BREXIT – How should captive owners respond?

In the first few days following the decision of the United Kingdom (“UK”) to withdraw from the European Union (“EU”), we have seen upheaval in both political and financial markets as the initial impact of this momentous decision begins to take effect. However, it is unlikely that the full ramifications of the decision to withdraw will be seen for some time, and certainly not until formal negotiations begin on the exit process and the UK’s future trading relationships.

Despite pressure from some members of the European Commission to accelerate an early formal declaration of the UK’s intent to leave the EU, the Prime Minister has made clear that the Government will not activate Article 50 until a new Prime Minister is elected in advance of the Conservative Party Conference in the autumn. The initiation of Article 50 will then trigger a two year timeframe for the UK departure to take effect. For the time being, it looks like ‘business as usual’ and despite the uncertain climate, no immediate and significant impact on any current business arrangements is expected.

From a captive perspective, the greatest concern will focus on the continuation, or otherwise, of current ‘passporting’ rights, which enable EU-domiciled insurers to write business directly into other EU territories. Gibraltar is likely to be most affected amongst captive domiciles. As a British Overseas Territory it is embroiled in the UK’s decision to withdraw, a position which is likely to create a period of significant uncertainty and debate, certainly until negotiations commence.

However, it must be emphasised that, at the current time, nothing has changed and Gibraltar-based captives continue to retain the capacity to provide direct insurance to EU-based policyholders. Whether that position changes in future remains to be seen but, for the moment, captive owners need take no immediate action.

As one of the world’s largest providers of captive management and consultancy services, Willis Towers Watson will continue to closely and actively monitor developments. With our ability to deliver integrated expertise and solutions, the Global Captive Practice will provide ongoing advice and support to impacted clients. Further details of our views on continuing developments can also be found at www.willistowerswatson.com.
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