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BRIEFING

Consultations on a Tailored Regime for UK Captive Insurance

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Introduction

On 14 July 2026, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) published proposals for a dedicated UK captive insurance regime. The proposals are set out in PRA Consultation Paper CP11/26 and FCA Consultation Paper CP26/29 and, taken together, represent the most significant development in UK captive insurance regulation to date.

The consultations close on 14 October 2026, with implementation targeted for mid-2027. This article examines the key proposals, considers how the UK approach compares with established captive domiciles and assesses what the regime is likely to achieve in practice.

Background

For decades, the UK has been something of an outlier among the world's leading insurance jurisdictions as it lacked a dedicated captive insurance regime. As a result, many of the UK's largest businesses have established captive insurers in jurisdictions such as Bermuda, Guernsey and Ireland, with premium, economic activity and risk management expertise flowing offshore rather than being retained domestically. That may now be about to change.

The case for a dedicated UK captive regime has been building for some time. In July 2025, the Government announced plans to introduce a UK captive insurance framework as part of the Chancellor's Mansion House speech on financial services reform. Following that announcement, the PRA and FCA worked extensively with industry through six Subject Expert Groups (SEGs), bringing together existing and prospective captive owners, captive managers, brokers, lawyers and insurance professionals.

That engagement revealed a broad consensus. Market participants generally agreed that the UK already possesses the expertise, infrastructure and regulatory credibility needed to support a successful captive sector. However, in the absence of a dedicated captive regime, the full Solvency UK framework was viewed as disproportionate and not fit for purposes for the limited and specialised risks that captives typically assume.

CP11/26 and CP26/29 are the culmination of that process. Their objective is straightforward: to create a regime that is proportionate, competitive and capable of attracting captive activity back to the UK.

Why do companies use captives?

Before turning to the detail of the proposals, it is worth considering why captive insurance matters to businesses. Put simply, a captive allows a company to insure its own risks rather than relying entirely on the commercial insurance market. While that sounds simple, the benefits can be significant.

First, captives can help reduce insurance costs. By retaining risk within the group and accessing reinsurance markets directly, businesses can often achieve a more efficient overall insurance programme. This can be particularly valuable during hard market conditions, when insurance capacity (in particular, for specialty risks) is limited and premiums rise sharply. Captives can also improve risk management. Because claims experience remains within the group, businesses gain greater visibility over loss trends and risk drivers. In practice, this can lead to better risk controls, improved claims management and more informed decision-making across a firm.

The potential economic benefits are also significant. The PRA's cost-benefit analysis estimates that each captive could contribute between £50,000 and £150,000 to UK GDP per year. More importantly, over 40% of FTSE 100 companies already operate captives in overseas jurisdictions (particularly Guernsey) and in certain sectors (e.g. oil and gas) captive insurance is a widely used and well-established part of the market. The fact that so many UK businesses have already chosen to establish captives offshore demonstrates both the existing demand for captive structures and the potential opportunity for the UK market.

The Core Proposals

- **A New Category of Insurer**

The most important proposal in CP11/26 is the creation of a new category of insurer: the UK captive insurer. This may sound technical, but it is arguably the most significant aspect of the consultation as, historically, captives have been required to operate within a prudential framework largely designed for commercial insurers. Industry participants have long argued that this approach failed to recognise the fundamentally different nature of captive business and the PRA has accepted that argument.

Rather than treating captives as a modified form of Solvency UK insurer, CP11/26 therefore proposes a standalone framework specifically designed for captive business. UK captives would have their own prudential rules covering capital, governance, reporting and supervision, supported by a dedicated Supervisory Statement that would serve as the primary source of regulatory guidance. Importantly, captives would generally not be expected to comply with wider PRA supervisory expectations unless specifically referenced.

This matters because by creating a separate regime (rather than simply carving out limited exemptions from existing requirements) captives may benefit from greater certainty and simplified ongoing compliance requirements. The PRA is also proposing a number of consequential amendments to existing Solvency UK terminology and rules to ensure a clear distinction between the new captive regime and the traditional Solvency UK framework.

- **Scope of the Regime**

The initial regime is deliberately focused. At launch, it will apply only to single-parent, or "pure", captives which means that the captive must be a wholly owned UK-incorporated subsidiary established primarily to insure the risks of its group and certain connected entities.

Importantly, eligibility is broad. Commercial organisations, industrial groups, financial institutions and public bodies could all potentially establish a UK captive. Banks and insurers may also use captives to retain operational risks, although investment risks remain outside scope. The proposed framework permits both direct insurance and reinsurance business. In addition, captives may combine non-life business with certain employee benefits arrangements.

However, some restrictions apply. Employers' liability and motor third-party liability business may only be written on a reinsurance basis. Employee benefits business is similarly restricted to reinsurance arrangements and group employees. Standalone life business and investment-related risks remain out of scope altogether. Captives are also prohibited from providing direct insurance to consumers, to SMEs eligible to refer complaints to the Financial Ombudsman Service and to policy stakeholders, including leaseholders under multi-occupancy building insurance policies. This prohibition is the FCA's primary mechanism for ensuring that the lighter-touch conduct regime does not create a consumer protection gap.

One of the more innovative aspects of the regime is the proposed treatment of certain non-group entities through the Material Non-Group Undertaking (MNGU) framework. The PRA also proposes allowing captives to insure four categories of non-group business: participants in owner-controlled insurance programmes (OCIPs), minority stake investments, significant suppliers and franchisees.

However, safeguards have been built in. Most MNGU business will be subject to a 10% cap, although OCIPs are excluded. Additional restrictions apply where smaller businesses are involved, reflecting concerns around FSCS and FOS protections. The treatment of OCIPs is also particularly noteworthy. By excluding them from the 10% cap, the PRA has recognised that the interests of the captive, the group and OCIP participants are often closely aligned. This approach should make the regime more attractive to infrastructure, construction and asset-intensive businesses. One limitation, however, is the restriction to direct suppliers. In complex supply chains, that may prove overly narrow, and it is likely to be an area of feedback during the consultation process.

- **Authorisation**

One of the most attractive features of the proposed regime is the PRA's commitment to a streamlined and proportionate authorisation process.

CP11/26 sets out a target authorisation period of four to six weeks from receipt of a complete application which by international standards is a very competitive timeframe. This demonstrates the regulators' intention to make the UK an attractive location for captive insurers and reflects a key learning gained from the implementation of the UK insurance-linked securities (ILS) regime. Speed and regulatory accessibility have long been important features of established captive domiciles such as Bermuda and Guernsey, and the PRA is clearly seeking to position the UK on similar terms.

The process itself is intended to be straightforward. Firms will be encouraged to engage with the PRA at an early stage through preliminary discussions before submitting a formal application to the PRA's New Insurer Start-up Unit. The PRA will lead the authorisation process and coordinate with the FCA throughout.

Application costs are also relatively modest. CP11/26 proposes a PRA application fee of £5,000, together with annual periodic fees of £1,030. Under CP26/29, firms would also pay an FCA application fee of £2,820 and an annual fee of £600.

Importantly, the accompanying Supervisory Statement suggests that the PRA intends to take a pragmatic and proportionate approach when assessing applications. Applicants will still need to provide the key information expected of any insurer, including a business plan, governance arrangements, ownership information, financial projections and details of the proposed risk profile. However, the PRA acknowledges that captives are often simpler businesses than commercial insurers and indicates that attestations may be sufficient in certain areas where more extensive evidence might otherwise be required.

The regulator's focus is expected to be on four core areas: whether the proposed business model is appropriate for a captive, whether governance arrangements are proportionate, whether sufficient financial resources are available and whether the captive will be able to meet its reporting obligations from the outset. Taken together, these proposals suggest that the authorisation process is intended to be significantly lighter than that typically associated with a traditional insurance start-up.

That said, the proposed four-to-six-week timeframe should be viewed with a degree of caution. While the commitment is welcome, it is contingent upon delivery of a "complete" application and so additional time should be factored in for this process (particularly for any "first movers"). In addition, the UK remains a dual-regulator jurisdiction and so authorisation will ultimately depend on coordination between both the PRA and FCA, something that competing captive domiciles with a single regulator do not need to manage.

Overall, however, the proposed authorisation framework is one of the strongest aspects of the consultation. If the PRA and FCA can deliver the proposed timelines in practice, the UK should compare favourably with many established captive markets.

- **Capital Requirements**

The proposed capital framework creates a genuinely captive-specific regime rather than simply simplifying Solvency UK. Instead of applying the complex risk-based capital calculations that apply to commercial insurers, CP11/26 introduces a bespoke Captive Capital Requirement (CCR). The CCR would be calculated as the higher of 10% of net written premiums; or 10% of net insurance liabilities, subject to a minimum capital requirement of £100,000. This approach avoids the complexity associated with Solvency UK capital modelling while still ensuring that captives hold capital that is proportionate to the risks they assume.

The proposals also provide a degree of flexibility in how capital can be structured. The £100,000 minimum requirement must be met entirely through paid-in Tier 1 capital, including ordinary share capital, share premium and retained earnings. However, capital above that threshold may be met using Tier 2 instruments in the form of letters of credit and parental or group support agreements. This is one of the most commercially significant elements of the consultation as many captive structures rely heavily on parental support rather than holding substantial amounts of liquid capital within the captive itself. Established captive jurisdictions have long recognised this reality. By allowing letters of credit and parental support agreements to qualify as regulatory capital, the PRA is aligning the UK framework with established market practice and removing a potential obstacle to entry for groups that prefer to manage capital centrally.

The proposals are not without safeguards, however. Any letter of credit or parental support agreement recognised as capital must be available on demand, legally binding, unconditional, irrevocable and free from rights of set-off. The intention is to ensure that these arrangements provide genuine financial support rather than merely creating the appearance of capital strength.

The PRA is also proposing to permit loan-back arrangements, under which the captive may lend funds back to its parent or wider group provided that regulatory capital requirements continue to be met. Again, this reflects how many captives operate in practice. Loan-back arrangements have been a common feature of captive structures in jurisdictions such as Bermuda and Guernsey for many years because they allow capital to be deployed efficiently across the corporate group while remaining available to support the captive if required. Their explicit recognition within the UK framework should therefore be welcomed by experienced captive owners and advisers.

Another notable aspect of the proposals is the PRA's relatively light-touch approach to capital management. Capital issuances, reductions and other capital movements will generally be monitored through annual reporting rather than requiring prior regulatory approval or notification in every case. This should provide captive owners with greater flexibility to manage their capital position without unnecessary regulatory intervention.

Taken as a whole, the capital framework is one of the strongest elements of CP11/26. It is simple, transparent and broadly consistent with international captive market practice. More importantly, it demonstrates that the PRA has engaged seriously with how captives actually operate.

Rather than transplanting Solvency UK concepts into a captive environment, the regulator has sought to develop a framework that reflects the realities of captive ownership, group support and risk financing.

- **Supervision and Reporting**

For many organisations, reporting obligations, governance requirements and supervisory engagement can be as significant as capital requirements when assessing the overall cost of a captive structure. CP11/26 attempts to address these concerns directly by introducing a much more proportionate supervisory model.

Under the proposals, UK captives would be classified as Category 4 firms, the lowest category within the PRA's supervisory framework. This reflects that captives generally do not present the same risks to policyholders or financial stability as commercial insurers. This is because, unlike large insurers operating across multiple markets and serving external customers, captives typically insure a limited and well-understood pool of risks within their own corporate group. As a result, the PRA proposes a proportionate supervisory approach that is portfolio-based, largely reactive, and data-driven.

In practice, this means supervision is expected to focus on indicators of emerging risks at a portfolio level rather than routine intensive engagement with firms. Supervisory intervention would be most likely where there are significant changes in capital position, ownership, governance arrangements or business activities, or where reporting suggests that a captive may be operating outside the scope of the regime. This approach is important because it signals that the PRA is prepared to supervise captives differently from traditional insurers rather than simply applying a lighter version of the existing framework.

The reporting requirements have been designed with the same philosophy in mind. Rather than requiring the extensive quantitative and qualitative reporting associated with Solvency UK, UK captives would submit a simplified annual regulatory return together with their audited statutory accounts. The return would be accounting standard-neutral and could therefore be prepared using either IFRS or UK GAAP.

The PRA is proposing that a number of familiar Solvency UK requirements simply will not apply to UK captives. In particular, captives would not be required to prepare quarterly regulatory returns. Nor would they be required to undertake an Own Risk and Solvency Assessment (ORSA), a process that can be resource-intensive even for relatively straightforward insurance businesses.

Similarly, captives would not need to maintain a dedicated actuarial function. While actuarial expertise will still need to be available where appropriate, the proposals recognise that many captives operate with lean internal teams and rely on external service providers or wider group resources.

However, in order to mitigate the risk of a lower degree of regulatory supervision, all captives, regardless of size, will be subject to an annual statutory audit. The PRA's rationale is understandable and reflects a desire to maintain an appropriate level of financial oversight. However, it does create an additional compliance cost that some competing jurisdictions do not impose on their smallest captive structures. Whether this proves material will depend on the size and complexity of the captive, but it is one of the few areas where the UK is arguably taking a more conservative approach than some established captive jurisdictions.

- **Dedicated Captive Teams**

Another notable feature of CP11/26 is the proposal to establish dedicated captive supervision teams within both the PRA and the FCA. This is a significant development as one of the recurring themes during the industry's engagement with government was that successful captive domiciles are often characterised not only by proportionate rules, but also by specialist regulators who understand how captives operate.

Bermuda and Guernsey, for example, have spent decades building supervisory teams with deep experience of captive insurance structures. Captive owners frequently point to the accessibility, responsiveness and commercial understanding of those regulators as one of the reasons those jurisdictions have remained attractive over time.

The PRA appears to have recognised the importance of this point. The consultation envisages dedicated captive teams within both regulators, with supervisory coordination led by the PRA. This should help develop specialist expertise and provide a clearer point of contact for captive owners, managers and advisers. The real test, however, will be the speed and scale of implementation.

- **Governance and Outsourcing**

The PRA has also taken a pragmatic approach to governance. While UK captives will be expected to meet core governance standards, the proposals recognise that captives are fundamentally different from commercial insurers and often operate with lean management structures, significant reliance on group functions and extensive use of third-party service providers.

The starting point is that UK captives will remain subject to the Senior Managers and Certification Regime (SM&CR). However, CP11/26 proposes a simplified approach that reflects the lower risk profile and narrower activities of captive insurers.

At a minimum, every UK captive will be required to have an SMF1 (Chief Executive) and at least one non-executive director. Beyond those requirements, the framework becomes considerably more flexible. Captives will need to assess whether an SMF3 (Executive Director) and an independent non-executive director (iNED) are necessary, taking into account the nature, scale and complexity of the captive's activities.

This is an important distinction. Rather than prescribing a detailed governance structure for all captives, the PRA is seeking to apply proportionality. Smaller captives with straightforward risk profiles may be able to operate with relatively simple governance arrangements, while larger or more complex structures would be expected to have additional oversight and challenge where appropriate. In addition, UK captives will not be required to maintain a management responsibilities map, a requirement that can be particularly burdensome for firms with relatively small management teams.

Importantly, however, proportionality should not be confused with an absence of governance expectations. The accompanying Supervisory Statement makes clear that the PRA expects captives to have effective oversight, clearly defined responsibilities and appropriate challenge at board level.

The Supervisory Statement also addresses the widespread use of captive managers and outsourced service providers. Many captives, particularly in established domiciles, operate with very limited internal staffing and rely on specialist managers for day-to-day administration, compliance and operational support.

The PRA makes clear that outsourcing is acceptable and expected in many cases. However, responsibility remains with the captive's board. Firms must retain sufficient oversight and understanding of outsourced activities and ensure that key functions continue to operate effectively.

Lastly, one of the most consequential aspects of CP26/29 is what the FCA has chosen not to apply. PRIN 12, which contains the Consumer Duty, is expressly disapplied in its entirety. The FCA's position is that the Consumer Duty is designed to protect retail customers and is incompatible with a captive structure restricted to group risks and large commercial counterparties. The complaints rules (DISP), the compensation sourcebook (COMP) and the Insurance Conduct of Business sourcebook (ICOBS), including the customer's best interests rule, similarly do not apply. For practitioners, this means captives sit entirely outside the UK's retail redress architecture. Consumer protection is achieved through the scope restrictions described above, not through the conduct framework.

- **PCCs**

Despite the breadth of the proposals, Protected Cell Companies (PCCs) are not included within the first phase of the regime. This is significant because PCCs are popular features of many successful captive jurisdictions. They allow multiple captive arrangements to operate through legally segregated cells within a single licensed entity, substantially reducing establishment and operating costs.

For many mid-market businesses, PCCs provide the most practical route into captive insurance. Bermuda, Guernsey and Cayman all offer PCC structures and have seen considerable take-up as a result. The PRA has committed to consulting on PCCs once enabling legislation is in place, but the timetable remains uncertain.

Similarly, group and association captives remain outside the scope of the initial regime. These structures have become increasingly popular in sectors with shared risk profiles and their absence limits the reach of the UK framework, at least in the short term.

Will the Regime Work in Practice?

The proposals are well designed, but the success of the regime will ultimately depend on execution rather than design alone. On paper, the framework addresses many of the concerns that have historically discouraged captive formation in the UK and it is very encouraging that the PRA and FCA have both clearly taken on board industry feedback.

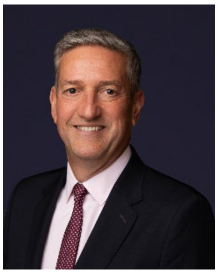
However, in order to become a successful captive domicile that can compete with the more established jurisdictions will require responsive regulators, specialist expertise and a practical understanding of how captives operate.

The strength of the existing insurance market in the UK (and in particular the London Market) puts the UK at a potentially significant advantage compared to other jurisdictions. However, the PRA and FCA will need to demonstrate that they can develop a captive-specific supervisory culture alongside the new framework.

The absence of PCCs and group captives from the first phase of the regime is a notable gap and may limit uptake among some parts of the market. The applicable tax regime including the treatment of captive premiums for deductibility purposes, transfer pricing or the interaction with the UK's controlled foreign company rules will also need to be assessed.

Nevertheless, the overall direction of travel is positive. For the first time, UK corporates are being offered a realistic domestic alternative to offshore captives. On a number of measures, the UK proposals compare favourably with the more established offshore domiciles. The proposed authorisation timeline and the recognition of letters of credit and parental support arrangements as capital both mirror long-standing Bermuda practice, while the tailored nature of the proposed regime compares well with the heavier Solvency II burdens that continue to apply in Ireland.

The consultations remain open until 14 October 2026, and stakeholders should engage with the remaining policy questions while the framework continues to develop.



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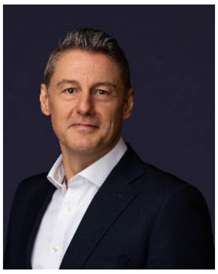

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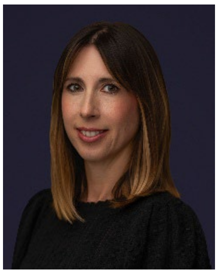

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