The newsletter for insurance brokers and MGAs

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PKF

Broking Business

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Whether through regulatory pressure, for commercial gain or because of changes to working practices, there are many reasons why internal audit is not just for large insurance intermediaries.

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Welcome to our latest issue of Broking Business...

The FCA has published the findings of its Thematic Review on wind-down planning in *TR 22/1 – observations on wind-down planning: liquidity, triggers and intra-group dependencies.* In this edition, we help you navigate the key points.

Whether through regulatory pressure, for commercial gain or because of changes to working practices, there are many reasons why internal audit is not just for large insurance intermediaries. So why should you consider an internal audit function? Richard Willshire, Director in our Governance, Risk and Control Assurance team explains.

To keep up with technology and support UK innovation, the Government is revisiting Research and Development (R&D) tax relief. Howard Jones explores which reliefs you could claim.

Equality, Diversity and Inclusion (EDI) is not just about box ticking. Nick Borzenko, Senior Manager in our Governance, Risk and Control Assurance team, explains why the insurance sector cannot succeed without it.

VAT is often the Cinderella of taxes among insurance brokers. Natalie Braier, VAT Manager, highlights the three reasons why it deserves much more attention than it gets.

We hope you find this edition useful and thought provoking. As always, please contact any of the team to discuss how we can support your business and, as always, do let us know your thoughts on future topics.

Paul Goldwin
Head of Insurance Intermediaries

+44 (0)20 7516 2251
pgoldwin@pkf-l.com

Intermediaries: the huge benefits of internal audit

Whether through regulatory pressure, for commercial gain or because of changes to working practices, there are many reasons why internal audit can benefit all insurance intermediaries.

Richard Willshire
Director - Governance, Risk and Control Assurance

+44 (0)20 3650 3676
rwillshire@pkf-l.com

It is important for insurance intermediaries to demonstrate to internal and external stakeholders that risk and control frameworks are robust and operate effectively. The core benefit of an independent internal audit function is its provision of assurance that these frameworks are fit for purpose and safeguard the organisation.

What exactly is internal audit?

The Institute of Internal Auditors defines the role as "to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively".

Internal audit is usually an individual or team of professionals who sit outside operational management. They are primarily concerned with assessing the design and operation of risk management, governance and internal control processes and activities across an organisation.

Where are they in the organisation?

If we consider brokers / client facing and technical staff to be the first line, and compliance and risk management to be the second line in an organisation, then internal audit makes up the third line.

In its position, internal audit has the privilege of looking across both the first and second line processes to provides direct and independent reporting to independent committees (Audit and Risk Committee) or senior directors (CFO/CEO) on the board responsible for risk and control (SMF5 under the SM&CR).

Why consider an internal audit function?

Insurance intermediaries operate in a complex market, and face increasing regulatory interest and stakeholder expectations. Commercial relationships between markets, businesses and clients are built on trust and there must be confidence that firms operate effectively and that their systems protect the interests of their clients and underpin successful market operations.

We have identified three key drivers for internal audit in insurance intermediaries.

1. Regulatory pressure

The list of regulations that affect insurance intermediaries keeps growing. IDD, SM&CR, GI Pricing Practice, Product Value Measures, Operational Resilience, and Consumer Duty are all increasing the requirements on firms' operating models and existing compliance resource. The volume of regulation is expected to grow further with the FCA showing no sign of slowing its expectations in the short term including new focus areas around Environment and Social Governance (ESG) reporting requirements.

We have observed an increased trend for intermediary firms to verticalise their operations and establish insurance carriers. As part of the application process, these firms need to consider their sources of assurance and how they will align them to meet regulatory (FCA and PRA) requirements.

Specifically, the implementation of the SM&CR defined Risk and Internal Audit role holder requirements for 'Enhanced firms', where they must clearly explain and record the roles and responsibilities of these Senior Management Function (SMF 5) individuals.

Although most intermediary firms are defined as 'Limited Scope' or 'Core' firms (with reduced SM&CR requirements), the overall expectations concerning effective risk management and control processes remain.

A dedicated internal audit function can benefit firms of all sizes through meeting regulator expectations within a dedicated function.

2. Commercial benefits and success

Building a commercially successful intermediary can be the realisation of a dream and the culmination of years of hard work. As firms grow they generate increased business volumes and values. Risk management and control processes need to keep pace to ensure consistent success and ensuring that demonstrable and effective control frameworks can also help firms be 'ready for sale' and provide a level of comfort for future investors and owners.

An effective internal audit function is flexible and adaptable enough to provide pragmatic and proportionate services regardless of firm size or complexity, however significant growth in revenues, transaction volumes or geographic footprint should be considered as any of these will increase the pressure on existing processes and controls and expand business operations beyond current oversight activities.

Internal audit can add value in maintaining a firm's competitive advantage. It identifies operational inefficiencies and process improvements by reviewing their design. It makes sure controls and process align to and support efficient business operations and activities, and considers whether processes are operating effectively, consistently and as intended across the business.

3. Changes to operating models

Although the direct impact of the pandemic is waning, many firms are adopting decentralised and more digital ways of working, with staff and clients adopting different operating and communication models. Changes to firms' operating models may affect the risks and controls needed to manage those new ways of working.

The greatest change has been the migration from manual (paper based) to automated (system based) processes and controls. This transition has impacted the generation and review of placement documents, communication to and from underwriters and clients, and the review and authorisation of cash management activities.

The changes to their operating models have meant many firms have benefited from cost savings and can offer enhanced services to both clients and staff. But stakeholders may still need additional assurance that these new models are operating effectively and maintaining reliable risk and control oversight.

Trigger events

So we've looked at some of the overarching reasons for the increased need for assurance. But you may be thinking that none of this applies to you. Below we've outlined some key trigger events that could indicate underlying control weaknesses and need for greater control in these areas:

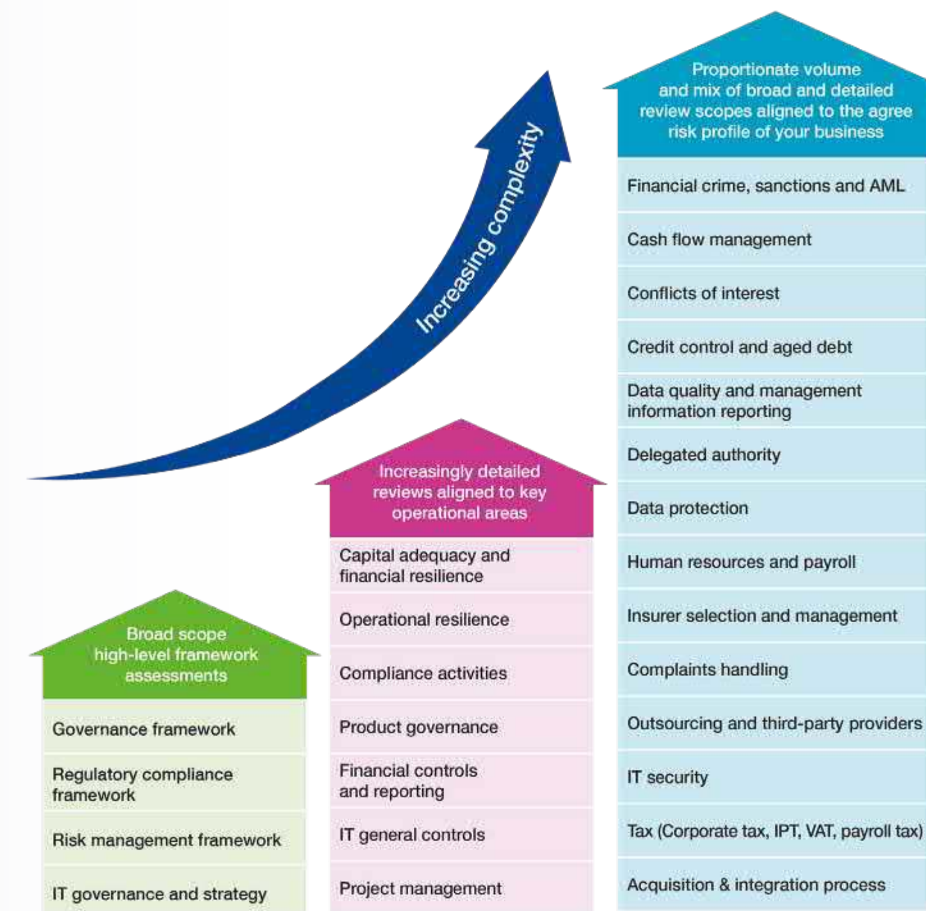
- Operational resilience – Covid provided perhaps the greatest operational resilience test. But firms are now expected to be resilient to large-scale thematic events (like other pandemics, infrastructure, environmental disasters) that impact their sectors or markets, and smaller scale or discrete-level threats (like loss of office, IT services or personnel).
- Regulatory breaches – depending on your firm this could include client money breaches or conduct, reporting, product or financial promotion breaches.
- Fraud or attempted fraud – inflationary pressures and cost of living increases often lead to more fraud. This could be internal or external, and from a number of sources, designed to extract money from your firm.
- Complaints – more complaints can indicate that elements of your client engagement are not working as intended. They may also uncover resourcing or servicing issues, or poor training.
- Errors and Omissions (E&O) claims – an E&O claim against your firm, whether successful or not, can be a challenging period and involve significant elements of management time.
- Adverse delegated underwriting audits – carrier audits on delegated underwriting processes may identify thematic control weaknesses. An assurance review can help to address these issues before a carrier audit, and so improve relationships with your carriers.
- Changes to risk and control oversight – as firms grow and people's roles change, responsibility for risk and control oversight can be diluted, misunderstood or fall outside the natural skill set of business leaders.

What you should do next

The regulatory burden and expectations on solo-regulated firms are increasing. So you need to demonstrate effective and proportionate risk and control oversight and accountability across your firm.

There is no one-size-fits-all solution when establishing an internal audit function. Nor should there be. As with any specialist insurance, compliance or financial resource, it's important to be proactive. Appoint an experienced and knowledgeable partner to navigate, assess and give their opinion on risk and control activities in your firm.
Some intermediary firms are still working out what internal audit looks like. Many already have some degree of first or second line file audits or review processes for placement procedures and activities.

PKF works with insurance intermediaries with revenues ranging from £10m to £200m to deliver 'right-sized' outsourced and co-sourced internal audit and assurance services. We draw on our market knowledge and experience to provide an expert team of dedicated internal audit professionals. If you would like to discuss your assurance needs and find out how PKF can help you, please contact us.



Links
IDD - IDD: delivering clear, fair outcomes for consumers from the insurance sector | FCA
SM&CR - The Senior Managers and Certification Regime: Guide for FCA solo-regulated firms
GI Pricing Practice – PS21/11: General insurance pricing practices – Amendments (fca.org.uk)
Product Value Measures – PS20/9: General Insurance value measures reporting and publication (fca.org.uk)
Operational Resilience - PS21/3: Building operational resilience: Feedback to CP19/32 and final rules (fca.org.uk)
Consumer Duty - CP21/13: A new Consumer Duty | FCA

How to make the most of R&D tax relief

The Government is revisiting Research and Development (R&D) tax relief to keep up with technology and support UK innovation. Find out which reliefs you could claim.

R&D tax relief will help reduce Corporation Tax and could even mean a cash payment from HMRC. The Government's renewed focus on the relief aims to support modern research methods and additional legislation will be introduced in the Finance Bill 2022/23 The government intends to expand qualifying expenditure to include data and cloud costs. Costs in relation to pure mathematics (potentially useful in AI research) will qualify for R&D purposes.

The changes will also incentivise UK innovation by restricting claims for overseas activities carried out by subcontractors and externally provided staff.

Crucially, in order to make a valid claim, a Claim Notification must first be submitted to HMRC within 6 months of the end of the accounting period to which the R&D claim relates. It is intended to apply only to new claims post 1 April 2023 or where there has been no claim in the last 3 accounting periods. The innovative nature of the insurance sector has already allowed many companies to benefit from R&D, and we expect this trend to continue.

The R&D relief available

There are two types of relief, depending on the size of the company - or the group it is part of.

SMEs benefit from R&D tax relief which allows them to:

- deduct an extra 130% of qualifying costs from their yearly profit (added to the normal 100% deduction), making a total 230% deduction

or

- if the company is loss making, claim a tax credit worth up to 14.5% of the surrenderable loss.

Large groups are eligible for R&D expenditure credit (RDEC). This is also available to SMEs subcontracted to do R&D work by a large company, or which have received a grant or subsidy for their R&D project.

The credit is calculated at 13% of the qualifying R&D expenditure (incurred on or after 1 April 2020) and is taxable. Depending on the company's taxable profit or loss, the credit may be used to discharge the tax liability or result in a cash payment.

The criteria for SMEs

An SME company or group is defined as one with:

- less than 500 staff

and

- a turnover of under €100m or a balance sheet total under €86m (EU definitions still remain).

This must include the staff, turnover and balance sheet total of all connected companies. A group includes all companies where more than 50% of the voting rights are owned by the parent company. And where the group has any partner relationships (25% to 49.9% ownership), only a percentage of the staff, turnover and balance sheet are included in the total.

What counts as R&D?

HMRC's definition of R&D is where a company looks to innovate, research or develop an advance in its field. It can even be claimed on unsuccessful projects. The project must relate to the company's trade - either an existing one, or one that is intended to start up based on the results of the R&D. The project may research or develop a new process, product or service or improve on an existing one. HMRC guidelines require a company to:

Show it is an advance in the field

The project must aim to create an advance in the overall field, not just the business. The use of existing technology, albeit for the first time, is not an advancement. But the process, product or service can be 'an advance' if it's been developed by another company but is not publicly known or available.

Show that a professional in the field could not work this out

HMRC specifies that the solution cannot be easily worked out by a professional or that other attempts to conduct the process or develop the product have failed. Professionals working on the project may explain the uncertainties involved.

Show there was uncertainty

HMRC also considers that "a scientific or technological uncertainty exists when an expert on the subject cannot say if something is technologically possible or how it can be done - even after referring to all available evidence." This means that the company or experts cannot already know about the advance or the way it has been achieved through the R&D.

Explain how the company tried to overcome the uncertainty

It's important to explain the work done to overcome the uncertainty or difficult technological problem. This can be a simple description of the successes and failures during the project. Or the creation of new processes, products or services by making notable improvements to existing ones using science and technology. But pure product development does not qualify.

Which costs can you claim?

Costs are eligible from the day the project begins and until the advance is developed, discovered or the project is stopped.

Employee costs

For staff working directly on the R&D project, you can claim a proportion of their salaries, wages, Class 1 National Insurance contributions and pension fund contributions. You can claim for administrative staff who directly support the project. But not for general clerical or maintenance work that would have been done anyway, like managing payroll.

You can also claim 65% of the relevant payments made to an external agency if they provide staff for the project.

Subcontractor costs

Under the SME scheme a company may claim 65% of the relevant costs of using a subcontractor. But under the RDEC scheme subcontracted expenditure cannot be claimed unless it's directly undertaken by a charity, higher education institute, scientific research organisation, health service body or an individual or partnership of individuals.

Consumable items

A claim can also be made for the relevant proportion of consumable items (materials and utilities) used for the R&D.

Costs that cannot be claimed

These include the production and distribution of goods and services, capital expenditure, the cost of land, patents and trademarks, rent or rates.

Start date of the R&D activity

The R&D activity starts when you begin working to resolve the uncertainty. You must identify the technical issues to be resolved. The project ends when the uncertainty or advance is solved or achieved or there is a decision to stop working on it. The activity for which you claim R&D relief is considered over once you have a working prototype that solves the problem, and before you go into production.

Your R&D may restart if you find another scientific or technological uncertainty after you've started producing the product. If this happens, you can claim for further R&D while you try to resolve it.

You can make a claim for R&D relief up to two years after the end of the accounting period it relates to.

SME scheme relief

Under the SME scheme relief is given by making an adjustment in the computation of taxable profit. Where all the conditions are satisfied, an extra 130% of the qualifying expenditure is deducted to provide the taxable profit.

Losses that arise can be used in the same way as any other trading losses - including surrender as group relief.

In some circumstances the losses can be surrendered in return for a payable credit. You must make the claim in your Corporation Tax return or as an amendment to your return within a year of the filing date.

It's important to note that the R&D tax credit is not taxable income of the company.
For accounting periods starting on or after 1 April 2021, the amount of payable tax credit that a company is entitled to for an accounting period is the lesser of:

- 14.5% of the surrenderable loss for that period

or

- the sum of £20,000 plus 300% of the company's relevant expenditure on workers for payment periods that end in the accounting period.

Alternative relief (RDEC) for a non-SME group

Companies that fall outside the SME limits must calculate their RDEC as follows:

1. Determine the costs directly attributable (employee, consumables etc) to the R&D project.
2. Add 65% of subcontractor or external staff provider payments.
3. Multiply this figure by 13% to get the expenditure credit.
4. Enter the figure into the Corporation Tax return (as it is subject to tax).

How credit is applied

RDEC must be applied in the following order:

i. The expenditure credit must be used to settle the current period's Corporation Tax liability.
ii. Where the company is loss making, a notional tax charge is applied to the expenditure credit.
iii. The credit is limited to the company's total expenditure on R&D workers' PAYE and National Insurance contributions for the accounting period. Any amount over this limit will be added to expenditure credit in the next accounting period.
iv. The credit may then be used to pay any outstanding Corporation Tax liabilities for any accounting period.
v. The credit can then be surrendered in whole or part to any group member.
vi. Thereafter, the credit may be used to discharge any other company tax liabilities, like VAT or liabilities under a contract settlement.
vii. Finally, any amount remaining can be paid to the company.

Accounting for the RDEC

The expenditure credit a company receives under the RDEC scheme is treated as taxable income. The Government's plan was to allow the incentive to be part of the Statement of Income and Retained Earnings and so form part of pre-tax profit. There is nothing stipulating where the credit should be recorded, other than above the line. It can be shown as Other Income or even set against the R&D expenditure.

If you have any questions about issues raised in this article, please ask your usual PKF contact or Howard Jones.

Howard Jones
Partner

+44 (0) 20 7516 2295
hjones@pkf-l.com

Why organisational culture matters: a new approach to EDI

Equality, Diversity and Inclusion (EDI) is not just about box ticking. Nick Borzenko explains why the insurance sector cannot succeed without it.

EDI is an important aspect of organisational culture. And good culture, we might say, is one of the key elements of a successful organisation. But recent news is full of organisations failing to get this right. The cost and reputational damage of cultural failures for organisations, and also individuals, can be severe.

A recent case of poor culture was Lloyd's issuing their largest ever fine (over £1m) to Atrium Underwriters because of instances of non-financial misconduct. These were evident as having taken place over a number of years which, in Lloyd's view, precipitated a culture which tolerated instances of unacceptable conduct involving discrimination, harassment and bullying. Lloyd's bulletin on this matter can be found here if further reading is of interest. The reputational damage arising from this may yet to be fully felt.

EDI and good culture

As an internal auditor my instinct is to get to the root cause of issues. But in this case there seem to have been multiple failings that led to a culture where individuals felt empowered to behave inappropriately. Poor training, lack of focus on EDI, inadequate disciplinary procedures, failure of leadership - or some combination of these factors - may lead to poor organisational culture.

Organisations with high awareness of, and provision for, EDI tend to have a good overall culture. Staff at every level of an organisation are responsible for making it welcoming to all and representative of the community it serves. But not all organisations put adequate emphasis on EDI. Pressure therefore needs to be applied to such organisations to act.

Regulatory emphasis and new priorities

Western economies are shifting from shareholder to stakeholder capitalism. This means there is now more and more governmental and regulatory intervention in organisational make up. A few years ago gender pay gap reporting became mandatory for large employers in the UK. Ethnicity pay gap reporting is rumoured to follow shortly.

The FCA is proposing measures to improve transparency on the diversity of boards and executive management, for investors and other participants in the market. New entrants to the job market are more and more socially conscious, with many Millennials and Generation Zs already making decisions about their careers based on their values. Generation Alpha is set to follow this trend, so organisations need to be proactive if they want to attract top new talent.

Action at Lloyd's

Poor organisational culture and lack of diverse representation among employees are key risks to the running of a successful business in the long term. Lloyd's as a corporation and a regulator appears to be taking action to help both carriers and intermediaries to mitigate these risks.

The business case for inclusivity has, by now, surely been presented at every board of every firm in the insurance sector. Lloyd's principles for doing business include a culture element, which states that Managing Agents should be inclusive, creating a diverse high-performance culture. Recent appointments of Sara Gomez (Chief People Officer) and Mark Lomas (Head of Culture) at Lloyd's, look set to increase the focus on culture within the market.

Support from partners

There is plenty of support for firms at every stage of their EDI journey. The annual Dive In festival is a good place to start (27-29 September this year). Dive In is a global movement in the insurance sector that supports the development of inclusive workplace cultures. It offers plenty of educational opportunities, and a safe space for debate and networking opportunities.

There are six market-wide partner networks (or ERGs – employee resource groups) that focus on various aspects of inclusivity. They are GIN, Link, IFN, iCAN, NGIN, and iDAWN. If you have not already signed up, I would strongly recommend getting on their mailing lists. These ERGs are supported by the Inclusion@ Lloyd's board, a governing body made up of senior executives representing the companies and membership organisations within Lloyd's and the wider insurance market.

I have the privilege of serving as Treasurer for iCAN – Insurance Cultural Awareness Network. We are the industry-wide, independent, volunteer-run network that supports multicultural inclusion across the insurance sector. We promote progression, engage with allies, and celebrate the benefits of inclusion and diversity in the industry.

All of these organisations have brilliant initiatives and are ready to help anyone at any stage in their EDI journey.

Getting assurance on culture

PKF's Governance, Risk & Control Assurance team helps organisations by independently and objectively evaluating their internal controls. We play an important role in helping our clients not to suffer the ill effects of poor organisational culture and lack of diverse representation in their employee population.

We have supported some of our clients by carrying out focused culture or HR reviews. The reviews typically look at policy or strategy and include staff interviews or surveys. These help us form an opinion on how the culture message is being filtered from the top down. For some of our clients we have also incorporated a cultural assessment into every review.

If you would like to discuss any of the themes raised in his article, I would be more than happy to set up a conversation over tea or coffee (virtual or f2f). Please contact me on LinkedIn or via email.

Nick Borzenko
Senior Manager

+44 (0)20 7516 2340
nborzenko@pkf-l.com

What's VAT got to do with it?

VAT is often the Cinderella of taxes among insurance brokers. We highlight three reasons why it deserves much more attention than it gets.

The industry's neglect of VAT isn't so surprising. After all, insurance and reinsurance transactions - including related services performed by insurance brokers and agents - are generally exempt from VAT.

But PKF Littlejohn's extensive due diligence experience in the sector indicates that VAT should be taken much more seriously. Here's why.

Inter-company concerns

Management charges

Although group members' supplies to their customers may be exempt from VAT, intra-group management charges are frequently forgotten. This supply of services is potentially taxable. And, where they exceed the VAT registration threshold (currently £85,000), the entity should register and account for VAT.

Salaries

Recharges of employee salaries are another pitfall for the sector. Broker businesses are often under the impression that employees are on joint employment contracts and, for that reason, believe there's no requirement to charge VAT as there is no supply for VAT purposes. But on closer inspection we regularly find that they are not, and therefore VAT is due.

Reverse charge

Even if no domestic VAT is payable, the reverse charge regime can impose a mandatory registration liability when services (above £85,000) are bought in from outside the UK. In our technological age, it is common for brokers to buy in advertising services from companies like Google (based in Ireland). These oblige them to self-account for the VAT due, and this requirement is often overlooked.

Customers based outside the UK

Under the VAT 'specified supplies' law, insurance services supplied to insured parties outside the UK benefit from VAT recovery on goods or services bought in to make those supplies. As a result, registering for VAT on a voluntary basis (assuming it isn't mandatory) may be a major advantage to brokers that engage significantly with customers outside the UK.

Call for action

A head-in-the-sand approach to VAT is not in the interests of the insurance broker community for several reasons:

1. Unlimited historic liability - a business is liable to register and account for VAT from the date on which it exceeded the applicable VAT threshold. This means the period of assessment is unlimited and isn't going away.
2. Penalties - where a business has failed to register for VAT and has therefore not accounted for it correctly, HMRC will likely charge interest on any underpaid VAT until the date it is settled. It may also charge a penalty of up to 30% of the VAT due.
3. Bad for business - when VAT issues are discovered during a due diligence, the buyer may use them as ammunition to lower the purchase price or withdraw from the deal altogether. What's more, the buyer may insist on onerous warranties and indemnities.

VAT poses serious risks, as well as opportunities, for insurance brokers. PKF Littlejohn has over 100 years' experience in the insurance market and has the depth of expertise to quickly identify potential VAT risks and offer practical and tailored solutions.

For more information, or to consult one of our experts, please contact Natalie Braier.

Natalie Braier
Manager

+44 (0)20 7516 2262
nbraier@pkf-l.com

Wind-down planning: the FCA's recent guidelines

The FCA has published the findings of its Thematic Review on wind-down planning in *TR 22/1 – observations on wind-down planning: liquidity, triggers and intra-group dependencies*. Paul Goldwin helps you navigate the key points.

The regulator's latest review follows its Wind-down Planning Guidance (WDPG) in June 2020, refreshed in August 2021, reflecting its concerns about the financial resilience of regulated firms following the impact of COVID-19.

As a reminder, regulated firms have an obligation under Threshold Condition (TC) 2.4 to hold adequate financial and non-financial resources and to put in place a wind-down plan (WDP) which demonstrates how they will exit the market, if required, in an orderly manner without causing harm to their clients or to the market itself.

The FCA found in its Thematic Review that most firms' WDPs, processes and risk management frameworks remained at an early stage of maturity, with substantial gaps. There was still significant work to be done to meet the minimum expectations highlighted in the original WDPG.

There were three key findings in the FCA's report: liquidity and cash flow modelling, intra-group dependencies, and establishing and evaluating the correct WD trigger. We examine each of these in turn.

1. Liquidity issues

The FCA said that firms need to consider the impact that their liquidity requirements in a wind-down period will have on the adequacy of their resources, their risk appetite, and how they identify the point of non-viability.

It's important that firms remain compliant with TC 2.4 during the wind-down period and can continue to pay their liabilities as they fall due. The regulator found that firms were good at monitoring their capital needs during the wind-down period but not so strong on their liquidity.

The FCA encouraged firms to find a way of ring-fencing liquid funds so that they have sufficient cash to get them through the wind-down period efficiently. One example of good practice is to calculate the 'TC 2.4 cash buffer' and ring-fence this in a separate account to be used only to fund the wind-down, if ever required.

The findings highlighted three key liquidity points:

- The need for firms to be able to fund any cash flow timing mismatches during the wind-down period
- The requirement for firms to carefully map out the 'net cash impact' of the wind- down exercise. This is so that they remain cash positive throughout, once the cost of the wind-down and the realisable value of their assets have been considered.
- The need to have a healthy cash balance at the start of the wind-down, to avoid entering the period with a stressed cash position.

2. Intra-group dependency

The regulator allows groups of firms to carry out their wind-down planning on a group basis, as long as the planning adequately covers each individual regulated firm and an 'entity view' is available. They must also have considered the impact of group membership on the ability of a UK regulated firm to wind down in an orderly way. The FCA identified three types of intra-group dependencies:

- Financial inter-connectedness (for example, where financial support from a parent or other group undertaking is required)
- Operational inter-connectedness – where the entity depends on shared group resources such as IT and HR
- Contingent financial support – where there may be such items as cross-guarantees in place.

In these situations, the firm must assess and map out this inter-connectivity and the impact it may have on wind-down, and consider the mitigating actions it can take.

This requires a clear governance structure that sets out the roles and responsibilities of the respective boards and Executive Committees of each legal entity and how they interact across the group. There must also be an operational plan explaining how each relevant entity in the group will be wound down. And, thirdly, an impact assessment - especially where some entities in the group will be wound down and others will carry on.

3. Wind-down trigger

Another common weakness was the failure to identify, and act on, a well thought out wind-down trigger or 'initiation point' which determines whether wind-down is required or not.

In the FCA's view, firms should consider a range of appropriate triggers, linked to their risk management framework. Otherwise, wind-down decisions were often occurring too late at a time where the firm was already in 'stress'.

The best examples of good practice were where firms looked at several possible trigger events, including forward-looking triggers such as cash forecasts, considered how these interacted with each other and carried out stress testing of the various outcomes.

Next steps

The FCA requires firms to step up the implementation and sophistication of their wind-down plans and to consider the observations from the Thematic Review when finalising their plans. The regulator believes the only way a firm can demonstrate that its WDP is credible and operable is to test its outcomes.

Please feel free to contact the PKF Broking team if you need any help in developing or improving your WDP.

Paul Goldwin
Head of Insurance Intermediaries

+44 (0)20 7516 2251
pgoldwin@pkf-l.com

About PKF
Simplifying complexity for our clients

PKF is one of the UK's largest and most successful accountancy brands.

With over 100 years' experience in the insurance market, PKF has built up a solid and comprehensive reputation as one of a small number of UK accounting firms with in-depth expertise in supporting businesses, their owners and investors across the insurance industry.

Ranked as the largest auditor of insurance intermediaries in the UK and the 7th largest auditor of general insurers, our dedicated insurance team acts for major carriers and syndicates, brokers and MGAs including many businesses harnessing the power of technology to transform the insurance industry.

How we can help

Statutory Audit →

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Tax →

Transaction advisory →

Restucturing →

Business outsourcing →

PKF UK in numbers

9th Largest audit practice in the UK in the latest Accountancy Daily rankings

17 Offices across the UK

2,035+ Employees and 167 partners

£182.5m Fee income and growing rapidly

Insurance intermediaries in numbers

1st Largest auditor of insurance intermediaries

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15 PE backed insurance intermediary clients

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$1bn+ In aggregate fee income

20,000 Employees

Get in touch today to see how we can help...

Paul Goldwin
Partner – Audit & Assurance
+44 (0)20 7516 2251
pgoldwin@pkf-l.com

John Needham
Partner – Transaction Services
+44 (0)20 7516 2284
jneedham@pkf-l.com

Azhar Rana
Partner - Audit & Assurance
+44 (0)20 7516 2232
arana@pkf-l.com

Howard Jones
Partner - Corporate Tax
+44 (0)20 7516 2295
hjones@pkf-l.com

Will Lanyon
Director - Transaction Services
+44 (0)20 7516 2411
wlanyon@pkf-l.com

Martin Watson
Partner – Audit & Assurance
+44 (0)113 524 6220
mwatson@pkf-l.com

Jessica Wills
Partner – Goverance, Risk & Control Assurance
+44 (0)20 7516 2229
jwills@pkf-l.com

Chris Riley
Partner – Corporate Tax
+44 (0)20 7516 2427
criley@pkf-l.com

Ian Singer
Senior Consultant - IT Assurance
+44 (0)20 7516 2393
isinger@pkf-l.com

Richard Willshire
Director - Goverance, Risk & Control Assurance
+44 (0)20 7516 2200
rwillshire@pkf-l.com

PKF

PKF Littlejohn LLP
15 Westferry Circus
Canary Wharf
London E14 4HD

Tel: +44 (0)20 7516 2200
www.pkf-l.com

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