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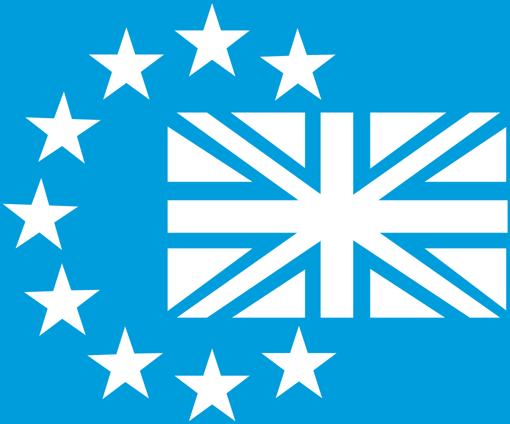
# Tricky Matters

## *Brexit*



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# Contents

# Introduction

With the date for the UK's departure from the EU getting closer, but the manner of our exit still unclear, we have decided to put together this booklet highlighting some potential technical insurance pitfalls surrounding Brexit.

The issues highlighted here capture some of the questions which we have been asked about over the last few months as well as some issues we think could arise.

For a more technical discussion about any of issues raised please feel free to call me and I will put in touch with the appropriate Sedgwick expert.

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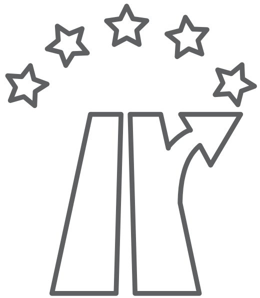
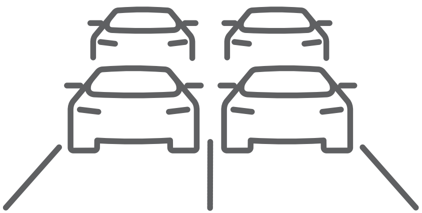
# Trigger for cover

Brexit, of itself, is not an insured event. It is a deliberate path of action and therefore is not considered to be fortuitous.



## Competent authority

It is conceivable that traffic restrictions may be necessary to alleviate severe road congestion at ports, (non damage) denial of access, however, is likely to only respond to activity in the vicinity (likely undefined), and policies may require the police to be responding to  a disturbance/commotion.







## Stock sums insured

Stockpiling may be a commercial necessity. Ensuring that stock sums insured are increased to reflect this is also necessary. Bear in mind that if stock is damaged immediately pre-Brexit, and costs to replace it post-Brexit are higher, the sums insured may be inadequate.

## Premises

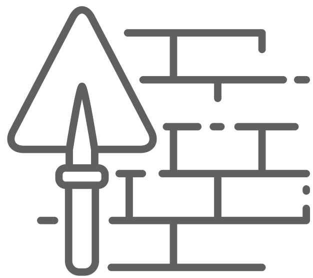
The core business interruption cover is triggered by Damage at the premises. If critical stock at third party locations is destroyed, any extension to stock cover will not trigger business interruption cover (subject to extensions).



## Maximum indemnity period (MIP)

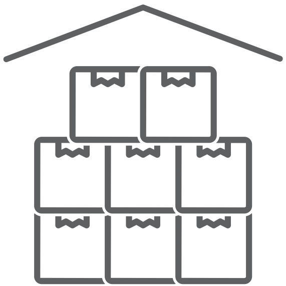
Physical and legislative delays might result from Brexit - these are yet more reasons why 12 month Maximum Indemnity Periods are likely to be too short.

Potential shortages in building materials and expertise may also cause delay.



## Suppliers’ extensions

Third party warehouses might constitute ‘suppliers’ for the purpose of BI extensions, but the definition of ‘supplier’ would need to include services (as well as goods), and a supplier should be named if particularly significant.





## Stock throughput

In respect of finished goods, settlement in many stock throughput covers is based on selling price. Bear in mind that is only going to help with the loss of turnover for the product affected, not any general turnover loss. It is therefore not a substitute for appropriate business interruption cover.

## Additional increase in cost of working (AICW)

Uncertainty about, and demonstrating whether, costs are economic can undermine mitigation plans. Additional cost necessitated by Brexit, such as the need to stockpile post loss, to buy (or increase the level of) AICW cover make it sensible.

Additional Increase in Cost of Working cover alleviates the need to evidence that costs are economic and takes away one element of stress that is otherwise there for the policyholder.

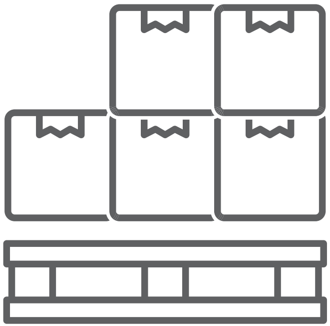


## Third party warehouses

Third party warehousemen may reserve the right to move customer stock between supplier locations. If proximity/speed is key, such contracts should be carefully reviewed in advance to ensure that stock remains as accessible as the insured assumes it is.

## Stock storage

Policies may require stock to be stored in a particular way (on stillages for example). The need for third party warehouses used for stockpiling to also observe any requirements should be considered.





## Additional duty post-Brexit

After the United Kingdom leaves the EU, duties may be due on replacement purchases of damaged machinery and stock. Sums insured are unlikely to anticipate this. A separate cover, subject to a limit (like AICW) for additional duty due may be advisable.

## Adequacy of BI declarations

Financial year end may coincide with a non-recurring, Brexit driven, increase in stock piling. This can distort the rate of gross profit, and could produce inadvertent under declarations - basis periods for BI declarations need to be checked.

The imposition of WTO tariffs in the event of a no-deal could push gross profit in either direction.





## Fidelity guarantee

Employee theft is sometimes facilitated by significant changes in asset levels or new accounting procedures, both of which might accompany Brexit. Financial hardship suffered by employees might provide a motive. Fidelity guarantee cover could be a sensible purchase (or at least obtaining a quote for that). Brokers might want to provide quotes for cover (even to a reluctant client) to avoid any subsequent misunderstanding.

## Sales distortions

Customer stockpiling can distort trends, and Brexit might pull turnover from beyond the maximum indemnity period into it (or the opposite).

The ‘other circumstances’ clause, which is not optional, may require careful application.

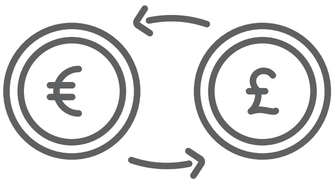


## Indirect tax

When the United Kingdom leaves the EU, currently recoverable tax on replacement of damaged assets might become irrecoverable.  This could have serious implications for the adequacy of sums insured.  A separate cover, subject to a limit for irrecoverable tax might be an option to consider (as with duty due, observed elsewhere in this booklet).

## Asset sums insured

A fall in the value of Sterling has been a consequence of the build up to Brexit. The cost of plant and machinery purchased from Europe has therefore increased. The adequacy of sums insured needs to be revisited if this has not been done recently.



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