

Chapter Twenty-three

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.

For national accounting purposes financial institutions are grouped into *Deposit Taking Institutions*, *Life Offices and Superannuation Funds*, and *Other Financial Institutions*. Deposit Taking Institutions are those institutions which are included in the Reserve Bank of Australia's 'broad money' measure and include the Reserve Bank, banks, building societies, credit cooperatives, authorised money

market dealers, money market corporations, pastoral finance companies, finance companies, general financiers and cash management trusts. Life Offices and Superannuation Funds cover the statutory funds of life offices, separately constituted superannuation funds, approved deposit funds, friendly societies and long-service leave boards. Other Financial Institutions cover health, export and general insurance companies; common funds; mortgage, fixed interest and equity unit trusts; issuers of asset-backed securities; economic development corporations; cooperative housing societies; and credit union leagues.

The following table shows the relative size of these groupings of financial institutions in terms of value of total assets. This table has been compiled on a consolidated basis, that is, financial claims between institutions in the same grouping have been eliminated. The total is also consolidated, that is, financial claims between the groupings have been eliminated. For this reason, and because there are a number of less significant adjustments made for national accounting purposes, the statistics in the summary table will differ from those presented later in this chapter and published elsewhere.

23.1 ASSETS OF FINANCIAL INSTITUTIONS
(\$ billion)

Year ended 30 June	Deposit institutions			Life and super- annuation funds	Other financial instit- utions	Consol- idated total
	Reserve Bank	Banks	Other			
1989	24.2	240.1	135.1	143.4	70.6	545.6
1990	25.3	269.0	140.3	161.9	79.7	596.6
1991	29.4	298.9	133.2	174.5	92.2	636.7
1992	32.1	310.3	127.2	196.9	101.3	674.3
1993	37.4	331.7	117.0	211.0	101.6	706.8

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

These institutions intermediate in a variety of ways. (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.) Intermediation takes place 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. Until 1991 when 30 per cent of its shares were sold to the general public, this group of banks was the only commercial banking group wholly owned and controlled by the Australian Government.

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.'

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

LIABILITIES							
30 June	Capital and reserve funds	Deposits by banks(a)					Total
		Special reserve-IMF special drawing right	Australian notes on issue	Non-callable deposits/Statutory Reserve Deposit accounts	Other	All other liabilities	
1991	248	238	14,621	2,541	24	10,457	28,129
1992	333	206	15,243	2,608	16	12,553	30,959
1993	533	119	16,266	2,923	13	16,558	36,412
ASSETS							
30 June	Gold and foreign exchange(b)	Commonwealth government securities(c)	Loans, advances and bills discounted	All other assets		Total	
1991	24,308	2,960	89	772		28,129	
1992	21,121	8,839	87	912		30,959	
1993	19,844	15,796	94	678		36,412	

(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 39 banks, including the development banks and 18 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 1993, banks operated 7,064 branches and 6,288 agencies. Of the total branches, 4,158 were located in metropolitan areas. Banking facilities were also available at 2,563 metropolitan agencies throughout Australia.

23.3 BANKS: LIABILITIES AND ASSETS (\$ million)

	June		
	1991	1992	1993
LIABILITIES			
Deposits repayable in Australia			
Residents	189,181	197,090	216,973
Non-residents	5,560	6,034	5,546
Total	194,741	203,124	222,519
Other borrowings			
Banks(a)	11,857	12,420	8,818
Other	12,806	14,446	16,358
Bill acceptance liabilities	55,071	49,372	49,531
All other \$A liabilities	12,701	14,524	11,054
Total resident \$A liabilities	272,188	276,462	290,291
Total non-resident \$A liabilities	14,988	17,424	17,990
Total \$A liabilities	287,176	293,886	308,280
Foreign currency liabilities	33,615	37,909	43,381
Total liabilities(b)	320,791	331,795	351,661
ASSETS			
Coin, Australian notes and cash with Reserve Bank	1,244	1,283	1,356
Non-callable deposits with Reserve Bank	2,541	2,608	2,923
Public sector securities	23,437	24,975	25,484
Loans, advances and bills held	226,757	238,604	255,386
Bills receivable	53,573	48,474	48,659
Premises	6,657	6,527	5,967
All other \$A assets	22,465	25,076	25,535
Total resident \$A assets	335,469	345,164	362,213
Total non-resident \$A assets	1,203	2,382	3,097
Total \$A assets	336,672	347,546	365,310
Foreign currency assets	17,062	14,362	17,538
Total assets	353,733	361,908	382,848

(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 NBFI 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 unconsolidated summary data on the assets and liabilities of each category 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.

23.4 FINANCIAL CORPORATIONS: ASSETS AND LIABILITIES(a), 1992-93
(\$ million)

LIABILITIES					
Category	Share capital and reserves	Borrowings liabilities	Other liabilities	Total	
Permanent building societies	837.4	10,980.7	346.5	12,164.6	
Cooperative housing societies	41.8	1,989.3	13.2	2,044.4	
Credit cooperatives	978.9	10,111.5	201.5	11,291.8	
Authorised money market dealers	118.9	5,348.8	152.2	5,619.9	
Money market corporations	1,707.1	39,887.3	2,659.2	44,253.7	
Finance companies	3,290.0	25,353.8	1,427.3	30,071.0	
General financiers	596.7	7,586.8	503.8	8,687.3	
Total	7,570.8	101,258.2	5,303.7	114,132.7	
ASSETS					
Category	Amount owing on loans	Cash placements and deposits	Bills, bonds and other securities	Other assets	Total
Permanent building societies	9,567.1	858.4	1,285.0	454.0	12,164.6
Cooperative housing societies	2,001.2	38.0	0.6	4.6	2,044.4
Credit cooperatives	8,455.6	1,814.0	434.8	587.4	11,291.8
Authorised money market dealers	9.6	164.1	5,425.2	20.9	5,619.9
Money market corporations	24,604.8	4,718.8	10,597.8	4,332.3	44,253.7
Finance companies	26,886.2	801.2	1,226.8	1,156.9	30,071.0
General financiers	6,763.0	319.1	634.2	971.0	8,687.3
Total	78,287.5	8,713.6	19,604.4	7,527.1	114,132.7

(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.

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

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

	1990-91	1991-92	(b)1992-93
Liabilities			
Share capital	5,587.1	4,445.2	205.6
Reserves	518.1	452.6	631.8
Deposits	13,821.2	15,273.0	10,648.6
Loans	1,699.8	1,859.8	332.1
Other liabilities	539.3	382.2	346.5
Total liabilities	22,165.5	22,412.8	12,164.6
Assets			
Amount owing on loans	16,569.8	17,209.9	9,567.1
Cash on hand	89.1	117.7	59.9
Deposits with			
Banks	948.4	985.7	605.0
Other	281.3	162.6	193.5
Bills, bonds, etc.	3,382.5	3,115.2	1,285.0
Physical assets	499.9	446.9	285.5
Other assets	394.5	374.8	168.5
Total assets	22,165.5	22,412.8	12,164.6
Expenditure			
Interest on			
Shares	566.4	339.7	552.4
Deposits	1,450.2	1,151.8	
Interest on loans	270.4	175.6	29.2
Wages and salaries	231.4	232.3	156.0
Administrative expenses	207.2	190.8	123.3
Other expenditure	422.1	244.5	143.1
Total expenditure	3,147.7	2,334.7	1,004.0
Income			
Interest from			
Loans	2,412.7	1,935.5	886.6
Deposits	145.9	109.2	141.3
Income from bills, bonds, etc.	396.7	327.3	
Other income	133.6	164.2	103.7
Total income	3,088.9	2,536.2	1,131.7

(a) At the balance dates of societies within the financial year shown. (b) The comparability of 1992-93 data with earlier years has been affected by the change in status of two building societies which have become banks.

Source: For 1990-91 and 1991-92, unpublished ABS data available under the title *Annual Statistics on Financial Institutions* (5661.0); for 1992-93, the *Australian Financial Institutions Commission*.

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.

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

	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>
Liabilities			
Share capital and reserves	42.8	49.1	41.8
Borrowings	2,625.4	2,478.5	1,989.3
Other liabilities	16.9	16.2	13.2
Total liabilities	2,685.1	2,543.8	2,044.4
Assets			
Loan outstanding	2,600.3	2,480.0	2,001.2
Placements and deposits	77.8	56.3	38.0
Physical assets	0.6	0.9	0.6
Other assets	6.4	6.5	4.6
Total assets	2,685.1	2,543.8	2,044.4
Expenditure			
Interest paid	324.8	288.1	199.2
Administrative expenses	30.9	31.4	30.6
Other expenditure	12.5	12.8	14.9
Total expenditure	368.2	332.3	244.8
Income			
Interest on loans	334.0	297.5	204.9
Other income	42.2	43.0	40.1
Total income	376.2	340.5	245.0

(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 that operates on a cooperative basis by predominantly borrowing from and providing finance to its own members.

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

	1990-91	1991-92	1992-93
Liabilities			
Share capital	26.8	27.0	4.6
Reserves	662.3	797.0	974.3
Deposits	7,943.8	8,699.0	10,017.4
Loans	107.5	105.0	94.1
Other liabilities	95.1	110.0	201.5
Total liabilities	8,835.5	9,738.0	11,291.8
Assets			
Amount owing on loans(b)	6,945.4	7,522.0	8,455.6
Cash on hand	51.3	60.0	68.6
Deposits with			
Banks	237.3	263.0	198.5
Other	905.2	1,123.0	1,546.9
Bills, bonds, etc.	317.1	358.0	434.8
Physical assets	255.1	132.0	310.5
Other assets	124.1	280.0	276.9
Total assets	8,835.5	9,738.0	11,291.8
Expenditure			
Interest on			
Deposits	834.9	670.0	468.7
Loans	19.0	8.0	5.7
Wages and salaries	187.7	184.0	213.9
Administrative expenses	165.6	171.0	177.2
Other expenditure	201.6	228.0	169.8
Total expenditure	1,408.8	1,261.0	1,035.3
Income			
Interest from			
Loans	1,262.7	1,145.0	956.1
Deposits	132.8	130.0	111.0
Income from bills, bonds, etc.	35.8	30.0	
Other income	69.8	81.0	103.3
Total income	1,501.1	1,386.0	1,170.4

(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); for 1992-93, the Australian Financial Institutions Commission.

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.

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

	1990-91	1991-92	1992-93
Liabilities			
Paid up capital	74.5	66.9	61.7
Reserves	23.3	23.3	28.4
Accumulated surplus (net)	20.5	28.8	28.8
Subordinated loans	—	—	—
Borrowings from residents			
Banks	2,526.7	2,449.9	3,868.9
Other financial institutions	61.8	278.0	528.1
Government and public authorities	80.4	778.3	666.0
Other	376.2	303.8	285.8
Borrowings from non-residents	0.3	0.3	—
Other liabilities	171.1	27.2	152.2
Total liabilities	3,334.8	3,956.6	5,619.9
Assets			
Amount owing on loans	0.1	14.1	9.6
Cash and bank deposits	398.5	115.6	158.2
Other placements and deposits	16.1	0.4	5.9
Bills, bonds and other securities	2,908.5	3,801.8	5,425.2
Other financial assets	11.0	24.3	20.7
Other assets	0.5	0.4	0.2
Total assets	3,334.8	3,956.6	5,619.9
Expenditure			
Interest on borrowings	642.5	508.0	383.7
Wages and salaries	2.0	1.6	1.8
Administrative expenses	23.9	14.4	27.3
Other expenditure	6.0	4.8	3.7
Total expenditure	674.5	528.8	416.4
Income			
Interest on loans	81.7	0.6	—
Income from placements and other deposits	160.6	55.2	6.7
Income from holdings of			
Government and public authority securities	287.4	306.8	271.7
Other securities	132.4	170.5	127.7
Other income	30.8	12.7	28.0
Total income	692.9	545.7	434.1

(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).

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.

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

	1990-91	1991-92	1992-93
Liabilities			
Paid up capital	2,539.0	2,682.7	3,515.6
Reserves	851.4	814.6	1,683.7
Accumulated surplus (net)	- 4,202.1	- 4,543.1	- 3,492.2
Subordinated loans	230.4	133.1	134.4
Borrowings from residents			
By issue of securities	2,759.3	2,448.3	2,401.3
Banks	8,565.5	8,536.0	7,341.7
Other financial institutions	3,156.8	3,318.4	2,662.4
Other	14,888.0	12,921.2	7,211.1
Borrowings from non-residents	16,757.0	17,884.5	20,136.4
Other liabilities	3,537.2	2,990.6	2,659.2
Total liabilities	49,082.5	47,186.3	44,253.7
Assets			
Amount owing on loans	26,428.9	25,583.1	22,942.4
Finance lease receivables	1,960.0	1,574.6	1,662.4
Cash and bank deposits	2,705.1	1,983.7	1,484.2
Other placements and deposits	4,526.4	4,259.1	3,234.6
Bills, bonds and other securities	10,124.6	9,863.3	10,597.8
Other financial assets	1,420.1	1,860.1	2,247.6
Other assets	1,917.4	2,062.5	2,084.7
Total assets	49,082.5	47,186.3	44,253.7
Expenditure			
Interest on borrowings	7,689.8	5,834.4	3,930.0
Wages and salaries	320.6	268.6	281.4
Administrative expenses	527.9	276.1	484.7
Other expenditure	3,667.7	1,421.5	1,631.5
Total expenditure	12,206.0	7,800.6	6,327.6
Income			
Interest on loans	3,945.9	3,391.7	2,153.7
Income from finance leasing	283.0	211.7	203.1
Income from placements and other deposits	1,657.7	1,194.0	795.3
Income from bills, bonds, etc.	1,828.3	1,193.7	994.7
Other income	1,450.9	1,306.6	1,657.1
Total income	9,165.8	7,297.7	5,803.9

(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 money market corporations during the reference periods.

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.

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

	1990-91	1991-92	1992-93
Liabilities			
Paid up capital	1,343.4	1,361.8	1,404.9
Reserves	758.5	1,129.2	1,999.7
Accumulated surplus (net)	992.5	566.7	- 114.6
Subordinated loans	70.3	209.4	212.3
Borrowings from residents			
By issue of securities	20,495.3	17,286.6	16,062.3
Banks	3,495.8	4,901.1	2,810.0
Other	4,041.3	2,926.8	3,813.5
Borrowings from non-residents	4,867.6	3,343.4	2,455.7
Other liabilities	1,966.4	1,235.8	1,427.3
Total liabilities	38,031.0	32,960.7	30,071.0
Assets			
Amount owing on loans	24,727.0	20,392.2	18,993.2
Finance lease receivables	10,530.3	9,720.2	7,893.0
Cash and bank deposits	290.7	381.8	325.9
Other placements and deposits	801.5	477.0	475.3
Bills, bonds and other securities	784.2	1,037.3	1,226.8
Other financial assets	467.4	511.4	764.4
Other assets	429.9	440.8	392.5
Total assets	38,031.0	32,960.7	30,071.0
Expenditure			
Interest on borrowings	4,797.9	3,725.2	2,684.3
Wages and salaries	370.8	375.5	277.9
Administrative expenses	476.6	521.5	520.9
Other expenditure	936.5	1,396.2	1,812.8
Total expenditure	6,581.8	6,018.4	5,295.8
Income			
Interest on loans	4,614.3	3,802.3	2,773.7
Income from finance leasing	1,333.9	1,343.4	1,048.0
Income from placements and deposits	132.7	107.5	73.6
Income from bills, bonds, etc.	328.5	49.3	76.0
Other income	404.0	449.3	391.4
Total income	6,813.4	5,751.9	4,362.7

(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 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.

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

	1990-91	1991-92	1992-93
Liabilities			
Paid up capital	573.7	516.6	549.0
Reserves	99.0	404.8	116.0
Accumulated surplus (net)	2.5	- 71.5	- 68.3
Subordinated loans	289.5	212.4	184.0
Borrowings from residents			
By issue of securities	693.0	1,011.2	266.3
Banks	2,259.9	2,541.9	2,330.5
Other financial institutions	4,243.5	2,936.6	2,814.5
Other	1,550.6	731.9	479.8
Borrowings from non-residents	1,293.8	1,174.6	1,511.7
Other liabilities	563.3	440.0	503.8
Total liabilities	11,568.8	9,898.5	8,687.3
Assets			
Amount owing on loans	5,274.2	4,799.6	4,389.8
Finance lease receivables	2,883.4	2,483.1	2,373.2
Cash and bank deposits	558.9	505.4	164.9
Other placements and deposits	95.6	164.5	154.2
Bills, bonds and other securities	1,683.2	689.8	634.2
Other financial assets	297.5	267.3	201.0
Other assets	776.0	988.8	770.0
Total assets	11,568.8	9,898.5	8,687.3
Expenditure			
Interest on borrowings	1,555.8	1,194.5	831.0
Wages and salaries	77.5	63.6	58.8
Administrative expenses	171.2	155.8	184.2
Other expenditure	402.7	405.0	329.7
Total expenditure	2,207.2	1,818.9	1,403.6
Income			
Interest on loans	921.2	724.6	667.4
Income from finance leasing	615.6	569.3	530.8
Income from placements and deposits	108.7	46.4	9.6
Income from bills, bonds, etc.	271.7	174.3	58.9
Other income	322.7	312.2	233.9
Total income	2,239.9	1,826.7	1,500.6

(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).

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.

23.12 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				
1991	838	46,853	1,617.5	544.0
1992	714	41,259	1,494.7	469.6
1993	607	45,200	1,000.8	380.2
Policies discounted or reduced(a)				
1991	841	44,500	..	569.3
1992	837	38,998	..	597.6
1993	883	32,573	..	494.8
Policies existing at end of				
1991	6,610	197,650	..	2,592.1
1992	6,492	197,855	..	2,513.8
1993	6,213	210,718	..	2,396.7

For footnotes see end of table.

23.12 LIFE INSURANCE — *continued*

<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>
SUPERANNUATION BUSINESS				
New policies issued				
1991	423	81,060	3,532.0	1,713.5
1992	375	72,587	4,073.3	1,529.3
1993	354	86,124	5,556.8	1,403.8
Policies discontinued or reduced(a)				
1991	204	51,043	..	1,303.0
1992	203	53,069	..	1,531.9
1993	198	57,503	..	1,512.8
Policies existing at end of				
1991	2,687	290,349	..	6,371.4
1992	2,922	304,079	..	6,349.4
1993	3,074	332,746	..	6,232.5

(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 23.12 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 Commissioner 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.

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

	June quarter		
	1991	1992	1993
Assets in Australia			
Financial assets			
Cash and deposits	7,950	8,593	6,704
Loan and placements	9,730	9,614	9,720
Short-term assets	9,619	12,667	14,225
Long-term assets	30,249	35,147	39,444
Shares	32,488	42,455	45,540
Unit and other	8,504	10,159	12,790
Non-financial assets			
Land and buildings	17,928	15,622	13,597
Other	1,680	1,402	1,409
Assets overseas	16,495	18,395	25,741
Total	134,643	154,054	169,170
Of which			
Superannuation funds	126,417	144,408	159,152
Approved deposit funds	8,226	9,646	10,018

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.

23.14 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
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
1993	19	5,089.4	4.3	1,343.9	276.8	2,270.0	1,166.4	78.5	5,135.6

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.

23.15 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								
1991	368	13,823.1	1,080.8	3,773.1	5,471.1	1,379.8	3,638.2	15,343.0
1992	332	12,427.1	784.1	5,395.1	2,103.2	1,013.0	4,352.9	13,648.3
1993	319	14,715.4	862.2	7,172.9	1,513.2	1,225.5	6,170.5	16,944.3
LISTED								
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
1993	38	9,326.4	426.5	586.9	8,016.7	168.9	2,253.1	11,452.2
TOTAL								
1991	407	21,053.5	1,424.5	4,190.2	11,735.5	1,470.1	6,957.9	25,778.2
1992	372	21,515.1	1,259.7	6,006.8	9,725.0	1,112.6	7,494.7	25,598.8
1993	357	24,041.8	1,288.7	7,759.9	9,529.9	1,394.4	8,423.6	28,396.5

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.

23.16 COMMON FUNDS, ASSETS (\$ million)

	June		
	1991	1992(a)	1993
Assets in Australia			
Financial assets			
Cash and deposits	1,128	527	552
Loans and placements	840	872	950
Short-term assets	4,055	2,081	1,817
Long-term assets	38	49	119
Equities	434	655	975
Other	39	7	48
Non-financial assets			
Land and buildings	174	143	105
Other	1	—	—
Assets overseas	25	39	7
Total assets	6,734	4,373	4,573

(a) Caution should be used when comparing June 1992 data with the previous year 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 23.17 summarises the assets of the 28 largest friendly societies which represent approximately 95 per cent of the assets of all societies in Australia.

23.17 FRIENDLY SOCIETIES, ASSETS (\$ million)

	June		
	1991	1992	1993
Financial assets			
Cash and deposits	2,494	1,937	1,636
Loans and placements	942	858	647
Short-term assets	1,992	2,914	3,488
Long-term assets	2,144	2,633	2,686
Equities	202	118	110
Other	170	123	107
Non-financial assets			
Land and buildings	311	333	315
Other	27	72	193
Total assets	8,282	8,988	9,182

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

GENERAL INSURANCE COMPANIES

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

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.

The statistics in table 23.18 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.

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

<i>Class of business</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>
PREMIUMS			
Fire(a)	914.9	874.2	957.9
House Owners' and House-holders'	1,039.3	1,094.2	1,347.0
Contractors' All Risks	93.4	70.2	70.4
Marine and Aviation	286.6	278.0	263.6
Motor Vehicle Comprehensive	2,304.3	2,392.4	2,553.0
Compulsory Third Party (Motor Vehicle)	1,031.5	1,049.2	878.0
Employers Liability(b)	304.5	262.7	221.0
Public Liability(c)	635.0	637.7	663.5
All other	984.7	902.2	994.3
Total	7,594.2	7,560.8	7,948.7
CLAIMS			
Fire(a)	533.5	795.2	733.9
House Owners' and House-holders'	593.3	906.3	891.9
Contractors' All Risks	57.3	50.3	44.3
Marine and Aviation	171.8	196.2	176.6
Motor Vehicle Comprehensive	1,826.3	2,084.1	2,143.4
Compulsory Third Party (Motor Vehicle)	116.5	137.1	204.9
Employers Liability(b)	747.8	508.9	527.7
Public Liability(c)	217.6	254.3	357.1
All other	431.3	519.1	548.9
Total	4,695.4	5,451.5	5,628.7

(a) Includes sprinkler leakage, loss of profits, and crop and hailstone insurance. (b) Excludes workers' compensation insurance in the coal mining industry in New South Wales. (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 stock market trading.

The share market 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 stock market 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 stock market 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.

23.19 AUSTRALIAN STOCK MARKET INDEXES

(Base: 31 December 1979 = 500)

	1990-91	1991-92	1992-93
All ordinaries			
Index(a)	1,504.9	1,652.7	1,722.6
High	1,624.0	1,696.3	1,760.4
Low	1,240.5	1,502.1	1,357.2
All industrials			
Index(a)	2,330.7	2,550.0	2,665.7
High	2,522.8	2,650.0	2,701.2
Low	1,817.5	2,288.7	2,170.1
All resources			
Index(a)	873.5	965.7	1,002.7
High	968.0	976.4	1,043.0
Low	730.0	870.6	734.9

(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 23.20 shows the value of Australian shares and units in trusts on issue classified by sector of holder at market value or, for some 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. Definitions of the sectors and subsectors shown in this table can be found in *Australian National Accounts, Financial Accounts* (5232.0).

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.

23.20 THE EQUITY MARKET(a)
(\$ billion)

	<i>Amounts outstanding at end of June quarter</i>		
	<i>1991</i>	<i>1992</i>	<i>1993</i>
<i>Total equities & units in trusts</i>	<i>318.1</i>	<i>342.1</i>	<i>371.9</i>
Issued by			
<i>Commonwealth public trading enterprises(b) & held by</i>	<i>20.2</i>	<i>19.6</i>	<i>21.3</i>
Private corporate trading enterprises	—	—	0.6
Commonwealth general government	20.2	19.6	20.7
<i>State & local public trading enterprises(c) & held by</i>	<i>7.9</i>	<i>8.2</i>	<i>8.4</i>
State & local public trading enterprises	0.1	0.1	0.1
Private corporate trading enterprises	—	—	0.3
State & local general government	7.7	8.1	8.0
<i>Private corporate trading enterprises(d) & held by</i>	<i>211.0</i>	<i>232.9</i>	<i>254.9</i>
Commonwealth public trading enterprises	0.1	0.3	0.3
Private corporate trading enterprises(e)	25.4	24.3	20.6
Banks	3.0	3.0	4.0
Non-bank deposit taking institutions	2.5	2.5	2.2
Life offices & superannuation funds	41.4	49.1	51.9
Other financial institutions	9.9	12.2	14.2
Households & unincorporated businesses	41.3	49.8	58.4
Rest of world	87.3	91.6	103.4
<i>Banks(c) & held by</i>	<i>41.2</i>	<i>45.7</i>	<i>45.7</i>
Banks(d)	5.5	4.4	4.2
Life offices & superannuation funds	5.1	6.1	6.6
Other financial institutions	1.3	1.5	1.4
Commonwealth general government	6.1	6.3	5.5
State & local general government(c)	4.4	4.9	3.8
Households & unincorporated businesses	11.6	14.8	16.9
Rest of world	7.1	7.7	7.2
<i>Non-bank deposit taking institutions(d) & held by</i>	<i>11.5</i>	<i>12.4</i>	<i>14.5</i>
Private corporate trading enterprises	0.4	0.3	0.8
Banks	5.9	4.7	4.4
Life offices & superannuation funds	0.6	0.8	0.9
Other financial institutions	0.6	0.6	1.6
Households & unincorporated businesses	1.4	3.2	3.4
Rest of world	2.7	2.9	3.3
<i>Life offices & superannuation funds(c) & held by</i>	<i>6.8</i>	<i>1.1</i>	<i>1.1</i>
Life offices & superannuation funds(f)	5.8	—	—
Rest of world	1.0	1.1	1.1
<i>Other financial institutions(d) & held by</i>	<i>17.1</i>	<i>19.7</i>	<i>23.9</i>
Life offices & superannuation funds	3.9	3.8	4.6
Other financial institutions	1.2	1.1	1.8
Commonwealth general government(c)	0.2	0.2	0.2
State & local general government	0.6	1.8	0.5
Households & unincorporated businesses	8.0	9.4	13.2
Rest of world	3.3	3.5	3.6
<i>State & local general government(c) & held by</i>	<i>2.5</i>	<i>2.5</i>	<i>2.1</i>
State & local general government	2.5	2.5	2.1

(a) Includes units in trusts. (b) Net asset values. (c) Book values. (d) These estimated market values are considered to be of poor quality. They should be used cautiously. (e) Excludes holdings by related enterprises in this subsector. (f) Excludes holdings by related enterprises in this subsector. There are breaks in series at September 1990 and 1991 caused by changes in administrative arrangements 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.

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

	<i>Last Wednesday in June</i>		
	1991	1992	1993
\$1	43	43	42
\$2	73	71	70
\$5	249	261	297
\$10	679	589	591
\$20	2,048	1,857	1,813
\$50	5,345	5,763	6,284
\$100	6,356	6,672	7,269
Total	14,793	15,256	16,367
Increase %	14.0	3.1	7.3

Source: Reserve Bank of Australia.

23.22 AUSTRALIAN DECIMAL COIN ON ISSUE (\$ million)

	<i>Last Wednesday in June</i>		
	1991	1992	1993
1c	29.2	26.0	24.2
2c	44.0	37.2	33.4
5c	79.8	82.5	87.3
10c	87.6	90.2	95.0
20c	132.9	130.0	131.4
50c	179.3	180.6	183.6
\$1	220.2	221.6	237.3
\$2	352.1	362.5	385.7
Total	1,125.1	1,130.6	1,177.9

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.

23.23 LEVELS OF MONEY SUPPLY MEASURES (\$ million)

<i>Year</i>	<i>Money base(a)</i>	<i>M3(b)</i>	<i>Broad money(c)</i>
1990-91	18,717	202,650	266,402
1991-92	19,135	208,523	270,167
1992-93	20,497	229,612	279,659

(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 23.24 shows the fluctuations in but a few of the

key rates offered to individuals and businesses in the market.

23.24 KEY INTEREST RATES

	<i>At end of June</i>		
	<i>1991</i>	<i>1992</i>	<i>1993</i>
Private			
Authorised dealers weighted average rate(a)	10.39	6.41	5.21
90-day bank bills(b)	10.50	6.40	5.25
Fixed bank deposits \$5,000 to \$100,000 — 1 year	10.00	6.00	5.20
Unofficial market rate(c)	10.55	6.55	5.25
Business indicator — large business(d)	14.00/14.25	10.25/10.75	9.40/9.50
Business indicator — small/medium business(d)	14.25/14.50	10.75/11.25	9.70/9.90
New bank housing loans	13.00	10.50	9.50
Commonwealth government securities 13 week			
Treasury notes	10.11	6.17	5.08
Treasury bonds			
2 year	10.55	6.35	5.45
5 year	11.05	7.85	6.85
10 year	11.15	8.90	7.35

(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) Indicator rates on variable rate business loans (that is, overdrafts and fully drawn loans). In most cases, a margin is added when setting rates on individual loans.

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.

23.25 EXCHANGE RATES FOR THE AUSTRALIAN DOLLAR

	<i>At end of June</i>		
	<i>1991</i>	<i>1992</i>	<i>1993</i>
United States dollar	0.7681	0.7448	0.6722
United Kingdom pound	0.4712	0.3945	0.4453
German Deutschmark	1.3818	1.1438	1.1366
Japanese yen	106.1900	94.0500	71.5400
New Zealand dollar	1.3303	1.3752	1.2478

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

23.26 LENDING COMMITMENTS BY FINANCIAL INSTITUTIONS (\$ million)

<i>Type of lending activity</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>
Housing finance	20,775.7	28,538.4	36,778.0
Personal finance	20,205.0	19,598.4	20,682.1
Commercial finance	87,294.0	76,644.9	86,700.6
Lease finance	5,209.4	4,476.7	4,914.1
Total	133,484.1	129,258.4	149,074.8

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

23.27 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>
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
1992-93	13,399.7	3,909.6	2,457.9	914.9	20,682.1

(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).

23.28 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
1990-91	12,622.6	7,582.4	7,042.2	28,094.8	13,172.0
1991-92	12,711.8	6,886.5	5,972.9	32,251.9	13,846.4
1992-93	13,392.2	7,289.9	5,831.0	33,425.6	13,954.0

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.

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

Year	Banks	Finance companies	Money market corporations	Other lenders(b)	Total
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
1992-93	69,211.2	5,774.5	9,029.0	2,686.0	86,700.6

(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).

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

Year	Construction	Purchase of real property	Purchase of plant and equipment	Re-financing	Other purposes	Total
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	8,254.0	3,218.7	5,883.1	11,954.4	31,629.2
1992-93	2,933.2	10,464.4	4,289.3	6,945.1	11,702.1	36,334.1

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.

23.31 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>
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
1992-93	1,612.4	338.8	2,304.2	658.7	4,914.1

Source: *Lease Finance, Australia* (5644.0).

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

<i>Types of goods</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>
Motor vehicles and other transport equipment	2,933.5	2,733.7	3,070.3
Construction and earth moving equipment	260.5	205.9	235.2
Agricultural machinery and equipment	125.9	131.3	182.7
Automatic data processing equipment and office machinery	884.1	643.2	754.7
Shop and office furniture, fittings and equipment	400.4	251.1	217.1
Other goods	605.0	511.6	454.1
Total	5,209.4	4,476.7	4,914.1

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.

23.33 ASSETS OF MANAGED FUNDS BY TYPE OF FUND AS AT 30 JUNE 1993
(\$ million)

<i>Type of fund</i>	<i>Assets</i>		
	<i>Cross invested</i>	<i>Consolidated</i>	<i>Total</i>
Statutory funds of life offices	4,039	103,100	107,139
Superannuation and approved deposit funds	8,859	88,186	97,045
Public unit trusts	2,270	26,126	28,396
Friendly societies	11	9,171	9,182
Common funds	99	4,474	4,573
Cash management trusts	—	5,136	5,136
Total	15,278	236,193	251,471

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

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

<i>Type of investment</i>	<i>30 June 1991</i>	<i>30 June 1992</i>	<i>30 June 1993</i>
Deposits, loans and placements	31,690	28,791	26,617
Short-term assets	24,018	26,965	27,982
Long-term assets	39,254	45,985	51,317
Equities and units in trusts	38,680	56,087	59,769
Land and buildings	35,382	30,029	26,892
Overseas assets	21,733	25,658	34,757
Other assets	11,980	7,880	8,859
Total	202,736	221,395	236,193

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 1993, \$195.9 billion, or 82.9 per cent of consolidated assets of managed funds, were invested through professional fund managers. Table 23.35 shows the total unconsolidated assets of each type of managed fund and the amount of these assets invested through professional fund managers.

23.35 ASSETS OF MANAGED FUNDS MANAGED BY PROFESSIONAL FUND MANAGERS
AT 30 JUNE 1993
(\$ 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)	107,139	106,172
Superannuation and approved deposit funds	97,045	61,061
Public unit trusts	28,396	21,147
Friendly societies	9,182	3,401
Common funds	4,573	214
Cash management trusts	5,136	3,868
Total	251,471	195,863

(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 1993, professional fund

managers also invested \$25.4 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*.