

# Managing Risk After Brexit

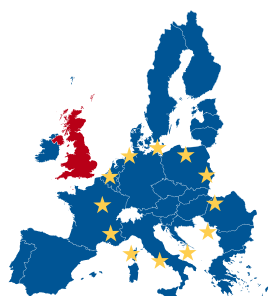
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The UK vote to exit the European Union may ultimately have far-reaching implications for businesses around the world. The vote has created uncertainty.

The best response is to remain calm and avoid hasty decisions that may not be in your best interest. Lockton is tracking the issues and will update this report as events unfold. We will help you deal with the implications for your risk management, employee benefits, and retirement programs as those issues become clearer.

## BACKGROUND

### THE EUROPEAN UNION AND BREXIT VOTE



28 countries of the EU have created the largest trading bloc in the world with 500+ million people. Member countries provide free movement of people, products, and money. They contribute taxes to fund the €145 billion budget for development projects and governance.

The UK voted to exit June 23.



### NEXT STEPS IN LEAVING THE EU



The "Article 50" process for the UK to leave could take two years or longer. It is likely that the UK will also negotiate new treaties to support trade.

## BREXIT POLITICAL REACTIONS

### UK LEADERSHIP

The vote has unsettled politics in the UK with Prime Minister David Cameron resigning and his replacement expected in September.



Prime Minister resigns



Conservative Party will vote on a replacement



Parliament may then start the withdrawal process

### PETITION TO REVOTE



A petition to hold a second vote has 4+ million signatures, but Prime Minister Cameron says there will be no second vote.

### EXIT THREATS



Groups in other EU countries are pressing for exit votes, France and the Netherlands most loudly.

### SCOTLAND CONCERNS



Leaders in Scotland are calling for a vote in Scotland to exit the UK, so an independent Scotland could try to remain in the EU.

## BREXIT ECONOMIC ISSUES

### UK DOWNGRADE



S&P Global Ratings Services downgraded the UK's sovereign credit rating from AAA to AA, which will likely make the UK's borrowing costs higher.

### PRESSURE ON CURRENCIES



Foreign exchange markets have sent the pound to 30-year lows versus the dollar and some other currencies.

### MARKET VOLATILITY



Financial markets have experienced increased volatility since the vote because of the uncertainties.

### PRESSURE ON GLOBAL GROWTH



Uncertainty may slow economic growth, potentially chilling investment.

### ECONOMIC IMPACT >>>

Many economists believe that Brexit's effect is likely to be felt more acutely in Europe than in the US and the rest of the world. The UK makes up about 4 percent of global GDP, and even in the Eurozone, a 1 percent reduction in the UK's GDP growth would deduct only 0.2 percent from the rest of Europe's growth. Even so, while most economists have reduced their expectations for economic growth in the UK, they expect the British economy to avoid recession. A driver of whether this will be the case will be the negotiations between the UK and the rest of Europe. The EU is an important UK trading partner, accounting for the consumption of 40 percent of British exports.

## BUSINESS RISKS

Businesses face key risk considerations. See below for specific issues for property-casualty, employee benefits, and retirement services clients.



### UNCERTAINTY



### ACTION

In the short term, business leaders face a period of uncertainty as political leaders debate next steps. This may constrain short-term investments and growth plans, especially in the UK.

As the UK's exit plan emerges, businesses will need to be prepared to adjust to the new realities. Lockton will monitor developments and share updates.



### CORPORATE LOCATION AND STRATEGY



### ACTION

"Passporting" has allowed firms to establish legal entities in one country and operate in all EU countries. Insurers and banks may face decisions about moving operations, depending on how the UK exit is negotiated.

Carefully watch "passporting" negotiations to determine what corporate location actions and licensing may be necessary.



### WORKFORCE DECISIONS



### ACTION

An estimated 2.1 million non-national EU workers live in the UK and 800,000 British people work in the EU. One of the key issues to resolve in future negotiations is the labor market and mobility between the UK and the EU.

Monitor developments on workforce agreements and prepare plans to deal with contingencies.

Continue reading for implications about global insurance and US retirement programs.

## GLOBAL INSURANCE IMPLICATIONS

### Financial Strength

- ❖ Some carriers may face some investment portfolio risks and foreign exchange concerns because of market volatility. Rating agency A.M. Best has said that it does not expect to take ratings actions in the near term as a direct result of the vote. Lockton and the rating agencies will be watching these issues closely.

### Lloyd's

- ❖ The Lloyd's market is a unique entity with operations based in the UK and operating globally. Lloyd's has expressed confidence in its contingency planning and has noted the two-year time frame for change.

### Market Access

- ❖ Future negotiations are likely to focus on “passporting” and licensing issues for insurance carriers. Carriers in the coming months will be reviewing the locations of their operations and adjusting as needed to comply with new rules. There is no immediate issue for clients to address.

## US RETIREMENT PLAN IMPLICATIONS

- ❖ Clients should expect some short-term market volatility, but as with any near-term market movement, this should generally not change the asset allocation strategy for long-term investment objectives such as retirement plans.
- ❖ Now may be a good time to remind employees of the importance of maintaining their investing discipline and a long-term view with communications that reinforce this message.
- ❖ During regularly scheduled second-quarter reviews of retirement plan investment lineups, now may be an opportunity to evaluate international options in the plan and the international exposure in domestic funds.

Lockton will remain focused on delivering insight to clients on how to deal with the risks and changing dynamics of the new environment. For the moment, calm and patience are watchwords.

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### Sources

CNBC, J.P. Morgan, Neuberger Berman, Lockton, BBC, Financial Times, A.M. Best, Lloyd's, Migration Watch UK