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

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Lessons from the interwar banks

The history of the Chinese banks may seem distant from the regulated banking of today. It contains, however, the elements of almost every banking crisis that Singapore and other financial centres have experienced since. The Kwong Yik Bank failed because of insider lending and poor accounts. The Hokkien banks nearly failed because of unhedged currency positions, a concentration of loans to one borrower and an economy dependent on one commodity. In each case the institutions of personal trust had concealed the risks until it was too late.

The modern Banking Act, examined in Chapter I of Part E, addresses each of these risks. It restricts exposures to related parties and to single counterparties, requires sound management of market risk and gives the Monetary Authority of Singapore powers of supervision and intervention that the colonial government lacked in 1914 and 1931. The rules are recent, while the risks they address go back to the first Chinese bank.

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Reading a family's banking history

For private bankers, family office advisers and compliance officers, the history also has a direct use. Many Southeast Asian families trace their fortunes to the rubber, rice, shipping and trading businesses that financed and used the Chinese banks. Their wealth often passed through the failures and reorganisations described in this chapter, through the war and through the postwar consolidation. Documenting the source of such wealth requires an understanding of how it was accumulated and of the institutions through which it moved.

The same patterns recur in modern cases. The collapses of Singapore commodity traders examined in Chapter II of Part H showed again how banks that each knew a borrower well could fail to see his total borrowing across the market. The response of lenders and regulators, through shared information on exposures and stricter verification of collateral, follows the logic that Huff applied to the 1930s: what personal trust cannot reveal must be supplied by information that no single lender holds.

Checklist for advisers and compliance officers

- Establish how the family's wealth was originally built and through which banks, trading houses and associations it moved, using company registers, bank histories and archives where available.
- Recognise that historic dialect-based networks of directors, borrowers and depositors explain many cross-holdings and related-party relationships in older family groups.
- Identify concentrations of exposure to a single borrower or a single commodity in family businesses, since these were the decisive weaknesses of the interwar banks.
- Check currency mismatches between where a family's liabilities are incurred and where its assets are held, a risk that ruined two banks in 1931.

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- Treat informal arrangements such as nominee holdings and undocumented intra-family loans as items to document, without assuming that they are suspicious in themselves.
- Use the family's philanthropic and community roles as context for its reputation, while verifying the facts through independent sources.

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