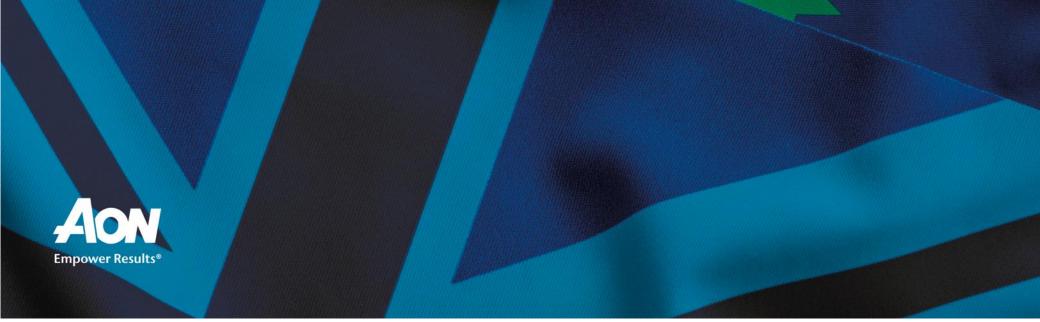
BREXIT – An insurance broker's perspective

BELRIM Brexit session, 10 January 2019 Constantin Beier – Aon, London



AGENDA

- I. Brexit Risks for insureds in case of a "hard" Brexit
 - 1. Contract performance by UK domiciled insurers
 - 2. Future insurance of UK domiciled risks
 - 3. Effective access to the UK insurance market



1. Brexit Risk - Contract performance

Insurers domiciled in the United Kingdom could lose their authorisation ("Passporting") to perform insurance contracts with insureds in the EU.

Considerations to evaluate the risk:

Effectiveness of insurers Brexit plans

- Moving EU-risk portfolios by changing the legal form into a Societas Europeae (SE) including a change of domicile to the EU before March 29, 2019
- Portfolio transfer to a sister company domiciled in the EU via a Part VII Transfer process
- Policies are already contracted by EU domiciled subsidiaries of a group of companies
- Commitment by Lloyd's (and other insurers) to honour contractual obligations independent of regulatory license challenges in EU member states
 - > Lloyd's has announced that they are planning to conduct and finalise a Part VII Transfer until end of 2020

Likeliness of a political solution in the EU

- Similar situation to derivatives contracts:
 More than 40 billion derivatives contracts need to be effected in London post Brexit!
- The EU has indicated that a solution shall be found but has not reflected this in most recent communications about No-deal Brexit preparations (Dec 19, 2018)
- Activities and statements from German, French and Dutch ministries are all aiming to create at least short term solutions



1. Brexit Risk - Contract performance

Measures to consider for insureds:

- a. Keep the status quo and observe political developments and insurer commitments
- b. Cancel & replace or endorse policies with insurers not affected or EU-domiciled subsidiaries of incumbent insurers if possible either
 - Immediately,
 - With effect at 29/3/19 or

If possible include a second insurer on the policy as a fall back option

 Agree a special termination clause in case the insurer does not conclude its Brexit plans in time (only in exceptional cases and probably no longer applicable)



2. Brexit Risk – Insuring UK domiciled risks in the future

Insurers domiciled in the EU could lose their authorisation ("Passporting") to agree and perform insurance contracts with insureds in the United Kingdom.

Solutions:

- 1. Commitment by the UK government to EU domiciled insurers, to be allowed to perform policies existing pre-Brexit also after a hard Brexit
- 2. Introduction of a "Temporary Permissions Regime" by the UK regulator (FCA)
 - Available as of January 2019
 - Simple procedure, applicable for all financial services institutions already active in the UK
 - Grants the status quo for three years; pending full third country license applications processed
- 3. Agreement of a local stand-alone cover
 - Could be agreed via the lead insurer of an international insurance program
- 4. Agreement of so called financial interest clauses (FINC) in international programs
 - This means economic losses through activities in third countries (like the UK) will be compensated via payments to the mother company (e.g. in Belgium).
 - This can be problematic in case of D&O insurance or other lines of business covering individual's interests



3. Brexit Risk - Access to the UK insurance market

EU domiciled companies could lose a seamless and effective access to the UK insurance market via third party brokers

IMD and IDD do not incorporate an equivalence principle, which could be a fall-back option to the incumbent passporting for insurance brokers

Relevance of the London market for EU domiciled insureds:

9 Billion Euro

volume of the London market for EU-Insureds

33% of the global market for Marine insurance

60%

Of the global market for Aviation insurance

1 Billion USD

Available sum insured for Cyber coverage (in the EU it's ca. 100 Mio USD)

Special Risk expertise

Renewable Energies
Space
Off-shore construction

1,7 Billion Euro

Limit for major event insurance e.g.
Olympic Games in Paris

80%

Of the biggest banks in the EU use London credit insurance capacity

80 Mio Euro

Premium volume of Italian state owned companies



3. Brexit Risk – Access to the UK insurance market

Solutions:

1. Network-Access

- Insured contracts with a local broker, who in turn uses a UK broker as agent or sub-contractor ("Wholesale broker")
- Interactions between UK broker and insured are subject to certain restrictions (e.g. correspondence between the parties may only take place via the local broker; claims support or premium payments via the UK broker are not allowed)
- Could be a challenge for local brokers without a network
- No solution for countries, in which Wholesale Broking is not permissible at all (e.g. Scandinavia, ITA, FRA)

2. Access via a UK branch

- Insured agrees a service agreement directly with the branch of a broker domiciled in the EU
- This would not have any restrictions regarding direct interactions with the UK domiciled branch and its employees
- Concept still requires acceptance from regulatory bodies

3. Direct access via Temporary Permissions Regime

 Brokers already passporting into the UK can apply for a license under the Temporary Permissions Regime for the next three years

Recommended actions for insureds

- 1. Review if UK domiciled insurers are participating on an existing insurance cover and if so, what are their Brexit plans?
 - > Is there immediate need for action?
 - Preparation of the next upcoming renewal
- 2. Review if there are UK risks, which require a bespoke solution or an amendment to the existing global program?
- 3. Discuss with your broker the approach for continued access to the London insurance market

- Insurance market stakeholders seem to have a lack of awareness which values brokers and risk managers create
- Differences between regulatory institutions
- Placing insurances will get more complex and more costly
- Brexit as a possible catalyst for London market challenges
- "Diverging Narratives" between the EU and the UK



