

Client Alert: UK Captive Insurance Reform - Why Private Capital Should Be Paying Attention

September 24, 2026

Introduction

For years, the UK has been an anomaly.

Despite being a leading insurance hub, the UK has never developed a competitive regulatory regime for captive insurers. UK-headquartered corporate groups looking to retain risk have therefore typically established captives in other jurisdictions, primarily in Bermuda, Guernsey, and Luxembourg. According to [Guernsey Finance](#), more than 40% of FTSE 100 companies have captives domiciled in Guernsey alone. However, no captive insurers are currently established in the UK. The corresponding governance, advisory work, and – importantly – capital has been taken offshore.

This final point has increasingly become a priority for the UK. According to the FCA's own figures, the global captives market is fast-growing, with premiums of \$69 billion in 2021, projected to grow to \$161 billion by 2030. The UK parliament, and its regulators, are therefore proposing a new, bespoke regulatory framework that would encourage the establishment of local captives.

These proposed changes are contained in Consultation Papers published by the [FCA \(CP26/29\)](#) and [PRA \(CP11/26\)](#) on 14 July 2026, both entitled 'A tailored regime for captive insurance.' The regulators' parallel consultations will expire on 14 October 2026, with implementation expected in mid-2027.

Impact on Private Capital

The commentary on the UK's proposed captives regime has largely focused on the nature of the regulatory changes. However, an equally significant consideration is the potential benefit of a captive insurer to private equity sponsors.

As a general trend, captives have predominantly been established by multinational corporates with substantial and predictable insurance programmes.

However, captive insurance could represent an important risk-financing and capital-management tool for PE sponsors. As sponsors place greater emphasis on operational value creation, and the effective management of liquidity, financing, and enterprise risk across their portfolios, more cost-efficient ways of funding insurance risk could reduce expenses and improve profitability.

More specifically, the rationale for establishing a captive structure is as follows: the captive would enable the sponsor to retain primary layers of risk, which are often more predictable, whilst continuing to transfer larger and less predictable exposure to the commercial reinsurance markets. Over time, sponsors would accumulate more granular claims data, leading to better-informed underwriting decisions and greater control over programme design.

These benefits can translate into meaningful operational improvements across the investment lifecycle. Insurance costs directly affect portfolio company EBITDA, claims experience influences earnings volatility, and coverage availability can impact financing, acquisitions, and exit readiness.

The immediate opportunity may be clearest for larger portfolio company groups capable of supporting a captive on a standalone basis. A sponsor-wide arrangement covering otherwise separate portfolio companies raises additional questions under the proposed single-parent perimeter, as well as around ownership, allocation of risk and returns, financing arrangements, and exits. The PRA's proposed later work on group and association captives and protected cell structures may ultimately provide a more flexible route for portfolio-wide solutions.

Managing the Insurance Cycle

Insurance market conditions could also catalyse sponsors establishing their own captives.

Consistent with insurance markets in other jurisdictions, UK commercial insurance markets have undergone a pronounced pricing cycle in recent years. Following a sustained period of significant rate increases, the market has softened over a number of recent quarters. According to the [Marsh Global Insurance Market Index](#), UK composite rates declined by 8% in Q2 2026, the tenth consecutive quarter of rate decreases, with property down 11%, casualty down 3%, and financial and professional lines down 4% (the fifteenth consecutive quarterly decline).

The UK market is currently favourable to purchasers of commercial insurance. However, previous hard markets serve as a reminder of the financial exposure that corporates and sponsors face when relying solely on obtaining insurance via traditional means.

Captives can reduce reliance on market pricing cycles and allow underwriting results to be retained within the group, although the economics will depend on claims experience, fronting and reinsurance costs, operating expenses, and the capital required to support the captive. Establishing a captive is potentially most straightforward in a soft market: reinsurance capacity is easier to obtain, and the cost of ceding insurance risk is generally lower.

Captives could therefore become increasingly considered as another mechanism to improve capital efficiency, enhance risk visibility, and reduce long-term cost volatility due to cyclical hardening and softening markets.

The UK's Proposed Captives Regime

The consultation proposes a regulatory framework specifically designed for captive insurers. The regulators' proposals currently only relate to 'single parent' captives; captives that can only insure or reinsure risks of group entities and parties connected to the group. A second stage of the regime is anticipated, with the PRA seeking views on group and association captives in Chapter 13 of CP11/26. The provision of captive insurance through broader structures, such as protected cell companies, is also the subject of an initial call for views within the consultation, with a view to potential future policy development.

Among the headline proposals are:

- A streamlined authorisation process with a target assessment period of around 4 to 6 weeks for complete applications, compared with significantly longer timelines for Solvency UK insurers. Applications that are incomplete or lack key information on governance, ownership or financial resources would be returned without the assessment period commencing.
- A proportionate prudential regime distinct from Solvency UK, centred on a 'captive capital requirement' ("**CCR**") calculated as follows:
- a **baseline capital requirement** of **£100,000**, to be met with **Tier 1 capital** (i.e., high-quality paid-in capital such as ordinary share capital, share premium and retained earnings) only; plus

- an **additional capital requirement**, being the extent to which the higher of: (i) 10% of the captive's net written premiums; and (ii) 10% of the captive's net insurance liabilities, exceeds the baseline requirement. The additional capital requirement may be met with either Tier 1 or **Tier 2 capital**, including contingent capital instruments such as letters of credit and parental or group support agreements.

This prudential regime represents a significant reduction from the £2.4 million minimum capital requirement floor (or £1.2 million for captive reinsurers) applicable under Solvency UK. Boards are also expected to consider whether to hold capital above the CCR, given potential concentration in certain risks or novel coverages.

- Reduced governance requirements. The minimum governance requirement is for an approved **chief executive (SMF1)**, the only mandatory Senior Management Function, and a **non-executive director** to sit on the captive's board. The SMF1 would be the senior executive accountable for the overall management and conduct of the captive's business. More complex captives may need to appoint additional SMF1 holders or an executive director (SMF3) where additional operational decision-making capability is appropriate. Notably, an employee of a captive manager may hold the SMF1 role, provided fitness and propriety and conflicts of interest requirements are satisfied.
- Simplified reporting obligations, with limited annual quantitative templates based upon statutory reporting.
- A reactive supervisory approach, under which supervisory activity would generally be initiated only where there is evidence of potential risk (for example, from material changes in reported financial metrics, notifications of changes in ownership or governance, or indications that a firm may be operating outside the scope of its permissions).
- The FCA proposes to disapply certain material provisions of its Handbook in relation to captive insurers. In particular, captives would not be subject to: (i) the product oversight and governance requirements applicable to insurance products; (ii) the Insurance Conduct of Business Sourcebook; or (iii) the Consumer Duty. However, captive insurers would only be permitted to underwrite certain lines of business, such as compulsory lines and employee benefits, on a reinsurance basis.

Collectively, these measures are intended to make the UK a more credible alternative to established captive domiciles.

Whether these ultimately alter domicile decisions will depend on how the final rules compare with mature offshore regimes. It also remains to be seen whether corporate groups with existing captive arrangements would be prepared to accept the costs, timings and regulatory burden involved with seeking PRA authorisation under the nascent captive regime, and ensuring seamless insurance cover for group entities without duplicating insurance capital requirements in different jurisdictions.

However, the regulatory direction of travel is clear based upon the proposals published by the FCA and PRA, and the UK captives regime may be particularly attractive to sponsors looking to establish their own arrangements for the first time.

Opportunities Across the Investment Lifecycle

The reforms have potential implications well beyond insurance procurement:

1. **Acquisition**

Insurance diligence may extend beyond existing programmes to consider whether a target's risk profile supports a future captive strategy.

2. **Ownership**

Sponsors may assess whether multiple portfolio companies can benefit from coordinated insurance purchasing, enhanced claims analytics, or more sophisticated reinsurance arrangements.

3. **Exit**

The ownership and separation of the captive should be considered from the outset. On an exit, the parties will need to address the treatment of historic liabilities, reserves, and underwriting surplus, continued coverage and any regulatory approvals, particularly where the captive supports more than one business.

A More Proportionate Regulatory Approach

The consultation reflects a broader shift towards proportionate UK financial regulation. Recognising that captives have a different risk profile from commercial insurers, the regulators propose a tailored framework consistent with their competitiveness and growth objectives. For private capital, this should support more efficient capital deployment whilst maintaining appropriate prudential standards.

Next Steps

The consultations remain open until **14 October 2026**, with implementation anticipated during **mid-2027**.

Sponsors with portfolio companies that have material recurring insurance spend, reasonably predictable losses or persistent coverage constraints should consider an initial feasibility assessment. This should cover the actuarial case, regulatory perimeter, ownership and governance, tax and accounting treatment, capital requirements, and exit planning.

Proskauer has deep experience in navigating the interaction between private capital and insurance regulation. For further information, please contact, Andrew Wingfield (Partner) and Edward Lister (Special Regulatory Counsel).

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