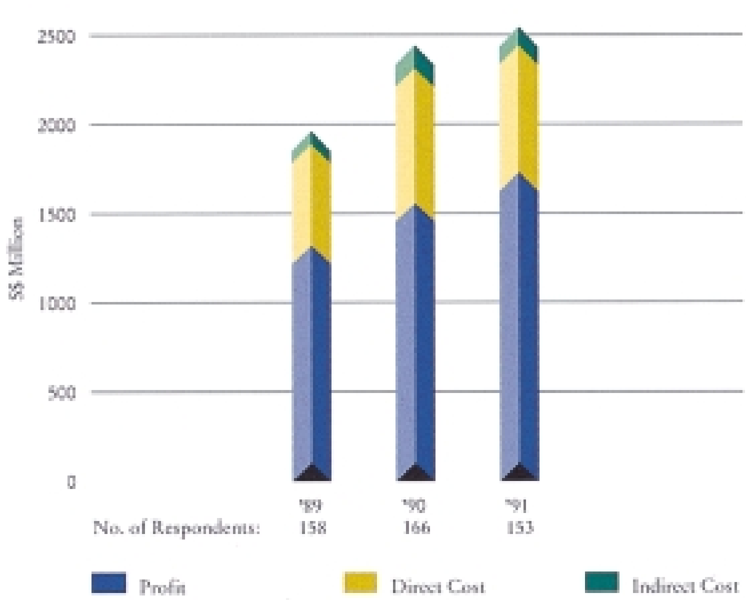
Survey of Treasury Activities in Singapore (1991)

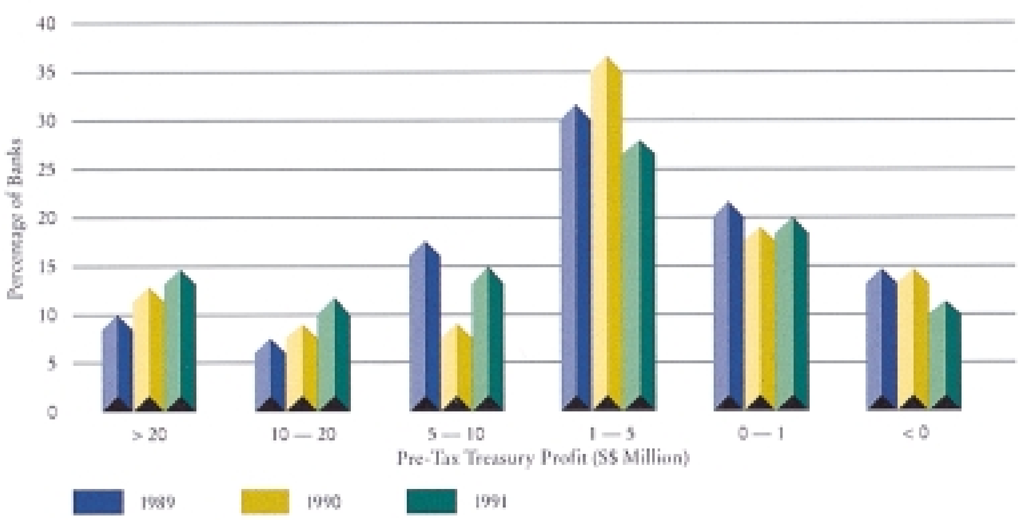
The Treasury industry had another record profit year in 1991. Total profits rose from S$1.59 billion to S$1.72 billion. The average pre-tax profit of Treasury operations rose to S$11.2 million, surpassing the S$9.6 million reported in 1990.

Overall Revenue, Cost and Profit of Treasury Operations



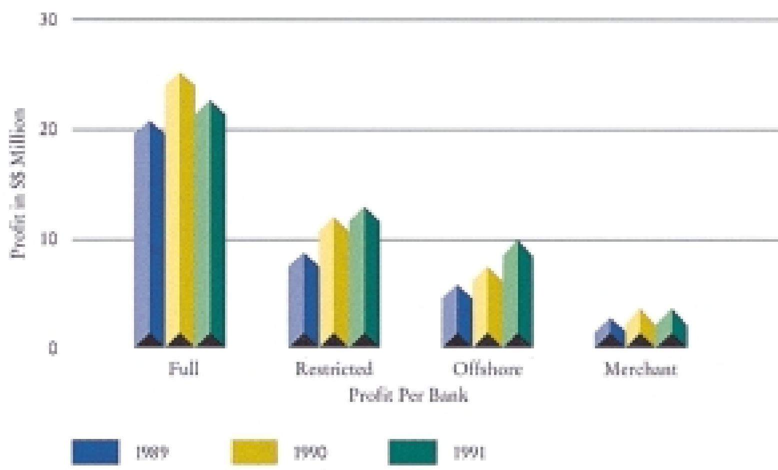
While average revenue rose almost 10% from $15.0 million to $16.5 million, the higher profits resulted more from cost control and reduction of indirect costs. Several closures of, and withdrawals by loss-making or marginal players also contributed to raise the industry average, although there were also new respondents not included in previous years. On balance, there were 13 fewer participants in the survey at 153 compared to 166 in 1990.

Distribution of Individual Treasury Profit



Many more banks posted large profits. Some progressed beyond the medium-sized $1 to 5 million profit range. Hence, the proportion of banks making more than $10 million rose to 29%, the highest ever, and those earning $5 to 10 million regained the previous 15% level. There were also fewer loss-makers this year. However, at the lower end of the profit scale, the small earners up to $1 million remained at about 20%. Of the twenty most profitable banks in 1990, 15 retained their positions in the top category while most of the others slipped to just below the cut-off mark.

AVERAGE TREASURY PROFIT BY TYPES OF BANKS

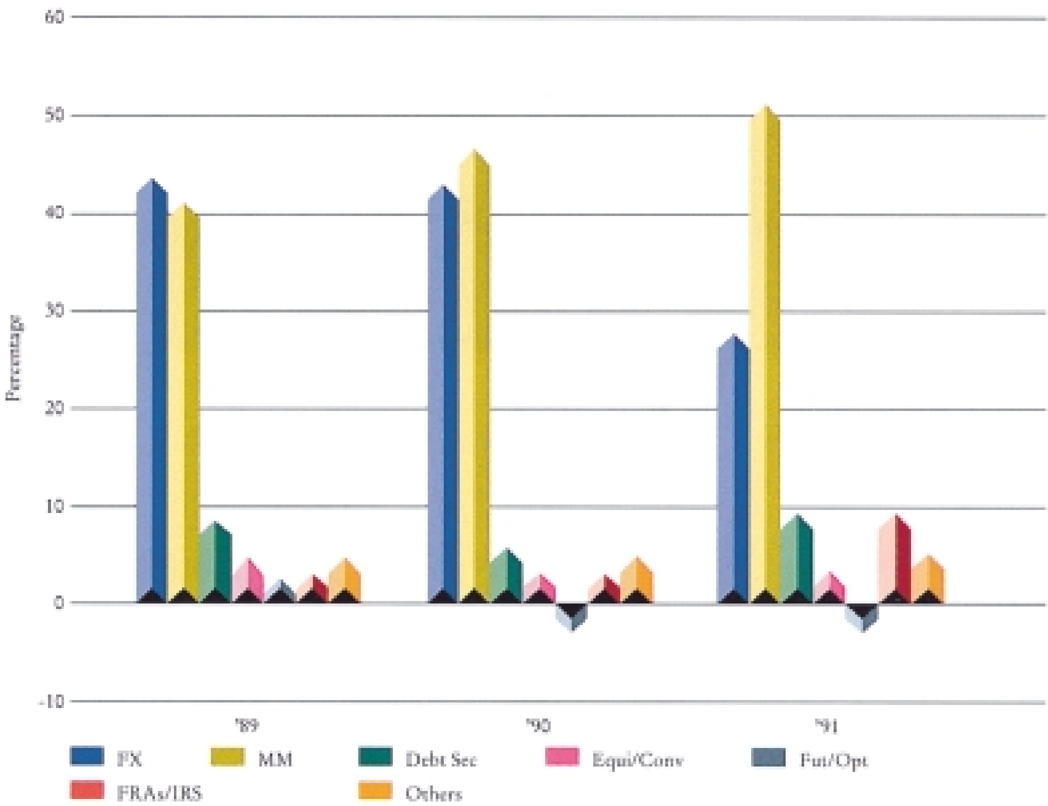


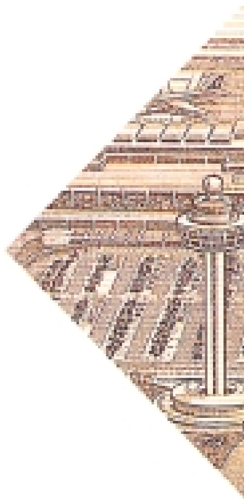
Full banks continued to generate the largest profits by far. But offshore banks, though fewer than in 1990, managed to enlarge their share of industry profits to 39%, up 9%. The presence of many market leaders within the group, the reduction of external overheads and opportunities arising from offshore foreign currency and interest rate business including newer instruments, helped them record this achievement. The Treasury profits of restricted banks were again higher but those of merchant banks remained largely unchanged.

Revenue in the average Treasury operation grew less strongly in 1991 at 10% compared to 19% in 1990. The slowdown resulted from foreign exchange revenue contracting 28% in the face of more volatile and unpredictable exchange rate movements and in line with declining volume trends in other major overseas centres. However, foreign exchange still ranks second in overall revenue contribution at 27%.

Interest rate activities, on the other hand, became more dominant in 1991, particularly money market activities which contributed 50% of the revenue against 46% in 1990. As monetary authorities in the major industrial countries continued to nurse ailing economies with easier monetary policies, market participants were

Sources of Treasury Revenue



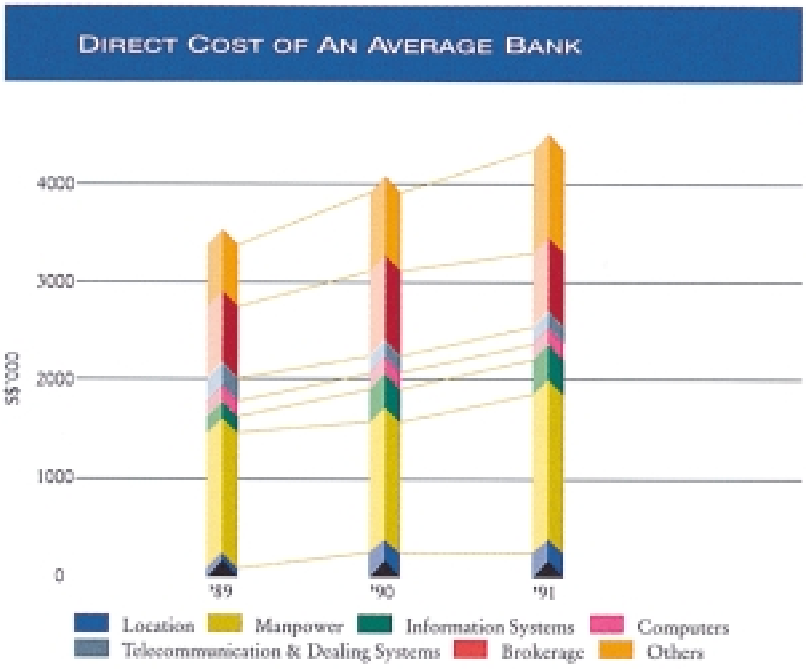


provided with ample opportunities to take advantage of interest rate movements. Hence, other interest rate instruments such as debt securities, Forward Rate Agreements (FRAs) and Interest Rate Swaps (IRS) also grew in importance in 1991; accounting for 18% of revenue compared to only 8% in 1990.

With better cost control, the average Treasury's direct costs rose at a slower pace of 8% in 1991 compared to 13% in 1990. Staff remuneration remained the largest component at 34% of total costs, creeping up from 31% in 1989. However, it was also the fastest growing item between 1990 and 1991. This would not be of concern if the increase reflected the entrance of newer and more costly skills into the industry, if not, Treasury Managers may need to examine their budgets to check this trend early.

Office and housing rentals continued to grow strongly though other location costs subsided. Location costs as a whole slowed to an 11% increase in 1991, down from the rampant 26% in 1990. Savings were made on brokerage fees which fell both in absolute and relative terms; with a 7% contraction, brokerage accounted for 18% of total expenditure.

The money market widened its lead over foreign exchange in terms of profitability, generating $9.0 million in profit on average in 1991, double the $4.4 million for foreign exchange. In 1990, the corresponding numbers were $7.1 million for money market transactions compared to $5.9 million for foreign exchange. As to be expected, the trading of interest rate instruments also yielded wider profit margins. FRA/IRS trading became as profitable as foreign exchange. Debt securities made an average of $4 million for each of the 52 participants in a sharply declining interest rate environment and options activity registered positive profits for the first time in 1991. The number of participants in options and long-dated forwards increased slightly, but all other instruments had fewer participants, as banks rationalised their activities towards those where they perceived themselves as having stronger competitive advantages. Clearly, however, the newer instruments have the potential for higher value-added for those who can manage the incremental risk.



While the unit cost of professional staff increased, there was a proportionately greater increase in revenue generated so that more than $1 million profit per professional was achieved for the industry as a whole. Almost 40% of dealers produced $1 to 5 million in revenue and 32%, $0.5 to 1 million. Only 4% were able to bring in more than $5 million each. Professionals in larger Treasuries, on average, received larger pay increases, but generated lower revenue, than in 1990.

Estimated Profit Margin* of Treasury Instruments

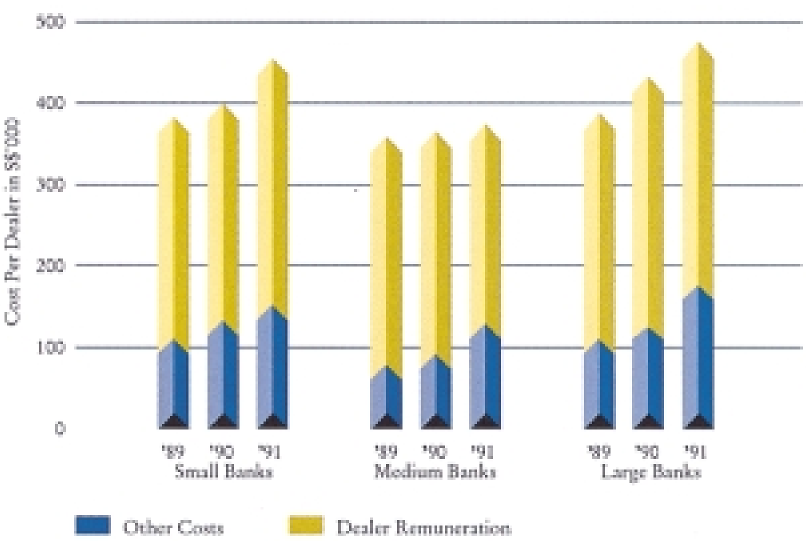
	1990		1991	
	S$'000	No. of Treasuries	S$'000	No. of Treasuries
Instruments				
FX	5,910	159	4,369	135
MM	7,134	154	9,002	137
Debt Securities	2,320	58	4,170	52
Futures	-335	87	-888	71
Options	-241	29	223	36
FRAs/IRS	842	60	4,612	48
Long-dated Forwards	609	6	516	10
Equities/Convertibles	1,244	40	1,823	25
Fund Management	609	3	290	12

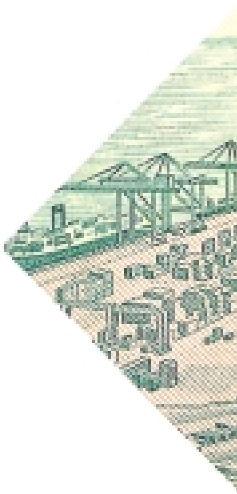
$$* \ \frac{\text{Revenue — Manpower Cost}}{\text{No. of Participating Treasuries}}$$

Diversification into new activities which are characterised by a higher proportion of manpower cost could have accounted for this, but there could also have been pressures on revenue exerted by tougher market conditions. Nevertheless, profit per dealer remained highest in this group of large banks with more than 15 professionals each.

The number of professionals in Treasury activities fell by about 100 to 1,577 in 1991. Foreign exchange professionals continued to form the majority at 60%, up from 56% in 1990. Half of this group were spot traders while a quarter were position takers. Money market professionals formed a smaller proportion of the total, while options, gold and advisory services increased staff members. Despite taking on new instruments, the number of supporting staff fell by about half that of professionals, to 1,482 in 1991, down from 1,528 in 1990.

Cost Per Professional Grouped According to Staff Size of Banks





Confirming the important position of Treasury activities to banks in Singapore, 67% of the Treasuries surveyed contributed at least 40% to their banks' profit in 1991, an increase from 62% in 1990.

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