# NEWS BRIEF

Presented by **Crendon Insurance Brokers Ltd**

# An EU Referendum Update for Businesses

As the government's 23rd June referendum to decide whether the United Kingdom will remain in the EU looms closer, the outcome still remains uncertain.

Until recently, polling has generally favoured the United Kingdom remaining in the EU, but the margins are so tight that most experts agree it will be too close to call—with the still-undecided voters likely to determine the result. However, multiple sources have recently reported a slight swing towards the 'Leave' camp. A 3rd June YouGov poll found 45 per cent favour leaving, while 41 per cent favour staying. A 5th June Opinium poll found 43 per cent want to leave and 40 per cent want to stay. And a 6th June ICM poll found 48 to 43 per cent in favour of leaving.

A Brexit outcome would usher in a minimum two-year period during which the United Kingdom would slowly disentangle itself from the EU and negotiate a complex withdrawal agreement. Whatever the outcome on 23rd June, proactive UK employers would do well to understand what Brexit would look like, the general pros and cons, and how they can prepare their businesses for leaving the EU.

**What Would Brexit Look Like?**

While divisive topics such as Europe's influx of migrants and the intractable euro crisis have galvanised anti-EU sentiment, Brexit would not be a cure-all. Indeed, Brexit could take many forms, including but not limited to the following models:

- **The Norwegian Model:** Norway is a member of the European Economic Area (EEA), but not the EU. This grants the country access to the European Single Market in exchange for requiring Norway to adopt most EU standards and regulations with no influence over changing them. Despite not having voting rights, Norway still contributes to the EU budget—it is the tenth-highest contributor according to the Guardian, although the organisation 'Mission of Norway to the European Union' maintains that 'it is not possible to compare net payments between those of an EU Member State and those of a Non-Member State'.

- **The Swiss Model:** Switzerland is neither a member of the EEA nor the EU. It negotiates access to the Single Market sector by sector and has about 120 bilateral agreements with the EU. These negotiations took years to complete, and may be difficult to replicate as they are a complex, patchwork collection of agreements. Notably, Switzerland does not have unfettered cross-border access in financial services, which is a huge part of the UK economy. Financial and related professional services account for 11.8 per cent of UK gross domestic product (GDP), according to UK Trade & Investment. Switzerland cannot vote on EU regulations but must contribute to its budget.

- **The Canadian Model:** The Canadian model refers to the Comprehensive and Economic Trade Agreement (CETA) between Canada and the EU, which aims to eventually scrap 99 per cent of tariffs between the two parties and remove other barriers to business. The Canadian model would neither involve paying into the EU budget nor accepting free movement of people. However, such a model would not necessarily permit the continued 'passporting' of financial services, and thus might make it harder for UK-based financial services firms to sell in the EU.

**What Are the Pros and Cons for Businesses?**

Each Brexit model is complex and carries with it much uncertainty. However, Brexit's general pros and cons for businesses are more straightforward and less contingent on unknown circumstances:

**Cons:**

- Out of the EU, the United Kingdom will have less control over EU legislation that it may still have to apply if it wants access to the Single Market.

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- Companies may have to pay new taxes and customs costs as well as deal with slower administration processes for conducting business with suppliers in continental Europe.

- Companies may have difficulty hiring qualified employees from outside the United Kingdom to address the skills shortage, and employees who are non-British nationals may be required to obtain a visa or work permit in order to keep working in the United Kingdom.

- Other countries may be hesitant to invest in the United Kingdom until it is clear that the UK economy can be successful while independent of the EU, which could weaken the pound.

- Britain's trade relationship with the EU could sour if Brexit negotiations go poorly. This situation could be further exacerbated if the United Kingdom is unable to secure beneficial trade deals with other countries.

**Pros:**

- Leaving could return regulatory control to the United Kingdom in areas like health and safety and employment law.

- Companies could have fewer regulations governing how they can conduct business, which could spur serious growth.

- Unburdened by EU trade rules, the United Kingdom could negotiate better trade agreements with non-EU countries.

- A pound slightly weakened by Brexit could actually help manufacturers export their goods, since a strong pound is a main deterrent to overseas customers buying British goods.

- The government will either no longer contribute to the EU budget, or contribute less.

This list is not comprehensive and represents a general, non-industry-specific overview of the benefits and drawbacks of Brexit.

Certain industry bodies and polls have found more sector-specific support for staying. For instance, the Engineering Employers Federation and the majority of polled construction executives are in favour of remaining a part of the EU. However, the British Chambers of Commerce reported in May that more businesses are opting to leave as the vote draws near—54.1 per cent of businesspeople polled would vote to remain, down from 60 per cent in February. And 37 per cent would vote to leave, up from 30 per cent in the same February poll.

**How Can I Prepare My Business?**

Preparing your business for a possible Brexit is vital. If you have not started, you are not alone—April research from the Chartered Institute of Internal Auditors found that only 21 per cent of FTSE 250 companies had made or were currently making contingency plans for Brexit.

It is never too late to begin planning for Brexit. To assess the impact on your business, do the following:

- List out three scenarios for how your organisation will be affected by Brexit, based on the three models outlined in this News Brief. Pay particular attention to how those models will affect issues critical to your business (eg, reduced legislation, free movement of people, or the inability to 'passport' financial services).

- For each scenario, understand the main exposures your business faces and how they will change depending on the outcome.

- Focus on short-term effects—how will immediate market volatility and reduced economic growth affect your business?

- Ask yourself:
    - How much of my business is with the EU?
    - Will reduced EU funding impact my business?
    - Will Brexit halt my future plans for growth?
    - Will changing international trade regulations help or harm my business?
    - Will Brexit affect my workforce?
    - Do I need to send out internal communications ahead of Brexit?

- Search for any opportunities created by Brexit. The change is monumental, and a post-Brexit Britain may open up new avenues of growth.

**Uncertainty Is Inevitable**

But poor planning isn't. Rely on the insurance professionals at **Crendon Insurance Brokers Ltd** to help uncover and manage your risk—whatever the future has in store.

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