CP2/24: Solvent exit planning for insurers

What are the main takeaways?

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In January 2024, the Prudential Regulation Authority (PRA) published its Consultation Paper 2/24[1] (CP2/24) outlining proposals to require insurers to prepare for an orderly solvent exit as part of business-as-usual (BAU) activities and to be able to execute a solvent exit if needed. The CP includes a Draft Supervisory Statement (Draft SS) to accompany the Consultation.

The proposals include the following two overarching requirements.

1. Firms must prepare for an orderly solvent exit as part of its BAU activities by producing a **Solvent Exit Analysis (SEA)**.
2. If solvent exit became a reasonable prospect for a firm, firms should prepare a detailed **Solvent Exit Execution Plan (SEEP)** and monitor and manage a solvent exit.

If implemented, the proposals would add a new 'Preparations for Solvent Exit' section to the PRA Rulebook and introduce a new Supervisory Statement. The proposals would apply to all PRA-regulated insurers except for firms in passive run-off and UK branches of overseas insurers, so a very wide coverage of insurers would be impacted.

The resulting Policy Statement is expected in the second half of 2024 and the implementation date is expected to be in Q4 2025. Therefore, firms have approximately 18 months to prepare for the changes.

This paper considers the proposals and gives the authors' views and observations on them, including what we believe are the takeaways for insurers.

Overall, CP2/24 states that the proposals aim 'to increase confidence that insurers can exit the market with minimal disruption, in an orderly way and without having rely on the backstop of an insolvency or resolution process.' We consider that both the life and non-life insurance business environment may be facing a wider range of challenges than in recent years—through increased financial volatility, higher non-life claims inflation, greater weather or other climate-related claims and technology challenges—so the PRA's aim of improving this level of confidence appears a laudable and timely objective.

Considering proportionality, the proposal to require pre-emptive solvent exit planning is narrower than that currently proposed within the EU, which is for pre-emptive recovery planning. Each item within the proposed content of the SEA and SEEP is valuable and important, but there is a lot of ground that could be covered in the SEA, for which insurers will need to determine what is proportionate. Dependent on the size and complexity of the insurer, a proportionate approach to the SEA might be to set the framework and monitor and analyse the action options rather than try and give a detailed response plan to every eventuality.

The timescale for production of the SEEP is just one month. Notwithstanding that this would clearly be given high priority by management, that much of the groundwork thinking would have been completed in the SEA, and that in the circumstances time would very much be of the essence, the proposed SEEP would need to include considerable financial analysis and projections, and producing these could be problematic within this timescale.

Under the expected timescales, insurers will have approximately 18 months to prepare for implementation of the proposals. Whilst some will already have recovery or run-off plans, the solvent exit plan will be covering different ground. Solvent exit forms one of the options within the overall range of recovery or resolution actions, but within this a decision to close to new business would likely be irreversible. Rather than narrowly focus on the SEA, we think it is important that this full spectrum of actions and outcomes is considered and that insurers can carefully articulate the interaction between risk appetite, recovery, solvent exit and resolution, in particular regarding how they relate to solvency levels. This will help with both internal decision making as well as setting clear expectations with the regulator.

1 Bank of England (January 2024). CP2/24 – Solvent exit planning for insurers. Retrieved from https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/solvent-exit-planning-for-insurers-consultation-paper

The evolving legal and regulatory framework

There has been considerable regulatory focus and development on recovery and resolution in the UK, the EU and elsewhere over recent years. We do not aim to give a full treatment of these, but include an overview and consider how the different developments compare and inter-relate.

In the UK, CP2/24 forms part of the PRA's wider activity to increase confidence that firms can exit the market with minimal disruption. These developments, and the CP itself, were signalled in the January 2023 and January 2024 Insurance 'Dear CEO' letters. In practice, the PRA has recently already expected and requested medium and larger insurance firms to produce recovery and resolution plans and share these. Under the Solvency II ladder of intervention, insurers are currently required to provide the PRA with a recovery plan upon a Solvency Capital Requirement (SCR) breach or expected breach within three months. PRA Fundamental Rule 8 also requires 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.

There is consistency here with the PRA's agenda for other financial service providers; the PRA issued a corresponding paper covering solvent exit planning for non-systemic banks and building societies as CP10/23[2] in June 2023.

During 2023, HM Treasury (HMT) issued a consultation and response on 'Introducing an Insurer Resolution Regime (IRR)'[3], which would provide the Bank of England with new powers and greater flexibility to resolve a systemic insurer in the event of its failure. The rationale of the proposed framework was to introduce a resolution regime aligned to international standards and guidance. Although a separate development from CP2/24 and only applying to systemic, and hence the largest, insurers, it is very much in a related area, with further information on the legislative and implementation timescale to follow from HMT.

In the EU, proposals for an Insurance Recovery and Resolution Directive[4] have been adopted by the European parliament in April 2024. Once approved by the Council of the EU, these would pass into EU law. The proposals are to establish harmonised recovery and resolution tools and procedures, with enhanced cross-border cooperation between national authorities. They propose that insurers would submit pre-emptive recovery plans to the supervisory authorities, and these authorities would be given powers to implement resolutions. Some national supervisors have already published pre-emptive recovery plan regulations and guidance, such as the Central Bank of Ireland, with Irish insurers already completing these.[5]

Globally, the IAIS ComFrame[6] requires Internationally Active Insurance Groups (IAIG) and their component firms to have evaluated their operations and risks in possible resolution scenarios and put in place procedures for a resolution. Obviously, it is only the largest groups that are impacted by these requirements.

The distinction between recovery and resolution, and where solvent exit sits relative to those, is blurred in practice. We are aware of pre-emptive resolution plans for UK insurers that include solvent exit as one of the outcomes, with management continuing to have control of the business. In contrast, CBI guidance issued for Ireland on pre-emptive recovery plans includes solvent exit within the remit of these. The EU proposed IRRD (and the HMT consultation on resolution) draws the distinction that resolution is at the point at which the resolution authority takes control of the insurer and includes solvent exit as one of the possible resolution actions that may be applied by the authority—quite possibly the first such action (or at least one of the earliest). Of course, solvent exit might also have been one of the recovery actions carried out by management—quite possibly the last such action attempted. It is likely that any solvent exit controlled by the resolution authority would take place following a breach of MCR, whereas a management-controlled solvent exit would likely commence prior to an MCR breach.

In summary, the regulatory background is one of evolving and varying approaches, both geographically and between different insurer sizes. Notably though, the PRA is taking a different pre-emptive approach to that emerging in the EU, with the UK proposals for pre-emptive requirements being only for solvent exit analysis, whereas in Europe it is for full recovery plans, with resolution plans then being set by the Resolution Authority when required. On the face of it the UK proposals are for a more limited, and proportionate, scope if they replace the PRA's requests in practice for medium and larger insurance firms to produce and share pre-emptive recovery plans. We think the focus on solvent exit as the outcome, rather than a focus on the distinction between recovery and resolution, is a helpful and pragmatic one.

2 Bank of England (June 2023). CP10/23 – Solvent exit planning for non-systemic banks and building societies. Retrieved from https://edu.bankofengland.co.uk/prudential-regulation/publication/2023/june/solvent-exit-planning-for-non-systemic-banks-and-building-societies

3 Gov.uk (August 2023). Insurer Resolution Regime: Consultation. Retrieved from https://www.gov.uk/government/consultations/insurer-resolution-regime-consultation

4 Think Tank, European Parliament (March 2024). Insurance recovery and resolution directive. Retrieved from https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)739273

5 Comerford, E. & Callaghan, C. (December 2023).Pre-emptive Recovery Plans: Take Two. Milliman. Retrieved from https://us.milliman.com/en/insight/pre-emptive-recovery-plans-take-two

6 International Association of Insurance Supervisors. ICP 12 Exit from the Market and Resolution. Retrieved from https://www.iaisweb.org/icp-online-tool/13523-icp-12-exit-from-the-market-and-resolution/

The Consultation Paper proposals

Definition of exit

The draft SS states that the solvent exit action should include the transfer and/or repayment of all insurance liabilities. It also mentions the cancellation of the insurance firm's permissions, so it is clear that the solvent exit planning should ultimately be a full exit, once the liabilities are all resolved or transferred.

The PRA recognises and comments in the CP that non-life firms are more likely to manage a solvent exit via a solvent run-off, whereas life firms are more likely to be absorbed by larger organisations via a change in control or a transfer of business.

Solvent Exit Analysis (SEA)

Under the CP2/24 proposals, all insurers in scope will need to incorporate solvent exit planning into their BAU activity and produce a SEA. Currently, there is no UK regulatory requirement to have formal documentation on recovery and resolution planning in place, although in practice many medium-sized and larger insurers have been asked to prepare these documents by the PRA.

The PRA recognises that firms might execute a solvent exit for a range of reasons, including financial, non-financial, business viability or strategic issues, and that each of these might occur under either stressed or unstressed circumstances.

The draft SS gives a comprehensive list of contents for the SEA, which includes the following areas.

- **Solvent exit actions**: How the firm would carry this out, including assumptions around the need for any sales, transfers or other restructuring methods, as well as ceasing PRA-regulated activities and timelines
- **Solvent exit indicators**: Identify and monitor the quantitative and qualitative indicators that would inform its decision to prepare for and/or initiate a solvent exit
- **Potential barriers and risks to executing a solvent exit**: The impact and dependencies of these, including under solvent exit execution
- **Resources and costs**: Financial and non-financial resource needs, and how access to such resources will be maintained throughout the process
- **Communication**: Both internal and external, including the how and when
- **Governance and decision making**: Including the accountable senior manager and the ability to make timely decisions
- **Assurance activities** on the solvent exit preparations

In our view, each of the items required is of importance and would form a valuable part of the SEA. In particular, we agree that identifying the potential barriers and risks to solvent exit is very useful if this can enable them to be mitigated in an appropriate, proportionate and timely way. One such risk would be any assumed reliance on third parties (such as acquirers, reinsurers or hedging counterparties) within the plan and the plausibility of this under stressed idiosyncratic or systemic conditions.

However, there is a lot of ground to cover, particularly if the SEA is to cover a wide range of adverse trigger events that could lead to solvent exit, each of which might require quite different responses. We comment on this further in the section on proportionality below.

Solvent Exit Execution Plan (SEEP)

Under the proposals, firms will be expected to produce a SEEP within one month when there is a reasonable prospect that the firm may need to execute a solvent exit, or when requested by the PRA. The SEEP will have to be challenged by, reviewed and approved by the board or equivalent governance committee.

Again, the draft SS gives a comprehensive list of areas to cover, which includes the following. There is of course a fair overlap in the content compared to the SEA, although the SEEP will have to be tailored to the specific circumstance and will also include more financial analysis and projections.

- Actions and timelines for the solvent exit, from the point of initiation to the removal of Part 4A PRA permissions.
- Identification and mitigation of barriers and risks: An update of these from the SEA and a description of how they will be monitored and managed.
- A communication plan, along with anticipated reactions and the firm's responses to these.
- A detailed action plan, including, for example, identifying, paying or transferring liabilities, dealing with complaints, dealing with existing contractual commitments, sale or transfer, and any legal or regulatory matters.
- Financial and non-financial resource requirements: Firms should assess these on an expected and stressed basis and how they will be monitored and managed. This includes, for example, projections of premiums, claims, and SCR and MCR out to ultimate time period, as well as how factors such as currency and lapse risk would be managed.
- Governance arrangements: Organisational structure, operating model and internal processes.

Again, the overall items required appear reasonable. The timescale of one month to produce the SEEP is much shorter than the three months permitted to complete a recovery plan under the Solvency II ladder of intervention upon an SCR breach. In practice of course, were solvent exit or recovery actions required or imminent, we would expect increased regulatory scrutiny and the planning and activity to be given priority by senior management. Also of course, the faster planning can take place, and hence activity commenced, the more likely the activity is to be effective and orderly. The presence of the SEA will mean that the firm has much of the

groundwork thinking in place to produce the SEEP. However, there is considerable financial analysis required for the SEEP. Any forward-looking projections, including, for example, capital requirements, liquidity and funding, will likely be complex and time-consuming to complete, particularly if the business model itself could be expected to change at different future points in the projection period, and if operating and economic conditions are under stress. Carrying out this analysis in a one-month period, whilst leaving adequate time for challenge, assurance and approval, might be impractical, unless it is accepted that they may have significant limitations and the projections could be refined further over subsequent months.

Execution of a solvent exit

The draft SS also lays out in some detail the expectations on a firm that has decided to enter into a solvent exit or is executing one. These can be summarised as follows.

- **Communication**: Informing the PRA and other stakeholders of the decision to initiate a solvent exit and throughout the execution, including if there are risks or concerns about completion.
- **Continual assessment and monitoring**: Continually assessing whether the solvent exit actions are likely to succeed. Monitoring the solvent exit indicators, using these to inform decision making.
- **Ongoing compliance**: Ensuring continued compliance with legal and regulatory requirements throughout the process, including meeting the PRA Threshold Conditions[7].

Comments on the proposals

We have grouped our comments on the proposals under the following headings.

- Solvent exit planning within the wider risk management framework
- Solvent exit and closure to new business vis-à-vis other recovery and resolution actions
- Solvency coverage ratio and solvent exit
- Proportionality
- The impact on the non-life and life market

Solvent exit planning within the wider risk management framework

We consider that solvent exit planning should be considered as a component within the much wider remit of the insurer's risk management framework, with the exit planning forming an element within the insurer's risk management toolkit. Executing a solvent exit will be one option in the event that the insurer is unable to maintain its business model as a consequence of an adverse scenario impacting the business, whether that has arisen for a financial, non-financial, business viability or strategic reason.

However, the proposed SEA requirements have a different purpose and content than, for example, the ORSA, and it is helpful to bear this in mind. The purpose of the ORSA is essentially to assess the adequacy of current and prospective solvency needs and the related risk management framework—and by doing so aims to protect the insurer from a breach of SCR or MCR. In contrast, the SEA envisions the insurer being confronted with an adverse scenario (presumably severe) and contemplates the actions required to identify and execute a solvent exit, with a detailed and quite practical focus. We note also that the SEA must consider scenarios other than pure solvency ones, including from non-financial events.

In that sense, the content of the SEA is much closer to that required under a pre-emptive recovery and resolution plan, albeit only covering a narrower set of responses (those related to identifying and executing a solvent exit) rather than a full set of possible actions. Although in practice the PRA has requested pre-emptive plans from most medium and large insurers, the CP2/24 proposals go further than this, making the SEA a BAU requirement for all in scope insurers.

Solvent exit and closure to new business vis-à-vis other recovery or resolution actions

Of course, closure to new business and entering solvent run-off is actually one of the options that an insurer could consider as a recovery or resolution action.

As an example, if we consider the actions that might be taken in response to *solvency-related* events, these might typically include actions in the following order.

1. Expense management—for example, reduce or remove discretionary spend.
2. Risk reduction actions—for example reduce investment or ALM risk, or reduce insurance risk through increased in-force book reinsurance.
3. Reduce the level of any capital-intensive new business, or take other action to reduce new business strain.
4. Reduce or suspend dividend payments. Suspend subordinated debt coupon or principal payments. Convert convertible debt to equity.
5. Raise and/or inject capital.
6. Closure to new business. This will remove new business strain and may also permit a transformation to a simplified business model with reduced risk and lower ongoing expenses.

7 Bank of England Prudential Regulation Authority and Financial Conduct Authority (August 2018). The PRA's and FCA's Threshold Conditions. Retrieved from https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/new-insurer/thresholdconditionsfactsheet.pdf

Typically, and particularly for solvency-related events, closure to new business and entry into run-off (which could lead to an accelerated solvent exit) would be one of the last recovery actions (or one of the first resolution actions) to be carried out, as the closure would likely be an irreversible change to the business model. For insurers with existing pre-emptive recovery plans, these would likely include closure to new business as a separate recovery action or option within the plan. Whilst closure is something of a last resort recovery option, of course the solvent exit indicators and thresholds would have to be in place to appropriately identify when this may be needed sufficiently in advance for it to be a viable recovery option.

Of course, solvent exit execution may be required as a result of non-solvency issues (for example, driven by liquidity, operational, business model, reputational or strategic events). In particular, for operational or strategic events, the actions may well be specific to the scenario they are applied to, but again, due to the likely irreversible change to the business model of new business closure, this would tend to be something of a last resort action.

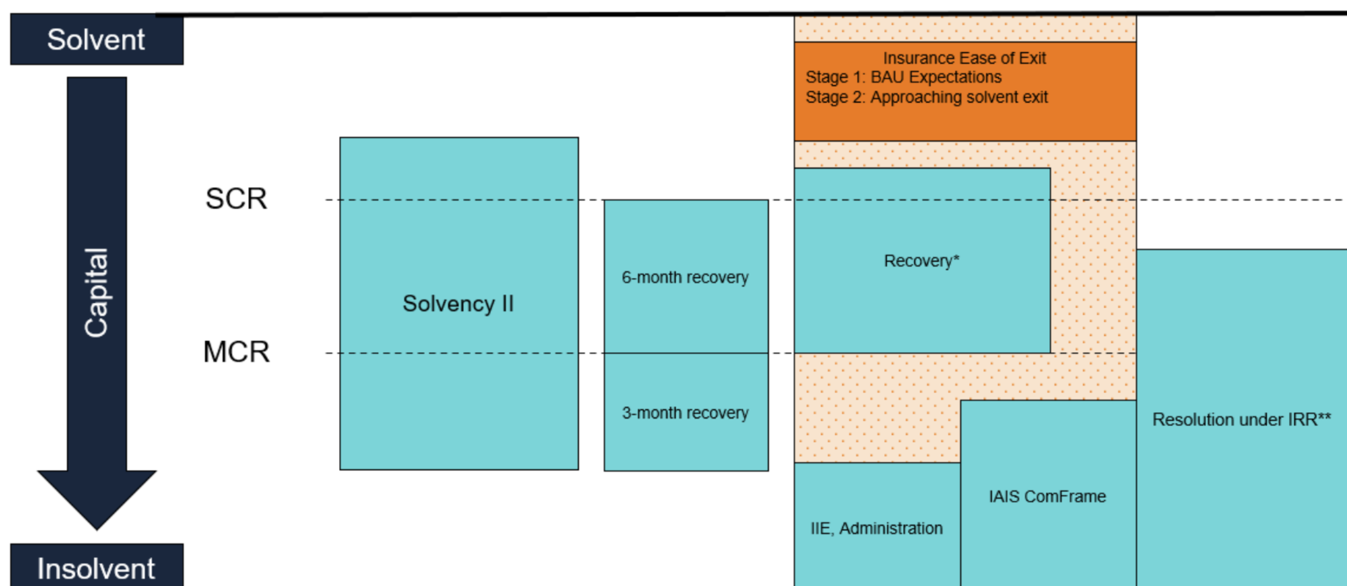
Solvency coverage and solvent exit

Figure 1 of CP2/24, reproduced directly below, shows the full range of solvency conditions under which solvent exit planning would apply, from completion of a SEA under BAU activity (stage 1) through to approaching solvent exit (stage 2). These are shown by the pale orange column in the figure, which also includes some important footnotes.

We have several observations regarding the figure.

- Solvent exit planning through completion of the BAU SEA document will be carried out at all solvency levels, including of course those well in excess of SCR coverage.
- Stage 2, approaching solvent exit, could occur either as a result of a weakened and/or volatile solvency position, or for other reasons not directly related to solvency. Hence the diagram does not give a guide as to what level of solvency coverage might lead to a solvent exit.
- However, the first footnote states that ‘we generally expect that firms breaching MCR are not in a position to easily recover, and would anticipate their solvent exit,’ which is a helpful clarification that MCR breach is likely to form the lower bound (though of course there may be temporary circumstances leading to an MCR breach that could still be recovered).
- Recovery actions are shown from a level marginally above SCR coverage, down to the level at which MCR would be breached, which is in line with our own experience on the range of industry practices in relation to recovery and resolution planning.
- The figure shows a wide range of solvency conditions under which resolution might occur, but the footnote clarifies that this could relate to a breach of threshold conditions, that is, where resolution is occurring for non-solvency related issues.

FIGURE 1: SOLVENT EXIT FIGURE REPRODUCED FROM CP2/24
HOW SOLVENT EXIT PLANNING POLICY FOR INSURERS FITS IN WITH OTHER RELEVANT PRA AND BANK POLICIES



*We generally expect that firms breaching MCR are not in a position to easily recover, and would anticipate their Solvent Exit.
**Resolution Condition 1 includes breach of Threshold Conditions, so can be triggered after serious SCR breach. But other conditions need to be met too.

Source: Bank of England (January 2024). CP2/24 – Solvent exit planning for insurers. Retrieved from https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/solvent-exit-planning-for-insurers-consultation-paper

The CP2/24 figure is very helpful, but by covering both the stage 1 and stage 2 activity, and by including how non-solvency drivers could lead to a solvent exit, it gives little information on how solvency coverage ratio in isolation would relate to this. We think that the solvency ratio point is an important one, which insurers will want to consider and include within their SEA. Typically, we would expect that solvent exit might be an appropriate option over a relatively narrow range of solvency outcomes, when considered in the context of the overall capital management framework, based on the following rationale:

- In the normal course of events, solvency will be within risk appetite range, typically well above 100% SCR coverage. Towards the bottom of the risk appetite range, there may be an 'early-warning' zone, within which solvency monitoring is more intensive but no remedial actions are expected to be considered or carried out.
- When solvency falls below the bottom of the risk appetite range, but is above 100% SCR coverage, the insurer would consider and perhaps apply management actions to return to the risk appetite range. These actions will be set out in a capital management plan. Some insurers will have graded bands at different solvency levels (for example, green/amber/red solvency bands) that impact the decision process and actions taken.
- When solvency approaches but is above 100% SCR coverage, the insurer will consider and prepare for recovery actions, with these being taken when close to 100% SCR coverage. This level is consistent with the Solvency II ladder of intervention.
- One of the more extreme actions available will be to close to new business and go into solvent exit. By and large, approaching solvent exit would be an appropriate option and reasonable prospect once other actions were insufficiently effective and/or the solvency level is approaching 100% MCR coverage or is at a level where there is no realistic prospect of the insurer being able to recover to the point where it can execute its strategy.
- In addition, when solvency is slightly above 100% MCR coverage, the insurer would also consider and prepare for resolution. This, or solvent exit, would typically be put into place once MCR is breached. The MCR level is consistent with the Solvency II ladder of intervention.

Hence solvent exit should best be considered as one option within a fuller recovery plan, and solvent exit would become a reasonable prospect when the other recovery actions are not available or would be incapable of returning the business to 100% SCR coverage (or back to the higher risk appetite level). CP2/24 does comment that recovery will often be preferred to a solvent exit and that the SEA may be part of a capital management plan or recovery plan if this is in place.

Proportionality

We agree that solvent exit would often be a favourable outcome to a full insolvency process, and hence enabling insurers to be better prepared and equipped to carry these out would likely lead to a more proportionate and practical outcome for a distressed insurer.

The requirement for a BAU SEA for all in scope insurers is an additional requirement for the majority of insurers compared to the HMT consultation on an Insurance Resolution Regime (which would just require pre-emptive plans for IAIGs) or current PRA practice to expect many medium and larger insurers to prepare pre-emptive recovery and resolution plans.

Notwithstanding that, we have commented in the regulatory section above that the PRA is taking a different pre-emptive approach to that emerging in the EU by focussing pre-emptive work on solvent exit analysis only rather than on full recovery and resolution plans. We think this more proportionate UK approach compared to the EU is welcome. It is further possible that the existence of an adequate SEA for insurers will create a regulatory environment under which solvent exit can be executed in an orderly manner, and is therefore considered a reasonable outcome for an insurer, its policyholders and the wider financial system (or that at least that this is the case for less material or non-IAIG insurers), and that reduced levels of regulatory scrutiny might then result on a BAU basis. It is unclear whether this is the PRA's intention or expectation.

Solvent exit might be approached for many different reasons and under many different scenarios, all likely to be severe. Whilst it would be reasonable and appropriate for the SEA to consider a range of these, and how they might manifest and be managed, we consider that it would be disproportionate to attempt to give detailed response actions or give more than indicative quantifications of these for each of type of scenario. We hope that insurers, particularly smaller ones, are able to take a simpler approach, although we do note that even smaller insurers can face much the same risks as larger ones and may have fewer recovery options available (for example, more limited recourse to additional capital). We consider that it is more important and proportionate for the SEA to set a framework and monitoring that gives early warning that such actions should be considered and/or prepared for and that identifies the potential barriers and risks rather than try and pre-empt every possible eventuality and response.

We have noted that, once a SEEP is required, there is a period of just one month to prepare this, compared to three months allowed to produce a recovery plan on a breach of SCR. Overall, and for the reasons we explained above, we think that this is reasonable, although we are cautious about the practicality of producing financial analysis of sufficient detail

and reliability within this timescale. There is also a potential risk that prioritising production of the SEEP over this period might restrict the time and resources available to consider or take rapid action to put other recovery options into effect. We also think it would be preferable that the SEEP can continue to be updated or allows flexibility so that the insurer can adapt to what are likely to be changing conditions and available options. In reality of course, we would expect the regulator to be paying close attention anyway and probably making information requests related to the specific circumstances, so the point might well be moot.

The impact on the UK non-life market

Exits for particular lines of non-life business are relatively common, with some of the larger insurers, such as Zurich, already having teams in place to actively manage and sometimes dispose of run-off business. Although these are usually only for specific portfolios rather than for complete entities as is envisaged in the CP, exit solutions are well established. These include loss portfolio transfer followed by Part VII transfer, schemes of arrangement, use of commutations and novation, as well as passive run-off. The very large losses resulting from latent claims due to asbestos, pollution and health hazards (APH) are an example of where the industry has made use of all of these exit solutions.

Going forward, we see climate risk and technological change as being potential drivers of exits. For example, in Florida in recent years there have been a range of exits from the property insurance market, as a number of major hurricanes, as well as an unfavourable legal environment, have resulted in very challenging conditions for insurers. An increased frequency and/or severity of windstorms, floods and wildfires resulting from climate change may lead to exits in many other markets as well. Use of advanced technology is becoming something of a pre-requisite to participate in personal lines, not just for distribution but for administration, claims management and other functions, and we are seeing exits from insurers that do not have the scale to invest.

For smaller UK insurance companies, the run-off market is potentially less open as the run-off consolidators have increasingly focused on larger deals in recent years[8] and exit solutions such as Part VII transfers and Schemes of Arrangement are time consuming and come with relatively high fixed costs. The consolidators have, however, been active in taking on more recent business and shorter tailed lines rather than just traditional run-off portfolios such as APH. As such, the run-off industry is now more prepared to accept a wider range of risks, making exit solutions more feasible for a wider range of insurers.

The impact on the UK life market

As the PRA notes, life insurers that exit the market tend to be absorbed by larger organisations. As well as the very considerable consolidation of closed insurance companies within the UK life industry, we also note that the sale of closed or non-strategic blocks of business—for example, the sale of the legacy Legal & General mature savings business to ReAssure—has been a market feature. We would not expect that the new solvent exit requirement in itself would either increase or decrease this activity.

However, acquiring and transferring a block of life business is both costly and time-consuming. In practice this means that much of the acquisition or transfer activity has been for medium- or large-sized insurers or portfolios of business. There has been very little appetite to consolidate the smaller and smallest insurers, which means that they may have to be managed through an orderly and cost-effective run-off. The PRA proposals may help to address this in a timely and more consistent manner, which would be a welcome development, albeit that these firms would still have to manage their diseconomies of scale.

Many of these smaller players are with-profits firms and, where the businesses are closed, they will already have produced a with-profits run-off plan under the requirements of COBS 20.2. This ought to give them a head start on the SEA, but the firms will want to consider carefully the relationship and content between the two documents.

How insurers can prepare for the changes

As we explain above, solvent exit forms one of the options within the overall range of recovery or resolution actions, but within this a decision to close to new business would likely be irreversible. Given this, rather than narrowly focus on the SEA, we think it important that this full spectrum is considered and that insurers can carefully articulate the interaction between risk appetite, recovery, solvent exit and resolution, in particular regarding how they relate to solvency levels. This will be helpful both to ensure consistency in the insurer's internal thinking and contingency planning, as well as setting clear expectations with the regulator.

Insurance groups will have to consider the position for each entity within the group. Whilst in some cases this may provide additional flexibility, it can also lead to additional sources of risk, or at least complexity. They will need to map group intra-connectedness, from both financial and non-financial perspectives. International groups will need to consider the different recovery and resolution requirements in different jurisdictions and how these might manifest if different.

8 Clarke, C. (December 2023). Non-Life Part VII Transfers: A Dwindling Trend? Milliman briefing note. Retrieved from https://uk.milliman.com/en-gb/insight/non-life-part-vii-transfers-a-dwindling-trend

Where insurers have existing recovery, resolution or run-off plans, these may form a useful foundation for the SEA. The SEA will have to address different questions though, not least having more emphasis on non-solvency related scenarios, so could require considerable additional thinking and analysis. We think that a good outcome for the SEA is that it gives management a plan with a comprehensive and concise menu of options on which they could base their decisions and activity in times of stress. The more structured the assessment of each option is, the more useful it will be for decision taking.

One component of the SEA is to identify the potential barriers and risks to executing a solvent exit. Once these have been identified, we would recommend that insurers consider whether these can be mitigated without having an adverse impact on the ongoing business model, or establish the trigger levels at which it would be appropriate to mitigate them.

How Milliman can help

Our consultants have advised clients on pre-emptive recovery, resolution and run-off planning for a number of years, in response to both regulatory requests and for internal risk management initiatives. We have also worked with regulators to assist in reporting on these plans and providing appropriate advice to address any deficiencies.

Areas of work where we have assisted clients include the following:

- Facilitating recovery and/or resolution planning workshops, covering severe solvency, liquidity, operational integrity and strategic events.
- Drafting of recovery and/or resolution or run-off plans. Review of client's recovery and/or resolution plan against best practice.
- Agreeing the parameters for recovery plan triggers. Embedding these into the risk-monitoring framework.
- Consideration of a wide range of recovery and resolution actions including outsourcing, capital raising, intra-group support and risks, sale/transfer, communication plan and other practical delivery items.
- Financial projections.
- Detailed work on expense savings, implementation, costs and timing.
- Developing detailed plans for orderly run off, including some disposal.

If you would like to discuss how Milliman could assist you with solvent exit planning or related matters, please reach out to one of the paper authors or your usual Milliman contact.

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