Bankable Insights

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Foreword

Welcome to this technology and innovation edition of Bankable Insights

The rise of digital technology continues unabated and is reinventing banking. We are entering a period of exceptional disruption that is transforming how business is conducted and challenging the very foundations of established business models.

Across the world, banks, fintechs and technology companies are collaborating to seek more efficient, scalable and economic ways to manage and move funds. This period of change brings great benefits to you as our clients, but also heightened risks to all of us in areas such as compliance and cyber security.

Change can be exciting, challenging and uncomfortable at times. This current period of change brings with it both new and emerging risks that need to be managed. Chief among them is the use of alternative remittance technologies – from cryptocurrency and gig-economy platforms to mobile wallets. In The Digital Revolution: Managing the emerging AML and regulatory risks of new payment methods, we report on the need for regulation to keep pace with the explosion of digital payment methods.

For Standard Chartered, our aim is to bring increased value to you. In Embracing disruption: The future of banking, we describe some technologies with the potential to do so – from the application of artificial intelligence for chatbots and wealth management, to the facilitation of secure, real-time transactions via blockchain, and the way we utilise digital technology to make banking faster and simpler for you.

Our innovation hub - SC Ventures, works with both internal and external partners to transform the services we offer. In Marking a year of innovation and collaboration, we explain how we promote innovation by encouraging ideas from colleagues or ‘intrapreneurs’, partnering with fintechs, and developing new business models. Looking at our intrapreneurs alone, we have received more than 1,200 ideas since the establishment of SC Ventures at the beginning of 2018, with some ideas already having been realised. On partnering with fintechs, we looked at more than 500 startups, and have conducted 52 Proofs of Concept, with 21 at various stages of implementation.

We then focus on the significant threat that cybercrime poses. With banks at the front line of this battle, Diverse threats demand diverse solutions: The evolution of cybersecurity asks how banks can fight cybercrime and how diversity might help.

All of this equates to a transformational and exciting period for banking, taking place during turbulent times, with cyclical and structural economic challenges. Fighting the current, uses the analogy of a turning tide, to report our expectations of a gradual global slowdown in 2019, with multiple risks from the US-China trade war, European politics, China’s tough financial balancing act and oil price volatility.

In 2019 we will continue to strengthen our business through deepening our relationships with you and understanding the challenges you face as your business models adapt to digital disruption. We will continue to leverage better connection tools to deliver our network more effectively and bring you the latest product innovations.

We hope you find this issue of Bankable Insights constructive and thought provoking to your understanding of the issues discussed. If you have any queries, please contact your relationship manager.

Heidi Echtermann-Toribio
Global Head, Banks, Broker-Dealers, and Non-Bank Financial Institutions
Standard Chartered
The Digital Revolution: 
Managing the emerging AML and regulatory risks of new payment methods

by David Howes, Deputy Head, Group Financial Crime Compliance, Standard Chartered

A new generation of digital payment methods is disrupting both the retail payments landscape and the regulatory framework around it. As the use of alternative remittance technologies – from cryptocurrency and gig-economy platforms to mobile wallets – explodes, developing supporting regulation that keeps pace will be critical.

As with any fast-moving environment, managing financial crime risk while keeping up with the speed at which new payment methods are emerging presents a huge challenge. Detecting and countering illegal financial activity in established currencies and payment methods is already challenging enough. Add to this an inconsistent definition of what constitutes a ‘payment provider’, and we face a real dilemma when balancing the optimum breadth of regulations (such as level of due diligence) with the quantum of money being channelled through the rising number of platforms.

Tackling financial crime in this space requires strong collaborative relationships with financial technology firms (fintechs), which are driving the ‘creative destruction’ of the traditional payments model. Both fintechs and banks stand to benefit from the establishment of a clear set of standards for the digital age.

In building this, it’s vital to consider the end users of financial intelligence – law enforcement agencies. While in theory the increased digitisation of the cash economy should secure a better evidential trail, in reality the level of
fragmentation across multiple actors makes it unlikely that a handful of banks can piece together all the information that law enforcement agencies may need.

Allocating responsibility for compliance is therefore paramount. An agreement must be reached on what responsibilities fall to banks, fintechs, and what is shared between them.

**Standing on common ground**

At Standard Chartered, we believe that the future of payments is already here; it’s just unevenly distributed. Mobile payments, for example, have been widespread in Africa for a decade, whereas in the United States, cheques are still routinely accepted.

The example of African countries is instructive. When mobile payments became popular across the continent, telecoms companies effectively became cash couriers outside of the formal payment systems. This moved the process beyond the scope of the banking industry’s established practices for anti-money laundering (AML), such as know-your-customer (KYC) diligence.

It’s not realistic to expect banks to scrutinise the internal transactions of wallet providers or mobile money providers. The data is not available and transaction values are often small. If banks were to do so, the benefits of replacing cash with digital flows could be crowded out by cost and complexity between actors.

Instead, we need to develop a globally-accepted, common set of standards and expectations around KYC, AML screening and sanctions compliance that banks should apply in engaging with new payment methods. Banks can bring value and experience in financial crime compliance and insist on reasonable standards being established by fintechs, in return for providing crucial infrastructure in support of business models. Currently, however, banks are assuming that regulators will be satisfied with their approach to compliance and due diligence in the event of controls at new payment providers (NPPs) being insufficient to prevent money laundering or terrorism finance.

It’s clear that this situation is unsatisfactory.

**Follow the data**

In the old world, law enforcement agencies could subpoena banks, confident that they would be able to identify 95 per cent of the fund trails in a particular country. Cash transactions were not visible beyond cash deposits and bank withdrawals. In the new world, this is no longer the case. As digital replaces cash, the digital landscape involves not only more information, but also far more fragmentation across multiple players.

The largest fintechs are becoming the ‘Walmarts’ of data. Traditional banks simply do not process data on remotely the same scale and are ‘corner shops’ in comparison. The likes of Ant Financial are already closing in on Visa in terms of transactions processed per day – and they have done so in a matter of years.
Such data-management capabilities represent the upside that fintechs could bring, however, with more digital trails that can be tracked. ‘Follow the money’ will become ‘follow the data’.

Banks are concerned that they’ll be required to shoulder the burden of delivering on this opportunity. If the expectation is that banks ingest and monitor all this data, the business is unlikely to be economically-driven. Moreover, that banks have developed hard-won capabilities in managing financial crime is an insufficient reason to set such an expectation on them.

**Cost centre to product offer**

Technical constraints on the fast, efficient transfer of money between parties have been virtually eliminated, but KYC compliance is still both costly and time-consuming.

While NPPs generally have the technological excellence to deliver fast services to customers, the established banks still retain a huge advantage in terms of trust, reputation and security. Providing leading due diligence systems for compliance and making better use of digital-identity stewardship is an integral part of that trust.

The challenge for banks, which Standard Chartered embraces, is examining how compliance can be transformed from a cost centre into a competitive advantage, by creating platforms that give greater assurance of financial integrity to all our stakeholders. Indeed, compliance services could become a product offer.

So, if new thinking is required, does that mean starting from scratch? Absolutely not.

The Wolfsberg Group, of which Standard Chartered is a member, has relevant standards on payment transparency that fintechs would be well advised to build into their product offerings from the outset. Doing so will help build confidence with banks. Similarly, standards on correspondent banking, adapted for risk, are a good starting point for due diligence on NPPs.

**Facing the new reality**

The future lies in collaboration and partnership between banks on one hand and fintechs and NPPs on the other. Banks need to adapt to a new reality or be disintermediated by online platforms and fintechs, whose technology will increasingly replace cash, lower costs and increase speed for cross-border transfers. Fintechs in turn must prepare for a complicated compliance environment, in which they can draw advantage from the compliance programmes developed by banks.

In order for any collaboration to be meaningful and sustainable, banks’ expectations with regards to AML must be met. On their side, fintechs will require reasonable standards of compliance, access to new technology, and recognition of the risks that banks take to enable their business.

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For more information, contact
bankable.insights@sc.com
Embracing disruption: The future of banking

Our Group Chief Information Officer, Dr Michael Gorriz, on the trends that are changing banking, and what it will take to stay ahead of the game

How is AI going to redefine how you manage your wealth? Could chatbots really learn to talk to us as other humans would? Is blockchain the answer to all our transaction efficiency problems? We caught up with our Group Chief Information Officer, Dr Michael Gorriz, to find out how key tech trends are shaping the future of banking.

A new type of chatbot is coming

There are three words that will revolutionise instant chat with institutions: ‘natural language understanding’. While these words might not sound as exciting as buzzwords such as big data, internet of things (IoT) or artificial intelligence (AI), the ability of a computer to understand and respond in the language you use to talk to it will make a big difference. The most well-known application for this is the chatbot, which allows you to text a query to a messaging service and receive a response in the same language you typed it in. Spoken language versions of this technology will ease communication between humans and machines, meaning customers will be able to interact more quickly and efficiently with everyday banking systems.
AI: having a wealth manager at your fingertips

We can use AI to give our customers tailored wealth advice. It could be a simple question of what should I invest in? AI can help by analysing your existing portfolio, the current market trends, and the advice that our wealth management specialists provide—and then combine all this information and give you a personalised recommendation.

Blockchain: the answer to secure, real-time transactions

In the long term, blockchain is going to help make financial systems more efficient. This technology allows the realisation of verifiable, real-time transactions in and across many different areas. If you want, for example, to remit money from one mobile wallet to another in a different country and across different legal entities, blockchain technology allows this transaction to take place in real time.

Saving you time: from days to minutes

Across our regions we’re experimenting with new ways of using digital to make banking faster and simpler for our clients and broadening the client segments we can serve across fast growing markets. Being digital allows us to grow quickly in fast growing markets in tandem with client needs, without having to invest in physical branches. In India, we’re now operating real-time onboarding, cutting the process from a couple of days to a couple of minutes. We can bring customers into the bank much more quickly than before, freeing up time to offer our customers a better service. Meanwhile, in Cote d’Ivoire, we’ve gone fully digital and fully mobile. There are 70 services on our app, and with just the tap of a finger, customers can choose the ones that are relevant to them. Being digital also allows us to serve clients who are used to doing everything on their mobile phones and expect banking to be delivered that way. In Hong Kong, we’ve announced that we’ve applied for a virtual banking licence to provide banking services to digitally-savvy clients.

Invent and innovate: the future of banking

For us, what’s most important is to serve clients in the best possible way. Embracing the disruption is essential. We’re working with fintechs, technology firms and industry partners to explore how we can use technology to revolutionise banking services for our clients. Reinventing the future of banking requires understanding that we won’t always have all the answers ourselves. This is just one of the ways that we’re embracing disruption, and it’s an important mindset to have. I truly believe that technology is now the core of banking, because it makes banking better.

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At almost exactly this time last year, SC Ventures, our innovation, ventures, and investment unit first started life.

I came to the realisation during my time heading up transaction banking at Standard Chartered that the whole of banking was on the cusp of changing forever. We could either follow, and be buffeted by industry disrupters and new technologies, or we could steer the way. We chose the latter.

Our aim, however, was not simply to look at ways to digitise banking, which is often the focus of banks’ innovation efforts. Instead, we recognised that the transformation of banking would entail so much more than technology disruption and the growing value of data, but would require a new contract between banks and the communities they serve, such as ecosystems of customers and suppliers in supply chains: in other words, we had to focus on business model innovation.

Having pioneered the concept of ‘banking the ecosystem,’ which is now common parlance across the banking community, I knew, perhaps controversially, that banking had a great future – a minority view, but a strong conviction. I also believed that we could create the future.

Rewiring the DNA of banking
We first defined our purpose. Our aim was, quite simply, to rewrite the DNA of banking. We chose our words carefully. “Rewiring” recognises a digital element, making better use of data, technology and partnerships with fintechs to achieve the industry transformation we are seeking. At the heart of our change aspirations however, is the “DNA”, the human focus on innovation, by people and for people.

Twelve months later, SC Ventures is still a nascent business, but a great deal has already been achieved. First, I would highlight how it’s been an impactful culture changer in our bank.
Today, 16,000 registered ‘intrapreneurs’ have already contributed to, and voted on, over 1,200 innovative ideas across eight challenges for shortlisting and seed funding through our global platform. After 49 initial pitch sessions and 25 bootcamps, some ideas have already been realised. For example, Brunei’s “Smart Spend” is being embedded in our SC Mobile App, and a proof of concept (POC) for Singapore’s “Credit Card Buddy” in another large market is underway.

(Our) success should also be measured by the impact on our clients and the quality of their experience with us.

Client value through partnerships
Second, beyond cultural change across the bank, SC Ventures’ success should also be measured by the impact on our clients and the quality of their experience with us. We have identified a variety of ways to achieve this, invariably in the context of partnerships:

Partnering with fintechs
We are engaging proactively with fintechs globally through our eXellerator labs in Singapore (covering Asia), Hong Kong (covering Greater China), London, and San Francisco, with East Africa to follow shortly. Having looked at more than 500 startups, we have conducted 52 Proofs of Concept (POCs), with 21 at various stages of implementation.

Our commitment to leveraging partnerships extends beyond identifying and harnessing new relationships to at times investing in them to align incentives and help them transition from startups to scalable, robust businesses. These efforts have resulted in one follow-on investment and ongoing due diligence with a number of exciting fintechs.

Co-creating with clients
We are also actively co-creating with clients, with 54 ongoing client co-creation projects already resulting so far in one business prototype and one new product.

Ventures deliver new business models
Rewiring the DNA of banking extends beyond new technologies to new business models. For example, our digital bank in Hong Kong is currently in the build phase with the application for a virtual banking license in progress. Two other ventures are at seed funding stage: one to build a platform for the provision of financial and other business services to SMEs, a segment often underserved by our industry yet critical to economic growth and progress in our markets; the other is to “plug” our bank into e-commerce platforms to provide financial services to their customers. And several more are in the works...

What this means for our bank and broker-dealer clients
With ambitions to deliver new solutions and business models across the full spectrum of client segments through partnerships, investment and experimentation, our relationships with banks and broker-dealers offer significant potential to realise shared ambitions. We are equally confronted by disruption in many aspects of business. Over the past few years, the value of co-operation, collaboration and co-creation between banks has become increasingly apparent, and we are keen to develop these relationships further to share energy, ideas, embark on joint projects, mutualise some costs and provide better client value.

Looking ahead...
Over the next twelve months, we will continue to work with clients, fellow banks, technology firms and other partners to deliver on our mission. 2019 will see a variety of new launches and innovations. Each one will contribute to delivering a better customer experience. We will be empowering colleagues and partners in and outside the bank to imagine and realise creative ideas. Ultimately, with each new innovation and partnership, we are delivering a new model of banking for future generations that is relevant, and valuable to the communities we support and the society in which we live.

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Diverse threats demand diverse solutions: The evolution of cybersecurity

As cybersecurity threats continue to evolve, how can banks and financial institutions (FIs) best tackle cybercrime, and how can having a diverse team help combat cybercriminals?

We sat down for a fireside chat with Cheri McGuire, Group Chief Information Security Officer at Standard Chartered, and cyber-psychologist Dr. Mary Aiken, a leading academic focused on the evolving interaction between information technology and human behaviour.

McGuire previously held senior roles at Symantec, Microsoft and the US Department of Homeland Security; Dr. Aiken is an adjunct associate professor at University College Dublin’s Geary Institute for Public Policy and an academic advisor to the European Cyber Crime Centre at Europol.

What are the most significant ways in which cybersecurity threats to banks and FIs are evolving?

Dr. Mary Aiken: Companies across all sectors experience cyberattacks every year. However, the most damaging and continuously evolving security threat comes not from subversive outsiders, but trusted insiders: employees, business partners and contractors.

Insider threat is a notoriously difficult area to predict from a forensic profiling and risk management perspective, largely due to complexity of motive and variable presentation of criminal intent. Insider threat can be considered as an overall typology comprised of two sub-profiles: negligent or inadvertent insiders; and intentional insiders, for example, malicious, colluding and or disgruntled insiders.

Understanding human motive manifested in technology-mediated environments is of prime importance in terms of tackling insider threat. Investment in ‘cyber psychometric’ testing methodologies is critical for the financial services sector.
Given that human behaviour can mutate or change in cyber contexts, it is essential for institutions to know their employees in a real world context and to know who they are online.

**In what areas should banks and FIs be looking to improve their cybersecurity strategies?**

**Aiken:** Banks and FIs need to develop ‘cyber situational awareness’, that is, become more cognisant of the ever-evolving ecosystem of cyberspace, and the impact of that environment on human behaviour. As noted in my recent paper on this subject, NATO has officially recognised cyberspace as a domain of warfare. The premise being that modern battles will be waged not only on land, sea and air, but also on computer networks.

This paradigm shift has implications for industry and for the financial services sector, particularly concerning domains such as Darknet markets on the deep web that have been specifically designed to facilitate criminality, driving the digital underground economy, providing a wide range of criminal commercial services and tools, enabling a broad base of entry-level cybercriminals and avoiding surface net traceability. At Europol, we describe this phenomenon as CaaS: ‘crime as a service’.

**What are the key ways to build and maintain a strong risk culture in a large, complex financial institution?**

**Cheri McGuire:** Everyone from the board to the frontline has an important role to play. An organisation’s risk culture is a mixture of formal and informal processes such as policy frameworks and governance models, and a blend of behaviours and habits such as how we conduct ourselves, apply integrity to our daily work and behave securely.

As part of my responsibilities for a healthy risk management culture, one of my key priorities is to strengthen the bank’s security culture, by putting regulatory and compliance standards – and a culture of secure conduct – clearly in the forefront. Examples of processes that help to build and maintain a strong risk culture include: well-defined and communicated processes to escalate concerns, conduct issues or incidents; consistent and visible role-modeling of desired behaviours by senior management; and rewarding secure behaviour that encourages people to ‘do the right thing’.

Ultimately, we need to ensure that every employee is aware of the day-to-day risks, is clear on their role in keeping client data secure, and how their actions and choices can mitigate, or increase, those risks. This would help mitigate the insider threat from ‘inadvertent insiders’ that Mary has mentioned.

**How should banks and FIs address the need to raise cybersecurity risk awareness across staff in different roles?**

**McGuire:** While it’s crucial to create a culture where everyone takes security seriously - using sustained security training and awareness – organisations also need to frame security “in the language of the business” so that it doesn’t mistakenly get considered just a “technology issue”.

Standard Chartered approaches cybersecurity as a principal business risk, which means focusing on the needs of the entire business and ensuring security training supports overall objectives. We need to make it real for staff; for example, by curating a retail banking training session that addresses branch-level issues such as handling confidential documents or helping corporate banking employees to encrypt emails. In parallel, we drive the “tone from the top” via board-level training and executive engagement.

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Organisations also need to frame security 'in the language of the business' so that it doesn’t mistakenly get considered just a 'technology issue.'
In all firms, staff diversity leads to diversity of ideas and avoids the risk of creating an echo chamber. In cybersecurity specifically, there is an additional need for diversity, presented by the wide variety of motivations and backgrounds among threat actors.

Cheri McGuire
Group Chief Information Security Officer
Standard Chartered

There is a risk of adopting a “tick box” approach, setting training programmes to meet compliance requirements. Just as we don’t get fit by going to the gym once a month, firms must deliver training and awareness in engaging ways to get people really thinking about risks. The ever-changing threat landscape and the vastly differing roles of employees need to be regularly assessed to ensure all threats are reflected in training programmes.

Finally, firms need to focus on actual risk versus adopting a blanket approach. Metrics can identify areas that require improvement and highlight high-risk employees and roles that need additional guidance through clinics, online mini modules or hot topic videos. Phishing simulations, employee surveys and physical checks of the work environment can all measure the effectiveness of security awareness programmes and help tailor future initiatives.

What are the most effective ways of achieving greater diversity?

McGuire: Change is rarely easy. Delivering diversity requires people to have uncomfortable conversations about topics they may know little about. It starts with education. Organisations must provide the opportunity to talk openly about diversity and inclusion, and platforms for change. Leaders need to be held accountable and measured on the diversity of their teams. You can take small steps, such as ensuring you have one woman on every interview panel, one woman in every final candidate pool, and changing unconscious bias language. Mentoring programmes can help, but we also have to be conscious of the language we use around “targets”, which can reinforce behaviours and beliefs that are anathema to a gender-inclusive environment.
What are examples of good practice in keeping staff aware of evolving cybersecurity threats?

McGuire: We can no longer rely solely on technology or security professionals to keep data, assets and infrastructure safe. Instead, we must adopt a ‘what’s-in-it-for-me’ (WIIFM) approach that shows employees the benefits of behaving securely (tell their stories, assign them digital points, set up leaderboards) and the risks of failing to do so (e.g. performance reviews, incidents and events, disciplinary action). The key is encouraging personal responsibility for cybersecurity, from making it easier to report phishing emails to improving employee awareness in their home lives.

We should also move beyond “Do’s and Don’ts” to “why”, explaining the lifecycle of a data incident and how it can cause reputational, financial or operational damage. Through targeted training – for example using case studies from new security events, stress tests and attack types – we can stimulate staff to become security agents, rather than just feeling obliged to follow procedure. Further, appointing cybersecurity champions in business units can spread awareness, helping cybersecurity to be viewed as a team sport.

How should banks and FIs deploy new technologies to improve efficiency and effectiveness of their cybersecurity defences?

Aiken: More than 90% of breaches can be attributed to successful phishing campaigns, therefore the ‘human endpoint’ arguably provides the highest security risk in any financial institution. Training programmes that highlight the range of cybercrime threats and how to respond to them can be used to increase employee knowledge and response protocols. To date, training tools such as PhishMe (now rebranded as Cofense) have had some success in terms of psychologically conditioning employees to recognise and report phishing attacks. Future evolutions of these types of technologies will no doubt involve building artificial intelligence capabilities into platforms to make it even easier to recognise and defend against social engineering attacks at scale.

How better can banks and FIs collaborate with each other and regulators/security agencies to tackle cybersecurity threats?

Aiken: Many institutions and agencies focus almost exclusively on analysing technical and mechanical aspects of cybercrime and cybersecurity breaches; for example, dissecting malware and exploit tools, or analysing code and techniques. Few focus on social and psychological aspects of cybersecurity attacks, addressing the “who” and the “why”.

As a cyber behavioural scientist, I would like to see greater collaboration between banks, FIs, agencies, regulatory authorities and academia to factor the human back into the cybersecurity equation. This would help us to understand cognitive, physical, behavioural, physiological, social, developmental, affective and motivational aspects of the behaviour, with a view to mitigating risk and/or staging intervention.

I would like to see greater collaboration between banks, FIs, agencies, regulatory authorities and academia to factor the human back into the cybersecurity equation.
Fighting the current

by David Mann, Global Chief Economist, Standard Chartered

We expect a gradual global slowdown in 2019, particularly in the US, euro area and China. However, the outlook is not as bleak for a few key reasons.

The tide is going out for the global economy. We expect world growth to ease to 3.6% in 2019 from 3.8% in 2018. While this is not a sharp downturn, multiple risks could slow growth more aggressively: the US-China trade war, European politics, China’s tough balancing act, and oil price volatility. The ocean current is strongest when the tide is turning. As the water recedes, it exposes those who are unprepared for the turbulence. In years to come, we may look back at 2018-20 as a highly turbulent period.

Several growth-supportive factors that the markets had grown accustomed to in recent years are now reversing. The quantitative easing era is giving way to an era of higher funding costs, globalisation is facing bouts of protectionism, and demographic dividends are turning into drags for some major economies (though there are important exceptions in Africa, ASEAN and the Middle East). In this environment, we expect the global economy to slow moderately in 2019 and further in the 2020s. There are many reasons for our view of moderately weaker growth in 2019.

After a decade of quantitative easing, the next decade is likely to be characterised by higher funding costs. This risk has been on our radar since the start of 2018, when we warned to ‘beware of the dog’. Unexpected fiscal stimulus in the US in early 2018, and the resulting hawkish surprises from the Federal Reserve, added to pressure on emerging-market central banks to tighten monetary policy. The
market environment suddenly shifted from one of almost indiscriminate inflows to a much tougher, more discriminating one. Funding costs are rising globally as central banks in advanced economies continue to remove policy accommodation.

Among emerging markets, those that can fight the current by delivering on reforms are likely to be in a stronger position. Investors’ flows are likely to favour economies that are pushing ahead with reforms in 2019. Elections will also be on the radar, particularly in India, Indonesia and Thailand.

The US Federal Open Market Committee (FOMC) messaging has already signalled a pause in its hiking cycle. Fed Chairman Powell has faced difficulties in communicating the policy outlook to markets, with messaging swinging from rates potentially going above “neutral” as recently as October 2018 all the way to now signalling a pause. The US economy is still growing above trend, the labour market is tight and the output gap is positive. This leaves us still expecting two more 25bps rate hikes before the end of 2019 (in Q3 and Q4). The big difference between 2018 and 2019 is that the Fed is now near the end of its tightening cycle. This means that regardless of the number of further hikes, they are likely to be ‘dovish hikes.’

China – Hitting the 2020 growth target
We expect China to continue to introduce moderate measures to support growth, rather than delivering major stimulus. This should still ensure that China achieves its long-held target of doubling 2010 GDP by 2020. Growth-supportive measures include the individual income tax reform, which will be fully implemented in January 2019. It will boost the spending power of low-income households, which have the highest marginal propensity to spend. We estimate that the reform, along with the May 2018 VAT cut, will reduce the tax burden by nearly 1% of GDP.

Government efforts have already pushed infrastructure investment growth back into positive territory; it had been negative for most of 2018. The authorities may selectively ease property-market restrictions in 2019 if macro policies turn out to be insufficient to arrest the downturn. This would be a powerful tool given strong pent-up demand for property in large cities. The policy focus has already started to shift from deleveraging to stabilising leverage. The deleveraging push – not the US-China trade war – has been the main cause of slower growth and weaker sentiment since 2018, in our view.

We do not expect Beijing to use the exchange rate as a tool to offset the impact of US tariffs. Rapid weakening of the Chinese yuan (CNY) would risk reigniting one-way depreciation expectations in the market, which we believe policy makers are keen to avoid. A stable currency is also required to support liberalisation measures aimed at attracting more private-sector fixed income investment in China. This should act as a stabilising force for the region.

The deleveraging push – not the US-China trade war – has been the main cause of slower growth and weaker sentiment since 2018, in our view.
Higher funding costs, trade tensions and European politics will be in focus in 2019 and beyond, creating a more challenging environment for emerging markets.

Europe – Growth slowdown, political risk persist
Once the UK’s ‘divorce’ from the EU has formally taken place (due on 29 March 2019, unless the article 50 process is extended), the focus will shift to the terms of their future relationship. Many ‘need-to-know’ details for businesses remain unknown. This lack of clarity is weighing on growth, and diverting investment and jobs from the UK to other parts of Europe.

Italy’s political stresses will also be on the European Central Bank’s (ECB) mind as it decides how to approach the start of its interest rate-hiking cycle. We expect the first ECB rate hike to arrive at the end of 2019, with a growing risk that weaker euro-area growth delays this even further.

Summary: Weak growth, but outlook not as bleak
While there are many reasons to expect weaker growth in 2019 and 2020, the outlook is not looking as bleak for three key reasons: oil is back in the goldilocks range, the US FOMC is now on hold and will only hike more if the markets are able to absorb it and the US-China trade war is now in a prolonged truce. This is good news for world growth and for flows into many emerging markets.

For more information, contact bankable.insights@sc.com
News in brief

A selection of financial news items from around the world

**Standard Chartered sponsors Money 20/20 Asia**

Senior leaders from the payments, financial services and fintech sectors will come together at Money20/20 Asia in Marina Bay Sands, Singapore from 19-21 March to network and discuss critical developments shaping the future of money in Asia. Visit us at our lounge at Level 4 of Sands Expo and Convention Centre.

**World Bank / International Monetary Fund (IMF) Spring Meetings, Washington DC**

The annual Spring meetings of the World Bank Group and IMF will be held on 9-14 April in Washington D.C. The global economy, international development, and the world’s financial system will be discussed in a series of seminars, regional briefings, and other sessions.

**Asian Development Bank (ADB) Annual Meeting, Fiji**

The ADB’s 52nd annual meeting will be held on 1-5 May in Denarau Island, Naji, Fiji, with the theme of ‘Prosperity in Unity.’ Topics to be covered include debt sustainability, promoting healthy oceans, climate change and disaster resilience, women business start-ups and entrepreneurs, and renewable energy, among others.

**Singapore and the European Union move towards derivatives equivalence**

The Monetary Authority of Singapore and European Commission are working to let trading venues on both sides support Group of 20 (G-20) derivatives changes, even though Singapore is not a G-20 member. Singaporean and European firms could still be able to use derivatives platforms in either market to trade in platforms such as interest rate and credit default derivatives, despite ongoing global regulatory reforms.
People's Bank of China (PBOC) to change policies on perpetual bonds
The PBOC will examine policies governing perpetual bonds after the State Council called for more efficient use of the fixed-income instruments with no maturity date. The intention is to make perpetual bonds a channel for improving the capital structure of the banking sector.

ASIFMA new technologies, operational challenges conference announced
This inaugural Asian conference for technology and operations is designed by the industry for the industry, where key stakeholders meet, identify and discuss tech & ops related shared challenges and bring market participants together to help solve these issues. It will be held in Hong Kong on 2-3 April.

Post-crisis regulation could harm repos and securities lending

HKEX’s sixth annual RMB Fixed Income and Currency Conference announced
Now on its sixth year, this conference gathers senior executives and investment professionals in the RMB investment and fixed income and currency industry. The conference will take place on 2 April in Hong Kong and on 4 April in Singapore.
Financial Stability Board (FSB) report assesses FinTech developments and stability implications

The FSB has found that BigTech firms may have a greater competitive impact on incumbent financial institutions than FinTechs. This is because BigTechs typically have established customer networks, as well as name recognition.

Standard Chartered announces second-wave of digital-only African retail bank

In response to growing demand for innovative banking in Africa, Standard Chartered launched a digital solution in Uganda, Tanzania, Ghana and Kenya in 2019’s first quarter. This follows the launch of a digital-only bank in Cote d’Ivoire last year.

SWIFT traffic hits record highs in 2018 as gpi uptake soars

Figures from 2018 show an average of 31.31 million messages a day were exchanged in 2018, up 11% year on year. This was another record year for message traffic, partly reflecting the uptake of SWIFT global payments innovation (gpi) – the new standard for international payments.

For more news and updates, do follow us on our new Corporate, Commercial and Institutional Banking LinkedIn Showcase page.
Standard Chartered has performed well in the Global Custodian magazine’s agent bank benchmark surveys which measure client perception of securities services providers across the major and emerging markets.

**Global Custodian Agent Banks in Major Markets Survey 2018**

- Global Outperformer – Hong Kong
- Global Outperformer – Korea

- Market Outperformer – Hong Kong
- Market Outperformer – Korea

- Category Outperformer – Hong Kong
  - Category Outperformer – Korea
  - Category Outperformer – Singapore

**Global Custodian Agent Bank in Emerging Markets Survey 2018**

- Global Outperformer – China
- Global Outperformer – India
- Global Outperformer – Qatar
- Global Outperformer – Taiwan
- Global Outperformer – Thailand
- Global Outperformer – UAE

- Market Outperformer – China
  - Market Outperformer – Indonesia
  - Market Outperformer – Pakistan
  - Market Outperformer – Philippines
  - Market Outperformer – Qatar
  - Market Outperformer – Taiwan
  - Market Outperformer – Thailand
  - Market Outperformer – UAE

- Category Outperformer – China
  - Category Outperformer – India
  - Category Outperformer – Indonesia
  - Category Outperformer – Pakistan
  - Category Outperformer – Philippines
  - Category Outperformer – Qatar
  - Category Outperformer – Taiwan
  - Category Outperformer – Thailand
  - Category Outperformer – UAE
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