



12 April 2018

Dear CEO

Capital extractions by insurance firms in run-off

The PRA frequently reviews capital extraction requests from insurance firms in run-off. During the last two years we have observed that the quality of the accompanying information for some of these requests has been inadequate. Particular areas where firms are typically falling short against our expectations are in the provision of information relating to stress tests and reserving. This inevitably leads to delays in the PRA's assessment, and inefficient use of resources for us and firms.

We are writing to firms to remind them that they should closely consider Supervisory Statement (SS) 4/14 'Capital extractions by run-off firms within the general insurance sector'¹ when preparing a request for capital extraction for submission to the PRA. The SS sets out the PRA's expectations of firms and our approach to reviewing capital extraction requests. This letter seeks to provide further clarity on these expectations and is not intended to supersede SS4/14.

Given that, typically, firms in run-off have limited ability to generate new capital, we expect firms to be prudent and ensure that policyholders would maintain an adequate level of protection following any suggested capital extraction. We expect firms to demonstrate clearly in their application how the board has satisfied itself that the request is appropriate, and meets the expectations in SS4/14. Examples of the types of information we expect to accompany a capital extraction request include, but are not limited to, the following:

- an analysis of the underlying exposures and an assessment of the expected duration of run-off;
- a Standard Formula Appropriateness assessment;
- Solvency Capital Requirement and Own Solvency Assessment coverage pre and post the suggested capital extraction;
- an assessment of reserving adequacy including comparison to appropriate benchmarks where available;
- where applicable, an analysis of any reinsurance arrangements in place to deal with reserve deterioration. The probability of reinsurance failure should also be considered as part of the stress testing (please see also the next point);
- a set of robust stress tests that demonstrate the resilience of the capital position post extraction;
- capital projections for a 3-5 year period post the suggested capital extraction; and
- an evaluation of the firm's ability to raise additional capital if required and any management actions that could improve the capital position in the event of a severe deterioration of capital.

We encourage firms to engage with us before making a capital extraction request to avoid any unnecessary delays. If you would like to discuss the content of this letter, please get in touch with your usual supervisory contact in the first instance.

Yours sincerely

[PRA supervisor]

¹ July 2016: <https://www.bankofengland.co.uk/prudential-regulation/publication/2014/capital-extractions-by-run-off-firms-within-the-general-insurance-sector-ss>.