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The Characteristics of Failing and Surviving Banks in the Victorian Crisis of 1893

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Abstract

This paper applies the methodology of Calomiris & Mason (1997) to the Victorian banking crisis of 1893 to identify the extent to which financial contagion involving asymmetric information may have played a role in spreading the crisis. Using data constructed from the *Australian and Insurance Banking Record*, a logistic regression model is used to identify the characteristics of banks which failed compared to those which survived in an attempt to determine whether banks that failed may have been in a financially precarious position and may have subsequently failed even without the crisis. We find that banks with their head office in Melbourne, with more business in Victoria, which were less profitable, had lower liquidity and capital, and which had grown most aggressively in the period leading up to the crisis, were more likely to be amongst the group of failed institutions. We thus find broad support for the Calomiris & Mason assertion that banks which fail in crises tend to be those with pre-existing financial weakness and thus have a higher ex-ante probability of failure. This confirms some of the conclusions reached in the existing literature. But we also find limited evidence that asymmetric information-contagion contributed to the failure of some banks in the Victorian crisis. The mixed nature of our results may cast some light on the dynamics of contagion-related bank failure.