RBC (TSX:RY) Prepares for Brexit in London

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) will reduce its workforce at its London investment bank by 40 employees. Reportedly, the company did a review of its businesses in London and decided to divert those resources to areas of higher client value.

RBC spokesman Mark Hermitage commented, “We consistently review our businesses to ensure that we are investing in areas that deliver greatest client value and position our business for growth. We are consulting with a small number of U.K.-based employees on the potential impact on their roles following a recent business review.”

Although Hermitage did not elaborate on how Brexit factored into this decision, it likely played a significant role in the business review. Brexit is set to impact the financial services sector broadly. London has a booming financial industry with global banks (including Canada’s RBC) conducting European Union financial transactions in the U.K.

All Canadian investors should have RBC in their Tax-Free Savings Account and Registered Retirement Savings Plan. The stock’s dividend and price history are too reliable and safe for Canadian savers to pass up. Thus, every Canadian should understand how Brexit will influence their bank stocks.

Brexit impacts financial passporting process

Most of the E.U. capital markets activity goes through London investment banks. Financial institutions in the U.K. can sell products and services in the E.U. without special licences or regulatory approvals because of a process known as passporting.

Post-Brexit financial institutions will spend more time and money on regulatory hurdles if they want to continue commercial E.U. operations in London. Many of them will consider it easier to set up subsidiaries in the E.U. or operate from Switzerland. While Switzerland may not be a part of the passporting process, the E.U. tends to respect Swiss financial laws.

Post-Brexit, Switzerland may be more friendly to large financial institutions than the U.K. Given the tough negotiations between the U.K. and E.U., it is unlikely that the E.U. will be doing London's financial sector any favours. This means that banks like RBC need to start thinking about whether or not they want to begin reorganizing their global operations.

Effect on London

RBC may have good reasons to cut its workforce in London. It is becoming increasingly more expensive to live in the city, which means RBC must pay employees more to attract talent. Because London is so expensive, it is difficult for young professionals to relocate into the city to begin fulfilling careers.

RBC may find higher-quality talent and lower prices in cities with a lower cost of living. Cutting jobs in London is more than likely the best decision RBC can make, regardless of the Brexit outcome. A smaller London workforce opens up resources for RBC to augment job growth in lower-cost cities.

Foolish takeaway

RBC is already preparing for Brexit by cutting some of its London workforce. The bank is ready for any outcome impacting the financial sector. The stock may still experience some slight volatility in the next few months, as all global banking institutions will, but this is no cause for alarm.

Canadian investors should, however, understand the reasoning behind RBCs decisions — and stay informed on how Brexit will influence their Canadian investment portfolio.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks

3. Investing
4. Stocks for Beginners

Date
2025/08/19
Date Created
2019/11/06
Author
debraray