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UK's Proposed New Captive Insurer Regime: Key Developments and Next Steps

Executive Summary

- **What is new:** The UK government has proposed a new regulatory framework for captive insurance companies, aiming to simplify regulations and enhance competitiveness in the financial services sector.
- **Why it matters:** The framework aims to reduce barriers to entry, provide proportionate oversight and deliver economic benefits, supporting businesses in managing risks whilst maintaining economic resilience.
- **What to do next:** Companies should monitor consultations by the PRA and FCA in summer 2026 and assess how the new framework may impact their risk management strategies.

On 15 July 2025, the UK government published its [response](#) to a November 2024 consultation (the Consultation Response), on a new regulatory framework for captive insurance companies.

At a speech at Mansion House on the same date, the Chancellor of the Exchequer, the Rt Hon Rachel Reeves, made reference to a number of planned regulatory reforms affecting the financial services industry. Whilst acknowledging that Britain is “the destination of choice for underwriting complex, specialised and high-value risk” the chancellor announced she was introducing a new competitive framework for captive insurance.

This initiative forms part of the UK's broader strategy to enhance the competitiveness of its financial services sector and to reinforce its position as a leading global insurance centre. The government's proposals aim to simplify the regulatory landscape for captives, reduce barriers to entry and provide proportionate oversight tailored to the unique risk profiles of captive insurers.

Objectives

The government's objectives for the new captive regime are to:

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

Proposed Regulatory Approach

The government's approach is to make the UK a more attractive domicile for captive insurers by introducing several key regulatory adjustments:

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- Proportionately lower capital requirements for captives, reflecting their risk profile.
- Reduced application and administration fees.
- Faster authorisation processes.
- Reduced ongoing reporting requirements compared to traditional insurers and reinsurers.

The government acknowledged there was strong consensus amongst industry respondents on the necessity of simplifying regulatory processes, reducing capital requirements and tailoring regulations to the unique risk profiles of captive insurers. The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) are supportive of these principles and will be responsible for designing and implementing the detailed rules.

Types of Captive

The framework will initially distinguish between:

- Direct-writing captives (insuring the risks of one or more group members); and
- Reinsurance captives (reinsuring the risks of one or more group members).

The PRA and FCA will determine the appropriate capital, reporting and other regulatory requirements for these models.

Limitations and Exclusions

Financial Services: The government's initial view was that regulated firms in financial services and pensions (*e.g.*, insurers, banking groups, pension funds and superfunds) generally should be excluded from establishing or passing risk to their own captives, to avoid regulatory arbitrage and financial stability risks. However, after reviewing responses from industry, the government has acknowledged exceptions may be made for specific, limited purposes (*e.g.*, managing first-party risks only, such as a building). It proposes that the PRA and FCA, acting in accordance with their respective objectives, will need to establish which risks are not suitable for financial services firms to place into a captive.

Life Insurance: The proposal was 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.

In the Consultation Response, 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. The appropriate scope of those captives will be considered by the PRA and FCA.

Compulsory Lines: The government's proposal is that captives should not be able to write compulsory lines of insurance business, such as motor or employers' liability. Post-consultation, it has refined its proposal that captives should be excluded from writing compulsory lines on a direct basis. The government now proposes that captives could be permitted to write these lines on a reinsurance basis, because this would offer an additional level of protection when compared to direct insurance of those lines.

Captive Managers

Consistent with the current approach, the government plans to utilise the existing regulatory regime for insurance intermediaries to authorise and regulate broking firms whose activities extend to captive management, rather than introduce a separate regulatory approach for 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.

Protected Cell Companies

There is strong support for incorporating captive insurance into the UK's Protected Cell Company (PCC) regime, particularly because allowing "captive cells" could make captive insurance more accessible to smaller businesses. This approach would enable a wider range of companies to benefit from the UK captive insurance market, potentially boosting economic activity and helping more businesses manage their risks effectively.

The government is actively exploring broader reforms to the PCC framework as part of efforts to enhance the UK's insurance-linked securities market. A consultation has been launched to gather views on improving the regulatory framework for risk transformation, including the future use of PCCs to support captive insurance business. The government anticipates that implementing these changes will require new legislation.

Economic Benefits

The creation of a UK captive insurance market is expected to generate jobs, increase insurance market activity, and provide UK businesses with enhanced risk management options, thereby supporting economic resilience and 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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Next Steps

The PRA intends to consult on new rules for the captive insurance framework in summer 2026, with implementation targeted for mid-2027. The FCA will develop and consult on its proposals in parallel. The government has confirmed that it will work closely with the PRA and FCA on these reforms. In turn, the regulators issued a [joint statement](#) on 15 July 2025 confirming their commitment to the project and echoing that consultations will be launched in the summer of 2026.

Conclusion

The adding of a proportionate, flexible, streamlined new UK captive insurer regime, as an additional toolkit for UK stakeholders, is to be welcomed. This leverages the UK's global leading re/insurance sector, and assists the UK to compete with other, more established captive regimes and new ones being introduced. We look forward, with keen interest, to observing how the proposals highlighted above will develop over time.