



**MAS SURVEY:
COST OF
TREASURY
OPERATIONS**

A survey conducted in February 1988 has revealed that the average cost of setting up an office for treasury operations in Singapore is S\$655,000. The survey also found that the average cost of running such an office in 1987 was S\$1,727,000. Costs vary with the size of operations. Small banks, which can be characterised as having up to three dealers who conclude up to 7,000 transactions a year, or about S\$100 billion turnover, cost S\$0.26 million to set up and incur S\$0.8 million in annual expenses. Medium-sized operations with four to 14 dealers turning over S\$100 billion to S\$500 billion in annual transactions cost a little over S\$0.5 million to establish and S\$1.7 million in annual operating expenses. This group encompasses the bulk (66%) of banks and merchant banks operating in Singapore. For the really large establishments which form 12% of the market, set-up cost is in the region of S\$1.9 million and operating cost S\$4.3 million. The cost profiles of these groups and their unit costs are shown in Tables 1 and 2 respectively.

Table 1: Cost Profiles of Treasury Offices of Different Sizes

Bank Size	% of Banks & Merchant Banks in Category	Mean Set-up Cost (S\$'000)	Mean Operating Cost (S\$'000)
Small 1-3 Dealers 0-7,000 Transactions 0-S\$100 billion Annual Turnover	22	256	789
Medium 4-14 Dealers 7,000-64,000 Transactions S\$100 - S\$500 billion Annual Turnover	66	554	1,662
Large > 15 Dealers > 64,000 Transactions > S\$500 billion Annual Turnover	12	1,929	4,267

Table 2: Unit Cost of Operations (All Banks)

Item	Mean Unit Set-Up Cost (S\$)	Mean Unit Operating Cost (S\$)
Cost per Dealer	88,418	238,512
Cost per No. of Transactions	36	96
Cost per S\$ billion of Transactions	2,876	9,902

Set-Up Cost

As Table 3 shows, the most expensive item in establishing a treasury office is the computer system, which accounts for \$212,000 or 32% of total cost. The next most important is telephone, telex and dealing communication equipment, at \$114,000 or 17%. Altogether, telecommunications take up more than half of total cost. Furniture, office space and other location costs account for 42%, the division between dealing and support functions being in the ratio of 5:4.

Table 3: Breakdown of Mean Set-Up Cost*

Item	Mean Cost (\$)	Percentage (%)
I Location Cost		
Renovation Cost		
Dealer Room	70,300	11
Support Room	68,000	10
Furniture & Fittings		
Dealing Room	64,500	10
Support Area	38,300	6
Office Space	17,300	3
Expatriate Housing	16,000	2
Sub-Total (Location)	274,400	42
II Telecommunication Cost		
Reuters & Telex	37,900	6
Computer System	212,200	32
Telex/Telephone	113,600	17
Sub-Total (Telecommunications)	363,700	55
III People Cost		
Hiring/Advertising/Head Hunting	16,500	3
Total Mean Set-Up Cost	654,600	100

* Based on returns of 108 banks.

Operating Cost

Running treasury operations entails cost of managing people. In general, local staff and expatriates account for 39% and 11%, respectively, of total expenses. Information, dealing and communication systems take up 27% of operating expenses. Table 4 details the various components that make up the operating cost.

Table 4: Breakdown of Mean Operating Cost*

Item	Cost (\$)	Percentage (%)
I Location Cost		
Branch Licence	20,400	1
Utilities	12,500	1
Rental	125,900	7
Maintenance	22,800	1
Sub-Total (Location)	181,600	10
II Telecommunication Cost		
Reuters & Telerate	248,100	14
Computer System	97,100	6
Telex/Telephone/Fax	117,700	7
Sub-Total (Telecommunications)	462,900	27
III Personnel Cost		
Local Remuneration & Benefits in Kind	662,100	39
Expatriate Cost	193,900	11
Training, Entertainment, Travel, etc	226,200	13
Sub-Total (People)	1,082,200	63
Total Mean Operating Cost	1,726,700	100

* Based on returns of 118 banks.

Expatriate Cost

The average cost of maintaining an expatriate in Singapore was about S\$194,000 in 1987, as shown in Table 5.

Table 5: Annual Expatriate Cost

Cost Items (S\$)	
Remuneration	114,012
Housing	41,288
Local Taxes	14,261
Children's Education	3,043
Others	21,335
Total	193,939

A substantial portion went towards the payment of salary and housing. Local taxes, education of children and other items were insignificant.

While large banks tend to engage a greater number of expatriates than the smaller ones, the difference is small. On the average, small banks have more than one expatriate (1.6 expatriates) engaged in treasury operations, compared with 2.4 expatriates for large banks, possibly because of attractive cost and communication factors in selecting Singapore as the location for regional staff.