



# Willis

## WILLIS U.K. RETAIL PRACTICE

# RETAIL INSIGHT

# EMERGING RISKS AND MARKET TRANSFER IMPLICATIONS

**Retailers have always had to evolve to survive and today's economic, social and political environment is as challenging as ever. The retail sector has shown resilience in the face of the economic crisis and despite the likelihood of slow growth in the near future, there are green shoots of recovery on the horizon.**

However, tough competition in all sub-sectors, corporate social responsibility and environmental demands, the continuing pressure of new regulation and international political instability make the retail sector challenging to navigate.

Technological advancements have increased exponentially in recent years and most retailers require a sophisticated omnichannel offering. With customer experience and convenience being top priorities there is a need for significant capital expenditure in IT and logistics infrastructure.

Future survival will depend on retailers managing risks that could significantly impact brand reputation while simultaneously leveraging their customer relationships.

“**TOUGH COMPETITION IN ALL SUB-SECTORS, CORPORATE SOCIAL RESPONSIBILITY AND ENVIRONMENTAL DEMANDS, THE CONTINUING PRESSURE OF NEW REGULATION AND INTERNATIONAL POLITICAL INSTABILITY MAKE THE RETAIL SECTOR CHALLENGING TO NAVIGATE.**”

# THE RETAIL RISK ENVIRONMENT



“FUTURE SURVIVAL WILL DEPEND ON RETAILERS MANAGING RISKS THAT COULD SIGNIFICANTLY IMPACT BRAND REPUTATION WHILE SIMULTANEOUSLY LEVERAGING THEIR CUSTOMER RELATIONSHIPS.”

## BRAND AND REPUTATIONAL DAMAGE

Controlling brand reputation is becoming more challenging. The speed with which damaging news can spread is faster, the audience it reaches broader, and the digital record it leaves stored for longer. The potential financial damage can be significant and it can take a long time to recover.

## DIGITAL THREATS

Social media, omnichannel and emerging technologies compel companies to rethink almost all aspects of the business and develop innovative ways to retain and increase their customer base. Retailers are becoming heavily dependent on their IT infrastructure and this poses new threats.

## GLOBAL INTERCONNECTIVITY OF THE SUPPLY CHAIN

Having a globally connected economy means that conditions around the world have a direct impact on the U.K. retail market. Supply chain disruption as a result of loss events or political instability in particular geographical locations can all affect costs, profitability and market position.

## SHIFTING CONSUMER BEHAVIOUR

The recent recession saw consumers cut back on impulsive shopping, increase their use of online comparison sites and shift to discounters. Retailers need to adapt to such changes as failure to respond can have serious financial consequences.

## REGULATION AND COMPLIANCE

New legislation, such as the Food Allergen Regulations, poses significant challenges. Failure to comply can result in financial and reputational damage.

## COST OF RAW MATERIALS

Most retailers operate to low margins so an increase in the cost of logistics or raw materials, such as oil, can have a marked effect on profitability. The scarcity of resources is of increasing global concern as controlling costs is difficult when demand exceeds supply.

## PENETRATION TO ACHIEVE CRITICAL MASS

Understanding emerging markets and new territories enough to penetrate them is critical for global growth strategies. In order to operate efficiently in such places, retailers need to achieve a critical mass in terms of stores and revenues – failure to do so can result in significant exposures.

# INSURANCE AND RISK MANAGEMENT CONSIDERATIONS

Insurance markets have traditionally been product rather than solution-driven. Although insurance responds effectively to tangible risks, such as property and liability, it should be combined with comprehensive risk management to address the complex strategic and operational risks faced by retailers today. Strategic risk management is essential in order for a retailer to make fully informed business decisions. Insight into, and analysis of, the exposures and opportunities faced within a retail business is essential in determining bespoke risk solutions; combining risk mitigation, transfer and retention. Some topical examples for retailers to consider are examined below.

## DIGITAL

IT now plays a critical and central role for retailers and is often considered the 'brains of the business'. Despite the emergence of digital threats such as Extortion, Loss of Data and Denial of Service attacks, cyber insurance is still very much in its infancy and although cover is evolving each year there is currently an overlap with a number of mainstream policies, such as crime and computer breakdown. Limited understanding of the potential impact such attacks can have on a business means that education in this area, for both retailers and the retail insurance market, is vital. Willis works with a number of retailers providing staff and management with training to enhance the understanding of this risk. In addition, we provide a cyber-assessment and subsequent accreditation for businesses that score 'green' for cyber security. This analysis is useful as it determines the greatest exposures, while providing advice on how to mitigate the impact of such risks through measures such as incident response and continuity planning.

## SUPPLY CHAIN AND LOGISTICS

While IT has become the 'brains of the business', logistics is the pulse. Slick operational management of the supply chain is essential for any successful retailer and disruptions can have serious financial consequences. The insurance market is fragmented in its approach to logistics risks and there is an abundance of insurance policies that cover certain aspects of the supply chain – with many overlapping, including: Marine Cargo, Political Violence, Supply Chain, Terrorism and Trade Disruption Insurance. Although there is not a 'one stop shop' cover to protect a retailer's logistics and supply chain, analysis of where exposures lie within the supply-chain can be extremely useful in determining the extent to which risk factors may affect your business. We work with retailers to carry out risk-mapping for both physical exposures in the supply chain and other factors, such as political instability and natural catastrophe in regions from which you may source goods. The results of such analysis often assist in strategic decision making and mitigation planning to minimise the impact of business interruption.

## WEATHER

There is hardly an annual report that does not mention the impact of the weather on revenues. Unusual (ash cloud), unseasonal (wet spring) or extremely harsh conditions (Christmas 2012) can cause delays in the transportation of goods and can also keep customers away from stores. Historically, weather risk derivatives worked on an indemnity basis and claims were notoriously difficult to adjust, however the new improved method includes a fixed sum payable if a certain event, or chain of events, occurs. Natural catastrophe modelling is beneficial in identifying and quantifying the impact of various natural disasters such as flood, hurricane, earthquake, and tsunami on business continuity. Willis carries out bespoke natural catastrophe analysis for retailers' own exposures and also exposures within their supply chain.

## PREVENTION OF ACCESS AND LOSS OF ATTRACTION

The Tottenham riots in 2011 culminated in millions of pounds being paid out by insurers and the police to businesses for their physical loss or damage, and many retailers were also compensated by their insurers for subsequent loss of profits due to business interruption. However, those who had not suffered any damage and were beyond the usual proximity boundaries of a Prevention of Access clause, such as the West end of London, were not able to claim despite their loss occurring as a direct result of the riots. Many retailers had not considered such a scenario but for those affected it had a huge impact and caused a significant loss of revenue. We work with retailers to analyse the broader impact such an event could have and assist in contingency planning to manage and minimise the impact of a large-scale interruption as effectively as possible.

## REGULATION AND COMPLIANCE

Staying informed and managing the impact of changing regulation is more important than ever for retailers in an increasingly litigious society. Health and safety regulations around areas such as slips and trips, food labelling, and fire safety are some of the most critical for retailers to manage. Willis educates retail staff on contemporary topics which affect operations and risk management decisions, for example, changes to food allergen labelling requirements, or revisions to the Primary Authority Scheme for fire safety. We also carry out risk audits of systems and processes, analyse claims data, and provide 'good practice' guidance. This combination of knowledge sharing and analytics enables us to work together to identify strategies to reduce incidents.





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## ABOUT US

Willis is one of the U.K.'s leading insurance and risk advisors. With 15 offices across the U.K. and over 400 worldwide, we have regional teams located close to our clients. We take time to get to know the needs of each business and industry to fully understand the unique set of risks each faces. We build tailored insurance and risk management programmes to support our clients with their business challenges.

The Willis U.K. Retail Practice has worked with customer-facing businesses for over 20 years and as a result we have a deep insight into the opportunities and challenges retailers face. Combining our sector experience with our risk management, claims and insurance placement expertise, our proficiency encompasses both traditional and emerging business exposures.

We work with all retail industry sub-sectors and have strong relationships with retail insurers allowing us to design, negotiate, select and implement bespoke insurance programmes for our retailers.

As part of a global broking organisation, the retail team is your connection to the wealth of expertise Willis has to offer. For businesses with international exposures our global resources will provide locally compliant services.

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