HM Treasury

Captive insurance

Consultation response

July 2025

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Chapter 1
Executive summary

1.1 In November 2024, the government launched a consultation on introducing a new framework for captive insurance companies. This was part of the government's wider strategy to support the growth and competitiveness of UK financial services sector, including the insurance sector.

1.2 The consultation received 42 responses. These primarily came from insurance industry firms, including trade bodies, insurers and insurance brokers. The government also received contributions from seven respondents who were not part of the insurance industry. These included responses from climate groups and also leaseholders. The government appreciates the valuable insights and feedback provided by all parties.

1.3 Responses from representatives of the insurance sector responded positively, expressing support for the high-level proposals outlined in the consultation, noting the importance of simplifying regulations and reducing capital requirements. However, the majority of insurance sector respondents wanted to go further than the scope we had proposed – to allow more types of firms to be permitted to set up a captive, and to allow more types of risk to be insured by them. Some stakeholders raised concerns about financial stability and the use of captives by fossil fuel companies, urging careful consideration.

1.4 Industry respondents maintained that introducing a new UK captive insurance framework would support the sector to grow and deliver wider economic benefits. Some respondents argued more detail about the new approach was required in order to offer a view on its impact. 13 respondents provided evidence to support this economic case, though the direct benefits of a new framework remain difficult to predict with certainty.

1.5 Following careful consideration of the consultation responses, the government, working closely with the financial regulators, intends to proceed with the introduction of a new UK captive insurance framework.

1.6 The government's view is that a new captive insurance framework will help cement the UK's position as a leading international jurisdiction for insurance and risk management business. Improving the UK's captive insurance offering can also support the government's wider aim to promote growth in the economy, both via expanding the range of insurance services that can be offered in the UK and also by giving businesses in the UK a greater range of risk management options.

1.7 The government is committed to establishing a genuinely competitive, bespoke captive insurance framework in the UK, and to do so in a way that balances speed of implementation with quality. To achieve this, the government will support the PRA and FCA in consulting on and introducing a comprehensive framework tailored specifically for captive insurers. The PRA and FCA will design this framework in line with their statutory objectives, including giving due consideration to their secondary growth and competitiveness objectives.

1.8 The government also acknowledges and agrees with the feedback from the majority of insurance sector respondents, who called for a broader scope than originally proposed—specifically, to allow a wider range of firms to establish captives and to permit a broader set of risks to be insured through them.

1.9 Detailed rules will be for the regulators to consider and establish. However, the government anticipates that these will include proportionately lower capital and reporting requirements and facilitating faster authorisations for captive insurers. The government's view is that these changes do not require new legislation.

1.10 The government does not intend to create a bespoke regulatory framework for captive managers, as it considers that the existing regulatory framework for insurance intermediaries is sufficient. The government anticipates that the FCA and PRA will consider how that framework can be tailored as they develop the wider regulatory approach.

1.11 The government also sees the case for broadening the range of companies who may be able to benefit from captive insurance arrangements. This could include smaller companies who may not wish, or have the means, to establish a standalone captive insurer, but who may prefer to establish a captive through a Protected Cell Company (PCC).

Next steps

1.12 The government is determined to proceed at pace.

1.13 The government understands that the PRA and FCA are developing policy proposals on captive insurance. The PRA intend to consult on new rules in summer 2026, with a view to implementing the new framework in mid-2027. The FCA's proposals will be developed and consulted on in parallel. The government will work closely with the PRA and FCA on these reforms.

1.14 As announced at Mansion House 2024, the government has been considering possible steps to improve the UK's insurance linked securities offer and has today published a consultation on these reforms[1]. The consultation seeks views on how the government can improve the wider regulatory framework for risk transformation, including the future role of PCCs and how they can be established to facilitate captive insurance business instead of risk transformation. The government expects that legislative changes will be necessary for this.

[1] www.gov.uk/government/publications/changes-to-the-risk-transformation-regulations

Chapter 2
Objectives and approach

Objectives

2.1 The consultation set out the government's broad objectives when considering ways to foster the growth of the UK captive insurance market. These were to:

- Maintain the UK's reputation as a vibrant, innovative, and internationally competitive insurance centre;
- Protect policyholders and consumers, and ensure the safety and soundness of firms in the UK's insurance sector;
- Support businesses to manage their risks, while maintaining their economic resilience; and
- Provide economic benefits to the UK.

Summary of responses

2.2 There was strong consensus among industry respondents that a competitive captive insurance framework, could support the government's stated objectives, helping to cement the UK's position as a world leading destination for risk management services and helping UK businesses better manage their risks. In addition, representations from industry emphasise strong appetite from prospective captive parent companies, who are increasingly seeking more flexible and cost-effective risk financing options based in the UK.

2.3 Responses from the insurance sector also noted that captives generally represented low levels of risk, both in terms of financial stability and in terms of policyholder protection (as a significant amount of business written by captives relates to first party risk only).

2.4 Some responses expressed concerns about specific risks:

- Two respondents suggested captives could be a source of increased risk in financial stability, particularly where capital and other regulatory requirements were lowered. They noted the potential taxpayer burdens that could arise if captive insurers failed.
- Four responses suggested captives encourage the use of fossil fuels, by allowing companies to insure risks at premium levels that do not reflect climate risk. They argued this could make projects and activities with negative climate impacts

more attractive, and damage the government's prospects of meeting its climate related goals.

- Finally, three responses raised the use of captive insurers in the leasehold housing sector, where managing agents or freeholds use overseas domiciled captives to insure their buildings. They expressed concerns around higher premiums for leaseholders (who are responsible for costs, but do not always have a choice in the placement of insurance) and conflicts of interest.

Government response

2.5 Having carefully considered the responses provided, the government confirms its objectives remain unchanged.

2.6 The government acknowledges the concerns expressed by some respondents about the use of captive insurance. It is important to note that there is an internationally competitive market for captive insurance domiciles globally, with many jurisdictions providing bespoke regimes for captive insurance companies.

2.7 In addition to the benefits from greater economic activity, the government sees value in future UK captives being subject to both appropriate conduct and prudential standards set by the UK's independent regulators, ensuring that such business would be overseen within the UK's established regulatory framework.

2.8 The government's view on exclusions and limitations to a new framework – including measures to manage risks to market participants and to financial stability – is set out in Chapter 4.

2.9 The government will continue to engage with the FCA and PRA to understand how these areas of concern can be taken into account during the design (and eventual supervision) of a UK captive insurance framework.

Approach

2.10 The consultation set out the government's view that, while detailed proposals would be for the PRA and FCA to determine, for the UK to become a more attractive place for captive insurers, there should be:

- Proportionately lower capital requirements for captive insurers;
- Reduced application and administration fees;
- A faster authorisation process; and
- Reduced ongoing reporting requirements, compared to those for insurers and reinsurers.

2.11 The government also set out its premise that tax incentives are not a necessary component of implementing a modern, competitive UK captive insurance approach, and that it did not anticipate providing tax incentives for captives.

Summary of responses

2.12 There was strong consensus among industry respondents on the necessity of simplifying regulatory processes, reducing capital requirements, and tailoring regulations to the unique risk profiles of captive insurers.

2.13 Respondents advocated for alignment with jurisdictions such as Guernsey, with two respondents suggesting a class-based regime similar to Bermuda's. They also emphasised the importance of reducing fees associated with captives to lower costs and highlighted the need for quicker approval processes. One respondent recommended appointing a dedicated case officer for each application. Regarding ongoing reporting requirements, two respondents called for proportional reporting, while another supported a framework that reflects the risk profiles of captives. Overall, there is a consensus for a tailored regulatory approach.

2.14 Eight respondents highlighted that although tax reform was not specifically addressed in the consultation, it would be a crucial area for the UK to focus on in order to maintain international competitiveness.

2.15 14 respondents highlighted that ensuring speed in the regulatory processes and flexibility within licencing structures would be the most important element for an effective regime.

Government response

2.16 The government acknowledges the strong consensus among industry respondents on the necessity of simplifying regulatory processes and reducing capital requirements to better reflect the risk profile of captives. The government understands that the FCA and PRA are supportive of these principles. The specifics of a new framework, such as determining the appropriate levels of reduction in capital requirements and the speed of regulatory processes, should be developed by the PRA and FCA in line with their objectives.

2.17 While the government recognises that some respondents considered that beneficial tax arrangements would help increase the attractiveness and international competitiveness of any UK captive insurance framework, the government remains of the view that tax incentives are not a necessary component of introducing a modern and competitive captive insurance framework.

Chapter 3
Types of captive

3.1 In its consultation, the government set out its view that any new captive framework should initially differentiate between two types of captive insurers:

- **Direct-writing captives:** A captive insurer that insures the risk of one or more of its group members; and
- **Reinsurance captives:** A captive insurer that reinsurers the risks of one or more of its group members.

Summary of responses

3.2 Responses to the consultation generally agreed that any new framework should differentiate between different types of captive. Respondents noted that having some sort of categorisation system would allow for more appropriate regulation tailored to the specific risks and functions of different captives.

3.3 There were different views on how this could be done. For instance, some respondents suggested focusing on the type of business engaged in by the parent company, rather than distinguishing between direct-writing and reinsurance. Another suggestion was to differentiate based on the types of risk underwritten, such as group risks versus third party.

3.4 However, 15 of 22 respondents to this question said that distinguishing between direct-writing and reinsurance captives would be an appropriate starting point.

3.5 Many respondents noted they expected to see greater limitations on the types of business that a direct-writing captive would be able to undertake (compared to a reinsurance captive, where the fully-authorised insurer fronting the risk would remain liable for any liabilities that arise).

3.6 11 respondents also noted the importance of allowing the framework to develop in the future, to allow a range of more diverse or complex captive insurance models. Some respondents suggested that further regulatory 'sandboxes' could be used as the framework develops, in order to encourage innovation.

Government response

3.7 The government remains of the view that the UK's framework for captive insurance companies should initially differentiate between two types of captive, direct-writing and reinsurance.

3.8 The PRA and the FCA will design and implement the detailed rules and processes for the application of such a framework. This will include considering the appropriate capital, reporting and other regulatory requirements for these different models of captive.

Chapter 4 Exclusions and limitations

4.1 The consultation set out that it may be appropriate to limit the use of captives for certain lines of insurance and by some businesses. This would simplify and speed up the implementation process while limiting risks to participants in the market, or to overall financial stability, arising from the failure of a captive.

4.2 The consultation also stated that for these and any other liability lines the PRA and FCA would be responsible for determining in future whether these could be covered by captives writing both direct and reinsurance bases; reinsurance basis only; or neither. The PRA and FCA would evaluate the appropriateness of such restrictions in line with their objectives.

Financial services firms

4.3 The consultation stated the government's view that regulated firms dealing with financial services and pensions (e.g. insurers, banking groups, pension funds and superfunds) should be excluded from establishing (and passing risk to) their own captives. This was intended to avoid regulatory arbitrage and minimise the potential for financial stability risks.

Summary of responses

4.4 Most respondents acknowledged the need for a nuanced, risk-based regulatory approach to maintain financial stability and to ensure that competitive advantages do not come at the cost of regulatory integrity.

4.5 Sixteen insurance industry respondents disagreed with the government's proposal to exclude financial services firms and questioned its rationale:

- Some argued that that captives help to enhance risk management. Placing risks into a captive insurance entity requires these risks to be quantified and capital held against them, which may be more advantageous from a risk management perspective than retaining risk without the support of insurance.

- Many noted that other international jurisdictions with active captive markets do not prohibit financial services firms from this activity, and instead manage any risks posed (e.g. with a clear regulatory perimeter that limits the type of risks financial services firms can place in a captive).

- Respondents also noted that many UK financial services firms already own and manage captives in overseas jurisdictions.

- The use of captives by financial services firms was also flagged by respondents as a growing area of the international captives market, so limiting this activity in the UK may also limit the internationally competitiveness and economic benefits of any new framework.

4.6 Six non-insurance industry respondents either supported the proposed limitations on lines of business for captives, or wanted to go further, expressing concerns about how the use of captive insurance might affect company behaviours on climate risk, or in the housing or education sectors.

Government response

4.7 The government remains committed to maximising the potential benefits of a new captive insurance framework while maintaining high regulatory standards.

4.8 The government has carefully considered the arguments presented and agrees that there is a case for allowing financial services to establish their own captives for specific, limited purposes (e.g. to manage first party only risks, such as a building owned by a firm). The PRA and FCA, acting in line with their respective objectives, will need to establish which risks are not suitable for financial services firms to place into a captive.

Life insurance

4.9 The consultation explained the government's view that UK-domiciled captives should not be able to write life insurance policies. These generally have long-term liabilities to third parties and require insurers to comply with a strong regulatory regime in order to deliver a high probability of being able to meet future claims.

Summary of responses

4.10 Respondents who answered this question generally acknowledged and agreed with the principle that captives benefitting from a different regulatory framework to fully authorised insurers should have an appropriate set of limitations on their activities. The majority of responses supported many life insurance risks not being included in the scope of any new framework.

4.11 However, several stakeholders did raise the issue of employee benefits and Group Life insurance products. These respondents noted that these were popular products for businesses to place into captive insurance vehicles globally. It was noted that these products do not typically represent the same long-term risk as other life insurance products.

Government response

4.12 The government acknowledges that certain life insurance products, such as Group Life fixed-term policies, may not have the same long-term liabilities (and associated risks) as other life insurance products, and agrees there is a case for permitting these to be written by captives.

4.13 Again, in order to allow specific, limited types of life insurance product to be covered by a captive insurer, the regulators will consider an appropriate scope for those captives – including particular risks that should be included in a revised regulatory framework.

Compulsory lines

4.14 The consultation also set out the government's view that captives should not be able to write compulsory lines of insurance, which is required by law or regulation (e.g. employer's liability or motor insurance). This was intended to protect third parties and preserve the integrity of the UK's compulsory insurance requirements. It was also to avoid a scenario where a new, bespoke framework for captives in the UK needed stricter regulatory oversight than might otherwise be the case.

Summary of responses

4.15 Two respondents agreed with the proposals to limit captives so that they would not be able to write compulsory lines of insurance. However, 16 of 23 respondents advocated for certain captives to be able to write compulsory lines of insurance.

4.16 These respondents noted that other international captive jurisdictions allow, with certain limitations, captives to provide cover for compulsory lines of insurance. Compulsory lines of insurance were also cited as popular risks for businesses to wish to place into a captive insurer. For example, employer's liability insurance was noted as a popular risk for firms to place in captives internationally.

4.17 In particular, respondents from the insurance sector generally argued that reinsurance captives providing cover for compulsory lines of insurance was a lower risk proposition. This is because the primary and fully authorised insurer (who directly writes the cover for the business which is then reinsured through the captive) remains liable for any liabilities that arise, even in the event of the captive's failure.

4.18 There was greater support for prohibiting the writing of compulsory lines on a direct-writing basis, where this additional protection does not exist.

4.19 Five respondents stated that there should be further limitations on the lines of insurance, specifically concerning climate and leasehold insurance

Government response

4.20 The government has carefully considered the responses on compulsory lines. It remains of the view that captives should be excluded from writing compulsory lines on a direct basis. However, it acknowledges that captives writing these lines on a reinsurance basis offers an additional level of protection, and agrees that this could be permitted.

4.21 The need for any specific rules and requirements for captives writing compulsory lines of insurance on a reinsurance basis will be considered by the PRA and FCA.

Chapter 5

Captive managers

5.1 The government's consultation set out two possible alternatives for the regulation of captive managers. The first option was to utilise the existing regulatory regime for insurance intermediaries as is the current approach for broking firms whose activities extend to captive management. The second, which had been suggested in some representations to government, was to introduce a separate regulatory approach to captive managers.

5.2 Utilising the existing regulatory regime for insurance intermediaries was the government's preferred option. The government felt that introducing a new regulatory approach was disproportionate to the risk profile of captive businesses. Using the existing regulatory regime should also make that the process of implementing a new approach to captive insurance faster.

Summary of responses

5.3 Respondents had differing opinions on the regulation of captive managers. 12 of 22 respondents believed that changes to the current regime, particularly a simplified authorisation processes, would benefit a prospective new UK captive market. They argued that the regulator could rely on the existing authorisation processes to ensure the manager's competence.

5.4 Conversely, six respondents also outlined that a new regime would be useful to align the captive insurance approach with international regimes.

5.5 Additionally, three respondents suggested that fossil fuel projects, in particular, should be subject to higher reporting requirements. Meanwhile, two respondents indicated that they had no comment on this question.

Government response

5.6 The government appreciates the valuable feedback received regarding the regulation of captive managers. While the government acknowledges views outlined in consultation responses, the establishment of a new regulated activity is not considered necessary to achieve regulation of captive managers. The FCA is considering the application of the existing insurance intermediary regime for the authorisation and regulation of captive managers. It is anticipated that this will be implemented primarily through regulatory rules.

Chapter 6
Protected cell companies

6.1 In its consultation, the government sought views on whether any new UK approach to captive insurance should also allow captives to operate through protected cell companies (PCCs).

6.2 The government was also interested in understanding whether this could provide a more viable route for smaller companies to access captive insurance, where they might otherwise be unable or unwilling to create a full captive insurer.

Summary of responses

6.3 Three respondents confirmed they did not have a view on this question. The remaining 17 respondents to this question supported the establishment of captive cells within the UK's PCC framework. Respondents noted that this structure would provide cost efficiency and flexibility, making it an attractive option for companies who may not otherwise be able to access captive insurance arrangements. They also stressed the importance of careful regulatory oversight to maintain the integrity of the PCC structure, to avoid compromising regulatory standards.

6.4 Responses received generally gave few details on how specifically stakeholders would like to see captive insurance fit within the UK's existing PCC regime. However, seven responses outlined that the current PCC regime could serve as a suitable foundation for developing the captive approach.

Government response

6.5 The government acknowledges the significant support for the inclusion of some form of captive insurance within the UK PCC regime and notes in particular the potential benefit that allowing 'captive cells' within the PCC regime might bring for smaller businesses. This may enable more businesses to utilise the UK's captive insurance market, thus increasing economic benefits, while also helping a broader cross-section of businesses more effectively manage their risks.

6.6 The government has been considering possible wider reforms to the PCC framework as part of its work on improving the UK's insurance linked securities offer and has today published a consultation on potential reforms. The consultation seeks views on how the government can improve the wider regulatory framework for risk transformation, including the future role of PCCs and how they can be established to facilitate captive insurance business instead of risk transformation. The government expects that legislative changes will be necessary for this.

Chapter 7
Economic impacts

7.1 The consultation asked respondents for views on potential economic benefits a new approach to captive insurance might bring to the UK.

7.2 The government was seeking both qualitative and quantitative information on potential benefits. However, 27 respondents did not comment on economic considerations. The remaining respondents provided limited additional quantitative evidence for the potential benefits a new UK approach to captives could bring.

Summary of responses

7.3 11 respondents indicated that a clearer understanding of the UK's approach and its comparison to other jurisdictions would be needed to specify direct benefits.

7.4 While there may be several hundred firms who could in theory relocate or establish a captive in the UK, actual numbers are likely to be smaller. For example, France’s new framework attracted 20 captives in its first 18 months, and Alberta 20 in the first two years. Both are perceived to be successful domiciles.

7.5 Respondents noted that there are many jurisdictions competing for captive insurance business, many with well-established markets, and that the success of any UK framework would be down to how it competes internationally on issues such as capital requirements and regulatory responsiveness. Some respondents noted that the tax treatment was also an important factor for some captive owners when considering where to domicile.

7.6 13 respondents identified potential economic benefits from a UK captive insurance regime. They highlighted job creation (in captive management, actuarial, compliance and other roles), increased tax revenues, and greater innovation in UK insurance markets. One respondent emphasised that the UK's financial services expertise could make it an attractive location for captives, provided there is a competitive regulatory framework.

7.7 Eight respondents also noted potential indirect benefits to the UK economy. By offering a comprehensive suite of risk management services, the UK could attract and retain more insurance business internationally. Companies that manage risks and capital efficiently would become more resilient and productive. Pursuing reform to achieve these goals would signal the UK's openness to business, its evolving regulatory environment, and commitment to international competitiveness.

7.8 Three respondents expressed scepticism about how quickly a UK captives market could grow due to the competitive international captives market. Three further respondents pointed to economic successes in places like Bermuda, France and Vermont and cast some doubt on the UK's ability to replicate such regimes.

Government response

7.9 The government sought specific quantitative evidence for economic benefits to the UK. Although the responses were limited, in part due to the high-level nature of the policy set out in the consultation, the government considers that there is a clear case for proceeding with the creation and introduction of a new framework for captive insurance in the UK.

7.10 The creation of a captive insurance market in the UK has the potential to create jobs, generate additional insurance market-related activity in the UK, and provide UK businesses with a greater range of risk management options. This helps increase the economic resilience of UK businesses and is an enabler for growth. The PRA and FCA will consult on the detailed proposals for the new captive insurance framework. These consultations will include a cost-benefit analysis to ensure that changes to rules are effective and proportionate.

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This document can be downloaded from www.gov.uk

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