Financial Institutions in Singapore

TAN CHWEE HUAT

Faculty of Accountancy and
Business Administration
National University of Singapore

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To my Helen

and our

Petrina and Cheston

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List of Abbreviations

A.B.S.	Association of Banks in Singapore
A.C.U.	Asian Currency Unit
ASEAN	Association of Southeast Asian Nations
C.D.	Certificate of Deposit
C.P.F.	Central Provident Fund
D.B.S.	Development Bank of Singapore
ECICS	Export Credit Insurance Corporation of Singapore
E.D.B.	Economic Development Board
E.E.C.	European Economic Community
F.R.C.D.	Floating rate certificate of deposit
F.R.N.	Floating rate note
G.D.P.	Gross Domestic Product
G.N.P.	Gross National Product
I.B.F.	Institute of Banking & Finance
I.B.S.	International Bank of Singapore
LIBOR	London Interbank Offered Rate
M.A.S.	Monetary Authority of Singapore
M.N.C.s	Multinational corporations
N.C.D.	Negotiable certificate of deposit
O.C.B.C.	Oversea-Chinese Banking Corporation
O.U.B.	Overseas Union Bank
O.C.C.	Options Clearing Company Pte. Ltd.
P.O.S.B.	Post Office Saving Bank
S.E.S.	Stock Exchange of Singapore
S.F.C.	Securities Finance Corporation
SIBA	Singapore Insurance Brokers' Association
S.I.C.	Securities Industry Council
S.I.F.S.	Small Industries Finance Scheme
S.I.T.C.	Singapore Insurance Training Centre
SIBOR	Singapore Interbank Offered Rate
SIMBL	Singapore International Merchant Bankers Limited
S.S.R.I.	Singapore Securities Research Institute
U.O.B.	United Overseas Bank

Preface

Over the last decade, Singapore has developed into a financial centre of international repute. It has also been acclaimed as the birthplace of the Asian Dollar Market. In response to the incentives and stimulation provided by the Singapore Government, many international financial institutions are now operating in the republic. New financial instruments have been introduced to add depth to the financial markets, and the scope of financial activities has also been widened.

The introduction of a course on "Financial Institutions" in the first-year curriculum of the Department of Business Administration at the National University of Singapore several years ago was a timely attempt to prepare students for their future role in the financial community. One of the major problems in teaching such a course was the lack of appropriate textbooks. Consequently, much of the lecture material had to be compiled from government publications, articles published in local journals, and papers presented by practising bankers and financiers at seminars and conferences. This book is an attempt at presenting the information and data gathered in the course of several years of research on financial institutions in Singapore.

The author wishes to acknowledge the contribution of the numerous original writers of the articles and papers from which much information has been extracted.

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Introduction

It has been a decade since Singapore launched significant moves to develop as a financial centre. Few people can remain unimpressed by what the republic has achieved in these attempts. Unlike many other financial centres in the world, Singapore's development was a conceived vision deliberately nurtured with far-sighted liberal monetary policies in a growing economy blessed by political stability and managed with administrative efficacy. Its developmental process as an international financial centre has been quite different from that of New York, London, or other European centres. These centres cater mainly for a large home market requiring the financial services. London has attained its status with the ascendancy of the British Empire and has retained its lead with its experience, expertise, and innovation. New York derives its financial strength from the corporate conglomerates which have gone beyond national boundaries rather than by the design of any monetary authority.

Singapore has none of these advantages and yet has managed to achieve international recognition on the financial map of the world. Its status as a financial centre can be evidenced by the presence of institutions of international repute, the introduction of new financial instruments during the last decade, the availability of expertise, and the wide range and volume of financial activities transacted in the republic.

Singapore's development as a financial centre has been an important part of a conscious development strategy for the 1970s. The events in the 1960s have necessitated the broadening of the republic's economic base. It was realized that the financial and banking sector could make significant contributions to development rather than fulfilling the subsidiary role to the other sectors of the economy. The recognition of this potential as a major growth industry in its own right led to the formulation and subsequent implementation of plans to turn Singapore into a financial centre not only to serve the republic but the region and beyond.

Concept of a Financial Centre

Broadly defined, a financial centre is a locality with a network of established financial institutions and efficient markets providing a wide range of financial services. It facilitates domestic, regional, and international flow of funds for trade and investment, thus promoting economic growth and financial development of countries in the region.

Implied in this concept is that the financial centre must be in an economy or region where surplus funds for investment are readily available. It must be supported by a strong domestic economy with a stable currency and subject to minimal inflation. It should be at the cross-roads of international capital movements and a centre of foreign exchange dealings. There must also be available a wide variety of financial instruments for investment and intermediation. A primary market where securities are floated must be readily supported by secondary markets where such securities can be transacted. To facilitate these activities, there must exist a network of efficient institutions staffed by the required expertise to handle the whole range of transactions. They must maintain constant contacts with other centres of the world via instantaneous telecommunications means to carry out these activities and to remain alert and competitive in a global financial scene susceptible to frequent crises.

Role of Financial Institutions

The basic role of a financial institution is to serve as a middleman who collects surplus funds from willing depositors and then lend these funds out to users who can invest them in gainful activities, thereby generating sufficient profits to be shared by the investor himself, the middleman, as well as the lenders.

The net effect in this chain of lending, borrowing, and investing activities is that everyone has benefited. The investor gets his profits from using the funds, the middleman gets his commission for making the funds available, and the lender gets his money back plus some interest for parting with his money. Taken as an aggregate, in a given society this means more employment has been generated from the investment, producing higher income and a better standard of living for everyone.

This was the role of a financial intermediary in the early days and it has remained very much the same throughout the ages. However, societies have become more complex and social and economic relationships have become more complicated. Consequently, the financial intermediaries have become more institutionalized. They have become more sophisticated in their strategies of encouraging more lenders to part with their hard-earned money. They have developed better skills in assessing the ability of the borrowers to make good use of the borrowed funds and, more important, to repay the money.

As an economy grows, there is more and more demand for investible funds. To be effective as an intermediary, the collecting function of the financial institution must be efficient so as to generate sufficient funds, and his lending function must be performed with more prudence to ensure such funds are profitably deployed by the borrowers. It has also become necessary for the intermediary to be aware of the investing operations of his borrowers, to better understand their needs, and to provide them with the necessary supporting assistance and advice. The role of a financial institution is thus to channel investible funds into productive activities and stimulate the development of other sectors in the economy, thereby contributing to the economic growth of the nation.

Singapore as a Financial Centre

What are the prerequisites of a financial centre? We shall take a closer look at each of the factors.

Strong Domestic Economy

First and foremost, a financial centre should operate within a strong domestic economy. By this measure, the Republic of Singapore has done well in the league of nations. Since its independence as a sovereign nation, Singapore's economy has performed remarkably well despite some early doubts about its viability. During the late 1960s and early 1970s, it achieved double-digit economic growth rates attained by only a few other nations. Its economy has remained resilient despite the oil crisis and the general world recession during 1973/74. It has achieved full employment and is in the process of restructuring its economy to upgrade the skill and technology of its industrial base.

Stable Currency

Although the Singapore dollar may not yet be an important currency in international finance, it has been accepted as a strong and stable currency. During the years which witnessed turbulence in world currency movements, the Singapore dollar has remained unscathed in the money market. The Singapore dollar, which is backed by a basket of currencies including the U.S. dollar, Japanese yen, German mark, as well as gold holdings, has attained a position about midway between the major currencies.

Strategic Location

Singapore is situated in a strategic location which enjoys a time zone advantage bridging Asia and Europe. Singapore dealers can conduct business with Hong Kong which is half an hour ahead, with Tokyo which is two hours ahead, and with Sydney which is three hours ahead. In the afternoon, the dealers can transact with London (six and a half or seven and a half hours behind Singapore, depending on the seasons) or any European financial centre. The time zone advantage enables institutions to provide round-the-clock financial services to businessmen who want to cover their foreign exchange and commodities position. This is increasingly important in an international monetary system of floating currencies and price changes affected by major world events.

Presence of International Institutions

Singapore is served by many financial institutions of international repute. They provide an effective mechanism to direct the flow of surplus funds into productive investments. In addition to the established commercial banks which are providing traditional trade finance, there has been an influx of new types of institutions into Singapore since the early 1970s, responding to the incentives provided by the Singapore government.

As of March 1980, Singapore was serviced by 37 full licence commercial banks (13 domestic and 24 foreign banks), 13 restricted banks, 42 offshore banks, 47 representative offices of foreign banks, 36 merchant banks, 108 Asian Currency Units, 4 discount houses, 7 international money brokers, 71 insurance companies, and 34 finance companies (see Table 1).

Most of the top hundred banks in the world are represented in the republic. Some of these are operating as full, restricted, or offshore banks, others are maintaining representative offices or operating as merchant banks. Singapore ranks fourth in the world in terms of the number of banks present, next only to London, New York, and Hong Kong.

Active Domestic Banks

With the stimulation from the presence of foreign banks, domestic banks have become quite active in international banking. Several have set up offices or branches in major cities in Asia, Europe, and the United States. They have also upgraded their expertise and become more receptive to new banking concepts and more willing to accept banking innovation.

In terms of financial strength, two of the locally incorporated banks have made it to the list of top 500 banks of the world. In the list compiled by the British financial journal *The Banker* in June 1980, the U.O.B. and the O.C.B.C. were ranked 406 and 456 respectively in terms of total assets less contra accounts. As of 31 December 1979, the United Overseas Bank (U.O.B.) had assets of US$2.3 billion while the Oversea-Chinese Banking Corporation (O.C.B.C.) had assets totalling US$1.8 billion (see Table 2). The deposits of the O.C.B.C. and the U.O.B. compared quite favourably with other top banks in the countries of the Association of Southeast Asian Nations (ASEAN) (see Table 3).

Banking Expertise

The international financial institutions have brought with them the necessary expertise and contacts to attract funds from other parts of the world to the Southeast Asian region. The imported expertise has helped to upgrade the skills of local bankers. This is further enhanced by the establishment of the Institute of Banking and Finance (I.B.F.) with support from the Association of Banks in Singapore (A.B.S.), the Singapore Merchant Bankers Association,

TABLE 1

NUMBER AND TYPES OF FINANCIAL INSTITUTIONS IN SINGAPORE, 1970–1979

Institutions	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Commercial banks										
Full banks	37	36	36	36	36	37	37	37	37	37
Domestic	*11*	*11*	*11*	*11*	*12*	*13*	*13*	*13*	*13*	*13*
Foreign	*26*	*25*	*25*	*25*	*24*	*24*	*24*	*24*	*24*	*24*
Restricted	–	6	8	12	12	12	12	13	13	13
Offshore	–	–	–	7	14	21	23	27	31	39
Representative offices	8	19	27	30	36	38	40	43	44	47
Merchant banks	2	2	2	12	20	21	22	23	27	33
Asian Currency Units	14	19	25	46	56	66	68	78	85	101
Discount houses	–	–	3	3	4	4	4	4	4	4
International money brokers	–	–	–	3	4	5	5	5	6	7
Insurance companies		79	80	81	74	69	68	68	70	70
Finance companies	36	36	36	36	36	36	34	34	34	34

Source: M.A.S. Annual Reports.

TABLE 2
THE WORLD'S TOP BANKS

Rank		Name of Bank	Assets Less Contra Accounts	Total Deposits	Capital and Reserves
79	78		US$ billion		
1	2	Credit Agricole (France)	105.0	85.6	6.0
2	1	Bank of America (US)	103.9	85.0	3.5
3	3	Citibank (US)	102.7	70.3	3.6
4	5	Banque Nationale de Paris (France)	98.8	97.4	1.4
5	4	Deutsche Bank (Germany)	91.2	61.8	2.9
6	6	Credit Lyonnais (France)	91.1	89.8	1.1
7	7	Societe Generale (France)	84.9	76.8	1.4
8	9	Dresdner Bank (Germany)	70.3	66.7	2.0
9	19	Barclays (U.K.)	67.4	58.5	3.9
10	8	Dai-ichi Kangyo (Japan)	66.6	51.9	2.5
406	–	U.O.B. (Singapore)	2.3	1.7	0.2
459	–	O.C.B.C (Singapore)	1.8	1.5	0.2

Note: In terms of deposits, Banque Nationale de Paris and Credit Lyonnais rank first and second respectively.

Source: *The Banker*, June 1980.

TABLE 3
ASEAN's TOP BANKS
(Ranked by Deposits)

World Ranking	Name of Bank	Deposits (US$ billion)
259	Bangkok Bank (Thailand)	1.88
261	Bumi Daya (Indonesia)	1.83
391	Oversea-Chinese Banking Corporation Group (Singapore)	1.14
424	United Overseas Bank Group (Singapore)	1.04
448	Krung Thai Bank (Thailand)	0.97
463	Bank Negara Indonesia, 1946	0.93
472	Philippine National Bank	0.90
492	Malayan Banking Bhd. (Malaysia)	0.84
499	Bank Bumiputra Malaysia	0.82

Source: *Asiaweek*, 27 January 1978 (based on ranking by the *American Banker* journal).

the Singapore Finance House Association, and the Monetary Authority of Singapore (MAS). Since its inception, the I.B.F. has conducted numerous courses on the practical aspects of banking and finance for its member institutions. It has also introduced a diploma course in banking and finance. It has also drawn up elaborate training programmes to serve its members through the 1980s.

New Financial Instruments

Many new financial instruments have made their appearance in the financial scene in Singapore. The Asian dollar bond, the negotiable certificate of deposit (N.C.D.), the fixed rate U.S. dollar certificate of deposit, the floating rate certificate of deposits (F.R.C.D.), the floating rate note (F.R.N.), and the Asian Commercial Paper are some examples. These financial instruments vary in terms of maturities and thus provide the investors with a wide range of investment options.