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Transcript of Q&A with Simon Cooper, CEO, Corporate, Commercial & Institutional Banking

(Amended in places to improve accuracy and readability)

Aman Rakkar: Good morning or good afternoon, depending on where you are in the world. Thank you for joining us for the European track of the Barclay's Global Financial Services Conference. Sorry, we were a couple of minutes late to get started. Had some technical issue that we've overcome. We're really, really grateful to have Simon Cooper here from Standard Chartered. Simon is the CEO of the Corporate Commercial & Institutional Banking division. Having joined the bank in 2016, Simon has a wealth of experience in corporate finance, corporate banking and transaction banking. So, first and foremost, Simon, thank you very much for your time. Appreciate you making yourself available.

Simon Cooper: No, thanks for having me. So, not the transatlantic trip I was expecting, but we'll make do digitally.

Aman Rakkar: Thanks so much. Hopefully next year, we'll get a chance to meet face-to-face. Just before we kick things off, for anyone who's dialed in, I just want to point you to the audience response survey questions in the margin. Hopefully you guys are familiar with that. If you do get the chance, please do fill them out. It's a nice fun, interactive part of the session. And also as another reminder, you do have the ability to submit questions directly into us. We'll collate them and run them by Simon.

Cool. So, just to transition basically to the main event, Simon, again, thanks very much for your time. Appreciate it. So, many of your key markets, particularly in Asia are arguably ahead of other regions, particularly the West in their experience with COVID. Interested in what kind of update you can provide. What are you seeing in terms of business performance activity, as we emerged from the initial stages of the pandemic?

Simon Cooper: Okay, thanks. So, I think you're right. As the crisis hit, I think the initial phase was really characterised - and I guess particularly so, as you were saying, in the Americas - by clients focusing on their balance sheets. On protecting liquidity, protecting ratings. We saw, initially, Revolving Credit Facility drawdowns and then incremental bank liquidity lines as people looked to shore that up. And at that time, if you remember, the Commercial Paper markets and the Debt Capital Markets were broadly closed.

That's now changed and we've seen record DCM activity in the investment grade markets. And we've started to see it opening in the high-yield market. What that meant for me and for my business was, we were able to capitalise on that, I think, reasonably well. So, we were able to support clients, particularly in the US and Europe, at that point in time. We participated in those fundings and those balance sheets shoring up and are starting to get payback now in terms of activity that's taking place, be that in terms of transaction banking or financial markets or increasing DCM activity. I think, in many instances, we were able to sort of up-tier our overall position with clients.

When you turn to our footprint and I guess Asia in particular, actually we saw the same, but to a much lesser degree. The clients were typically already well-placed in terms of balance sheets. And the financial markets stayed open.

You look at China now and it's full of liquidity and pricing's still tight. That's in contrast to Europe and the Americas, where we were able to see an uptick in pricing in the debt markets. But I think as we look forwards, we're seeing clients remaining reasonably bullish, I think. The key themes that have come out are:

- Firstly, digital. I think every client, be it a financial institution or a corporate, they are really focusing on digitisation and how they interact with us in a digital fashion. I think I talked at the last conference about creating digital channels and data [group] coming into me. I guess, by luck rather than judgment, that has proved really prescient. We've moved from trying to convince clients to interact digitally to clients insisting on interacting digitally. We're going to see, I think, significant investment from us and from our clients in the digital space going forwards.

- The second thing you're seeing is one of focus. We're seeing people start to narrow down the business areas they're looking at. So, if you're a broad real estate client, actually you're shifting away from looking at offices. You're shifting now more towards logistics or data, we're starting to see that. We just acted for Singlife on their acquisition of some of Aviva's businesses in Southeast Asia. Again, clients looking to really focus on what they're doing and consequently what they don't do.

- And then sustainability will be the other strong call out, where our footprint is a real opportunity for Standard Chartered. But clients are really starting to live the sustainability agenda in terms of the way they're acting, the way they are thinking of tapping markets.

Geographically, actually China remains important, I guess both in terms of it as a domestic market, the potential for domestic consumption. We're seeing clients doing some acquisition activity to consolidate their positions in China. I think we're starting to see more Chinese clients look at South Asia and Southeast Asia in terms of opportunities for them to flow out.

So, it was definitely a challenging start to the year, but I guess when you look at the part of the bank and the business I run, we were up 9% year on year from an income perspective. And that was really driven by client activity in our footprint.

Aman Rakkar: Perfect. Can I join into a couple of those comments then, around revenue... CIB division that you run... a major division for Standard Chartered that you were responsible for, was a real source of revenue strength for the group in 1H, notably within financial markets. Interested in how much of that you think reflected broader buoyant conditions that we observed globally in financial markets, which may be hard to repeat? Versus, how much of that you think reflects the kind of structural repositioning of that business that you've undertaken in recent years?

Simon Cooper: I think as you look at what we've been doing, we clearly have done a lot of restructuring of the Financial Markets business. It's definitely true to say that we've benefited from the volatility that was there. But as I try and quantify that in terms of our Financial Markets revenue that came through, actually I think probably only about 50% came from market conditions. I think the balance came from that strategy we've had, to deepen client relationships. To invest in the digitisation that we already just touched on, of the Financial Markets business. And then to expand our overall products and geographic capabilities.

If you start to think about that going forwards, that means that, yes, we've benefited from volatility, but the base that we're looking forwards from has I think increased. So, as we look forwards, it's not just riding a volatility curve. If you drill down into that a bit more, we've seen a lot more revenue coming in from more complex and structured deals. We've seen a lot more client activity in terms of digital channels, and that investment in digital platform technology has started to pay off.

Aman Rakkar: Okay. Cool. To that effect then, how should we think about revenue performance in financial markets in 2H? Is there anything that you're able to tell us about conditions that you've experienced in 3Q, relative to 1H?

Simon Cooper: Yeah, well, I haven't been on holiday in August, but it does seem like everybody else in Europe and the Americas did go on holiday. We certainly saw a little bit of a dip in August, to be honest, as is normal in August for our Financial Markets business. We've seen that volatility has come down from its peak.

But, as we go into a large part of September now, actually the Financial Markets business has maintained pretty good momentum. We're starting to see good signs of improvement in terms of global credit. We're seeing our credit structuring and distribution group starting to pick up business as demand for emerging market assets pick up. And investors in this environment are continuing to chase duration and yield. And that's an asset class that fits very well in terms of Standard Chartered's footprint and what we can create.

Aman Rakkar: That's really helpful. I guess, the offset to that financial markets strength that we saw coming through in 2Q, and I guess which faces a bit more of a challenging outlook, is transaction banking. Namely cash management and trade finance, significant revenue streams for CIB. Impacted by rate cuts and weaker trade. How are you thinking about these businesses? And do you think that's a fair characterisation of the outlook, firstly? And then secondly, is there anything that you can do in order to regain momentum in that business? Which I think actually has been pretty impressive up until basically what we've seen take place this year.

Simon Cooper: So, your observations about the transaction banking businesses across the board is fair. I think some of our competitors were down significantly more than us. We were probably middle of the pack, on average. The US banks probably were more effective in terms of mitigation of the low interest rates with much higher liabilities. We've seen our liabilities grow as well.

In terms of what we think about the repositioning and our transaction banking business overall, first thing, in terms of cash. We're not assuming a massive pickup in interest rates. In fact, I suspect they're going to stay flat for a long period of time. But where we see upside is in terms of the volume of liabilities. So, if you look at our half-year numbers, average liabilities were up about 22% year on year. And they continue to hold true, and so we continue to expect volumes to hold up in the cash business, which in part offsets some of the margin compression that's come from rates.

But one of the key levers there is to move the deposit mix. So, we move away from corporate time deposits and make sure the mix is increased in terms of the proportion of CASA. And therefore, as we talked at the start about clients from Europe and the Americas, we are getting good transaction and business flows from them; that results in increased CASA and also fee income. So, as we start to get more of that business, we'll be able to drive fee income for clearing, for payments. And those two starts to mitigate those low net interest margins. I think some of the sectors that we're looking at as well play well into that strategy. We're looking at some of the new payment players, Fintechs, and the whole Greater Bay Area that clearly is right on our doorstep. It really starts to dovetail into that.

When you combine that with what we've done from a technology perspective... straight-to-bank Pay, SCPay. That connectivity into clients, making it easier for them to transact and move money around with us, that results in those liabilities picking up. So, I guess we've got something like a 40% uplift in volumes through digitisation as we look forwards. And we've now got instant payment capability across 15 of our top markets.

If you look at the trade side of transaction banking, we took some actions ourselves in terms of financial institutional trade loans. We took those down deliberately at the peak of the crisis, making sure that we were preserving liquidity, and also maximising returns. They were lower returning trade assets. We're now starting to see trade flows come back, particularly intra-regional trade flows, in the last few weeks and months; again, which we're well positioned to capitalise on.

I think the shape of trade is changing as well. We're seeing a much greater shift towards open account, away from the traditional documentary trade. And again, that plays into everything I've talked about digital, about using data and capturing our footprint business. So, you are correct historically, but I'm probably a little bit more optimistic than you are looking forwards.

Aman Rakkar: Perfect. We've got a couple of questions that have come into me. So, I guess it's probably touching upon the theme that I was looking to ask you next. Clearly, a key region for the business, Hong Kong and the Greater Bay Area. How has recent geopolitical tensions... I guess, the West and China, principally impacting your business? What's the mood on the ground amongst locals and multinational corporates and institutions?

Simon Cooper: I think you've got to be careful about, in part, what is driving the mood at the moment. I mean, Hong Kong at the moment is in recession, but that's very much driven by COVID. I think in terms of the tensions between China and the US, we're seeing much less impact on clients at the moment. I think we're seeing a lot of clients focus on the whole Greater Bay Area. I think there is an increasing belief that the Greater Bay Area could be a catalyst to pull Hong Kong out of that recession as I talked about. Putting the GBA in context; 11 cities, 72 million people. An economy probably north of $1.6 trillion, 60% of which is domestic on Hong Kong's doorstep. So, with China, I think looking at itself in this sort of post-COVID mood, we're seeing actually good activity, good volumes of business in the Greater Bay Area.

That's feeding across into, I think, optimism within Hong Kong. If you look at the multinational space, we surveyed about 50 of our multinational clients, particularly out of Europe and the Americas. I don't think we had one who said that they didn't continue to see China as an important market, both in terms of its domestic consumption, but also in terms of China's expansion overseas, particularly into the rest of Asia and South Asia. So, a lot of noise politically. Clearly, we're all watching that and seeing what could come from that, but clients on the ground are, I think relatively bullish in terms of that tension. But we are mindful that COVID, and coming on the back of a few months of disruption from protests, has put Hong Kong itself into a recession.

Aman Rakkar: Does it make it harder for Standard Chartered to operate in the region? Or does it generate opportunities? If the situation was to evolve, escalate or de-escalate, is there any kind of action that you might be looking to take in response to any of that?

Simon Cooper: I think when you look at what clients have been doing anyway, we've seen them already start to expand into South Asia, Southeast Asia, from a supply chain perspective and from a capital perspective. We're well positioned for that. We're well positioned to help Chinese clients do that. We're well positioned to help other multinational, non-Chinese clients do that.

So, as you see manufacturing and the like diversify, we have definitely benefited from that as a result of our footprint throughout Asia. Bill announced last week a reorganisation of the group. In putting Asia together, I think it further emphasises how we can position ourselves to capture that. Yeah, I think if tensions really, really escalate, nobody benefits, but at the moment, as I say, business is relatively sanguine. And I see more opportunities than threats.

Aman Rakkar: Perfect. So, thanks for that, Simon. Just as another reminder to anyone who might be dialed into the webcast, if you are able to, please do participate in the ARS polling questions in the margin to the left. We'll run through those shortly. And just another reminder to send any questions in directly to us. We'll collate them. One area I did want to talk about was asset quality. I guess, we're in the midst of a historic global pandemic. Your charge, your impairment charge in 2Q across Commercial and CIB was broadly in line with the broader group, at around 80 to 90 basis points. And that did look like it was relatively lower reserve building than we might have seen elsewhere… other banks who have reported in the US and Europe. How do you feel about the ... portfolio, and are you observing any material signs of distress as things stand?

Simon Cooper: It felt pretty high where I was sitting. My returns would have been a lot better without it. I think, if you look back over the last four years, we've done a huge amount in terms of improving discipline around origination and capital allocation at global and regional levels. We set up the Credit Portfolio Management team. And we've transitioned our portfolio, so the CIB portfolio is now just under 60% in strong or investment grades. I think it's 57%. The commercial bank, since we took control of that, has shifted as well, so we've now got about 28%, up from 25%, 26% investment grade. So, we start off from a balance sheet that is in a much healthier position than I think people would have expected of Standard Chartered in the past. That said, as I say, it felt like we were taking high provisions when I sit here. And we did. We took some overlay provisions across the non-purely precautionary book of about 200 million bucks. So, that's 20 basis points on top of the provisions coming from Macroeconomic Variables.

I think we've provisioned fairly. We're not seeing, at the moment, touch wood, clients move into significant amounts of stress. The numbers we've seen are models and/or overlay provisions largely, with a couple of frauds at the beginning of the year that worsen the position. When you look across what we've undertaken by sector, it's difficult to compare to the peers. Looking at oil and gas, commodities, aviation, metals and mining, et cetera, I think where we've done a pretty comprehensive review of the book. I feel we're pretty well covered.

You talked earlier on about the different stages of the COVID cycle, and in part I think it's possible that because we've obviously got a large China and North Asia presence, and some of those markets have recovered more quickly than have some of the markets in the West. Those clients that we do have in the West are predominantly investment grade, so the balance is actually quite helpful from a relative risk perspective.

Aman Rakkar: Yeah, I guess... I mean, you read my mind there. I mean, that was the next question I was going to ask you and does seem... that I guess you would agree with… the initial point and the initial observation is giving a regional focus. It does sound like you think you do have a greater visibility on asset quality, albeit there's a lot of uncertainty out there. But given your regional focus visibility than, say, in the US and Europe, which are further behind in that experience.

Simon Cooper: I think we're seeing more return to normal in terms of activity. If you look at domestic flights in China, they are almost at pre-COVID levels. Look at the proportion of staff back in offices in China, Korea, Hong Kong. We're starting to see levels that are, I would say, several months preceding the West. So, I guess it gives the West comfort and hope in terms of what the direction of travel will look like, but it gives me, obviously as you say, greater line of sight as to where the stress points are.

I think everybody was quick to react. I, like you, have been through many crises, but not one quite like this. But people's balance sheets started off generally stronger. And actually, corporate treasurers were very quick, as we talked about earlier, to really strengthen their balance sheets and put the liquidity in the right place in time, certainly amongst our clients there.

Aman Rakkar: Okay, great. It might be good to pause there for a second then, and switch to our ARS polling questions. There are six questions. Hopefully you've had a chance to fill these out in the margin. Yeah, please do feel free to continue doing so. I will read this out for the benefit of anyone that's not looking at the weblink and the questions and answers, so I'm going to run through the results with you. But to kick things off then. So, question one, what would cause you to become more positive on Standard Chartered shares?

One is positive revenue surprises. Two, greater cost savings. Three, better asset quality. Four, stronger capital high dividends. Number five, a de-escalation in US-China trade tensions. So, the answers came out. The lead is, positive revenue surprises. It's probably about half of the responses, followed closely by a de-escalation in US-China trade tensions, about 40% of the answers. I wouldn't say too much of a surprise then. I don't know if that's noteworthy to you.

Simon Cooper: Well, not really. I think if you go back to when I talked about setting the strategy for CCIB when I arrived, I talked about the drivers of returns being revenue, cost and RWA, which sort of comes into those answers. Actually, all of those have to happen to be successful. And touch wood, so far they have.

Aman Rakkar: Perfect. The next question... how do you think about Standard Chartered's cost development versus expectations? Option one, likely to beat expectations thanks to cost saving initiatives. Likely to meet expectations. Likely to miss, due to cost inflation. I'm sure we'd like to see more cost saving initiatives. So, you'll be pleased to see, I think, likely to meet expectations is the standout response with about 40% of the answers. The others are [inaudible 00:26:22]. The next closest is, likely to miss due to underlying cost inflation.

I guess, in the first instance, if you've got any particular comment on that, and if I may, I've actually got a question... I'll sneak it in there now, but clearly banks are faced with a weaker revenue environment, given COVID. The group have been really clear about the impact of rates here, but we are probably, at a system level, and I think also from Standard Chartered's point of view, looking at a lower revenue run rate. And perhaps before the beginning of this year. A lever that you have to offset that is obviously costs. How are you thinking about pulling on costs? And interested in how COVID, some of the learnings, behavioural, structural shifts since the onset of the pandemic have affected your thinking there.

Simon Cooper: Yeah. So, I mean, I've said all along that we'll maintain cost growth below the rates of inflation in markets, which is below 3%. And I hold true to that. I think, a couple of levers that give me confidence for that. The first is the investment we've done in terms of technology and continued in terms of digitisation of the business. I expect, as we look forwards, somewhere between 10% and 20% of our cost stack to be transformed as we invest in technology, and therefore, reduce manual processing, which means you have much greater operational leverage from your system.

That allows us to then align coverage and product teams more effectively. So, I see that coming through. And actually, COVID has been as you say, an accelerant of that. I think the other thing that we've seen COVID do is change people's behaviours. So, I would expect to see sustained savings from travel, entertainment, from marketing and from real estate, from better and more efficient use of real estate. So, I think they will come through and both of those are sort of... it's a virtual circle of allowing that increased investment in digital and technology.

Aman Rakkar: Perfect. Let's switch to the next question on... How do you see Standard Chartered positioned on capital and dividends... go for upside surprise when distributions resume from lower capital requirements. Number two, upside surprise from better earnings in future years. Three, downside surprise from RWA procyclicality still to come. Four, downside surprise from weak earnings. Five, downside surprise from increasing regulatory requirements. So, the most popular answer here with about 40%, 30% to 40% of the response, is upside surprise when distributions resume from lower capital requirements. I guess, followed by, potential downside surprise from RWA procyclicality still to come.

So, there's a mix of answers there. I guess, there's no real... standout response there. I guess, I would be interested... Obviously, capital distributions decision for the group, but the divisions Commercial and CIB that you're responsible for jointly, makeup two thirds of the Group RWAs. Interested in, when you look out three years, five years down the line, do you still see the near- and medium-term growth opportunities across your footprint that justifies continued investment of cost of capital in your footprint? Or are you sympathetic to the idea that COVID... to the growth outlook, actually, if growth is going to be a bit slower, it does make sense to repatriate that capital back to the group. Either for allocation elsewhere or potentially to be returned to shareholders.

Simon Cooper: I think we've got really good - it could always be better - but good discipline now around allocating that capital. As you say, I've got about two-thirds of the group's capital to make sure I'm allocating it properly. So, I think that discipline around returns, which to be honest, wasn't there historically, really is now something that is embedded in the business. So, we do allocate capital to clients. And we talked about some of the upside we've seen from that, even in the last few months, where we have been able to generate accretive returns from allocating capital.

I think that will continue. I think we will see opportunities for generating accretive returns from allocating capital. That said, we have also said that when we maintain a strong capital position... and after our CET1 ratio, after any returns or increase in investment, we want to be able to return that to shareholders. That hasn't changed. I guess, the only negative in that scenario has been... we did see 10 yards of higher RWAs coming through from client downgrades. We hope that will swing back. But on average, the increase in RWA that we see is towards returns-accretive client business.

Aman Rakkar: Perfect. Returning to the ARS then, what are your thoughts on Standard Chartered's level of provisioning for COVID risks? Number one, very well provided relative to peers. Two, better provided relative to peers. Three, broadly similar to peers. Four, slightly under provided relative to peers. Five, significantly under provided relative to peers. So, the standout response here is, broadly similar to peers, which wins by quite some way. I guess we touched upon asset quality earlier. I don't know if there's an additional comment.

Simon Cooper: No. I would hope from a shareholder perspective, that's what you would think. We don't want to be under provided. Equally, we don't want to be over provided. We want to be fair in terms of an assessment of the risk as we see it. And that's what I always think. We're on the slightly conservative side, but that's not a bad thing. But being in the pack, as your audience suggests, I think is the right place to be.

Aman Rakkar: Yeah. Okay, final ARS question. So, how should Standard Chartered deploy its capital? Number one, invest in growth across the footprint. Two, increase ordinary dividends. Three, resume share buybacks for undertake acquisitions. I mean, we did touch upon this theme a moment ago. The standout responses are fascinating. The standout winner actually is resume share buybacks, which I imagine is a function of where the share price is at the moment. At a subdued level, as-is basically every bank in the world. Followed by investing in growth across the footprint. I think this kind of... captures this trade-off between the growth opportunity that you have in your footprint and exploiting a subdued valuation at the group level.

Simon Cooper: Which I think is a sort of accurate reflection of what Bill, Andy and I have said. As we've spoken to investors about: we do see opportunity, and where we see opportunity, we'll take it. But the share price is, as you say, like many others, on the derisory side of where we'd like it to be. And that gives you different opportunities.

Aman Rakkar: Okay, perfect. So, I think we've got about one minute left. I'm going to sneak in one final question that we have.

Simon Cooper: You didn't get the question about you getting your research report up…getting it as a strong buy. When does that come out?

Aman Rakkar: Yeah. I do appreciate this advertising that you're doing. It's really appreciated. One final comment on competition. We've probably got about 40 seconds before they cut us off, but interested in how you're observing competition [inaudible 00:34:59] in your key markets, particularly in light of Covid-19. Are you seeing an influx of people with drawing capacity? Or actually, have we still got really strong competitors?

Simon Cooper: So, I regret to say, I still see competition as intense. I think that's a good thing because that shows that what I'm saying about the opportunities in the markets are real. Now, we're not seeing mass withdrawals. We've seen a couple of withdrawals from some of our markets historically, but not as a result of COVID. What I am seeing is clients increasingly looking at that network and demanding strength across the network. So, being able to deliver the network, ultimately to be able to do that in a much more digital fashion, that's been the Unique Selling Point that we've had, but I think it becomes a greater and greater differentiator. And as clients are looking for stability and comfort in terms of how they're managing this time, that's becoming more and more relevant.

Aman Rakkar: Okay, perfect. I think we are just about on time here. Simon, thank you very much for your time. I really appreciate it. Appreciate it's a busy time for you right now, but this has been a fascinating session. So, thank you so much for your time.

Thank you to everyone who dialed in with us. We really appreciate your attention, your participation in the ARS. So, thank you very much everyone. Speak to you soon.

Simon Cooper: Thanks a lot, Aman.