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PRIVATE FINANCE

INTRODUCTION

The period since 1934 saw several significant changes in the private finance sector. The range of institutions operating at the beginning of the period was dominated by banks although building societies, insurance companies, finance companies, credit unions, pastoral houses, and trustee companies were all operating. Those other than banks tended to service sectional interests and were not generally regarded as being accessible by all. The banks were also limited in the services they could offer by a number of regulations.

By 1983 the range of financial institutions had expanded to include, *inter alia*, merchant banks and cash management funds. Whereas in the 1930s there was a climate conducive to regulation, by the 1980s the climate had changed to being receptive to less regulation and in many areas this process had begun to occur, e.g., in banking.

This Chapter discusses other changes during the period when considering the development of particular institutions.

The following table and graph show how the banking sector's share of total assets has varied from around 75 per cent to 45 per cent in 30 years.

TOTAL ASSETS OF FINANCIAL INSTITUTIONS: AUSTRALIA, AT 30 JUNE 1953 TO 1980
($m)

Financial institutions	1953	1955	1960	1965	1970	1975	1980
Trading banks	3,093	3,364	4,048	5,813	8,452	18,480	35,330
Savings banks	1,999	2,269	3,192	5,150	7,503	13,646	22,684
Other banking institutions	59	70	101	166	462	871	1,648
Banks (consolidated)*(a)*	5,076	5,612	7,158	10,922	15,795	31,638	58,115
Reserve Bank	2,071	1,903	2,142	2,515	3,164	5,356	12,007
Life insurance offices	1,105	1,289	2,032	3,285	5,481	8,909	14,001
Public pension funds	260	327	586	1,057	1,717	2,985	6,146
Private pension funds	233	298	545	973	1,608	2,810	5,944
Non-life insurance offices	212	266	486	938	1,799	3,433	8,219
Finance companies	171	340	1,157	1,500	3,502	9,221	17,780
General financiers	..	..	..	70	177	722	1,960
Money market corporations	3	4	24	60	798	2,732	6,460
Permanent building societies }	242	301	480	276	1,082	4,126	10,860
Terminating building societies }				519	700	923	1,463
Authorised money market dealers	..	..	160	352	667	889	1,698
Credit co-operatives	1	2	5	31	124	633	2,192
Pastoral finance companies	259	276	377	485	662	837	1,257
Investment companies	18	21	36	87	344	381	649
Unit trusts, land trusts, and mutual funds	18	36	160	228	251	387	935
Other financial institutions	57	69	97	169	308	1,005	2,239
Total	9,726	10,744	15,445	23,467	38,179	76,987	151,925

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

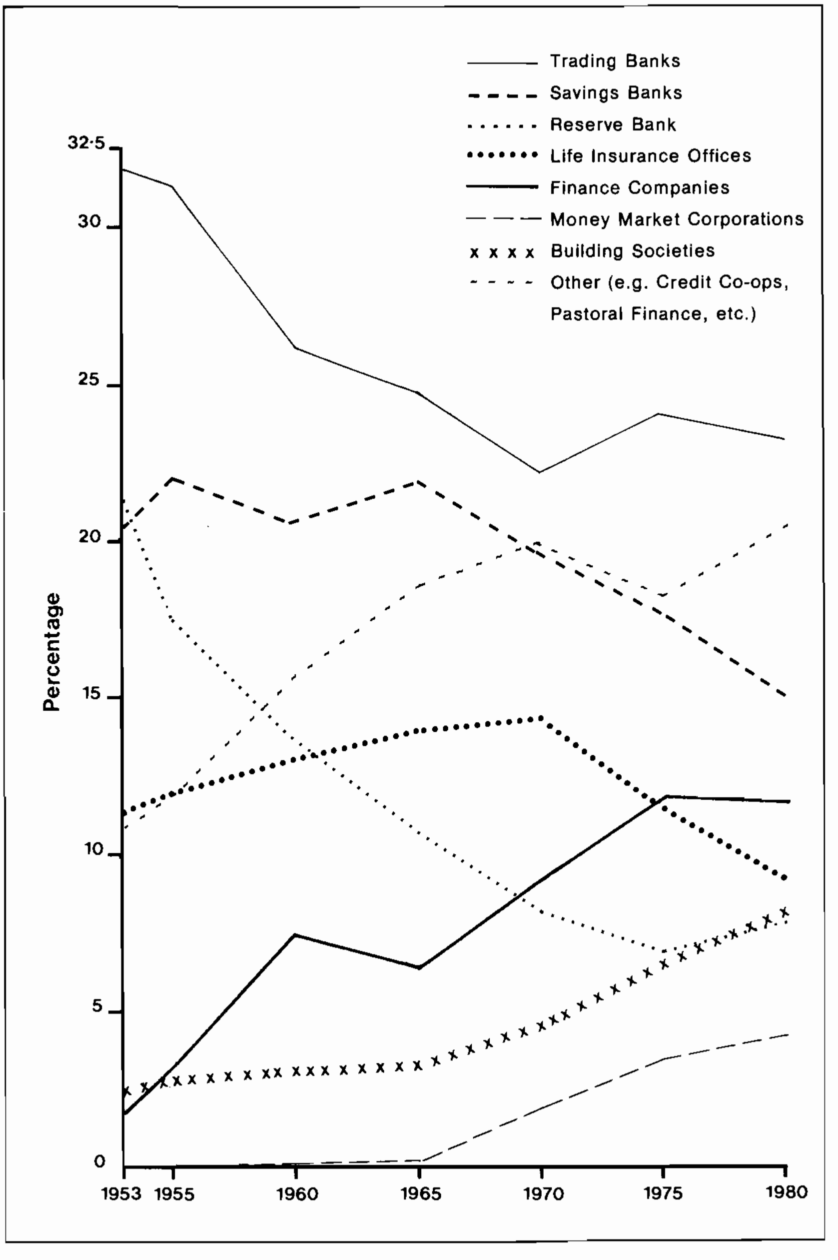

Figure 27. Australia—Total assets of financial institutions, year ended 30 June 1953 to 1980.

CENTRAL BANKING

The origins of central banking lay in the *Commonwealth Bank Act* 1911 which established the Commonwealth Bank of Australia—its main objectives being to carry on general banking business rather than deal with central banking functions. However, during the First World War, the Bank assisted the Commonwealth Government by floating and managing loans, and its functions were extended further in the direction of central banking with the establishment of the Note Issue Department and the Rural Credits Department in

1920 and 1925, respectively. But it was not until the Depression years that the first real actions of a central bank were undertaken, when a heavy drain on Australia's overseas reserves forced the Bank to initiate emergency financial measures. The most important measures were the scheme of mobilising gold and foreign exchange in 1929-30 and the fixing of the Australian currency to the United Kingdom sterling rate of exchange in 1931.

A Royal Commission on the Monetary and Banking System was established in 1936 and recommended that the Commonwealth Bank be given more meaningful powers over the trading banks in the areas of credit and prudential controls, and foreign exchange management. The Commission also recommended that in the case of an irreconcilable difference between the Commonwealth Government and the Bank, the Government should publicly accept full responsibility for the policy which must be implemented by the Bank.

However, the Commonwealth Government was otherwise occupied by political considerations and strong objections from the trading banks prevented the passing of new legislation. With the outbreak of war in 1939 and the need to introduce emergency banking measures, the question of permanent banking legislation was deferred until 1945.

The war period brought with it special problems, particularly the need to finance expenditure and minimise inflationary pressures. Until 1941, finance was obtained largely through increased taxation and borrowing from the public. However, in 1941 the Commonwealth Government had difficulty raising sufficient funds by these means and sold Treasury Bills. The Bank was keen to curtail any inflationary monetary expansion—an aim which led to the establishment of Special Accounts for the repository of certain amounts of trading bank liquid assets, and the power to determine the advance policy and interest rates of the trading banks. These powers were incorporated into National Security Regulations of 26 November 1941 and based on the "Defence" power of the Commonwealth under the Constitution. Soon afterwards the problems of instability of the currency and sharply declining overseas reserves prompted the introduction of similarly based emergency powers of foreign exchange control, including formal supervision of all overseas exchange transactions, compulsory mobilisation of all foreign exchange reserves, and the power to fix exchange rates.

Government measures during the Second World War were responsible for the Commonwealth Bank increasing its central banking powers considerably. They also resulted in better relations developing between the Commonwealth Bank and the Commonwealth Government that grew out of a need to co-operate during a period of crisis.

After the war, the *Commonwealth Bank Act* 1945 was the main piece of legislation which put into effect the 1936 Royal Commission's recommendations, and made permanent most of the Bank's emergency wartime powers. Special Accounts (later to be termed Statutory Reserve Deposit Accounts) became part of the Bank's programme for controlling credit. The Bank retained control over foreign currency held by the trading banks and was instructed to compete actively with the trading banks and co-operate extensively with the Commonwealth Government.

The *Banking Act* 1947 was seen as controversial legislation that would, according to the then Prime Minister, Rt Hon. J.B. Chifley, "rectify the flaws in the banking system", by nationalising the banks. The Act did not remain law for long, as the High Court ruled against much of it on the grounds that it was unconstitutional. The Privy Council upheld this view.

The next major development in central banking, apart from the introduction of the Liquid Assets and Government Securities (L.G.S.) Convention in 1956, was the 1959 legislation which established the Reserve Bank of Australia as Australia's central bank. This was achieved through the *Reserve Bank Act* 1959, which allowed the Commonwealth Banking Corporation freedom to concentrate on trading, savings, and development banking business.

Since 1959 the powers of the Reserve Bank have been increased, particularly with the introduction of the *Financial Corporations Act* 1974. Although the section of this Act giving the Bank direct control over non-bank financial corporations has not been proclaimed, the Reserve Bank collects statistics and regularly consults with these institutions. In addition, the Bank has increasingly moved away from direct control over banks, through the Statutory Reserve Deposit Ratio and regulated interest rates, and increased its activity in the indirect area, such as open market operations.

COMMITTEE OF INQUIRY INTO THE AUSTRALIAN FINANCIAL SYSTEM

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

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

The Inquiry was the first of its kind since the Royal Commission on the Monetary and Banking System of 1936-37. The Interim Report of the Committee was tabled in the Commonwealth Parliament on 28 August 1980 and was published. Several of the recommendations were adopted prior to the presentation of the final report which was presented to the Treasurer on 29 September 1981.

The Committee described its main concern as being to promote a financial system that is efficient, competitive, and stable. The Committee's study of efficiency aspects led it to recommend abandonment of a wide range of direct controls and a shift to almost total reliance on open market methods of intervention in domestic financial markets. It also recommended reduced levels of intervention in foreign exchange markets, freer entry conditions to banking, and disposal of some government-owned financial institutions. By and large, the Committee was confident that if official barriers to entry and participation were removed (and if the Trade Practices Commission operated effectively), the financial system would be strongly competitive. The Committee looked critically at the effectiveness of the present system of prudential regulation of banks and other financial intermediaries, and in some areas suggested more rather than less government involvement, although with emphasis on increased flexibility of regulation, whenever the Committee thought it possible. Two of the recommendations introduced to date include allowing banks to set deposit and lending interest rates, and adoption of a tender system for the issue of securities.

TRADING AND SAVINGS BANKS

Introduction

Banks operate within the financial sector of the overall economy. As a consequence, in any period, the banks' general operations are almost totally dependent on the prevailing national economic conditions. This relationship generally holds at the State level because economic and banking conditions have been broadly similar across Australia during these five decades.

Banking mergers

Banking operations in Victoria in 1934, like those for Australia as a whole, consisted of two distinctly separate groups—trading banks and State and Commonwealth Government savings banks. The nature of each group's business was almost totally different. Trading banks provided the key means of domestic payment, cheques, as well as offering foreign payment facilities. Deposits were accepted at call in cheque accounts bearing no interest, or on term deposits attracting interest. Assets were basically held as liquid and government securities and overdraft type advances.

In contrast, savings banks specialised in accepting deposits from small savers, in return offering a low rate of interest, investing the funds mainly in the securities of various levels of government and to some degree in housing loans. Therefore, savings banks operated in a distinctly different way from trading banks and provided these services to largely different sections of the population.

In 1934 there were 16 trading banks operating in Australia of which 10 were major trading banks operating across States through widespread branch networks. Six of these trading banks had head offices in Victoria: the Bank of Australasia; English, Scottish and Australian Bank; Union Bank of Australasia; Commercial Bank of Australia; National Bank of Australasia; and the Ballarat Banking Company. In the case of the first three banks their ultimate ownership and direction was British. In total, all trading banks carried out business through about 2,500 branches and 500 agencies across Australia.

By 1982 the number of operating trading banks had been reduced to 11, mainly as the result of mergers and absorptions. In particular, the British based banks merged and shifted their domicile to Australia in two steps; in 1951 when the Union Bank of Australasia merged with the Bank of Australasia to form the Australia and New Zealand Bank, and 1970 when the Australia and New Zealand Bank merged with the English, Scottish and Australian Bank. Further, in 1955, the National Bank absorbed the Ballarat Banking Company. These reorganisations reduced the number of Victorian based trading banks to three, namely, the Australia and New Zealand Bank, the Commercial Bank of Australia, and the National Bank of Australia. Further changes occurred in 1981 with the merger of the Commercial Bank of Australia with the Bank of New South Wales (to become Westpac Banking Corporation trading as Westpac Bank), and the National Bank with the Commercial Banking Company of Sydney (to become the National Commercial Banking Corporation trading as National Australia Bank).

In the case of savings banks, in 1934 five operated in Australia, and there were two in Victoria—the Commonwealth Savings Bank and the State Savings Bank of Victoria. This number was substantially increased when all the major trading banks established savings bank subsidiaries after 1956. After the mergers of 1981-82, there were 3 private savings banks in Victoria, of which two had headquarters in Melbourne (the ANZ and the National Australia) and one in Sydney (Westpac). In 1934 there were about 600 savings bank branches in Australia, just under 250 in Victoria, as well as about 4,800 agencies, of which over 1,000 were in Victoria.

Banking from 1934 to 1950

The period from 1934 to 1950 was characterised initially by very slow economic growth as the country recovered from the Depression that was at its worst in the early 1930s. Indeed, from 1934 to 1939 trading bank deposits in Victoria increased each year by less than an average of 1 per cent, well below the experience of the more economically robust 1920s. These parlous economic conditions set the background for the work of the Royal Commission on the Monetary and Banking System set up in 1936.

The economy had not fully emerged from the Depression when war was declared in 1939. The large war expenditures could not be fully financed by taxes and public borrowings and it was important that, as money swelled public deposits and liquidity, inflationary forces were kept in check. Deposits rose at an annual rate of 8 per cent on average between 1939 and 1946 and as a consequence of this massive expansion and wartime needs, trading banks were subject to a comprehensive series of controls under the National Security Regulations of 1941.

The most important regulation was one that attempted to control the excess liquidity produced by this wartime expenditure. Trading banks were required to place deposits in frozen accounts with the central bank that earned practically no return. By the end of the war these amounted to just under 40 per cent of trading bank deposits and were almost equal in size to loans outstanding. Further, trading banks were subject to restrictive interest rate limits on what they could pay to depositors and charge borrowers, as well as lending directives on what sectors should receive loans and the total value of loans that should be made.

While trading banks were prepared to accept these substantial restrictions in wartime, they questioned their continued use in peacetime. When the Commonwealth Government announced its intention to nationalise the banks, this provided a major feature of the 1949 election which resulted in a change of government. As a result nationalisation was not introduced. However, the set of controls introduced as a wartime measure under National Security Regulations, which were formalised in the *Banking Act* 1945, continued in force and was perceived by the banks to be an increasing problem in their normal operations. The banks felt they were being discriminated against, which placed them at a disadvantage compared to their uncontrolled competitors (mainly the finance companies) in the financial market. This limited the ability of trading banks to service the needs of customers, while competitors were free to provide whatever financial services they chose. The banks argued that this was a loss to customers as they could not fully accommodate their needs through

Chadstone Shopping Centre which was opened in 1960.
National Library of Australia

Former Richmond footballer Jack Dyer's milk bar in Richmond, now remodelled.
The Herald and Weekly Times Ltd

THE STAR, SATURDAY EVENING, SEPTEMBER 29, 1934.

MYER STAR BARGAINS

MONDAY . . . . 9 till 12 or earlier if sold out . . . . Cash at Counter only . . . . No 'Phone or Mail Orders

Ladies' 11/6 Spun Silk Blouses, 5/11

Ladies' 16/11 Check Skirts for 8/11

Ladies' 12/6, 19/11 Cardigans, &c., 5/11

12/6 Oddment Corsets go for 5/11

Ladies' 6/11 Jersey Petticoats at 3/6

Children's 2/11 Pyjamas go for 1/6

Children's 2/11 Wash Frocks at 1/9

Lds'. 7/11, 8/11 Kimonas, 3/11

Ladies' 6/11 Smart Straw Hats, 2/11

Lds'. 3/11 Vests and Bloomers, 1/3

Children's 4/11 Hats for 2/6

4/11 yard Crepe Feisal for 1/11½

1/11, 2/6 English Voiles for 9d.

1/-, 1/3 English Dress Prints, 8½d.

3/11 yard Wool Fancy Chaly, 1/11

5/11 Multi-colour Blind Duck, 3/11

4/6, 7/6 Framed Pictures, 2/6

3/11 Hemmed Twill Sheets, 2/11

37/6 Wool Travel Rugs for 24/6

1/11½ Kanebo Spun Fuji Silk for 1/1½

Children's 1/6 Half Sox now at 7½d.

Ladies' 7/11 All-silk Sheer Hose, 3/11

Men's 2/6, 4/6 Wide-end Ties at 1/6

Men's 10/6, 16/6 Tourist Shirts, 7/11

Men's 6/11 Underwear now for 3/11

Boys' 1/11, 2/3 pair Golf Hose at 1/-

3/11 yard Curtain Repps for 2/6

Men's 2/11, 3/6 Half Hose, 1/6

8/11 Cotton Crepe Bedspreads, 4/6

Men's 2/11 each Singlets for 1/-

Myer "Star Bargains" as they appeared in 1934.

Historian, Myer Emporium Ltd

(Below) Melbourne's first free standing supermarket, located at the corner of Burke and Doncaster Roads in North Balwyn was officially opened by the Premier of Victoria, Hon. H.E. Bolte, in 1960. An advertisement of the opening "specials" is shown (right).

G.J. Coles and Coy. Limited

their nationwide branch network which was geared to provide standard financial services, as well as more complex needs, such as foreign exchange transactions.

Over this period the general economic conditions described applied equally to savings banks. However, because the Commonwealth Savings Bank operated to a large degree in relation to Commonwealth central bank operations, and the State Savings Bank of Victoria was immune from Commonwealth legislation, the regulatory implications of the period were not as relevant.

Banking from 1951 to 1970

Between 1951 and 1970 there was substantial economic growth in Australia. As well, the banking sector expanded. Deposits grew at a strong rate over the period and advances increased substantially to meet the credit needs of customers, thereby sustaining the economic expansion. However, in gathering funds and making loans, trading banks still felt they were over-restricted by regulatory controls. As a result, their rate of growth was limited in relation to their uncontrolled competitors, chiefly the finance companies, in which, however, they bought significant stakes after the early 1950s.

In the few years on either side of 1960 some substantial institutional changes were made to the banking system. The privately owned banks had earlier restricted themselves to trading bank activities. But increasing competition from the Commonwealth Bank which provided dual facilities motivated them between 1956 and 1962 to establish a savings bank subsidiary which provided passbook savings facilities for individuals and loans to individuals for housing. Until this development, savings banking had been the province of the Commonwealth Savings Bank and State and Trustee Savings Banks in a number of States. In particular, the State Savings Bank of Victoria had played a dominant role in this area of banking in Victoria.

The second major change involved Federal banking legislation of 1959 that provided for the separation of the central banking operations from the Commonwealth Bank with the formation of the Reserve Bank of Australia, leaving traditional trading and savings bank operations with the Commonwealth Banking Corporation. The new Reserve Bank was given the responsibility of regulating the Australian monetary and banking system, as well as carrying out other functions of a central bank.

A number of steps were taken in the late 1960s to expand the range of deposit and loan facilities provided by banks. A new trading bank financial instrument was devised to service the needs of large value depositors, the negotiable certificates of deposit. The terms available on fixed deposits were considerably widened. For the smaller saver, a new form of term savings bank account was introduced, the investment deposit stock accounts, offering small savers a higher interest return. Provision was also made for a higher return to those ordinary accounts with larger balances. A number of higher interest special purpose accounts were also introduced.

On the lending side, trading banks offered several new lending forms that met the changing needs of the borrower more adequately. In particular, some customers wanted a loan with more security of tenure than the overdraft. This was met with term and farm development loans which offered longer term, fixed repayment schedule loans. For shorter term borrowings trading banks became increasingly involved in using commercial bills as instruments of providing very short-term finance. For the smaller individual borrower, trading banks introduced personal loans with a fixed repayment schedule. This type of credit was made available on more favourable terms than from non-bank institutions.

In the 1960s demands by traditional customers for changes in financial methods became apparent, and Australia's growing needs for resource development finance placed an added responsibility on banks. This was met in part by the establishment by the major trading banks of the Australian Resources Development Bank in 1967 with the specific aim of providing for, and facilitating, project finance for national resource developments. This specialist bank has been based in Melbourne. Another specialist organisation, also established by the major trading banks, was the Australian Banks' Export Refinance Corporation. Its purpose was to provide re-finance to banks so that they, in turn, could make extended term export credit available to exporters of capital equipment. This organisation was absorbed by the Resources Bank in 1980.

The aggregate balance sheets that follow illustrate the size of the banks and the distribution of funds inflows and outflows. They show the contrast between 1955 and 1982, especially the increased size and complexity of banking operations, both in terms of funds inflows and outflows.

ASSETS OF ALL TRADING AND SAVINGS BANKS: AUSTRALIA, 1955 TO 1982 ($m)

Year	Australian public securities		Loans, advances, and bills discounted		SRD and cash with Reserve Bank	Bills receivable and all other assets	Total assets
	Australian and State Government	Local and semi-government	Housing loans	Other loans, etc.			
			TRADING BANKS				
1955	423.4	3.0	n.a.	1,851.6	620.8	161.5	3,060.3
1960	549.6	5.2	n.a.	2,211.1	672.2	434.3	3,872.4
1965	974.2	11.3	n.a.	2,955.1	682.8	673.2	5,296.6
1970	1,329.5	23.7	n.a.	4,901.1	684.2	1,021.9	7,960.4
1975	3,526.7	31.2	n.a.	11,205.0	426.3	2,784.3	17,973.5
1980	4,300.9	205.1	n.a.	20,402.0	1,399.7	7,768.0	34,075.7
1981	5,253.7	219.8	n.a.	23,028.7	1,859.4	9,460.1	39,821.7
1982	5,486.0	240.0	n.a.	26,214.0	2,141.0	14,075.0	48,156.0
			SAVINGS BANKS				
1955	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1960	1,587.7	568.9	544.0	59.4	272.2	159.8	3,192.0
1965	2,066.1	1,092.3	1,185.2	131.7	430.3	244.4	5,150.0
1970	2,261.4	1,800.9	2,144.2	195.6	612.9	488.8	7,503.8
1975	2,962.1	3,296.7	4,717.4	602.7	907.6	1,087.3	13,573.8
1980	3,091.7	5,764.9	10,901.0	861.9	555.2	1,509.7	22,684.4
1981	3,773.0	6,118.4	12,022.9	1,255.0	128.6	1,588.0	24,885.9
1982	3,651.0	6,521.0	13,092.0	1,649.0	195.0	2,159.0	27,267.0

NOTE. Housing finance is not available for the Trading Banks.

LIABILITIES OF ALL TRADING AND SAVINGS BANKS: AUSTRALIA, 1955 TO 1982 ($m)

Year	Deposits			Total depositor's balances	All other liabilities	Total liabilities
	Bearing interest		Not bearing interest			
	Fixed *(a)*	Current				
			TRADING BANKS			
1955	n.a.	n.a.	n.a.	2,946.0	n.a.	n.a.
1960	745.4	244.5	2,621.2	3,611.1	141.3	3,752.4
1965	1,909.7	353.0	2,775.7	5,038.4	269.0	5,307.4
1970	3,097.2	462.9	3,538.9	7,098.9	697.1	7,796.1
1975	8,635.0	842.6	5,458.1	14,935.7	2,291.5	17,227.2
1980	14,755.5	1,247.7	9,639.9	25,643.2	6,345.3	31,988.5
1981	17,187.8	1,218.4	10,899.7	29,305.9	8,123.8	37,429.6
1982	21,613.8	1,243.9	10,633.4	33,491.2	12,417.7	45,908.9
			SAVINGS BANKS			
1955	..	2,146.0	..	2,146.0	123.0	2,269.0
1960	..	3,045.4	..	3,045.4	146.6	3,192.0
1965	..	4,886.6	..	4,886.6	263.4	5,150.0
1970	..	7,104.7	..	7,104.7	398.3	7,503.0
1975	..	12,790.4	..	12,790.4	855.6	13,646.0
1980	..	21,260.9	..	21,260.9	725.8	21,986.7
1981	..	23,217.9	..	23,217.9	815.2	24,033.1
1982	..	25,040.0	..	25,040.0	1,224.0	26,264.0

(a) From 1969 includes certificates of deposit.
Sources: *Commonwealth of Australia Gazette* and *Reserve Bank Monthly Bulletin.*

Banking from 1971 to 1982

Inflation and unemployment increased in the 1970s and early 1980s and the level of economic activity has fluctuated. As a result greater emphasis was placed on monetary policy with greater direct controls over banks. Whereas for a brief period in the earlier 1970s, some of the restrictive terms and conditions under which banks operated were relaxed, for most of the period the controls produced conditions that once again allowed banks' uncontrolled competitors to expand. Under these conditions, the expansion in the range of services as perceived by banks was restricted.

The expansion that did take place emphasised service. Thus, business services were expanded through the establishment of merchant banking divisions, business and trade inquiry services, leasing facilities, and wider nominee, investment, and portfolio services; representative offices and agencies were established in many parts of the world to facilitate international trade and export services; and services to individual customers were augmented through the expansion of consumer finance services, delegation of responsibility through regional and area structures, expansion of travel services, and the introduction of small business advisory services. The shift to computer operations that began in the early 1960s has also enabled the banks to improve the efficiency of the payment mechanism as well as to provide additional services to customers such as the introduction in 1974 of Bankcard, a charge card and credit system. In a further move, the Primary Industry Bank of Australia was established in 1978 to refinance long-term loans to primary producers through the trading banks.

History was made on 15 February 1981 when the Australian Treasurer announced approval for the establishment of the Australian Bank Ltd, the first new trading bank for over 50 years. Its Melbourne office opened on 14 August 1981.

FINANCE COMPANIES

Introduction

Before the Second World War hire purchase (later included in instalment credit) was not widely used in the community and the difficulties experienced by some consumers as a result of the Depression brought about frequent occurrences of repossession. Also, the practice of hire purchase as such was not considered quite respectable among some parts of the community. Victoria introduced protective legislation for consumers in 1936 and Queensland, South Australia, and Western Australia followed suit. The most comprehensive Act to that time however, was that of New South Wales in 1941.

During the 1950s when hire purchase grew significantly, an attempt was made to overcome the discrepancies between the hire purchase legislation of the States and following conferences between the Commonwealth and the States, legislation was introduced in 1959 and 1960 which achieved a considerable degree of uniformity and defined the obligations and rights of hirers and owners. In Victoria the legislation was the *Hire Purchase Act* 1959. A year previously, the *Stamps Act* 1958 imposed a duty on hire purchase agreements.

A complete review of consumer credit legislation commenced in 1966 when the Standing Committee of Attorneys-General commissioned a report from the Law School of the University of Adelaide. This was completed in 1969, and in 1972, at the request of the Standing Committee, the Victorian Attorney-General commissioned a report from a committee of the Law Council of Australia (the Molomby Report).

As a result of this report, three Bills were prepared in Victoria for producing a legislative model and were tabled for public discussion in 1978. This generated several amendments and the revised legislation was passed in November 1981. The new credit laws came into force in 1982 and were embodied in three statutes: The Credit Act, the Goods (Sales and Leases) Act, and the Chattel Securities Act. The Credit Act in Victoria replaced the Money Lenders Act and replaced hire purchase contracts for actions below $15,000 with a contract of loan secured by mortgage.

The Goods (Sales and Leases) Act provided non-excludable conditions and warranties in sales and leases of goods. The Chattel Securities Act provided for the first time in Australia a computerised register of security interests in motor vehicles.

This legislation in the 1980s came at a time when finance companies' operations had become greatly diversified into commercial and property enterprises, when banks' consumer lending had developed through Bankcard and personal loans, and when credit unions had expanded.

Developments

The significant expansion of hire purchase and instalment credit dates back to the years after the Second World War when there was a large pent-up demand for consumer durables and motor vehicles (as well as houses), which had been denied to the public during the war. In addition as Australia experienced a long era of near full employment in the 1950s and 1960s, the money to underpin domestic commitments was available. The Commonwealth Government was so conscious of inflationary dangers after the Second World War that bank lending and liquidity were rigorously controlled. This had a major effect on consumer credit in the early 1950s: the banks either expanded existing, or established new, hire purchase companies.

The growth of instalment credit in those decades produced substantial effects: by adding to the buying power of consumers it affected the level and structure of consumer demand, which also increased as a result of the trend to "asset ownership", the introduction of new household goods, rising levels of average real income, and advertising. As there was security of employment, a high rate of home building and household formation, and relatively low rates of interest, a mild rate of inflation made the repayment of fixed debts relatively easy.

The following table shows the changing pattern of finance company operations both as regards the assets they held and the way they were financed and illustrates how the role of the finance companies has been changed from its original orientation towards consumer purchasing to commercial lending, more directly generating production and employment:

FINANCE COMPANIES, ESTIMATED ASSETS AND LIABILITIES SPREAD: VICTORIA, 1938 TO 1982
(per cent)

Item	1938	1949	1959	1969	1979	1982
	TYPE OF ASSET					
Consumer credit	85	81	84	45	25	20
Commercial loans						
Wholesale finance	10	12	9	5	7	5
Property related and commercial loans	—	—	—	38	35	37
Leasing	1	3	4	8	30	35
Bills of exchange and liquidity placements	1	1	1	2	2	2
Commercial finance	12	16	14	53	74	79
Total finance assets	97	97	98	98	99	99
Non-finance assets	3	3	2	2	1	1
Total	100	100	100	100	100	100
	TYPE OF LIABILITY					
Shareholders' funds	80	35	33	14	11	13
Bank overdraft	5	51	4	1	2	1
Public borrowings	4	2	52	80	77	78
Other	11	12	11	5	10	8
Total	100	100	100	100	100	100

The amounts of instalment credit for retail sales financed and balances outstanding for the years 1957 to 1982 were as follows:

INSTALMENT CREDIT FOR RETAIL SALES: VICTORIA, 1957 TO 1982
($m)

Year ended 30 June—	Type of credit	Amounts financed during period by commodity group (a)					Balances outstanding to—	
		Motor vehicles, etc.	Household and personal goods	Plant and machinery	Total amounts financed	Amount financed by finance companies only	Finance companies	All businesses
1957	Hire purchase	76.9	49.1	5.7	131.7			
	All instalment credit	77.0	65.1	5.8	147.8	96.3	120.1	163.9
1960	Hire purchase	131.5	70.1	10.9	212.5			
	All instalment credit	137.0	104.4	11.1	252.5	160.9	216.9	323.7
1962	Hire purchase	84.4	53.5	10.6	148.5			
	All instalment credit	95.3	88.5	10.7	194.5	116.1	185.6	302.7
1965	Hire purchase	75.1	46.9	14.4	136.4			
	All instalment credit	146.7	92.6	15.8	255.2	171.1	253.7	354.5
1967	Hire purchase	53.7	37.6	16.5	107.8			
	All instalment credit	136.3	83.8	18.0	238.1	159.7	254.5	341.3
1970	Hire purchase	69.5	45.7	22.1	137.4			
	All instalment credit	221.7	100.5	25.5	347.7	260.5	390.9	475.9
1972	Hire purchase	78.0	47.4	19.3	144.7			
	All instalment credit	209.6	109.3	20.7	339.6	246.1	413.9	509.4
1975	Hire purchase	115.3	44.0	n.a.	159.3			
	All instalment credit	202.3	127.2	n.a.	329.4	251.5	420.1	471.2
1977	Hire purchase	193.3	62.4	n.a.	255.7			
	All instalment credit	271.5	148.3	n.a.	419.8	334.4	561.2	610.2
1980	Hire purchase	183.6	56.7	n.a.	240.2			
	All instalment credit	231.2	141.3	n.a.	372.5	298.0	625.1	670.7
1982	Hire purchase	236.6	59.8	n.a.	296.4			
	All instalment credit	297.8	174.6	n.a.	472.4	378.4	737.8	792.2

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

In 1958 twenty companies among credit granting institutions formed the Australian Hire Purchase Conference, in 1965 renamed the Australian Finance Conference. All major domestic trading banks, two State banks, eleven overseas banking and financial institutions, two large pastoral houses, three major insurance groups, and a number of domestic commercial interests were in 1982 major shareholders in the Conference member companies. Some companies have their national headquarters in Melbourne.

Consumer loans

Hire purchase has always been closely linked to finance companies. The 1950s and 1960s were generally an era of great consumer expansion, although there were temporary checks in 1951-52 (the recession after the Korean War "boom"), 1955-56 (when the finance companies voluntarily agreed not to exceed 10 per cent growth in that financial year), and again in 1956 when the Commonwealth Government sharply raised the sales tax on motor vehicles.

Personal loans were introduced by finance companies in the 1960s, frequently unsecured, on the credit worthiness of the borrower. This was a change of emphasis from the original financing of new and used motor vehicles secured by hire purchase or chattel mortgage agreements, and brought competition in the market place from the banks, their Bankcard, and the credit unions.

Commercial loans

In the 1950s finance companies expanded their commitment to wholesale finance, especially the lending of money to motor vehicle dealers for their stocks of vehicles pending actual sale; and more generally, the factoring of business book debts which became popular at the end of that decade. The wholesale "floor plan" finance to motor vehicle dealers was also supplemented by consumer credit for the purchasers of motor vehicles.

The leasing of plant, machinery, office equipment, fleets of vehicles, large haulage trucks, and agricultural and farming equipment for business (as distinct from consumer) purposes began in the 1960s and became wide spread as it was seen to hold taxation advantages (as a result of the Commonwealth Government's impetus through the investment allowance introduced in 1976) for businesses on the one hand, and to diminish their capital requirements on the other. In the following decade leasing became highly significant by finance companies. It was their greatest growth area in the 1970s.

There was a high level of domestic and commercial property construction in the 1970s and the finance companies supported this by lending for the purchase of land, the development of large property projects, and the construction of houses and housing developments sometimes almost reaching the size of a suburb. This rate of growth had subsided dramatically by 1982.

Borrowing operations

The significant changes which have occurred in finance companies' lending operations, both within and beyond the consumer credit field, have been matched by major developments in their funding activities. At the beginning of the 1950s finance houses were obtaining a major share of their funds from bank overdrafts and shareholders' funds.

However, anticipating a Central Bank directive in 1955 which curtailed bank overdraft funding to finance companies, the industry began to raise funds from the public's personal savings through the issue of fixed interest debentures and unsecured notes, protected by Trust Deeds.

By these means finance companies had more than $14,200m involved in fund raising through debentures, deposits, and notes at 31 May 1982. A substantial proportion of this total consisted of raisings from individuals and institutions in Victoria.

Conclusion

The successive development of hire purchase, instalment credit, personal credit, leasing, wholesale financing, and property development finance has been a highly significant factor in the economic development of Victoria and Australia since the Second World War. As economic conditions changed and finance companies responded by offering new types of facilities, the background legislative requirements to protect the owner and consumer also developed simultaneously.

The 1970s especially were notable for the expansion of consumer protection through such Acts as the *Consumer Affairs Act* 1972, the *Motor Car Traders Act* 1973, the *Small Claims Tribunal Act* 1973, the *Credit Reporting Act* 1978, the *Market Court Act* 1978, and the *Magistrates Court Act* 1979.

SHORT-TERM MONEY MARKET AND THE MERCHANT BANKS

Money markets depend for their existence on three necessary components: a pool of funds seeking short-term employment, a secure tenure for the short-term employment of those funds, and finally, a process whereby these supply and demand components can be brought together in an organised market.

The short-term money market had its beginnings in the 1930s when these three components began to emerge. Some Melbourne stockbrokers, acting as intermediaries, provided short-term investment outlets for large pockets of funds under official or bank control and channelled these funds into government securities which were then either mortgaged with lenders or, in a later trend, sold to them under short-term "buy back" agreements.

By the mid-1950s these practices had developed into an unofficial short-term money market, reaching beyond Victoria. The potential for further growth, however, was limited by the lack of suitable short-term government paper and a lender of last resort to provide liquidity to the brokers if needed.

These limitations led the central bank, to set up in February 1959 an official short-term money market, with the bank acting as lender of last resort so that the development of the market would be soundly based.

The market started with four authorised dealer companies, two of which were Melbourne based, and a further five companies were authorised by 1960, three of which were Melbourne based. There have been no additions to the number since.

Dealers borrow secured funds at call or for short fixed periods at market determined interest rates from a wide range of sources, public and private, to finance portfolios of mainly short-term Commonwealth Government securities in which they are expected to make an active Australia wide market.

Concurrently with the growth of the "buy back" market was the development in the 1950s of the intercompany money market. This market involves the arrangement of unsecured loan transactions at market rates between corporations with surplus and deficit fund positions. It was fostered by the same brokers who were active in the "buy back" market, acting as intermediaries between the parties for a fee. At times the market contracted severely following credit squeezes or company failures when funds were withdrawn in favour of a more secure haven. Only the strongest corporate borrowers have been able to rely upon this market as a continuous source of funds.

During the post-war period, merchant banks also began to be established in Australia. The first to be established was formed in Melbourne in 1949, owned by London merchant banking interests. Others followed in the early 1950s, but it was not until the late 1960s that merchant banks had grown in sufficient numbers to identify them as a group.

At the time there was growing international awareness of the development potential of Australia's mineral resources and of the limited capacity of conventional Australian capital sources to fund this development. Accordingly, internationally connected merchant banks were set up in the hope of sharing in what at the time appeared to be exciting commercial prospects, and based largely for their funds on the rapidly expanding Eurodollar market.

However, officially imposed restrictions on capital inflow and the decline of the 1967 to 1971 mining investment boom meant that, soon after their arrival, many of the newly formed merchant banks had to turn entirely to domestic sources of funds to provide loan facilities to their Australian clients. Accordingly, there was a rapid expansion during the 1970s in an unofficial short-term money market based on the funding requirements of the merchant banks.

This market exists in parallel with the official market but is unrestricted by any officially imposed limitations on the investment of funds and it does not have the benefit of the lender of last resort facility from the Reserve Bank. Instead, the merchant banks rely upon the backing of standby credits from Australian banks and overseas parent banks. Notwithstanding this, the unofficial market overtook the official market in size early in the 1970s.

In providing medium-term loan facilities of a year or more to their clients, the merchant banks are obliged to rely on borrowed funds which are available, for the most part, only for short fixed periods or at call on 24 hours notice. On the surface this would appear to be an unsound practice involving "borrowing short and lending long". However, these lending facilties are, to a large extent, based on the discounting of short-term bills of exchange, or the option to so do, on a revolving basis throughout the period of the facility. This system creates short-term paper which can be rediscounted by the merchant bank in the market for liquidity and enables the breakdown of the loan into short interest rate periods of 90 to 180 days. This process provides the merchant bank with a good measure of interest rate and liquidity protection.

Although bills of exchange have been used in Victorian commerce since the Colony began, they were recognised by the money market in the 1960s as being an ideal short-term market vehicle for both borrower and lender. At first the main growth in the market was in bills accepted or endorsed by trading banks but, later, bills of exchange became the basis upon which merchant banks were able to expand their lending.

In addition to money market and banking services, merchant banks also became involved with varying emphasis in underwriting debentures and new share issues, in providing advice relating to mergers, acquisitions and take-overs, financial re-organisations, planning for expansion, and stock exchange listing. Some offered the management of investment portfolios and leasing finance.

In 1972 Australian merchant banks, with a common interest in the bill market, formed the Accepting Houses Association of Australia (AHA) and established its permanent secretariat in Melbourne. This became the Australian Merchant Bankers Association in 1979, with a membership of twenty-three, when the AHA merged with another smaller merchant banking body, the Issuing Houses Association of Australia, to represent the wider interests of merchant banks.

STOCK EXCHANGE OF MELBOURNE

By the end of 1935 investors were once again taking keen interest in the share market following a slow recovery from September 1931 when market prices reached their lowest ebb during the Depression.

The possibility of war in the late 1930s affected the expectations of investors. In 1939, for the second time in its history, the Stock Exchange of Melbourne closed because of the outbreak of war; on this occasion, the adjournment extended from Saturday, 2 September to Monday, 4 September inclusive. Upon re-opening, downward share price movements were comparatively small.

In February 1942 the Prime Minister announced new National Security (Economic Organisation) Regulations which embraced severe restrictions prohibiting the sale of investments other than Commonwealth and semi-government loans, and prohibiting investment of capital except under very rigorous conditions. The Stock Exchanges of Australia immediately suspended all dealings in company shares until the Regulations were modified on 11 March, thereby permitting shares to be sold after they had been registered in the name of a holder for five months, but only within a range of defined maximum and minimum prices.

These prices were revised fortnightly by the Exchanges in consultation with the Treasury, any alterations being restricted to 10 per cent above or below the previous limits. In November 1942 the ceiling prices were related to the highest sale of each particular stock in September 1941, with the provision that no ceiling would be below the paid-up value of the shares. In October 1945 there were no fewer than 700 stocks "jammed" at ceiling prices. There was no relaxation in these regulations until sixteen months after the end of the war.

In 1946, for the first time since 1937, the Exchange had its full complement of 129 members. In the post-war years the Exchange enabled many family businesses to expand through public listing. By 1950 the volume of business passing through the Exchange had increased to such an extent that plans for revised methods of trading became very pressing; thus in 1951 plans were prepared for a second call room. A sharp contraction of the market in 1952, because of a decline in the price of wool and a credit squeeze, deferred these plans until 1955.

In 1959, members passed a resolution to create ten additional seats and in 1960 an additional 35 seats were created. Finally, after a century of trading under the "call room" system, the Exchange introduced post trading in January 1962; this made possible the trading in all securities during the entire period the market was open.

In 1963 plans were announced for a new building to be erected at 351 Collins Street to be called "Stock Exchange House" and to be owned jointly by the Exchange and the ANZ Bank. The transfer of operations to that building meant that the Exchange would return to a site adjacent to its first home which was established in 1859. The Premier opened the new Stock Exchange premises on 14 October 1968. A computer communication network from mid-1969 and a data link was established with the Sydney Stock Exchange computer in 1973. A Joint Committee of the Stock Exchanges of Melbourne and Sydney was formed in December 1976.

Between 1967 and 1971 there was a "mineral boom" in Australia following the development of vast deposits of iron ore in the Pilbara region of Western Australia, oil and gas in Bass Strait, nickel at Kambalda, and bauxite at Weipa, and the optimism of exploration companies such as Poseidon. A record number of 107 new companies were listed during the nine months to 30 June 1970, the previous record being 81 companies for the 12 months ending 30 September 1955. However, the market by October 1974 had lost all of its gains in the "mineral boom" and the Share Price Index was lower than the base year of 1960. Conditions in the share market were reminiscent of the Depression of the early 1930s.

During 1975-76 Stock Exchange seats which, in effect, provided a licence to operate as a share broker in Melbourne, provided the basis for membership of The Stock Exchange of Melbourne Limited for the last time. A new system was designed to open up membership of The Stock Exchange of Melbourne Limited to any person of good character with appropriate qualifications, experience, and financial standing. Under the old system there were 169 seats, whereas the new system provides for a membership of up to 250.

In 1978 there was progress towards the rationalisation of computer services in Melbourne and Sydney and a company owned equally by the Melbourne and Sydney Stock Exchanges was established for this purpose. Another interstate development—in 1980—was the Australian Stock Exchange Indices produced by the Melbourne and Sydney Exchanges.

From the depressed market conditions in 1974 the market recovered and in 1979-80 moved into a phase of confidence, high prices, and record turnover associated with renewed development and enthusiasm concerning Australia's mineral wealth. The total turnover by value for the year ended 30 June 1980 was $4,212.3m, an increase of 148 per cent over 30 June 1979. In comparison with 1970-71 ($1,259.1m), this figure reveals an overall gain of 235 per cent. The total number of transactions in share securities for the year ended 30 June 1980 was 767,151 compared with 1,276,000 in 1970 and 399,400 in 1974. These figures reveal a continuing trend towards higher average transaction values.

After 1980 there was a prolonged conflict between sharebrokers and merchant bankers about the handling of equity investments in relation to the provisions of Trade Practices Commission legislation. This more or less coincided with a decline in share values after early 1981 which reflected increasingly difficult economic conditions locally and overseas, record high interest rates, diminishing commodity markets, and a decline in the real world price of oil. However, this downward trend was reversed in 1983.

MELBOURNE STOCK MARKET, NOMINAL AND MARKET VALUES OF LISTED SECURITIES: VICTORIA, 1939 TO 1982 *(a)*

($m)

Item	1939	1945	1953	1960	1965	1970	1975	1980	1981	1982
NOMINAL VALUE OF SECURITIES										
Commonwealth loans	1,156	3,062	5,228	5,928	7,056	9,364	11,656	16,447	16,963	17,873
Semi-government loans				688	720	901	1,088	3,510	4,248	5,245
Company loans, debentures, notes, etc.	36	34	84	506	888	1,533	2,427	2,878	3,375	3,566
Total loans, securities	1,192	3,096	5,312	7,122	8,664	11,798	15,171	22,835	24,586	26,684
Industrial shares	314	404	932	2,106	3,226	4,055	5,958	7,935	9,172	10,081
Mining and oil shares	160	140	196	148	258	797	1,644	2,693	3,632	4,130
Total share securities	474	544	1,128	2,254	3,484	4,852	7,602	10,628	12,804	14,211
Total nominal value of listed securities	1,666	3,640	6,440	9,376	12,148	16,650	22,774	33,463	37,390	40,895

MELBOURNE STOCK MARKET, NOMINAL AND MARKET VALUES OF LISTED SECURITIES: VICTORIA, 1939 TO 1982 *(a)—continued*
($m)

Item	1939	1945	1953	1960	1965	1970	1975	1980	1981	1982
MARKET VALUE OF SECURITIES										
Commonwealth loans	} 1,156	3,136	4,762	5,894	7,012	8,673	9,845	14,024	14,158	13,972
Semi-government loans				660	720	869	954	3,224	3,841	4,565
Company loans, debentures notes, etc.	32	32	78	428	884	1,480	2,043	2,660	3,272	3,134
Total loan securities	1,188	3,168	4,840	6,982	8,616	11,022	12,842	19,908	21,271	21,671
Industrial shares	610	742	1,640	6,262	8,456	12,046	11,883	27,597	36,868	28,568
Mining and oil shares	162	192	286	334	658	8,927	3,656	17,861	18,498	9,515
Total share securities	772	934	1,926	6,596	9,114	20,973	15,539	45,458	55,366	38,083
Total market value of listed securities	1,960	4,102	6,766	13,578	17,730	31,995	28,382	65,366	76,637	59,754

(a) Year ended 30 September from 1939 to 1965. Year ended 30 June from 1970 to 1982.
Source: The Stock Exchange of Melbourne Annual Reports.

MELBOURNE STOCK MARKET, TURNOVER: VICTORIA, 1955 TO 1982 *(a)*

Item	1955	1960	1965	1970	1975	1980	1981	1982
TURNOVER BY VOLUME (million)								
Government loans —								
Commonwealth	123	173	115	140	441	985	1,048	1,775
Semi-government	6	6	16	16	14	60	85	334
Company loans, debentures, notes, etc.	2	4	14	18	15	14	13	19
Total loan securities	131	183	145	174	470	1,059	1,146	2,128
Share securities —								
Industrial (ordinaries, etc.)	66	88	113	247	282	722	824	702
Mining and oil	25	13	29	1,123	167	1,401	1,940	1,091
Total share securities	91	101	142	1,370	449	2,123	2,764	1,793
Total turnover by volume	222	284	287	1,544	919	3,182	3,910	3,921
TURNOVER BY VALUE ($m)								
Government loans —								
Commonwealth	n.a.	n.a.	99	132	385	925	925	1,488
Semi-government	n.a.	n.a.	14	15	13	49	79	293
Company loans, debentures, notes, etc.	n.a.	n.a.	9	18	12	13	12	15
Total loan securities	n.a.	n.a.	122	165	410	987	1,016	1,796
Share securities —								
Industrial (ordinaries, etc.)	n.a.	n.a.	193	380	322	1,612	1,975	1,446
Mining and oil	n.a.	n.a.	40	824	131	1,613	2,217	1,012
Total share securities	n.a.	n.a.	233	1,204	453	3,225	4,192	2,458
Total turnover by value	n.a.	n.a.	355	1,369	863	4,212	5,208	4,254
NUMBER OF TRANSACTIONS ('000)								
Government loans —								
Commonwealth	n.a.	n.a.	16	11	8	6	5	6
Semi-government	n.a.	n.a.	3	4	3	2	3	4
Company loans, debentures, notes, etc.	n.a.	n.a.	4	7	2	2	1	1
Total loan securities	n.a.	n.a.	23	22	13	10	9	11
Share securities —								
Industrial (ordinaries, etc.)	n.a.	n.a.	293	355	217	332	335	243
Mining and oil	n.a.	n.a.	75	921	101	435	490	214
Total share securities	n.a.	n.a.	368	1,276	318	767	825	457
Total number of transactions	n.a.	n.a.	391	1,298	331	777	834	468

(a) Year ended 30 September from 1955 to 1965. Year ended 30 June from 1970 to 1982.
Source: The Stock Exchange of Melbourne Annual Reports.

STATUTORY TRUSTEE COMPANIES

There was little change in the 1930s and the 1940s in the steady growth of the traditional business of executor and trustee companies, although the period of the Second World War saw some understandable increases in appointments as executor under wills and the use of agency services.

From the end of the 1940s the increasing work of trustee companies matched the economic growth during those decades. With growth, greater skills were required and this need led to the establishment by the companies of their own Executor and Trustee Institute for the training of staff in estate and trust care and administration.

In 1948, the Association of Victorian Trustee Companies became an Australia wide association to represent all statutory trustee companies; New Zealand companies were admitted in 1959.

After a review of the practical needs of the industry and the services appropriate for the community by the Victorian Parliament, the controlling legislation was amended during the 1950s to remove the original limitations on business activities by the companies. This legislation also authorised the establishment of Common Funds to permit the blending of trust funds into a common investment pool by the trustee companies. Coupled with the trend for testators to give corporate trustees wider powers of investment than permitted under the Trustee Act, there came an expansion of the long standing investment management capacities of the 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.

Continued economic growth in the 1960s brought increasing value to asset structures, and thus an increasing incidence of death duties encroached into categories of estate values never intended to be caught in this taxation net.

The first steps to mitigate the problem and the proliferation of estate planning avoidance schemes came with considerable concessional deductions to primary producers. As the inflationary period of the 1970s magnified the problems, easing of the incidence of death duties came with progressive abolition of liability in estates passing to spouses, then to children and later to grandchildren.

More complex investment legislation was progressively introduced to give greater protection to the public. These changes added to the responsibilities of estate and trust administrators and demanded higher standards of capacity from investment managers, whether as trustees or as advisers to individuals. 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 value of an estate in the purchase of real estate.

The steep rise in wages and salaries that occurred in the 50 year period brought particular challenges, as the statutory trustee companies are a labour intensive industry. To remain within the regulation fees set down by law the introduction of computers, word processing machines, and other technological aids helped contain the cost to the public of the traditional trustee services.

All these changes induced the trustee companies to adopt new marketing approaches and expand their existing financial skills and experience. There was greater concentration on asset planning, trusteeships for family trusts, and greater promotion of accounting and taxation and general investment management services. Services were offered in retirement planning, in the purchase and sale of real estate through wholly owned licensed estate agents' subsidiaries, in money market activities, and in pastoral and property management. By the early 1980s the statutory trustee companies offered financial services covering all investment needs and asset problems, dovetailing these with overall will and estate planning in addition to their traditional executor and trustee services.

As an indication of growth in trust funds, their value by 1956 totalled approximately $400m. Twenty-five years later, the Victorian statutory trustee companies were responsible for the administration as executor, trustee or agent, or as trustee for debenture and note issues, of trust funds in excess of $4,547m.

PASTORAL HOUSES

The main function of a pastoral house was to provide the goods and services to meet the needs of the man on the land. An important part of this function was the provision of finance for the supply principally of livestock, farm requisites, fodder, running expenses, insurance, general merchandise, machinery, and fertiliser. In the main, these advances were short-term, being repaid at least annually from proceeds of livestock and/or wool.

The Depression of the early 1930s resulted in tight control over all substantially financed clients with assistance being provided on a month-to-month basis related to approved annual budgets. Pastoral houses were, however, lenient lenders. Some relief became evident in 1936 with improved world conditions, better seasons, and higher wool prices; however, this was to be short-lived because of the outbreak of war in 1939.

As a national war emergency measure the entire Commonwealth wool clip, (except for that portion required for local consumption) which traditionally had been sold at auctions organised by the pastoral houses, was acquired by the British Government for the duration of the war and one year thereafter. After seven seasons of appraisements under the Wool Purchase Arrangement, open auctions of wool recommenced for the 1946-47 clip.

There was much growth in the post-war years. Soldier Settlement developed and pastoral house lending became a major factor in the expansion of livestock numbers; the supply of finance and services improved carrying capacities, and producers, in turn, prospered.

In 1950-51, debtors increased with the wool boom during the Korean War. There was a rapid rise in living standards and a strong call for funds for agricultural development. Increased carrying capacities saw sheep numbers in Victoria rising by over 7 million to 26.6 million during this decade. Pastoral houses significantly expanded their branch organisations and thus more localised service and advice became available to their clients.

In January 1960, the operations of the Commonwealth Development Bank began. It provided longer term loans than those available from the pastoral houses and trading banks, lower interest rates, acceptability of second and third mortgage security, and thus complemented the lending of the pastoral houses.

The credit squeeze of the early 1960s resulted in a significant increase in pastoral houses' debtors in 1960-61 and marked the beginning of mergers of major pastoral houses. This has continued into the 1970s and 1980s. Trading bank advances to rural clients increased in this period by only $11.2m throughout Australia while pastoral house advances increased nationally by $41.8m.

Because of a fall in the price of wool in the early 1970s, incomes and borrowing capacity of farmers were severely reduced. Cattle population in Victoria from 1970 to 1975 increased from 4.5 to 6.2 million, while sheep decreased from 33.2 to 26.4 million. This increase in cattle numbers was followed by very low prices in the mid-1970s. There was, however, in the latter 1970s, a progressive and strong improvement in prices for wool, livestock, and properties and strong demand for live sheep exports to Middle Eastern countries.

During 1976, advances to agricultural producers by all pastoral houses continued to decline, reflecting the restrictive effects on clients' incomes of the continuing adverse economic conditions in the agricultural sector. Medium to long-term funds were being sought by an increasing number of growers, and especially those engaged in cattle production. Government assistance through State rural reconstruction authorities and the Commonwealth Development Bank continued to play an important part in meeting this demand by supplementing pastoral house advances.

By 1980 sound agricultural and export prospects continued with better than average incomes for the pastoral houses and their clients.

LIFE INSURANCE

Structure

Since its beginning the life insurance industry in Australia has been organised largely along mutual or co-operative lines. The remainder of life insurance business is written by proprietary offices, which, although owned by shareholders, distribute most of their surpluses to policyholders.

In 1934 there were 24 life offices writing business in Victoria. The situation remained broadly the same until immediately after the Second World War from which time the number of companies declined to 19 in 1957. During the late 1950s and early 1960s there was an influx of new companies, originating mainly from Britain, so that by 1965 there were 40 life offices writing business in Victoria. The number has remained at about this level since then. The majority of life insurance companies operating in Victoria belong to the Life Insurance Federation of Australia (LIFA) which was formed in 1979 by joining together 42 private enterprise companies, the majority of which had belonged to either the Association of Independent Life Offices (founded in 1972) or the Life Offices' Association of Australia (founded in 1905).

Products and marketing

Traditionally, most life insurance in Victoria has been sold through "in-house" agents, although this has not precluded brokers or other intermediaries from directing business to particular offices. The "in-house" agency system often required the establishment of State wide agency networks, so that most of the larger life insurance companies became firmly entrenched in Victorian provincial centres and rural towns. More recently, however, life insurance companies have started to diversify their marketing methods.

Until 1962 life insurance business was divided into two classes: ordinary business and industrial business. Industrial (which became known as collector) business related to policies the premiums for which were payable monthly or weekly to a collecting agent. Ordinary business related to all other forms of life insurance, including superannuation. Since 1962 statistics for superannuation business have been separated from those for ordinary business.

Industrial business in Victoria was significant in the decade after 1934 but this significance declined rapidly after the Second World War. Industrial insurance had early appeal because it was suited to small insurances with premiums collected weekly. However, after the Second World War, high collection costs as well as low sums insured per unit of premium gradually diminished the appeal of industrial insurance to companies and policyholders, so that by the end of the 1970s it constituted only a very small proportion of both new business and business in force. By this time, too, only the two largest offices in this field still wrote industrial business.

By contrast, ordinary and, more especially, superannuation business grew strongly after 1945. This growth was partly accounted for by a personal income tax deduction for life insurance premiums, rapid population growth, and a sustained rise in household incomes. In the second half of the 1970s, however, the rate of growth of both ordinary and superannuation business decreased. Ordinary business in particular was affected adversely from about 1973 by the rapid acceleration in inflation, by competition from high interest rates obtainable on some short-term forms of investment, and by a series of taxation changes introduced between 1973 and 1975. Superannuation business, although gaining somewhat from the inflation of wages and salaries, was hampered to some extent by a loss of business confidence which made employers more cautious about establishing new superannuation schemes. From 1980-81 people who were self-employed, because of changes in the taxation requirements, are able to deduct up to $1,200 per year from their assessable income in respect of contributions made by them to a qualifying superannuation fund.

Investment

The pattern of life office investments has changed considerably over the years since 1935. In the mid-1930s life office investments were heavily concentrated in government (Commonwealth, local, and semi-governmental) securities and interest bearing loans, especially loans on policies and loans on agricultural properties. During the Second World War life offices directed nearly all their new investible funds into the purchase of Commonwealth bonds yielding a low 3.5 per cent. After the war there was a strong demand for funds by private industry and commerce which could not be met by the banking system, partly because of the restrictions imposed by the monetary authorities. Life offices then supplied considerable funds so that by 1955 loans on mortgage had risen to just over one-third of life office assets and investments in government securities had fallen to just under one-half. The post-war years also brought about an acceleration in the inflation rate. This, as well as competition from other savings institutions, induced life offices to move into investments with higher returns than government securities and a share in capital growth. Thus they began to divert a significant proportion of their investible funds into corporate shares and debentures and into property.

The decline in the proportion of life office funds allocated to government securities led to the passing of the "30/20" legislation in May 1961. Under this legislation life offices are subject to certain taxation penalties unless they invest 30 per cent of their assets in Commonwealth and semi-governmental securities, including 20 per cent in Commonwealth securities. The impact of the "30/20" rule is evident from the table on Estimated Distribution of Assets: since 1965 life offices have held just over 30 per cent of their assets in the required form. The inflationary environment of the 1970s encouraged life offices to extend further their property and ordinary share portfolios, so that by 1980, apart from government securities, about 24.5 per cent of their assets were in the form of property and about 19.5 per cent in shares and the rest in other loans, debentures, and other assets.

Life office investments in property include not only their own city and regional buildings, but also factories, retail shopping centres, and housing developments. By the early 1980s there was a noticeable move towards a significant investment in natural resources.

Regulation

Life offices carrying on business in Victoria have long been subject to regulation. The first Victorian Life Assurance Companies Act, which was based on the English Act of 1870, was passed in 1873 and was later incorporated into the Victorian *Companies Act* 1928. In 1938 the Industrial Life Assurance Act was passed following the recommendations of a Royal Commission on Industrial Assurance which was instigated by the Victorian Government as a result of strong pressure from the Anti-Sweating League. Further Acts relating to industrial and ordinary life insurance were passed in 1940.

Section 51 (xiv) of the Commonwealth Constitution gives the Commonwealth the power to make laws with respect to insurance other than State insurance and to State insurance extending beyond the limits of the State concerned. However, it was not until 1945 that a Commonwealth Act was passed which took precedence over the State Acts in force at the time. The *Life Insurance Act* 1945 provided for the appointment of a Life Insurance Commissioner to supervise the activities of life insurance companies in order to protect policy holders. The Act requires companies to submit to the Commissioner detailed statistics regarding their business and financial position, and has set up machinery for dealing with any company that fails to maintain a required minimum standard of solvency. The Life Insurance Commissioner can instigate investigations ranging from company financial matters to the treatment of individual policy holders' complaints.

LIFE INSURANCE, BUSINESS IN EXISTENCE: VICTORIA, 1935 TO 1980

Item	1935	1945	1955	1965	1975	1977	1980
ORDINARY BUSINESS ($m)							
Sums insured	198.8	335.2	1,142.0	2,937.0	10,676.3	13,212.4	n.a.
Annual premiums	6.7	11.6	39.6	76.3	203.0	216.8	n.a.
SUPERANNUATION BUSINESS *(a)* ($m)							
Sums insured	n.a.	n.a.	n.a.	1,227.0	6,058.4	8,244.6	12,042.7
Annual premiums	n.a.	n.a.	n.a.	26.8	162.6	212.1	287.6
INDUSTRIAL BUSINESS ($m)							
Sums insured	39.0	108.0	191.2	264.1	444.3	440.2	n.a.
Annual premiums	3.5	6.2	9.4	11.0	16.6	16.1	n.a.
TOTAL *(b)*							
Sums insured ($m)	237.8	443.2	1,333.2	4,428.1	17,179.0	21,897.2	30,038.9
Annual premiums ($m)	10.2	17.8	49.0	114.1	382.2	445.0	535.8
Sums insured (1935 = 100)	100	186	561	1,862	7,224	9,208	12,632
Annual premiums (1935 = 100)	100	175	480	1,119	3,747	4,363	5,253

LIFE INSURANCE, BUSINESS IN EXISTENCE: VICTORIA, 1935 TO 1980—*continued*

Item	1935	1945	1955	1965	1975	1977	1980
			AUSTRALIA ($m)				
Sums insured	818.7	1,483.8	4,556.2	14,927.5	62,498.3	82,004.7	118,142.7
Annual premiums	n.a.	n.a.	162.9	397.2	1,355.9	1,608.1	2,009.2
			VICTORIA AS A RATIO OF AUSTRALIA (per cent)				
Sums insured	29.0	29.9	29.3	29.7	27.5	26.7	25.4
Annual premiums	n.a.	n.a.	30.1	28.7	28.2	27.7	26.7

(a) For 1935, 1945, and 1955 superannuation business is included in ordinary business. From 1978, ordinary and industrial business have been combined.
(b) It is necessary to treat State figures with caution. The data relate to businesses registered in the State.

LIFE INSURANCE, NEW BUSINESS: VICTORIA, 1935 TO 1980

Item	1935	1945	1955	1965	1975	1977	1980
			ORDINARY BUSINESS ($m)				
Sums insured	25.4	36.0	201.2	509.4	2,086.1	2,565.0	n.a.
Annual premiums	0.9	1.3	6.4	11.0	27.1	27.5	n.a.
			SUPERANNUATION BUSINESS *(a)* ($m)				
Sums insured	n.a.	n.a.	n.a.	312.7	1,924.7	2,145.2	3,110.0
Annual premiums	n.a.	n.a.	n.a.	6.2	52.8	55.5	71.3
			INDUSTRIAL BUSINESS ($m)				
Sums insured	10.6	12.2	18.6	33.6	41.1	43.9	n.a.
Annual premiums	0.7	0.7	0.8	1.3	1.4	1.5	n.a.
			TOTAL *(b)*				
Sums insured ($m)	36.0	48.2	219.8	855.7	4,051.8	4,754.0	6,512.3
Annual premiums ($m)	1.6	2.0	7.2	18.5	81.4	84.5	104.8
Sums insured (1935 = 100)	100	134	611	2,377	11,255	13,206	18,090
Annual premiums (1935 = 100)	100	127	461	1,178	5,185	5,382	6,675
			AUSTRALIA ($m)				
Sums insured	114.3	167.2	737.3	2,738.8	15,025.5	18,999.6	27,762.7
Annual premiums	n.a.	7.1	25.1	63.4	283.6	312.2	415.2
			VICTORIA AS A RATIO OF AUSTRALIA (per cent)				
Sums insured	31.5	28.8	29.8	31.2	27.0	25.0	23.4
Annual premiums	n.a.	28.2	28.8	29.2	28.7	27.1	25.2

(a) For 1935, 1945, and 1955 superannuation business is included in ordinary business. From 1978, ordinary and industrial business have been combined.
(b) It is necessary to treat State figures with caution. The data relate to businesses registered in the State.

LIFE INSURANCE BUSINESS WITHIN AUSTRALIA: ESTIMATED DISTRIBUTION OF ASSETS HELD IN AUSTRALIA BY LIFE INSURANCE COMPANIES, 1935 TO 1980

Item	1935	1945	1955	1965	1975	1980
	PER CENT					
Fixed assets	4.7	4.0	3.3	9.2	21.4	24.5
Government, local, and semi-government securities	53.0	69.0	47.4	31.9	30.7	31.0
Debentures and notes	*(a)*	*(a)*	4.0	11.3	9.1	8.0
Shares	*(a)*	*(a)*	4.0	12.9	16.4	19.5
Other loans *(b)*	34.5	21.0	36.6	31.3	17.9	13.0
Other assets *(c)*	7.9	6.0	4.7	3.3	4.4	4.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total ($m)	358	631	1,352	3,803	9,307	14,000
(1935 = 100)	100	176	378	1,062	2,600	3,911

(a) Included under "Other assets".
(b) Includes loans on mortgage, on policies, and to controlled companies.
(c) Includes cash, outstanding premiums, outstanding interest, dividends and rent, and holdings in controlled companies.

SUPERANNUATION

Background

During the Depression little thought was given to superannuation or to saving for retirement. As the worst effects of those years subsided, employment gradually increased and the improved conditions enabled the community to think again about saving money for superannuation. A clear superannuation pattern then developed, with most superannuation plans falling into two distinct types.

The first was the self-administered and self-invested fund established for public sector employees and employees of large companies (including banks and insurance companies) which generally provided benefits in pension form. The second was the endowment assurance plan effected by many (generally smaller) employers with life insurance companies and providing lump sum benefits at retirement.

Very few new schemes were introduced during the Second World War. Community interest in superannuation was renewed after the war and there was a growing awareness that without the aid of a superannuation plan, few employees could save the large amount of money necessary to provide a reasonable standard of living for themselves after retirement.

Full employment during the 1950s and 1960s encouraged many employers to establish new plans or to revise existing plans in order to attract new employees and discourage resignations.

In the 1960s the level of inflation increased, resulting in inadequate benefits in "defined contribution" or "contribution promise" plans (i.e., for plans where the benefits were defined in terms of the contributions payable). There was a marked trend towards "defined benefit" or "benefit promise" plans (i.e., plans where the benefits were defined in terms of the member's salary near retirement and his length of membership).

With some exceptions this trend to defined benefit plans has continued into the 1980s. Also, the favourable taxation treatment of lump sum benefits and the means test on social security pensions resulted in lump sums becoming much more popular than pensions.

The Victorian Government was the first in Australia to demonstrate an interest in the preservation of superannuation benefits. Under this concept an employee moving from one employer to another preserves the superannuation benefits which have accrued on his behalf, either with the employer's fund in which his benefits accrued or with another fund. The Victorian Government issued a draft Superannuation Benefits Bill in May 1971 which would have affected all Victorian superannuation funds but, because of opposition from some quarters, its provisions were subsequently amended to cover only certain statutory funds. The amended bill was enacted in 1977.

In recent years, discrimination on the grounds of sex or marital status has become illegal. Although equal opportunity legislation has been enacted in Victoria, superannuation plans have been exempted from the provisions, pending further study, although many superannuation plans have been amended voluntarily.

Another recent development has been the increased interest shown in superannuation by trade unions, some of which have established their own plans.

State Superannuation Board

The State Superannuation Fund was established in 1925 to provide pension benefits for State employees including the Public Service, Teaching Service, and Railways Service, and their dependants. By 1937 the Fund had grown to over $8m, and was earning interest at the rate of 4.17 per cent per annum. Little change occurred until 1941 when an amendment safeguarded the entitlements of contributors who had joined the Defence Forces. During the war years the Fund continued on its established basis and amounted to almost $18m, of which half was held in Commonwealth Stock by June 1947, although the earning rate had dropped to 3.56 per cent. In December 1947 some increases in pensions and other variations were introduced.

The Board's Report as at 30 June 1950, twenty-five years after introduction of the scheme, showed that the income of the Fund had totalled $58m, expenditure $36m, and investments $22m. Pensions had been paid to 7,806 widows and in respect of 3,161 children; pensions to 11,359 officers and widows and 550 children were still in force. By

1952 the earning rate was 3.5 per cent, the lowest since inception, but by 1955 the Fund had grown to $38m, and the earning rate to 3.98 per cent. In 1955 the Act was amended to increase certain entitlements and pension rates and substantially liberalise the provisions.

The Fund grew to $83m in 1963, earning 5 per cent per annum and legislation provided for the entry to the Fund by police officers. The *Pensions Supplementation Act* 1966 was the most far reaching change to the Fund since its establishment, providing updated pensions, a new scale of entitlements, and other benefits. The Act was further amended in 1967. Investments had now increased to $136m although the amount available for investment had decreased due to these increased benefits, and conversion of pensions to lump sum entitlements.

The *Superannuation Amendment Act* 1968, proclaimed on 1 February 1969, included some rationalisation of service requirements, provided for continuity of membership for persons retiring to accept employment with designated authorities, and prohibited married women appointed after that date contributing to the Fund. Concurrently, the Married Women's Superannuation Fund was established, incorporating the Married Women Teachers Pension Fund.

Investments were now $149m, including $1.1m on the security of commercial property and $1.0m on the security of housing loans to contributors, the remainder invested in government, semi-government, and local government securities, although $1.2m had been advanced as a result of legislation under government guarantee to the Trustees of the Melbourne Cricket Club, and Sisters of Charity (St Vincent's Hospital). The Board proposed to balance its portfolio with a significant amount in mortgage loans. In December 1969 amendments related to lump sum conversion, increased children's pension, and stronger provisions relating to recall of ill health pensions.

Amendments in 1970 introduced a new type of unit for some contributors on fulfilment of certain conditions, and provisions relating to cases of leave without pay and to part-timers who could not be contributors to the Fund. Further amendments, effective from 1 December 1972, included automatic updating of pensions in line with the Consumer Price Index and extension of the Board's investment powers to provide for purchase or lease of property within Victoria, subject to approval of the Treasurer.

The *Superannuation Act* 1975 provided dramatic changes, including provision of a pension of 70 per cent of salary at age 65 under certain circumstances, limitation of contributions to 9 per cent of salary, and further provisions relating to adjustment of contributions annually. By 1981 investments had increased to $533m (land and buildings $37m, loans on commercial properties $137m, housing loans $64m, government guaranteed loans $27m, and the remainder in Commonwealth Government, semi-government, local government, waterworks, and sewerage authorities' securities).

GENERAL INSURANCE

Background

The growth of insurance business since the 1930s reflects the expansion of domestic and business activity and the increased risks related to physical assets, accidents, business losses, etc. Most of the growth has been handled by established companies performing more business, but the number of companies active in Victoria in June 1979 was 197 (including 26 reinsurers) compared with 125 in 1933-34.

Over most of its history, the general insurance industry in Victoria has been subject to State laws. Most companies operating in the State operate throughout Australia, and many internationally; since 1973 they have also been subject to the Federal Insurance Act, which sets a solvency margin and other requirements, including regular returns to the Insurance Commissioner.

Workers compensation

The State Accident Insurance Office was set up under a 1914 Act to provide functions which were taken over by the State Insurance Office in July 1975.

Workers Compensation insurance has incurred rising premiums as legislation has extended the entitlement of employees, and the compensation, legal, and medical expenses have become more costly. Victoria's first Workers Compensation Act took effect in 1914, and there have been revisions since. Increases came about as the result of the Workers Compensation (Miscellaneous Provisions) Act, passed in Victoria in December 1979. This Act introduced several significant changes. Many benefits to injured workers or their dependants increased by approximately 44 per cent. As a consequence of these increases, the Victorian Government established a Supplementation Fund in order to meet the costs of the increased benefits when the date of an injury preceded 1 December 1979. The Fund was being financed by an annual surcharge on employers which was set at 6 per cent.

Benefits have become indexed and will be increased or decreased in line with movements in the seasonally adjusted average weekly earnings. In addition, the definition of "injury" has been amended to mean, in general terms, any physical or mental injury. New provisions in the Act allow insurers to obtain reimbursement from the Motor Accidents Board for journey claims up to the amount which the injured person would have been entitled to recover under the *Motor Accidents Act* 1973 had he not been a worker.

The previous situation which allowed an injured person, or his dependants, to claim compensation under both the Workers Compensation Act and Part III of the *Wrongs Act* 1958 has been removed.

Motor car insurance

The Motor Car (Third Party Insurance) Act of 1939 came into force in 1941, making it compulsory for the owner of each vehicle to insure against any liability which may be incurred by him, or by any person who drives such vehicle, in respect of the death of or bodily injury to, any person, caused by or arising out of the use of the vehicle. The State Motor Car Insurance Office was established under the 1939 Act to enable owners to insure under the Act, and its business was taken over in 1975 by the State Insurance Office, which alone handled motor car insurance business by the late 1970s.

The fixed limit of liability for third party motor insurance was raised in 1948 because of the increased incidence of accidents resulting from alcohol and driving, and greater penalties were also provided. In 1971, wearing of seat belts was made compulsory in Victoria, a practice later followed in other States, and regarded as an innovation overseas, when it resulted in fewer accidents and claims.

Catastrophes

Bushfires have caused serious losses in Victoria during this period, some covered by insurance. In January 1939, severe fires cost 72 lives as well as property and forest losses. In 1944 much property was destroyed at Beaumaris. The Dandenongs suffered in 1962, when nine lives were lost, while in 1969 twenty-three deaths and heavy property and livestock losses occurred in the Lara district. In 1977 there were serious losses of property and livestock in the Western District, and in February 1983 the "Ash Wednesday" fires resulted in 48 deaths as well as much loss of property and livestock.

Maritime losses in recent decades in Victoria have included MV *Time* in 1949, which was abandoned after grounding on Corsair Reef at Port Phillip heads, and the sinking of MV *Straitsman* in 1974 at its Yarra River berth with the loss of two crewmen.

Serious losses were also met as a result of Melbourne's worst hailstorm in 1953, when many plate glass windows were broken in the city area, and damage amounting to nearly $4m was caused by a fire at Footscray wool stores in 1960. In 1972, trading stock and property were severely damaged by flood water in Elizabeth Street, Melbourne, following exceptional rain.

The collapse of part of the West Gate Bridge during construction in 1970 caused the loss of 35 lives, delayed work, and incurred heavy workers compensation claims.

Professional bodies

In 1956 the Fire and Accident Underwriters carried out research in relation to atomic energy to advise of its implications for insurance. In 1975 the Fire and Accident Underwriters and the Marine and Salvage Associations were replaced by the Insurance Council of Australia (ICA), with headquarters in Melbourne, representing the whole general insurance industry with member companies underwriting fire, accident, and marine insurance. Its main functions are to represent interests of the industry to governments, provide a variety of services to member companies, and information for consumers directly and through the media. In 1979, the ICA, with the Chartered Institute of Loss Adjusters and the Council of Loss Adjusters, established the National Insurance Emergency Service to assist in the expeditious handling of claims and so alleviate financial hardships suffered by victims of such major disasters as bushfires.

In 1945, the Insurance Institute of Victoria conducted post-war rehabilitation lectures for ex-servicemen returning to the industry, and in 1971 started courses for the Diploma of Business Studies (Insurance) at the Prahran College of Advanced Education.

FRIENDLY SOCIETIES

A friendly society exists to provide benefits for its members. To understand the changes in friendly societies and their membership since 1934 a comparison is made between the benefits to which a member would have contributed in 1934 and those in the early 1980s.

A member of a friendly society in 1934 belonged to a branch or "lodge" as it was usually called. He attended regular meetings and thereby became eligible to contribute for the benefits then available to provide security for himself and his family. These benefits included sickness, funeral, medical, and pharmaceutical benefits. In the early 1980s a typical member had joined a society to receive benefits such as hospital, medical, dental, endowment, or death benefits. He did not attend branch meetings and was only interested in receiving the benefits and services in return for a reasonable contribution.

This change in membership profile necessitated a change in the administration of societies. Societies are run by professional managers with the necessary administrative skills. Many societies have, however, retained the more traditional "lodge" structure for local administration and to provide the membership from which board members are elected.

In 1934 the number of societies and total membership was increasing and total membership of the basic benefit funds reached a peak in the mid-1940s. As early as 1925 one society was providing a hospital benefit and until 1951 many societies provided for members and their families the ability to receive medical treatment by medical practitioners who had contracted with societies to provide these benefits.

On 1 July 1953, after almost 40 years of consideration, a scheme commenced for the provision of hospital and medical benefits under the National Health Act. Many new members joined the societies directly for these benefits without first becoming "lodge" members. Thus began the movement from local branch administration to a central administration. The existing rapid growth in membership allowed societies to develop new benefits and to develop new ways of promoting these new benefits. Progressive increase in the maximum amounts of benefits determined in the Friendly Societies Act have allowed the development of life assurance, superannuation, and sickness benefits for ordinary members and employee groups.

Friendly societies traditionally have provided an avenue for social activity at branch level and provided worthwhile benefits to members. Many of these benefits are now provided by the State and Commonwealth Governments in the form of social welfare, age, and invalid pensions. These organisations have always had a policy of using a large proportion of their funds for housing loans to members. By 1980 four building societies were wholly owned by friendly societies, thus enabling members to invest and provide additional money for housing loans and thereby expanding the lending capacity of friendly societies.

The following table shows the development of friendly societies since 1934 and demonstrates the change in emphasis:

FRIENDLY SOCIETIES: VICTORIA, 1934 TO 1981

Year	Number of societies	Total membership (a)	Benefits paid		Total funds
			Medical, hospital etc. (b)	Other	
		'000	$m	$m	$m
1934	49	161	1		11
1944	92	237	1		14
1954	142	214	2	1	19
1964	132	588	7	1	28
1974	138	890	42	2	62
1979	123	853	109	4	83
1981	126	824	124	5	135

(a) Includes benefit contracts for whole of life and endowment, members affiliated with dispensaries, and members of specially authorised societies. A member may contribute for any number or all of the different benefits and is counted in respect of each benefit for which he/she contributes.

(b) Includes Commonwealth benefits paid via friendly societies, under the scheme commencing 1 November 1978.

CREDIT UNIONS

The first co-operative credit institution was formed in Victoria in 1905 and registered under the *Provident Societies Act* 1890. It was registered as the Co-operative Bank of Victoria with limited liability, funds being raised through share subscription of members. This credit bank was an urban institution with a bond of association of members based on occupation. There was no further co-operative credit development for some 40 years.

In the mid-1940s several rural parish based credit societies were formed but because of inadequate legislation they were not registered. With the passing of the Co-operation Act in 1953, the impetus for co-operative credit development fell to a Catholic group, the Young Christian Workers (YCW). The YCW Central Co-operative Credit Society Limited, which was formed in 1954, was the first society registered under the 1953 Act. From this time a large number of parish based societies was formed as was the Association of Catholic Credit Co-operatives in 1957.

During the 1960s community and industrial credit co-operatives came into being, and a number of parish societies altered their bond to the community at large. In 1966 the Victorian Credit Co-operative Association was created by the alteration of the Catholic Association bond to admit all credit co-operatives in Victoria. In the 1970s, while the total number of credit co-operatives did not increase, there was a large increase in membership and asset size.

In December 1981 the Victorian Parliament passed 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 objectives. Provision was also made under the Act for the creation of the Credit Societies Guarantee Fund Advisory Committee. Its task was to supervise a fund guaranteeing the money lodged by members with credit societies and to administer societies in financial difficulties. All credit societies in Victoria are required to place deposits in this fund equivalent to 1 per cent of their total assets.

With the advent of new technology in the financial system, credit co-operatives in the 1980s offered automated teller machine facilities and credit card transactions to their members.

BUILDING SOCIETIES

In Victoria in the 1880s gold rush money was being turned into land and buildings and land speculation made fortunes for many. However, the profits were short-lived. The 1890s saw a world-wide depression and the land boom could not be sustained. Fortunes were lost overnight, banks closed their doors, and building societies collapsed. The Victorian Government had done little to restrict the land boom because several prominent Government members were heavily involved in land subdivision and there was no Federal Government to show restraint.

Those building societies which remained continued on a very small scale and it was not until after the Second World War that the urgent need for housing finance reactivated interest in the "permanents". The Victorian Government finally made substantial amendments to the Building Societies Act in 1958, followed by further reviews in 1971 and 1976. It became impossible for a society to speculate in land (the major cause of the 1890s problems), the amount of liquid funds which a society should hold were strictly regulated, and every society had to set aside certain reserves. All of these requirements were supervised by the Registrar of Building Societies.

The growth and development of building societies in Victoria after 1934 was uneven; the most significant growth occurred between 1970 and 1980.

BUILDING SOCIETIES, NUMBERS, ASSETS, AND LOAN APPROVALS: VICTORIA, 1934 TO 1982

Year ended 30 June—	Number of societies *(a)*	Assets *(a)*	Loan approvals *(b)*
		$'000	$'000
1934	21	9,338	1,444
1940	21	13,484	2,436
1945	22	12,940	830
1950	20	47,322	7,076
1955	17	60,324	11,144
1960	24	40,972	9,378
1965	33	49,856	12,410
1970	47	106,573	33,155
1975	53	662,000	110,000
1976	55	906,000	319,000
1977	53	1,158,000	305,000
1978	53	1,382,000	347,000
1979	52	1,744,000	476,000
1980	51	2,100,000	453,000
1981	46	2,400,000	489,000
1982	40	2,917,000	363,000

(a) At 30 June.
(b) During the 12 months ended 30 June.

Building societies have become major providers of housing finance and in several States became the principal lender.

In the early 1970s societies began to install computers, which facilitated the handling of automatic crediting of social security payments, payroll tax deductions, and many other pensions and allowances.

Building societies have to compare favourably with competitive financial institutions in terms of investment and borrowers' rates. Much of the money attracted by societies is at call, although most societies also offer the option of fixed term deposits at higher rates of interest. Generally speaking, the prevailing rates of interest depend upon the general economic conditions and the rates paid on government securities such as the Australian Savings Bond rate.

The growth of building societies has seen a number of significant innovations which have benefited borrowers and investors. Growth has created a strong branch and agency network, a wide range of services and products, the introduction of mortgage insurance, the ability to borrow up to 95 per cent of valuation in some cases, and more recently, the ability of societies to act as depositories for trust money.