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BDO Financial Services Quarterly update

Q2 2026

Welcome to your Quarterly Financial Services Sector Update

BDO’s Quarterly Financial Services Sector Update summarises the key regulatory developments and emerging business risks relevant for all financial services firms, including banks, building societies, investment and wealth managers, payments and insurance providers.

Our Financial Services team works with a broad range of financial services firms as advisors and auditors, giving us an extensive perspective on the issues facing the sector. We have aggregated insights from our in-house research, client base, the Regulators and professional bodies, to help inform your oversight and assurance activities over the firm’s priority risks.

We hope this pack provides value to you and your colleagues; please do share with us any feedback you may have for our future editions.

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All Financial Services

BDO FraudTrack 2026

Discover the latest trends in fraud

Fraud and financial crime remain among one of the most significant risks facing Financial Services firms. BDO FraudTrack 2026 reveals the latest trends, key risks, and practical insights to help firms protect their customers, assets and reputation.

Key takeaways

The overall value of UK reported fraud and economic crime surged to £5.5bn in 2025, largely driven by a small number of exceptionally high-value cases

Money laundering was the highest reported type of fraud and economic crime by value in 2025, totalling £4.9bn

Frauds perpetrated by individuals contributed a further £207m, while management fraud rose to £195m.

Download the report for a closer look at:

- Fraud trends
- The motives driving UK fraud
- The regional split of reported fraud
- Sector impact for Financial Services firms
- Fraud detection methods
- The evolving regulatory and legal landscape, including an increased focus on Crypto assets and the impact of AI-enable fraud
- Predictions on the future of fraud.

If you would like to discuss fraud investigations, please get in touch today with Stephen Peters, Partner and Head of Investigations.

And for regulatory compliance, governance, risk management or crypto asset matters, please contact Fiona Raistrick, Partner, Financial Services Advisory.

BDO Global Risk Landscape Report 2026

Extending ownership beyond the risk function

Based on a global survey of 500 C-suite leaders, the BDO Risk Landscape Report 2026 explores how firms are responding to an increasingly interconnected and volatile risk environment. For Financial Services firms, the adoption of AI, geopolitical uncertainty and the evolving regulatory environment are reshaping traditional approaches to risk.

Background

Risk is no longer an isolated function or a future concern. For Financial Services firms, it has become the defining feature of leadership decision-making. What were once isolated risks are now interconnected, fast-moving threats amplified by technological disruption and geopolitical instability.

Insights that stand out for Financial Services leaders:

- More than two thirds of firms describe themselves as risk-minimising or risk averse
- Cybercrime is the risk firms feel most unprepared for
- More than half of firms struggle to identify the early-warning indicators and other signals that matter most
- More than half of firms see AI creating opportunities in areas such as compliance, risk management and fraud detection
- Almost three quarters of firms are concerned about the data privacy risks AI poses.

If you would like support to ensure your approach to risk is future focused, please get in touch today with Alisa Voznaya, Partner, Head of Risk Consulting.

Click here to watch the webinar recording

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What is a Section 166 or Skilled Person Review?

This article is intended for readers seeking to understand the process and implications of a Section 166, or Skilled Person Review, conducted by the PRA or FCA. It provides insights into why these reviews take place, the role of the Skilled Person, and the areas they cover, such as governance and financial crime.

We also highlight our expertise in conducting these reviews across various regulatory topics, offering valuable information for firms who may be subject to such assessments.

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A Section 166 (s166) also known as a Skilled Person Review, is where the Prudential Regulatory Authority (PRA) or Financial Conduct Authority (FCA) require an independent expert (the Skilled Person) to review a regulated firm's activities. This power is granted under the Financial Services and Markets Act 2000 (FSMA), as amended by the 2012 Act. This kind of review can be in any part of a firm's regulated activity including conduct, governance, risk management and controls, prudential matters, financial crime and market abuse.

Skilled Persons have the experience and capability to analyse how firms are putting regulatory rules, guidance and principles into practice. A Skilled Person Review typically involves reviews of documentation, interviews and sample-based testing; resulting in a list of recommendations to address gaps in regulatory expectations. The firm is then required to develop an action plan to address the findings from the review. There are direct costs for the firm to pay for the services of a Skilled Person, and the firm must invest time and facilitate access to enable the Skilled Person to carry out their work.

How does a Section 166 come about?

If the PRA or FCA have concerns about a firm's activities or want further analysis they can request a Skilled Person Review. This is a powerful tool for regulators to collect information about a regulated entity and get an independent assessment of its activities.

The first stage is that the FCA or PRA issue a draft Requirement Notice to the firm setting out the background, issues and proposed scope of a review. While regulators can appoint a Skilled Person themselves, more often they allow the firm to select one of three potential Skilled Persons. Once the Skilled Person is approved by the regulator, the firm contracts and works with them directly.

What is the Skilled Person Panel?

The Skilled Person Panel is the list of independent experts approved by the regulators to undertake a s166. Skilled Persons are firms and individuals who have the credentials to act as an independent expert across a range of topics. This involves a deep understanding of regulatory requirements and practical experience of how firms must implement these into their business.

Every four years, the regulators retender for the Skilled Person Panel. At the most recent retender, at the end of 2025, BDO was successfully selected for all of the 11 lots we applied for, meaning that we can support firms across a wide range of regulatory matters. This includes new lots for transaction reporting and market abuse.

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BDO LLP has been selected to act on the following Skilled Person lots:

- Lot A: Client assets and safeguarding
- Lot B: Governance, accountability and culture
- Lot C: Controls and risk management frameworks
- Lot D: Conduct of business
- Lot E: Financial crime
- Lot F: Market abuse
- Lot G: Prudential – Deposit takers, recognised clearing houses, Central Securities Depositories and PRA-designated investment firms
- Lot H: Prudential - Insurance
- Lot I: Prudential - Adequate financial resources for FCA solo-regulated firms
- Lot J: Information and communications technology and cyber risk and resilience management
- Lot M: Trade and transaction reporting

The full FCA/PRA skilled person panel can be found at the links below.

FCA Skilled Person Panel / PRA Skilled Person Panel

In addition to the Skilled Person Panel, we were also selected to support the FCA with insolvency expertise in the event of multiple firm failures, and on the Consulting Panel for providing services directly to the regulators in areas of trade and transaction reporting, financial analysis, economic regulation and analysis, resource augmentation, business consultancy, forensic accountancy and risk management.

Useful Section 166 and Skilled Person links

Click to find out more about FCA Skilled Person Reviews

Click to find out more about the PRA approach to supervision

How BDO can help

Should your firm become subject to a s166 requiring a Skilled Person, we can help on most matters. We are present on 11 of the 12 FCA/PRA Lots and have significant experience delivering Skilled Person Reviews over a wide range of topics, across sub-sectors and for different types of businesses.

As a Skilled Person we are required to be an expert in the relevant subject matter, and to act independently making evidence-based judgements. Our work must meet the high standards set by the regulators and is carefully planned to be efficient. We monitor plans and costs and keep you updated on progress and our reports are clearly drafted and action focused.

We can also provide support to help you navigate a s166 where we are not the Skilled Person. If you would like to discuss how we can help, please contact one of our Partner team today, Leigh Treacy, Fiona Raistrick, Richard Barnwell, or Mads Hannibal.

What are the Regulatory Initiatives for the next 24 months?

The latest Regulatory Initiatives Grid impacting Financial Services firms was published on 19 May 2026. This is the 10th edition of the Grid and provides an update to the 9th edition published in December 2025.

The Grid gives a combined view of the policy initiatives affecting Financial Services firms operating in the UK. The Grid does not include supervisory or enforcement matters.

In this article we highlight some of the most significant new and emerging initiatives for Financial Services firms.

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This edition of the Grid contains a similar number of initiatives to previous editions, with 135 live initiatives, of which 32 are new. Around 70% of initiatives classified as are low impact and fewer than 30% are considered of interest to consumers.

The new initiatives collectively represent a transition to a more digital, growth-oriented, and UK-tailored regulatory system, with heavy emphasis on payments innovation, crypto regulation, pensions reform, and simplification of legacy rules and data returns. Reading through these initiatives provides a indication of the scale of change facing UK Financial Services firms, particularly in areas impacted by digital innovation and the growing use of AI. We look at some of the key initiatives below.

Multi sector initiatives

Digital Pound
The Government published the National Payments Vision at the end of last year which included a commitment to continue with the ongoing design phase of the digital pound. There is no firm decision about introducing a digital pound. The current design phase of the digital pound workplan will run through 2026. At the time of writing, we are still expecting Treasury and the Bank to publish the following later this year: (a) a blueprint which explains the proposition for a digital pound and (b) a decision on the future of the digital pound, informed by an assessment of the blueprint and case for digital pound.

FCA/Treasury/PSR - Modernising Payments Assimilated Law
The Government and the FCA are modernising payments services regulation to deliver a more agile and responsive regulatory environment that promotes innovation in the UK payments sector. This work will also consider how the UK's payments regulatory framework supports tokenised payments such as stablecoin and tokenised deposits. Of particular interest to payment firms, this work will also consider updates to the Strong Customer Authentication regime, including whether changes are required to support emerging use cases such as agentic AI-enabled payments. Consultations from Treasury began in Q2 this year and will run to Q4 2026, followed by FCA consultations in 2027-8.

Open Finance/Open Banking
The FCA published a vision and roadmap for Open Finance in April 2026 and will work with Treasury on options for a regulatory framework in 2027. Open Finance extends the principles of Open Banking across a broader range of financial products and services, including pensions, insurance, investments and mortgages. Later in Q2 2026, Treasury will publish a consultation paper on a review of assimilated payment services law, including the approach to Open Banking and stablecoin payments. In Q3 2026, subject to legislation, the FCA will consult on the Open Banking Long-Term Regulatory Framework interface rules. In Q4 2026, Treasury's Data (Use and Access) Act Statutory Instrument is to be laid before Parliament, which (alongside the modernising payment services regulation reforms) will give the FCA the necessary powers to oversee the future ecosystem.

Automated Decision Making and Profiling Guidance
This guidance explains how UK data protection law applies when organisations use automated decision-making and profiling, considering amendments in the Data (Use and Access) Act. It covers scenarios when firms use a client's personal data to automatically approve or deny them for financial products and services. This guidance will help firms to understand if they are engaging in automated decision-making, and if so, their responsibilities under the UK General Data Protection Regulation (UK GDPR).

Consumer Duty
In September 2025, the FCA set out a plan to address concerns about the application of the Consumer Duty for firms primarily engaged in wholesale activity. This included a consultation on the application and requirements of the Duty, including through distribution chains. The consultation launched in June 2026..

Appointed Representatives Regime Legislative Reforms
In February 2026, Treasury published a consultation on the Appointed Representatives (AR) regime setting out detailed proposals for reforming the legislative framework of the regime. These proposals include introducing a permission for firms to act as principal; applying the Senior Manager & Certification Regime to ARs; and extending Financial Ombudsman Service jurisdiction to ARs where principals are not liable. The consultation closed on 9 April. Delivery of any reforms will require primary legislation and the FCA will consult on regulatory rules and guidance changes once the legislation is complete.

Sector Initiatives

Investment Firm Prudential Regime
A targeted review of the Investment Firms Prudential Regime (IFPR) will start in H2 2026 to ensure the regime remains fit for purpose amid evolving market conditions and the FCA's strategic priorities. Call for input Paper is expected to be published in H2 2026, followed by a Consultation Paper in 2027.

Later Life Mortgage Study
The FCA has invited input on the terms of reference for its Later Life Mortgage Study MS26/1 published on 20 March. The study will assess whether changes are needed in the lifetime mortgage and interest-only mortgage sector to ensure they meet the changing needs of consumers in later life and are supported by effective competition. Market studies such as this take around 2 years to complete.

Wholesale markets
The FCA are starting a review of the Disclosure and Transparency Rules to consider the value of the current rules for issuers and investors, and to explore if changes are needed to make UK public markets more attractive whilst maintaining high standards and market integrity. It will be the next milestone of a major programme of reform to UK public markets, building on significant reforms to the Listing Rules in 2024 and new prospectuses rules which came into force in January. The FCA plans to publish a public document in Q3 2026. The FCA is also starting a review of payment for order flow to assess if change is required.

Retail investments
New initiatives to simplify disclosure requirements and review financial promotions rules for retail investments. Consultations due in Q3 2026.

How BDO can help

If you are prioritising how you will plan for forthcoming regulatory initiatives please contact Richard Barnwell, Nicola Ball or Alison Barker. We can advise on regulatory developments and provide support in implementing regulatory change.

Consumer Duty annual reports - What should Boards be thinking about?

This article looks at recent publications by the FCA about the Consumer Duty with a focus on annual reports and consumer understanding testing.

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The FCA's publication about the Consumer Duty Board Reporting provides interesting reading. This year will see the third round of board reports about the Consumer Duty and in this article, we look at some themes that have emerged.

The FCA dropped the Consumer Duty Board Champion role last year, however they report many firms have chosen to retain the role. The advantage of a Consumer Duty Champion at the board is that the consumer perspective remains in view. It provides a different perspective for challenge and discussion.

The FCA found areas of improvement:

- Improved governance and oversight with formal review and sign off
- Improved action plans and oversight
- Wider range of qualitative and quantitative data providing better trend analysis and insight.

It also noted some areas still require attention:

- Monitoring of third-party suppliers could improve
- Data should be linked to more explicitly linked to outcomes
- Board challenge should be better evidenced in minutes
- Deepen the assessment of consumer understanding and support.

On the last point, the FCA also issued a report about how firms are assessing outcomes for the consumer understanding objective. Broadly this report showed there is more to be done and considers some of the practical steps firms can take. It emphasises that whilst consumer outcome standards apply across all firms, monitoring outcomes should be proportionate to the size of the firm. The FCA is now looking at consumer understanding monitoring to be part of the day-to-day control framework. Testing changes before and after they are put in place, as well as ongoing monitoring.

Communications should use plain English with key information upfront and highlight risks and exclusions early. Consumer journeys are better if they include walkthroughs, calculators, and videos. Supporting vulnerable consumers means finding ways to spot signs early and intervene. Financial promotions should be balanced and jargon free.

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What have we seen in Board reports?

At BDO our team has considered many Consumer Duty Board reports and our findings from this show an increase in the discussion of the consumer perspective at the Board.

Three headlines from our work:

- Beware the sea of green - firms have improved consumer outcomes MI, however, we still see a lack of clearly defined thresholds and tolerances that are effectively calibrated. Red or amber scores show the system is working and can enable discussion.
- Root cause analysis can be superficial. Deeper analysis that turns data into insight and explores rationales behind data trends improves debates at the Board.
- Scrutiny of customer understanding and support happens in pockets. Different business functions may look at a slice of consumer feedback from a specific perspective. Joined up analysis of understanding and support across a consumer journey provides a more holistic consumer view.

We are starting to see AI being used to support improved consumer communications. For example, to assess communication clarity and structure or review volumes of existing product and marketing literature. Also, a use case monitoring unauthorised financial promotions and social media posts. AI enabled consumer processes are less suited to assisting vulnerable consumers where a more empathetic approach might be needed but it can be trained to spot vulnerability and refer a customer to an appropriate support channel.

What can firms do?

As firms start the annual exercise of reviewing consumer outcomes, we pose three questions to consider:

- Does the Annual Report provide a rich insight into outcomes, issues and actions or is it a sea of green?
- Has testing and monitoring become embedded in the day-to-day control framework?
- Are there use cases for AI in supporting improved consumer understanding outcomes?

If you would like to discuss your Consumer Duty Board reporting please contact Nicola Ball, or Thomas Story.

What is the Regulators take on AI?

Recent publications by the Bank of England and the FCA assess the impacts of AI on Financial Services. While all the impacts are not yet fully known, we provide some thoughts for actions firms can take.

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Recent publications by both the Bank of England and the FCA provide interesting insights and perspectives about AI. We look at these as context for practical steps for boards and senior management.

The recent FCA publication, the Mills Review, takes a wide-ranging look at AI developments across retail Financial Services, and what this could mean for consumers and the FCA by 2030. The Bank of England Governor's speech 'Can AI make Cutlery?' takes an economists view of AI as an agent of growth and the effects on the economy.

What are some of the key take aways?

The Mills Review: AI and the future of retail Financial Services primarily focuses on considerations for the FCA with a short-term recommendation to review consumer use of AI within six months. The Consumer Duty and the senior managers regime should be sufficiently flexible for regulators to take action in the event of poor AI driven outcomes. It provides a very wide-ranging analysis of different AI technologies, quantum computing and use cases. It also explores the organisational shift in roles and skills, and what humans-in-the-loop will be required to do.

It outlines concerns about competition issues with dominant AI innovation in the hands of the few, an echo of concerns raised by the Competition and Markets Authority. It raises concerns about poor consumer outcomes without recourse to redress from AI outside the perimeter of regulation. The perimeter and long-established activities-based regime may come under pressure where AI performs multiple activities and services across the consumer journey and intermediates outside the perimeter. It raises a potential for regulators to need power to monitor, investigate and sanction AI providers in much the same way as they can for critical third parties. Its most concerning conclusions relate to cyber risk, fraud, and financial crime. Here the propensity for AI in the wrong hands, to find and exploit vulnerabilities is a live threat.

The report also acknowledges that AI has the potential to create process efficiency, improved governance, risk, and control management, and through empowering consumers to make better choices. One can conclude that the ultimate battle in retail FS, will be for AI (and the firms that control it) to own the mediated customer interface. And for regulators to keep pace with the speed of change.

The report makes four observations:

- AI will transform firms – many firms are experimenting and innovating.
- Consumer journeys will become AI agent led – ultimately a shift to AI agents interacting with each other and consumers, delegated decision making and potentially greater consumer empowerment as well as potential for greater consumer risk.
- AI reshapes market power and competition – AI could create beneficial competition, but it could also create dependencies on suppliers that shift market power
- Threats and defences both accelerate – the risks of fraud and crime are already rapidly developing; AI can also play a big part in defence.

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Andrew Bailey's speech Can AI make Cutlery? is about AI's role in economic growth. It looks at similar historical general purpose technological developments like electricity and the steam engine. Such technologies generate growth through creative destruction – innovation and obsolescence – where the old ways are replaced by new ways and the new ways trigger a cascade of other transformations. He notes revolutionary technologies take time to deliver productive transformation. The first power station was opened in New York in 1882, but it took four decades for electricity to bring productive economic growth. So, are we at the start of a new age? Probably. Bailey notes four effects:

- Displacement – replacing people where tasks can be done more cheaply and efficiently
- Reinstatement – it creates new tasks needing new skills, like data scientists
- Productivity – it increases effectiveness and efficiency which means it can do more faster, requiring more people to handle the increased volume of outputs, like more doctors to treat increased AI testing and diagnosis outputs
- Replacement – it changes demand for skills and labour in the workforce

What conclusions can we make?

This is very much a phase of innovation, trial, and error, disruption, and adoption. It requires a strategic assessment of where AI use cases will be best deployed first and then measured planning, assessment, and assurance to evaluate AI performance, flush out the trial-and-error stage, manage the disruption and move into productive adoption.

AI requires a comprehensive reassessment of how assurance operates. AI continuously adapts as it learns and the human engagement becomes more challenging. Reliance on data accuracy is material to the effective operation of AI. Data is rarely static and changing data creates new patterns and deductions that can lead to undesirable or even illegal outcomes from 'AI drift.' The traditional three lines of defence model and control orthodoxy is increasingly being seen as not appropriate in a fast-moving AI world. Many organisations are grappling with building controls and thresholds for real time evaluation against set thresholds, monitoring and critical analysis to identify AI drift and hallucinations in order to create a redesigned holistic risk and control framework which is not fractured by silos.

The regulators are clear, accountability and responsibility rests with boards and senior management to ensure AI transformations deliver outcomes aligned to regulatory expectations. The framework of principles and rules is seen as sufficient to govern AI adoption. Getting comfortable with how it is deployed and operating will be key in evidencing 'reasonable steps' are taken. The ICAEW recently published ten essential questions that can assist in AI deployments. Six questions focus on top level strategy and policy, whereas four look at considerations for higher risk systems.

We have set out some initial steps to think about, with focus on assurance:

- Commission an AI inventory with shadow AI discovery.
- Tier the AI inventory to prioritise risk assessment. Determine the risk ranking criteria, eg. legal, regulatory or financial risks such as claims, recruitment, customer due diligence, credit.
- Establish an AI deployment 'tool kit' to cover the expected deployment approach, evaluation criteria and redesigned control environment.
- Consider how the governance and control framework should evolve. Include thresholds, calibration, outputs and continuous feedback loops.
- Consider the role and capabilities of second and third line in providing independent assurance in a real time environment, and what tools are available to them to support becoming AI enabled functions.
- High risk AI systems may require hardwired kill switches operating to set parameters, lower risk may set flags for review and intervention.
- Change audit cycles to reduce risk of poor AI deployments, move to continuous assurance.
- Make AI risk a standing board item with live metrics.
- Assess the skills and experience needed, from board down, and how these will be recruited or trained.

If you would like to discuss how you are deploying AI, and managing AI risks please contact Catherine Wilks, Partner, BDO Digital or Gareth Miller, Director, Risk Advisory.

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The Barclays case: VAT grouping and 'fixed establishment'

The Upper Tribunal's recent decision in Barclays Services Corporation (released on 8 June 2026) provides key insights on how HMRC and the courts are likely to approach VAT grouping when involving UK branches of overseas entities.

If you have a VAT Group in place, this update could be relevant for you.

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At its core, the case concerned an application made by Barclays to include a UK branch of a US group company within its UK VAT group. If the application was successful, the business would have achieved significant VAT savings from the time of the application. HMRC denied the application. The First-tier Tribunal agreed with HMRC and on appeal, the Upper Tribunal also confirmed the position.

At the heart of the issue was whether the UK branch met the conditions of a "fixed establishment" to be eligible to join the VAT group. This concept is fundamental but often misunderstood. In broad terms, a "fixed establishment" requires more than a legal presence or a branch registration. It requires an operational footprint—typically involving people, infrastructure and the ability to carry on business activities in a meaningful way.

In its recent decision, the Upper Tribunal decided that, although a UK branch had been created, it was not yet operational at the time of making the application. Key personnel were either not yet in place or were not properly employed by the overseas entity, and the branch did not have actual or comparable control over the assets and resources. Much of the activity remained preparatory.

On that basis, the Upper Tribunal agreed with HMRC that there was no fixed establishment when the application was made.

What is the issue and what does it mean?

Over recent years, HMRC have been actively reviewing structures involving inclusion of an overseas entity in a UK VAT Group. Under the UK rules, this is possible so long as the overseas entity has a UK "fixed establishment" and meets other conditions too. The case of *Barclays* tests how the concept of "fixed establishment" operates in practice.

We find that there are a few key points emerging from this decision:

- It is important that businesses can demonstrate that the UK office of the overseas entity has the necessary substance to qualify as a fixed establishment. This can often be overlooked when transacting within the same corporate group – agreements may not formally be in place, governance, processes and controls may not be in writing, and the entities may be operating with each other on "soft terms". This does increase risks from a VAT perspective – and transfer pricing too.

- Timing is crucial - the courts (both, the First-tier Tribunal and the Upper Tribunal) looked at the facts as they were at the time the application was made. In practical terms, this means that businesses need to be mindful that their structure is implemented properly and robust documentation is in place to demonstrate the commercial reality

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Whilst the case focusses on adding an overseas entity into the VAT Group, the principles of fixed establishment are relevant to those who already have VAT Groups in place. Even if businesses meet the conditions for VAT Grouping, HMRC have wide powers to deny/make changes to the membership of VAT Grouping for reasons of "protection of revenue". It wasn't very common for HMRC to use these powers – however, they are clearly looking to exercise it in *Barclays*. The Upper Tribunal indicates that HMRC could have reasonable grounds to apply these powers in the current context – this is because of the size of the VAT savings were considerable, but the structure was not properly in place. Further, the Upper Tribunal indicates that timing of the application was driven to achieve additional VAT savings.

What firms need to know and do?

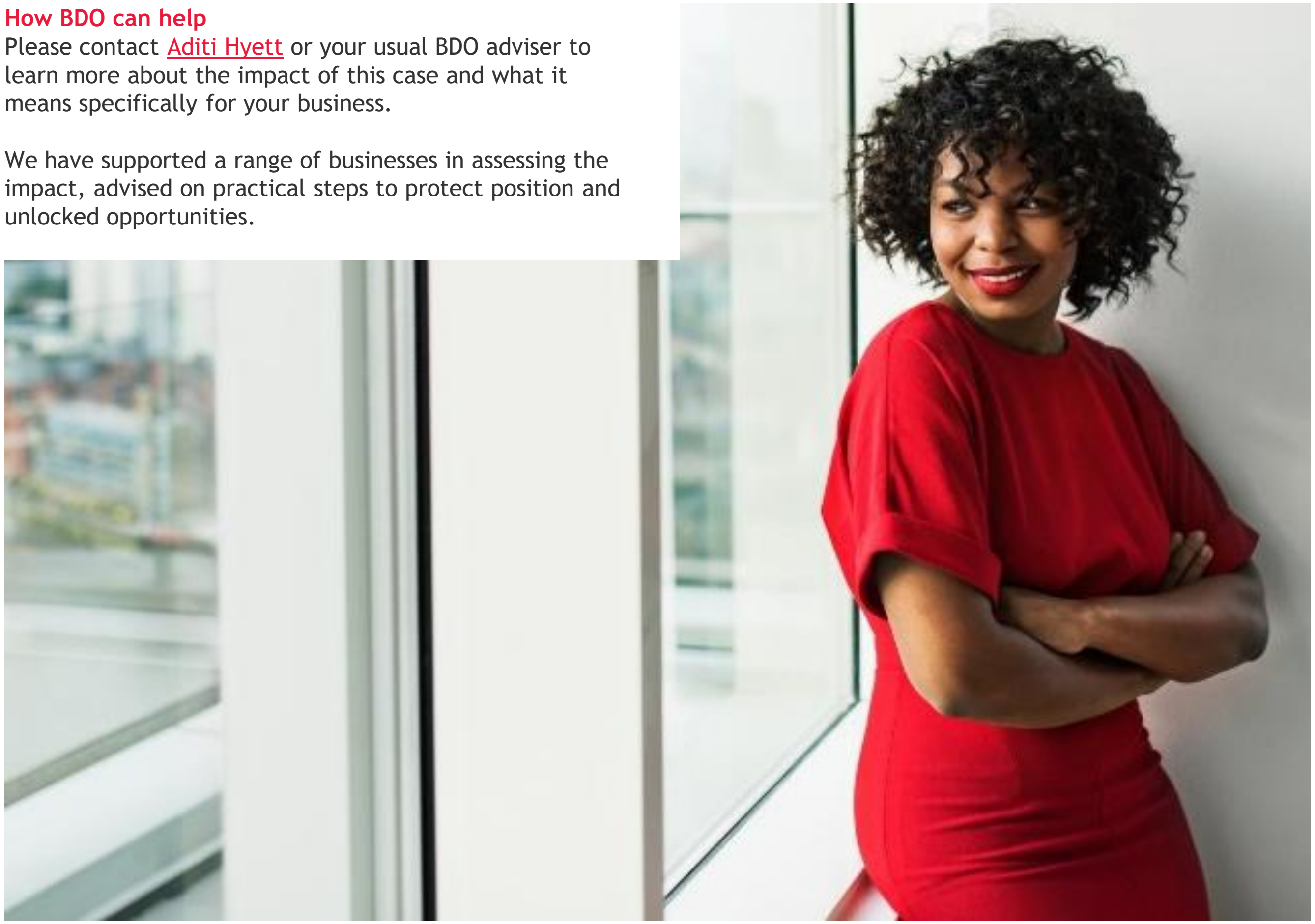
Considering the principles emerging from Barclays, businesses should carefully review their current position and assess its robustness.

As indicated above, whilst the case focusses on inclusion of an entity in a VAT Group, businesses should review their fact-pattern even if there are no changes to the membership of the VAT Group. This is also against the wider backdrop of there being several cases (in the UK and EU) that have tested various aspects of VAT Grouping and the VAT treatment of intercompany transactions in the context of transfer pricing. It is important for businesses to consider the direction of travel across these cases and whether the VAT position being adopted by the business is reasonable.

How BDO can help

Please contact Aditi Hyett or your usual BDO adviser to learn more about the impact of this case and what it means specifically for your business.

We have supported a range of businesses in assessing the impact, advised on practical steps to protect position and unlocked opportunities.



The benefits of modern finance and accounting software for the Financial Services Sector

In this article, we consider the benefits of modern finance and accounting software to enhance reporting and process automation for the Financial Services sector.

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Financial Services organisations are operating in an environment defined by regulatory scrutiny, rising operational complexity and growing expectations for timely, accurate reporting. For many firms, legacy finance systems are struggling to keep pace. The result is a widening gap between what finance teams are expected to deliver and the tools available to them.

Modern, mid-market finance solutions offer a practical route forward enabling firms to scale capabilities without the cost and disruption typically associated with large-scale transformations, while still unlocking the functionality needed to support complex operations.

The key challenges faced by finance teams that may indicate change is needed

Several persistent challenges are driving the need for change across finance functions:

Regulatory complexity
The evolving nature of FCA regulations continues to place pressure on finance teams to provide accurate, transparent and timely data. Compliance is no longer just about periodic reporting; it requires continuous access to reliable financial information and clear audit trails.

Legacy systems and fragmentation
Many firms continue to rely on multiple disconnected systems or heavily customised legacy platforms. This fragmentation leads to manual processes, data inconsistencies and increased risk. It also limits the ability to respond quickly to regulatory or business changes.

Limited reporting capability
Traditional systems often lack real-time reporting and advanced analytics. Finance teams are forced to rely on spreadsheets or manual consolidations, making it difficult to gain timely insights or support strategic decision-making.

Workarounds for complexity
As systems fall short, teams introduce workarounds such as manual journals or supplementary tools. While these may address short-term issues, they can increase operational risk, reduce transparency and create inefficiencies over time.

The benefits to Financial Services firms for adopting a modern finance and accounting solution

A modern finance platform can address these challenges by enabling automation, control and insight.

Multi-entity consolidation
Financial Services firms often operate complex group structures. Modern systems support automated, multi-entity consolidation, reducing manual effort and improving accuracy while maintaining full visibility across the organisation.

Intercompany management and traceability
Effective management of intercompany transactions is critical. Advanced solutions provide built-in functionality for recharges, reconciliations and transaction tracking, ensuring transparency and reducing the risk of imbalance or misstatement.

Real-time financial reporting
Access to real-time data enables finance teams to monitor performance continuously and respond to emerging issues quickly. This is particularly valuable in aligning financial reporting with regulatory expectations and internal governance requirements.

Advanced analytics and budgeting
Modern platforms integrate planning, forecasting and analytics capabilities. This supports more informed decision-making and enables finance teams to move beyond reporting into a more strategic, forward-looking function.

Audit trail and documentation
Robust audit capabilities are essential in a regulated environment. Modern systems provide comprehensive audit trails, documentation management and user accountability, supporting both internal controls and external audit requirements.

Navigating change in the finance function

Firms considering their finance systems strategy face a key decision: optimise existing solutions or invest in a broader transformation.

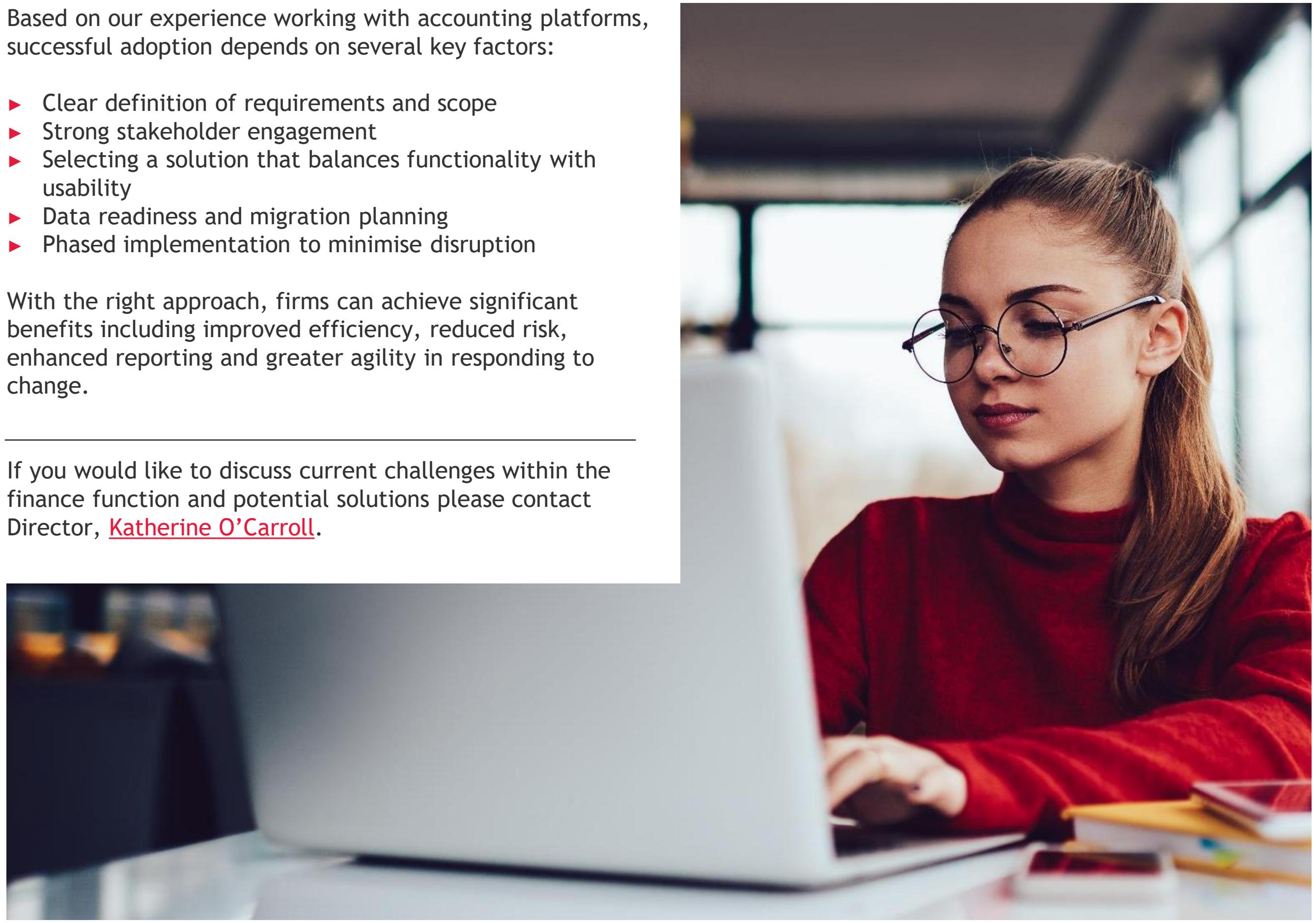
Incremental optimisation may offer short-term improvements but can delay the inevitable need for change where systems cannot scale or meet regulatory demands. In contrast, adopting a modern platform represents a more strategic investment, but requires careful planning and execution.

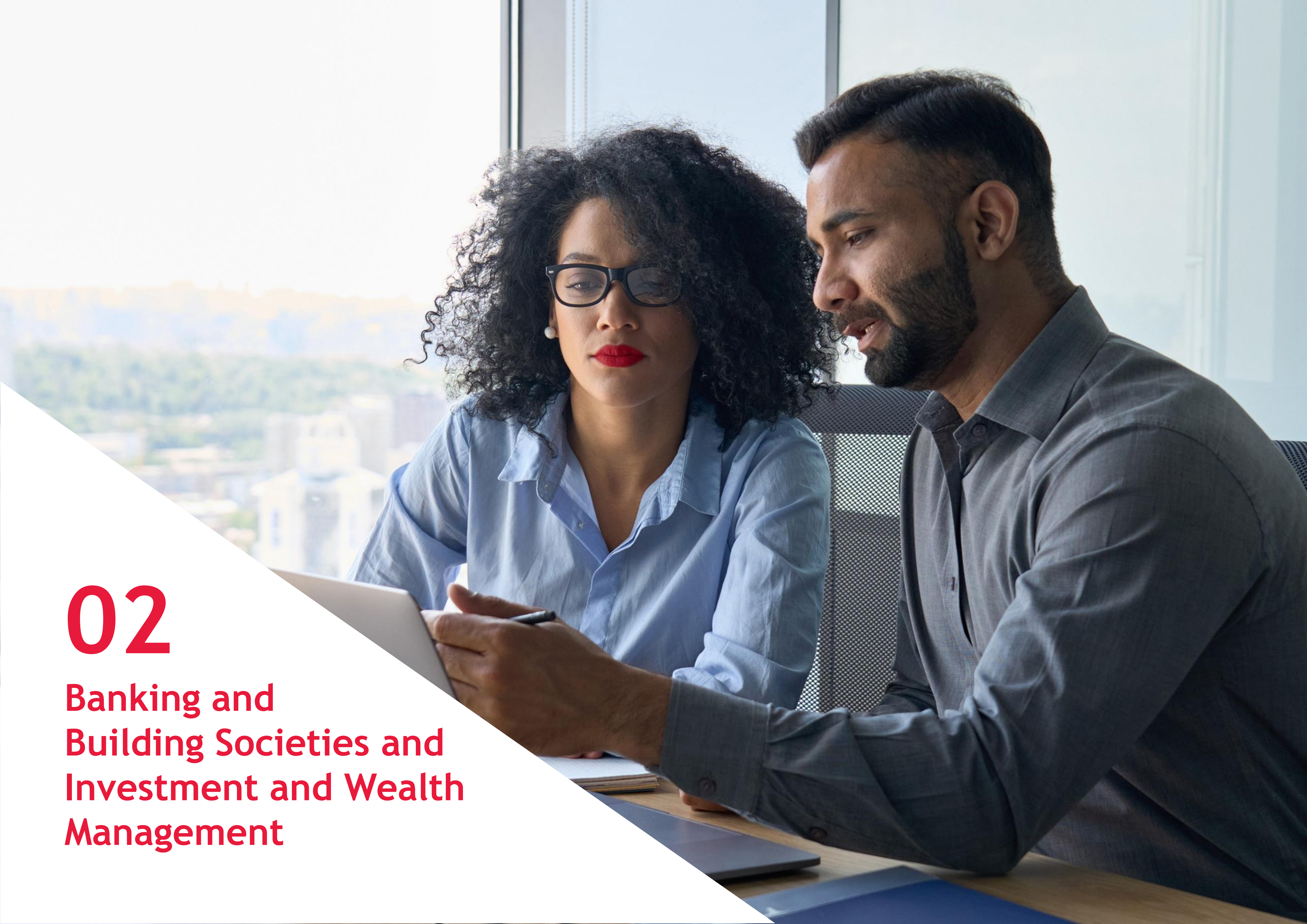
Based on our experience working with accounting platforms, successful adoption depends on several key factors:

- Clear definition of requirements and scope
- Strong stakeholder engagement
- Selecting a solution that balances functionality with usability
- Data readiness and migration planning
- Phased implementation to minimise disruption

With the right approach, firms can achieve significant benefits including improved efficiency, reduced risk, enhanced reporting and greater agility in responding to change.

If you would like to discuss current challenges within the finance function and potential solutions please contact Director, Katherine O'Carroll.





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Banking and Building Societies and Investment and Wealth Management

Why is everyone worried about private credit?

Recent publicity about private credit funds has brought the private credit sector into sharper focus. In this article we explore the issues around private credit, recent comments by the Bank of England and the approach to fund redemption policies.

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The Financial Policy Committee and the Bank of England have raised concerns about the private credit market. The role of the Financial Policy Committee is to monitor systemic risks to the financial system in the UK. In its latest published minutes, it raised concerns about the vulnerabilities of the private credit market and the impact of supply shocks on interest rates from geopolitical events in Iran. On the horizon, concerns about how AI may disrupt asset values is starting to emerge. The failures of Tricolour and First Brands in the US surfaced concerns about the opacity of private credit in these highly leveraged companies.

During periods of economic stress, asset values may decrease, and interest rates increase the cost of credit servicing, creating a perfect storm where vulnerabilities crystalise simultaneously and cause a wider crisis across the financial system. Looking to the long-term cash flow from private credit, institutional investors have started to withdraw funds to invest elsewhere. The Bank of England has announced it will conduct stress testing to understand the interconnectedness of the private credit market with the financial system more generally.

What is the private credit market and how big is it?

Private credit has grown rapidly over the past decade. Estimates of the market's size range from US$1.5 trillion to US$3 trillion, depending on the definition and methodology used, with the biggest exposures in the US. It has grown substantially in response to tighter credit and lending controls for banks in the wake of the financial crisis. However, it forms an important part of the financial ecosystem in providing money for riskier types of business models. At the recent House of Lords Economic Affairs Committee, Andrew Bailey, Governor of the Bank of England, pointed out that much of the investment in new technology and AI was supported through private credit. Private credit is predominantly lending to non-investment grade companies, subordinated debt, distressed debt, and asset-based finance. It can be more agile than traditional forms of credit and highly customised. Private credit is non-tradeable and as such is illiquid. It is also not subject to the same regulatory standards as more traditional bank lending. It is used in portfolios to provide higher returns and typically it has performed well in comparison to other fixed income markets.

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What is the issue?

Blackstone recently made headlines when it gated its $79 billion private credit fund after requests to withdraw reached $4.4 billion. Redemptions have been capped to 5% of its value to be met through its regular distribution cycle. It is not the only private credit fund to restrict redemptions. Several funds are also restricting withdraws and many more may have a short liquidity runway. Blackstone has been quick to point out that it has a strong approach to asset valuation and had taken action to protect the capital of its investors.

The Bank of England highlights a potential liquidity mismatch and concerns about underlying valuations which could be exacerbated by increased interest rates. Following Brexit, property funds came under stress and restricted redemptions. Gating stops the fire sale of less liquid or illiquid assets by restricting the volume of redemptions or applying notice periods for redemptions. A significant issue can arise if there is a mismatch between the fund dealing policy and the investment strategy or composition of investments. Assets that are not frequently valued or where valuation is more difficult can pose a risk in challenging economic conditions. Redemptions should be met through the fund life cycle and not forced asset sales.

What is the regulatory approach?

Regulators in the UK require systems and controls along with strong governance to manage authorised and regulated fund liquidity risks. There are a range of tools available to fund managers such as robust liquidity monitoring, stress testing, risk oversight, and asset valuations. Policies about fund dealing and suspensions should be clearly communicated to investors. This in turn enables investors to review fund policies and investment strategies to assess their exposure to private credit.

As mentioned, the Bank of England is conducting a stress testing exercise to understand the market connectivity, we can expect further communications about actions to take in due course.

If you would like to discuss any matters related to private credit please contact Internal Audit Partner, Christian Bellairs or External Audit Partner, Peter Smith.

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FCA review into bereavement processes - What action should firms be taking?

Following research which found that only 47% of bereaved customers felt they received the support they needed from Financial Services firms, the FCA has announced it is conducting a review into firms' management of bereavement processes.

In this article we explore critical questions to assess whether processes for bereavements are working to deliver good consumer outcomes.

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For anyone who has lost a loved one, you will know it can be a very stressful time with lots of actions required while coping with a loss. Those tasked with managing a deceased persons estate (personal representatives) are often family members rather than professional executors. Starting from the perspective of the consumer viewpoint is important in understanding what support is required. It goes without saying that this is an area with high customer vulnerability.

The FCA conducted research which found that "Fewer than half of bereaved customers (47%) felt they received the support they needed from financial firms". This follows similar FCA reviews in retail banking and insurance, where it found bereaved customers regularly faced unclear processes, repeated information requests and avoidable delays. There have been examples of good practice however it is inconsistent.

The FCA is conducting further analysis to understand the quality of practices across the consumer investments and wealth sector. Firms are being selected for review which starts with an information gathering questionnaire. Typically, the FCA supervisory team will review the responses to the questionnaire and select outliers for further assessment. Poor practices could result in significant remedial work. Questionnaires typically require a considerable amount of data and take time to collate. For any firms that receive the questionnaire, it is important that it is completed carefully and thoroughly. If significant gaps are identified, be on the front foot and start to address these.

A recent example is the failings at NS&I to effectively administer deceased customers' accounts. NS&I now faces a £400 million compensation bill to reunite bereaved families with loved one's savings. Around 37,500 families have struggled to access savings because of an administrative failure by NS&I to keep track of and trace all deceased customers products.

Poor bereavement practices have been called out by the FCA over the years, and this isn't a new issue. Santander was fined £32.8 million in 2018 for failings in its bereavement processes and 40,428 customers were directly affected with funds totalling over £183m not being transferred by Santander when they should have been. Some cases took years to finalise.
Personal representatives rely on the financial institution being able to trace all accounts in the deceased's name. It is vital for probate purposes to properly account for all money and investments held by the deceased. Additionally, an aggravating factor in this case was the failure of the bank to fully disclose the scale of the issue to the FCA. Under Principle 11, firms are required to be open with a regulator. This enforcement case was prior to the Consumer Duty which sets standards for customer outcomes and outcomes monitoring.

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What action can firms take?

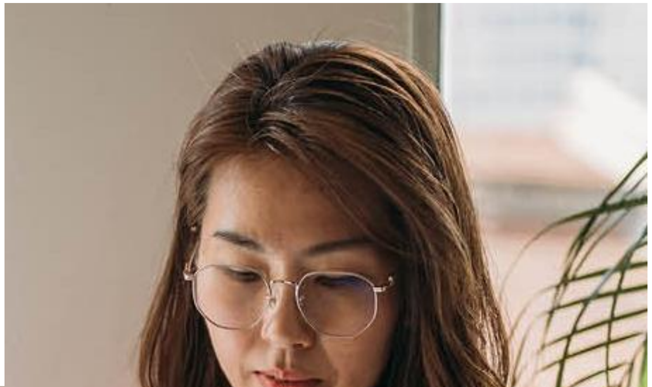
Boards may want to ask questions about bereavement client service and support, particularly in the next round of Consumer Duty Board reporting. Here are some questions for consideration by Boards, executives, second- and third-line functions:

- Are there defined documented processes for handling bereavements with specifically trained staff able to support personal representatives? Are there sufficient trained staff to handle the volume of cases?
- How long is it taking to reunite personal representatives with all amounts of savings and investments held? How are aged cases followed up and resolved? What are the expected service levels and how regularly are these breached?
- Is there confidence that tracing all accounts and investments is accurate and robust?
- Are complaints separately logged as bereavement complaints? How is information from these complaints used to identify root cause of issues and put in place remediation?
- Are there ongoing outcomes testing to assess process performance and customer outcomes? Are outcomes monitored?
- How are consumer communications and support assessed for effectiveness, including communications about costs and charges?
- What confidence does the Board have that bereavement processes are working well and what MI does the Board receive?

How BDO can help

BDO's team of regulatory experts can support firms with preparation for any FCA supervisory assessments, for example reviewing data submissions, assessing processes or supporting visit preparation. We can also conduct reviews of how bereavement processes align with FCA expectations.

If you would like to discuss any points raised in this article, please contact Richard Barnwell, Partner, Financial Services Advisory or Lucy Gallagher, Director.



03

Insurance

AI use cases in the insurance sector and rapid consumer use of AI

This article looks at recent developments for AI use cases in the insurance sector as well as noting how AI is rapidly being adopted by consumers.

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A recent mid-morning TV consumer affairs programme showed consumers how to use AI to help understand Terms and Conditions. The suggestion was to copy and paste the T&Cs into AI and ask about exclusions and draw attention to these sections (always verifying the answers) or to compare new and old policy terms.

It shows how mainstream AI is becoming when it appears as a solution on a daytime TV consumer affairs programme. Consumer research shows 14% of consumers now use AI in their purchasing decision for insurance. AI is also increasingly used to filter out the noise of search engines, an estimated 37% of consumers now start searches with AI instead of Google.
Insurers are increasingly finding use cases for AI. A claim for a lost mobile phone can be instantly rejected where AI detects the Find It function has been switched off. How many consumers had read through the pages of T&Cs to know that mattered and was a potential exclusion to a claim?

What is the issue and what does it mean?

This short scenario raises so many questions for those charged with governance and oversight.

AI has the power to overcome the long-term issue of long and complex T&Cs with important details lost in the small print or buried in long documents, across different web pages or accessible only through multiple click throughs. It should be a key tool to aid consumer understanding.

Use cases in areas such as claims enables insurers to make quick decisions, such as the mobile phone claim. However, there are questions to ask about AI deployment, human monitoring, and consumer outcomes. Research by Stanford University about US insurance health care decisions demonstrates that whilst AI can improve the efficiency of decision making, it can lead to poorer consumer outcomes where AI is trained on previously flawed decisions or biases, or where there are missing data or decisions are opaque. It calls for greater testing and monitoring of decisions to assess if these are delivering the intended consumer outcomes or whether too many claims are denied and on a flawed basis.

This requires an understanding of the right range of consumer outcomes in the first place, and a shift in operations from day to day processing to decision evaluation and data analysis. This means reviewing the types of expertise needed, potentially away from administration and more to critical thinking and analytical skills.

A different use case is fraud detection. The BBC recently reported that an insurer "recorded a 71% rise in fraud during 2025 compared to the previous year, partly blaming the increased use of artificial intelligence software to manipulate evidence". Increasingly AI is being used to change images in claims. The insurer noted it uncovered £86.8 million in fraudulent motor, home and travel insurance in 2025 by using AI to spot altered images.

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The Governments Financial Inclusion Strategy notes insurance is one way for consumers to weather financial shocks by increasing consumer participation in insurance, for example 67% of renters do not have contents insurance. AI has the power to improve efficiency and effectiveness, as well as empower consumer decision making through AI tools that can support consumer decision making.

What do you need to know and do?

The challenge for those tasked with oversight and governance is asking the right questions to understand the use cases, require appropriate testing and monitoring, and assess consumer outcomes. For example, are second and third lines asking the right questions? Do Boards know where and how AI is deployed? What guardrails and policies are in place to mitigate risks? What is the impact on consumer outcomes? How are benefits quantified?

How BDO can help

If you would like to discuss any points raised in this article, please contact, Richard Barnwell, Nicola Ball, or Alison Barker.

CP11/26: A dedicated regulatory framework for captive insurers

The PRA, working alongside the FCA, has launched a major consultation on the introduction of a dedicated regulatory framework for captive insurers. The proposals, set out in CP11/26, represent one of the most significant developments for the UK captive market in recent years to enhance the UK's attractiveness as an insurance domicile.
If implemented, the new regime would provide a proportionate alternative to Solvency UK for captive insurers, reducing regulatory complexity while maintaining appropriate prudential safeguards. The PRA hopes this will encourage UK-based organisations to establish captives domestically rather than in offshore jurisdictions. The PRA invites response to the consultation by Wednesday 14 October 2026.

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What is a Captive Insurer?

A captive insurer is an insurance company owned by a corporate group that primarily insures the risks of that group and its affiliates. Rather than relying entirely on the commercial insurance market, organisations use captives to retain risk and manage insurance programmes more efficiently.

Captives can offer several benefits, including greater control over insurance costs, improved access to reinsurance markets, enhanced availability of cover for difficult-to-insure risks, and greater flexibility in enterprise risk management. Despite their widespread use globally, the UK has historically attracted relatively few captive insurers due to the regulatory complexity and capital requirements of Solvency UK.

A New Standalone Regime

In CP11/26, the Prudential Regulation Authority (PRA) proposes a dedicated regulatory framework for captive insurers, separate from Solvency UK. The PRA considers captives to present lower risks to policyholders and the wider financial system because they mainly insure risks within their own corporate groups.

The initial phase would apply only to single-parent, or "pure", captives, although the PRA may consider broader captive structures in future.

Faster and Simpler Authorisation

A key proposal is a streamlined authorisation process. The PRA aims to assess complete applications within four to six weeks using dedicated PRA and FCA teams and simplified application requirements. This could significantly improve the UK's competitiveness relative to established captive domiciles and reduce barriers to entry for organisations considering UK-based captives.

Simplified Capital Requirements

The proposed regime replaces Solvency UK's risk-sensitive capital framework with a simple Captive Capital Requirement (CCR), calculated as the higher of:

- 10% of net insurance liabilities; or
- 10% of net written premiums.

A minimum capital requirement of £100,000 would apply. The PRA also proposes allowing certain contingent capital arrangements, such as letters of credit and parental guarantees, to support capital requirements above the minimum floor. Loan-backs to parent companies would also be permitted. This approach is intended to reduce complexity while better reflecting the risk profile of captive insurers.

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Reduced Reporting and Governance Burden

Captives would face substantially reduced reporting requirements, submitting only annual regulatory returns based largely on statutory accounting information. Quarterly reporting would not be required, lowering ongoing compliance costs. Governance expectations would also be proportionate. Captives would require:

- One Senior Management Function (SMF1)
- At least one Non-Executive Director (NED)
- Independent NEDs only where size, complexity, or risk profile justify additional oversight.

Permitted Business

Captives would be able to insure:

- Parent company risks
- Risks of other group entities
- Certain connected third parties, known as material non-group undertakings.

Examples include key suppliers, franchisees, joint ventures, minority-owned entities, and participants in owner-controlled insurance programmes (OCIPs).

However, restrictions would apply. Employers' liability, motor liability and employee benefit business would generally be permitted only through reinsurance arrangements. Pensions business would be excluded, while life insurance and investment-risk protection products would not be permitted.

Light-Touch Supervision

Consistent with the principle of proportionality, the PRA proposes a largely reactive supervisory approach. Regulatory focus would be concentrated at authorisation, with ongoing supervision relying primarily on annual returns and targeted engagement where necessary. This reflects the PRA's view that captives pose limited systemic risk.

Potential Implications for the UK Insurance Industry

The proposed captive regime could have important implications for the UK insurance market. By introducing a more proportionate regulatory framework, the PRA aims to make the UK a more attractive domicile for captive insurers, potentially encouraging companies that currently use offshore jurisdictions to establish or relocate captives domestically.

For commercial insurers, increased captive activity may lead some large corporates to retain more risk within their own groups, reducing demand for certain traditional insurance products. However, it could also create new opportunities through fronting arrangements, reinsurance partnerships and specialist services supporting captive operations.

Supporting UK Growth

The reforms may also strengthen the UK's broader insurance ecosystem. Growth in captive formations could increase demand for legal, tax, audit, actuarial, risk management and captive management services, reinforcing the UK's position as a leading global insurance centre.

In addition, greater use of captives may support innovation in risk financing by enabling organisations to develop tailored solutions for emerging and complex risks. Over time, a successful captive regime could contribute to a larger, more diverse and more competitive UK insurance market while supporting the government's wider growth agenda.

A growing UK captive market could create opportunities in captive feasibility studies, reserving, capital optimisation, governance support, risk management, and independent actuarial advisory services.

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Tax considerations

Although taxation is outside the PRA's regulatory remit, the consultation acknowledges the role that tax considerations can play in determining where organisations choose to establish captives. The PRA further recognises that competitive tax regimes in other jurisdictions may influence the UK's ability to attract captive business. This represents a positive shift in the debate, contrasting with the government's earlier position that tax competitiveness was not essential to the development of a modern and internationally competitive UK captive insurance regime.

The consultation remains open until 14 October 2026, with implementation expected in mid-2027. The PRA has also indicated that future developments could extend the framework to structures such as Protected Cell Companies (PCCs), group captives and association captives.

Overall, CP11/26 has the potential to create a more attractive, proportionate and competitive environment for captive insurers, supporting the development of a larger UK captive insurance market.

If you would like to discuss any points raised in this article, please contact, Charchit Agrawal.

04

Payments and E-money

Patent Box: unlocking the value of innovation

In this article, we explore how the UK's Patent Box regime can help payments and fintech firms reduce their corporation tax liability on profits arising from patented innovations. We outline the types of technology that may be eligible, how qualifying income is identified, and the practical steps firms can take to incorporate Patent Box into their wider growth strategy.

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Why Patent Box matters

The UK Patent Box offers a significant opportunity for qualifying firms, including those in the payments and fintech sectors, by allowing them to benefit from a reduced 10% corporate tax rate on profits derived from patented inventions. This incentive is particularly valuable for Financial Services firms developing innovations in areas such as cyber security, fraud prevention, and blockchain. Payments firms, whose business models often align well with the qualifying income requirements, can enhance margins and reinvest in innovation by leveraging this regime.

Early action is crucial to secure patents and track value, especially as investor focus on defensible intellectual property increases. The Patent Box complements R&D tax relief, supporting firms both during development and once technologies are commercialised.

Why it applies to payments companies

A common misconception is that payments and fintech firm cannot benefit because their value is driven by software or business models. In reality, software-related inventions can be patented where they deliver a technical solution to a technical problem. Payments platforms frequently develop such technology – including secure authentication methods, fraud detection engines, blockchain-based settlement processes, and optimisation of transaction routing. There are now real-world examples of payments and fintech companies successfully obtaining patents in these areas, demonstrating that protection is achievable with the right approach.

Where the value sits

Often the business models of payments firms align closely with how Patent Box operates. Qualifying income can include licence fees, embedded IP income, or notional royalties linked to patented processes within a platform. Given many payments firms monetise through transaction fees, SaaS models or embedded finance, there is often a clear opportunity to attribute value to patented technology underpinning those revenues.

The strategic opportunity

Beyond tax savings, Patent Box can drive better commercial outcomes for firms. It encourages firms to build defensible IP positions, enhances valuation, and supports investor narratives around proprietary technology. As the payments sector matures, firms with protected and tax-efficient IP will be better positioned to scale and differentiate.

Why you need to act now

Timing is critical. Identifying patentable innovations early ensures protection is not lost through disclosure. In parallel, firms must track R&D activity and align income streams to IP to maximise benefit under the regime. These processes are significantly easier to implement during product development than retrospectively. With limited time to elect into the regime and increasing scrutiny from investors on IP strategy, delaying action can result in missed value.

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What should firms do now?

Payments firms should act now to assess their position. This includes reviewing technology for patentability, engaging with patent attorneys, identifying IP-derived revenue streams, and putting systems to track R&D and income in place. Patent Box is not a niche relief – it is a strategic lever for unlocking value from innovation. Firms building differentiated payment technology should already be incorporating it into their tax and IP strategy.

How BDO can help

BDO works with payments and fintech firms to unlock the full value of their innovation. This includes identifying patentable opportunities within existing technology stacks, working alongside patent attorneys to assess technical eligibility, and aligning R&D activity with future Patent Box claims. We support clients in mapping IP-derived income streams, designing practical tracking processes, and embedding robust governance to meet HMRC requirements.

Our approach brings together deep sector expertise in payments, R&D tax, and intellectual property to ensure Patent Box is not treated as a standalone exercise, but as part of a joined-up innovation strategy. From initial feasibility through to implementation and ongoing compliance, we help firms turn innovation into sustained tax and commercial advantage. Reach out to Partner, Carrie Rutland Partner, Innovation Incentives, if you would like to find out more.

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