The Growth of Merchant Banks in Singapore

As an integral part of the financial infrastructure, merchant banks have greatly contributed to the development of Singapore as a financial centre.

The first merchant banks were created in Singapore in 1970. These were joint ventures respectively of Standard Chartered with Arbuthnot Latham; and SIMBL, a five member consortium comprising OCBC, Continental Illinois, Clive Discount, the Crown Agents, and Mr Yong Pung How. These consortium banks were the forerunners of a series of joint venture banks, where local banking institutions sought partners to bring to the Singapore market skills which up to that point were wholly lacking. These early pioneers participated in the creation of the Asian Dollar Market and were also responsible for the development of the present procedures on new listings on the Stock Exchange, taking over from the stockbrokers. The fraternity during the early days were dominated by Japanese, American and British joint ventures, which tend to follow the British version of merchant banking.

At the end of the '70s, the total assets of the 33 merchant banks in the industry amounted to S$8.4 billion. The '80s saw a much faster growth in the industry and a dissolution of the partnerships upon which it was founded. At the same time local commercial banks became active in merchant banking.

The total volume of activities expanded as the number of participants increased. Innovations, which included securitisation of debt, convertibles and TSRs, and the growth of a fund management industry all broadened the base of activities of the participants. The introduction of SESDAQ

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also took in several merchant banks as market-makers in this new market.

With the increasing number of new entrants, the focus of merchant banking activities broadened. Some of the newer entrants stayed closer to the lending and treasury functions. Others followed the US investment bank model, using their expertise and financial strength to structure leverage buyouts. Total assets of the merchant banking industry reached S$36.9 billion at the end of 1988, a growth of 15 per cent on the previous year.

In 1975, the industry had reached a size where a trade association made sense. Thus the Singapore Merchant Bankers' Association came into being. Increasingly, the SMBA is called upon to speak for the industry, and it now has its own premises and full-time staff. Specialist sub-committees have also been set up to cover the wide range of activities covered by members, thereby allowing a wide cross-section of member firms to participate. The SMBA currently encompasses virtually all licensed merchant banks in Singapore.

The long term future for merchant banks will be to provide an on-going source of creative ideas and problem-solving skills for its customers, particularly in the Corporate Finance arena. Singapore companies are starting to flex their financial muscle and take advantage of their ample liquidity to enter foreign markets. Singapore merchant banks will want to be there to help. Equally, those banks who have built a track record in investment management wish to spur the development of a fund management business in Singapore, taking advantage of the high degree of domestic liquidity and the international perception of Singapore as a safe haven for investments.

Others will want to use the presence of over 136 commercial banks as a pool of available capital and lending power to back creatively-structured lending deals for regional and international borrowers. Still others, with active treasury departments, will structure synthetic instruments, swaps and options to support their capital raising, or their customers' trading needs.

Whatever the field they find most profitable, merchant bankers in Singapore, as in every major financial centre, will need to be creative, quick on their feet, responsive to clients' needs, and selective in the use of their own capital. ■

The Singapore Merchant Bankers' Association