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BREXIT: WHAT NEXT FOR BUSINESS?

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BREXIT FORUM: WHAT NEXT FOR BUSINESS?

Risk managers face facts on Brexit

The UK's departure from the European Union represents the biggest single challenge to both risk managers and the businesses they represent

In September StrategicRISK held its second Brexit Forum, once again in partnership with QBE.

Brexit: What Next for Business? was held in London and attended by dozens of leading corporate risk professionals, some of whom had travelled from as far as Germany for the event.

The focus of this latest forum was to consider and assess the likely consequences for business of the UK's vote to leave the European Union now that Brexit is a reality.

It covered risk not only from a threat perspective but also in terms of opportunity with risk professionals and businesses encouraged to make the most of the circumstances irrespective of whether or not they wanted to remain part of the EU.

As with the first StrategicRISK Brexit forum, held in April, the aim was to provide a degree of clarity and reassurance around this complex issue.

Preparation is key and delegates were urged to focus on making this a priority.

Introducing the sessions, StrategicRISK editor-in-chief Mike Jones told delegates: "What struck me at our first Brexit forum was how many major businesses were under prepared or indeed completely unprepared for Britain leaving the EU. They were in a state of denial.

"When I questioned some of the risk managers who attended about why this was so, a number told me that their boards believed Brexit would never happen and so they were instructed to not waste their time considering this prospect. We all know what happened next!"

Jones said the rights and wrongs of Brexit needed to be removed from the risk debate.

"Whether we agree with it or not, there can be no going back and the democratic will of the British public cannot be ignored, no matter the consequences," he said.

Instead, it was fundamental to focus on the real meaning of Brexit and this, Jones said, was the purpose of the forum.

A series of heavyweight keynotes and expert workshops offered detailed insight into some of the complexities of the Brexit decision and also provided much needed clarity around a number of issues.

Richard Pryce, chief executive officer, QBE European Operations assessed the implications of Brexit both for insurance and also risk management.

Lord Tim Clement-Jones CBE, London managing partner of DLA Piper unravelled some of the legal knots surrounding what is likely to be a messy and protracted international divorce.

Meanwhile, **Brian Lawson, economic and financial Consultant, IHS** assessed the wider picture with a broad analysis of the implications of Brexit both for the UK and the EU in the longer term.

Expert-led workshops covered in further detail more specific issues and included topics such as political instability and economic uncertainty; supply chain risks; scenario planning and ensuring business continuity – all examined through the post-Brexit lens.

> **'Whether we agree with it or not, there can be no going back'**

Jones told the audience it was important to not look at Brexit solely in terms of the threat posed to business.

Instead, he said, now that Brexit was a reality, companies needed to capitalise on the opportunity.

Jones said: "It is incumbent on businesses and the risk professionals within them to make the most of its potential rather than dwell exclusively on the downside." **SR**

*Note, this event was held before the UK High Court decision to rule that the British government cannot trigger Article 50 without there being a vote in Parliament – an issue which serves only to further complicate the Brexit risk landscape for business by adding more uncertainty.

BREXIT FORUM: WHAT NEXT FOR BUSINESS?

Unravelling a legal Gordian Knot

Changes to legislation will take years post Brexit but businesses must be ready for the challenge

Of all the risks to emanate from the Brexit vote, regulation ranks among the biggest concerns.

While it is difficult to predict with precision what legislation changes will take place until the UK's exit route becomes clearer, there is plenty for risk managers to consider now, according to Lord Tim Clement-Jones CBE, London managing partner of international law firm DLA Piper.

In his keynote speech at the September forum, Lord Clement-Jones, appraised the UK's situation in the initial aftermath of the referendum and said "nothing will happen immediately" and the process for departure would take years. In the meantime, "we are going to have to abide by European laws until Brexit itself".

Nonetheless, there are risks which need to be addressed now.

Triggering Article 50, the formal requirement to start the departure process, needed to be undertaken as quickly as possible, Lord Clement-Jones said, "to limit uncertainty".

"The one thing we have very much in our favour when we start these negotiations is the institutional power struggle," Lord Clement-Jones said.

"There isn't always a single view coming out of Brussels so there is always negotiation that takes place within the institution in Brussels, which is something in our favour."

A radical response, however, remained unlikely.

"In terms of negotiations themselves, nobody is going to want to deviate too much from the four pillars of the European Union," Lord Clement-Jones said.

"Even when Article 50 is invoked it is going to be a very complicated situation, the only precedent we have got is Greenland with 50,000 people and that took three years to negotiate and then we have got all the political and legal uncertainties that follow."

The current political process, he said, was contributing to an overall lack of certainty around Brexit because the UK was seen to be "dragging its feet with no obvious plan".

Lord Clement-Jones said that EU countries were unhappy in general about the UK leaving the European Union and, as a consequence, there was "little appetite to give the UK any special treatment."

Looking specifically at the impact of Brexit on legislation, Lord Clement-Jones said primary legislation would remain until repealed by an Act of Parliament.

"At the back end of this process, what you need to have is a repeal of the European Communities Act which effectively means that we are obliged to incorporate regulations into UK law," he said.

"That was what we passed right at the very beginning of membership of the European Union and so at the back end of our membership when we leave we have to repeal this so that European regulations are not automatically incorporated into UK law but query what happens on directives which are already there and have already been applied into UK law."

Lord Clement-Jones said it was likely "we'll have to be a bit selective".

"We could say that anything which is already there will remain until it is repealed – but there may well be people who want to get rid of specific regulations right from the word go," he said, which is why "picking our way through 40 years of accumulated legislation" is such a formidable task.

> **'The UK is not going to get special treatment in all of this'**

"We won't adopt new regulation automatically but we will let the existing legislation stay on the statute book or stay in regulation until it is repealed. Then of course there is the whole question about the way we interpret our legislation – and this is particularly important in terms of the directly applied legislation that comes from Brussels."

Similarly, precedents laid down by the European Courts of Justice were another thorny issue.

"The whole situation is fraught with a great number of different questions," Lord Clement-Jones said.

Differences of opinion among EU member states would play a part but "nevertheless there is probably a great deal of commonality among them in saying that the UK is not going to get special treatment in all of this".

Now that Brexit was happening, Lord Clement-Jones said, "we are all trying to look on the bright side, I am sure, in terms of the impact of Brexit".

He said: "We ought to have the self-confidence to go forward, there is no point in wringing our hands in a doom-laden way but we also need to recognise that we are all going to have to work

incredibly hard to counteract some of these basic facts."

Contractual relationships "need very careful attention".

"The review of existing contracts, which I am sure you have started, you don't want to get blindsided by somebody exercising a force majeure because we have exited Brexit or material adverse change clauses or whatever, and so every contract does need looking at. An option," he said "would be to repeal or amend particular laws over time, following reviews and consultations." However, this was likely to be a protracted process.

In terms of regulatory concerns for business, Lord Clement-Jones urged risk professionals to assess which EU regulations impacted their companies directly.

Some, he said, would stay broadly the same. Product safety law was likely to remain in force to preserve market access to the EU, likewise food safety and labelling.

Environmental regulations were, Lord Clement-Jones said, almost exclusively governed by EU law and other international agreements – but the UK was "ahead of the game in any event" on this.

In the longer term, divergence in regulatory environments could take place, and Lord Clement-Jones said this might also create "an opportunity for innovation".

In the meantime, existing contracts should be reviewed with close attention paid to force majeure, termination, and material adverse change clauses.

Similarly, in terms of supply chain management, risk managers should analyse the extent to which their business involves the supply of goods and or services between the UK and the EU or other countries with which the EU has trade agreements.

The impact of the imposition of tariffs should be analysed and, in some instances, relocation for some parts of the business "might be required", Lord Clement-Jones said.

Areas of conflict

Relocation was also an option to try to mitigate the impact of any restrictions on the movement of people and businesses needed to check their potential exposure here.

Lord Clement-Jones had a further warning on this: "The pool of talent and skills available to UK business could diminish as visa requirements may make it more difficult to recruit employees from and move them within Europe. Also, individuals may prefer to be located in the EU where their movement will be unrestricted."

He added: "This is one of the really big issues because, if you look at it, the freedom of movement for many sectors is very important.

"Businesses are still going to rely on skills from Europe and skills from the EU and we want to have a regime which doesn't simply rely on waiting six months while the Home Office processes a work permit."

Brexit is going to be a messy affair and disputes were likely. "Parties may well seek to terminate existing contracts in the event of Brexit," Lord Clement-Jones said.

The issue of disputes also created other potential areas of conflict.

In terms of jurisdiction, English courts and English law were favoured by many but lawyers elsewhere in Europe were now arguing that contracts governed by English law would become problematic to enforce.

"You might not find it very attractive to have your contract enforceable by an Italian court but you might find a German court or a European court of another stripe rather more attractive and every single one of those major economies is setting up its own commercial courts system with the English language as one of their major tools and that is going to be quite a lot of competition for London as a centre for legal jurisdiction and enforcement," Lord Clement-Jones said.

"We will not be able to enforce UK judgments in the same way after Brexit as we can now because we won't be subject to the Brussels convention in the same way. That is one of the really important aspects that the lawyers should be looking at currently."

Lord Clement-Jones examined a swathe of other areas which might also be affected by Brexit including:

Bankers' bonuses: Possible abolition of the cap on financial service sector bonuses which could "make the UK more attractive";

Data protection: "The UK may become a 'third country' under EU data protection rules meaning that UK businesses operating in the EU will need to provide adequate protection for the rights of employees whose personal data is transferred from the EU to the UK".

Competition: Mergers which hit the UK and EU Merger Regulation (EUMR) notification thresholds benefit from the EU "one-stop shop" and need only be notified to the European Commission. "The UK will fall outside this regime post-Brexit and both EU and UK notifications could be required, with additional time and costs burdens."

Tax: "Various EU directives remove tax obstacles from businesses operating across the EU. Without those directives, businesses operating across the EU might face withholding tax costs, double taxation and tax charges on cross-border reorganisations. The UK may also be free to impose a 1.5% stamp duty reserve tax more widely, having had to restrict its scope to comply with EU law".

Intellectual Property: In terms of EU trademarks and EU design, "EU registration will not include protection in the UK when the UK leaves the EU".

Restructuring: Brexit would remove automatic recognition, which, without specific treaties between countries, will significantly impede the ability of UK-appointed insolvency practitioners to be recognised and deal with overseas assets. This could result in diminished appetite to lend into the UK and to select English jurisdiction and governing law clauses.

Lord Clement-Jones said that while the overall picture remained relatively unclear, companies needed to prepare.

Among his suggestions, Lord Clement-Jones said businesses should set up a Brexit committee to co-ordinate all related issues and communications.

He also suggested that risk managers prepare an overview of the possible impact on their business and how the company might respond.

Lord Clement-Jones reminded delegates that a member state leaving the EU was "unprecedented".

This was "I am sure you would all agree, very much unchartered territory". **SR**

BREXIT FORUM: WHAT NEXT FOR BUSINESS?

Understanding exposure crucial for dealing with Brexit

Risk managers urged to 'prepare for a wide range of possible outcomes'

While there is a degree of clarity about some aspects of Brexit, such as retention of the overall prudential framework and certainty of insurance cover, there are many issues which remain difficult to ascertain.

In his keynote speech to risk managers, Richard Pryce, CEO QBE European Operations, said it was fundamental that businesses needed to "understand the full extent of their exposure to the European Union".

Calling the situation "unprecedented", Pryce said: "None of us have ever experienced anything like this and one thing which is inevitable is that it will lead to more uncertainty as we go along."

Nonetheless Pryce said it was important to make sure companies considered carefully their Brexit exposure: "What extra costs will you face, whether in terms of increased tariffs for your exports, higher costs for imported goods and raw materials, tighter restrictions on labour market movements or greater operational friction, such as longer lead times for deliveries and additional licensing requirements?

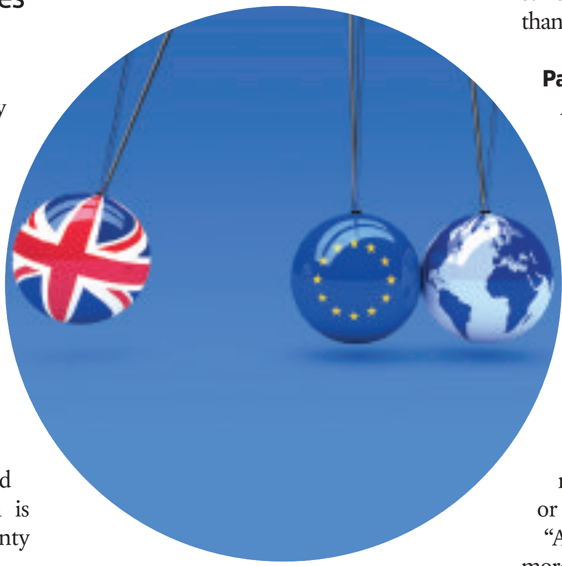
"To what extent could your supply chain be disrupted by those additional costs or bureaucracy, affecting not just your primary suppliers but their own trading partners?

"How confident will your customers be that you will be able to continue to provide them with the goods and services they seek, with the same costs and convenience as before?"

Earlier, Pryce warned about supply chain exposure not only in terms of goods but also services.

"Over the 40 years in which the UK has been a member of the European Union, British companies have become closely integrated into European supply chains, and European suppliers into ours," Pryce said.

"Any setback to the free movement of goods that we have come to enjoy over those years could jeopardise the smooth operation of those chains, which depend on the ability to transfer supplies between countries without being held up by customs paperwork and regulatory hurdles."



Restrictions on the movement of people could prove to be a significant barrier for businesses.

"Many UK industries, from accountancy to agriculture, now rely on large numbers of EU workers in their labour force," Pryce said.

"There is a widely held assumption that a humane solution will be found whereby those currently living and working in this country will not suddenly be uprooted and forced to return to their countries of origin, through some kind of grandfathering arrangement.

"But particularly for those of you running large, long-term projects, the referendum has injected an extra element of uncertainty into your plans for staffing."

When all of this was taken together and seen through the prism of the interconnectedness of risk, Pryce said this raised considerable issues for business.

"So when we talk about the future terms on which we will be able to trade with Europe, we are not just talking about extra tariffs levied on British exports, but about a much more complex web of interactions, where a little bit of extra bureaucracy, or an added difficulty in securing the right candidates for your workforce, may in the long run prove to be as damaging as an overt tariff," he said.

"Not that those additional tariffs are to be underestimated. In the absence of a newly negotiated trading arrangement with the EU, British exports would revert to the common external tariff, sometimes referred to as the World Trade Organisation option. That would, broadly, mean an extra charge averaging 4% on British goods. But for some sectors it would be much stiffer: 10% for cars, for example, and much more than that for food, beverages and tobacco."

Passporting uncertainty

As a result, Pryce said that it was fundamental for companies to understand fully, wherever possible, where their vulnerabilities lay.

Citing the CBI, Pryce said: "There are some industries with specific issues. In education, for example, large numbers of foreign students may find it harder to access UK universities. Fintech is an area where the UK has taken a significant lead, but businesses in the digital arena could be vulnerable to economic shocks, restrictions on the free movement of labour or future regulatory changes.

"And of course, the financial services industry more broadly is not only one of the UK's most critical exporting sectors but also one that faces particular uncertainty as we prepare to leave the European Union."

The issue of passporting was "probably the most important area of uncertainty" from an insurers' perspective, Pryce said.

"In logic, if a UK insurer is regulated in essentially the same way as its European competitor, then there would appear to be no very strong reason why it should not continue to provide the same services to its customers as before.

"The legal basis on which we, and perhaps 200 other British financial services companies, conduct our business in Europe is the automatic recognition we receive in other European countries."

Passporting was a key point in the negotiations around Britain's exit from the EU not only for insurers but also "for the financial services industry as a whole" and the overall health of the UK economy.

"We have a £17 billion trade surplus with the EU in services, and financial services account for perhaps a third of total UK exports to the EU," Pryce said. "However, it is precisely because of the importance of financial services to the UK economy that negotiating a workable arrangement could be so difficult.

"As Sam Woods, the new chief executive of the Prudential Regulation Authority, has noted, it would not be a straightforward decision for the UK to sign up to a set of financial services rules over which it would in future have no influence, given the size of its financial sector and the potential risks to the wider economy."

Again, negotiations around this were fraught with complexity.

"Existing models, such as the European Economic Area, would preserve a large measure of access to the EU market, but potentially at a cost, both in terms of UK influence over future regulations and conceivably in budget contributions," Pryce said.

"Recognition of regulatory equivalence would be at the European Commission's discretion, and could be withdrawn. Certainly, there is no existing example of an EU trade agreement with a third country that includes market access for financial services of anything like the same scope as the passporting regime."

As with many other Brexit issues, the effects of the outcome would be felt beyond the UK.

"The interest in this does not all lie on one side," Pryce said. "Besides the 200 or so British financial services companies passporting into the rest of the European Union, there are also around 700 EU financial services companies relying on passporting for their access to the UK.

'Restrictions on the movement of people could prove to be a significant barrier for businesses'

"From where I sit, this is an important point, but it is not one where I can sit around forever waiting for a resolution from the Government. Our customers expect us to provide continuity and certainty, they will not want to hang around waiting to hear what the answer is."

To achieve this meant initiating contingency measures, Pryce said.

"I don't want to put a deadline on it, but at some point we will have to decide what we are going to do to provide that certainty.

"That might mean setting up a subsidiary somewhere else in the EU, where passporting rights to other European markets would remain secure. That might be somewhere like Belgium, Luxembourg or Malta, but I have said before that the obvious choice would be Dublin.

"A related question concerns London's role as an insurance centre. Opinions are divided on this. There are those who believe that if another European financial hub emerges, it could cost London business; London could even lose critical mass. Some of the talk on this topic has, however, softened since the vote took place. There is now more talk of company adjustments, and less of wholesale relocations.

"Lloyd's of London has certainly been alert to the issue, and is clearly prepared to defend its position. It wants to retain European market access for itself and the London Market, and has been in active conversations with both the market and the Government." **SR**

THOUGHT LEADERSHIP

RICHARD PRYCE
CEO QBE European Operations, considers some of the implications of Brexit for insurers and clients

'INSURANCE INDUSTRY WILL ADAPT TO BREXIT'

When I last wrote about Brexit, in April, we were still some weeks away from knowing the outcome of the referendum. I encouraged risk managers then to consider how their businesses should be preparing for a possible vote to leave the European Union, using a range of possible scenarios. I suspect, however, that few among us were thinking we would actually have to execute our Brexit contingency strategies.

Now we know that voters have decided that the UK should leave the EU, we ought in theory to be some way further advanced. We have been told that Brexit means Brexit, but beyond that rhetorical flourish, we are no closer to knowing what in reality Brexit will mean. Against that backdrop of continuing uncertainty, we still need to prepare for a wide range of possible outcomes.

So how do we set about that task? At QBE we have updated our report on the practical implications of Brexit, and the good news is that there are a number of areas where the experts we consulted expect little, if any, change. That at least provides some stability to our planning assumptions.

One example is the overall prudential framework, particularly for financial services. In areas such as insurance solvency and bank capital regulation, UK regulators have in general tended to lead the debate, rather than to follow. With some limited exceptions, then, we can expect that they will have little inclination to change the rules to which they have contributed so much. Solvency II, in particular, is likely to remain at the heart of the UK's prudential framework.

For insurance buyers, it may be comforting that another area where the experts we consulted anticipate little change, at least in the short term, is in insurance cover. The two year notice period of Article 50, not yet triggered, will give both insurer and insured time to amend one year and most three year policies on renewal, rather than having to rewrite them in a hurry.

There are however a number of other important elements where we have much less certainty about what awaits us.

Over the 40 years in which the UK has been a member of the European Union, British companies have become closely integrated into European supply chains, and European suppliers into ours. Any setback to the free movement of goods that we have come to enjoy over those years could jeopardise the smooth operation of those chains, which depend on the ability to transfer supplies between countries without being held up by customs paperwork and regulatory hurdles.

When we talk about the future terms on which we will be able to trade with Europe, we are not just talking about extra tariffs levied on British exports, but about a much more complex web of interactions, where a little bit of extra bureaucracy, or an added difficulty in securing the right candidates for a workforce, may in the long run prove to be as damaging as an overt tariff.

To navigate this, businesses will need to understand the full extent of their exposure to the European Union. From the point of view of an insurer, how negotiations around passporting progress will be crucial. One way or another, however, I am confident that we will be able to carry on providing the level of cover companies need. There may be some changes here and there to policy wordings, but the insurance industry has proved in the past that it is able to adapt to new circumstances, and I believe it will prove this again in response to the new future that awaits us.

To see QBE's Countdown To Brexit report visit: http://qbeeurope.com/news/brexit.asp

BREXIT FORUM: WHAT NEXT FOR BUSINESS?

Low risk of EU falling apart but it must learn

Other countries unlikely to follow the UK out of Europe although the picture is blurred

Years of uncertainty await the UK as it negotiates its exit out of the European Union with the remaining member states. In his presentation, Brian Lawson, senior consultant banking risk, economics and country risk at IHS, said this uncertainty was a bad thing for the UK economy, as it was very difficult for business managers to conduct significant new investment in the UK if you do not know the trade regime under which you are going to be operating for the following five or ten years.

The key issue revolves around how the UK can continue accessing Europe without economic dislocation, but Lawson said there was no perfect answer to this.

"There is an option available to the UK which could work quite well, if we were willing to pay that price," Lawson said. "That is the European Economic Area (EEA), which basically grants continued access to the single market. However, it comes with a very high price, which is we have to continue paying the EU, we have to accept EU legislation without having a vote in its formation and we are unable to limit the freedom of movement."

In the context of how the Brexit campaign was held, that last point in particular is a politically very high price for those politicians who pledged they would use Brexit as a means of regaining control of UK borders.

The upcoming negotiations will not be easy for the UK and it will be hard work to get bilateral treaties, Lawson said.

"It is remarkable to consider that people honestly presented to the British public that they could negotiate a trade deal with the EU and with a number of other countries in a two-year period," Lawson said. "That is an unprecedented timetable. Trade deals are very complex and it's highly unusual to get them done in less than five to ten years, but especially if you have a civil service that actually hasn't hired for Brexit in the first place,

which happens to be the case in the UK.

"The UK had some 20 experts in place on trade treaties at the time of the referendum, it hadn't hired any new people in preparation for the enormous workload they have, so they have an enormous resource issue."

In addition to the complexity of agreeing trade deals, the UK will also be negotiating with a tough partner as the EU really does not want Brexit to be too easy, "because that would give a very wrong message to the rest of Europe".

"If you make Brexit too easy, it's an advertisement that you can get what you want by threatening to leave," Lawson said. "The EU clearly doesn't want that to happen, so there are very strong reasons, even given the large commercial balance the EU has in its trade with the UK, not to make life too easy in this process."

On top of this, the UK has its internal difficulties in terms of integrity. The Scottish National Party would like a second referendum on Scottish independence, citing the importance of the EU to Scotland and the Scots' majority vote in favour of EU membership.

However, Lawson pointed out there were a few fallacies in that line of thinking. First, it is far from clear that, if there were a second referendum in Scotland, the "Yes" vote would win. In fact, recent polls have suggested a clear majority to remain part of the UK.

"Second, it is also misleading to suggest that if Scotland were to become independent, it could do so and become an EU member immediately. That would be a very tough sell for example for Spain to approve, because it precisely wants to oppose that argument in respect to Catalonia. If you can leave an EU member state the idea is you go to the back of the queue, you apply, you go through approvals, and you spend the following X years waiting to get that."

Unlike Scotland, Northern Ireland has not been discussed as much. Lawson believes this may be underestimated at the moment in terms of the impact on its economy, especially if there were tariff boundaries to what is currently an open border.

"In the event that the open border is taken away, we are looking at quite significant distortions in the Irish rural economy and we view that that would give new momentum to the Republican movement and especially its radical components. We see political threats in that, including the risk of a return to violence within the Irish economy as a whole and certainly more widespread calls for a referendum for Irish unification than we've heard so far. It's a low-key debate so far but it could well get worse."

For the EU as a whole, IHS believes the likelihood of other countries following suit is very limited. "When we look at some of the countries with at least elements of anti-European sentiments in their political make-up, we don't think that the core scenario in any one of those countries is that they will move to actual exit from the EU. We should also separate between migration concerns and anti-European concerns. Here in the UK we managed to combine the two, but in places such as Austria, the Netherlands and Germany, where there are right-wing parties, they tend to be more anti-migration than anti-Europe in the bigger sense."

'Ultimately there will be pressure on the EU to learn from this'

The country with possibly the greater risk is France. But it is a low risk, because the normal scenario in France is that, even if the National Front were to win the first round of the elections, all mainstream parties will then team up against them and they would lose the second round. "It's only if there were a real shock, such as a major terrorist assault between the first and second round of voting that somehow leads to a rogue result, that the National Front actually has a chance of winning. It's a remote one and we do see that very much as an unlikely scenario."

Lawson said: "Overall, we do not see the EU falling apart over this, in many ways it's actually a salutary lesson, but ultimately there will be pressure on the EU to learn from this and perhaps show greater flexibility in future cases of this sort." **SR**

BREXIT FORUM: WHAT NEXT FOR BUSINESS?

EU member relations crucial to Brexit outcome

Next year's elections in France and Germany will have a direct bearing on negotiation strategy

The changing dynamics of relationships between European Union member states will have a direct and significant bearing on the UK's Brexit negotiations.

This was the key message from the Political Risk workshop at the Brexit Forum, which examined some of the potential issues that are likely to arise in Europe as a result of referendum.

Stopping other countries from following the UK's lead and holding their own EU exit polls was fundamental, according to the discussion.

There is also a clear division between nations wanting to give the UK a hard time such as France; and others, like Germany, which would offer some leeway.

The position of both countries was subject to change but not before their respective elections are held next year.

Germany is considered less of a risk factor in terms of election outcome than France where the centre-right party looks likely to win and unlikely to give the UK an easy ride.

Indeed, the election of Nicolas Sarkozy as president will toughen the French outlook further – Sarkozy indicating already that he will make things particularly difficult around Brexit.

Italy also faces a period of political change – exacerbated by its difficult economic situation.

Meanwhile, the picture is complicated further by Poland, Hungary, Slovakia and the Czech Republic which are rebelling against what both Germany and the European Commission want to do with the EU.

"We are seeing a lot of fault lines and potential changes within and among these important players in the European Union," workshop delegates heard. "This is having a major impact on how these negotiations might go. The nature, timing and the final outcome of what will be the new deal between the UK and the EU very much depends on how things develop across the Continent and not just how things develop over here."

While all the current talk might be about Brexit, the French and German national elections will continue to take precedence and it is "pretty clear now that no substantial negotiations will take place before the German elections, even if Article 50 is triggered before then."

Similarly, no politician is "going to make a radical change of policy within the EU prior to the round of elections – certainly no-one in France or Germany".

This then adds a further layer of complexity. "It seems likely that it could take up to five years until we have some sort of outcome, by which time we will have had a general election in the UK."

Taken together, all of this means "there are a lot of scenarios that may or may not happen which also make it difficult to forecast what the final deal will be".

To a certain degree, the outcome of the elections in France and Germany might make little difference to the thinking of EU member countries as "we are going to see that divergence anyway. It doesn't really matter who wins the elections… this division has already started."

These faultlines, as the divisions were referred to at the workshop, already existed but member states were trying to keep disagreements under control because of Brexit.

"The French and the Italians want to loosen the fiscal rules in the European Union, the Germans are against that so already there is quite a lot of conflict on that side," attendees heard. "But at the same time they need to be very careful not to be too open about these issues at the moment because they want to be seen as the united core of the European Union."

However, now the UK is leaving, "there will be a lot of power shifts within the European Union as well". **SR**

WORKSHOP ROUND UP

Brexit supply chain risk

Companies are urged to identify what the risks are in their supply chain, now that the UK has voted to leave the EU. However, several roundtable participants pointed out that this isn't always possible for businesses which are in long-term contracts with their suppliers.

The devaluation of sterling following the Brexit vote could lead to an increase in costs for UK companies with suppliers in the European Union. This may lead to companies using more UK suppliers in future. This could particularly be the case for semi-governmental organisations, which could be forced to use UK suppliers, if the Government wants to boost UK industry to limit the Brexit fallout on the economy.

Risk managers also expressed concerns on their ability to get the right staff, if Brexit leads to a curb on the free movement of people.

Brexit scenario planning

It is hard to plan for Brexit when there is so much uncertainty around what Brexit Britain will look like. This was the consensus around the table during the discussion on scenario planning.

When asked if triggering Article 50 would represent a crisis, the risk managers agreed that this would depend on what the Government's plans were and what they divulged about these plans. Gareth Jones, crisis management and business continuity consultant at Crisis Interface, explained that, if companies could identify their key uncertainties, they could then bring in task forces to reduce these.

However, one delegate said that there were many other risks out there that might be more pressing than Brexit at the moment.

Business continuity crucial to Brexit strategy

The precise terms of the UK's departures from the European Union have yet to be agreed but that should not stop risk professionals developing a Brexit BC strategy

The implications of the UK's referendum decision to leave the European Union are widespread and profound.

Risk managers and their businesses must try to plot safe passage through what are very much unchartered waters, according to John Robinson, managing director of business continuity consultancy Inoni.

In a special business continuity workshop, Robinson outlined some of the key issues raised by Brexit.

"Business continuity," said Robinson, was an issue "in danger of being overlooked" with the focus of many companies perhaps directed elsewhere in the wake of the Brexit vote.

"I don't think [after Brexit] many companies immediately turned to their business continuity managers and said 'we have a crisis - we have a big disruption, now get us out of this'. I don't think they will put it on the business continuity radar unless they can see there is a clear reason for doing so."

There is no precedent for Brexit, so developing an effective business continuity plan is challenging.

"Root-cause analysis is important," Robinson said. "You have this underlying macro cause of uncertainty in terms of we don't know what is coming but as soon as we do then we need to know what the likely effect will be of this.

"People need to be ready and to anticipate the type of change that is coming and then be able to think through why and how it will affect them – and to be ready for those things.

"It might be that there are actually four or five possible outcomes from Brexit but even so to have thought it through gives you the mental machinery to be able to deal with it more decisively, rather than thinking 'what do we do now?'"

While the consequences of Brexit may be complicated, it is important to not overthink the outcomes.

"It needs to be a lightweight approach," Robinson said, "it cannot be a massive, complicated number-crunching thing.

"It just needs to be a set of steps, something that an executive board or some directors can sit around a table and go 'ok – we can see this has happened, we can see what has gone on in the past and we know where we are now. We have a pretty good view of what is coming and we know there is a certain lag built into it and this is how we are going to deal with it. This is what we think is going to happen.

"It is important also to keep this process simple because it is going to be repeated a number of times.

"I believe there is a lot that can be brought to the table such as the approaches that have been offered through ISO standards and practice guidelines along with the experience of people in business continuity.

> **'You need a system to understand what is going on'**

"The reason I think they will become useful is because I don't believe that we will have a single clean announcement about exactly how Brexit will be. It is almost impossible to envisage it because of the nature of the negotiations.

"It will be a lot of bits coming out and it will be knocked around and we will change direction so many times in the coming few years. If it is only two years I will be pleasantly surprised – I think five years is much more likely.

"You need to consider Brexit from the perspective of a divorce analogy. There will be companies whose entire business is with Europe and a hostile divorce would shut them."

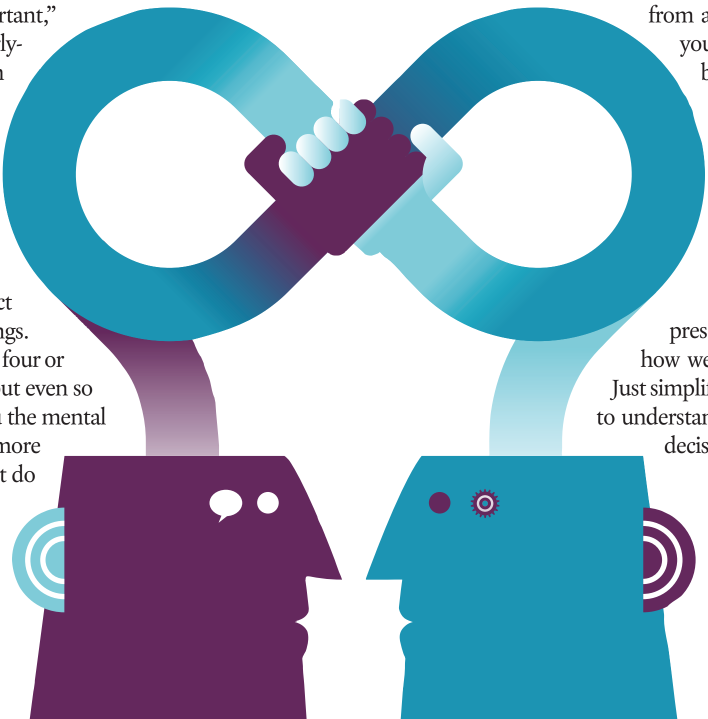
Robinson outlined how risk managers could make the businesses for which they worked more resilient to the risks posed by Brexit.

"Understand where your business is within the trading network," he said. "Have a good view of your place in the overall economy and especially in the UK economy.

"Make sure you know where everything comes from and where it goes to and see where you are going to get hit because it won't be the same as for everybody else. Don't expect it to be the same for everyone.

"Brexit may prove too complex to reason about and communicate but it does need a system so that you can understand what is going on.

"You need a picture that you can present to the board that says – this is how we are going, this is what is coming. Just simplify and clarify so that everyone is able to understand and then you won't see any rash decisions made." **SR**



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