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Inside Story: Bank rides Asia's tigers

Having hired 1,000 people and doubled its business this year, Standard Chartered is proving itself to be very different from other big banks

Iain Dey Published: 25 September 2011

Chief executive Peter Sands says the future of consumer expenditure is in Asia (Tom Stockill)

Arun Murthy stretches his arm towards the cargo ships dotted on the Singapore Strait far below. "It's always like this," he says, a broad smile on his face. "We are right at the centre of trade flows. We have the producers on one side and the consumers on the other."

Murthy, previously a star banker with Lehman Brothers and Goldman Sachs, is head of commodities trading at Standard Chartered. From his perch on the 31st floor of the bank's towering Asian headquarters, the 43-year-old really does seem to have the world at his feet.

Not many bankers can say they doubled their business in the first six months of 2011. Murthy can.

He is part of a group of executives who have helped turn Standard Chartered into the world's fastest-growing investment bank. It's not a fact the bank widely advertises —

for a start, Standard Chartered hates the title “investment bank”, not least because of the negative connotation earned during the credit crisis. It prefers “wholesale banking”.

Whatever you call it, there is no question that this part of the business has been a runaway success. The profits have grown by about 750% in the past decade — and kept growing even through the darkest days of the banking crisis.

The group now makes much more money by greasing the wheels of international trade than from selling mortgages and credit cards. About 70% of its profits come from wholesale banking, recent half-year results showed.

Standard Chartered is a very different beast to any other big bank. It’s so different from the other British banks that many of its investors question why Standard Chartered should be British at all — especially following George Osborne’s tax on banks and the reforms proposed by the Independent Commission on Banking.

It has shrugged off the problems of the eurozone crisis — it sold off what little European debt it had in its trading portfolios this year.

While others are cutting thousands of jobs, Standard Chartered will hire at least 1,000 people this year — and will pay big bucks to recruit those bonus-hungry bankers.

It has built the biggest trading floor in Asia in the Singaporean tower. The only thing obscuring the traders’ view is the Marina Bay Sands casino and hotel — a giant complex that looks like a ship on stilts.

Standard Chartered is not the typical “casino” bank, however. It mostly deals with the real world. While Wall Street’s big beasts were inventing crazy derivatives that created a boom and bust in the American housing market, Standard Chartered was bankrolling Indian textiles firms, Chinese property developers and African cattle farmers.

“A client would rather pay me back in a physical commodity than a hedge,” said Murthy. “That’s fine for me. They will pay me back in coal, for example, rather than in dollars. I am financing a mine in Indonesia — I give him dollars, he gives me coal. I get paid in coal, but I have big clients in India who need coal.”

Ask a typical investment banker about his clients in the gold market and he will talk about the central banks and hedge funds that have been buying bullion recently. Ask the same question at Standard Chartered and you are likely to hear a tale of a new gold mine being built in South Africa, or booming sales in the jewellery stores of Hong Kong’s Causeway Bay shopping district.

Not many bankers can say they doubled their business in the first six months of 2011. Murthy can It’s not a world away from the original Chartered Bank of India, Australia and China founded in 1853 by James Wilson, a Quaker from Hawick in the Scottish borders. Wilson, who also founded The Economist magazine, opened the first branches in Mumbai, Calcutta and Shanghai, soon followed by Hong Kong and

Singapore. He financed the shipping of tea, cotton, rice, silk and hemp from the East to Queen Victoria's Britain.

When the bank merged with the Standard Bank of British South Africa in 1969, it stitched together a network that spanned the old empire.

That has left the bank in the right place at the right time. It all boils down to a very simple story: the rise of the East at the expense of the debt-riddled West.

If that story bears out, Standard Chartered stands on the cusp of greatness. If the doubters are proved right, and the world is indeed being kept afloat by a giant Chinese bubble, then the bank is heading for an almighty fall.

Most of the sceptics reckon the bubble lies in Chinese property prices. Beijing has made several attempts to cool the market, such as restricting families to one property in China's big cities. It has not killed demand, however.

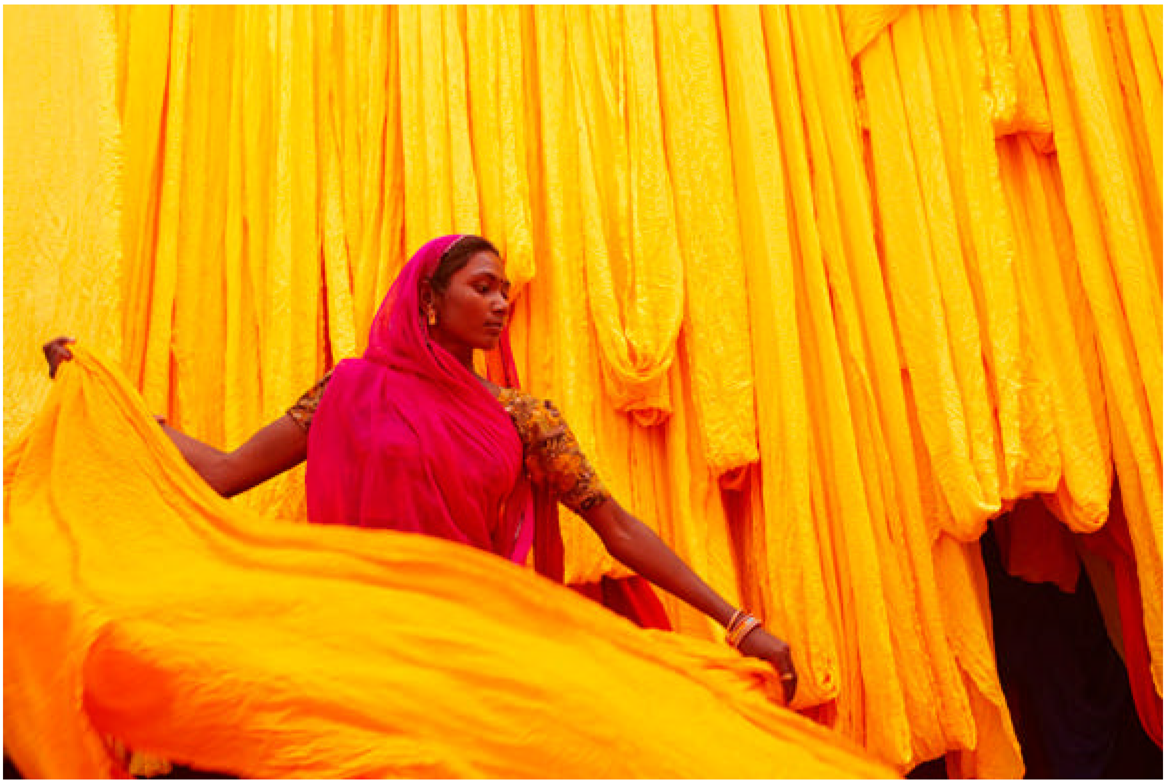
Vincent Lo, chairman of Shui On Group, is one of the Hong Kong property developers who has been riding the wave of this property boom. He said he knows of three couples who are divorcing just to allow them to buy a second flat. And his flats don't come cheap.

Shui On has built an exclusive residential development in Shanghai. A top apartment in Xintiandi — which losely translates as "new heavenly land" — costs about £1,300 per sq ft, equivalent to a decent pad in Mayfair.

The company is also selling the most expensive flats to be found in Chongqing, in the southwest, by some estimates the world's biggest city with a population of about 32m. Shui On's 40m sq ft development there, which also has shops, offices and restaurants, is roughly three times bigger than its flagship Shanghai complex.

Lo said there is no shortage of interest. "The market still has money — it's not over-leveraged like it is in the West. We still have one-third of our buyers coming in to pay cash.

"They did not need a mortgage to buy a flat. The checking system [bank to bank payments] is still not very common, so everyone in the family goes to the bank and takes out cash, which they then bring in a briefcase. We always have a cash-counting machine in our office."



The Standard Chartered empire includes sari factories in Rajasthan, India (Bruno Morandi) Those people will want cars and homes, pushing up demand for steel, copper and platinum. They will also need roads, ports, bridges and airports. The emerging middle classes will eat meat once a week, rather than once a month, causing a surge in demand for grain used to feed cattle and pigs. They will eventually want credit cards, loans and insurance.

By 2030, China's income per capita will be 43 times higher than in 1980, according to Standard Chartered's Super-cycle report, a 150-page tome produced last year. In America, Europe and Japan that figure will rise by about 2.5 times.

Today, Asia is home to about 28% of people described by the Organisation for Economic Co-operation and Development as middle class, earning at least $10 a day. By 2030 that figure will have risen to 66%. Over the same period, the total number of people defined as middle class is forecast to rise from 1.8 billion to 4.9 billion. So Asia will have a higher percentage of a much higher number.

"There is a rapid growth in the number of people who are reaching income levels at which they have, in a sense, a discretionary income — which they can spend on things such as air conditioners or household goods or whatever," said Peter Sands, chief executive of Standard Chartered.

"If you roll the clock forward, over the next two decades something like 80% of the increase in consumer expenditure in the world is likely to come out of Asia.

"What we do is help all sorts of companies and investors in the parts of the world where these new consumers are going to be — and also elsewhere in the world where they are going to be selling goods to respond to the opportunity."

That apparently simple business of helping companies sell goods round the world has been the central plank of the business since the mild-mannered and slightly eccentric Mike Rees took over as chief executive of wholesale banking in 2002.

He was picking up the remains of an operation that had been burnt by the Asian debt crisis of the late 1990s. Trade finance is not simple, however.

Take Olam International, the Singapore-listed agricultural commodities trading firm. It started life in 1989 with a group of Indian investors exporting cashew nuts from Nigeria. It is now one of the biggest traders of the world's 20 most important food commodities. It buys cocoa beans in Nigeria, Ghana, Ivory Coast and Indonesia, processes them into cocoa butter, powder, liquor and cake then ships to chocolate makers such as Mars, Nestlé and Hershey's.

Olam's business is to get food from the field to the factory. Its farmers can't wait for the Mars bars to be sold before they get paid. And Olam does not want to be exposed to currency movements or cocoa price shifts.

That's what trade finance is all about. While those shipments are making their way from A to B, it's usually a bank that's on the hook for any sudden currency movements or price surges. Without the banks in the middle, trade struggles to take place.

"Generally, you would say the bulk of the risk sits with the bank," said Ashutosh Kumar, Standard Chartered's global head of trade finance. During the financial crisis, many international banks cut their exposure to more far-flung destinations. As a result there was, quite literally, not enough money to finance global trade.

Standard Chartered responded by dropping down the supply chain, matching its customers with raw materials to sell in one part of the world with customers who needed supplies in another. It ext- ended terms on trade finance from 90 days to three years.

"In most of the markets where we operate, we are a big bank that has been there for maybe 150 years," said Kumar. "We look at the full eco-system of the supply chain. It could be for white goods or energy-efficient lighting. We have done things for medical and pharmaceutical companies."

Moving into the supply chain has given the bank an edge. It is moving its people round the world to get them closer to customers. Indian graduate trainees are being sent to China, while Chinese graduates are being sent to India. One thing the bank must do is send a chef with them. "When people go into a completely different culture, the thing that keeps their mood up more than anything else is the taste of home," said Sands.

In Singapore, Murthy is looking at ways to push the bank ever deeper into the markets it deals with, turning the bank into something akin to a trading giant such as Glencore.

"The end game for me is to physically move the commodities that we source as a result of financing these trade transactions," he said. "We are well placed to do that."

As long as those trade flows continue, Standard Chartered should make a mint. If there is an Asian slowdown, or a new global recession hits the developing world, it could be left holding the baby. The bank's recent half-year results showed some signs of strain.

Wholesale banking revenues grew 9% in the first six months of the year, compared with nearer 20% in recent years. And in India, profits from wholesale banking dropped 41% after bad debt charges increased.

"There were signs of some slowdown in areas that have been growing strongly until recently," said Robert Law, analyst at Nomura. "However, overall we would still argue that the company has stronger growth rates and less risk of downgrades than its peers."