Opening the banking sector to foreign banks

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The closed domestic market before 1999

Before 1999 the many foreign banks in Singapore had only limited access to the domestic market. At the end of March 1998 Singapore had 154 commercial banks. Twelve were local banks, 22 were foreign full banks, 13 were restricted banks and 107 were offshore banks.[1] The categories defined the domestic business that each bank could conduct. Only full banks could offer the whole range of retail banking, while offshore banks worked mainly in the Asian Dollar Market under tight limits on their Singapore dollar lending.

The number of full licences had been frozen for decades. MAS recorded in 1999 that no new full bank licence had been granted since 1970 and no new restricted licence since 1983.[2] The freeze gave the local banks a protected base in retail deposits and domestic lending. How narrow the room of the foreign full banks had been appears from the package of 1999 itself, which treated a handful of additional branches and the right to share ATMs as significant privileges.

The policy had a purpose of its own. The government had protected the local banks, according to MAS, for a national purpose, which was to enhance the resilience and stability of the banking system. The same document warned that the local banks would be progressively marginalised if no change was undertaken.[3] Protected banks, so the reasoning ran, would lack the scale, the skills and the discipline to compete abroad. A centre whose domestic banks were weak would also lose its anchor if foreign banks withdrew in a crisis.

The package of 17 May 1999

On 17 May 1999 MAS announced a programme to liberalise commercial banking and upgrade the local banks. It had three elements: a five-year liberalisation package, measures to improve the corporate governance of local banks and the lifting of the foreign shareholding limit. At its core was a new category of licence. MAS would issue up to six Qualifying Full Bank licences to foreign banks between 1999 and 2001. All future admissions or upgrades to full bank status would be to this category, while incumbent foreign full banks that did not qualify kept their existing privileges.[4]

The privileges of a Qualifying Full Bank were generous by the standards of the past and modest by any other. Each could operate up to ten locations, branches and off-premise ATMs together, of which up to five could be branches. It could add no more than two new branches and three off-premise ATMs a year, although it was allowed to share ATMs with other Qualifying Full Banks. The package also increased the number of restricted bank licences from 13 to 18 by 2001. It raised the limit on Singapore

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dollar lending by qualifying offshore banks from S$300 million to S$1 billion, with a new limit of S$500 million for other offshore banks.[5]

The same package set a political limit to the opening. MAS recorded that the local banks then held 62 per cent of total resident deposits and declared that government policy was to keep their share at not less than 50 per cent. The annual report of the same year summarised the objective as a more competitive industry in which stronger local banks maintained more than half of the market. It added a frank qualification: "While there is no assurance that liberalisation will succeed, the risk of not proceeding is greater."[6]

The licences of October 1999

Foreign banks were invited to apply on 1 June 1999. Applications came from 27 banks, several of them in more than one category. When MAS announced the results on 20 October 1999, it awarded Qualifying Full Bank privileges with immediate effect to four banks: ABN Amro Bank, Banque Nationale de Paris, Citibank and Standard Chartered Bank. Eight banks received Qualifying Offshore Bank privileges, among them the Bank of Nova Scotia, Crédit Lyonnais, KBC Bank and Norddeutsche Landesbank. The number of new restricted licences was raised to eight, which brought the total of restricted banks to 20. The recipients included Commerzbank, Morgan Guaranty Trust, Société Générale and UBS, while four further licences took effect on 1 October 2000.[7]

The choice of banks reflected the criteria that MAS had announced. It wanted foreign banks that were strong, well managed and committed to growing in Singapore. For the successful banks the new licence meant more branches and the right to share ATMs. Together these privileges allowed them to build networks that could begin to match the convenience of the local banks.

The second phase and the Wholesale Bank licence

The second phase was announced on 29 June 2001. It raised the number of locations that a Qualifying Full Bank could operate to fifteen, of which up to ten could be branches. From 1 July 2002 Qualifying Full Banks could also offer EFTPOS debit services and CPF fixed deposits, together with accounts under the Supplementary Retirement Scheme and the CPF Investment Scheme.[8] Access to the savings of the Central Provident Fund mattered because the CPF, examined in Chapter I of this part, channels a large share of household savings.

The second phase also simplified the licence categories, since the restricted bank licence was replaced by a Wholesale Bank licence with the same privileges, to which the existing Qualifying Offshore Banks were upgraded. On 4 December 2001 MAS awarded Qualifying Full Bank privileges to the Hongkong and Shanghai Banking Corporation and Malayan Banking Berhad, together with Wholesale Bank privileges to sixteen banks, with effect from 1 January 2002.[9] The new wholesale banks included Credit Suisse, ING, Northern Trust and the Australian and New Zealand Banking Group. With six Qualifying Full Banks, the first five-year programme had reached its stated limit.

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Later adjustments and the free trade agreements

The programme was subsequently extended in small steps. In June 2004 Lee Hsien Loong announced that from 1 January 2005 Qualifying Full Banks could establish up to 25 service locations. A limited number of new Wholesale Bank licences would also be granted. He also announced that Qualifying Full Banks could negotiate with the local banks to give their credit card holders cash advances through the local ATM networks. In the same speech he reported that the overall market shares of local and foreign banks had not changed drastically. The local banks' share of resident non-bank deposits had fallen from 62 per cent to 59 per cent in five years.[10]

When MAS adjusted the programme again in 2012, it required Qualifying Full Banks that were important to the domestic market to incorporate their retail operations locally. A very small number of locally incorporated banks with deep roots in Singapore could receive 25 additional places of business, bringing them to a maximum of 50. Future Qualifying Full Banks admitted under free trade agreement commitments would have to incorporate locally before opening up to 25 places of business. At the time there were eight Qualifying Full Banks.[11] The admission of new Qualifying Full Banks thereby became linked to trade policy, since future licences were to be granted under the commitments that Singapore made in its free trade agreements.

In November 2026 the MAS Financial Institutions Directory listed ten Qualifying Full Banks and 96 wholesale banks. Half of the Qualifying Full Banks now come from China and India: Bank of China, China Construction Bank, the Industrial and Commercial Bank of China, ICICI Bank and the State Bank of India.[12] The list shows the result of a quarter-century of controlled opening. The European and American pioneers of 1999 have been joined by banks from China and India, whose financial links with Singapore are examined in Part I.

Common misconception

The liberalisation of 1999 is sometimes described as a "big bang" that handed the domestic market to foreign banks. In fact MAS opened the market in calibrated steps. It granted six Qualifying Full Bank licences over three years, raised the limits on branches and ATMs only gradually and adopted an explicit policy that the local banks should keep at least half of resident deposits. Five years after the first licences, the local banks' share of resident non-bank deposits had fallen by only three percentage points.

Notes

1. MAS, *Annual Report 1998/99*, Table 3, "Number of Financial Institutions in Singapore", p. 62: commercial banks 154 at end-March 1998 (local 12; foreign full banks 22; restricted banks 13; offshore banks 107) and 142 at end-March 1999 (local 9; full 22; restricted 13; offshore 98).
2. MAS, "Liberalising Commercial Banking and Upgrading Local Banks", statement of 17 May 1999, mas.gov.sg: no new full bank licences had been granted since 1970 and no new restricted bank licences since 1983.

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3. MAS, *Annual Report 1998/99*, p. 53: "The Government has protected and nurtured the local banks, and enabled them to grow to their present size and strength, for a national purpose: to enhance the resilience and stability of our banking system"; "local banks will be progressively marginalised if no affirmative change is undertaken now".
4. MAS, *Annual Report 1998/99*, pp. 52–53: "On 17 May 1999, MAS introduced a five-year programme to liberalise the commercial banking sector and upgrade local banks. … The programme has three key elements" – MAS, statement of 17 May 1999: MAS "will issue up to 6 QFB licences to foreign banks over 1999 - 2001"; incumbent foreign full banks not awarded QFB status retain their privileges; all future admissions or upgrading to full bank status to be in the QFB category.
5. MAS, statement of 17 May 1999: up to 10 locations (branches and off-premise ATMs), of which up to 5 branches; no more than 2 new branches and 3 off-premise ATMs a year; QFBs may relocate branches and share ATMs among themselves – MAS, statement of 17 May 1999: "MAS will increase the number of restricted banks from 13 currently to 18 by 2001"; qualifying offshore banks' S$ lending limit raised from S$300 million to S$1 billion; other offshore banks to S$500 million.
6. MAS, statement of 17 May 1999: local banks held 62 per cent of total resident deposits (DBU and ACU); policy to keep their share "not less than 50 per cent of total resident deposits" – MAS, *Annual Report 1998/99*, p. 53: "The objective is a more competitive industry with stronger local banks maintaining more than half the market. While there is no assurance that liberalisation will succeed, the risk of not proceeding is greater.".
7. MAS, media release, "MAS Announces Results of Foreign Bank Applications", 20 October 1999, mas.gov.sg: invitation to apply on 1 June 1999; 27 foreign banks applied; QFB privileges with immediate effect to ABN Amro Bank NV, Banque Nationale de Paris, Citibank NA and Standard Chartered Bank – MAS, media release of 20 October 1999: eight banks awarded QOB privileges; eight new RB licences bringing the total to 20, four with immediate effect (Commerzbank, Morgan Guaranty Trust Company of New York, Société Générale, UBS AG) and four from 1 October 2000 (Barclays, Fuji Bank, Rabobank, Sanwa Bank).
8. MAS, media release, "MAS Announces Results of 2nd Phase of Banking Liberalisation Programme", 4 December 2001, mas.gov.sg, with Annex 1: phase 2 announced on 29 June 2001; QFBs may "establish up to 15 locations, of which up to 10 can be branches"; EFTPOS debit services and SRS, CPF Investment Scheme accounts and CPF fixed deposits from 1 July 2002.
9. MAS, media release of 4 December 2001: QFB privileges to The Hongkong and Shanghai Banking Corporation Limited and Malayan Banking Berhad; WB privileges to 16 banks, eight of them upgraded QOBs, the new ones including Australia & New Zealand Banking Group, Credit Suisse, ING Bank and The Northern Trust Company; effective 1 January 2002; the RB licence replaced by the WB licence; "Over time, all QOBs and Offshore Banks would be upgraded to WB status."
10. Lee Hsien Loong, "Financial Sector – Liberalisation and Growth", speech at the Association of Banks in Singapore's 31st Annual Dinner, 17 June 2004, mas.gov.sg: from 1 January 2005 QFBs may establish up to 25 service locations; a limited number of new WB licences; cash advances through local ATM networks – Lee Hsien Loong, speech of 17 June 2004: market shares "have not changed drastically"; local banks' share of resident non-bank deposits fell from 62 per cent to 59 per cent over five years.
11. MAS, media release, "MAS Announces Changes to the Qualifying Full Bank Programme", 28 June 2012, mas.gov.sg: local incorporation of retail operations for QFBs important to the domestic market; 25 additional places of business (up to 10 branches) for deeply rooted QFBs, up to 50 in total; future QFBs under FTA offers to incorporate locally; eight QFBs at the time (four in 1999, six in 2001).
12. MAS, Financial Institutions Directory, eservices.mas.gov.sg/fid (accessed November 2026), category "Qualifying Full Bank": 10 institutions (Bank of China Limited; BNP Paribas; China Construction Bank Corporation; Citibank Singapore Limited; HSBC Bank (Singapore) Limited; ICICI Bank Limited; Industrial and Commercial Bank of China Limited; Maybank Singapore Limited; Standard Chartered Bank (Singapore) Limited; State Bank of India); category "Wholesale Bank": 96 institutions. Wikipedia, "List of banks in Singapore", gives 95 wholesale banks as at April 2026 and lists eleven names in its QFB table.

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