The Chinese Banks: From the First Straits Chinese Banks to OCBC

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For most of the nineteenth century the Chinese merchants of Singapore had no bank of their own. They traded on credit extended by European agency houses, borrowed from the exchange banks through compradors and from Chettiar moneylenders. Their savings went home to China through remittance firms. In the first three decades of the twentieth century this changed. Chinese merchants founded a series of deposit banks, incorporated under colonial company law, managed partly on Western lines and owned and patronised largely by members of a single dialect group. Within thirty years the most important of them had merged into the Oversea-Chinese Banking Corporation, which remains one of the three Singapore banks that dominate the domestic market today.

This chapter traces that development. It begins with the first Chinese banks and with the failure of the earliest of them, the Kwong Yik Bank, whose collapse in 1913 prompted the first colonial rules on bank governance. It then examines the division of Chinese banking along Hokkien, Teochew and Cantonese lines and follows the Hokkien banks through the boom and slump of the rubber economy to the merger

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of 1932. Two further sections consider the ties between the Chinese banks and China and the role of the banks as community institutions. The chapter closes with the lessons the story holds for bankers and advisers today and with a comparison with Geneva.

The comparison is instructive because both financial centres passed through the same world crisis at the same time. In *Genève, place financière internationale*, the Geneva volume of this series, Part D describes how the crisis of 1931 brought down the Banque de Genève, led to the collapse of the Banque d'Escompte Suisse in 1934 and produced the federal Banking Act of the same year. Singapore's Chinese banks met the slump with a private merger, negotiated among community leaders without a central bank, a deposit guarantee or a banking statute. The two responses tell much about the institutional character of each place. Their differences still shape the regulatory cultures examined in Part E.

Essentials

The Kwong Yik Bank, founded by Cantonese merchants in 1903, was the first local bank in Singapore and British Malaya. Its collapse in 1913 led to the Companies (Amendment) Ordinance of 1914, which limited unsecured loans to directors and required audits and English-language statements. Chinese banking developed along dialect lines: Sze Hai Tong (1906) served the Teochew community, Lee Wah (1920) the Cantonese, while the Chinese Commercial Bank (1912), the Ho Hong Bank (1917) and the Oversea-Chinese Bank (1919) were Hokkien institutions rooted in rubber, shipping and trade. The Depression, the departure of sterling from gold in September 1931 and heavy lending to Tan Kah Kee forced the three Hokkien banks to merge in 1932 into the Oversea-Chinese Banking Corporation (OCBC). Under the currency board system the Chinese banks had no lender of last resort, kept about half their deposits liquid and relied on the standing of their founders, who were also the leaders of their community.

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