Inadequate financial resources for Brokers

Assessing your financial resources

"Our supervisory work with insurance intermediaries regularly shows that they are not paying sufficient attention to threats to the financial viability of their firms."

FSA 23 February 2010

Where the FSA considers a firm is unable to demonstrate compliance with Threshold Condition 4 (TC 4)*, it may seek to restrict all or part of its regulated activity. In severe cases it will consider enforcement action.

The issue

On 23 February 2010 the FSA sent a letter to insurance intermediaries warning them to consider the adequacy of their financial resources.

As a minimum, the FSA expects insurance intermediaries to be able to demonstrate that:

- they have sufficient resources within their direct control to deliver their business plan; and that
- they meet MIPRU requirements.

The FSA believes their work regularly shows that firms are:

- not paying sufficient attention to threats to the financial viability of their firms;
- not taking steps to guard against the realisation of threats;
- not developing management plans for the materialisation of those threats;

and are consequently unable to demonstrate to themselves or the FSA that they have adequate financial resources.

The FSA's concerns are exacerbated by the continuing challenging business environment and the frequency of weaknesses it is finding in insurance intermediaries' client money handling procedures, raising the risk of an intermediary's client money trust status being compromised and, subsequently, the funds becoming vulnerable to other creditors in the event of a firm's insolvency.

What the FSA requires

- Insurance intermediaries to satisfy themselves that they have adequate financial resources.
- If necessary, make good any deficit.
- Firms to undertake a TC 4 assessment satisfying themselves of their adequate resources. This should include multiple-events stress testing.
- Where an insurance intermediary is part of a group, the assessment is to take into consideration any effects on the regulated firm of the liabilities (including contingent liabilities) or commitments of all other group companies. This could have implications for intergroup debt and banking arrangements.

How can Mazars help?

We can and currently do assist Firms in performing a formal assessment of compliance with TC4 and MIPRU, considering their: availability, quantity and quality of capital resources; liquidity; solvency ratios; key client dependence etc.

We can perform stress and scenario testing in the event of adverse development in a firm's business and benchmark a firm's key metrics such as solvency ratio, liquidity and cash against a suitable peer group.

In the event a firm does not have adequate financial resources, we can provide guidance on the amount of capital we consider to be adequate to meet TC 4.

* Threshold Condition 4 (TC4) is one of the key conditions that all firms must be able to demonstrate to the FSA that they satisfy at all times, in order to retain their permission to conduct regulated business.

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