Financial Institutions in Singapore

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To my Helen
and our Petrina

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 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.

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 Savings 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.C.	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

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1. Singapore as an International Financial Centre

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.

Singapore as a Financial Centre

How does Singapore measure up in terms of the prerequisites of a financial centre? First and foremost, a financial centre should operate within a strong domestic economy with a stable currency. By this measure, the Republic of Singapore has done well in the league of nations. Since its independence as a sovereign nation, Singapore has performed remarkably well in economic terms despite some early doubts about its viability. During the late 1960s and early 1970s, it achieved double digit economic growth rates attained by only few other nations. It has remained resilient despite the oil crisis and the general world recession.

In 1977, gross national product (G.N.P.) at current market prices amounted to S$15.7 billion, an increase of 10 per cent over 1976. Gross domestic product (G.D.P.) which excludes income from abroad, at current market prices, increased by 10 per cent to S$16.1 billion. Adjusting for inflation, G.D.P. at constant 1968 factor cost grew by 7.8 per cent to S$9.3 billion, higher than the growth of 7 per cent in 1976. Real per capita G.D.P. rose by 6.4 per cent to S$4,020.

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 past year which witnessed turbulence in world currency movements, the Singapore dollar has remained unscathed in the money unrest. The Singapore dollar, which is backed by a basket of currencies including the U.S. dollar, Japanese yen, German mark, as well as Singapore's gold holdings, has ended up in a position about midway between the major currencies.

Singapore is situated in a strategic location which enjoys a time-zone advantage bridging Asia and Europe. Singapore traders can conduct business with Hong Kong which is half an hour ahead, Tokyo which is two hours ahead, and Sydney which is three hours ahead. In the afternoon, the traders can transact with London (six and a half hours behind Singapore) or any European financial centre. The time-zone advantage enables international institutions to provide round-the-clock financial services to businessmen who want to cover their foreign exchange positions. This is increasingly important in an international monetary system of floating currencies subject to frequent crises.

The financial institutions in Singapore 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 institutions since the early 1970s, resulting from the incentives provided by the Singapore Government. As of March 1978, Singapore was serviced by 37 full licence commercial banks (13 domestic and 24 foreign), 13 restricted banks, 27 offshore banks, 45 representative offices of foreign banks, 25 merchant banks, 79 Asian Currency Units, 4 discount houses, 5 international money brokers, 68 insurance companies, and 34 finance companies. Most of the top fifty banks in the non-Communist world are represented in the republic. Some of these are operating as full, restricted, or offshore banks; others are maintaining representative offices. Among the twenty largest banks in the world, only Credit Agricole Mutuel of Paris and Westdeutsche Landesbank Girozentrale of Germany are not represented in Singapore (as of October 1977). Singapore ranks fourth in the world in terms of the number of banks present, next only to London, New York, and Hong Kong. Furthermore, among the banks incorporated in Singapore two have made it to the list of top 500 banks. The Oversea-Chinese Banking Corporation (O.C.B.C.) ranked Number 391 in 1977 and the United Overseas Bank (U.O.B.) ranked Number 424 in the list compiled by the *American Banker* journal. In terms of deposits, these two domestic banks compared favourably with other top banks in ASEAN countries. (See Table 2)

The international institutions have brought with them the necessary expertise and contacts to attract funds from other parts of the world to the Southeast Asian region. This international movement of funds has been further encouraged by the liberal taxation policies and foreign exchange controls implemented by the Government. The development and growth of the Asian Dollar Market and the Asian Bond Market are excellent examples of the success of this endeavour. In 1977, total assets/liabilities reached the US$22 billion mark in the Asian Dollar Market. Thirteen issues valued at US$366 million were floated in the Asian Bond Market compared to only nine issues at US$266 million in 1976. Many new financial instruments have made their appearance in the financial scene. Two floating rate notes were issued in 1977 following an introductory issue in 1976. The fixed rate U.S. dollar certificates of deposit (C.D.s) made a second launching in January 1978, following the successful floatation

TABLE 1

Number and Types of Financial Institutions in Singapore, 1970–1977

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

Source: M.A.S. Annual Reports

TABLE 2
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).

of several floating rate U.S. dollar negotiable certificates of deposit (N.C.D.s) in late 1977.

Thus, in Singapore today, there exist financial markets of varying degrees of sophistication covering the whole scope of financial intermediation. These include the money market, capital market, foreign exchange market, Asian Dollar and Bond Markets, insurance and reinsurance, shipbroking, gold and other commodities markets. With further stimulation it will in time be ranked together with the other top financial centres of the world.

Role of the Government and the Monetary Authority of Singapore

The emergence of Singapore as a financial centre is the result of orderly stimulation by the Government through legislative measures and administrative monitoring by the Monetary Authority of Singapore (M.A.S.). With the objective of developing Singapore into a financial centre, the Government has taken steps to create the right climate for financial institutions to establish and for financial markets to flourish.

One of the important milestones in Singapore's financial development was the establishment of the M.A.S. in January 1971. The M.A.S. was set up by an Act of Parliament to be the banker and financial agent of the Government and to promote, within the context of the general economic policy of the Government, monetary stability and credit and exchange conditions conducive to the growth of the economy. It has also been entrusted with the responsibility of promoting and developing the financial markets and of strengthening the infrastructure to develop Singapore as a financial centre. To streamline all monetary matters, banking functions previously performed by the Commissioner of Banking, the Accountant General's Office, and the Controller of Foreign Exchange were transferred to the M.A.S. With effect from 1 April 1977, the Insurance Commissioner's Department in the Ministry of Finance was also transferred to the M.A.S.

Since the early 1970s, a liberal policy on admission of international banks and other financial institutions has been adopted. The M.A.S. has issued special Asian Currency Unit (A.C.U.) licences to the institutions to operate in the Asian Dollar Market. The concept of offshore banks was introduced in April 1973, and it has facilitated the entry of many international banks into the Asian Dollar Market without creating undue competition for the domestic commercial banks. These new institutions have brought with them their own expertise and contacts, thus enhancing Singapore's image as a financial centre. Singapore is serviced by a wide variety of financial institutions including full, restricted, and offshore commercial banks, merchant banks, discount houses, international money brokers, factoring and leasing companies, finance companies, insurance and reinsurance companies.

Another notable milestone in the financial history of Singapore was the setting up of the first A.C.U. by the Bank of America's Singapore branch in October 1968, with the approval of the Government. Since then, the Government has provided many incentives to stimulate the newly created Asian Dollar Market. In 1969, the Government abolished the withholding tax on interest payable to non-residents. In June 1972, the M.A.S. lifted the 20 per cent liquidity requirement for A.C.U.s, a move to encourage the smaller international operators. Two months later, stamp duty on bills of exchange and N.C.D.s was abolished. Since July 1973, Singapore residents and resident companies have been permitted to invest in the Asian Dollar Market. Similar permission was later granted to approved unit trusts and investment trusts. By virtue of the Income Tax (Amendment) Act passed on 26 July 1973, interest received by non-resident holders of approved Asian dollar bonds was exempted from tax. The Minister was also empowered to provide for a specified reduced rate of tax on offshore income of banks and other financial institutions derived from loans to overseas borrowers from the A.C.U.s.