

Brexit

Travel and Leisure Industry

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U.K. TOURISM AND LEISURE: BREXIT – BOTH A BOON AND A THREAT FOR THE TRAVEL AND LEISURE INDUSTRY

The United Kingdom (U.K.) tourism and leisure industry is an essential component of Britain's services sector. Contributing 9 percent of the U.K. GDP and 4.9 percent of U.K.'s exports, tourism is one of the largest and most successful industries of the U.K.¹ Sectors constituting the U.K. tourism industry together generate GBP 130 Billion in revenue for the U.K. economy, GBP 25 Billion in export

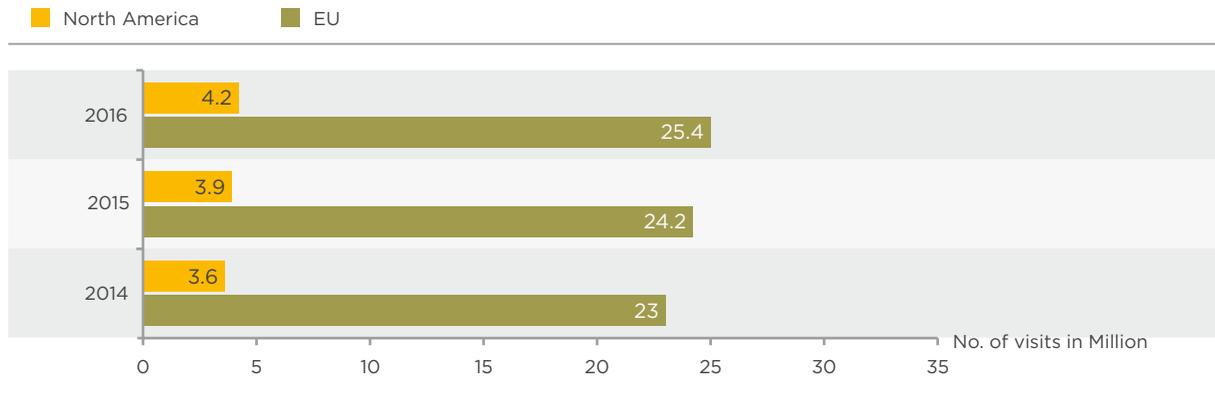
earnings and employ 3.1 Million people.² In the last decade, the industry has grown at a faster rate than most industries, generating additional employment at almost twice the rate of other industries.

Pivotal to the success of the U.K. tourism industry has been the tourism industry of the European Union (EU). The year 2016 saw approximately 25 Million trips (67

percent of total trips to the U.K.) by EU residents to the U.K and 53 Million visits (75 percent of the total visits by U.K. residents abroad) by U.K. residents to the EU.³ Inbound tourists from the EU contribute around GBP 12 Billion to the U.K. economy each year while outbound tourism to the EU has a share of an estimated GBP 22 Billion in the U.K. economy.⁴

Exhibit 1

Overseas Residents' Visits to the U.K.



Source: ONS Leisure and Tourism Statistics, August 2017

1. Tourism Alliance, Tourism after Brexit 2017.

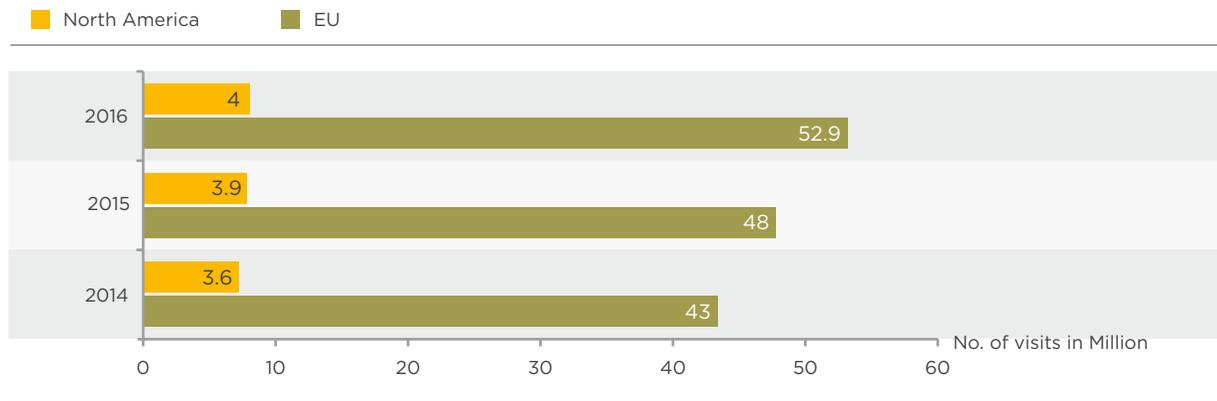
2. Ibid.

3. ONS Leisure and Tourism Statistics, Overseas and U.K. residents' visits by month, August 2017.

4. Tourism Alliance, Tourism after Brexit 2017.

Exhibit 2

U.K. Residents' Visits Abroad



Source: ONS Leisure and Tourism Statistics, August 2017

EU visitors to the U.K. were the largest in number in comparison to visitors from other countries, surpassing North America as well. EU was also the most frequented by U.K. residents in the last 3 years. This interdependence between the two regions has been made

possible by the harmonization of the single market which facilitates free movement of people across the EU-U.K. borders. Within this framework of a single market exist a number of regulations that govern consumer protection issues relevant to leisure and business

travelers and migrant workers from both the regions. The Brexit referendum of 2016 and subsequent inconclusive round of talks between the leaders of these regions have rung alarm bells for the U.K.'s very prized tourism and leisure industry.



FREEDOM OF MOVEMENT

Freedom of movement is the main tenet behind the existence of this strong bilateral relationship between the tourism industry of the two regions. While the U.K. maintains passport controls and is outside of the border-free Schengen area, U.K. consumers are able to travel freely within Continental Europe. However, EU citizens have to undergo basic border checks at the time of entering the U.K., and vice-versa.

The future form of travel requirements is dependent on the

U.K.-EU partnership in the post-Brexit era. Booking spontaneous European and British holidays will be harder for the EU and U.K. citizens if visas are needed by citizens of both the regions to visit each other's territory. Depending on the process and the country in question, obtaining visas to travel within the EU can take up to a month. Possible dissolution of the Schengen agreement implies that U.K. passport holders will have to apply online to be able to visit the EU.

ROAMING CHARGES

Another significant feature of the existing travel regulations between the EU and U.K. is the single digital market under which EU citizens travelling within the EU but outside their country of residence are not required to pay additional roaming charges. These rules are applicable when calling (to mobile and fixed phones), sending text messages (SMS) and using data services while abroad. EU citizens pay

exactly the same price for these services when travelling in the EU as they would in their home country. The law regulating these rules will cease to apply to the U.K. after Brexit, unless the U.K. government reaches an agreement with the EU on how these regulations could apply to U.K. citizens once the U.K. formally departs from the EU.

PASSENGER RIGHTS

Passenger rights is also a controversial subject that will need attention during the Brexit negotiations. Foremost amongst these is the EU Regulation 261/2004, which states that passengers are entitled to a compensation of up to 600 Euros if their flight has been excessively delayed (by 3 hours or more), cancelled or overbooked due to the airline's fault. The law applies to all EU passengers visiting an EU country outside of their home country. Whether U.K. residents will continue to exercise these rights after Brexit is dependent on the final agreement reached between the two regions.

A complete departure from the single market will mean an end of these rights and replacement by new domestic laws that will have to be created by the U.K. government. In case the U.K. continues to retain its membership of the single market and the European Economic Area (EEA), U.K. residents traveling to the EU will be able to make use of these passenger rights.

PACKAGE TRAVEL DIRECTIVE

A key regulation for consumer protection during travel in the EU is the Package Travel Directive (PTD). First introduced in 1990, it offers comprehensive protection to buyers of package travel services (not available to buyers of individual travel services), including making the retailer/organizer liable for satisfactory provision of all services offered as part of the package. The directive also helps to address consumer detriment in the travel market. This harm can be attributed to a number of characteristics of the market: the time lapse between payment and delivery of the package service; lack of transparency with regard to the financial stability of the consumer providers; and obstacles to getting a refund from an insolvent company. The PTD 1990 therefore makes it mandatory for package tour companies to have an active insolvency protection policy that ensures consumers are refunded, and where appropriate, repatriated.

The new PTD 2015 has been introduced with an aim to update the existing PTD 1990 to keep pace with legal and market developments in the EU. The U.K. has to transpose the requirements of this directive into domestic law by January 1, 2018, and then has a further six months up to July 1, 2018 for these requirements to come into force. The framework of the implementation of this directive post-Brexit hinges on the final framework determined by the two regions during Brexit dialogue. As a directive, this legislation will remain in place after Brexit, unless subject to deregulation. In such a scenario, the U.K. and EU will have to work towards a reciprocal arrangement, ensuring that delivery and use of package travel services by retailers and U.K.-EU travelers remain unchanged.



U.K. HOSPITALITY: SHORTAGE OF SKILLED EU STAFF COULD BE HAZARDOUS FOR THE SECTOR

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The U.K. hospitality sector is one of the key pillars of the tourism and leisure industry, incorporating 45,000 businesses that include hotels, serviced apartments, private rental schemes, private members' clubs, self-catering accommodation, restaurants, food service management companies, attractions, sports stadiums, and leisure outlets located in coastal and rural parts of the U.K.⁵

EU workers comprise approximately 700,000 of the 4.5 Million people that work in the U.K. hospitality industry.⁶ As the U.K. unemployment rate continues to decline, businesses in the hospitality industry have become increasingly reliant on EU nationals to fill vacancies. While the unemployment rate fell from 8.1 percent to 5.4 percent between 2011 and 2015, the percentage of EU nationals being employed by the industry increased by 46 percent.⁷ As fewer U.K. nationals became available with the requisite skills, the industry grew increasingly reliant on foreign labor to fill vacancies. Many in the U.K. look down on hotel and restaurant jobs. The Pret A Manger coffee and sandwich chain estimates only one in 50 of its job applicants are from the U.K. because Britishers do not consider it a "desirable place to

work".⁸ Many of these jobs, such as working chefs, are highly skilled and require a commitment to quality, service and fierce work ethic. Many non-U.K. EU workers applying for jobs in the U.K. hospitality sector are overqualified, with useful language skills. U.K.-based pizzeria chain, Franco Manca, has expressed concern over the shortage of skilled European staff since the Brexit referendum, as it looks to expand to cities outside London, such as Bristol, Oxford, Cambridge and Edinburgh.⁹

The shortage of EU staff in the hospitality sector will aggravate employment costs for businesses operating in the sector as they compete for limited number of skilled workers and spend a lot more on training. These costs will in turn be passed onto the consumers, making the hospitality sector less competitive in the EU and other international markets. Future availability of skilled EU staff in the sector is heavily reliant on the future of migrant EU workers in the U.K. after Brexit.

In its 2017 position paper on safeguarding the status of EU citizens living in the U.K. after Brexit, the U.K. government announced a series of measures and systems to be put in place after Brexit.

5. British Hospitality and Tourism Industry Brexit Strategic Response, November 2016.

6. Ibid.

7. People 1st.

8. Article by Financial Times, Barista visa plan does the U.K. hospitality sector a disservice, May 2017.

9. Ibid.

The government has stated that it intends to end free movement but will allow migration between the U.K. and EU. The paper states that all EU citizens in the U.K., regardless of when they arrive, will need to obtain an immigration status in U.K. law. They will need to apply to the U.K. Home Office for permission to stay in the U.K. post Brexit, which will be evidenced through a residence document. This document will serve as a license to live and work legally in the U.K. The government has outlined details of a grace period of blanket residence permission which will start immediately upon U.K.'s exit from the EU. Termed as 'deemed leave' in U.K. law under the Immigration Act of 1971, this blanket permission will apply to all lawful EU residents in the U.K., giving them sufficient time to apply for their residence document during the period between the formal departure of U.K. from the EU and the time they obtain their residence documents. However, things remain uncertain for EU citizens since there is no decision yet on a specific date of U.K.'s departure from the EU. If the specified date is set at the date of U.K.'s departure from the EU, these

post-Brexit arrangements will apply to all legal EU citizens in the U.K. For EU citizens arriving in the U.K. after the specified date, the ability to obtain a residence permit will depend on the rules in place at the time at which they apply.¹⁰

Given the looming uncertainty regarding the future residence status of thousands of EU citizens working in the U.K. hospitality industry, a number of companies have started pursuing other alternative means of filling vacancies. Pret A Manger has started to look for U.K. workers through social media and local job centers. However, this presents a challenge, since majority of the businesses in the hospitality industry are located in London and South-East England, where unemployment is low and living costs are high.¹¹ Automating tasks is not an option that the hospitality industry would want to explore, since a human touch is a prerequisite for the services it provides. This sector needs more clarity with regard to migration and residence status of EU workers if it wants to flourish at the same pace in the future as it has done over the years.

10. Her Majesty's Government, The United Kingdom's Exit from the European Union - Safeguarding the position of EU citizens living in the U.K. and U.K. nationals living in the EU, June 2017.

11. Article by Financial Times, Barista visa plan does the U.K. hospitality sector a disservice, May 2017.

BREXIT AND THE FALLING POUND

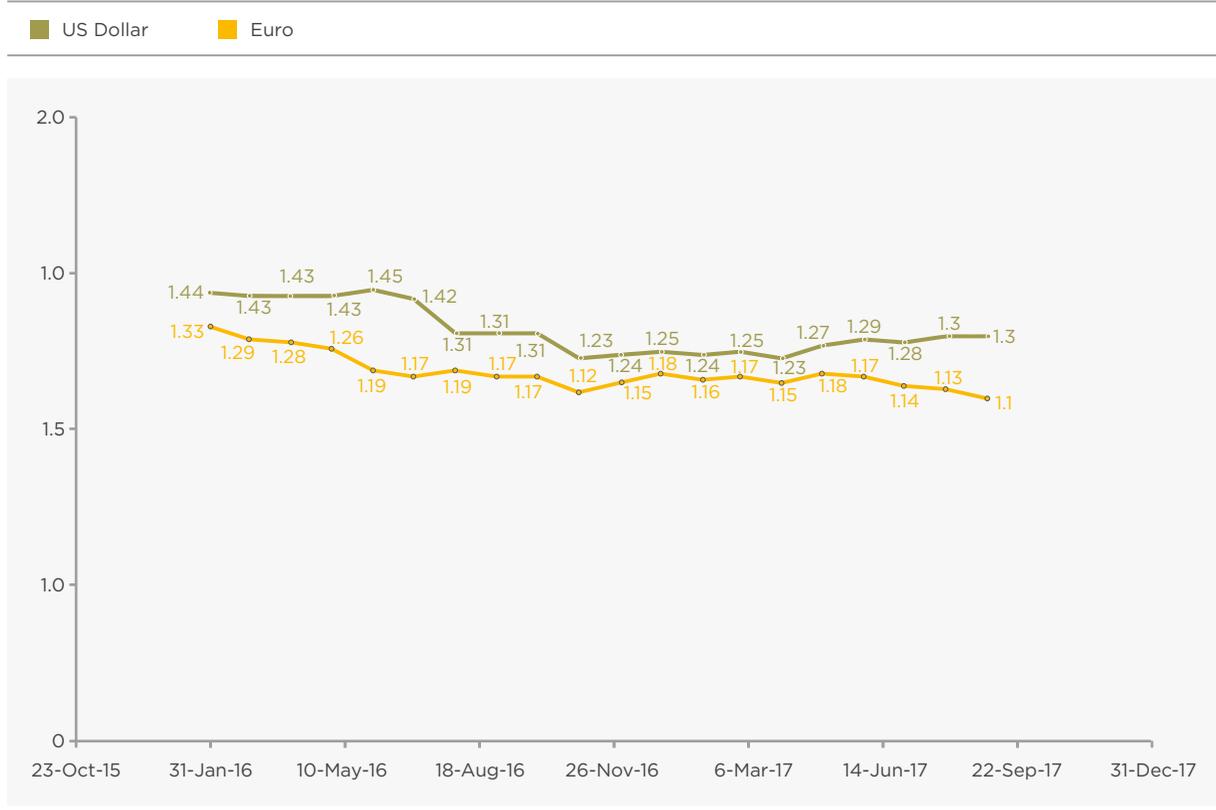
While the Brexit referendum has cast a gloom over what lies ahead for the U.K. tourism and leisure industry in terms of likely staffing challenges and travel regulations, it has also been a blessing in

disguise for the industry by way of a rapidly depreciating pound sterling. The unpredictability created by the referendum and the events thereafter have created ripple effects on the pound, with

the domestic currency experiencing rapid falls against both the euro and the U.S. dollar in the last 15 months.

Exhibit 3

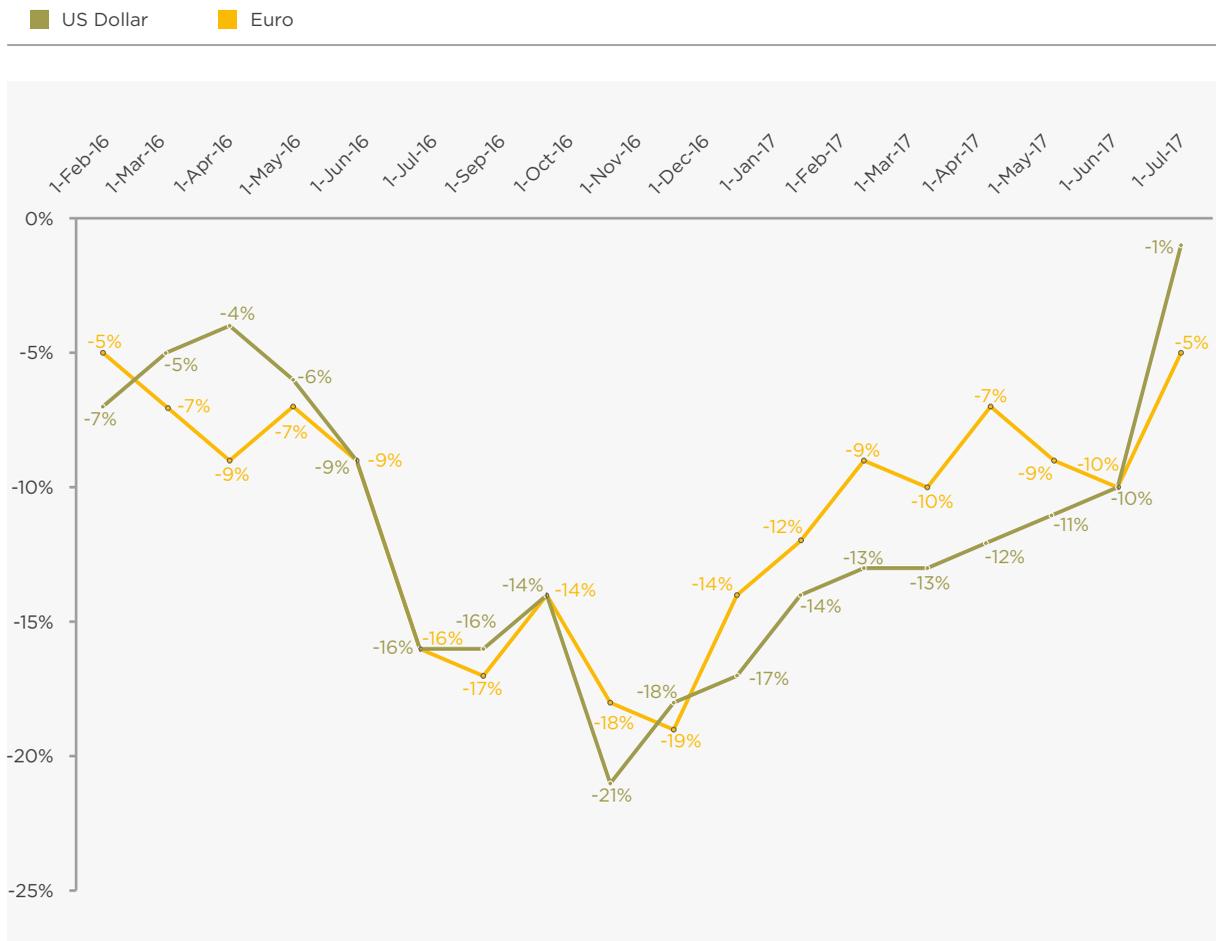
Cost of Pound Sterling against the Euro and U.S. Dollar



Source: Visit Britain, September 2017; WNS DecisionPoint™ Analysis

Exhibit 4

Y-o-Y Change in Pound Sterling against the Euro and U.S. Dollar



Source: Visit Britain, September 2017; WNS DecisionPoint™ Analysis

The pound fell to record lows within a month of the referendum, declining by 16 percent each against the euro and the U.S. dollar toward the end of July 2016. The double digit fall in the exchange rate continued till the beginning of January 2017, amidst mounting uncertainty with regard to the future of U.K. business and industry after departure from the EU. While

the decline stabilized to some extent by June 2017, the depreciating trend continued until August 2017. The pound is expected to show a downward trend through the rest of 2017 and 2018 as Brexit talks between the two regions tread an uncertain path toward a final amicable agreement. A strengthening euro and dollar vis-à-vis the pound will

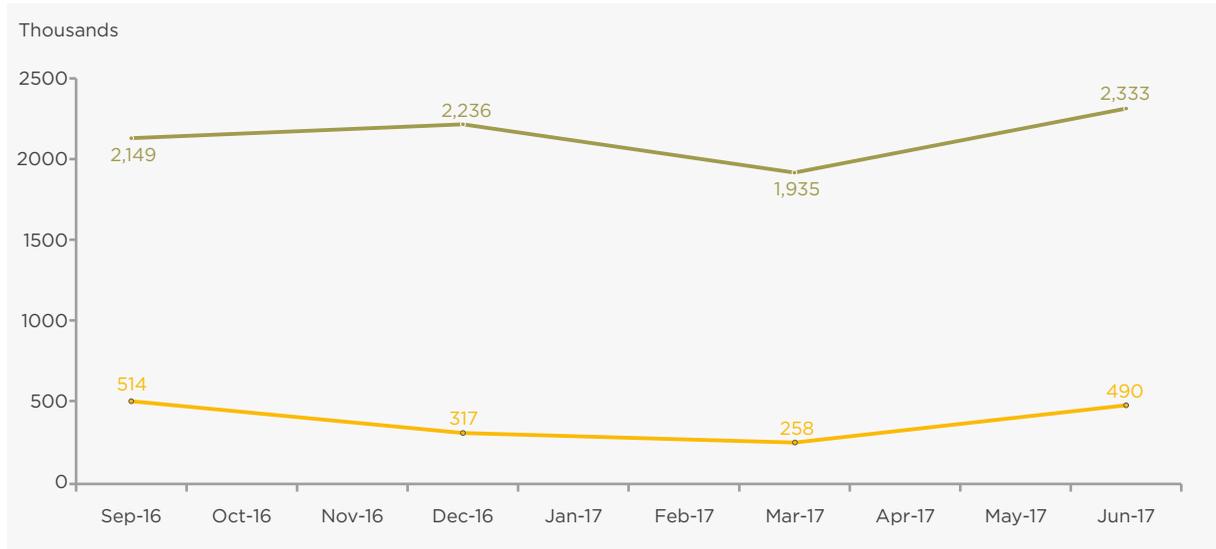
exert further downward pressure by the end of 2018.

The falling pound has given a boost to the U.K. tourism and leisure industry, making the U.K. one of the most attractive destinations for overseas visitors, including those from the EU and North America.

Exhibit 5

3-Month Average of Overseas Residents' Visits to the U.K.

■ North America ■ EU

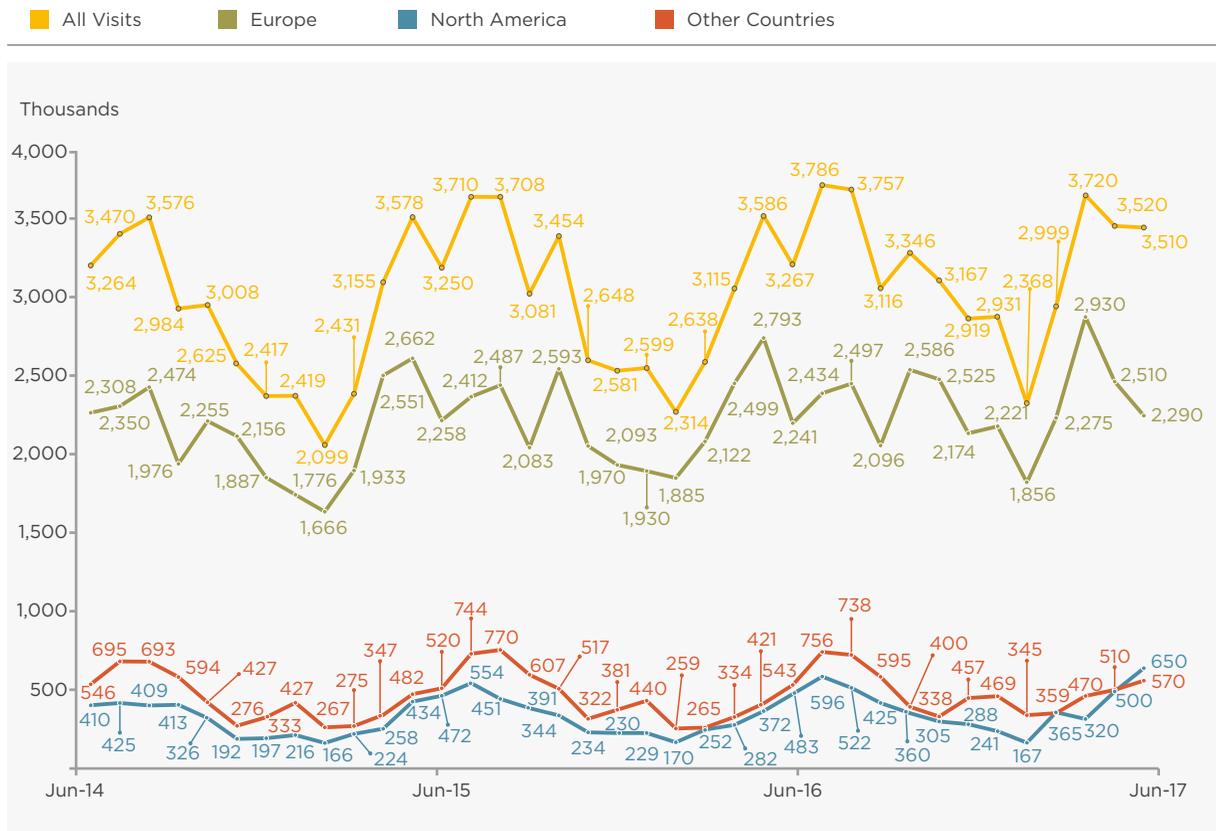


Source: ONS Tourism and Leisure Statistics, August 2017; WNS DecisionPoint™ Analysis



Exhibit 6

Overseas Residents' Visits to the U.K.



Source: ONS Leisure and Tourism Statistics, September 2017; WNS DecisionPoint™ Analysis

The U.K. has seen an upsurge in the number of overseas visitors since the referendum, taking comfort in the falling pound. The 3-month average of EU visitors to the U.K. was at an all-time high of 2.3

Million in the second quarter of 2017, up from 2 Million in the quarter ending September 2016. The number of American tourists visiting the U.K. in June increased by almost 34 percent since June of

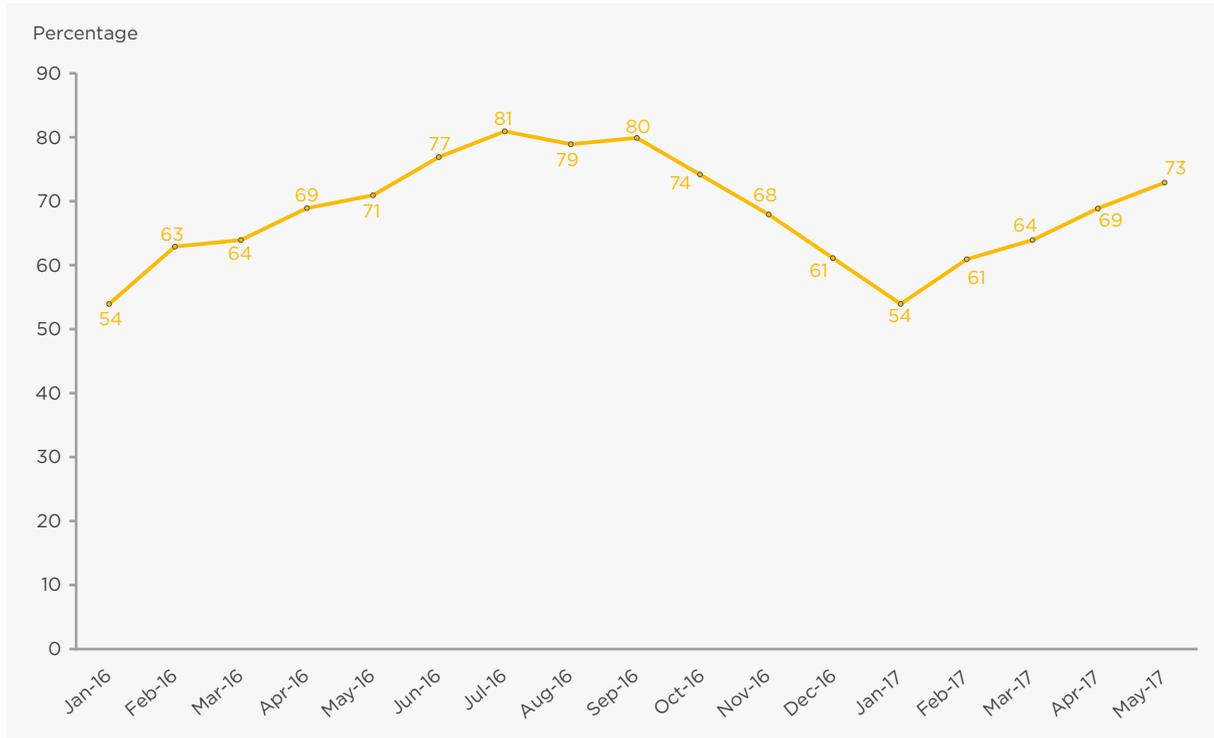
last year. Visitors to the U.K. have spent GBP 10.6 Billion so far in 2017, according to the ONS, which is over GBP 1 Billion more than what was spent in the same period in 2016.¹²

12. Article by Financial Times, Overseas tourists provide boost to Brexit Britain, August 2017.

Exhibit 7

U.K. Room Occupancy Rate

■ U.K. Room Occupancy Rate



Source: VisitBritain, United Kingdom Serviced Accommodation Summary Report May 2017; WNS DecisionPoint™ Analysis

Keeping in line with the upswing in international visitors to the U.K., hotel occupancy rates witnessed an upward trend following the months after the referendum, with rates rising from 77 percent in June 2016 to as high as 81 percent in July 2016. This trend continued into the latter half of 2016, with rates rising to 79 percent and 80 percent in August and September, respectively. The U.K. summer of 2017 has also seen an upturn in occupancy rates, with the May occupancy rates rising to 73 percent, an increase of 4 percent from April 2017.

Hotels, in particular, have been impacted positively by the downswing in the pound. InterContinental Hotels Group and Whitbread, which owns the Premier Inn chain, have both reported strong trading in recent weeks.¹³ Butlins, a premier hotel chain in the U.K., has seen an influx of visitors in its seaside resorts in Bognor, Skegness and Minehead, which welcomed more than 1.2 Million visitors last year, generating record revenues of GBP 224.8 Million and profits of GBP 45 Million. Pre-bookings for 2018 are already showing an increase of 18 percent

from what they were during the same period last year.¹⁴ Butlins is one of the many hotel chains in the U.K. that has benefitted from the Brexit referendum and a weak currency making EU and other foreign destinations more expensive. Its resorts are located in faded seaside communities such as Bognor, which voted heavily in favor of Brexit during last year's referendum.¹⁵ A further fall in the pound could lead U.K. tourists to start holidaying more at home, with the domestic tourism industry and economy reaping the advantages of a weak currency.

13. Article by Financial Times, U.K. hotels find silver lining in Brexit-hit pound, September 2017.

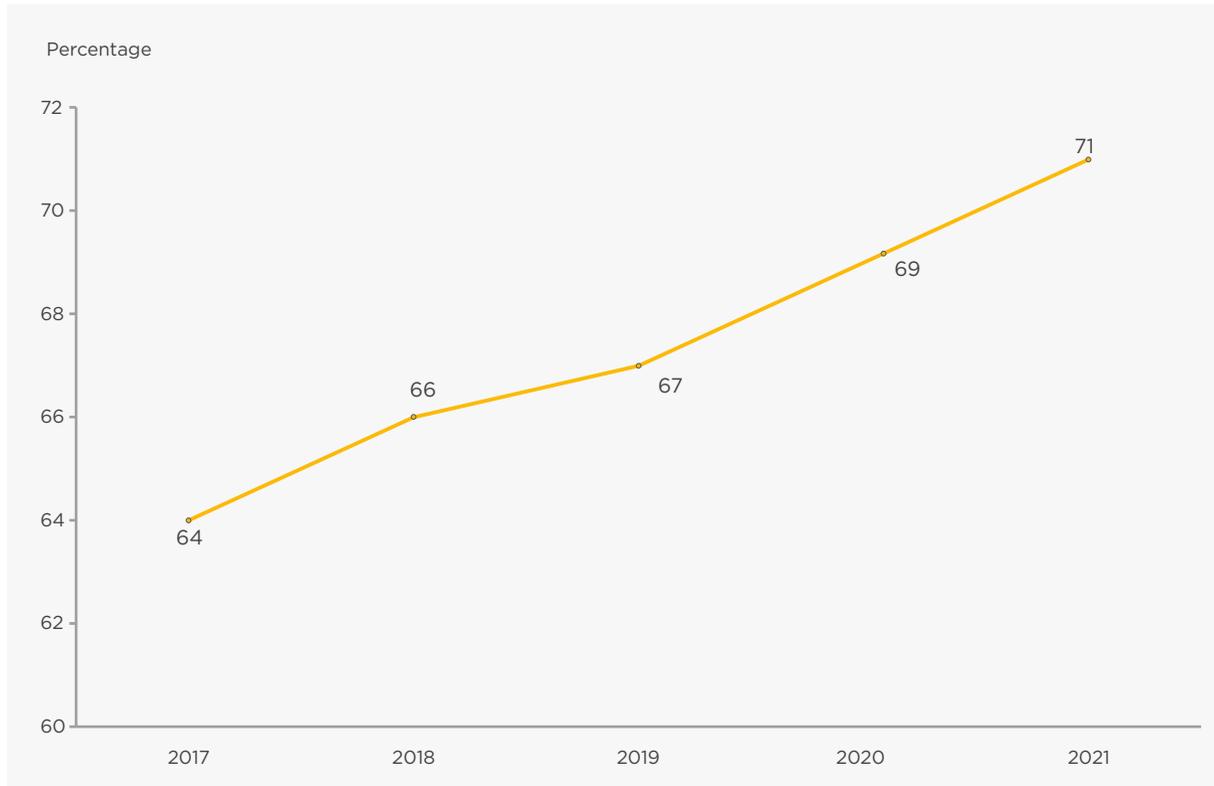
14. Ibid.

15. Article by Financial Times, Butlins woos cash-strapped vacationers in Brexit Britain, August 2017.

Exhibit 8

5-Year Forecast for U.K. Hotel Room Occupancy

■ Room Occupancy Rate



Source: WNS DecisionPoint™ Forecast based on data from VisitBritain

With the pound expected to continue its downward spiral, U.K. holiday attractions and hotels are set to witness a spurt in visitors. We expect hotel occupancy rates to reach 64 percent this year, a 3 percent jump from last year.

Occupancy rates are set to grow to 66 percent as the pound's downhill path is expected to continue into 2018. The U.K. will be an attractive destination for holiday goers, both overseas and domestic, even after Brexit. This will be seen in

increased occupancy rates of up to 71 percent. However, majority of this demand will come from holiday goers and leisure travelers, rather than corporate and business visitors, reflecting the business uncertainty brought on by Brexit.

OUTLOOK FOR EU RESIDENTS' VISITS TO THE U.K.

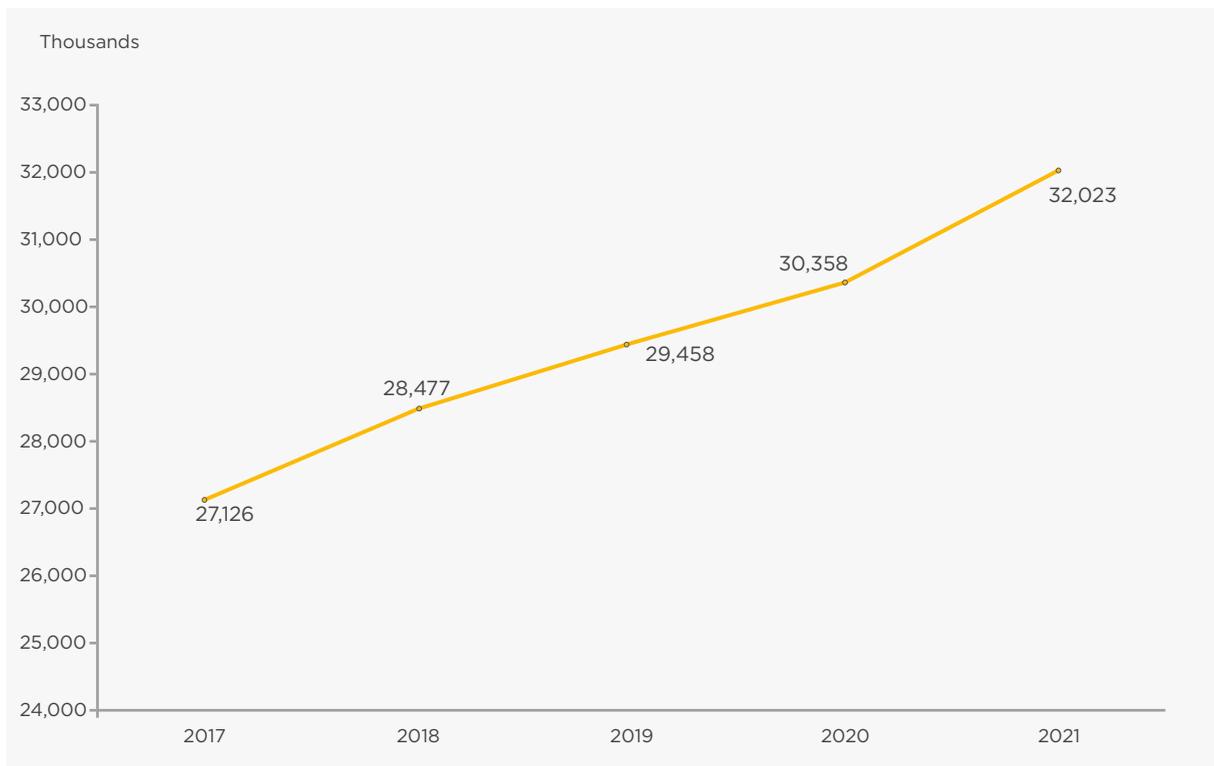
While the Brexit referendum has brought gloom for the hospitality sector in the form of EU labor shortage and EU migrants in general, it has also brought ample amount of good news in the form of a falling domestic currency, making U.K. the most favored tourist destination for international visitors, particularly EU residents. Uncertainty with regard to travel

package regulations and visitor visas for EU nationals traveling to the U.K. will prevail until the final outcome of the Brexit negotiations. However, this uncertainty will be undermined by the weak position of the pound with regard to the euro, thereby attracting increasing number of EU visitors to the U.K. for tourism and leisure purposes.

Exhibit 9

5-Year Forecast for EU Residents' Visits to the U.K.

■ EU residents' visits to the U.K.



Source: WNS DecisionPoint™ Forecast based on data from VisitBritain

Helped by a depreciating currency which will continue to decline for the remainder of 2017, we expect the total number of visits by EU residents to the U.K. to rise to 2.7 Million in 2017, marking an increase of over 6 percent from the visits in 2016. This trend will continue into 2018 as a final Brexit agreement between the two regions is expected to take shape only by the latter half of that year. With the pound expected to stabilize to some extent in 2019-20, the number of visits by EU residents will increase between 3 percent to 3.5 percent from the previous year. The uptick in EU residents' visits to the U.K. will continue through 2021, as business confidence picks up following the completion of Brexit.



CONCLUSION

The U.K. tourism and leisure industry has built its foundations on a strong reciprocal relationship it shares with the EU. Access to the single market has ensured hassle-free and privileged movement of citizens of both the regions in each other's territories. The U.K. hospitality sector has benefitted the most from this mutually advantageous partnership by access to inexpensive and

low-skilled EU migrant labor and the ease of visa and travel regulations for EU nationals visiting the U.K. However, the current deadlock in the Brexit negotiations is a threat to the sector's prosperity as there is still very little clarity on the future of thousands of EU migrant workers the sector is dependent upon and owes its success to. As an increasing number of EU migrant workers

employed in the sector flock back to their home countries, the industry faces an unprecedented staff crisis which will be hard to overcome. On the other hand, the referendum has also been a blessing in disguise for the sector as a weaker currency has attracted an increasing number of overseas visitors, including those from the EU, thereby providing an impetus to the domestic industry.



About DecisionPoint

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