Consolidation of the local banks

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Too many banks for a small market

The opening of the market was intended to change the local banks as much as to admit foreign ones. In 1999 MAS stated that Singapore could probably sustain no more than two local banks of critical size.[1] At the time the domestic market was served by seven local banking groups. Some were large by regional standards, while others were small and owned by families or industrial conglomerates. MAS left the decision to the shareholders. It made clear that it expected mergers and removed the barriers that had stood in their way.

The lifting of the 40 per cent limit on foreign shareholdings was part of this strategy. The limit had been introduced at 20 per cent in 1971 and raised to 40 per cent in 1990. MAS explained that the limit had created a two-tier market for local bank shares. Its removal would increase liquidity and make it easier for the local banks to forge strategic partnerships with foreign banks and to pay for overseas acquisitions with shares. Control, however, remained subject to approval at thresholds of 5, 12 and 20 per cent, so that foreign investors could own shares without acquiring control.[2]

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DBS and POSBank, Keppel and Tat Lee

The first two mergers took place in 1998, during the crisis. The Post Office Savings Bank, a statutory board under the Ministry of Finance, was sold to DBS Bank. After the government had announced the transaction on 24 July 1998, DBS completed the acquisition on 16 November 1998 for S$1.6 billion. By keeping the POSB brand, DBS acquired a retail franchise of unmatched breadth. The merger also left Singapore with two ATM networks, the network of DBS and POSB and the shared network of the other local banks.[3]

The second merger of 1998 combined two smaller banks. Tat Lee Bank reported an after-tax loss of S$38.7 million for 1997 after setting aside provisions of S$150 million for its regional loans. MAS stated in March 1998 that the bank was financially sound and that the impending merger with Keppel Bank, a subsidiary of Keppel Corporation whose largest shareholder was Temasek Holdings, would create a more resilient and competitive bank. Keppel TatLee Bank was formed on 26 December 1998. The number of local commercial banks recorded by MAS fell from twelve at the end of March 1998 to nine a year later.[4]

The contest for Overseas Union Bank

The decisive round came in 2001, when Overseas Union Bank was the fourth largest local bank. In June 2001 DBS launched an unsolicited bid of S$9.4 billion in cash and shares for it. A week later, on 29 June 2001, UOB announced a competing offer of S$10 billion, agreed with OUB's controlling shareholders. UOB prevailed and acquired OUB in September 2001 in a transaction worth S$10 billion.[5]

The contest revealed the state of mind of the banks. Speaking on the evening that UOB announced its offer, Lee Hsien Loong observed that the bids showed the vulnerability of the smaller local banks. In his view the larger banks, which were doing the bidding, felt insecure as well.[6] In this respect the liberalisation had achieved one of its aims. No longer certain of their position, the local banks competed for scale with the urgency that MAS had wanted to create.

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Keppel TatLee joins OCBC

The third of the large banks completed the picture within weeks. In August 2001 OCBC acquired Keppel Capital Holdings, the parent of Keppel TatLee Bank. By February 2002 the two banks were operationally and legally integrated. The whole sequence had taken just over three years. In 2004 Lee could report that seven local banking groups had consolidated into three stronger groups.[7]

The three groups that emerged, DBS, OCBC and UOB, still dominate Singapore banking a quarter of a century later. The consolidation achieved the critical size that MAS had sought, although it produced three groups where MAS had spoken of two. The regional expansion of these banks, which began during and after the crisis with acquisitions such as those of Radanasin Bank in Thailand and Westmont Bank in the Philippines by UOB in 1999, is examined in Part I.[8]

Governance, ownership and the separation of non-financial business

Consolidation was accompanied by reforms of governance that began with the package of May 1999, which required each local bank to form a Nominating Committee of five board members. The boards were to have a majority of Singapore citizens or permanent residents and a majority of independent directors. Appointments to the board and to key posts required the approval of MAS.[9]

The second reform concerned the conglomerates that owned several local banks. On 21 June 2000 MAS announced that the financial activities of each banking group had to be grouped together, either under the bank or under a non-operating financial holding company. Non-financial activities had to be segregated and divested. Cross-shareholdings within the financial arm were to run in one direction only. The local banks received three years to implement the changes.[10] The policy was aimed at the property, hotel and industrial interests that some banking families had built up around their banks.

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Parliament gave the policy legal force through the Banking (Amendment) Bill of 2001. Moving its second reading on 16 May 2001, Lee Hsien Loong explained that new sections 30 to 35 of the Banking Act would prohibit banks from carrying on non-banking business. Section 31 capped a bank's equity in any single company at 2 per cent of its capital funds, while section 33 reduced permitted holdings of property to 20 per cent of capital funds. Section 34 allowed three years to divest existing non-financial investments. The same Bill lifted the 40 per cent aggregate foreign shareholding limit in law and added a 12 per cent approval threshold to the existing 5 and 20 per cent thresholds. Control, Lee said, should rest with those whose "interests are aligned with the long-term interests of the Singapore economy".[11]

The deadline proved difficult in the weak markets that followed. In 2003 MAS allowed banks to apply for a two-year extension, so that they had until 17 July 2006 to complete the required divestitures. The framework has since been relaxed only at the margin. In 2017 MAS allowed banks to acquire stakes in permissible non-financial businesses up to 10 per cent of their capital funds on notification, while property development and the provision of hotel and resort facilities remain prohibited.[12]

Notes

1. MAS, statement of 17 May 1999: Singapore can likely sustain no more than two local banks of critical size. ↩
2. MAS, statement of 17 May 1999: the limit on foreign shareholding of local banks was 20 per cent when introduced in 1971 and raised to 40 per cent in 1990; MAS will lift the 40 per cent limit – MAS, *Annual Report 1998/99*, p. 53: lifting the 40 per cent limit "would in turn increase the liquidity in local banks' shares" and "make it easier for local banks to forge strategic partnerships with foreign banks, and to pay for overseas acquisitions with shares". ↩
3. Wikipedia, "POSB Bank" (accessed November 2026): the Ministry of Finance announced the deal on 24 July 1998; DBS "fully acquired" the bank on 16 November 1998 for S$1.6 billion, when it "ceased to exist as a statutory board

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under the Ministry of Finance" – MAS, *Annual Report 1998/99*, p. 79: "Following the merger of POSBank and the Development Bank of Singapore Ltd (DBS), there are now two major ATM networks in Singapore", the shared network of UOB, OCBC, OUB and Keppel-Tat Lee Bank and the POSB-DBS network. ↩

4. MAS, "MAS Press Statement on Tat Lee Bank", 4 March 1998, mas.gov.sg: after-tax loss of $38.7 million for 1997; provisions of S$150 million for regional loans; shareholders' funds of $1.6 billion, 19 per cent of risk-weighted assets; Keppel Bank a subsidiary of Keppel Corporation, whose largest shareholder is Temasek Holdings; MAS expects the merger to create a more resilient and competitive bank – Wikipedia, "Keppel TatLee Bank" (accessed November 2026): "The bank was formed on 26 December 1998 when Keppel Bank acquired another Singapore financial institution, Tat Lee Bank"; strategic alliance with Allied Irish Banks in 1999, which took a 24.9 per cent stake. ↩

5. Mothership, "How UOB's Wee Cho Yaw nailed the biggest bank takeover of his career", February 2024: DBS's unsolicited bid of S$9.4 billion in cash and shares about a week before 29 June 2001; UOB's offer of S$10 billion announced on 29 June 2001 after agreement with OUB's controlling shareholders – Wikipedia, "United Overseas Bank" (accessed November 2026): "In September 2001, UOB acquired Overseas Union Bank, then Singapore's fourth largest local bank, in a deal worth S$10 billion.". ↩

6. Mothership, February 2024, quoting Lee Hsien Loong on 29 June 2001: "The fact that they are bidding and being bid for proves not just that the smaller local banks are vulnerable"; the larger banks also felt insecure. ↩

7. Wikipedia, "OCBC Bank" (accessed November 2026): "The next major acquisition occurred in August 2001, when OCBC acquired Keppel Capital Holdings"; "By February 2002, both OCBC and Keppel TatLee banks were operationally and legally integrated." – Lee Hsien Loong, speech of 17 June 2004: seven local banking groups have consolidated into three "stronger" groups; foreign shareholding limits on locally incorporated banks removed. ↩

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8. Wikipedia, "United Overseas Bank" (accessed November 2026): "In November 1999, UOB bought a 60% stake in a local bank, Westmont Bank"; acquisition of "Radanasin Bank (now known as United Overseas Bank (Thai) Public Company Limited) in 1999". ↩
9. MAS, statement of 17 May 1999: each local bank to have a five-member Nominating Committee; boards to have a majority of Singapore citizens or permanent residents and a majority of independent directors; MAS approval for board and key appointments. ↩
10. MAS, media release, "New MAS Measures to Separate Financial and Non-Financial Activities of Banking Groups", 21 June 2000, mas.gov.sg: non-financial activities "must be segregated from the banking group and divested"; "Within the financial arm, shareholdings should only be in one direction"; "MAS will give the local banks three years to implement the changes"; aims of "limiting the risks of contagion to the banks, enhancing market discipline, increasing transparency". ↩
11. Lee Hsien Loong, Banking (Amendment) Bill, second reading speech, 16 May 2001, mas.gov.sg, paras. 10–16: new sections 30 to 35; section 31 cap of 2 per cent of capital funds in any single company; section 33 property holdings reduced to 20 per cent of capital funds; three-year grace period under section 34 – Lee Hsien Loong, second reading speech of 16 May 2001, paras. 17–18: lifting of the 40 per cent limit; new 12 per cent threshold in addition to 5 and 20 per cent; control to rest with those whose "interests are aligned with the long-term interests of the Singapore economy"; ministerial power to object to shareholders who become unacceptable. ↩
12. MAS, media release, "Extension of Grace Period for Banks", 2003, mas.gov.sg: banks may apply for an extension until "17 July 2006 to complete the required divestitures", because "economic and market conditions over the past two years have been more difficult than anticipated" – MAS, media release, "MAS Streamlines Framework for Banks Carrying on Permissible Non-Financial Businesses", 28 June 2017, mas.gov.sg: the anti-commingling framework "was introduced in 2001"; notification replaces prior approval; cap of "10% of the

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bank's capital funds"; banks remain barred from "property development and the provision of hotel and resort facilities". ↩

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