

# **Changes to the Risk Transformation Regulations Consultation**

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# Ministerial Foreword

*The UK is a natural home for complex and innovative mechanisms to transfer risk, with a long history and readily available experts and advisers. As more novel and extreme risks arise, so does the need for a robust and flexible insurance sector. The UK is well placed to support this rise in global uncertainty and in turn create economic growth in the UK.*

*This consultation focuses on opening up access to direct funding from investors in capital markets through insurance linked securities (ILS). This risk transformation activity provides insurers with an alternative route to increase their capacity to support risk across the wider economy. The consultation also follows up the commitment, as published today in the government's response to its captive insurance consultation, to propose a wider use of protected cell companies.*

*I have been pleased to see the Prudential Regulation Authority already consult on changes to their rules for accelerated ILS deals, more flexible funding methods and increasing the amount of activity a transformation vehicle can carry out.*

*Taken together with the ambitions set out in the government's Financial Services Growth and Competitiveness Strategy and Regulatory Action Plan for quicker approval decisions from regulators, I am confident we will deliver a more flexible, faster and less burdensome regulatory environment.*

**Emma Reynolds MP, Economic Secretary to the Treasury**

# Chapter 1

## Introduction

**1.1** The UK has a world-leading insurance sector that contributes significantly to the prosperity of the country. A key element is market participants having a range of risk transfer options to help them manage their risks. This consultation builds on the previous options created by the Risk Transformation Regulations to deliver a wider range of risk transfer options in the UK.

### Insurance linked securities

**1.2** Chapter 2 focuses on how insurers transform insurance risks into ILS and the vehicles used to do this. This activity spreads an insurer's risk and can finance writing new business. This helps to grow the size of the insurance sector, as well as providing an alternative asset class that can diversify well against more traditional financial assets. Both of these aspects support the government's ambition to grow the UK economy.

**1.3** A typical ILS deal involves an insurer, often known as the 'cedent' transferring specific risks to a transformation vehicle. The transformation vehicle then securitises this risk by issuing ILS to investors to raise sufficient capital to cover the risk transferred from the cedent. Investors receive a return on their investment minus any capital which has been retained to cover a crystallisation of risk.

**1.4** The global ILS market has grown significantly in recent years. This reflects both investors' growing understanding of the asset class and the importance to insurers of attracting new capital to support their coverage of an increasingly complex global risk landscape. As the market develops, it is expanding beyond its origins in property risks into areas in which the UK excels.

**1.5** Section 284A of the Financial Services and Markets Act 2000 (FSMA 2000) establishes the concept of a transformer vehicle in the UK. A transformer vehicle assumes risk from another undertaking (the cedent), fully funding its exposure to that risk by issuing investments where the repayment rights of the investors are subordinated to the obligations to the undertaking being covered. Article 13A of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 provides that insurance risk transformed by a transformer vehicle is a regulated activity.

**1.6** The Risk Transformation Regulations 2017 (RTR) set out further provisions on: (i) the authorisation and supervision of insurance risk

transformation; (ii) offers of investments by transformer vehicles; and (iii) the use of protected cell companies (PCCs).

**1.7** Transformer vehicles are subject to additional rules by their regulators, the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). These set out more detailed requirements on vehicles that they must meet to operate in the UK. This includes new rules needed as a result of the EU Commission Delegated Regulation on Solvency II being revoked in the UK on 31 December 2024.

**1.8** The government has received industry feedback that the existing legislative framework for risk transformation activity is holding back UK deals. This consultation examines how the regime can best be adapted to encourage innovation and dynamism within the UK's risk transformation market and better suit the balance between the regulators' rulebooks and legislation within the framework established in FSMA 2000.

## Captive insurance

**1.9** Chapter 3 focuses on enabling protected cell companies to operate as insurers. This would expand the range of risk management options available to businesses, particularly supporting those that lack the resources or appetite to set up a standalone captive insurer.

**1.10** Captive insurance involves the establishment of an insurance undertaking that provides insurance services to its parent or other members of the group. The government published a consultation response on captive insurance today, on 15 July 2025, that proposed enabling captive insurers to establish as protected cell companies. This reflects an appetite for businesses, particularly smaller enterprises, to be able to use PCCs for captive insurance.

## Responding to the consultation

### Who should respond

**1.11** The government welcomes views from insurance sector firms and providers of broader financial services. It also welcomes views from any other interested organisations and members of the public.

### How to respond

**1.12** Details of how to respond are set out in Chapter 5.

**1.13** The consultation period begins with the publication of this document and will last until midnight on 8 October 2025.

# Chapter 2

## Risk transformation

### Clarifying funding requirements

**2.1** Transformer vehicles having sufficient funding to cover all the risks they accept is an essential foundation of the regulatory regime for insurance risk transformation. The vehicles need to be able to pay out their obligations when an insured event occurs. Failing to do so would create additional, unexpected financial stress for the cedent and risks undermining users' confidence in the risk transformation regime. Having this funding in place at the outset differentiates transformer vehicles from traditional insurers and reinsurers authorised under article 10 of the Regulated Activities Order.

**2.2** A requirement for transformer vehicles to be 'fully funded' is included in section 284A FSMA 2000. Article 326 of Commission Delegated Regulation (EU) 2015/35 on Solvency II set out that to satisfy this condition:

- The assets of the vehicle are valued in accordance with the Solvency II directive.
- The vehicle has at all times assets the value of which is equal to or exceeds the total amount the vehicle is liable for including any expenses which it may incur (known as the aggregate maximum risk exposure) and the vehicle is able to pay the amounts it is liable for as they fall due.
- The proceeds of the financing mechanism are fully paid-in.

**2.3** Despite the Commission Delegated Regulation being removed from the UK statute book on 31 December 2024, the government continues to support a legislative requirement for transformer vehicles to have at all times assets that cover their aggregate maximum risk exposures and vehicles to be able to pay liabilities as they fall due.

**2.4** In recent years, the nature of the funding required in the market has changed. It is important the UK's regime can keep pace with such developments internationally. Limited recourse clauses have become commonplace. These ensure claims do not exceed the level of funding in a vehicle. Similarly, other jurisdictions have supported longer duration risk transfers; for example by permitting the discounting of liabilities in certain structures, subject to safeguards.

**2.5** This is why the government considers it appropriate for the PRA to have more flexibility than they were previously allowed to determine

how these funding requirements are met, including how assets are valued and the extent to which all funding must be fully paid in up front. Certain contingent assets can play an important role in funding vehicles on commercial terms agreeable to both cedents and investors, but add to the complexity and sometimes the risk of ILS deals. Examples could include the use of letters of credit, reinsurance and investor top-up commitments.

**2.6** The government plans to make any legislative changes required to allow the PRA more flexibility to make rules on appropriate funding options. As part of this, the government recognises the importance to the PRA's primary objectives of ensuring any changes do not undermine the effectiveness of the risk transfer and that firms' risk management practices remain appropriate. This includes the PRA's responsibilities in ensuring UK insurers ceding risk to transformer vehicles remain appropriately capitalised. The PRA will need to balance these risks with its secondary growth and competitiveness objective, which growth of the UK ILS industry would be consistent with.

## Opening up the market to non-insurers

**2.7** The UK is home to a range of businesses and institutions with sophisticated understandings of insurance risks and a need to access significant levels of insurance capacity. These parties are supported by leading broking and other advisory services. However, it is more burdensome for such parties to issue insurance linked securities than it is for insurers to do so.

**2.8** The activities of a vehicle are only regulated as insurance risk transformation within the scope of article 13A of the Regulated Activities Order when accepting risk from insurance or reinsurance undertakings. The assumption of risk from another type of undertaking would be a different regulated activity, such as effecting and carrying out contracts of insurance (article 10).

**2.9** The government proposes bringing within the scope of article 13A the assumption of risks from non-insurers. This would expand the risk mitigation options available to non-insurers, allowing them to engage directly with a transformer vehicle that carries out the regulated activity of insurance risk transformation. The government recognises that the PRA and FCA may look to introduce additional rules to mitigate potential arbitrage or conduct risks that could arise.

## Increasing flexibility at authorisation

**2.10** When authorising a new vehicle in the UK, regulation 7 of the RTR requires the PRA to incorporate a limitation on the scope of the regulated activities. While the PRA has this power for other types of approval (for example on banks and insurers), the approach on transformer vehicles is different in that it both requires the PRA to limit vehicles and simplifies the process the PRA must go through to do so.

**2.11** The PRA's application of this requirement results in approved vehicles being provided with a Scope of Permissions document that reflects the basis on which the vehicle is authorised. If a vehicle wishes to undertake activity outside of this scope, it must apply to the PRA for a Variation of Approval.

**2.12** The government is concerned that this approach excessively restricts innovation within the risk transformation sector. This is because those operating transformer vehicles may not necessarily be able to identify the full range of uses they may have for their vehicles at the point of application. To require them to undertake a new application, or repeated applications, could be a barrier to exploring new opportunities.

**2.13** Alternatively, the default approach under FSMA that is applied to other PRA-approved undertakings may be more appropriate for transformer vehicles. The government proposes removing the requirement on the PRA to incorporate a limitation on the scope of regulated activities in all cases. The PRA would retain the power under FSMA to introduce limitations.

## Extending the uses of cells in protected cell companies

**2.14** The PRA has recently introduced changes to its rules that allow transformer vehicles to enter into more than one contractual arrangement. In its view, this will facilitate a wider range of permissible deal structures and reduce administrative costs. For example, this could enable the tranching of risks into multiple layers catering to different investor preferences or simplify the renewal process for repeat business.

**2.15** However, the PRA's changes do not extend to the cells of protected cell companies as regulation 43 of RTR 2017 limits a cell to a single contractual arrangement from a single counterparty. The government is supportive of the PRA's change in approach and do not see a reason to treat a cell of a protected cell company differently to other types of transformer vehicle. As such, the government intends to remove this restriction to allow a cell of a PCC to assume risk from more than one undertaking and under more than one risk transformation transaction.

## Tax

**2.16** Risk transformation activity in the UK is subject to dedicated tax regulations: the Risk Transformation (Tax) Regulations 2017. The government recognises that the tax benefits transformer vehicles receive through these regulations are an essential element of the risk transformation regime. The government is committed to retaining these benefits, while recognising the importance of anti-avoidance tests that appropriately protect against abuse.

## Consultation questions

### Question 2.1

What would be the impact of these reforms on the use of the UK's risk transformation regime?

### Question 2.2

What impact will these reforms have on:

- (i) the UK's insurance sector; and
- (ii) the wider economy?

### Question 2.3

What additional risks could these reforms pose to policyholders (both of the UK insurers and reinsurers, and the transformer vehicle)?

### Question 2.4

What additional impact could these reforms have on the safety and soundness of UK insurers and of transformer vehicles?

### Question 2.5

Do you agree that it should be for the PRA to determine how transformer vehicle assets should be valued and the extent to which all funding should be fully paid-in?

### Question 2.6

Do you agree that the scope of the regulated activity of insurance risk transformation should be broadened to include the assumption of risk from non-insurers?

### Question 2.7

Do you agree that the requirement for the PRA to incorporate limitations on the scope of the regulated activities a transformer vehicle may carry out should be removed?

### Question 2.8

Do you agree that cells of a protected cell company should not be limited to a single contractual arrangement from a single counterparty?

# Chapter 3

## Protected cell companies as insurance undertakings

**3.1** Protected cell companies (PCCs) are bodies corporate, which provide for the strict segregation of assets and liabilities within a single company. Segregation is achieved by a core with linked cells, each having assets and liabilities segregated from the others. The core can create new cells without the need for additional regulatory approvals. This saves time and expense.

**3.2** Were PCCs able to operate as insurance undertakings, each cell could operate as a separate undertaking with segregated assets and liabilities, but with a single legal personality to facilitate authorisations. This could reduce the speed and costs of non-insurance businesses setting up captive insurers.

### Removing restriction on PCCs only being used for risk transformation

**3.3** Regulation 57 RTR 2017 prohibits PCCs from undertaking any activity which is not risk transformation or directly related to risk transformation. To undertake any other activity is a criminal offence. The government proposes removing this prohibition in part, to allow PCCs to effect and carry out contracts of insurance. It would remain the case that PCCs could not be established to undertake other financial services or wider activity. The result would be that PCCs could be established to operate as insurance undertakings or as risk transformers. While businesses may choose to establish their own PCC as a captive insurer, it would also be possible for a third party to establish a PCC with the different cells providing insurance services to different organisations.

**3.4** Establishing as a PCC may not be appropriate for all types of insurance undertaking. A PCC is a complex corporate structure suited to straightforward business models. Differentiating where a PCC structure would or would not be appropriate would be for the regulators to assess, likely taking into account aspects such as the application of capital and liquidity requirements, governance and risk

management rules and how the business would be wound up in the event of insolvency.

## Removing the requirement for PCC applications to include risk transformation

**3.5** PCCs currently operate under a single regulatory regime, reflecting that they are permitted only to undertake risk transformation activity. Permitting the authorisation of PCCs as insurance undertakings would result in some PCCs being approved to undertake risk transformation and others approved to effect and carry out contracts of insurance. Different regulatory requirements would apply to each regulated activity.

**3.6** Regulation 15 RTR 2017 requires that applications to register a PCC must include an application for permission to carry out the regulated activity of risk transformation. The government proposes removing this requirement to allow PCCs to be authorised either as insurers or risk transformers.

## Tax

**3.7** PCCs authorised as insurance undertakings would not be eligible for the tax benefits available for qualifying transformer vehicles. Their tax treatment would be aligned with that of that of insurance undertakings more generally. This may require tax legislation to achieve.

## Consultation questions

### Question 3.1

Do you consider that PCCs are an appropriate vehicle to carry out and effect contracts of insurance?

### Question 3.2

What other legislative changes would sufficiently facilitate PCCs being established for captive insurance?

### Question 3.3

Are there additional risks in extending the use of PCCs to insurance undertakings in general, without specific restrictions in legislation limiting its use to captive insurance?

### Question 3.4

Are there additional opportunities beyond captives in extending the use of PCCs to insurance undertakings in general?

# Chapter 4

## Summary of questions

### Risk transformation

Question 2.1: What would be the impact of these reforms on the use of the UK's risk transformation regime?

Question 2.2: What impact will these reforms have on (i) the UK's insurance sector; and (ii) the wider economy?

Question 2.3: What additional risks could these reforms pose to policyholders (both of the UK insurers and reinsurers, and the transformer vehicle)?

Question 2.4: What additional impact could these reforms have on the safety and soundness of UK insurers and of transformer vehicles?

Question 2.5: Do you agree that it should be for the PRA to determine how transformer vehicle assets should be valued and the extent to which all funding should be fully paid-in?

Question 2.6: Do you agree that the scope of the regulated activity of insurance risk transformation should be broadened to include the activities of transformer vehicles assumption of risk from non-insurers?

Question 2.7: Do you agree that the requirement for the PRA to incorporate limitations on the scope of the regulated activities a transformer vehicle may carry out should be removed?

Question 2.8: Do you agree that cells of a protected cell company should not be limited to a single contractual arrangement from a single counterparty?

### Protected cell companies as insurance undertakings

Question 3.1: Do you consider that PCCs are an appropriate vehicle to carry out and effect contracts of insurance?

Question 3.2: What other legislative changes would sufficiently facilitate PCCs being established for captive insurance?

Question 3.3: Are there additional risks in extending the use of PCCs to insurance undertakings in general, without specific restrictions in legislation limiting its use to captive insurance?

Question 3.4: Are there additional opportunities beyond captives in extending the use of PCCs to insurance undertakings in general?

# Chapter 5

## Disclosure

5.1 Please send responses to [risktransformationregulationsconsultation@hmtreasury.gov.uk](mailto:risktransformationregulationsconsultation@hmtreasury.gov.uk).

5.2 Following the consultation, the government will respond in the normal manner. The government will carefully consider responses, which will be important for informing policy development here.

### Processing of personal data

5.3 This section sets out how we will use your personal data and explains your relevant rights under the UK General Data Protection Regulation (UK GDPR). For the purposes of the UK GDPR, HM Treasury is the data controller for any personal data you provide in response to this consultation.

### Data subjects

5.4 The personal data we will collect relates to individuals responding to this consultation. These responses will come from a wide group of stakeholders with knowledge of a particular issue.

### The personal data we collect

5.5 The personal data will be collected through email submissions and are likely to include respondents' names, email addresses, their job titles, and opinions.

### How we will use the personal data

5.6 This personal data will only be processed for the purpose of obtaining opinions about government policies, proposals, or an issue of public interest.

5.7 Processing of this personal data is necessary to help us understand who has responded to this consultation and, in some cases, contact certain respondents to discuss their response.

5.8 HM Treasury will not include any personal data when publishing its response to this consultation.

### Lawful basis for processing the personal data

5.9 Article 6(1)(e) of the UK GDPR; the processing is necessary for the performance of a task we are carrying out in the public interest. This

task is consulting on the development of departmental policies or proposals to help us to develop effective government policies.

## Who will have access to the personal data

5.10 The personal data will only be made available to those with a legitimate need to see it as part of consultation process.

5.11 We sometimes conduct consultations in partnership with other agencies and government departments and, when we do this, it will be apparent from the consultation itself. For these joint consultations, personal data received in responses will be shared with these partner organisations in order for them to also understand who responded to the consultation.

5.12 For this consultation, responses will be shared with the PRA and the FCA, given they are responsible for the prudential regulation and conduct supervision of transformer vehicles and insurance undertakings, and are working closely with HM Treasury to consider this policy. Responses should clearly indicate where they do not wish for responses to be forwarded on to the PRA and FCA, or if they wish for their response to be anonymised.

5.13 As the personal data is stored on our IT infrastructure, it will be accessible to our IT service providers. They will only process this personal data for our purposes and in fulfilment with the contractual obligations they have with us.

## How long we hold the personal data for

5.14 We will retain the personal data until work on the consultation is complete and no longer needed.

5.15 Relevant rights, in relation to this activity are to:

- Request information about how we process your personal data and request a copy of it;
- Object to the processing of your personal data;
- Request that any inaccuracies in your personal data are rectified without delay;
- Request that your personal data are erased if there is no longer justification for them to be processed; and
- Complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data.

## How to submit a data subject access request (DSAR)

5.16 To request access to your personal data that HM Treasury holds, please email [dsar@hmtreasury.gov.uk](mailto:dsar@hmtreasury.gov.uk)

## Complaints

5.17 If you have concerns about HM Treasury's use of your personal data, please contact our Data Protection Officer (DPO) in the first instance at: [privacy@hmtreasury.gov.uk](mailto:privacy@hmtreasury.gov.uk)

5.18 If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner at [casework@ico.org.uk](mailto:casework@ico.org.uk) or via this website: <https://ico.org.uk/make-a-complaint>

## **HM Treasury contacts**

This document can be downloaded from [www.gov.uk](http://www.gov.uk)

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