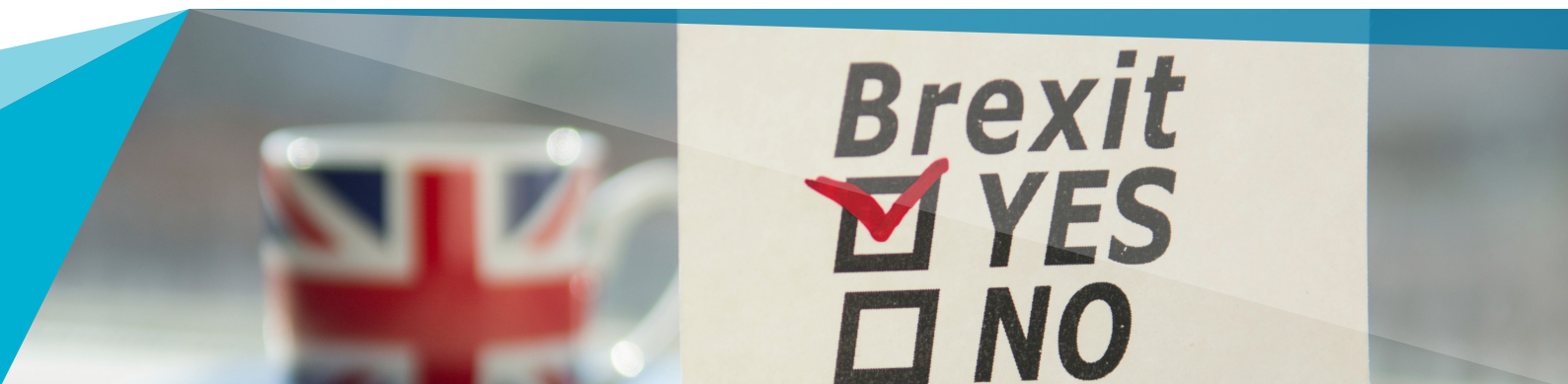


PRACTICAL RISK MANAGEMENT GUIDANCE FOLLOWING THE UK VOTE TO LEAVE THE EU



The UK's vote to leave the EU has created uncertainty as to the future trading environment and economic conditions. What can you do to protect your business?

We believe that, by applying risk management techniques, businesses can build resilience to help them trade through this period of uncertainty and look for new opportunities that may emerge. This paper sets out our thoughts in the key areas of:

- Corporate strategy and scenario planning.
- Risk register reviews.
- Insurance and risk financing.
- Supply chain dependencies.
- Customer relationships.
- Workforce issues.

RE-EXAMINE YOUR CORPORATE STRATEGY USING SCENARIO PLANNING

Prior to the referendum taking place, the UK Government issued a paper outlining the possible scenarios that could come to pass in terms of the future relationship between the UK and the EU.*

We suggest you review these scenarios and look in detail at the possible impact of each on your business. You can do this using scenario planning – a technique that can help you to formulate flexible long-term plans – which combines known facts with alternative variables and looks at the potential impact of each scenario. Once you understand these impacts, you can evaluate your options.

This may include:

- Identifying new opportunities.
- Addressing newly-identified threats.
- Reviewing your business continuity management plans.

REVIEW YOUR RISK REGISTER

Volatility and uncertainty can change areas and levels of risk rapidly and you may now be exposed to significant risks that were previously not of concern. For these reasons we strongly recommend you review the range of risks to which you are exposed, their potential impact, and your control and mitigation strategies.

MONITOR YOUR INSURANCE AND RISK FINANCING PROGRAMME

Our earlier paper, titled *Insurance implications following the UK vote to leave the EU*, explored potential Freedom of Services and passporting issues and their impact on the structure of the insurance market. These issues are likely to take some time to resolve.

In the meantime, there are some practical steps you can take. As economic and trading conditions change, and informed by the review of your risk register (as suggested above), we recommend you review how much risk you retain and how much insurance you buy.

At a tactical level, keep an eye on your sums insured – if your insurance cover is written in the UK, claims payments will usually be made in sterling, yet some of the items you insure may be based in, or sourced from, overseas. In such cases, it is important to monitor the impact of fluctuations in the value of the pound which may mean your sum insured is no longer sufficient to cover the cost of replacement.

UNDERSTAND YOUR SUPPLY CHAIN

With the on-going uncertainty as to what the eventual trading rules will be, we recommend you ensure you understand where you have exposure to suppliers based in the EU. (These may be at secondary or lower level and therefore not immediately obvious to you.) Ask yourself: What is the importance of each to your business? Are you vulnerable to a single source of dependency?

Supply chain mapping can help you to understand where you might be vulnerable to any changes to trading agreements. By taking early action to understand your exposure, you have time to change your supply strategy, identify alternative suppliers, and build resilience to this risk.

ANALYSE CUSTOMER RELATIONSHIPS

In the short-term, a weak pound may make it easier for you to export and compete in overseas markets. In the longer term, potential changes to trading relationships may reduce competition in the UK market from EU companies and enable you to seize opportunities for domestic growth.

On the downside, the current uncertainty may engender a panic response by customers, resulting in them putting off purchasing decisions or entering into new supply contracts.

IDENTIFY WORKFORCE ISSUES

Negotiations will now determine the circumstances under which:

- EU citizens will be able to enter and work in the UK.
- EU citizens already in the UK will be able to continue in their current roles.
- UK citizens already in the EU will be able to continue in their existing roles.

We recommend you prepare for this by identifying how many EU (non UK) citizens you employ, and which are in critical roles. Similarly, do the same for any UK citizens employed in operations you have elsewhere in the EU. Understanding the extent of the problem is the first step to mitigating it. There is likely to be time to respond and to set in place a policy with regard to affected employees.

HOW MARSH CAN HELP

Marsh has risk management experts who can run scenario planning exercises with you, help you to carry out a board-level review of your risk register, review your business continuity and crisis management plans, and help you map your supply chain. Our risk finance experts can model the financial impact of alternative risk scenarios, and support analytics-based decision making. Your usual Marsh contact will help you work through the impact on your insurance programme.

CONTACT US

For help with any of the issues profiled in this document, please contact your usual Marsh representative, or email national.enquiries@marsh.com

* *Alternatives to membership: possible models for the United Kingdom outside the European Union*, HM Government, March, 2016, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504661/Alternatives_to_membership_possible_models_for_the_UK_outside_the_EU_Accessible.pdf.