PS20/24 – Solvent exit planning for insurers

Policy statement 20/24

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1: Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to consultation paper (CP) 2/24 – **Solvent exit planning for insurers**. It also contains the PRA's final policy, as follows:

- preparations for Solvent Exit Part of the PRA Rulebook (Appendix 1); and
- supervisory statement (SS) 11/24 – Solvent exit planning for insurers (Appendix 2).

1.2 This PS is relevant to UK Solvency II firms, non-Directive firms and the Society of Lloyd's. The PS will refer to all of these collectively as 'insurers' or 'firms' unless otherwise specified.

1.3 This PS is not relevant to firms in passive run-off[1] and UK branches of overseas insurers.

Background

1.4 The PRA identified in 2021,[2] and confirmed in its **business plan for 2022/23**, that it would do more in the coming years to increase confidence that firms can exit the market with minimal disruption, in an orderly way, and without having to rely on the backstop of an insolvency or resolution process. As part of that long-standing programme of work, the PRA proposed in CP2/24:

- new rules and expectations that firms must prepare for a solvent exit as part of their business-as-usual (BAU) activities and that firms must document those preparations in a Solvent Exit Analysis (SEA); and
- new expectations, which would apply only if solvent exit became a reasonable prospect for a firm, on how firms should: (a) prepare a detailed Solvent Exit Execution Plan (SEEP), and (b) manage and monitor a solvent exit.

1.5 In determining its policy, the PRA considers representations received in response to consultation, publishing an account of them and the PRA's response ('feedback'). Details of any significant changes are also published. In this PS, the 'Summary of responses' contains a general account of the representations made in response to the CP and the 'Feedback to responses' chapter contains the PRA's feedback.

1.6 In carrying out its policy making functions, the PRA is required to have regard to various matters. In CP2/24 the PRA explained how it had regard to these requirements and explained those it considered the most significant in relation to the proposed policy. The 'Changes to policy' section of this chapter refers to that explanation, taking into account consultation responses where relevant. The substantive decisions relating to this publication were taken

before HMT issued, on 14 November 2024, a new set of recommendations about aspect of the Government's policy to which the PRA should have regard. The PRA has reviewed this publication in the light of those recommendations and concluded that it is appropriate to proceed with this publication.

Summary of responses

1.7 The PRA received fourteen responses to the CP. The names of respondents to the CP who consented to their names being published are set out in Appendix 3.

1.8 Respondents generally supported the objectives of the PRA's proposed solvent exit policy to minimise the risks of a disorderly cessation of PRA-regulated activities. Respondents generally supported the distinction between the level of preparations to be made by all firms during BAU (in a SEA) and by firms when there is a reasonable prospect of solvent exit (in a SEEP). Respondents generally welcomed the PRA's position that solvent exit planning should be proportionate to the nature, scale, and complexity of a firm.

1.9 Respondents made a number of observations and requests for clarification. Some respondents expressed concerns that the proposed policy was too burdensome relative to the benefit or that the policy duplicated other requirements. Chapter 2 sets out the PRA's feedback to the responses.

1.10 The PRA received a few responses that did not relate directly to the draft policy under consultation. The PRA has not provided feedback to these responses in this PS but may consider the points raised in further policy development. The PRA would like to thank all of those who responded to the consultation.

Changes to policy

1.11 This PS takes account of how the policy advances the PRA objectives and of matters that the decision maker had regard to. These are as set out in CP2/24. Having considered the responses to CP2/24, the PRA has made a number of changes to the final policy and further clarified the PRA's expectations. A summary of the key changes is set out below:

- Preparations for Solvent Exit Part of the PRA Rulebook (Rule 1.1) and SS11/24 (paragraph 1.2): the PRA has decided to exclude Lloyd's managing agents from the scope of the policy.
- SS11/24 (paragraph 1.2): the PRA clarifies that the Insurance Resolution Regime (IRR), if introduced, may impact the policy.
- SS11/24 (paragraph 1.3, 1.4 and 2.7): the PRA provides further clarity and elaboration on a firm's solvent exit planning; the relevance of policyholder liabilities and other liabilities; the expectation that a firm's SEA should include an option of a run-off of the firm's policyholder liabilities; and the removal of a firm's Part 4A permission.

- SS11/24 (paragraph 1.5): the PRA clarifies how solvent exit could help a firm to manage its exit relative to other circumstances.
- SS11/24 (paragraph 1.6, 2.4, 2.11, 2.14 and 2.20): the PRA clarifies that a firm can draw on and adapt its work on Own Risk and Solvency Assessment (ORSA), capital management plan, or recovery and resolution planning to meet the expectations in a firm's SEA.
- SS11/24 (paragraph 2.3): the PRA clarifies that a SEA can be set out as a separate document; or as a discrete section in a firm's ORSA, capital management plan, or recovery and resolution plan if appropriate.
- SS11/24 (paragraph 2.9): the PRA clarifies that a firm's solvent exit indicators vary based on a firm's solvent exit option.
- SS11/24 (Box B): the PRA updates the examples of potential barriers and risks to the execution of an insurer's solvent exit.
- SS11/24 (paragraph 2.20 and 3.14): the PRA provides more examples of relevant stakeholders, as well as legal and regulatory requirements, in a firm's solvent exit planning.
- SS11/24 (paragraph 2.26): the PRA clarifies that a firm's assurance activities can be performed internally, or externally as the firm considers appropriate.
- SS11/24 (paragraph 3.3): the PRA removes the timing expectation of one month for a firm to produce a SEEP, and instead the PRA will set a timescale for the firm to provide its SEEP to the PRA.
- SS11/24 (paragraph 3.7): the PRA clarifies the meaning of 'projections to ultimate' in a firm's SEEP.
- The PRA has also made some editorial amendments to SS11/24 to enhance clarity and consistency.

1.12 Where the final rules differ from the draft in the CP in a way which is, in the opinion of the PRA, significant, the Financial Services and Markets Act 2000 (FSMA)[3] requires the PRA to publish:

- details of the differences together with an updated cost benefit analysis (CBA);
- a statement setting out in the PRA's opinion of whether or not the impact of the final rules on mutuals is significantly different from: the impact that the draft rule would have had on mutuals; or on mutuals as compared with other PRA-authorised firms.

1.13 The PRA considers that the changes to its policy will not have a significant impact on firms other than Lloyd's managing agents, and is only significant in respect of managing agents in so far as they are excluded from the policy. More details can be found in paragraph 2.12 in this PS as to why the PRA has not included managing agents in the final scope of the policy. The PRA does not consider that the impact of the rules would have a significantly

different impact on mutuals relative to the impact of the draft policy and rules on mutuals, or relative to the impact of the rules on other PRA-authorised firms. As a result, the CBA has been updated only in respect of the impact on managing agents. See Chapter 3 of this PS.

1.14 When making rules, the PRA is required to comply with several legal obligations. At the consultation stage, in CP2/24 the PRA published an explanation of the PRA's reasons for believing that making the proposed rules is compatible with its objectives and with its duty to have regard to the regulatory principles.[4] The PRA considers that the final policy does not change the explanation provided in CP2/24.

Implementation and next steps

1.15 The Preparations for Solvent Exit Instrument will come into force on 30 June 2026. Firms are expected to meet the expectations in SS11/24 by that date.

1.16 The PRA will continue to engage with relevant industry bodies to support firms' preparations before the rules and policy come into force. From 30 June 2026, PRA supervisors will communicate with firms should a firm need to submit its SEA.

1.17 Unless otherwise stated, any remaining references to EU or assimilated legislation refer to the version of that legislation which forms part of assimilated law.[5]

2: Feedback to responses

2.1 Before making any proposed rules, the PRA is required by FSMA to have regard to any representations made to it in response to the consultation, and to publish an account, in general terms, of those representations and its feedback to them.

2.2 The PRA has considered the representations received in response to CP2/24. This chapter sets out the PRA's feedback to those responses, and its final decisions.

2.3 The responses have been grouped into sections as follows, with related issues grouped together:

- general comments;
- scope;
- interaction with existing regulatory requirements;
- solvent exit planning;
- SEA and SEEP; and
- cost benefit analysis.

General comments

2.4 The PRA proposed that a firm prepare for an orderly solvent exit as part of their BAU activities, regardless of how unlikely or distant a prospect solvent exit may seem to the firm. The PRA proposed an implementation date of Q4 2025.

2.5 Six respondents agreed with the introduction of the policy. One respondent asked the PRA to clarify the problem it is seeking to solve. Two respondents queried the necessity of the policy given the limited number of insurance insolvencies historically and that insurance failures are unlikely to be systemic or pose risks to financial stability. One of those respondents pointed to the introduction of Solvency II as a new regime while the other respondent made the argument that Solvency II was not a zero-failure regime. One respondent expressed concern that the policy is targeting a solvency buffer above the Solvency Capital Requirement (SCR). Another respondent highlighted that insurers were not exposed to the same risks as banks nor had the same impact.

2.6 After considering the responses, the PRA has decided to adopt the policy on solvent exit planning for insurers as consulted on, with the exception of the changes as summarised in paragraph 1.11 of this PS. The PRA acknowledges that the number of insurance insolvencies has been low, whether before or after the introduction of Solvency II. The PRA also does not seek to operate a zero-failure regime in the insurance sector. However, the policy aims at increasing the preparedness of insurers to execute a solvent exit in a proportionate manner with a view to reducing the risks of a disorderly failure. The PRA confirms the policy is not targeted at changing SCR levels or building an additional buffer. While insurance insolvencies remain rare, run-offs are much more common with around 20% of PRA regulated insurers in run-off,[6] highlighting the importance of the proposed solvent exit preparations for insurers. As explained in CP2/24, the PRA's supervisory experience has been that potential barriers to an insurer's ability to achieve a solvent exit, for both life and non-life insurers, are often only identified once solvent exit execution is underway. The PRA considers that requiring an increased level of solvent exit planning by firms should increase the likelihood of a firm achieving a solvent exit, and reduce the time and costs involved in achieving this outcome. The PRA has updated paragraph 1.5 of SS11/24 to clarify how solvent exit could help a firm to manage its exit relative to other circumstances, such as insolvency, failed recovery strategies, claims being written down; or in non-stressed circumstances.

2.7 Two respondents emphasised the importance of respecting the autonomy of the firms on when to initiate a solvent exit, with concern expressed that the policy would give the PRA additional powers to initiate a solvent exit. The PRA notes that a firm should set up its governance arrangements for decision-making regarding a solvent exit (including whether the firm would initiate a solvent exit), according to paragraph 2.22 of SS11/24. The PRA is of the view that solvent exit planning increases confidence that firms can execute a solvent exit in an orderly manner with minimal disruption to the market. This helps the PRA form its supervisory

judgement and adjust the intensity of supervision.[7] The PRA highlights that section 55J of FSMA already provides the PRA with powers to vary or cancel a firm's Part 4A permission on its own initiative, including the firm's permission to effect contracts of insurance.

2.8 The PRA proposed an implementation date of 2025 Q4. Two respondents viewed the implementation period as too short. After considering the responses, the PRA has decided to postpone the implementation date to 30 June 2026.

2.9 Two respondents queried whether a firm's SEA should be drafted by the implementation date or whether there is a lead time thereafter. The PRA confirms that firms are expected to meet the policy by the implementation date and that PRA supervisors may request a firm to submit its SEA as appropriate on or after that date.

Scope

2.10 The PRA proposed that the policy apply to all PRA-regulated insurers other than firms in passive run-off and UK branches of overseas insurers (ie UK Solvency II firms, non-Directive firms, the Society of Lloyd's and Lloyd's managing agents).

2.11 One respondent questioned the need for the solvent exit policy to apply to the Society of Lloyd's given the specific legislation that applies to Lloyd's through The Insurers (Reorganisation and Winding Up) (Lloyd's) Regulations 2005, and the ability of the PRA to apply for a Lloyd's Market Reorganisation Order. After considering the response, the PRA has decided to keep the Society of Lloyd's within the scope of the policy. The PRA maintains the view that the Society of Lloyd's accounts for a significant share of the non-life insurance market and there is a need for exit planning, as explained in paragraph 1.10 of CP2/24. This also ensures consistency of the PRA's expectations across the insurance market. As for other firms, work carried out by Lloyd's on recovery and resolution planning can contribute to meeting the policy.

2.12 Two respondents questioned the value of the proposals for Lloyd's managing agents for both the SEA and the SEEP. After considering the responses, the PRA has decided that it is appropriate to exclude Lloyd's managing agents from the policy. This is due to the unique structure of the Lloyd's market including the chain of security, and the reinsurance to close processes. The Council of Lloyd's also has the power[8] to require a managing agent to prepare and submit run-off contingency plans and run-off closure plans; to appoint a substitute managing agent to manage all or part of a member's underwriting business; and to issue relevant directions. The PRA will cooperate with the Society of Lloyd's on solvent exit planning for managing agents to ensure appropriate similar orderly exit outcomes will continue to be achieved within the Lloyd's market, consistent with the PRA's co-operation agreement with Lloyd's. The PRA has amended paragraph 1.2 of the SS11/24 and rule 1.1 of the Preparations for Solvent Exit Part of the PRA Rulebook. Chapter 3 of this PS contains an updated cost benefit analysis.

2.13 Two respondents highlighted that the major share of Financial Services Compensation Scheme (FSCS) costs in recent years for insurance arose from insurer failures in overseas jurisdictions such as Gibraltar and European Economic Area (EEA) countries, with the proposed policy having no impact on insurers in those jurisdictions. After considering the responses, the PRA has maintained the view that it is not appropriate to include UK branches of overseas insurers in the scope of the policy. As explained in paragraph 1.11 of CP2/24, the PRA considers that branch-specific plans require consideration of the entire legal entity since the branch cannot fail unless the legal entity does too. Introducing specific requirements that extend to the legal entity (which is the responsibility of the home supervisor rather than the PRA) would not be proportionate to the risk of branch failure.

Interaction with existing regulatory requirements

2.14 The PRA proposed that a firm may draw on and adapt its work under other existing regulatory requirements for meeting the solvent exit policy. A firm should ensure that its solvent exit preparations are consistent with and complementary to its work in other areas such as capital management, and recovery and resolution planning.

2.15 Five respondents asked the PRA to clarify how the policy would interact with the Solvency II ladder of intervention. One of the respondents held that their existing metrics already provided information analogous to the policy's expectations. Two of the respondents argued that indicators other than the SCR or Minimum Capital Requirement (MCR) levels would provide limited additional insight.

2.16 The PRA notes that the solvent exit policy requires a firm to prepare an SEA as part of BAU activities, which is distinct from the Solvency II requirement for a recovery plan or a finance plan after a breach of SCR or MCR respectively. Paragraph 2.17 of SS11/24 explains that a firm should also identify the absolute minimum level of financial resources needed, below which there would be no reasonable prospect of successfully executing a solvent exit. This level is not necessarily the MCR or SCR level and will vary by firm and business model. For example, it is likely to be different between a commercial insurer with a large proportion of credit rating sensitive business and a motor insurer. A firm may draw on and adapt existing indicators, such as reference points in the Solvency II 'ladder of intervention', to meet the policy as per paragraph 2.11 of SS11/24.

2.17 Four respondents asked for clarifications on how the policy would interact with the IRR, with two of those respondents proposing that the policy be delayed or combined with the IRR. After considering the responses, the PRA has decided not to link the implementation date of the policy with the implementation of the IRR, although it has decided to delay the implementation date for the policy until 30 June 2026. While it is currently not known when the IRR will be introduced, it should be noted that the objective of the IRR is different to solvent exit. The IRR is intended to provide the Bank (as Resolution Authority) with stabilisation tools and powers to deal with certain insurers. As specified in HM Treasury's consultation,[9] the

IRR is intended to apply to only a subset of firms such as large insurers, multiple insurers which fail or are likely to fail concurrently or insurers offering 'niche' business lines where replacement or substitute cover cannot easily be obtained. Moreover, there are a number of resolution conditions to be met before the stabilisation tools and powers could be used. The PRA has updated paragraph 1.2 of the SS11/24 to clarify that when the IRR is introduced, the PRA will consider the need for any amendments to this policy.[10]

2.18 Three respondents asked for clarifications on the potential for duplication between the solvent exit planning and resolution planning, where this is already in place. The PRA confirms that relevant firms may draw on and adapt the work carried out for resolution plans to meet the solvent exit policy. Where a firm already has a resolution plan in place (such as for meeting the requirements under the Common Framework for the supervision of Internationally Active Insurance Groups), it is likely that the work needed to meet the solvent exit policy would be partially or entirely covered by the content of its resolution plan.

2.19 Two respondents asked the PRA to clarify how the solvent exit policy would interact with the PRA's run-off requirements. The PRA highlights that the requirement to submit a run-off plan within 28 days of becoming a supervised run-off firm is at a later stage than the expectation to produce a SEEP which is when solvent exit becomes a reasonable prospect.

2.20 One respondent viewed the PRA's proposals as going beyond the International Association of Insurance Supervisors Insurance Core Principle (ICP) 12.1 on Voluntary exits, and as detrimental to the UK's competitiveness. The PRA is of the view that the policy is consistent with ICP12.1 and is a useful bridge to meet ICP12.2 on a legislative framework for resolving insurers, which also aligns with Fundamental Rule 8 in the PRA Rulebook.

2.21 Two respondents raised the FCA's consumer duty and conduct policies and how they may interact and influence the PRA's solvent exit policy. The PRA notes that the FCA's **FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty** provides examples which illustrate the types of behaviours adopted by a firm that may (or may not) meet the expectations under the consumer duty. The PRA has updated paragraph 3.14 of the SS11/24 to add examples of relevant legal and regulatory requirements in a firm's SEEP.

2.22 Two respondents asked the PRA to clarify the requirement to meet Threshold Conditions and Fundamental Rules during a solvent exit. The PRA highlights that paragraph 3.13 of SS11/24 states that a firm must continue to comply with the PRA's Threshold Conditions, rules, and other regulatory requirements throughout the execution of a solvent exit. Paragraph 3.13 of SS2/24 also states that a firm should assess proactively and on an ongoing basis whether it may fall short of any legal or regulatory obligations during the execution of a solvent exit and immediately alert the PRA if this might be the case.

Solvent exit planning

Solvent exit actions

2.23 The PRA proposed that a firm set out the actions needed to cease its PRA-regulated activities while remaining solvent. An insurer's SEA should at least set out the option of a solvent run-off.

2.24 Five respondents asked the PRA to clarify the definition of solvent exit. Three respondents asked for clarification of the range of exit options the PRA expects firms to consider. One respondent was unclear whether solvent run-off could be one of the exit options. One respondent asked for clarification between policyholder liabilities and liabilities subordinated to policyholder liabilities as this could influence the level of solvent exit indicators.

2.25 The PRA highlights that 'solvent exit' means the process through which a firm ceases its insurance business while remaining solvent, according to Preparations for Solvent Exit Rule 1.3. As stated in paragraph 1.3 of SS11/24, 'solvent' refers to a firm 'meeting its liabilities when they fall due'. The PRA further clarifies that a firm's SEA should set out the option of a run-off of the firm's policyholder liabilities, in addition to other solvent exit options the firm considers appropriate. The firm should also take into account how it will meet all other liabilities while it is running off its policyholder liabilities. The PRA has amended paragraphs 1.3, 1.4 and 2.7 of SS11/24 to provide further clarity and elaboration of a firm's solvent exit planning; the relevance of policyholder liabilities and other liabilities; the expectation that a firm's SEA should include the option of a run-off of the firm's policyholder liabilities; and of the removal of a firm's Part 4A PRA permission. The PRA also updated paragraph 2.9 of SS11/24 to clarify the solvent exit indicators vary based on a firm's option for a solvent exit.

2.26 One respondent said that not all the highlighted exit options were available to mutuals, such as FSMA Part VII transfer and scheme of arrangements under the Companies Act 2006. The respondent further highlighted that maintaining sufficient resources to meet the floor of the MCR entails additional considerations for mutuals when considering equity between members whose claims are paid at different times. The PRA acknowledges that different options are available to mutuals and that equity between members is an important consideration not applicable to non-mutuals. The PRA highlights that release of capital during a run-off of the firm's policyholder liabilities might be possible subject to supervisory approval and that equity between members could be achieved through distributions after the settlement of all claims.

2.27 One respondent asked whether 'increments' on existing contracts, or new members in the case of group contracts, are possible during the execution of a run-off of the firm's policyholder liabilities. The PRA clarifies that, for contracts that have been written or bound

before the removal of the activity of effecting contracts of insurance from the firm's Part 4A permission, changes in exposures are permitted according to the terms and conditions of the contracts.

Solvent exit indicators, potential barriers and risks, governance and decision-making, and assurance

2.28 The PRA proposed that a firm's SEA include, at a minimum, solvent exit actions, solvent exit indicators, potential barriers and risks, resources and costs, communications, governance and decision-making, and assurance.

2.29 Three respondents raised concerns about the solvent exit indicators, suggesting that the PRA provides further guidance or benchmarks and allows flexibility for insurers to tailor the indicators to their specific circumstances or risk appetite. The PRA highlights that a firm's indicators should inform the firm about when it may need to initiate a solvent exit and whether the execution of a solvent exit is likely to be successful, according to paragraph 2.9 of SS11/24. The PRA's view is that it is appropriate for an insurer's indicators to take into account the insurer's risk profile. As such, benchmarks or guidance are unlikely to be helpful. A firm may discuss issues with its PRA supervisor if needed.

2.30 One respondent suggested the PRA share further insights about the barriers to exit. After considering the response, the PRA has updated the illustrative examples provided in Box B of the SS11/24.

2.31 One respondent said that a number of requirements under the Friendly Societies Act 1992 might be barriers to a solvent exit. The PRA's view is that it is appropriate for a friendly society to set this out in its SEA as a potential barrier to the execution of a solvent exit. The PRA intends to continue to work with industry bodies and friendly societies on the implementation of the solvent exit policy.

2.32 One respondent questioned, under the 'Governance and decision-making' section, the need to make financial projections over the term of the run-off of policyholder liabilities, given the uncertainties over longer time scales and the existence of the risk margin to absorb uncertainty. The PRA highlights that paragraph 2.23 of SS11/24 sets out the PRA's expectation that firms should be able to conduct appropriate analysis and refresh relevant data as circumstances change. This should allow firms to be able to make realistic projections over longer timescales.

2.33 One respondent asked the PRA the meaning of 'projections to ultimate' of SCR and MCR. After considering the response, the PRA amended paragraph 3.7 of the SS11/24 to clarify that it refers to periodic calculations of SCR and MCR over the period of the solvent

exit; but not expecting each SCR and MCR calculation to include the risk to ultimate settlement of the policyholder liabilities as suggested by the respondent.

2.34 One respondent opposed any expectations on the need for external assurance on the SEA and the SEEP due to additional costs and delays and suggested the PRA be content with a firm's internal assurance. After considering the response, the PRA clarifies in paragraph 2.26 of the SS11/24 that a firm's assurance activities can be performed internally, or externally as the firm considers appropriate.

SEA and SEEP

2.35 The PRA proposed that a firm set out its solvent exit preparations in a SEA as part of its BAU activities. The PRA proposed that a firm produce a SEEP within one month when solvent exit becomes a reasonable prospect, and that a firm should use its SEA, prepared during BAU, as the starting point for its SEEP.

2.36 Six respondents expressed a view that the costs of complying with the policy would be disproportionate to the benefit. The PRA highlights that paragraph 2.3 of SS11/24 states that the level of detail in a SEA should be proportionate to the nature, scale and complexity of firms. A smaller firm with a simple business model could produce a shorter SEA than a larger, more complex firm, given that the smaller firm may have a smaller range of solvent exit indicators, a more limited number of solvent exit actions, and simpler governance arrangements. For such a small firm, the SEA might only be a few pages long. After considering the responses, the PRA has amended paragraph 2.3 of the SS11/24 to reflect that a firm's SEA may also be included as a separate document or as a discrete section in an insurer's ORSA, capital management plan, or recovery and resolution planning, if appropriate. The PRA has also updated paragraphs 1.6, 2.4, 2.11, 2.14 and 2.20 of the SS11/24 to clarify that a firm can draw on and adapt the abovementioned existing work to meet the expectations in a firm's SEA.

2.37 Five respondents were of the view that the burden on smaller firms including mutuals or non-directive firms would be excessive, with some proposals for simplifying the policy for these smaller insurers whether in terms of template or barriers to exit or indicators. After considering the responses, the PRA has decided to maintain the policy. The PRA's view is that a firm could prioritise certain items in its SEA that have more material impact on its preparations for a solvent exit. However, the PRA is of the view that the minimum contents expected in a SEA (prepared during BAU) as covered in Chapter 2 of SS11/24 could be pertinent to increase all firms' ease of ceasing PRA-regulated activities successfully. The PRA has decided not to prescribe a template because a firm should set out its SEA based on firm-specific circumstances. This enables a firm to meet the expectations in SS11/24 in a proportionate manner. This also reduces the risk of the solvent exit policy being treated as a form-filling exercise.

2.38 Two respondents highlighted that being subsidiaries of a group added further considerations, that a group perspective could be more useful for capital management, and that groups tend to have additional flexibility and diversification. As per paragraph 2.3 of SS11/24, the PRA highlights that a solo firm can submit a group-wide SEA where more useful, subject to the agreement of its PRA supervisor.

2.39 Four respondents questioned the need for a detailed SEA and the value of the set of contents specified in the SS11/24, with one respondent suggesting many of the contents requested would depend on circumstances closer to the time of exit. After considering the responses, the PRA has decided to maintain its expectations of the minimum contents of a SEA. The PRA is of the view that the minimum contents expected in a SEA (prepared during BAU) as covered in Chapter 2 of SS11/24 could be pertinent to increase all firms' ease of ceasing PRA-regulated activities successfully. For instance, as a firm sets out in its SEA the identified barriers to the execution of a solvent exit, it will identify issues such as potential complications arising from complex corporate or mutual structures. It can then take reasonable steps in BAU to mitigate or remove the material barriers in advance of a solvent exit; or identify them as constraints around which the firm will have to plan. Moreover, the PRA has updated paragraphs 2.20 and 3.14 of the SS11/24 to provide additional examples of potential stakeholders that an insurer could take into account in its solvent exit communication.

2.40 Two respondents questioned the need to update the SEA every three years or whenever there is a material change. After considering the responses, the PRA has decided to retain the requirement for the timing of an update to ensure the SEA remains up-to-date and appropriate.

2.41 Three respondents recommended that the timeframe for a firm to produce a SEEP be more flexible than the one month proposed by the PRA. One respondent said that the PRA should have the flexibility to request a SEEP sooner if needed. After considering the responses, the PRA has amended paragraph 3.3 of the SS11/24 to remove the one-month timescale, and instead the PRA will set a timescale for the firm to provide its SEEP to the PRA as discussed with the firm.

2.42 Four respondents enquired about the meaning of 'reasonable prospect'. In the solvent exit policy, 'reasonable prospect' of a solvent exit relates to the production of a SEEP and the execution of a solvent exit. In line with paragraph 2.9 of SS11/24, a firm's solvent exit indicators should be forward-looking and set to provide sufficient warning to the firm to execute a solvent exit while it still has the necessary financial and non-financial resources to make it unlikely that insolvency needs to be invoked.

2.43 One respondent suggested the PRA shares examples of good practice observed in current solvent exit planning or provide additional guidance through industry roundtables. The PRA highlights that the Financial Conduct Authority's (FCA's) **Wind-down Planning Guide**

and **TR22/1: Observations on wind-down planning: liquidity, triggers & intragroup dependencies** contain examples of good practice which firms may find helpful.

Cost benefit analysis (CBA)

2.44 The PRA analysed the costs and benefits of the solvent exit policy in CP2/24. The PRA estimated in Table 2 of CP2/24 that the Net Present Value (NPV) of the costs to industry was around £50m, split between one-off costs of £6m and ongoing costs of £44m on a NPV basis.

2.45 Two respondents challenged the robustness of the cost benefit analysis on the basis that the averages costs estimated would cover a range of different types of firms and activities and would not be able to reflect the range of challenges faced by firms. The PRA is of the view that while such analysis does have limitations, the insights and conclusions they suggest can be useful in making policy decisions.

2.46 Four respondents suggested the costs of the policy might have been underestimated due to the difficulty and challenges of starting to implement the policy. They said that initial costs including staff costs were likely to be higher than the PRA estimates; and firms, especially smaller ones, were likely to need to spend more on external resources to meet the policy expectations. After considering the responses, the PRA has maintained the view that its costs estimates are commensurate with the solvent exit policy. The PRA's view is that a firm's preparations for solvent exit are based on the firm's own circumstances, business model and strategy, of which the firm itself is more likely to have the fullest understanding rather than external specialists. According to paragraph 2.26 of SS11/24, a firm may choose to use external specialists as the firm considers appropriate.

2.47 Four respondents were of the view that the FSCS savings were overstated, whether due to their view that FSCS claims would not reduce because of the exclusion of overseas branches from the policy, or that the policy would have a more limited impact than assumed in the analysis. The PRA notes that its analysis allows for a significant share of FSCS claims arising from insurance failures in overseas jurisdictions and that its analysis suggests only a modest benefit arising from reduced FSCS claims.

3: Update to cost benefit analysis (CBA)

3.1 This chapter sets out the changes to the CBA in CP2/24 from the exclusion of managing agents at Society of Lloyd's from the scope of the policy. Since the impact of the final rules is not significantly different to the impact that the rule would have had on PRA-authorised firms other than Lloyd's managing agents, the changes to the CBA are not material except for the managing agents.

3.2 Table 1 below show the results of the CBA carried out by the PRA, consistent with the analysis provided in CP2/24, with the inclusion and exclusion of the managing agents respectively.

Table 1: Aggregate costs of policy with the inclusion or exclusion of managing agents

Including managing agents

	Small	Medium	Large	Total
No of firms	306	54	10	370
Aggregate one off costs	£3,764,000	£1,794,000	£683,000	£6,241,000
Aggregate annual on-going costs	£993,000	£363,000	£187,000	£1,543,000
Aggregate NPV on-going costs	£28,385,000	£10,368,000	£5,339,000	£44,092,000
Total aggregate costs	£32,149,000	£12,162,000	£6,022,000	£50,333,000

Excluding managing agents

	Small	Medium	Large	Total
No of firms	262	42	9	313
Aggregate one off costs	£3,223,124	£1,394,988	£614,340	£5,232,452
Aggregate annual on-going costs	£850,627	£282,240	£168,180	£1,301,047
Aggregate NPV on-going costs	£24,303,619	£8,064,000	£4,805,143	£37,172,762
Total aggregate costs	£27,526,743	£9,458,988	£5,419,483	£42,405,214

3.3 In total, the PRA estimates that industry costs will reduce from an estimated NPV of £50m to £42m with the exclusion of the managing agents. The PRA is of the view that the benefit of the policy will not be materially less with the Society of Lloyd's still included in scope.

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1. See Rule 1.3 of the Preparations for Solvent Exit Part of the PRA Rulebook. 'Passive run-off firm' means a firm (1) which has ceased effecting contracts of insurance; (2) whose Part 4A permission for effecting contracts of insurance has been cancelled; and (3) which is not a run-off acquirer. 'Run-off acquirer' means a firm which acquires and carries out contracts of insurance in run-off.
2. **Prudentist – speech by Sam Woods**, September 2021.
3. Sections 138J(5) and 138K(4) of FSMA.

4. Section 138J(2)(d) FSMA.
5. For further information please see **Transitioning to post-exit rules and standards**.
6. As at 31 December 2023.
7. **The PRA's approach to insurance supervision**, July 2023.
8. Pursuant to paragraph 69 of Part K of the Underwriting Byelaw, the Council of Lloyd's has the power to appoint a substitute managing agent to manage all or part of a member's underwriting business. This power has previously been used in situations where syndicates were managed by a managing agent that was about to exit the market and therefore needed to be replaced with a substitute managing agent in short order. The Council of Lloyd's would typically also make related directions (eg pursuant to paragraph 63 of Part I of the Underwriting Byelaw) to ensure that the transition from the original managing agent to the substitute managing agent is as smooth as possible (eg direct the transfer from the original to the substitute agent of all relevant information and documents, procure access to bank accounts, procure resignations of the original agent as PTF trustees, etc).
9. **Insurer Resolution Regime: Consultation** August 2023.
10. Were an IRR to be introduced, to facilitate resolution planning for the potential IRR firms, such firms may be required to address a prescriptive set of disclosure requirements when completing their SEAs. These potential IRR firms may also be subject to a deadline for submission of an SEA (for example, annually at the same time as the ORSA).

Appendices

Appendix 1: PRA Rulebook: Solvency II firms and non Solvency II firms: preparations for Solvent exit Instrument 2024 (PDF)

Appendix 2: Supervisory statement (SS) 11/24 – Solvent exit planning for insurers

Appendix 3: List of respondents who have consented to the publication of their names (PDF)

Note: All content for this PS is included on this webpage. If you would like a PDF version of the PS, please use the button available below.

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