Solvent exit planning for insurers

What is solvent exit planning and how can insurers get the most out of it?

Introduction

The Prudential Regulation Authority ("PRA") has finalised its expectations for UK insurers[1], to prepare for and, if needed, be able to execute a solvent exit, which **must be complied with by 30 June 2026**[2].

In this publication we provide our thoughts on how to approach solvent exit planning in a way that **not only promotes compliance** but also **maximises value to the business**.

While exploring the core concepts of solvent exit planning, we have provided our **insights for success** from our experience supporting **over 50 financial services firms** with solvent exit (or 'wind-down') planning over the last few years.

So, what is solvent exit planning and how can insurers get the most out of it?

What is solvent exit?

A 'solvent exit' means the process through which a firm ceases its insurance business, including both effecting and carrying out contracts of insurance, in an **orderly manner** while **remaining solvent** throughout:

Orderly manner

Minimising negative impacts on stakeholders (incl. policyholders and creditors) and the wider market.

Solvent

Meeting all liabilities as they fall due and maintaining compliance with minimum regulatory requirements.

What are the PRA requirements on solvent exit?

The PRA sets expectations around both the preparation for, and execution of, a solvent exit. These cover the production of a **solvent exit analysis** ("SEA") and a **solvent exit execution plan** ("SEEP"):

Solvent exit analysis

Prepared as part of the insurers 'business-as-usual' activities, covering minimum contents set by the PRA.

Solvent exit execution plan

A fully operational roadmap produced when there is a reasonable prospect of needing to solvent exit or when requested by the PRA.

Key changes to the final policy:

We have summarised below the key changes to the final policy from the draft rules in CP2/24:

01 **Removal of the one month timing expectation for the SEEP**: the PRA has removed the timing expectation of one month for a firm to produce a SEEP, and instead will set a specific timescale to provide the SEEP, following discussions with the firm.

02 **Exclusion of Lloyd's managing agents:** the PRA has decided to exclude Lloyd's managing agents from the scope of the policy; however, the Society of Lloyd's remains in-scope[3].

03 **Change of implementation date**: the PRA has pushed back the date by which firms are expected to meet the expectations in SS11/24 to 30 June 2026 (previously Q4 2025).

1 Except those in run-off or UK branches of overseas firms and Lloyds managing agents.

2 Policy statement 20/24 and supervisory statement 11/24.

3 The Society of Lloyd's will be responsible for determining how the policy is applied in the Lloyd's market, this is in line with the direction of travel for supervision of managing agents more broadly, with the PRA placing greater reliance on Lloyd's oversight of the market.

Why does solvent exit planning matter?

In recent years, the PRA has been **increased the emphasis it intends to place on ease of exit**, including in messages from its CEO[2].

This is in part driven by the PRA's secondary objective around facilitating competition, given that 'a reliably safe exit process is a vital corollary of ease of entry'[2]. However, it is primarily driven by **the intention to reduce the risk of disorderly exits in the small and mid-sized population**, to achieve the primary objectives of **policyholder protection** and **safety and soundness** of firms.

The reasons why solvent exit planning matters are, however, not just confined to regulatory compliance:

Removing barriers, reducing risk

By removing barriers to exit, solvent exit planning reduces the risk the firm poses to policyholders and the wider market. Having a proper plan in place is therefore a vital defence if/when things go wrong.

In this way, it should be thought of as a key lens for all business decisions going forward, to assess the impact they could have on the resolvability of the firm.

Mutual support

There is 'mutual support' between solvent exit planning, the ORSA, Operational resilience, and Recovery and Resolution planning ("RRP"). By doing one, it strengthens the others, making them easier and more comprehensive.

For example, work to reduce barriers to exit can also strengthen the firm's Operational resilience and risk management in addition to the more apparent synergies with RRP.

Reduces complexity

Often the process of solvent exit planning is a catalyst for simplification which can create long term efficiencies in how an insurer does business and is structured.

Used in PRA evaluations

Solvent exit planning is used by the PRA to determine the risk posed by the insurer to its objectives and in turn the supervision category.

Planning for crisis

In thinking through how to respond to the need to exit, insurers have increased the robustness of their crisis governance and communications procedures. These can also be used in other scenarios e.g. black swan events.

Consequences of getting it wrong

If the PRA does not feel comfortable in the ability to enact an orderly exit, then it can impose restrictions on a firm's business. Examples include closure to new business, prohibition of M&A activity, and capital add ons.

2 See Prudentist – speech by Sam Woods.

What should firms be doing straight away?

Now that the final rules have landed, insurers should be looking to do the following **as soon as possible**:

01 Engage senior management and the Board to get it on their agenda and facilitate buy-in.

02 Agree ownership, involvement, budget and resourcing.

03 Engage with your supervisor to gain clarity and align expectations.

Elements of a solvent exit analysis

Whilst there are dependencies between the various elements, which necessitate an iterative approach to the development of the SEA, we have set out below the order in which we typically approach the elements.

When preparing the SEA as part of BAU activities, or overseeing the execution of a solvent exit, **robust governance arrangements** are vital in **pulling all the elements together.** The governance structure should be documented within the SEA so that accountability and oversight are clear.

01 Solvent exit scenario

The Solvent exit plan should be underpinned by scenarios that **adequately consider the possible drivers of solvent exit**, taking into account the firm's specific situation, strategy and positions (see slide 7).

02 Solvent exit strategy (i.e. actions)

Detail should include a **substantive exit strategy** and an **operational plan for implementation**, which sets out the options available to exit the market. This analysis should **at least** cover solvent run-off and include alternative actions to accelerate this process where appropriate (e.g. sale/transfer, scheme of arrangement etc) – (see slide 8).

03 Impact assessment and Communication plan

Assessment should be made of how to mitigate **potential negative impacts of solvent exit** on stakeholders. One of the most important mitigants will be **engagement with stakeholders**. The communications plan is vital in preparing for this, to ensure **clear and timely communication**.

04 Resource assessment

The resource assessment should be based on the scenario, strategy and impact assessment, and designed to ensure that the firm has **adequate financial and non-financial resources to exit the market**.

05 Solvent exit indicators

There should be **clear and suitable indicators of non-viability** to act as an initiation point for the firm to consider if a solvent exit is required. The indicators should cover both financial and non-financial metrics, be linked to the risk management framework ("RMF"), be forward looking and **calibrated to provide sufficient time** for the firm to act.

06 Barriers and risks to exit

Analysis should be included around the **impact of any barriers and risks** to exit (including, if any critical economic function(s)) and **reasonable action** should be taken to remove any material barriers/risks. Any remaining risks which could impact the solvent exit should be identified, including both market wide and firm specific factors.

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In addition to the contents set out in supervisory statement 11/24, we also recommend including discrete sections on:

A1 Business background

An overview of the strategy and business model to **provide context** for the overall plan, allowing more **focussed analysis** in later sections.

A2 Intragroup assessment

Where part of a group, an assessment of how intragroup dependencies could impact exit and the **actions taken to mitigate risks**.

Solvent exit execution plan

Where there is a 'reasonable prospect' of solvent exit, a **fully operational** SEEP will need to be produced **in a short timeframe**, updating the SEA to reflect the exact circumstances and providing sufficient detail of how the insurer will complete an exit. This means the SEA needs to be sufficiently detailed and up to date to make this possible.

Reasonable prospect	Refresh SEA	Additional detail	Review and approval
informed by the solvent exit indictors, other information and interactions with PRA.	updating the SEA and strategy to reflect the circumstances that have led to exit.	including additional detail to ensure operability, in particular around barriers and resources required.	sufficient challenge, review and approval from the Board and management.

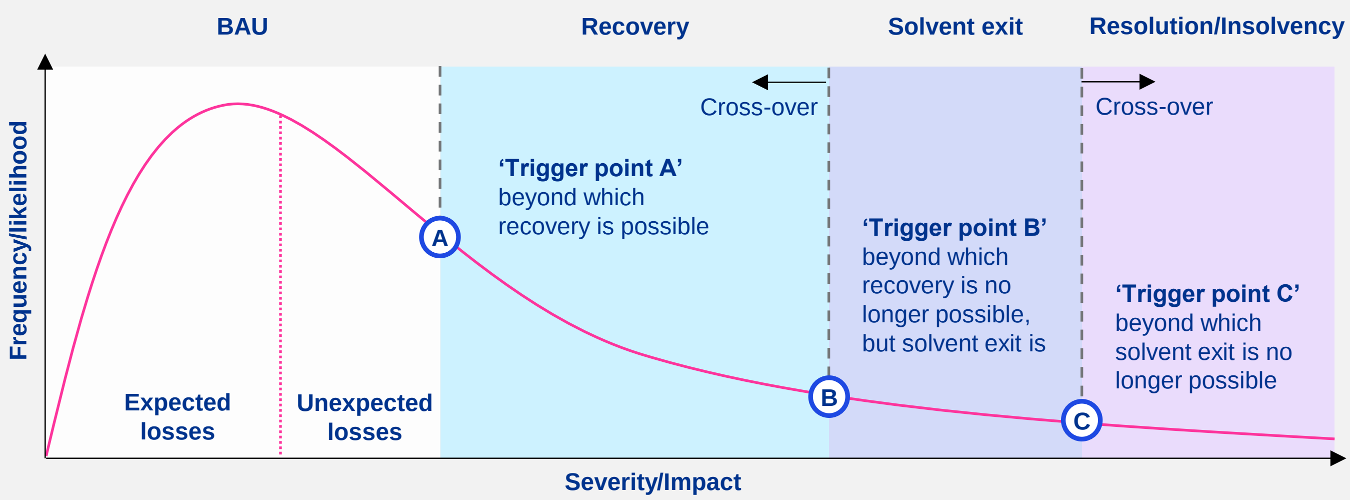
Exact timeline set by PRA

How does it fit in?

Solvent exit fits in between recovery and resolution, at the point at which, while recovery may not be possible, the insurer can still exit the market solvently and in an orderly manner, without using the insolvency or resolution process[4].

There is, however, cross-over between the different 'stages', with the PRA acknowledging that it may even be helpful to have the SEA as a section in the recovery plan, given that full or partial exit may be included as a recovery action.

When attempting to **distinguish between recovery and solvent exit**, we often encourage clients to consider the point at which they would **stop writing new business**. While for solvent exit and resolution / insolvency, the key differentiator is often the ability to **remain solvent without external support**.



Overlaying the 'stages' on a standard actuarial concept, such as the loss curve above, shows that the events that would lead to solvent exit are likely to be extremely severe and improbable, but **management, the board, and other key stakeholders** in the business **should not be of the mindset of 'it would never happen to us'** and **need to buy-in** to the process (see Accelerator 1).

It also demonstrates **the importance of assessing the triggers points** which would indicate the need to move from one stage to another.

Insurers should look to build solvent exiting planning into their existing frameworks, leveraging work previously completed for capital management and RRP (see Accelerator 2), whilst **ensuring clarity on when each stage would be initiated, through the use of a comprehensive and consistent indicator framework** (see Accelerator 3).

KPMG accelerators – initial stages of the process

KPMG have developed the following tools to accelerate the initial stages of developing a solvent exit analysis:

1. **Stakeholder buy-in and engagement process**
   A straightforward process for identifying stakeholders who need to be involved, achieving their buy-in, and facilitating 'minimal-effort' input/oversight. This includes a comprehensive RACI to provide clarity of accountability, and pre-populated materials to facilitate workshops and efficient information capture.
2. **SEA template and population guidance**
   A customisable SEA template with clear guidance on contents and approach to ensure planning is proportionate to the nature, scale and complexity of the firm. This includes tips for identifying opportunities to leverage existing analysis in order to create efficiencies in the documentation and approval of the SEA.
3. **Indicator selection and calibration procedure**
   A tried and tested procedure to select and calibrate an appropriate range of indicators, that reflect the likely drivers of needing to exit, and are aligned to the existing risk management framework so that it is clear what 'stage' the firm would be in.

4 At present, the UK does not have a specific resolution regime for insurers, although in January 2023 HMT issued a consultation paper setting out the Government's proposal to introduce one.

Insights on successful implementation

From our extensive experience supporting **over 50 financial services firms** with solvent exit/wind-down over the last few years, we have gained invaluable insight into to the factors that drive 'success'.

But what does success look like and what are the key things to focus on to achieve it?

Our definition of success

The delivery and maintenance of a solvent exit plan that is:

1. **Executable:** specific, detailed, and operable enough to facilitate a solvent exit;
2. **Compliant but proportionate:** continues to meet expectations given the nature, scale and complexity of the firm;
3. **Embedded:** incorporated into and aligned with existing frameworks, minimising duplication where possible.
4. **Manageable:** receives appropriate oversight and engagement but doesn't come at the cost of other initiatives or place undue strain on any area of the business.

Key factors to achieve success

To achieve 'our definition of success', we focus on supporting clients with the following success factors:

Success factor

01 Stakeholder engagement

Input is required from a wide range of stakeholders, so proper project management is key.

Engage senior stakeholders early, as it is difficult to get engagement to think about remote scenarios with negative impact.

Our support

01 Buy-in and co-ordination

- **Our stakeholder buy-in and engagement process** (Accelerator 1).
- **Bespoke training** to get stakeholders up the curve.
- **Programme planning/management** that facilitates co-ordination and agile delivery.

02 Regulatory engagement

The regulators' expectations around solvent exit planning are constantly evolving and are often firm specific.

It is therefore important to effectively engage with the regulators to better understand their expectations and to be prepared to incorporate regulatory feedback at any stage of the development/update process.

02 Navigating regulatory expectations

- **Peer insights** to define 'proportionality' and areas of focus.
- **Anticipation** of areas of challenge, preparing responses and building contingencies into implementation plans.
- **Engagement support** to effectively communicate with and gain further clarity from PRA, including attendance at meetings, where desired.

03 Iterative journey

This should not be seen as a 'one off' exercise. The SEA is a living document that must be up to date enough to, at any time, facilitate the production of a fully operational SEEP, were it required.

The development of the SEA and removal of barriers to exit will be an iterative journey, requiring enhancement through robust feedback loops.

03 Embedding feedback loops

- **Education** of key stakeholders, including the Board and management, that this is not a 'one off' exercise.
- **Implementing practices** that embed feedback loops in the initial development and ongoing maintenance processes to foster continued improvement.

Insights on successful implementation (cont.)

Success factor (cont.)

04 Maximise efficiencies

Leverage existing analysis where possible and drive changes that:

- Strengthen the firm's compliance with other regulatory initiatives in parallel (e.g. Operational Resilience, Recovery Planning, Resolution Planning, Capital management etc.); and
- Simultaneously add value to the way the business and reduces complexity (e.g. multi-purpose contract reviews to reduce barriers to exit and identify other onerous clauses).

05 Embed into BAU

Solvent exit planning should be embedded into annual cycles for updating risk/regulatory documents (e.g. ORSA, R&RP etc.).

Barriers to exit should be a key consideration in key strategic decisions and BAU processes (e.g. third-party contracting).

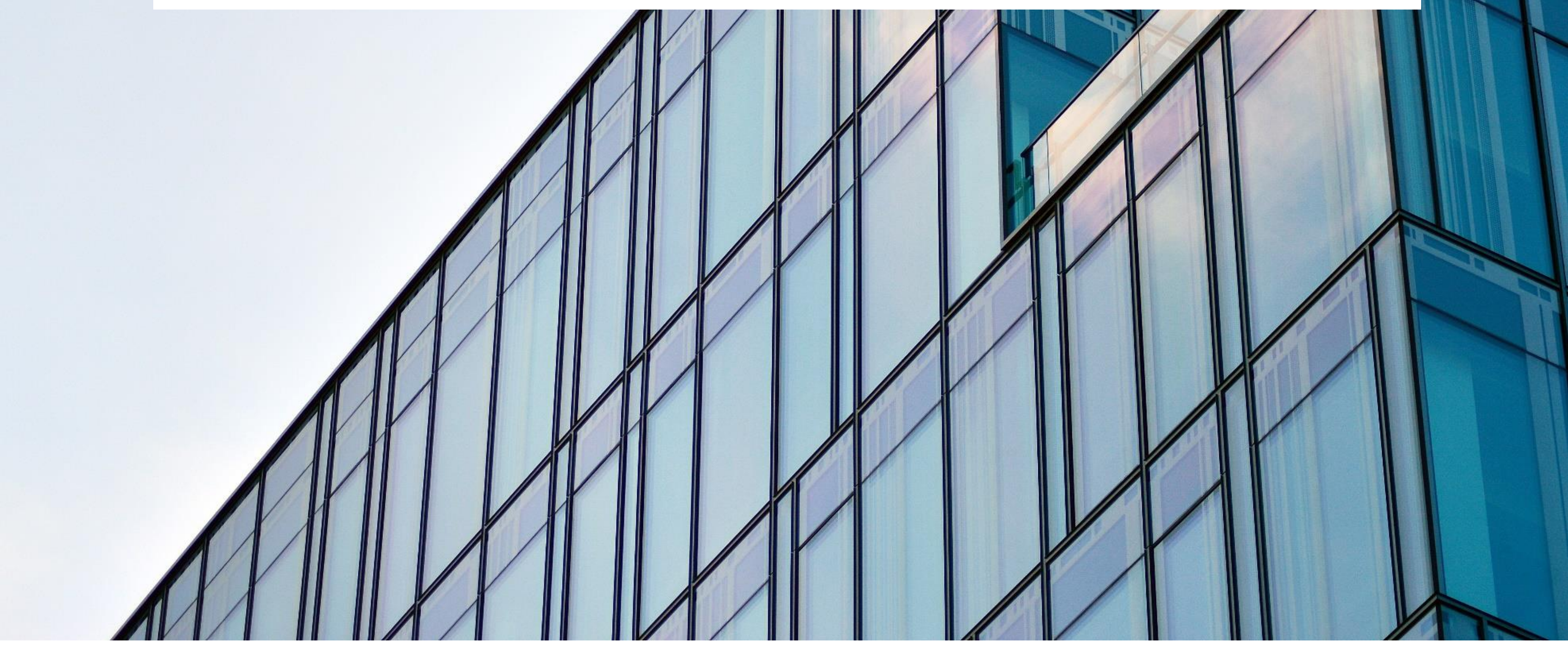
Our support (cont.)

04 Efficient delivery and opportunity identification

- Our **SEA template and population guidance and Indicator selection and calibration procedure** (Accelerator 2 and 3).
- **Identification** of opportunities to maximise value from the process.
- **Alignment** with expectations of a range of regulators including PRA, FCA and other non-UK regulators across exit planning and complementary requirements.

05 Embedding into BAU

- **Design** of a BAU **operating model** to manage the SEA update process and align seamlessly with other annual cycles.
- **Knowledge transfer and comprehensive hand-over** of KPMG supported elements to facilitate 'in-house' ownership.



Insights on technical excellence

Technical expertise will be a key part of meeting the solvent exit planning requirements. There are three key areas where this is particularly relevant.

Solvent exit indicators framework

Solvent exit is based on a situation in which the insurer remains solvent (i.e. can meet, or restore in a timely manner, its SCR) but is not sufficiently viable to remain in business. Therefore, the indicator framework should, in our view:

- include a solvency-based indicator (e.g. SCR/MCR) and a trigger point based underpinned by financial analysis; as well as
- a wider suite of indicators and trigger points, particularly as non-financial metrics may be the key considerations in any decision to exit (see examples below); and
- be supported by sufficiently robust analysis to show that any trigger point would allow the insurer to make the decision to exit at a point when it has sufficient resources.

The analysis required to identify and test suitable indicators, particularly non-financial triggers, may require more effort than expected.

Examples of indicators

Financial indicators

- Percentage decline in new business volumes.
- Reinsurer downgrade.
- Other experience variance, e.g. adverse Loss Ratio, excess customer exits, expense increases etc.
- Macro-economic changes that could impact financial markets or insurer's expenses (e.g. interest rates/inflation).
- Liquidity coverage.

Non-financial indicators

- Reputational damage with customers and business partners.
- Regulatory change – horizon scanning for potential business model impacts (e.g. differential pricing practices and products where mis-selling may have occurred). Undiversified insurers have particular risks in this area.
- Higher incidence of events that adversely impact the insurer such as a pandemics, extreme weather events.
- Critical cyber exposure.

Solvent exit scenario analysis

The financial resources assessment needed to perform solvent exit analysis is most likely to be based on insurers' current stress and scenario testing.

In our view, the keys to success are:

- Adapting current stress testing procedures to incorporate solvent exit specific changes such as new expense profiles, changes in customer behaviour when solvent exit is announced, one-off items arising from management actions taken etc.
- Leveraging reverse stress testing, as such exercises are key to identifying vulnerabilities in the business model and enhancing the expertise within the team, even if the scenario underpinning the reverse stress test is different to that used for solvent exit.
- Incorporating the input of specialist staff such as actuaries and risk professionals into the design of scenarios. Often, such professionals have a deep understanding of the risk profile, how it changes in stress and what practical steps can be taken to reduce risk. This allows identification of weak points and an ability to input to the exit options available and the associated consequences.

Insights on technical excellence (cont.)

Solvent exit strategy (i.e. actions)

Life vs non-life

The exit strategy is likely to vary for life and non-life business:

- **Life** business is longer term and can generate profits even when in run-off. The longer time period means the exit strategy can reflect a phased withdrawal of activity and the chance to implement more strategic approaches.
- **Non-life business** is likely to run off more quickly limiting the amount of future profit available to mitigate the impacts of solvent exit. The initial rapid run-off means the point at which the portfolio becomes too small to cost-effectively administer will be quickly reached. The strategy should reflect that actions with a long lead time might be too late to be effective.

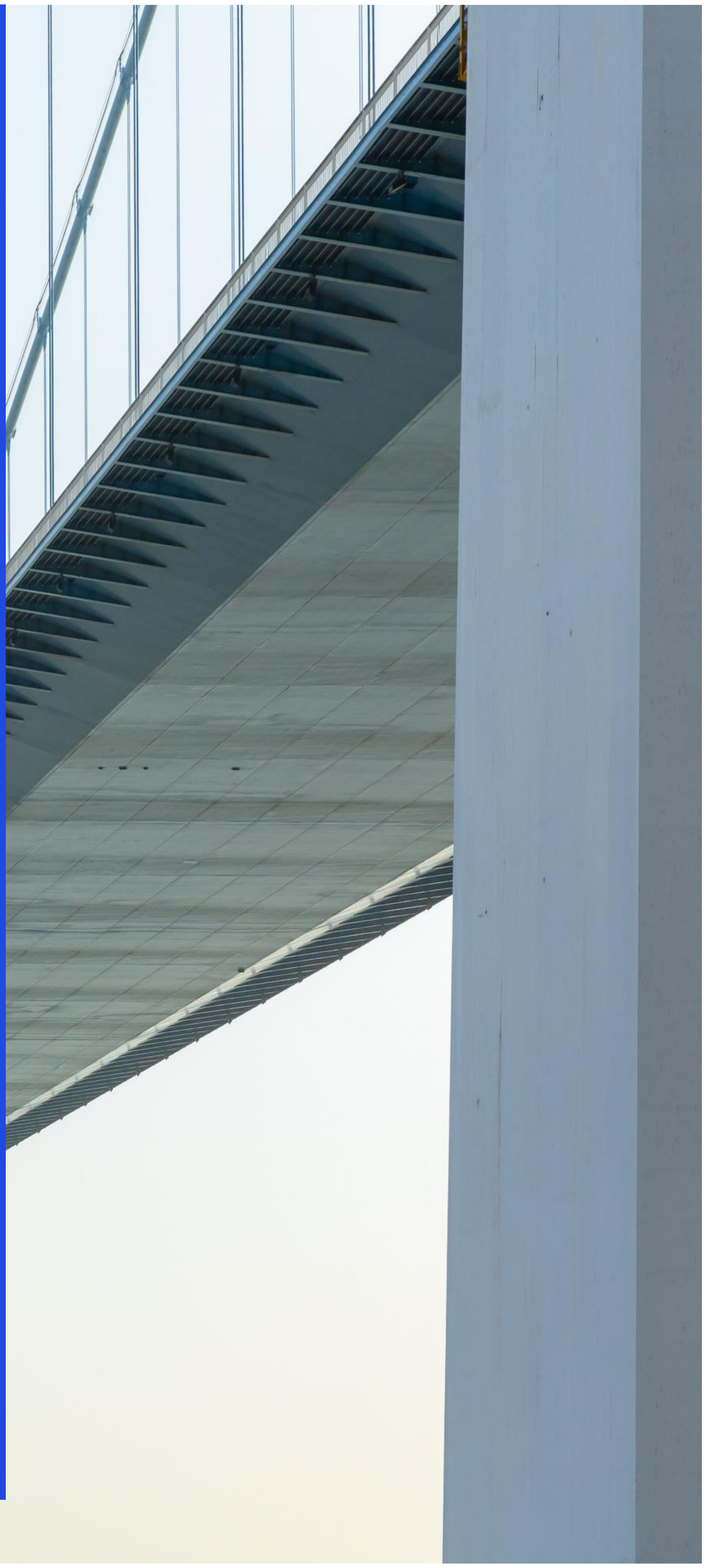
Variety of actions available

Achieving a successful solvent exit may not be as simple as running-off business and then initiating a part VII transfer and is likely to vary widely between insurers. Therefore, a wider consideration of the various options is a key part of the analysis.

There are further options, some of which are outlined in the Supervisory Statement. There are actions which may be used alongside running-off of the portfolio, including:

- The purchase of adverse deviation cover;
- Revision of asset strategy;
- Simplifying the corporate structure;
- Selling blocks of business or renewal rights; and/or
- Implementing commutations.

In most instances, options should be used in parallel, and financial modelling will be needed to quantify the impact of these actions and the interactions between them.



How can KPMG help?

Whether you require end-to-end support developing the SEA or ad-hoc advice on technical aspects, KPMG can help.

We have set out below just some of the ways in which we are helping firms to get the most out of solvent exit planning:

Buy-in and co-ordination

- **Educate stakeholders:** Ensure the board and management understand the ongoing requirements for the SEA update process.
- **Programme planning/management** that facilitates co-ordination and agile delivery.

Navigating regulatory expectations

- **Peer insights** to support in defining proportionality and identifying areas of focus.
- **Engagement support** to effectively communicate with and gain further clarity from PRA, including attendance at meetings, where desired.

Efficient delivery and opportunity identification

- **Identification** of opportunities to maximise value from the process.
- **Alignment** with expectations of a range of regulators including PRA, FCA and non-UK regulators across exit planning and complementary requirements.

Embedding in BAU and knowledge transfer

- **Continuous improvement:** Implementing feedback loops to identify and address areas for improvement.
- **Operating model:** Design of the BAU operating model for managing the SEA update process, aligning it with other annual cycles.

If you would like to discuss any aspects of solvent exit planning, please don't hesitate to get in touch with our team.

KPMG accelerators

KPMG have developed the following tools to accelerate the initial stages of developing a solvent exit analysis:

1 Stakeholder buy-in and engagement process

A straightforward process for identifying stakeholders who need to be involved, achieving their buy-in, and facilitating 'minimal-effort' input/oversight, including:

- a comprehensive RACI to provide clarity of accountability; and
- pre-populated materials to facilitate workshops and efficient information capture.

2 SEA template and population guidance

A customisable SEA template with clear guidance on contents and approach to ensure planning is proportionate to the scale and complexity of the firm.

This includes tips for identifying opportunities to leverage existing analysis in order to create efficiencies in the documentation and approval of the SEA.

3 Indicator selection and calibration procedure

A tried and tested procedure to select and calibrate an appropriate range of indicators, that reflect the likely drivers of needing to exit, and are aligned to the existing RMF so that it is clear what stage the firm would be in.

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