recovered or recoverable, have been deducted.

VICTORIA—PREMIUMS ON AUSTRALIAN RISKS UNDERWRITTEN (a)
(\$'000)

Class of business	1977-78	1978-79	1979-80	1980-81
Fire (including sprinkler leakage)	78,073	71,469	67,607	78,032
Loss of profits	14,023	9,321	9,150	8,809
Crop (including hailstone)	2,288	3,935	5,074	3,939
Houseowners and householders	71,513	76,331	87,274	104,871
Contractors risks	4,692	5,125	4,924	5,911
Marine hull—				
Private pleasure craft	4,345	4,320	3,596	4,722
Other	1,689	r2,391	r2,682	4,646
Marine cargo	22,682	r22,113	r25,477	28,718
Aviation hull, cargo	1,851	1,832	2,001	2,138
Motor vehicle (including motor cycles)	215,725	227,088	219,683	231,170
Compulsory third party (motor vehicles)	186,950	189,474	194,955	223,684
Employers liability	324,867	250,216	247,212	275,295
Public liability	19,828	19,492	20,560	24,345
Product liability	1,078	1,578	1,763	2,150
Professional indemnity	3,530	3,319	5,370	6,911
Loan, mortgage and lease	6,761	8,219	r12,162	10,998
Burglary	8,722	8,947	8,779	8,832
All risks, baggage (b)	7,826	9,803	11,007	9,237
Boiler, engineering, machinery breakdown	4,538	5,244	5,633	6,520
Plate glass	2,700	2,927	3,101	3,091
Guarantee	1,437	1,837	1,533	1,794
Livestock	948	971	1,269	1,293
Personal accident	19,753	r19,212	r20,269	21,820
Other (b)	21,162	20,561	23,994	33,899
Total	1,026,981	r965,725	r985,075	1,102,825

(a) Excludes brokers.

(b) From 1980-81, the item "All risks, baggage" will be called "Travel (including baggage)" because risks other than those associated with "Travel" are now included in "Other".

VICTORIA—CLAIMS ON AUSTRALIAN RISKS UNDERWRITTEN (a)
(\$'000)

Class of business	1977-78	1978-79	1979-80	1980-81
Fire (including sprinkler leakage)	26,490	43,195	54,099	73,992
Loss of profits	2,520	3,931	6,189	3,971
Crop (including hailstone)	2,070	2,673	1,712	1,241
Houseowners and householders	41,122	54,760	64,377	85,406
Contractors risks	2,686	2,986	3,786	5,236
Marine hull—				
Private pleasure craft	2,384	3,086	3,048	3,678
Other	1,323	r1,868	r2,227	3,438
Marine cargo	12,105	r12,921	r16,495	20,964
Aviation hull, cargo	1,151	1,238	1,883	1,605
Motor vehicle (including motor cycles)	129,423	159,183	168,364	186,093
Compulsory third party (motor vehicles)	211,215	222,638	235,420	291,223
Employers liability	197,246	180,287	210,928	268,770
Public liability	13,551	10,926	15,324	20,418
Product liability	1,165	2,367	801	-623
Professional indemnity	2,014	2,265	4,934	5,209
Loan, mortgage and lease	5,097	2,750	5,533	6,627
Burglary	4,657	5,667	7,329	7,691
All risks, baggage (b)	5,017	6,507	7,978	7,322
Boiler, engineering, machinery breakdown	2,184	2,776	2,826	4,909

VICTORIA—CLAIMS ON AUSTRALIAN RISKS UNDERWRITTEN (a)—continued
(\$'000)

Class of business	1977-78	1978-79	1979-80	1980-81
Plate glass	1,910	2,176	2,326	2,585
Guarantee	55	585	726	1,210
Livestock	1,408	991	1,022	1,006
Personal accident	8,506	10,055	11,414	14,061
Other (b)	8,380	6,908	9,740	19,697
Total	683,679	742,739	838,481	1,035,729

(a) Excludes brokers.

(b) See footnote for previous table.

Motor vehicle insurance (compulsory third party)

The *Motor Car (Third Party Insurance) Act 1939* (now embodied in the *Motor Car Act 1958*) which came into force on 22 January 1941, made it compulsory for the owner of a motor vehicle to insure against any liability which may be incurred by him, or any person who drives such motor vehicle, in respect of the death of, or bodily injury to, any person caused by, or arising out of, the use of such motor vehicle.

VICTORIA—MOTOR VEHICLE INSURANCE (COMPULSORY THIRD PARTY):
NUMBER OF MOTOR VEHICLES INSURED, 1979-80

Class of motor vehicle	Motor cars usually garaged—		Total
	Within a radius of 32.187 kilometres of the G.P.O., Melbourne	Outside a radius of 32.187 kilometres of the G.P.O., Melbourne	
Private and business	1,011,162	625,072	1,636,234
Goods carrying	117,761	186,046	303,807
Hire	3,950	3,558	7,508
Hire and drive yourself	2,992	1,121	4,113
Passenger transport	1,572	1,518	3,090
Miscellaneous	10,543	57,909	68,452
Motor cycle	25,343	33,418	58,761
Recreation vehicles	600	646	1,246
Total	1,173,923	909,288	2,083,211

State Insurance Office

The State Insurance Office was established on 1 July 1975, under an Act of the Victorian Parliament which brought together the functions and staff of the State Accident Insurance Office and the State Motor Car Insurance Office. The State Insurance Office is controlled and managed by the Insurance Commissioner.

The State Insurance Office transacts employers liability, motor vehicle, and compulsory third party insurance. Other responsibilities of the Insurance Commissioner relate to the Workers Compensation Supplementation Fund, the Insurers Guarantee and Compensation Supplementation Fund, uninsured employers, nominal defendants in the motor car and employers liability jurisdiction, casual firefighters, jurors, civil defence volunteers, education volunteer workers, and the Standard Insurance Act.

The transactions of the State Insurance Office from 1977-78 to 1981-82 are shown in the following table:

VICTORIA—STATE INSURANCE OFFICE: TOTAL BUSINESS
(\$'000)

Particulars	1977-78	1978-79	1979-80	1980-81	1981-82
Gross premium	275,877	240,887	281,723	309,128	409,325
Net earned premium	259,497	261,548	279,492	292,544	360,801
Investment income	46,847	64,938	85,250	103,565	129,895
Net claims	229,946	273,894	328,689	363,877	595,059
Expenses and commission	14,723	18,914	15,711	17,396	25,530
Underwriting profit (loss)	14,828	-31,260	-64,908	-88,728	-137,515
Net profit (loss)	61,675	33,678	20,342	14,836	-129,893
Underwriting reserves	603,842	721,915	935,518	1,014,348	1,348,715
Other reserves	28,671	46,422	52,471	53,364	76,529

OTHER PRIVATE FINANCE

The Stock Exchange of Melbourne Limited

Introduction

The Stock Exchange of Melbourne was established in 1884. In simple terms a Stock Exchange has two main functions:

- (1) To provide a central and organised market place where company, government and semi-government securities may be bought and sold; and
- (2) to facilitate the raising of funds required by governments and companies for development and growth.

Objects of the Stock Exchange

The Memorandum of Association indicates the objects of The Stock Exchange of Melbourne Limited. They may be summarised as follows:

- (1) To maintain and develop the exchange of quotations;
- (2) to promote and facilitate purchases, sales, and dealings in securities;
- (3) to promote and facilitate the dealing by Members of the Exchange in securities; and
- (4) to promote and protect the interests of the public having dealings with members of the Exchange.

The Stock Exchange performs an essential role within the free enterprise system. The primary market, i.e., the market where new equity and debt capital is raised, cannot function efficiently unless there is a strong and liquid secondary market. This is the market where existing capital in the form of securities is bought and sold. It is this market which is provided by the Stock Exchange. It is largely because of its existence that savers are prepared to commit their funds to the primary market which is important to Australia's economic system. These funds are required for the development or expansion of commercial manufacturing and mining projects which create additional wealth and employment opportunities.

The need for the market to be free and open is particularly important. A market which is not fully informed or from which some buyers or sellers are excluded for any reason is not a true market. The Stock Exchange ensures that sales, prices, quotations, company reports, and all other pertinent information are freely available to anyone who seeks them, in order to provide at all times an informed market whereby any information concerning a listed company is equally and simultaneously available to all interested parties.

The Stock Exchange is funded largely by levies paid by its members, fees paid by member firms, and by listing fees paid by the companies with shares and other securities listed for trading on the Stock Exchange.

Development of the market

The market has developed over the years from the "call room" style of trading to the present post trading method which was introduced in December 1961 and is practised in most exchanges throughout the world.

The Stock Exchange of Melbourne Limited was incorporated as a company limited by guarantee under the Companies Act on 1 July 1970 in order to enable it to operate more efficiently as a legal entity.

At 30 June 1982, membership of the Exchange totalled 234. The number of member firms at this date totalled 30.

A Committee, comprising 12 members elected by the membership formulates domestic policy for its members and administers the Australian Associated Stock Exchange (AASE) Listing Requirements for those companies for which it acts as Home Exchange. Two members of the Committee are elected annually by the membership as chairman and vice-chairman.

In December 1976, a Joint Committee consisting of 5 committee members from each of the Melbourne and Sydney Exchanges held its inaugural meeting. The Joint Committee adopted uniform rules covering accounts, audit, capital requirements, brokerage, client relations, membership, delivery and settlement, trading and dealing, and advertising, and meets monthly alternately in Melbourne and Sydney to administer these rules and determine policy within these rules for members of both Exchanges. The two Exchanges have also formed a jointly owned company, Joint Exchange Computers Pty Limited, which is responsible for the computer installations of the two Exchanges.

Common Articles adopted by the Melbourne and Sydney Exchanges allow member firms of one Exchange direct access to the trading floor of the other Exchange for the purpose of buying and selling securities. At 30 June 1982, 14 Sydney member firms had applied for and been granted access to the floor of the Melbourne Exchange and 10 Melbourne firms had applied for and been granted access to the Sydney Exchange trading floor.

Official Listing Requirements

The Listing Manual of the Australian Associated Stock Exchanges prescribes the conditions under which company securities are granted and retain listing. The Listing Manual is uniform to all Exchanges in Australia. In order to provide for changing conditions, Official Listing Requirements are continually updated and expanded.

Stock market during 1981-82

Australian Share Price Indices

The All Ordinaries Share Price Index and the Accumulation (accum.) Indices opened the financial year at 699.6 (1,489.6 accum.) and rose to 701.3 (1,493.3 accum.) on 2 July being the high for the period.

The indices then fell from July to March to reach 455.6 (999.5 accum.) on 10 March 1982, being the lowest point since the indices were created on 1 January 1980.

The months of April and May showed a slight improvement before the indices fell again to close at 30 June 1982 with 473.1 (1,057.2 accum.), representing a loss of 32 per cent (29 per cent accum.) for the period.

The 50 leaders Index Group 31 reached its peak of 662.6 (1,408.3 accum.) on 2 July 1981, and following a similar pattern to the all ordinaries through the rest of the year. The Share Price Index reached a low of 407.1 on 23 June 1982, whereas the low for the Accumulation Index was reached on 10 March 1982, with 893.8. At 30 June 1982, the 50 leaders Index stood at 425.5 (9,479 accum.) representing a fall of 36 per cent (32 per cent accum.) for the period.

The only group to display an increase in the Share Price Index was Group 7—Alcohol and Tobacco from 622.1 to 656.3 or 5 per cent.

The Accumulation Index displayed 4 groups with percentage increases at 30 June. These included: Group 7—Alcohol and Tobacco from 1,370.2 to 1,561.0 or 14 per cent; Group 8—Food, Household Goods from 1,649.7 to 1,712.8 or 4 per cent; Group 20—Media from 1,328.4 to 1,375.8 or 4 per cent; and Group 21—Property Trusts from 1,284.7 to 1,331.1 or 4 per cent.

All other groups recorded losses, the greatest being Group 3—Oil and Gas 53 per cent (53 per cent accum.), followed by Group 2—Solid Fuels 50 per cent (48 per cent accum.) and Group 1—Metals 39 per cent (37 per cent accum.).

The group with the highest aggregate market value at 30 June 1982, was Group 1—Metals with \$5,359m or 18.4 per cent of the All Ordinaries Index, followed by Group 24—Diversified Resources with \$3,297m or 11.3 per cent.

The 50 leaders index represented 66.3 per cent of the All Ordinaries with an aggregate market value of \$19,323.

Largest group relative size

The percentage of Aggregate Market Value in the All Ordinaries for the four largest groups at June 30 1982 has moved as follows:

AUSTRALIA—AGGREGATE MARKET VALUE: ALL
ORDINARIES INDEX, JUNE 1981 TO JUNE 1982
(per cent)

Group	June 1981	Sept. 1981	Dec. 1981	March 1982	June 1982
50 Leaders	65.3	63.6	64.5	65.5	66.3
Metals	20.0	20.7	17.1	17.5	18.4
Diversified Resources	—	12.9	12.6	12.0	11.3
Banks and Finance	7.6	8.5	8.7	9.3	9.1

*Market turnover**Turnover by value*

Total turnover by value for the 12 months to 30 June 1982 fell by 18 per cent when compared to the previous corresponding period (from \$5,208m to \$4,254m).

Equity securities displayed a fall of 41 per cent for the period with the highest individual fall of 64 per cent being recorded in the preference sector from \$2.2m to \$0.8m.

Both mining and oil securities displayed losses of 61 per cent and 42 per cent to \$549m and \$463m, respectively. The industrial sector fell by 27 per cent from \$1,973m to \$1,446m.

All fixed interest securities recorded rises, the greatest being Semi-Government Loans with a rise of 269 per cent from \$79.3m to \$293m. Commonwealth Loans rose by 61 per cent from \$924.8m to \$1,488.3m and Debentures and Notes rose by 30 per cent from \$11.4m to \$14.8m when compared to the previous corresponding period.

Turnover by volume

Turnover by volume of 3,920.6 million represented an increase of 0.3 per cent when compared with the previous corresponding period.

Preference Shares recorded the greatest fall in equity securities with a drop of 66 per cent from 3.6 million to 1.2 million, followed by the mining sector which showed a fall of 56 per cent from 1,252.8 million to 555.6 million. The Industrial Sector fell from 820 million to 700.4 million representing a fall of 15 per cent for the period, with oil securities down 22 per cent to 535.4 million.

Semi-Government Loans increased by 291 per cent from 85.4 million to 333.9 million when compared to the previous year, with Commonwealth Loans and Debentures and Notes rising by 69 per cent to 1,775.4 and 43 per cent to 18.7 million, respectively.

Transactions

The total number of transactions in equity securities fell from 825,291 to 457,024 recording a fall of 45 per cent when compared to the previous corresponding period. The mining sector fell by 40 per cent with transactions for Industrial and Preference shares falling by 28 per cent and 23 per cent, respectively.

The total number of Fixed Interest transactions rose for the year by 20 per cent with Commonwealth Loans rising by 29 per cent and Semi-Government loans rising by 19 per cent. However, Debentures and Notes recorded the only fall in the sector with 18 per cent when compared to the previous corresponding period.

Public Trustee

The Public Trustee was constituted and incorporated by the *Public Trustee Act 1939* (which came into operation in 1940) and became the successor in law to the Curator of the Estates of Deceased Persons, as well as to the Master-in-Equity with respect to the administration of mental patients' property.

He is empowered by the Public Trustee Acts, under the guarantee of the State of Victoria, to act as a trustee, executor, administrator, and attorney, and in certain other capacities, and is required to undertake the protection and management of the property of certified patients in mental hospitals, of voluntary patients who so authorise him, and of infirm persons. An infirm person is a person certified by the Public Trustee to be incapable of managing his affairs on account of age or infirmity. Certificates on the prescribed form (obtainable from the Public Trust Office) must be given by two medical practitioners acting independently of each other, before the Public Trustee may certify.

Any person may name the Public Trustee as his executor in his will, and may deposit such will with him for recording and safe custody. If the original will is not deposited with the Public Trustee, it is highly desirable that a copy of the will be sent to him with the name and address of the person holding the original will. A person may also obtain advice about his will at the Public Trust Office if it is intended to appoint the Public Trustee executor.

The Public Trustee Acts enable the person appointed executor of a will to authorise the Public Trustee to act as executor in his or her place; the next of kin of anyone dying intestate, or any other person entitled to a grant of administration, may also authorise the Public Trustee to act as administrator in his or her place. In cases where there is no one

else entitled and ready to apply for a grant of administration, the Public Trustee is authorised to apply for a grant of administration himself.

Consequent on the passing of the *Public Trustee Act 1948*, the Public Trustee Fund at the Victorian Treasury was abolished and the proceeds of all estates, as from 1 October 1948, were invested in the Common Fund under the control of the Public Trustee.

VICTORIA—PUBLIC TRUSTEE: COMMON FUND
(\$'000)

Particulars	1977-78	1978-79	1979-80	1980-81	1981-82
Proceeds of realisations, rents, interest, etc.	41,094	45,655	54,010	62,296	67,849
Investments, distributions, claims, etc.	34,467	33,889	41,995	49,801	55,072
Cash variation	6,627	11,766	12,015	12,495	12,777
Balance at 1 July	57,045	63,672	75,438	87,453	99,948
Balance at 30 June	63,672	75,438	87,453	99,948	112,725

**VICTORIA—APPLICATIONS BY PUBLIC TRUSTEE
FOR PROBATE, LETTERS OF ADMINISTRATION, ETC.,
AND NUMBER OF WILLS LODGED FOR CUSTODY**

Year	Number of applications	Number of wills
1977-78	1,296	2,780
1978-79	1,194	2,851
1979-80	1,108	2,783
1980-81	1,115	2,458
1981-82	1,032	2,342

Statutory trustee companies

The concept of a company acting as executor of a person's will first developed in 1834 in South Africa, because of difficulties of securing persons of integrity and ability to administer estates. Outside that country, the first trustee company in the common law world was formed in Victoria in 1878. There are now eight companies authorised to operate in Victoria, most having been incorporated for more than 90 years.

Statutes of the Victorian Parliament were enacted at the formation of each company to authorise the Courts to grant Probate or Letters of Administration to a corporation, to limit them to fiduciary business as executor and trustee and as agent for individuals, and to limit the number of shares an individual could own in any one of the companies. These enabling Acts were consolidated into one statute of the Victorian Parliament in 1928—the Trustee Companies Act.

As a protection for the proper administration of trust funds, all companies have funds lodged as security with the Victorian Treasury; there is a statutory reserve liability attached to the share capital; and company assets and reserves are, by law, liable as additional protection.

After a review by the Victorian Parliament of the services appropriate to the community, the controlling legislation was amended during the 1950s to remove the original limitations on business activities. That legislation also authorised the establishment of Common Funds to permit the blending of trust funds into a common investment pool by the trustee companies. Changes to the Companies Act in that period specifically authorised the statutory trustee companies to act as trustee for the holders of debentures and notes on issue to the public. This brought a diversification of commercial trust business to the hitherto restricted trust operations of the companies.

Investment responsibilities of trustees increased further in 1979 when the Victorian Trustee Act was amended to widen statutory trustee investments with an additional range of fixed interest investments, including the trustee companies' Common Funds, and to authorise investment of up to one-third of the value of an estate in the purchase of real estate.

The statutory trustee companies now offer a complete range of fiduciary services for persons during their lifetime, in addition to traditionally acting as executor and trustee of

wills. These personalised services include asset and investment management and supervision, accounting and taxation services, retirement planning, purchase or sale of real estate as licensed estate agents, pastoral and property management, nominee services, money market activities, trusteeship for family trusts, charitable trusts and foundations, superannuation and pension funds, and will and estate planning.

Recent growth in trust funds under management is shown in the following table:

**VICTORIA—STATUTORY TRUSTEE COMPANIES: TRUST
FUNDS ADMINISTERED AT 30 JUNE
(\$m)**

Particulars	1978	1979	1980	1981	1982
Stock and debentures	118.3	102.4	97.7	93.1	199.4
Advances on mortgages	158.9	179.5	204.5	259.2	291.1
Real estate, farms, etc.	154.4	157.5	142.8	181.5	155.0
Shares	207.9	246.5	296.6	379.9	287.1
Deposits, cash, etc.	87.2	104.6	102.4	126.0	169.5
Other	28.9	33.3	38.8	30.8	31.6
Total	755.6	823.8	882.8	1,070.5	1,133.7

The values shown in the preceding table are probate values or values of assets at the time the assets came under control of the trustee companies. In addition to those trust funds, the companies were responsible as trustees for debenture and note holders of issues in excess of \$3,000m.

Further references: *Victorian Year Book* 1964, pp. 758-60; 1980, pp. 506-7

Companies

Company legislation

In recent years the Victorian Parliament has given much attention to company legislation and, following the passage of a new Companies Act in Victoria in 1958, company legislation has been passed throughout Australia in substantially similar form. In Victoria the current legislation is the *Companies Act* 1961 and subsequent amendments.

VICTORIA—COMPANIES REGISTERED, ETC.

Particulars	1977-78	1978-79	1979-80	1980-81	1981-82
New companies registered (number)—					
Victorian	10,645	11,131	12,017	18,370	18,015
Other	430	542	660	722	916
Total	11,075	11,673	12,677	19,092	18,931
Number of companies struck off—					
Victorian	2,602	2,699	2,869	2,537	2,854
Other	55	158	164	105	125
Total	2,657	2,857	3,033	2,642	2,979
Approximate number of existing companies at end of June—					
Victorian ('000)	106.2	114.4	123.5	140.0	156.8
Other ('000)	6.6	7.0	7.4	7.6	8.4
Total	112.8	121.4	130.9	147.6	165.2
Nominal capital of new companies (\$m)—					
Victorian	370.5	377.4	822.9	1,843.4	n.a
Other	29.1	514.3	311.5	1,425.6	n.a
Total	399.6	891.7	1,134.4	3,269.0	n.a
Increase in nominal capital of Victorian companies during the financial year (\$m)	1,175.8	1,169.5	2,112.9	3,942.0	n.a

Further reference: *Company law in Victoria, Victorian Year Book* 1977, pp. 891-5

Transfer of land

In Victoria there are two distinct types of title to land which has been alienated by the Crown. One is commonly known as a "General Law" title; the other as a "Torrens" or "Transfer of Land Act" title.

Any certificate of title can be searched at the Titles Office for a small fee, and any person intending to deal with the registered proprietor of the land is not concerned to go behind any of the entries shown on that title. The certainty and accuracy of these particulars can be assumed.

Since 1953, there has existed in Victoria a method for the subdivision of land in strata and the issue of individual titles to flats (see pages 684-5 of the *Victorian Year Book* 1966). The *Strata Titles Act* 1967 introduced into Victoria a further method for the subdivision of land in strata. Existing methods can still be used, as registration of a plan under Part II of the *Strata Titles Act* is not compulsory. Further information about the *Strata Titles Act* can be found on pages 695-6 of the *Victorian Year Book* 1968.

VICTORIA—NUMBER OF TITLES OF LAND ISSUED

Year	Certificates of title	Crown grants	Crown leases	Total titles
1980-81	43,191	1,072	296	44,559
1981-82	55,107	970	138	56,215

Land transfers, mortgages, etc.

Two summaries of dealings lodged at the Titles Office under the Transfers of Land and Property Law Acts are shown in the following tables for the years 1977-78 to 1981-82:

VICTORIA—NUMBER OF DEALINGS LODGED AT THE TITLES OFFICE: TRANSFER OF LAND ACT

Year	Transfers	Mortgages (a)	Entries of executor, administrator, or survivor	Plans of subdivision	Caveats	Other dealings	Total dealings
1977-78	134,459	123,028	17,801	7,194	41,975	127,719	452,176
1978-79	127,314	124,360	18,541	6,795	35,876	138,262	451,148
1979-80	137,123	126,774	17,781	6,378	37,943	144,786	470,785
1980-81	143,580	126,934	17,176	6,171	39,340	149,493	482,694
1981-82	139,082	117,884	17,325	6,164	37,405	151,629	469,489

(a) Statistics on mortgages are no longer directly comparable to previously published figures. The number of mortgages now include those previously excluded; principally to trading banks to secure overdrafts on current accounts. Value of mortgages on this basis is not available.

VICTORIA—DEALINGS UNDER THE PROPERTY LAW ACT

Year	Number of mortgages (a)	Reconveyances		Conveyances	
		Number	Amount (b)	Number	Amount
			\$'000		\$'000
1977-78	2,355	1,976	10,037	3,877	91,794
1978-79	2,145	1,981	n.a.	3,384	n.a.
1979-80	2,521	2,075	n.a.	3,387	n.a.
1980-81	2,551	2,247	n.a.	3,640	n.a.
1981-82	2,195	2,189	n.a.	3,473	n.a.

(a) Statistics on mortgages are no longer directly comparable to previously published figures. The number of mortgages now include those previously excluded; principally to trading banks to secure overdrafts on current account. Value of mortgages on this basis is not available.

(b) Excluding repayments designated "principal and interest".

Stock mortgages and liens on wool and crops

The number and amount of stock mortgages, liens on wool, and liens on crops registered at the Office of the Registrar-General during the years 1977 to 1981 are shown in the following table. Releases of liens are not required to be registered as, after the expiration of twelve months, the registration of all liens is automatically cancelled. Very few mortgagors of stock secure themselves by a registered release.

VICTORIA—STOCK MORTGAGES AND LIENS ON WOOL AND CROPS

Security	1977	1978	1979	1980	1981
Stock mortgages—					
Number	268	298	404	496	490
Amount (\$'000)	602	n.a.	n.a.	n.a.	n.a.
Liens on wool—					
Number	15	10	4	10	7
Amount (\$'000)	43	n.a.	n.a.	n.a.	n.a.
Liens on crops—					
Number	131	204	82	71	74
Amount (\$'000)	1,011	n.a.	n.a.	n.a.	n.a.
Total—					
Number	414	512	490	577	571
Amount (\$'000)	1,656	n.a.	n.a.	n.a.	n.a.

Bills of sale

The following are the numbers and amounts of bills of sale which were filed at the Office of the Registrar-General during the years 1977 to 1981:

VICTORIA—BILLS OF SALE

Security	1977	1978	1979	1980	1981
Bills of sale—					
Number	29,729	28,845	34,675	37,195	38,554
Amount (\$'000)	115,714	n.a.	n.a.	n.a.	n.a.

Further references: *Victorian Year Book*, 1974, pp. 708–11; Assurance fund, 1977, pp. 626–7; Probate, 1978, pp. 538–9; Credit facilities in the 1970s, 1982, pp. 454–7; Mortgages of real estate, 1982, p. 493

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