'Brexit' leaps to top of enterprise risk management concerns

By Sarah Veysey

Risk managers must help their organizations assess the effect of Britain's vote to leave the European Union on their business, according to Airmic Ltd., the U.K. risk management association.

London-based Airmic said “the risks associated with 'Brexit' must now feature on the principal risks for most organizations.”

“A priority for organizations today is the creation or refinement of internal and external Brexit communication plans and the clear allocation of responsibilities for managing these,” Airmic said in a statement.

“As with any risk that might affect the whole organization, Brexit is an enterprise risk and must be broken down by considering different areas of the business and the relevant risks including people, sales, regulation, law, finance, information, technology and insurance,” Julia Graham, technical director at Airmic, said in the statement.

In the wake of the June 23 referendum result, in which 52% of the electorate voted for the U.K. to leave the E.U., business organizations called for stability and clarity to help companies determine their next steps.

The Confederation of British Industry described the vote as a “momentous turning point” in the country's history.

“Many businesses will be concerned and need time to assess the implications,” Carolyn Fairbairn, director general of the London-based CBI, said in a statement.

“But they are used to dealing with challenge and change, and we should be confident they will adapt,” she said.

“The urgent priority now is to reassure the markets. We need strong and calm leadership from the government, working with the Bank of England, to shore up confidence and stability in the economy,” she said.

Mike Cherry, national chairman of the Blackpool, England-based Federation of Small Businesses, called for clarity on what the decision would mean, “including how businesses will have access to the single market and the free movement of people and trade.”

The U.K. government has yet to trigger Article 50 of the Treaty of Lisbon, which came into force in 2009 and will formally begin U.K.'s withdrawal from the E.U.

And the implications of the exit on the insurance industry remain unclear.

It will likely be some time before the relationship between the U.K. insurance industry and the E.U. becomes clear, said James Bateson, global head of financial institutions at law firm Norton Rose Fulbright L.L.P. in London.

It is likely, however, that the U.K. will obtain equivalence with Solvency II — the risk-based capital regulatory regime that came into force for insurers and reinsurers in the E.U. in January — Mr. Bateson said.

The “elephant in the room,” he said, is the future of U.K. insurers' ability to passport — to trade throughout the E.U. without needing to obtain licenses in E.U. countries — after the U.K. leaves the E.U.

“That is the big unknown and will need to be negotiated,” he said.