

NAVIGATING BREXIT: A CALL FOR CLARITY

February 2018

Brexit promises to continue to disrupt the business environment as the New Year unfolds. While a deal in November on the completion of the first phase in Brexit negotiations represented an important domestic political victory, since then, the ongoing ambiguity over the future UK/EU relationship means that insurers across the sector have been forced to plan for the 'worst case'.

The close of 2017 provided businesses with some reassurance that sufficient progress had been made to move onto the long-term relationship between the UK and EU. Since then, however, the anticipated momentum remains somewhat elusive.

In a political context, uncertainty remains the central theme for the insurance sector. With little meaningful clarity on the likely tenets of a Brexit transitional arrangement, many insurers are executing contingency plans to mitigate the risks of unenforceable contracts following the UK's exit from the EU. To this end, finding a solution to contract continuity is likely to remain a focus between City regulators and their political masters.

With an estimated 36 million EU and UK insurance policyholders likely to be affected, a solution to this issue is vital.

Domestically, the insurance sector has too faced frustration as a result of the government's primary focus on Brexit. Although seemingly moving onto a more positive footing, the drawn-out process to reform the methodology surrounding the calculation of the personal injury discount rate looks set to remain a key flashpoint between the government and the sector.



DEFINING BREXIT

Phase Two of the negotiations was always expected to be more complex for both sides.

Nevertheless, the Prime Minister has not as yet defined in detail what her government wants the Brexit end-state to look like.

In many respects, any perceived stalling is probably as a result of the need to maintain a peace in the Conservative Party - no easy task given Europe remains a divisive issue. The Cabinet itself is deeply split along Leave/Remain lines. Leavers like Boris Johnson and Michael Gove want a hard Brexit that allows the UK to strike free trade deals internationally. Remainers like Philip Hammond and Amber Rudd want the UK to leave the EU on terms that create as similar trading relationship possible to the status quo as possible.

Meanwhile, the EU27 remains united unwavering in its negotiating position. Member States took just two minutes to agree to terms offered to the UK for the transition period.

THE DOMESTIC AGENDA

The Prime Minister had hoped to carry out an active domestic agenda in order to tackle "burning injustices" in the country. The reality is that Brexit will continue to frame domestic law making.

66 Brexit continues to take up much of the political oxygen and civil service capacity in Westminster. ??

Consequently, questions about the longevity of Mrs May's leadership are likely to remain daily occurrences and there is increasing speculation that the threshold of Conservative MPs submitting letters of no confidence in Mrs May is nearing.

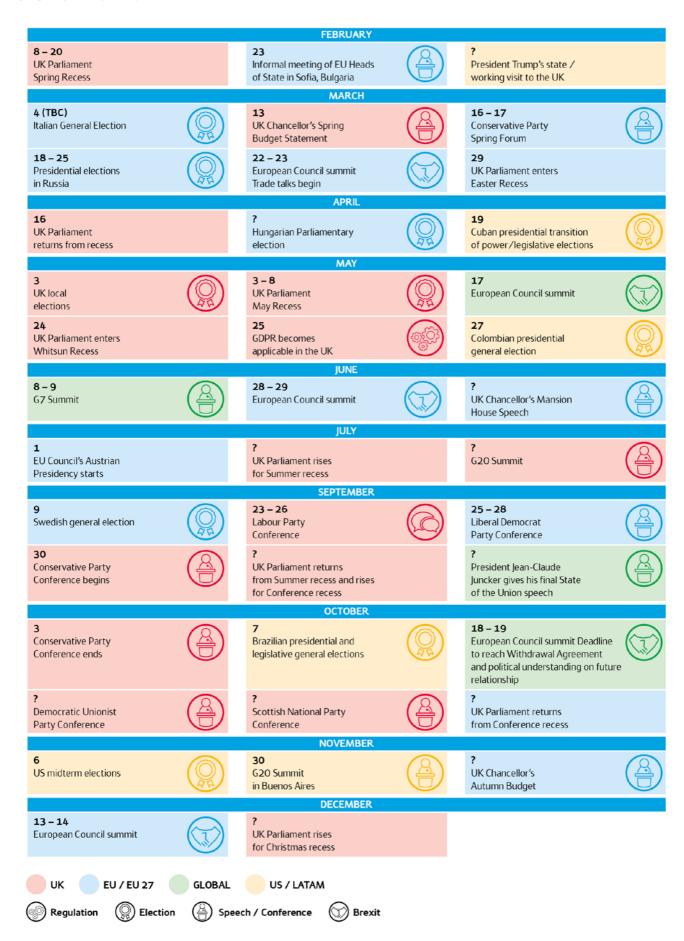
WHAT DOES ALL THIS MEAN FOR THE INSURANCE SECTOR?

Uncertainty will remain the central theme for the insurance sector. The execution of contingency plans to mitigate the risks of unenforceable contracts following the UK's exit from the EU is likely to remain a primary concern for the sector; a point City regulators, Andrew Bailey (FCA) and Sam Woods (PRA) have repeatedly outlined to their political masters

Looking ahead, the sector, much like the rest of financial services, will continue to push for greater clarity around the government's ambition for a future deal with the EU. However, with murmurings from Europe that there will be no provisions for financial services within any future trade agreement between the UK and EU, the sector's desire for assurance may not be on the immediate horizon.



2018 POLITICAL CALENDAR



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