Bank of America Merrill Lynch Annual Financials CEO Conference

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Transcript – Fireside Chat with Tushar Morzaria, Group Finance Director

(amended in places to improve readability only)

Andrew Stimpson, Bank of America Merrill Lynch

Tushar, thank you for joining us again.

Just to get started, to have a basis for the chat, maybe you can tell us how far advanced you are in delivering both the strategic and the financial objectives of the plan, please.

Tushar Morzaria

Yes, sure. I'll refer back to our first-half results. Obviously we'll all be reporting our third quarter results shortly, so I'll stay away from that. But when I look at the first-half results and I really start measuring Barclays' performance on a post-restructured basis, really beginning in the fourth quarter of last year. So it's only been three quarters of reported results. But we've been somewhat pleased by our performance. In the first half of this year the Group generated a double-digit return in both the first and the second quarters with both operating divisions, UK division and our International division, generating double returns in the first-half.

We were pleased with some of the operational progress, particularly in our sales and trading businesses where we underperformed our peers in late 2016 and into 2017. It was very important for us to get back some market share, which we believe we have and we believe that's sustainable. So we feel pleased with performance there. And we're also pleased that we put behind us at least one of the most significant legacy items that was still out there; our RMBS issue with the Department of Justice going back over 10 plus years. So it's nice to have that behind us. And all the more pleasing was we closed the books in the first-half at our end-state capital objective of around 13%. So I feel like we've really not got much legacy [issues] on the horizon, if any. And to be at our end-state capital position and generating, we think, a reasonable return. It's been a good first-half.

Obviously, the second-half seasonally tends to be a bit slower than the first-half. We'll see what that throws up, but we think the company's on pretty solid footing as we go forward.

Andrew Stimpson

Brilliant. Thank you. I'll start on the CIB, that's more my focus. The idea to give a bit more balance sheet to the markets business, I think it's fair to say that that worked. Revenues there up 18% H1 year-on-year in dollar terms was one of the best on the street. So clearly adding balance sheet does equal more revenues. But as that strategy matures because it's been, you know – we're about to lap ourselves on that strategy – what's going to drive revenues, say, into next year? Because I think you've repeatedly said you won't add more capital into that business.

Tushar Morzaria

The reason for our improvement I think is a combination of three factors and I'll just touch on them briefly. Human capital, financial capital, that you've mentioned, and investment capital.

Just taking them in that order, starting with human capital. One of the most important adds that we had into the company in recent times was the addition of Tim Throsby who joined us in January of 2017. Why was that important? It's probably the first senior manager that we've added into the CIB probably since Bob Diamond left in 2012. And Tim, with a lot of credit, restructured his management team by the third quarter of 2017, so three quarters in. And they were again senior managerial adds.

And I think we're done with that now. So with a reconstituted management team with a lot more experience, proven experience in that business, it is interesting that our results have materially improved from the fourth quarter of last year onwards. So it's not coincidental that once that team was in place, very quickly we saw some improvements in our operational performance. I think we're done with managerial adds but, you know, they've only been together three quarters, so I do expect Tim to continue to add value for some considerable time. It's quite early on in their tenure I would say and a good start. But, you know, I've more expectations to come.

Financial capital, we've been very open about deploying more leverage into our sales and trading businesses and our underwriting commitments, as well as some risk-weighted assets. We are by and large done with that. We're happy with the level of capital allocated. We believe that allows us to compete at a level that makes sense for us. And the proof points for that is if you look at debt capital markets we're a top-three debt house any which way you measure it. If you look at fixed income financing we're a top-three fixed income financing house any which way you measure it. And there's various other measures we can give but it makes sense for the kind of bank we are that I think we're done with the addition of capital into that business.

And then investment capital, I think that's an ongoing journey. I think one of the things that all management teams have to grapple with when they're going through a heavy period of restructuring is that it's an investment diet that you have to be very self-imposed on. And we've had that particularly in the investment bank, compounded by certain idiosyncratic issues like the dark pools allegations of 2014 which it was pretty tough to manage when people make false allegations about some of our businesses. And proven to be false but nonetheless you still have to deal with them. So I think there's a little bit of catch up that we're still doing. But even when we have caught up, particularly in that e-trading platforms, I think we were very, very good. And before we started reinvesting properly in them we were probably average. I think that's just going to be an ongoing journey and that's to do with obviously having very good cost controlling ability to absorb those investments while managing your costs in an appropriate way. And then trajectory for us is down, of course.

Andrew Stimpson

Okay. And you mentioned there on the fixed side and the debt side. Those tend to be the more balance sheet intensive ends of CIB. So how will you maintain those good market shares that you've already got if, as it seems to be, that other firms are willing to increase the balance sheet?

Tushar Morzaria

Look, I think it's a trade-off. Market share's important but it's not the be-all and end-all. Returns ultimately is what we're trying to measure ourselves against. So we're not going to be a slave to just ensuring that we're whatever measurement or league table you want to pitch in at. There is a bit of a correlation though. It tends to be if you have good market share, the economics get concentrated to those with good market shares, but it's not always the case. And we've got to be disciplined with that. But we feel, as I say, with the current quantum of capital that we have, that's enough for us to generate decent economics and be relevant where we need to be relevant.

We've been involved in at least something like eight of the ten largest high-grade issuances in the first half of 2018. So, we have enough capital to get involved where it's sensible for us to be involved.

Andrew Stimpson

Okay. I nearly got killed in the Deutsche Bank on-stage because I left the question on 3Q to the end, so I'll put it in a bit earlier so you can relax.

We are near the end of September. There's been a few comments from your peers on 3Q. Anything you'd like to add?

Tushar Morzaria

Sorry to disappoint you but, no, no comment. And it's not because there's anything you should read into that. We just don't tend to comment on the quarter so, you know, you'll find out about that in a few weeks' time. But no comment.

Andrew Stimpson

Fair enough. I half expected that to be your answer.

Q2 results you weren't alone in saying that cost would see some upward pressure, particularly from technology investments. Is there a reason why that – why that wouldn't carry on over into 2019? I think technology is coming up not just as a quirky thing that I try and write about occasionally. It's actually coming up as a main part of the presentation sessions and questions from the floor that we're receiving across the conference.

Tushar Morzaria

I think the first thing I'd just remind folks is our costs are sequentially down. They'll be down this year to last year. They'll be down next year to this year and we've been on a steady reduction at absolute cost level. So any investment that we do as a company is in the context of an absolute cost base that is lowering. So how does that work? Obviously you have to have gross savings that a component of which you can redeploy back into the company and to be able to do that is really what that's about. I think most people will be – we haven't disclosed this, in time I think we will – but I think most people will be a little bit surprised at how large the gross savings are. And therefore, you know, the quantum that we can invest is also quite meaningful. But in the context of a downward trajectory.

And it's going into various avenues. There are what I'd call more important and non-negotiable investments that you could consider defensive in nature. But if you don't do them, I mean, you could really impair your business model. The obvious one is cyber; if there's a significant cyber breach for a company like ours that could be catastrophic. So although it's defensive I think it's something you have to be world-class in and ensure that your customers never get harmed that way.

Other things that are defensive and sort of less interesting to the outside world but are super-important when you're running these businesses is things like your core infrastructure, move to cloud computing, having private clouds distributed, all these kinds of things which investors don't necessarily see but ultimately shows through over the medium-term in your efficiency metrics and your ability to deploy more customer-orientated technology.

And then of course you've got new products and services that you want to roll out. I talked a little bit about e-trading platforms in sales and trading which isn't necessarily a new product or service, but you've got to keep yourself modern and up-to-date. And if you move to more the retail end, a good example would be open banking. I think we're the first and I think thus far the only bank, at least in the UK, that has its aggregation facility inside its own mobile app. So you can use the Barclays mobile app to aggregate your banking information from other banks that you may be a customer of. And we're the only one to do that. It's pretty hard to do. And that's through full use of APIs, not through simpler technologies like screen scraping. So we're very proud that we're able to do that while delivering a cost base that has a downward Group trend. But I think that's going to be a way of life for some time to come.

Andrew Stimpson

Okay. And you mentioned on cyber security. Do you think that's, in a way, a positive in that it becomes quite a big barrier to entry? Maybe not on the retail side, because retail customers don't tend to think about that. They just, you know, is the app good and what's the cost of the product? But on the wholesale side, it seems to me that that is far more important for the wholesale clients. Do you see that?

Tushar Morzaria

I actually think it is going to be important for both. I think you've seen it already with, you know, things like British Airways. These have real financial costs if large companies don't have very secure defences. And I think for a bank a meaningful breach is a real reputational issue and could be very problematic depending on the circumstances and the facts. I think regulators are getting more and more attuned into this, so I think the expectations that prudential and conduct regulators have around cyber defences are getting more sophisticated and that's important as well.

So yes, at some point I think this could be a competitive advantage as much as a barrier. There used to be the day where you chose your bank because it had the biggest, trickiest vault to break and I think in the modern world I think that's probably less relevant. But you want your data to be secure and whether you're a consumer or a corporate you really don't want to be worried about the vulnerabilities that your bank has. And thus far at least for the large UK banks that hasn't happened. Virtually every other industry in the UK has had a breach. So there's something to be said about the cooperation and the seriousness of which large UK banks and certainly Barclays are taking this and working together to ensure that the system is secure as it can possibly be.

Andrew Stimpson

Good. And you also mentioned there on cloud. How far through that journey are you? Some of the banks have been publishing KPIs on how much their infrastructure run on the cloud.

Tushar Morzaria

I think I'd say it's probably early days for us relatively. I think one of the interesting things with moving things to the cloud is exactly the earlier comment and things like cyber.

And, you know, that's a third-party service provider. In the world of modern regulation you can't just go around picking third party service providers for systemically important services like storing all your current account information. A regulator would need to be very involved in satisfying themselves that you're doing that appropriately. But that's all happened for us and we've been making those moves. And we'll talk more about that prospectively, yes.

Andrew Stimpson

Okay, great. Thank you. On the tech project how much is actually being spent on the fun, innovation stuff? And how much is just used to make sure the lights come on.

Tushar Morzaria

We split our technology spend into three buckets: Something that we call 'keep the lights on' – just running the core infrastructure of the day-to-day matter. Then there's mandatory work that we have to do, of which we've had a lot obviously with various forms of ring-fencing and new regulatory requirements and accounting standards and MiFID II and you name it. And then we have the 'change the bank' as we call it. I think over time and you're beginning to see that inflection now, the 'change the bank' is becoming a growing part of that pie. The mandatory regulatory requirements obviously falling away. Some of the gigantic projects we've had to do are done now. Brexit's probably the only one of real massive scale left and even that's coming to an end shortly. And that goes into those three buckets I talked about; think of defensive investments as mandatory in nature and could impair your business model.

Probably less visible to investors as a direct matter but really important is our core infrastructure and then products and services. And more and more investment is going to go into products and services. Things again that perhaps aren't as visible to the outside world that we've done without people really noticing is our merchant acquiring platform. We've put on a brand-new merchant acquiring platform earlier this year. Arguably that was even a more complicated change in technology of the same scale as UK ring-fencing. I mean, we have close to 30% of the merchant acquiring market share here so virtually – we touch everybody virtually when you change a platform. And if that didn't work, you know, there'd probably still be a public holiday in the UK. I mean, the whole system would be quite vulnerable to that. So these are big things and that does allow us to have more differentiated pricing, actually new products and services to our merchant services clients. That's just one example of lots of stuff that's going on behind the scenes.

Andrew Stimpson

Okay. So any percent for that 'change the bank'?

Tushar Morzaria

We haven't disclosed that.

Tushar Morzaria

We've had a lot of questions on this and they're fair questions. I think at the right time we may ask Paul Compton, our Chief Operating Officer, to join me on an earnings call or something like that to lift the lid on this so people can get a better sense of what we're up to.

Andrew Stimpson

Okay, great. Before I take another question from the iPad, my last one on technology. Are there any of the innovations or new things there which are actually going to drive revenue? Because normally we kind of look at this stuff, we think, 'okay, the reg tech stuff that can help us all to make compliance and cut costs.' Is there anything out there that you think, 'actually, this could be really interesting for revenue'?

Tushar Morzaria

Yes, I think so. Definitely. I think Open Banking is an opportunity and a threat. And managed correctly is a net opportunity for us. I think the world of payments is very, very interesting for us. We are a leading payments bank in the UK and it's a sophisticated payments market we have in the UK. We have a bank in the US through our card operations, a virtual consumer bank. And as payments get very sophisticated in the US, is there somewhere we can export our payment technology either into mainland Europe or US?

Another thing that's very interesting for us is Euro clearing. When I look at Brexit and having an Irish bank domiciled on mainland Europe, could we be the UK bank of choice for those that want Euro clearing services through a UK banking relationship? So being connected to TARGET2 and being able to take advantage of that. Definitely on the sales and trading activity we talked about some of the e-platforms. I think that's a constantly evolving space and there'll be new revenue opportunities that throws up.

One thing we haven't done as good a job as we'd have liked to have done is on our Smart Invest platform which sits very nicely alongside your current account as an investment account. Again it's a unique offering and the platform is now fully stabilised and everything's converted and the issues of last year are behind us. It's a very interesting opportunity for us; we'll be the only place where you can run an investment account right next to your current account seamlessly between the two. And that's a very good fee-generating business. sWe're already the second-largest trader of UK domestic equities, as well as not probably doing as good a job as we could've done on that. So the opportunity set there is quite significant.

Andrew Stimpson

Okay. And we've had a few questions here on the iPad around Open Banking which you touched on there. Is that still a threat? It's gone a bit quiet.

Tushar Morzaria

Threat, opportunity, it's definitely got both angles. But as I say, we're the first and only bank in the UK that you can aggregate your banking facilities through. You don't have to download another app and do all these connections; everything can be done through your Barclays app which obviously makes it a lot easier to do and almost incidental. But, you know, there's some big tech companies that at some point will enter the landscape – PayPal and Amazon and others. These are serious competitors and you've got to take those approaches seriously. But we've got partnerships with PayPal, as we've announced in the past in the payment space. I think because we're the first to move in some of our technology offerings around Open Banking, that's a huge advantage if you're already, for example, beginning to use your Barclays mobile banking app to aggregate your other banking relationships, which you can't do anywhere else. Once you've got that, it's a 'yours to lose' kind of thing. Now we shouldn't be naïve about that the fact that these technology guys are serious competitors, but you're the incumbent, it's for you to lose.

Andrew Stimpson

Okay. And you also touched on Brexit, which I have a number of questions around here. Where are you in getting ready for Brexit, still very unclear what shape it takes. How does that complicate your business and affect costs? You mentioned the costs, maybe the costs of that Brexit project would come to an end. What's the timeline?

Tushar Morzaria

So we took the early view that the only thing we could plan on was a quite hard Brexit; a relatively cliff edge exit from the European Union, rather than some gentler form of transitional framework or something like that. It's the only thing we could really plan on because although the political process may yield a different answer, you may not know what that answer is until it's too late for us to do anything about.

So as a positive matter, we've always planned on a hard exit. And if we were to get one, then so be it. That's kind of what we planned for. So we'll be up and ready in good time. In fact, we talk a lot about sales and training activity but don't forget we have a German card operation that we need to move as a legal matter for Brexit purposes. That's actually moving in December, so way ahead of the timeline. So we're pretty far progressed alongside that and we'll definitely be up and ready for business post-Brexit whatever framework ultimately the politicians deliver to us. Anything other than a hard Brexit will be helpful for us, but we've planned on the worst outcome.

Andrew Stimpson

Does that mean costs which would drop away?

Tushar Morzaria

Yes, for the gross savings so that will give us an opportunity and we'll take a view as to whether we bank that, or reinvest that and do the usual thing that we do on how we feel about the top line environment and the medium-term outlook and balance it accordingly.

Andrew Stimpson

If I switch to US cards, that's a key part of the growth strategy. Can you hit that 10% growth that you want to achieve organically or do you really have to be buying some portfolios there?

Tushar Morzaria

Look, I think that the 10% ambition for us is very realistic but it's not something, if you like, we're a slave to. So every quarter we're not telling the business 'you must grow your receivables by 10% otherwise we're going to yank you into the office and have a good chat with you' because of a couple of factors: one is the extent we add new partnerships or to the extent we divest of partnerships, like we divested a partnership in the last quarter. Those are sort of episodic, so that will not affect the short-term growth objective.

And of course you've got to be very on top of credit control, and we are where we are in the cycle. You've got to monitor that and understand that where you want to be pricing credit and where you want to be growing.

At the moment everything we can see 10% on a trend basis feels very realistic and very achievable for us. A combination of organic and maybe some very small portfolio acquisitions, but nothing of a game-changing nature necessarily. If we get any larger ones that work out fine, great. That will just be helpful rather than anything else. But the law of small numbers helps a little bit. For us, we're about 2% of the US credit card market share. It's already bigger than our UK credit cards business and we're probably the largest UK credit card company at the moment.

So imagine if you can make that share 2.5%; that will take us some time to do, but would still be a relatively small participant. So the law of small numbers, as a relative matter, is helpful there. But we like that business. We like the long-term returns of it and we like the credit fundamentals and we'll grow it prudently.

Andrew Stimpson

Okay, great. Mortgages, we've heard a lot about mortgages yesterday from some of the other UK banks. Everyone seems to want to grow mortgages fairly quickly. Margins are coming down, something you've already highlighted as well. What stops that margin pressure?

Tushar Morzaria

So it's a hard one to know if there's a going to be a single catalyst that does that. It's a supply-demand sort of balance. So when supply and demand gets back in equilibrium, you'll see that in pricing change. I think where we are today though, which still feels like a good business to us, you're playing the part of the credit spectrum that you know well and that you have experience in. It's probably the lower margin product for us, slightly lower loan to value. More of the re-mortgaging products, so those that already have a mortgage and want to refinance tends to be where we're most active in, in terms of our stock of mortgages.

You've got to price for good returns. What we see today, returns makes sense for us. But you're right, margins have shrunk and at a point we don't see that returns makes sense and we're not going to chase market share for the sake of it. It's a long-term product and we'll take a long-term view on that.

We don't have, unlike some competitors – I'd probably rather not have this position but sometimes it can be helpful – a large very accretive back book. We don't have a large standard variable rate mortgage product. So we're probably less vulnerable than some others to cannibalising your back book margin, even though I'd want bigger front book margins. But it's probably slightly less hurtful for those of us that don't have large margins in their back book.

But ultimately, it's just going to be driven by economics and if returns continue to make sense, that's a product we'll participate in. But when they don't make sense, we won't participate in that. What we haven't done, which is tempting to do, is we haven't chased higher margin mortgages and where we see the most margin compression from our vantage point at least has probably been in the higher margin product. So it has some effect on us, but it's probably more a compression of spreads from higher margin products becoming closer to lower margin products. But it's something that we'll price for economics at the end of the day.

Andrew Stimpson

Sure. And how far off are we from me saying 'actually these spreads don't make sense'?

Tushar Morzaria

Closer but not there yet. I don't want to put a number on it. We grew our mortgage book over the last four quarters about £6 billion net, we're £130 billion of nominal. That's enough for us. We wouldn't grow any quicker than that I don't think over a year, and that feels appropriate. Any more than that we're probably growing quicker than I think we would feel comfortable with.

Andrew Stimpson

And would you like to give a number on the front book, back book spread?

Tushar Morzaria

Yeah, I know others have called it out. We haven't called it out. If I do, I'll probably do it on an earnings call rather than a place like this. But I would go back to the fact that our back book isn't as high margins I suspect. Particularly the building societies that have the old building society brands that you'll all be familiar with probably have a more standard variable rate product in their books. And so they would have a much larger differential than we necessarily would. So don't expect us to have a very large differential.

Andrew Stimpson

Okay. And I think some of the mortgage pricing has confused some of us because you've had higher swaps but the pricings come down. What explains that in your view?

Tushar Morzaria

It's a supply and demand dynamic. Don't forget you've got the liability side, where most of the larger banks have had a lower pass-through from this rate increase than the previous rate increase. So to the extent there's been asset side margin pressure, that's been a little bit cushioned by expansion in liability side. So from what we see – and we're only one participant so we only see what we see, not necessarily everything – it's the higher margin product that's probably compressed a bit more than the lower margin product.

Andrew Stimpson

Now if we move on to capital, you said you've grown capital to the right levels. Certainly not much excess just yet, but how do you see the marginal capital deployed…

Tushar Morzaria

It is a good point. It's been a long journey for us but we're at our 13% stated end objective. I still feel, from everything I can see on the horizon, that that feels like the right number for us. And the call on our capital from various legacy items, fines or changes in accounting standards and you name it, that feels like we're at the end of that journey.

There are still some changes in regulations on the horizon; there is still Basel IV to come and various things, but they feel a bit more in the medium-term rather than near-term. So I think that we have more choice with what we do with the excess capital we'll now begin to generate.

The priority for us is to get that back to shareholders' hands in the right way.

You know, we do want to grow our business as well. We won't grow it in the very capital-intensive areas. We'd love to grow our payments business, we'd love to grow some of our consumer banking businesses. We've got plenty of capital to grow them.

So I think it's a choice of how we get that capital back to shareholder's hands in the most efficient form, and, we're getting close to a place where we should be able to do that.

Andrew Stimpson

Maybe connected to that, your tangible book value has been going down for a while; actually, that's started to reverse in the second quarter. How confident are you that that's the start of a new trend, that actually we can start to see that grow?

Tushar Morzaria

I think it bridges back to the question you just asked. So why is our tangible book flat to down since we started the restructuring? It's because we've had to deal with a lot of fines and various other things along the way, accounting standard changes, changes in US tax reform which had to mean our deferred tax assets got revalued. That's probably a good thing in the scheme of things, but, you know, paying fines and accounting changes aren't necessarily value added.

That is behind us now so our tangible book now is, more simply, a function of three things: earnings, less distributions – to shareholders rather than through third parties – plus or minus things that we can't control, which is interest rate levels and currency effects. Simply, if sterling weakens that's helpful to tangible book because we have a lot of non-sterling assets, principally dollars, that will revalue to a higher level and vice versa. Generally on interest rates, as the interest rates lower that tends to help our cash hedge reserve; our structural hedges are worth more. But, I don't know, no one can predict the future of those two things. So, ultimately, from my perspective, it's a function of earnings less distributions and it's as simple as that now.

Andrew Stimpson

Okay, thank you. And you mentioned interest rates there. Can you talk us through how you're seeing the deposit beta and how you're expecting that to evolve if we do get more rate hikes in the UK?

Tushar Morzaria

The last deposit hike, you saw the deposit beta, or the pass-through rate, was much lower than the previous one. I think all banks are trying to achieve a similar objective. You want to do the right thing by your customers and clients, and society more broadly. That includes shareholders as well, so it's getting to the right balance – we've been in a very low rate environment for a long time, it's been relatively low net interest margins, but our customers have obviously received less, and so trying to balance that.

I think banks will do their best to try and keep that pass-through rate to a reasonable level. So what's interesting was even the folks that you'd expect to pass on the full amount or perhaps more of the amount, the mutuals and those that aren't commercial organisations, even they had a lower pass-through rate, and I think that may be a sign of things to come. But you've got to see what it feels like when you get to that point; the societal pressures and the country in general. I think it's very hard to legislate for that this far in advance.

Question from audience

On the transatlantic bank, so you talked about that, that's a description of the investment bank, it's not really a description of how the consumer bank was. Clearly, as the US cards business grows it's a better description. But where will you be when you've grown up in the States, as it were, where does that go to? Because there's quite a lot of avenues that you could spin up into with what you've got and it's just a sense of the ambition there?

Tushar Morzaria

I think our ambitions around the consumer space, and these are measured in medium to long terms; these aren't one, two, three-year ambitions. Think of it in the same timeframe as our US cards business. We started that in 2006 and 12 years later we have a business that's larger than our UK cards business, so think of it in that longer-term investment horizon.

The consumer space is really interesting for us. We have a really good card business. It's fully self-funded now, it takes deposits and so uses securitisations to fund the balance. Could we do instalment lending?

Could we do personal lending? Could we get into payment gateways, other forms of consumer finance? White labelling? All of those things become very, very interesting for us, but as a medium to longer-term play, I think that's where you'll see us grow, if you like, 'as we grow up in the US'.

I don't think you'll necessarily see us grow that significantly in wholesale banking. I think to go deep into corporate banking in the US we start having to get into a physical footprint, which I think will be a very difficult thing for us to do. And, even on our consumer side one of the things that's worked well is it's a virtual bank, and we don't have branches or anything like that and yet we're able to generate good returns. So in the US, the consumer side getting bigger, I think, is probably where our medium to longer-term ambitions are.

Andrew Stimpson

You mentioned payments as an area there and a possible area of revenue increase. But it's probably the area that the FinTechs are looking to attack the banks more than any other segment of the banking world. What makes you confident that that's actually an opportunity for Barclays, not actually something you're going to have to give up?

Tushar Morzaria

I think where you see the FinTechs operating the most is on the consumer payments, i.e. the consumer-to-consumer or consumer-to-business. Business-to-business is really interesting and when I talk about a sophisticated payments market in the UK, it's surprisingly unsophisticated on the business-to-business side. It's quite jaw-dropping the amount of cheques that are still written in business-to-business. And given that we have that payments loop from being the acquirer, the card issuer and there rails there, I mean they've got a faster payments network and things like that there, you've got a closed ecosystem that we operate completely around.

And I think business-to-business is a really interesting place for us. And business-to-business payments in the UK are about £4 trillion; these are the giant numbers involved. You'd be surprised how relatively small a component of that is electronic and how much of that is still physical.

So I think the FinTech guys are into the glitzy Apple Pays and things like that, which, you're right, there isn't that much margin in that side of it. It's a great customer experience and feels good but there's not a lot of profit pool there. The business-to-business side is something that's much more interesting to us.

Andrew Stimpson

Okay. But would it not be true for writing cheques and things that the banks charge higher fees than if you do business-to-business electronically?

Tushar Morzaria

The economics are definitely skewed towards trying to get them onto our payment rails, definitely.

Andrew Stimpson

Just from a cost perspective?

Tushar Morzaria

Well, it's a cost to service perspective, but also the potential of growth as well. Our Barclaycard business is an open market business; you don't have to bank with Barclays to have a Barclaycard, and we have a third of the [UK] credit card market, while we only have, maybe, 10% of the checking account market.

So that tells you that you don't just need to be a small business bank, banking customers take advantage of our payment services.

Andrew Stimpson

And you've got a stress test coming up again, anything you'd like to add there…?

Tushar Morzaria

Again, I don't want to pre-empt the outcome. The results will be available in the first week of December. You know, we haven't failed a stress test yet. I'm hoping that because it's the same stress test we ran last year, which we passed, we should do fine this year as well.

Andrew Stimpson

On rate sensitivity, some of your competitors have commented. What's your rate sensitivity?

Tushar Morzaria

We've put out a slide. I'll just refer you to appendix in the half year presentation, so feel free to look at that. But, in a nutshell, we are rate sensitive from both the short end and, particularly, the long end. The long end, in some ways, we're even more interesting. It takes a little bit longer for that to come through in top line because it's the refinancing of our hedges into higher fixed receipts.

So we'd like a higher and steeper yield curve, and the numbers can get very big. You'll see in our appendix slide, if you get very big moves, like 100 basis point moves, I mean the numbers get extremely interesting, but you can take your own view on what rates will do.

Andrew Stimpson

Perfect. I will leave it there otherwise we'll go over time. So thank you very much, Tushar.

Tushar Morzaria

Thank you very much.

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