InterSystems
Health | Business | Government

POST-BREXIT FINANCIAL SERVICES

On Thursday 23 June the UK voted, much to the surprise of experts and pollsters alike, to leave the European Union. Since then the pound has neared record lows as the financial markets wait with bated breath on the triggering of Article 50 and the potential consequences such a momentous move might bring.

However, on 3 November, the High Court ruled that Parliament must vote on whether the UK can begin the process of leaving the EU, meaning that Article 50 cannot be triggered without the backing of MPs. But Prime Minister Theresa May has been given permission by the Supreme Court to challenge the judges' decision, with proceedings set to begin on 5 December.

The Post-Brexit Financial Services debate, hosted by FStech at the InterSystems Technology Summit on 19 October at The Belfry, Sutton Coldfield, sought to discuss and consider the implications of a Brexit vote on the industry.

Keynote: A Schrödinger's Cat scenario

Renowned FinTech consultant, trainer and author, David Gyori, got proceedings underway with his presentation Brexit: How to catch Schrödinger's Cat.

Describing Brexit as a "tough and complicated" process, Gyori spoke about the idea of renegotiation versus exit. He said: "When we talk about Brexit, it's not actually really an exit. In fact it's a renegotiation, because the UK has been experiencing very serious derogations from normal EU law anyway – especially in financial services."

He went on to suggest that Brexit can be compared to Austrian physicist Erwin Schrödinger's famous Schrödinger's Cat theory – a theory which stipulates that a cat, enclosed in a box, is considered to be both alive and dead until the box is open and the cat observed. He said: "What sort of Brexit will it be? Will it be a soft Brexit or a hard Brexit? My answer would be exactlythe same as the one given by Schrödinger: the cat in my box is both alive and dead."

Explaining one of his core views – the idea that Brexit is more of a renegotiation than an exit – Gyori observed: "As I look further into the details of Brexit and the 300,000 pages of EU legal materials which apply to member states, the more I realise it's not a de facto Brexit. It's a renegotiation of the very complicated set of rules which apply to the UK from within the legal pages of the EU, to a new combination of those very complicated rules that apply to the UK within the legal pages of the EU."

For banks and other financial institutions the ability to be agile and adapt to a variety of potential scenarios will be vital during the Brexit negotiations and beyond. Gyori provided an example, in HSBC, of how a lack of agility could pose problems to large institutions. He said: "HSBC globally has approximately 40,000 employees dealing with IT but it takes them years to drive one project through. Yet I know a group of 10 friends from Latvia who built the entire IT systems of a bank in just one and a half years. The uncertainty of Brexit will push these large organisations into a more agile format because now they have to deal with multiple dynamic scenarios."

Across the pond, a rate hike cycle is on the horizon according to Gyori, who suggests that this will strengthen the pound no matter what is going on in regard to Brexit and subsequently create greater volatility in the market. This can, he noted, be capitalised on: "This volatility can be played smart, you can provide your clients with anti-volatility solutions, you can provide yourself with more protection against volatility, you can provide more funding to export companies for example," he said.

"These higher interest rates", Gyori

went on, “will raise profitability of banks intergalactically. The rate hike cycle will be the point where the tide turns in terms of relative power between FinTechs and banks. FinTechs are coming and they are very dynamic but when rates go back to five per cent this won’t be the case.”

Gyori concluded his presentation by showing the audience pictures of a number of famous couples which included actress Sarah Miles and her husband Robert Bolt and Estee Lauder with her husband Joseph. But what do these famous couples have to do with Brexit? The link between them was that they had all got married, divorced, remarried and have stayed together ever since. “This is a very rare category,” he said. “Three per cent of people who get divorced end up remarrying that person. I believe that the UK and the EU will part of this three per cent. The Brexit renegotiation is going to be so long and so slow that in the meantime the European Union will reform itself and, after leaving on paper, the UK will rejoin in lane three.”

Panel: The financial technology implications of Brexit

The opening presentation was followed by a panel discussion, moderated by FStech’s Publishing Director Mark Evans and including David Gyori, as well as InterSystems’ Director of Partner Programs Julie Lockner, and Sales Engineering Manager Jon Payne.

Mark began by asking Payne’s personal opinion of Brexit, who explained that in his view “the decision was a triumph of sentiment and belief that the grass is greener versus the actual facts. The facts being, backed up by pretty much every single economist, that Brexit will be harmful to the UK and its economy”.

US-based Lockner spoke next about Brexit from a technology perspective. She observed: “There’s an opportunity for technology advancements in FinTech and for banks overhauling their back-end management systems. It will be interesting to see how technology will play a role in allowing, as the policies change, banks to be able to adapt quickly. It’s going to force the banks to be more agile, adopt more technology and make changes much more quickly.”

InterSystems® Health | Business | Government

"There is a lot of uncertainty, so from the banks' perspective they're going to need to invest in technology which gives them the most flexibility."

One such technology highlighted by the panellists was the continuing rise of blockchain. Gyori said: "One great opportunity for interbank transactions is non-central counter party clearing, for example blockchain. I'm not talking about Bitcoin. I am 100 per cent a Bitcoin pessimist, but I am 100 per cent a blockchain optimist."

With banks shedding staff and looking to cut costs, Evans next asked what structural changes needed to be made by banks to allow them to remain competitive. Payne said: "There does need to be some serious systemic change in the number of bank IT functions. You look for example at some of the major back-office systems of the big banks that have been running for 30 or 40 years and the problems they've had historically in keeping those up and running. There has to be some evolution of this legacy technology at some point. Perhaps Brexit might drive that evolution."

So what sort of technology are the big banks looking to invest in? Lockner believed that banks will look to technology which benefits youngsters and Millennials. She said: "A lot of investment is going into mobile banking from the big banks like Bank of America and Capital One, for example. If you look at where they're making their big bets next year it's in these mobile platforms, mobile banking, stuff that's going to target the younger generation."

Payne added: "I think there's a gap between services in terms of what they have historically done, what they do now and what people want going forward, particularly in the field of micropayments."

Gyori, meanwhile, touched briefly on the issues facing FinTech firms and challenger banks. He said: "Brexit will hit large traditional banks hard as well as hitting challenger banks hard. The problem is that it's not picking many winners in this arena. Many of these challenger banks were set up in the UK because London is a dominant traditional financial centre. What I see now when I talk to FinTech companies is they're saying 'we're going to relocate' but for large banks this isn't a viable option."

As the event drew towards a close, each panellist was asked to outline their vision of the future and what they thought the industry would look like in 10 years' time.

Gyori began: "These next 10 years are pretty uncertain and a lot depends on the other side of the marriage, the EU. Plastic will mostly disappear in the next 10 years and more comfortable NFC-based wearables and smartphone-based payment methodologies will arrive on the scene. Secondly, the use of robo-advisers will spread and these machines will become quite intelligent."

Lockner said: "There is a lot of uncertainty, so from the banks' perspective they're going to need to invest in technology which gives them the most flexibility. They're going to have to maintain these legacy systems for a while until they can afford to, during good years, replace their back-end systems. In the meantime, having something that will work with the old, operate with the new and have that level of flexibility will allow them to capitalise on interest rates or policies changing."

Finally, Payne added: "The internet is an increasingly insecure and risky place to transact business of any form. I think there's likely to be some really unfortunate calamities. There are going to be some big, well publicised 'oh my god' events that happen within the next few years which will dramatically slow down the adoption of these technologies."

While there currently seems to be a lack of clarity for major financial institutions in a post-Brexit Britain, for smaller and more agile FinTechs and challenger banks there is perhaps an opportunity to capitalise on the Schrödinger's Cat nature of Brexit – and the need to be flexible is surely vital in such a speculative and volatile period. What is clear however, is that this period of uncertainty will likely continue for quite some time, even after the government's appeal bid is heard on 5 December.