Money Lending

A short history

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SINGAPORE is a well-developed financial centre with many banks and other financial institutions offering a host of banking products and services to businessmen and consumers. But during the colonial period, the financial landscape was entirely different. Back then, businessmen and ordinary residents on the island who were in need of money, whether for personal consumption or the financing of business ventures, had to rely on different means.

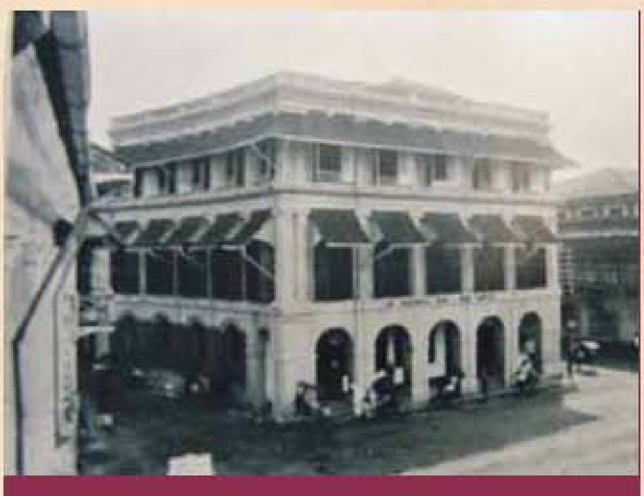
SINGAPORE'S FIRST BANKS

In the early 19th century, when Stamford Raffles first set foot on Singapore, it was essentially a small fishing village whose residents relied mainly on barter trade for goods and services. Soon after Raffles established Singapore as an entrepot port, trading activities expanded rapidly, and there naturally arose a need for banking facilities to support the growing number of traders and merchants on the island.

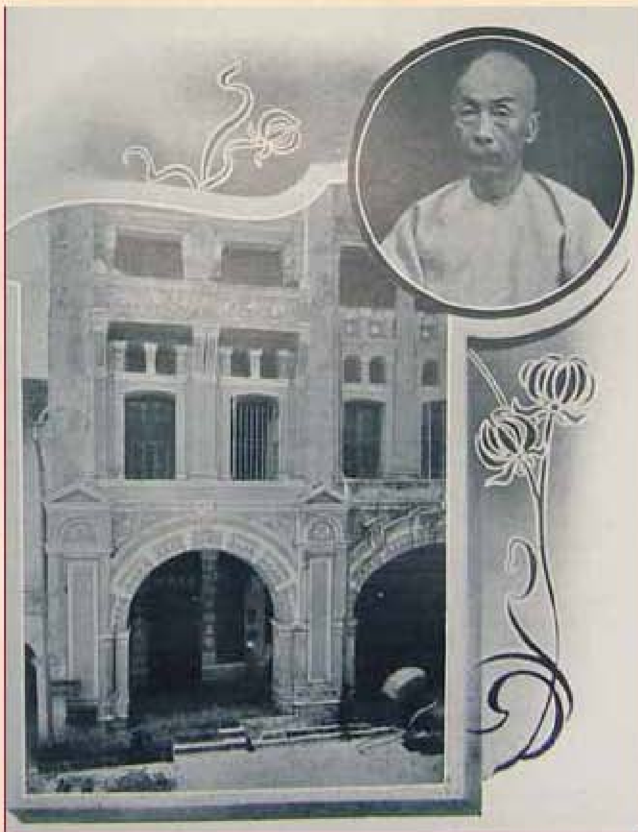
It was first suggested that a bank be established in Singapore in 1833. However, it was not until 1840 that a branch of the Union Bank of Calcutta was opened here. The bank offered merchants advances on goods to be imported, up to three-fourths of their value at an interest rate of 9 percent. It also provided loans against bullion, up to 90 per cent of its value, with an interest rate of 7 percent. Other banks subsequently opened branches in Singapore - the Oriental Bank in 1846, the Mercantile Bank of India in 1855, Nederlandsche Handel Maatschaapy in 1857, Chartered Bank in 1859, and the Hong Kong and Shanghai Bank in 1866.

In the beginning, these banks were established primarily for the China trade. Their business was confined to providing trade financing and currency exchange services for traders and merchants plying their trade in the region, and their main clientele was the European mercantile community.

When it came to dealing with Chinese traders and merchants, each bank found it expedient to hire a local middleman known as the *comprador* (Portuguese for "buyer"). The banks lent money to Chinese merchants and traders through the *comprador*, who was responsible for every Chinese account opened. The *comprador* was also responsible for hiring and managing all local staff. In the early days, *compradors* were men with good connections and established family backgrounds.



The Merchant Bank of India, Ltd. Singapore
Source: Wright, A., & Cartwright, H. A. (Eds.). (1908). Twentieth *century impressions of British Malaya: its history, people, commerce, industries, and resources* (p.145). London: Lloyd's Greater Britain Pub.



Kwong Yik Banking Company. Wong Ah Fook (Founder)
Source: Wright, A., & Cartwright, H. A. (Eds.). (1908). Twentieth century *impressions of British Malaya: its history, people, commerce, industries, and resources* (p.145). London: Lloyd's Greater Britain Pub.

Until the beginning of the 20th century, the banking system in Singapore consisted mainly of European banks. It was only at the turn of the 20th century that the first local banks were established. Kwong Yik Bank was the first Chinese bank: it was set up in 1903 by Wong Ah Fook and several Cantonese businessmen. The bank's services included banking facilities, mortgages and loans, and its clientele was mainly Chinese. The second Chinese bank, Sze Hai Tong Bank, was set up in February 1906. One of its directors, Tan Swi Phiau, also held the important position of comprador to Netherlands India Commercial Bank.

THE RISE OF AGENCY HOUSES

Another source of finance for many businesses were agency houses such as Guthrie & Co. Established in the 19th century by colonial pioneers, these companies had started off as trading businesses, but later diversified into non-trading businesses such as banking and finance.

Guthrie & Co., for instance, started off as an import-export establishment. As the company accrued assets from the profits it made from trading activities, it decided to make good use of the surplus assets by providing finances for other people's business ventures, such as building factories and sawmills in Singapore. It also provided loans to businesses such as tin-mining and rubber cultivation in the Malay states.

ENTER THE CHETTIARS

Outside the realm of European banks and agency houses, the chettiars were the most prominent professional moneylenders. They were an influential class of merchants from South India who had over time established a reputation in the field of commerce and finance. As the Europeans expanded their colonial influence in Southeast Asia in the 19th century, the chettiars had also extended their network throughout the region.

By the end of the 19th century, the chettiars had become a formidable force in the business of moneylending in Singapore, having large amounts of capital at their command. Many chettiars were agents of wealthy men in India who were the main source of capital. They also made use of capital from local depositors and European banks, obtaining money from the banks on demand notes signed by two or more chettiars. The amounts advanced by the banks on the demand notes depended on the standing of the chettiars who signed them.

In some cases, banks would insist on a personal guarantee from the chettiars' own "shroff," or head cashier, as an additional precaution. Nevertheless, so great was the business aptitude and reputation of the chettiars, that the losses incurred by the banks in dealing with them were relatively small (Wright, 1908, p. 141). The money obtained from banks was then lent out to others, such as Chinese traders, at higher rates of interest.

The chettiar's loans operated in the following manner: The borrower would be required to sign a promissory note, and this was considered sufficient for small loans and loans granted without collateral. For larger amounts, jewels, gold or land title deeds were held as collateral.

The amount actually received by the borrower would be less than that stated on the promissory note. A rate of interest would be charged on the amount mentioned in the promissory. If the borrower did not repay the principal and interest on the due date, the amount owed would be automatically adjusted to comprise the principal and accrued interest, and a higher interest would be charged.

By lending to the chettiars, the European banks were able to profit from the local credit market with a much reduced risk. At the same time, local borrowers got access to capital from the European banks, which would otherwise have been unavailable. Most of the Chinese traders and merchants were illiterate, and hence turned to the chettiars instead of banks, as it involved fewer formalities, less hassle and minimal documentation.

By the late 19th century, the chettiars were among the wealthiest members of the community. However, most of them led a simple lifestyle, as illustrated in the following description of chettiars in early 20th century Singapore:

"They are amongst the wealthiest members of the community, but they live in a very simple way. Their dress consists merely of a strip of muslin cloth wound loosely round their limbs and a pair of leather sandals. As an ornament they often wear a gold wire round the neck with a massive gold ornament attached to it. They seldom or never purchase any of the luxuries of Western civilization, but they spend large sums of money on the Hindu Temple which they attend." (Wright, 1908, p.141).

However, chettiars were at times criticised for usury and labelled as "Shylocks of the East" (Wright, 1908, p.219). This was not helped by the fact that chettiars were not slow to bring people to court to enforce loan agreements. Indeed, it was a common saying that chettiars spent their time between the banks and the court.

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– Description of Chettiars in early Singapore

ARAB, CHINESE AND SIKH MONEYLENDERS

Apart from the chettiars, there were also Arab, Chinese and Sikh moneylenders. Chinese moneylenders ranged from wealthy businessmen to itinerant moneylenders such as shopkeepers, who provided small credit. These moneylenders often provided a source of capital for Chinese immigrants

STATEMENT OF THE REVENUE OF SINGAPORE, FROM 1823-24, TO 1836-37.

	1823-24.	1824-25.	1825-26.	1826-27.	1827-28.	1828-29.	1829-30.	1830-31.	1831-32.	1832-33.	1833-34.	1834-35.	1835-36.	1836-37.
	S. Drs.	S. Drs.	S. Drs.	S. Drs.	S. Drs.	S. Drs.	S. Drs.	S. Drs.	S. Drs.	S. Drs.	S. Drs.	S. Drs.	S. Drs	S. Drs.
Opium ..	1,615	2,960	20,32	2,050	2,060	2,720	2,060	3,270	3,390	3,440	4,000	5,060	4,800	4,570
Spirit....	682	1,540	941	1,000	1,015	1,300	1,210	1,735	1,620	1,765	1,610	2,130	2,315	1,920
Pork	302	302	..	..	..	..	..	820	550	660	670	560	690	740
Gun Powder....	..	217	..	..	..	201	135	..	..	..	..	..	..	..
Pawn Broker....	..	175	63	111	265	..	..	165	120	160	140	100	180	180
Gaming..	778	..	3,042	2,556	2,718	2,822	..	..	..	..	..	..	..	..
Market ..	..	..	210½	379	328	392	375	397	426	453	470	480	476	509
Seeree....	..	..	..	..	..	..	..	575	490	570	490	550	500	525
Toddy and Bang ..	..	..	..	..	..	..	..	80	76	65	90	90	70	112

Statement of Revenue of Singapore from 1823-24 to 1836-37

Source: Newbold, T. J. (1839). *Political and statistical account of the British settlements in the Straits of Malacca, viz. Pinang, Malacca, and Singapore: With a history of the Malayan states on the peninsula of Malacca.* (Vol. 1, p.381). London : J. Murray.

to set up small businesses, though not all businesses did well:

"After completing their twelve months as *Sinkehs*, many get an advance of money from town shopkeepers, clear a piece of forest land, plant vegetables, plantains and indigo at first, and eventually gambier and pepper; under certain government regulations forest lands are thus cleared and cultivated, and a grant obtained in perpetuity from the state. The returns are so slow, and the exactions of the money lenders so stringent, that in a few years the squatters are forced to sell their land to repay their creditors. *Hokiens* are often the purchasers." (Vaughn, 1879, p.15.).

The Sikhs were first recruited from Punjab to go to Malaya to serve as policemen. As the Sikh community in Singapore expanded, a number of them went into the business of moneylending, which was not a difficult trade to learn and offered good profits.

Unlike Chinese and Sikh moneylenders, Arab moneylenders had to avoid Islamic prohibitions on interest dealings, and relied on other means, such as making use of real estate, for their moneylending activities.

THE FIRST PAWNSHOPS

For the majority of the population, the most easily available lending facility in times of need was the pawnshop. The pawnbroking business, which had a long history in China, was brought to Singapore by Chinese immigrants. As the only banks available in the early days were European and most of the Chinese immigrants spoke no English, they naturally fell back on the traditional practice of pawnbroking.

Since the early 19th century, pawnbroking activities had been widespread in Singapore. They served as a source of revenue for the British colonial administration, which had adopted the practice of revenue farming. This gave those holding the contracts of revenue farms the sole right to sell opium and spirits, and to manage gambling and pawnbroking businesses.

However, this convergence of pawnbroking with gambling, drinking and opium raised public concerns, and as a result, the colonial administration introduced the Regulations for Pawnbroker Shops in 1822 to regulate pawnbroking activities in Singapore. The regulations made pawnbroking a licensed trade and separated it from gambling and opium concessions.

However, in 1830, instead of issuing licences to individual pawnbrokers, the colonial administration decided to revert to the farming system by giving the pawnbroker farmer the exclusive right to run the pawnbroking business. Describing the pawnbroking scene in Singapore, John Cameron, an editor of The Straits Times in the 1860s, wrote that "in Singapore alone, where there are not 100,000 souls, the farmer can pay a premium of 450*l*. a month for a monopoly of the pawnshops." (Cameron, 1865, p.218).

The farming system offered a few advantages for the colonial administration. Firstly, by giving the pawnbroker farmer the exclusive right to operate the pawnbroking business, it was able to avoid having to manage pawnbroking activities and collecting dues from pawnbrokers.

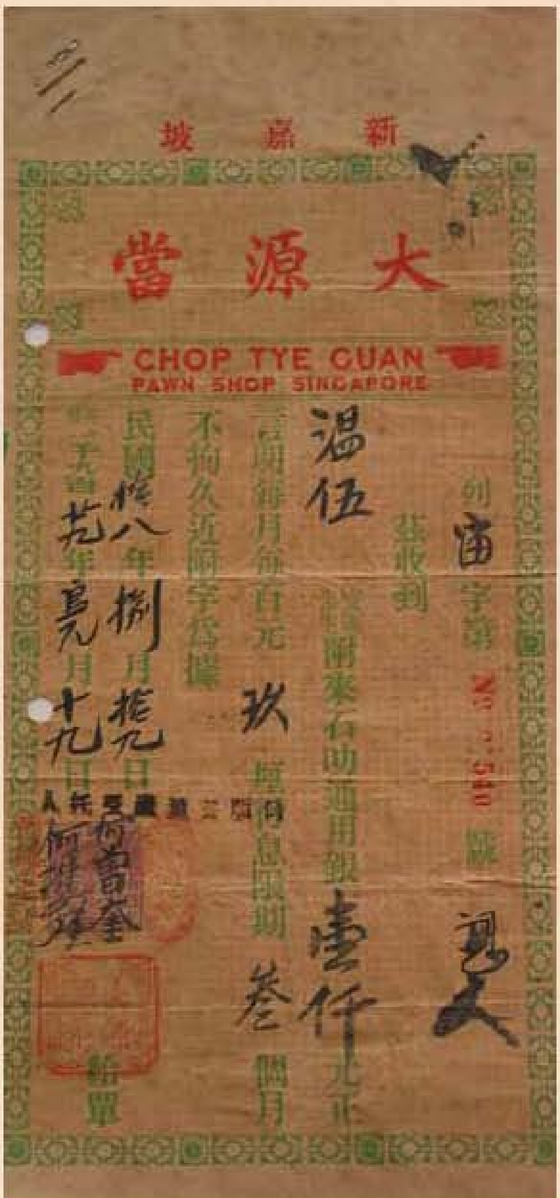
Secondly, the farming system tended to bring about higher revenue, since interested pawnbrokers bidded highly to secure the pawnbroking farms. However, this raised concerns that the system tended to result in high interest rates, because pawnbrokers naturally charged more to meet the high rents. The issuing of licences was seen as a better solution to keep interest rates low.

This was a perpetual dilemma for the colonial administration, and in the ensuing decades, it oscillated between revenue farming and regulation by licensing. This continued until 1934, when the colonial government implemented a new system, in which pawnbrokers' licences were granted on a tender system.

The first pawnshop in Singapore was *Sheng He Dang* (生和当), set up by Lan Qiushan (蓝秋山) and a few partners. In 1878, *He Yuane Shi* (何云粤氏) obtained the first pawnbroking farm from the Straits Settlements government. He operated eight pawnshops and paid an annual fee of $200 for each. In the early days, the pawnbroking business was dominated by Hokkiens and Teochews, two of the largest dialect groups among the Chinese immigrants. However, they were later superseded by the Hakkas. By 1941, there were 26 pawnshops, 24 of which were owned by Hakkas.

At the beginning of the 20th century, many of the pawnbrokers also went into the banking business. For instance, when Kwong Yik Bank was first established in 1903, five of the bank's 11 directors were proprietors of pawnshops, including the managing director, Lam Wei Fong.

Pawnshops remained an important source of lending for the community at large until recent years. Unlike the affluent class, most people did not own land nor other recognised assets against which they could borrow from the banks. While they charged higher interest than any other forms of commercial credit, pawnshops enabled people without large assets to borrow money for weddings, funerals or festivals.



Pawnbroking receipt
Source: Koh Seow Chuan Collection

HUI (会)

The *hui* was another popular source of lending among local Chinese. In Western terms, the *hui* was commonly referred to as "tontine", an annuity scheme named after Neapolitan banker Lorenzo Tonti, who started the scheme in France around 1653.

Like the tontine, the *hui* was a form of loan association set up for mutual assistance. Each member would pay a fixed amount to the *hui* every month, and each month, a different member had the use of the total amount collected. Those who wanted to use the money that month would bid for the privilege, with the member offering the highest interest, securing the loan.

The membership size of a *hui* ranged from 10 to 60. Members met for the monthly "drawing", which was usually held at the beginning of the month at the organiser's residence. At the meeting, members tendered for the loan by passing slips of paper to the organiser stating the rate of interest they offered. The cash was then collected and handed over to the highest bidder.

The organiser often got a fee called *teh poh* (地簿) for bringing the participants together. In the early years, account books were rarely kept, as the organisers or managers were often illiterate. They kept record of members' obligations and liabilities by "numerals, dots, circles and crosses (*tulisan ayam*)" (Koh, 1938, p.xi). Subsequently, it became a common practice to issue members with account books called *Wui Poh* (会簿), on which organisers would acknowledge the contributions received from members.

However, the *hui* had its risks - advances were given without collateral, and participants were susceptible to risks such as the death or default of members, or the failure of the headsman to pay up the subscription collected. Moreover, participants were not protected by law, even though written accounts could be presented by the organiser to the subscribers; the Societies Ordinance made any loan association with 10 or more members unlawful if unregistered.

Despite the risks, the *hui* was a popular source of lending for local Chinese who had little access to banks or could not offer collateral. The common folk relied on it as a source of lending to meet emergency or short-term needs, such as hospital bills or children's weddings, and small Chinese traders relied on it for their credit needs.

For those with surplus assets, the *hui* acted like a "savings bank" that offered a higher rate of interest than banks. The *hui* was reportedly very popular among the women folk, who saw it as a means to invest and increase their savings. It was said that "nine out of every 10 amahs and three out of every 10 nonyas" were members of a *hui*. (Koh, 1938, p.xil)

Among the local Indians, there was a loan association similar to the *hui*, called *kutoo* or *kuthu*. However, there was no interest and members' right to borrow was determined by casting lots. For Indian immigrants, the *kutoo* provided a means of securing capital to set up a small business, such as selling iced water or a cigarette stall in a corner shop.

COMING SOON

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CASH, CREDIT & COLLATERAL
Money-lending in Singapore, 1820s - 1930s
Some perspectives from the Koh Seow Chuan Collection

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