SINGAPORE

BANKING

SUMMARY

Banking in Singapore is essentially split into two markets: an offshore market and a domestic market. The offshore Asian Dollar Market is by far the larger of the two, with total assets, as of March 1998, of S$820 billion (US$513 billion) versus S$310 billion (US$193 billion) in the domestic market (excluding the Post Office Savings Bank). Singapore actively encourages foreign participation in the offshore market, which is dominated by U.S. and other foreign banks. As a result, among the 153 commercial banks in Singapore, 141 are foreign-owned. These are generally branches of their overseas parent, 106 of which are offshore banks. In addition, 78 of the 80 merchant banks in Singapore are foreign-owned. These are also primarily offshore operations.

The services a bank is allowed to offer in Singapore and the extent of its operations depend on which of the three types of banking licenses it holds. Thirty-four banks in Singapore hold "full licenses" that permit them to offer a full range of local and foreign currency banking services. This includes all 12 locally incorporated banks (with 273 branches), and the 22 foreign banks (with 88 branches) that entered the Singaporean market before 1971. Thirteen foreign banks have restricted licensed branches (1 each) in Singapore which allow them to conduct only wholesale corporate banking and international banking activities. Ninety-six foreign banks operate in Singapore with offshore licenses, which were first granted in 1973. Initially offshore licenses only permitted a bank to deal in foreign exchange and the Asia Dollar Market. However, offshore banks are now able to offer most of the services of a restricted license banking office.

The domestic retail banking market is considered overbanked by the government of Singapore, which has imposed a long-standing freeze on the number of full or restricted banking licenses issued. With one exception made under special circumstances, the Monetary Authority of Singapore (MAS) has not granted a full or restricted license to either domestic or foreign interests since 1973. As a result, new entry is limited to an offshore bank license. Several U.S. banks have expressed an interest in changing to full license status. Foreign banks that already have full licenses do not enjoy the same market access as domestic banks. Foreign full license banks cannot open new branches, and they are severely limited compared to domestic banks in the operation of off-premise automatic teller machines (ATMs). They are permitted, however, to offer computer and telephone banking services to their individual and corporate clients, and install electronic terminals at corporate clients' premises. The maximum permissible level of foreign ownership in domestic banks is 40 percent, unchanged since the 1994 National Treatment Study. There has been some improvement of treatment for offshore banks. The overall lending limit to residents was raised from S$100 million to S$200 million. This commitment was bound by Singapore in its 1997 financial services offer in the WTO Financial Services Agreement. In early 1998, the government indicated its intention to initiate financial sector reforms which are expected gradually to increase competition in the domestic retail banking market over the next few years. However, no specific steps have been taken or announced.

Foreign banks do enjoy some advantages in treatment compared to locally incorporated domestic banks. For example, domestic banks may be required to maintain branches and ATMs that they would prefer to close and to service small, relatively unprofitable deposits. In addition, capital requirements imposed on domestic banks are higher and more stringently defined than those imposed on foreign banks by their home regulatory authorities. Largely because of their domination of the offshore market, foreign banks in Singapore accounted for 40 percent of all nonbank deposits from residents, and nearly half of all loans to nonbank residents at year-end 1997. They also controlled about 70 percent of total trade financing and had about half of total net banking profits.

U.S. banks have continued to expand the size of their assets in Singapore in recent years. At the end of 1996, the latest year for which data are available, U.S. banks had S$77.2 billion in assets compared to S$40.7 billion at the end of 1992. There are currently 13 U.S. commercial banks with five sub-branches, six U.S.-controlled merchant banks and one partially U.S.-controlled merchant bank. The number of representative offices maintained by U.S. banks in Singapore has increased to four from two since 1994. Three U.S. commercial banks have full licenses, although one decided to withdraw from retail banking in 1994.

DESCRIPTION OF THE MARKET

Structure

Singapore embarked on a strategy to develop into an international financial center in the late 1960s. To implement that strategy, the government has deliberately sought to attract financial intermediaries to conduct offshore operations in Singapore by fostering a favorable tax and operating environment and by adopting a liberal but selective admission policy.

The Singapore government requires banks to maintain separate operations or "units," with their own set of books and balance sheets, for transactions in the domestic and external currency markets. Most of the 233 commercial and merchant banks in Singapore operate external currency units, known as Asian Currency Units (ACUs). Under the Banking Act, ACUs may not incur assets or liabilities denominated in Singapore dollars. On the other hand, ACUs do not have to hold required reserves against their liabilities, or observe minimum liquidity ratios. The offshore units also enjoy a concessionary tax rate of 10 percent. ACUs operate primarily in the Asian Dollar Market, the Asian counterpart of the Eurodollar market. As in its European counterpart, transactions are largely interbank, though nonbank customers also participate. The Asian Dollar Market has been the key to Singapore's growth as a major financial center. Bank operations in the domestic market, known as Domestic Banking Units (DBUs) may engage in transactions in both foreign and local currency, but face more stringent regulation. DBUs must hold a minimum cash balance of 3 percent of their liabilities with the MAS. In addition, they must hold 18 percent of their liabilities in liquid assets (10 percent must be in the form of Singapore government securities, while the other 8 percent may be held in cash, government securities and/or trade bills). DBUs are subject to the standard income tax rate of 26 percent.

Comparison Between the Domestic Banking Market and the Asian Dollar Market

End of Period	1993	1994	1995	1996	1997	As of February 1998
Total Assets						
Domestic Banking Units (S$ millions)	192,103	227,651	252,960	281,409	320,645	310,237
Asian Currency Units (US$ millions)	386,103	416,345	478,233	506,870	557,185	513,340
Loans & Advances to Nonbank Customers						
Domestic Banking Units (S$ millions)	91,369	106,814	126,521	144,998	162,234	159,923
Asian Currency Units (US$ millions)	136,857	145,823	173,265	180,506	173,255	152,245

Note: All figures reflect commercial banks and merchant banks. Domestic banking unit figures also reflect finance companies. Exchange rates ranged between 1.60 (1993) and 1.48 (1997).

Source: Monetary Authority of Singapore, Monthly Statistical Bulletin, April 1998.

Singapore restricts transactions in local currency (Singapore dollars) for use outside of the country. Singapore is particularly sensitive about its currency because of the Republic's unusually high dependence on external trade (2.7 times GDP). As a consequence, changes in the value of the Singapore dollar have a large impact on inflation. In response to concerns that excessive restrictions may jeopardize Singapore's ability to integrate with other regional economies, however, the government has made some adjustments in the use of the Singapore dollar overseas. Rules enacted in 1992 allow banks, including offshore banks, to make Singapore dollar loans overseas through their DBUs for the following purposes: 1) exports from or imports into Singapore; 2) performance bonds on behalf of Singapore parties, including guarantees in the construction industry; and 3) hedges by forward sales of Singapore dollar receipts from exports to Singapore. In 1998, the government announced that the regulation requiring banks to consult the MAS on the use overseas of Singapore dollar credit facilities exceeding S$5 million would be amended to stipulate that this rule applies only to nonresidents. The MAS is also working out guidelines to allow subsidiaries of Singaporean companies, and joint ventures between Singaporean and foreign companies, to borrow in Singapore dollars for projects that promote Singapore's integration with other regional economies, and to provide more flexibility for nonresidents to access Singapore dollars from the domestic capital markets.

The Monetary Authority of Singapore

The MAS is the regulator of the financial sector and the *de facto* central bank. Currency is issued and controlled by a separate board, the Board of Commissioners of Currency of Singapore (BCCS). Both bodies are statutory boards – quasi government agencies organized like corporations – operating under the Ministry of Finance. The MAS, established in 1971, is responsible for formulating and implementing Singapore's monetary policies and regulates the financial sector through the Monetary Authority of Singapore Act, the Banking Act, the Finance Companies Act, the Development Loans Act, the Local Treasury Bills Act, the Insurance Act, the Securities Industry Act, and the Futures Trading Act.

Apart from setting stringent requirements, the MAS has a selective policy on the admission of both local and foreign financial institutions. Singapore has no insurance mechanism for bank deposits. Foreign financial institutions are required to tender "comfort letters" to MAS assuring that their Singapore operations maintain sound liquidity and financial position at all times and that the parent will, on demand, make up for any liquidity shortfall in the Singapore operations.

In mid-1997, the government announced the creation of a Financial Sector Review Group – chaired by the Deputy Prime Minister Lee Hsien Loong – tasked to formulate strategies for the development of Singapore's financial services sector. The Group commissioned a private sector committee to offer recommendations on financial reform, and established a number of committees to study banking disclosure standards, corporate finance and securities exchange issues. In January 1998, following other key personnel changes within MAS, Mr. Lee took over as MAS chairman, replacing the Finance Minister who previously had dual posting. In April, the MAS announced a major reorganization to "give greater focus to efforts to develop Singapore as a major financial center in Asia, and globally." As part of this reorganization, a new "financial sector promotion department" and "planning and policy coordination unit" were created to formulate and implement strategies to develop the financial sector, and to strengthen policy integration and strategic planning within MAS, respectively. A "financial supervision group" was formed to integrate and enhance all supervisory functions and to develop risk-based supervisory procedures, distinguishing strong players from weaker ones, and allowing more room for innovation. A Committee on Banking Disclosure appointed by the Monetary Authority of Singapore (MAS) submitted a report designed to improve financial statement disclosure requirements for Singapore's banks. These requirements will enhance disclosure related to nonperforming loans, loan loss reserves, classification of investment securities, contingent liabilities, significant concentrations of loan exposure, and maturity structures of loans and deposits. Singapore's deputy prime minister also announced that the MAS will implement risk-focused bank examinations.

Commercial Bank Licenses and Activities

As noted in the Summary, thirty-four commercial banks in Singapore hold "full licenses" and are thereby permitted to offer a full range of local and foreign currency banking services. There is no monetary limit on the Singapore dollar lending activities of full licensed banks, but they must get permission from the MAS before opening new branches, or relocating existing ones. The MAS also considers ATMs equivalent to branches and subjects these activities to the same controls.

"Restricted" licenses, introduced in 1971, are held by 13 commercial banks, all foreign owned. They can operate in the offshore Asian Dollar Market under the same terms as full licensed banks, but the activities of their Domestic Banking Units are limited. Restricted banks face no restrictions on the amount of their Singapore dollar lending to residents, but they can only have one main branch, cannot offer general savings accounts, and cannot accept fixed interest-bearing deposits of less than S$250,000 (about US$156,000) from nonbank customers.

The remaining 106 commercial banks hold "offshore" licenses. Offshore licenses are now the only option available to new entrants to Singapore's commercial banking industry. These banks operate primarily in the Asian Dollar Market. They cannot accept any interest-bearing Singapore dollar deposits from resident nonbank customers (except approved financial institutions), nor can they open more than one branch.

Since the MAS began granting offshore licenses in 1973, it has permitted offshore banks to make limited Singapore dollar loans, in response to their argument that the inability to lend to loyal customers in the domestic market would cost them offshore business. The MAS raised this "resident funding limit" (the maximum amount in domestic loans such banks may have outstanding at any time) from S$100 million in 1993 to S$200 million in 1997. This commitment was bound by Singapore in the 1997 WTO Financial Services Agreement.

Singapore Local Commercial Banks

Apart from foreign bank branches, Singapore's domestic commercial banking industry is made up of six major banks and their six subsidiaries. All 12 have full licenses. Over the years, the industry has consolidated around the "Big Four" banks: the Development Bank of Singapore (DBS), the Overseas Chinese Banking Corporation, the Overseas Union Bank, and the United Overseas Bank. Together, these four banks accounted for four-fifths of local banks' S$182.0 billion (US$123.0 billion) in total assets at end 1997. Two-thirds of the 252 bank branches in Singapore belong to the Big Four, which also own or control seven of the 19 finance companies and six other local banks.

Among the 12 local commercial banks, two – DBS and Keppel Bank – are controlled by the government. Temasek Holdings, the government's investment arm, is the principal shareholder of DBS. Similarly, Temasek Holdings is one of the main shareholders of Keppel Corporation, which is the largest shareholder of Keppel Bank. It is common for senior government officials to sit on the boards of both domestic and foreign banks and for officials of both foreign and domestic banks to be on the boards of government-linked companies and the government's statutory boards. The MAS must approve the appointment of all directors of locally incorporated banks.

Foreign ownership of publicly listed banks is limited through the use of "local" and "foreign" shares on the stock exchange. Only Singapore residents may purchase "local" shares. "Foreign" shares are restricted to a maximum of 40 percent of total equity, and individual (or related group) foreign investments kept to 5 percent of total shares. Foreign equity in each of Singapore's four largest banks is currently near the 40 percent limit.

Full Licensed Commercial Banks in Singapore
1996-97

	Total Assets[1] (S$ millions)	Net Profit After Tax (S$ millions)	Number of Banks	Number of Branches	Number of ATMs
Singaporean	182205	1786	12	275	673
All Foreign[2]	141360	595	22	89	61
U.S.	41974	265	3	9	3

[1]Assets do not include contingent liabilities and commitments.
[2]Includes The Bank of Tokyo, prior to merger with The Mitsubishi Bank, on April 1, 1996.

Source: KPMG Peat Marwick 1996 Survey of Financial Institutions in Singapore.

Restricted License Commercial Banks in Singapore
1996-97

	Total Assets[1] (S$ millions)	Net Profit After Tax (S$ millions)	Number
Singaporean[2]	n/a	n/a	n/a
All Foreign	76463	134	13
U.S.	7999	3.9	1

[1]Assets do not include contingent liabilities and commitments.
[2]All local banks are full-license banks.
Source: KPMG Peat Marwick 1996 Survey of Financial Institutions in Singapore.

Offshore License Commercial Banks in Singapore
1996-97

	Total Assets[1] (S$ millions)	Net Profit After Tax (S$ million)	Number
Singaporean[2]	n/a	n/a	n/a
All Foreign	384141	641	99
U.S.	17247	52.9	7

[1]Assets do not include contingent liabilities and commitments.
[2]All local banks are full-license banks.
Source: KPMG Peat Marwick 1996 Survey of Financial Institutions in Singapore.

Merchant Banks in Singapore
1996-97

	Total Assets[1] (S$ millions)	Net Profit After Tax (S$ millions)	Number
Singaporean	1812	23	2
All Foreign	52342	532.6	76
U.S.[2]	8827	118.4	7

[1]Assets donor include contingent liabilities and commitments.
[2]Excluding joint ventures in which U.S. interests do not have a majority share.
Source: KPMG Peat Marwick 1996 Survey of Financial Institutions in Singapore.

Post Office Savings Bank

The Post Office Savings Bank (POSB) is modeled after the Japanese system. The POSB currently has over 130 branches and 660 ATMs. Total deposits in its five million savings accounts amounted to S$25.0 billion (US$16.9 billion) in March 1997. The POSB redeposited about 40 percent of its deposits into the banking system in 1997 with both domestic and foreign commercial banks. Underscoring the POSB's importance, these redeposits accounted for 14 percent of total fixed deposits from nonbank customers.

The POSB was separated from the Postal Services Department under the Post Office Savings Bank Act in 1972 to mobilize domestic savings for public sector development. Since interest earned in POSB accounts is exempt from income tax, the POSB pays a lower interest (3.75 and 4.125 percent on savings accounts up to and over S$50,000, respectively, as of May 1998) than those offered by commercial banks. The POSB cannot offer corporate accounts, finance foreign trade, or conduct foreign exchange transactions. POSB invests about 10 percent of its holdings in government securities, and may offer loans only for housing. The POSB is regulated directly by the Ministry of Finance rather than by the MAS. In July 1998, government-owned DBS Bank announced plans to acquire the POSB by the end of November 1998.

Merchant Banks

Eighty merchant banks currently operate in Singapore, of which 78 are foreign-owned. Their principal activities are underwriting, securities management, and interbank lending. Foreign owned merchant banks are generally established in Singapore as locally incorporated subsidiaries. Merchant banks must be approved by the MAS. Although they do not obtain licenses under the Banking Act, merchant banks can establish ACUs, which must comply with the Banking Act requirements. To obtain permission from MAS to operate as a merchant bank in Singapore, a financial institution's head office must be established as a bank, merchant bank, securities firm, or investment house. MAS reviews applications on a case-by-case basis and is likely to approve only the larger, better established applicants.

Merchant banks can raise funds from shareholders, or borrow from other financial institutions. Sixty-five percent of their funds are raised in the interbank market. They do not need to maintain statutory reserve and liquid asset requirements.

Nonbank Financial Institutions and Bank Representative Offices

Singapore's nonbank financial institutions include finance companies and money brokers. There are 19 finance companies in the Republic, with 99 branches and total assets of S$23 billion (US$14 billion). All but three are locally owned. Finance companies, like commercial banks, provide loans to nonbank customers. They also provide leasing, accounts receivable financing, and factoring services. Governed by the Finance Companies Act, they can accept time and savings deposits, but they cannot offer checking accounts, deal in gold or foreign exchange, or grant unsecured loans above S$5,000 (about US$3,200). Nor can finance companies issue Singapore dollar negotiable certificates of deposits or directly finance international trade. They can only deal in Singapore dollars, and they generally pay and charge higher interest rates than banks. Starting January 1995, finance companies with capital funds of at least S$100 million may, with MAS' prior approval, deal in gold, precious metals or foreign currencies, or acquire stocks and securities denominated in foreign currencies.

There are nine money brokers in Singapore. Six are foreign owned, and three are joint ventures between foreign and local companies. They function as intermediaries between banks for the placement of currency deposits and foreign exchange transactions. They are not obliged to disclose particulars about their transactions until they are concluded, which serves to maintain the confidentiality of the parties involved.

Sixty-nine foreign commercial banks, including four from the United States, and two merchant banks have representative offices in Singapore. The representative offices are not permitted to carry out financial transactions, but can act only as liaison offices for their parent banks.

THE U.S. PRESENCE IN THE MARKET

There are currently 13 U.S. commercial banks with five sub-branches in Singapore. Three are full licensed banks, although one of these (Chase Manhattan) has opted to focus exclusively on "restricted" and "offshore" banking activities since 1994. The two other U.S. full licensed banks are Bank of America and Citibank. American Express Bank is the only U.S. financial institution with a "restricted" license. There are nine U.S.-incorporated offshore banks operating out of Singapore. Additionally, there are six merchant banks which are fully U.S.-owned, one merchant bank partially U.S.-owned, and four U.S. bank representative offices in Singapore. Since 1994, a merchant bank controlled by Security Pacific has closed due to the merger between Security Pacific and Bank of America. Another merchant bank, controlled by First Chicago Bank, was upgraded to an offshore branch.

The Singapore assets of U.S. commercial banks have risen almost 90 percent between 1992 and year-end 1996, to reach a total of S$77.2 billion (US$54.8 billion). They recorded a combined net profit of S$811.8 million (US$575.7 million), in the year ending March 1996.

TREATMENT OF U. S. FINANCIAL INSTITUTIONS

Singapore's laws do not distinguish between foreign and domestic companies in the banking industry. The only legal and accounting distinction that exists is between the offshore (ACUs) and domestic units, and in the type of license held. However, the laws governing the banking industry provide the MAS with broad discretion in many areas, which the regulating body exercises on a case by case basis.

Those U.S. banks wanting only to engage in offshore activity are generally happy with their operations in Singapore. Foreign banks note that the problems they confront are confined to their domestic retail activities. The Singaporean government contends that its restriction on the domestic, retail activities of foreign banks are designed to protect Singapore's financial system and Singaporean depositors, and to preserve monetary control. The MAS considers Singapore overbanked in the retail sector and maintains that its ban on new full banking licenses is designed to prevent excessive competition, which it argues could threaten the stability of the banking system.

The MAS also claims that, given the openness and small size of Singapore's economy, a substantial expansion in the foreign share of the banking market could jeopardize its control over domestic monetary conditions if foreign banks withdraw or reduce their operations in the Republic on instructions from their head offices.

Outstanding concerns regarding the domestic retail market include the following:

- The MAS has not approved a new full banking license to either foreigners or locals since 1973. Several U.S. banks have expressed an interest in a full license if the current freeze is lifted.

- MAS policy limits foreign equity in local banks to 40 percent (raised from 20 percent in 1992), with individual (or related group) foreign investments kept to 5 percent of total shares.

- Commercial banks must seek permission to open new branches. The MAS routinely grants permission to local banks, but has not allowed a foreign bank to open an additional branch in over 20 years.

- The MAS defines offsite ATMs as branches, so foreign banks generally cannot locate ATMs beyond the walls of their premises. The MAS has allowed, as an exception, U.S. banks to open ATMs at Singapore's international airport. The MAS has also allowed foreign banks to install electronic terminals in the offices of corporate clients, and to provide computer and telephone banking services. The electronic terminals permit a more limited range of activities than ATMs.

- MAS will not permit U.S. and other foreign basks to set up a new ATM network to compete with Singapore's only existing network, NETS, which is owned by the Big Four and two other local banks. MAS's rationale is that a new network would circumvent the existing ban on foreign banks opening new ATMs. Meanwhile, although the government does not prohibit foreign banks from participation in the existing network, the operators of NETS have turned down requests by U.S. banks to participate.

- Only one foreign bank (Hong Kong Bank), and seven local banks, have to date obtained authorization from the government-run Central Provident Fund (CPF), a national pension, to operate "CPF investment accounts" through which Singapore citizens can make approved investments with their pension savings. The CPF Board has turned down requests by foreign banks to operate such accounts, saying they are not seeking new applicants to the program.

There are also some areas in which the MAS exercises its flexibility to the advantage of foreign banks. For example, foreign banks have the freedom to include interbank borrowings from their head offices, branches, and other banks as capital funds. This is not allowed for local banks. This gives foreign banks the flexibility to borrow from the interbank market to increase loan or investment portfolios, as the prudential limits on loans and investments are pegged to capital funds.

To achieve its goal of becoming an international financial center, Singapore embarked in 1998 on a long-term process to further liberalize its financial services sector. One of the initial actions taken was to increase the Singapore dollar resident loan limit from S$200 million (US$125 million) (committed under GATS) to S$300 million (US$188 million). Although the MAS is reportedly also considering measures to allow greater foreign participation in the local retail banking sector, it has yet to announce these measures. For the most part, Singapore's banking regime as of mid-1998 is similar to its GATS schedule of commitments made in December 1997.

Exchange Rates Used:

March 1996	1.41 S$/US$
March 1998	1.60 S$/US$