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'Strategies for Competing in the Global Financial Markets - An International Perspective'

Good morning.

My topic today is somewhat daunting. The title "Strategies for Competing in the Global Financial Markets - an International Perspective" suggests a little more than I can offer you in the next 20 minutes.

But what I thought I would do is to highlight what I see as some of the most interesting and powerful trends in the today's international financial markets. And suggest some implications for those who compete in these markets.

Before I start, however, it probably makes sense for me to say a few words about Standard Chartered, so you have some idea of where I am coming from. Standard Chartered is an international bank, focused on Asia, Africa and the Middle East, headquartered in London, with a market cap of about \$40bn and a balance sheet of about \$266bn.

In 2006 we made pretax operating profits of \$3.2bn, up 19%, on revenues of \$8.6bn, up 26%.

We have two businesses, Consumer Banking and Wholesale Banking. In talking about global financial markets it's obviously the Wholesale Banking Business that's most relevant. In 2006, that made pretax profits of \$1.85bn, up 28% on revenues of \$3.9bn.

Our Wholesale Banking business covers a wide spectrum, from cash management and trade finance, through debt capital markets, derivatives to advisory and private equity. About the only thing we don't do is equities.

So that should just give you an idea of what underpins my views and perspectives. And I apologise in advance if I don't give enough weight in my remarks to, say Latin America or Russia, but I want to be talking about what I know about.

I'll start my remarks by highlighting three powerful trends that are already shaping global financial markets, but in my view will have an even more profound impact over the next few years.

The first is simply the dramatic changes that we're seeing in the shape of the world's economy. I don't have to remind this audience about the rise of China and India - and indeed of the whole of Asia. But I think many bankers still underestimate how big a change this means for our business. International banking is all about facilitating trade and investment flows around the world. And these are changing at a phenomenal rate.

New trade corridors are emerging. Old trade corridors are coming back to life. Intra-Asian trade is rising sharply: its already double the size of Asia's trade with the US and is growing faster.

Trade between Asia and regions such as Africa, Latin America and the Middle East is soaring, often driven by China. For example Sino-African trade has increased tenfold over the last seven years, reaching over \$55bn in 2006.

And its not just about China and India. In fact the Middle East has now overtaken Asia as the part of the world with the largest trade surplus.

As with trade, so too with investment flows. We are seeing huge shifts in the direction and magnitude of both portfolio and direct investment flows. For example, Middle East surpluses used to go largely westwards, primarily to the US. Now you're seeing much more flow of funds from the Middle East to places like Pakistan, India and China. And I think you'll see this flow increase very rapidly.

And there are new flows just beginning - outward investment from India, as India corporates gain confidence and international stature. Or outward investment from China, so far primarily in the resource arena.

The numbers are still quite small in a global scale, but the growth will be very rapid.

And nearly ten years after Asia's financial crisis, its worth reflecting how much has changed. Despite current anxieties, there's no denying that the macro-fundamentals for emerging markets are much better than they were a decade ago. Then, inflation in emerging markets averaged well over 50%, now its 8%. Then 15% of emerging market economies were regarded as investment grade, now its 40%. Across Asia, current account positions are markedly better than they were. Many countries have huge currency reserves. And liquidity is abundant.

In fact liquidity is so abundant that its become a problem. As a banker I worry about the lack of risk differentiation in the pricing of assets.

The tremors of last week. And the consequent increase in credit spreads are a good thing from my perspective. Markets that lose the discipline of pricing for risk are scary markets.

In my view, financial markets are only just keeping pace with these fundamental changes in the world economy. There is more of a global financial market than there was a decade ago, undoubtedly, but there are still many barriers, many impediments to the flow of investment around the world and the ability of financial institutions to operate across markets.

I think we'll continue to see extremely rapid expansion of financial markets across Asia, as well in the Middle East and Africa - deepening, broadening, becoming more sophisticated, more seamlessly integrated with rest of the world.

You only have to look at Hong Kong to see what's happening. In 2006 more money was raised in IPO's in Hong Kong than anywhere else in the world, eclipsing New York and London. In fact two of the three largest IPO's in the world last year were in Hong Kong.

Now of course this won't all happen smoothly. There will be bumps, panics, mistakes and crunches - just as there have always been when economies grow fast, when financial markets are developing rapidly, when things change. The challenge for bankers is ride the flows of trade and investment - and in doing so, help them happen - whilst navigating the inevitable rocks and turbulence along the way. To do this well, means really understanding what's going on, being adaptive, being anticipatory.

So my first big trend is the changing shape of the world economy. My second relates to who is actually providing capital to fuel global economic growth. Here my point is that there is an increasingly heterogeneous array of actors.

If I oversimplify, the old model was that insurance companies and pension funds provided equity and banks provided credit (with government's getting more or less involved depending on the political complexion of each country).

Now you need to add to the equation private equity, hedge funds and for want of a better term, what I would describe as "state capitalism", players like Singapore's Temasek, Abu Dhabi's ADIA, Dubai's Isthimar, or Malaysia's Khazanah, government-owned, but operating as commercially driven entities, with huge resources .

I see all three becoming bigger players

\* private equity is not just about tax arbitrage, or asset stripping as some of its critics contend. It's a powerful and hugely sophisticated source of risk capital; and I would argue that the growth of private equity is to some extent an indicator of some of the limitations of public markets, a response to overly burdensome regulation.

\* hedge funds are already enormously important in equity and bond markets, providing much of the liquidity and price-setting. However, what I think might be generally underestimated, is their increasing role in credit markets. If you want to know where the underlying risk in leveraged transactions has ended up - a lot of it is with hedge funds.

\* The "state capitalist" organisations command huge resources and are very sophisticated - and able to take a long term perspective. And I see more of these institutions emerging - for example, it seems likely that China may well launch something along these lines in order to generate greater returns from its massive currency reserves.

The point is not whether the emergence of these players is a good thing or a bad thing. The fact is they're here. And if you're a bank (or a

regulator) operating in the global financial markets you've got to know how to deal with them.

My third trend is regulation. Now, there's lots I could say here, but I just want to focus on Basel 2 .

In many ways Basel 2 is a great step forward, making the regulation of bank capital more risk based, more rational.

Moreover, Basel 2 has undoubtedly been a powerful catalyst in getting banks to upgrade their risk management systems and approaches. When I look at what we in Standard Chartered have done to prepare ourselves for the advanced internal ratings based approach, the thing that most pleases me is the progress we've made on data quality. Basel 2 has proved a great impetus to sort out our data and implement vastly improved systems for managing and deploying data. That just makes for a better run bank.

But some of the other consequences of Basel 2 leave me less enthused, or simply uncertain.

For example, there's no doubt that the costs and complexity of implementing Basel 2 have been wildly underestimated by both banks and regulators. Partly this is because of the multitude of different interpretations and implementation timetables adopted across the world.

I reckon that when we make a simple corporate loan in a typical Asian market, we will now have to account for and measure and model its risk characteristics in at least 5 and sometimes up to 7 different ways.

There's local accounting and IFRS. There's pillar 1 and pillar 2 according to the rules of the UK's FSA, our lead regulator. And in most cases we have to manage to local variants of Basel 2, which sometimes impose the standard method or slightly different versions of IRB.

All of this creates costs; and these costs ultimately feed through to the cost of credit.

And what really concerns me is that with this complexity comes the danger that bankers spend too much time ensuring they're in compliance with the rules, rather than worrying about the actual risks.

A second concern I have relates to the consequences for the broader financial system. Basel 2 creates incentives for banks to get rid of high risk portfolios, not least because it doesn't give sufficient weight to diversification. So we will shed risks, mainly to hedge funds, through loan sales, CLO's, securitisation. That means the banking system will be safer, but will the financial system? I'm not sure. These risks will certainly be less visible.

A third concern, concerns the interplay between Basel 2 and accounting standards, where I see both contradictions and unintended consequences.

For example, Basel 2 and IFRS are both pro-cyclical in nature - meaning good times seem even better than they are, and bad times even worse - and I don't think we really understand what will happen in a sharp downturn.

I know others have already discussed Basel 2 so I will leave it at that. I just want to make the point that the second order effects of the new regime are immensely powerful and far from fully understood.

So I have touched on three trends that are having a profound impact on global financial markets - the changing dynamics of the world economy, the emergence and increasing importance of new players as providers of capital, Basel 2.

I don't pretend these are the only things that matter. I could have spent the whole time talking about liquidity. Or technology. Or financial inclusion. All of these are also important.

And I just want to touch on one more trend - a rather non-financial trend - that I think will have a big impact on world financial markets in the future, and perhaps sooner than you might think. Climate change.

If, like me, you accept the scientific arguments that human activities are warming the world, that global warming will have profoundly damaging consequences to the environment in which we live and that consequently, we need to do something about it rather urgently - then you cannot ignore the impact on global financial markets and the role they - we - can play. As weather becomes more extreme, risk profiles will change. If carbon is priced, which it's going to have to be, the economics of many business will change profoundly. And new businesses will be created.

And if the world is serious about tackling global warming there are going to have to be huge transfers of wealth - from those who produce carbon to those who can absorb or store it, from the rich West which has arguably created most of the problem, to those parts of the world which now have to work out how to alleviate poverty and get wealthier in a less carbon-intensive manner.

Big changes in risk, fundamental changes in business economics, huge transfers of resources - this is what global financial markets are all about. At the moment we're just scratching the surface - volumes of carbon trading are pretty small in the scheme of things - but I suspect the involvement of global financial markets in environmental issues will grow extremely rapidly.

So what do these trends, this pace of change mean for the players, the banks - for their "strategies for competing"?

At one level I would argue that the fundamental challenge is just the same as it's always been. In running a bank you have to strike the balance between continuity and change, working out which things still matter, should stay the same, and which should get jettisoned, replaced, transformed.

Some of it is easy. Relationships with clients. Anticipation of risk. A focus on control and compliance. Operational excellence. These remain the foundations of good banking.

But a lot will change. And I think the challenge for bankers like me is to get ahead of the changes, to be able to play a role in shaping them, rather than just responding to them.

That's certainly the way we at Standard Chartered are thinking about how to succeed in this rapidly evolving environment. We want to understand the trends. We want to be part of them. We want to be turning them into business opportunities, whilst managing the risks. We won't get it right all the time. In fact if we're not making mistakes we're probably not trying hard enough.

But our fundamental stance is to take a partnership approach with our clients and regulators. With our clients it's about helping them identify and realize opportunities in a rapidly globalizing economy.

Through our network, our distinctive combination of local knowledge and global capability, we bring ideas and an ability to execute. Our view is simple: if we help our clients succeed, we succeed.

With regulators it's about taking the step beyond compliance, transparency and responsiveness - which are all prerequisites - to actively helping them achieve their underlying objectives. I think regulators in the markets in which we operate face an extremely challenging task in developing and opening up their financial markets without destabilizing them. Moving to more flexible exchange rates, opening up the capital account, enabling the development of domestic bond markets, allowing more foreign competition in financial services.

In all of these areas there are difficult choices and tradeoffs. Move too fast or in too disjointed a manner and the sheer scale and speed of international financial flows can overwhelm a country's domestic financial markets and create serious distortions. Move too slow and you hamper the development of the real economy.

Our approach is underpinned by a long term perspective. In most of our markets we've been there a long time. Up to 150 years. In many of our markets we're the oldest of the international banks. In some we're simply the oldest bank. And we plan to be there for a long time. So we take the stance that supporting the long term development of the financial system is much more important than seeking to secure any tactical advantage.

But it's not enough to have good ideas, good dialogue with clients and regulators. You must have to have the people, processes and infrastructure to make things happen.

For me personally, as CEO, building leadership is a top priority.

Turning talented managers into true leaders. We have a wonderfully accomplished, diverse group of people in Standard Chartered, plus a culture that combines an emphasis on teamwork and cooperation with competitive edge. I see our culture and our pipeline of talent as two of our most powerful strategic assets. But we can't be complacent. If we can

make our existing leaders bigger, and attract and grow more leaders, faster, then the Bank can achieve much more. In fact, as someone whose education and career has been all about numbers, about economic and financial analysis, I find it striking now how much time I now spend thinking about culture. When I look across the industry at who has succeeded and who is struggling, it's a lot about culture, about values and mindset. Get those right and you attract the right people. Attract the right people and give them the right environment and you get the right results.

Equally important as culture and leadership is continuously improving the way we work, reinventing and redesigning our process and infrastructure. Standard Chartered has already done more than practically any other bank in offshore hubbing - over 10% of our global workforce operate out of hubs in India and Malaysia - but we know there's lots more we can do increase efficiency and improve our standards of service to our customers.

We're investing in standardized technology platforms, reengineering our processes, accelerating new product development.

As the global financial markets develop and grow, margins fall and products commoditise. That's what competition is about. So we have to be constantly getting more efficient, constantly innovating, never pausing for breath.

But I will pause for breath right now. I hope I have given you some food for thought. I don't pretend to have covered the full canvas of global financial markets. But I hope these remarks, from a practitioner's perspective, add value to the day.

Thank you.