

PRIVATE FINANCE

BANKING

The banking system in Australia

Banks are the largest and oldest financial intermediaries in Australia. They are at the centre of both domestic and international payments arrangements and play a major role in the functioning of the financial system.

Banks other than State banks are required to hold an authority in terms of the *Banking Act* 1959 and are subject to all the provisions of that Act. For the purpose of regulation, banks subject to the Banking Act are divided into three groups: trading banks, savings banks, and other banks.

Three large private trading banks conduct business in Australia; this number was reduced from five following amalgamations in 1982. These three banks, together with the Commonwealth Bank of Australia (a public enterprise), are generally referred to as the major trading banks. Each has a nationwide network of branches. Two smaller private banks and two overseas banks which have been represented in Australia for many years also hold banking authorities. In addition, State banks in New South Wales, Victoria, Western Australia, and South Australia provide trading bank services within their own States.

Savings bank facilities are provided by subsidiaries of the four major trading banks, one of the smaller trading banks, one of the overseas banks, two trustee banks in Tasmania and State banks in Victoria, Western Australia, and South Australia.

Three specialist banks operate in Australia: the Government-owned Commonwealth Development Bank (a member bank of the Commonwealth Bank group), the Australian Resources Development Bank (which is owned by the major trading banks), and the Primary Industry Bank of Australia (which was established jointly by the Commonwealth Government, the major trading banks, and the State banks).

The State banks referred to above are trading and savings banks which have been established by the State governments. They operate under State legislation and are not generally subject to the powers of the Reserve Bank, which derive from Commonwealth Government legislation. The Reserve Bank does, however, keep in close contact with them and seek their co-operation in giving effect to its policies.

In the past, the Reserve Bank relied heavily on direct controls, mainly of banks, in the implementation of its monetary policy. While, in recent years, there has been a shift of emphasis towards policies based on market operations, various forms of direct regulation are still applied.

Banking in 1984 and 1985

The Australian financial system is evolving into a system vastly different to that of the past. Along with new technology, a major impetus to change has been the lifting of controls on the financial system, particularly those affecting the banking sector and foreign exchange dealings, producing a financial system that is less regulated, more reliant on market forces and more competitive. The Report of the Committee of Inquiry into the Australian Financial System (Campbell Inquiry), brought down in November 1981, and the subsequent report of the Martin Review Group, tabled in February 1984, together played a large part in setting the direction of change in the financial system.

In September 1984, consistent with the lifting of controls on the financial system, the Commonwealth Government called for applications from domestic and foreign interests to establish banking operations in Australia, and in February 1985 the Commonwealth Treasurer announced that

sixteen overseas banks had been invited to operate here. Also in September 1984, the Bank of China was invited to open a branch in Australia. This decision was taken having regard to the Bank's previous presence in Australia and was outside the arrangements for the other sixteen foreign banks.

By the end of 1985, seven of the new foreign bank entrants had begun operating. The headquarters of the new banks are to be spread among Melbourne, Sydney, Adelaide, and Perth. The Bank of Singapore, Deutsche Bank, Hong Kong Bank of Australia, Morgan Guaranty Australia, and National Mutual Royal Bank are establishing their head offices in Melbourne.

The entry of foreign banks and the Commonwealth Government's decision to lift the foreign investment restrictions relating to the merchant banking sector, precipitated substantial institutional rationalisation during 1985. Foreign banks successful in receiving an invitation to apply for a bank licence tended to integrate parts of their non-bank operations with the new bank and rationalise other interests, while many of the foreign banks that failed to obtain an invitation (or did not apply at all), moved to establish a 100 per cent owned merchant bank operation either by buying out former equity partners or through the establishment of a new merchant bank operation. Also, in a not unrelated series of actions, domestic banks proceeded to rationalise their multiple holdings in merchant banks.

In April 1985, in line with the recommendation of the Martin Report, the Commonwealth Government announced the removal of interest rate controls on bank loans under \$100,000 for all purposes other than owner-occupied housing. The Government recognised that the interest rate ceilings had the effect of discouraging bank lending to small business and their removal would encourage the introduction of more innovative loan packages and the provision of better advisory services to small business.

Australian banks and other financial institutions placed increased emphasis on development of sophisticated electronic funds transfer systems during 1985. The expansion of automated telling machine (ATM) networks continued, including some banks allowing other banks and financial institutions access to their ATM facilities. At the same time, significant advances were made in the development of electronic funds transfer at point of sale (EFTPOS) systems and a considerable number of terminals were installed in retail stores, supermarkets, and service stations. EFTPOS systems allow customers to access their accounts electronically using a plastic card and transfer funds in payment for goods and services at the point of sale.

Also, some Australian banks spread their interests to services outside traditional banking activities, notably life insurance, general insurance, stockbroking, and pastoral houses.

In addition to developments in the domestic financial system, the growing internationalisation of the Australian economy was evident in 1985 in the expansion in the overseas representation of Australian banks. An expanded international network is important to these banks in order to compete with the newly established foreign banks which have an extensive international presence. Apart from the Australian banks' long established presence in New Zealand and the Pacific Island region, in recent years their representation has extended to the major financial centres of North America and Europe, and many countries in Asia, the Middle East, and South America.

Banking environment

The banking environment during 1985 was characterised by a financial system adjusting to a less regulated and thus more competitive market, against a background of an economy experiencing buoyant economic growth. The buoyant economic growth led to strong demand for funds from many sectors of the economy and the enhanced capacity of trading banks to compete with other financial institutions resulted in substantial growth in trading bank loans outstanding and deposits in 1985.

During 1985, Australia's overseas balance of payments contributed to a depreciation of the Australian currency which also experienced considerable volatility. In order to bring about the necessary adjustment in the economy the authorities tightened monetary conditions, placing upward pressure on interest rates.

The interest rate ceiling on savings bank lending and the constraint this placed on deposit interest rates in the prevailing interest rate environment, made it difficult for savings banks to attract sufficient deposits from traditional sources to match the demand for savings bank home loans during 1985.

Reserve Bank of Australia

The Reserve Bank of Australia is Australia's central bank. The functions, powers, and responsibilities of the Reserve Bank are specified 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; it prints and manages the note issue; and, through its Rural Credits Department, makes short-term seasonal loans to rural marketing authorities and co-operative associations of primary producers; and it monitors and may influence activities of financial institutions. As agent for the Commonwealth Government, the Bank distributes coinage, manages stock registries for Commonwealth Government securities, and manages the Commonwealth's domestic borrowing programmes. Internationally, the Bank oversees Australia's foreign exchange market and is the custodian of Australia's gold and foreign exchange reserves.

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 structure is 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.

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 1985 savings account deposits with the Commonwealth Savings Bank (CSB) totalled \$12,004m. The CSB conducted 9,214,000 active accounts and its services were available through an Australia wide network of 1,280 branches and service centres as well as 5,382 agencies.

A feature of the year was the introduction of Club Australia, Australia's first plastic-card based banking package specifically for young people. The Club provides young people aged 15 to 21 with access to a comprehensive range of personal banking facilities, and promotes greater financial awareness.

In the year to June 1985 the Bank approved personal loans totalling more than \$1,015m for a wide range of purposes including home and land purchase, home improvements, and consumer goods. The CSB is Australia's largest lender for housing. Loan approvals totalled \$1,925m in 1984-85. The CSB further refined the range of home loan products available to prospective borrowers. The new and successful 'Step-by-step' home loan facility was introduced in response to a growing demand, particularly by those applicants with lower incomes, for a home loan option which would reduce the burden of repayments in the early years of the loan and give access to a larger loan than would otherwise be the case.

Corporate banking

Deregulation of the banking system has provided the opportunity for Australian banks and other financial intermediaries to reposition themselves for the major changes that will follow the entry of foreign banks into Australia. The Bank continued its market thrust in financing small businesses and the middle range of companies. The Bank was also involved in arrangements for the syndication and management of a \$465m finance facility to cover the cost of construction, launch, and insurance of Australia's Aussat satellites and related earth stations and equipment.

During 1985, equipment lease financing developed into one of the Bank's fastest growing services. Substantial support, totalling some \$105m, was provided to local and semi-government bodies for the financing of essential community services such as roads, electricity, water, and sewerage.

The Commonwealth Bank is firmly committed to the on-going development of electronically based cash management services.

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.

International banking

The year 1984-85 saw a substantial increase in the Bank's international financing. In this, the Bank's principal aim was to support Australian companies seeking to borrow in foreign currencies, or

foreign companies with business interests in Australia. At the same time, the Bank's increasing presence in overseas countries has resulted in an expansion of off-shore lending activities.

Consistent with the Bank's endeavours on the domestic side, the importance of utilising the latest available technology and techniques to ensure efficient and competitive international services for its customers has been recognised.

The rapid dismantling of regulatory controls over banking, foreign exchange, and the Australian financial system generally, effectively means that participants in that system are now operating in a world market.

Foreign exchange operations include purchase and sale of foreign currency, arrangement of foreign currency hedge contracts, foreign currency investments, and trade finance.

Commonwealth Development Bank of Australia

The Commonwealth Development Bank of Australia (CDB) provides loan finance to primary producers and small and medium-sized businesses involved in secondary industries, the wholesale and retail trades, transport, tourism, the professions, entertainment, and the service undertakings generally. The CDB does this in circumstances where the finance would not otherwise be available on reasonable terms and conditions.

Loan approvals for Australia for the year ended 30 June 1985 numbered 3,317 for a total amount of \$278m and equipment finance approvals numbered 5,533 for a total amount of \$101m.

Further details of the operations of the Bank are given in previous editions of the *Victorian Year Book*.

State Bank of Victoria

General

The State Bank of Victoria, the largest bank in the State, commenced operations in 1842 as the Port Phillip Savings Bank. The Bank is constituted under Victorian statute and is administered by a Victorian Government appointed board of seven commissioners. They exercise control through the Chief Executive Officer, the Deputy Chief Executive Officer, and four Deputy General Managers. These four Deputy General Managers head the four divisions of the Bank's operations – Retail Banking, Corporate and International, Treasury, and Personnel and Administration.

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.

Retail banking

Deposits

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. A review of all existing services has been carried out and a new service for personal customers – the State Banking System Account – was introduced in 1985. This account combines cheque, savings account, and debit and credit card (Visa) facilities in one high-interest bearing statement-based account. In addition to its retail banking operations the Bank has reviewed other deposit products and has introduced more flexible maturities on State Bank Term Deposits to attract investors.

Computers were initially used for the central processing of transactions but branches have gradually been connected to the central computer system to provide improved information flow. During 1985 all branches were finally linked to the Bank's on-line network. Customers also have access to the electronic network. At the end of 1985 the Bank's network of 144 automatic teller machines (ATMs) was being augmented by an Electronic Funds Transfer System at Point of Sale (EFTPOS) with 270 machines in 233 retail outlets. In addition the Bank's ATM network is linked with other State-based bank's networks to improve the service to customers.

Lending

The State Bank continues to be the largest supplier of housing finance in Victoria. Approvals for owner-occupied dwellings in Victoria totalled \$853m in the year to June 1985 compared with \$773m in the year to June 1984.

During recent years the Bank has substantially increased its lending to the business community. Lending to small and medium sized businesses now constitutes a significant part of the Bank's total

lending and is assisting the Bank's aim of providing a complete banking service to all sections of the community.

Corporate and international services

The provision of finance and other financial services to large corporate organisations is an expanding area of the Bank's operations.

In international markets the Bank has had a branch in London since 1915 for customers travelling overseas. This branch now concentrates on the wholesale financial markets of Europe. An office was also opened in New York in 1985 to enable the Bank to operate in all segments of the United States' money and capital markets. The Bank plans to open an office in the Western Pacific region as a further expansion of its offshore operations.

Treasury

Deregulation and the introduction of new banks has meant more competition, so Treasury has had an important part to play in the Bank's operations. During 1985 the Bank established a Financial Planning Service to help individual investors manage their funds. Treasury also has responsibility for State Bank SuperSafe, an approved deposit fund, which was established in September 1984. The fund enables superannuation lump sum payments to be held temporarily tax-exempt. Balances at the end of 1985 exceeded \$100m.

STATE BANK OF VICTORIA, DEPOSITORS' ACCOUNTS AND TRANSACTIONS

Year	Depositors' accounts		Transactions		Interest paid
	Number	Amount	Deposits	Withdrawals	
	'000	\$m	\$m	\$m	\$m
1979-80	3,897	3,872.4	16,755.8	16,581.6	194.8
1980-81	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	r426.5
1984-85	4,514	6,488.1	118,291.6	117,980.7	458.7

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 selected data on the operations of trading banks in Victoria.

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

Classification	At second Wednesday of July—					
	1979	1980	1981	1982	1983	1984
Resident borrowers –						
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

MAJOR TRADING BANKS, ADVANCES TO CATEGORIES OF BORROWERS, VICTORIA – *continued*
(\$m)

Classification	At second Wednesday of July—					
	1979	1980	1981	1982	1983	1984
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) OF DEPOSITS AND ADVANCES, VICTORIA

Bank	June 1984				June 1985			
	Deposits repayable in Australia			Loans (b), advances 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	410	1,105	1,515	1,195	430	1,162	1,592	1,390
Private trading banks – Australian and New Zealand								
Banking Group Ltd	816	1,659	2,475	1,368	899	2,197	3,096	1,637
Westpac Banking Corporation (c)	689	1,790	2,479	1,593	715	2,111	2,826	1,845
National Australia Bank (d)	743	1,788	2,531	2,064	843	2,634	3,477	2,561
Total	2,658	6,342	9,000	6,220	2,886	8,105	10,991	7,433

(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, AND DEBITS TO CUSTOMERS ACCOUNTS, VICTORIA
(\$m)

June –	Deposits repayable in Australia			Loans (b) advances and bills discounted	Debits to customers' accounts
	Not bearing interest	Bearing interest	Total		
1980	2,285	3,444	5,729	4,416	7,855
1981	2,637	3,921	6,558	4,964	8,871
1982	2,469	5,184	7,652	5,251	13,027
1983	2,552	5,817	8,369	5,817	13,679
1984	2,658	6,342	9,000	6,220	19,075
1985	2,886	8,105	10,991	7,433	23,959

(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.

TRADING BANKS, NUMBER OF BRANCHES AND AGENCIES, VICTORIA

Bank	At 30 June 1983		At 30 June 1984		At 30 June 1985	
	Branches	Agencies	Branches	Agencies	Branches	Agencies
Major trading banks –						
Commonwealth Bank of Australia Australia and New Zealand	194	71	194	68	192	68
Banking Group Ltd	298	63	301	67	302	75
Westpac Banking Corporation	388	34	352	23	341	22
National Australia Bank	393	92	394	83	366	71
Total major trading banks	1,273	260	1,241	241	1,201	236

TRADING BANKS, NUMBER OF BRANCHES AND AGENCIES, VICTORIA — *continued*

Bank	At 30 June 1983		At 30 June 1984		At 30 June 1985	
	Branches	Agencies	Branches	Agencies	Branches	Agencies
Other trading banks —						
Bank of New Zealand	2	—	2	—	2	—
Banque Nationale de Paris	1	—	1	—	1	—
Australian Bank Ltd	1	—	1	—	1	—
Macquarie Bank Ltd	—	—	—	—	1	—
Total other trading banks	4	—	4	—	5	—
Total all trading banks	1,277	260	1,245	241	1,206	236
Melbourne metropolitan area	804	142	784	126	756	119
Remainder of Victoria	473	118	461	115	450	117

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
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
1985	5,074.6	35.6

At 30 June 1984, private savings banks had 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 1981 to 1985.

SAVINGS BANKS, DEPOSITS, VICTORIA (\$m)

Savings bank	Depositors' balances at 30 June —				
	1981	1982	1983	1984	1985
State Bank (a)	4,259.9	4,780.8	5,383.7	5,941.9	6,488.1
Commonwealth Savings Bank of Australia	1,731.3	1,879.3	2,290.9	2,590.7	2,708.1
Private savings banks—					
Australia and New Zealand Savings Bank Ltd	827.3	874.8	1,098.3	1,354.4	1,464.9
Westpac Savings Bank	933.6	994.2	1,281.5	1,518.6	1,607.1
National Australia Savings Bank	868.6	944.1	1,251.4	1,508.9	2,001.0
Bank of New Zealand Savings Bank Ltd	1.3	1.6	1.7	1.8	1.6
Total deposits	8,621.9	9,474.9	11,307.5	12,916.3	14,270.7
	\$	\$	\$	\$	\$
Deposits per head of population	2,206	2,400	2,824	3,186	3,522

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

FINANCIAL INSTITUTIONS (OTHER THAN BANKS)

Non-bank financial institutions

The Australian financial system includes a wide range of non-bank intermediaries which account for over half the assets of all financial institutions. The Financial Corporations Act categorises non-bank financial intermediaries into a number of groups whose main features are outlined below.

Building societies are generally organised as co-operatives and are involved mainly in the provision of mortgage finance for owner-occupied housing; they collect funds mainly by tapping the savings of households. Loans are usually repayable over long terms, at rates of interest which, sometimes within ceilings imposed by State government, can be varied at the discretion of the societies; most loans are protected by mortgage insurance. Credit co-operatives (also known as credit unions) are mutual non-profit institutions which provide avenues for investment and borrowing by their members. Loans are mainly for the purchase of consumer durables, particularly motor vehicles. Building societies and credit co-operatives are incorporated under special State or Territory legislation.

There are nine companies authorised by the Reserve Bank as dealers in the short-term money market. These dealers borrow funds for short terms from banks, State governments, local and semi-governmental authorities, and companies. These funds are used by dealers to purchase short to medium-term paper, mainly Commonwealth Government securities maturing within five years.

Money market corporations raise the bulk of their funds at short-term, predominantly in the form of large-scale borrowings from companies. They engage in a wide variety of financing, including short-term loans to businesses and investments in commercial paper and government securities. Other activities include dealing in private and government securities, acceptance of bills, underwriting issues of debt and equity capital and financial advisory services. A number of money market corporations are authorised by the Reserve Bank to deal in foreign exchange and are active in borrowing and lending foreign currencies and in the currency hedge market. Some corporations are also associated with cash management trusts.

Pastoral finance companies provide a range of services, mainly to rural businesses. Their major activities are as wool-brokers, stock and station agents, and wholesale and retail traders; many have financing operations ancillary to these activities.

Finance companies provide various types of loans, including instalment credit for retail sales, personal loans, finance for housing, wholesale financing, factoring, lease financing, and other commercial loans. Most loans to consumers are for relatively short terms, while loans for business are generally short to medium-term. Funds required for lending are borrowed from the public, mainly by way of debentures, unsecured notes, and deposits. Several finance companies are authorised to deal in foreign exchange.

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*.

Life insurance

History

The life insurance industry in Australia traces its origins to the foundation of the first life office in 1836, but it was not until the second half of the last century that it attained economic significance. The first mutual office with headquarters in Victoria was established in 1869. By 1901, Australian-based life offices were competing in many parts of the then British Empire to achieve geographic spread of risk. Several offices still operate in the United Kingdom, Southern Africa, and the South Pacific, especially New Zealand.

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 distribute at least 80 per cent of the surplus on participating policies to their policyholders.

The majority of life offices, offer Australia wide facilities. There are 52 registered life offices, including re-insurers, and State Government life corporations in New South Wales, Queensland, South Australia, and Victoria.

The Life Insurance Federation of Australia is a national body formed on 30 April 1979 from the Life Offices' Association of Australia and the Association of Independent Life Offices to represent the private sector industry.

The Australian Insurance Institute acts as a national professional, educational, and examining body associated with both the general and life insurance industries. Advice on local activities is provided by the Insurance Institute of Victoria.

Types of life insurance

The life insurance industry provides a multiplicity of products including whole of life, endowment insurance, term insurance, disability benefits, single and annual premium investment contracts, and annuities. Life offices are also involved in superannuation and approved deposit funds. A variety of combinations to suit individual needs can be provided. Approximately 28 per cent of life office premium income in Australia is derived from Victorian residents.

Marketing

While most life insurance is sold through commissioned agents, often tied to a single company, a trend is emerging towards direct marketing and the use of multi-product agents such as investment advisers.

Regulation of the industry

The private sector life insurance industry is regulated by the *Life Insurance Act 1945* of the Commonwealth which gives the Life Insurance Commissioner control over the registration of offices and wide-ranging powers and discretions over life office affairs in the interest of policyholders. This legislation is supplemented by the *Insurance (Agents and Brokers) Act 1984* and the *Insurance Contract Act 1984* which are specifically directed to the industry and by the Companies Code and the Trade Practices Act. The various State government insurance offices are regulated under separate State legislation.

General insurance

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

Motor vehicle insurance (compulsory third party)

The *Motor Car (Third Party Insurance) Act 1939* (now part of the *Motor Car Act 1958*), made it compulsory for the owner of a motor vehicle to insure against any liability incurred by any person driving such a vehicle, where the death of, or bodily injury to, any person is caused by the use of the vehicle. Insurance is paid with the registration renewal.

The classification of the vehicle is dependent upon various factors including general use (private, or delivery van), accident experience by type (recreation vehicles used off-road have few accidents) and the total cost of claims (bus accidents generally cost more than private vehicle accidents).

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

Class of motor vehicle	Motor cars usually garaged -				Total	
	Within a radius of 32.187 kilometres of the G.P.O., Melbourne		Outside a radius of 32.187 kilometres of the G.P.O., Melbourne		1982-83	1983-84
	1982-83	1983-84	1982-83	1983-84		
Private and business	1,077,964	1,090,187	694,778	714,094	1,772,742	1,804,281
Goods carrying	128,908	132,638	210,034	220,544	338,942	353,182
Hire	4,215	3,765	4,089	4,218	8,304	7,983
Hire and drive yourself	3,994	4,205	1,107	1,409	5,101	5,614
Passenger transport	2,595	6,271	2,422	5,190	5,017	11,461
Miscellaneous	11,467	10,951	62,301	63,810	73,768	74,761
Motor cycle	30,601	29,286	44,243	45,765	74,844	75,051
Recreation vehicles	967	1,020	773	737	1,740	1,757
Total	1,260,711	1,278,323	1,019,747	1,055,767	2,280,458	2,334,090

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 acts as a Claims Administration Agent for the Accident Compensation Commission. 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 1979-80 to 1984-85 are shown in the following table:

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

Particulars	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Gross premium	281,723	309,128	409,825	473,593	542,404	569,139
Net earned premium	279,492	292,544	360,801	428,363	509,890	580,730
Investment income	85,250	103,565	129,895	157,743	187,794	202,344
Net claims	328,689	363,877	595,059	712,610	1,127,686	1,183,258
Expenses and commission	15,711	17,396	25,530	33,204	37,475	43,088
Underwriting profit (loss)	-64,908	-88,728	-137,515	-168,353	-479,477	-158,501
Net profit (loss)	20,342	14,836	-129,893	-159,708	-476,974	-144,116
Underwriting reserves	935,518	1,014,348	1,348,715	1,681,956	2,295,325	2,462,486
Other reserves	52,471	53,364	52,470	52,470	52,470	51,972

OTHER PRIVATE FINANCE

The Stock Exchange of Melbourne Limited

Introduction

The Stock Exchange of Melbourne Limited was established in 1884. Its main aims are to provide a market for the quotation, purchase, and sale of securities; the facilitation of raising funds by companies, government and semi-government authorities; and the promotion and protection of the public in its dealings with Members of the Exchange.

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. The Stock Exchange has stringent rules and regulations which ensure that members 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.

The 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.

Member organisations are now able 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.

The most active stocks by value of turnover for the six months ended December 1985 for the top twenty industrial companies totalled \$2,315m or 62 per cent of the total value of all industrial securities traded. The turnover of the next 20 companies was \$545m or 15 per cent of the total. For the first twenty mining companies turnover totalled \$931m or 68 per cent of the total value of all mining securities traded. The turnover of the next twenty companies was \$167m or 12 per cent of the total. Trading in rights (for both industrial and mining companies) is included.

Second Board Market

In November 1984, the Second Board Market was established. In March 1985, the first companies became listed on the market. The main aim of the Second Board is to provide small enterprises with a ready access to the equity capital they require for growth and development. At 31 December 1985, there were 20 companies listed on the Second Board in Melbourne.

Australian Financial Futures Market

Established in September 1985, this Market consists of futures contracts (Australian Futures Contracts) based on shares of specific major listed companies. This kind of contract traded, with settlement in cash rather than by transfer of the underlying security, is believed to be the first in the world.

AUSTRALIAN STOCK EXCHANGE INDICES (a)

Group	June 1983	Dec. 1983	June 1984	Dec. 1984	June 1985	Dec. 1985
All Ordinaries	605.1	775.3	658.9	726.1	860.8	1,003.8
All Industrials	742.3	1,004.3	921.6	1,081.8	1,240.2	1,487.1
All Resources	494.4	593.1	453.6	452.8	566.5	631.0
50 Leaders	564.1	716.1	591.5	642.3	768.4	899.2
Metals and Minerals	536.5	562.2	421.4	409.4	502.0	487.6
Gold (b)	805.8	846.9

(a) All Ordinaries - base 500.0 points at 1 January 1980.

(b) Gold Index - base 500.0 points at 1 January 1985.

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		
	1984	1985	Percentage variation	1984	1985	Percentage variation	1984	1985	Percentage variation
	\$m	\$m		million	million		'000	'000	
Share securities -									
Industrial	3,809.7	4,734.0	+24	1,678.4	2,177.3	+30	353.4	369.0	+4
Mining	1,344.4	1,659.8	+23	1,454.9	1,586.2	+9	214.0	193.7	-9
Oil	685.4	608.4	-11	910.2	797.0	-12	118.4	79.2	-33
Preference	8.3	28.6	+245	5.5	11.1	+102	1.5	1.9	+27
Total share securities	5,847.8	7,030.8	+20	4,049.0	4,571.6	+13	687.3	643.8	-6
Loan securities -									
Commonwealth loans	9,081.2	16,994.3	+87	9,219.3	17,405.8	+89	8.0	12.0	+50
Semi-government loans	641.8	309.3	-52	659.6	301.3	-54	3.4	2.8	-18
Debentures, notes	14.0	17.2	+23	15.9	18.0	+13	0.8	0.7	-12
Total loan securities	9,737.0	17,320.8	+78	9,894.8	17,725.1	+79	12.2	15.5	+27
Total	15,584.8	24,351.8	+56	13,943.8	22,296.7	+60	699.5	659.3	-6

Public Trustee

The Public Trustee 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.

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. 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.

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

Particulars	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Proceeds of realisations, rents, interest, etc.	54,010	62,296	67,849	82,119	88,230	100,008
Investments, distributions, claims, etc.	41,995	49,801	55,072	59,455	66,590	80,055
Cash variation	12,015	12,495	12,777	22,664	21,640	19,953
Balance at 1 July	75,438	87,453	99,948	112,725	135,389	157,029
Balance at 30 June	87,453	99,948	112,725	135,389	157,029	176,982

**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
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
1984-85	993	1,606

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.

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	1980	1981	1982	1983	1984	1985
Stock and debentures	97.7	93.1	199.4	88.7	99.5	132.5
Advances on mortgages	204.5	259.2	291.1	257.6	355.4	158.3
Real estate, farms, etc.	142.8	181.5	155.0	152.4	229.9	185.7
Shares	296.6	379.9	287.1	336.8	259.2	424.3
Deposits, cash, etc.	102.4	126.0	169.5	116.2	211.6	143.2
Unit trusts, superannuation funds, etc.	n.a.	n.a.	n.a.	593.5	544.2	559.3
Other	38.8	30.8	31.6	33.3	38.8	16.6
Total	882.8	1,070.5	1,133.7	1,578.5	1,738.6	1,619.9

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.

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. 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. Statistics are no longer maintained on the number of new titles issued.

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 1979-80 to 1984-85:

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
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
1984-85	180,126	153,240	18,427	3,636	38,391	185,578	579,398

NUMBER OF DEALINGS UNDER THE PROPERTY LAW ACT, VICTORIA

Year	Mortgages	Reconveyances	Conveyances
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
1984-85	2,832	2,404	3,927

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 1979 to 1984 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	1979	1980	1981	1982	1983	1984
Stock mortgages	404	496	490	346	283	298
Liens on wool	4	10	7	4	2	—
Liens on crops	82	71	74	77	86	7
Total	490	577	571	427	371	305

Bills of sale

With the commencement of the *Chattel Securities (Amendment) Act 1983*, information relating to Bill of Sale ceased to be collected.

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