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Dive into pensions de-risking

Solvency triggered termination rights summary

On 4 July 2025, The Prudential Regulation Authority (PRA) issued a Dear CRO letter to bulk annuity insurers outlining the results of its thematic review of Solvency Triggered Termination Rights.

This summary explores the outcomes of the PRA's review of Solvency Triggered Termination Rights; its view of the potential risks involved and how insurers are mitigating these and how it will impact pension schemes looking to enter into a buy-in or buy-out.

What are Solvency Triggered Termination Rights?

Solvency Triggered Termination Rights (STTRs) allow trustees to terminate a buy-in policy with an insurer in the event that the insurer's solvency coverage ratio (the amount of capital they hold relative to their Solvency UK regulatory requirement) falls below a pre-determined level negotiated as part of the buy-in contract. STTRs are typically part of a suite of termination rights that might be negotiated for large scale transactions rather than being the norm across the market. They're only relevant whilst in the buy-in phase of a transaction; once individual policies are issued and the buy-in converts to a buy-out, the termination rights fall away.

Key areas of discussion between trustees and insurers are the solvency level at which the termination right becomes effective. This includes the amount of the termination payment and the cure period or grace period in which an insurer has time to reestablish its solvency coverage ratio once it's first been breached. Additionally, it covers the assets that would be returned to the trustee in the event of a termination right being invoked and the timescale for the return of such assets.

Outcome of the PRA's thematic review

The PRA's review has concluded that the market exposure to these termination rights across the market is around £50bn ie if all insurers were to fail tomorrow, £50bn of assets would need to be returned to trustees if all the associated termination rights were invoked. If no additional exposures were negotiated, this amount would instead run off over time as both pension scheme liabilities mature and buy-in policies convert to buy-out.

In a change in approach from the PRA, firms are now expected to notify the PRA if STTRs are included in BPA contracts albeit there is no blanket requirement that these be pre-approved.

The PRA has highlighted four core areas of potential risk that it has identified and will continue to monitor as part of its ongoing supervision of firms and as part of a follow up review in 2026. The PRA found that many insurers were mindful of these risks and had taken steps to mitigate them, but that most need to do more to demonstrate that they have adequately considered these risks.

Liquidity impact

The PRA has highlighted that firms should consider whether the triggering of these termination rights could lead to liquidity concerns. Whilst the PRA has indicated that many firms have sought contractual flexibility such that the asset composition of termination portfolios does not adversely impact residual portfolios; it noted the challenges of being able to transfer illiquid assets in times of stress. The concern is that the insurer may not be left with sufficient liquid assets and will incur losses through forced sales of illiquid assets.

Asset concentrations

Similar to the liquidity risk noted above, if the termination portfolio is disproportionately composed of a particular asset class or characteristic, the insurer runs the risk of its residual portfolio being overly concentrated with other asset classes. The use of funded reinsurance could exacerbate this, and associated recapture risks if termination payments under those contracts are not received on time or can't be used as part of the trustee termination portfolio.

Contractual uncertainty and operational implications

Ensuring contractual protections and operational processes are sufficiently robust to withstand times of stress are two further considerations and so clear advance planning is required covering areas such as timings, resourcing and responsibilities.

What does this mean for pension schemes?

A greater focus from the PRA will likely give insurers pause for thought in terms of how readily they may or may not provide solvency-based termination rights under new contracts, for transactions that might form a significant portion of the insurer's portfolio. Where they do agree to such provisions, we expect there to be additional focus on the termination mechanics, and in particular the composition of the asset termination portfolios being provided.

This letter is a further example of the PRA's continued focus on insurer security and stability, particularly where an insurer's solvency coverage is under duress, for the benefit of policyholders whether that be trustees with buy-ins or individual policyholders. When negotiating termination rights with insurers, having detailed firsthand experience and understanding of insurer regulatory constraints and PRA concerns is key to being able to negotiate terms that meet trustee and sponsor objectives.

Get in touch

If you have any questions about anything covered, please don't hesitate to get in touch.

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