

CONSIDERING EXIT FROM LLOYD'S; EFFICIENT WITHDRAWAL

On 10 June, the ALM and Helios Underwriting PLC jointly hosted a webinar which addressed issues for members to take into account if considering exiting from Lloyd's. The webinar was divided into three parts. First, Nigel Hanbury from Helios, explained what Helios could offer as both a buyer and a seller of limited liability vehicles (LLVs). Stephen Kenny, from PFK Littlejohn then covered some tax considerations for people thinking of buying or selling their LLV. Finally, Neil Burton from Mills & Reeve, addressed the legal processes and issues associated with LLV transactions.

1. NIGEL HANBURY

Nigel Hanbury, Deputy Chairman, Helios said that given the relentless flow of bad news from both Westminster and the wider world, it was no surprise that many Lloyd's investors were now reviewing their finances. Lloyd's has been a phenomenal wealth creator since 2001, and many members may find that their participation at Lloyd's has now become their most valuable single asset. It is for this reason that Helios very generously offers members a free valuation of their LLV from an independent source, Humphrey & Co.

In the past, unlimited members of Lloyd's only had one way of leaving Lloyd's: they resigned their membership (or died). With the advent of limited liability underwriting, however, the option of a sale and purchase became possible which provides an added bonus in that new investors coming into Lloyd's now possessed a viable exit route.

Selling vehicles

In the early days, selling LLVs was cumbersome and expensive. There was a lack of transparency and fees were often excessive. Nowadays, sellers of LLVs, such as estates and executors, need a fair, fast and transparent mechanism. Nigel said that Helios had now purchased over 75 LLVs and the transactions usually took about six weeks to complete. There will always be a continual flow of LLV sales, mainly because of deaths, succession or changing circumstances and sale to Helios is now a proven exit route.

Execution risks

Nigel cautioned that there were still risks associated with the sale process. Deals did, and can still, fail to complete but there are some advantages in selling to Helios. Helios can offer shares and its quotation on the

AIM market provides liquidity. It can also pay cash or a combination of cash and shares. It has used a deferred consideration clause in its purchase deals, to deal with issues such as any individual syndicate that still has open years (such as syndicate 609), and to enable the deal to proceed smoothly.

The valuation approach

Nigel explained that the Humphrey valuation was a due diligence process. It provided a framework and not a definitive number. Its aim was to give both the buyer and seller the same data on which to base negotiations. He added that the prices paid by Helios were almost always better than the vendor could achieve by winding up their LLV and going into run off.

"Starter Homes"

Nigel said that Helios had recognised that Lloyd's needed new members. Therefore, in 2024 Helios set up and funded a number of new Members of Lloyd's colloquially called "Starter Homes". These were 10 new Limited Liability Partnerships and Namecos, which were capitalised by Helios and which underwrote on the Helios portfolio on a rental basis for 2024. These were launched into the market at varying levels of premium income limit. Each one was priced at £25,000 and were handled through the Argenta members' agency. Following their quick sale Helios created another 15 vehicles, most of which have also been sold this year with a few still available.

Starter homes offer a number of advantages to a new investor

1. New investors can enter the market at any time of the year without onerous deadlines. This is a considerable help to those managing the onboarding process.



Nigel Hanbury

Deputy
Chairman,
Helios



Stephen Kenny

Partner and
Head of Private
Client, PFK
Littlejohn



Neil Burton

Partner,
Mills & Reeve

2. Advisors and investment managers are more relaxed with their clients renting capacity and not having to find significant cash at the outset.
3. After year one new members can switch away from rental if they so wish, after having agreed terms with Helios they can effectively buy the freehold capacity they are already renting.
4. Entering Lloyd's via a Starter Home is still an important investment but much less 'expensive' as it means that new investors avoid the uncertainty and significant cash commitment of having to pay for their capacity up front through the auction mechanism. As auction prices rise this has become a serious barrier to entering Lloyd's which the Starter Home project seeks to overcome. It also allows a new investor space to become comfortable with their advisors and the procedures of participating at Lloyd's.
5. Underwriting in year one must be through Argenta but year two and beyond can be through any agent subject to their own internal rules.
6. The initial portfolio is identical to that which is underwritten by Helios Shareholders and staff. We feel that Advisors having skin in the game is still important although it is becoming less common.
7. Helios is likely to launch more "Starter Homes" into the market for the 2026 account.

Conclusion

Nigel concluded by saying that sellers were now getting "good, fair prices" for their LLVs. Helios is still buying LLVs and there is now a knowledgeable pool

of competent advisors who have built up a significant expertise in this market when it comes the detail of buying and selling.

2. STEPHEN KENNY

The current Inheritance Tax (IHT) position and the implications of exit

Stephen Kenny, Partner and Head of Private Client, PFK Littlejohn explained that IHT is charged on chargeable transfers, which are transfers of value from someone's estate that are not exempt transfers. A transfer of value means that the value of someone's estate has decreased. IHT is charged on the loss to the donor's estate. This can be different from the market value of anything given away/transferred which can be useful when considering estate planning.

The main IHT triggering events are death and lifetime transfers. IHT is charged at 40% on death, on the value all of the assets that are held at the date of death, above the available lifetime allowance. In the case of lifetime transfers, IHT can be charged on potentially exempt transfers (PET) (but only chargeable if someone dies within seven years of making a gift) and on chargeable lifetime transfers. IHT is charged at a rate of 20% on chargeable lifetime transfers. There are a number of exemptions to IHT (see Figure 1).

In the case of IHT at Lloyd's, it is important to consider what the interest is in the individual's estate. In the case of unlimited members, everything is in their own name and immediately forms part of their estate. In the case of a corporate member, trading in a Nameco, then it is the shares of the Nameco that are in the individual's name/estate. These will be subject to IHT and will qualify for

Figure 1: Quick Introduction to IHT



SOURCE: STEPHEN KENNY

any reliefs. In the case of an LLP, it is the interest in the partnership that is in the individual's estate.

Business property relief (BPR)

Currently, BPR can provide up to 100% relief from IHT for qualifying assets. Individuals also get a Capital Gains Tax (CGT) uplift to the market value on assets at death. It effectively allows qualifying assets to be passed on to beneficiaries tax free. BPR has remained at 100% and has been uncapped since 1996. However, from April 2026, only the first £1 million of qualifying assets per person will continue to qualify for 100% relief. Amounts in excess of £1 million will qualify for relief at 50%. Any unused allowance cannot be transferred between spouses. Stephen stressed that the 50% relief was still hugely valuable, as it gives an effective IHT rate on those assets of 20% (as opposed to the main rate at 40%) and is still better than the main CGT rate of 24%.

To qualify for BPR it is necessary to have owned the property for two years before the transfer. In the Lloyd's context, BPR is only available on assets that are "needed for the business purpose" including Funds at Lloyd's (FAL). This was important when it came to FAL, as the assets deposited as FAL will qualify for 100% BPR, provided that their sum is not disproportionately large when compared to the amount underwritten. Any excess over what is appropriate will not qualify. That said, Stephen's experience has been that HMRC will accept FAL that is within 10% to 15% of the funding requirement.

Stephen explained that there is a difference in how funds qualify for BPR, which depends on which method of underwriting the member uses. In the case of an unlimited member, the assets in the individual's own name will qualify for BPR (as long as their sum is not excessive). When underwriting in a company, it is the shares in the company that are the asset in an individual's estate and qualify for BPR. FAL outside the company would not qualify. Within the company, any amounts not needed for underwriting would be considered as excepted assets and would not qualify for BPR. In the case of the LLP, it is the individual member's interest in the LLP that is in their estate. This can have FAL implications. If one individual provided all of the FAL for the LLP, but only had a 50% interest in the partnership, HMRC would take the view that the amount of FAL is disproportionately large for the individual's underwriting activity and would disallow the excess. Given the cap that is being introduced in 2026, if children are being introduced to the LLP it is important that they add their own funds to FAL in order to continue to qualify for BPR.

FAL assets do not qualify for BPR during the first two years of a new business. Special rules apply for replacement property and, provided a name transfers the whole of their bespoke business to a new corporate business, the new business will be treated as replacement property and will qualify for BPR.

IHT is normally paid six months after the chargeable event, but it is possible to pay in instalments in some cases.

The implications of exiting a Lloyd's business

The disposal of a Lloyd's business is a capital event and is subject to CGT, but it would qualify for Business Asset Disposal Relief (BADR). The BADR rate is 14%, as compared to CGT at 24%. BADR will increase to 18% from April 2026. There is a £1 million lifetime limit on assets that qualify for BADR. A name who converts to limited liability underwriting may be able to rollover gains on syndicate capacity and into the base cost of the shares in a Nameco.

They are some significant tax advantages of trading in a Nameco or LLP. Both vehicles are classified as trading businesses and qualify for BPR and BADR. Equally, the FAL that support the LLV also qualify as business assets and possess tax advantages. Because these are qualifying business assets, they are useful for succession planning as shares and interest in the LLP can be passed down the generations. In addition, BPR assets only have a two year tail (in contrast to the usual seven years). Shares are classed as business assets so it is possible to claim gift holdover relief to pass shares down in an individual's lifetime without triggering immediate CGT. Any future IHT payment can also be spread over a longer period.

If a member was going to exit the market, Stephen said they would also need to bear in mind that the proceeds of a disposal would immediately become part of the estate and would fall within the scope of IHT at a full rate of 40%. Members therefore needed to think about how they would manage that potentially larger tax liability and other issues regarding succession planning.

3. NEIL BURTON

Sale and purchase of Namecos & LLPs

Neil Burton, Partner, Mills & Reeve, said that over the past 20 years he had advised on hundreds of LLV transactions. He reflected on the four questions that he had been asked the most: "how quick?"; "when do I get my money?"; "do I get a clean break?"; and "how much does it cost?" He said that a transaction usually took

about 8 to 12 weeks (depending on when the buyer received their Lloyd's consent) and the seller receives their money for the sale of the LLV upon completion. If there are third party FAL supporting the vehicle, the buyer has to lodge replacement FAL within 45 days. Selling the vehicle should give the member a clean break from Lloyd's, unless there is unpaid tax or some other usual issue. As far as costs were concerned, Neil said that this was measured in "the small number of thousands", but these could be slightly more for the buyer than the seller.

The sale process

The sale process usually begins with a valuation. The buyer undertakes limited due diligence, such as checking the corporate status and making sure that the seller actually owns the shares or whether executors can sell them. The process is now very streamlined; sellers should not expect to get a large number of due diligence requests addressed to them. The buyer then begins the application process at Lloyd's. This can often be the last thing to fall into place, particularly for first time buyers. This is followed by the legal, tax and accountancy work. Post completion, unlike the LLP buyer, the Nameco buyer pays the 0.5% stamp duty on the purchase price, the statutory books are written up and the company or LLP then belongs to the buyer.

Legal documents

The key document is the sale and purchase agreement which sets out the basis on which the sale is going to happen and covers the replacement third party FAL. The members' agent usually sends a comfort letter to back up the state of the company (covering issues such as the cash and capacity status and confirming that there are no outstanding calls). The buyer deals with the Companies House updates and Stamp Duty Return.

Information required

The buyer's solicitor will ask the seller a number of questions (see Figure 2). With regard to the "other advisors" point, Neil said that there was a small pool of advisers that handled these deals on a fairly regular basis.

Standard warranties/tax

Whilst selling a LLV was a "clean break", Neil said that there would be a small section of contractual promises (warranties) and a tax covenant included in the sale agreement. Buyers do not generally expect their syndicate forecasts to be warranted, but sellers are required to give absolute warranties that they own the LLV and have not transferred the shares. There will also be some standard seller protections included. Any outstanding

Figure 2: Information required

• Name of parties
• Existing controller status
• Valuation
• Consideration
• Shares, members' interest (if an LLP) and loan account
• FAL (top level and/or personal)
• Syndicate list
• Other advisers

SOURCE: MILLS & REEVE

tax is, and remains, the responsibility of the seller (even after completion).

Timing

The transactions usually takes about 8 to 12 weeks to complete. Buyers (including existing LLV owners) have to receive Lloyd's consent before completion can take place. There are two ways of doing these deals. One way is akin to a house sale, in that all parties agree the terms and enter into an agreement at which point they are legally bound. Completion takes place when the Lloyd's consent is granted. The other way is to have exchange and completion occurring at the same time when the Lloyd's consent is received (this is the "normal" option now).

Preparing for a sale

Neil said that anyone considering selling their LLV should also ensure that the company profile and all of the documentation was in order. This would include things like ensuring that the company structure was up to date, that the right shareholders or directors were in place and that there was an appropriate management agreement. If there were multiple buyers or sellers it is important to appoint a lead person who speaks on behalf of everyone involved, as this will make the transaction smoother.

People should also be aware of the number of mortgages registered against the LLV. This is where syndicates cross charge the company's assets to support the underwriting and Lloyd's does not release those charges, the mortgages stay in place with Namecos. Very occasionally sellers have managed to cross charge their Nameco with their development or farming companies. When they come to sell, it can take weeks or months to release those charges. If a seller of the LLV has a group of other companies, and the bank has taken a charge against one of those, this needs to be addressed, or the sale process will be slowed down.