Transaction banking: Working together to meet the challenges and seize the opportunities

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Thank you Mr Chairman.

I grew up in the Middle East and so it is a particular pleasure for me to open the first Sibos to be held in the region.

In that context I know I speak for everyone here when I say that we hope for a rapid end to the current conflict and see peace and stability across the region.

But while the challenges that the Middle East faces are huge, they stand in contrast to the development and growth opportunities which are becoming increasingly clear.

HSBC has been in the Middle East for over 50 years - and we see huge opportunities here. As the global economy continues its historic shift, this region is perfectly positioned. It is equipped with the timezone and geography to connect the emerging economies in Latin America, Africa and Asia - as well as the more developed economies.

In this way the Middle East is poised to regain its role as the crossroads of the world.

While the region faces both challenges and opportunities, it is how we approach the challenges and opportunities for the banking industry that will be occupying our minds over the course of this conference. And so that's what I'm going to talk about today:

- the evolving macroeconomic environment in which we are operating,
- the state of the banking industry,
- the evolving regulatory environment,
- other transformational changes in the way the banking industry serves its corporate clients,
- and the potential solutions or ways forward as I see them.

So let me start with the global economy. Since Sibos last convened real progress has been made.

In the US, we are seeing improvements from both a cyclical and a structural perspective, with shale gas and oil helping to spur investment and keep American factories competitive.

In Europe, the second quarter saw the Eurozone step out of recession after six consecutive quarters of GDP contraction. And though there are still structural challenges to resolve, it is worth observing at this point that the monetary union has grown in strength. In fact, more rapid progress in fiscal, monetary and economic integration has been made in the last three years than in the preceding thirty.

In contrast to the improving picture in the developed world, there has been a lot of talk recently about lower growth in the emerging markets.

We should be clear here that each emerging market is different, and they will each have a unique experience as they grow - tackling governance issues, the need for improved infrastructure investment or inflationary pressures.

Many are experiencing a process of adjustment as weak balance of payments positions become exposed. And, in the short term, these problems will remain in the spotlight.

However - this shouldn't be overstated. We believe that the long-term trends remain intact:

First, the faster-growing markets will play an increasingly important role as the global economy continues to rebalance.

Second, as faster-growing markets link-up, trade and capital flows between those areas will grow significantly.

So we are not seeing a reversal of the growth trends of recent years. The truth is that faster-growing markets experience business cycles, just like every other economy.

China is a case in point. It is true that growth has slowed - though we should note the pick-up in the last two months. But, looking at the bigger picture, China's reform programme will have a slowing effect in the short-term, but in the long-term it will support more sustainable growth. We remain optimistic about China's economic future.

Turning now to the state of the banking industry - while the macro picture has been evolving, our industry has faced its own problems.

People have questioned our culture and integrity - quite fairly in some cases - and we are each addressing this directly in our own institutions, and together as an industry. But, actually, I think that one of the most powerful forces for improving our culture is to remember why our work matters - and why banking is important to society.

What we do remains essential to global growth through facilitating the big trends that I've spoken about - supporting the expanding flow of goods and capital around the world, which drives that growth.

Whether through our balance sheets, intermediation, advisory services, technology or know-how, banks remain vital in supporting these shifts.

We will continue to provide custodial services to protect clients' assets and we will continue to support trade, ensuring clients have access to the liquidity they need.

Our industry, at its best, provides the pillars on which the global economy stands. It satisfies an essential need in both the economy and society. We enable businesses to grow, economies to prosper and individuals to fulfil their hopes and realise their ambitions. It is our collective and individual responsibility to continue working to this end.

At HSBC we are absolutely committed to doing so - and of course transaction banking is central to this.
However there is no doubt that the events of recent years have had a profound impact on the industry, and that we are still in the cycle of resolution.

Let's turn now to the evolving regulatory environment.

Much of the heavy lifting has already been done - a lot has been achieved. We have new rules on capital, liquidity and market infrastructure. But some challenges remain.

First, the leverage ratio. There is still national and international debate over how the leverage ratio is calculated and the level at which it is set.

Looking specifically at trade finance, the EU has adjusted the leverage ratio to reflect the lower risk of trade and export finance products, compared to, for example, the most complex derivatives. In the interests of supporting growth and trade, the Basel committee should take similar action here. We also need to ensure that there is consistency between different jurisdictions - and this applies across the regulatory landscape.

The second point is counterparty risk. In the past the diversification of counterparty risk was considered vital. But now regulations, such as the Alternative Investment Fund Managers Directive, are pushing asset owners towards one supplier under the new depository regime. If you have a single custodian aren't you in fact increasing risk, and therefore not protecting investors?

The drive towards collateralisation raises additional questions. OTC derivatives must now be collateralised through a clearing house with a central counterparty. But of course the collateral must be of high-quality. Is there enough collateral of high enough quality to meet the demand?

The implication is that underlying investors will have to absorb the costs of new regulatory protections. And let us note the new systemic risks that clearing houses are creating as a result of these moves.

The third point is the arrival of new, non-bank players in the market. There is huge competition in payments today. New payment methods are emerging. During the period from 2010 to 2020 the value of alternative payments will triple to make up at least 25% of the market.

This is fertile ground for innovative internet players, some of whom have an existing customer base in the tens or hundreds of millions. They have the potential to disrupt traditional banking services and can also invent new ways to deliver those services. For example, they could bundle them or to link them with other, non-financial, propositions to deliver new customer experiences.

As banking regulations tighten it becomes harder and more expensive for banks to operate. But non-banks are less regulated. Some of these on-line payment providers are barely regulated at all.

The result is that an increasing amount of FX and business flow is moving into unregulated space - not because customers want to cover up illicit activity, but simply as a question of efficiency. This poses questions for banks - and for regulators.

Underpinning all of these regulatory issues are the standards by which we operate.

In the aftermath of the crisis regulators are right to set the highest standards of conduct for the banking industry, including to help tackle financial crime. While, of course, this changes the way banks operate, the industry must accept these new expectations, deliver on them and manage the increased costs.

At HSBC we are determined to adopt and enforce the highest behavioural and compliance standards globally - because it's the right thing to do.

So there are some big regulatory challenges remaining. But let's turn now to look at some of the other transformational changes that we are seeing in the industry, and in the way we serve our clients.

As the global economy evolves and new economies emerge, the industry will need to respond. For example, we will need to adapt from having one dominant global currency to having multiple international currencies, including China's currency - the renminbi.

The renminbi's rise has already been remarkable.

The recent survey of the FX markets by the BIS placed the renminbi in the top 10 currencies by traded volume.

SWIFT data suggests that renminbi payments grew in value by over 170% between 2012 and 2013.

But renminbi usage still doesn't reflect China's share of global trade, so significant further expansion is to be expected - and we should prepare for it.

Companies will need technical assistance to adapt. We must be ready to support them to capture the benefits for their businesses.
Another major shift is being created by technology.

The presumption that "only retail customers want to bank on their mobile" has proved to be wide of the mark.

We have corporate clients authorising over a billion dollars of payments at a time on their mobile devices. And while we must protect the security of data, technology can also allow us to generate greater information and insight.

The role of the treasurer has changed since the crisis - it is in the spotlight now, treasurers need to be more strategic. There has to be more sophistication around balance pooling and there has to be the capacity to move liquidity in real time.

Information is key to doing the job.

But treasurers are limited to using their information only. Banks have access to more information in the form of marketplace data. So we can play a unique role in supporting corporate treasurers by sitting across business information and marketplace data globally.

Treasurers who succeed in using technology to collect and deploy that information can add significant value.

And it's not always about new technology. In Silicon Valley today the focus is not necessarily on technological innovation, but on problem solving - often by integrating existing technologies in order to design a solution.

It's the same in banking. We need to move away from always thinking about product-centric innovation, towards client-centric innovation. That means working to serve our clients by solving the problems they face.

So, as an industry, we have to ask ourselves: in the changed operating environment, with revenues constrained and costs increased, are there other ways in which we need to change and adapt?

I think that we need to make a fundamental change - which requires practical change and, actually, a mental shift.

In areas where there are no differentiating factors in what we do - where there is shared space - we should seek to collaborate. In our industry we all do so many of the same things - replicating work and replicating cost for no advantage.

We can gain scale through combining utilities. So we should look at where we can mutualise and cooperate to share services and reduce costs.

Of course there will be opportunities for SWIFT to support the industry further in some of these areas.

Let's take an example. KYC is perhaps the most obvious candidate. We all do KYC, we all source the same data, but there's no value added. There's no proprietary value for us all in doing KYC.

So we should be looking to create a KYC utility with other players in the market which will save costs and improve practices in the industry.

Another candidate for greater cooperation is the sourcing, cleaning and organising of financial market data and prices.

Currently banks have their own processes for this. We each spend time analysing the same data in the same way before feeding it into our own proprietary systems. And with regulators creating more reference data points, we'll have more and more data to process.

Again, there's no real value in doing this ourselves - so we need to ask if there is a better way.

An independent, auditable data aggregator could provide this service for multiple banks. It would be cheaper and more transparent for regulators - and it would enforce standardisation in valuation, which in the end is good for everyone.

The other positive effect of creating these kinds of utilities would be to create better data.

By performing their processes once and then distributing to many, in a way the utility will act like Wikipedia.

There will be many eyes on the same data and users will feed back into the system as more or better information is discovered.

This "wiki effect" will improve information quality and therefore improve process quality.

Through simple innovations such as these, we can deal with some of the challenges we face - and we can create an opportunity to collaborate.

This is the key point that I want to leave you with today.

I've spoken about the changed environment we're operating in - economic shift, tighter regulations, new technology, new currencies, higher costs.

We are living through a time of great change and great challenge. But I know we can rise to this - because we've done it before.

We have been through challenges in the past and look how far we've come. I have no doubt that we can do it again. I have faith in this industry. And I believe that in the future we will continue to succeed - because we must.

The industry must succeed in order to support those trends that I talked about at the start of my remarks - increasing growth, development and connectivity in the global economy - enabling economies to prosper, businesses to grow, and individuals to realise their ambitions.

We must prove once again that the banking industry is at the heart of economic growth. And that it is an essential need for the economy, for our customers, for our staff, for our shareholders, and, actually, for society itself.

So I say again: it is our collective and individual responsibility to continue working to this end.

I've been in this industry a long time - as have many of you. We're used to competing - and that's good. We should continue to compete. But the crisis taught us that we have to work together as well.

Because, while we're competitors, we're also clients. We're each other's clients. And we will achieve so much more together than we can apart.

We have an opportunity here to think about and create the future together. And I know that, together, we will seize it.

Thank you very much.