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HD Forget the old rules, says Sands

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Global growth The yuan is remaking the world's financial system, writes Tony Boyd.

When the B20 released its blueprint for the Group of 20 country leaders to promote global growth, Peter Sands, the chief executive of Asia's leading retail and commercial bank had reason to smile.

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Sands, who has headed London-based Standard Chartered Plc for seven years, played a critical role in the B20 deliberations on financing for growth. He was co-chair of a committee headed by ANZ Banking Group CEO Mike Smith and was one of the biggest business leaders in Sydney's B20 meeting this week.

The bankers want the politicians to take action to deal with what some have called a "growth squeeze" in emerging markets. This refers to the unintended consequences of implementing tougher global banking regulations largely spawned by wayward banks in Europe and the United States.

Sands warned earlier this week in an exclusive interview with The Australian Financial Review that emerging markets have struggled to deal with the impact of regulations which have tended to restrict lending and soaked up liquidity.

"You have much less developed capital markets in the developing world and that means that companies are more dependent on banks so changes to the banking system have a bigger impact," he said.

"Bond and currency markets, they tend to be less liquid. So measures that have actually ended up reducing the liquidity of some of these markets have had a more marked impact because they were less liquid in the first place."

On Friday, the B20 recognised the issues identified by Sands with the following recommendation for the G20 leaders: "Review prudential and conduct regulation to ensure restrictions on access to finance do not unduly hamper financial inclusion, trade and commodity markets and finance for SMEs."

Take a closer look at other key B20 recommendations in relation to promoting trade and investment and you could be forgiven for thinking they were designed for the benefit of the sort of businesses run by Sands, and for that matter, ANZ's Smith. However, it is just a coincidence that Standard Chartered and ANZ have strategies directly pitched at riding the boom in Asian emerging markets through trade finance and products for middle-class consumers.

Sands is not your typical banker. He started his career as a trainee diplomat in the Foreign and Commonwealth office in London. He later joined consulting firmMcKinsey & Co, where he worked alongside Commonwealth Bank of Australia CEO Ian Narev.

He is under pressure from financial markets after announcing a profit downgrade in late June before the release of half-year results later this month.

Standard Chartered's weak share price does not bother him and he rejects suggestions that the bank is vulnerable to takeover.

"I don't think the bank is vulnerable at all actually. I don't spend a lot of time worrying about takeovers," he says. "I focus on the strategy for the bank, how we drive value for shareholders how we execute the strategy and how we run the business well."

He grew up in Malaysia and Singapore and spends about three weeks out of every five travelling. His punishing schedule over the past month included visits to Taiwan, **China**, Latin American,Korea and Australia.

As chief of Standard Chartered Sands has the added emerging market exposure in the Middle East, Africa and India thanks to the decision made more than a decade ago to **buy** Gindlays for $1 billion from ANZ when it has misgivings about the risks of banking in emerging markets.

The emerging market boom, also known as the "EM super cycle" will see the emerging market share of world GDP rise from 38 per cent to 63 per cent by 2030.

Its focus on trade finance leaves it well placed to capitalise on the boom in intra-regional Asian trade. Standard Chartered forecasts trade between emerging market countries to grow from 18 per cent to 40 per cent.

Sands says that shifting trading patterns will be accompanied by dramatic changes in the global financial system caused by **China** injecting its currency into world markets.

"This is a very big deal for us and a very important part of our strategy," he says. "The internationalisation of the renminbi is very significant to the way the global financial system is changing.

"It's already been a phenomenal change. If you think that virtually zero per cent of **China**'s trade was settled in renminbi until about 2010 and now you are getting up into the high teens in terms of the percentage of **China**'s trade. As a payment currency in 2011 it was 35th in the world and it is now seventh. Our payments in renminbi last year went up 130 per cent."

There are two aspects of **China**'s opening of its economy through currency liberalisation and Sands wants to play in both of those.

The first is the liberalisation of the current account through the use of renminbi in trade settlement. The second is through liberatisation of the capital account through currency, fixed interest and equity markets.

"You have got the Shanghai Free Trade Zone which is very interesting from the point of view of the renminbi because for the first time it allows sweeping of international and offshore renminbi," he says.

"The issue with RMB is how you get it back onshore and how you use the liquidity offshore onshore."

Standard Chartered and HSBC were among the first international banks to set up sub-branches in the Shanghai free trade zone. ANZ opened its sub-branch in April at the same time as Westpac Banking Corp.

These actions by institutions are being matched at the political level. Countries are competing with each other to gain renminbi trading hub status. London was first to gain this privileged status, a move that helped Standard Chartered which is headquartered in London.

Treasurer Joe Hockey has said Australia will have a renminbi clearing bank by the end of the year. ANZ is already one of the largest renminbi deposit takers but that is through its **Hong Kong** branch.

"For Australia I think this is very interesting because one of the next steps I suspect you will see is more and more commodity flows priced and settled in renminbi," he says. "It's kind of natural for it to change because if **China** is the biggest consumer of these commodities why wouldn't you settle in RMB?"

Sands says the challenge facing **China** in relation to renminbi liberalisation is making sure it happens in tandem with domestic reform.

"You don't want to liberalise the capital account before your domestic financial system is ready," he says. "That's a pretty big agenda item and there is a lot to do there not the least of which the liberalisation of deposit rates. Keeping those two things in parallel I think is a quite complicated process. It's more important that they get it right than get it early ."

In the spirit of the B20 focus on innovation – the B20 wants every country to prepare an "innovation agenda" – Sands says the G20 has to recognise that the main forces shaping the financial system will no longer be regulation.

"While much of the discussion and debate that is going on is about the impact of regulation if I look forward I would say that technology is going to have an even greater impact than regulation," he says.

"Looking forward technology will be a bigger deal and, indeed,technology will have a big impact on regulation because how you regulate will change given the impact of technology.

"I think the industry is going to go through a massive transformation around technology. We are only at the early stages of digitising the industry.

"Very little of what we do as banks is inherently physical. There are notes and coins but the rest of it is information and **property** rights.

"All of that can be digitised."

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