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CI COMMERCIAL INSURANCE PROFILE

DID YOU KNOW?

The Business Confidence Monitor (BCM) of the Institute of Chartered Accountants in England and Wales, which ranges from -100 to 100, plunged to -38 almost immediately after Britain's decision to leave the EU. Yet, in the months since the vote, the BCM has begun its gradual ascent back to its pre-Brexit level, 0.8. Industry experts are predicting that the BCM will be bolstered by the Bank of England's proposed new stimulus package.

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4 Things You Need to Know About the BoE's Stimulus Package

Brexit has had a swift and dynamic effect on the UK economy—constricting growth and driving down the value of the pound to a 30-year low. In response, many economists predicted that Britain would inevitably slide into a recession by the end of 2017. In order to prevent an impending recession, the Bank of England (BoE) recently introduced a stimulus package.

The BoE's stimulus package is comprised of four key parts:

1. Cut official interest rates from 0.5 to 0.25 per cent—the first cut since 2009 and the lowest level in the bank's 322-year history.
2. Introduce £60 billion in electronic cash into the economy in order to buy government bonds, which should extend the existing quantitative easing programme to £435 billion.
3. Add an additional £10 billion in electronic cash to buy corporate bonds from firms making material contributions to the economy.
4. Institute the term-funding scheme, which will provide as much as £100 billion in new funding in order to provide loans to banks to help them pass on the base rate cut to the rest of the UK economy.

These changes may drive down the value of the pound in the short term, but economists are predicting that it should have a beneficial long-term effect. This is reassuring, as business confidence has dropped to a four-year low—registering a negative value for the entire quarter for the first time since 2012, according to the Institute of Chartered Accountants in England and Wales. And, the consumer confidence index dropped 11 points in July, the sharpest month-by-month drop in more than 26 years, according to GFK, a market research company. Similarly, Ernst and Young estimates that overall, UK business loans will contract 1.8 per cent in 2017 and another 1 per cent in 2018 before recovering in 2019.

Yet, amidst this gloom, there are still reasons for UK businesses to be optimistic about the future of the economy. Consumer spending and tourism are up due to the holiday season and the weakened pound.

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The Threat of a Recession Looms Large

While the long-term repercussions of Brexit are still uncertain, the more immediate effects are quite clear—Britain may be headed toward a recession.

In fact, according to a recent report from the National Institute of Economic and Social Research (NIESR), there is a 50 per cent chance that Britain will slide into a recession by the end of 2017. NIESR's prediction is based upon its estimate that the UK economy will grow only by 1.7 per cent in 2016 and just 1 per cent in 2017.

If the NIESR's forecast does prove to be correct, the economic repercussions could be severe. Inflation is already expected to increase to more than 3 per cent, which, when coupled with the weakened value of the pound, would raise the cost of imports. This situation may then effectively force the government to have to borrow an additional £47 billion over the course of the next four years in order to help sustain the UK economy.

Yet, UK businesses should remain optimistic, as economic forecasts can change just as suddenly as weather forecasts. Two days after the NIESR published its report, the BoE announced a stimulus package to prevent the potential of a recession. The most significant component of the stimulus package is the reduction of interest rates to 0.25 per cent. This is expected to help bolster economic growth and overturn the current shaky economic forecast.

While it is too soon to tell if the BoE's stimulus package will be enough to offset the economic repercussions from Brexit, the forthcoming forecast should be more favourable.

Cyber Security is not a Priority for a Majority of Businesses

According to a quarterly survey from the merchant banking group, Close Brothers, 63 per cent of UK companies have chosen not to invest in better cyber security over the next 12 months, despite the fact that nearly that same amount is concerned about being victims of cyber crime. The decision to forego cyber defences is especially surprising considering that 24 per cent of UK companies have experienced at least one cyber security breach since May 2015, according to government data.

On average, a single cyber security breach can cost a company between £1,860 and £36,500, according to the most recent government research. However, that amount does not include the cost of business disruptions, lost sales, recovery of assets, and fines and compensation. So, when tallied up, the final cost can be between £75,000 and £3.14 million.

Yet, the financial cost of a cyber security breach is not the only reason why a company should invest in a more robust security programme. If UK companies want to continue doing business with continental Europe, they will have to comply with the EU's General Data Protection Regulations (GDPR)—regardless of how Brexit negotiations go. While the GDPR will not come into force until 25th May 2018, your company should nevertheless begin implementing the regulations now. To help, the Information Commissioner's Office (ICO) has released 12 steps to help your company adopt the GDPR, which can be found at https://ico.org.uk/media/1624219/preparing-for-the-gdpr-12-steps.pdf.

In addition, to strengthen your company's cyber security, here are four general best practices:

1. Provide annual cyber security training for your entire staff—from interns all the way up to directors and officers.
2. Remain up to date on cyber security trends, which should include both new cyber security threats and cyber defence software.
3. Install anti-virus, spyware and malware detection software on all company computers as well as employees' mobile devices.
4. Develop a written incident response plan, which should include what the procedure is in the event of a cyber security breach.

Source: Department for Culture, Media and Sport