From personal trust to institutional trust

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The first Chinese banks

The transition from personal to institutional trust took place gradually. Chinese merchants in Singapore used the European banks from the mid-nineteenth century, but the banks lent mainly to European firms and dealt with Chinese customers through intermediaries. In the early twentieth century Chinese merchants founded their own banks, organised largely along dialect lines, which merged in later decades into the large Singapore banks of today. Part B examines this history in detail.

The Chinese banks carried the old institutions into the new form. Their founders were the leaders of associations and merchants with established *xinyong*. Their depositors were initially members of the same dialect community, who trusted the bank because they trusted its founders. Only gradually, as the banks grew and their operations were regulated, did depositors come to trust the bank as an institution independent of the persons who ran it.

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Associations and family business today

The associations survive, though their functions have changed. The state took over many of their welfare, educational and arbitral functions after independence, while the younger generation participates less actively. The associations remain, however, important as networks of business contacts and as custodians of cultural heritage and charitable property. Many large Singaporean and Southeast Asian business groups are still family enterprises, whose governance reflects the same combination of family control, personal trust and community standing that characterised the merchants of the nineteenth century.

For the financial centre, these family groups are among the most important clients. The private banks, family offices and trust companies examined in Part E serve families whose wealth was often built through the networks this chapter has described. Structuring that wealth across generations and jurisdictions requires an understanding of the family's internal relationships, its expectations of loyalty and its attitudes to control and succession. The tensions that the Privy Council addressed in 1875 in the case of the ancestral trust, examined in Chapter III, reappear in the family governance questions of today.

Implications for the compliance officer and adviser

Three practical consequences follow. First, the assessment of source of wealth must take account of the way wealth was accumulated in family networks. Informal partnerships, undocumented loans between relatives and assets held by nominees within the family were common and are not in themselves suspicious. The adviser must understand them in order to document them properly.

Second, informal value transfer systems remain a risk. The descendants of the remittance firms operate today in a regulated environment, but informal channels persist in the region and can be misused. Singapore's regime for payment services and its anti-money laundering rules, examined in Parts H and K, address this risk.

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Third, relationships matter in the conduct of business. Clients from Chinese business families often expect a long-term relationship based on personal trust and judge their advisers by their reliability over time. The adviser who understands the logic of *xinyong* can build such relationships while maintaining the independence and the documentation that modern regulation requires.

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