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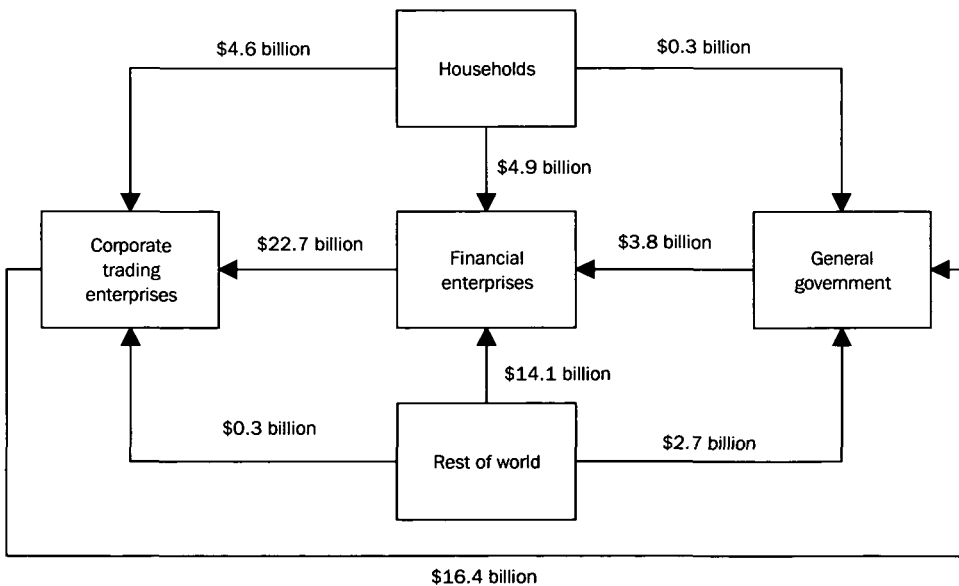
Introduction

The financial system in Australia can be considered as having three overlapping components: financial enterprises and their supervising bodies; financial markets and their participants; and the payments system and its participants. The interaction of these components enables funds for investment or consumption to be made available from savings in other parts of the national or international economy. The following diagram illustrates the net financial flows, that is, the acquisition of financial assets and incurrence of liabilities between broad economic sectors during 1995–96. The intermediation role of Financial enterprises is demonstrated by the flows from Households and the Rest of the world via

Financial enterprises to General government and trading corporations. The role of financial markets is demonstrated by the unintermediated flows, that is, the direct issue and acquisition of securities between the non-financial sectors.

The diagram illustrates the strength and direction of inter-sectoral financial flows during the 1995–96 financial year. The main features are the net \$14.1b flowing from the Rest of the world to Financial enterprises, \$22.7b from Financial enterprises to Corporate trading enterprises and \$16.4b from Corporate trading enterprises to General government. Also during 1995–96 the Household sector funded Financial enterprises (\$4.9b) and Corporate trading enterprises (\$4.6b). Also during 1995–96 the Household sector funded Financial enterprises (\$4.9b) and Corporate trading enterprises (\$4.6b).

25.1 INTER-SECTORAL FINANCIAL FLOWS DURING THE YEAR 1995–96



(a) The arrows show the direction of net financial flows from lending sectors to borrowing sectors.

(b) The number near each arrow indicates the value of that net flow during the period.

Source: Australian National Accounts: Financial Accounts, unpublished data.

Financial enterprises, other financial services enterprises and regulatory agencies have an additional role in supporting the payments system: cash, cheque and electronic means of payment are essential for the functioning of the economy.

This chapter provides a summary of the structure and activities of the three financial system components as they function currently. The structure and activities are changing as a result of regulatory or deregulatory processes. On 30 May 1996 the Commonwealth Government established a Financial System Inquiry (the Wallis Committee), which is due to report in March 1997.

The inquiry will undertake a stocktake of the results of deregulation of the Australian financial system since the early 1980s. The inquiry will also seek to establish a common regulatory framework for overlapping financial products, propose ways of utilising further financial innovation and make recommendations for future regulatory arrangements with the objective of providing for a more efficient, responsive, competitive and flexible financial system.

Financial enterprises

Financial enterprises are institutions which engage in acquiring financial assets and incurring liabilities, for example, by borrowing and lending, providing superannuation, supplying all types of insurance cover, leasing, and investing in financial assets.

For national accounting purposes financial enterprises are grouped into Deposit-taking institutions, Life offices and superannuation funds, and Other financial institutions.

Deposit-taking institutions are those which are included in the Reserve Bank of Australia's *broad money* measure and include the Reserve Bank itself, banks, building societies, credit unions, authorised money market dealers, merchant banks, 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.

Table 25.2 shows the relative size of these groups of financial enterprises in terms of their financial 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.

25.2 ASSETS OF FINANCIAL INSTITUTIONS

At 30 June	Deposit taking institutions			Life and superannuation funds	Other financial institutions	Consolidated total
	Reserve Bank \$b	Banks \$b	Other \$b			
1989	24.2	236.1	135.9	143.5	75.7	546.0
1990	25.3	270.4	141.8	162.1	89.2	607.1
1991	29.4	299.4	135.9	174.8	94.6	639.5
1992	32.1	307.8	128.6	197.2	102.0	674.2
1993	37.4	329.9	118.2	212.1	104.5	703.5
1994	34.4	360.5	118.5	228.4	111.0	745.3
1995	37.6	381.4	131.6	238.8	129.0	803.1
1996	36.7	422.2	144.0	289.3	134.8	882.3

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

Deposit-taking institutions

Banks

Banks are the largest deposit-taking institutions in Australia. At the end of June 1996 there were 50 banks operating in Australia. All are authorised to operate by the *Banking Act 1959*. Four major banks: the 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 provide similar banking services through limited branch networks often located in particular regions. At 30 June 1996, banks operated 6,507 branches and 11,956 agencies. Of the total branches, 3,878 were located in metropolitan areas. Banking facilities were also available at 5,984 metropolitan agencies throughout Australia.

The *Banking Act 1959* seeks to provide a uniform legal framework for regulating the banking system and safeguarding bank depositors from loss. In recent years successive Federal Governments have decreased the degree of regulation imposed on the financial

sector and the banks in particular. Significant amendments were made to the Act in January 1990. These formalised supervision requirements and restructured the banking industry, for example by abolishing the distinction between trading and savings banks. In February 1992 the Act was again amended to provide more freedom for foreign banks to operate in Australia as branches of their parent.

Before 1959, central banking business was the responsibility of the Commonwealth Bank. The *Reserve Bank Act 1959* established the Reserve Bank of Australia as the central bank. This Act provides for the management of the Reserve Bank, the administration of the *Banking Act 1959* and the management of Australian note issue. The general functions of the Reserve Bank are the stability of the currency, the maintenance of full employment, and the economic prosperity and welfare of the Australian people.

The liabilities and assets of the Reserve Bank are set out in table 25.3. The liabilities and assets of the banks operating in Australia are shown in table 25.4.

25.3 FINANCIAL ASSETS AND LIABILITIES, Reserve Bank of Australia

	Amounts outstanding at end of June quarter		
	1994 \$m	1995 \$m	1996 \$m
FINANCIAL ASSETS			
Cash and deposits	80	1 249	1 453
Loans and placements	97	90	88
Commonwealth Government Treasury Notes	2 757	946	3 710
Long-term debt securities	10 373	14 749	11 943
Other financial claims	104	123	100
International reserves	20 661	20 184	19 059
Total financial assets(a)	34 072	37 341	36 353
LIABILITIES			
Deposits	22 324	24 674	25 521
Equity(b)	40	40	40
Other financial claims	844	112	50
Total liabilities	23 208	24 826	25 611

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc). (b) Book value of equity. Assets do not equal liabilities as all other figures are reported at market values.

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

25.4 FINANCIAL ASSETS AND LIABILITIES, Banks(a)

	Amounts outstanding at end of June quarter		
	1994 \$m	1995 \$m	1996 \$m
FINANCIAL ASSETS			
Cash and deposits	19 720	21 151	21 381
Loans and placements	242 707	263 900	300 683
Bills of exchange	15 085	10 484	12 362
Promissory notes	1 905	2 285	3 432
Commonwealth Government Treasury Notes	9 991	9 938	8 427
Long-term debt securities	21 344	21 796	20 827
Equities	7 367	7 181	9 390
Other financial claims	10 301	10 038	10 629
Foreign claims	22 747	21 467	26 151
Total financial assets(b)	351 167	368 240	413 282
LIABILITIES			
Deposits	221 367	235 328	250 131
Loans and placements	13 087	13 390	16 737
Bills of exchange	38	77	86
Bank certificates of deposit	36 679	37 050	48 101
Long-term debt securities	37 672	32 829	35 162
Equity	45 102	49 728	55 636
Other financial claims	6 960	12 973	14 591
Total liabilities	360 905	381 375	420 444

(a) Does not include the Reserve Bank of Australia. (b) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc).

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

Non-bank deposit-taking institutions

In addition to banks, other financial institutions such as building societies, credit unions and merchant banks play an important part in the Australian financial system. In the Australian Financial Accounts, non-bank deposit-taking institutions are defined as those with liabilities included in the Reserve Bank's definition of broad money. Financial enterprises classified to this sub-sector are cash management trusts and corporations registered in categories A to G of the *Financial Corporations Act 1974*.

As with the banks, regulation of some of these institutions is provided for by both Commonwealth and State 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 \$1m are registered. Under the Act, information and statistics on their operations are provided to the Reserve Bank.

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 unions and cooperative housing societies) which operate on a cooperative basis and lend predominantly to members. 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.

Table 25.5 contains consolidated data drawn from the Australian Financial Accounts, showing the stock of financial assets and liabilities of non-bank deposit-taking institutions. For each category of financial corporation there is also a table showing its financial assets and selected liabilities. Data in the category tables which follow do not add to the totals in table 25.5. There are two main reasons. First, in the summary table balances outstanding between categories are consolidated. Second, in some instances data from counterparties are used instead of data reported by financial corporations.

25.5 FINANCIAL ASSETS AND LIABILITIES, Non-bank Deposit Taking Institutions

	Amounts outstanding at end of June quarter		
	1994 \$m	1995 \$m	1996 \$m
FINANCIAL ASSETS			
Cash and deposits	5 108	4 964	5 490
Loans and placements	80 972	88 003	100 693
Bills of exchange	5 766	7 880	7 611
Promissory notes	2 168	1 992	907
Commonwealth Government Treasury Notes	880	768	788
Bank certificates of deposit	2 941	2 138	2 448
Long-term debt securities	10 238	12 937	13 066
Equities	2 189	2 555	3 200
Other financial claims	3 474	3 459	2 825
Foreign claims	1 830	3 408	3 653
Total financial assets(a)	115 566	128 104	140 681
LIABILITIES			
Deposits	61 237	61 708	64 305
Loans and placements	12 844	14 672	12 881
Bills of exchange	1 708	1 848	1 909
Promissory notes	8 914	14 325	21 216
Long-term debt securities	15 555	19 776	22 865
Equity	13 837	15 435	15 887
Other financial claims	2 547	3 426	4 069
Total liabilities	116 642	131 190	143 132

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

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

Permanent building societies

Permanent building societies are usually organised as financial cooperatives operating under State or Territory legislation. They are authorised to accept money on deposit. They generally borrow from their own members and provide finance principally in the form of housing loans to their members. Permanent building societies are registered with the Reserve Bank under the *Financial Corporations Act 1974*

as category A financial corporations. Table 25.6 shows the financial assets and liabilities of permanent building societies.

Information relating to the housing finance operations of permanent building societies is provided in *Chapter 19, Construction and housing*.

25.6 PERMANENT BUILDING SOCIETIES, Balance Sheet

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Amount owing on loans	9 526	11 097	10 879
Cash on hand	58	73	58
Deposits — banks	509	496	428
Deposits — other	162	198	31
Bills, bonds, etc	1 448	1 289	1 502
Physical assets	208	222	189
Other assets	116	142	21
Total assets	12 028	13 516	13 108
EQUITY AND LIABILITIES			
Share capital	198	211	183
Reserves	646	743	720
Deposits	10 413	11 453	11 113
Loans	538	802	807
Other liabilities	233	306	285
Total equity and liabilities	12 028	13 516	13 108

Source: Australian Financial Institutions Commission.

Credit cooperatives

Credit cooperatives — also known as credit unions — are similar to building societies in that they are organised on a cooperative basis and borrow from and provide finance to their own members. Credit cooperatives mainly lend for purposes other than housing. Credit

cooperatives are registered with the Reserve Bank under the *Financial Corporations Act 1974* as category B financial corporations. Table 25.7 shows their assets, equity and liabilities.

25.7 CREDIT COOPERATIVES, Balance Sheet

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Amount owing on loans	9 413	11 012	12 181
Cash on hand	60	80	87
Deposits — banks	235	216	240
Deposits — other	64	33	1 923
Bills, bonds, etc	2 185	2 036	758
Physical assets	306	323	337
Other assets	287	324	35
Total assets	12 550	14 023	15 561
EQUITY AND LIABILITIES			
Share capital	3	3	3
Reserves	1 150	1 322	1 477
Deposits	11 083	12 317	13 566
Loans	108	93	181
Other liabilities	207	289	334
Total equity and liabilities	12 550	14 023	15 561

Source: Australian Financial Institutions Commission.

Authorised money market dealers

These dealers were authorised by the Reserve Bank to buy and sell debt securities (especially those issued by the Commonwealth Government) in the Official Short-term Money Market. The Bank supported them by offering them an end-of-day repurchase facility. In return, the authorised dealers had to be willing traders in approved securities and adhere to other requirements of the Reserve Bank. Authorised dealers financed their investments in securities by borrowing money on the wholesale market for short periods including overnight. Authorised dealers were registered with the Reserve Bank under the *Financial Corporations Act 1974* as category C financial corporations.

These arrangements came to an end on 9 August 1996, when the Reserve Bank withdrew

all facilities from authorised dealers. This was a further move towards the introduction of real-time gross settlement (RTGS) in Australia. Among other things, RTGS changes the way the Reserve Bank conducts its domestic market operations. Since 12 June 1996 the Reserve Bank has dealt directly with all members of the Reserve Bank Information and Transfer System. This significantly weakened the role of the authorised dealers and was the prelude to their cessation as a category. Those companies which had residual operations either changed categories or transferred these operations to other registered companies and wound up the legal entity. Table 25.8 shows the assets and selected liabilities of authorised money market dealers for the last three financial years.

25.8 AUTHORISED MONEY MARKET DEALERS, Assets and Selected Liabilities

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Amount owing on loans	11	14	—
Cash and bank deposits	208	192	230
Other placements and deposits	2	2	20
Bills of exchange and promissory notes	117	111	134
Other Government securities	6 349	7 314	3 682
Other assets	85	171	19
Total assets	6 771	7 805	4 085
SELECTED LIABILITIES			
Borrowing from residents	—	—	—
Banks	5 721	6 783	3 419
Other financial institutions	409	321	312
Government and public authorities	182	209	29
Other	335	404	145
Borrowings from non-residents	—	—	10
Total selected liabilities	6 647	7 716	3 914

Source: Reserve Bank of Australia.

Money market corporations

Money market corporations are similar to wholesale banks, and for this reason they are often referred to as merchant or investment banks. They have substantial short-term borrowings which they use to fund loans to authorised dealers as well as business loans and investments

in debt securities. Money market corporations are registered with the Reserve Bank under the *Financial Corporations Act 1974* as category D financial corporations. Their assets and selected liabilities are set out in table 25.9.

25.9 MONEY MARKET CORPORATIONS, Assets and Selected Liabilities

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Amount owing on loans	23 204	26 125	32 860
Cash and bank deposits	1 739	3 598	3 757
Other placements and deposits	3 167	2 891	2 997
Bills of exchange and promissory notes	3 762	4 821	4 140
Other Government securities	2 221	1 889	5 034
Other securities	4 459	5 836	5 459
Finance lease receivables	1 626	1 083	967
Other assets	2 871	4 935	4 640
Total assets	43 048	51 177	59 853
SELECTED LIABILITIES			
Borrowing from residents	—	—	—
Banks	5 716	5 375	3 428
Related corporations	2 374	2 399	2 486
Bills of exchange and promissory notes	2 011	2 729	7 130
Other borrowings	9 085	8 821	9 788
Borrowings from non-residents	17 333	24 448	28 240
Other liabilities	—	53	3
Total selected liabilities	36 518	43 825	51 076

Source: Reserve Bank of Australia.

Pastoral finance companies

Pastoral finance companies incur liabilities in order to lend to rural producers. Pastoral finance companies are registered with the Reserve Bank

under the *Financial Corporations Act 1974* as category E financial corporations. Their assets and selected liabilities are set out in table 25.10.

25.10 PASTORAL FINANCE COMPANIES, Assets and Selected Liabilities

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Amount owing on loans (incl. lease receivables)	934	1 151	1 327
Cash and bank deposits	257	213	239
Other placements and deposits	9	3	—
Bills of exchange and promissory notes	51	8	10
Other securities	394	705	687
Other assets	549	593	615
Total assets	2 193	2 672	2 880
SELECTED LIABILITIES			
Borrowing from residents	—	—	—
Banks	17	415	440
Related corporations	282	149	249
Debentures and unsecured notes	44	47	31
Other borrowings	481	517	396
Borrowings from non-residents	—	—	—
Other liabilities	66	78	14
Total selected liabilities	890	1 206	1 131

Source: Reserve Bank of Australia.

Finance companies

Finance companies borrow mainly on financial markets, for example by issuing debentures. They lend these funds to both businesses and persons. Their lending to businesses is sometimes called commercial lending and covers, for example, financial leasing of vehicle fleets. Their lending to persons is often in the

form of instalment credit to finance retail sales by others. Finance companies are registered with the Reserve Bank under the *Financial Corporations Act 1974* as category F financial corporations. Table 25.11 shows the assets and selected liabilities of finance companies.

25.11 FINANCE COMPANIES, Assets and Selected Liabilities

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Amount owing on loans	19 256	22 543	25 373
Cash and bank deposits	1 414	809	528
Other placements and deposits	337	216	260
Bills of exchange and promissory notes	233	310	218
Other Government securities	—	—	—
Other securities	311	231	259
Finance lease receivables	6 101	6 535	7 538
Other assets	592	920	572
Total assets	28 243	31 563	34 749
SELECTED LIABILITIES			
Borrowing from residents	—	—	—
Banks	4 547	3 815	5 189
Related corporations	1 673	2 601	1 293
Debentures and unsecured notes	11 724	13 279	14 087
Bills of exchange	26	10	629
Promissory notes	1 686	1 911	2 827
Other borrowings	1 520	1 945	1 871
Borrowings from non-residents	2 314	2 986	3 483
Other liabilities	3	—	12
Total selected liabilities	23 493	26 547	29 391

Source: Reserve Bank of Australia.

General financiers

In contrast to finance companies, general financiers are funded by their parent or another member of their company group. Typically they lend to corporate customers which buy products produced by member companies of their group. For example, a general financier within a motor vehicle manufacturing group will lend to the

group's dealers to finance their inventory of vehicles. General financiers are registered with the Reserve Bank under the *Financial Corporations Act 1974* as category G financial corporations. Table 25.12 shows the assets and selected liabilities of general financiers.

25.12 GENERAL FINANCIERS, Assets and Selected Liabilities

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Amount owing on loans	5 468	5 710	6 471
Cash and bank deposits	136	151	264
Other placements and deposits	137	195	251
Bills of exchange and promissory notes	474	399	301
Other government securities	—	—	—
Other securities	72	42	53
Lease receivables	3 202	3 540	3 063
Other assets	217	199	1 039
Total assets	9 706	10 237	11 442
SELECTED LIABILITIES			
Borrowing from residents	—	—	—
Banks	1 795	1 692	1 244
Related corporations	896	1 110	2 128
Debentures and unsecured notes	254	352	382
Promissory notes	152	120	464
Other	3 105	2 692	2 887
Borrowings from non-residents	1 818	2 373	2 255
Total selected liabilities	8 021	8 339	9 360

Source: Reserve Bank of Australia.

Cash management trusts

A cash management trust is an investment fund which is open to the public and which invests the pooled monies of unit-holders mainly in money-market securities such as bills of exchange. As with other public unit trusts its

operations are governed by a trust deed and its units are redeemable by the trustee on demand or within a short time.

Table 25.13 shows the assets and liabilities of cash management trusts.

25.13 CASH MANAGEMENT TRUSTS, Assets and Liabilities

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Cash and deposits	1 160	545	998
Loans and placements	32	119	22
Bills of exchange	1 809	2 891	3 111
Bank certificates of deposit	1 484	884	1 444
Other short term securities	1 242	1 132	854
State and local government securities	163	2	553
Other long term securities	4	40	27
Other assets	19	13	24
Total assets	5 915	5 625	7 031
LIABILITIES			
Unitholders' funds	5 877	5 553	6 960
Accrued income	27	55	58
Other liabilities	11	18	14
Total liabilities	5 915	5 625	7 031

Source: Managed Funds (5655.0).

Life offices and superannuation funds

Life insurance and superannuation

Life insurance offices and superannuation funds are shown as a separate subsector in the Australian Financial Accounts because of the importance of these institutions as repositories of long-term household savings. This subsector comprises:

- the statutory funds of life insurance offices (both their ordinary business and their superannuation business such as deferred annuities);
- superannuation funds whose assets are not in the statutory funds of life insurance offices;
- approved deposit funds;
- friendly societies; and
- long-service-leave boards.

Table 25.14 contains consolidated data drawn from the Australian Financial Accounts showing the stock of financial assets and liabilities of the life office and superannuation fund subsector. Supplementary tables show the financial assets and liabilities of life offices, superannuation funds, approved deposit funds and friendly societies. Data in these tables do not add to the totals in table 25.14. There are three main reasons. First, the supplementary tables cover only a subset of institutions in this subsector. Second, in table 25.14 balances outstanding between different types of institutions are consolidated. Third, counterparty data are used extensively in the summary table.

25.14 FINANCIAL ASSETS AND LIABILITIES, Life Offices and Superannuation Funds

	Amounts outstanding at end of June quarter		
	1994 \$m	1995 \$m	1996 \$m
FINANCIAL ASSETS			
Cash and deposits	19 664	20 097	20 316
Loans and placements	11 713	12 819	14 948
Bills of exchange	10 728	10 528	11 880
Promissory notes	6 876	5 931	8 260
Commonwealth Government Treasury Notes	26	144	123
Bank certificates of deposit	5 788	6 797	10 420
Long-term debt securities	50 444	52 150	51 955
Equities	81 789	87 725	100 532
Other financial claims	2 754	4 086	5 309
Foreign claims	35 090	37 546	39 330
Total financial assets(a)	224 872	237 823	263 073
LIABILITIES			
Bills of exchange	542	304	285
Promissory notes	48	20	—
Technical reserves of life offices and pension funds	238 280	253 416	278 588
Equity	1 984	2 249	3 120
Other financial claims	6 695	6 865	7 284
Total liabilities	247 549	262 854	289 277

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

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

Life insurance companies

Life insurance companies offer termination insurance and investment policies. Termination insurance includes the payment of a sum of money on the death of the insured or on the insured receiving a permanent disability. Investment products include annuities and superannuation plans. The life insurance industry in Australia consists of 43 direct insurers and eight reinsurers. As with the banking industry, the life insurance industry consists of a few very large companies holding a majority of the industry's assets and many smaller companies holding the remainder of the assets.

Life insurance companies are supervised by the Insurance and Superannuation Commission under the *Life Insurance Act 1995*. This came into effect on 1 July 1995 and replaced the *Life Insurance Act 1945*. The main differences between the two Acts are that the 1995 Act

promotes increased consumer protection measures and places greater requirements on office bearers. The Insurance and Superannuation Commissioner has increased monitoring and investigative powers. Life insurance companies are also required to maintain minimum levels of solvency and capital adequacy.

The operations of life insurance companies can be split effectively into two parts. The statutory funds contain policy owner monies that are invested according to policy owner expectations. The assets and liabilities of the statutory funds of Australian life insurers are shown in Table 25.15. The shareholders' funds must be held separately from the statutory funds. Money in this account can be invested to the benefit of the shareholders. Table 25.16 shows the assets, equity and liabilities of shareholders' funds.

25.15 STATUTORY FUNDS OF AUSTRALIAN LIFE INSURERS, Assets and Liabilities

	June 1993 \$m	June 1994 \$m	June 1995 \$m
ASSETS			
Fixed assets	11 167	10 165	8 302
Amount owing on loans	8 968	7 771	7 956
Other outstandings	1 786	1 727	1 783
Investments	87 052	103 544	102 837
Sundry debtors	1 200	2 085	1 656
Cash	8 307	8 460	7 886
Other assets	291	306	343
Total assets	118 771	134 058	130 762
LIABILITIES			
Balance of Revenue Account(a)	104 930	115 684	116 734
Reserves	6 667	9 706	6 212
Provisions	2 898	4 894	3 475
Claims admitted but not paid	420	514	606
Sundry creditors	2 152	2 405	1 948
Other liabilities	1 704	855	1 788
Total liabilities	118 771	134 058	130 762

(a) The Revenue Account of a statutory fund is similar to retained earnings. All incomes are paid into and all outgoings are paid out of the Revenue Account.

Source: *Half Yearly Financial Bulletin on Life Insurance — Insurance and Superannuation Commission*.

**25.16 SHAREHOLDERS' FUNDS OF AUSTRALIAN LIFE INSURERS,
Balance Sheet**

	June 1993 \$m	June 1994 \$m	June 1995 \$m
ASSETS			
Property and fixed assets	40	35	39
Amount owing on loans	202	250	193
Government securities	508	678	573
Shares	248	344	422
Other investments	600	425	639
Cash and other assets	1 716	1 962	2 030
Total assets	3 314	3 694	3 895
EQUITY AND LIABILITIES			
Paid up capital	271	265	343
Reserves	1 528	1 750	1 767
Profit and loss account balance	292	446	324
Other liabilities	1 223	1 234	1 461
Total equity and liabilities	3 314	3 694	3 895

Source: Half Yearly Financial Bulletin on Life Insurance — Insurance and Superannuation Commission.

Superannuation funds and approved deposit funds

Superannuation funds have been established to provide retirement benefits for their members. Members make contributions during their employment and receive the benefits of this form of saving in retirement. In order to receive concessional taxation treatment, a superannuation fund must elect to be regulated under the *Superannuation Industry (Supervision) Act 1993*. These funds are then supervised by the Insurance and Superannuation Commission.

A regulated fund must have an approved trustee or provide old age pensions under its governing rules. An election to be regulated under the Act is irrevocable. As at June 1996 there were approximately 120,000 superannuation funds regulated under the Act.

Most superannuation funds are either open to the general public or sponsored by an employer.

Superannuation funds are employer-sponsored if an employer contributes to the fund on behalf of an employee. Employer-sponsored funds generally have closed memberships restricted to the employees of particular companies. Industry funds, such as those operated by trade unions, are also considered to be employer-sponsored funds.

Approved deposit funds were established in 1984. They are continuing funds, maintained by approved trustees, to receive employees' eligible termination payments. This enables employees who terminate their employment with a particular employer to preserve their superannuation benefits until retirement age. Approved deposit funds are treated as superannuation funds under the Act and no separate data are compiled.

The assets of superannuation and approved deposit funds are shown in table 25.17.

25.17 SUPERANNUATION AND APPROVED DEPOSIT FUNDS, Assets

	June 1994 \$m	June 1995 \$m	June 1996 \$m
Assets			
Cash and deposits	11 756	12 742	13 268
Loans and placements	5 764	6 084	7 341
Bills of exchange	4 196	4 569	4 156
Other short term securities	4 612	4 087	6 956
Government securities	18 132	20 139	18 840
Other long term securities	3 048	2 555	2 496
Shares	37 238	39 233	44 506
Units in trusts	7 319	9 629	13 041
Other financial assets	392	1 707	2 550
Other assets	29 741	33 328	38 873
Total assets	122 198	134 073	152 027

Source: Joint ABS/ISC Survey.

Friendly societies

These are organisations whose members originally came from specific crafts or religions. They evolved to offer the public at large a wide range of cradle-to-grave services. By 1860, friendly societies were providing significant social welfare in Australia. Examples of the services now provided by friendly societies are: life, health, disability, funeral and general insurances; investment services; financial

services similar to those of credit unions; and retirement and travel services. Friendly societies are registered under State legislation and operate in all States and Territories.

Table 25.18 summarises the assets, equity and liabilities of the 28 largest friendly societies. These represent approximately 95% of the assets of all societies in Australia.

25.18 FRIENDLY SOCIETIES, Balance Sheet

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Cash and deposits	2 805	2 428	1 655
Loans and placements	614	535	403
Bills of exchange	919	1 452	1 815
Bank certificates of deposit	847	996	1 219
Government securities	1 662	1 125	785
Other securities	1 254	1 250	1 145
Other investments	371	310	306
Non-financial assets	537	435	447
Total assets	9 009	8 531	7 775
EQUITY AND LIABILITIES			
Equity	8 582	8 037	7 327
Borrowings	53	30	79
Other liabilities	374	464	369
Total equity and liabilities	9 009	8 531	7 775

Source: Friendly Societies Australia (5660.0).

Other financial institutions

Table 25.19 contains consolidated data drawn from the Australian Financial Accounts showing the stock of financial assets and liabilities of

Other financial institutions. Institutions classified to this subsector are:

- economic development corporations owned by governments;
- general, health and export insurance companies including those owned by governments;
- common funds;
- mortgage, fixed interest and equity public unit trusts;
- securitisers;
- investment companies;
- cooperative housing societies; and
- corporations (mainly credit union leagues) registered in category J of the *Financial Corporations Act 1974*.

25.19 FINANCIAL ASSETS AND SELECTED LIABILITIES, Other Financial Institutions

	Amounts outstanding at end of June quarter		
	1994 \$m	1995 \$m	1996 \$m
FINANCIAL ASSETS			
Cash and deposits	5 705	6 681	6 734
Loans and placements	17 459	20 719	22 534
Bills of exchange	8 417	9 709	10 293
Promissory notes	4 765	5 596	8 996
Commonwealth Government Treasury Notes	1 263	1 147	1 279
Bank certificates of deposit	2 705	2 876	5 934
Long-term debt securities	24 977	26 320	19 807
Equities	26 537	29 300	33 710
Other financial claims	3 470	4 187	4 321
Foreign claims	11 329	12 963	14 154
Total financial assets(a)	106 627	119 498	127 762
LIABILITIES			
Loans and placements	35 142	37 687	45 189
Bills of exchange	3 257	3 074	3 005
Promissory notes	4 634	6 062	7 573
Long-term debt securities	11 358	15 888	14 667
Equity	36 141	36 903	41 283
Other financial claims	4 666	5 412	5 706
Total selected liabilities	95 198	105 026	117 423

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

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

The following supplementary tables show the financial assets and liabilities of selected groups of financial institutions within this subsector. Data in the supplementary tables will not add to the totals in table 25.19. There are three main reasons. First, the supplementary tables cover only a subset of institutions in this subsector. Second, in table 25.19 balances outstanding between different types of institutions are consolidated. Third, counterparty data are used extensively in the summary table.

Health insurance

Organisations which offer insurance to cover medical and hospital expenses are known as health insurers. There are two types.

Open-membership organisations are those offering health insurance to the general public. Restricted-membership organisations are those offering health insurance to an employment group, professional organisation or union.

Health insurers are supervised by the Private Health Insurance Administration Council under the *National Health Act 1953*. The Act requires health insurance organisations to maintain

minimum levels of solvency. The Council receives financial data to ensure that these standards are met. There were 49 registered health insurance organisations as at 30 June 1995. More information on health

insurers and the percentage of the population with private health insurance is given in *Chapter 8, Health*. Table 25.20 shows the assets and liabilities of health insurance organisations.

25.20 PRIVATE HEALTH INSURANCE FUNDS, Assets and Selected Liabilities

	June 1993 \$m	June 1994 \$m	June 1995 \$m
ASSETS			
Provision for contributions in arrears	44	54	62
Property, plant and equipment	502	482	507
Investments	1 573	1 741	1 626
Cash	38	53	98
Other assets	154	153	421
Total assets	2 312	2 484	2 713
LIABILITIES			
Outstanding Claims Provision	348	353	336
Provision for contributions in advance	454	474	479
Other liabilities	304	307	490
Total selected liabilities	1 106	1 134	1 304

Source: Private Health Insurance Administration Council Annual Report.

General insurance companies

General insurance companies are those institutions whose primary activity is the provision of insurance other than life and health insurance. Major types of general insurance include house, car and marine insurance.

The Insurance and Superannuation Commission supervises general insurers. All general insurers must be registered with the Commission under the *Insurance Act 1973* and submit quarterly

and annual financial returns. The Act provides the Commission with the power to exercise active supervision to ensure 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-owned insurance offices. The assets and selected liabilities of general insurance companies are set out in table 25.21.

25.21 GENERAL INSURERS, Assets and Selected Liabilities

	June 1993 \$m	June 1994 \$m	June 1995 \$m
ASSETS			
Unpaid premiums	1 329	1 353	1 601
Reinsurance and other recoverables	3 199	5 173	5 662
Investments	17 911	19 349	20 376
Cash	471	520	716
Other assets	3 333	3 833	4 214
Total assets	26 243	30 229	32 568
LIABILITIES			
Outstanding Claims Provision	10 390	12 684	14 471
Unearned Premium Provision	4 691	5 246	6 124
Other provisions	638	609	461
Trade creditors	870	1 105	1 154
Other liabilities	1 776	2 006	1 912
Total selected liabilities	18 414	21 650	24 121

Source: Selected Statistics on the General Insurance Industry — Insurance and Superannuation Commission.

Common funds

Common funds are set up by trustee companies and are governed by State Trustee Acts. They allow the trustee companies to combine depositors' funds and other funds held in trust in an investment pool. Common funds are categorised according to the main types of

assets in the pool. They are either cash funds, equity funds, mortgage funds, property funds or other funds (e.g. funds which invest in interest-bearing securities). Table 25.22 sets out the assets and liabilities of common funds.

25.22 COMMON FUNDS, Assets and Liabilities

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Cash and bank deposits	502	430	488
Loans and placements	1 089	1 170	1 160
Bills of exchange	1 367	1 304	1 505
Other short term securities	364	430	598
Long term securities	159	204	163
Equities	1 250	473	547
Units in trusts	50	68	42
Other assets	103	86	89
Total assets	4 884	4 165	4 592
LIABILITIES			
Unit holders' funds	4 884	4 165	4 592
Total liabilities	4 884	4 165	4 592

Source: *Managed Funds* (5655.0).

Public unit trusts

A public unit trust is an investment fund open to the Australian public. Its operations are governed by a trust deed between the management company and a trustee company. Public unit trusts allow unit holders to dispose of their units quickly. They may sell them back to the manager in the case of an unlisted trust, or sell them on the Australian Stock Exchange if the trust is listed. Public unit trusts are categorised according to the main types of assets in the pool.

They are either property, equity, mortgage, trading, public-security or gold trusts. Although trading and property trusts are not strictly financial enterprises they are included here for convenience. Public unit trusts exclude cash management trusts, private trusts and trusts exempted from providing redemption facilities (e.g., film and agricultural trusts).

Table 25.23 shows the assets and liabilities of public unit trusts.

25.23 PUBLIC UNIT TRUSTS, Assets and Liabilities

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Cash and bank deposits	2 095	1 600	2 296
Loans and placements	1 784	1 825	1 987
Bills of exchange	1 628	1 640	1 537
Other short term securities	318	283	348
Long term securities	1 672	1 307	1 478
Equities	6 901	8 492	11 025
Units in trusts	3 144	3 545	4 229
Other financial assets	694	731	903
Other assets	19 745	21 796	24 676
Total assets(a)	37 982	41 220	48 479
LIABILITIES			
Unitholders' funds	32 125	35 884	41 865
Borrowings	1 646	1 744	2 145
Other liabilities	5 049	4 251	4 749
Total liabilities(a)	38 820	41 879	48 759

(a) The asset and liability totals differ slightly because unitholders' funds are reported at book value and assets are reported at market value.

Source: *Managed Funds* (5655.0).

Securitisers

The Australian residential mortgage market is undergoing major change. Historically this market was dominated by the banks. Over recent years, mortgage managers and other non-bank mortgage originators have taken an important share of this market. These new entrants are using securitisers to fund their operations.

Securitisers issue debt securities which are backed by specific assets rather than a floating charge over the assets of the issuer. Hence these

securities are known as asset-backed securities.

The most common assets bought by securitisation trusts are residential mortgages, but other assets can be used to back these securities such as credit-card receivables and leases. Securitisers generally pool the assets and use the cash flows generated to pay interest to the holders of the asset-backed securities. There were 37 securitisers at the end of June 1996. Their assets and liabilities are shown in table 25.24.

25.24 SECURITISERS, Assets and Liabilities

	June 1994 \$m	June 1995 \$m	June 1996 \$m
ASSETS			
Cash and deposits	129	184	211
Holding of securities	1 811	2 244	2 725
Residential mortgages	4 602	5 546	9 145
Non-residential mortgages	339	187	105
Credit card loans	276	526	451
Other loans and placements	1 723	1 384	2 238
Other assets	98	149	242
Total assets	8 978	10 220	15 117
LIABILITIES			
Short term asset backed securities	1 410	1 091	2 318
Long term asset backed securities	6 352	7 228	9 803
Asset backed securities issued overseas	863	1 401	1 667
Loans and placements	229	404	1 036
Other liabilities	124	96	293
Total liabilities	8 978	10 220	15 117

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

Cooperative housing societies

A cooperative housing society raises money through loans from members and provides finance to its members in the form of housing loans. They must be registered under State or Territory legislation, but even so they are not authorised to accept money as deposits. In the past cooperative housing societies were wound up after a set period. This was the main

difference from permanent building societies. Now cooperative housing societies are continuing bodies functionally little different from permanent building societies. Over recent years many cooperative housing societies have originated mortgages on behalf of securitisers. The assets and liabilities of cooperative housing societies are shown in table 25.25.

25.25 COOPERATIVE HOUSING SOCIETIES, Assets and Liabilities

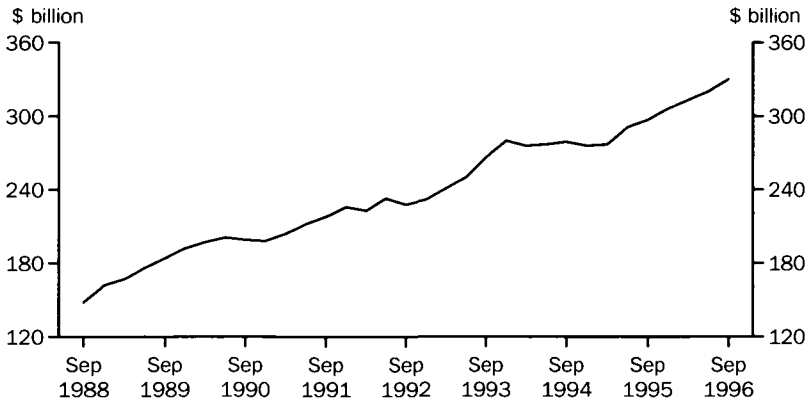
	June 1993 \$m	June 1994 \$m	June 1995 \$m
ASSETS			
Loans outstanding	2 001	1 928	1 717
Placements and deposits	38	36	29
Physical assets	1	1	1
Other assets	4	7	4
Total assets	2 044	1 972	1 751
LIABILITIES			
Share capital and reserves	42	205	202
Borrowings	1 989	1 754	1 537
Other liabilities	13	13	12
Total liabilities	2 044	1 972	1 751

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

Managed funds

The term 'managed funds' is used to describe the investments undertaken by those collective investment institutions and investment managers who engage in financial transactions in the managed funds market. The significant growth in managed funds (see figure 25.26) has been a major development in the financial sector over the last decade.

25.26 TOTAL CONSOLIDATED ASSETS OF MANAGED FUNDS



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

Collective investment institutions

Collective investment institutions, in general, cover those financial intermediaries, other than deposit taking institutions, which incur liabilities on their own account for the purpose of acquiring financial assets by engaging in financial transactions in the managed funds market. They include:

- Statutory funds of life insurance offices;
- Superannuation and approved deposit funds;
- Public unit trusts;
- Friendly societies;
- Common funds; and
- Cash management trusts.

Typically, these institutions arrange for the 'pooling' of funds from a number of investors for the purpose of investing in a particular type or mix of assets, with a view to receiving an on-going return or a capital gain. However, funds of a speculative nature that do not offer redemption facilities (e.g. agriculture and film trusts) and funds not established for investment purposes (e.g. health funds and general insurance funds) are excluded.

The development of managed funds has occurred in parallel with changes resulting from the deregulation of the financial system. Collective investment institutions offer a wide range of investment alternatives to small and institutional investors. These investment alternatives can be structured to satisfy individual investor requirements regarding, for example, the degree of risk, the mix of capital and income growth and the degree of asset diversification.

To derive the total assets of managed funds in Australia on a consolidated basis, it is necessary to eliminate the cross investment between the various types of collective investment institution. 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 have been presented earlier in this chapter, the following tables summarise their consolidated position (i.e. after the cross investment between the institutions has been eliminated), by type of institution (table 25.27) and by type of investment (table 25.28).

25.27 ASSETS OF MANAGED FUNDS, By Type of Collective Investment Institution — 30 June 1996

Type of fund	Assets		
	Total \$m	Cross invested \$m	Consolidated \$m
Statutory funds of life offices	126 067	10 066	116 001
Superannuation and approved deposit funds	152 026	13 901	138 126
Public unit trusts	48 479	4 427	44 052
Friendly societies	7 775	22	7 753
Common funds	4 592	73	4 519
Cash management trusts	7 031	—	7 031
Total	345 970	28 489	317 481

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

25.28 CONSOLIDATED ASSETS OF MANAGED FUNDS

Type of investment	30 June 1994 \$m	30 June 1995 \$m	30 June 1996 \$m
Deposits, loans and placements	36 701	36 949	40 024
Short-term debt securities	29 122	29 768	37 744
Long-term debt securities	53 469	54 743	54 252
Equities and units in trusts	76 326	79 520	88 878
Land and buildings	33 294	36 601	39 541
Overseas assets	41 168	43 914	46 198
Other assets	6 571	8 728	10 845
Total	276 655	290 223	317 481

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

Investment managers

A further development within the managed funds industry is the emergence of specialist investment managers who engage primarily in activities closely related to financial intermediation but are employed on a fee for service basis to manage and invest in approved assets on their clients' behalf. They usually act as investment managers for the smaller collective investment institutions, including unit trusts and superannuation funds. While they take on individual portfolios, for example, on behalf of charities, they are generally not accessible to the small investor. These investment 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 collective investment institutions, particularly the statutory funds of life offices and assets of superannuation funds, is channelled through investment managers. At 30 June 1996, \$256,765m, or 74% of the unconsolidated assets of collective investment institutions were channelled through investment managers. Table 25.29 shows the total unconsolidated assets of each type of collective investment institution and the amount of these assets invested through investment managers.

Investment managers also accept money from investors other than managed funds. At 30 June 1996, investment managers also invested \$40,724m on behalf of government bodies, general insurers and other sources, including overseas sources.

25.29 ASSETS OF MANAGED FUNDS, Invested through Investment Managers — 30 June 1996

Type of fund	Unconsolidated assets of managed funds \$m	Assets invested with investment managers \$m
Statutory funds of life offices(a)	126 067	123 121
Superannuation and approved deposit funds	152 026	83 021
Public unit trusts	48 479	36 197
Friendly societies	7 775	6 181
Common funds	4 592	2 927
Cash management trusts	7 031	5 318
Total	345 970	256 765

(a) Includes both superannuation and ordinary business.

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

Financial markets

Financial markets are used by participants to access credit and to issue securities and other financial assets. Participants in financial markets also trade existing stocks of securities and other financial assets. The major markets in the Australian financial system include the credit market, the equity market, the short-term money market, the long-term debt securities market and the foreign exchange market. Descriptions and tables indicating prices and activity in these markets are provided below.

A significant influence in financial markets is the participation of institutional investors who have control of large pools of investment funds. These pools are accumulated by collective investment institutions and are often managed on a fee for service basis by investment managers. A summary of the activities of these institutions is also provided.

Credit market

Credit may be defined broadly as funds provided to those seeking to borrow. However, analytically useful measures of credit usually exclude borrowings by financial enterprises given that their main role is to borrow in order to lend. Also, lending and borrowing between

enterprises which have a special relationship, such as between companies in the same group or between government agencies, are often excluded from credit measures because such transactions frequently are of a non-market nature. Similarly, some types of financial instrument, such as trade debts, are not considered to be part of an organised market. Some measures of credit also exclude unintermediated borrowings, for example issuing securities. Table 25.30 presents a summary of the demand for credit in Australia by the non-financial sectors. It excludes

- borrowings by financial enterprises;
- trade debt and other incidental claims;
- borrowings by non-financial public sector units from other non-financial public sector units, for example loans by the Commonwealth to States; and
- borrowings from related units in the same subsector.

It includes raisings by the issue of both debt and equity securities on the grounds that security markets in Australia are well developed and provide an alternative for borrowers to intermediated financing.

25.30 DEMAND FOR CREDIT

	Net transactions during year		
	1993-94 \$m	1994-95 \$m	1995-96 \$m
Funds (including equity) raised on conventional credit markets by			
Commonwealth public trading enterprises	-1 661	-1 407	74
State and local public trading enterprises	-2 065	-1 555	-1 736
Private trading enterprises	17 561	17 059	49 450
Commonwealth general government	14 231	13 030	5 525
State and local general government	5 473	1 869	-11 500
Households and unincorporated businesses	27 467	24 973	30 787
Total	61 006	53 969	72 600

Note: Positive numbers indicate an increase in borrowings. Negative numbers indicate debt repayment.

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

Table 25.31 shows indicative interest rates for some financial market instruments. Another view of activity in the credit market is provided later

in this chapter under *Lending by financial institutions*.

25.31 BANK RETAIL DEPOSIT AND LENDING RATES

	June 1994 % p.a.	June 1995 % p.a.	June 1996 % p.a.
Bank deposit rates			
Six month fixed deposit	5.00	6.75	6.55
Cash management accounts(a)	4.00	5.90	5.70
Bank lending rates			
Housing loans — variable	8.75	10.50	9.75
Small business loans — variable	9.30	11.10	11.25
Credit cards	14.40	16.70	16.70

(a) Accounts from \$20 000 to less than \$100 000.

Source: Reserve Bank of Australia Bulletin.

Stock market

The Australian stock market provides the mechanism for trading equities (shares), units in listed trusts, options, and some fixed-interest securities. It is operated nationally by Australian Stock Exchange Limited (ASX) which is responsible for the day-to-day running and surveillance of stock market trading. The stock market comprises two different markets: the primary market where new issues are made, and the secondary market where previously issued shares are traded. Companies are classified according to their major type of activity, and ASX publishes various indexes (e.g. All Ordinaries, All Industrials, All Resources) which show the

price performance of shares in various categories. Table 25.32 summarises the performance of these indexes over the last three financial years.

The stock market is controlled and regulated jointly by ASX and the Australian Securities Commission (ASC). ASX's business rules regulate market conduct and its listing rules regulate disclosure by listed companies and other matters. The ASC enforces the provisions of the Corporations Law.

25.32 AUSTRALIAN STOCK MARKET INDEXES(a)

	1993-94	1994-95	1995-96
All ordinaries			
Index(b)	2 040.2	2 000.8	2 231.7
High	2 340.6	2 122.1	2 326.0
Low	1 755.3	1 823.3	2 003.3
All industrials			
Index(b)	2 984.7	3 012.1	3 305.8
High	3 525.9	3 095.3	3 465.4
Low	2 692.7	2 685.0	3 006.8
All resources			
Index(b)	1 331.1	1 235.7	1 423.3
High	1 442.8	1 433.2	1 524.7
Low	1 034.1	1 129.5	1 244.7

(a) Base 31 December 1979 = 500. (b) 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 25.33 shows the value of Australian shares and units in trusts on issue, classified by sector of issuer, at market value or, for some of the public sector, at book value. The estimates are partly consolidated, with intra-group claims (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).

25.33 THE EQUITY MARKET(a)

	Amounts outstanding at end of June quarter		
	1994 \$m	1995 \$m	1996 \$m
Total equities and units in trusts	551 022	577 220	631 258
Issued by			
Commonwealth public trading enterprises(b)	24 345	26 931	25 475
State and local public trading enterprises(b)	102 677	110 313	107 149
Private corporate trading enterprises(c)	321 489	330 936	376 518
Reserve Bank of Australia(d)	40	40	40
Banks(c)	47 801	52 483	59 325
Non-bank deposit taking institutions(c)	13 837	15 435	15 887
Life offices and superannuation funds(c)	1 984	2 249	3 120
Other financial institutions(c)	37 656	38 572	43 510
State and local general government(d)	1 193	261	234

(a) Includes units in trusts. (b) Net asset values. (c) These estimated market values are considered to be of poor quality. They should be used cautiously. (d) Book values.

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

Short-term money market

Activity in the short-term money market is conducted using deposits, loans and placements, trading in long-term debt securities under repurchase and stock-lending agreements, and short-term money market debt securities. Rates in the market at end June of the last three financial years are shown in table 25.34.

25.34 SHORT-TERM MONEY MARKET RATES

	June 1994 % p.a.	June 1995 % p.a.	June 1996 % p.a.
11am call	4.77	7.51	7.51
Bank accepted bills — 90 days	5.47	7.57	7.59

Source: Reserve Bank of Australia Bulletin.

Short-term money market debt securities have an original term to maturity of less than one year (often 90 or 180 days), are issued by borrowers at a discount to face value and carry no interest payment other than the discount. To enhance liquidity, money market securities conform to standardised attributes concerning risk and discount rates. Because of the standardisation, the securities of different issuers are often combined in the one parcel of securities for trading purposes. There are two types of securities: bills of exchange and promissory notes. The risk of a bill of exchange is reduced by an acceptor or endorser adding their name to the security, for a fee. Most bills of exchange traded in the market are bank-accepted bills. Promissory notes are issued by institutions whose credit worthiness is equal to or better

than banks: the Commonwealth issues Treasury notes, State Governments and large corporations issue commercial paper and banks issue negotiable certificates of deposit.

Table 25.35 shows the amount on issue by sector of issuer and sector of holder of the various types of money market security.

25.35 SHORT-TERM DEBT SECURITIES

Category A	Amounts outstanding at end of June		
	1994 \$m	1995 \$m	1996 \$m
ISSUED BY			
Commonwealth public trading enterprises	3 577	2 898	3 766
State and local public trading enterprises	145	205	149
Private trading enterprises	56 631	55 105	63 395
Banks	38 496	39 858	51 791
Non-bank deposit taking institutions	11 520	17 052	23 590
Life offices and superannuation funds	48	20	—
Other financial institutions	8 899	9 845	11 338
Commonwealth general government	16 185	14 163	15 298
State and local general government	18 458	22 844	9 310
Households and unincorporated businesses	3 943	3 789	2 927
Total	157 902	165 779	181 564
HELD BY			
Commonwealth public trading enterprises	2 172	3 217	1 284
State and local public trading enterprises	416	381	499
Private trading enterprises	8 093	5 707	9 433
Banks	2 757	946	3 710
Non-bank deposit taking institutions	28 760	25 438	27 825
Life offices and superannuation funds	12 653	13 657	12 219
Other financial institutions	23 418	23 400	30 683
Commonwealth general government	18 158	20 037	27 262
State and local general government	7 465	9 088	7 676
Households and unincorporated businesses	3 383	5 691	6 672
Rest of world	50 627	58 217	54 301
Total	157 902	165 779	181 564

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

Long-term debt securities market

Long-term debt securities are issued with original terms to maturity of one or more years. Usually, the investors are paid a set periodic interest (coupon) for the life of the security and receive their initial investment back at maturity. Some securities have variable interest rates, some have principal repayments indexed, and there is a small amount of zero-coupon (deep discount) securities on issue. Governments,

trading enterprises and financial institutions issue debt securities to finance long term requirements. For these entities, the debt securities market generally provides a cheaper source of funds than borrowing from banks and other financial institutions. Table 25.36 shows the interest rates at end June for the last three financial years for a range of long-term debt securities.

25.36 LONG-TERM DEBT SECURITIES, Interest Rates

	June 1994 % p.a.	June 1995 % p.a.	June 1996 % p.a.
Treasury bonds			
3 years	8.61	8.27	8.33
5 years	9.04	8.61	8.59
10 years	9.63	9.21	8.88
NSW T-corp bonds			
3 years	8.70	8.31	8.45
5 years	9.29	8.80	8.74
10 years	10.02	9.47	9.16
Finance company debentures			
2 years	6.70	7.70	7.60
3 years	7.30	7.80	7.80

Source: Reserve Bank of Australia Bulletin.

The main issuers of long-term debt securities are the Commonwealth Government, and State Governments through their central borrowing authorities. Issues by Commonwealth, State and local public trading enterprises may be guaranteed by their respective governments. This provides the bond issue with a higher

security rating, meaning that the market will purchase the bonds at a lower yield. Corporate bonds are only issued by very large private trading and financial enterprises. The amounts outstanding on long-term debt securities at end June for the last three financial years are shown in table 25.37.

25.37 SHORT-TERM DEBT SECURITIES

	Amounts outstanding at end of June		
	1994 \$m	1995 \$m	1996 \$m
ISSUED BY			
Commonwealth public trading enterprises	7 365	7 693	6 035
State and local public trading enterprises	2 884	1 973	434
Private trading enterprises	11 136	10 616	12 225
Banks	37 672	32 829	35 162
Non-bank deposit taking institutions	16 286	20 701	23 624
Other financial institutions	12 641	17 116	18 434
Commonwealth general government	77 291	95 427	98 811
State and local general government	81 109	80 101	80 079
Total	246 384	266 456	274 804
HELD BY			
Commonwealth public trading enterprises	—	190	31
State and local public trading enterprises	529	465	471
Private trading enterprises	394	225	224
Reserve Bank of Australia	10 373	14 749	11 943
Banks	21 344	21 796	20 827
Non-bank deposit taking institutions	10 969	13 862	13 825
Life Offices and Superannuation Funds	50 444	52 150	51 955
Other financial institutions	26 260	27 548	23 574
State and local general government	13 305	11 485	8 654
Households and unincorporated businesses	14 639	15 200	17 255
Rest of world	98 127	108 786	126 045
Total assets	246 384	266 456	274 804

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

Foreign exchange market

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. For further information regarding exchange rates, see the *Balance of Payments* section in *Chapter 29, International accounts and trade*. Table 25.38 shows the value of the Australian dollar against four major currencies at end June of the last three financial years.

25.38 VALUE OF AUSTRALIAN DOLLAR, Against Major Currencies

	At 30 June		
	1994	1995	1996
United States dollar	0.7250	0.7110	0.7855
United Kingdom pound	0.4687	0.4450	0.5064
German deutschmark	1.1492	0.9798	1.1914
Japanese yen	71.47	59.91	85.53

Note: Rate given is the midpoint between the buying and selling rates.

Source: *Average of Daily Exchange Rates (5654.0)*.

Currencies are traded for many reasons, including to facilitate overseas trade (exports and imports), for financing overseas borrowing and investments, for arbitrage (i.e., taking advantage of short-term discrepancies in rates) and for speculation on possible exchange rate

movements with a view to making a profit. There is significant trading in foreign currencies by licensed dealers using various instruments.

Table 25.39 shows daily averages of foreign exchange turnover against all currencies.

25.39 FOREIGN EXCHANGE TURNOVER AGAINST ALL CURRENCIES, Daily Averages(a)

	1993-94 \$m	1994-95 \$m	1995-96 \$m
Transactions by foreign exchange dealers (b)			
Outright spot(c)	22 386	21 463	20 692
Outright forward(d)	2 174	1 882	2 014
Swaps	25 546	26 527	28 435
Options	880	792	1 055
Total	50 986	50 664	52 196

(a) Figures given are the average daily turnover for the financial year. (b) Australian banks and non-bank financial intermediaries authorised to deal in foreign exchange. (c) An outright spot transaction is one for receipt or delivery within two business days. (d) An outright forward transaction is one for receipt or delivery in more than two business days.

Source: *Reserve Bank of Australia Bulletin*, based on information supplied by foreign exchange dealers.

Lending by financial institutions

The lending activities of financial institutions are grouped for statistical purposes into four major types of lending — housing, personal, commercial and leasing. Information regarding housing finance is presented in *Chapter 19, Construction and housing*.

25.40 LENDING COMMITMENTS BY FINANCIAL INSTITUTIONS

Type of lending activity	1993-94 \$m	1994-95 \$m	1995-96 \$m
Housing finance	47 831.9	r42 306.0	43 620.1
Personal finance	25 453.2	r28 513.9	32 381.3
Commercial finance	95 139.4	r104 331.5	138 560.7
Lease finance	5 846.2	6 572.4	7 409.4
Total	174 270.7	r181 723.8	221 971.5

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

Lease finance

The statistics in tables 25.41 and 25.42 show lease finance commitments made by significant lenders (banks, money market corporations, finance companies, general financiers, etc.)

to trading and financial enterprises, non-profit organisations, governments, public authorities and individuals.

25.41 LEASE FINANCE COMMITMENTS, By Type of Lessor

Year	All banks \$m	Money market corporations \$m	Finance companies \$m	General financiers \$m	Total \$m
1993-94	1 818.5	450.1	2 706.9	870.7	5 846.2
1994-95	1 922.7	433.7	3 115.4	1 100.6	6 572.4
1995-96	2 316.0	321.7	3 658.3	1 113.4	7 409.4

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

25.42 LEASE FINANCE COMMITMENTS, By Type of Goods Leased

Type of goods	1993-94 \$m	1994-95 \$m	1995-96 \$m
Motor vehicles and other transport equipment	3 654.9	3 992.1	4 185.7
Construction and earth moving equipment	279.4	434.1	734.0
Agricultural machinery and equipment	238.5	243.5	382.9
Automatic data processing equipment and office machinery	805.5	988.1	1 109.6
Shop and office furniture, fittings and equipment	233.7	250.6	258.5
Other goods	634.2	663.9	738.7
Total	5 846.2	6 572.4	7 409.4

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

Personal finance

Tables 25.43 and 25.44 present statistics of commitments made by significant lenders (banks, credit cooperatives, finance companies,

etc.) to lend to individuals for their own personal (non-business) use.

25.43 PERSONAL FINANCE COMMITMENTS, By Type of Lender(a)

Year	All banks \$m	Finance companies \$m	Credit cooperatives \$m	Other lenders(b) \$m	Total \$m
1993-94	17 351.3	4 572.4	2 662.1	867.4	25 453.2
1994-95	19 294.4	5 197.1	2 768.6	1 253.8	28 513.9
1995-96	22 932.9	5 318.4	3 042.1	1 088.0	32 381.3

(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).

25.44 PERSONAL FINANCE COMMITMENTS, By Type of Facility

Year	Fixed loan commitments \$m	New and increased credit limits \$m	Cancellations and reductions in credit limits \$m	Revolving credit commitments	
				Total \$m	Credit limits Used \$m
1993-94	16 556.2	8 897.0	7 203.4	37 792.1	16 060.7
1994-95	18 623.0	9 890.9	7 326.1	40 523.9	16 766.8
1995-96	20 929.9	11 451.4	7 911.8	44 481.5	18 052.1

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

Commercial finance

The statistics in tables 25.45 and 25.46 show commitments, made by significant lenders (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.

25.45 COMMERCIAL FINANCE COMMITMENTS(a), By Type of Lender

Year	Banks \$m	Finance companies \$m	Money market corporations \$m	Other lenders(b) \$m	Total \$m
1993-94	72 491.0	6 531.0	10 504.4	5 613.1	95 139.4
1994-95	75 345.6	r7 527.2	14 800.6	r6 658.0	r104 331.5
1995-96	104 204.5	7 676.0	18 690.6	7 989.5	138 560.7

(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).

25.46 FIXED COMMERCIAL FINANCE COMMITMENTS, By Purpose

Year	Construction \$m	Purchase of real property \$m	Purchase of plant and equipment \$m	Re-financing \$m	Other purposes \$m	Total \$m
1993-94	4 318.9	9 316.6	5 985.2	6 621.0	20 341.2	46 582.9
1994-95	5 253.9	9 762.8	r7 088.1	7 999.5	r20 415.3	r50 519.6
1995-96	6 575.6	10 876.5	7 506.7	11 313.3	28 050.9	64 323.0

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

Money and the payments system

The payments system supports trade and commerce in a market economy. Notes and coin are one means of payment. Liquid balances held at financial institutions are also available potentially for transactions needs, under cheque and other forms of transfer facilities, and thus add to the money supply. The payments system is under the management of the Australian Payments Clearing Association, a company operated jointly by system participants and supervisors.

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. Table 25.47 shows the value of notes on issue at the last Wednesday of June of the last three financial years. Table 25.48 shows the value of coin on issue at the same time points.

25.47 VALUE OF AUSTRALIAN NOTES ON ISSUE

	Last Wednesday in June		
	1994 \$m	1995 \$m	1996 \$m
\$1	21	20	19
\$2	69	49	48
\$5	313	332	337
\$10	634	614	583
\$20	1 795	1 848	1 868
\$50	6 837	7 193	7 928
\$100	7 907	8 482	8 399
Total	17 577	18 538	19 182
Increase (%)	7.4	5.5	3.5

Source: *Reserve Bank of Australia*.

25.48 VALUE OF AUSTRALIAN DECIMAL COIN ON ISSUE

	Last Wednesday in June		
	1994 \$m	1995 \$m	1996 \$m
1c	23.5	23.1	22.8
2c	32.0	31.3	30.7
5c	92.9	98.6	102.6
10c	98.0	98.0	97.5
20c	134.0	136.0	138.7
50c	188.8	197.2	204.8
\$1	263.1	300.4	328.0
\$2	415.9	445.0	468.9
Total	1 284.2	1 329.6	1 394.0
Increase(%)	6.0	6.5	4.8

Source: Reserve Bank of Australia.

non-bank financial intermediaries (including cash management trusts) less their holdings of currency and bank deposits.

The money supply under each of these measures at end June of the last three years is shown in table 25.49.

25.49 MONEY SUPPLY MEASURES

	June 1994 \$m	June 1995 \$m	June 1996 \$m
Money base	22 025	23 491	24 546
M3	246 234	263 617	290 485
Broad money	295 836	316 508	349 393

Source: Reserve Bank of Australia.

Money supply measures

The money supply, as measured and published by the Reserve Bank, 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.

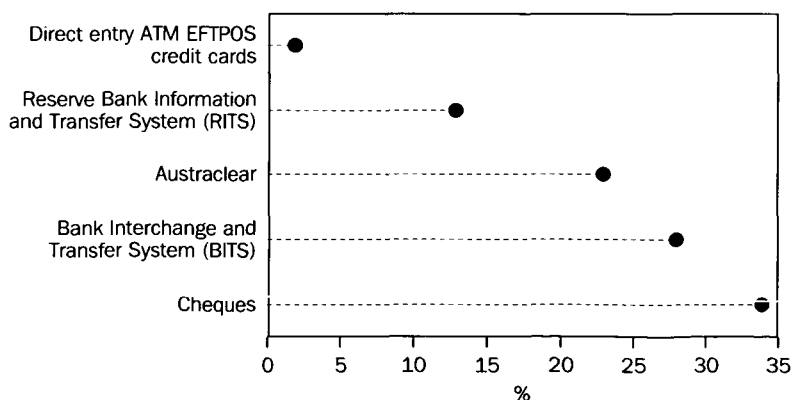
- Money base, which comprises holdings of notes and coin by the private sector, deposits of banks with the Reserve Bank, and other Reserve Bank liabilities to the private sector.
- M3, which is defined as currency plus bank deposits of the private non-bank sector.
- Broad money, which is defined as M3 plus borrowings from the private sector by

Payments statistics

A recent development in the operation of the payments system is the announcement of the move to real-time gross settlement (RTGS) for settling large claims between members of the clearing system. RTGS is to become fully operational in 1997, but the Reserve Bank has already undertaken a number of modifications to the way it participates in the system, including the withdrawal of facilities it provides to authorised short-term money market dealers on 9 August 1996.

The use of the various means of payment for settlement of claims in November 1995 is shown in graph 25.50.

25.50 MEANS OF PAYMENT USED FOR EXCHANGE, By Percentage of Total Value Exchanged — November 1995



Source: Australian Payments Clearing Association.

Table 25.51 highlights the growth of publicly available electronic access points into the payments system. The major growth has been in the number of EFTPOS terminals in Australia as more retailers are providing a means to transfer funds electronically at the point of sale. This enables their customers to use debit cards as well as credit cards.

25.51 ELECTRONIC ACCESS POINTS

	June 1994 no.	June 1995 no.	June 1996 no.
Automatic teller machines	5 848	6 249	7 178
EFTPOS terminals	38 875	62 975	107 702

Source: Australian Payments Clearing Association.

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