Influence Of Brexit Process On Financial Services

On the 23 June 2016 in the referendum, the people of the United Kingdom voted to leave the European Union. This action had to interfere with the political, economic and social landscapes of the United Kingdom and entire Europe. Therefore, the Financial Services Industry alsohad to undergo transformation amidst all these interferences. (Wymeersch, 2018).The Financial Services sector is a crucial component of the economy of any country.Both locally and internationally, the Brexit made the Financial Services Industryto readjust. Withthe economic and political landscapes being the most affected, economic and political experts had to come in to analyse the situation, giving suggestions and projections in different sectors. For instance, experts predicted that the Brexit process would not end until the year 2020.In as much as the possible consequences were considered, the actual impact of the Brexit both locally and internationally is not clear to everyone. Theoretical and research-basedconclusions were made concerning the economic effects that could happen because of the Brexit.(Gros, 2016). This project analyses the potential impact of the Brexit on the Financial Services Industry (Banking and Insurance) in the UK and internationally.

Economic integration between the EU-27 plus the EEA and the UK

The kind of economic integration that existed between the European Union and the United Kingdom, and between the European Economic Area and the United Kingdom came as a result of theassociation of countries with a common preferred trade area. (James, 2016). With commerce as theconventionaldriving force for all the interested member countries, the economies of these countries became integrated,andtheir financial services became interconnected with each other's. The European integration was, therefore, a process which involved the combination of industrial, political, legal, social, cultural and most importantly economic sectors of interested European countries. (James, 2016). The European Union, therefore, created policies which touched on all these factors.

After the second World War, there was an urge among many democratic European countries to unite and find new life after being devastated,and nationalism had started cropping up. (Busch, and Mathews, 2016).Theories that explain economic integration came as a result of the need to maintain peace and avoid wars among the nation states. Banking and insurance sectors had a lot to do in terms of offering financial stability to the affected population, leading to the advancement and investment in financial services in the UK.

The first theory of European integration is neo-functionalism. It was developed in 1958 by Ernst B. Haas. Here, utilization of the pioneering European experience of integration was done to generate a model which was later used to test other factors. (James, 2016). The theory of neofunctionalismcombined three elements in explaining how economic integration occurred. First, there was thegrowing independence of economies between nations. This realization brought the thought that uniting many independent economies would have a bigger and better economic advancement to an economic union with time. This way, financial services could be enjoyed by a more extensive market both locally and internationally.Second, there was the possibility to efficiently organize countries in Europe with a motive of resolving disputes and building international legal regimes. (James, 2016). This possibility was logical for a

considerable number of states, especially after the war left their economies on the verge of collapsing. Therefore, countries were striving to revive their economic statuses,andthe theory of forming allies and coalitions during thewar could just be replicated in reviving falling economies.The revival of economies needed some advanced financial services in the meantime. (James, 2016).Third, national regulatory policies could be replaced by supranational market organizations. (James, 2016).The exchange of ideas between states and coming up with a more powerful regulatory system for economies could help European countries create a better economic environment among themselves, thus paving the way for better trading activities,especially in the financial sector.

Intergovernmentalism is the second theory behind economic integration. Alan Milward, an intergovernmental writer, contended that the national legislatures of the part states were the essential performers during the time spent European combination, and as opposed to being debilitated by it as some of their power was designated to the EU, they ended up fortified by the procedure and also by the individual strength of each state’s financial services.(James, 2016). This is because in some policy areas it is in the member states' interest to pool sovereignty. Intergovernmentalistcontend that they can clarify times of radical change in the EU as when the interests of the part states governments unite and they have shared objectives, and times of slower joining as when the administrations' inclinations wander and they can't concur.(James, 2016).They persistently underline the part of national governments and the haggling between them in the mixing procedure.

Liberal intergovernmentalism is an improvement on the intergovernmental hypothesis of European incorporation, set up by Andrew Moravcsik in his 1998 book 'The Decision for Europe'. In the 1990s it was the overwhelming hypothesis of European reconciliation. Like intergovernmentalism, liberal intergovernmentalism accentuates national governments as the important on-screen characters during the time spent settlement. Be that as it may, it additionally fuses the liberal model of inclination arrangement, whereby national governments have a solid thought of what their inclinationsin banking and insuranceare and seek after them in haggling with other part states. Liberal intergovernmentalists contend that the haggling energy of part states is vital in the quest for reconciliation, and bundle arrangements and side installments that involves insurance and banking also occur in the process of making arrangements. (James, 2016).They see institutions, especially financial foundations, as a method for doing believable duties for part governments, that is, as a method for ensuring that different governments that they make manages will adhere to their side of the deal. Liberal intergovernmentalistsconsidered supranational institutions to be of limited importance in the integration process, in contrast to neofunctionalists. (James, 2016).

Multi-level governance (MLG) is a much newer theory of European integration. MLG argues that policy making and inclusion in the EU is much too complicated to be explained by static integration theories. This could be a possible factor that contributed to the Brexit. Principal writers Liesbet Hooghe and Gary Marks defined MLG as the dispersion of authority across multiple levels of political and financialgovernance. That is, they argue that over the last five decades, power and sovereigntyhave moved away from national governments in Europe, not just to the supranational level with the EU, but also to subnational levels such as regional assemblies and local authorities. (James, 2016).They see policy-makingin the EU as uneven and as often as possible changing, and in that capacity, they feature the restrictions of different hypotheses of European coordination which neglect the enormous quantities of various performers from the more significant part of the distinctive levels of administration in

Europe.(James, 2016). This kind of fluctuation does not get better the financial services of the UK in any substantial manner and have facilitated the Brexit.

Possible models of economic relations between the UK and EU-27 plus the EEA after the Brexit

Economic relations between the United Kingdom and other European countries ceased to be simple after the Brexit.The complexity of the arising issues after the Brexit made economic and financial experts toreanalyse and consider other possible models of economic relations between the United Kingdom and the European Union plus the European Economic Area. Financial services will be affected by other factors which must be considered in designing possible models of economic relations in Europe. (Batsaikhan, Kalcik, and Schoenmaker, 2017).Good examples of these factors are the ability to secure new trade relations with other countries and the fact that the United Kingdom would no longer contribute to the European Union's budget. The new models of relations must also be better or equal to the previous one with EU and the EEA countries, and the possible alternatives looked at.(Batsaikhan, Kalcik, and Schoenmaker, 2017). In this case, seven possible models were considered.

The first two modelsthat could be considered for theUKto be a single market or join the European Economic Area.However, there are low chances that the United Kingdom could be a member of the European Economic Area or become a single market. The UK does not agree with the four freedoms (people, goods, capital,and services) which will also require the acceptance ofEuropean Union laws and its budget.(Batsaikhan, Kalcik, and Schoenmaker, 2017). This leaves the financial sector of the UK with no interactions with countries that make the European Economic Area.

Second, remaining in the European Union Customs Union (E.U.C.U) would not be viable. This unionrequires its members to apply the European Union's external tariffs on all imports that come from non-EU countries. (Batsaikhan, Kalcik, and Schoenmaker, 2017). This model, therefore, stands low chances and cannot possibly thrive after the Brexit. This equally leaves the financial services sector with limited opportunities and a smaller market target. However, the UK government made it clear that they wanted to negotiate Free Trade Agreements with many countries other than the EU in an attempt to counter theloss in trade from no longer being in the European Union.

The Swiss bilateral model is the third model which can be pursued by the UK.The only negated items from the Swiss model would be the EU budget contributions, Schegen membership and free movement of people.This model equally leaves the UK's financial services sector with limited options to pursue international opportunities but then leaves the banking and insurance sector with total control over the United Kingdom's financial services consumers. (Johnson, and Mitchell, 2016).

The fifth model is not quite an option as it gives the UK the opportunity to retry different associations that they have tried before. The UK could re-join the European Free Trade Association which would enable the country to transact deals outside the EU. (Johnson, and Mitchell, 2016). The EFTA would allow the UK to engage in existing trade deals which had been already set up in the earlier years when the UK had ceased from being a member. This leaves the financial services in the UK with not much of a change regarding targeted markets.

However, this model is not worth all the efforts by theUK. EFTA requires its members to contribute to the EU budget,andif the UK would not make any changes to their contribution, it will not be any easier. (Johnson, and Mitchell, 2016).This model can, therefore, be ruled out by the financial sector in the UK because the government admitted that they would instead not go for EFTA membership.

The sixth model, Bespoke Free Trade Agreement is a possibility for the UK government. New integration between the EU and the UK as used by countries such as Canada and Switzerland. (Emerson, Busse, Salvo, Gros, Pelkmans, 2017).New ties would mean new effects for the UK's banking and insurance sectors. In case this model is implemented, there will be no coercion to acknowledge thefree development of individuals or influence money related commitments to the Eu to thespending plan.New agreements would also be made between the UK and other non-EU countries freely. This would mean that the UK's financial services would extend if they so wish to new markets.

The final model would be to subject the UK's financial services to trading under the world trade Organisation rules. Trading as a third country with the EU would be possible in this case,and there will be no preferential trade agreements made between the UK and the EU. (Batsaikhan, Kalcik, and Schoenmaker, 2017).

Theoretical opportunities and threats posed by the Brexit

First, the sectors of insurance and banking have opportunities that came along with Brexit and should be considered for evaluation by relevant stakeholders. First, the United Kingdom could redirect the 0.7 financial stipend meant for the European Commission to the expansion and development of its local financialservices for better economic stability. (James, and Quaglia, 2017). For instance, the UK couldshift this budget to investing in the World Bank. Second, the opportunity to offer a market window to developing countries with characteristics of duty-free and simplified rules of origin instead of the European Single Market. (James, and Quaglia, 2017). This would make these countries enjoy banking and insurance services offered by the United Kingdom as they transact their businesses with the UK. As much as this move would require the UK to comply with the World Trade Organization's rules, there is also a lot that can benefit the United Kingdom's financial sector in return. (James, and Quaglia, 2017).

Third, issues of immigration and population could indirectly affect the banking and insurance sectors of the country positively. There will be an opportunity for immigrants to settle in the United Kingdom thus expanding the amount of population targeted by financial services stakeholders. Lastly, the United Kingdom could enjoy a hundred percent of theprofit generated by the banking and insurance sectors, whether it is locally or internationally and budget with it accordingly for the same sector.

Seemingly, there are many threats posed to the financial sector by the Brexit though the implementation of post Brexit agendas can as well be focused on to counter these threats. Regarding the financial services of the UK, directimpacts will be mainly felt on the economy, trade,and remittance. (Hellwig, 2017).First, there will be a slow down in the British economy. Commonwealth countries that share financial services with the United Kingdom will be affected by theslowgrowth of exports, remittance,and inward investments. If the entireworld could lose confidence in the European Union because of the Brexit, the United Kingdom'sfinancial sector

would face a short-term currency instability. (Emerson, Busse, Salvo, Gros, Pelkmans, 2017). Organizing the local currency with other countries' currencies would not be as easy as it was earlier on. Third, developing countries that depended on the European Union's financial aid would be left in a single market situation where their economic ties with Europe would be reviewed and reestablished. (Emerson, Busse, Salvo, Gros, Pelkmans, 2017).

Fourth, the financial command of United Kingdom's on the worlds banking and insurance processes would decrease substantially because they will be operating independently while in the international forums. The lack of positive influence by theUK would mean no development or expansion of its financial services to other countries before engaging in new procedures or negotiations. Fifth, the negotiating capital fronted by the United Kingdom's financial sector globally would be smaller compared to the possible coalition with other countries' financial sectors. The EuropeAid spend more than the World Bank, and the United Kingdom will lose its influence over the world's largest multilateral aid agency (Sahr et al., 2016).This way, the UK will not be part of European Coordination meetings such as the World Bank and World Health Organisation despite being by farthe world's largest contributor to the multilateral development system.The net trade of financial services doubled from 20 pounds in 2005 to 40 pounds in 2015 from UK's exports and imports which had asubstantial positive market for the banking and insurance sector would be affected by the Brexit (Sahr et al., 2016). However, this will not be the case after the Brexit because there will be a decline in the rate of imports and exports that involve the UK.Finally, the Brexit could weaken the UK's neighboring countries hence creating a surrounding of slightly unstable nationswhen the banking and insurance sectors are in question. (Sahr et al., 2016)

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