HYMANS ROBERTSON

Newsflash

Solvent Exit Planning for Insurers

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Today, the PRA has finalised its solvent exit policy for insurers, with the policy coming into force on 30 June 2026. The PRA has been pragmatic in allowing insurers to include their Solvency Exit Analysis (SEA) within their Own Risk and Solvency Assessment (ORSA) and in removing Managing Agents at Lloyd's from the scope of the policy. While firms have 18 months to prepare, Hymans Robertson recommends that firms start to incorporate SEAs in 2025 ORSAs to leave time to iron out any issues and to incorporate feedback.

Policy synopsis

The PRA's solvent exit planning policy requires insurers to prepare a SEA as part of their business-as-usual (BAU) activities. This should identify any significant barrier to exit and set out the management information (MI) the firm needs to guide the timing of any exit. Insurers must take into account the risks of being part of a Group where relevant and must update this SEA at least every three years or when there is a material change that could impact these preparations. Should a solvent exit become a reasonable prospect, the PRA then expects the insurer to prepare a more detailed Solvent Exit Execution Plan (SEEP) to set out more fully how it would exit the market while meeting all of its policyholder liabilities.

Changes made on finalisation

It is pleasing to see the PRA has listened to some of the industry's feedback in finalising the policy. Key changes made to the final policy, from the proposed policy consulted upon, have been:

1) allowing the SEA to be submitted as part of the firm's ORSA;
2) removing Managing Agents at Lloyd's from the scope of the policy;
3) extending the timeline for implementation from year end 2025 to 30 June 2026;
4) removing the timeframe of a month for the submission of a SEEP; and
5) signposting likely changes to the policy post the enaction of the Insurance Resolution Regime (IRR).

Allowing SEAs to be incorporated in ORSAs will simplify the policy's implementation for many firms. Some larger firms or those with complex business models may find it beneficial to keep their SEAs separate.

Managing Agents at Lloyd's already have to agree syndicate business plans with the Society's Capital and Planning Group each summer and post sufficient Funds at Lloyd's commensurate with their business plans to come into line in the autumn. From our perspective, planning for exit feels largely redundant given this annual viability checkpoint and it is positive the PRA has, to some extent, recognised this in exempting Managing Agents from the scope of the policy. While the PRA will be relying on the Society of Lloyd's requiring Managing

Agents to prepare for run-off and to appoint substitute Managing Agents when needed, they will work closely with the Society to ensure similar outcomes on solvent exit at Lloyd's as within the broader UK insurance sector.

It is commendable that the PRA has extended the timeline to implementation. However, we recommend that firms start incorporating their SEAs in their 2025 ORSAs to leave time to iron out any issues and incorporate any feedback. It is also positive that the PRA has removed its expectation for SEEPs to be submitted within a month of solvent exit becoming a reasonable prospect, with the timing to be set by the PRA. Clearly, SEEPs will require more time if the firm is complex and would depend on circumstances. We are concerned though that the final policy allows the PRA the flexibility to impose a shorter timeframe than a month where it judges necessary.

Recap of policy rationale

The PRA's motivation for the policy is to ensure that insurers can cease their insurance business, in terms of ceasing to write new business and running-off their existing policyholder liabilities, while they are still solvent and thus able to discharge their policyholder liabilities out of their own financial and non-financial resources. To avoid becoming insolvent, firms should also be able to meet all their other liabilities. The expectations help insurers to meet Fundamental Rule 8 for operating in the UK "*that a firm must prepare for resolution so, if the need arises, it can be resolved in an orderly manner with a minimum disruption of critical services*".

Somewhat surprisingly, the PRA believes it is necessary to set planning expectations both for situations when insurers might decide to make an exit for strategic business reasons and for situations when a solvent run-off of policyholder liabilities is a last resort. While insurers are expected to plan for the range of solvent exit options they believe reasonable including a sale of the firm, it is worth a reminder to insurers that **the PRA expects all SEAs to contain at least the option of a solvent run-off of policyholder liabilities**.

Again surprisingly, the PRA has preferred to take a consistent approach across non-systemic banks, building societies and insurers on planning for solvent exit, despite the significant differences in the duration and mismatch of their assets and liabilities and corresponding risks on exit.

Recap of the SEA's contents

The PRA has prescribed a minimum set of contents for all SEAs. These are as per the headings below, with our interpretation alongside.

- ***Solvent exit actions***: Insurers are expected to set out a range of exit options (eg a sale), including the option of a solvent run-off of policyholder liabilities. For each option, insurers are expected to set out the management actions they would take eg freezing of dividend payouts and optional capital repayments, sale of renewal rights, sale of ancillary businesses, additional reinsurance and Part VII transfers of segments.
- ***Solvent exit indicators***: Firms should set out the MI they would monitor to decide on the viability of the insurer and what would be the trigger level to initiate a solvent exit.
- ***Potential barriers and risks***: Firms should analyse their business carefully and identify what could be barriers or risks to execute a successful solvent exit or run-off. These could be things like complicated group structures and significant amounts of reinsurance.
- ***Resources and costs***: Firms should estimate the minimum level of capital needed for each solvent exit option, and plan for the costs and access to external resources, staff and infrastructure.
- ***Communications***: Firms should set out their communication strategy towards shareholders, regulators, rating agencies, staff and policyholders for each option considered.
- ***Governance and decision-making:*** Firms should be clear about their decision-making process to execute each option, ensuring there will be adequate challenge. An approved person under the Senior Management Function regime is accountable for the SEA.

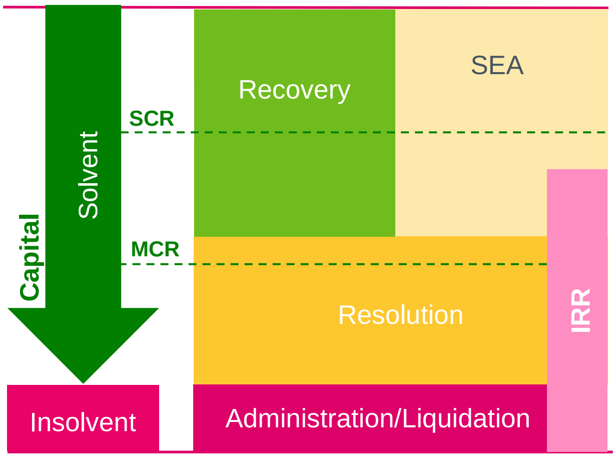
- ***Assurance***: Firms should decide on whether they need internal or external assurance on their SEA.

Interaction with other policies

The PRA's solvent exit policy interacts and overlaps with the Solvency UK ladder of intervention, the PRA's SS4/18 – Financial planning and management by insurers, IAIS' Insurance Core Principle (ICP) 12 – Exit from the market and resolution which is applicable to Internationally Active Insurance Groups (IAIGs) and the forthcoming IRR.

From our perspective, solvent exit sits between recovery and insolvency. It seems reasonable for insurers to plan for a solvent exit in the event their recovery plans are not effective and before the point of insolvency is reached. As such, a SEA would seem to fit well alongside the Stress and Scenario Testing (SST) component of an ORSA.

Figure 1: Policy interaction



The PRA has signposted that it is likely to impose stricter requirements on the SEA and its frequency for firms in scope of the IRR, once enacted

Some thoughts for implementation

Apart from Managing Agents, Third Country Branches and firms in passive run-off, all UK insurers will have to prepare a SEA as part of BAU but the level of work required to comply will vary. IAIGs should be able to leverage their resolution plans drawn up to meet ICP12, as would other insurers who have also developed resolution plans, with only a small amount of additional work required. Given the proportionate nature of the PRA's policy, smaller firms with simple business models might also find that only a small amount of work is needed.

In our view, some key things for insurers to consider include:

1) identify any significant barriers to exit given the firm's business profile, market position, any lines of business where the firm has a significant share and reliance on reinsurance,
2) articulate how the policy interacts with the firm's capital management policy and trigger levels,
3) set out what the firm would do if management actions for recovery are not effective, and
4) set clear trigger levels for when the firm would need to prepare a SEEP.

How Hymans Robertson can help

We are hosting a round table at our office on Thursday January 30 at 15:00 on solvent exit, recovery and resolution and ORSAs, drawing on our risk management and regulatory expertise across Life and General Insurance.

Please contact your usual Hymans Robertson contact or one of the authors if you would like to attend the round table. Or, similarly, if we can help you prepare your SEA, provide assurance on your SEA, support or review your Resolution Plan, support or review your SST or ORSA, or assist you with meeting other regulatory requirements or improve your risk management policies, framework or process.

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