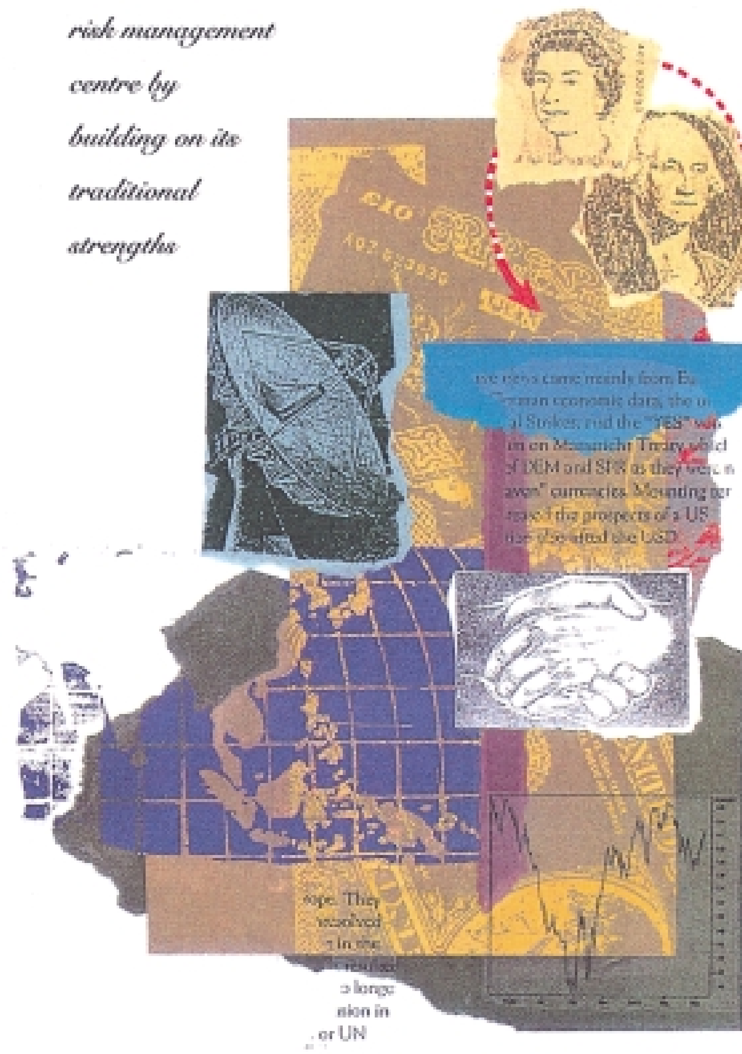
Singapore evolves into risk management centre by building on its traditional strengths



SINGAPORE - A CENTRE FOR FINANCIAL INTERMEDIATION AND RISK MANAGEMENT

Singapore has enjoyed steady economic growth over the last two decades. This has been largely due to the implementation of sound economic policies, complemented by a backdrop of political stability and enlightened responsible leadership. Through careful management, Singapore has evolved into one of the world's major financial centres. Its present standing has come about through both hard work and optimising of opportunities that have befallen its developmental path. To build on its growth as a financial centre in the last twenty years, it would be apt to elevate the centre's role to a higher plane - that of financial intermediation and risk management.

The role of Singapore as a financial centre has changed to financial intermediation and risk management

While much of Singapore's early growth as an international financial centre is a reflection of the rapid growth of the Asian Dollar Market (ADM), the free float of currencies following the breakdown of Bretton Woods in the early 70s presented it with a major opportunity to become a risk management centre. Foreign exchange volatility, which significantly increased the risk exposure of companies that had ventured abroad, had become pivotal to their conduct of business operations. As a result, the search by multinational corporations (MNCs) for expertise and techniques to manage their balance sheets and foreign exchange exposures had created a greater demand for more advanced risk management systems and products.

In the late 80s, lending activities slowed, curtailed by debt problems of the less-developed countries (LDCs). This, coupled with the worldwide trend towards securitisation, had pressured banks to emphasise fee-based and capital market activities. New instruments and methods to generate profits were sought. Concomitantly, more banks established their presence in Singapore to capture these new niches. The centre's early role as a deposit-collection centre thus evolved quickly into one more sophisticated and diverse to serve the needs of customers. Singapore's niche as a service centre grew in stature as institutional investors, fund managers, corporations and banking entities converged to form a critical mass - their confidence forged by the efficiency and credibility of the legal and administrative framework. This is important as investors are seen to be particularly averse to political and legal uncertainties. With this advantage, the financial sector has attracted over two hundred financial institutions, a large number of which use Singapore as their regional treasury centre. Similar strategies in the business sector have attracted MNCs to establish operational headquarters (OHQs) and treasury operations centres.

Singapore's early entry into the global financial business arena has given it tremendous leverage over other competing centres

Singapore's early entry into the global financial business arena has given it tremendous leverage over other competing centres. Having cleared the initial development hurdles, the centre was able to push further ahead more rapidly. Statistical evidence to date supports the continued projections for higher growth in the financial sector. Singapore has already established itself as the fourth largest foreign exchange centre in the world after London, New York and Tokyo. Turnover in the foreign exchange market is approaching US$100 billion daily, a significant increase from US$11 billion, ten years ago. Over the same period, the Asian Dollar Market has grown from a meagre US$2 billion to over US$400 billion today. The establishment of the Singapore International Monetary Exchange (SIMEX) provided an impetus to the growth of derivatives trading. As of today, SIMEX has 38 clearing members, 30 non-clearing members and over 300 locals trading more than 15 types of futures and options contracts. The Exchange has enjoyed tremendous growth in trading volumes over the years, making it one of the most successful exchanges in the world. Today, the daily turnover has increased forty-fold to around 100,000 contracts and open interest to almost 1 million contracts in December this year.

The Singapore government is committed to propel the centre further ahead. This is evident in the manpower policies, upgrading of telecommunications and

Recent government policies are geared to develop Singapore as an integrated global financial centre

technological capabilities and more recently, the liberalisation of Central Provident Fund (CPF) investments. The CPF measure could potentially release up to S$80 billion in the coming years, redirecting the management of surplus funds/reserves held by statutory boards and the Government of Singapore Investment Corporation through Singapore-based institutions. Together with the further fine-tuning of the tax system, these policy initiatives are seen as the beginning of a new period to expand the narrow base of the financial services sector. The addition of international fund management and investment banking activities will further strengthen the structure for an integrated global financial centre.

As Singapore evolves as a key global financial centre, new challenges will be faced. Notwithstanding the centre's early headstart and well entrenched position as critical node in the global financial marketplace, participants here will have to continually upgrade their expertise to keep ahead of other centres. Only then can we maintain the competitive edge to meet the expanding requirement for ever more sophisticated financial services.