

## PRIVATE FINANCE

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### BANKING

#### Banking in 1982 and 1983

##### *Bank deposits*

Total deposits with the major trading banks (MTBs) in Australia rose by 11.6 per cent (\$3,273m) during the year to December 1982 to \$31,424m, compared with 12.0 per cent (\$3,024m) in the 12 months to December 1981. MTB deposits increased only 4.9 per cent (\$1,528m) to reach \$32,952m at the end of 1983. The slowdown in deposit growth in 1983 reflected the economic downturn and drought conditions over much of Australia. In 1982 fixed deposit growth (including certificates of deposit) remained strong at 23.4 per cent compared with 20.6 per cent in the previous year, while current deposits declined 4.0 per cent after increasing 2.4 per cent in 1981.

A reversal of the 1982 pattern occurred in 1983 with fixed deposits declining 2.1 per cent, while current deposits rose 16.8 per cent. As a result of these trends, the ratio of current deposits to total deposits as at December fell from 42.9 per cent in 1981 to 36.9 per cent in 1982 and then rose to 41.1 per cent in 1983. Factors influencing the turnaround in this ratio by December 1983 included the less favourable interest rates offered on trading bank fixed deposits relative to savings bank investment accounts and strong capital inflow from overseas in the December quarter 1983 (immediately prior to the floating of the Australian dollar) which boosted current account deposits.

Savings bank deposits increased by \$6,118m (22.6 per cent) to \$33,181m in the year ended December 1983, significantly higher than the growth of \$2,758m (11.3 per cent) in the year ended December 1982 and the low growth of 7.1 per cent in December 1981. During much of 1982 and 1983, deposit growth was assisted by the competitive interest rates offered by savings banks and the lack of competing investment avenues.

A large portion of the increased savings bank deposit growth in 1982 and 1983 was attributable to investment accounts. These accounts increased by 35.7 per cent during the year to December 1983, compared with 23.8 per cent and 15.8 per cent for the 12 months to December 1982 and December 1981, respectively. The resultant growth in the proportion of total deposits accounted for by investment accounts was 54.3 per cent in December 1983, as opposed to 49.1 per cent in December 1982 and 40.8 per cent in December 1981. This resulted in increased cost-of-funds pressure for savings banks, as their low cost passbook deposits declined as a proportion of total deposits.

##### *Bank lending*

New lending commitments by the MTBs in 1982 peaked in March at \$185m a week, and averaged \$163m a week during the year, compared with \$177m a week in 1981. In 1983 new lending commitments averaged \$221m a week, peaking at \$258m a week in March. However, the inclusion of temporary advances to woolbuyers from August 1983 (previously excluded from these statistics) assisted the higher weekly average of new lending commitments recorded in 1983. Loans, advances, and bills discounted by MTBs increased 8.5 per cent (\$1,786m) in the year to December 1982 and 12.1 per cent (\$2,776m) in the following year, compared with 13.1 per cent (\$2,441m) in the 1981 calendar year. Slower lending growth in 1982 and 1983, compared with 1981, reflected the downturn in economic activity and weak private sector demand for funds.

The level of all savings bank housing and other loans outstanding increased by \$1,925m (13.4 per cent) to \$16,262m in the year ended December 1982, and a further \$2,684m (16.5 per cent) to

\$18,946m in the year ended December 1983. Lending growth in both years was higher than the 1981 outcome of 12.9 per cent (\$1,636m). The proportion of housing and other loans outstanding to total deposits rose over the year to December 1982 from 59.0 per cent to 60.1 per cent, then declined during the year to December 1983 to 57.1 per cent.

#### *Banking in Victoria*

Deposits in Victoria for the MTBs totalled \$7,015m in December 1981, \$7,954m at the end of 1982, and \$9,033m at the end of 1983, annual increases of 14.0 per cent, 13.4 per cent, and 13.6 per cent, respectively. Victoria's share of national deposits was 25.3 per cent at December 1982 and 27.4 per cent at the end of 1983, compared with a share of 24.9 per cent in December 1981.

Savings bank deposits in Victoria grew by \$2,083m (20.4 per cent) over the year ended December 1983 to reach \$12,308m, compared with increases of \$712m (8.5 per cent) and \$1,150m (12.7 per cent) for the corresponding periods in 1981 and 1982 respectively. Victoria's share of all savings bank deposits in Australia rose over the year to December 1982 from 37.3 per cent to 37.8 per cent then declined during the year to December 1983 to 37.1 per cent. Per head of population, savings bank deposits in Victoria averaged \$2,308 in December 1981, \$2,568 in December 1982, and \$3,051 in December 1983, compared with the Australia wide average of \$1,636, \$1,761, and \$2,159 for the corresponding periods. The 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.

Both the Victorian and Australian results highlight an increased attractiveness of savings bank deposits during this period and also a possible higher level of precautionary savings associated with the 1982-83 recession.

#### *Major changes to the Australian banking environment*

The path towards lessening direct regulation of the Australian financial system was well established during the early 1980s with the Committee of Inquiry into the Australian Financial System (Campbell Committee), which reported in late 1981, playing an important part in this development. The thrust of the Committee's report and recommendations was the relaxation of restrictions to enhance competition and some key recommendations were subsequently implemented.

The election of a Labor Federal Government in March 1983 ushered in a reassessment of the Campbell Committee recommendations. In late May 1983, the Treasurer announced the establishment of a group to review the Australian financial system, having regard to the Campbell Committee recommendations, the Government's economic and social objectives, as well as the need to improve efficiency and maintain stability of the financial system. At the same time, the Treasurer announced that the Government would not proceed with the previous Government's decision (of January 1983) to allow entry of foreign banks into the Australian financial system, pending the outcome of the review.

#### *The Martin Review Group Report*

The report of the Review Group, chaired by Mr V.E. Martin, was made public in February 1984. By that time a number of changes had already been made to the regulatory environment of the finance sector including the decision by the Government in December 1983 to float the Australian dollar against other currencies and, at the same time, to abolish a major part of the exchange control regulations governing movement of funds into and out of Australia.

There was not in fact a great deal of difference in the general thrust of the Campbell Report and the Martin Report. Both reports favoured substantial deregulation of the banking and other financial systems and greater competition in financial markets, although the Martin report, in some cases, took a more cautious line.

#### *Proposals of the Martin Review Group*

A major proposal of the Martin Review Group was a one-off tender arrangement for a limited number of new banking authorities, open to both domestic and foreign interests, aimed at increasing competition in banking. For the tender process, a relaxation of a provision of the Banks (Shareholdings) Act, whereby a shareholding limit of less than ten per cent applied to a single interest in any one bank, was recommended.

In regard to the foreign currency market, the Martin Review Group concluded that there would be likely net benefits from increasing the number of foreign exchange dealers and the magnitude of these benefits would be increased by the developments during the latter part of 1983 toward a more market orientated and less regulated foreign exchange regime.

The Martin Review Group also recommended removal of interest rate controls on all forms of bank lending, including lending to the personal sector. It was acknowledged that regulations setting maximum interest rates for particular types of lending fail in their prime purpose of increasing the supply of funds to sectors they are designed to assist, since rationing devices, which become necessary when a concession is offered, generally favour low risk borrowers at the expense of others.

Maturity controls on bank deposits were another area that received the particular attention of the Martin Review Group. The Group felt restrictions on bank deposits operated to limit competition and restrict lending and the range of financial services offered by banks.

#### *Introduction of some proposals of the Report*

In the period since the release of the report of the Martin Review Group, the Commonwealth Government and monetary authorities have introduced a number of changes to the regulatory environment of banks and the financial system.

On 12 April, 1984 the Treasurer announced that from 1 August, 1984, a number of controls on the ability of banks to offer interest on deposits would be lifted. The controls removed included those: (1) prohibiting trading banks from offering interest on deposits of over \$50,000 for periods of less than fourteen days and deposits under \$50,000 for periods of less than thirty days, (2) restricting the minimum size and term of savings bank fixed deposits, and (3) prohibiting both trading and savings banks from offering fixed deposits with maturities over four years.

The Commonwealth Government also decided to amend the Banking (Savings Bank) Regulations to allow savings banks immediate freedom to offer cheque facilities on all accounts and remove the \$100,000 limit on deposits by a trading or profit making body.

Since the removal of maturity restrictions, banks have introduced a variety of deposit facilities including 11 a.m. call accounts, 24-hour call accounts, short-term deposit facilities, charge-free cheque accounts, and interest-bearing cheque accounts.

In April 1984, a proposal to establish a new bank, to be called the Macquarie Bank, was announced – the first since the Australian Bank began operations in 1981. The amalgamation of The Savings Bank of South Australia and The State Bank of South Australia also occurred in 1984.

Also in April 1984, the Commonwealth Government announced its decision to increase the number of foreign exchange dealers by authorising non-bank financial institutions that met certain criteria and conditions, to operate in the foreign exchange market. Up until this time, foreign exchange dealing was, for the most part, confined to banks.

Dealing licences were issued from June 1984 and, by the end of September, a total of 43 new foreign exchange dealing licences had been issued, although not all new licencees had begun trading in the market.

On 10 September, 1984 the Commonwealth Government invited applications from foreign and domestic parties for new bank licences. At the same time, the Government decided to amend the *Banks (Shareholdings) Act 1972*, lifting the individual shareholding limit in a bank from ten per cent to fifteen per cent and to allow for exemptions from this new higher limit in the national interest. Such exemptions would be approved to facilitate the entry of new banks.

The Government also decided to initiate proceedings to enable the Bank of China to open a branch in Australia. This decision has been taken having regard to the Bank of China's previous operations in Australia and the steady development of relations between the two countries since 1972.

The removal of deposit controls on trading and savings banks and the likely entry of new foreign banks with established merchant banking interests could result in the need for rationalisation of merchant banking operations. In its report, the Martin Review Group proposed that the Commonwealth Government adopt, at least for a period, a more flexible approach to foreign investment policy in the non-bank financial institutions sector. In recognition of these developments, on 10 September, 1984, the Federal Treasurer announced that the Commonwealth Government would waive for 12 months sections of its foreign investment policy relating to the merchant banking sector. This would allow the industry to rationalise and adjust to the new circumstances.

State governments have also been involved in reviewing the financial system. The Victorian Government in December 1983 instigated a review of certain non-bank financial institutions under its control and the recommendations of this review (the report was released in June 1984), will, if implemented, contribute to increased competition.

The progress made towards a less regulated, more dynamic Australian banking and financial system since the beginning of the Campbell Committee of Inquiry is impressive and to the benefit of the overall national interest.

Further references: History of banking in Victoria, *Victorian Year Book* 1961, pp. 625-9; Commonwealth banking legislation, 1966, pp. 648-50; Committee of inquiry into the Australian Financial System, 1983, p. 449 and 1984, p. 444

### 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 references: *Victorian Year Book* 1978, p. 511; Central banking, 1984, p. 444

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

Particulars	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
<b>Liabilities –</b>						
Capital and reserves	46	46	46	46	46	54
Special reserve –						
IMF Special Drawing Rights	276	373	407	393	383	326
Australian notes on issue	3,950	4,416	4,958	5,572	6,090	6,826
Statutory Reserve Deposit accounts						
of trading banks	870	1,272	1,632	1,975	2,178	2,309
Other deposits of trading banks	33	16	6	13	25	24
Deposits of savings banks	1,093	657	393	146	72	16
Other liabilities	2,815	4,296	4,865	4,040	5,793	7,045
<b>Total</b>	<b>9,083</b>	<b>11,076</b>	<b>12,310</b>	<b>12,185</b>	<b>14,587</b>	<b>16,600</b>
<b>Assets –</b>						
Gold and foreign exchange	3,236	4,553	5,496	4,673	9,342	11,896
Australian notes and coin	38	41	50	48	44	50
Cheques and bills of other banks	4	5	7	7	5	3
Commonwealth Government securities –						
Redeemable in Australia –						
Treasury bills and notes	2,300	3,378	3,759	4,054	2,145	1,554
Other	2,590	2,315	2,281	2,531	2,274	2,316
Bills receivable and remittances in transit	86	137	158	200	191	156
Loans, advances, and all other assets	829	647	559	672	586	625
<b>Total</b>	<b>9,083</b>	<b>11,076</b>	<b>12,310</b>	<b>12,185</b>	<b>14,587</b>	<b>16,600</b>

### RESERVE BANK, RURAL CREDITS DEPARTMENT, AVERAGE LIABILITIES AND ASSETS, AUSTRALIA (\$m)

Particulars	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Liabilities (excluding capital and contingencies)	549.3	381.9	224.1	292.3	233.5	233.2
Assets (loans, advances, etc.)	619.4	455.8	302.5	378.6	330.6	341.2

### Foreign exchange arrangements in Australia

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. Prior to June 1984, only banks and certain travel related businesses were authorised to deal in foreign currencies; since 25 June 1984, the Reserve Bank has authorised a number of non-bank financial institutions to deal in the market. The Bank has also issued a general authority under which all persons in Australia may undertake foreign exchange transactions through banks and authorised non-bank dealers.

### Exchange rates

The Australian dollar is now floating; its value in terms of other currencies is determined by the forces of supply and demand in the foreign exchange market.

Until late 1971, the exchange rate for the Australian dollar was linked to sterling. In December 1971, the Commonwealth Government replaced that arrangement with a fixed link of the Australian dollar to the U.S. dollar. On 25 September 1974, the direct link with the U.S. dollar was succeeded by a peg to a trade-weighted basket of currencies. Under this system the exchange rate of the Australian dollar in terms of U.S. dollars was varied from day to day against the \$US (and other currencies) so as to maintain constant the value of the Australian dollar in terms of a basket of currencies of countries with which Australia traded, weighted in accordance with the trading significance to Australia of each country.

From November 1976 to December 1983 the arrangement for setting the exchange rate was altered to consist of a *variable* link to the trade-weighted currency basket, rather than the fixed peg. Adjustments were made to the trade-weighted index (TWI) when an assessment of all relevant factors indicated a need for movement in the level of the exchange rate.

Under all the above arrangements, between late 1971 and 28 October 1983, the Reserve Bank announced, each morning, rates at which it would deal with banks in U.S. dollars. The Bank also set the outer limits within which banks were required to set their buying and selling rates for their U.S. dollar transactions with their customers. From 31 October 1983 banks were granted more flexibility in setting exchange rates with customers but the Reserve Bank continued to set the rates for dealings in U.S. dollars between banks and itself.

On 9 December 1983 the system whereby the Reserve Bank set the daily exchange rate was abolished and, with effect from 12 December 1983, the Australian dollar was floated. Under these arrangements exchange rates are determined by the market. Banks and non-bank foreign exchange dealers are free to deal with their customers in currencies at mutually agreed rates.

### TRADE WEIGHTED INDEX OF VALUE OF AUSTRALIAN DOLLAR

Date (at end of month)	Value of \$A in terms of \$US (a)	Trade weighted index (b) (May 1970 = 100)
September 1981	1.1414	93.8
December 1981	1.1279	90.5
March 1982	1.0503	88.8
June 1982	1.0223	88.2
September 1982	0.9493	83.8
December 1982	0.9806	83.4
March 1983	0.8629	76.1
June 1983	0.8745	77.7
September 1983	0.8965	80.4
December 1983	0.9020	81.1
March 1984	0.9350	82.9
June 1984	0.8613	79.2
September 1984	0.8330	80.3

(a) Prior to December 1983, this rate was the mid-point of rates at which the Reserve Bank was prepared to deal with Australian trading banks. Beginning that month, the rate became a representative mid-point determined by the Reserve Bank on the basis of market quotations.

(b) Index of average value of \$A vis-à-vis currencies of Australia's trading partners. Further details on the compilation of this index appear in the Reserve Bank *Bulletin* for July and October 1984.

### Forward exchange

The forward exchange market enables organisations or individuals with commitments to pay or receive foreign currency in the future to offset their exchange risks. In Australia the forward exchange

market consists of two segments. First, there is the market where the customer, in fulfilling his contract, takes or makes delivery of foreign currency on the due date – this is the normal form of the market abroad. Secondly, there is the hedge market in which the customer fulfils his contract by making a payment denominated in Australian dollars.

Until 24 June 1984 forward transactions of the first type could, in general, be undertaken only with banks in Australia and only for forward exchange risks arising from import and export transactions by residents of Australia. Since that date, which coincided with the authorisation of non-bank foreign exchange dealers, all forward risks may be covered in this market. No official restrictions have applied to transactions in the currency hedge market. There is also a currency futures market (established by the Sydney Futures Exchange in March 1980) which provides opportunities for covering forward exchange risks.

#### *Exchange controls*

As from 12 December 1983 virtually all of the exchange controls that were administered by the Reserve Bank on behalf of the Commonwealth Government since 1939 were abolished. The Banking (Foreign Exchange) Regulations are still in force, but exchange controls now apply only to investments in Australia by foreign governments, government agencies, foreign banks and central banks and to the taking or sending out of Australia of Australian notes or coins. 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.

Arrangements have recently been introduced to screen certain overseas transactions for taxation policy purposes.

#### *Authorisation to deal in foreign exchange*

In April 1984, the Commonwealth Government invited applications from financial institutions to apply for authorisation to deal in foreign exchange under the Banking (Foreign Exchange) Regulations. Institutions wishing to be authorised as foreign exchange dealers are required to satisfy, on a continuing basis, certain basic criteria, namely shareholders' funds of at least \$10m plus competence in foreign exchange dealing. Authorities granted to non-bank dealers to conduct foreign exchange business are similar to those granted to banks and are conditional upon observance of tax screening arrangements. At 15 November 1984, 38 non-bank dealers had been authorised 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 Bank of Australia, Commonwealth Savings Bank of Australia, and the Commonwealth Development Bank of Australia.

The name of the Commonwealth Trading Bank was changed from 29 June 1984 to the Commonwealth Bank of Australia, a name which existed in Australian banking from 1912 to 1959, when the central banking, commercial, and savings banking functions of the then Commonwealth Bank of Australia were separated into the Reserve Bank of Australia and the Commonwealth Banking Corporation.

On 1 July 1984 the Commonwealth Savings Bank (CSB) became a wholly owned subsidiary of the Commonwealth Bank of Australia.

The revised structure is organisationally more closely orientated to the broad financial market sectors served by the Bank. The restructured Banking divisions, namely Retail, Corporate, and International, together with Group Treasury, encompass both the domestic and international money markets and represent the primary operating sectors of the Commonwealth Bank of Australia.

The Commonwealth Development Bank of Australia (CDB), which was established as part of the Commonwealth Banking Corporation Group in 1959, has the role of supplementing other sources of finance in circumstances where funds would not otherwise be available on reasonable terms and conditions. The CDB is not affected by the changes to the corporate structure and continues under the Corporation Board to be independent of the competitive arms, the Commonwealth Bank of Australia and the Commonwealth Savings Bank.

*Commonwealth Bank of Australia**Retail banking*

Retail banking is the major component of the Commonwealth Bank's operations and provides a wide range of personal banking services including savings and cheque accounts, home loans, and other facilities.

At 30 June 1983 savings account deposits with the CSB totalled \$10,258m and at 30 June 1984, \$11,504m. In these years the CSB conducted 8,811,000 and 8,953,000 active accounts and its services were available through an Australia wide network of 1,025 and 1,281 branches and sub-branches as well as 5,742 and 5,461 agencies respectively. The Bank is also a leader in electronic banking in Australia. At the end of February 1983 the Bank's network of automatic telling machines (Autobank) totalled 160 and by August 1984 had increased to 252.

In the year to June 1983 the Bank approved personal loans totalling almost \$900m (and \$950m the following financial year) for a wide range of purposes including home and land purchase, home improvements, and consumer goods. The Bank introduced during the year a Personal Credit Line facility which provides for both an extended repayment period and a revolving credit arrangement.

The Commonwealth Savings Bank (CSB) is Australia's largest lender for housing. Loan approvals totalled \$1,285m in 1982-83 and \$1,681m in 1983-84. Additionally, the CSB added two new facilities to its range of loans associated with home ownership.

A new 'Home Seeker Loan' was introduced to provide applicants with a firm approval prior to locating the home they wished to acquire, and the CSB's 'Home Improvement Loan' was also established to facilitate renovations, additions, and a range of similar expenditures.

The CSB's Insurance Scheme, which provides replacement and indemnity insurance cover for houses purchased or erected with CSB assistance, grew strongly in 1983-84.

Other important developments for the Bank in 1984 were the introduction of MasterCard (which meets the full range of customers' plastic card needs - credit card purchases and cash advances both locally and overseas) and Electronic Funds Transfer at Point of Sale (EFTPOS) which enables customers to debit their accounts electronically at various retail outlets.

**COMMONWEALTH BANK OF AUSTRALIA,  
DEPOSITS, ADVANCES, AND NUMBER OF ACCOUNTS, AUSTRALIA**

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
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
1983	4,773	2,344	7,117	5,057	1,878
1984	5,704	2,475	8,179	5,760	1,842

Coupled with the general services of the Commonwealth Bank of Australia is the Bank's general finance company, CBFC Limited. The major activity of CBFC was commercial leasing which represented just over 54 per cent of business, while the other major component, mortgage and commercial loans accounted for 37 per cent.

The Commonwealth Banks Travel Service, Travelstrength Limited, continues to provide a comprehensive travel-booking facility with offices in all major cities and regional centres and is accessible readily through all branches of the Commonwealth Bank.

Through the CSB, the Commonwealth continued to provide substantial support to local and semi-government bodies for essential services such as roads, electricity, water, and sewerage. In 1983-84 direct loans of this nature reached \$209m, while loans to commercial enterprises and for community projects totalled \$168m.

Major changes in the Australian Financial System, notably the floating of the Australian dollar in December 1983, created a totally new environment for Foreign Exchange Dealers in Australia. The Bank's objective in these operations is to provide competitively priced foreign currency loan facilities to customers. The significant fluctuations that occurred in interest rates throughout 1983-84 presented

both major opportunities and challenges to the money market operations, in particular the period covering the floating of the Australian dollar.

The Commonwealth Bank significantly extended its broking activities through 1983-84, and was actively involved also in the underwriting and management of new issues of cumulative redeemable preference shares. The participation in the futures industry took a further step when approval was received to purchase full floor-membership of the Sydney Futures Exchange Limited. In so doing, the Commonwealth Bank became the first Australian trading bank to attain such membership.

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

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
1979	8,281	7,103	3,534	3,328
1980	8,336	7,531	3,937	3,431
1981	8,410	8,100	4,270	3,962
1982	8,572	8,658	4,830	3,919
1983	8,811	10,261	6,354	4,050
1984	8,953	11,504	6,669	5,084

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

*Corporate and international banking*

The deregulation of the financial system coupled with technological innovation has increased opportunities for corporate activities in Australia.

The Commonwealth Bank approved in excess of \$3,000m in commercial bill facilities during 1983-84, an increase of more than 50 per cent on the previous year.

*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, livestock, refinancing of non-bank debt which is on unsuitable terms and conditions, and bedding down hard core debts which have developed in the books of trading banks and other lenders in circumstances to allow those lenders to provide carry-on finance. 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. Loans for business undertakings are provided for most purposes. These include purchase of land, purchase or construction of buildings, working capital, plant and machinery, refinancing of non-bank debt which is on unsuitable terms and conditions and purchase of an existing business where developmental aspects are evident.

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 1983 numbered 2,550 for a total amount of \$129m (compared with 3,918 approvals valued at \$270m for the year ended 30 June 1984). Equipment finance approvals numbered 3,631 valued at \$55m in 1983, compared with 5,530 approvals totalling \$87m in 1984.

**COMMONWEALTH DEVELOPMENT BANK, OUTSTANDING LOAN BALANCES AT  
30 JUNE, AUSTRALIA  
(\$m)**

Type of industry	Primary production loans			Type of industry	Business loans		
	1982	1983	1984		1982	1983	1984
Beef cattle	53.4	56.2	61.5	Manufacturing	40.9	46.5	53.3
Sheep	90.7	97.4	116.2	Transport, storage and communication	3.4	4.5	6.2
Dairying	45.1	56.3	75.9	Commercial (a)	14.0	21.0	35.7
Other livestock	19.9	22.3	28.9	Building and construction	3.0	4.6	6.3
Wheat	81.9	98.4	123.2	Tourism	13.3	14.5	19.8
Other grain crops	23.2	24.7	29.9	Other business and services	14.5	23.1	38.5
Fishing	23.7	21.0	19.0				
Fruit	14.6	15.3	14.0				
Other primary production industries	41.0	47.4	67.0				
<b>Total (b)</b>	<b>393.5</b>	<b>439.1</b>	<b>535.7</b>	<b>Total</b>	<b>89.1</b>	<b>114.1</b>	<b>159.7</b>

(a) Listed in previous years as Retail and Wholesale.

(b) Fishing and sawmilling have now been classified as primary industries.

**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, 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 Chief Executive Officer (General Manager), his assistant (Chief Deputy General Manager), and three other deputy general managers.

The State Bank is the largest bank in Victoria, having assets of \$7,094m at 30 June 1983, and \$7,519m at 30 June 1984. The total deposits of its 4,576,076 operative accounts amounted to \$4,508m at 30 June 1983. This compares with 4,602,515 accounts amounting to \$5,942m at 30 June 1984, which represented approximately 46 per cent of all savings bank balances, or 26.9 per cent of all bank balances in Victoria.

The Bank in 1984 had 547 branches and sub-branches. It has continued to have an intensive programme of renovation or renewal of branches together with considerable emphasis on the upgrading of security.

In 1962, the State Bank of Victoria became the first bank in Australia to install a computer. By September 1984, 433 branches were directly linked to the computer by telegraph line.

All Head Office accounting functions are now connected to this computer system. Other computer installations during 1984 provided the Bank with the ability to offer Electronic Funds Transfer at Point of Sale (EFTPOS) facilities and to increase the number of automatic teller machine (ATM) installations.

The Bank provides a full range of domestic and international 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, term deposits, and accounts denominated in foreign currencies. The Bank also provides a full range of cheque accounts, some of which are interest bearing.

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. Other investments include shareholdings in the merchant bank Tricontinental Holdings Limited (25.8 per cent), Tricontinental Finance (Hong Kong) Limited (39 per cent), and in the finance company Associated Midland Limited (50 per cent).

During 1983 and 1984 there have been several changes to the State Bank Act which have had the effect of varying or clarifying its powers. The Bank now may conduct its business both within or outside the State of Victoria including through new branches overseas, and may operate in the various domestic and international capital markets. The State Bank Act was amended to include in the provisions covering the guarantee of depositors' funds by the Government of Victoria, advances or other financial accommodation obtained from outside Victoria by the Bank or its nominated subsidiaries.

The earlier requirement that the Bank pay one half of its annual Savings Bank Department profits into Consolidated Revenue was varied in 1983. From the 1983-84 financial year inclusive, the Bank is required to calculate its profit as though it is liable to Commonwealth income tax and to pay 46 per cent of the profit thus calculated to the Consolidated Fund of the State. A further amount, payable as a dividend to the State Government from 1983-84 inclusive, is determined by the State Treasurer after consultation with the Commissioners. The dividend is based in part on the Bank's profit performance in the previous financial year but also having regard to matters such as capital adequacy, level of reserves, and Government equity in the Bank. The Treasurer of Victoria has announced that certain concessional loans by the Government of Victoria to the Bank totalling \$45m will be converted to equity thus improving the Bank's capital ratios.

In February 1984 the Bank joined with the State Banks of New South Wales, South Australia, and Western Australia to form the State Banks Association and so formalise the relationship between these banks.

### *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 1983, outstanding long-term housing loans totalled \$2,514m, compared with \$2,834m in 1984.

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 1984, \$41.5m was owed to the Bank by co-operative societies. The Bank also provides funds to the Home Finance Trust which, at 30 June 1984, owed the bank \$2.3m.

Agricultural 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 (PIBA) and supplements its traditional lending to the agricultural sector with loans re-financed through PIBA. Farm loan approvals were \$13m in 1983-84 and long-term farm loans outstanding at 30 June 1984 totalled \$58.6m, compared with \$51.3m for 1983.

#### *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 1984, 98,981 personal loan borrowers owed a total debt of \$425m. This compares with a debt of \$363m for 1983.

#### *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 1983 was \$921m, and at 30 June 1984 was \$1,061m.

#### *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.

*Corporate banking*

Since 1982, the Bank has been able to meet the demand for specialised financial services from large companies and statutory authorities through its Corporate Finance Department. During 1983-84, the Bank widened its scope by providing multi-currency funding and has been involved in a number of major syndications with other State-based banks.

*International services*

The Bank offers a range of international trade and finance services for businesses with import and export dealings. These services include letters of credit, documentary collections, negotiations of shipping documents, foreign exchange spot and forward sales and purchases, hedge market cover, funds transfer (drafts, telegraphic transfers), credit information, and trade introductions and advice.

*Other facilities**School banking*

The State Bank of Victoria's school bank system was introduced in 1912. At 30 June 1984 banking was provided at 2,096 schools for 554,005 depositors whose balances totalled \$16.0m. A new coupon-book system was launched successfully in more than 500 Victorian schools in 1981-82.

*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.

*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 at 30 September 1984, a total of 78 machines were in operation throughout the State.

*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. Term deposits for larger amounts may be accepted for one day or longer.

The general reserves of the State Bank of Victoria at 30 June of each of the six years to 1984 were: 1979, \$110.8m; 1980, \$127.2m; 1981, \$151.2m; 1982, \$183.7m; 1983, \$216m; and 1984, \$307.1m.

## STATE BANK OF VICTORIA, DEPOSITORS' ACCOUNTS AND TRANSACTIONS

Year	Depositors' accounts		Transactions		Interest paid
	Number	Amount	Deposits	Withdrawals	
	'000	\$'000	\$'000	\$'000	\$'000
1978-79	3,804	3,467.6	14,098.6	14,031.6	177.7
1979-80	3,897	3,872.4	16,755.8	16,581.6	194.8
1879-81	4,027	4,259.8	22,167.4	22,093.5	241.1
1981-82	4,289	4,780.8	29,178.7	29,117.1	337.1
1982-83	4,576	5,383.7	45,150.7	44,941.7	420.1
1983-84	4,603	5,941.9	62,868.6	62,579.8	431.4

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.	
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
1982-83	500.3	8.1	3.0	2,532.2
1983-84	636.4	12.9	2.2	2,806.0

(a) Excludes overdrafts, personal 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.

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

### Trading banks

#### *Merger of trading banks and other developments*

In August 1980, the Committee of Inquiry into the Australian Financial System submitted its Interim Report which was followed in November 1981 by the publication of the Final Report. In February 1984 a report was published by the Martin Review Group which was commissioned in May 1983 by the Commonwealth Government. Both reports favoured substantial deregulation of the financial system in Australia.

During 1981, two mergers of existing trading banks were announced. The Bank of New South Wales merged with the Commercial Bank of Australia Ltd to form a new organisation, Westpac Banking Corporation, and the National Bank of Australia Ltd merged with the Commercial Banking Company of Sydney Ltd to form the National Australia Bank. 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.

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

Type of loan	1982		1983		1984	
	\$m	Per cent of total	\$m	Per cent of total	\$m	Per cent of total
Personal instalment of loans	3,704	16.7	4,245	17.7	4,645	17.6
Leasing (a)	947	4.3	948	4.0	938	3.5
Other overdraft	12,341	55.8	12,763	53.4	14,291	54.0
Temporary advances to wool buyers	256	1.2	129	0.5	—	—
Term loans	2,353	10.6	2,748	11.5	3,177	12.0
Farm development loans	951	4.3	1,071	4.5	1,004	3.9
Bills discounted	231	1.0	370	1.5	460	1.7
Bankcard outstanding	1,338	6.1	1,646	6.8	1,929	7.3
Total	22,120	100.0	23,919	100.0	26,444	100.0

(a) Residual value leasing only.

# MAJOR TRADING BANKS, ADVANCES TO CATEGORIES OF BORROWERS, VICTORIA (\$m)

Classification	At second Wednesday of July—					
	1979	1980	1981	1982	1983	1984
<b>Resident Borrowers –</b>						
Business advances –						
Agriculture, grazing, and dairying	333	357	430	476	659	615
Manufacturing	697	911	804	974	1,031	927
Transport, storage, and communication	59	70	99	89	119	121
Finance	253	270	270	310	344	458
Commerce	471	521	574	718	713	706
Building and construction	128	125	148	131	148	171
Mining	101	106	70	86	101	90
Other business	362	423	525	477	576	618
Unclassified	106	96	102	198	163	226
Total business advances	2,510	2,879	3,022	3,459	3,854	3,931
Advances to public authorities	53	53	92	98	75	116
Personal advances	1,401	1,521	1,817	1,881	2,054	2,537
Advances to non-profit organisations	40	43	47	60	68	78
Total advances to resident borrowers	4,004	4,496	4,979	5,498	6,051	6,663
Non-resident borrowers	5	12	14	3	13	19
Grand total	4,009	4,508	4,993	5,501	6,065	6,682

# MAJOR TRADING BANKS, AVERAGES (a) DEPOSITS AND ADVANCES, VICTORIA, MONTH OF JUNE 1983 AND 1984 (\$m)

Bank	1983				1984			
	Deposits repayable in Australia			Loans (b) advanced and bills discounted	Deposits repayable in Australia			Loans (b), advances and bills discounted
	Not bearing interest	Bearing interest	Total		Not bearing interest	Bearing interest	Total	
Commonwealth Bank of Australia	400	866	1,266	1,022	410	1,105	1,515	1,195
Private trading banks –								
Australian and New Zealand								
Banking Group Ltd	749	1,501	2,250	1,427	816	1,659	2,475	1,368
Westpac Banking Corporation (c)	710	1,579	2,289	1,556	689	1,790	2,479	1,593
National Australia Bank (d)	693	1,871	2,564	1,812	743	1,788	2,531	2,064
Total	2,552	5,817	8,369	5,817	2,658	6,342	9,000	6,220

(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.

(c) From October 1982, the Bank of New South Wales merged with the Commercial Bank of Australia Ltd to form the Westpac Banking Corporation.

(d) From January 1983, the Commercial Banking Company of Sydney Ltd and the National Bank of Australia Ltd merged to form the National Australia Bank.

# MAJOR TRADING BANKS, AVERAGES OF DEPOSITS (a) AND ADVANCES, VICTORIA (\$m)

June	Deposits repayable in Australia			Loans (b) advances and bills discounted
	Not bearing interest	Bearing interest	Total	
1979	2,062	2,813	4,874	3,987
1980	2,285	3,444	5,729	4,416
1981	2,637	3,921	6,558	4,964
1982	2,469	5,184	7,652	5,251
1983	2,552	5,817	8,369	5,817
1984	2,658	6,342	9,000	6,220

(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.

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

June	Average weekly debits	June	Average weekly debits
1979	7,050	1982	13,027
1980	7,855	1983	13,679
1981	8,871	1984	19,075

**TRADING BANKS' NUMBER OF BRANCHES AND AGENCIES, VICTORIA**

Bank	At 30 June 1982		At 30 June 1983		At 30 June 1984	
	Branches	Agencies	Branches	Agencies	Branches	Agencies
<b>Major trading banks –</b>						
Commonwealth Bank of Australia	191	72	194	71	194	68
Australia and New Zealand						
Banking Group Ltd	295	58	298	63	301	67
Westpac Banking Corporation	394	34	388	34	352	23
National Australia Bank	394	63	393	92	394	83
<b>Total major trading banks</b>	<b>1,274</b>	<b>227</b>	<b>1,273</b>	<b>260</b>	<b>1,241</b>	<b>241</b>
<b>Other trading banks –</b>						
Bank of New Zealand	2	—	2	—	2	—
Banque Nationale de Paris	1	—	1	—	1	—
Australian Bank Ltd	1	—	1	—	1	—
<b>Total other trading banks</b>	<b>4</b>	<b>—</b>	<b>4</b>	<b>—</b>	<b>4</b>	<b>—</b>
<b>Total all trading banks</b>	<b>1,278</b>	<b>227</b>	<b>1,277</b>	<b>260</b>	<b>1,245</b>	<b>241</b>
<b>Melbourne metropolitan area</b>	<b>799</b>	<b>120</b>	<b>804</b>	<b>142</b>	<b>784</b>	<b>126</b>
<b>Remainder of Victoria</b>	<b>479</b>	<b>107</b>	<b>473</b>	<b>118</b>	<b>461</b>	<b>115</b>

**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.

**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
	\$m	per cent
1979	2,260.1	31.4
1980	2,389.1	30.5
1981	2,630.9	30.5
1982	2,814.8	29.7
1983	3,632.9	32.1
1984	4,383.7	33.9

At 30 June 1983, private savings banks had 1,081 branches and 481 agencies and at 30 June 1984, 1,049 branches and 483 agencies throughout Victoria.

The following table shows the amount of depositors' balances in each savings bank in Victoria at 30 June 1980 to 1984.

**SAVINGS BANKS, DEPOSITS, VICTORIA**  
(\$m)

Savings Bank	Depositors' balances at 30 June —				
	1980	1981	1982	1983	1984
State Bank (a)	3,872.4	4,259.9	4,780.8	5,383.7	5,941.9
Commonwealth Savings Bank of Australia	1,577.3	1,731.3	1,879.3	2,290.9	2,590.7
Private savings banks—					
Australia and New Zealand Savings Bank Ltd	774.6	827.3	874.8	1,098.3	1,354.4
Westpac Savings Bank	852.9	933.6	994.2	1,281.5	1,518.6
National Australia Savings Bank	760.4	868.6	944.1	1,251.4	1,508.9
Bank of New Zealand Savings Bank Ltd	1.2	1.3	1.6	1.7	1.8
<b>Total deposits</b>	<b>7,838.7</b>	<b>8,621.9</b>	<b>9,474.9</b>	<b>11,307.5</b>	<b>12,916.3</b>
	\$	\$	\$	\$	\$
<b>Deposits per head of population</b>	<b>2,029</b>	<b>2,206</b>	<b>2,400</b>	<b>2,824</b>	<b>3,186</b>

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

Further reference: *Trading and savings banks, 1934 to 1982, 1984*, pp. 447-51

### 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:

## TOTAL ASSETS OF FINANCIAL INSTITUTIONS, AUSTRALIA

Financial institutions	At 30 June—					
	1978	1979	1980	1981	1982	1983(p)
AMOUNT OF TOTAL ASSETS (\$m)						
Trading banks	25,008	29,494	34,578	41,172	49,267	55,381
Savings banks	19,026	21,040	22,684	24,886	27,267	32,820
Other banking institutions	1,197	1,354	1,648	1,783	2,082	2,394
Other banks (consolidated)(a)	44,002	50,366	57,350	66,132	76,304	87,791
Reserve Bank	8,679	10,247	12,007	11,880	12,747	15,523
Life offices and pension funds	20,956	23,423	26,280	30,296	34,538	39,195
Non-life insurance offices	6,195	8,349	8,865	9,681	11,602	13,500
Finance companies	14,468	15,854	17,780	21,821	25,460	26,009
General financiers	1,384	1,643	1,959	2,358	2,920	2,839
Money market corporations	3,897	4,932	6,460	8,669	11,966	13,741
Permanent building societies	7,496	9,023	10,860	12,328	13,655	15,230
Terminating building societies	1,242	1,374	1,463	1,517	1,560	1,605
Authorised money market dealers	1,499	1,579	1,698	1,810	1,405	2,005
Credit co-operatives	1,342	1,760	2,192	2,559	2,957	3,775
Pastoral finance companies	811	949	1,255	1,305	1,633	1,924
Cash management trusts	—	—	—	180	1,685	2,214
Other financial institutions	2,177	2,622	3,555	4,348	5,868	6,773
Total (b)	114,148	132,121	151,724	174,884	204,300	232,124
PROPORTION OF TOTAL ASSETS (per cent)						
Trading banks	21.9	22.3	22.8	23.5	24.1	23.9
Savings banks	16.7	15.9	15.0	14.2	13.3	14.1
Other banking institutions	1.0	1.0	1.1	1.0	1.0	1.0
Other banks (consolidated)(a)	38.5	38.1	37.8	37.8	37.3	37.8
Reserve Bank	7.6	7.8	7.9	6.8	6.2	6.7
Life offices and pension funds	18.4	17.7	17.3	17.3	16.9	16.9
Non-life insurance offices	5.4	6.3	5.8	5.5	5.7	5.8
Finance companies	12.7	12.0	11.7	12.5	12.5	11.2
General financiers	1.2	1.2	1.3	1.3	1.4	1.2
Money market corporations	3.4	3.7	4.3	5.0	5.9	5.9
Permanent building societies	6.6	6.8	7.2	7.0	6.7	6.6
Terminating building societies	1.1	1.0	1.0	0.9	0.8	0.7
Authorised money market dealers	1.3	1.2	1.1	1.0	0.7	0.9
Credit co-operatives	1.2	1.3	1.4	1.5	1.4	1.6
Pastoral finance companies	0.7	0.7	0.8	0.7	0.8	0.8
Cash management trusts	—	—	—	0.1	0.8	1.0
Other financial institutions	1.9	2.0	2.3	2.5	2.9	2.9
Total (b)	100.0	100.0	100.0	100.0	100.0	100.0

(a) Banks, other than the Reserve Bank, with identifiable inter-bank balances netted out.

(b) Excludes Trading, Savings, and other banking institutions but includes other banks (consolidated). Although, ideally, all intra-group transactions should be netted out, this is only possible for the banking sector.

## 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-orientated. 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, in August 1984, the remaining controls on deposits applying to savings and trading banks were removed. On the lending side, in June 1982 the guideline on the rate of growth of trading bank advances was removed and in August 1982, in order to enhance the competitive position of savings banks, amendments were made to the related regulations. 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 was 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 was 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 compounding annual rate of growth of 11.7 per cent in the ten years to 1970 with rather faster growth in most years 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-term 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 on 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.

### **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 restricted 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. The progressive moves towards deregulation of the whole financial sector which have followed the Reports of the Committee of Inquiry into the Australian Financial System and of the subsequent Review Group have brought further changes to portfolio structures and market shares. It is anticipated that these changes will continue throughout the 1980s.

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. 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 businesses, 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.

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

Year	Instalment credit for retail sales	Personal loans (b)	Wholesale finance	Finance for housing (c)	Other commercial loans (d)	Total
AMOUNTS FINANCED (e)						
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	243.3	1,671.6	185.7	601.0	3,028.2
1981-82	r378.4	r266.5	r1,905.5	227.5	r768.2	3,546.0
1982-83	378.0	213.3	1,835.4	205.4	756.6	3,388.7
1983-84	472.9	238.0	2,294.5	236.6	1,175.8	4,417.8
BALANCES OUTSTANDING						
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	r1,113.8	r3,341.6
1982-83	781.7	461.4	373.9	500.7	1,227.1	3,344.7
1983-84	926.0	432.8	444.4	486.3	1,438.9	3,728.5
COLLECTIONS AND OTHER LIQUIDATIONS OF BALANCES (f)						
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	485.8	r332.5	r1,984.7	r270.7	r766.3	r3,840.0
1982-83	523.9	353.8	2,003.5	352.5	856.6	4,090.3
1983-84	585.2	378.8	2,349.4	378.7	1,200.1	4,892.3

(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 pages 480-1), 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* (5631.0), issued by the Central Office of the Australian Bureau of Statistics.

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

Year	Motor vehicles etc. amounts financed by finance companies	Household and personal goods			Total
		Finance companies	Other business	All business	
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
1982-83	307.9	70.1	91.8	161.9	469.8
1983-84	396.0	77.0	74.5	151.5	547.5

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

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

Year	Motor vehicles, etc.				Household and personal goods	Total
	New	Used	Other (b)	Total		
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
1982-83	99.7	114.4	39.1	253.2	41.5	294.7
1983-84	144.5	160.0	48.1	352.6	47.5	400.2

(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 security acknowledgement 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.

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

Clients	1979	1980	1981	1982	1983	1984
All trading banks	354	333	453	301	610	465
Savings banks	133	204	132	124	470	403
Insurance offices	75	76	57	71	65	90
Superannuation, pension, and provident funds	72	33	31	28	68	62
Hire purchase and other instalment credit companies	27	7	14	11	10	7
Companies, n.e.i.	315	322	285	235	322	309
Commonwealth and State Government	212	131	136	187	129	137
Local and semi-government authorities, n.e.c.	208	168	157	117	135	197
All other lenders (including marketing boards and trustee companies)	108	103	102	109	86	136
<b>Total</b>	<b>1,504</b>	<b>1,376</b>	<b>1,367</b>	<b>1,184</b>	<b>1,895</b>	<b>1,806</b>

(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, and the timing of taxation receipts by the Commonwealth, have 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.

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

Period	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 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
September 1982	3.00	22.33	7.00	17.50	13.12
December 1982	0.50	23.30	1.50	14.80	10.87
March 1983	0.50	30.00	1.00	18.60	9.92
June 1983	1.00	25.00	2.00	15.00	9.76
September 1983	2.00	16.20	3.50	12.50	9.68
December 1983	0.00	12.30	0.50	11.80	4.55
March 1984	5.00	17.56	5.00	13.75	11.17
June 1984	1.00	17.46	4.00	13.75	11.42

(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.

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

Period	Commonwealth Government securities (b)			Commercial bills (c)	Banks' Certificates of Deposit (b)
	Treasury notes	Other	Total		
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 (d)	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
September 1982	606.5	456.5	1,063.0	337.8	66.0
December 1982	923.5	435.9	1,359.4	268.5	37.7
March 1983 (d)	775.9	476.1	1,252.0	288.4	137.5
June 1983	637.7	462.0	1,099.7	361.0	176.7
September 1983	757.1	462.5	1,219.6	312.3	171.7
December 1983 (d)	508.2	517.4	1,025.6	405.8	129.7
March 1984	647.3	713.9	1,361.2	360.4	203.7
June 1984	377.2	803.9	1,181.1	449.5	231.3

(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 since the early seventies, the first cash management trust in Australia was launched by the Hill Samuel merchant bank in December 1980. The sixteen trusts in the industry had funds invested of \$2,219m in June 1983 but dropped to \$1,476m in June 1984. Several of these trusts have their head office in Melbourne, and all are represented there.

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.

### 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*.

## PERMANENT BUILDING SOCIETIES, VICTORIA

Particulars	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Number of societies	53	52	51	44	38	31
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
INCOME AND EXPENDITURE						
Income –						
Interest from loans	128,299	151,345	187,052	214,381	281,870	332,857
Interest from deposits	16,086	15,524	14,929	18,063	34,386	45,173
Income from holdings of securities	6,839	14,821	20,970	27,359	47,866	109,362
Other income	4,851	5,569	6,871	7,072	8,440	12,200
Total	156,075	187,259	229,822	266,875	372,562	499,592
Expenditure –						
Interest on shares	28,596	38,037	45,426	49,037	78,098	99,791
Interest on deposits	86,312	101,226	123,984	149,925	200,436	275,465
Income on loans	1,673	1,590	2,225	2,646	2,954	5,167
Other expenditure	29,758	38,155	47,366	56,899	77,938	99,948
Total	146,339	179,008	219,001	258,507	359,426	480,371
LIABILITIES AND ASSETS (a)						
Liabilities –						
Share capital and reserves –						
Non-withdrawable shares	18,886	22,774	26,318	26,384	31,170	32,177
Withdrawable shares	337,725	444,118	514,918	514,440	786,295	756,095
Statutory reserves	7,736	8,183	9,672	10,478	13,137	13,971
Other reserves (b)	11,746	14,312	16,783	17,757	21,513	29,985
Deposits	973,733	1,222,901	1,497,151	1,744,243	2,023,440	2,361,915
Loans	22,759	21,588	28,374	35,259	21,532	72,733
Other liabilities	9,315	10,440	12,249	15,054	18,147	26,403
Total	1,381,900	1,744,316	2,105,465	2,363,615	2,915,234	3,293,279
Assets –						
Amount owing on loans	1,113,424	1,371,054	1,644,039	1,874,674	2,035,285	2,156,035
Cash on hand	813	2,236	3,954	4,546	7,029	7,433
Deposits with banks	118,790	90,960	88,901	80,957	89,576	96,466
Deposits with other institutions	27,206	49,602	65,943	61,692	163,758	148,666
Bills, bonds, and other securities	90,350	190,538	245,543	268,167	526,218	771,253
Accounts receivable	3,740	3,937	5,279	9,050	15,208	24,761
Physical and other assets	27,577	35,989	51,806	64,529	78,160	88,665
Total	1,381,900	1,744,316	2,105,465	2,363,615	2,915,234	3,293,279

(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* 1981. 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 objects. At 30 June 1982, 654 guarantees were in force, the amount involved being \$18,041,000.

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.

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 pages 286-7. 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.

**REGISTERED CO-OPERATIVE SOCIETIES, VICTORIA**  
(number)

Type	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Producer	67	70	68	68	68	67
Trading	99	106	108	106	107	104
Community settlement	26	29	28	28	29	24
Community advancement	928	1,002	1,028	1,030	1,027	1,035
Credit societies (a)	213	213	210	207	207	204
Associations	4	4	4	5	6	6
<b>Total</b>	<b>1,337</b>	<b>1,424</b>	<b>1,446</b>	<b>1,444</b>	<b>1,444</b>	<b>1,440</b>

(a) Credit Union co-operatives, see following table.

One of the outcomes of the Review of Commonwealth Government Functions in 1980-81 was the discontinuance 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-operative societies registered under the *Co-operation Act* 1981.

**CO-OPERATIVE CREDIT SOCIETIES, VICTORIA**

Particulars	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Number of societies	205	199	192	186	178	172
Number of members	241,026	280,228	326,393	366,756	395,409	413,242
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>INCOME AND EXPENDITURE</b>						
Income -						
Interest from loans	29,019	40,142	56,843	75,992	90,586	104,279
Interest from deposits	1,758	3,759	5,383	6,694	10,762	16,914
Other income	1,485	1,676	2,640	3,981	7,048	10,972
<b>Total</b>	<b>32,262</b>	<b>45,577</b>	<b>64,866</b>	<b>86,667</b>	<b>108,396</b>	<b>132,165</b>
Expenditure -						
Interest on deposits	17,392	26,592	39,056	53,573	70,184	87,423
Interest on loans	686	617	1,052	1,213	846	717
Wages and salaries	6,121	7,664	9,551	12,185	14,539	16,852
Other expenditure	6,485	9,387	12,576	16,840	21,902	23,257
<b>Total</b>	<b>30,684</b>	<b>44,260</b>	<b>62,235</b>	<b>83,811</b>	<b>107,471</b>	<b>128,249</b>
<b>LIABILITIES AND ASSETS (a)</b>						
Liabilities -						
Paid up share capital	2,192	2,566	3,002	3,393	3,636	3,831
Statutory reserves	387	638	933	1,237	1,587	2,174
Other reserves (b)	1,240	2,690	4,797	7,033	8,312	11,598
Deposits	265,306	395,133	537,080	642,584	738,961	867,662
Loans	8,475	8,915	16,152	14,644	11,790	13,026
Other liabilities	1,683	2,143	3,001	4,106	5,414	7,733
<b>Total</b>	<b>279,282</b>	<b>412,085</b>	<b>564,967</b>	<b>672,998</b>	<b>769,700</b>	<b>906,023</b>
Assets -						
Amount owing on loans (c)	233,191	336,639	462,437	555,250	583,440	622,949
Cash on hand	687	1,266	1,639	1,783	3,039	3,474
Deposits	30,250	54,365	67,180	65,803	98,029	176,075
Bills, bonds, and other securities	7,093	6,700	12,738	21,023	45,154	54,992
Physical and other assets	8,062	13,115	20,973	29,140	40,038	48,533
<b>Total</b>	<b>279,282</b>	<b>412,085</b>	<b>564,967</b>	<b>672,998</b>	<b>769,700</b>	<b>906,023</b>

(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.

## 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 75 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. These offices are required to be at least 75 per cent mutual with respect to surplus funds that may accrue.

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, offer Australia wide facilities. There are 45 registered life offices in Australia (including re-insurers) and, in addition there are State government life offices in New South Wales, Queensland, and South Australia.

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-one private enterprise life insurance companies joined together to form the Federation. This association was an amalgamation of the Life Offices' Association of Australia and the Association of Independent Life Offices.

### *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 4.5 million persons for sums insured of more than \$171,000m.

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.

### *Types of life insurance*

The life insurance industry provides five basic categories of policies: whole of life, endowment, term insurance, approved deposit funds, and annuities.

### *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 (brokers) 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 although recent Commonwealth legislative amendments may see this trend reversed.



*Statistics*

The Life Insurance Commissioner's quarterly, half yearly, and annual reports provide a wide range of accurate industry 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 ACT. 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. The Life Insurance Commissioner, maintains a surveillance over the industry and its investment patterns (see Regulation of the industry, page 489).

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

Class of assets	At end of December -					
	1978	1979	1980	1981	1982	1983
<b>Fixed assets -</b>						
Property	2,831.9	3,124.8	3,527.7	r3,961.9	4,272.1	4,788.6
Furniture	30.5	39.2	42.0	42.7	39.2	74.2
<b>Total fixed assets</b>	<b>2,862.4</b>	<b>3,164.0</b>	<b>3,569.7</b>	<b>4,004.5</b>	<b>4,311.3</b>	<b>4,862.8</b>
<b>Loans (excluding advances of premiums) -</b>						
On mortgage -						
Rural	76.8	72.1	67.8	r88.0	84.7	88.0
Housing	501.8	486.2	497.3	r534.7	590.3	547.3
Other	679.3	673.6	692.1	r717.2	708.0	607.5
On policies	297.0	301.5	r319.6	r343.6	360.3	329.3
To controlled companies	68.2	78.3	100.4	127.0	220.8	499.7
To building or housing societies	7.1	6.8	8.5	r13.9	18.4	5.8
Other	41.6	49.3	83.3	r77.9	102.5	111.3
<b>Total loans</b>	<b>1,671.8</b>	<b>1,667.8</b>	<b>r1,769.0</b>	<b>r1,902.4</b>	<b>2,085.0</b>	<b>2,188.9</b>
<b>Investments -</b>						
Government securities	2,706.9	2,887.3	3,096.8	r3,423.0	4,015.4	4,736.0
Local and semi-governmental securities	1,121.1	1,199.3	r1,344.6	r1,484.2	1,624.7	1,702.9
Debentures	800.9	827.3	794.2	749.6	702.8	606.8
Secured and unsecured notes	165.9	169.8	224.2	239.0	259.6	237.9
Preference shares	69.0	70.1	68.4	70.6	81.2	134.0
Ordinary shares	2,075.0	2,496.8	3,221.4	r3,409.0	3,828.1	5,059.4
Holdings in controlled companies	127.4	125.2	167.1	226.2	393.5	533.8
Other	86.1	94.2	178.2	237.0	385.0	370.6
<b>Total investments</b>	<b>7,152.3</b>	<b>7,869.9</b>	<b>r9,094.9</b>	<b>9,838.4</b>	<b>11,290.3</b>	<b>13,381.4</b>
<b>Cash -</b>						
On deposit -						
Banks	0.4	0.2	5.6	2.3	11.2	10.0
Official short-term money market	78.2	(b)169.3	42.3	137.1	49.7	49.3
Other	87.5	n.a.	67.2	207.0	134.8	263.5
On current account and in hand	12.2	51.6	92.0	r187.6	160.8	37.0
<b>Total cash</b>	<b>178.3</b>	<b>221.1</b>	<b>r207.1</b>	<b>r533.9</b>	<b>356.5</b>	<b>359.8</b>
<b>Total selected assets</b>	<b>11,864.8</b>	<b>12,922.8</b>	<b>r14,640.7</b>	<b>r16,279.6</b>	<b>18,043.1</b>	<b>20,792.9</b>

(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.

(b) Includes other cash on deposit.

*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*

Superannuation lump sum payments are subject to a complex tax regime which is dealt with in the sections on recent amendments to the *Income Tax Assessment Act* 1936 and the introduction of the 'Assets Test' under the Social Security legislation.

*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.

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

**TYPES OF GENERAL INSURANCE POLICIES, VICTORIA**

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

## 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 1982-83. Statistics for 1978-79 are not strictly comparable with previous years. 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 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.

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

Class of business	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Fire (including sprinkler leakage)	78,073	71,469	67,607	78,032	86,770	96,192
Loss of profits	14,023	9,321	9,150	8,809	11,158	8,706
Crop (including hailstone)	2,288	3,935	5,074	3,939	3,496	1,091
Houseowners and householders	71,513	76,331	87,274	104,871	127,926	153,069
Contractors risks	4,692	5,125	4,924	5,911	6,900	7,220
Marine hull -						
Private pleasure craft	4,345	4,320	3,596	4,722	6,210	7,854
Other	1,689	2,391	2,682	4,646	4,960	4,775
Marine cargo	22,682	22,113	25,477	28,718	30,800	31,738
Motor vehicle (including motor cycles)	215,725	227,088	219,683	231,170	257,482	298,663
Compulsory third party (motor vehicles)	186,950	189,474	194,955	223,684	269,159	299,861
Employers liability	324,867	250,216	247,212	275,295	371,247	546,519
Public liability	19,828	19,492	20,560	24,345	32,017	39,543
Product liability	1,078	1,578	1,763	2,150	1,922	3,543
Professional indemnity	3,530	3,319	5,370	6,911	7,730	11,461
Burglary	8,722	8,947	8,779	8,832	10,082	12,149
Travel (including baggage)	7,826	9,803	11,007	9,237	10,623	12,548
Boiler, engineering, machinery breakdown	4,538	5,244	5,633	6,520	8,691	9,337
Plate glass	2,700	2,927	3,101	3,091	3,283	4,277
Guarantee	1,437	1,837	1,533	1,794	2,112	2,935
Livestock	948	971	1,269	1,293	2,726	3,710
Personal accident	19,753	19,212	20,269	21,820	24,923	26,322
Other (b) (c)	29,774	30,612	38,157	47,035	46,636	49,651
<b>Total</b>	<b>1,026,981</b>	<b>965,725</b>	<b>985,075</b>	<b>1,102,825</b>	<b>1,326,853</b>	<b>1,631,164</b>

(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'.

(c) Also includes Aviation cargo, loan, mortgage and lease.

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

Class of business	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Fire (including sprinkler leakage)	26,490	43,195	54,099	73,992	64,618	91,284
Loss of profits	2,520	3,931	6,189	3,971	11,855	7,222
Crop (including hailstone)	2,070	2,673	1,712	1,241	5,039	345
Houseowners and householders	41,122	54,760	64,377	85,406	83,135	143,541
Contractors risks	2,686	2,986	3,786	5,236	9,676	6,310
Marine hull -						
Private pleasure craft	2,384	3,086	3,048	3,678	3,832	4,558
Other	1,323	1,868	2,227	3,438	3,822	5,994
Marine cargo	12,105	12,921	16,495	20,964	28,176	27,879
Motor vehicle (including motor cycles)	129,423	159,183	168,364	186,093	214,046	230,227
Compulsory third party (motor vehicles)	211,215	222,638	235,420	291,223	452,682	559,799
Employers liability	197,246	180,287	210,928	268,770	395,635	459,003
Public liability	13,551	10,926	15,324	20,418	27,404	28,108
Product liability	1,165	2,367	801	-623	414	1,302
Professional indemnity	2,014	2,265	4,934	5,209	8,574	10,271
Burglary	4,657	5,667	7,329	7,691	7,619	7,818
Travel (including baggage)	5,017	6,507	7,978	7,322	7,319	6,887
Boiler, engineering, machinery breakdown	2,184	2,776	2,826	4,909	6,896	6,511
Plate glass	1,910	2,176	2,326	2,585	2,654	2,671
Guarantee	55	585	726	1,210	1,090	1,401
Livestock	1,408	991	1,022	1,006	2,476	3,574
Personal accident	8,506	10,055	11,414	14,061	14,140	14,915
Other (b) (c)	14,628	10,896	17,156	27,929	22,700	29,793
<b>Total</b>	<b>683,679</b>	<b>742,739</b>	<b>838,481</b>	<b>1,035,729</b>	<b>1,373,802</b>	<b>1,649,414</b>

For footnotes see 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.

The classification of the motor vehicle is dependent upon a variety of factors including the general use of the vehicle (private, taxi, delivery van), frequency of accidents experienced by the vehicle type (recreation vehicles used off-road have few accidents) and the total cost of a claim when an accident occurs (due to the number of passengers, a bus accident would generally cost more than a private car accident). The premium for Compulsory Third Party Insurance is generally paid at the same time as the registration of the vehicle is renewed.

MOTOR VEHICLE INSURANCE (COMPULSORY THIRD PARTY), NUMBER OF MOTOR VEHICLES INSURED, VICTORIA

Class of motor vehicle	Motor cars usually garaged -					
	Within a radius of 32.187 kilometres of the GPO, Melbourne		Outside a radius of 32.187 kilometres of the GPO, Melbourne		Total	
	1981-82	1982-83	1981-82	1982-83	1981-82	1982-83
Private and business	1,045,977	1,077,964	665,480	694,778	1,711,457	1,772,742
Goods carrying	123,025	128,908	197,346	210,034	320,371	338,942
Hire	3,856	4,215	3,848	4,089	7,704	8,304
Hire and drive yourself	4,105	3,994	1,010	1,107	5,115	5,101
Passenger transport	1,667	2,595	1,812	2,422	3,479	5,017
Miscellaneous	11,785	11,467	60,845	62,301	72,630	73,768
Motor cycle	29,647	30,601	40,259	44,243	69,906	74,844
Recreation vehicles	687	967	700	773	1,387	1,740
<b>Total</b>	<b>1,220,749</b>	<b>1,260,711</b>	<b>971,300</b>	<b>1,019,747</b>	<b>2,192,049</b>	<b>2,280,458</b>

*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.

In 1983 by Act of Parliament, the functions of the State Insurance Office were extended to allow it to underwrite a wide range of insurance business and in 1984 a further Act established a Board of Management and created the position of General Manager as Chief Executive of the Office.

The State Insurance Office transacts employers liability, motor vehicle, householders/homeowners, small craft, personal accident, and other insurance business. The Office also manages matters associated with 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.

Assistance is provided by State Insurance Office staff to the Department of Management and Budget in matters associated with the Insurers Guarantee and Compensation Supplementation Fund.

The transactions of the State Insurance Office from 1977-78 to 1982-83 are shown in the following table:

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

Particulars	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Gross premium	275,877	240,887	281,723	309,128	409,825	473,593
Net earned premium	259,497	261,548	279,492	292,544	360,801	428,363
Investment income	46,847	64,938	85,250	103,565	129,895	157,743
Net claims	229,946	273,894	328,689	363,877	595,059	712,610
Expenses and commission	14,723	18,914	15,711	17,396	25,530	33,204
Underwriting profit (loss)	14,828	-31,260	-64,908	-88,728	-137,515	-168,353
Net profit (loss)	61,675	33,678	20,342	14,836	-129,893	-159,708
Underwriting reserves	603,842	721,915	935,518	1,014,348	1,348,715	1,681,956
Other reserves	28,671	46,422	52,471	53,364	52,470	52,470

Further references: Finance companies, *Victorian Year Book* 1984, pp. 451-4; Short-term money market and the merchant banks, 1984, pp. 454-6; Life insurance, 1984, pp. 460-3; General insurance, 1984, pp. 465-7; Friendly societies, 1984, pp. 467-8; Credit unions, 1984, p. 468; Building societies, 1984, p. 468-9

## OTHER PRIVATE FINANCE

**The Stock Exchange of Melbourne Limited***Introduction*

The Stock Exchange of Melbourne Limited in 1984 celebrated 100 years of continuous and effective operation.

*Objects of the Stock Exchange*

The objects of The Stock Exchange of Melbourne Limited which are set out in its Memorandum of Association can be briefly summarised as the provision of the market for the quotation, purchase, and sale of securities, and for dealing in securities generally, the facilitation of the raising of funds by companies, government, and semi-government authorities, and the promotion and protection of the public in its dealings with members of the Exchange.

*Role and responsibilities*

The Stock Exchange performs essential roles within the free enterprise system in facilitating the primary market for capital and in the provision of a secondary market for capital. The primary market is the market where new equity and debt capital is raised which cannot function efficiently unless there is a strong and liquid secondary market. The secondary market is the market where existing capital in the form of securities is bought and sold. The operation of the Stock Exchange enables the transfer of otherwise idle funds from those who spend less of their disposable incomes to the manufacturing and business sectors of the economy which spend more. Through the auction or market system which characterises the Stock Exchange the efficient allocation of capital resources is facilitated. Capital accumulation and the allocation or application of capital for investment are the engines of economic growth which in turn leads to increases in the standard of living for all.

The need for the stock market to be free and open is particularly important to ensure a true market and to provide proper protection for investors and shareholders. To these ends the Stock Exchange has enshrined within its operating framework stringent rules and regulations which ensure that members of the Exchange are suitably qualified, experienced, and of high integrity, while the existence of a large fidelity fund protects the investing public in the event of member defalcation. Moreover, the existence of extensive requirements for companies listed on the Stock Exchange, provides for full disclosure of information necessary to avoid the establishment of a false market in a company's securities.

While the Stock Exchange is a self regulatory organisation, its broader function within the securities industry generally can be described as that of co-regulation with the National Companies and Securities Commission (NCSC). The NCSC has overall responsibility with respect to company law, and the regulation of the securities industry generally, including the Stock Exchange.

The Stock Exchange is funded largely by levies paid by its Members, fees paid by member organisations, 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 practiced 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 1984 Membership of the Stock Exchange of Melbourne Limited totalled 256. The number of member organisations at this date totalled 28.

A committee, comprising twelve 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 five 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 Ltd, which is responsible for the computer installations of the two Exchanges.

Common Articles adopted by the Melbourne and Sydney Exchanges allow member organisations of one Exchange direct access to the trading floor of the other Exchange for the purpose of buying and selling securities. At 30 June 1984, fifteen Sydney member organisations had applied for and been granted access to the trading floor of the Melbourne Exchange and eleven Melbourne organisations had applied for and been granted access to the Sydney Exchange trading floor.

A number of major changes occurred to the operation of the Exchange during 1984, in relation to brokerage rates, membership, and with the proposal to establish a Second Board Market.

#### *Brokerage*

After one hundred years of trading with fixed rates, brokerage was 'de-regulated' as from 1 April 1984. However, while this has resulted in very little change in normal private client business, which accounts for the large majority of buying and selling transactions, it has nevertheless resulted in a reduction in the brokerage paid by the larger investors – mainly institutions.

#### *Membership*

In the past, members of the Stock Exchanges have permitted their members to operate only in partnerships which confer personal, joint, and several liability on the partners. It now has become possible for broking establishments to operate as corporations. These corporations may take in non-broker shareholders for up to 50 per cent of the capital, except for foreign shareholders which are individually limited to 15 per cent, with a maximum of 40 per cent for total foreign ownership in a member corporation.

### Second Board market

During 1984 substantial steps were taken to establish a new market in The Stock Exchange of Melbourne Limited for the admission of smaller companies to listing on what will be called Melbourne's Second Board. This will provide existing small enterprises with readier access to the equity capital they require for growth and development. Listing will enable those companies to attract more shareholders as there will then be a ready market for existing shareholders to sell and for other investors to buy.

### Official Listing Requirements

The Listing Manual of the AASE 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 from 1982 to 1984

During the two year period to June 1984, the AASE All Ordinaries Share Price Index rose 78 per cent from the lowest yet recorded value of 443.1 on 8 July 1982, to the highest yet recorded value of 787.9 on 9 January 1984. The Index then steadied through to May 1984 when it fell sharply to close at 654.9. The All Ordinaries closed the year at 658.9 displaying an overall increase for the two years of 39 per cent.

The All Ordinaries Index has risen 32 per cent from its base value of 500.0 (1 January 1980) representing an annual growth rate of 7.2 per cent.

At 30 June 1984, the All Ordinaries Index covered 75 per cent of all quoted equity securities accounting for 250 listed companies.

All composite groups recorded rises over the two years, the greatest being the All Industrials Index which rose 46 per cent, followed by the 50 Leaders Index which rose 39 per cent. In the resource sectors, the Metals and Minerals Index rose 25 per cent while the All Resources Index rose 31 per cent.

### Largest group relative size

The percentage of aggregate market value in the All Ordinaries Index for the four composite groups has moved as follows:

#### AGGREGATE MARKET VALUE BY GROUP, IN THE ALL ORDINARIES INDEX, AUSTRALIA (per cent)

Group	June 1983	Sept. 1983	Dec. 1983	March 1984	June 1984
50 Leaders	70.4	70.4	70.6	69.5	69.9
All Industrials	54.2	53.7	56.5	55.9	59.8
All Resources	45.8	46.3	43.5	44.1	40.2
Metals and Minerals	27.7	25.2	23.0	22.7	20.7

#### THE STOCK EXCHANGE OF MELBOURNE LIMITED, MARKET TURNOVER BY VALUE AND VOLUME OF SHARES AND NUMBER OF TRANSACTIONS, AT 30 JUNE

Type of securities	Value of shares			Volume of shares			Number of transactions		
	1983	1984	Percentage variation	1983	1984	Percentage variation	1983	1984	Percentage variation
	\$m	\$m		million	million		'000	'000	
Share securities –									
Industrial	1,717.6	3,809.7	+122	929.6	1,678.4	+81	232.6	353.4	+52
Mining	1,119.1	1,344.4	+20	1,075.7	1,454.9	+35	173.0	214.0	+24
Oil	336.5	685.4	+104	545.3	910.2	+67	67.5	118.4	+75
Preference	2.0	8.3	+315	3.6	5.5	+53	0.9	1.5	+67
Total share securities	3,175.2	5,847.8	+84	2,554.2	4,049.0	+59	474.0	687.3	+45
Loan securities –									
Commonwealth loans	2,935.5	9,081.2	+209	3,141.2	9,219.3	+193	4.3	8.0	+86
Semi-government loans	1,639.6	641.8	–61	1,786.2	659.6	–63	5.4	3.4	–37
Debentures, notes	45.8	14.0	–69	52.9	15.9	–70	1.1	0.8	–27
Total loan securities	4,620.9	9,737.0	+111	4,980.3	9,894.8	+99	10.8	12.2	+13
Total	7,796.1	15,584.8	+100	7,534.5	13,943.8	+85	484.8	699.5	+44

### 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.

### PUBLIC TRUSTEE, COMMON FUND, VICTORIA (\$'000)

Particulars	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Proceeds of realisations, rents, interest, etc.	45,655	54,010	62,296	67,849	82,119	88,230
Investments, distributions, claims, etc.	33,889	41,995	49,801	55,072	59,455	66,590
Cash variation	11,766	12,015	12,495	12,777	22,664	21,640
Balance at 1 July	63,672	75,438	87,453	99,948	112,725	135,389
Balance at 30 June	75,438	87,453	99,948	112,725	135,389	157,029

### APPLICATIONS BY PUBLIC TRUSTEE FOR PROBATE, LETTERS OF ADMINISTRATION, ETC., AND NUMBERS OF WILLS LODGED FOR CUSTODY, VICTORIA

Year	Number of applications	Number of wills
1978-79	1,194	2,851
1979-80	1,108	2,783
1980-81	1,115	2,458
1981-82	1,032	2,342
1982-83	1,127	2,160
1983-84	965	1,808

### Statutory trustee companies

There are now eight companies authorised to operate in Victoria, most having been incorporated for more than 90 years. These companies are the only independent incorporated bodies authorised by the Trustee Companies Act to administer estates of deceased persons. In addition they offer a complete range of fiduciary services to persons during their lifetime including assets and investment management and supervision, taxation services, retirement planning, pastoral and property management, and as trustees of family trusts, charitable trusts, and foundations. They may also act as



trustees for the holders of debentures and notes on issue to the public. Companies act as trustees for holders in cash management, property, and other unit trusts.

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 Department of Management and Budget; 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.

Recent growth in trust funds under management is shown in the following table which represents information provided by member companies of the Trustee Companies Association of Australia and New Zealand.

STATUTORY TRUSTEE COMPANIES, TRUST FUNDS ADMINISTERED, VICTORIA,  
AT 30 JUNE  
(\$m)

Particulars	1979	1980	1981	1982	1983	1984
Stock and debentures	102.4	97.7	93.1	199.4	88.7	99.5
Advances on mortgages	179.5	204.5	259.2	291.1	257.6	355.4
Real estate, farms, etc.	157.5	142.8	181.5	155.0	152.4	229.9
Shares	246.5	296.6	379.9	287.1	336.8	259.2
Deposits, cash, etc.	104.6	102.4	126.0	169.5	116.2	211.6
Unit trusts, superannuation funds, etc.	n.a.	n.a.	n.a.	n.a.	593.5	544.2
Other	33.3	38.8	30.8	31.6	33.3	38.8
Total	823.8	882.8	1,070.5	1,133.7	1,578.5	1,738.6

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 approximately \$2,900m.

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.

## COMPANIES REGISTERED, ETC., VICTORIA

Particulars	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Number of new companies registered –						
Victorian	11,131	12,017	18,370	18,015	10,580	12,170
Other	542	660	722	916	1,693	980
Total	11,673	12,677	19,092	18,931	12,273	13,150
Number of companies struck off –						
Victorian	2,699	2,869	2,537	2,854	1,879	4,287
Other	158	164	105	125	88	647
Total	2,857	3,033	2,642	2,979	1,967	4,934
Approximate number of existing companies at end of June –						
Victorian ('000)	114.4	123.5	140.0	156.8	165.5	173.4
Other ('000)	7.0	7.4	7.6	8.4	10.0	10.7
Total ('000)	121.4	130.9	147.6	165.2	175.5	184.1
Nominal capital of new companies –						
Victorian (\$m)	377.4	822.9	1,843.4	n.a.	n.a.	n.a.
Other (\$m)	514.3	311.5	1,425.6	n.a.	n.a.	n.a.
Total (\$m)	891.7	1,134.4	3,269.0	n.a.	n.a.	n.a.
Increase in nominal capital of Victorian companies during the financial year (\$m)	1,169.5	2,112.9	3,942.0	n.a.	n.a.	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*.

## NUMBER OF TITLES OF LAND ISSUED, VICTORIA

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
1982-83	n.a.	793	463	n.a.
1983-84	n.a.	1,248	226	n.a.

## 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 1978-79 to 1983-84:

### NUMBER OF DEALINGS LODGED AT THE TITLES OFFICE, TRANSFER OF LAND ACT, VICTORIA

Year	Transfers	Mortgages	Entries of executor, administrator, or survivor	Plans of subdivision	Caveats	Other dealings	Total dealings
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	150,629	468,489
1982-83	134,137	114,081	17,897	5,662	34,344	149,048	455,169
1983-84	163,787	135,589	17,839	3,114	39,136	171,528	530,993

### NUMBER OF DEALINGS UNDER THE PROPERTY LAW ACT, VICTORIA

Year	Mortgages	Reconveyances	Conveyances
1978-79	2,145	1,981	3,384
1979-80	2,521	2,075	3,387
1980-81	2,551	2,247	3,640
1981-82	2,195	2,189	3,473
1982-83	2,000	1,998	3,303
1983-84	2,305	2,267	3,561

#### *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 1978 to 1983 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.

### NUMBER OF MORTGAGES AND LIENS ON WOOL AND CROPS, VICTORIA

Security	1978	1979	1980	1981	1982	1983
Stock mortgages	298	404	496	490	346	283
Liens on wool	10	4	10	7	4	2
Liens on crops	204	82	71	74	77	86
Total	512	490	577	571	427	371

#### *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 1978 to 1983:

### NUMBER OF BILLS OF SALE, VICTORIA

Security	1978	1979	1980	1981	1982	1983
Bills of sale	28,845	34,675	37,195	38,554	36,906	29,498

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; Stock Exchange of Melbourne, 1984, pp. 456-8; Statutory trustee companies, 1984, p. 459

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