Insurance intermediary trade flows after Brexit

Scenarios for discussion
Introduction

Currently, there is significant uncertainty about the ability of brokers and insurers to place, underwrite and service European risk from the UK after Brexit. A prudent approach is to assume a no-deal scenario of a 'hard' Brexit and develop your contingency plans accordingly.

With added uncertainties brought by the new Insurance Distribution Directive (IDD) in relation to third-country intermediation, we expect that all brokers engaging with European customers will be impacted by Brexit, with the potential exception of those who engage purely in wholesale sub-broking activities. It is, therefore, critical that you undertake scenario analysis on your books of business to understand the operational and structural changes that may be required for your organisation post Brexit. You may ascertain that your business contains a mix of the following scenarios, in which case, early analysis of your EU book is essential to supporting decision-making on your post-Brexit structure.

We have developed a set of trade flows to illustrate how Brexit could impact the placement of EU (and wider EEA) risk in a no-deal scenario. These are illustrative only at this stage to help inform market debate and contingency planning. They include assumptions that will be developed over the coming months, and do not represent a formal EY opinion or advice.
Insurance intermediary trade flows after Brexit: scenarios for discussion

Scenario A
EU customer, via Lloyd’s

Lloyd’s has announced plans to establish ‘Lloyd’s Insurance Company’ (LIC) based in Brussels. LIC is intended to operate under a delegated authority model, with managing agents authorised to underwrite business via a London branch of LIC.

In the context of LIC and of the IDD, brokers are considering how their EU business may flow through Lloyd’s in the future. Our latest understanding is shown on this schematic:

1. Intermediaries need an EU company registered under IDD in order to have passporting access across the EU27.
2. It is possible that, even in a no-deal scenario, a UK branch of the EU broker could be used to access UK capabilities (people) and place business in the London Market.
3. A UK branch of the EU company might not be required, if ‘sub-broking’ by a UK broker would be permissible. This will be dependent on clarity over current uncertainties, in particular, the application of Article 16 of the IDD.
4. A UK service company could potentially provide the resource to the branch and/or company.

*Note: UK wholesale brokers may still be able to provide cross-border broking services to EU clients, where placement in the UK market is carried out at the initiative of the producing broker in the EU, with no services provided by the UK wholesale broker directly to the insured. The IDD makes no specific mention of such arrangements, and interpretation of its requirements, particularly in the insured’s home state, will be critical.

Scenario B
EU customer, non-Lloyd’s

Outside of Lloyd’s, the broking business model has a number of potential scenarios:

- Simple insurance remains a largely local business, thus in a simple scenario (1), we continue to expect EU customers to go directly to EU brokers, who, in turn, will place with EU insurers. Assuming loss of the freedom of service that comes with EU membership, this model would require brokers (and insurers) to set up or expand local presence in the EU.
- For more complex risks, the placement expertise currently within a London wholesale broker is likely to be required (3). The challenge is how to provide this expertise to an EU client. An EU company, registered as an intermediary (2), is likely to be required if this expertise and associated services are to be provided in the EU.
- Even in a no-deal scenario, a UK branch of this EU company would be able to access UK expertise (4). A service company could potentially provide resource to the branch and/or company.
- Insurance may then be placed with (5) EU insurers (via the EU broker) and reinsured to London, if required (6). There would likely be a role for brokers in the reinsurance placement.

Note: These business flows are illustrative only at this stage, to help inform market debate and contingency planning. They include assumptions that will be developed over the coming months, and do not represent a formal EY opinion or advice.
Scenario C

Multinational customer, EU insurer

A multinational customer will likely require insurance to be placed across multiple jurisdictions, including the EU.

Generally, this requires brokers to have a footprint across the globe, with co-broking arrangements set up to place the various elements of the insurance. Historically, a UK broker could place and service multinational business cross-border, to and within the EU. Logistically this still might be co-brokered with European firms. Post Brexit, intermediaries should plan for the scenario that they will need to have an EU company registered as an intermediary under IDD (1), as they are providing services and expertise to a client in the EU. Depending on the outcome of negotiations, this EU company might require a UK branch (2). A service company could potentially provide resource to the branch and/or company (3). In practice, placement of risk may be a combination of Lloyd’s and the company market. The placement via the Lloyd’s market could follow scenario A.

How EY can help

Our teams include professionals with deep knowledge in the key capabilities required for Brexit planning, including regulatory authorisation, and the associated tax, capital, operational and people considerations.

We have developed and use a Brexit methodology for firms with inbound and outbound passports and insurance brokers. This includes the required capabilities to design and provide a Brexit contingency plan and the tools that help accelerate our clients’ thinking and activity, including scenario analysis, location analysis and key operating model components for European subsidiaries.

Next steps

Contact a member of the EY team to discuss how they can support you with your Brexit challenges.

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