HYMANS ROBERTSON

Newsflash

Solvent exit planning for insurers

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The PRA set out its proposals for PRA-regulated insurers to prepare for an orderly solvent exit as part of ongoing business-as-usual activities in Consultation Paper 2/24 last week. The intent is to increase confidence that insurers can exit the market with minimal disruption, however significant work is anticipated across the industry.

Overview

The consultation on solvent exit planning for insurers follows a similar consultation for non-systemic banks and building societies in 2023. It is intended to contribute to the PRA's ongoing work to avoid firms relying on insolvency or resolution processes when exiting a market. All PRA-regulated insurers, except for firms in a passive run-off and UK branches of overseas insurers, are in scope of the proposed rules.

If implemented, the proposals would add a new 'Preparations for Solvent Exit' section to the PRA Rulebook and a new Supervisory Statement. Two additional items would become part of BAU activity for insurers:

- **Solvent Exit Analysis (SEA)** – Preparations for a solvent exit would be documented in a SEA and refreshed every three years (or more frequently if an exit is imminent). The SEA should include how the solvent run-off would be carried out, indicators to suggest when a solvent exit may be necessary, and an assessment of the resources required to implement the exit.
- **Solvent Exit Execution Plan (SEEP)** – If a solvent exit became a prospect, the SEA would be used to develop a detailed SEEP, setting out key actions and timelines as well as communication plans, further detail on the resources required, and governance processes. This would be required within a month.

What are the requirements for the SEA?

The PRA's draft Supervisory Statement sets out the minimum content for an SEA, highlighting that the expectations apply "regardless of how unlikely or distant a prospect solvent exit may seem"[1]. There is also an explicit requirement to consider preparations for a solvent exit both in stressed and non-stressed/BAU circumstances. The SS notes that a solvency exit may be executed for a variety of different reasons including a shift of business strategy, unsustainable business models and financial and non-financial issues for an entity or a parent.

The SEA should address:

- **Solvent exit actions** –setting out how the firm would meet its insurance liabilities, including management actions, reinsurance arrangement and transfer of all or part of the business. A timeline of when these actions can be executed, and any key dependencies should be included.
- **Solvent exit indicators** – these should be identified and monitored within the SEA, as well as a trigger point to provide sufficient warning of the potential need for a solvent exit. Indicator metrics should be both financial

[1] Para 2.1 of Appendix 2: Draft supervisory statement - Solvent exit planning for insurers (bankofengland.co.uk)

and non-financial and the draft Supervisory Statement suggests the reference points in the Solvency II 'ladder of intervention' could be used as a basis.

- **Potential barriers and risks** – firms must set out both market-wide and firm-specific risks and assess how these could impact their planned solvent exit actions. There may be key dependencies, including the need for advice from external specialists.
- **Resources and costs** – this analysis should include both financial (e.g. capital requirements) and non-financial resources (e.g. key personnel) required, and how these would be maintained through the solvent exit process.
- **Communications** – insurers need to identify all relevant stakeholders who may be impacted, including other market participants, and set out how and when communications would be made with each stakeholder in the event a solvent exit was required. Particular attention will be required for policyholders, with Consumer Duty ensuring customer communications they are easy to understand.
- **Governance** – the planned governance arrangements should include an approved Senior Manager who is accountable for BAU preparations for a solvent exit, escalation, and decision-making (including whether a SEEP is necessary) and overseeing execution in the event a solvent exit is required. There is also an expectation of assurance over SEA plans, such as internal audit or even external scrutiny.

What are the potential implications of the proposals?

The PRA's aims include policyholder protection, identifying potential barriers to achieving solvent exit and reducing the risk of disorderly exits. However, the PRA's own analysis shows that there will be significant implementation costs across the industry, with anticipated one-off costs of £6 million and a net present value of £44 million for ongoing compliance costs.

Where possible, insurers should identify any existing work on exit planning and ensure that their SEA is consistent. Larger firms which are part of an Internationally Active Insurance Group can leverage their existing resolution plans to meet the new requirements. While the PRA refers to implementation in proportion to the nature, scale and complexity of the firm, smaller firms may not have formal exit plans in place and are unlikely to consider solvent exit as part of BAU, so the proposals will create additional specific work.

HM Treasury ran a consultation on a new Insurer Resolution Regime during 2023, but legislation has yet to be laid before Parliament to implement those proposals. Once the IRR regulations are enacted the PRA has commented it will revisit its draft proposals to ensure they are consistent.

Overall, we do not believe this will be a significant amount of work for most insurers. However, assuming minimal change in the proposed Supervisory Statement, small- or mid-sized insurers may need to develop formal exit planning documentation and associated governance to ensure it meets the requirements set out.

Next steps for insurers

Responses to the PRA's consultation can be submitted until 26 April 2024 and insurers should consider if they wish to respond. A Policy Statement is expected in the second half of 2024, with implementation of the finalised requirements before the end of 2025.

How Hymans Robertson can help

For a conversation on how we can support you with understanding the implications of the proposed solvent exist requirements for your business, please get in touch with your usual Hymans Robertson contact or one of the authors.