



Broking Breakfast: M&A, Tax and Regulatory update

PKF

11 July 2024

pkf-l.com

Agenda



01 Introduction
Martin Watson

02 M&A market
Will Lanyon

03 Tax impact on share
ownership
Catherine Heyes



04 Retail Mediation
Activities Return
(RMAR)
Martin Watson

05 Closing and Q&A
Martin Watson

Today's speakers





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M&A market

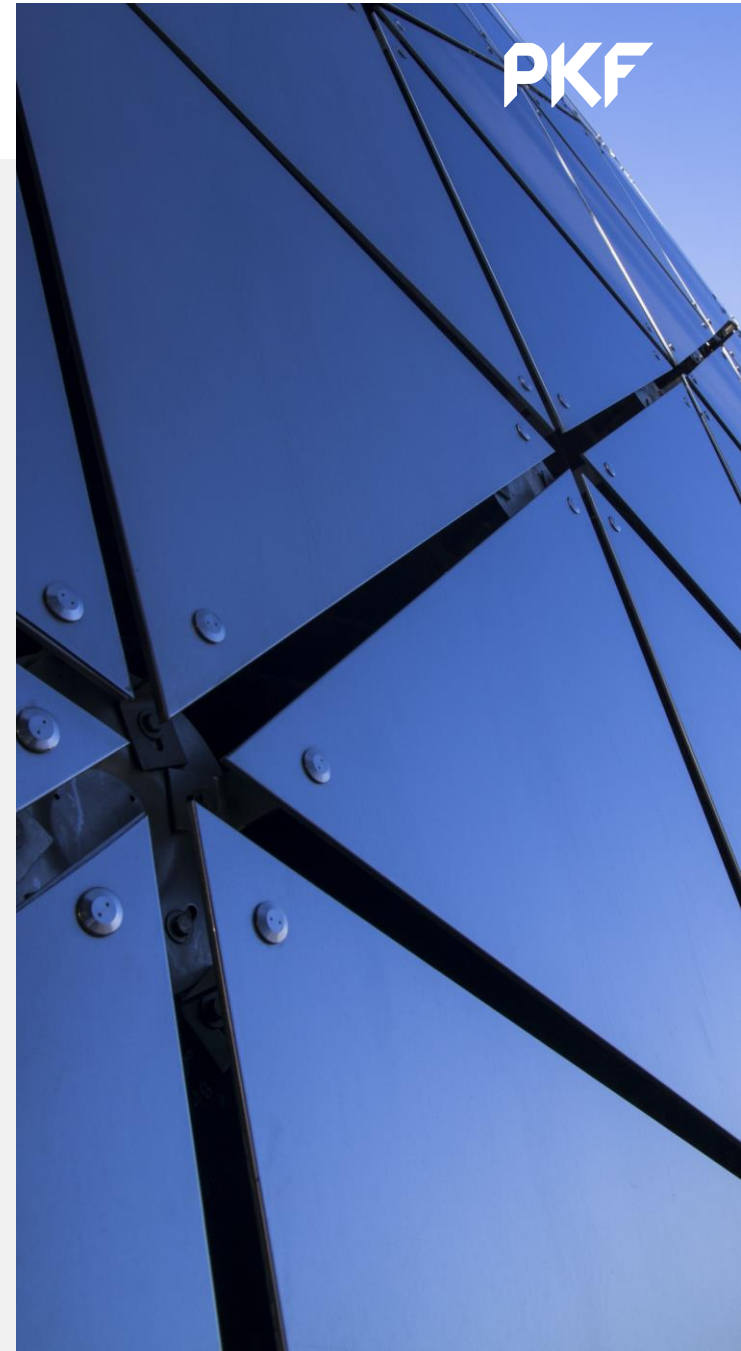
Will Lanyon
Transaction Services Partner

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M&A update

■ M&A update

- Insurance intermediary market has stayed strong with themes remaining from prior years
- Multiples have remained strong especially for good assets
- Changing deal types
 - Looking further for smaller assets
 - Trade and asset deals
 - More complex deals, eg carve outs
- Larger deals have come back after a difficult 2023
- More interest in MGA and Lloyd's brokers from traditional commercial brokers, to make themselves more attractive to the market
- Acquirers looking at MGAs with a focus on UW profitability and sustainability of capacity
- Continuing interest in international acquisitions



▀ M&A update

New start ups

- Changing lifecycle for brokers owners, reducing start-ups?
- However, for entrepreneurial younger brokers and underwriters there are still options

Deals are still slow to get through at times

- Are assets ready to sell?
- Consolidators are prepared to look at smaller / less mature assets
- Generally seeing more pressure / scrutiny on DD and maybe a little less confidence meaning that EBITDA bridges under more pressure

Interest rates

- Support from debt providers for refinancing aiding M&A

Potential impacts on future M&A

► Potential impacts on future M&A

Labour government

Instech

- Shift to more insurance people coming in or being involved
- Maturing business being bought by existing market players
- Could start seeing some nice businesses emerging but not many of scale
- Parametric / Backoffice / Claims / AI management

Refreshed interest in Lloyd's / SIAB

- Slightly driven by 4th year when firms turn into full syndicates – need scale and therefore funding
- MGAs creating syndicates to back their own capacity



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Tax impact on share ownership

Catherine Heyes
Corporate Tax Partner

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Equity incentivisation

▀ Equity incentivisation



EMI

Which route?

Insurance?

Conditions and administrative requirements



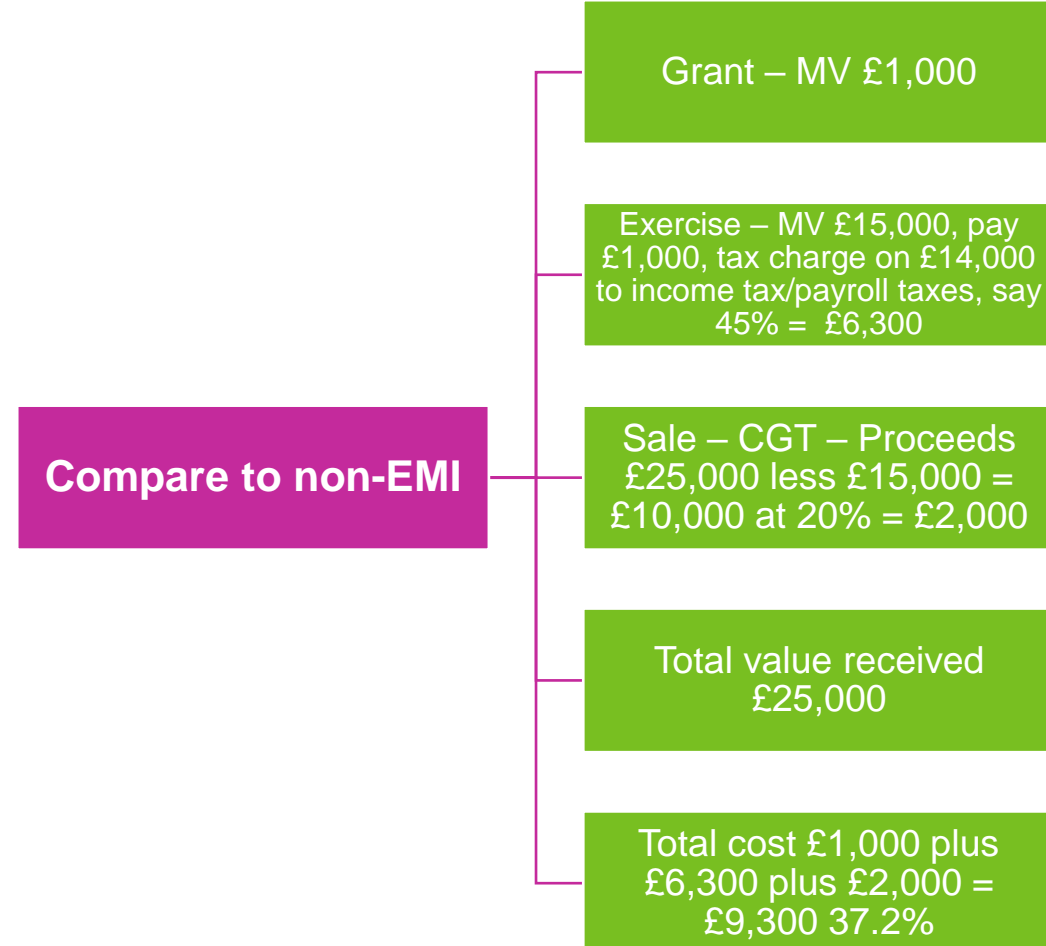
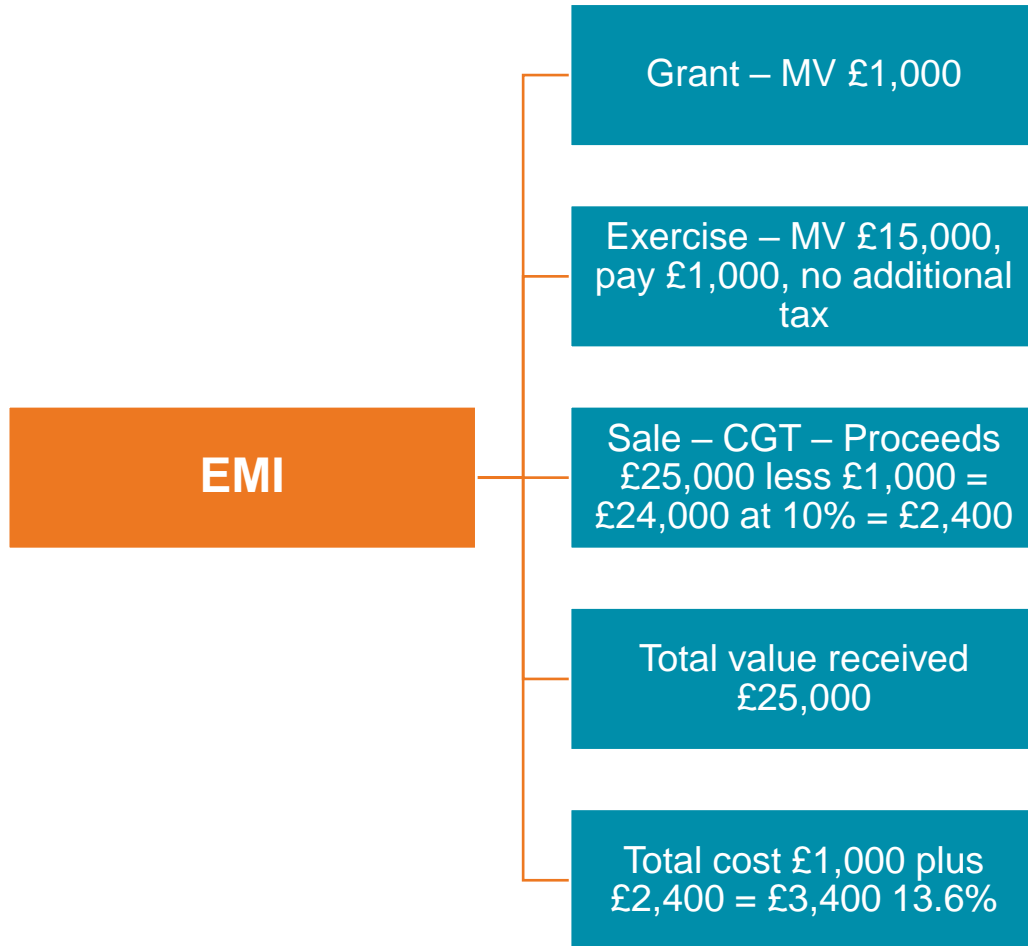
Grant – no tax

The diagram consists of three horizontal bars of different colors (blue, purple, and orange) stacked vertically. Each bar has a white circle on its left side, connected by a thin blue line. The circles are empty, suggesting a sequence of steps or stages.

Exercise – pay MV on grant – no tax on growth

Sale – Capital Gains – BADR relaxation

EMI – Example



Other tax favourable routes

Other tax favourable routes

Share award

CSOP

Nil / partly paid shares

Growth

... Valuations ... annual reporting ... tax elections ...



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Retail Mediation Activities Return (RMAR)

Martin Watson
Financial Services Partner

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Retail Mediation Activities Return (RMAR) – Overview

Retail Mediation Activities Return (RMAR)

What is the RMAR?

- Originally introduced by the FSA in April 2005 and is the core regulatory return submitted by firms who provide intermediary services arranging and/or advising on mortgages, non-investment insurance or investment products
- It therefore covers all firms with permissions to carry on insurance distribution activity in relation to non-investment insurance contracts, ie FCA authorised insurance intermediaries
- The RMAR is the framework for the collection of information required by the FCA as a basis for its supervision activities

How is the RMAR information collected?

- Firms report their RMA data electronically via GABRIEL, which is the FCA's online system for collecting and storing regulatory data
- Electronic reporting via GABRIEL enables the FCA to provide baseline monitoring, as it requires firms to submit their data in a manner which allows them to build in various automatic verification checks
- Additionally, providing data in a standardised manner, permits the data to be stored in their data warehouse where they can analyse trends and select firms for thematic work etc

How often are firms required to provide their RMA information

- Most firms are required to report their RMA information every six months at a minimum for most sections of the return, based on their accounting reference date
- Firms have a period of 30 working days after the end of the return period in which to submit the return
- Some larger non-investment insurance firms (where regulated revenue exceeds £5m per annum) are now required to report their RMA information every quarter, on the same basis as above

What information is captured by the RMAR and why?

What information is captured by the RMAR and why?



Financial
information



Threshold
conditions



Conduct
of business



Training and
competence



Fees
data

Financial information		
Information reported	Information required	Reasons for collection
RMA-A Balance Sheet	Summary data showing the firm's financial position as at the accounting reference date	To assist the FCA in monitoring the firm's financial position at the accounting reference date and ongoing solvency
RMA-B Profit and loss	Financial results reported on a cumulative basis throughout the firm's financial year	To provide the FCA with details of regulated business revenue and financial results for the year
RMA-C Client money and assets	Client money held by the firm in the course of carrying on regulated activities	To allow the CASS team to monitor the firm's compliance with the client money rules in respect of client money for which the firm is responsible for its protection
RMA-D1 Regulatory capital	Calculation of regulatory capital and capital resource requirements calculated in accordance with MIPRU 4	To enable the FCA to monitor a firm's capital resources and ensure it is adequate in relation to the regulated activities it carries out
RMA-E Professional Indemnity	Confirmation that there is adequate PII cover in place and a summary of cover (or confirmation that no change since last reporting date)	To enable the FCA to monitor that the firm has adequate PII in place

What information is captured by the RMAR and why?

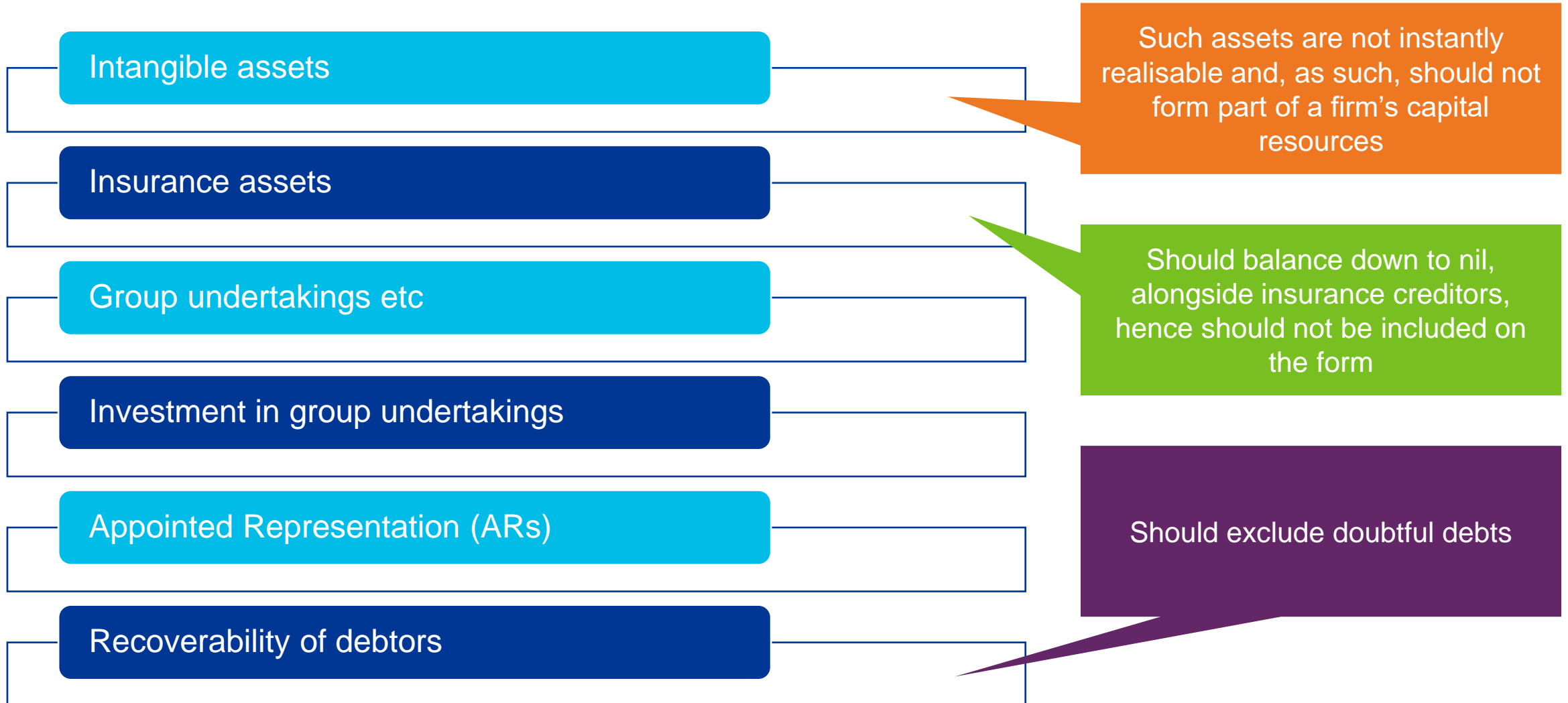
Threshold conditions		
Information reported	Information required	Reasons for collection
RMA-F Threshold conditions	Verification on compliance with various issues related to threshold conditions for close links and controllers	To enable the FCA to ensure that firms have complied with their threshold conditions on close links and controllers and met the ongoing notification requirements

Training and competence / conduct of business		
Information reported	Information required	Reasons for collection
RMA-G Training and competence	Information on staff, advisers and their qualifications	To satisfy the FCA that a firm has suitably qualified staff to undertake their regulated activities and to enable the FCA to assess the nature of the firm's compliance with the training and competence requirements
RMA-H Conduct of business	Information on a variety of aspects of how a firm carries out its business	To enable the FCA to monitor and identify any 'bad practice' to minimise bad customer outcomes
RMA-I Supplementary product sales data	Product information and details of insurance chains, broken down by product type	Enables the FCA to get a clearer picture of the product range in the market and helps target thematic work
RMA-J Data required for collection of fees	Regulated revenue calculated in accordance with detailed criteria	To provide the FCA with the information required to calculate the periodic fees that firms are required to pay to the FCA, FOS and FSCS

Common areas of interest / pitfalls in completing the RMAR

Common areas of interest / pitfalls in completing the RMAR

RMA-A Balance Sheet



Common areas of interest / pitfalls in completing the RMAR



RMA-B Balance Profit and Loss

Cumulative
reporting

Appointed
representatives

Unaudited
interim profits

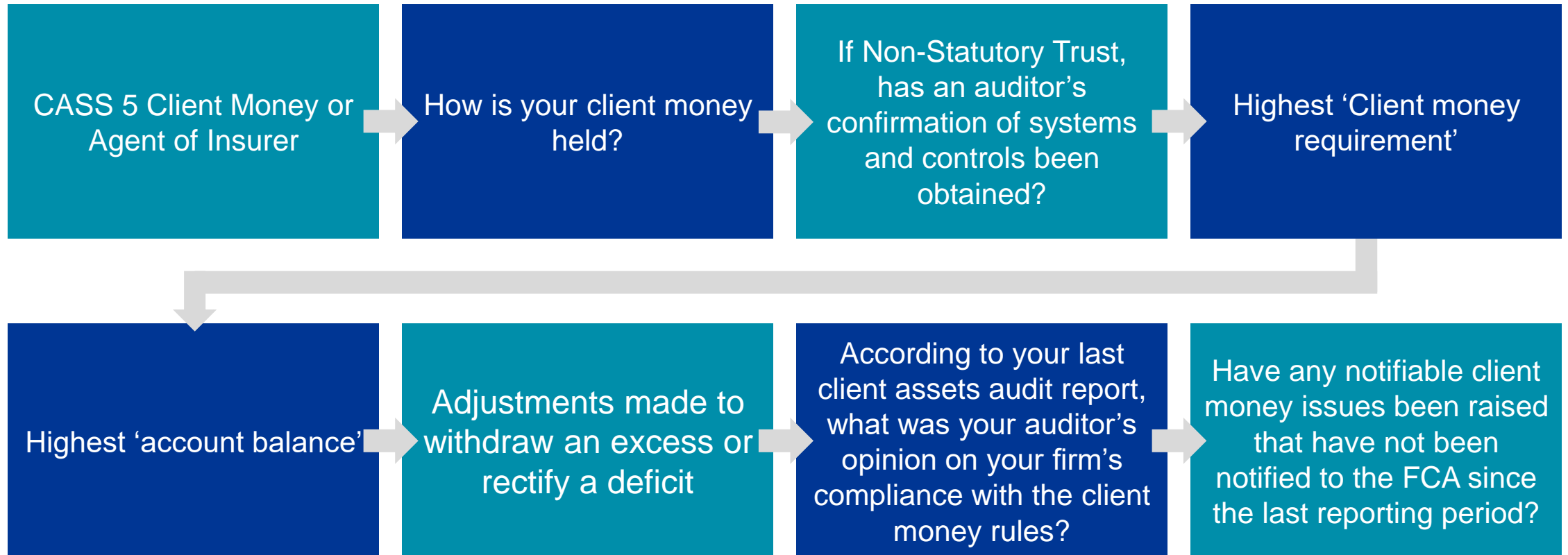
Taxation

Gross / net
commissions

Accounting
convention

Common areas of interest / pitfalls in completing the RMAR

RMA-C Client Money and Assets



Common areas of interest / pitfalls in completing the RMAR

RMA-D1 Regulatory Capital

A firm's capital requirement is set at the higher of the base requirement and 5% of annual income (for firms that hold client money) or 2.5% of annual income (for firms that do not hold client money). The base requirement is set out in MIPRU 4.2.11R and amounts to £10,000 for firms that hold client money and £5,000 when no client money is held.

A firm's base requirement is increased to £50,000 where it operates under a Non-Statutory Trust arrangement and handles client money for retail clients.

Reserves

Interim
profits

Interim
losses

Subordinated
loans



Any questions?



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