CHAPTER XI

BANKING IN MALAYA

THE history of Malaya's banking system forms part of that of British overseas banking as a whole. The chief banks that operated there were branches of institutions with head offices abroad. They adhered to British banking traditions and largely confined themselves to the provision of working capital and the financing of international trade. Investment capital was provided mainly through media other than the banks, and no specialised agricultural banks corresponding to the *cultuurbanken* of Indonesia appeared. The main interest in this sector of Malaya's economic life, therefore, is to be found in the development of the commercial and exchange banks themselves and in the relations established by them with the local business community.

As in Indonesia, one of the earliest, and subsequently one of the chief, financial preoccupations of the government was the establishment of a sound currency. In the end, the broad results of the expedients adopted by the two governments were very similar, but they were attained by different means. In the days when the Straits Settlements were administered by the India Office, the rupee was the official currency, although trade was conducted and taxes paid in various types of silver dollars. These superseded the rupee for all purposes when, in 1867, the Settlements passed under the administration of the Colonial Office. The dollars included those coined in Hong Kong, Mexico, Peru, Bolivia and Spain; in 1874 the American trade dollar and the Japanese yen also became full legal tender. The variety of coins led to some confusion and provoked the Chambers of Commerce in Hong Kong and Singapore to urge that a British trade dollar should be minted for use in British territories in the East. This demand was refused by the British Government on the ground that the cost of minting would be higher than the cost of obtaining dollars from Mexico. Instead, in 1890, in an effort to introduce greater uniformity, the Mexican dollar was recognised as the standard coin. The decline in the price of silver at this time, however, led to a reduction of the export of dollars from Mexico and, consequently, to a shortage of currency throughout the East, a shortage that was intensified by the temporary closing of the Osaka mint for the coinage of silver yen. Thereupon the government accepted the recommendation of a departmental committee to introduce a British dollar, and in 1894 the minting of this coin started at Bombay.[1]

This policy brought only short-lived relief, for the continued

[1] Mackenzie, *op. cit.*, pp. 113–14, 189.

depreciation of silver caused further disturbances to Eastern commerce and finance. In 1902 the government was persuaded to refer the problem to a Commission. Two years later, in accordance with the Commission's report, it proceeded to demonetise the Hong Kong and Mexican dollars and to introduce a Straits dollar with a fixed value in terms of sterling. This value, 2*s*. 4*d*., has been maintained ever since.[1] From that time onwards the Malayan unit of currency, like the N.E.I. guilder after 1854, and like all other colonial currencies in South East Asia before the Second World War, was on a foreign exchange standard based on the currency of the Metropolitan Power. The supply of currency was dependent upon the balance of payments between Malaya and the outside world, for any alteration in the balance was adjusted by changes in the volume of the currency necessary to maintain its external value. Any changes in monetary policy or monetary conditions in the Metropolitan Country thus had an immediate effect on the colony.

The management of the currency in Malaya was not entrusted, as in the N.E.I., to a central bank. A body was set up, known as the Malaya and British Borneo Currency Commissioners, with the sole right of issuing coins and notes against a reserve of sterling securities held in London. The rules governing this reserve remained unchanged until 1954 when the currency authorities were empowered, as in other British territories, to invest part of their reserves in local securities. The object of this was to provide finance for colonial development. Thus, for half a century, Malaya was furnished with a currency as stable as sterling. In recent years this has become a less proud qualification than it used to be, but for any area of the world to have enjoyed even that degree of stability in the twentieth century was no minor blessing.

The merchants were the chief pioneers in the Straits, and it is natural that, when the Western banks first considered doing business with those regions, they should appoint merchant houses as their agents. In 1830, Guthries became the representatives in Singapore of the London merchant bankers, Coutts and Company. A few decades later Bousteads were appointed as representatives of the Hong Kong and Shanghai Banking Corporation. By the middle of the century, however, the development of British commercial enterprise in distant countries led to the formation of several British chartered banks designed to operate overseas. The first of these was the Oriental Bank Corporation (originally established in Bombay in 1842 as the Bank of Western India) which, having overcome the opposition of the East India Company to the establishment of banking offices in India, received its charter in 1851.[2] Five years before, it had opened an office in Singapore.[3] Other foundations quickly followed. The Mercantile Bank of India, London and China was formed in Bombay in 1853 and received its

[1] *ibid.*, pp. 189–90. [2] *ibid.*, pp. 9–10. [3] *ibid.*, p. 106.

charter in 1858. It began business in Singapore in 1855[1] and in Penang four years later. The year 1853 was also the date of the foundation in London of the Chartered Bank of India, Australia and China.[2] The bank was authorised to issue notes at its 'branches' (as distinct from 'agencies', which were without this right) against a prescribed silver reserve. It began business in Singapore in 1859, at first with an 'agency' but two years later with a note-issuing 'branch'. It was represented in Penang by a merchant firm until it opened its own office there in 1875.[3]

During the sixties several other banks started business in Singapore, including the Asiatic Banking Corporation and the Commercial Bank of India. The Hong Kong and Shanghai Banking Corporation, which had long been represented, opened its own offices in 1877 at Singapore and in 1884 at Penang.[4] Several Dutch banks joined the British. For many years the N.H.M. had maintained a mercantile agency in Singapore. After 1883 it began to undertake banking business there, and in 1888 it opened a sub-agency at Penang.[5] During the sixties the Rotterdam Bank and later the Escompto were represented in Singapore by merchant firms.[6] The N.I. Handelsbank opened an office in Singapore in 1901.[7] The Dutch banks were concerned mainly with financing trade with the N.E.I., just as the Banque de l'Indo-Chine, which started business about this time, concentrated upon financing trade with Saigon. Another bank to start early in the new century was the National City Bank of New York.

Banking in the Straits Settlements was attended by hazards that were not always appreciated by the founders of these numerous institutions, and the keen competition that arose among them led to a paring of rates and profit margins. This was of advantage to the local traders, but it meant that only banks which were managed with skill and prudence were likely to endure. Many foundations were unable to survive the recurrent financial crises of the last few decades of the nineteenth century, and some had a very short existence. In 1866 the Asiatic Banking Corporation and the Commercial Bank of India came to an end. The Oriental Bank Corporation which had become heavily

[1] Mackenzie, *op. cit.*, p. 106.

[2] The purpose of the bank was stated to be the carrying on of 'the business of banking in any part of the colonies or dependencies in Australia and New Zealand, in the Islands of Ceylon and Hong Kong or any other port, town, city or place in China where a consulate is or may hereafter be established . . . and for the purpose of establishing agencies in the chief ports of India and in any of the colonies or possessions eastwards of the Cape of Good Hope . . . and in other chief ports or places of trade in the East in order to conduct the business of exchange, deposit and remittance in connection with their other establishments'. *ibid.*, p. 21.

[3] *ibid.*, pp. 104–5, 110.

[4] *ibid.*, p. 113.

[5] Mansvelt, *op. cit.*, vol. II, p. 419.

[6] *ibid.*, pp. 130–1; and MacKenzie, *op. cit.*, pp. 106–7.

[7] de Bree, *op. cit.*, p. 211.

involved in estate agriculture failed in the course of the coffee depression in Ceylon in 1884. Although it began life again as the New Oriental Bank Corporation, losses incurred through the depreciation of silver compelled it finally to close in 1892. In the same year the Chartered Mercantile was obliged to write down its capital by half and to submit to reconstruction. It surrendered its charter, and henceforth was known as the Mercantile Bank of India.[1] Of the Dutch banks, the Rotterdam Bank gave up business in South East Asia in 1869. The Escompto withdrew from Singapore in 1890, and although it tried again at Penang in 1905, its agency in that port also had to close four years later.[2] These casualties demonstrate the risks of financial enterprise in the Straits during the early period of development and must be brought into account when the profits of the survivors are being estimated.

The risks were increased when the banks began to concern themselves with the internal economy of Malaya. As soon as the opening of the interior began, they established up-country branches. The first of these ventures occurred in 1888 when the Chartered Bank set up agencies at Kuala Lumpur and Taiping.[3] Early in the new century, with the expansion of the rubber industry, the field was widened. The Chartered, Hong Kong and Mercantile banks opened agencies in many up-country towns and, in 1911 (two years after Kelantan came under British protection), the Mercantile began its connection with North-east Malaya by opening an office at Kota Bahru. Later it established branches in Pahang and Trengganu.[4]

After the First World War the banking facilities of Malaya were increased through the foundation of new banks by Indians and Chinese and also by the participation of the London clearing banks in a new venture. This was the P. and O. Banking Corporation, formed in 1920 with the backing of the P. and O. Steam Navigation Company, and of three banks, Lloyds, the National Provincial and Westminster. The new corporation soon had branches in India and China as well as in the Straits. But it proved unable to compete with the older banks. In 1927 the Chartered Bank acquired a majority interest in it and by 1938 had become the sole owner. In 1939 the corporation was wound up.[5] Another new-comer during the inter-war period was the Eastern Bank, which opened a Singapore office in 1928.

The British banks adhered firmly to the traditions of British banking, and although their up-country branches were active in financing the tin and rubber trades, they did not participate in long-term investment. Thus in Malaya there were no banking counterparts to the *cultuurbanken* which in the N.E.I. played so important a role in bringing capital from Holland for the plantation industries. Much information

[1] Mackenzie, *op. cit.*, pp. 75, 89.

[2] de Bree, *op. cit.*, p. 146.

[3] Mackenzie, *op. cit.*, pp. 215–16.

[4] *ibid.*, p. 215.

[5] *ibid.*, pp. 261–3.

about banking methods and operations in the Straits has recently been disclosed in the history of the Chartered Bank published to mark the century of its foundation. It appears that from its early days the Singapore branch of that bank, like its other branches and agencies in the East, was supplied by Head Office with a fixed sum for use as working capital, to be employed at the manager's discretion. In addition, certain drawing rights on London were made available and against these the bank could sell sterling drafts. The branches were encouraged to augment their resources by accepting local deposits subject to interest. These deposits proved to be invaluable when in 1885, as a result of capital losses sustained through the depreciation of silver, the branches were ordered to remit home all the working capital originally allotted to them by headquarters.[1] At that time the fate of the overseas trading banks depended in no small measure on the way in which they handled the problems presented by the depreciation of silver. The Chartered Bank saved itself by a cautious and far-sighted policy, for it revalued its assets in gold at the current rates and kept its commitments in silver currencies as small as possible. It is evident from these and other experiences recorded in the bank's history that continued success depended upon a nice combination of wisdom in the central direction, where broad policies were determined, and shrewdness and imagination on the part of local managers who necessarily had wide discretion and considerable freedom of initiative.

The chief business of the Western banks throughout their history consisted of exchange operations with London, India and China. Some of the very large merchant houses which undertook both an import and an export trade found it possible to finance their business largely with their own resources, but the greater part of the foreign trade, whether conducted by Westerners or Chinese, called for banking services. The banks also gave credit to enable the merchants to finance their purchases of produce during the periods of processing and transport. This took the form of overdrafts, packing credits, advances against shipping documents and the discounting of bills. Considerable use was made of a system of 'trust receipts'. In the Straits the banks did not possess godowns for storing hypothecated goods, as was the practice in the N.E.I. The goods against which advances were made were stored in the merchants' own godowns, and the lenders' security took the form of a trust receipt by which the ownership of the goods was vested in the bank. Small merchants without their own godowns had to deliver their goods to a third party who had storage space.[2]

From the outset many of the transactions of the Western banks were with Asian customers. In this business a key position was held by the

[1] Mackenzie, *op. cit.*, pp. 147, 161–2.

[2] Straits Settlements Trade Commission, 1933–4, *Report*, vol. I, p. 223.

Chettiars, a South Indian caste of bankers and money-lenders who had extended their activities to other parts of the East. They enjoyed a high reputation for honesty and business competence, and they acquired a knowledge, which the Westerners could not hope to equal, of the credit-worthiness of the small Chinese and Indian traders. So they became, in effect, the channel by which Western banking resources were poured into the current of Asian business. Small Asian traders, artisans and tin-miners obtained most of the credit they required from the Chettiars against mortgages on their crops or against promissory notes. The Chettiars in turn placed themselves in funds by discounting these notes with the Western banks or by obtaining overdrafts on the security of bills or title-deeds to property. The Western banks derived a considerable part of their revenue from this type of business.[1] During the nineteenth century only the very large Chinese merchants had their own accounts at Western banks. These banks handled most of the remittance business to China, though much of it required the intervention of the remittance shop. In the new century the number of Chinese accounts was much increased.[2]

The Straits Settlements Trades Commission of 1933–4, after a review of the banking system, stated their conclusion that the banks performed satisfactorily their dual functions of exchange and commercial banking. There had been some local criticism of the rates charged for overdrafts, which were normally higher than in London. The banks' reply was that their higher expenses justified the disparity. For example, they had to pay interest on current accounts, and higher interest than in Britain on deposits. Moreover, the absence of such highly liquid assets as Treasury Bills forced them to keep a larger cash reserve than was the practice in Britain.[3] Banking business was certainly very competitive in the Straits, and it is probable that the business community was well and cheaply served. At times the banks were called upon to assume public responsibilities. The authorities expected them to underwrite, issue and service their loans. Since there was no large institutional demand for securities in Malaya and since the public preferred high-yielding shares to gilt-edged investments, the banks were often obliged to take up a high proportion of the issues.

The Western banks conducted most of their business through compradores. Indeed, in the Singapore financial world the compradore occupied a position comparable to that in the Treaty Ports of China. His duties included the guaranteeing of Chinese customers and the supervision of the cash department. He was normally consulted about the recruitment of Chinese staff. It was customary for him to deposit

[1] Mackenzie, *op..cit.*, pp. 149, 224.

[2] Song, *op. cit.*, p. 383.

[3] Straits Settlements Trade Commission, 1933–4, *Report*, vol. I, pp. 222–3; vol. IV, pp. 419–20.

security with his bank on appointment, and he obtained most of his remuneration in the form of commission on business introduced or guaranteed. The compradore has continued to exercise these functions in the British banks until the present day. Even the N.H.M. followed the British example in its Singapore branch, although in Indonesia the Dutch banks never made use of compradores. The post in some banks seems to have acquired a hereditary character; for instance, between 1885 and 1951 the position of compradore in the Mercantile Bank at Singapore was held by four members of the same family in succession.

The Chinese emigrants to Malaya did not bring with them the old-style banks of their motherland, and during the nineteenth century there were no Chinese financial institutions in the Straits with the exception of the remittance shops. With the growth of their business community, it was natural that the Chinese should be anxious to participate directly in the country's rapidly expanding banking business. The first bank to be established by Singapore Chinese was the Kwong Yik Bank in 1903, but this went into liquidation ten years later.[1] Meanwhile in 1906 the Sze Hai Tong Bank was started and in 1910 the Bank of Communications, which had been established at Peking in 1908 as a semi-official government concern, opened a branch at Singapore. Then in 1912 the Chinese Commercial Bank was founded, in 1917 the Ho Hong Bank and in 1919 the Chinese Overseas Bank. With the establishment of these banks an important new stage was reached in the development of Chinese business, especially as the Ho Hong Bank was the first local Chinese institution to undertake international banking.[2] In 1932 these three banks amalgamated to form the Overseas Chinese Banking Corporation which grew into a powerful and efficient institution conducted on Western lines.[3] During the inter-war period several other Chinese banks were set up at Singapore. Some of them specialised in remittance business with particular districts of China, such as the Lee Wah Bank, which had connections with Kwangtung. Others found most of their business in financing trade in South East Asia. On the eve of the Second World War the official Bank of China opened offices in the Straits. The rise of the Chinese banks did not prevent the continued growth in the business of the Western banks, for the demand for banking facilities expanded very rapidly up to the Second World War. Nor did the Chinese banks attract all the Chinese clients from the Western banks. On the contrary, while the small Chinese dealers were drawn to the Chinese banks by their less stringent credit conditions, the large Chinese firms often preferred European banks which charged lower rates of interest.

At first the Chinese depended largely on staff trained in Western

[1] Song, *op. cit.*, p. 353. [2] *ibid.*, pp. 355, 474.
[3] Mou Shou-Yu, *South East Asia in the Twentieth Century* (in Chinese), p. 343.

banks. For example, one of the early managers of the Chinese Commercial Bank (who later became manager of the Overseas Chinese Banking Corporation) had formerly worked in the compradore's department of the Hong Kong Bank.[1] As time went on, the Chinese banks were able to staff themselves with men trained in their own offices. Some of their more promising employees were sent to America or England for study and experience. In the case of the official Bank of China, a skeleton staff was originally provided by Peking, while later recruits were trained locally. It would appear that by the mid-thirties the Chinese were adequately equipped with the expertise necessary for modern banking business.

In Malaya the financial effects of the war were less catastrophic and enduring than in Indonesia. When the war came to an end, the country again became part of the sterling area and, while the currency suffered from the general inflation, its depreciation during the post-war period was very small compared with that of most of the other South East Asian countries. Whereas in 1946 the Indonesian price-level was twenty-four times as high as it was before the war, the Malayan price-level had risen by only three times.[2] After the war the disparity in the rates of inflation continued. Between 1948 and 1951 the cost of living in Indonesia doubled, whereas in Malaya it increased by about 40 per cent.[3] Further, while political conditions and prospects in Malaya were hardly favourable to lavish foreign investment, they were far less discouraging than in Indonesia. In another respect Malaya shared Indonesia's financial experience, for its banks were called upon for a greatly increased volume of short-term advances. The merchant firms, including even the large merchant-agency houses, found themselves unable to finance the bulk of their trade from their own resources as hitherto. In the rubber boom of 1951 the amount of bank credit was much increased. For instance, one of the British banks at that time gave overdraft facilities to the extent of 30 million dollars (Straits) to a single company in the rubber trade, a loan that was wholly repaid within six months.

In the provision of long-term finance for the reconstruction of estates and installations, the banks played a less direct part, for they were still reluctant to engage in long-term lending. The shortage of capital for re-equipment was overcome in part by the payment of war damage compensation by the government. Further, whereas before the war the government had done very little to supply capital for agriculture and industry and had never set up any industrial loan fund similar to that in the N.E.I., in the years immediately after the war it introduced an important scheme for accelerating reconstruction. Under this scheme

[1] Song, *op. cit.*, p. 404. [2] U.N.E.C.A.F.E., *Economic Survey 1950*, p. 491.
[3] U.N.E.C.A.F.E., *Economic Survey 1954*, p. 217.

the authorities guaranteed bank advances for rehabilitation. These loans were issued through the Chartered, Mercantile and Hong Kong banks at a low rate of interest (3 per cent) to firms in the estate and mining industries. They ranged in size from a thousand dollars to nearly 5 million dollars, and many were outstanding for a number of years.[1] Again, with the collaboration of the Hong Kong Bank, the Colonial Development Corporation and the government of the Federation of Malaya sponsored the Federal and Colonial Building Society. The bank provided a loan of 20 million dollars to the Society and its Singapore manager was appointed chairman.[2] There are now signs that the exchange and commercial banks themselves are seeking a more prominent role in the financing of development. For example, in 1955 the Chartered Bank set up a wholly owned subsidiary, the C.B.I. Development Corporation, to finance projects in South and South East Asia and it is expected that Malaya will be one of its chief fields of activity.

The closing of China to Western banking after the establishment of the Communist régime diverted the resources formerly employed by Western banks in that country to South East Asia. This was especially true of the Hong Kong Bank, which had found its chief sphere of activity in China. The rapid recovery of Malaya meant that there was an active demand for these new resources, and some of the banks opened new branches. Part of this increased business could be attributed to the spread of banking habits in Malaya, and to the increase in the number of Chinese importers who normally required to open letters of credit. Both Western and Chinese banks benefited from these tendencies. The latter found much additional business among small Chinese firms in the retail trade, for these began to use the banks to a far greater extent than they did before the war. On the other hand, the remittance business to China was reduced by the ending of immigration and the weakening of ties with the motherland. After the establishment of the Communist régime, most of the business that remained was conducted by branches of the official Chinese banks.

The war brought important changes in the staffing of the Western banks. Before 1940, Chinese and other Asians were never employed by British and Dutch banks in Singapore for the higher executive posts, although it must be remembered, in qualification, that the compradores were in fact senior officers who often earned in commission a higher remuneration than any member of the local European staff. After the war the Western banks in Malaya, as in Indonesia, found it expedient to employ Asians in executive positions, and in Malaya it was less difficult to find competent recruits than in Indonesia. Whereas before

[1] *Straits Times*, 16 April 1948.

[2] Colonial Development Corporation, *Report 1954*, p. 33.

the war the N.H.M. employed no Chinese on its executive staff in Singapore, in 1952 it had two such officers. At that time the National City Bank of New York, which had long employed Asian officers, had a Chinese sub-manager. The Chartered Bank also began to admit Asians to posts of higher responsibility. In 1954 it decided to employ them as sub-accountants, a post hitherto restricted to Europeans, and they were given intensive courses of training at its staff college in England.

It is probable that when Malaya attains independence, a central bank will be founded to replace the Currency Commission. The World Bank, in reporting favourably on this proposal, suggested that the central bank should cover the Federation of Malaya, Singapore, and possibly British Borneo. Whether the establishment of a single central bank for this area will be found politically possible, however, is uncertain, for this will depend upon the co-operation of three separate governments. On the other hand, it would be irrational and costly to set up a separate central bank in each of the three regions which together have a population of under 8 millions.

The proposal to substitute a central bank for the existing arrangements was the natural outcome of the alteration of the country's political status and her increasingly diversified and mature economy. Malaya no longer depends to the same extent as in the past on Western supplies of new capital and on Western financial institutions. Exchange stability, though still of great importance to her, is ceasing to be her main financial preoccupation. In the future she is likely to be increasingly concerned with utilising local capital and with framing and executing a monetary policy which will reflect her new political ambitions and her changed economic circumstances.