Brexit and the Implications for Financial Services

Key insights from a SUERF conference hosted by EY
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Conference Report

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On 23rd February 2017, SUERF and EY organized a conference on "Brexit and the Implications for Financial Services" at EY's offices, Churchill Place, Canary Wharf, London. While the outcome of the Brexit negotiations remains highly uncertain, the conference discussed the burning questions for financial firms, markets and regulators with a range of different viewpoints expressed on a number of important themes: the systemic risks from Brexit; the possible role of equivalence versus passporting to continue to facilitate cross- European financial transactions; the effects on the deep wholesale markets located in London and the question as to whether the sheer size and interconnectedness of London as a financial center implied that it would still act as a magnet for European business; the effects on Europe if the result created fragmentation of markets and CCPs; and the implications for bank, insurer and asset manager business models, in particular whether Brexit would act as a catalyst for restructuring and retrenchment from activity in the EU27.

The economic backdrop to Brexit and the implications of political uncertainty

Peter Praet, Member of the Executive Board, European Central Bank presented his views on the economic backdrop of Brexit and the effects of political uncertainty. In terms of the current European economic prospects, Praet was positive. The euro area economy has been relatively resilient in the face of a number of risks and uncertainties at the global level. The ECB's monetary policy measures have contributed to the positive economic developments. Measures of economic confidence have markedly improved.

Nonetheless he highlighted the fact that political uncertainty, epitomized by Brexit, poses increasing concerns and creates downside risks to the economy. The outcome of the UK referendum in June 2016 can be partly attributed to the decades-long development and spread of negative popular narratives about European integration. Anti-establishment and anti-globalization movements have been very active.

This movement tends to overlook the fact that international trade and economic growth are strongly correlated. Multilateralism has been a cornerstone of economic expansion since World War II and the WTO legal framework for international trade has proved to be robust. Brexit could have a significant impact on European trade in goods and services with knock on effects on the economy.

Given the added risks, effective institutional structures are vital, which includes sound supervisory frameworks. The independence of central banks is also essential. For example, during the crisis, the ECB was an anchor of stability. The international institutional architecture has been strengthened and has also played an important role. In the euro area, the establishment of the Single Supervisory Mechanism and the Single Resolution Mechanism has strengthened the financial system. Anti-globalization and anti-establishment sentiments are likely to remain a factor. History has shown that attitudes toward openness to trade come in cycles with periods of protectionism succeeding periods of free trade. Brexit proves that there is a possibility for European integration to go into reverse and this could jeopardize economic prosperity. Monetary policy can do much but structural reforms are also required to ensure the full diffusion of economic gains and economic growth across the Single Market to maximize the benefits to all citizens.

Charles Grant, Director, Centre for European Reform looking at political uncertainty, observed that Theresa

May has set out her plan for Brexit: the UK will leave the single market and the customs union and seek a free trade agreement with the EU27-countries. It is, however, not certain that the country will succeed. The "article 50 divorce talks" may collapse in a row over money. Perhaps, the two sides will not be able to agree on the transitional arrangements that would lead to a free trade agreement. EU officials are pessimistic because they observe the pressure May is under to take a very tough approach to the negotiations, while there seems to be rather limited pressure for a softer Brexit.

Nonetheless he thought that several factors could favor a less-than-very-hard Brexit. A majority of Britain's MPs want to retain close ties with the EU, as do business lobbies. An economic downturn (if it happens) could steer public opinion away from supporters of a clear break. However, other EU governments are mostly united in taking a hard line. They do not want populistic leaders in other EU-countries to use Brexit as a blueprint and exiting the EU must be seen to carry a price. The British Government has yet to decide, for instance, what kind of special deal, if any, it should seek for the City of London; and what transitional arrangements it aims for. Britain's strongest card is her contribution to European security but Britain's other cards are weaker. The country regards the City of London as a European asset that should be cherished by all – but this is not how most of the EU27 sees it. Once Britain triggers article 50, the country is in a weak position: It must leave within two years, and if it has not signed a separation agreement before doing so, it risks economic chaos. Whatever happens in the negotiations, Brexit will be difficult for the UK. Exiting and relying on WTO rules, or perhaps even falling out of the EU without any separation agreement would lead to very high legal uncertainty for companies and individuals. Britain's partners did not like the suggestion that Britain's free trade agreement could take in elements of current single market arrangements for the car industry and financial services, since this would amount to "cherry-picking". The EU27, by contrast, views the single market as "all-or-nothing". Even the best possible deal that is feasible will harm the economic well-being of all concerned. The UK will, however, lose more than the rest of the EU. It is doubtful whether the "City" can obtain a good deal. Grant concluded that the UK is in a weak position and that the Government does not fully appreciate this.

Assessing the status of the European financial system as the backdrop for Brexit, **Nicolas Veron**, Senior Fellow, Bruegel, believes that the European financial system is in better shape than it has been since the crisis 10 years ago. This year is the first without major pockets of fragility in the banking system – with the exceptions of Greece and Cyprus. Difficulties with specific banks in Italy and Portugal are expected to be settled soon. Plans still need to be finalised for addressing problems with these banks and ensuring that all viable banks have full market access, but the European financial system is now beyond country-wide system instability. While systemic risk is now largely reduced, the European banking system still needs to return to soundness. The process for doing so would ideally be as market-driven as possible, and involve a lot more M&A deals, sales of portfolios, restructuring, governance changes, changes in ownership structures, etc. But it is important that, should those changes occur, they will not be done under the threat of systemic risk and the imperative of addressing system-wide fragility. Two further institutional considerations should be taken into account. The first one is the change made in the European parliament in 2014 that has led to the current expectation that Europe-wide lists will have a say in terms of the composition of the European Commission (EC). This is likely to change the dynamics of European parliamentary elections in 2019, and will reinforce the accountability and representativeness of the European Parliament. Second, the development of the European Banking Union and a single supervisory system led by the ECB have largely been successful, and ECB banking supervision is demonstrably more demanding in every member state (save Finland) than the national authorities it replaces. Not everything is rosy as the increasing social and political fragmentation indicates, and Brexit is likely to expose important weaknesses in the EU framework, particularly regarding markets oversight and supervision. Nonetheless, the EU is undoubtedly better prepared to deal with such an event now than it would have been only a few years ago.

Implications of fragmentation of regulation and markets

Piers Haben, Director of Oversight at the European Banking Authority (EBA), set out the benefits of the integration in markets and regulation. A considerable amount of important work has been done since the financial crisis in terms of furthering international cooperation and agreement on common standards. However, much work remains to be done, for example to repair the still fragile EU banking sector, or to avoid further fragmentation of the EU's financial systems (as can be seen by higher sovereign and corporate credit spreads, and a drop in cross border lending). Fragmentation makes it harder for business and investors. Financial integration has contributed to the development of EU economies and the development of the single market, has incentivized the development of cross-border banking and supported the availability of finance for households and businesses. Further, having broadly similar rules and regulatory regimes is not enough given how different jurisdictions interpret and apply them – which can cause considerable uncertainty for banks and investors, and could create opportunities for regulatory arbitrage. In this context, and given London's importance for the EU's financial system, it is crucial that Britain's exit from the EU be as smooth as possible. Relying on an equivalence regime in and of itself will likely not be sufficient. For banking, equivalence is not about access but about rules – for example around confidentiality or consolidated supervision. Equivalence is perhaps broader under securities regulation while in banking an alternative to equivalence might be some form of mutual recognition agreement. However, it is unclear what exactly such an agreement would entail and the practicalities of such assessments, not least for resources, should not be underestimated.

In contrast, **Jon Danielsson**, London School of Economics, looking at the systemic risk effects of Brexit reached a different view on the implications of divergence and fragmentation. Concerns have been raised about the financial stability consequences of Brexit, but in his view Brexit should not increase or decrease systemic risk. One might even argue that differences in regulations enhance financial stability, as they reduce synchronized reactions of financial firms, which are an important cause for systemic instability. The crucial question to ask is what the unknown unknowns from Brexit are. Risks we know, we can manage. Very few mechanisms can cause a systemic crisis. For 30 years, investors have built their decisions on the assumption that the UK is part of the European financial market. The regulatory environment has several times been subject to "legal plumbing", but that has not caused systemic risks. Since it is uncertain what a "Soft Brexit" would be, such a Brexit might be the most destabilizing outcome of the negotiations. One challenge put to Danielsson was whether fragmentation of markets and consequent loss of market depth post Brexit might lead to greater market volatility and hence greater systemic risk.

The 'Single Market' and equivalence for wholesale markets

Baroness Sharon Bowles, former MEP and chair of the European Parliament's Economic and Monetary Affairs Committee, and currently a member of the UK's House of Lords, distinguished between the different language used by the UK versus the continental countries in the original discussions on open European markets and the messages from that language of the actual focus of the different countries. The UK used the term "single market" thinking of it across Europe but as a platform to trade competitively outside Europe. Whereas continental countries started by using the term "internal market" with a focus on internal rules. This had led in the negotiations to more emphasis on broader equivalence provisions for third countries by the UK, with resistance from other countries. The provisions are patchy because a general consideration was to protect retail customers – therefore equivalence provisions were not included in all parts of the legislation. But there was grudging agreement that for infrastructure and markets the EU did need to connect up to the rest of the world. Nonetheless even here there was quite a fight in the negotiations. Now though, if you try to imagine what the implications of lack of equivalence for CCPs would be, what it would mean in terms of the extra capital that banks in the EU would have to hold, it shows that the earlier discussions reflected some reluctance to recognize the practicalities. If you look at the Commission's attitude in the past few years, it has been that equivalence should only be allowed if it is in the interests of the EU, rather than wider connectedness, which cuts across the liberal nature of articles 63 and 64. With regard to financial services there is an approximation to a single market rather than an actual single market. There are still national provisions and the ability to have individual arrangements in a way that you cannot with goods. This is one of the sources of friction between the UK and the rest of the EU. The UK has felt the EU hasn't been a service based economy with provisions that enable full open access to services. In terms of the domestic political situation in the UK, the white paper on Brexit has large gaps - it does not mention risk, it does not mention sufficient options. There is a feeling that the government has made choices that do not necessarily carry a majority.

John Armour, Professor of Law and Finance, Oxford University looked at the importance of the UK in particular in wholesale financial markets – with around 85% of EU hedge fund assets under management, almost 80% of EU FX trading, over 70% of EU OTC derivatives trading, and over 60% of private equity assets under management, compared with a share of around 18% of EU GDP. This reflected the fact that the UK financial system was traditionally more market orientated and benefitted from agglomeration effects. This made the UK markets important for the EU27 which internally tended to rely on bank finance.

This makes the issue of equivalence and broader integration of wholesale markets across Europe even post-Brexit, under equivalence rules for third countries, important. Equivalence is, however, not a general framework but a lattice of specifics and a moving target – importantly it was also reversible. There is a patchwork of equivalence decisions covering different aspects of the financial markets and market infrastructure taken by the European Commission covering countries ranging from Abu Dhabi to the US. Third country equivalence is about either supervisory coordination or market access – it is the latter which is important for Brexit. There are no market access equivalence provisions with regard to retail and commercial banking and for insurance it is limited to some aspects of reinsurance. But there are equivalence regimes for asset management and wholesale markets. The MiFIR passport scope covers brokerage, underwriting, market making, structured finance, M&A advisory, proprietary trading and M&A securities. Given the countries already covered by some equivalence provisions including Mexico, Hong Kong, Singapore and South Africa, the speaker could not see how the Commission could with a "straight face" decide that the UK, which has as the starting position the same regulatory framework as the rest of the EU, was not equivalent. The Commission must determine whether the country has equivalent rules, an effective supervisory framework and in some cases reciprocity provisions.

A larger risk is delay in decisions by the EU commission and the ongoing need to ensure continued equivalence. Credibility in the UK's commitment to ongoing equivalence was key - otherwise firms would not want to invest. He made the point that equivalence was clearly not a solution for access to European cross-border traditional banking. There the use of subsidiaries by UK and inbound banks established in the UK would be important or the negotiation of pass-porting rights by the UK government.

The effect on wholesale markets and market infrastructure

Franklin Allen, Imperial College London, focused on the effects of Brexit on markets. Today, New York and London are the world's largest financial centers by far. Agglomeration effects are very important for the development of such centers. One important factor is that English is the language of finance. Activities in Hong Kong and Singapore are also based on English. The interconnectedness of different aspects of the City of London is also important, for example, the availability of legal and accounting services as well as banking, insurance and markets. Also a well-educated workforce is key. Taxation of income from shares and bonds for foreign investors and inheritance tax rules can also be relevant. It will be difficult for Frankfurt and Paris to develop agglomeration characteristics at par with those of current global financial centers such as London. It also needs to be borne in mind that electronic finance has loosened the connection between financial activity and geographic location. London is a leading center of Fintech. In the Allen's view, Anglo-Saxon countries are also ahead with regard to the legal handling of financial crime, with a longer history of a tough stance on issues such as insider trading and market manipulation. As a result, Allen expected that New York and London would continue to dominate global financial markets even after Brexit.

A panel on stock exchanges and Euro clearing, derivatives, FX and bonds was chaired by **Tim Skeet**, Director, International Capital Market Association. He initially noted that the public suffers from misconceptions regarding the activities of the financial industry and its importance to the economy. Brexit and recent election results across the Atlantic reflect the fact that the benefits of international cooperation have not been properly explained to electorates.

Stephen Burton, Managing Director, The Association for Financial Markets in Europe (AFME), focused on the practical difficulties with clearing post-Brexit. CCPs would face a "cliff-edge" if they lost their equivalence post-Brexit as EU27 clients of UK CCPs would have to mark their risk exposure to a CCP at 100% for derivative transactions, rather than 2% or 4% under current requirements. This could pose a real systemic risk, and create opportunities for regulatory arbitrage. This is therefore an issue that must be carefully addressed, and which will require the UK government to think about how it will recognize CCPs in the EU. There is an urgency to the task, as AFME estimates that migrating CCP activities from the UK into the EU27 would take about 2 or 3 years of preparation time.

From a practical point of view, restricting Euro clearing to the EU would have deleterious effects – particularly on the position of the Euro as a global reserve currency. It would cut across global practice because, for example, dollar contract are cleared outside of the United States. Many CCPs outside the EU27 have multiple portfolios with offsetting balances between euros and dollars. Taking out Euros out of the equation would require calling for a lot more high-quality liquid assets as collateral, which are already in limited supply. CCPs would also have to be able to manage their risk, and have historical pricing on contracts they take on. Likewise, proposals to impose thresholds above which participants would no longer be able to clear as a CCP could back-fire, as firms might then decide to take the clearing back to the US, rather than migrating to Europe.

Anthony Belchambers, Member of the Financial Services Negotiating Forum, discussed the issues of equivalence and euro clearing in the context of Brexit. Taking it as a given that the UK will not have full access to the single market, he emphasized the need to recognize that equivalence is "the only game in town". Therefore, the focus should be on strengthening and streamlining the current equivalence regime rather than thinking of time-consuming alternative solutions for structuring cross-border market activities. The experience of market infrastructures, which do not have a passport and rely instead on equivalence and recognition, show that despite its problems, an equivalence regime works relatively well.

Given that post-Brexit 75% of Euro clearing would take place outside of the EU, the ECB's focus on systemic risk of the EU27 is appropriate. However, not only does relocating euro clearing in the EU27 carry potential risks for market economies and the international standing of the euro, it may also not be effective in mitigating systemic risk. A better approach would be through enhanced regulatory cooperation and supervision of CCPs – if only because it would avoid significant market and legal disruption. A recent IOSCO industry analysis showed that the main challenge to such cooperation is that regulators do not trust each other enough in order to outsource their public duty responsibilities among themselves, recognising that some functions could be carried out by other regulators and cooperating on who does what. One issue raised in the questions was whether, if grit was thrown into the wholesale market machinery by Brexit, would the markets just transform and flow round it. The speaker thought it was quite possible that synthetic instruments could be created to avoid the need for euro clearing.

Kathleen Tyson, Director, Granularity Ltd., examined the impact of Brexit on various market infrastructures. Post-Brexit, the UK will need to improve control of assets in CCPs in order to improve the UK's position in resolution. Mandatory margining of OTC derivatives has made CCP asset holdings huge, and CCPs based in the UK may be forced to hold clearing assets/initial margins in overseas depositories – in both the EU and the US. Therefore, agreements with foreign jurisdictions should ensure that CCPs in the UK retain residual control of surplus assets in foreign depositories to recover value for UK claimants in case of resolution.

Mandatory OTC margining now globally creates the risk of negative feedback as margin calls force selling in illiquid and volatile markets. For instance, shocks such as the Brexit referendum and the US presidential elections dislocated markets because intra-day margin calls forced immediate selling in markets that are less liquid than they were in 2008. More generally, the series of unexpected and poorly understood flash crashes since 2010 showed how vulnerable markets are. Developments such as quantitative easing, dealer disintermediation and hoarding by investors in anticipation of margin calls, have contributed to high quality liquid asset shortages.
Markets are becoming "seriously dysfunctional" given their lack of depth and limited use for price discovery. This is because harmonized transparency, order-driven

markets and punitive capital requirements on trading books have discouraged market makers from providing liquidity or carrying inventory. In this context, Basel III, liquidity coverage ratios and leverage ratios are self-defeating, particularly if the consequence is that the value and marketability of assets is purely theoretical, and price discovery is becoming increasingly more questionable.

The world needs one deep, liquid financial capital, which London could become again, if it rejects "misguided" harmonization, goes back to having serious market makers carrying bigger transactions, and puts in place immediate trade reporting while delaying post-trade transparency to allow "jobbers" to make large deals. All this would give asset managers incentives to do business in London where they could get better, deeper, lower-cost liquidity than anywhere else.

Implications for bank business models

In the afternoon, **Laurie Mayers**, Associate Managing Director, Moody's analyzed pressures on bank business models. Global investment banks are already today faced with a number of challenges, in particular regulatory costs and declining returns on equity. Brexit will present a new challenge to pan-European business models. A likely effect will be increasing costs of doing business and more macroeconomic uncertainty. As a response to Basel III, banks have reassessed capital targets and client relationships. As a result, solvency metrics have materially improved and liquidity is now a strength. Cost cutting is important but expense cuts cannot keep pace with revenue declines. Declining ROEs increase shareholder pressure for further business model re-engineering. Loss of access to the single market due to Brexit and loss of EU pass-porting represent new challenges with implications for business models. It is positive, however, that Moody's view is that banks likely to be more impacted by Brexit are well capitalized.

John Liver, an EY Partner, chaired a panel on the implications of Brexit for investment banks and commercial banks. **James Chew**, Global Head, Regulatory Policy, HSBC, remarked that the outcome depended on the nature of Brexit, the nature of a bank's business operations and its client base, how the bank is set up with branches or subsidiaries on the continent, interaction with other regulations and specific issues such as FTT and ring-fencing. The nature of Brexit was becoming clearer and it seemed unlikely that banks' ability to branch freely across the EU from London, using passporting, would remain. But there could be an asymmetric outcome with banks in the EU27 still able to branch into London. The timetable for Brexit was crucial to give financial institutions time to adjust. Without transition arrangements, changes in business models across Europe and structures could well be short-termist and inefficient. But the picture varied considerably across different activities. In retail banking there was little cross border activity, in practice even now subsidiaries were needed in the different countries in which a bank wished to operate. On the other hand, corporate activity in London funds international operations extending beyond the EU. The operation of markets is a much bigger question. If EU banks are allowed to continue to branch into London, this will support the continuity of markets such as FX. Other areas such as cross border capital raising which involve access to the EU could be more affected. Furthermore, if banks (UK and 3rd country incorporated in the UK) do have to locally incorporate in the EU, an issue will be critical mass – namely, can the costs of infrastructure, capital and liquidity be remunerated? Some banks will decide to no longer provide services to the clients in the EU, with a reduction in supply. These issues should not affect the supply of services in the UK and outside Europe.

Diederik Zandstra, British Bankers' Association, thought the world would change because of Brexit. EU customers procure a variety of services in London and, going forward, banks will have to think about which customers they are dealing with in Europe and customers will have to think about which banks they use. Banks will have to change their operating models and there will be a period of uncertainty. Without passporting, to service an EU27 client base, banks would have to rely on national licensing, equivalence rules for some markets and subsidiarisation to get entry to the EU27, then branching. However, not all client bases will be equally affected. Larger EU27 customers could set up treasury operations in London to access London markets and services. Smaller customers would be more affected. Transition arrangements will be important to avoid a patchwork of developments. Bank models will change, contracts will change and some services provided to the

EU27 will stop. It is important that the world changes in a way that does not hamper trade in financial services. Transaction costs will rise with market fragmentation. Although smaller corporates will be more affected by certain services possibly being no longer provided, larger corporates in the EU27 would also be affected by changes in transaction costs.

Kinner Lakhani, Deutsche Bank, observed that investment bank profitability is lower in Europe than in the US. This was due to the fact that most US banks operate first and foremost in their domestic market, which is deep and sophisticated and this center of gravity gives them a cost advantage, overall giving better cost income ratios. Asia is fragmented across different geographies and regulatory structures. Europe sits somewhere between. The advantage Europe had was that London is a center of excellence and enabled centralization of markets and services for Europe as a whole giving efficiency gains. The risk was that Brexit could lead to more balkanization, already in train globally since Dodd Frank required intermediate holding companies in the US trapping liquidity and capital. This had had a substantial negative effect on European investment banks. Subsidiarisation in Europe combined with ring fencing will pile yet more pressure on European banks.

Brexit challenges for the asset management and insurance industries

Hugh Savill, Association of British Insurers, chaired the last panel on insurers and asset managers. **William McDonnell**, RSA Insurance Group, looked at the implications of the overall environment for insurance. Brexit was part of a wider range of populist moves in the US, Italy, France and Scotland for example. What lies behind it is a long period of low growth and rising inequality. What it heralds is the potential for damage to economic growth. For insurers this could be compounded by a fall in yields or yields staying low for longer. With this backdrop, insurers have to focus on underwriting profit and underwriting excellence. They also need to be best in class at the way they operate - digitization, pricing sophistication etc..

Looking forward, the effects of Brexit, in particular for FX and inflation, have to be considered. London is the leading global insurance market and this does mean that overseas earnings will be boosted by a fall in the pound. But this would be offset partially for general insurers as the cost of car parts etc. rises with the lower pound. Inflation is also a concern- the data and therefore the modelled results are based on low or falling inflation but an increase has to be stress tested. In terms of structure for general insurers there is diverse mix - single EU legal entities with branches, Lloyds of London relying on freedom of services, and groups with a range of subsidiaries across the EU. Insurers doing business in the EU will need a subsidiary in the EU. This raises the specter of trapped capital. Harmonization across regulators will be important and insurers will be reliant on their home supervisor getting an effective college arrangement. The Industry wants Solvency II to be kept as the framework and this was the PRA goal as well.

Menno Middeldorp, APG Asset Management, feared that Brexit might be the beginning of a much larger de-globalization. For institutions with large portfolios, access to different financial markets is essential. As a very large Dutch asset manager, covering pension funds, his issue was not access from London to clients but access from the Netherlands to London markets. APG invest in the UK, use financial services and financial markets in the UK. They need to be able to make very large transactions which they do through London. The concern was therefore what it would mean if the Brexit negotiations resulted in the fragmentation of markets given they were very dependent on access to deep and liquid markets. The outlook for risk and return from UK investments had been impacted negatively by Brexit but this was not the only consideration and they were continuing to invest in the UK. He summed up that fragmentation harms the asset management business across Europe.

A wider concern when he looked at developments in different countries and regions was whether there was a de-globalization trend (this was not about Brexit which was more about wider access). Protectionist moves would increase risk with the possibility of introduction of capital controls or expropriation of investment. This is important for Dutch asset managers because they tend to invest in long term illiquid projects. In a de-globalization world returns would be lower and risks higher at least in transition.

Responding Jon Danielson's argument that fragmentation meant lower systemic risk because of diversification, in fact for APG harmonization of interest rate regimes gave them a better scope to hedge the effect of interest rate change on their liabilities.

Jorge Morley-Smith, Investment Association, looked at the issues relevant for the UK fund management industry which is by far the largest in Europe - larger than the next three put together. 40% of assets under management were for oversees clients, of which half were for other EU citizens. The industry is truly global and operated in many markets without the passporting rights and protections of the harmonized EU market. It is important to recognize the diversity of the industry from small firms to huge international institutions and the issues to be solved are different. For those carrying out activities in the rest of the EU it depends if they are doing business with clients, European funds or distributing funds across Europe. Restrictions on access to London managers by EU27 funds and institutions would cut across the global principle in the industry that a fund manager could delegate management of a portion of a fund to wherever globally could best manage it. This would be to the detriment of the EU as well as the UK. In terms of supply of services into the EU27, the impact of Brexit depended on the final arrangements but also which market and which customers. Even today some EU countries were more open to the provision of services into their countries from outside than others.

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Brexit as a trigger for "creative destruction" in the financial industry?

Ernest Gnan, SUERF Secretary General and Oesterreichische Nationalbank, closed the conference. He remarked, first, that currently a whole industry focusing on offering advice with regard to Brexit is mushrooming. At least, there are some winners from Brexit. Second, big institutional changes, such as international trade integration or the formation of a currency union, are usually associated with substantial costs. But these costs are accepted to reap the benefits of integration which are expected to more than outweigh these initial costs later on. By contrast, trade disintegration in general and Brexit more in particular involves huge transitional costs, while not carrying the prospect of future economic gains; on the contrary, mainstream economic theory predicts economic losses from such disintegration. So, the outcome can be expected to be costly in a double sense. Finally, it is often argued that populism is on the rise, and that the UK people voted for Brexit, because the losers from globalization had been neglected by policy makers. It seems, however, doubtful that these globalization losers will be the ones to benefit from Brexit. Furthermore, there will be many losers from Brexit, both in the UK and in the other EU countries. There is no discussion so far who will compensate these new losers. As a result, it is very conceivable that after Brexit there will be even larger shares of the population who are dissatisfied with politics and are thus ready to embrace populist calls. An advantage of Brexit for the financial industry may be that it may trigger overdue structural reforms that would otherwise have been delayed, thus fostering "creative destruction".