

Brexit – A counterintuitive increase in banks operating in the UK?

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Overall, from a purely bank numbers perspective, the UK appears to be a market that remains attractive to overseas banks; long may that continue.

Way back in pre-Covid times all the talk was on Brexit; remember that? At the time, I can't recollect anyone predicting that Brexit would result in an increase in the number of banks operating in the UK; but it appears that's what's happened.

I thought I'd look at a few of the numbers now that we're 20 months out. The earliest data available on the Prudential Regulation Authority ("PRA") website is from July 2017¹, a year after the Brexit referendum, and likely to be prior to any Brexit related changes being implemented. At that time there were 316 banks operating in the UK, 238 with a PRA licence and 78 European Economic Area ("EEA") incorporated banks operating in the UK under a branch passport (a mechanism which ceased when the UK left the EU). In September 2021² the equivalent total is 322.

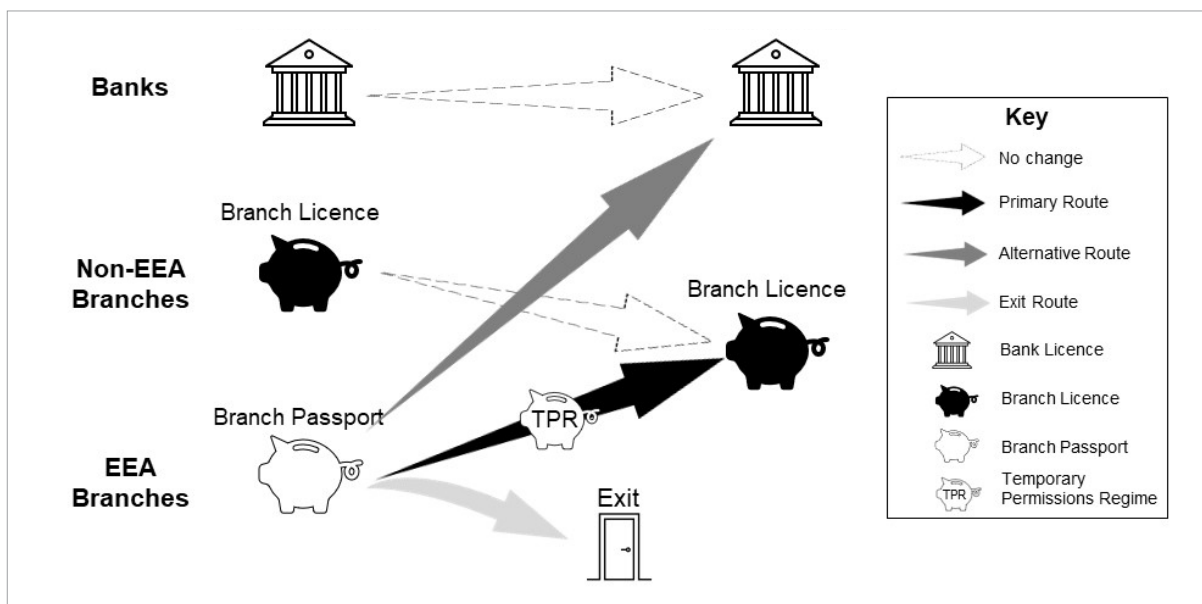
	June 17	May 19	Jan 21	Sep 21
Bank Licence	159	154	156	156
Branch Licence	79	84	85	88
Branch Passport	78	70	0	0
Temporary Permis- sions Regime	0	0	83	75
Supervised Run off	0	0	3	2
Gibraltar	0	0	1	1
Total	316	308	328	322

1. Source: List of PRA regulated banks, July 2017

2. Source: List of PRA regulated banks, September 2021

To ease the transition for those banks operating under an EU branch passport, the Bank of England established a Temporary Permissions Regime (“TPR”) under which EEA firms could continue to operate whilst they sought authorisation from the PRA.

The obvious scenario for the banks with bank or branch licences was to continue unchanged. For those banks operating a branch in the UK under an EU passport, it would simply be to operate under the TPR whilst obtaining either a branch licence or a standalone bank licence. For some banks, the effort would be unjustifiable, and Brexit would trigger an exit from the UK.



Expected routes

What has happened is rather more complex. Although there were only 70 branches operating under a branch passport in May 2019, by January 2021 there were 83 operating under the TPR, of which only 54 were from the original 70. As of September 2021, there remain 75.

Where have these extra banks come from? Between May 2019 and September 2021, 39 additional banks were registered. These can be broken down as follows:

- 23 opened branches and are still operating under a TPR
- 11 have obtained a bank licence
- 1 has obtained a branch licence; and
- 4 started an authorisation process but have subsequently withdrawn.

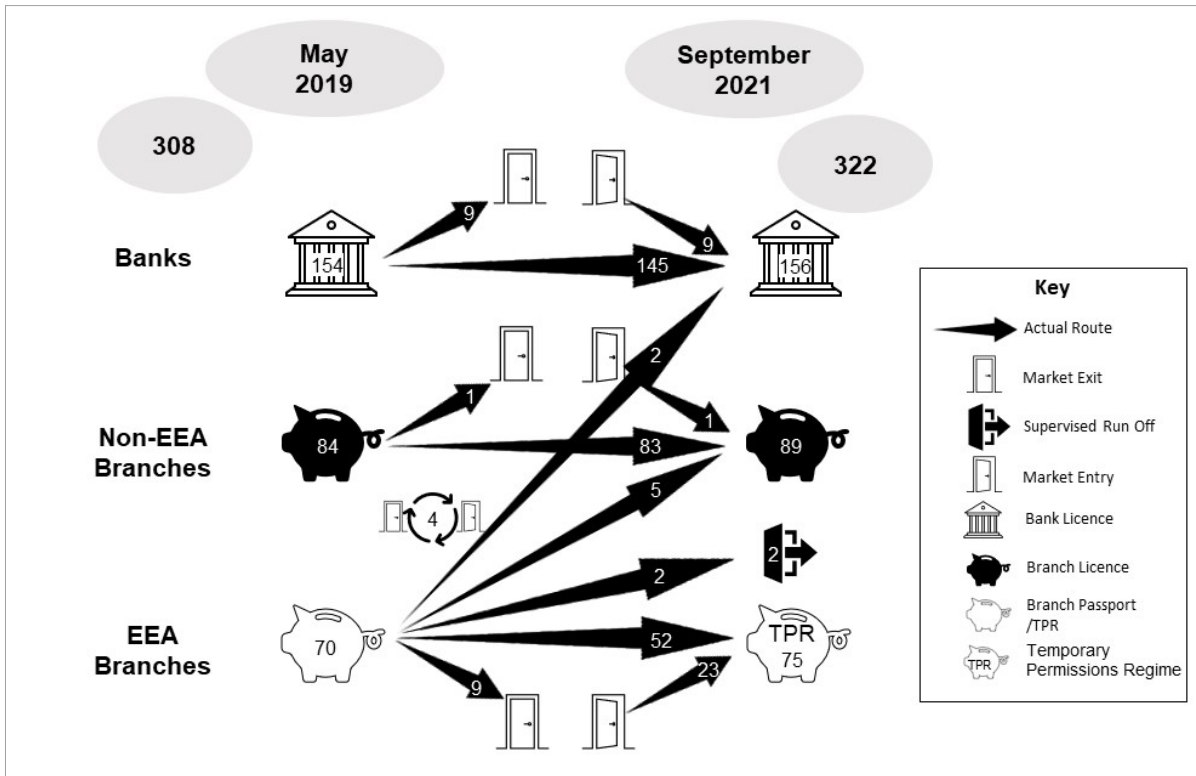
So, what happened to the original 70 branches operating under a passport in 2019?

- 52 are still operating under a TPR (presumably still seeking authorisation)
- 5 have obtained a branch licence
- 2 are in supervised run off (i.e. are exiting the market)
- 2 have converted from branch to subsidiary; and
- 9 have closed:
 - 3 have exited the market
 - 1 has converted to a Representative Office
 - 1 is now operating from a pre-existing UK subsidiary

- 1 merged into an existing bank operating in the UK
- 3 were rationalised as part of a broader group restructure and continue to operate.

Overall, the number of banks operating in the UK has increased post Brexit.

The number of banks with banking licences has increased by 2, with 9 exiting, 9 entering and 2 converting from branches to subsidiaries. The number of non-EEA branch licences in the UK has remained unchanged (one exit due to a merger and one new entry). The main changes arise from UK branches of EEA domiciled banks where, in September 2021 there are 12 more than in May 2019; an increase which may appear counterintuitive, especially given the pre-Brexit rhetoric. Whilst 9 have exited, 23 have entered (2 converted to subsidiaries).



Actual routes

Between July 17 and May 19, four banks previously operating through a UK incorporated subsidiary changed their legal status and converted into a branch.

The entrants were of branches of established EU banks rather than subsidiaries. This indicates that the goal was to establish a presence in the UK market and not to create a platform for further international expansion. We have seen some churn in the number of banks incorporated in the UK, with the replacement of some established banks with emerging FinTech/Challenger banks. Some banks came and went over the period.

Has Brexit accelerated changes that would have happened naturally, or generated the changes itself? The answer is a combination of the two. Brexit has certainly triggered banks to revisit their strategy and some have taken the opportunity to rationalise their entity structures over the Brexit period. The low number of exits indicates that, having analysed the situation, most banks have concluded that the UK continues to be an attractive market. The high number of entrants indicates that they believe it is better to be in the game from the beginning; maybe perceiving it easier to enter via branch passport and TPR rather than a direct branch licence application. Many of the changes were in-train at the referendum and would have happened anyway.

Will this increase last or is it merely a transitory position whilst banks assess how the post-Brexit land lies? Only time will tell.

The gradual evolution from traditional banks to FinTech banks is likely to increase the number of bank failures and mergers in the next few years as the natural consequence of the rationalisation amongst the new players. This, along with the rapidly growing activity in cryptocurrencies and the continuing authorisation of those branches operating under the TPR, is likely to put increasing pressure on the regulators (both the PRA and Financial Conduct Authority ("FCA")).

JP Morgan Chase's recent announcement that they will pilot their new digital bank in the UK before expanding into other countries in Europe demonstrates the importance of the UK market and augurs well for the continuing pre-eminence of the UK Financial Services industry.

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