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Transcript of Q&A with Andy Halford, Group CFO, Standard Chartered

(Amended in places to improve accuracy and readability)

SPEAKER 1: This presentation is for Bank of America clients only. If you're a member of the media or the press, please disconnect now.

ALASTAIR RYAN: Ladies and gentlemen, welcome back. Thank you for joining us for Standard Chartered. A few minor technical issues. I'm only delighted we've made it until, god, 4:00 in the afternoon before something's gone wrong. We do have Andy, Group Finance Director with us. You won't be able to see him. You might have to look at me, for which I apologise.

But Andy is with us, and I'm going to launch straight into it, Andy. I know he's just run into a series of other meetings. He's got to make things up and keep time for biscuits in a virtual conference versus a live one, but Andy, welcome. Thank you for joining us.

Talking about Asia. So it feels like a long way away all of a sudden now that suddenly so few people are traveling from here to there, but possibly quite a different picture to the one in the UK, which feels fairly tough here, and been some quite good economic data numbers. Trade looks like it's beginning to recover. Is that your experience that Asia's coming back?

ANDY: Yes, absolutely. Firstly, my apologies. I'm not quite sure why the video bit isn't working, but anyway-- but yes, absolutely it is the case. I think those of us who sort of sit in Europe or maybe the US are feeling a bit sort of down about stuff at the moment.

When I do calls pretty much daily with colleagues in various of our businesses, particularly the Northern Asia ones. China, I guess, is probably a standout. Hong Kong to a reasonable extent Korea, et cetera-- that they are much more-- well, China is sort of saying, look, we might not be quite where we were at just before COVID started, but we're certainly very, very close to it now. Hong Kong, obviously, is sort of stepping a little bit gingerly around the odd sort of spikes, but most people there are saying, look, the civil unrest a year ago has really gone away.

COVID - people are now sort of coming back into restaurants and things like that. And there is much more of the sense, I think, in many of those countries that there is this light at the end of the tunnel. It's not going to be a totally easy route. Some of the Southern Asian markets have obviously got a little bit further to go.

But certainly the sense there is much more positive than the sense that one would get in the more, quote unquote, mature parts of the world that-- as we-- well, all those of us who live in it sort of tend to probably see on a daily basis. So simple answer to your question is yes.

ALASTAIR RYAN: Thank you. Well, that's a good start. And in that light, is it a growth business again yet? So you have got back to pulling the bank on some nice volume growth before this all happened. Does it take a while to find [INAUDIBLE] for you to work out parts

of the portfolio, or should we be thinking about this as something volume-wise - and we'll come to margins later - but volume-wise something that you can get back on to quite quickly.

ANDY: Well, I think it is going to be a story in two parts, as your question touches upon. It is unavoidable that the downdraft of interest rates and the impact upon margins is going to be a feature for us over the balance of the year. And we've talked to that previously, and obviously [INAUDIBLE] as to what we can do.

I'd say, if you sort of put interest rates on one side and look at the collective of the rest of what is going on in the business, as a collective, it is actually not too dissimilar to activity levels of a year ago, excluding the interest rate impact. Now, that doesn't mean to say that it is universally that, but we've had-- the area's financial markets obviously been very buoyant. Trade is more interest rate impacted, but a lot of the business-- mortgages, things like that.

There will be a rate impact for those who are on variable rate, but actually the overall volume of mortgages-- it's a pretty long book that's been there for a period of time. It doesn't change a huge amount. Most corporates have got more rather than less debt on their books at the moment, and therefore there is volume on that side of it. There are some who are just sort of keeping a foot in the water to sort of have a look at whether there are acquisition opportunities out there, particularly with prices being incredibly low at this point in time.

So overall, I'd say we are absolutely not giving up on the volume opportunity. I think it will realistically be a little bit moderated for a period of time, but our sense is it's sort of a depression for a period of time, or a suppression for a period of time. But underneath it all, at the end of the day, the world is going to be consuming roughly what it was considered in the aggregate before.

The world is still going to be making quite a lot of stuff that is not consumed at the point of production, that doesn't shift dramatically overnight, and, therefore, I think what we have to do is sort of look through this particular period with the rate effect and actually make sure that particularly with digital platforms and on the retail side much more sort of mobile access from customers. But we are there. We're at the party. And as things starts to get hopefully into sort of better spaces over a period of time, we are very much there, ready, willing, and able to take our place at the table.

ALASTAIR RYAN: Thank you. And then within that, of course, Hong Kong, typically your most profitable market, certainly one that's been very good to you over the years. Like you said, the civil unrest has calmed down, but the tourism hasn't come back yet. There's been some political concerns, but there's been a huge IPO boom. Where does that land on Hong Kong for you?

ANDY: Yeah, great question, isn't it? I think for those who don't have a lot of direct dealings with Hong Kong, one tends to sort of hear mostly fairly pessimistic stuff, particularly with regard to sort of US-China relations and things like that. If we talk to the members of our team out there, they would say, I think, two things predominantly. One, the social unrest is in a much, much better space than it was a year ago.

You may question - you may have different views on the law and the changes that caused that, but it is the case. And the streets are very calm, and that side of it has sort of just

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disappeared very quickly. And so secondly, the actual visible impact of the China-US is sort of not really there.

It is obviously something that is a preoccupation in a lot of people's minds, a lot of banks minds about sort of where it could go. But at this point in time, sanctioned individuals is a relatively small list for any one bank, ourselves included. The subset of that list is infinitely more manageable. There's been the sort TikTok, WeChat stuff that sort of seems to maybe be now heading in a particular direction. And I think it is much more about behind the scenes just being prepared, depending upon what next happens.

But as has so often been the case in Hong Kong over multiple decades, there is a resilience. And as you say, the flow of the money in for IPOs are still very high. Corporates, on the one hand, around the world are maybe being cautioned that dealing with China is sort of something they should think carefully about, but it hasn't being happening but many of those same corporates are saying, well, let's just look at where the market opportunity is over the next decade globally. And you still put China very, very near the top of the pile, if not at the top of the pile.

So the amount of activity that there is still going on between non-Chinese and Chinese businesses remains high. Roughly 2/3 of inward investment into China comes through Hong Kong. Roughly 2/3 of investment out from China to rest of the world goes through Hong Kong, and that isn't disappearing anytime overnight.

At the moment, things are reasonably calm. Obviously, GDP is depressed because tourism, things like that. That is for sure. But I think it is just showing a level of resilience that maybe is a little bit belying what some might take away from the externals, the press, and the media.

ALASTAIR RYAN: Got it. Thank you. Just to remind the audience, you can ask questions. We're clearly live. So I can see the questions. Andy can't. So I can drop them on him, as well, if you ask me some good ones.

Andy, I'll ask you one that is-- I should know how this works by now, but between that capital flow you talked about in Hong Kong between the peg-- the IPOs, interest rates-- where is that standing right now? So HIBOR was below LIBOR for years, and it went up and then it came down. Now it's gone back up again. Interest rates, more of a drag, less of a drag? Depends on the time of day? Just for that particular piece of the business- Hong Kong.

ANDY: Yeah, it is extraordinary. If you look back over several years now, we've had HIBOR, LIBOR relationships, which have sort of inverted, have narrowed, have widened. And yet over that period of time, our margins have remained remarkably constant.

Now, part of it is that there is also this prime rate where the mortgages are based upon the cap, which itself is based upon yet another rate. So, there's really quite the combination of several moving parts in it. But I would just observe that, actually, through thick and through thin, and lots of things moving around, that there hasn't been a particular movement on overall margins for our business in Hong Kong and from a competitor either. And with the capital inflows that are still coming into the country, particularly the IPO related, with the absence of any sort of sense that there is any massive outflow because of nervousness about the future or whatever, which we're not seeing, but it's sort of more in the slightly boring, but steady as she goes, which, for a big profit center, as it is for us, is-- it's not a bad place to be.

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ALASTAIR RYAN: Thank you, and, well, in talking about the future, so I see Mox is out there now. So you've launched a whole new bank this year, which is quite some going. What was the opportunity? And I suppose who gets disrupted? I mean, you must be disrupting yourself a little, but presumably you're aiming at some of the others in the market. Where is that going for you?

ANDY: Yeah, so we've sort of now officially launched Mox, and those who pre-registered, we are now sort of signing up to be real customers. I think-- I mean, the story on this one goes back to two and half years or so when the regulators there said that they were minded to making licenses available. They would be digital only.

They would not be bricks and mortar, and we did have the discussion about sort of what we should do. To your question, clearly there is a risk of some cannibalisation, but our view, for several reasons, was we should actually press on with it. One was that, if we didn't get a license, somebody else was going to get it, so there would be some element to kind of cannibalise anyway. Secondly, by actually building a new bank-- and this has been done as a completely freestanding technology stack taking sort of the best components of things that we either do ourselves or some others do, and building something that was freestanding, it would be a very interesting learning, and potentially one that could then be sort of copied and pasted into other countries.

Thirdly, our sense was that, actually, if we were thoughtful about it, and we deliberately marketed it at a different audience to our historic customer base, which is a certain age profile so we say, and that actually there is quite a market opportunity for us in a slightly younger age group. Probably to get to that younger age group, we didn't just need a technology platform, but we needed to think a bit more about brand, and hence why we decided that we would actually go with a different brand name-- Mox in this instance. So, I think that it's been very rich in learning in terms of getting the stack to where it is today. It will be very rich in learning over the coming months as we essentially put more and more customers onto it.

The fact has made our teams really, really think about what is the best that is going on around the world in terms of presentation of banking services to customers not looking at it from the context of what we've historically done. And how do we add to that is also good learnings-- and the fact that it can be copied and pasted essentially into other markets if we so desired. And in another market, if a regulator said that they were planning on doing similar, then the hope would be that, if we could get a license there, it would be our second time around experience. Whereas some of those that we might be competing against-- it might be first time around.

So, for all those reasons, I think it is actually quite an important milestone for us. It is one of the number of digital things that we have been pushing on. We've done a lot in Africa with a much more sort of cut down low cost alternative.

We have got the Nexus platform that is first being launched in Indonesia, which will be different again. It will be a sort of interface between our banking systems and an e-commerce players front-end system so they could bolt financial services products seamlessly onto their websites and onto their offering. So I sort of see them as part of a pretty determined push now to make sure that we do really not just talk about technology and not just talk about digital, but really make it happen and make this business over the next few years a business that is much more savvy in that respect.

ALASTAIR RYAN: Thank you. And now shifting a bit, it's quite a big restructuring of the group, and not lopping bits off, but changing the shape of it, both geographically and in the business lines that you announced just a couple of weeks ago. Could you could you tell us what you-- what that does? What opportunity that provides, whether it's revenue focus, cost focus, capital allocation? How do we think about those changes?

ANDY: Yeah, so we've made two changes, as you say. Sort of one about client groupings, and one about geographic groupings. Let me talk the geographical first, because in some sense the link is simpler. So, we have previously had the Northern Asia region, and the Southern Asia region run separately. With everything that we are seeing in terms of flows within Asia in the broader sense of the word, our sense was us having a bifurcation within our own definitions and organisation structures when the rest of the world didn't bifurcate it that way was slightly sort of unnatural, and that by actually looking at it as a region and having it under one person, which will be Ben Hung, that actually the ability to both tap into more flows across the region was a very real one, and possibly at a time when more people will maybe be thinking about whether they want to slightly retune their dependency upon China and actually reweight, then obviously this region is one of the potential beneficiaries of that.

And secondly, there will be some elements of cost efficiency that will come out of not having to sort of carry to that lots of regional overhead. So, I think that one is sort of a pretty logical sort of evolution of where we have been.

A client group one is slightly different in its nature, so we've sort of had two corporate groups and two consumer groups for a number of years. And the corporate groups, the CIB, and the commercial bank, which is smaller, but the CIB business in particular that Simon Cooper has run for the last several years has been run more-- well, I don't like to use the word centrally, but it's been sort of coordinated from the center. Whereas the retail businesses have been more run from sort of countries, and the sense that actually we've probably made more progress over the last few years, particularly in terms of standardising systems in the corporate space than we have in retail. And it's actually time that we really grabbed the retail consumer sort of broader definition in a more cohesive way, and make sure that the sort of platforms we've got are ever decreasing in terms of variety, that the product offerings we've got we are actually learning from countries and sort of sharing those again.

And so, the view was that actually we should pull together what was previously the sort of retail and the private bank essentially. So right, let's have one unit. Judy Hsu is going to run that. She's very, very well backgrounded on the consumer side of it, and actually so, right, let's put our best foot forward and see whether actually over the next two or three years we can get the retail consumer business into sort of the same space as we've got the CIB business.

It will make the business a bit simpler to run, as well. So broadly corporate and consumer. That is reasonably memorable and with sort of Asia, and the rest of the world, which is also simpler. So, I hope there are benefits on both fronts, along both income and on cost. That is certainly the intent. We're going through at the moment just working out exactly how we'll structure it and who will do which roles. And the intent is to have that full innovation by the start of next year.

ALASTAIR RYAN: Great. Thank you. Now, just before I dig into costs, one question on the revenue is, I guess, one of the hardest things for us to forecast. Well, I've already said I can't

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forecast net interest margins, and I can't forecast Hong Kong interest rates. So I'm running out of things to forecast.

I can't forecast financial markets and the trade in the capital market side of the CIB, which actually did really well in the first half. And you and Bill talked a little about how you increased confidence that what you're doing has worked. I suppose, how much of the first half carried through into the second half and into next year? And how much of that was just special because level of dislocation?

ANDY: I think a little bit like the answer to your first question. There is the interest rate effect, which is with a book that sort of-- I don't know-- has a roughly nine-month maturity. It is sort of rolling effect through from, what, probably March when it sort of started through to the end of the year. And that is reasonably sized numbers, and undoubtedly that is a headwind.

And we've also got, remember, as we go into next year, that we will have had the sort of-- the 2020 effect will have been started high and ended a bit lower. Whereas we'll start next year obviously at the lower point. Put that on one side, again the sort of activity levels on the average across the rest of the business have actually held up really well.

Now, some of that obviously is bolstered by the financial market side of things. And as we said, I think a number of banks have said it was really very buoyant in the first six months. It will be - it would be wonderful to think that it was going to be as buoyant in the next six months and six months thereafter. Maybe it will not be quite as buoyant, but there's still so much moving around the uncertainty that's out there that needs the Treasurers to still be pretty mindful of exposure management, and hedging, and hence that product group I think still remains reasonably compelling.

We've then got the other sort of factor that this year was a year when there was sort of maybe two months or so that was sort of that pre-COVID levels, and then the rest of the year, obviously, went on a ramp down pretty quickly. And the relativity, I think as we go into 2021, is going to be maybe this is a little bit questionable in the Western markets, but maybe it will be more present in the Asia markets. But we'll have a year when actually it starts at a lower point and progressively is picking up.

And the hope would be that one period that had sort of 10 months of downdraft maybe will not have quite the same opposite effect as we go into next year. And they're the things that we've just been talking about on sort of Mox and other digital sort of pushes-- will hopefully be things that will be additive. So, I do agree with you. It is a difficult period to forecast. I think one needs to sort of take a view on the interest rate effect and then sort of look at the rest in the round.

It is a period when clearly credit impairments will get on to. It is a big-ticket item. This year we'll hope that it's slightly less big next year and that it's going to be the balance of investing in the business for the future, but keeping a very, very firm handle on the cost.

ALASTAIR RYAN: Well, you've teed me up nicely there for the next two questions. So I'm going to ask you cost first, and then credit. You know, down 5% year on year in the first half. Very strong cost performance. Clearly a confidence around cost now.

How do you keep that lid on while investing? Because there is still inflation in new economies, and there is still growth.

ANDY: Yeah, I think for the last three or four years we've made quite the change in the business sort of culturally for the cost issue. I think a lot of businesses are sort of naturally resistant to having to take cost out, but that when you can eventually get the message across, every dollar you can take out is potentially another dollar that's available to invest in the future, that we do need to transform the business more in the future, and therefore, let's really lean into this. So, I think that sort of penny has definitely dropped.

We've been sort of around the $10 billion mark for the last three years or so, excluding the bank levy. And in keeping it flat, we have typically had to sort of work our way through a natural rate of inflation - $200 or $300 million a year. And we've also doubled the investment in information technology, which, when you come to sort of expense it, is probably another $300 million a year of incremental costs going through that we didn't have.

So, there is a track record of probably underneath it all taking $500 or $600 million out each year in order to basically offset the additional future investment and the inflation cost. And essentially, that is what the challenge continues to be going forward. Now, this year is slightly strange, because part of the reason - being completely open about it - that we have got the cost down low this year is the decision we took very early on in COVID, which was just to manage expectations within the business on variable compensation, and say to people, if we are in a very difficult period for the world, and likely results will be depressed this year, don't think we're going to be paying out bonuses to the same level that we have done recently. And hence, we have got a lower level of pool on bonuses, and hence, that is giving us some of the benefit.

We've also got some benefit from travel and hotel costs, which obviously have also massively declined. The real trick for us is, if we're going to stick to $10 billion this year, having got those benefits, and going to replicate $10 billion next year, then we've got to replace those-- what I hope are sort of more near-term actions that I -- we don't want to have to reduce the bonuses, however, with some concrete alternatives that give us the confidence that we can take the equivalent costs out in the 2021 year.

The rationalisation or the regional structures we've just talked about will be a help in that regard. The consumer group coming together will be a help in that regard. We didn't make a big song and dance about this, but a couple of months ago, we've sort of put the final parts of our commercial business together with the CIB business. Again, there's a few tens of millions of cost take-out that comes from that.

And then also we've been doing a lot of work with David Whiteing, our COO. So, you're looking at the business much more through the eyes of customer looking to improve services from the very first experience to the end experience of the customer. How does it feel? Not the classic which functional cost are we bearing, but just what does it look like from that customer lens.

And again, I hope that that actually will sort of shake some costs out. So, we're not sure to further ideas on things to take cost out. Obviously, it does get a bit tougher as time goes on, but back to your question, I think we have shown a degree of track record. And everybody is sort of leaning into it. And the fact we're having a discussion now, and it's September, and

we're talking essentially about 15 months ahead I think shows that we're on the front foot on it.

ALASTAIR RYAN: Thank you. And so on the credit costs, I mean, you know, where to start? I mean, there are enough credit losses in Hong Kong, which is your biggest single market. But everywhere else - I mean, how can even tell? I can't predict these either. You can see where I'm going with this. But what is your level of confidence that this year's credit losses is what you thought at the half year, I guess, where the first half would be bigger than the second half?

ANDY: Yeah, it is a difficult area to accurately forecast. We all know that. I think my first observation is thank goodness we took the medicine we did three or four years ago. It really, really tightened up a lot of our credit criteria, because we would clearly be a very different space now if we had not done that.

I think secondly, we have clearly taken a billion and a half of charge through the P&L in the first half, and that is a big increase on the previous year. But relative to what's been going on around us and the size of the book, I don't think it is out of order. As we go forwards, we've said, look, if the world sort of is broadly how we saw it when we did the first half results, then we'd be sort of thinking that second half hopefully would be slightly lower than the first half.

Now, it's a little bit fickle, because it does depend very, very much on how quickly does the world get on top of COVID. If COVID does last a little bit longer, are governments prepared to actually support, provide relief measures for slightly longer periods so that actually businesses that are fragile can get through that period? If you're living in the Western part of the world you go, gosh, it all looks a bit more gloomy at the moment. If you're living in Asia, you sort of go, ‘no, it's probably still on the sort of track that we expected it to be on.’

Fortunately, the majority of our business is in the latter space. I think there's also pretty clear evidence that most governments, whilst they have been very focused upon lives, they are very, very clear that they don't want the economies short eaten more than they are at the moment, and that having mass insolvencies, and then mass unemployment - they really are trying to pull out as many stops as they can afford to do to try to prevent that situation happening.

So, for once, I think most of government intent on what is probably good for banks are recently aligned. And therefore, we should have a sort of common interest in how we work through this. At the end of the day, our capital position is strong, probably leading to another of your questions, and therefore either we can't afford-- if there is a bit of deterioration in either credit migration terms or further impairment charges, it's not a disaster for us at all. But obviously, we want to try to minimise those costs as we go through this period, and leave as much in the bank so that some stage when we can return to distributions. We've got more available to distribute.

ALASTAIR RYAN: Thank you. Well, so my last question, and there's one audience one that I know everyone's going to want answered. So my last question then is on distributions. Is there anything you can add? I mean, [INAUDIBLE] paid a dividend today, that wasn't my expectations.

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And so is there anything-- I mean, I'd assume the answer is no, but so is there anything you can help us with? Because it does look like the capitals strong. You've had a stress test and come out of it reasonably well. I mean, I assume you'd like to make distributions if you're allowed to.

ANDY: Yeah, it's a sort of curious world, isn't it? You look at all the stress tests that have been done by the Bank of England over the last few years, and people did buy five percentage points or whatever down at the worst point. And yet we are eight months into the world's sort of biggest crisis for many, many, many years.

And not just us, but certainly for us. We're sitting with capital levels that are strong. In fact, for us, they're actually above our business as usual sort of target range. Now, obviously, some of that was assisted by the sale of Permata, but that is sort of just one of the things in the mix. Do I feel good that this far into a major crisis we are still very well capitalized? We're still very liquid?

Yes, absolutely. Do I hope that in the coming weeks that there will be a bit more of a pattern to the sort of credit migration, the write offs, et cetera so that we can get a bit more confidence in how we think things are going to play out? Yes, I do.

We're then going to be more in the hands of the regulators and what their sort of preparedness is to look at things a little bit more flexibly. I can only imagine for them that that is going to be very much based upon taking a view as to how much more COVID sort of stuff is yet to happen. And if they think there's enough sort of cushion there, that they may be more flexible about allowing distributions to return.

At the end of the day, Bank of England have said they're going to look at in the fourth quarter. And I think that that's probably a sensible thing from a regulatory point of view for them to do. So, it's a long answer to say I don't really know the answer to your question, as you expected.

But at least we're sitting there fairly full of capital, and I'm sure a lot of the arguments we would run would be some of the surplus capital we've got was because of an M&A event. And in normal market situations, we would have returned that almost certainly some time ago. So, whether we kind of have that sort of looked at slightly separately to the core, I don't know whether that is a way that they'll be prepared to look at it or not. But it's certainly a case we'll put forwards.

ALASTAIR RYAN: Thank you. Thank you. We are near our time limit, and I'm just going to ask this one audience question. I think actually it might be a simple one.

But managements today have spoken, and they have-- actually, I've confirmed this. They have-- about a more favourable view of M&A from regulators. Does this have any effect on how Standard Chartered thinks?

I mean, that's a very generic question. Obviously, we've had a Spanish deal, an Italian deal. [INAUDIBLE] deal. So you might well say those things are extremely tangential to you, but I think it's a fair question.

ANDY: Yeah, I mean, let me answer it in two sort of different ways. Well, one not related to Standard Chartered and then maybe one specific. I mean, my personal view is that this is a well oversupplied market generally, particularly in Europe. But in periods of very low margins with more players than are needed to actually assure end users are still having a very competitive market, why would you not be more accommodating of mergers?

And particularly from a regulator's point of view, if mergers actually sort of take out players who maybe - not necessarily the case [INAUDIBLE] so far, but could have been headaches for the regulators at some point in the future. Why on earth would regulators not to be more sympathetic to that? I think it is good that there is now tangible sort of evidence that there is now a different view being given to that.

I think you stand a chance of that it's sort of possibly different, the synergies that are coming through on the two that are sort of being talked about at the moment-- are both within country and obviously within countries' synergies - two banks, two institutions. Probably the cost take-out is much more compelling. That's obviously not so much the case with us, because we're just sort of have not mirrored by others so much.

We have got the footprint that is very different. For some people, that actually might be appealing. For some people with the whole China-US thing at the moment, it might be frightening. So, I think we just have to sort of go as we were doing, and do what is best for the bank.

I think that some of the in country stuff may happen that's probably not of direct relevance to us, but the most important thing for us is we accept that there's going to be a little bit of setback in terms of the return on tangible equity target, which is inevitable because of COVID. We just need to get back on that track as fast as we can do, and hope that, in a year or two years from now, we'll be saying, well, that was a pretty horrible period, but we did actually come through it. We came through it stronger. And we're well positioned to put the best foot forward.

ALASTAIR RYAN: Good. Andy, that's been ideal. We are at a time now. Thank you very much. And we'll see everybody else in about seven minutes with Banco Santander.

ALASTAIR RYAN: Thank you.

ANDY: Super. Thanks. Bye.