Liberalisation after 1998: Banks, Markets and the Opening of the Sector

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For three decades after independence, Singapore built its financial centre on a paradox. Offshore, in the Asian Dollar Market and on SIMEX, it was one of the most open markets in Asia. Onshore, in the domestic banking market and on the stock exchange, it protected a small group of local institutions with licensing restrictions, fixed brokerage commissions and a cautious regulator that preferred detailed rules to discretion. The arrangement served the city well while the region grew. By the late 1990s the government had concluded that it no longer did. Technology, global consolidation and the opening of financial markets under the auspices of the World Trade Organization threatened to leave a protected centre behind.

This chapter examines the reform programme through which Singapore opened its banking and capital markets to foreign competition between 1997 and the middle of the following decade. It begins with the Financial Sector Review Group and the private sector committees that prepared the reforms. It then follows the opening of the domestic banking market to foreign banks and the consolidation of the local

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banks from seven groups into three. The later sections turn to the reform of the stock exchange and the capital markets and to the change of supervisory philosophy from uniform rules to the assessment of risk. A section on practical consequences and a comparison with Switzerland and Hong Kong conclude the chapter. The Asian financial crisis, which gave the reforms their urgency, is the subject of the previous chapter. The demutualisation of the exchanges is treated more fully in Chapter II of this part, while Chapter I of Part E examines the statutes that emerged from the reforms.

The Geneva volume describes how the Bourse de Genève, whose trading floor dated from 1855, was absorbed into a single electronic Swiss exchange that had done away with floor trading by the summer of 1996.[1] In the same years the federal competition authorities attacked the agreements through which Swiss banks had fixed their fees. The two processes differed in their drivers. In Switzerland, competition law and technology pressed the banks to abandon arrangements they had made among themselves. In Singapore, the state that had built the protected market decided to open it, calibrated the pace of opening and used the opening as an instrument to strengthen the very institutions it had protected.

Essentials

The Financial Sector Review Group, chaired by Lee Hsien Loong, began a fundamental review of financial sector policy in August 1997 and worked through private sector committees on banking, disclosure, the stock exchange, corporate finance and the governance of the exchanges. On 17 May 1999 MAS announced a five-year programme that created Qualifying Full Bank licences for foreign banks, increased the number of restricted bank licences and lifted the 40 per cent limit on foreign shareholdings in local banks. Between 1998 and 2001 the seven local banking groups consolidated into three: DBS absorbed POSBank, UOB acquired Overseas Union Bank and OCBC acquired Keppel TatLee. The Stock Exchange of Singapore and SIMEX were demutualised and merged into the Singapore Exchange on 1 December 1999. Brokerage commissions became fully negotiable from 1 October 2000, while the Securities and Futures Act introduced a disclosure-based regime and

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a single modular licence from 1 October 2002. MAS shifted from "one-size-fits-all" regulation to risk-focused supervision, which it later formalised in an impact and risk framework that expressly does not aim to prevent every failure.

Notes

1. Ressos, *Genève, place financière internationale*, Part D, chapter II ("Radicalisme, chemins de fer et banques par actions"), citing the *Dictionnaire historique de la Suisse*, art. « Bourses »: a corbeille inaugurated at Geneva in 1855; "en été 1996, le commerce des actions et obligations était entièrement informatisé et le commerce à la criée appartenait au passé". ↩

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