Standard Chartered PLC

Redburn 2020 CEO Conference

Fireside chat with Bill Winters, Chief Executive Officer, Standard Chartered
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(Amended in places to improve accuracy and readability)

<<Fahed Kunwar, Analyst, Redburn Limited>>

Hello, all. I'm delighted to have the opportunity to have this fireside chat with Bill Winters, the CEO of Standard Chartered, perhaps a bank with the most unique footprint in Western banking. So today, Bill and I will delve into all the issues faced by the bank across what has been a very difficult year for a number of reasons, of course. So, hi, Bill, hope you're well. Thank you very much for doing this with us. Perhaps we can do kind of a 5-10-minute overview from yourself from the kind of how you're thinking about the challenges, the opportunities that the bank has, and then we can jump into Q&A. So over to you, Bill.

<<Bill Winters, Group Chief Executive Officer>>

Thank you. I'll try to keep it short upfront so we can have all the time for questions. Yes, as you say, it's been a tough year for everybody. I'm sure all participants here have had their challenges. For us, we felt very good about things as we finished off 2019 and into 2020, the strategy that we had laid out four years ago, and then refreshed a year earlier, looked to be bearing all the fruits that we thought it would, which was continuing to drive good, steady growth in our network business. So, everything cross border especially with the Financial Markets business, having kicked in as a strong performer pre-pandemic and the growing penetration of our affluent customer base continued to be very much on track.

And we were making some good advances in digitisation broadly, which so far had really only impacted our bottom line via the cost line. So, we were able to keep our cost flat to down in an environment where income was growing. But we also had the early signs that there were some income drivers there. That obviously was up until the time the pandemic set in, and then we had to take a big step back. Now the reduction in interest rates is really the most meaningful, impactful thing for us, and we've given the guidance on what the impact is likely to be on a full-year basis, and into next year - it is material, that it clearly sets us back in terms of hitting our financial targets.

But I'd say, the other obvious effect of the pandemic was the substantial increase in loan impairments, particularly in the form of expected credit losses, and then even more specifically in the form of management overlays. Things felt extremely uncertain and potentially quite bleak as we were sitting there in 2Q and into 3Q from 1Q. Around the outlook for the markets in which we operate in, I think we took a prudent approach in terms of those modelled reserves, but also then taking the same amount again in terms of management overlays.

So, as we progressed through the year, and I would say we're in the beginning of the recovery phase, although I know that's debatable given the health challenges in a number of our markets, not least obviously the UK, Americas and India. Let's note that for the markets where we generate the bulk of our earnings, the recovery is well underway. China, I'd say, we are in a almost a perfect V-shaped recovery with recovery back to pre-pandemic levels of income growth. And China has been a very strong performer for us this year.

Hong Kong, obviously, having been buffeted first by the civil disruption and then by COVID, it's going to take longer to recover and had a lower underlying growth rate going into the pandemic. But I spent six weeks there up until last week and I can report that things feel pretty good in Hong Kong, even despite the fact that now there's a bit of a fourth wave coming through, which has got restrictions kicking back in again.

I'm in Singapore now. Singapore, I would say is also struggling to get back to pre-pandemic rates of growth, but it's stable and improving. And in key areas for us, like in the Corporate Finance pipeline and like our Wealth Management income, there are clear signs that we're on track to get back to the quite heady levels from the early part of this year.

So, what's the big question, and I'll stop after this next comment, Fahed. What's the big question, I think in our minds and everybody's mind - we've clearly taken our income effectively, or our income has been taken down a notch on the back of lower interest rates, impairments are up, how much of that is transitory and how much of that is structural? And by that, I don't mean how much of the interest rate movement is structural. That's happened and we're going to be with lower interest rates for the foreseeable future, we all know that. The question is can we continue to grow in those areas where we had been growing at the same pace that we were growing before the reset to a lower level? And can we do that with credit losses, going back to the level that we had indicated was sort of a normal through the cycle level pre-pandemic?

The answer in our mind in both cases is: yes. Yes, we can get back to that. We can grow our network income at high-single digits maybe into low-double digits for the foreseeable future. We can get our affluent client income growing again at high-single digits, low-double digits. We can get our credit costs back down to 30 to 60 basis points annualised through the cycle. And I would say that that we can take, in particular, the mass market part of our retail business and begin to experience growth for the first time in a decade. By doing that, that's a business that was shrinking at 9%, 10% compound before I arrived in the early days. After I arrived, it kind of stabilised to zero. And through pretty heavy investment in digitisation, but also a heavy investment in data analytics to inform our credit process, we think we can get some actual growth back in there.

So, when we look at, I mean, not to preempt the questions, I know you're going to want to dive into it, but as we look at what's it going to take to get to 10% plus RoTE. It's going to take a restoration of that income growth as we've seen it before, with those growing areas being a higher and higher proportion of our overall bank. Doing that obviously with the kind of expense discipline that we've demonstrated over the past five years, doing that with credit costs that are in line with what we had been talking about pre-pandemic, and doing that with an overall capital base that we can continue to manage through a combination of distributions and underlying asset growth.

So, when I look at that mix, I feel pretty encouraged by where we are right now. I think our ability to execute the strategy is as good as it has been at any time since I've been in the bank. I also know that we've taken a big step back on the back of needing to offset the effect of lower interest rates. But it does feel like the growth drivers underlying our strategy are in as good a position as we could hope for them to be right now.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Okay. I think the secular versus kind of cyclical is the absolute key question on all the banks right now. So kind of thinking about that, the structural interest rates has lowered the base. So, fine, we kind of understand that. But before that, your secular trends were 5% plus constant currency revenue growth. That was pretty consistently above that for the last couple of years. So, if we think about the improvements you're seeing in China, I know you said a little bit slower in Hong Kong, where are the areas of strength that you're seeing kind of on the ground into both product and geography? Because it just feels like the Asian markets, the Eastern markets, the growth and the recovery phase has been far more pronounced than the Western markets.

<<Bill Winters, Group Chief Executive Officer>>

Yes. Clearly growth is a good thing for us. I mean growth is what's helping us to not realise the losses that we provided for earlier in the year, so where we've experienced high levels of forbearance or moratoria in markets like China, Hong Kong, Singapore, Malaysia. The markets that are well on the way to recovery, China being the obvious one, we've seen returns straight back down to normal delinquency levels with relatively low realised losses. Hong Kong, I think will be a little bit more trying because the economic shock from two successive crises is a little bit greater, but still perfectly manageable and well within the line, and well within the bounds that we set through our provisioning.

So markets like Malaysia and India are further behind. I mean, the relaxation of forbearance and moratoria is more recent. But as I said, and as Andy said, after the 3Q earnings, the early signs are encouraging and we see nothing since that suggest we should be any less encouraged. I wouldn't say more encouraged either just things were sort of on track for a less than an awful outcome and I think we provided for awful outcomes.

Where's the growth coming from? I mean, the most exciting thing for me as we go into 2020, is that our what we've been calling Optimisation Markets - those four markets that we called out as in a most critical need of improvement in order for us to hit our targets - are doing extremely well. China is showing strong income growth as coming across the board. Wealth Management and products are growing nicely. Cross-border payments and trade are growing nicely. We've had a substantial inflow of capital into China, mostly into the bond markets. We've been a primary, I'd say, the primary foreign bank conduit for external capital into China, but we've been typically number two or three overall in terms of the introduction of international investors to the Chinese bond markets.

We're the only bank that has a local custody license in China so that makes us a natural repository for foreign investors' assets that they acquired. This has just been a really good strong area of growth for us. Also playing very much against the Hong Kong, China payment flows, which has been very pronounced in terms of the volatility in the RMB. So we've got a good Financial Markets front in China and in Hong Kong. So, I'll be running it as a single team. I mean, increasingly our China and Hong Kong businesses are two hats of the same operation. And that's why China's been very strong continuing to recover; it's not one of the Optimisation Markets by the way, but it had a similar gap.

The improvement in India has been similarly stunning. I think it's against the backdrop of the ongoing pandemic challenges there. We're just very, very happy. The improvements are good underlying operating improvements. So income is growing, same themes: Wealth Management serving more mid-sized businesses than the big businesses that have had to retrench a little bit more in the context of the pandemic. Good Financial Markets results, and with continued cost discipline largely through digitisation and branch management and some capital reallocation.

Korea has improved substantially as well. Again, Wealth Management income is growing. Now the Korean market may eke out either side of zero in terms of growth this year. So it's a good performance in the context of the pandemic because they've contained it there from the beginning. There's been no lockdown in any of these markets other than China and India. Korea, Hong Kong, Singapore have not locked down, and you see that in the numbers, but we continue to manage expenses in Korea. And then most importantly, we were able to pay large dividends out of Korea, a total of USD600m this year, which has helped the ROE a lot.

The relative lag amongst the Optimisation Markets is the UAE. And the economy in UAE is struggling really throughout the Middle East. And we've not seen the same improvement there, but we've managed to keep the profit line, I'd say, pre-provision operating profits in relatively good shape through cost management, but we've clearly taken a substantial increase in expected credit loss in those markets. And Indonesia, which is largely at this point, with the sale of Permata, a wholesale market has also continued to perform well. So overall, we've seen good growth in profits from that collection of underperforming countries.

Now looking to Hong Kong and Singapore, Taiwan as our other large markets, the Wealth Management products stay strong, Financial Markets has been very strong.

As you said, it'd be hard to replicate the Financial Markets results from the first half of the year in the second half, but the underlying business remains very strong. There's been good volatility in the markets, in particular in emerging markets. I think we're in a secular growth phase, or secular strengthening phase for the strong emerging markets currencies and those are the markets where we operate. And that benefits the investment flow, which benefits our Financial Markets business. As you know, we're not a big player in the U.S. Capital Markets, and that market is continuing to boom. So, even though I think, we've held our own, or maybe outperformed in our Financial Markets business versus really all of our global peers, I mean, we're in the good pack. I don't know if that will persist in the fourth quarter, given the ongoing strength in U.S. Capital Markets, but I think we've demonstrated that's a good solid business for us, pleased with the strengths of our network business. And it's helped to offset the effective interest rates on our Corporate & Institutional Banking business, but also the effect of a slower economy and somewhat lower trade volumes.

<<Fahed Kunwar, Analyst, Redburn Limited>>

And you talk about growth. Are we kind of getting back towards the pre-pandemic growth levels in the countries you mentioned, or are we still a little bit off those pre-pandemic growth levels?

<<Bill Winters, Group Chief Executive Officer>>

Economic growth?

<<Fahed Kunwar, Analyst, Redburn Limited>>

Yes. And the growth you're seeing in volumes, revenues in your own businesses.

<<Bill Winters, Group Chief Executive Officer>>

We're not back to pre-pandemic levels of economic growth. China would be closest. I guess our forecast for China next year is something in the 6% range, but there is an element of catch up you see from a lower 2020. But I think growth is a full clip lower, even in the fully recovered economies, Hong Kong will be a meaningful contraction this year, will recover next year. But that basically will make it look like we're getting good growth, but that's the base effect. I think if we look at the countries that have closed the gap to their pre-pandemic output, of the big countries, China would get there first, I think it's going to be a while before Hong Kong or Singapore or the U.S. or Europe get there.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Okay. That makes a lot of sense.

<<Bill Winters, Group Chief Executive Officer>>

But I do think the bulk of the world's economic growth over the next five years will come from our markets.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Yes. I mean, I feel that's absolutely going to be the case. And then can we talk about your kind of pre-provision profile? So, your revenue growth kind of, as you said, is what it is - investment versus cost discipline must be an increasing challenge, and I wanted to focus in particular on digital banking. The Asian economies in terms of fin-tech technology seem very far advanced even before the pandemic to the west. And that probably has only increased now from everything we see and what you see in the Cote d'Ivoire and obviously in Hong Kong and your digital bank is very far pronounced. How do you think about that digital bank now post-pandemic? What effect will that have on your business and your strategy going forward?

<<Bill Winters, Group Chief Executive Officer>>

The first thing to note is we just thank our lucky stars that we invested as much as we did in digitisation before 2020. We didn't do it because of the pandemic obviously, we did it because it's the only way that given our scale, we can compete in these markets effectively and we got to be pretty good at digital banking.

So, we've added now, I think 450,000 accounts in Africa through our nine digital banks there with an average funding rate of close to USD800, which is high, certainly, it's higher than our existing stock of clients in Africa and it's almost half the number of accounts that we have in our legacy business and growing quickly and 98% of our new accounts are coming exclusively through online channels with no branch touch at all.

Hong Kong has been very successful. The bank is called Mox. It's been out for two months. We have on-boarded 50,000 customers. Over 80% of those accounts were funded – close to USD0.5 billion of deposits. Maybe most impressively, the app store ratings for both the Apple and Android app stores are like 4.7, 4.8, which is the highest of any financial services app. And the user experience seems to be very good, it takes two and a half minutes to open an account. Two and a half minutes if you're really, really fast, I think the average time is four minutes. And yeah, the social media buzz is very good. Right now, the products that we're offering are deposits and payments and we're in beta testing on a credit card product right now that will extend into personal lending and then other banking products around that. And so far all of our marketing has been word of mouth. We've done no dedicated marketing, either outright or through our partners in Hong Kong Telecom and Trip.com.

So, I'm pretty encouraged that we can get this thing up to speed. It's clearly harder to make money with a basic digital bank in a zero-rate environment. So, we will have to work harder on the other offerings, including credit offerings, to make sure that we get the profit. But the technology works and the user experience has been excellent. And as we contemplate whether we could roll this out, if we were to get a digital banking license in Singapore, for example, where I'm sitting today, we would be able to - in fact, we would be delighted to use most of what we built with Mox in Singapore, obviously customising for the local market as appropriate.

People often ask why bother to set up a separate bank when you could do all this of your own bank, and we can. So markets like India or you can say in Kenya, where our digital bank is part and parcel of the main bank we can do that. The interesting thing here about the opportunities for us in Hong Kong and in Singapore and I'll get to Indonesia in just a moment, is the partners. Now, if we were to launch in Singapore, we would launch with somebody who would help us build an ecosystem off of their business that would allow us to get customers out of the hands of other very, very competitive banks into our hands, because we're offering something that is differentiated through that ecosystem. We're finding that in Hong Kong, which interestingly is a slightly less sophisticated digital banking market and I know you mentioned that the Asian markets are way ahead.

<<Fahed Kunwar, Analyst, Redburn Limited>>

That's a fair point. That's a fair point.

<<Bill Winters, Group Chief Executive Officer>>

China is for sure. Singapore is as well. Hong Kong, not so much, it's the basic banking services with a really good user experience actually makes a difference in Hong Kong. Here you're going up against very strong competitors on either side of me that wouldn't cut it, offering something differentiated through the ecosystem with a strong partner. It could be in terms of allowing us to get to that several percentage points of incremental market share that allow us to fully scale that business in a very low-cost way.

In Indonesia, we're taking a slightly different approach, right. We announced the creation of something called Nexus earlier in the year, where we were building a banking as a service platform. So, this is a piece of technology that we deliver banking products through an e-commerce channel and we've got actually several e-commerce channels lined up in Indonesia right now. The most advanced of which we hope to be out in the market in the early part of next year - we're in kind of advanced testing right now. And this, for us, would be a way to get to 40 million, 50 million, 60 million, 70 million, 80 million prospective customers with the deposit and lending product delivered through the ecommerce channel with the benefit of ecommerce data - sounds a lot like Ant Financial obviously in the case of that, they got it all wrapped together and they do it exceptionally well. Ant Financial doesn't need a lot of banks. They use banks like us to take the loans off the platform, which we do very happily and profitably, I think for both of us - but in markets like Indonesia or perhaps Philippines, or Vietnam, or other markets, where we operate, the opportunity to bring our banking knowledge together with our banking license and our balance sheet and our ability to fund these things together with the data, and customer penetration and user experience of an ecommerce platform is a game changer - it's a game changer for us - it's a game changer for them.

So, we've got variations on the theme of how we can roll out these digital operations. In some cases, we're controlling the thing, as is the case in Hong Kong or Singapore. In other cases, we're providing products through an e-commerce channel, but in a way that we effectively end up with an equity stake, because we're getting equity content at the onset. In other cases, we're a banking service provider, which would be the case with Ant Financial or Tencent in China. And in other cases, we're just doing it as part of our ongoing retail banking business.

But the sum effect of all this is that we should be able to get some income growth out of that mass market segment that has been elusive for some time. It's not even elusive, because we haven't been looking for it, but now we can look for something that - that we know is there, the market is growing. It should be a good return, because we can do this at very, very low cost once we've absorbed the investment costs. I think Fahed, you asked about expenses versus investments.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Yes.

<<Bill Winters, Group Chief Executive Officer>>

We have been investing, I won't say super heavily, but look, we've been spending USD1.5 billion, USD1.6 billion, USD1.7 billion, USD1.8 billion per annum - a material increase on the pre-2015 investment spend initially as largely defensive compliance and risk systems. More recently as largely productive investments and productive in the income sense, not the control sense. And those investments are beginning to pay off, and we see it in Mox in Hong Kong. And we see it in our digital banks in Africa. And you see it in the fact that we can onboard clients' real-time 100% digitally in India, which will be part of dropping our cost income ratio in these markets down towards the 40% to 50% from what has been the 60% to 70%.

<<Fahed Kunwar, Analyst, Redburn Limited>>

So, I guess the economic or the profitability metric that we look out for here is essentially structurally better jaws going forward. So, your revenue growth just comes at a lower cost, is that the right way to think about it. Whereas just looking at the P&L, when do you think it could start having a material impact on the dynamics or the profitability dynamics of the business at a group level?

<<Bill Winters, Group Chief Executive Officer>>

I think in terms of looking at jaws, it already is having a material impact. The fact that we've been able to keep our expenses flat while investing heavily in the business while consistently expanding our jaws, now that obviously won't be the case for 2020, given the fact that we've talked about that, but if we can reset our growth from this lower level, get back to a period of positive jaws, we think we can continue to operate the business. We've already committed to next year, keeping our expenses below our target for this year [$10 billion]. And while continuing to invest heavily, we've not cut back our investments at all in terms of our outlook for 2021.

Now, is there some scenario where we would cut back the investment spend? Yeah, if there was some scenario when we think that the market has changed structurally, but that's not the way that we see it right now. In the meantime, what we're focusing on is translating that investment spend into growth. So, to your question, when are you going to see the impact on the bottom line? Well, you do see it every year in terms of the positive jaws for the expenses flattened and income up. But I think these digital ventures will start to bear fruit probably not so much in 2021, but into 2022 and beyond.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Okay.

<<Bill Winters, Group Chief Executive Officer>>

Especially, as we're able to layer in the full range of credit products alongside the core digital banking payments and deposit type platforms. And that with Nexus - the Indonesian venture - for starters, we would intend to start offering the credit product in probably the second half of next year, maybe a little bit earlier, and Mox after getting scale would be the same.

<<Fahed Kunwar, Analyst, Redburn Limited>>

And one of the issues the digital banks have had that I've seen is - on the banking side; say on the fee side, it works very well, it's implemented well, and they kind of taken over the kind of some that social kind of idea kind of goes through, because you're using it. It's great. On the banking side, what seems to happen is it attracts quite high cost deposits rather than attracting the kind of low-cost current account deposits. Are you seeing that that's a really a Western phenomenon, I would say. On the Eastern side, I think there is a very good evidence that some of these fin-techs are well-placed, can attract a proper colder current account deposits, colder deposits, or are you seeing evidence of that in Mox and the Cote d'Ivoire as well, or is it still that higher cost deposit number?

<<Bill Winters, Group Chief Executive Officer>>

I think, our deposit rate is 1%, which is not the highest deposit rate, but it's above the deposit rate for Standard Chartered Bank in Hong Kong.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Okay.

<<Bill Winters, Group Chief Executive Officer>>

So, there's a pricing incentive at the outset. But I think our bet is that as the user experiences is evidenced as being valuable and, associated with reward programs and promotions and things of that nature that pricing will not be the key differentiator. And we will move away from price as the leading point in just needing to be competitive.

When we look at, I would say, let's take the African markets to the other end of the spectrum, I would say it's entirely pricing sensitive, and that the fact that we were fully up and running by the time of the pandemic hit, was obviously helpful. And it was giving an opportunity for people to deal with it, it just couldn't otherwise. But there was never a price line strategy in Africa and I doubt there will be.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Okay. Let me kind of just change tact to another key initiative. It's very much sustainable financing is becoming a huge area of capital deployment across many, many banks and particularly yourselves. Obviously, I think what a profile of this, is it returns accretive initially, or is it initially slightly dilutive and then where you think longer-term, clearly you get much more sustainable profitability coming out of a higher quality growth in those sustainable financial areas.

<<Bill Winters, Group Chief Executive Officer>>

I think it's accretive immediately. I mean, these are, I mean, we've been financing power plants from the beginning of time and we are continuing to finance power plants. Just now we're doing them in a renewable way. The deals tend to be more complicated, because they tend to have some combination of export credit agency or multilateral lenders involved. Sometimes there's some subsidy coming from somebody and a particular passion of mine at the moment is developing the market for voluntary carbon credits. The voluntary carbon market is an important market today, but it's relatively small and fragmented, and not very transparent.

If we're successful with a taskforce I'm chairing, and I'm sure we will be, I suspect a number of the participants on the call are involved. But also it's got 150 global companies and every one of which is a household name, because we want to make this market big and effective that will put a price on carbon, which will then provide an effective medium for all the people like us, who are committing to go to net zero, but only get there by buying credits, ability to channel our money into the pockets of people that are actually doing the right things for the global climate.

And that I think will add an element of complexity to these financial structures, but also an element of achievability and it plays directly to the strengths of a bank like Standard Chartered, where we had the contractual relationships coming out of China Belt and Road or whatever; but also Europe, Korea, Japan. We also have the clients that are in the local markets across ASEAN, South Asia and Middle East & Africa, who have the greatest need for, I would say tailored, sustainable financing product. We can bring those two things together in a way that I think can take what already is a leading market share position for us in this space and make it even stronger. But it is obviously not all on the asset sides. I mean we launched a sustainable deposit programme in Singapore a year and a half ago, two years ago.

I think we're up by well over USD2 billion of sustainable deposits, it can only be used for sustainable financing. This is a way for us to offer incremental product to our private banking and retail banking customers. We've got a big uptake in corporate deposits, into sustainable deposits, and then there will be some people, who say, that it's all green washing. You can call it green washing if you want, but I can tell you what we're doing with that money is financing reforestation or financing the establishment and then the building of solar plants that would not have been built, but for the sustainability subsidy, that's coming in through the financing. So, I feel very good about the role that Standard Chartered plays in this realm. It also makes us feel like we're doing something to help the world, which is not to be ignored when it comes to keeping clients interested and motivated in actually working with us.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Okay. And so is it fair to kind of say that when I think about sustainable financing, it's very much a corporate wealth initiative rather than a kind of mass market initiative, or do you think actually is permeating the mass market space as well?

<<Bill Winters, Group Chief Executive Officer>>

It's very small in the mass market, but a meaningful proportion of the sustainable deposit money that we've gotten, certainly by number of people has come from the mass market. But in terms of number of dollars, it's still a bit of a rich person's game.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Yeah. Actually, so you say kind of thinking of the digital bank is expanding your mass market footprint sustainable financing is the future really of that corporate wholesale business? Is that a reasonable way of thinking about kind of how I should think of Stan Chart over a 10-year view?

<<Bill Winters, Group Chief Executive Officer>>

Yeah. I think that's fair, but I would say I wouldn't discount too much the impact of a robust voluntary carbon market on for example point of sales. So, you go to buy your airline ticket, you get a message from Standard Chartered that says, for an extra 1.2%, you can offset your carbon products and I think there is a retail point of sale element to this - point to retail deposits, but I think you're right in terms of the bottom line impact for a bank like us.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Okay. And if I think about those two kind of big pillars and big moving target scheduled for this sort of business, how do you think about organic versus inorganic growth as well? I mean, and you're seeing, you talked to just before the call started about some things in the UK in digital banking and how there could be M&A there. How do you think about inorganic versus organic, if I look at the payment sphere, for example, that has very much grown up via the inorganic channel rather than the organic channel scales, it seems very important in both of these domains? What are your thoughts on the organic versus inorganic trends?

<<Bill Winters, Group Chief Executive Officer>>

So, I think we probably have organic, inorganic and semi-organic. The organic is most of what we're doing with our digital platforms and in the rest of our business. Inorganic, we've been largely inactive and a part of that reflects the fact that we felt that the money that we can invest out of our surplus capital earnings directly is more valuable than the things that we could acquire. But I say we're always open to opportunities, I mean with the share price, where ours is, we're not unlikely to be using our shares to acquire anything, which would put the limit on how much of our surplus capital we could use at any point in time to acquire something inorganically.

But the important and interesting area for us is called the semi-organic, which is partnerships. So, whether it's establishing a custodian for digital assets, crypto-custodian, where we were able to, we kicked the thing off ourselves. We built it, but we've taken in a large global custodian as a partner. When it comes to supply chain financing and financing the ecosystem of our customers in China, we partnered with a company called Linklogis, which is a fin-tech, that is quite a well-established fin-tech that has some excellent proprietary technology to get to the deep tier supply chain tech financing, to allow our big corporate clients to understand their supply chain ecosystems much better than they could and then the money flows within that. So, we set up a partnership with them.

We're partnering with e-commerce platforms in Indonesia and Vietnam, Malaysia, India and we would hope to extend those partnerships extensively. So, there are those sorts of semi-organic, where we're effectively coming in and acquiring a stake in something that we share with somebody else, has been the primary source of inorganic growth for us. But I know it's not exactly what you have in mind. We're not just buying and lobbing it into Standard Chartered.

<<Fahed Kunwar, Analyst, Redburn Limited>>

That's really interesting. Because I guess, when I look at the non-banking financial space; partnerships and collaborations, very, very normal way of doing things, whereas in the banking space, it hasn't really been the case, it's not been a very binary, organic or inorganic, and you have this hybrid approach in the fin-tech space. So, if it feels like we're moving more towards that within banking, as we push towards the digital or more digital avenues, how does the economics and profitability work when you're kind of doing it on by yourself - like the kind of banks have been doing for decades now versus this new model of partnerships and collaboration and cross-pollinisation?

<<Bill Winters, Group Chief Executive Officer>>

Yeah. The first thing I would note is that this probably isn't for everybody - and if we go to our partner, large e-commerce platform in Indonesia and over there this is a relationship we've had for years - go back three years - and I speak with the founders of the company, the largest owner. So, why Standard Chartered? I mean, why aren't you dealing with Mandiri or somebody that could bring much more local penetrations than we could? And the answer is that's exactly why, they don't need us. They don't need a separate channel. And by the same token at the other end of the spectrum, dealing with fin-tech who perhaps doesn't have a banking license, that doesn't seem good. So, we need to have somebody that's got a banking license and we need to have somebody that has the technical prowess to be able to deliver.

What I can tell you it is a major project - to deliver a banking-as-a-service model. I think will be the first scale banking-as-a-service provider in the world. I mean, there's a couple of others out there, but they are quite small - and the big banks, I say banks much bigger than we are in individual markets are much more inclined to defend against the incursions from people like us and the small fin-techs have a really hard time getting much traction as we've seen in a number of countries, where you've got some excellent challenger banks. I mean, it's technically excellent, good user experience, good customer satisfaction, but really struggling to make ends meet against entrenched big dominant competitors.

So, I think we're at a sweet spot in the middle which is we are big enough to be relevant to the most technically sophisticated counterparts in the world and we're small enough to be nimble and agile, and to be a challenger. And I'm not saying we're the only bank that occupies that space, but I think we may be the most aggressive in terms of using that position to be as much as a disruptor as we are an incumbent.

Now, when it comes to the possibility of building at scale a retail business in Indonesia: forget it, we can't do it organically by ourselves, I mean, we could put up the branches and pump up the marketing spend and where we could launch some really wonderful digital banks, but without the right kind of partner or construct, that wouldn't be differentiated enough relative to the strong local bank players for us to carve out any market share. But with a partnership that is unique in that market and I think our partnership in Hong Kong, in its own way, is also unique. Now, I know that there are eight digital bank licenses floating around in Hong Kong. And four of those license holders are pursuing a strategy, not completely dissimilar to us but nobody has Hong Kong Telecom and Trip.com as a partner, right. And Trip.com is less relevant in the COVID world, but as people begin to travel again, let's hope, at the end of next year, beginning of 2022, they'll be an excellent partner. Hong Kong Telecom is an excellent partner and adding something very different than what Standard Chartered could ever build organically.

<<Fahed Kunwar, Analyst, Redburn Limited>>

That's very interesting. So, I guess, your franchise was going to be one level below the bigger banks in all your countries in a way, leaves you as an enabler of these fin-techs, you can't quite get scale, both of you together kind of become much more threatening or not threatening, but a much more important player in those markets versus if you were trying to do it yourselves or the fin-techs themselves. That's a very interesting way of looking at it. Okay.

And if I could kind of just change tack a little bit in a similar question, actually, one thing I get back a lot is for Standard Chartered, the deposit costs are actually quite high considering how liquid the bank is. And people had said always because the franchise is not perhaps as strong as it could be. How do you think about that question, I guess is one of the answers to that question, what we've just discussed, thinking about how actually it's not a harm it's more of a sweet spot in an increasingly digitalised financial world?

<<Bill Winters, Group Chief Executive Officer>>

Yes. I think we've been transparent for some time that we have room to improve the structure of our liabilities. It has been one of the areas that we found relatively difficult truth be told. So, we're in a super position in Hong Kong and Singapore and in a few other markets where we have adequate current accounts savings accounts market share. And we know that we're behind in others. So, we've had a very determined focus. This has been a very good year for us in terms of the current account generation. If you look at our deposit line overall it has not moved so much, but there's been a big migration out of more expensive term deposits into the current accounts.

I think we have to look at how the dust settles as to whether we've outperformed or whether this is just the effect of a flood of liquidity coming into the market and we've gotten our share. It feels to us that we probably outperformed a bit in terms of current accounts in markets where we really needed to. And it's because we're improving the customer proposition, improving our net promoter scores, things like that in the key markets.

On the corporate side, we've clearly improved. So we substantially increased our balance in treasury operating accounts, which as you know is the more valuable component of corporate deposits from a regulatory perspective. And that's on the back of some very simple things like - we've asked customers to take the specific execution steps that would render their accounts operating accounts for us and increasing their deposits. So, we would like to be paid this way. I think you saw a bit of that in 3Q, whereas the overall NIM, is clearly under pressure and I think will [continue to] be: I mean, we've got a few more basis points to go as we said. But we've been able to blunt the worst of the NIM impact by improving the quality of our liabilities and reducing the weighted average cost of those liabilities relative to assets.

I think that we've made some progress. We have further to go. We're not a low-cost funder in the market, either in the wholesale or the retail business. And I like to think about it as upside, but you could also say, come on guys, you've been at this for four years, what's the story. I mean, it's time to pull the finger out and get going on this. And I'll say that the right answer is probably in between them.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Could I ask, of the benefits you've seen on the corporate side and on the retail side, how much has been because of the digital proposition that you have or is that yet to kick in, has that played a factor in some of the shifts that you have seen towards lower cost on better quality deposits?

<<Bill Winters, Group Chief Executive Officer>>

Corporate: very little, virtually nothing. I think we have a pretty substantial programme in place right now on the corporate side to create a differentiated digital platform. But I think our major investments in digital in corporate so far had been defensive and hygiene. So, we've been keeping up with what we need to. We would hope to leapfrog in the next generation, which will be over the next two to three years.

On the retail side: I think somewhat. Clearly in Africa the substantial incremental deposits that we've been able to take through the digital platforms wouldn't have come otherwise. But I would say our digital initiatives in our other large markets, including Hong Kong and Singapore, and India, Korea have been investments that have perhaps been ahead of the game for a moment. But you have to think it's just the cost of doing business, hygiene. We've been recognised as having the best mobile banking app in Asia, I think for the past six years. And I'm a user.

I think I have about 50 Standard Chartered accounts and probably 20 other banks accounts, so I spent all my time filling out forms for the U.S. Fincen with all my foreign account dealings with like two hundred dollars in each account. But I mean, I do play around with these things and we're good. Our mobile banking apps are good. Having something like Mox, which was created from scratch with a brand new tech stack, gives a new idea of what good is. And my colleagues in the main bank have been very quick, shockingly very quick to adapt: some of the best ideas that have come out of the development of Mox. Or the developments in Africa. So anyway, has that been a big driver of our current account improvement? No, I don't think so. Actually, I think it's been more broader-customer service and focus on the tracking of those kinds of accounts.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Interesting. I think you mentioned obviously liquidity build up and you've seen your loan deposit ratio improve. How should we think about that liquidity build up, which it feels like could be reasonably permanent and the margin environment, the asset level environment, is there pressure from that excess liquidity and what could you do to offset some of that pressure from the excess liquidity that seems to be building up permanently in the banking sector?

<<Bill Winters, Group Chief Executive Officer>>

Yes, it's a big challenge. We talked with you and others at various points over the past couple of years about the legal entity restructuring that we've undertaken. The big blocks of that were to move our China business to be a subsidiary of Hong Kong, which allowed for much more free flow of liquidity and capital between Hong Kong and China, than was the case previously. And we've created a subsidiary in Singapore where we combined our branch and our subsidiary – into a subsidiary in Singapore and we're layering ASEAN countries under that Singapore holding company as well.

Both of those were designed to liberate trapped capital and trapped liquidity. We had identified hundreds of millions of dollars of benefit and those are actually coming through and it comes through in stages as we're able to refinance existing longer-term debt, et cetera, but we are getting that benefit and that also is helping to reduce the trapped liquidity problem. So, what looks like a really good liquidity position for the bank overall is getting better and better even at the same LCR type headlines. So that's obviously good. There is more to go, although I think that there are diminishing returns from the next steps of legal entity restructuring.

Now the challenge more and more is to adjust the way that we book assets so that we can book more and more of our assets in the places where we have surplus liquidity. Sounds easy, it's not entirely up to us. Regulators in country X aren't always happy to take assets that originated in country Y, if country Y is a less credit worthy country.

So, I think all of our regulators are becoming more and more, I would say sophisticated about global situations, and more and more focused on the global state of play rather than the local state of play. So, I think we'll have opportunities to continuously rebalance our assets and liabilities to take advantage of more and more of the trapped liquidity and trapped capital in a way that will reduce our funding costs and improve our returns.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Okay. I guess before wrapping up on that final form - return, as there are so many moving parts as we've discussed over this call, obviously capital distributions are a big moving part as well, we are some way away from the 10% ROTE for very obvious reasons. How do you think about the levers, in your mind what are the really big, if you weighted the levers towards 10%, obviously it will take more time now we understand that, but how do you think about, big strategy you've talked about optimising liquidity, capital distribution, sustainable financing, digital bank, what are the key building blocks in that kind of way of thinking by it towards more of a double-digit ROTE?

<<Bill Winters, Group Chief Executive Officer>>

Well, obviously it would be helpful if we could return to operating within our target capital range and that there's nothing that we've seen about this pandemic this year that suggests to us that our target capital range was wrong. We'll update you when we get to our full-year earnings in February, that is our 13% to 14% CET1 range, is still our range and certainly at 3Q, we were operating above the top end of that range. And we're investing pretty heavily already. So being able to return some capital to shareholders through one means or the other would be one important component. And I think over some period of time we feel perfectly confident that we'll get there. We can't prejudge where the PRA is going to come out in their deliberation.

The second is we need to be able to continue to grow these key areas that we talked about at the kind of rate that we've been growing for the past five or ten years. And let's say five years in the network business, ten years on the affluent business. And there's nothing that we see today about the markets where we operate, or our competitive positioning that suggests that's not possible. We'll be able to do that with substantially positive jaws throughout, so I can't promise that we're going to keep our expenses flat forever as we have for the past five years.

But certainly, we think we can grow our expenses at or below inflation with substantially higher growth in our underlying income and there's again, nothing that we see in terms of regulatory burdens or outside challenges. I mean, yes, we've had to absorb a significant increase in cyber expenditure which offset some of the peace dividend from being able to pull back from the heights of our compliance spending. But when we look at this in the round, we think we can absorb those sorts of ongoing increases with a structural improvement in our productivity and deploying new ways of working.

Fourth is maintaining the kind of discipline that I think we've demonstrated through, as we're seeing through this crisis on the credit side, we've not had outsized credit losses, we've not been accident prone. We will experience some pain for sure and we've provided for that. But it feels like we should be able to get back to a more normalised credit level.

And then there’s the mass market, perhaps there's an opportunity to actually get that third leg of our business machine in addition to the network and the affluent population to start generating some real profitable growth in and out of itself. And it feels like a pretty good time that with a bit of a reset in parts of the consumer credit market, to be able to go back out with a well-thought out and well-constructed product which in many cases will be delivered through partners who give us a data advantage that we would have been lacking if left entirely to our own devices. So, we can pull that together.

You're right. It’s going to take us a little bit longer, but we can get to the 10% plus ROTE and I think, what we'll be able to demonstrate over the next few years is that we can consistently surprise in terms of the resilience of this platform in the face of some adversity.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Perfect. Thank you very much, Bill. I think we've reached our allotted time. I really appreciate that very interesting discussion. So, thanks for your time and thanks to everyone listening as well. If you have any questions, obviously shoot your request to me or Mark. Perfect, thanks a lot Bill.

<<Bill Winters, Group Chief Executive Officer>>

Thanks Fahed for having me, bye.

<<Fahed Kunwar, Analyst, Redburn Limited>>

Bye-bye.