

WHITE PAPER

Brexit: Impact on Financial Firms and IT



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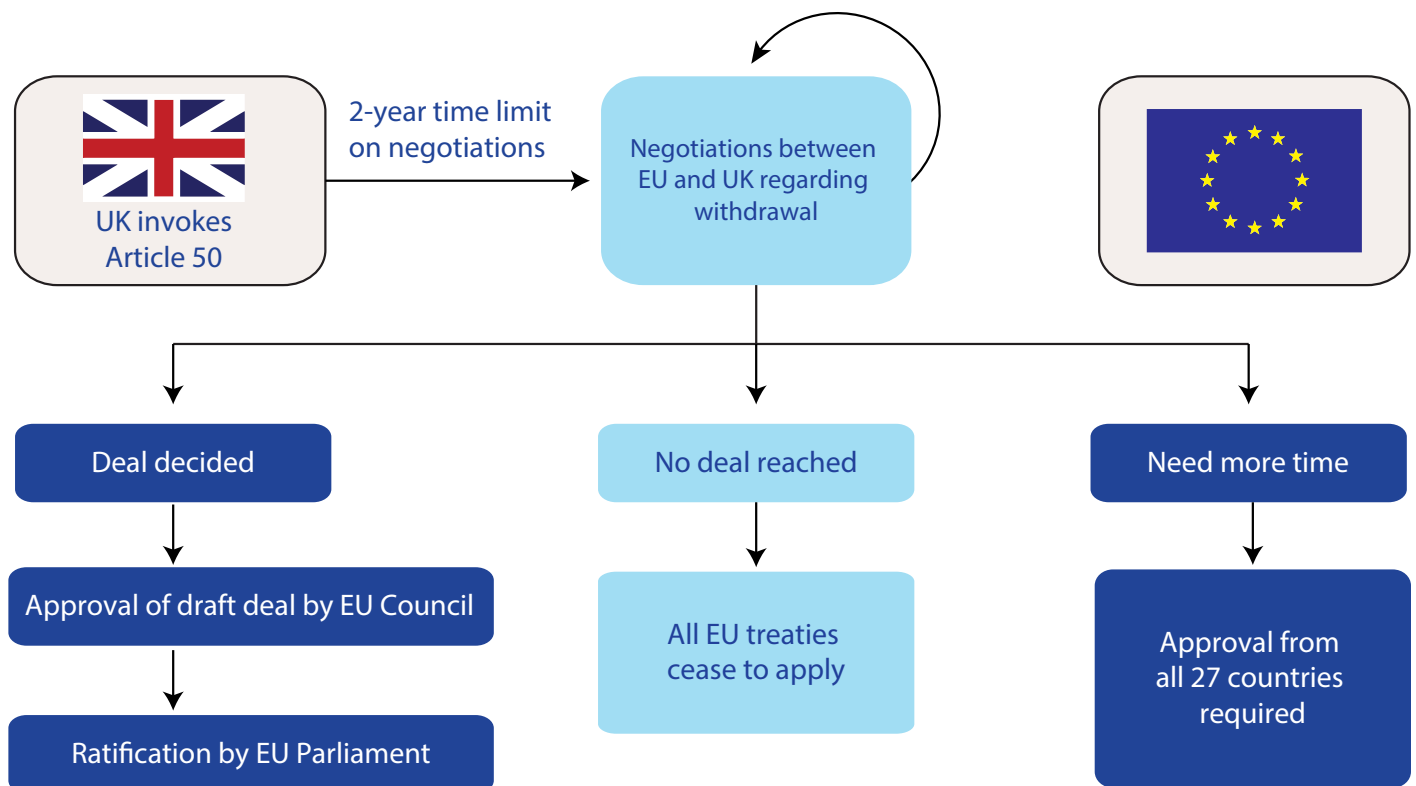


Introduction

On June 23, 2016, Britain's people decided to leave the European Union (EU) to gain greater control over their policies, regulations, and immigration. Brexit — as it has been called — is naturally going to affect the economy and financial sector of the country. In this paper, we will examine the impact of Brexit on the IT infrastructure of financial firms, as well as new opportunities provided to the IT firms by the event.

Brexit – the way forward for the UK and the rest of Europe

Post Brexit, the new relationship between the United Kingdom (UK) and the EU is depicted below:



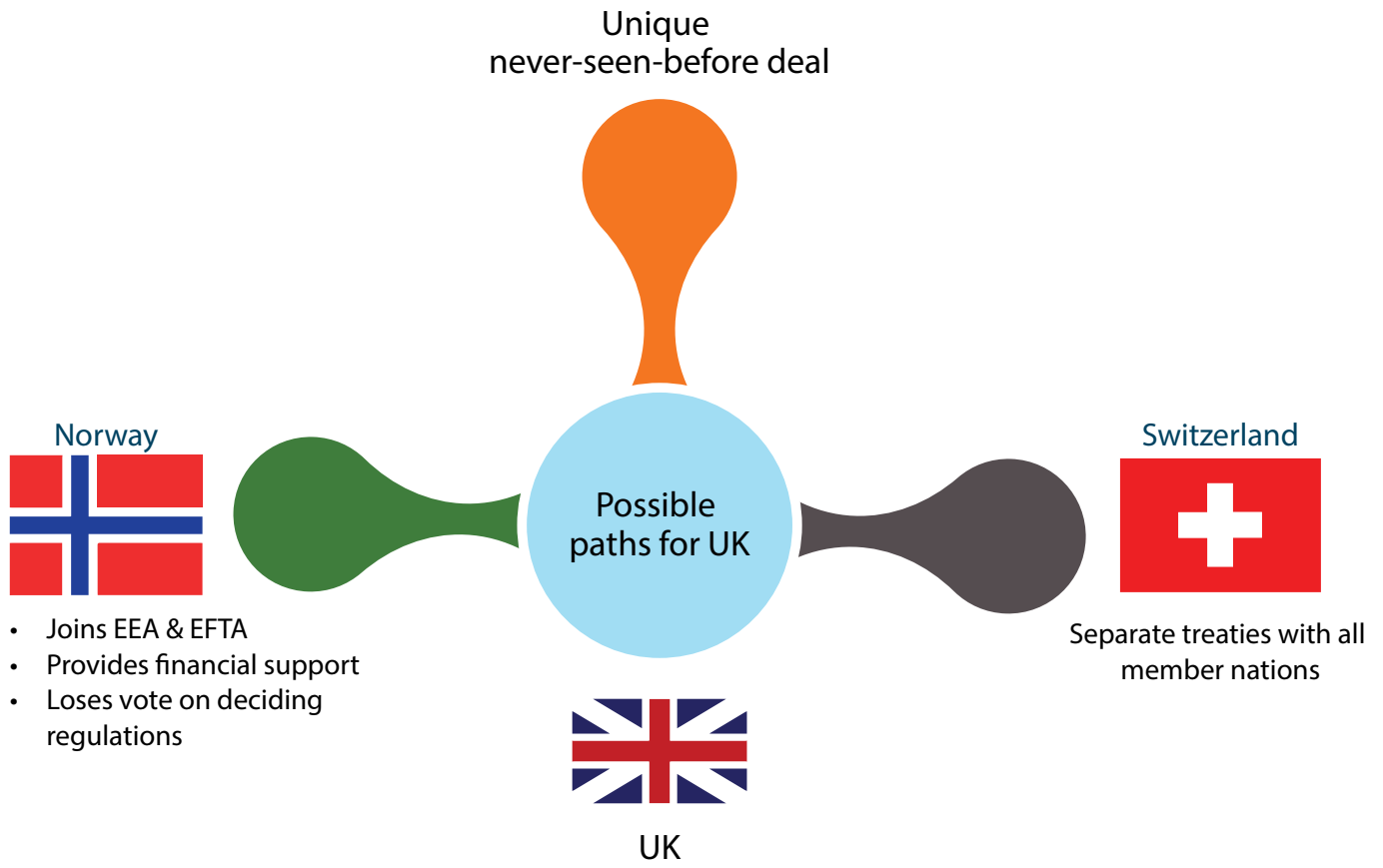
Brexit relationship between the UK and the EU going forward

Theresa May, the current Prime Minister of the UK, has declared that they will start the process of deciding the future relationship between the UK and the European Union

in March 2017, by invoking Article 50, after which the process of negotiation will start with a time limit of two years at the

beginning. Then depending upon the negotiations, the three different scenarios are depicted in the above chart.

So, what are the future opportunities for the UK? While an infinite number of possibilities do exist, some are a bit more viable than the others, and are being used by other European nations that are not a part of the EU. These are mentioned below:



Possible paths for UK post Brexit

The UK can either adopt Norway's method of joining the European Economic Area (EEA) and the European Free Trade Association (EFTA), or be like Switzerland and form separate treaties with every EU member nation. Alternatively, it might be able to chart out a unique deal.





The impact of Brexit on the banking and financial sector

Single market access

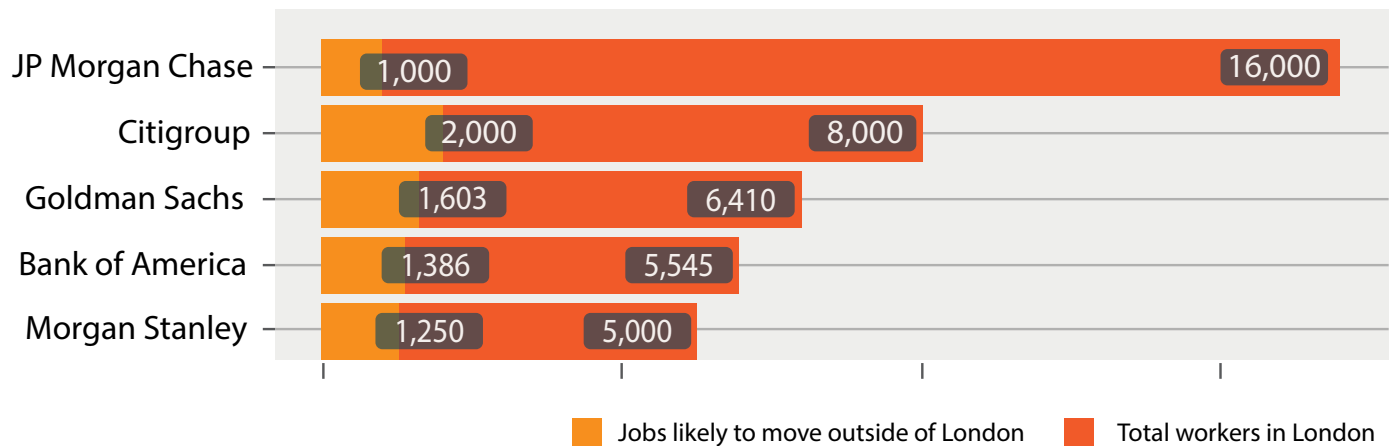
In case the UK loses access to the single market, many banks that currently operate across the EU through a single London branch will have to establish either a subsidiary or a fully functional branch elsewhere in the EU. With the loss of passporting rights, financial firms — the biggest employers in the UK with a 2.2

million-strong workforce, many of which are from the EU — will have to relocate a large number of their employees along with the offices. A study by Synecron suggests that firms could incur £50,000 per employee on an average for relocation. Many banks have already hinted at their plans to do the same.

Furthermore, according to a chief executive of Euronext NV, 30–45 percent of trading in

Euro-denominated assets in London would only be acceptable if the UK was part of the single market. Considering the delay in talks, and the uncertainty existing until then, Mark Hemsley, Chief Executive Officer of Bats Europe, considers it highly likely that his organization would set up their presence in the Eurozone just to gain some certainty.

Possible job loss in financial firms post Brexit



Regulations

One of the vital points leading up to Brexit was to free the UK from the shackles of the EU regulations that hindered businesses.

The current government is planning to imbibe all the existing EU regulations into the UK to provide certainty to businesses and investors. Moreover, the UK might introduce its own set of new regulations regarding cards, payments, data handling, and money laundering, that might very possibly diverge from the European Union regulations down

the road, leading to compliance issues with one more set of regulations.

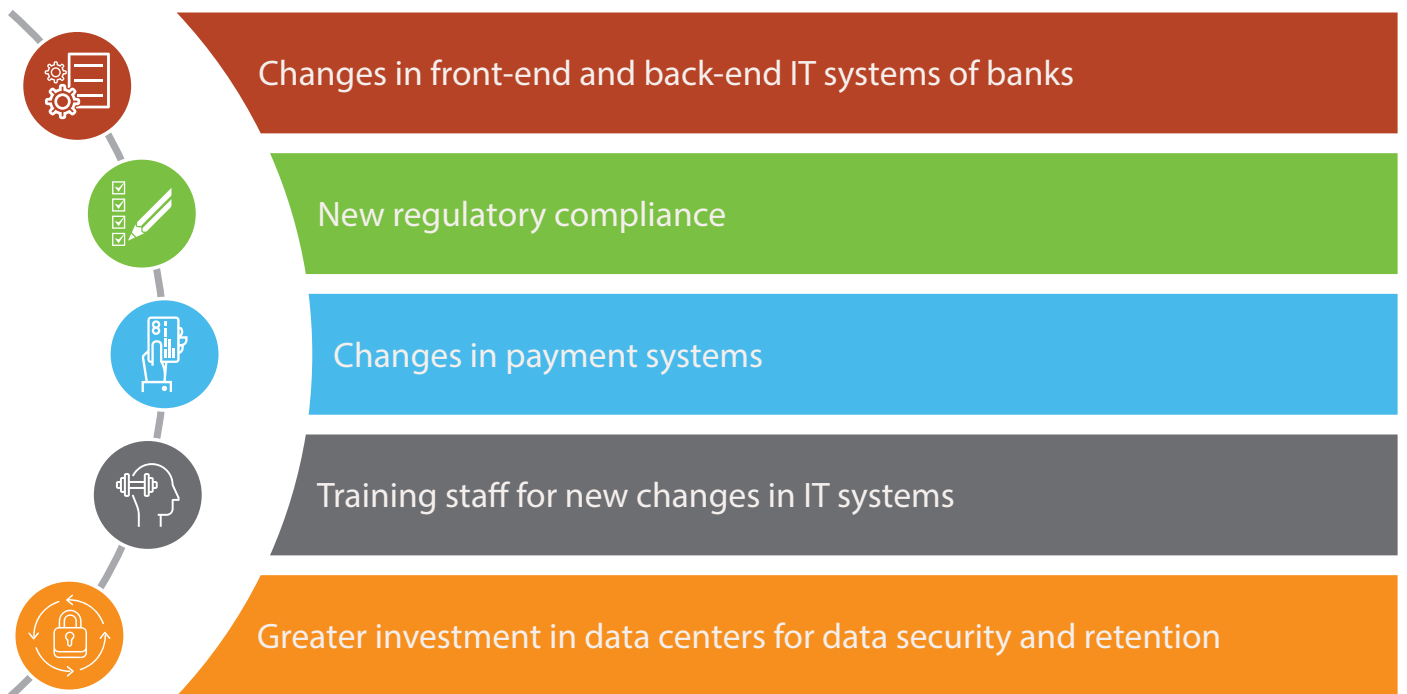
Technology landscape

Brexit will definitely bring a certain amount of IT overhead with it. Firms will need to be prepared to integrate their front office with back office systems, either in part or in full, to cope with the changes in regulations, business units, or even the location of their units, all of which might possibly require further training and innovation.

Moreover, there might be greater intricacies regarding transmission, security, retention, and usage of data if the UK and the European Union do not come to an amicable resolution. Many clearing houses, currently run from London and the European Union, will naturally want them to run from within its own boundaries in the future. Thus, many firms might even lose access to the existing trading venues.

Brexit — Plethora of IT opportunities

Plethora of IT opportunities post Brexit for IT firms



Brexit will create a plethora of various IT opportunities for IT firms. Obviously, there will be a huge impact through job cuts in the bank sector due to Brexit, but doors will also open in other sectors such as the firms' IT software.

There will be new changes introduced to the banking systems of the UK, post Brexit. These changes will affect banks' front- and back-end systems and the processes. At the same time, drastic changes will be required to cope with the new regulations of post-Brexit UK. For instance, for EU member-state banks to continue to trade with the UK, they will have to modify their compliance systems to take into account the variations in the UK regulations. One example would be of exporters / importers that will require two different customer identification numbers, one each for the UK and the EU. This will naturally burden the back-end IT systems and will likely affect various other sectors of the banks as well.

Likewise, UK banks will have to change their payment systems. After moving out of the European Union, the Single Euro Payments Area (SEPA) rules and benefits will not be applicable. This will increase overhead for the UK banks' corporate customers while paying and collecting funds from Europe, as using UK bank accounts will require an amendment in the payment systems.

The UK will still need to continue transactions with the European Union and persist in reinforcing trade ties, forcing the UK banks to come up with new or improved payment systems for maintaining efficient payment gateways with other geographies beyond the European Union.

Thus, UK banks will need training and innovation to cope with post-Brexit changes. Adoption of more agile and modern systems will be required by the financial firms to contend with rapid changes quickly, if they want to stay at the vanguard of their industry. Data analytics would be helpful in swiftly evaluating, modeling, and forecasting the outcomes of possible negotiations.

Greater complexity in best practices for data retention, security, transmission, and usage between markets in Europe (European Union and European Economic Area) and beyond is liable to elicit a rise in the investments toward data centers and shared services. If firms cannot access trading venues or clearing services post Brexit, they might be forced to try alternatives such as the distributed ledger technology (blockchain).

In a nutshell, UK banks should show the agility which can aid in the creation of new innovative systems or emphasize areas such as mobile and branchless banking experiences, automated claims management, and many more areas, to face such challenges.

Impact on the Indian IT industry

In the domain of technology, work consists of modules that can be completed independently at different locations. Britain is currently the second largest market for Indian IT firms after the US for its business process outsourcing (BPO) services. The rise of telecom services and the spread of inexpensive bandwidth played a vital role in enabling this.

Indian IT firms have used the passporting scheme to establish their presence throughout the European Union by establishing their headquarters in London. The ease of movement of skilled workers between the UK and the European Union has played an important part in bolstering their presence, and Indian IT firms have now managed to build a strong relationship with many of the clients there.

Therefore, a loss of passporting would require Indian IT firms to set up their new headquarters in the European Union, and then look at possible disinvestment from the UK. Currency issues concerning balance sheets will naturally arise after shifting headquarters, requiring changes in the financial management of IT firms. Some of the issues, such as currency hedging, are being currently addressed by local offices in European Union countries.



Conclusion

Brexit is likely to lead to the bolstering of the economic relationship between India and the UK, as the latter would be looking to offset the loss of privileges with the markets of the European Union by reinforcing its relationships with other countries and portraying itself as a lucrative independent market.

Post Brexit, there will certainly be an IT overhead for banks, which needs to be adapted promptly, either in part, or even completely to cope with the changes in regulations, business units, and locations. Indian IT firms would be an attractive destination for undertaking these tasks with their past record of first class work and innovation in the field.

And so, as the past cannot be changed, let us all strive to create a happy Brexit!

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