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Client Money Best Practices for UK Brokers

Regulatory Guide · 2026 · For boards, finance leaders, compliance teams, and broking operations

A stronger operating model for CASS 5 control, audit readiness, and commercial resilience.

KEY REGULATORY MARKERS

>50%	25 days	£30,000	Aug 2024
Of firms reviewed had non-compliant CMCs · FCA Dear CEO 2021	Maximum interval between client money calculations under CASS 5	Statutory trust balance threshold triggering mandatory CASS audit	Sarl Final Notice: banned and fined for using client account as own funds

Executive summary

Client money is one of the most consequential control disciplines in UK insurance broking. It sits at the intersection of fiduciary duty, regulatory compliance, operational process, cash management, and evidential accuracy. For boards, finance leaders, compliance teams, and broking operations, the goal is not to avoid breach alone. It is to build a client money framework that remains accurate, explainable, and defensible under audit, FCA scrutiny, staff turnover, business growth, and operational disruption.

The strongest message from the FCA Handbook, the CII good practice guide, audit commentary, and supervisory communications is that client money control depends on disciplined execution rather than policy wording alone. Signed TOBAs, correct risk transfer treatment, properly designated trust accounts, valid bank acknowledgement letters, accurate client money calculations, controlled commission extraction, timely reconciliations, and clear governance all need to work together. When one element fails, weaknesses in others tend to surface quickly behind it.

The FCA's July 2021 Dear CEO letter to general insurance intermediaries found that more than half of assessed firms had client money calculations that did not align with its expectations, and highlighted concerns around commission withdrawal, co-mingling, and the quality of CASS controls more broadly. Those are not confined to rare misconduct cases. They reflect routine operating model weaknesses across the sector. And the enforcement record makes the consequence of those weaknesses concrete: in August 2024, the FCA banned and fined Martin Sarl, sole director of Perry Prowse Insurance Consultants, after he used money from the firm's client account to pay personal and company debts, failed to pass clients' premiums to insurers, left customers uninsured without their knowledge, and lied to them about it. In at least one case, a customer's claim was rejected because cover was not in place.

Two points about the regulatory framing are important for this paper to state clearly. First, CASS 15 — the enhanced safeguarding regime effective 7 May 2026 — applies to payment and e-money firms, not directly to insurance intermediaries operating under CASS 5. It is a useful directional benchmark for where supervisory expectations are moving on daily reconciliation, named accountability, annual audit obligations, and evidential discipline. It is not a compliance deadline for brokers and presenting it as one weakens the paper's credibility with experienced compliance readers. Second, a clean management information dashboard does not mean a strong control environment. It can just as easily reflect weak detection. Strong firms demonstrate not only low breach counts but also evidence of challenge, issue escalation, repeat-break analysis, and correction of underlying process causes.

This paper sets out the full framework: the legal foundation, why client money is different from other finance processes, the six core principles, why control fails in practice, the eight most common failure modes, what a compliant operating model looks like across eight components, enforcement evidence, technology design principles, a maturity model, the questions boards should ask, a practical checklist, and a 90-day call to action.

1. The legal and regulatory foundation

1.1 What CASS 5 covers

CASS 5 applies to client money received or held by firms during insurance distribution activity. The handbook sets out rules around segregation, designation of client bank accounts, mixed remittances, reconciliations, and the treatment of money held on behalf of clients. The core purpose is asset protection: firms must be able to identify client money, separate it from their own money, and maintain a clear evidential basis for how those balances are held and reconciled.

Client money is not simply another finance process. The CII good practice guide explains that client money trust arrangements are subject to trust law, meaning the broker acts as trustee and owes fiduciary duties to the beneficiaries of the trust. That is why apparently technical errors — poor account naming, invalid acknowledgement letters, mixed remittance mistakes, premature commission extraction — can become legal, regulatory, and conduct issues rather than ordinary back-office corrections.

1.2 Three ways of holding insurance money

Method	Description	CASS 5 obligations	Audit requirement
Risk transfer	The insurer grants the broker authority to hold money as its agent. Premium paid to the broker is treated as received by the insurer. The credit risk transfers to	Not subject to CASS 5, provided the TOBA is valid, in writing, signed, non-conditional, and cascades correctly through any sub-agent chain.	Not required unless the insurer TOBA specifically demands it.

Method	Description	CASS 5 obligations	Audit requirement
	the insurer under a signed TOBA.		
Statutory trust (ST)	Client money held in a designated statutory trust account under CASS 5.3. Trust status arises automatically — no deed required. The broker may not advance credit from a statutory trust account.	Full CASS 5 obligations apply: segregation, bank acknowledgement letters, CMC at least every 25 business days, reconciliation, commission extraction rules.	Required if the balance exceeds £30,000 at any point in the year.
Non-statutory trust (NST)	Client money held under a formal trust deed executed under CASS 5.4. The deed permits the broker to extend credit to clients or insurers from the client money account, subject to controls.	Full CASS 5 obligations apply, plus additional controls required by the NST deed. Higher capital requirements apply for retail-facing firms.	Required irrespective of balance — the NST obligation is unconditional.

Risk transfer — not a blanket exemption

Risk transfer removes CASS 5 obligations only where the arrangement is valid, written, signed by a duly authorised representative, non-conditional, and cascades to every tier in the distribution chain. A provision in a TOBA between an insurer and a wholesale broker does not automatically extend to appointed representatives or retail sub-brokers unless the terms explicitly provide for cascading. Any gap in the chain reverts to CASS 5 obligations from the date the gap arose, regardless of how the money has historically been treated.

1.3 Core CASS 5 obligations

Obligation	What it requires	Key timing rule
Segregation	Client money must be held in a separately designated client bank account with a title distinguishing it from the firm's own money. The account must not be combined with any other account or subject to bank set-off.	Immediate upon receipt. The FCA expects funds to be in a designated account by the next business day after receipt.
Bank acknowledgement letter	The bank must provide a written acknowledgement confirming trust status, waiving any right of set-off, using the FCA's prescribed template, signed by someone with authority to bind the bank.	Before money is first deposited. Letters must be renewed whenever the account or bank changes.
Client money calculation (CMC)	A formal calculation comparing the client money resource (what the firm holds) against the client money requirement (what the firm owes). Any surplus must be extracted; any deficit funded from own money.	At least every 25 business days, using close-of-previous-business-day balances. Surplus or deficit must be transferred by close of business on the day of the CMC.
Internal reconciliation	Reconciliation of the firm's accounting records against the CMC, identifying all breaks, with each break documented with root cause and resolution date.	Performed as part of each CMC.
Bank reconciliation	Reconciliation of the firm's accounting records against bank statements for all client money accounts.	Within 10 business days of the CMC date.
Commission extraction	Commission may only be withdrawn from client money accounts after completing a CMC that shows a surplus. Commission may never be withdrawn before the CMC is performed and signed off.	Same day as CMC — the surplus must be extracted on the day it is identified, not accumulated.

2. Why client money is different

Client money is not ordinary working capital. Money held in a client money trust is subject to UK trust law, which means the broker, as trustee, owes fiduciary duties to the beneficiaries of the trust. Errors that appear operational on the surface — misclassification, poor account naming, weak segregation, inaccurate commission extraction — can become regulatory and legal issues rather than mere accounting corrections.

The distinction between risk transfer money and client money is equally important. Where an insurer formally appoints the intermediary as agent for premium collection under a clear written agreement, the broker may be holding risk transfer money outside CASS 5. Where money is paid into a client money trust, it is subject to CASS 5 protections from that moment. There is no grace period, no transitional arrangement, and no tolerance for having intended to treat it differently. Good practice starts with precise legal and operational classification for every flow, not with assumptions about how money has historically been handled.

> **The fiduciary point**
> The trust can be broken or polluted by leaving unidentified money in the trust, or by co-mingling money that should not be there. Once client money is polluted, it is not simply an accounting correction: the trust is potentially broken as a matter of law, with consequences for all beneficiaries. The FCA considers any co-mingling without proper authority a CASS 5 breach from the moment it occurs, regardless of whether there is an actual shortfall.

This determines how firms should think about client money governance. It is not an administrative compliance function that sits in the finance team. It is a legal obligation with personal accountability for the firm's most senior officers, a fiduciary duty to clients, and an ongoing evidential obligation to the FCA. The firms that manage it well treat it as a board-level control, not a month-end process.

3. Six core principles

The strongest client money frameworks share six characteristics. These are not rules or checklists. They are the properties of firms that consistently achieve good audit outcomes and do not discover problems for the first time when an auditor arrives.

Principle	What it means in practice
1. Governance from the top	Senior leadership must take client money seriously and support those responsible with resources and training. A policy on SharePoint does not protect client money if decision-making in practice still happens through inboxes, spreadsheets, and informal workarounds. Governance must be active, not documentary. A clean management dashboard can reflect weak detection rather than strong control — boards should ask to see challenge and escalation evidence, not just status summaries.
2. Legal clarity	TOBAs and trust arrangements must be signed, current, and unambiguous. A firm should not rely on assumptions, historic market custom, or informal practice to determine whether funds sit inside or outside the client money regime. For each material insurer relationship, the legal basis for how premium is received should be documentable without preparation time.
3. Accurate segregation	Account structure, naming, bank acknowledgement letters, and treatment of co-mingled funds determine whether the trust is protected or polluted. The account inventory must always be reviewable and testable, not reconstructed at year-end.
4. Timely calculation	Client money calculations and reconciliations are designed to ensure the firm can identify client balances accurately and promptly. Running the CMC close to the 25-business-day limit, or treating it as a month-end formality, creates the kind of lag that turns small errors into large ones.
5. Controlled extraction	A broker can only move commission out of the client money account based on a valid CMC showing a surplus. Not based on cash-flow preference, monthly schedule, or treasury convenience. The CMC must precede the extraction, and the evidence linking the two must be clear and retained.
6. Continuous challenge	Firms are expected to test and validate system outputs rather than accept software reports as inherently correct. Automating the calculation does not transfer responsibility for its accuracy. Staff must be able to interrogate outputs, identify anomalies, and challenge results that do not reconcile to source.

4. Why client money control fails in practice

Most client money failures are caused by weak control design, inadequate understanding, and process drift rather than by one dramatic event. That is why many firms appear stable until an audit, acquisition, system migration, or staffing change exposes how much their client money model depends on manual memory and informal workarounds. Understanding the structural reasons for failure matters as much as knowing the specific failure modes.

4.1 Control fragmentation

Many firms have the right components on paper, but not in one coherent operating model. Legal teams manage TOBAs. Finance runs reconciliations. Operations handle transaction posting. Account teams chase insurers and clients. Compliance reviews breach logs. But no single control framework connects those activities end to end. The result is that problems emerge as symptoms in one area while the root cause sits in another: a stale risk transfer clause drives incorrect account treatment; weak commission logic creates repeated CMC breaks; an appointed representative's balances are not captured in the CMC because the operational team and finance team have never agreed how to exchange that data.

This fragmentation also explains why the same failures recur across years of CASS audits without ever being fully resolved. Each function remediates its own symptom. No one owns the end-to-end model.

4.2 Over-reliance on systems without validation

The CII good practice guide specifically warns that firms often rely on standard broking-system reports without testing or validating them. This is one of the most consequential practical failures in the topic. Software can automate calculation and reporting, but it cannot transfer accountability for rule interpretation, data classification, or output validation away from the broker. A CMC produced by the system is only as accurate as the data and logic feeding it. Firms that accept the output without tracing it to source records lose the ability to detect errors before they accumulate.

4.3 Reconciliation as a periodic formality

Where firms treat the client money calculation as a periodic compliance task rather than the primary adequacy control, problems accumulate between cycles. Running close to the 25-business-day maximum may satisfy the outer rule limit, but it leaves too much unchallenged activity in the period between calculations, especially for firms with high transaction volumes, heavy commission flows, or significant third-party balances. The breaks that should have been resolved last cycle become the assumed starting position for this one. Over time, the reconciliation becomes a documentation exercise rather than a control.

5. The eight most common failure modes

The FCA's Dear CEO letters, the CII guide, and CASS audit commentary consistently identify the same operational failure patterns. None of them are new. The table below separates the pattern, its root cause, and why it matters — because the same symptom can have different causes, and treating the symptom without the cause produces the same outcome at the next audit.

Failure pattern	Why it happens	Why it matters
Non-compliant CMCs	Wrong inputs: live balances used instead of prior day; third-party balances not captured; incorrect methodology; system outputs accepted without validation.	Creates false comfort about adequacy. Over half of assessed firms failed this in the FCA's 2021 review.
Premature commission extraction	Treasury sweeps run on a fixed schedule, overriding the control sequence. CMC sign-off is treated as	Risks misuse of client money. The FCA considers this a potential financial crime when

Failure pattern	Why it happens	Why it matters
	a formality that follows extraction, not a prerequisite.	commission is drawn before entitlement is evidenced.
Weak TOBA governance	TOBAs are outdated, unsigned, or ambiguous. Risk transfer provisions are not reviewed when relationships change, or sub-distribution tiers are added.	Undermines the legal basis for account treatment. Invalid risk transfer means CASS 5 obligations apply from the date the provision became invalid.
Defective acknowledgement letters	Wrong template used; fixed text deleted; signed by bank staff without authority; not updated after account or bank changes.	Weakens the account-level legal protection that trust status is meant to provide. A defective letter is a breach from the point of deficiency.
Co-mingling without authority	Operational convenience overrides legal structure. Risk transfer money and client money held in the same account without the required insurer consent.	Can break the trust and expose all beneficiaries to loss, not just the affected transaction.
Poor third-party oversight	Appointed representatives and delegated operators report balances late or not at all. No process connects external holdings to the firm's own CMC.	Understates the client money requirement in the CMC, making the calculation unreliable even when executed correctly.
Weak evidence retention	Files assembled retrospectively. Working papers, sign-off records, and bank reconciliations kept across multiple systems with no single audit trail.	Increases audit risk and supervisory vulnerability. Reconstructed evidence is not the same as contemporaneous evidence.
Low-quality governance MI	Boards receive status summaries without root-cause analysis. Clean dashboards reflect weak detection rather than strong control. Issues persist because no one is challenged to find them.	Problems continue until an audit or enforcement trigger exposes them. The personal accountability consequences then fall on the senior management who received those summaries.

6. What a compliant operating model looks like

A defensible CASS 5 operating model is not a set of policies. It is a connected set of processes, controls, systems, and governance arrangements that together ensure client money is always correctly identified, held, calculated, reconciled, and evidenced. The following eight components should each be visible to management, auditable, and linked to a named owner.

6.1 Governance and accountability

Good client money governance starts with active senior oversight. The CII guide stresses that senior management must take client money seriously and support the individuals responsible with resources and training. In practice, that means a board-approved policy, clear ownership of client money processes, a recurring governance forum, a breach and remediation log, and regular management information on reconciliations, ageing items, account changes, TOBA issues, and unresolved exceptions.

Boards should not take comfort from a clean breach dashboard. A clean dashboard can reflect weak detection rather than strong control. Firms with strong governance demonstrate not only low breach counts but also evidence of challenge, issue escalation, repeat-break analysis, and correction of underlying process causes. The question to ask is not 'were any breaches reported?' but 'how would we know if there were?'

6.2 Account architecture

Every account that holds client money must be correctly designated, titled, and acknowledged before any client money is deposited. Good firms maintain a live account inventory recording: bank name; type of account; trust basis; whether the account holds co-mingled risk transfer money with insurer consent; the date of the current acknowledgement letter; and the currency if not sterling. That inventory must be reviewed and updated whenever any account or banking arrangement changes.

Bank diversification matters as a control as well as an operational preference. The FCA has encouraged brokers to use an appropriate range of banks to mitigate bank failure risk. Firms increasingly using money market funds to hold client money balances should confirm, before adoption, that the regulatory treatment of those funds is consistent with CASS 5.

6.3 Risk transfer management

The quality of the TOBA estate is one of the strongest predictors of client money control quality. Where risk transfer wording is unsigned, outdated, ambiguous, or inconsistently cascaded, account treatment drifts away from its legal basis. Strong firms maintain a central TOBA register with version control, review triggers for any change in relationships or sub-distribution tiers, and explicit links between legal terms and the actual posting and banking logic used operationally.

This is not legal housekeeping. It directly affects how money is classified, which reconciliations are required, what sits inside or outside the trust, and whether co-mingling is permissible. A gap discovered at audit rather than in advance has no easy resolution.

6.4 The client money calculation

The CMC is the control that tells the firm whether the client money resource matches the client money requirement. It must be performed at least every 25 business days using the FCA's prescribed template, with balances at the close of play of the previous business day, capturing all client money held at third parties awaiting completion of transactions. The surplus or deficit identified must be transferred by close of business on the same day.

A stronger operating model treats the CMC as a live management control rather than a compliance artefact. That means validating the data feeding it, reviewing unusual movements, identifying dependencies on estimates or third-party balances, and ensuring the result drives actual action. A CMC that is produced, filed, and never challenged is not a control.

6.5 Reconciliation discipline

Control area	Best practice	Why it matters
Methodology	Use the prescribed FCA format and prior-business-day balances consistently. Do not switch between calculation methods without FCA approval.	Prevents ad hoc or inconsistent calculations that produce different results for the same underlying position.
Frequency	Run CMCs well inside the 25-business-day maximum. Higher-volume firms should consider weekly or fortnightly cycles.	Reduces ageing of exceptions and improves cash visibility. The 25-day rule is a ceiling, not a target.
Data validation	Challenge system-generated fields, particularly unearned commission logic. Reconcile CMC outputs to source records rather than accepting software reports at face value.	Avoids false comfort from automated outputs. The FCA has cited unchallenged system reliance as a root cause of CMC failures.
Exception handling	Track every break with a named owner, root cause, remediation action, and expected resolution date. Escalate breaks not resolved within one CMC cycle.	Turns exceptions into managed remediation. Repeat breaks on the same item are a governance failure, not an accounting variance.
Evidence retention	Retain working papers, sign-off records, surplus transfers, and supporting schedules in retrievable form throughout the year, not assembled at audit time.	Evidence generated in real time is materially more defensible than evidence reconstructed from memory.

6.6 Commission extraction

The rules on commission extraction are absolute: the CMC must be completed and show a surplus before any commission moves to the office account. There is no exception for timing, cash-flow preference, or month-end schedules. The CMC must precede the extraction, every time, and the evidence linking the two must be retained.

Good practice requires brokers to treat commission extraction as a controlled outcome of the reconciliation process. The strongest firms document the calculation supporting each extraction, maintain a sequenced audit trail between the CMC sign-off and the transfer instruction, validate unearned commission assumptions independently, and prevent any manual journal entry that moves money before entitlement is evidenced. Because commission is the primary income source for most of the sector, poor extraction discipline does double damage: over-extraction risks a CASS breach; under-extraction strands earned income in trust and distorts cash management.

6.7 Systems and technology

Technology can strengthen client money control, but only if it is designed to support validation rather than replace it. The CII guide notes that firms often rely on standard broking-system reports without testing or validating them — and that this reliance is a root cause of CMC failures, not an isolated error.

The right design principles are as follows. Systems should maintain source-to-ledger traceability so any output can be traced back to the transaction that generated it. They should support controlled classification of money types at the point of posting rather than at reporting. They should prevent commission extraction before CMC approval, not just record the sequence after the fact. They should capture third-party balances with supporting evidence. They should preserve acknowledgement letter and TOBA metadata so that account status is always visible. And they should produce management information that shows not only balances but also exceptions, ageing, recurring root causes, and unresolved dependencies. Good technology does not replace CASS knowledge. It makes correct treatment easier to execute consistently and harder to bypass.

6.8 Delegated and third-party handling

Allowing a third-party broker, appointed representative, or delegated operator to hold or control client money does not remove the principal firm's obligations under CASS 5. Where an appointed representative holds client money, the firm must include that exposure within its client money requirement. If estimates are used because actual figures are not immediately available, actual amounts must be confirmed within 10 business days and any balance settled.

Best practice requires more than contractual wording. It requires formal reporting timetables with specified data standards, independent reconciliation of third-party balances, periodic attestations, and defined escalation rights where information is late or inconsistent. A firm that cannot account for client money held by its appointed representatives is not compliant with CASS 5, regardless of what its own accounts show.

7. Enforcement: what failure looks like in practice

The case for strong client money control is not theoretical. The FCA's August 2024 Final Notice against Martin Christopher Sarl is the clearest recent illustration of what happens when client money is treated as working capital.

> **FCA Final Notice — Martin Christopher Sarl, August 2024**
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> Martin Sarl was the sole director of Perry Prowse (Insurance Consultants) Ltd, an Exeter-based general insurance broker. Between November 2017 and October 2019, he used money from the firm's client account to pay both his personal debts and the firm's debts. That was not permitted under the FCA's client money rules — those funds should have been kept separate.
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> As a result, there was not enough money to pass clients' premiums to insurers. Some customers were left uninsured without their knowledge. When customers asked questions about their insurance, Sarl lied, including blaming a false IT glitch. In at least one case, a customer's claim was rejected because cover was not in place.
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> The FCA banned Sarl from the financial services industry and fined him £5,021 (reduced from £63,600 on grounds of financial hardship). The FCA stated: 'His customers trusted him to keep their money safe and to secure the insurance cover they needed. Instead he helped himself to prop up his business and personal finances.'
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> Source: FCA press release, 14 August 2024. FCA Final Notice 2024: Martin Christopher Sarl.

The Sarl case is an extreme, and the misconduct was deliberate. But it is useful precisely because it shows how quickly client money failure becomes a fitness and propriety issue rather than a process correction. The mechanism — using client money to cover shortfalls elsewhere in the business — begins with a process failure: no valid CMC, no segregation discipline, no independent oversight. When the process is weak, the temptation to treat the client money account as accessible funds is not prevented by anything structural.

The supervisory communications reinforce the pattern. The FCA's July 2021 Dear CEO letter and its September 2020 portfolio letter both warned insurance intermediaries about weaknesses in calculations, commission withdrawal, segregation, and governance. For boards and senior leaders, that means weak client money control should be treated as a live conduct, operational, and supervisory risk today — not as a technical issue that only matters at audit time.

8. CASS 15 — a directional benchmark, not a broker rulebook

CASS 15, effective 7 May 2026, applies to authorised payment institutions and e-money institutions, not to insurance intermediaries operating under CASS 5. This distinction matters for how brokers should read the regime. Presenting CASS 15 as a direct compliance deadline for insurance brokers overstates the rule position and will be identified immediately by any experienced compliance reader.

What CASS 15 does offer is a clear view of the evidential and operational standard the FCA considers adequate for firms that hold client funds. The requirements that came into force in May 2026 are worth understanding as a benchmark for where supervisory expectations are heading across the regulated financial services sector.

CASS 15 requirement (payment firms)	Implication as a directional benchmark for brokers
Daily reconciliation: internal reconciliation comparing segregation requirement against segregation resource on every reconciliation day.	Brokers running CMCs close to the 25-day maximum are operating at the furthest point from where the FCA's expectations are moving. Higher frequency is better practice now, not a future obligation.

CASS 15 requirement (payment firms)	Implication as a directional benchmark for brokers
Named senior manager with personal accountability for safeguarding compliance. Board approval of the safeguarding policy mandatory.	Brokers should have a named client money manager with explicit board-level accountability. This is already expected under CASS 5 governance requirements.
Annual safeguarding audit by a qualified independent auditor. Mandatory for firms above £100,000 threshold.	Brokers already face mandatory CASS audits above the £30,000 statutory trust threshold. The direction is toward more rigour, not less.
Monthly regulatory returns to the FCA covering reconciliations, safeguarding methods, amounts held, shortfalls, and breaches.	Brokers report through RMAR-C. The trend toward more frequent and more granular FCA reporting is consistent across the regulated sector.
Resolution pack: a maintained collection of current documentation retrievable within 48 hours.	Brokers are expected to maintain resolution packs under CASS 5 organisational requirements. CASS 15 makes this explicit and time-bound. The standard for brokers is the same.

9. A maturity model for client money operations

Most firms sit between the Reactive and Controlled stages. The gap between Controlled and Managed — from running the process correctly to trusting the process completely — is where the most common audit findings originate. The practical value of this model is in identifying the specific improvements that move a firm from one stage to the next.

Stage	Typical characteristics	Risk profile and implications
Reactive	Heavy spreadsheet dependency. Fragmented TOBA records. Limited validation of system outputs. Evidence assembled before the audit rather than maintained through the year. Client	High operational and compliance risk. Vulnerable to key person departure, staff change, and volume growth. Most likely to generate qualified or adverse audit opinions.

Stage	Typical characteristics	Risk profile and implications
	money knowledge sits with one or two people.	Remediation is reactive and expensive.
Controlled	Core rules are documented and mostly followed. TOBAs are largely centralised. CMCs run on schedule. Commission extraction follows the calculation most of the time. Review is documented at period end.	Moderate risk with known pressure points. Governance is documented but not consistently active. Audits typically produce qualified opinions with findings that recur across years because root causes are not addressed.
Managed	Data validated systematically, not just produced. Extraction is system-enforced: CMC sign-off is a precondition, not a post-hoc record. Third-party and appointed representative balances are reconciled and reported. Breaks are root-caused and tracked to closure. Governance forum meets regularly and reviews MI with challenge.	Lower risk and stronger audit outcomes. Findings are specific and narrow rather than systemic. Resilient to staff change and operational disruption because the control model is in the process, not the person.
Optimised	Automation supports reconciliations running well ahead of the 25-day maximum. Evidence is traceable end-to-end from transaction to CMC to extraction without reconstruction. Management information is proactive. Resolution pack is current at all times. Senior management can answer CASS questions without preparation.	Strong resilience and supervisory readiness. Audits typically produce unmodified opinions. The firm could respond to an FCA information request within 48 hours without a reconstruction exercise. Client money is treated as a board-level control, not a finance team process.

10. What boards and executives should ask

Senior leaders do not need to perform the reconciliations themselves. They need to ask questions that reveal whether the control environment is genuinely reliable rather than whether the documentation looks complete. The following questions are designed to test the operating model.

Question	What a good answer looks like
Can the firm explain, account by account, why each balance is treated as client money, risk transfer money, or insurer money?	A named person can walk through the account inventory, the legal basis for each account type, and the TOBA or trust deed supporting each treatment — without preparation time.
Are all live TOBAs signed, centrally stored, current, and mapped to the firm's actual operating process?	A TOBA register exists, reviewed at least annually, identifying every insurer relationship and its risk transfer status, and flagging gaps in cascading provisions for sub-agents or appointed representatives.
How often are CMCs performed in practice, and how many exceptions remain unresolved past the reconciliation date?	CMCs run on a documented schedule well inside the 25-day maximum. Open exceptions are counted, aged, owned, and reported to the governance forum. The number trending downward over time is evidence of a managed process.
Is every commission extraction supported by a valid calculation and a complete audit trail?	No extraction can be initiated without system confirmation of CMC sign-off. The sequence of CMC completion, sign-off, and extraction instruction is logged and can be produced on request without reconstruction.
If an appointed representative or third party holds client money, how is that exposure measured, reconciled, and evidenced?	Third-party balances are included in every CMC. Actual figures are confirmed within 10 business days of any estimate used. Reconciliation of third-party positions is documented independently of the counterparty's own records.
Would the firm be comfortable presenting its working papers to an auditor or the FCA tomorrow, without a reconstruction exercise?	The resolution pack is current, retrievable within 48 hours, and has been reviewed in the last quarter. The most recent CMC, reconciliation, and extraction records are filed and accessible. The answer is yes, without qualification.

11. What good looks like

In practical terms, best practice for UK brokers is not perfection. It is repeatable control. Good firms know the legal basis on which money is held. They reconcile using the right methodology and challenge the results. They extract commission only when the CMC supports it. They train their people to a standard that means key person departure does not create a control gap. And they keep evidence in a form that can be tested independently, not assembled at audit time.

That operating model protects more than compliance. It improves cash visibility, reduces the cost and disruption of remediation, strengthens audit outcomes, and gives management confidence that the firm's largest revenue streams are being handled in a way that is accurate, defensible, and consistent with fiduciary duty.

The firms that achieve this do not do so through technology alone. They do so because client money is treated as a board-level control, because the governance forum is active rather than documentary, because exceptions are resolved rather than accumulated, and because the people responsible know the rules well enough to challenge system outputs rather than accept them. That combination — legal clarity, operational discipline, and genuine senior ownership — is what separates firms that manage client money from firms that merely process it.

12. Practical review checklist

The following checklist is designed for a compliance officer or finance director conducting an internal review. It is not a substitute for a CASS audit, but it will identify the most material gaps before an auditor does.

Area	Question	Evidence required
Account architecture	Are all client money accounts correctly named, designated as	Account register, acknowledgement letters, bank

Area	Question	Evidence required
	statutory or non-statutory trust, and holding valid acknowledgement letters?	statements showing correct account titles.
Acknowledgement letters	Is each letter on the FCA's prescribed template, signed by someone with bank authority to waive set-off, and current following any account or bank change?	Letters on file, bank authority confirmed, date of last review.
Risk transfer	For every insurer where risk transfer is relied upon: is the TOBA signed, non-conditional, and does it cascade to all sub-distribution arrangements?	TOBA register with risk transfer confirmation for each insurer, cascade confirmation for ARs and sub-agents.
Client money calculation	Is the CMC performed at least every 25 business days using the FCA template, with prior-day balances, capturing all third-party holdings?	CMC file for the past 12 months, evidence of third-party balance capture, sign-off records.
Commission extraction	Is commission withdrawn only after the CMC is signed off as showing a surplus? Is the sequence of CMC, sign-off, and extraction instruction logged and unambiguous?	CMC and extraction records showing the sequence; system controls or approval records preventing extraction before sign-off.
Reconciliation	Is the internal reconciliation completed as part of each CMC, and the bank reconciliation within 10 business days? Are all breaks documented with owner, root cause, and resolution date?	Reconciliation records, breaks log, resolution evidence.
Breaches register	Does the firm maintain a breaches register? Are all identified breaches — including minor process failures — logged with date, cause, remediation, and resolution?	Breaches register; evidence of senior management review at least quarterly.

Area	Question	Evidence required
Governance	Is there a named client money manager? A board-approved CASS policy? A CASS risk and control matrix? A maintained, retrievable resolution pack?	Named manager in governance papers; current CASS policy; risk and control matrix; resolution pack with last-review date.
Delegated handling	Are all appointed representative and third-party balances included in the CMC? Are actual figures confirmed within 10 business days of any estimate?	Third-party balance records in CMC; confirmation of actuals; reconciliation to counterparty records.
CASS audit	Is a CASS audit arranged where required? Has the auditor confirmed relevant CASS 5 insurance intermediary experience? Have all findings from the most recent audit been addressed?	Audit engagement letter, auditor experience confirmed, prior audit opinion and evidence of remediation.
Staff competency	Do all staff with client money responsibilities have current CASS 5 training? Is there a documented succession plan for key person risk?	Training records, succession plan or key person risk documented in CASS policy.
Systems challenge	Are system-generated CMC outputs validated against source records rather than accepted? Is the logic for unearned commission independently tested?	Evidence of challenge and validation, not just the report; testing records for key system outputs.

13. What to do in the next 90 days

The following six actions are sequenced in order of urgency and evidential value. None requires technology investment to begin. All should be completed before the next CASS audit, and the first three should be treated as immediate priorities regardless of when the audit falls.

Action	Why now
Review the legal basis for every major money flow. Confirm whether each sits under valid, non-conditional risk transfer wording or within a client money trust. Where any doubt exists, treat the money as client money and segregate it immediately.	An invalid risk transfer provision is a breach from the moment it became invalid. Firms that discover this at audit have no defence. Firms that self-identify and remediate are in a materially better position with the FCA.
Pull the last 12 months of CMC records. Confirm the sequence: CMC completed and signed off before commission extracted on every occasion. Log any exceptions in the breaches register with date, cause, and remediation action.	The FCA treats commission extracted before a CMC as potential misuse of client money. Self-identification and logging ahead of audit demonstrates the governance culture the FCA expects to see. It also identifies whether the control needs redesigning.
Audit every acknowledgement letter. Confirm correct template, correct fixed text, adequate bank signatory authority, and currency following any account or banking change since the letter was issued.	Letter failures are among the FCA's most consistently identified findings and among the lowest-cost items to correct. A clean, current letter file is basic audit preparation and should take no more than a day for most firms.
Build or refresh the central TOBA register and account inventory. Confirm that each entry includes the legal basis for account treatment, any co-mingling permissions, the date of last review, and the cascade status for sub-agents and appointed representatives.	This is the document that connects legal terms to operational reality. Without it, the firm cannot demonstrate that its account treatment has a current legal basis. With it, most subsequent control questions become answerable immediately.
Establish or refresh the CASS resolution pack. Confirm it is current, accessible within 48 hours, and reviewed and signed off at least quarterly by the named client money manager.	The FCA expects insurance brokers to maintain resolution packs under CASS 5 organisational requirements. A pack that has not been reviewed since the last audit is not a resolution pack; it is a historical document.
Set a date for a formal internal CASS review using the checklist in Section 12, documented and minuted at board level,	The FCA expects the Dear CEO letters to have been discussed at board level and for firms to demonstrate the actions taken. An undocumented review is equivalent to no review in a supervisory

Action	Why now
with remediation owners and deadlines assigned for every identified gap.	context. Board minutes are evidence; email threads are not.

Client money compliance is not a project with a completion date. It is an operating standard that must be maintained continuously, tested regularly, and evidenced at all times. The firms that manage it well do not give it attention only when the auditor arrives. They treat it as part of how the business runs.

Sources and references

All URLs are live and clickable in digital versions of this document.

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[3]	Portfolio letter: General insurance intermediaries — client money obligations	FCA	Sep 2020	fca.org.uk — Dear CEO Sep 2020
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