SLAUGHTER AND MAY

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The UK captive insurance regime proposals

Implications for the Insurance sector

The PRA and FCA have each published proposals for a new tailored regime for UK captive insurers. These consultations follow on from the earlier HM Treasury consultation on the introduction of a captive insurance regime. The current consultations are open until 14 October 2026 and the regulators plan to implement the new regime in mid-2027.

In this briefing note we discuss the potential implications for the insurance sector and likely take-up.

A summary of the key features of the proposed new regime is set out at the end of this briefing.

1. The core of the captive regime

Under the PRA proposals, a new category of "UK captive insurer" will be created with a bespoke set of (streamlined) regulatory requirements, including an accelerated authorisation process, lighter touch governance and reporting, and simplified capital requirements.

UK captives will be able to write non-life and employee benefits business for group companies and non-life business for certain categories of non-group material undertakings (e.g. material suppliers). Some lines of business will only be able to be written on a reinsurance basis – principally compulsory insurance and insurance of employee benefits.

2. Anticipated benefits of the new regime

The PRA considers that groups which currently do not have a captive insurer might elect to establish one in the UK to benefit from better pricing, insurance of risks which are currently self-insured, direct access to reinsurance and avoidance of commission fees. Groups that already have an overseas captive will have already accessed these benefits, but relocating to the UK could have some efficiency savings resulting from having the captive in the same jurisdiction as the group.

The PRA also anticipates that the new regime may support economic growth in the UK through new jobs and revenues in ancillary services, improved retained earnings for captive owners, and investment of assets in the UK. The PRA's estimates of the economic impact of these benefits are modest, with the regulator projecting that each UK captive could, on average, contribute between £50,000 and £150,000 to UK GDP per year.

3. Potential impact on the UK insurance sector

The potential impact on the UK insurance sector will depend on take up of the new regime and the manner in which it is used, which we discuss in section 4 below.

Firms offering commercial insurance

If a substantial number of groups without an existing captive choose to establish a new UK captive, business will be redirected away from commercial insurers in the UK to those captives, and there may also be downward pressure on pricing for relevant policies. The PRA does not provide any estimate of this potential loss of revenue in its cost-benefit analysis - and it is in any event difficult to evaluate this without knowing how many groups will be incentivized to set up a UK captive insurer beyond those already operating one offshore.

Firms offering intermediation

There may also be an impact on insurers currently offering intermediation to groups using offshore captives. If these groups choose to relocate their captive to the UK they will no longer require a fronting insurer, other than in the case of lines of business which can only be reinsured to a UK captive. There is, of course, a potential opportunity for UK insurers to provide fronting to groups wanting to reinsure those business lines to their new UK captive reinsurer.

The PRA suggests that there may also be an opportunity for UK reinsurers to take on risk from new onshore captives. In practice, though, where the captives do not wish to retain risks this reinsurance can easily be placed with non-UK firms so this may be only a marginal advantage.

Related services

UK captives will need to hold a certain amount of assets and capital and this is likely to be invested in the UK. Where overseas captives are relocated to the UK this may therefore generate some opportunities for management of the relevant assets. There are also likely to be opportunities for legal and actuarial advisers and captive managers.

4. Take-up of the new regime

Take up of the new regime is likely to depend on, among other things, how the proposed regulatory requirements compare with other jurisdictions. The PRA considers that the financial resources requirement which it has proposed is comparable to the international position (in particular the minimum floor for the captive capital requirement).

Although tax is not a primary driving factor in the establishment of captives, the comparative tax position for groups setting up a UK vs an overseas captive may also affect take up. HM Treasury has ruled out introducing a special tax regime for captive insurers and the PRA has explicitly excluded any consideration of taxation in its cost-benefit analysis.

It is difficult to predict how popular UK captives will be when the new regime is introduced, but a recent Airmic survey of its members (cited by the FCA in its consultation) suggests there is potential appetite. Airmic reported that 61% of respondents to its survey currently use a captive and that, if a proportionate UK captive regime is introduced:

- 31% of respondents who currently use a captive would consider moving their captive to the UK; and
- 48% of respondents who did not currently use a captive would be more likely to explore forming one.

It may be difficult, however, to compete with jurisdictions such as Guernsey with a long track record of hosting captive insurers and where the infrastructure and regulatory environment are therefore more tried and tested. Guernsey's first captive insurer was established in 1922, with the use of Guernsey-domiciled captives taking off properly in the 1970s. Guernsey introduced its protected cell company (**"PCC"**) regime for captive insurers in 1997. According to the PRA consultation, more than 40% of UK FTSE 100 companies have captives domiciled in Guernsey.

When considering the likely appetite for a new domestic regime competing with established overseas offerings, it is worth reflecting on the attempt by the previous Government to promote the UK as a market for insurance-linked securities (**ILS**) with the introduction of the Risk Transformation Regulations and a new PCC regime in 2017. There has been limited expansion of the ILS market in the UK since 2017, with the exception of deals transacted through the Lloyd's London Bridge platforms – although the introduction of a new fast track authorisation process for some types of transformer vehicles in July 2025 may eventually lead to higher take up.

5. Future developments

At present the regulators are only consulting on rules for single-parent captive insurers. HM Treasury has put forward proposals for changes to the Financial Services and Markets Act and the Risk Transformation Regulations to enable the use of protected cell companies as captive insurers. Currently, PCCs can only be used in the UK by insurers, for the activity of insurance risk transformation. Allowing captives to be structured as PCCs is consistent with the position in many leading captive domiciles. It would facilitate access to captive arrangements via individual cells without a group having to establish its own stand alone captive insurer.

The regulators will consult on rule changes to include PCCs within the regime once the relevant legislation is in place – although the PRA does ask some initial questions about adapting the regime for PCCs in the current consultation.

Key features of the proposed new captive regime

- A new category of "UK captive insurer" will be introduced with a set of bespoke PRA requirements. UK captive insurers will require a Part 4A permission to effect or carry out contracts of insurance
- A UK captive will be permitted to provide insurance to companies within its group and some "material non-group undertakings" - suppliers, franchisees, minority interests and owner-controlled programmes
- UK captives will not be able to write life insurance business, with the exception of employee benefits in respect of group companies
- Some business will only be able to be written on a reinsurance basis: compulsory lines, corporate risks with named individuals, employee benefits and multi-occupancy building insurance. This means that a fully authorised insurer will need to sit between the captive and the underlying insured, providing greater protection than contracting directly with the captive
- Financial services firms will be able to use UK captives but not to reinsure risks arising out of their commercial insurance activity. If the group is an insurance group for the purposes of the group supervision rules, the UK captive will need to be fully consolidated
- A streamlined application process will apply which is expected to take 4-6 weeks for complete applications
- UK captives will be Category 4 firms subject to light touch supervision and reporting
- Simplified financial resources requirements will apply
    - Asset and liability valuations will be based on the captive's statutory financial statements and the captive will need to have sufficient assets to meet its liabilities
    - A "captive capital requirement" will be calculated by adding (i) a baseline requirement of £100,000 to be met with Tier 1 capital resources; and (ii) any applicable additional capital requirement which can be met with Tier 1 or Tier 2 capital resources. The additional capital requirement would be calculated as the extent to which the higher of (i) 10% of the UK captive's net written premiums and (ii) 10% of the UK captive's net insurance liabilities exceeds the baseline requirement
    - Tier 1 capital must be fully paid-up and perpetual with fully discretionary distributions, e.g. ordinary shares and retained earnings
    - Tier 2 capital will comprise contingent capital support in the form of letters of credit and parental/group support agreements (meeting relevant conditions). Subordinated debt cannot be used as regulatory capital – the PRA indicates in the consultation that industry engagement suggests very little practical use of such instruments by UK captives.

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