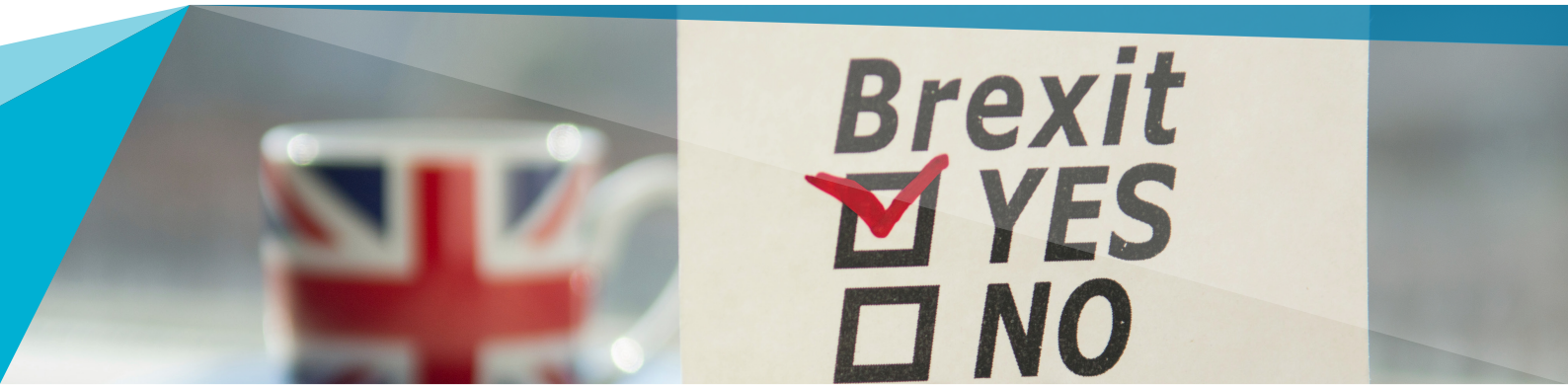


## THE UK RETAIL INDUSTRY AND LIFE AFTER BREXIT – WHERE TO NEXT?



The UK's vote to leave the European Union (EU) could have far-reaching impacts for the UK retail industry. While recent data has shown that the impact of the UK's decision to leave the European Union (EU) to the UK retail industry has been more moderate than expected<sup>1</sup>, it has come at a time when many retailers are trading on slim profits and declining sales as they get to know the new breed of consumer.

### WHAT ARE THE CHALLENGES AND OPPORTUNITIES AHEAD?

Any change to our relationship with the EU has the potential to undo some of the efficiencies gained from the "four freedoms"<sup>2</sup> (that is, the freedom of movement of goods, the freedom of movement of workers, the freedom to provide services, and the free movement of capital) and create a new set of challenges in the longer-term.

**Trade:** For UK-based online retailers, this could be viewed as an opportunity, as they may be able to sell more goods abroad priced in sterling now that their prices may be cheaper than those of overseas rivals. In the longer term, however, they may face EU controls over sales to EU countries. This will be dependent upon the renegotiation of trade agreements, the tariffs put in place, and the product type. Many larger ecommerce companies may look to create a base within the EU in order to sell their products there.

**Imports:** A complete departure from the EU could lead to imports from the EU being more expensive and delivery times extended. The scale of increase would vary from product to product, but over time customs duties could come down.

**Supply chain:** Retailers will need to reassess their supply chains and sourcing agreements with distribution and logistics agreements, adding an additional layer of complexity. Leaving the EU could also mean that retailers can buy in the cheapest markets, since tariffs that the UK imposes on imports coming from outside of the EU may be lower than those currently in place in the EU. Analysing what this new freedom will mean will be essential to remain competitive.

**Labour costs:** Although Brexit will not eliminate migration to the UK, it is possible that finding workers from abroad for unskilled manual posts (such as in distribution and logistics) may become more difficult. With EU migrants the major source of labour for retailers, any restriction on freedom of movement could result in a restricted labour pool, which would in turn increase the cost of labour.

**Standards:** The UK will not be completely free of EU regulation because any products sold to EU countries will have to conform to its product standards, and general policies will have to be observed by UK companies in order to avoid problems when trading with the EU.

## PREPARING FOR A CHANGING RISK LANDSCAPE

The UK's decision to leave the EU could cause key aspects of an insurance buyer's business or planned transactions to change, resulting in a possible material change to the buyer's risk profile. Retailers should consider a risk analysis in order to:

- **Understand the potential impact on your insurance programme:** The right of insurers and brokers to passport (that is, to carry out business in other countries from a single country licence) into the European Economic Area (EEA) could be restricted following the transition period. Keep abreast of any changes with your insurer and its operating situation.
- **Review business interruption values:** Review business interruption values to determine if the changes to your risk profile still reflect the values declared. Neglecting to address this could compromise coverage.

- **Understanding your supply chain:** Re-evaluate the potential profit exposures and mitigation actions to help reduce the impact from a possible disruption in the supply chain. Any change to existing arrangements could involve higher costs and longer lead times.

Engage early with your insurance and risk adviser to understand your exposures in relation to the changing risk landscape and possible transition outcomes. Marsh will continue to work with the retail industry and insurers to further understand what Brexit will mean, and will issue supplementary guidance as the situation evolves.

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<sup>1</sup> Reuters, 'UK retailers see best sales in six months as Brexit slump fades - CBI', available at <http://uk.reuters.com/article/uk-britain-economy-idUKKCN1100Z8>, accessed on 19 September 2016.

<sup>2</sup> European Policy Centre, 'The Four Freedoms', available at <http://www.europeanpolicy.org/en/european-policies/single-market.html>, accessed on 19 September 2016.



The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

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