

17 June 2025

Broking Breakfast

Accounting, tax and
regulatory update



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Today's speakers



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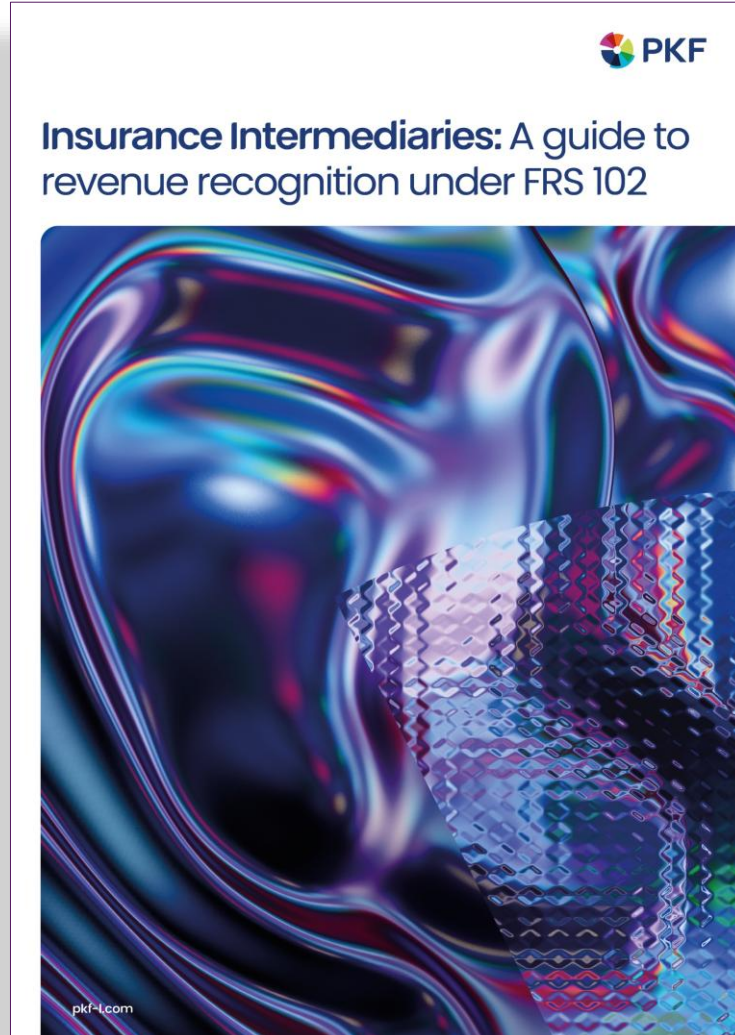
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Changes to UK GAAP: Revenue recognition

Satya Beekarry

Insurance intermediary revenue recognition guide



- **Introducing our revenue recognition guide for insurance intermediaries**
- **Launched May 2025**
- Provides a comprehensive look at the five-step model.
- Explains some of the accounting challenges faced by insurance intermediaries for common services and highlights potential implications.
- The guide can be downloaded from our website: <http://bit.ly/4dLSfrT>

Five-Step Approach to Revenue Recognition

1. Identify the contract(s) with a customer

Ensure the agreement creates enforceable rights and obligations.

2. Identify the performance obligations

Determine the distinct goods or services promised in the contract.

3. Determine the transaction price

Estimate the amount of consideration expected in exchange for goods/services.

4. Allocate the transaction price

Distribute the price to each performance obligation based on relative standalone selling prices.

5. Recognise revenue

Recognise revenue when (or as) the entity satisfies a performance obligation.

Profit commission

Variable consideration (PC)

- Will PC be recognised sooner (or later)?
- It depends on your current accounting policy as diversity in practice exists today!
- The amendments introduce two methods for estimating the value of variable consideration.
 - **The expected value method:** The expected value is the sum of probability-weighted amounts in a range of possible consideration amounts.
 - **The most likely amount method:** The most likely amount is the single most likely amount in a range of possible consideration amounts (ie, the single most likely outcome of the contract).
- Where PC is **highly probable** and will **not result in a significant cumulative revenue reversal**, a **minimum amount** will need to be recognised.
- This is likely to be a change from current practice and will require more judgement than is exercised today, it could also require the use of specialists such as actuaries to develop estimates or models.

PC - Example

Step 1: Identify the contract with the customer:

ABC Intermediary has a contract with XYZ Insurance Company to provide intermediary services. The contract specifies that ABC Brokers will earn:

- Policy Placement Fee: ABC Brokers earns 10% for every policy underwritten.
- PC: ABC Brokers earns a tiered PC based on the underwriting profit:
 - Loss ratio < 50%: 15% of underwriting profit
 - Loss ratio 50%-70%: 10% of underwriting profit
 - Loss ratio 70% - 80%: 5% of underwriting profit

Step 2: Identify the performance obligations in the contract:

- Initial Underwriting only (i.e. assume no post placement services)

Step 3: Determine the transaction price:

The transaction price includes:

- Commission: 10% of GWP.
- PC: Tiered based on the loss ratio. Assume:
 - Number of policies underwritten: 1,000 generating £1,000,000 GWP
 - Expected loss ratio of 45% and underwriting profit of £100,000
 - The expected PC using the expected value method at initial recognition is £15,000 (i.e. 15% of £100,000)

PC – Example (cont'd)

Step 4: Allocate the transaction price to the performance obligations

The transaction price determined at inception of £115,000 is allocated to the single performance obligation, being placement:

1. Commission: $10\% \times £1,000,000 = £100,000$
2. PC: $15\% \times £100,000 = £15,000$ (since the loss ratio is expected to be 45%)

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

1. Commission is recognised when the policies are underwritten.
2. PC - a minimum amount of £10,000 is recognised at inception and a further £5,000 subsequently when the PC becomes reasonably certain and/or is determined. i.e. initial recognition of PC is constrained.

On the basis that the underwriting history of the last 5 years shows on average the PC paid has been 10%, with loss ratios ranging between 55-68% and in no single year has the loss ratio exceeded 70%.

The amount of £10,000 in this example would be considered highly probable and is not expected to be subject to significant reversal. This would result in an acceleration of the recognition of PC compared to today if an entity only recognised the PC when it is determined.

What would happen if the loss ratio estimates were to change in the subsequent financial period?

Note: For more uncertain and volatile lines of business there would still be the argument not to recognise until the amounts are finalised.

Implementation challenges

Transition - options

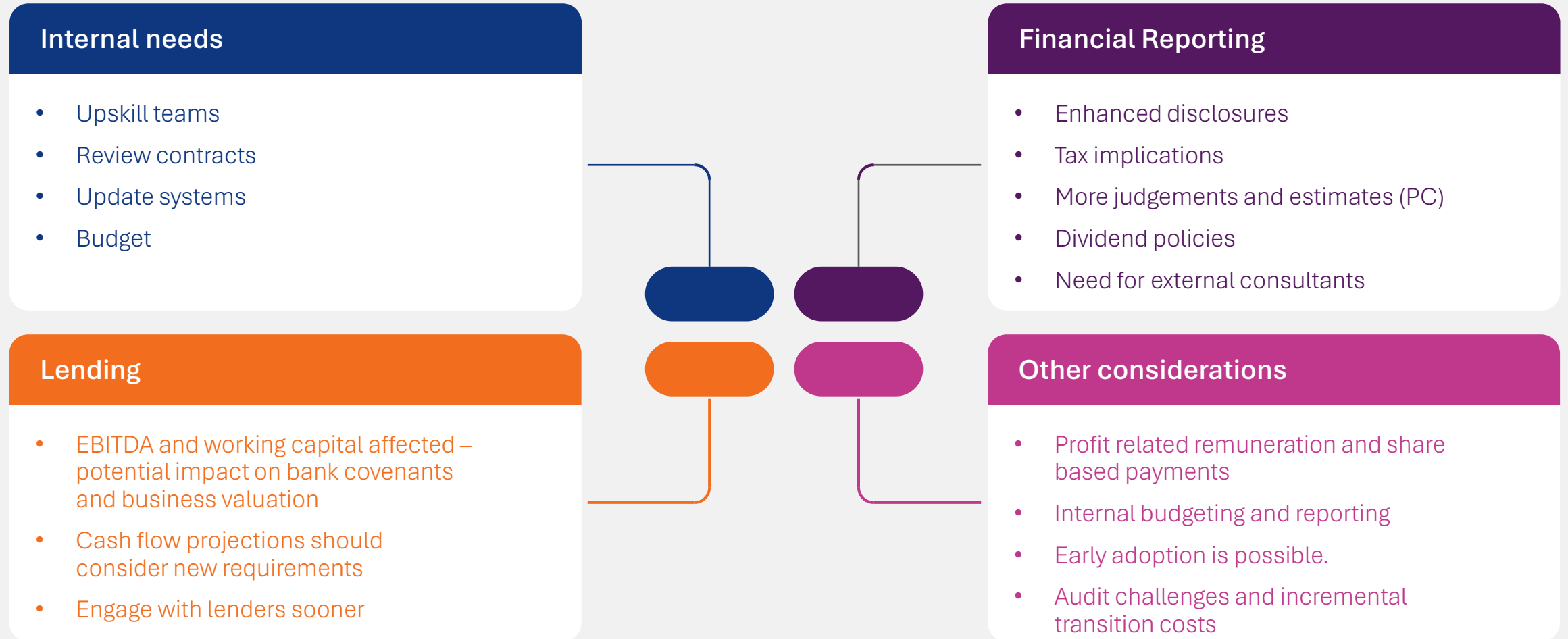
Modified retrospective approach

- Comparatives are **not** restated.
- Adjustment to opening reserves for the cumulative effect of initial application.
- There are some practical expedients available.
- Only applies to contracts not complete at the date of initial application i.e. 1 Jan 2026 for December year ends.

Full retrospective approach

- Recalculate comparative information for prior periods to earliest practicable date.
- Do not need to restate contracts that begin and end in the same reporting period.
- Do not need to restate contracts that were complete at the beginning of the earliest period presented (i.e. 1 Jan 2025 for December year ends)

Challenges for preparers



How we can help...

Examples of how our **Financial Accounting Advisory Services Team** can support you include:

- Reviewing customer contracts to identify performance obligations and variable payments and advising on the accounting impacts.
- Providing guidance on the impacts of the changes on key performance metrics, such as EBITDA, and debt covenants and remuneration schemes.
- Reviewing accounting papers, accounting policies and financial statement disclosures for compliance with the requirements of FRS 102, as well as consideration and review of transition options and disclosures.



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VAT in the insurance sector

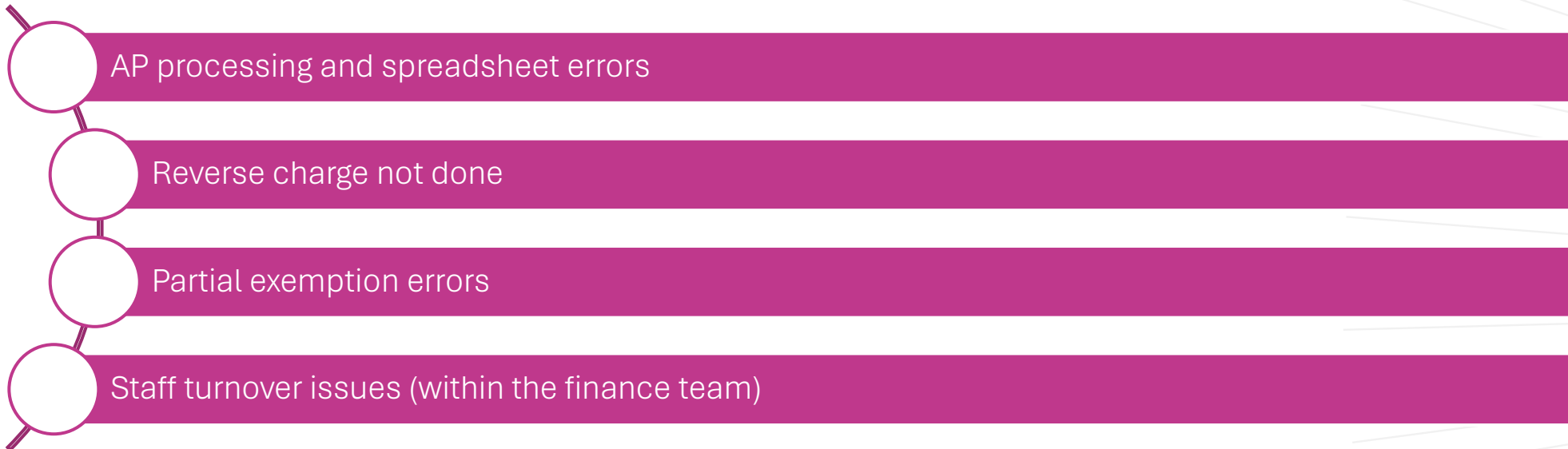
Irfaan Abdool Wabh

Key messages

- You may be sitting on unclaimed VAT refunds or silent risks
- A four-year VAT review typically results in **net VAT recoveries** – which pays for itself
- Best to proactively act now—before HMRC does.

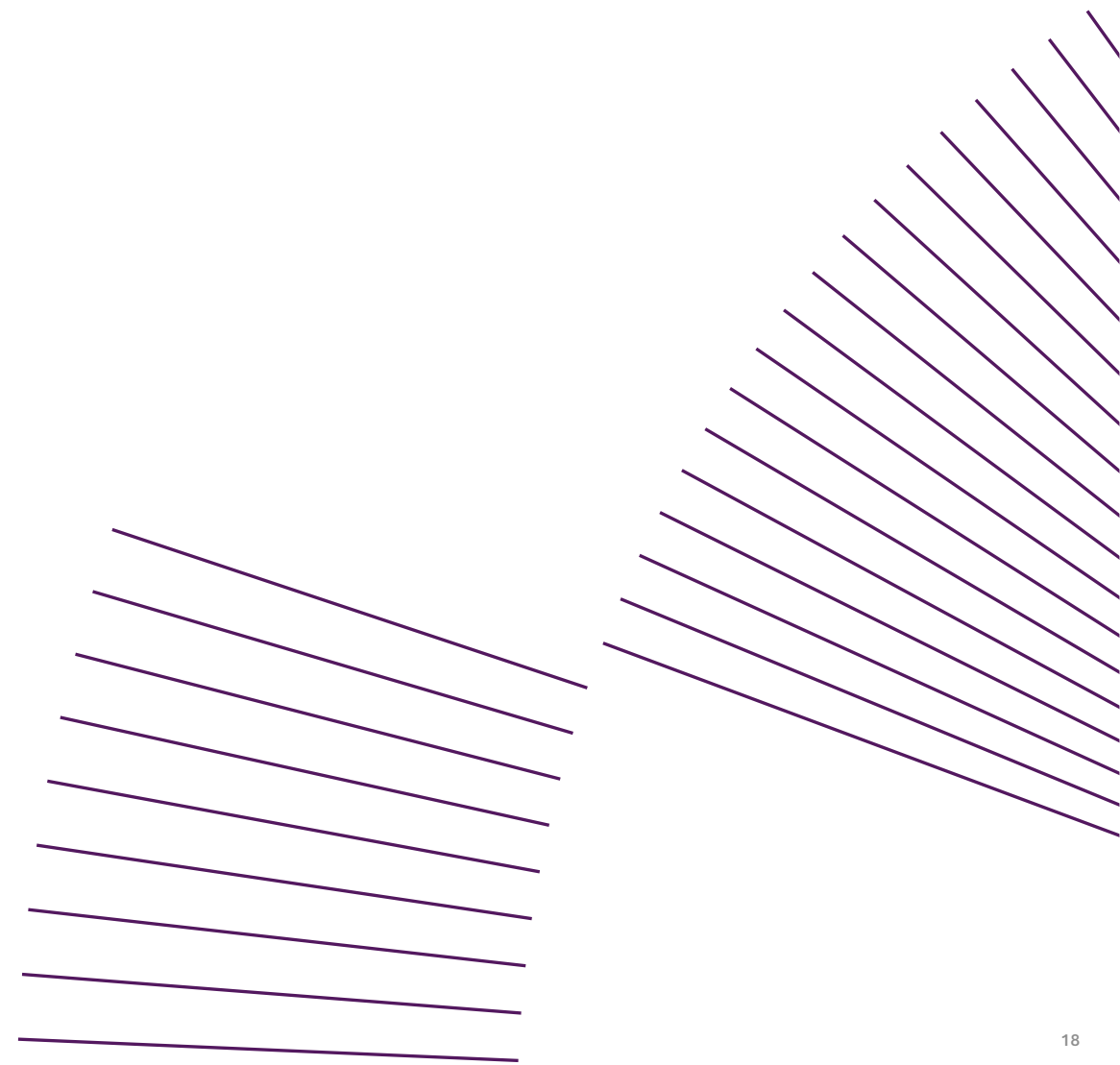
HMRC activity & themes

- HMRC is targeting the insurance sector
- HMRC is better staffed – with sector experts
- Recurring issues are driving HMRC revenue



Cost of inaction

- HMRC ramped up reviews / inspections
- Under pressure to raise revenue
- Delays in paying out
- 8.25% interest and 30% penalty
- Support from an experienced VAT expert.



VAT reviews pay for themselves

- Our reviews
 - Deliver value quickly
 - often results in net VAT recoveries & go-forward efficiencies
- VAT reviews are proactive – ahead of HMRC
- **Benefits other than cash flow:**
 - Confidence in SAO and SOX sign offs
 - Higher EBITDA (preparing for sale)
 - Smoother audit / DD process
 - Mitigate interest costs on debt financing

Post-Brexit structures

- It's been over 4 years since Brexit
- UK fixed establishment of EU-regulated entity
- Using UK staff to support EU business.

- **Considerations:**

UK fixed establishment of EU business?

UK VAT due on use of existing UK staff?

VAT grouping with UK branch office?

Reverse charge VAT in EU Member State?

UK /EU Transfer Pricing & Corporate Tax?

Appropriate documentary support?

Hastings case – a time-sensitive opportunity

- Input VAT not recovered – UK policyholder
- Income from Non-UK insurer
- HMRC not challenging the FTT decision
- Four-year claim window ends 31 Dec 2023
- Act now—missed quarters can't be recovered.

Closing message

- Get a four-year VAT review
 - Most reviews result in net cash benefit
 - Identify and mitigate risks going forward
 - Ahead of HMRC: demonstrates reasonable care.

“The cost of doing nothing is nearly always higher than the cost of getting it right”

Latest CASS 5 developments: Insights for 2025

Charles Drew

Agenda

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Review of 2024/2025 audit season

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Common breaches

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Payment Service Providers and Designated investments

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Credit Writebacks

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Hive ups and consent requirements for client money transfers

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Cancellation of permissions process

Bench-marking for 2024/2025

- Comparative review of our audit opinions from late 2024 to 2025 to date from over 100 CASS 5 audits:

Metric	2024 Half-year review	2025 Half-year review
Clean Opinions	3%	1%
Qualified Opinions	92%	96%
Adverse Opinions	5%	4%

- General view that firms are minimising breaches that are seen as significant due to a good understanding of the CASS principles
- Concentration of “common breaches” such as CMC accuracy and timing of surplus transfer items – often reducing in volume year or year
- FCA remain sceptical of Clean CASS reports given difficulty in complying with all rules throughout a period.

Common breaches

Commission and fee receipts

Often see receipt of commission or fee only receipts to client money bank accounts that are not withdrawn in a timely manner.
Accept a prudent approach to not withdraw amounts until they have been identified.

Insurer TOBA terms

The majority of our audit reports identify a TOBA related breach – some terms in particular are more frequently identified as inconsistent with firms operation of the trust environment.

Focus on the client TOBA

Instances of a failure to clearly communicate the way client money will be held to clients.

Less frequent but seen as key to customer outcomes by the regulator.

Client by client reconciliations

Fundamental tool for firms to comply with the CASS rules and use to monitor funded positions. Key for considering credit risk or of funding from a Statutory trust environment.

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Payment service providers and designated investments

Payment service providers

- Increased attention and discussion surrounding the use of payment service providers
- Continue to be accepted practice but variety of types of providers increasing
- Key consideration being the immediate or periodic segregation of client money
- Priority to reduce the time taken to segregate money in a client money bank account
- Firms can still incur breaches and must consider the role of third parties and other agents in their business model and how these sit within the CASS rules.

Designated investments

- Money Market Funds more commonly used by CASS 5 firms
- Priority to consider whether any investments are in the interest of clients and that investments do not introduce unreasonable risk
- Regulator is less concerned under CASS 5 where intermediaries assume responsibility for any fall in asset value
- No requirement to apply for additional permissions as long as investments are held with a regulated and designated investment manager
- Firms must consider the liquidity of any investment for TC 2.4 – access to funds within 90 days.

Credit writebacks

- FCA maintain the view that CWBs are a breach of fiduciary duties in protecting client money and a potential breach of trust law
- Still seen as an indication of a lack of robust systems and controls for the accounting and handling of client money
- Concern primarily remains around any credit writebacks from recently created balances
- Higher concern where a counterparty cannot be identified – accounting adjustments for legacy errors not considered a credit writeback
- FCA expect only CWBs to be actioned when actual consent has been received - where money ceases to be client money
- Expect a formal credit writeback policy outlining the process – must include legal consideration for trust law!
- Introduction of the Dormant Asset Scheme – Current impasse between FCA and Reclaim Fund Limited on application of the scheme for insurance intermediaries. For now, the Dormant Asset Scheme excludes insurance intermediaries.

Hive ups and client money transfers

- The FCA welcomes consolidators as an effective way to raise client money standards where most consolidators move newly acquired firms to embedded group systems and procedures
- Firms must understand the increased risk when applying to move CASS funds from a Statutory Trust to a Non-Statutory Trust environment
- General understanding that Firms should obtain explicit consent from 85% of clients and apply for a waiver when transferring client money
- This rule is not prescriptive and the FCA considers this in the context of a Firms circumstances
- Regulator may reject applications for waivers even if 85% consent is achieved or accept a transfer of money but reject a change in the type of trust (i.e. from Statutory Trust to Non-Statutory Trust)
- Firms must act in line with their Client TOBA terms – regulator will step in where terms are breached!

Cancellation of permissions and deauthorisation

- Firms are hiving up businesses and running off legacy balances before they submit a deauthorisation request to the regulator
- Uncleared legacy balances often cause delays in demonstrating regulated activities have ceased
- Firms require an accountant's letter to confirm client money is no longer being held
- Firms must demonstrate:
 - Insurance balances have been fully reconciled
 - Client monies have been paid to appropriate parties
 - Client money bank accounts have been reconciled and hold no client money
 - Client money bank accounts have been closed
- It's critical that firms are aware of, and prepared for, these requirements for a simplified and efficient deauthorisation process.

Cancellation letters

- Cancellation of Permission Letters issued by auditors
- The FCA challenged the wording of these accountants' letters
- We have now agreed on a suitable form of words as a limited assurance report – this has since been accepted
- Acknowledgement that limited assurance reports are not in the SUP and contradict usual application of a limited assurance reports
- FCA given verbal confirmation that the limited assurance report is only being used as an ad hoc report for a specified purpose
- Gives comfort that the scope of work set out and completed is appropriate – no plans for limited assurance reports to be required for any other purpose under CASS 5.

Key takeaways

- **Payment service providers** - review payment service provides in the context of the firms business model and document why you are comfortable with the timing for segregation of client money
- **Designated investments** - no need to amend permissions for money market funds but confirm there are no restrictions to accessing funds within 90 days
- **Credit writebacks** - prioritise actual consent for credit writebacks and ensure any process in place is supported by legal advice
- **Hive ups and client money transfers** - review Client terms and conditions – backbone of governance in the regulators view
- **Cancellation of permissions** – prepare well in advance of a deauthorisation process by understanding the requirements to avoid unnecessary delay.

Any questions?

MGA Half Day: The bridge to the future of speciality insurance

Join us on Tuesday 15 July for InsTech's MGA Half Day event at the Minster Building in London.

The PKF team will be participating in two separate sessions during the event.

From MGA to full stack insurer - whether, when and how

Insurance Partner, John Needham, will be hosting a panel session, speaking to MGA founders who will share their journeys from MGA to insurer, what they learned, and the advice they would give to those following in their footsteps. John will be joined by Simon Coles, Head of Capital at Parsyl, Rachael Ridgewell Director of Legal and Regulatory Affairs at Zero, and Jonathan Spry, Founder & CEO of Envelop Risk.

Ask the experts - what lies ahead for MGAs in 2025/6 and how to prepare for it

Corporate Tax Partner Tom Golding and Financial Services Partner & Head of Financial Accounting Advisory Services, Satya Beekarry will be joining Nadege Genetay, Partner at Sisic Advisory, for a separate panel session, putting themselves under scrutiny through tough questioning from industry veteran Tim Smyth of Bspoke. We will share what should be keeping MGAs awake at night from a tax, regulatory and accounting perspective, and explain what MGAs should be focusing on for the next 12 months.

To see the full agenda and to find out how to register, please visit: www.instech.co/events/mga-half-day/

17 June 2025

Thank you

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