



What Brexit could mean for UK corporate insurance buyers

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The London insurance market is taking a risk-based approach to plan and act for a 'hard' exit from the European Union (EU) in April 2019. Specific plans are unlikely to evolve until the outcomes from political negotiations become clear. However, some insurers are actively reviewing their options for future operating models, in some cases considering expanding their presence in Continental Europe. Materially, however, not much has changed in the last six months. The cost and breadth of UK insurance cover is still not expected to be directly affected, in the short or medium term, by the EU referendum result.

How UK insurance *could* be affected

Concerns are focused around client administration and service provider regulation, including:

- Freedom of services for pan-European policies
- "Passporting" of services into and out of the UK (allowing services to be provided across the UK/EU by a regulated entity in one UK/EU territory without having to have separate permissions in each territory)
- FCA/PRA regulatory changes
- European regulatory compliance including Solvency II and potential equivalence
- Data protection regulation and compliance
- Law and jurisdiction of insurance contracts and claims settlement

The insurance industry is lobbying the UK Government, both directly and through trade groups. Common interests include:

- Securing a regulatory environment that is appropriate for the UK insurance market
- Retaining the ability to passport out of and into the UK
- Mirroring the EU data protection regime
- Securing protection for EU employees in the insurance market

Despite some challenges, the UK insurance market has the time and opportunity to work collaboratively to ensure that UK insurers continue to provide companies with the most suitable, cost-effective protection.

Looking ahead

Lockton has formed a 'Brexit Committee', staffed with Lockton Partners, which will identify and explore the issues that could affect clients and the business they transact through Lockton. Lockton is also taking the following actions to support clients:

- Conducting risk assessments of what our clients' insurance needs are and how this will be delivered post exit.
- Reviewing our operating model to ensure seamless service to our European clients and UK clients' European subsidiaries.
- Tracking insurer responses and ratings agency action and updating our clients on these where relevant.

Key milestones that Lockton will be watching closely include:

- The UK Government's triggering of article 50, after which the insurance market will have two years to plan before the likely date when the UK formally leaves the EU.
- The adoption by the European Council of the guidelines for the EU mandate to negotiate and complete the withdrawal agreement. This timetable is not set and could take more than the original two-year timeframe.
- The UK Government's negotiation and agreement of trade deals.
- Announcements from insurance industry including lobbying groups, insurers and the London Market on their plans.



Lockton's Brexit Committee will continue to monitor the actions taken by the UK Government and the European Council and consider any issues affecting our clients. We will contact you if or when we identify any developments that we believe could materially affect the insurance policies we place for you. Attached you will find a few of the most frequently asked questions we've had about Brexit and our answers, which you may find helpful.

In the meantime, if you would like to discuss any of these matters in more detail, please speak to your Lockton contact or email Brexit@uk.lockton.com.

Q. Will the UK Government's triggering of article 50 affect our current insurance arrangements?

The triggering of Article 50 itself should have no direct effect on your insurance arrangements. The two-year period that follows the triggering of Article 50 will involve the trade negotiations but during that period there will be no change to the UK's membership of the EU. Therefore matters such as the passporting, regulatory requirements or choice of law should not change during this period.

However, along with many other issues that may rise during the process of the UK leaving the European Union (EU), the process itself will remain fluid and the eventual outcome may often appear unclear. Your Lockton team will continually monitor activities in the insurance market, and any broader activities, in order to proactively advise you on any potential challenges or benefits this process presents.

Q. Will the UK's departure from the EU and the use of World Trade Organization rules or other trade agreements affect UK insurance arrangements?

It would be prudent to expect that there will be changes imposed upon the UK insurance market after the UK has left the EU and forged new trade agreements. Lockton is part of various lobbying efforts (along with other insurance brokers, insurance markets and financial services companies) to reduce the potential impact of any changes on both the availability and cost of insurance.

We will provide our clients with focused advice on their individual accounts, as and when facts, rather than conjecture, emerge.

Q. After the UK has left the EU, can we continue to use Lockton to service our global needs?

Yes. Even before the EU referendum vote on 23 June, Lockton began analysing the service needs of our customers who trade cross-border and require support into and out of the UK.

Having completed this review, Lockton has a clear understanding of the potential challenges our clients and Lockton may face in both placing and administering our clients' insurance arrangements in future. Lockton has implemented a responsive risk management process that ensures that we will be able to structure our business to work within any of the UK's possible arrangements following its EU exit.

Q. What should my company do to manage risks relating to the UK's prospective EU departure?

Companies should seek to identify, understand and manage risks relating to the UK's departure from the EU in exactly the same way they would with any other risk. While Lockton's expertise lies in analysing and advising on clients' insurance exposures and the changes that may occur, we can also support our clients with risk management workshops to identify the risks they face; these risks would now potentially include the UK's EU departure.

Q. As a risk manager, what should I do to help my organisation prepare?

Risk managers should manage the risks relating to the UK exiting the EU in exactly the same way they would manage other corporate risks. This would include the identification, quantification and management of the risks (including control and mitigation actions), as well as apportioning ownership of the risks and relevant control and mitigation actions within the company. No additional reporting should be required.

The uncertainty of the last six months has clearly presented a challenge for the risk management community. As with any other risks that are indeterminate in outcome and timing, the risks associated with Brexit need to be kept alive by the risk management function.

From an insurance-purchasing perspective there is always value in ensuring that sum-insured values remain correct, given the post-June currency fluctuations as well as liability limits – particularly for companies with extensive US operations.

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