Skadden | The Standard Formula

July 29, 2026

If you have any questions regarding the matters discussed in this memorandum, please contact the following attorneys or call your regular Skadden contact.

Robert A. Chaplin
Partner / London
44.20.7519.7030
robert.chaplin@skadden.com

Feargal Ryan
Partner / London
44.20.7519.7262
feargal.ryan@skadden.com

Caroline C. Jaffer
Counsel / London
44.20.7519.7127
caroline.jaffer@skadden.com

Connor Williamson
Associate / London
44.20.7519.7295
connor.williamson@skadden.com

Jennifer Ho
Trainee Solicitor / London
44.20.7519.7236
jennifer.y.ho@skadden.com

One Manhattan West
New York, NY 10001
212.735.3000

22 Bishopsgate
London EC2N 4BQ
44.20.7519.7000

UK's PRA, FCA Offer Proposals on New Captive Insurance Regime for Consultation

Executive Summary

- **What's new:** On 14 July 2026, the UK's PRA and FCA published detailed proposals for a tailored UK captive insurance regime for consultation.
- **Why it matters:** The proposals would create a bespoke, proportionate and internationally competitive framework, separate from Solvency UK, designed to make the UK a more attractive domicile for captive insurers. Whether the regime succeeds in attracting captive formations to the UK will depend on a number of factors, including the PRA's supervisory approach in practice and, critically, the UK's tax treatment of captives relative to established domiciles such as Bermuda and the Cayman Islands — a factor the PRA itself acknowledges falls outside its remit.
- **What to do next:** Interested stakeholders should consider responding to the consultation by 14 October 2026 and engaging with the regulators before the regime launches in mid-2027. Organisations of all types should assess how the proposed new framework may benefit their risk management strategies.

Background

On 14 July 2026, the UK's Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) published Consultation Paper CP11/26 and Consultation Paper CP26/29, respectively, within which proposals, including draft rules, have been put forward for the introduction of a "tailored regime for captive insurance" in the UK (the Consultation Papers). This latest development largely tracks the proposed scope for such a regime as set out in HM Treasury's July 2025 consultation response, as we discussed in our 16 July 2025 client alert "UK's Proposed New Captive Insurer Regime: Key Developments and Next Steps," but with some important changes. The regulators' consultations are open until 14 October 2026.

The Consultation Papers recognise the benefits that ownership of captive insurers can have, including more cost-effective insurance coverage, direct access to reinsurance markets and providing coverage for risks that are, among other things, expensive to insure with traditional insurance and/or typically subject to significant exclusions. In addition, the Consultation Papers further acknowledge that, in comparison to "traditional" (re)insurers, captives generally pose lower risk to the regulators' objectives, including the objectives of promoting the safety and soundness of PRA-authorised persons and ensuring policyholder protection. Despite this, while the UK is one of the world's leading insurance markets, it does not currently have an appropriately tailored nor proportionate regime for captive insurers. More than 40% of FTSE 100 companies have captives domiciled in Guernsey alone, and there are currently no UK-headquartered captives authorised to write new business.

The 2026 Consultation Papers aim to address that by introducing a "separate, proportionate and tailored regime" for captive insurers. This regime will stand alone — bringing captives outside of the Solvency UK regime (which at present applies subject to only limited modifications). Accordingly, a dedicated section for captive insurers will be introduced into the PRA Rulebook, defining a "UK captive insurer" (UK Captive) as a distinct category of insurer, *i.e.*, separate from Solvency UK firms, third-country branch undertakings, nondirective insurers and mutuals.

Notably the current consultation covers only "single-parent captives," which are captives that are only permitted to insure or reinsure risks of their group entities and parties connected to their group. These are distinct from: (i) "group captives," which are owned by multiple groups that collectively pool risks; (ii) association captives, which are established by trade associations or professional bodies to insure members' risks, and (iii) protected cell companies (PCC), as further explained below.

The application of the regime to single-parent captives means the UK regime initially would be narrower in scope than those of some competitor jurisdictions, such as Bermuda in particular, which already permit group, association and PCC structures. However, the PRA proposes that a single captive will be able to write insurance business on both a direct and reinsurance basis (contrary to the position in HM Treasury's July 2025 consultation response), and intends to extend the regime to PCCs and potentially other structures in the future.

We expect that market participants will largely welcome these proposals, although the degree of uptake remains to be seen. In particular, the streamlined four-to-six-week authorisation process, the exclusion from Solvency UK, proportionately lower capital requirements and the flexible capital resources framework (including the ability to use letters of credit and parental support agreements) are features that align the UK with international norms and should make the regime attractive to prospective captive owners. Less positively, the initial restriction to single-parent captives, including the absence of PCC structures (pending legislation), and the lack of clarity on tax treatment may temper enthusiasm in the short term. We summarise the key proposals below.

UK Captives: What Are They and What Activities Will They Be Able to Carry On?

UK Captive

Under the PRA's proposed definition, a UK Captive is defined as "a firm (other than a mutual or a body corporate that is a wholly owned subsidiary with no share capital but limited by guarantee): (1) with a Part 4A permission to effect contracts of insurance or carry out contracts of insurance; (2) that is a subsidiary undertaking that is wholly owned by its parent undertaking, exclusively or together with one or more affiliated company in the parent undertaking's group; and (3) that is incorporated in the UK; the purpose of which is to provide insurance business in respect of risks of its group or certain wider undertakings only."

As mentioned above, this definition only captures single-parent, or "pure," captives. CP11/26 anticipates UK Captives will be established as companies limited by shares, rather than companies limited by guarantee. The PRA considers that the structure of companies limited by guarantee is not well suited for single-parent captives, noting that such structures (mutuals, for example) would be more appropriate for group and association captives.

The PRA proposes a single type of captive that can write insurance on both a direct and reinsurance basis. This is a notable change from HM Treasury's July 2025 consultation response, which envisaged separate direct and reinsurance captive types. The PRA's rationale for this approach is that it does not expect existing or prospective captive owners to operate several types of captives in order to write both types of business, meaning HM Treasury's original proposal would have been unduly limiting.

The group-linked nature of this definition also raises a practical question around the possibility of disposing of UK Captives in run-off to third parties. While there is no express prohibition on such a disposal, provided that PRA change in control approval is obtained, the definition requires the firm to be wholly owned by its parent and to insure risks of its group. A sale to an unrelated third party would therefore appear to mean that the entity no longer satisfies the definition, in turn becoming a "UK Solvency II firm" and being subject instead to the full Solvency UK framework (including significantly higher capital requirements). Given the active market for disposing of redundant captives to run-off houses in other jurisdictions, the PRA may wish to clarify this aspect of the regime.

Permitted Lines of Business

UK Captives would be permitted to write most general insurance lines on a direct or reinsurance basis. However, certain restrictions would apply:

- Compulsory lines of insurance (such as employer's liability and motor third-party liability) could only be written on a reinsurance basis. This would ensure that a primary insurer subject to the standard and more robust UK regime remains directly responsible for such claims.
- Employee benefits (including group life, group income protection, group critical illness and health/accident cover) similarly could only be written on a reinsurance basis, and only for employees of the parent and its group entities, not for non-group undertakings.
- Where a general insurance policy names individuals as beneficiaries (for example, certain directors' and officers' insurance covers, such as cover for claims made against

directors and officers in circumstances where no indemnity is provided by the company), the business must also be written on a reinsurance basis only.

- UK Captives would also not be permitted to write life insurance policies other than the employee benefits listed above, nor insurance to protect against investment risks. Pension products are also outside the scope of what UK Captives could insure, as the PRA considers pension products to be complex and therefore ought to be provided by traditional, more heavily regulated insurers.

Material Non-Group Undertakings

The PRA proposes to permit UK Captives to insure non-group undertakings with material contractual and financial relationships with the captive's group, where the insured exposure arises directly from those contractual arrangements. Such entities are referred to as "material non-group undertakings" (MNGU) within the Consultation Papers.

The PRA proposes permitting four types of non-group counterparties:

- **Owner-controlled insurance programmes (OCIPs):** OCIPs are centralised insurance programmes arranged by the owner of a major construction or infrastructure project to provide coverage for all parties working on the project, including the owner, the principal contractor and all tiers of subcontractors. When placed through a captive, the owner retains the underwriting risk, controls claims management and benefits from the programme's loss experience. OCIPs are typically used for large-scale projects (airports, highways, power stations, major commercial developments).
- **Minority stake ownerships (≥5%):** Where the captive's group holds a limited ownership interest of at least 5% but does not have control, significant influence or an ownership interest of 20% or more, the PRA considers there is sufficient alignment of interests to permit the UK Captive to insure the undertaking's risks. The PRA expects this structure to be particularly useful for facilitating insurance of joint ventures.
- **Suppliers:** The PRA recognises that suppliers are considered a vital component of industrial and commercial groups, especially in sectors with few alternative providers. The PRA considers that a UK Captive could be well-placed to underwrite the risks in a supplier's operations that could directly affect the group's business and result in significant financial impact, thereby helping to bolster supply chain resilience. The proposed definition covers direct suppliers only and excludes sub-contractors.
- **Franchisees:** Where brand and distribution are extended through franchise networks, the PRA acknowledges that a major incident at a franchisee can cause direct financial or reputational harm to the parent organisation. A franchisor's captive could manage these exposures by underwriting specific risks within a franchisee's operations that would directly affect the group.

The PRA also considers that allowing UK Captives to insure non-group entities may increase risks from a safety and soundness perspective and a policyholder protection perspective. To mitigate against these incremental risks, the PRA proposes several safeguards:

- **Volume cap:** The PRA proposes to limit total business written in respect of all MNGUs, other than OCIPs, to 10% of the UK Captive's overall business volume, based on the lower of net written premiums or net insurance liabilities for any given financial year. This restriction limits the extent of the additional risks that may arise through non-group exposures.
- **Financial Services Compensation Scheme (FSCS) limit:** The PRA considers that FSCS exposure is a strong indicator for impact on policyholders and the policyholder protection objective. The PRA proposes that UK Captives are permitted to insure MNGUs that have an annual turnover of under £1 million on a reinsurance basis only. Insurance of MNGUs with annual turnover in excess of £1 million is permitted on either a direct or a reinsurance basis.
- **Financial Ombudsman Service (FOS) eligibility:** UK Captives would be permitted to insure MNGUs that are eligible for the FOS, on a reinsurance basis only.

In practice, our expectation is that the latter two protections may prove challenging in the case of certain suppliers and franchisees,[1] given the level at which the thresholds are set. As such, if applicable, groups may wish to highlight this when responding to the Consultation Papers.

Authorisation Process

Like any insurance undertaking, a firm wishing to operate as a UK Captive would require PRA authorisation with the FCA's consent, and would therefore be dual-regulated. The PRA would take the lead on the authorisation process and coordinate with the FCA throughout. However, in contrast to the more typical insurance authorisation process that can take up to a year (if not longer), the PRA has confirmed that it intends to implement a more proportionate, streamlined and supportive authorisation process. In further detail:

- The PRA aims to determine complete applications within four to six weeks, although a longer review period may be required where an application is unusually complex, raises material issues or is precedent-setting. This does not include preliminary discussions or pre-application engagement (which is optional — see below).
- The PRA encourages early engagement and will provide support to applicants throughout the process. While preapplication engagement is entirely voluntary, the PRA considers that these engagements would help identify potential problems early, prevent unnecessary work and facilitate a faster assessment once a formal application is submitted.

[1] This is echoed in the "FSCS implications" section in CP11/26.

- The PRA proposes to use a streamlined application pack tailored to UK Captives covering four key areas:
  - Business model and risk profile (including a business plan, capital structure overview and evidence of capital).
  - Governance and ownership (including ownership structure, controller details, governance framework and source of funds).
  - Risk information (including underwriting strategy, reinsurance or fronting arrangements, outsourcing arrangements and a risk register).
  - Financial information (including audited financials of the parent and three-year financial projections for the captive).

The PRA considers that UK Captives would generally pose lower risks than other insurers and therefore proposes a correspondingly proportionate assessment approach, including more focused evidential requirements and, where appropriate, reliance on attestations.

Overall, the PRA has confirmed that its assessment would focus on whether the applicant has:

- A business model appropriate for a UK Captive with a clearly defined scope of business and counterparties.
- Governance, risk management and controls proportionate to its risk profile.
- Adequate financial resources.
- An ownership and control structure that does not impede effective supervision.
- The ability to produce credible regulatory reporting from authorisation.

Ongoing Prudential and Compliance Obligations

General Supervisory Approach

PRA proposes to classify UK Captives as Category 4 firms, which is the lowest categorisation of insurance firms based on their more limited potential to cause disruption to the UK financial system. With this classification, the PRA does not propose to apply the full risk element framework used for commercial insurers. Instead, supervisory activity would be calibrated to reflect the distinct size, complexity and risk profile of captives relative to commercial insurers.

Supervision will also be reactive, data-driven and trigger-based, in addition to being significantly less intensive than in the case for commercial insurers (and potentially lighter-touch than the PRA's model for supervising its smallest insurers). Under this approach, supervisory activity generally would be initiated only where there is evidence of potential risk. This may arise, for example, from material changes in reported financial metrics, notifications of changes in ownership, governance or business model, or indications that a firm may be operating outside the scope of its permissions.

The PRA considers this UK Captive-specific supervisory approach to be consistent with the proposed overall supervisory model, which places greater emphasis on the authorisation process and less reliance on ongoing firm-specific supervision. The PRA considers that this is appropriate given the intragroup nature of most captive risks, the limited exposure to third-party policyholders and the relative simplicity of captive business models compared to those of commercial insurers.

Prudential Requirements

UK Captives, as a distinct category of insurer, would be excluded from the Solvency UK framework entirely. Under the PRA's proposals, they would instead be subject to simpler and less onerous prudential requirements than those firms subject to Solvency UK.

The captive capital requirement (CCR) applicable to a UK Captive would be calculated by adding: (i) a baseline requirement of £100,000 to be met with Tier 1 capital resources; and (ii) if applicable, an additional capital requirement that can be met with Tier 1 or Tier 2 capital resources. Such 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. For the purposes of this calculation, "net" means after reinsurance, consistent with the proposals elsewhere in the paper on the regulatory balance sheet and the recognition of reinsurance. While these capital requirements are not especially onerous, the draft rules are explicit in requiring UK Captives to proactively consider whether, on a forward-looking basis, they should hold additional capital including by reference to their specific risk profile and business strategy. The PRA's approach on this aspect of the regime in practice could have a material impact on the overall proportionality of the regime as a whole.

As for capital resources, the PRA proposes a simplified two-tiered capital structure for UK Captives. Generally, Tier 1 capital would, consistent with Solvency UK, comprise high-quality paid-in capital only (*e.g.*, ordinary share capital, retained earnings) and be used to meet the baseline capital requirement and the additional CCR. More flexibility would be provided in Tier 2 capital, which would comprise contingent capital support in the form of letters of credit and parental/group support agreements, and could only be used to meet the additional CCR. The PRA did, however, note that letters of credit and parental support arrangements would only count as Tier 2 capital if certain conditions in the PRA rules were met. On this topic, the PRA has proposed a set of conditions to be included in the rules, such as the need for the letter of credit or parental support to be available on demand so that funds could be drawn down when the UK Captive needed to meet its obligations.

UK's PRA, FCA Offer Proposals on New Captive Insurance Regime for Consultation

Proposals have also been included for the valuation of assets and liabilities, the focus of which is again proportionality. Specific reserving requirements are not mentioned, but UK Captives must maintain financial resources to cover their liabilities (separate to the captive's capital requirement). One notable feature is that, in maintaining assets which are sufficient to cover the captive's liabilities, the regulatory values of assets would be as per the statutory valuation (with limited adjustments) negating the need to maintain a highly bespoke solvency balance sheet. The PRA also recognises that UK captives may use statutory values that differ from market-consistent approaches, but expects UK Captives to have regard, where relevant, to market conditions and other current financial information. The streamlined regulatory balance sheet would be included by UK Captives within its annual return to the PRA (see the "Reporting" section below).

Governance

The PRA intends to adopt an outcomes-focused approach to governance requirements for UK Captives, which is designed to be proportionate to the lower risk profile of captives. While captives are established to serve the risk management needs of their parent groups, boards should nevertheless not treat the interests of the parent as determinative where this would be inconsistent with the captive's safety and soundness or its ability to meet regulatory requirements. The PRA therefore places emphasis on effective board oversight, appropriate challenge, clear ownership of key risk and capital decisions, and senior accountability as mitigants.

Under the current Solvency UK requirements, UK Captives would be subject to at least three designated Senior Management Function (SMF) roles under the Senior Managers and Certification Regime. The PRA proposes to reduce this to a single mandatory SMF for UK Captives, the Chief Executive function (SMF1). The SMF1 would be the senior executive accountable for the overall management and conduct of the captive's business, including execution of board strategy, regulatory compliance and oversight of outsourced activities. The PRA notes, however, that in some cases it may also be appropriate to appoint an SMF3 (executive director), particularly where complexity warrants additional operational decision-making capability.

The PRA also proposes that the board of a UK Captive must include at least one non-executive director (NED). This is on the basis that the presence of a group-affiliated NED can support effective oversight by improving understanding of the group context, highlighting how group decisions and incentives may affect the captive's prudential position and strengthening information flows and escalation. In addition, the PRA introduces an expectation that UK Captives appoint an independent NED (iNED) where this is proportionate to the nature, scale and risk profile of the firm.

Other governance policies, such as third-party arrangements, whistleblowing and internal audit, are also addressed in CP11/26.

Reporting

The PRA proposes the following reporting requirements, which are far less onerous compared to those for Solvency UK firms:

- UK Captives would be required to submit a streamlined annual regulatory return comprising: (i) basic company information; (ii) a simplified balance sheet with solvency calculations; (iii) a simplified profit-and-loss account at line-of-business level; and (iv) capital activity (including a declaration on whether the UK Captives complied with PRA's rules and expectations on capital resources throughout the reporting period).
- Full audited annual statutory accounts must be submitted.
- Regulatory returns would be required to be submitted alongside the annual audited accounts within 70 business days of their year-end and would be accounting-standard neutral.
- UK Captives would also be required to keep a record of capital activity[2] and compliance with PRA rules and expectations, and to provide this information regularly in their annual reporting templates.

Conduct and Systems and Controls

The FCA proposes a tailored conduct framework for UK Captives, with an overall approach that the high-level standards applying to conventional insurers would generally also apply to UK Captives, unless specifically disapplied or modified. The FCA's paper, CP26/29, concentrates on matters falling outside of the scope of the PRA's paper (*i.e.*, non-prudential considerations). Since captives are restricted to insuring group risks and closely connected parties, the FCA considers, however, that it can apply rules in a way that reflects this more limited scope.

Some key applicable rules are as follows:

- The FCA's Principles for Business (PRIN) would apply to UK Captives, with two notable exceptions: (1) PRIN 10 (protection of client assets) would not be relevant unless a captive held client assets and (2) importantly, PRIN 12 (Consumer Duty) would not apply to UK Captives, on the basis that the Consumer Duty is aimed at protecting retail customers and is not appropriate for the captive business model.
- Systems and Controls (SYSC) would apply to UK Captives on a targeted basis. The whole of SYSC 13 (operational risk: systems and controls) and SYSC 14 (prudential risk management and associated systems and controls for insurers) would apply in full. Relevant parts of SYSC 2 and 3 (senior management arrangements), SYSC 10 (conflicts of interest), SYSC 18 (whistleblowing) and SYSC 28 (knowledge, ability and good repute) would also apply, supplemented by new captive-specific rules and guidance setting out how these provisions are intended to operate in the context of a captive

[2] For example, share issuances and buybacks, and any additions, reductions or drawdowns of letters of credit, parental guarantees and loan-back arrangements.

UK's PRA, FCA Offer Proposals on New Captive Insurance Regime for Consultation

insurance business. SYSC 22-24 would apply as they are relevant to the SMF function of the captive. SYSC 25-26 would be disapplied.

- Conduct Rules (COCON) would apply to UK Captives, but individual conduct rules 4 and 6 — which deal with customers and retail customers, respectively — would not be relevant given the business limitations on captives. Conduct rules related to the Consumer Duty also would be disapplied.
- The Fit and Proper (FIT) sourcebook would apply to the SMF function holder(s) of the UK Captive.
- Threshold Conditions (COND) would apply in full. The FCA proposes to add guidance in the new SYSC section explaining that UK Captives must satisfy threshold conditions, including where the management of the captive insurance business is outsourced to captive managers — in which case the captive must demonstrate that the outsourcing arrangement enables the firm to continue meeting the threshold conditions.

Reflecting the captive business model, the FCA proposes to disapply a number of sourcebooks that are designed for consumer-facing or conventional insurance business, such as Insurance: Conduct of Business Sourcebook, Product Intervention and Product Governance Sourcebook, and Client Assets.

What the Consultation Papers Did Not Address

As detailed as these proposals are, there are several important topics that were not addressed in the formal proposals and remain subject to further development:

- **Protected cell companies (PCCs):** A PCC is a single legal entity comprising a "core" and legally distinct "cells." The core is responsible for the PCC's overall governance and administration, while the assets and liabilities of each cell are legally segregated from those of other cells and from the core. This segregation is intended to ensure that, in insolvency, the creditors of one cell have recourse only to the assets of that cell. While some captives in several domiciles are structured as PCCs, the PRA is still exploring, with HM Treasury, the development of legislation to enable PCCs to be established as insurers in the UK, which would allow the PRA to develop a framework for captive PCCs through modifications to the current proposed regime for single-parent captives.
- **Tax treatment:** The PRA recognises that the UK Captive regime would be influenced by considerations around the way tax frameworks operate in different jurisdictions, but concludes that this falls outside the PRA's remit.
- **Group and association captives:** Group and association captives are insurance undertakings owned and controlled by multiple policyholders, rather than a single corporate group. While the PRA has invited views on the inclusion of group and association captives in the UK Captive regime, this remains a longer-term proposition and the PRA did not make any formal proposals in this regard.

Conclusion

The 2026 Consultation Papers represent a significant milestone in establishing the UK as a competitive domicile for captive insurers. The proposals set out a proportionate, streamlined framework that is distinct from Solvency UK and designed to reflect the lower risk profile and limited scope of business typical of captive insurers. From a simplified authorisation process and reactive supervisory approach to tailored solvency requirements and reduced governance obligations, the regime is clearly intended to remove the barriers that have historically led UK corporates to establish captives overseas.

That said, the regime as currently proposed is limited to single-parent captives, and several important areas — including PCCs, group and association captives, and tax treatment — remain unresolved. Market participants should monitor these developments closely as the regime continues to take shape.

Overall, while we consider this to be a step in the right direction, we would be surprised should the regime attract non-UK groups to establish captives in the UK instead of in established domiciles (such as Bermuda and the Cayman Islands, in particular). That said, the UK benefits from proximity to established insurance and reinsurance markets, as well as deep professional services infrastructure, so for UK-headquartered groups, the advantage of a domestic domicile should not be understated (given, for example, such groups' inherent familiarity with the UK legal and regulatory system). Moreover, the PRA's own analysis indicates that the UK regime would compare favourably with international norms on capital, authorisation timing and supervisory responsiveness.

In our view, where captives are established in the UK, they are likely to almost always (if not entirely) be established by UK-headquartered groups which do not currently own a captive. The proposals do not seem significant enough in and of themselves to warrant non-UK groups choosing the UK, nor for UK groups with a current captive to undertake the process of re-domiciliation. Should this be something the UK government wishes to address in time, a bespoke tax regime for UK Captives may ultimately be required if the UK is to compete effectively with jurisdictions that offer well-established and favourable tax frameworks for captives.

Interested businesses should consider responding to the consultation by 14 October 2026 and engaging with the PRA and FCA ahead of the regime's anticipated launch in mid-2027. Companies that currently operate captives in other domiciles, or that have considered but not yet pursued a captive strategy, should assess whether the proposed UK framework may offer a more attractive alternative for their risk management needs.