

Chapter Twenty-five

Financial Institutions

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FINANCIAL SECTOR

This chapter provides information about Australia's financial sector, the institutions that comprise it and their role as financial 'intermediaries'. The financial sector comprises institutions engaged in the acquisition of financial assets and the incurring of liabilities, for example, borrowing and lending, providing superannuation, supplying all types of insurance cover, leasing, and investing in financial assets. These financial institutions are for the most part incorporated businesses owned by the private sector, but public sector institutions (for example, Reserve Bank of Australia) and large unincorporated enterprises (for example, unit trusts, superannuation funds) are also included, provided they operate in the capital market.

Financial 'intermediation' is the process whereby the nation's savings, or the savings of overseas investors, are directed to individuals, companies, governments and others that require funds to produce or acquire goods and/or services, or to invest in capital equipment. Financial 'intermediation' is conducted in the capital market. Savings that are not directly invested in capital equipment find their way to the capital markets through the stock market or financial intermediaries.

The main types of financial institutions in Australia are banks, building societies, credit cooperatives, money market corporations, finance companies, cooperative housing societies, superannuation funds, unit trusts, common funds, friendly societies and insurance companies. These institutions intermediate in a variety of ways, mainly through accepting deposits, making loans or managing the funds of their customers. Intermediation is conducted using financial assets which are either non-marketable (for example, deposits, loans) or marketable (for example, bills of exchange, promissory notes) which are traded on secondary markets. The type of intermediation used by a financial institution is usually governed by the credit worthiness of the borrower or the financial knowledge and resources available to the lender.

In the early stages of development, Australian financial institutions tended to specialise in intermediation for particular types of customers or types of finance (for example, housing finance for home buyers; seasonal finance for farmers). However, with deregulation of the financial markets in the 1980s most institutions

have increased their range of products and services so that both savers and borrowers have a wide choice of markets in which to invest or borrow funds, be they domestic or international markets.

BANKS

In Australia the regulation of banks is provided for under both Commonwealth and State legislation. Banks are the largest deposit taking institutions in Australia and each bank is authorised to operate by this legislation.

Commonwealth legislation

The major acts of Federal Parliament relating to the management and operations of banks in Australia are as follows:

- *The Banking Act 1959*, which applies to all banks operating in Australia, except the so-called State banks owned by State governments and trading mainly in their own State. Originally the objectives of the Act were to provide a uniform legal framework for regulating the banking system; to safeguard depositors of the banks from loss; to provide for the coordination of banking policy under the direction of the Reserve Bank; to control the volume of credit in circulation and bank interest rates; and to provide the machinery for the control of foreign exchange. In recent years successive Federal Governments have sought to decrease the degree of regulation imposed on the financial sector and the banks in particular, such that controls on most bank interest rates and foreign exchange have been relaxed. Significant amendments were made to the Act in January 1990, which formalised supervision requirements and restructured the banking industry (for example, by abolishing the distinction between trading and savings banks).
- *The Reserve Bank Act 1959* which establishes Australia's central bank, the Reserve Bank of Australia, provides for the management of the Bank, the administration of the *Banking Act 1959* and the management of Australian note issue. Prior to 1959 central banking business was the responsibility of the Commonwealth Bank.
- *The Commonwealth Banks Act 1959* which establishes and provides for the management of the Commonwealth Banking Corporation, Commonwealth Bank of Australia, Commonwealth Savings Bank of Australia and the Commonwealth Development Bank of

Australia. This group of banks was until 1991 the only commercial banking group wholly owned and controlled by the Australian Government. In 1991 30 per cent of its shares were sold to the general public.

The general functions of the Reserve Bank are set out in Section 10 of the Act, which states:

'It is the duty of the Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the

people of Australia and that the powers of the Bank under this Act, the Banking Act 1959, and regulations under that Act are exercised in such a manner as, in the opinion of the Board, will best contribute to

- (a) the stability of the currency of Australia;
- (b) the maintenance of full employment in Australia; and
- (c) the economic prosperity and welfare of the people of Australia.'

25.1 RESERVE BANK OF AUSTRALIA: LIABILITIES AND ASSETS (\$ million)

LIABILITIES							
<i>Deposits by banks(a)</i>							
<i>30 June</i>	<i>Capital and reserve funds</i>	<i>Special reserve-IMF special drawing right</i>	<i>Australian notes on issue</i>	<i>Non-callable deposits/Statutory Reserve Deposit accounts</i>	<i>Other</i>	<i>All other liabilities</i>	<i>Total</i>
1990	248	265	12,837	2,733	921	8,719	25,723
1991	248	238	14,621	2,541	24	10,457	28,129
1992	333	206	15,243	2,608	16	12,553	30,959
ASSETS							
<i>30 June</i>	<i>Gold and foreign exchange(b)</i>	<i>Commonwealth government securities(c)</i>	<i>Loans, advances and bills discounted</i>	<i>All other assets</i>	<i>Total</i>		
1990	22,086	2,874	85	678	25,723		
1991	24,308	2,960	89	772	28,129		
1992	21,121	8,839	87	912	30,959		

(a) The Statutory Reserve Deposit ratio was set at zero on 27 September 1988 and the balances transferred to non-callable deposit accounts. Further details are provided in the Reserve Bank press release of 23 September 1988 which was reprinted in the October 1988 *Reserve Bank Bulletin*. (b) Includes currency at short call and International Monetary Fund drawing rights. (c) Includes Treasury bills and Treasury notes.

Source: Reserve Bank of Australia.

State legislation

In some States there is also legislation for the incorporation of State government bodies which operate as banks. These banks operate in New South Wales, South Australia and Western Australia and are the State Bank of New South Wales Limited (incorporated in 1990), the State Bank of South Australia and the Rural and Industries Bank of Western Australia Ltd (incorporated in 1991).

Commercial banks

Commercial banking in Australia is conducted by 44 banks, including the development banks

and 19 foreign owned banks. Of these, Australia and New Zealand Banking Group, National Australia Bank, Westpac Banking Corporation and the Commonwealth Bank of Australia account for over half the total assets of all banks. These banks provide widespread banking services and an extensive retail branch network throughout Australia. The remaining banks, all privately-owned except for three State banks, provide similar banking services through limited branch networks. As well, there are 'development banks' which are special purpose banks set up to finance specific sectors of the economy.

At 30 June 1992, banks operated 6,920 branches and 6,585 agencies. Of the total branches, 4,032 were located in metropolitan

areas. Banking facilities were also available at 2,739 metropolitan agencies throughout Australia.

25.2 BANKS: LIABILITIES AND ASSETS (\$ million)

			June
	1990	1991	1992
LIABILITIES			
Deposits repayable in Australia			
Residents	177,961	189,181	197,090
Non-residents	5,468	5,560	6,034
Total	183,430	194,741	203,124
Other borrowings			
Banks(a)	6,860	11,857	12,420
Other	10,400	12,806	14,446
Bill acceptance liabilities	56,184	55,071	49,372
All other \$A liabilities	10,320	12,701	14,522
Total resident \$A liabilities	252,939	272,188	276,460
Total non-resident \$A liabilities	14,255	14,988	17,424
Total \$A liabilities	267,194	287,176	293,884
Foreign currency liabilities	28,581	33,615	38,129
Total liabilities(b)	295,776	320,791	332,013
ASSETS			
Coin, Australian notes and cash with Reserve Bank	2,114	1,244	1,283
Non-callable deposits with Reserve Bank	2,733	2,541	2,608
Public sector securities	22,098	23,437	25,157
Loans, advances and bills held	201,496	226,757	239,260
Bills receivable	54,293	53,573	48,474
Premises	5,824	6,657	6,527
All other \$A assets	17,640	22,465	24,671
Total resident \$A assets	304,697	335,469	345,597
Total non-resident \$A assets	1,501	1,203	2,382
Total \$A assets	306,199	336,672	347,979
Foreign currency assets	19,648	17,062	14,536
Total assets	325,847	353,733	362,515

(a) Includes issues of term subordinated debt, loan capital and similar instruments. (b) Excludes shareholders' funds.

Source: Reserve Bank of Australia Bulletin.

NON-BANK FINANCIAL INSTITUTIONS

In addition to banks, there are a number of other categories of financial institution such as building societies, credit cooperatives and money market corporations which play an important part in financial activities in Australia. Like the banks, regulation of these institutions is provided for by both Commonwealth and State legislation.

Commonwealth legislation

Part of the regulatory framework is provided by the *Financial Corporations Act 1974* under which non-bank financial institutions (NBFIs) with assets in excess of one million dollars are registered. Under the Act information and statistics on NBFIs operations are provided to the Reserve Bank of Australia.

State legislation

In each State and Territory there is legislation designed to regulate the activities and monitor

the solvency position of particular types of financial institutions, such as permanent building societies, credit cooperatives and cooperative housing societies, which operate on a cooperative basis and lend predominantly to members or consumers. In July 1992 the Australian Financial Institutions Commission was established to coordinate standards for the prudential supervision of building societies and credit unions. Responsibility for day to day supervision of these financial institutions remains with individual State Supervisory

Authorities replacing the State Registrars which operated under the previous legislation.

The following table contains summary data on the assets and liabilities of each type of financial corporation covered by the *Financial Corporations Act 1974*, plus cooperative housing societies which are covered only by State legislation. It is followed by an outline of the definitions, assets, liabilities, income and expenditure of each category.

25.3 FINANCIAL CORPORATIONS: ASSETS AND LIABILITIES(a), 1991-92
(\$ million)

LIABILITIES					
Category	Share capital and reserves	Borrowings liabilities	Other liabilities	Total	
Permanent building societies	4,897.8	17,132.8	382.2	22,412.8	
Cooperative housing societies	49.0	2,478.5	16.2	2,543.7	
Credit cooperatives	824.0	8,804.0	110.0	9,738.0	
Authorised money market dealers	119.0	3,810.0	27.5	3,956.6	
Money market corporations	- 1,046.7	45,208.0	2,994.3	47,155.6	
Finance companies	3,057.7	28,667.3	1,235.7	32,960.7	
General financiers	849.9	8,608.6	440.0	9,898.5	
Other financial corporations	223.1	4,538.9	30.7	4,792.6	
Total	8,973.8	119,248.1	5,236.6	133,458.5	
ASSETS					
Category	Amount owing on loans	Cash placements and deposits	Bills, bonds and other securities	Other assets	Total
Permanent building societies	17,209.9	1,265.8	3,115.3	821.8	22,412.8
Cooperative housing societies	2,480.0	56.3	0.9	6.5	2,543.7
Credit cooperatives	7,522.0	1,446.0	358.0	412.0	9,738.0
Authorised money market dealers	14.1	116.0	3,801.8	24.7	3,956.6
Money market corporations	25,569.6	6,244.2	9,842.8	5,499.0	47,155.6
Finance companies	20,392.2	858.8	1,037.3	10,672.4	32,960.7
General financiers	4,799.6	669.9	689.8	3,739.2	9,898.5
Other financial corporations	1,320.6	667.8	2,626.8	177.4	4,792.6
Total	79,308.0	11,324.8	21,472.7	21,353.0	133,458.5

(a) At the balance date of corporations within the year shown.

Source: See the tables which follow for each category.

Permanent building societies

A permanent building society is an organisation that is registered under relevant State or Territory legislation. Permanent building societies as such are distinguished from terminating building societies in that their rules do not set any fixed date, certain event or result following which they are to terminate.

The societies are authorised to accept money on deposit and operate on a cooperative basis

by borrowing predominantly from members and providing finance to members, principally in the form of housing loans.

The statistics below provide information on the 45 permanent building societies balancing in the 1991-92 financial year.

Information relating to the housing finance operations of permanent building societies is provided in the chapter, Construction and Housing.

25.4 PERMANENT BUILDING SOCIETIES: ASSETS, LIABILITIES, INCOME AND EXPENDITURE(a) (\$ million)

	1989-90	1990-91	1991-92
Liabilities			
Share capital	6,299.1	5,587.1	4,445.2
Reserves	565.3	518.1	452.6
Deposits	13,264.6	13,821.2	15,273.0
Loans	1,881.0	1,699.8	1,859.8
Other liabilities	418.4	539.3	382.2
Total liabilities	22,428.4	22,165.5	22,412.8
Assets			
Amount owing on loans	16,374.4	16,569.8	17,209.9
Cash on hand	86.3	89.1	117.7
Deposits with			
Banks	989.4	948.4	985.7
Other	367.8	281.3	162.6
Bills, bonds, etc.	3,663.5	3,382.5	3,115.2
Physical assets	519.3	499.9	446.9
Other assets	427.5	394.5	374.8
Total assets	22,428.4	22,165.5	22,412.8
Expenditure			
Interest on			
Shares	682.4	566.4	339.7
Deposits	1,896.9	1,450.2	1,151.8
Interest on loans	296.9	270.4	175.6
Wages and salaries	225.6	231.4	232.3
Administrative expenses	191.3	207.2	190.8
Other expenditure	591.2	422.1	244.5
Total expenditure	3,884.3	3,147.7	2,334.7
Income			
Interest from			
Loans	2,686.2	2,412.7	1,935.5
Deposits	221.4	145.9	109.2
Income from bills, bonds, etc.	518.6	396.7	327.3
Other income	237.9	133.6	164.2
Total income	3,664.0	3,088.9	2,536.2

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

Source: Unpublished ABS data available under the title *Annual Statistics on Financial Institutions* (5661.0).

Cooperative housing societies

A cooperative housing society is defined as an organisation registered under the relevant State or Territory legislation. Cooperative housing societies are not authorised to accept money on deposit and are only allowed to raise

money by way of loans. They can only provide finance to members in the form of housing loans.

The statistics below summarise information on the 1,626 cooperative housing societies balancing within the 1991-92 financial year.

25.5 COOPERATIVE HOUSING SOCIETIES: ASSETS, LIABILITIES, INCOME AND EXPENDITURE(a) (\$ million)

	1989-90	1990-91	1991-92
Liabilities			
Share capital and reserves	39.6	42.8	49.1
Borrowings	2,529.0	2,625.4	2,478.5
Other liabilities	16.6	16.9	16.2
Total liabilities	2,585.2	2,685.1	2,543.8
Assets			
Loan outstanding	2,507.5	2,600.3	2,480.0
Placements and deposits	70.3	77.8	56.3
Physical assets	0.8	0.6	0.9
Other assets	6.7	6.4	6.5
Total assets	2,585.2	2,685.1	2,543.8
Expenditure			
Interest paid	305.9	324.8	288.1
Administrative expenses	25.7	30.9	31.4
Other expenditure	9.8	12.5	12.8
Total expenditure	341.4	368.2	332.3
Income			
Interest on loans	316.2	334.0	297.5
Other income	36.0	42.2	43.0
Total income	352.2	376.2	340.5

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

Source: Unpublished ABS data available under the title *Annual Statistics on Financial Institutions* (5661.0).

Credit cooperatives

A credit cooperative (or credit union) is defined as an organisation registered under relevant State or Territory legislation and operates on a cooperative basis by predominantly borrowing from and providing finance to its own members.

Credit cooperative annual financial account statistics were first collected on a national basis from all registered credit cooperatives for the year 1974-75 when there were 738 credit cooperatives with a total of 909,547 members. By comparison the number of credit cooperatives operating in 1991-92 was 344 with 2,549,572 members.

25.6 CREDIT COOPERATIVES: ASSETS, LIABILITIES, INCOME AND EXPENDITURE(a) (\$ million)

	1989-90	1990-91	1991-92
Liabilities			
Share capital	28.5	26.8	27.0
Reserves	576.8	662.3	797.0
Deposits	7,884.3	7,943.8	8,699.0
Loans	128.9	107.5	105.0
Other liabilities	90.2	95.1	110.0
Total liabilities	8,708.7	8,835.5	9,738.0
Assets			
Amount owing on loans(b)	6,977.9	6,945.4	7,522.0
Cash on hand	47.7	51.3	60.0
Deposits with			
Banks	145.9	237.3	263.0
Other	816.1	905.2	1,123.0
Bills, bonds, etc.	344.5	317.1	358.0
Physical assets	268.5	255.1	132.0
Other assets	108.1	124.1	280.0
Total assets	8,708.7	8,835.5	9,738.0
Expenditure			
Interest on			
Deposits	909.8	834.9	670.0
Loans	15.6	19.0	8.0
Wages and salaries	178.9	187.7	184.0
Administrative expenses	159.0	165.6	171.0
Other expenditure	174.4	201.6	228.0
Total expenditure	1,437.7	1,408.8	1,261.0
Income			
Interest from			
Loans	1,260.7	1,262.7	1,145.0
Deposits	131.4	132.8	130.0
Income from bills, bonds, etc.	42.8	35.8	30.0
Other income	67.4	69.8	81.0
Total income	1,502.3	1,501.1	1,386.0

(a) At the balance of credit cooperatives within the financial year shown. (b) Net of unearned interest and allowance for doubtful debts.

Source: Unpublished ABS data available under the title *Annual Statistics on Financial Institutions* (5661.0).

Authorised money market dealers

For some years prior to 1959, leading stockbrokers were actively engaged in operations which formed the basis of a short-term money market in Australia. The stockbrokers' operations involved the acceptance of short-term funds which were secured against government securities. These operations were severely limited by the lack of suitable short-term securities and by liquidity constraints. In February 1959, the

Reserve Bank established the Official Short-Term Money Market by making available 'lender of last resort' facilities to selected dealers. In May 1989 this arrangement was changed to an 'end-of-day repurchase facility'. Dealers are expected to use this facility only after reasonable effort has been made to raise the funds in the market. The terms of the repurchase agreements set by the Bank usually are aimed at discouraging excessive use of the facility.

**25.7 AUTHORISED MONEY MARKET DEALERS: ASSETS, LIABILITIES, INCOME
AND EXPENDITURE(a)
(\$ million)**

	1989-90	1990-91	1991-92
Liabilities			
Paid up capital	64.5	74.5	66.9
Reserves	18.3	23.3	23.3
Accumulated surplus (net)	12.9	20.5	28.8
Subordinated loans	—	—	—
Borrowings from residents			
Banks	4,533.3	2,526.7	2,449.9
Other financial institutions	340.3	61.8	278.0
Government and public authorities	36.6	80.4	778.3
Other	966.3	376.2	303.8
Borrowings from non-residents	1.7	0.3	0.3
Other liabilities	51.4	171.1	27.2
Total liabilities	6,025.4	3,334.8	3,956.6
Assets			
Amount owing on loans	1.0	0.1	14.1
Cash and bank deposits	202.4	398.5	115.6
Other placements and deposits	40.7	16.1	0.4
Bills, bonds and other securities	5,763.6	2,908.5	3,801.8
Other financial assets	17.1	11.0	24.3
Other assets	0.5	0.5	0.4
Total assets	6,025.4	3,334.8	3,956.6
Expenditure			
Interest on borrowings	680.6	642.5	508.0
Wages and salaries	4.7	2.0	1.6
Administrative expenses	15.7	23.9	14.4
Other expenditure	3.1	6.0	4.8
Total expenditure	704.0	674.5	528.8
Income			
Interest on loans	62.8	81.7	0.6
Income from placements and other deposits	232.8	160.6	55.2
Income from holdings of			
Government and public authority securities	306.3	287.4	306.8
Other securities	83.3	132.4	170.5
Other income	32.0	30.8	12.7
Total income	717.2	692.9	545.7

(a) At the balance dates of companies within the financial year shown. Included are only those corporations registered under the *Financial Corporations Act 1974* and categorised as authorised money market dealers during the reference periods.

Source: Unpublished ABS data available under the title *Annual Statistics on Financial Institutions (5661.0)*.

The nine authorised dealers are required by the Reserve Bank to accept loans overnight, at call or for fixed periods, in minimum amounts of \$50,000 and invest these funds in Commonwealth government and other approved securities. They must at all times be willing traders in the buying and selling of approved securities; have a minimum capital (that is, paid-up capital, share premium reserves and retained earnings) level of \$10 million; adhere to a gearing limit whereby the aggregate risk weighted assets cannot exceed 33 times shareholders' funds; consult regularly with the Reserve Bank on all money market matters; and

furnish detailed information about their portfolios, operations, interest rates, balance sheets and profit and loss accounts.

Money market corporations

This category consists of registered corporations whose short-term borrowings are a substantial proportion of their total outstanding provision of finance which is mainly in the form of loans to authorised dealers in the short-term money market and other liquidity placements, business loans and investments in government, commercial and corporate paper.

25.8 MONEY MARKET CORPORATIONS: ASSETS, LIABILITIES, INCOME AND EXPENDITURE(a) (\$ million)

	1989-90	1990-91	1991-92
Liabilities			
Paid up capital	2,539.0	2,539.0	2,682.7
Reserves	667.6	851.4	814.6
Accumulated surplus (net)	-924.2	-4,202.1	-4,544.0
Subordinated loans	211.8	230.4	133.1
Borrowings from residents			
By issue of securities	3,704.4	2,759.3	2,448.3
Banks	6,153.0	8,565.5	8,526.3
Other financial institutions	3,637.4	3,156.8	3,318.4
Other	15,508.9	14,888.0	12,897.4
Borrowings from non-residents	16,552.4	16,757.0	17,884.5
Other liabilities	3,184.4	3,537.2	2,994.3
Total liabilities	51,234.8	49,082.5	47,155.6
Assets			
Amount owing on loans	26,044.7	26,428.9	25,569.6
Finance lease receivables	2,025.5	1,960.0	1,575.0
Cash and bank deposits	2,120.2	2,705.1	1,985.1
Other placements and deposits	7,008.6	4,526.4	4,259.1
Bills, bonds and other securities	10,987.3	10,124.6	9,842.8
Other financial assets	1,809.1	1,420.1	1,751.2
Other assets	1,239.4	1,917.4	2,172.8
Total assets	51,234.8	49,082.5	47,155.6
Expenditure			
Interest on borrowings	8,103.4	7,689.8	5,816.4
Wages and salaries	(b)502.6	502.6	270.0
Administrative expenses	488.4	677.5	293.9
Other expenditure	2,290.5	3,336.1	1,425.6
Total expenditure	11,384.8	12,206.0	7,805.9
Income			
Interest on loans	4,031.5	3,945.9	3,392.1
Income from finance leasing	677.4	283.0	211.7
Income from placements and other deposits	1,844.9	1,657.7	1,194.5
Income from bills, bonds, etc.	2,081.3	1,828.3	1,194.8
Other income	1,747.1	1,450.9	1,305.3
Total income	10,382.2	9,165.8	7,298.4

(a) At the balance dates of companies within the financial year shown. Included are only those corporations registered under the *Financial Corporations Act 1974* and categorised as money market corporations during the reference periods. (b) Includes director's fees.

Source: Unpublished ABS data available under the title *Annual Statistics on Financial Institutions (5661.0)*.

Money market corporations also include registered corporations providing short-term finance but which are themselves financed by related corporations with funds raised on a short-term basis, as well as corporations which borrow principally short term and lend predominantly to related money market corporations.

Finance companies

Finance companies are corporations which rely substantially on borrowing in financial markets (for example, by the issue of securities) in Australia and/or from abroad and whose provision of finance is predominantly in the form of business and commercial lending, instalment credit to finance retail sales by others and/or other loans to individuals.

25.9 FINANCE COMPANIES: ASSETS, LIABILITIES, INCOME AND EXPENDITURE(a) (\$ million)

	1989-90	1990-91	1991-92
Liabilities			
Paid up capital	1,394.1	1,343.1	1,361.8
Reserves	731.0	758.5	1,129.2
Accumulated surplus (net)	1,157.1	992.5	566.7
Subordinated loans	84.4	70.0	209.4
Borrowings from residents			
By issue of securities	20,362.4	20,495.3	17,286.6
Banks	2,684.3	3,495.8	4,901.1
Other	7,474.7	4,041.3	2,926.8
Borrowings from non-residents	3,427.1	4,867.6	3,343.4
Other liabilities	1,830.6	1,966.4	1,235.7
Total liabilities	39,145.8	38,031.0	32,960.7
Assets			
Amount owing on loans	26,120.0	24,727.0	20,392.2
Finance lease receivables	9,540.4	10,530.3	9,720.2
Cash and bank deposits	462.8	290.7	381.8
Other placements and deposits	1,123.3	801.5	477.0
Bills, bonds and other securities	952.2	784.2	1,037.3
Other financial assets	453.9	467.4	511.4
Other assets	493.2	429.9	440.8
Total assets	39,145.8	38,031.0	32,960.7
Expenditure			
Interest on borrowings	4,182.7	4,797.9	3,725.2
Wages and salaries	374.0	370.8	375.5
Administrative expenses	430.0	476.6	521.5
Other expenditure	658.7	936.5	1,396.2
Total expenditure	5,645.4	6,581.8	6,018.4
Income			
Interest on loans	4,047.7	4,614.3	3,802.3
Income from finance leasing	1,439.5	1,333.9	1,343.4
Income from placements and deposits	168.2	132.7	107.5
Income from bills, bonds, etc.	112.2	328.5	49.3
Other income	398.0	404.0	449.3
Total income	6,165.6	6,813.4	5,751.9

(a) At the balance dates of companies within the financial year shown. Included are only those corporations registered under the *Financial Corporations Act 1974* and categorised as finance companies during the reference periods.

Source: Unpublished ABS data available under the title *Annual Statistics on Financial Institutions (5661.0)*.

General financiers

General financiers are corporations which lend predominantly for business and commercial purposes, provide instalment credit finance for

retail sales of others, and/or provide other loans to individuals. They do not rely substantially on borrowings (such as the issue of securities) in financial markets in Australia and from abroad.

25.10 GENERAL FINANCIERS: ASSETS, LIABILITIES, INCOME AND EXPENDITURE(a) (\$ million)

	1989-90	1990-91	1991-92
Liabilities			
Paid up capital	490.5	573.7	516.6
Reserves	131.7	99.0	404.8
Accumulated surplus (net)	-0.5	2.5	-71.5
Subordinated loans	198.3	289.5	212.4
Borrowings from residents			
By issue of securities	919.0	693.0	1,011.2
Banks	1,888.5	2,259.9	2,541.9
Other financial institutions	1,347.9	4,243.5	2,936.6
Other	3,659.8	1,550.6	731.9
Borrowings from non-residents	1,271.4	1,293.8	1,174.6
Other liabilities	688.1	563.3	440.0
Total liabilities	10,594.5	11,568.8	9,898.5
Assets			
Amount owing on loans	4,707.4	5,274.2	4,799.6
Finance lease receivables	2,998.3	2,883.4	2,483.1
Cash and bank deposits	507.6	558.9	505.4
Other placements and deposits	203.9	95.6	164.5
Bills, bonds and other securities	1,300.3	1,683.2	689.8
Other financial assets	236.9	297.5	267.3
Other assets	640.2	776.0	988.8
Total assets	10,594.5	11,568.8	9,898.5
Expenditure			
Interest on borrowings	1,400.7	1,555.8	1,194.5
Wages and salaries	68.5	77.5	63.6
Administrative expenses	91.8	171.2	155.8
Other expenditure	437.4	402.7	405.0
Total expenditure	1,998.4	2,207.2	1,818.9
Income			
Interest on loans	778.4	921.2	724.6
Income from finance leasing	525.4	615.6	569.3
Income from placements and deposits	143.4	108.7	46.4
Income from bills, bonds, etc.	241.0	271.7	174.3
Other income	291.1	322.7	312.2
Total income	1,979.3	2,239.9	1,826.7

(a) At the balance dates of companies within the financial year shown. Included are only those corporations registered under the *Financial Corporations Act 1974* and categorised as general financiers during the reference periods.

Source: Unpublished ABS data available under the title *Annual Statistics on Financial Institutions (5661.0)*.

Other financial corporations

Other financial corporations are corporations registered under the *Financial Corporations Act 1974* that are not categorised as building

societies, authorised money market dealers, money market dealers, finance companies, credit cooperatives, pastoral finance companies, general financiers or intra-group financiers.

**25.11 OTHER FINANCIAL CORPORATIONS: ASSETS, LIABILITIES, INCOME
AND EXPENDITURE^(a)**
(\$ million)

	1989-90	1990-91	1991-92
Liabilities			
Paid up capital	75.4	74.6	74.7
Reserves	207.9	208.6	250.2
Accumulated surplus (net)	9.1	-2.4	-101.8
Borrowings from residents			
Banks	18.5	6.3	8.7
Other	4,047.9	4,568.2	4,530.2
Borrowings from non-residents	—	—	—
Other liabilities	35.3	35.9	30.7
Total liabilities	4,394.0	4,891.2	4,792.6
Assets			
Amount owing on loans	1,490.3	1,921.2	1,320.6
Finance lease receivables	24.8	26.0	20.3
Cash and bank deposits	99.0	85.5	102.1
Other placements and deposits	223.6	190.5	565.7
Bills, bonds and other securities	2,435.3	2,522.9	2,626.8
Other financial assets	97.2	127.1	141.4
Other assets	23.8	18.0	15.7
Total assets	4,394.0	4,891.2	4,792.6
Expenditure			
Interest on borrowings	587.2	533.4	445.5
Wages and salaries	20.4	23.0	24.8
Administrative expenses	58.2	93.8	185.7
Other expenditure	10.8	20.2	17.8
Total expenditure	676.6	670.4	673.8
Income			
Interest on loans	166.2	153.9	104.5
Income from finance leasing	2.4	2.7	1.3
Income from placements and deposits	57.4	87.2	77.6
Income from bills, bonds, etc.	435.1	349.0	325.6
Other income	39.4	46.8	66.0
Total income	700.4	639.6	575.0

(a) At the balance dates of companies within the financial year shown. Included are only those corporations registered under the *Financial Corporations Act 1974* and categorised as other financial corporations during the reference periods.

Source: Unpublished ABS data available under the title *Annual Statistics on Financial Institutions (5661.0)*.

LIFE INSURANCE

The major acts of Parliament relating to the management and operations of life insurance offices are as follows:

- *The Insurance and Superannuation Commissioner Act 1987* which created the statutory office of Insurance and Superannuation Commissioner. The Act provides for the Commissioner to assume overall responsibility (subject to the Treasurer's direction) for the supervision of the insurance industry and for the occupational superannuation standards.
- *The Life Insurance Act 1945* (amended in 1987) which regulates life insurance business in Australia. This Act replaced all State legislation on the subject of life insurance

except that relating to life insurance operations of State government insurance offices within the State concerned. It thereby provided uniform legislation for the whole of Australia. It provides for the Insurance and Superannuation Commissioner to exercise active supervision of the activities of life insurance companies, with a view to securing the greatest possible protection for policy holders; and to set up adequate machinery for dealing with any company that fails to maintain a required minimum standard of solvency.

Life insurance offices' major activity is to accumulate public savings to provide funding for life insurance and superannuation funds. They are large institutions, many with Australia-wide branch networks, which are active in both the money and share markets.

25.12 LIFE INSURANCE

<i>Insurance and endowment policies</i>				
	<i>Number of policies ('000)</i>	<i>Sum insured (\$ million)</i>	<i>Business issued by single premiums (\$ million)</i>	<i>Annual premiums (\$ million)</i>
ORDINARY AND INDUSTRIAL BUSINESS				
New policies issued				
1990	839	49,583	1,966.1	707.3
1991	838	46,853	1,617.5	544.0
1992	714	41,259	1,494.7	469.6
Policies discounted or reduced(a)				
1990	647	27,425	..	295.0
1991	841	44,500	..	569.3
1992	837	38,998	..	597.6
Policies existing at end of				
1990	6,613	195,297	..	2,618.4
1991	6,610	197,650	..	2,592.1
1992	6,492	197,855	..	2,513.8
SUPERANNUATION BUSINESS				
New policies issued				
1990	514	87,600	4,319.1	2,083.0
1991	423	81,060	3,532.0	1,713.5
1992	375	72,587	4,073.3	1,529.3
Policies discontinued or reduced(a)				
1990	160	34,046	..	1,475.9
1991	204	51,043	..	1,303.0
1992	203	53,069	..	1,531.9
Policies existing at end of				
1990	2,648	260,332	..	5,961.0
1991	2,687	290,349	..	6,371.4
1992	2,922	304,079	..	6,349.4

(a) Includes transfers.

Source: Insurance and Superannuation Commission, *Life Insurance Group, June Quarterly Statistical Bulletin on Life Insurance*.

A feature of life insurance offices in recent years has been the growth of superannuation business.

The statistics in table 25.12 relate to life insurance and superannuation business conducted through statutory funds of life companies with head offices in Australia and the Australian business of life companies with head offices overseas. Also included are the life business operations reported by four State Government Insurance Offices. Information contained in the table does not relate to uniform accounting periods but to the balance dates of organisations falling within the calendar year shown.

SUPERANNUATION FUNDS AND APPROVED DEPOSIT FUNDS

The major acts of Parliament relating to the management of Superannuation Funds and Approved Deposit Funds are the *Occupational Superannuation Standards Act 1987* (OSSA) and the *Insurance and Superannuation Commission Act 1987*. The latter Act provides

for the statutory office of the Insurance and Superannuation Commissioner who is responsible for administering OSSA.

Superannuation funds are funds which have been constituted to provide retirement benefits for their members. They can be either employer sponsored (that is, with the employer paying some or all of the contributions on behalf of employees) or employee operated funds (that is, employees paying some or all of the contributions). Most superannuation arrangements involve both the employer and employee making contributions with the employer either contributing regularly to the fund or, as is the case with many public sector funds, when the benefit falls due. The contributions made regularly are used by fund managers to purchase investments and the resulting assets finance the payment of benefits to fund members.

Approved deposit funds were established in 1984 to enable employees who terminate their employment with a particular employer to preserve their superannuation benefits until retirement age.

25.12 SUPERANNUATION FUNDS AND APPROVED DEPOSIT FUNDS, ASSETS
(\$ million)

	June quarter		
	1990	1991	1992
Assets in Australia			
Financial assets			
Cash and deposits	7,903	7,950	8,702
Loan and placements	10,430	9,730	9,593
Short-term assets	9,550	9,619	12,977
Long-term assets	23,431	30,249	34,590
Shares	28,755	32,488	42,379
Unit and other	7,823	8,504	8,992
Non-financial assets			
Land and buildings	18,809	17,928	15,681
Other	2,593	1,680	1,516
Assets overseas	14,269	16,495	18,996
Total	123,563	134,643	153,426
Of which			
Superannuation funds	116,256	126,417	143,761
Approved deposit funds	7,307	8,226	9,665

Source: *Assets of Superannuation Funds and Approved Deposit Funds (5656.0)*.

CASH MANAGEMENT TRUSTS

A cash management trust is a unit trust which is governed by a trust deed, is open to the public, generally confines its investments to

financial securities available through the short-term money market and issues units that are redeemable by the trustee to the unit holder on demand.

25.14 CASH MANAGEMENT TRUSTS

June	Number of trusts	Units in issue at end of period (\$ million)	Weighted average net yield at end of period (% per annum)						Assets (\$ million)	
				Cash and deposits with banks	All other deposits and loans	Bills of exchange purchased and held	Promissory notes purchased and held	Other assets	Total	
1990	19	4,561.0	14.1	1,764.9	473.8	2,187.0	215.1	38.6	4,679.4	
1991	15	5,659.8	9.8	1,599.0	354.1	2,727.5	1,059.7	14.7	5,755.0	
1992	18	5,286.1	5.9	1,246.2	290.8	2,197.9	1,433.3	175.7	5,343.9	

Source: Cash Management Trusts, Australia (5635.0).

PUBLIC UNIT TRUSTS

A public unit trust is defined as an arrangement (fund) which is governed by a trust deed between a management company and a trustee company; is open to the public within Australia for the purpose of investing the pooled funds of unit holders to yield returns in the form of income and/or capital gains; and allows unit holders to dispose of their units within a relatively short period of time. They are categorised as either property,

equity, mortgage, trading, public security or gold trusts. They exclude cash management trusts, private trusts and trusts exempted from providing redemption facilities (for example, film and agricultural trusts).

Public unit trusts may be listed or unlisted unit trusts. A listed unit trust's units must be listed on Australian Stock Exchanges and the trust must adhere to listing requirements similar to those for companies.

25.15 PUBLIC UNIT TRUSTS

								Assets (\$ million)
June quarter	Number of trusts	Units in issue at end of the period (\$ million)	Cash and deposits	Shares	Property at the end of the quarter	Loan out-standings secured by mortgages on land and buildings	Other assets	Total
UNLISTED								
1990	374	14,864.5	896.1	3,535.6	6,909.6	1,456.4	3,945.3	16,743.0
1991	368	13,823.1	1,080.8	3,773.1	5,471.1	1,379.8	3,638.2	15,343.0
1992	326	12,427.1	784.1	5,395.1	2,103.2	1,013.0	4,352.9	13,648.3
LISTED								
1990	41	7,531.3	336.7	306.9	6,384.5	33.0	3,926.3	10,987.4
1991	39	7,230.4	343.7	417.1	6,264.4	90.3	3,319.7	10,435.2
1992	40	9,088.0	475.6	611.7	7,621.8	99.6	3,141.7	11,950.4
TOTAL								
1990	415	22,395.8	1,232.8	3,842.5	13,294.1	1,489.4	7,871.6	27,730.4
1991	407	21,053.5	1,424.5	4,190.2	11,735.5	1,470.1	6,957.9	25,778.2
1992	366	21,515.1	1,259.7	6,006.8	9,725.0	1,112.6	7,494.7	25,598.8

Source: Public Unit Trusts, Australia (5645.0).

COMMON FUNDS

Common funds are categorised as either cash funds, equity funds, mortgage funds, property funds or other funds (funds where the primary asset is other than those listed above, for example, interest bearing securities). Common funds are set up to enable trustee companies (the managers of common funds) to combine depositors' funds and other funds held in trust in an investment pool with the intention of investing in specific types of securities and/or assets.

25.16 COMMON FUNDS, ASSETS (\$ million)

	June		
	1990	1991	1992(a)
Assets in Australia			
Financial assets			
Cash and deposits	1,273	1,144	532
Loans and placements	859	824	872
Short-term assets	4,149	4,055	2,076
Long-term assets	48	38	49
Equities	375	434	655
Other	12	57	17
Non-financial assets			
Land and buildings	216	174	143
Other	5	1	—
Assets overseas	21	25	39
Total assets	6,958	6,752	4,383

(a) Caution should be used when comparing June 1992 data with previous years due to a significant change in the population of Common Funds.

Source: *Common Funds, Assets and Liabilities, Australia (5657.0)*.

FRIENDLY SOCIETIES

When founded in 1840 friendly societies were formed on the basis of group interests such as craft or religion. They have since evolved to offer a full range of financial services to the public at large, including investment services. Friendly societies are registered under relevant State legislation and operate in all States.

Table 25.17 summarises the assets of the 27 largest friendly societies which represent

approximately 93 per cent of the assets of all societies in Australia.

25.17 FRIENDLY SOCIETIES, ASSETS (\$ million)

	June		
	1990	1991	1992
Financial assets			
Cash and deposits	1,875	2,494	1,939
Loans and placements	1,208	942	856
Short-term assets	2,322	1,992	2,914
Long-term assets	1,980	2,144	2,633
Equities	30	42	118
Other	394	330	123
Non-financial assets			
Land and buildings	208	311	333
Other	67	27	72
Total assets	8,084	8,282	8,988

Source: *Friendly Societies, Assets and Liabilities, Australia (5660.0)*.

GENERAL INSURANCE COMPANIES

The major acts of Parliament relating to the management and operations of general insurers are as follows:

- The *Insurance and Superannuation Commission Act 1987*, which created the statutory office of Insurance and Superannuation Commissioner. The Act provides for the Commissioner to have overall responsibility (subject to the Treasurer's direction) for the supervision of the general insurance industry.
- The *Insurance Act 1973* which provides for the Commissioner to exercise active supervision with a view to ensuring the solvency of companies carrying on general insurance business, and therefore their ability to meet claims as they arise. The Act does not apply to State government insurance offices or to insurance business carried on by specified bodies such as registered medical benefits of hospital benefits organisations.

General insurance statistics cover those institutions whose primary activity is the provision of insurance, except life and health insurance.

The statistics in table 25.18 relate to the operations of bodies corporate authorised to carry on insurance business under the *Insurance Act 1973* and government instrumentalities, that is, State government insurance offices and Commonwealth and State government instrumentalities in respect of their general insurance business.

The statistics employ the following definitions:

- Premiums comprise the full amount receivable in respect of direct insurance and reinsurance business written or renewed within Australia during the year. Premiums are not adjusted to

provide for premiums unearned at the end of the year and consequently the amounts differ from 'earned premium income' appropriate to the year.

- Claims comprise, for direct insurance and reinsurance business, payments made during the year. Salvage and other amounts recoverable, other than reinsurance recoveries, have been deducted.

The statistics do not relate to uniform accounting periods but to the financial years of the organisations which ended during the years shown.

25.18 GENERAL INSURANCE: PREMIUMS AND CLAIMS BY PRINCIPAL CLASS OF BUSINESS
(\$ million)

<i>Class of business</i>	<i>1988-89</i>	<i>1989-90</i>	<i>1990-91</i>
PREMIUMS			
Fire(a)	901.6	914.9	874.2
House Owners' and House-holders'	940.0	1,039.3	1,094.2
Contractors' All Risks	95.9	93.4	70.2
Marine and Aviation	268.9	286.6	278.0
Motor Vehicle Comprehensive	2,054.8	2,304.3	2,392.4
Compulsory Third Party (Motor Vehicle)	435.1	1,031.5	1,049.2
Employers Liability(b)	281.1	304.5	262.7
Public Liability(c)	630.9	635.0	637.7
All other	866.2	984.7	902.2
Total	6,474.5	7,594.2	7,560.8
CLAIMS			
Fire(a)	458.0	533.5	795.2
House Owners' and House-holders'	465.7	593.3	906.3
Contractors' All Risks	37.7	57.3	50.3
Marine and Aviation	126.0	171.8	196.2
Motor Vehicle Comprehensive	1,549.9	1,826.3	2,084.1
Compulsory Third Party (Motor Vehicle)	68.6	116.5	137.1
Employers Liability(b)	918.8	747.8	508.9
Public Liability(c)	239.9	217.6	254.3
All other	359.3	431.3	519.1
Total	4,223.0	4,695.4	5,451.5

(a) Includes sprinkler leakage, loss of profits, and crop and hailstone insurance. (b) Excludes workers' compensation insurance in the coal mining industry in NSW. (c) Includes product liability and professional indemnity insurance.

Source: *Insurance and Superannuation Commission, General Insurance Group, Selected Statistics on the General Insurance Industry.*

STOCK MARKET

The Australian stock market is where equity (shares), units in listed trusts, options, government bonds and other fixed-interest securities are traded. It is operated on a national basis by the Australian Stock Exchange Ltd (ASX) which is responsible for the day-to-day running and surveillance of stockmarket trading.

The sharemarket comprises two different markets — the primary market where new issues and additional issues are raised, and the secondary market where previously issued shares are traded. The companies listed on the exchange are classified according to size and type of activity, for example, large companies (over \$300,000 issued capital) are listed on the Main Board while newer or smaller companies (over \$200,000 issued capital) are listed on the Second Board. Companies are classified

according to their major type of activity and the ASX publishes various indexes (for example, All Ordinaries, All Industrials, All Resources), which represent the price performance of the shares in particular types of categories.

Trading of shares on the stockmarket is generally conducted through stockbrokers who act as agents for buyers and sellers of shares. In addition they provide advisory and underwriting services and in some cases buy and sell shares on their own account.

The stockmarket is controlled and regulated using a cooperative system drawn up between the Commonwealth Government and State Governments, which allows for a uniform companies' and securities' law. The major legislation involved are the *Trade Practices Act 1974*, the *Companies Act 1981*, the *Securities Industry Act 1980*, and the *Australian Securities Commission Act 1989*. The Australian Securities Commission is responsible for the administration of company law and the regulation of the securities industry. It oversees the operation of stock exchanges to prevent fraudulent practices such as insider trading. The Trade Practices Commission administers trade practices legislation on behalf of both private enterprise and consumers, authorises certain restrictive trade practices, deals with consumer protection and provides guidance on the operation of Trade Practices legislation. The ASX oversees market trading and sets uniform standards in regards to business rules and listing requirements.

25.19 AUSTRALIAN STOCK MARKET INDEXES

(Base: 31 December 1979 = 500)

	1989-90	1990-91	1991-92
All ordinaries			
Index(a)	1,508.8	1,504.9	1,652.7
High	1,528.8	1,523.9	1,672.3
Low	1,494.6	1,478.0	1,547.4
All industrials			
Index(a)	2,367.9	2,330.7	2,550.0
High	2,388.2	2,389.2	2,610.2
Low	2,388.2	2,297.0	2,364.9
All resources			
Index(a)	855.3	873.5	965.7
High	873.9	892.0	965.7
Low	840.6	851.3	894.2

(a) Share prices on joint trading floors; average of daily figures for the last month of the year.

Source: Australian Stock Exchange, *Monthly Index Analysis*.

Table 25.20 shows the value of Australian shares and units in trusts on issue classified by sector of holder at market value or, in the case of the public sector, at book value. The estimates are partially consolidated, with intra-group claims (that is, shares issued by a company in a group and held by another member of the same group) being eliminated from the aggregates.

Total equities and units in trusts represent the value level of outstanding equities issued by residents. This total is dissected into the sectors which issue these instruments (in italics), followed by the sectors that hold the equities as assets.

25.20 THE SHARE MARKET(a)
(\\$ billion)

	<i>Value at end of June quarter</i>		
	<i>1990</i>	<i>1991</i>	<i>1992</i>
<i>Total equities & units in trusts</i>	<i>290.8</i>	<i>302.4</i>	<i>334.8</i>
<i>Issued by</i>			
<i>Commonwealth public trading enterprises(b) & held by</i>	<i>2.9</i>	<i>3.5</i>	<i>6.7</i>
Commonwealth public trading enterprises	0.3	0.2	—
Commonwealth general government	2.6	3.3	6.7
<i>State & local public trading enterprises(b) & held by</i>	<i>7.4</i>	<i>7.9</i>	<i>8.2</i>
State & local public trading enterprises	0.1	0.1	0.1
State & local general government	7.2	7.7	8.1
<i>Private corporate trading enterprises(c) & held by</i>	<i>210.3</i>	<i>211.6</i>	<i>234.2</i>
Commonwealth public trading enterprises	0.1	0.1	0.3
Private corporate trading enterprises(d)	27.2	25.4	26.9
Banks	2.4	3.0	3.0
Non-bank deposit taking institutions	3.2	2.7	2.6
Life offices & superannuation funds	36.2	40.3	49.1
Other financial institutions	9.4	10.6	11.0
Households & unincorporated businesses(c)	51.1	42.2	48.0
Rest of world	80.8	87.3	93.2
<i>Banks(c) & held by</i>	<i>37.3</i>	<i>41.2</i>	<i>45.7</i>
Banks(d)	4.6	5.5	4.4
Life offices & superannuation funds	4.7	5.1	6.2
Other financial institutions	1.2	1.4	1.5
Commonwealth general government	5.6	6.1	6.3
State & local general government	5.1	4.4	4.9
Households & unincorporated businesses(c)	10.3	11.2	15.2
Rest of world	5.9	7.4	7.2
<i>Non-bank deposit taking institutions(c) & held by</i>	<i>13.4</i>	<i>11.5</i>	<i>12.6</i>
Private corporate trading enterprises	0.6	0.4	0.2
Banks	5.3	5.9	4.7
Life offices & superannuation funds	0.4	0.6	0.8
Other financial institutions	0.5	0.6	0.5
Households & unincorporated businesses(c)	4.2	1.3	3.6
Rest of world	2.4	2.7	2.7
<i>Life offices & superannuation funds(c) & held by</i>	<i>1.5</i>	<i>7.4</i>	<i>7.2</i>
Life offices & superannuation funds(e)	0.3	6.1	6.1
Rest of world	1.2	1.3	1.1
<i>Other financial institutions(c) & held by</i>	<i>15.7</i>	<i>16.9</i>	<i>17.6</i>
Life offices & superannuation funds	3.5	3.7	3.6
Other financial institutions	0.2	0.2	0.4
Commonwealth general government	—	—	0.2
State & local general government	0.6	0.6	0.6
Households & unincorporated businesses(c)	8.3	9.1	9.5
Rest of world	3.2	3.2	3.4
<i>State & local general government(b) & held by</i>	<i>2.2</i>	<i>2.5</i>	<i>2.5</i>
State & local general government	2.2	2.5	2.5

(a) Includes units in trusts. (b) Book values. (c) These estimated market values are considered to be of poor quality. They should be used cautiously. (d) Excludes holdings by related enterprises in this subsector. (e) Excludes holdings by related enterprises in this subsector. The discontinuity at September Quarter 1990 is caused by a structural change in this subsector.

Source: Australian National Accounts, Financial Accounts (5232.0).

FINANCIAL ACTIVITY

Money

Australia has a decimal system of currency, the unit being the dollar, which is divided into 100 cents. Australian notes are issued in the denominations of \$5, \$10, \$20, \$50 and \$100 and coins in the denominations of 5c, 10c, 20c, 50c, \$1 and \$2. \$1 and \$2 notes were replaced by coins in 1984 and 1988 respectively, and 1c and 2c coins ceased to be issued from 1 February 1992.

25.21 VALUE OF AUSTRALIAN NOTES ON ISSUE (\$ million)

	<i>Last Wednesday in June</i>		
	1990	1991	1992
\$1	43	43	43
\$2	75	73	71
\$5	233	249	261
\$10	691	679	589
\$20	2,289	2,048	1,857
\$50	4,425	5,345	5,763
\$100	5,225	6,356	6,672
Total	12,981	14,793	15,256
Increase %	5.1	14.0	3.1

Source: Reserve Bank of Australia.

25.22 AUSTRALIAN DECIMAL COIN ON ISSUE (\$ million)

	<i>Last Wednesday in June</i>		
	1990	1991	1992
1c	30.7	29.2	26.0
2c	48.0	44.0	37.2
5c	79.4	79.8	82.5
10c	88.0	87.6	90.2
20c	136.2	132.9	130.0
50c	181.0	179.3	180.6
\$1	222.8	220.2	221.6
\$2	335.1	352.1	362.5
Total	1,121.2	1,125.1	1,130.6

Source: Reserve Bank of Australia.

Money supply measures

The supply of money in the market is an important measure reflecting interest rates and the inflation rate. Basically the money supply, as

measured and published by the Reserve Bank of Australia, refers to the amount of cash held by the public plus deposits with banks. The measures range from the narrowest category, money base, through to the widest category, broad money, with other measures in-between. The measures mainly used are as follows:

- money (cash) base, which refers to currency in circulation plus bank deposits with the Reserve Bank of Australia.
- M3, which refers to currency plus bank deposits of the private non-bank sector.
- broad money, which is M3 plus borrowings from the private sector by non-bank financial institutions (including cash management trusts) less their holdings of currency and bank deposits.

In the past Australian monetary authorities have mainly used M3 as the major measure of money supply. However, with deregulation of the financial system and increasing movements in deposits between banks and non-banks, authorities now tend to use all three major measures.

25.23 LEVELS OF MONEY SUPPLY MEASURES (\$ million)

Year	Money banks(a)	M3(b)	Broad money(c)
1989-90	17,706	190,410	261,917
1990-91	18,717	202,650	266,402
1991-92	19,135	208,175	270,365

(a) Holdings of notes and coins by the private sector, plus deposits of banks with the Reserve Bank and Reserve Bank liabilities to the private non-bank sector. (b) Currency plus bank deposits (including certificates of deposit with banks) of the non-bank sector. (c) M3 plus borrowings from private sector by non-bank financial institutions less the latter's holdings of currency and bank deposits.

Source: Reserve Bank of Australia.

Interest rates

Interest rates, as the price for money and credit, fluctuate with the supply of and demand for money or credit. They are also affected by other factors such as government monetary policy, government regulation, borrower credit risk, and the maturity and marketability of the particular investment or asset involved. Table 25.24 shows the fluctuations in but a few of the key rates offered to individuals and businesses in the market.

25.24 KEY INTEREST RATES

	At end of June		
	1990	1991	1992
Private			
Authorised dealers weighted average rate(a)	14.98	10.39	6.41
90-day bank bills(b)	15.10	10.50	6.40
Fixed bank deposits \$50,000 and over 12 months	14.25	10.00	6.00
Unofficial market rate(c)	15.05	10.55	6.55
Prime rate(d)	18.75	14.25	10.75
Small overdraft rate(e)	21.50	16.50	11.25
New bank housing loans	16.50	13.00	10.50
Commonwealth government securities 13 week			
Treasury notes	14.75	10.11	6.17
Treasury bonds			
2 year	14.05	10.55	6.35
5 year	13.80	11.05	7.85
10 year	13.40	11.15	8.90

(a) Official cash rate. Data are the weighted average for the last month of the year. (b) Data are the weighted average of the last week of the period. (c) The 11 a.m. call rate. Data are the average of daily figures. (d) Bank overdraft for \$100,000 and over. (e) Bank overdraft for less than \$100,000.

Source: Reserve Bank of Australia Bulletin.

FOREIGN EXCHANGE

The foreign exchange market is the means whereby currencies of different countries can be bought and sold. In October 1983 the Australian Government decided to float the Australian dollar allowing its value to be determined by market forces with few exchange controls and little Reserve Bank intervention. Prior to 1983 the Australian dollar was pegged to a basket of currencies which were weighted according to their trading significance to Australia.

Currencies are traded for many reasons, including to facilitate overseas trade (exports, imports), for financing overseas borrowing and investments, for arbitrage (that is, taking advantage of short-term discrepancies in rates with minimal risk) and for speculation on possible exchange rate movements with a view to making a significant profit.

These activities are conducted in three markets — the foreign exchange market, the currency hedge market, and the currency futures market. The foreign exchange market deals with the actual trading of foreign currency for all types of customers, ranging from tourists to large corporations and governments. This market is operated by authorised traders (all licensed banks and 44 non-bank financial institutions). The currency hedge market is used as a means of insurance against future exchange rate fluctuations and is especially useful for long-term contracts. It is operated by licensed banks and money market corporations. The currency futures market operates from the Sydney Futures Exchange and involves contracts to buy and sell a specific currency for a set price at a specified future date. The contracts are arranged by brokers who are members of the exchange.

25.25 EXCHANGE RATES FOR THE AUSTRALIAN DOLLAR

	<i>At end of June</i>		
	<i>1990</i>	<i>1991</i>	<i>1992</i>
United States dollar	0.7890	0.7681	0.7448
United Kingdom pound	0.4536	0.4712	0.3945
German Deutschemark	1.3180	1.3818	1.1438
Japanese yen	120.4100	106.1900	94.0500
New Zealand dollar	1.3439	1.3303	1.3752

Source: Reserve Bank of Australia Bulletin.

MAJOR LENDING BY FINANCIAL INSTITUTIONS

major types of lending — housing, personal, commercial and leasing. Information regarding housing finance is presented in the chapter, Construction and Housing.

The lending activities of financial institutions are grouped for statistical purposes into four

25.26 LENDING COMMITMENTS BY FINANCIAL INSTITUTIONS
(\$ million)

<i>Type of lending activity</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>
Housing finance	18,959.9	20,775.7	28,538.4
Personal finance	22,309.4	20,205.0	19,598.4
Commercial finance	94,872.9	87,294.0	76,644.9
Lease finance	8,217.9	5,209.4	4,476.7
Total	144,360.1	133,484.1	129,258.4

Source: See the tables which follow for each type of lending.

Personal finance

is, banks, credit cooperatives, finance companies, etc.) to lend to individuals for their own personal (non-business) use.

The following tables present statistics of commitments made by significant lenders (that

25.27 PERSONAL FINANCE COMMITMENTS(a), BY TYPE OF LENDER
(\$ million)

<i>Year</i>	<i>All banks</i>	<i>Finance companies</i>	<i>Credit cooperatives</i>	<i>Other lenders(b)</i>	<i>Total</i>
1989-90	14,815.0	4,800.4	2,224.7	469.3	22,309.4
1990-91	13,288.4	4,154.4	2,183.8	578.5	20,205.0
1991-92	12,211.8	3,691.4	2,532.1	1,163.0	19,598.4

(a) Includes both fixed loan facilities and new and increased lending commitments under revolving credit facilities. (b) Includes permanent building societies, general financiers and retailers.

Source: Personal Finance, Australia (5642.0).

25.28 PERSONAL FINANCE COMMITMENTS, BY TYPE OF FACILITY
(\$ million)

Year	Fixed loan commitments	New and increased credit limits	Cancellations and reductions in credit limits	Revolving credit commitments	
				Credit limits	
				Total	Used
1989-90	13,761.8	8,547.6	6,107.3	26,871.3	12,213.9
1990-91	12,622.6	7,582.4	7,042.2	28,056.4	12,905.1
1991-92	12,711.8	6,886.5	5,972.9	32,516.9	14,099.3

Source: *Personal Finance, Australia* (5642.0).

Commercial finance

The statistics in the following tables measure commitments, made by significant lenders (that is, banks, finance companies, money market

corporations, etc.), to lend to government, private and public enterprises, non-profit organisations and to individuals for investment and business purposes.

25.29 COMMERCIAL FINANCE COMMITMENTS(a), BY TYPE OF LENDER
(\$ million)

Year	Banks	Finance companies	Money market corporations	Other lenders(b)	Total
1989-90	74,884.7	10,474.3	8,230.6	1,283.3	94,872.9
1990-91	68,797.7	6,283.9	10,266.3	1,946.2	87,294.0
1991-92	59,936.8	5,383.8	9,257.0	2,067.2	76,644.9

(a) Includes both fixed loan facilities and new and increased lending commitments under revolving credit facilities. (b) Includes permanent building societies, general financiers and pastoral finance companies.

Source: *Commercial Finance, Australia* (5643.0).

25.30 FIXED COMMERCIAL FINANCE COMMITMENTS, BY PURPOSE
(\$ million)

Year	Construction	Purchase of real property	Purchase of plant and equipment	Re-financing	Other purposes	Total
1989-90	6,062.9	10,350.5	3,410.2	3,577.9	14,106.7	37,508.2
1990-91	3,208.4	7,533.1	2,948.2	8,225.5	13,070.6	34,985.7
1991-92	2,319.1	5,803.2	3,218.7	5,883.1	14,405.1	31,629.2

Source: *Commercial Finance, Australia* (5643.0).

Lease finance

The statistics in the following tables measure lease finance commitments made by significant lenders (that is, banks, money market

corporations, finance companies, general financiers, etc.) to trading and financial enterprises, non-profit organisations, governments, public authorities and individuals.

25.31 LEASE FINANCE COMMITMENTS, BY TYPE OF LESSOR
(\$ million)

<i>Year</i>	<i>All banks</i>	<i>Money market corporations</i>	<i>Finance companies</i>	<i>General financiers</i>	<i>Total</i>
1989-90	2,789.8	411.3	4,064.8	950.9	8,216.7
1990-91	1,304.8	278.7	2,912.5	713.4	5,209.4
1991-92	1,275.4	328.1	2,559.3	313.8	4,476.7

Source: Lease Finance, Australia (5644.0).

25.32 LEASE FINANCE COMMITMENTS, BY TYPE OF GOODS LEASED
(\$ million)

<i>Types of goods</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>
Motor vehicles and other transport equipment	4,041.7	2,933.5	2,733.7
Construction and earth moving equipment	402.4	260.5	205.9
Agricultural machinery and equipment	223.9	125.9	131.3
Automatic data processing equipment and office machinery	1,369.9	884.1	643.2
Shop and office furniture, fittings and equipment	572.7	400.4	251.1
Other goods	1,607.3	605.0	511.6
Total	8,217.9	5,209.4	4,476.7

Source: Lease Finance, Australia (5644.0).

MANAGED FUNDS — THE CONSOLIDATED POSITION

Certain types of financial institutions can be collectively described as 'managed funds' and it is useful to present consolidated statistics for them as a group.

The significant growth in managed funds has been a major development in the financial sector over the last decade. A managed fund is an arrangement whereby the funds of a number of investors are 'pooled' together to invest in a particular type or mix of financial and non-financial assets, with a view to receiving an on-going return, or a capital gain. Managed funds exclude funds of a speculative nature that do not offer redemption facilities (for example, agriculture and film trusts), and funds not established for investment purposes (for example, health funds, general insurance funds).

The development of managed funds has occurred in parallel with changes resulting from the deregulation of the financial system. They offer a wide range of investment alternatives to small and institutional investors based on the underlying asset, specialist

managers, income returns, taxation benefits and investment strategy. The funds' products can be structured to satisfy individual investor requirements such as the degree of risk, the mix of capital and income growth and the degree of asset diversification.

The major types of managed funds are cash management trusts, public unit trusts, common funds, superannuation funds and approved deposit funds, friendly societies, and statutory funds of life offices.

To arrive at a figure for the total assets of managed funds in Australia, it is necessary to eliminate the cross investment between the various types of funds. For example, investments by superannuation funds in public unit trusts are excluded from the assets of superannuation funds in a consolidated presentation.

While statistics for each of these institutions has been presented previously in this chapter, the following tables summarise their consolidated position (that is, after the cross investment between the institutions have been eliminated), by type of fund and by type of investment.

25.33 ASSETS OF MANAGED FUNDS BY TYPE OF FUND AS AT 30 JUNE 1992
(\$ million)

<i>Type of fund</i>	<i>Assets</i>		
	<i>Cross invested</i>	<i>Consolidated</i>	<i>Total</i>
Statutory funds of life offices	3,277	98,109	101,385
Superannuation and approved deposit funds	6,936	81,226	88,162
Public unit trusts	2,011	23,587	25,598
Friendly societies	25	8,963	8,988
Common funds	55	4,319	4,373
Cash management trusts	—	5,344	5,344
Total	12,303	221,548	233,850

(a) Source: Insurance & Superannuation Commission.

Source: *Managed Funds: Australia* (5655.0).

25.34 CONSOLIDATED ASSETS OF MANAGED FUNDS, BY TYPE OF INVESTMENT
(\$ million)

<i>Type of investment</i>	<i>30 June 1990</i>	<i>30 June 1991</i>	<i>30 June 1992</i>
Deposits, loans and placements	32,847	31,701	28,558
Short-term assets	23,478	24,053	27,530
Long-term assets	30,912	39,306	45,287
Equities and units in trusts	34,822	38,671	56,050
Land and buildings	38,244	35,391	30,175
Overseas assets	20,769	22,598	26,067
Other assets	11,365	11,981	7,881
Total	192,439	203,703	221,548

Source: *Managed Funds: Australia* (5655.0).

A further development within the managed funds industry is the emergence of the professional or wholesale fund manager. These entities act on a fee for service basis as managers for smaller funds and agents for other funds, including unit trusts and superannuation funds. While they accept individual portfolios to manage, for example, for charities, their existence is generally not visible to the small investor. The professional fund managers fall into two groups — those attached to insurance agencies, who also act as agents for outside institutions as well as their own company's clients, and those attached to other institutions. Professional fund managers provide a sophisticated level of

service matching assets and liabilities. They act in the main as the managers of pooled funds, but also manage clients' investments on an individual portfolio basis.

A considerable proportion of the assets of managed funds, particularly statutory funds of life offices and assets of superannuation funds, is invested through professional fund managers. At 30 June 1992, \$174.3 billion, or 78.9 per cent of consolidated assets of managed funds, were invested through professional fund managers. Table 25.35 shows the total unconsolidated assets of each type of managed fund and the amount of these assets invested through professional fund managers.

25.35 ASSETS OF MANAGED FUNDS MANAGED BY PROFESSIONAL FUND MANAGERS
AT 30 JUNE 1992
(\$ million)

<i>Type of fund</i>	<i>Unconsolidated assets of managed funds</i>	<i>Assets invested with professional fund managers</i>
Statutory funds of life offices(a)	101,385	94,786
Superannuation and approved deposit funds	88,162	53,605
Public unit trusts	25,598	18,387
Friendly societies	8,988	3,285
Common funds	4,373	213
Cash management trusts	5,344	4,069
Total	233,850	174,345

(a) Includes both superannuation and ordinary business.

Source: *Managed Funds: Australia* (5655.0).

Professional fund managers also manage money from investors other than managed funds. At 30 June 1992, professional fund

managers also invested \$27.3 billion on behalf of government, general insurance and other sources.

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FOR MORE INFORMATION

The ABS has a far wider range of information on Australia than that contained in the *Year Book*. Information is available in the form of regular publications, electronic data services, special tables and from investigations of published and unpublished data.

For further information contact ABS Information Services at one of the addresses listed on the page facing the Introduction to the *Year Book*.

