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Welcome to our latest issue of **Broking Business...**

Rules are not always as clear as they should be. We like to keep our broking clients on the straight and narrow, so made sure we got the final word from the Regulator. At our latest bi-annual meeting with the FCA, we asked for clarification on various CASS 5 issues where we commonly receive push-back from clients when we raise breaches on these matters. Paul Goldwin explores the confusion on CASS 5 rules in more detail.

The VAT rules for insurance brokers can be mind-boggling at the best of times. Mark Ellis highlights the frequent areas of confusion in the sector, explains the relevant guidelines and discusses potential opportunities.

At the end of 2024, Chancellor Rachel Reeves delivered the first Budget of the new Labour Government. It was expected to be a fiscal event and was the subject of much speculation. Tom Golding takes a closer look at what the new tax changes mean for insurance brokers.

The UK insurance broking sector has continued to evolve over the past 12-months, shaped by a combination of market dynamics, political uncertainty and changing economic conditions. Will Lanyon examines the impact of these developments and assesses the potential for a soft market in insurance rates.

As always, please contact any of the team to discuss how we can support your business and let us know your thoughts on future topics.

Paul Goldwin
Head of Insurance Intermediaries
+44 (0)20 7516 2251
pgoldwin@pkf-l.com

What do the new tax changes mean for insurance intermediaries?

Last year Chancellor Rachel Reeves delivered the first Budget of the new Labour Government. Expected to be a significant fiscal event, it had been the subject of much speculation. We take a closer look at the impact for insurance brokers.

Employers' national insurance contributions (NICs)

Perhaps the most significant changes were those made to employers' NICs. From 6 April 2026, the rate will increase from 13.8% to 15%. Not only that, the threshold at which employers start to pay will reduce from £9,100 to £5,000 pa.

The rate increase, coupled with the reduction in the threshold, means brokers will see an increase in the costs of employing staff.

It's worth noting the allowance employers can use to offset their NIC liabilities will go up from £5,000 to £10,500 pa, and this will now be available to all employers. But in many cases, this is a small contribution to the increased costs for brokers.

Capital-gains tax (CGT)

A possible hike in the CGT rate drew the most attention in the run up to the Budget. It will no doubt be a relief to business owners that the increases were not as high as some were speculating.

From 30 October (Budget Day), the lower rate of CGT increased from 10% to 18% and the higher rate from 20% to 24%.

Many brokers are owned by those who work in the business, whether founders or employees. These individuals will continue to benefit from a lower rate of CGT on the sale of their business when compared to income tax rates, albeit at the higher rates of 18% and 24%.

Business Asset Disposal Relief (BADR) will also still be available. BADR means those who own qualifying business assets can benefit from a lower rate of CGT. This is commonly available where a person owns all or part of the business in which they work, often with a minimum holding percentage and time period.

The current BADR rate is 10% and the lifetime limit is £1m. This lifetime limit will remain unchanged, but the rate applicable to qualifying gains will go up to 14% from the 6 April 2025 and 18% from 6 April 2026.

There was an increase in activity in the run up to Budget Day, with brokers looking to sell their business before any changes to CGT were announced.

There has been some additional interest from business owners looking to complete transactions before 5 April 2025 to ensure BADR at the lower rate of 10%. However, we have not yet seen the level of increased activity which we experienced before budget day. This is perhaps because the increase to BADR does not affect all business owners and the relief is only available on the first £1m of qualifying gains.

Employee share schemes

Changes to CGT also impact the tax employees pay on equity incentives. This is particularly true for tax-advantaged schemes.

Small and mid-sized brokers will often offer key employees share options under an Enterprise Management Incentives (EMI) scheme. This means they can benefit from lower CGT rates on any increase in value of the shares.

With the rate for CGT staying below income tax, this will remain a tax efficient way of rewarding employees. And all the more attractive since the increase in employers' NICs to 15%.

Inheritance tax (IHT) and business property relief (BPR)

There are also changes for IHT from 6 April 2026, with a cap on BPR of £1m being introduced (a joint cap with agricultural property relief).

Currently, BPR applies to qualifying business assets and provides 100% relief from IHT. The change will mean that where the value of qualifying assets exceeds this cap, relief will only be available at 50%, creating an effective rate of 20% on this excess.

From this date, a family-owned broker with a value over £1m may now be chargeable to IHT if left to children on death. Before this change, families would expect to pay no IHT with the business qualifying for BPR at 100%.

We may see people passing on businesses before the cap comes in from 6 April 2026, or they may choose to do so earlier in their life. Gifts made in life usually fall outside IHT after seven years.

So, it's worth businesses planning ahead for what these changes may mean, so that they are as well prepared as possible.

For more information on how the new Budget may affect your insurance intermediary, please contact Tom Golding.

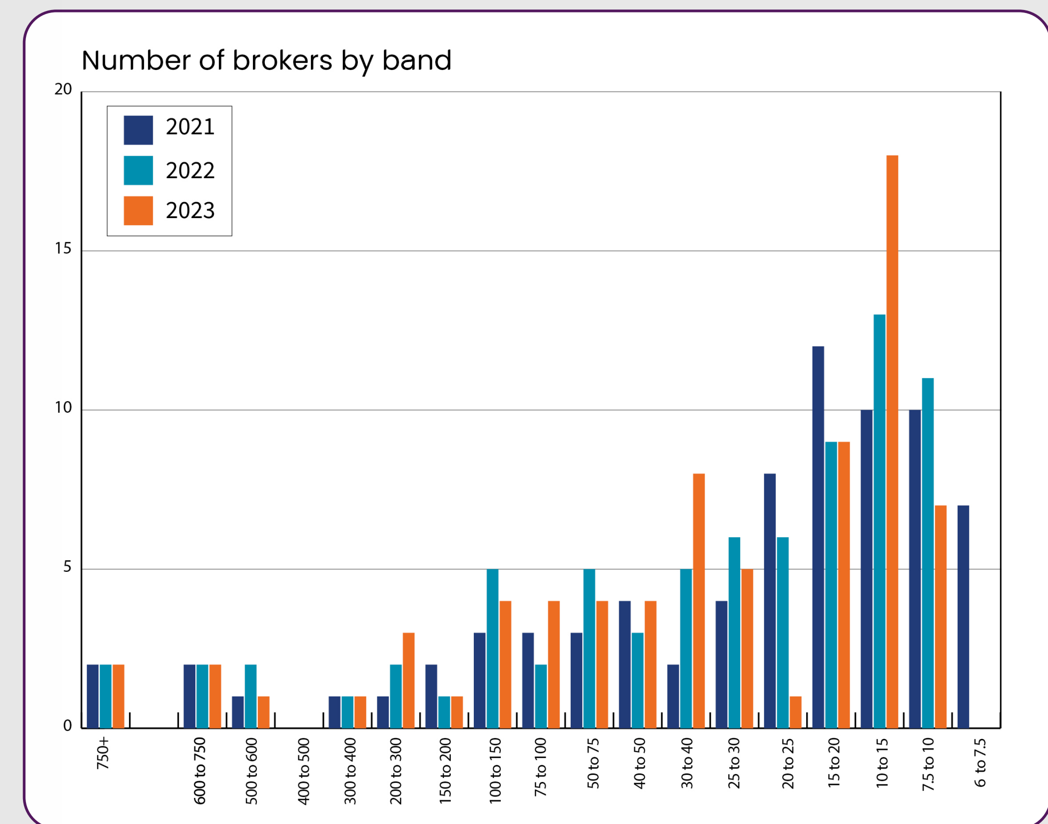
Tom Golding
Partner
+44 (0)20 7516 2413
tgolding@pkf-l.com

The evolving landscape of the UK insurance broking sector

The UK insurance broking sector has continued to evolve over the past 12 months, shaped by a combination of market dynamics, political uncertainty and changing economic conditions. We examine the impact of these developments and assesses the potential for a soft market in insurance rates. We provided analysis for Insurance Age's flagship annual 'Top 100 Broker's survey.

Transactions and market confidence

Overall, confidence in the insurance broking sector remains high and the consolidation of the market has continued apace. Transactions have been buoyed by a combination of robust demand for insurance services and attractive valuations. M&A activity at the smaller end of the market has remained buoyant. Appetite for mid-to-larger transactions, which had seen a drop last year, rebounded in 2024, with deals involving DRP and SRG being particularly notable.



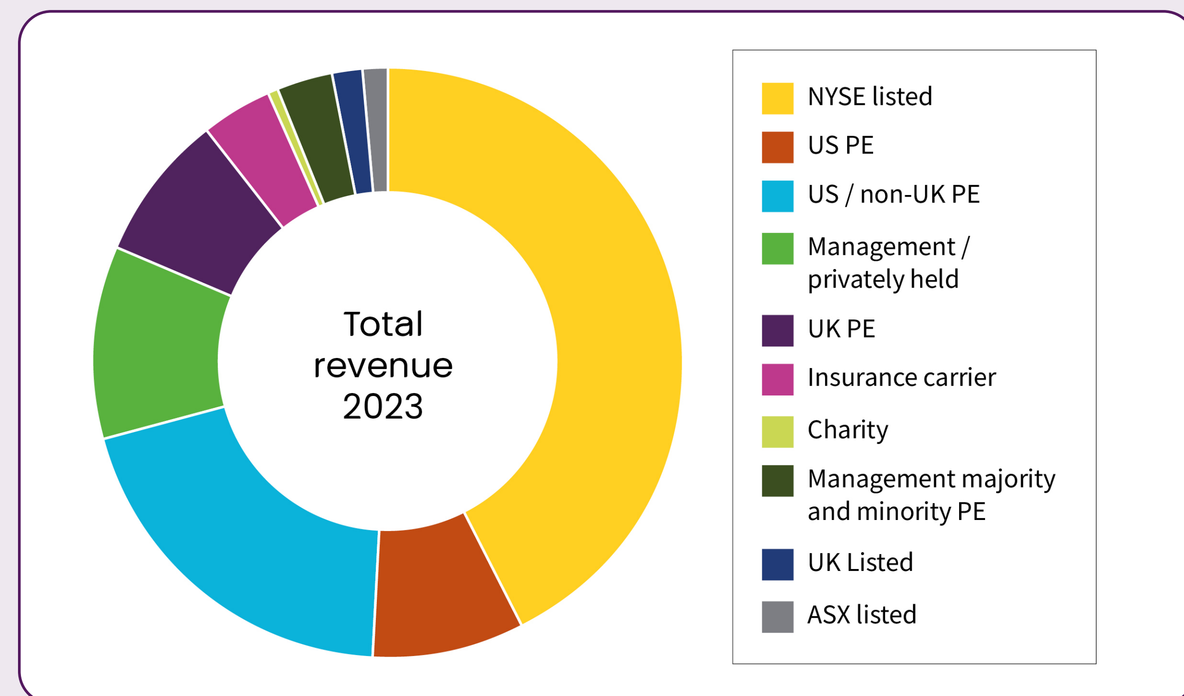
This ongoing consolidation – together with the favourable hard market conditions – has meant that the total size of the market for the Insurance Age broker universe has grown by nearly £1billion per year over the last few years and the minimum size needed to qualify has also increased.

The multiples achieved by larger intermediaries continue to attract premium rates. Valuations can be influenced by several factors, including the quality of the brokerage's client base, either a unique specialism or a diverse offering, and its technological capabilities.

Brokers that have invested in digital transformation and data analytics have the potential to improve value by enhancing operational efficiency and client engagement. In particular, management teams that have been able to show their success with improved data analytics have enjoyed a less challenging due diligence process!

High interest rates do not appear to have deterred activity; insurance brokers have been relatively good at finding ways to finance their acquisitions. As interest rates stabilise, we do not anticipate significant changes in this regard. However, some brokers may look to refinance their debts if their terms can be improved to enhance returns.

Overall, the 2024 market remained dominated by listed large brokers and private equity-backed (PE) businesses, which make up over 80% of the universe by value.



Expansion into Europe and Australia

UK consolidators are increasingly looking beyond domestic borders, with Europe and Australia being particularly prominent at the moment. Both private equity firms and consolidators are eyeing these regions, attracted by the potential for consolidation in markets that are not yet as saturated as the UK.

In Europe, the insurance broking landscape varies significantly from country to country, offering a mix of opportunities and challenges. Consolidators are focusing on markets with fragmented broker networks, where there is room for consolidation and efficiency gains. Similarly, Australia presents a promising market, with growing demand for insurance offerings coupled with a relatively low market concentration.

The political environment and its implications

The Labour government is already having an impact on the sector. One of the most pressing political concerns is the potential for increases in Capital Gains Tax in last October's Budget. This is already leading to a push to finalise acquisitions as quickly as possible. Indeed, we have seen the volume of transactions picking up recently in response to growing media speculation about imminent tax rises and the mood music from Downing Street.

Looking ahead, the future political landscape remains uncertain. While Labour has been at pains to paint themselves as pro-business, broker management teams will need more clarity if they are to successfully navigate any shifts in regulatory and economic policies.

The prospect of a soft market

The sector is currently facing the possibility of entering a soft market phase, characterised by lower premiums, increased competition and more favourable terms for policyholders. Several factors are contributing to this potential shift.

Interest rates have been on a downward trend, with lower investment returns potentially leading to a more competitive pricing environment as insurers seek to maintain their market share. Additionally, inflation has shown signs of stabilising at a lower level, which can influence the cost of claims and, consequently, insurance premiums. On top of this, we have seen the launch of more MGA start-ups, which are looking for market share and may be pushed to price competitively to gain traction.

This combination of factors could tempt brokers to try to secure better terms for their clients after years of rate increases. This may then act as a drag on organic growth, as rate changes have been a key driver for some broking businesses in recent years.

This is by no means a certainty, however. Lloyd's, which has been focused on improving the profitability of its syndicates, has been advising caution about the impact of the soft market and urging everyone to hold strong. The market will wait to see how these competing factors play out over the coming year.

Final thoughts

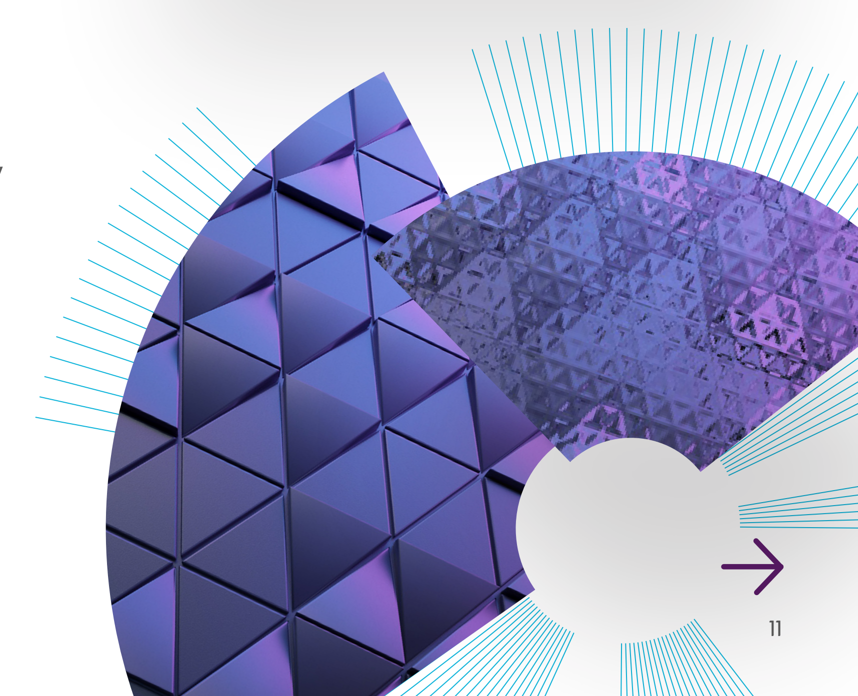
The UK insurance broking sector continues to navigate the evolving landscape – as it always has done! Mid to lower-market transactions continue to thrive, driven by strong market confidence and attractive valuations. UK consolidators are continuing to expand their horizons, exploring opportunities in Europe and Australia to capitalise on less mature markets. The political environment remains a key consideration, with potential changes in CGT and uncertainty about the new government's approach to business influencing strategic decisions.

As the sector potentially heads towards a soft market, the impact on profitability will need be closely monitored. Brokers and insurers alike must remain agile and continue to adapt to these dynamic conditions.

For more information, please contact Will Lanyon.

We have been providing analysis and commentary for Insurance Age's flagship annual Top 100 feature, an essential guide to the top brokers in the commercial and personal space, for a number of years. The original article can be seen ***here*** *(subscription required).*

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



Intermediaries: focus on tax

VAT rules can be mind-boggling at the best of times. We highlight frequent areas of confusion for brokers and MGAs, and explain the relevant guidelines.

Operating within a regulated industry does not automatically mean that all activities carried out in the sector qualify for VAT exemption. In fact, businesses do not need to be regulated to be treated as insurance brokers/MGAs for VAT purposes. It's the commercial and economic elements of the underlying transaction which determine the VAT treatment.

Insurance brokers and MGAs navigate regulatory complexities daily. The list of insurance terms set out on the **Lloyd's website** alone can overwhelm most VAT advisers. Taking a step back and removing the insurance vernacular can help demystify preconceived assumptions about how VAT applies to the sector.

It's an age-old saying that VAT is a consumption-based tax. VAT is added to taxable supplies made by VAT-registered businesses. A taxable supply is any supply made in the UK that is not exempt from VAT.

When are supplies by insurance brokers/agents VAT-exempt?

The UK VAT Act exempts insurance-related services supplied by insurance brokers/ MGAs when they're acting in an intermediary capacity.

What does this mean?

Acting in an intermediary capacity means the insurance broker/agent must be an intermediary between someone who provides insurance and someone seeking to obtain insurance.

Traditionally, this would have meant meeting or corresponding with both parties. But in an increasingly digital age, brokers/ MGAs now use online questionnaires and digital platforms to automate, and actively engage in, connecting the potential insured to insurance providers. This too should be within the scope of acting in an intermediary capacity.

The following **insurance-related services** are exempt from UK VAT when supplied by an intermediary:

- Bringing together, with a view to the insurance or reinsurance of risks, (i) persons who are or may be seeking insurance or reinsurance, and (ii) persons who provide insurance or reinsurance
- Carrying out work preparatory to the conclusion of contracts of insurance or reinsurance
- Providing assistance in the administration and performance of such contracts, including the handling of claims
- Collecting premiums.

Any other services (or those not supplied by an intermediary) should be treated as taxable supplies.

Which supplies are taxable?

A UK-established business must register for VAT if its taxable supplies (net of turnover) exceed the VAT registration threshold of £90,000 (£85,000 until 31 March 2024) under the historic or future test:

- Historic test – if at the end of any calendar month the value of taxable supplies in the previous 12 months exceeded the VAT registration threshold
- Future test – where there are reasonable grounds for believing that the value of taxable supplies within the next 30 days (on their own) will exceed the VAT registration threshold.

These are the taxable supplies that count towards the VAT registration threshold:

- Supply of staff salaries – this regularly arises where a single (unregulated) entity employs and recharges its staff to other members of the corporate group (see **Post-Brexit arrangements** below)
- Any type of intra-company charges to reallocate costs from one company to another
- Other services which are not insurance-related. Real-life examples include:
  - legal helpline fees relating to insurance policies
  - fees to use insurance software
  - fees earned by insurers/brokers from lawyers, vehicle hirers, vehicle repairers, medical reporting agencies, among others, for referring the details of insured parties (and their accidents) to those third-party suppliers
- Any services where the supplier does not act as intermediary
- Reverse charge – the purchase of services (such as advertising and IT) from non-UK suppliers. The purchased services are included as taxable supplies made by the business. While it may seem counterintuitive, the reverse charge seeks to put the business into the same position as if it had purchased the services from a UK VAT-registered supplier (ie, the UK supplier would have charged UK VAT). The reverse charge is the most commonly overlooked issue that we see in practice.

Most of the time, it's not HMRC that identifies these VAT-able services but trained VAT specialists when carrying out due diligence in preparation for a sale, investment, or flotation of the business.

This is because the insurance sector business is not usually registered for VAT, so isn't on any HMRC VAT officer's radar for an inspection. It is left to the VAT specialist to deliver the bad news that the insurance sector business should have registered for VAT many years ago. And not only does it probably owe HMRC a significant amount of VAT, but also a substantial 'late VAT registration' penalty.

This can cause eleventh-hour angst before the completion of a deal or flotation. What's more, it usually results in back-dated VAT registrations, significant payments to HMRC, and indemnities and warranties in sale and purchase agreements. Ultimately, the non-registration delays the whole transaction process by weeks or months and, in some cases, can derail it completely.

Potential opportunities (it's not all bad news)

With unregistered brokers/MGAs, we sometimes find that registering for VAT voluntarily (ie where the mandatory registration threshold is not met) can unlock historic VAT refunds under the VAT 'specified supplies' law.

Under this law, insurance services supplied to insured parties established outside the UK, benefit from VAT recovery on goods or services bought in to make those supplies. This means a voluntary VAT registration may be a major advantage to brokers that engage significantly with customers outside the UK.

There may also be opportunities for those brokers/MGAs that are VAT-registered to increase their VAT recovery position by considering alternative use-based VAT recovery methods. Examples are those under the standard method override (SMO) or partial exemption special method (PESM) provisions. A robust accounts payable function should help with realising these opportunities.

It's increasingly common for corporate groups to include a group services company that engages with third-party suppliers (on behalf of the corporate group) and recharges the costs incurred to other group companies under a group recharge model. Costs are not usually utilised equally within the group, and a sectorised PESM (or a sectorised SMO) could unlock additional VAT recovery and increase cash flows.

Post-Brexit arrangements

Many insurance intermediary businesses opted to incorporate EU subsidiaries following Brexit. These subsidiaries created and registered UK branch offices with UK Companies House. This was so that employees of the UK company could be seconded to the UK branch of the EU entity, effectively allowing the UK business to continue supplying insurance intermediary services to EU recipients post-Brexit.

As we've said, the supply of staff is taxable for VAT purposes. But after recent decisions in the European Court of Justice (such as SC Adient), it may be worth revisiting these planning arrangements. Otherwise, their commercial and economic reality could lead to irrecoverable VAT costs within the corporate group. So, it's important to make any necessary amendments to mitigate possible VAT risks.

For more information on VAT for brokers, please contact Mark Ellis.

Mark Ellis
Partner

+44 (0)20 7072 1102
mellis@pkf-l.com

CASS 5: Clarifying a few doubts

At our bi-annual meeting with the FCA, we asked for clarification on various CASS issues where we commonly receive push-back from clients when we raise breaches on these matters.

We wanted certainty from the Regulator on whether it considered these areas to be breaches of the CASS rules, and so enhance consistency in our approach.

TOBA issues

Many TOBAs are silent on the required method of commission extraction and on the correct bank account for holding client money.

Our clients usually assume the 'receipt of premium' is the default method. So, if a TOBA doesn't mention commission extraction, and they are withdrawing commission once the insurance premium has been received, there's no breach of the CASS rules.

But the FCA said that is an incorrect assumption. All TOBAs should be clear as to when the intermediary can withdraw its commission. What's more, where silent on this, the TOBA is defective. So, this in itself constitutes a breach of the rules, as there's no way of confirming whether the intermediary is complying with the terms of the TOBA.

Similarly, our clients often take the view that if a TOBA refers to a 'client' or a 'segregated' or 'trust' account, this is sufficient evidence of the type of bank account needed for holding client money. But the FCA clarified that a TOBA was in breach of the rules unless it specifically stated whether a statutory or non-statutory trust account was required.

Fee/commission-only receipts

Where a firm receives a fee/commission-only receipt which is not part of a mixed remittance, there is a requirement to transfer the funds to the office account on the date of receipt in order to avoid pollution of the trust.

Many of our clients still believe that fee/commission-only receipts can be withdrawn as part of the CMC withdrawal without breaching the CASS rules.

The Regulator has clarified that fee/commission-only transactions must be transferred out of the client account within a 24-hour window of receipt. This is a practical approach. Clearly they can arrive out of hours and, if not transferred on the actual date, this allows for it to be done when the system opens the next day.

The FCA explained further, where it is not clear if the receipt is part of a mixed remittance or not, it allows extra time for the firm to obtain further details. It can then leave the funds in the client account as protected, in case it turns out to be a mixed remittance and, therefore, client money.

Third-party commissions

There continues to be uncertainty in the market about third-party payments, such as introducer or other agent commission. Can they be paid out of the client account or do they need to be transferred to the office account, as part of the usual drawdown procedure, and then paid out to the third-party from corporate funds?

The FCA said the key points to consider are the underlying terms of the insurance contract. For example:

- If the third party is included as a party to the insurance contract – perhaps by being a named party on the broking slip, this is clear evidence of its role in the chain. In these circumstances the firm can make payment out of the client account
- If the third party has no part in the insurance contract and is perhaps only acting as an introducer, then the firm must withdraw its commission in full as part of the CMC drawdown – and then pay out of the office account.

How we can help

We hope this clarifies some areas of confusion over CASS 5. But please contact Paul Goldwin or another member of the PKF Broking team if you would like to discuss these issues in more detail.

Paul Goldwin
Partner

+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 150 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 →
- Governance, risk and control assurance →
- Tax →
- Transaction advisory →
- Restucturing →
- Business solutions →

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12th
Largest audit practice in the UK in the latest Accountancy Daily rankings

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Offices across the UK

1,450+
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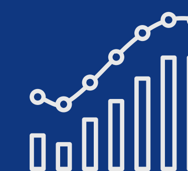
£202m
Fee income and growing rapidly



Insurance intermediaries in numbers

1st
Largest auditor of insurance intermediaries

100+
Insurance intermediary clients

30%
Advisor to one third of the UK's Top 50 Brokers

15
PE backed insurance intermediary clients

PKF Global in numbers

Part of the **14th**
Largest global accounting network

480
Offices in 150 countries

$1.4bn+
In aggregate fee income

21,000
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

Satya Beekarry
Partner – Audit & Assurance

+44 (0)20 7516 2425
sbeekarry@pkf-l.com

Phil Broadbery
Partner – Technology

+44 (0)20 7516 2235
pbroadbery@pkf-l.com

Ian Cowan
Partner – Audit & Assurance

+44 (0)20 7516 2281
icowan@pkf-l.com

Tom Golding
Partner – Tax

+44 (0)20 7516 2413
tgolding@pkf-l.com

Will Lanyon
Partner – Transaction Services

+44 (0)20 7516 2411
wlanyon@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

Chris Riley
Partner – Head of Tax

+44 (0)20 7516 2427
criley@pkf-l.com

Martin Watson
Partner - Audit & Assurance

+44 (0)113 524 6220
mwatson@pkf-l.com

James Wilkinson
Partner – Audit & Assurance

+44 (0)161 552 4220
jwilkinson@pkf-l.com

Jessica Wills
Partner – Goverance, Risk & Control Assurance

+44 (0)20 7516 2229
jwills@pkf-l.com

PKF Littlejohn LLP
www.pkf-l.com

London

15 Westferry Circus
Canary Wharf
London E14 4HD

+44 (0)20 7516 220

Leeds

3rd Floor, One Park Row
Leeds
LS1 5HN

+44 (0)113 244 5141

Manchester

11 York Street,
Manchester,
M2 2AW

+44 (0)161 552 4220

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