KNOWLEDGE TRANSFER

Advisory updates for the Payments sector

Welcome to the February 2017 edition of Knowledge Transfer, our regular advisory update for the Payments sector. Payments firms face a host of opportunities and challenges and this newsletter will keep you up to date with matters you will need to consider to help you run your business successfully.

Brexit and the UK remittance sector – 8 months on

It's difficult to think of any industry sector that is more impacted by Brexit than the money remittance sector. Remittances depend on the movement of people. If the movement of people is restricted, then remittances will reduce.

The falling pound

The immediate impact of Brexit has been the tumbling of the pound against other exchange rates. The fall in the value of sterling means people will be more reluctant to send money to abroad, at least on a temporary basis. The falling exchange rate also means that workers will be less willing to come to the UK to work, as each pound they earn has a lower value when converted to their home currency.

A currency serves as a barometer of how markets assess the prospects of a country against its peers. The value of the pound is telling us in no uncertain terms that the international financial community is seriously worried about Brexit.

After the Conservative Party Conference last October, the pound fell to a 31-year low against the US Dollar. With a reluctance by the Bank of England to increase interest rates, it is unlikely that the pound will bounce back against other currencies in the near future. This will put pressure on the growth prospects of UK based remittance firms in the short term.

Apart from the sharp fall in the value of the pound, there do not seem to have been other immediate significant economic effects. This month, the Bank of England predicted that there would be no slow down over the course of 2017 and GDP will grow at 2%, the same rate of growth as in 2016. The Bank slashed its forecast rate of growth for 2017 to only 0.8% immediately after the EU referendum.

Brexit White Paper

In February, the Government published a White Paper 'The United Kingdom's exit from and new partnership with the European Union.' It sets out 12 principles that will guide Brexit strategy. Two of those principles have a direct impact on the remittance sector: control of immigration and ensuring free trade with European markets.

In terms of immigration, the White Paper states that "We (the Government) will design our immigration system to ensure that we are able to control the numbers who come from the EU. In future, therefore, the Free Movement Directive will no longer apply and the migration of EU nationals will be subject to UK law". EU nationals account for approximately half of immigration to the UK, a constantly rising percentage over the last 15 years. It has been the Government's target in recent years to reduce net immigration to below 100,000 per year. Being able to control EU immigration should enable this target to become attainable. For remittance firms the control of EU immigration will mean that, other things being equal, medium term growth prospects will be need to be adjusted downwards.

The exodus begins?

London's relocation specialists and employment lawyers have never had it so good. Not that they are advising clients on how to set up in the capital. One would not expect that they would be given the vote to leave. Quite the reverse, they are advising businesses and individuals on how to leave. More than a quarter of employers surveyed by the Chartered Institute of Personnel and Development (CIPD), say that their workers from the EU are considering leaving. A tenth of the companies surveyed are thinking of moving some of their operations outside the UK. A further 7% say that they are likely to focus on building their businesses overseas.

Paris, Frankfurt and Dublin are cities that are competing for businesses relocating from the UK. Relocation is not straight forward. There are many good reasons why businesses chose the UK in the first place; low rates of Corporation Tax, relative ease of hiring and firing staff. The current culture is perhaps more conducive to work in the UK; France recently passed a 'right to disconnect law' allowing staff to ignore out of hours emails. France and Germany have long wanted Ireland to align its corporate tax with their much higher rates. After Brexit, the UK, Ireland's only big ally against European tax harmonisation, will no longer have a seat at the table.

In terms of free trade, the Government states that it will prioritise securing the freest and most frictionless trade possible in goods and services between the UK and the EU. The Government will not be seeking membership of the Single Market, but will pursue a new strategic partnership with the EU including an ambitious and comprehensive trade agreement. The White Paper goes on to state that the UK and the EU are economically dependent on each other, that the EU is the UK's largest export market and the UK is the largest goods export market for the EU. The implication of this being there is too much for both sides to lose if free trade is not available post Brexit.

Will the Government be able to be achieve the objective securing the freest and most frictionless trade with European markets?

The EU is based on four fundamental freedoms outlined within the Treaty of Rome; freedom of movement of goods; freedom of movement of services; freedom of movement of capital and freedom of movement of labour. From the EU's perspective you can't have free movement of goods, services and capital without the free movement of labour. Whether the Government will be able to achieve its free trade objective will therefore depend on the EU's willingness to sacrifice the free movement of labour in favour of the economic benefits arising from free trade.

PKF Escalate – introducing a new approach to tackling commercial disputes

Pursuing a commercial dispute tends to be a costly, lengthy and risky undertaking, which is why many businesses decide against pursuing a claim and reluctantly write-off what they are owed.

Our Escalate dispute resolution service takes a completely fresh approach. It prioritises your cash flow by focussing on a quick settlement and removing upfront costs. Escalate offers:

- No financial risk – you don't pay out unless we reach a successful settlement
- No initial outlay - we pay for all of the up-front costs
- Rapid results – we aim to get your money back in just three months; if we can't settle quickly, we can support you all the way to a High Court resolution
- A fixed fee – complete transparency from the start

There are no restrictions on the size or complexity of the cases we can deal with, and we can look at cases going back three years. Please contact us for more information.

We hope you've found this issue useful. If anyone within your business would like to receive future issues, please send their details to Ruby Crowley (rcrowley@pkf-littlejohn.com).

Our specialist team is here to help. If you would like advice on any of the issues discussed in this newsletter, please contact us.

PKF

Accountants & business advisers

PKF Littlejohn LLP
1 Westferry Circus
Canary Wharf
London E14 4HD
Tel: +44 (0)20 7516 2200
pkf-littlejohn.com

AZHAR RANA
Partner
E: arana@pkf-littlejohn.com
T: +44 (0)20 7516 2232

PAUL GOLDWIN
Partner
E: pgoldwin@pkf-littlejohn.com
T: +44 (0)20 7516 2251

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