

Australia's First Bank: Fifty Years from the Wales to Westpac. *By L. Sharon Davidson and Steven Salisbury.* Sydney: University of New South Wales Press, 2005. 407 pp. Index, notes, appendix, figures, photographs. Paper, \$49.95. ISBN: 0-868-40791-7.

Reviewed by David Merrett

This handsomely produced book provides the most recent history of Australia's oldest privately owned bank, the Bank of New South Wales, whose name changed to Westpac when it merged with the Commercial Bank of Australia in 1982. Commissioned by the bank in 1990, the book was intended to update R. F. Holder's *Bank of New South Wales: A History* (1970). The unintended lag between commissioning and publication resulted from the pressure of the late Stephen Salisbury's duties as a dean at the University of Sydney, followed by illness and an untimely death in 1998. Coauthor Sharon Davidson took the opportunity to cover the most dramatic episode in the history of the bank, Westpac's near failure in the early 1990s and subsequent recovery. To the bank's credit, the authors were allowed access to board papers and other records pertaining to this sensitive period, and they were given permission to interview more than sixty executives and directors. This rich set of data has been converted into a well-organized and highly readable story.

The story is one of fall and redemption. The Bank of New South Wales (known familiarly as the "Wales") is not only the oldest bank in Australia, but around the time of the Second World War it was also the biggest. This volume provides a scholarly and detailed account of how the bank adjusted to the radically different postwar environment over the next fifty years. From 1945 until the financial "deregulation" of the 1980s, the bank, like all its competitors, had to come to terms with the necessity of operating in an industry that was highly regulated. A new and powerful central bank sought to moderate the trade cycle through a countercyclical money policy that relied more on changing the volume of bank lending than on manipulating interest rates, at least until well into the 1960s. A byproduct of this pursuit of macroeconomic policy was that the bank's growth and profits, as reflected on its balance sheet, were reduced. The Wales escaped the constraints being placed on its core banking business by diversifying into other domestic

financial markets by taking equity positions in firms selling hire purchase, insurance, merchant banking, stockbroking and the like. Later it would greatly expand its international presence as a bank and would also buy a London bullion dealer and a primary dealer of U.S. government paper. A dramatic change of government policy in the early 1980s returned to banks many of the freedoms they had long been denied, enabling them to compete both domestically, in a market that now included newly licensed foreign banks, and internationally. The Bank of New South Wales cemented its place at the head of the list of Australian banks through a merger with the Commercial Bank of Australia. No longer restrained by government regulations in its home markets of Australia and New Zealand, the bank proceeded to expand in an exuberant fashion.

Diversification and deregulation combined to lay the seeds of the coming tragedy. The capital of the bank came to underpin the business of a wide group operating in a range of markets whose credit risks were not fully understood by the executives and directors. Two of the largest subsidiaries, the Australian Guarantee Corporation, a finance company, and Partnership Pacific, a merchant bank, both of which had large exposures to the Australian commercial property market as it collapsed, were not brought under the effective control of the parent bank until it was too late. Losses from new overseas ventures added to the misery as the bank returned a loss in 1992. Many of these were sold to provide much-needed cash.

The weight of the past increased the difficulties facing management as it struggled to come to terms with a rapidly changing world. The bank's administrative heritage made it a highly centralized and bureaucratic organization that relied on an employee policy of internal promotions to all senior positions. The authors trace the actions taken to refashion the organization to make it more responsive and to impose some central authority over its far-flung activities. Mechanization was an important agent of change. Back-office functions, once carried out in branches by male bank clerks, became the preserve of women. The introduction of computers prompted the centralization of back-office functions, which were removed from the purview of the branches. The adoption of information technology and its associated new products—credit cards, automated teller machines, and electronic fund-transfer systems—brought a new group of experts, bankers in the first instance, who jostled for position within the organization. The influence of

these technocrats peaked in the mid-1980s, when Westpac entered an arrangement with IBM to develop software in which it would retain a proprietary interest. This ambitious plan fell behind schedule, was plagued by cost overruns, and never came to fruition. Diversification also broke down old barriers. Entry into new markets brought forth a new type of executive with different skills from those of the orthodox retail bankers. Lateral entry into senior positions became increasingly common, eroding the old career ladders. The appointment of an outsider, an American, as chief executive in 1993 signaled the end of the old order.

The strength of this book is in its detail. The impact of changing government policies and the adoption of new technologies on the bank are drawn out through reference to internal documents and the reminiscences of the individuals most closely involved. The story is told warts and all. We see triumphs and disasters, reputations won and lost, and bungled succession planning. Divisions on the board and the breakdown in trust and communication between senior management and the board as the bank's fortunes plummeted are discussed in full. On the other hand, the authors have paid little heed to the considerable literature that exists about many of the broader issues they discuss, including the histories of a number of the bank's rivals. The book's thunder, an account of the bank's near-death experience, has been stolen to a large degree by Edna Carew's impressive study, *Westpac: The Bank that Broke the Bank* (1997), which also drew on the memories of the key players in the bank and its subsidiaries. That competitor notwithstanding, this book is an important addition to the list of histories of Australian banks.

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