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Full transcript: FT interview with Stephen Green, HSBC

Interview with Stephen Green, Chairman of HSBC, by Peter Thal Larsen, Banking Editor

FT: Given the ordered succession that took place, how has your job actually changed since May? What are you doing differently now?

SG: Quite a lot actually, and indeed we are gradually evolving a clearer division of labour between Chairman and CEO, which I think fits the needs of the company as it moves forward.

The Chairman is responsible for the strategy of the group and ensuring clear board understanding and support therefore, and ensuring that management is continuing to input into the refreshment of the strategy and all of that. The corporate governance of the Group obviously including the chairmanship of the Board itself, the external representation of the group with the public environment, senior clients, the regulatory realm and so forth.

The internal ambassadorial function is extremely important in a group as widespread as we are. I travel a great deal; I travel half the time at least. I've been in 18 different countries in the last year. That's extremely important: listening to your colleagues, being with your colleagues, meeting clients in different parts of the world. All of that is an important use of time.

And then last but not least, overseeing the CEO whose job is, with the management team, to deliver the operating performance of the bank on a monthly, quarterly, six monthly, yearly basis. Conversely, of course, Mike [Geoghegan], as the Group CEO, took over at the same time and that's his role: it's with the management team to deliver the operating performance of the company.

FT: And how is that different from the way you did the job when Sir John Bond was chairman?

SG: I don't think it's sharply different; I think the best way to describe this is that this is an evolution. We perhaps are moving the company towards a bit of a clearer double act – and I think that's the important point. This is a double act. Actually even that's not the right way of describing it because two people don't run a company of this size and complexity: you have a management team. But there is an important double act between the Chairman and Chief Executive which enables the Chairman to have the time to focus on the things that a chairman is responsible for and the CEO to focus with the management team on the performance of the company.

FT: So, without wanting to put words in your mouth, it's maybe moving away from the idea of a figurehead who's the external representative of the whole organisation?

SG: I don't think those are quite the words I would use but I think a number of points are critical here. One is that it is not and never has been a one-man band. And a huge part of the secret of HSBC is that sense of collective management. We talk about it a lot. It is a real feature of the ethos of the company and I think it's extremely important because it's the glue that knits it together in what is a widely-spread company, a lot of different kinds of businesses and a lot of different kinds of countries. So I think that's important. It's not a one-man band and can't be; this is a shared endeavour.

You didn't ask this, but nor do I think it is an issue about executive and non-executive. Indeed, I think in some important sense that's a misnomer these days. I don't think you can have a sense of a chairman not having important final responsibility for the company. There are some companies that have part-time chairmen; there are other companies – and we are absolutely one – that feel very strongly that you have to have a full-time chairman. I reckon I work about a hundred and something percent of the time.

FT: You're not working any less since you became Chairman?

SG: No, that is for sure. I haven't noticed.

FT: Because there were some shareholders who, for corporate governance purposes, were questioning this whole process [of promoting chief executive to chairman] and whether this what you should do in the future.

SG: It was my predecessor, John [Bond], together with Brian Moffat, the senior independent [non-executive director], who went round to talk to our major shareholders about what we were proposing to do and why. And that discussion was very widely accepted because I think our shareholders, to a very large extent, recognise and support the value of the continuity of management and experience of what we've done to this company brings to it.

FT: There was some sense about part of the undertaking to the shareholders at the time was that you would move more towards a conventional split [between non-executive chairman and chief executive]

SG: No, we didn't. The contents of the combined code means that we are required, if we want to go down that route, to explain it carefully to shareholders each time. We will do what we need to do within the context of the combined code. But the important thing is to do what is right for the long-term health, prosperity and development of the company because that's in the interests of the shareholders. And we should always be prepared to have the courage of our convictions and explain to shareholders what we think is the right thing to do. And obviously this is only a discussion but all I can say is that this last time round that was the process we went through; it was a very thorough process and was very widely accepted.

FT: Obviously HSBC hasn't had many chief executives. You were the second chief executive?

SG: I was actually the third. John Bond was the first, Keith Whitson was the second.

FT: And [appointing a chief executive] was rather imposed upon you because of the Midland Bank takeover in 1992?

SG: Going back to that point, when you doubled the size of a company that had previously been a regional East-Asian bank with a major UK clearer, you changed the way the company's got to manage itself and operate.

FT: But you managed for a hundred odd years without a chief executive?

SG: Yes, it was a much smaller and simpler business then.

FT: And it has generally – though not always – been the case that the chief executive moves on to become chairman. Is that something that you can envisage happening again in the future?

SG: I think you shouldn't rule out any option and, for goodness sake, both of us are seven months into our jobs.

FT: But you wouldn't rule it out?

SG: I don't think you should rule out any options. I think that at the time the decisions are relevant – which is not now – you should focus on what is in the fundamental interests of the shareholders who are interested in a sustainable, growing, profitable business.

FT: The changes in the boardroom this week, where did that come from, the idea behind it?

SG: I think you should see that as the natural continuing refreshment of the Board. The board of any company is going to have to, over the years, refresh itself. We specifically had a situation where an extremely experienced and respected and successful senior independent director is coming to the point where he will lose his independence under the combined code. And so, after due deliberation, the Board made a decision on how to pass that baton on.

That's what we've done and that was one of the parts of what we announced. A very major part of what we announced was Paco Gil joining the board – a former Finance Minister of Mexico, a place where we have been very successful. We're delighted and honoured that he's joined us.

And then there are a number of other joint committee chairmanship changes that were made. To call this ordinary housekeeping isn't quite right because these are important decisions you make. But they're part of the ongoing process of making sure that a board is composed in a way which enables it to discharge its functions for the shareholder.

FT: Because there is a view that has been expressed to us by some shareholders that the Board is a bit too big and unwieldy.

SG: I don't agree with that. The Board has got 19 people on it; it's gone up and down by one or two over the years. But, to be honest, when you've got a company of the breadth and international diversity of ours, if you want the Board to do its job properly the Board must be similarly broadly based in terms of its international composition and the areas of expertise that it brings to the governance of the company.

Now, we've got five different nationalities on the Board; we have a range of expertise from the finance sector through energy, mining and minerals, through retail marketing, through statistics and supply chain management, through the public policy domain. And I think all of those are important.

By the time you've recognised the importance of all of that, both the international dimension and the kind of expertise dimension, you're into a board that's going to be of the sort of size that we've got. I can report that the way the Board operates is extremely constructive and supportive. And if the job of a board is to make sure that it probes management, to make sure that management is executing plans in a way that are consistent with the responsibilities of the company and against a strategy that makes sense over the short, medium and longer term, I think the Board is a huge asset to this company. And I wouldn't agree for a second that it is either too large or cumbersome or inefficient in the way it does its business.

FT: What about the criticism that is raised in respect to some directors that they may have been there too long?

SG: I don't think that's true at all. We shouldn't get into discussing individuals. But there is clearly a difference with the combined code - and I fully understand why the combined code sets a fixed term to independence of nine years - but we all know that independence isn't a mechanical matter only and there are people who could be on a board for much longer than that and give very independent sound, valuable judgement and advice. You can understand how that would be illustrated. I am confident in asserting that every member of our Board plays a very important role. And I simply don't accept the notion that a board of 18, 19 people is too big to function effectively. Not for a company of this scale.

FT: There is a sense that both you and Mike Geoghegan have been less visible over the past few months than might have been expected. Is that a conscious decision on your part?

SG: No, and nor do I think it's actually true. You can quite understand how anybody taking over roles from a previous generation that has been well established in the role and have got an enormously strong track record, of course it takes a little bit of time.

But I think it's wrong. This is a big company with a big business to run. Like I mentioned, I travel a lot of the time and so does Mike. It's certainly not a conscious attempt not to be visible; on the contrary. Both of us have eaten up a lot of air miles making sure that we are with our people, with the regulatory authorities, with clients, with investors, round the world.

FT: Are you travelling more than Sir John?

SG: No, he did too. You have to; it's the nature of this company.

FT: You're travelling about half the time, you said?

SG: I reckon. To be honest, I haven't had time to sit down and work out what it is, and also I have been at it seven months and do I know how this will pan out on a more continuing basis, I'm not sure that I can do yet. But what I certainly intend to be doing this year - because I think this is the right thing for a company like this - is to be spending blocks of time in Asia and in the Americas because I think that's a more effective use of time than constantly jetting in and out everywhere for two days.

And I come back to the unique nature of this company; there is no one jurisdiction that contributes more than 20% of our business. This is a fundamentally different sort of a bank than virtually any of the other world's large banks.

FT: But your investor base is still predominantly in London?

SG: Our investor base is quite spread. There are some major institutional investors that are UK based, yes – though not always managing UK money. Something like 30% of our investor base is Hong Kong-based and very retail. And then in total we have investors from 147 different countries. So it's a very international one and that's actually what I like.

There's nothing that gives me more pleasure, more fun, more exhilaration, than experiencing the reality of the fact that this bank is a crossroads of the world. We are in 81 different countries. We've got colleagues who speak 150 different languages. We've got investors from that many different countries. And travelling round the world you simultaneously are struck by the obvious differences between different markets, different cultures, different ways of doing thing, and in the next breath that underlying commonality of people who are excited by and signed up to a business offering which aims to deliver real value to customers on a profitable basis.

This is a great place to come and work if what you want is a really exciting international career and a real sense of the excitement and variety of the world at large. It can offer it in a way that few, if any, other businesses can.

FT: Just looking back at the way that HSBC has been run in terms of the continuity of the management, has that evolved with the way that the organisation has evolved? Do you think it's right for the scope of the organisation now?

SG: Yes, I do. An organisation has got to be flexible enough to be able to take people in from outside. If you can never absorb new talent, new expertise, new perceptions, new perspectives, then something's also wrong. But if it gets to the point where a high proportion of the people in significant leadership positions in the company haven't been with it for more than a shortish period of time then I think you've lost something. And we attach immense value to the fact that we have a pretty long record of people staying with the institution and committing a large part of their working lives to it.

Also, that sense that if you want to get to the top you have to have been prepared to have a real international experience. Mike Geoghegan has worked in 12 different countries in his career. I can't boast that many but I can boast four and an immense amount of travel. I've visited and worked in – not lived in – a large number of countries.

We have 400 of these famous international managers of ours and we talk about people we recruit from graduate school who are looking to spend the bulk of - or all of - their career with HSBC and who sign up for a very international career. That group of people is extremely important to making sure that there's a real connectivity, there's a breadth of experience that's brought from place A to place B to place C through a career. We have something like 2000 international secondees at any one time; these are people who didn't join expecting a wholly international career but have put their hands up at some stage in their career and said I come from country A, I'm willing to work in country B. And we do tell people that if you want to get to the top you have to be prepared to do that. And I think that's actually very important to what it is that binds what could be a very disparate organisation into something cohesive and infused by a common purpose.

FT: Can we talk about Household? Specifically, given what you reported for the third quarter and in your trading statement; are you as concerned about those developments as your investors appear to be?

SG: Firstly, I think Household was a strategically important acquisition for the group, I think that to acquire the capability for consumer finance made thoroughly good sense for a company that's positioned in so many geographies where the demography is such that there is a growing demand for basic consumer finance, whether that's in the form of mortgages, in the form of credit cards, in the form of direct personal lending, in the form of store-based point-of-sale lending.

That gave us the competence that meets the real needs of an important part of our personal customer base in a wide range of countries. We bought it for a US business but it also gives us a platform of expertise that we can take around the group. As of now we have something like 100 Household executives on secondment. Amongst those 2,000 people I mentioned, something like 100 of them are people, as it were, taking consumer finance expertise round other parts of our group.

As an aside, by the way, that's not all a one-way street too, we also bought a consumer finance business in Brazil, a very different sort of market, and a lot of cross-learning between the two of them has taken place; and you've seen rapid development about consumer finance business in a whole range countries. So, the strategic value of that acquisition is absolutely clear. I don't think anybody could question the financial terms on which the deal was done. It was a $14.7 billion dollar acquisition and in the three and a half years we've owned it, up to the middle of last year, it's made $9bn in profits. That doesn't sound like anything other than a really very good deal for the shareholder. Average return on investment of 17 per cent, this is a good business to have acquired at a good price.

We talked in the trading statement about some stress in the mortgage services book, which comes in the context of a weakening economy; yes, that's something we talked about, we're on that case. You manage it, you deal with.

You know, just as a general proposition do we get everything right all the time, no, of course we don't, we make execution mistakes sometimes and then you fix the problems; the important point to know is you're on the case and fixing the problem.

FT: And you're on the case now?

SG: Like I say, we're always reviewing performance and wanting to make sure that we do as good a job as we can. In that area - we talked about this in the trading statement - we've done a number of things to make sure that we manage that forward. Do I think we were wrong to be in mortgage business in the sub-prime sector? Absolutely not, it's a perfectly legitimate financial service to be offering that part of the customer base.

FT: When you bought Household you made a very compelling case for saying, these are a bunch of very skilled people who are better at modelling consumer behaviour than anybody else, and these are skills that we can take round the world. I guess what the most recent announcements have caused people to question is, well hang on, if they're so good at modelling these things why are you suddenly being caught out by these changes in behaviour?

SG: Well, we didn't get everything right. You don't get everything right all the time in all businesses. I am confident of the value of that business within the HSBC group. I just think that if you are a broad-based financial services provider to the personal sector, as well as the commercial and corporate sector, the consumer finance component of personal financial services need is an obvious one, it's a growing one. It meets the needs of the kinds of customers, particularly ones where we have a real competitive advantage, the demography of emerging markets. The emerging markets-type customer bases in some of the G7 markets. You have the Hispanic market in the US, being an obvious example, 20 plus percent of the client base of Household, by the way, is Hispanic, and that component of the US market is growing faster than the overall US market as I think you'd recognise.

So, strategically, absolutely convinced of the need, since we have a personal financial services business, that's a key component of it, absolutely convinced; and it's our job, I guess it's my job as Chairman, to make sure that we continue to consistently work at implementing a strategy which makes good sense for the investor over the long period, and not to get blown off course.

FT: Are you still confident in the management team at Household?

SG: Absolutely, absolutely; they have made some changes in the management of that particular business, which is a pretty small part of their business. They have put in place a number of measures to deal with the way which collections were being resourced and so forth. We brought together the different parts of mortgages under one single mortgage supremo, but that's all the Household management doing that, so absolutely I'm confident in the management.

FT: You said you were on the case, but is it too early to say you think it's under control?

SG: In the context of the closed season for our results it would be quite difficult for me to talk about that.

FT: The other thing you hear quite a lot at the moment is that HSBC has shifted its focus away from the traditional, historical areas of strength in emerging markets and they have therefore diluted the growth of the group at the same time, maybe taken their eye off the ball some of the opportunities you could have had in places like Eastern Europe or South Korea.

SG: I know what you're saying. Well, first point is I think that our Asian businesses have been - again I don't want to get caught talking about performance in 2006, but if you look at 2005, or indeed the first half of 06 - the numbers in the public record, you can see our Asian business is going extraordinarily strongly, our Middle Eastern businesses similarly.

Our Latin American franchise, it's worth noting, we've created almost from scratch over a ten-year period. You've got a big Brazilian business, a Mexican business, and now I'm very pleased by having completed the Banistmo deal because I think that fits within a coherent Latin American strategy. It takes us into a market which is collectively 100 million people, we were already in Panama so it gives us a stronger position there, takes us into five new countries in Central America, one of the most important of which is Columbia.

Columbia is the third largest country in Latin America. It's increasingly coming back into the mainstream. You've got political stability there and an open market- oriented development policy, you've got a very well-educated population there, you've got an income per head that's not that much different from Mexico's actually; it's our kind of country.

So to be entering that kind of country is exactly the kind of thing that demonstrates our continued commitment to emerging markets. Just before Christmas I was in Peru when we opened our business there for the first time, so we continue to develop Latin America.

In Asia the investment in China, indirectly through [Bank of Communications] and others and also through the expansion of our own network shows again the continued and highly successful commitment to that all-important market; India similarly, and Vietnam we have been investing in, and so it goes on.

So I wouldn't accept at all that we've forgotten about those roots, we absolutely haven't. I personally spend a lot of time in Asia, I lived in Asia a lot of my time, and I think that Asia will, over a generational perspective, become more and more important. We all know it's becoming more important for the world economy, and it will become more and more important for us too.

The world's becoming a sort of three-legged stool in some senses, you got on the one hand countries which are major net consumers, America and some others. You've got countries that are major workshops, China, India, Vietnam and many others. You've got resource suppliers, the Middle East, some Latin American countries, Mexico and Brazil are both important resource suppliers, Canada where we have a good business.

I don't want to be too simplistic about it, because very few economies single-mindedly sit in one of those three categories. But it's quite interesting to think about the world in that way because as it gets more globalised and as world trade continues to grow - and I think world trade will continue to grow faster than the world economy, that's one of the most predictable hypotheses - a bank that is deeply rooted in that international connectivity….

Trade finance was after all the original core of the Hong Kong & Shanghai Bank and its business, financing traders from eastern to western markets was how we started; continues to be a huge strategic strength of ours. We reckon we have something like 2.5m business customers around the world, small and medium-sized businesses, a very high proportion of whom are engaged in international trade, one way or another: Exports, imports, alliances, joint ventures; all of that plays to the strengths of a company that has a clear sense of how to do business in emerging markets and has such a wide footprint.

FT: The second part of the question was about lost opportunities.

SG: Do I think Eastern Europe was lost permanently? No, and we're doing some things about it. Did we miss the opportunities in the nineties? Yes we did; why did that happen, I guess you don't get everything right, we were very focused on making sure that Hong Kong Bank and Midland Bank, as they then were, integrated well.

In the absolutely perfect world you'd have been keeping a clear eye out for opportunities in Eastern Europe, we didn't and so we are a bit part player there. This is something I would like to put right. I think in Eastern Europe there are opportunities in small business, there are opportunities in consumer finance, there are opportunities in direct banking.

As an aside, as the way in which technology is permitting customers to interact differently with their banks evolves, so the opportunities to be a bank without necessarily having to acquire an extensive bricks and mortar network to do it, is there.

So, I'm not at all pessimistic about what we can do in Eastern Europe but I freely concede that if we'd started out 15 years ago we'd be better off there than we are now.

Russia is another one. I think the retail banking market in Russia is one which is in some senses crying out for good quality service from international competitors. Now, there are a number of our competitors who are already active there but it is still a very young market with lots of opportunity and we do need to grow there and, by the way, Russia's a place where you can, and probably should, grow organically.

FT: That was one of the other things that I was curious about. In the past few years we haven't seen as much acquisition activity from HSBC as we've seen in previous years.

SG: Well if you mean the last two that's probably true. There was Household and before that CCF.

FT: That was the end of 2002.

SG: It was completed in March 2003, 29th March to be precise; and then there was CCF and Republic/Safra of course, which was a $10bn acquisition, which put us by the way, in a position where we are, as far as we can see, the third largest international private bank in the world, after the two big Swiss.

FT: We've heard you say in the past that it's an incredibly benign economic market, prices are very high, everybody is running around trying to buy things. So is your lack of acquisitions something cyclical that we might see change if circumstances change and prices change; or is it evidence of a broader shift towards saying there are no longer big acquisitions that you can make that actually have the same impact on this business as some of the acquisitions you might have made in the past?

SG: I'd say, firstly, we do see a lot of opportunity through organic growth. We grew our emerging markets business very significantly between the first half of 2006 and the first half of 2005, something like 25 per cent, without any acquisition being brought to bear on that business. And I still see lots of opportunities for organic growth in a whole variety of markets.

Secondly, you never say never about acquisitions. That's wrong. Your job is to be a good steward of your shareholders' capital, and if there are acquisitions that make sense in the context of the strategy, and you need to have a pretty clear view of how they make sense in the context of the strategy, and the price is right, and due diligence is done appropriately, and there's a good human fit - I wouldn't in any way treat that one as the least important of those, it's in many ways, the most important of them - then you should be prepared to do it.

But that tells you you shouldn't start out by saying there's going to be a large acquisition or there's not going to be a large acquisition. I think it's important for management not to get distracted or mesmerised by some glowing possibility of some great acquisition, because there's an awful lot we can do in terms of organic growth and developing the business. Taking our card business in Asia from a standing start to where it's over 10m cards. We've proven it time and time again, and, indeed, we all know that when you do the cold make-versus-buy decision between acquisition and development, in the vast, vast majority of cases, we know what the answer is. All of us know that. We also know what the track-record industry-wide is if you're not careful in acquisition. So the point is, therefore, not that you don't do it, but the point is you make sure that you've got a very clear strategy so that you know whether it does or doesn't fit, and then you're very tough-minded about the economics of the deal and clear-headed about the human chemistry.

The latter point is important because it comes back to what we were talking about earlier, which is that what makes this company special, what makes me thrilled to come to work every day - whether it's here or the 50 per cent of the time when it's somewhere else - is that quality of human chemistry, which I think is… is it unique? I've no idea. Is it genuinely distinctive? Yes, I'm sure of that. I know that's true. And that's a key part of the brand value that I believe we've got. It comes from that, that ethos of collegiality, of collective management, of the absence of the one-man-band syndrome. It's a key part of that, and you put that at risk at your peril. I don't think you should do an acquisition, even if it's stacked up on all other accounts, if it jeopardized that.

FT: Looking at the human chemistry, on the Household side, it's probably one where you lost more of the senior management in the subsequent years than has generally been the case with some of your other acquisitions.

SG: I don't think so. Bill Aldinger stepped down after two years, during which he worked hard to make sure it integrated well. Actually, I'm not aware of having…

FT: There are a couple of other names.

SG: Well, it's a big business. But if you look at the current people running our North American business: Bobby Mehta who, by the way, is not only running Household but is a member of our Group Management Board for North America. You look at Sandy Derickson now running the US Bank, which is somebody from Household coming into the bank to manage it. You look at Tom Detelich now running all our direct lending and mortgage businesses. These are all tried and true Household people. So no, I'm not conscious of that, and, indeed, had that happened, it would, in my view, be a significant issue. But on the contrary, I am thrilled and delighted by the fact that the way in which Bobby works alongside a number of other people who've joined as part of acquisitions on the Group Management Board, and Charles-Henri Filippi from France is another example.

That's the management team with Mike Geoghegan. It's good and diverse. It's not as good and diverse as it should be yet, because there isn't a woman on it, for example! So we've got work to do. But is it representative of the breadth of our business? Vincent Cheng running our Asian business, you have Bobby Mehta running our North American business, Charles-Henri running the French business, and so on.

FT: A slightly broader question which comes up a bit in context of HSBC, but also some of your large rivals, which is are there really economies of scale in financial services, is there actually a benefit for being the size of HSBC?

SG: And it's a fair and important question to ask.

FT: What's your view on that? Because, at the moment, the investment community does not appear to be persuaded of the benefits of scale.

SG: It's a very fair question to ask and each time we do anything material in the way of acquisition it's absolutely a question we ask. Is this taking us a quantum leap in resource base that stretches the management beyond what makes any sense? I can only report that hitherto our answer has been no.

Are there opportunities for us to get the benefits of economies of scale in systems development, in international resourcing of our services to our customers? Absolutely. In sharing best practice round the world. I'm constantly getting struck - and if Mike [Geoghegan] were here he would say the same thing - you will go to a country where somebody has developed a neat way of providing a particular customer need.

The example that springs to mind for me is ATMs in Mexico. We found they'd got a neat little capability for cross-selling products and also for allowing charitable donations. We're now bringing that technology into the UK and elsewhere, just as one example.

It's our job, and I think this is where the management team needs to work together to achieve it, so you don't get a not-invented-here syndrome to make sure that that flow of shared experience is as effective as it can be. Do I think we've got to perfection on this? No I don't, I think there's plenty of scope for us to do more, which tells me that the strategy is well-founded. I'm certainly not of the view that this company has got to a stage where we've exhausted all the possibilities from economies of scale. But I am of the view that each time you do anything material by way of an acquisition you need to ask yourself very carefully whether or not it's taking you beyond what you can efficiently manage.

FT: What about diseconomies of scale?

SG: You always have to think about that and clearly there are some senses in which a group of five people is easier to manage than a group of 300,000 people so there's always something of an element of diseconomy of scale. The question is do the disadvantages of size outweigh the advantages of size? And probably at some point along the scale they would. I don't think we're at that point. What I am absolutely focused on, and again if he were here Mike [Geoghegan] would say the same thing, is the enormous opportunity we've got to benefit from the amount of experience of customer interaction in different parts of the world and the amount of commonality of resource need, particularly in systems, but not only in systems, and making sure we exploit that properly.

FT: In terms of how you make that case to the investors, people say - it's the argument that used to be made with respect to industrial conglomerates - why do I need to buy HSBC when I can buy Goldman Sachs for my capital markets exposure and UBS for private banking, and Standard Chartered for emerging markets, and I can put it together myself, and weight it whichever way I want it. I don't need someone to do that for me.

SG: I think that, clearly, it's part of our proposition that you've got a variety of different kinds of business, with a strong capital base. Since we have a good strong shareholder base it obviously appeals to many, many constituencies. I think it's worth pointing out that there are some parts of our business they could not do directly for themselves. It isn't always the case that you can go and buy an appropriate position in particular markets directly very easily in the market in any scale.

And also it comes back to what we've just been talking about. It's that ability to take 2.5m business customers around the world, in a globalising world, and offer them leading edge, extremely diverse supply chain management, cash management, business introductions, and all the rest of that.

Every day of the week I will be conscious, so would Mike and the team be conscious, on a scale of one to ten we need constantly seeking to push this towards the ten, so that you're always exploiting the benefits of that. But is that a proposition that commands respect and appeals to shareholders, yes I think that the evidence is that it plainly does. And we've delivered, I believe, extremely well on that proposition, if you look backwards we've had, if you take 2005, and any given reference year for the last 15 years – bar two - you've seen double digit growth in earnings per share. And often over 20% earnings per share compound annual growth. That sounds like a pretty good sustained track record. We are very strongly of the philosophy, if that's the right word, that says that our job for our shareholders is to create the conditions that continue sustainable growth to build a platform that works, not just for the next results period, but for the next five, ten, indeed for a generation, if you will. And I think the way we've invested in the last year or two or three in Asia speaks to that point very clearly, for instance.

FT: But you're dealing with investors here in a slightly shorter time horizon, aren't you?

SG: Different investors have all sorts of different time frames, that's up to them. There's a market. What we do, and we've done it successfully looking backwards, we believe we have a formula which will continue to be successful, is to focus on those long term opportunities. I believe that in the end sustainability actually does require you to have a clear-minded long-term strategy and of course to execute well. And I think sustainability, being able to offer you that proposition to shareholders clearly is something that speaks to, if not to every shareholder that you can imagine, then clearly to a very large number and very different kinds of shareholders.

FT: Are there any businesses within HSBC that you look at and think, I'm not sure that they actually fit in the group?

SG: The answer is yes. Of course we're all the time looking at that. Do I think there are any major businesses that don't fit? Absolutely not, no I don't. But, you know, it's our job to be constantly freeing up capital from businesses in particular areas that aren't earning the freight. We sold a bank in Belgium, for instance. We have put other businesses up for sale, and sold them. They're generally smaller, I can't think of an example in years where there's been a major business where we've felt we wanted to sell it.

FT: You recently moved Clive Bannister over to run the insurance business. Given that he was running Private Banking, which is one of the four business lines, should we see that as an indication of your ambitions in that area?

SG: I think you can certainly see it as an indication of our belief that insurance is a key part of what you market to both your personal base and your business base. We have often talked about something of the order of 10-ish percent of our profits coming from insurance business one way and another. I certainly think we ought to be able to develop that business. Our penetration rates for insurance products are not always as good as they could be, either by our own benchmarks or by external benchmarks. It's quite a fragmented business that we've got, which has developed in some ways off the back of acquisitions of other businesses, but I think there's a lot we can do with it.

And certainly moving Clive, who's had extraordinary success with bringing the private bank together - and it was not a no-brainer at all, you had existing businesses in Asia and the Middle East and in the UK brought together with the acquisition of Republic and Safra into what is now a cohesive and, as I say, large and successful private banking business - so there's certainly a person who has demonstrated real success within the group moving to this new area to bring his talents and energies to bear on it.

FT: When you said it's fragmented, is there more opportunity for consolidation there?

SG: I think to tidy up how we deliver insurance to our customer base. We are in different parts of the insurance world in different countries. We're in underwriting, we're in broking, we're in life business, we're in some property and casualty business. Sometimes we have agency arrangements, sometimes we manufacture, so I think there's certainly scope for reviewing what we do. But in the context of Mike and I having said to Clive, this is something that we think that we should develop because we think there's a real customer need for it, for our customer base, and he's taking to it with a vigour.

FT: I just want to talk about China briefly, and specifically the recent share issue by Bank of Communications. Was that something that caught you by surprise, that announcement?

SG: No, why would it. You have to see that in the context of the Chinese authority's strategy for strengthening the financial system. You've seen the way in which they have brought the major state banks to list in Hong Kong and Shanghai and I think you will continue to see the government wanting to make sure the banks play a strong, stable role in the development of financial services in China. And that means a whole number of things. It means making sure that they've got shareholder bases that are demanding in terms of performance standards and in terms of transparency of management. It involves making sure that credit risk capabilities are spread through the networks of banks. One thing I am absolutely sure of, and I see this time and time again when I go to China, and I'm off there the week after next, is that they are very focused on, and very understanding of, what it takes to make sure that the Chinese economy is properly supported by a vibrant and viable and well capitalised and commercially focused banking system. And they expect Bank of Communications to play a key role in that, and we're a key investor in the Bank of Communications.

FT: There's some confusion about what this does to your shareholding.

SG: That's because we have not said anything about, and nor have they said anything about, how this plays out. But obviously we at the current moment have 19.9 per cent.

FT: But they're issuing A shares which you can't participate in?

SG: As matters stand you could not buy A shares. That's an exact statement as matters stand.

FT: Over what sort of timeframe will that become clearer?

SG: I couldn't possibly comment. If you don't mind I think we ought not to. Because this is the close period I'm more than normally sensitive.

FT: One of the big organic pushes that we haven't talked about yet is in investment banking, which was a business that you ran for a while. There have been a few bumps in the road along the way on that investment. Would you say at the moment, as things currently stand, that is paying off?

SG: First of all, I think it's wrong to describe us as saying we've invested in an investment bank. We are not seeking, as I think I said earlier, to become a Goldman Sachs, or become a Morgan Stanley. What we've got is corporates and institutions around the world whom we've had as clients often for a long time, and for whom we've done basic banking business, loans, payments and cash management, custody business, basic capital markets trading, foreign exchange and so forth, and for whom we felt strongly - and we tested it out by talking to them - that if we invested in a range of products and services that had the sophistication they needed, they would be prepared to do business with us and it would be profitable.

And I think the evidence, as we went through this process - and I was responsible for it at the time - was very clear that they would be. It was clear that we did need to make investments, we needed to take ourselves up the value chain in the capital markets area and in the trading area, and we needed to invest in systems in payments and cash management, and custody. We needed to strengthen our relationship management capabilities, and we needed some advisory capabilities, particularly in the sectors of importance to those clients. I think it's inevitably a financing-led business, because we're not a stand-alone Wall Street house, this is part of a large bank. So financing led and with a strong emerging markets theme to it, for the obvious reason, given who we are. A business in which we've invested - we started really in the middle of '03 and broke the back of this through '05 - something like $2.5bn so yes, a significant investment. Income is up, over that same time period, through to the first half of 2006 of the same sort of magnitude, and if you look at where the income was coming from, particularly strong growth seen in the more complex product areas in which we've been investing. And that against the headwinds of the balance sheet management part of the business being relatively slow because of the flatness of the yield curve.

So, I'm absolutely confident that this is a strategy that makes very good sense for the client base and is earning a good return for us. Clearly, we've got to keep proving that that's true, over time. And we've said that we've done the bulk of the big ticket investment; that doesn't mean to say you don't continue to refresh a business that's as large and complex as that. It is after all about a quarter of the group, if you look backwards. I think it earns at least the group average return on investment, it's just fine. We integrated the management structure under Stuart Gulliver earlier this year. I think that was a natural step, the time for which had arrived around then. And I think that, again Stuart's a key member of the group management board, for obvious reasons.

I'm very happy with the way that's going. The nature of that business is, first of all it attracts headlines, that's the nature of the business, but actually if you look at what clients say, what surveys of satisfaction tell you, we know it's going well.

I remember calling on the finance director of a large car maker - I won't tell you where, this is going back three years - and it transpired in the course of the discussion that they did business in 50 different countries, one way and another. Sometimes it would be sales, sometimes manufacturing, whatever. Every one of those 50 countries were places where we could do banking services for them. They had house banking arrangements, they wanted to broaden that out a bit. It was an obvious opportunity, it was of mutual interest, and that's just one anecdote of the way we, I think probably historically, had not been as aware of the opportunity and as proactive in marketing what we can do for clients as we needed to become. We needed to get into strategic dialogue with businesses like that, because they think in medium and longer term timeframes, for all the obvious reasons.

FT: In retrospect, was it done at the right time in the cycle?

SG: Yes. Why not? The fact that the balance sheet management area was suffering from flat yield curve is kind of a separate topic. That doesn't make it the wrong time in the cycle to be investing in structured derivatives; they've grown very rapidly for us.

FT: Some of your statements about risk, and your view of risk, you have been a bit more bearish than some of your rivals. Is that something that flows from your experience in terms of the specific businesses that are under your control or is that just a broader view of the world?

SG: We certainly expressed a point of view that the US economy was weakening and that that had some implications. The consensus is that the US economy is weakening. Our house economists in some things are slightly more bullish, in some things slightly more bearish on the consensus. Their view of the US is slightly more bearish than the consensus, but it's certainly not an outlyer. But their view is, yes, the economy is going to slow next year, probably to a tad below 2 per cent, but they're on record as saying that. And they're also on record as saying it'll pick up again in the following year. The Eurozone is looking a bit better this year, continuing at the kind of 2 per cent [growth rate] - there's something magical about the 2 per cent in the case of the Eurozone - and the UK being a tad above that in this year, next year and the year after. I don't think there's anything outlandish about those views.

We are very strongly convinced that the emerging markets will continue to perform and that has implications for how you develop your business. We have said – and I don't think we're in any way alone in saying this - that the credit conditions have been extremely benign. I mean, they have, and corporate liquidity, commercial banking business, the industry as a whole has been making comments over the last couple of years now about how benign it all looks.

FT: One can identify a shift in the banking business from the buy and hold model, to a model of originating and distributing risk, which is something that HSBC in the past has not done very much of.

SG: I think that's true and you will see us doing more. I think it's true, relative to others, and there were reasons why it was true. We were a deposit-rich, relatively asset-poor institution throughout the 1990s actually into the first year or two of this decade. So there wasn't, looking back, the same imperative or incentive to build up an underwrite and distribute approach. And if you'd got assets at a good spread, why would you sell them, was a not unreasonable point of view when you've got an awful lot of deposits. You have seen us shifting that towards a more conventional underwrite/distribute mode and I think you will continue to see us do that.

I think the other thing that we have been upping the pace on quite considerably is direct banking. We started quite a significant move in the US market around 12 months ago, with a very simple online savings product, but it was very carefully prepared including understanding exactly which parts of the market really wanted this and therefore how to price it in relation to market appetite. To be absolutely honest we were bowled over by its success in generating deposits. I won't tell you what we put in our plans for 2006 in terms of deposits, but certainly at the half year we were at, from memory, five point something billion. And then we have latterly taken it into Taiwan and I actually think that there are a number of other countries that we will start to roll this out. And this speaks to something which we did allude to earlier, which is the quite rapidly growing customer propensity to deal with banks and their services over the internet.

There are some banks who have done quite a lot in this area. The question always seems to be whether you can make the case that these relationships that you can then develop in other areas or not?

SG: Correct. And you need to understand about the durability of a deposit base and then whether you've got the assets for that to fund or not, and different institutions are in different positions on that question. In our case, we certainly do not have any issues and I'm very comfortable about managing that as part of the asset/liability mix. For example, in the US situation we were not in a position of not knowing what to do with the deposits.

The extent to which you can cross-sell into other products on the same thing, I think you have to test that. I don't think you can make a general assumption across markets. Different markets are different and you have to carefully test the market in each market you go into with a direct offering.

FT: So there are a number of other countries that you think you could do this?

SG: Well, yes, I do. East Europe is one.

FT: So quite a lot of countries?

SG: Yes, I do. This is not all done at the snap of a finger, because, as I say, each market needs to be carefully sussed, but if you look at a potential roll out over two, three, four years there are quite significant opportunities in that, as I do think there are for consumer finance, which we've already talked about.

And I guess it is one of the reasons why there is an advantage to being a business that's in so many different countries. You've got a lot of places to think about the options in.

FT: So to be clear, savings is what you have been doing so far, but you would see that as part of a broader kind of online banking?

SG: Potentially. Online banking, whether it's broader or narrower in its product scope, depends on the particular market. You shouldn't go into the topic having a rigid view about how many products you put in an online banking environment and, of course, it depends on the customer bases. We also have a business online banking product, but that's a very different phenomenon. That online banking is going to become a more and more important part of the banking business, I think, is a commonplace and we're absolutely on the case.

FT: And it allows you to go into territories where you may be don't have the same on-the-ground presence?

SG: Yes, we found in America, for example, that well over half the deposits, came from out of our branch footprint which, of course, is primarily New York State.

FT: Is it an alternative to a physical location?

SG: Oh, in the extreme case, yes it is. Can you do it with no physical presence at all? There are some examples, but perhaps more common, there's going to be some physical presence allied to it. The key thing is this will look different in different places.

FT: One final thing... I must ask you, because there's been a lot of debate and discussion and various people have said various things, on the subject of the tax benefits of moving out of London...

SG: Ah! With that kind of lead in, what is the question going to be?

FT: There has been a lot of discussion about the specific tax question, and I know that you've always looked at this issue in a broader context than purely tax...but is moving the headquarters out of London something that you can envisage happening in the period that you are chairman?

SG: What we have said repeatedly is that we do formally every three years or so look at the question of where is the right place to base the head office of a Group like this, from the long-term perspective of a shareholder. You don't, for obvious reasons, take snap judgements about that and for equally obvious reasons, tax is a factor, but so are a number of other factors.

Ever since 1992, and I see no reason that this is going to change as of now, the answer has been London. I think London is the leading international financial services centre of the world. It is a terrific base in which to base the headquarters of a Group like this. We have an important business in the UK, and of course we wouldn't under any circumstances move that for obvious reasons. London has a huge amount of attractions as a financial services centre, it is actually one of huge success stories of this economy. So we're very comfortable here. I was, I think, quoted...I can't remember where it was, that I had made a great rail about taxes, and it wasn't the case. It certainly wasn't me.

I am a passionate supporter of London and its strength as an international financial services centre. It's a remarkable place. It's a unique cross roads of the world and the financial services industry above all is one which can benefit from that.

FT: Can I just come back to the split between the chairman and chief executive. What isn't completely clear to me is how that differs from the previous arrangement?

SG: It isn't a revolution. It is an evolution. It would probably be true to say that that represents a more explicit understanding of the double act between Chairman and Chief Executive. There are clear divisions of attention. But this is not night and day. We double up for each other in many circumstances. I think explicitly the Chairman is finally responsible for the strategy. The Chairman is finally responsible for the corporate governance of the Group. The Chairman is the principal, though - of course, by no means the only - ambassador, both external and internal, of the Group, and, yes, I think the CEO is responsible with the management team for making sure that management team is cohesive and effective in delivering performance against plans for the Group. And I think that's a very effective approach.

FT: And you've never felt the need or a reason to be as explicit in the past?

SG: Well, inevitably I think a change of guard is the kind of time when you make things explicit that were implicit but getting clearer in everybody's minds before maybe. But I would describe it as evolution rather than revolution, but it is an important characteristic of the way we're taking the company forward.

FT: And you would say that in the past seven months that you and Mike Geoghegan have been able to work that out in practice?

SG: That is one of the advantages, that continuity we were talking about. Mike's been in the company 33 years, I've been in it 24, so I'm a mere newcomer! We've known each other for a long time. We've worked together in different places. I chose him. I think it's going extraordinarily well. But it's one of those advantages that comes out of that sense of continuity and it's an important characteristic of this organisation. And we put that at risk at our shareholders' peril.

FT: Thank you very much.

SG: Thank you.

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