



CASS GOVERNANCE FOR INSURANCE INTERMEDIARIES

GUIDE

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This helpsheet considers some of the areas that regulated firms and their CASS auditors may wish to consider when assessing the appropriateness of a firm's CASS Governance framework. In particular this helpsheet considers CASS Governance for insurance intermediaries with CASS 5 permissions.

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LINKS TO REGULATIONS

[CASS 5 - FCA Handbook](#)

[Dear CEO letter – Adequate client money arrangements – general insurance intermediaries \(September 2020\)](#)

[Dear CEO letter – Maintaining adequate client money arrangements – general insurance intermediaries \(July 2021\)](#)

[Providing Assurance on Client Assets to the Financial Conduct Authority](#)

OVERVIEW

An appropriate CASS Governance and oversight framework helps firms identify and manage CASS risks and therefore is an important part of ensuring that a regulated firm meets its obligations in protecting client money.

The FCA use client money audit as a tool to help them understand how firms meet those obligations and therefore as part of the audit process the CASS Governance and oversight of a firm is also important to a CASS auditor in helping them establish the risk profile of the firm they are auditing.

While there are wider business reasons and more generally regulatory obligations to have Governance and Risk management structures in place there is no specific reference to CASS governance requirements within CASS 5. Firms and their CASS auditors often overlook this area because there are no specific rules and therefore this bulletin has been produced to help firms apply wider Governance principles to CASS 5.

There have been some specific references within Dear CEO letters that were published in 2020/21 that reminded firms of the need to have appropriate governance around their CASS arrangements. This reinforced the role of senior management as well as compliance and internal audit functions in relation to CASS. Although these Dear CEO letters were published during the Covid pandemic and there was heightened concern around the safeguarding of client monies at that time, the expectations articulated around governance and oversight were not just for that time – the FCA expects appropriate governance and oversight as part of “business as usual”.

Once the need for a CASS Governance Framework has been established firms face a further problem of deciding what that framework looks like for their firm. As with other aspects of regulation the firm needs to take a proportionate approach.

This helpsheet seeks to give firms and their CASS auditors some guidance on what a CASS governance framework could look like. It is for the firm and the CASS auditor to establish what is suitable for the firm being considered.

WHAT DOES THE HANDBOOK AND THE FCA SAY ABOUT CASS GOVERNANCE?

Source	Relevant content
CASS 5	Only mention of “governance” or “oversight” is in CASS 5.4.4R – Conditions for using the non-statutory client money trust: The firm must designate a manager for overseeing the firm’s day to day compliance with systems and controls which are adequate to ensure that the firm is able to monitor and manage its client money transactions and any credit risk arising from the operation of the trust arrangement.
Dear CEO letter – Adequate client money arrangements – general insurance intermediaries (September 2020)	Governance and oversight – 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.
Dear CEO letter – Maintaining adequate client money arrangements – general insurance intermediaries (July 2021)	We continue to expect senior management to have appropriate oversight of their firm’s client money arrangements.

WHAT DOES THE FRC CASS ASSURANCE STANDARD SAY ABOUT CASS GOVERNANCE?

The FRC CASS Assurance Standard, Providing Assurance on Client Assets to the Financial Conduct Authority (November 2019), includes a number of references to CASS auditors assessing the control environment operated by the firm. The CASS auditor is required to carry out specific procedures to address this requirement. The firm's CASS governance framework is therefore important in being able to provide the auditor with a means of assessing this control environment.

The table below includes some extracts to highlight that CASS auditors need to be considering the Governance Framework when carrying out their audit work.

Reference	Relevant content
Section 77	The extent and nature of the CASS auditor's risk assessment procedures shall be driven by the CASS auditor's evaluation of the significance to its opinion of a firm's failure to maintain systems that are adequate to enable it to comply with a CASS rule.
Section 80	Consideration of the control environment and monitoring controls is particularly important in a CASS engagement because the CASS auditor is required to form an opinion as to whether the firm has maintained systems adequate to enable it to comply with the CASS rules throughout the period.
Section 81	The CASS auditor shall obtain an understanding of the control environment relevant to client assets. When obtaining this understanding, the CASS auditor shall evaluate whether: a. Management, with the oversight of those charged with governance, seeks to maintain a culture of honesty and ethical behaviour towards the beneficial owners of client assets; and b. The effectiveness of the control environment collectively provides an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment.
Section 82	Particular elements of the control environment that may be relevant to the auditor's evaluation include the following: a. Participation by those charged with governance; b. Communication and enforcement of integrity and ethical values; c. Management's consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge; and d. Assignment of authority and responsibility.

CASS auditors need to understand the requirements of the standard and build in procedures within their audit work to address these requirements.

The following sections will assist CASS auditors to identify elements of the CASS Governance Framework present in the firm and assist the firm in understanding what good governance practices may look like and why they are important.

THREE LINES MODEL IN CASS CONTEXT

The starting point for a CASS governance framework is looking at a standard risk management framework that a regulated firm might apply to its business. The three lines model, initially published by the Institute of Internal Auditors in 2013 and updated in 2020, is a common framework adopted by firms and is considered good practice by the regulators, including the FCA. We do not seek to cover this wider framework here but consider the adaption of that framework as it applies to CASS 5.

Much of the framework would come naturally for a firm, if CASS is a high priority or assessed as higher risk in the firm i.e. the firm has a positive CASS culture or mindset.

An example of how the three lines model can be applied in a CASS context is shown below. The extent to which a firm has all the elements separately identifiable will depend on the size and complexity of the firm. Elements of this framework might be present in the firm even if there is no formal governance framework in place.



CASS RISK AND CONTROL MATRIX

The identification and control of CASS risks is an important starting point for first line activities of a firm. It is also critical to allow the CASS auditor to efficiently understand how the firm manages its CASS risk.

A CASS Risk and Control Matrix will follow the format of the typical risk and control matrix tailored and mapped to the CASS rules. The basic contents might include:

- Identification of the CASS rules and risks applying to the firm (with reference to the Handbook). Firms typically list of all the CASS rules and identify which ones apply to them.
- Identification of the controls operated by the firm that relate to each of the CASS risks that the firm is exposed to.¹
- Assessment of the effectiveness of those controls.
- Some form of risk ranking / scoring mechanism to allow the firm to monitor CASS risk exposure i.e. which risks pose the greatest risk of non-compliance with the CASS rules. The results of this risk ranking / scoring provide useful information which can be reported to an appropriate governance committee.

Firms can further develop their CASS Risk and Control Matrix to include greater information on how these risks are monitored e.g. risk / control owners, assurance procedures which allow linkage and visibility of CASS activity across the three lines.

The CASS Risk and Control Matrix should be subject to regular review and oversight by an appropriate governance committee e.g. Client Money Committee.

LINK TO SENIOR MANAGER & CERTIFICATION REGIME (SM&CR)

SM&CR reflects and reinforces CASS requirements helping firms define where the responsibility for CASS sits within the firm.

The regime gives firms flexibility in allocating CASS responsibilities to different people in the firm, splitting the responsibility for CASS compliance from the day-to-day responsibility for the CASS operations. Roles will be determined by the size and complexity of the firm.

Roles could include:

- Prescribed responsibility (PR) for the firm's compliance with CASS – must be allocated to a Senior Manager (the most senior person responsible for CASS)
- CASS Operational Oversight Function – is a Certification Function and covers oversight of the operational effectiveness of a firm's systems and controls for client money - can either be allocated to:
 - Senior Manager with CASS PR; or
 - Individual with operational responsibility for CASS (who will thereby fall under the Certification Regime and be certified by the firm)

The appointment of these roles under SM&CR also helps clarify the role of the CASS Manager where a firm holds client money in a Non-Statutory Trust where under CASS 5.5.4 (3) states the firm must designate a manager to oversee the firm's day to day compliance with the systems and controls.

¹ These controls will likely include IT dependent controls specifically relating to the operation of CASS controls and IT infrastructure (ITGC) type controls.

ROLE AND REMIT OF CLIENT MONEY COMMITTEE

As shown in the three lines model above, a Client Money Committee is an important element of a CASS governance framework.

The Client Money Committee will work in a similar way as any other governance committee the firm may have. Usually constituted under the Board and with a specific remit defined by a Terms of Reference. The Client Money Committee is the key body for ensuring appropriate CASS governance within the firm.

The expectation of the minutes of the Client Money Committee is to document the firm's considerations of CASS matters and that any judgements or decisions that are made in respect of CASS are considered in papers that have been approved by this committee to ensure that the Firm has a documented position on such matters that can be then used in the future to evidence the considerations of the firm.

The typical role of a Client Money Committee might be.

- Set and monitor CASS risk appetite
- Ensure adequate and effective client money policies, procedures, processes and controls are in place
- Ensure effective and embedded client money risk and control framework with adequate client money resources, education and training
- Receive appropriate client money management information (MI) to support effective monitoring of client money compliance and any issues, including reports on breaches
- Review findings and remedial actions identified by external CASS audits and any second- and third-line assurance activities
- Consider CASS-related correspondence with FCA and other legal or regulatory developments relevant to client money including consideration of or assisting management with whether CASS matters require reporting to the FCA.
- Monitor integration of acquired entities into the client money environment and any run-off activities (where applicable)
- Typically reports to Audit Committee

EXAMPLES OF KEY CASS MANAGEMENT INFORMATION (MI)

We would expect the relevant governance body (such as a Client Money Committee) to receive and review appropriate CASS MI. In many cases firms have the MI spread across the business but collating and reviewing the information together can give valuable information about the wider health of the CASS environment and risk exposure.

Client money risk dashboard e.g. summary of key CASS risks (from CASS Risk and Control Matrix)	Summary of any Appointed Representatives and their client money segregation methods and quantum of money held, including results of any due diligence / reviews.
Overview of client money bank accounts / balances, currency exposure, concentration risk, money held in money market funds as well as results of any due diligence performed	Analysis of insurer TOBAs
CASS breaches (internal and FCA breaches) by entity including analysis of severity, type, root causes etc	Updates / reports from CASS auditors
Summary of client money calculations performed e.g. by month, surplus/deficit transferred	Summary of CASS auditors used and results of due diligence performed
Summary of any funding and bad debt provisions	Summary results / reports from second or third-line assurance activities relevant to CASS
Analysis of cheque banking (by entity/office, month) and related breaches	Where undertaking any CASS remediation activity, summary of progress / status against the remediation plan / actions
Summary of any credit write back or legacy projects and any credit write backs made	Update on any FCA correspondence / visits relevant to CASS
Summary of client money held at third parties	Trend analysis; <ul style="list-style-type: none"> • Income vs. cash transfers • Debtor data • Unmatched cash performance
Schedules of all designated investment arrangements or changes in status e.g. new or closed arrangements	Schedule of all mandates in the business and results of testing of controls

KEY ACTIONS FOR FIRMS AND THEIR AUDITORS

Actions for firms

- Consider how your current CASS activities fit into a CASS governance framework.
- Ensure appropriate and clear allocation of roles and responsibilities across individuals, teams and the Client Money Committee – and the chain of escalation / reporting.
- Ensure that you have sufficient resources, skills and training to enable you to operate an appropriate CASS governance framework.
- FCA expects firms to be able to demonstrate effective governance, oversight and decision-making – establish and maintain appropriate documents and records.
- CASS continues to be a key FCA priority so governance and oversight must be ongoing / regular.

Actions for CASS auditors

- Ensure your audit team has an understanding of the CASS governance aspects of the FRC CASS Assurance Standard.
- Ensure your audit work includes procedures to allow understanding of the CASS governance framework in place.
- Make an assessment of whether the CASS governance framework is appropriate for the size and complexity of the firm.
- Use the outcome of this assessment to design appropriate audit procedures.
- Consider CASS governance weaknesses in your reporting to those charged with governance and the impact on your controls opinion within the Client Assets Report issued to the firm.

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* includes parent companies. Source: ICAEW member data February 2024, Interbrand, Best Global Brands 2023