

30 September 2020

Dear CEO

Adequate Client Money Arrangements – For General Insurance Intermediaries

The impact of coronavirus (Covid-19) is being felt widely and is affecting all the entities we regulate in ways that may not have been predicted. In these circumstances, it is imperative that your firm continues to maintain adequate arrangements that safeguard the client money it holds for customers.

This letter highlights those areas that are particularly important to maintaining adequate client money arrangements in the current environment. It also reminds you of your obligations to continue to oversee those arrangements and notify us if you identify any material concerns.

Senior management oversight

We expect your firm's senior management to have appropriate oversight over your client money arrangements. You should discuss the contents of this letter with your Board, or equivalent governing body, and agree what further action is necessary to help ensure your firm has adequate arrangements in place. In particular, we draw your attention to the following areas:

- application of client money rules to firm's business model
- governance and oversight
- oversight of third parties, including due diligence
- client money calculations and reconciliations
- acknowledgement letters for all client money accounts

We provide further detail on these areas in the Annex to this letter.

We will continue to conduct assessments of firms' client money arrangements, and review the annual independent external auditors' client assets reports. If we contact your firm in the future, we will expect you to be prepared to explain the actions taken in response to this letter.

You are reminded that (in accordance with SUP 15.3 and Principle 11) you are required to notify us of any material issues or concerns your firm identifies with its client money arrangements.

Yours sincerely

Christopher Woolard

Interim Chief Executive Officer

Annex – Detailed summary of key areas for consideration

1. Application of client money rules to firm’s business model

We expect all firms to understand and be able to demonstrate how the client money rules apply to their business. Your firm should review its client money arrangements to make sure they remain adequate and robust in the current environment. In doing so, you may find it helpful to refer to [the Guide to Client Money for General Insurance Intermediaries \('the client money guide'\)](#).

a. Non-statutory client money trust

Holding client money under a non-statutory trust can potentially expose client money to additional credit risk, as it enables the firm to advance credit to clients and insurers from the non-statutory trust. If your firm is operating a non-statutory trust, you must ensure there is a properly executed trust deed in place which complies with the additional conditions for using the non-statutory trust set out in the client money rules.

b. Risk transfer

Money held under risk transfer agreements is not segregated (unless co-mingled with client money). There is a risk that client money segregation obligations will apply if, for example, the terms of the risk transfer agreements are ineffective, are not being complied with or the agreements have not been executed properly. If your firm operates risk transfer arrangements, it should ensure that its contractual agreements and operational arrangements with insurers are robust, so that insurance cover for policyholders is not put into doubt.

2. Governance and oversight

a. Organisational arrangements

Your firm should have adequate governance to identify material risks to your client money arrangements and ensure monitoring of those arrangements. This includes appropriate oversight by the senior manager with responsibility for client money. It should also include monitoring and testing by Compliance and/or Internal Audit where relevant, or using external resource as needed, aligned to the risks identified within the business.

3. Oversight of third parties, including due diligence

a. Maintaining current due diligence for third parties holding client money in the European Economic Area (EEA)

Your firm is required to carry out periodic due diligence reviews on third parties holding client money. If your firm deposits client money with any institution in the EEA, you should review your due diligence to ensure that client money will not be subject to increased risk due to any changes arising from the end of the EU withdrawal transition period, and manage the risks accordingly. Your firm should make sure that existing safeguards and protections for client money, especially in the event of insolvency, remain effective from the end of the transition period.

b. Oversight of Appointed Representatives

If your firm is a principal to Appointed Representatives, the firm should have adequate systems and controls to monitor the activities carried out by Appointed Representatives

on its behalf. Your firm must have procedures in place to help ensure that client money is handled properly and accurate records are maintained.

Where your firm permits Appointed Representatives to receive client money, it should ensure that those Appointed Representatives protect client money in accordance with the requirements in the client money rules for either immediate segregation or periodic segregation.

Where your firm is using periodic segregation, it should ensure that it holds in a segregated client bank account an estimated amount of client money that is likely to be received and held over a given time period by its Appointed Representatives or agents. Periodically (and within 10 business days of the end of that time period), your firm must reconcile this estimated amount against information received from the Appointed Representatives or agents about how much client money they have received and are holding. Once the reconciliation is complete, the firm must then make any necessary payments into or withdrawals from its client bank account to ensure that there is neither an excess nor a deficit.

4. Client money calculations and reconciliations

Your firm must ensure that it has accurate records and accounts. To help maintain their accuracy, firms are required to conduct frequent reconciliations in a timely manner with all discrepancies and breaks appropriately recorded and resolved promptly. In particular, the client money calculations help verify the accuracy of the balances held for clients and confirm that they are held in client accounts.

If your firm uses the accruals method, we expect it to value any client money advanced to clients or insurers from the non-statutory trust prudently and consistently, so that its books and records remain accurate. Where bad debt is written off and a deficit is identified, the firm will need to top up the client money account with its own funds.

5. Acknowledgement letters

Your firm must ensure that client money bank accounts have an acknowledgement letter, in line with the client money rules. The letter must make it clear that the balances held in credit in those accounts are held for the benefit of the firm's clients. Your firm should maintain adequate arrangements to assure itself of the completeness and accuracy of the acknowledgement letters, conducting reviews where necessary.