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February 2025

Submission from Airmic

In response to HM Treasury's Captive Insurance Consultation of November 2024 – Chapter 4: Questions for respondents

1. ***What specific aspects of the existing insurance regulations (both prudential and conduct) do you consider need to change to encourage the establishment of UK captive insurers? Where you suggest changes, how might these impact on a) the level of protection offered to those who benefit from policies written by a captive or b) wider financial stability?***

For the UK to be a competitive captive jurisdiction, it must first recognise that captive insurers are distinct to commercial (re)insurers and regulate proportionately. As the insured entities and shareholders of the captive are part of the same corporate group, any risk to wider financial stability is significantly reduced.

In the captive scenario, the insured and insurer are working in partnership to increase financial resilience and improve risk management and mitigation. This produces more effective and capital-efficient risk financing programmes.

Based on Airmic's 2025 Captive Survey results, it is conservatively estimated Airmic members already spend more than £5.1bn in premium through their captives and hold more than £22.6bn in assets under management in captives domiciled around the world, demonstrating that this is a long-established, valued and trusted risk financing tool.

Being outside of the European Union (EU), and implementing Solvency UK, we have an opportunity to implement a UK-specific definition of a captive and a set of regulations that match the risk level.

It is inappropriate and burdensome for the regulation of captives to mirror that of commercial (re)insurers, which are operating as independent commercial ventures that exist to make profit from insurance business.

Many captive insurers target a break-even strategy and exist to serve the insurance needs of its wider group.

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Jurisdictions such as Bermuda and Singapore use a classification approach, which clearly defines what the captive is, and the types of risks it is permitted to hold. This provides regulatory transparency, certainty and clarity.

It is also helpful to set capital and reporting requirements specific to the risks written by the captive, which ensures a proportionate and tailored approach to regulatory supervision and authorisation.

These jurisdictions highlight that it is perfectly possible to have an insurance regulatory regime and a distinct regime for captives sitting alongside each other. Captives complement the commercial market and generally cannot exist without some form of commercial market support, primarily the provision of reinsurance.

Airmic believes that a regulatory approach based on an *agreed captive definition* is a key element in facilitating the consistent application of standards, which are transparent, proportionate and competitive, giving the regime the best chance to grow.

Airmic is in favour of a *class-based or graded regulatory regime for captives*, comparable to those in place in Bermuda and Singapore. By clearly outlining which types of captives and risks fall into which class or grade of captive, applicants would have a clear roadmap of which regulations would apply to their vehicle. It would increase transparency of regulation and simplify the implementation of the captive regime and ongoing monitoring of regulated entities by the Prudential Regulation Authority (PRA).

Having a clear captive definition and classifications in place should also streamline the application and regulatory approval process, so as to compete, match and better existing successful captive regimes. It is not uncommon for captive applications to be approved within one month once a full and complete application has been submitted.

On 16 January 2025, the Financial Conduct Authority (FCA) Chief Executive Nikhil Rathi wrote to the Prime Minister, Chancellor and the Secretary of State in a letter titled "A New Approach to Ensure Regulators and Regulations Support Growth."

Mr Rathi recognises that the process and speed with which firms are authorised can affect how quickly they "start up and grow". He commits to going further in increasing authorisation timelines, including providing a "dedicated case officer to every firm in our regulatory sandbox."

Airmic strongly recommends that applications under any new captive regime are provided a *dedicated case officer* to ensure the process is navigated as efficiently as possible. It would

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also benefit the FCA to have case officers gaining experience and visibility of multiple captive applications.

2. Do you agree with the approach of differentiating based on different types of captive? If not, are there alternative approaches that should be considered?

Many successful domiciles have multiple types of captive classes, which have differing regulations accordingly. In the United States, it is common for domiciles (individual states) to have upwards of six captive types (Pure, Group, Branch, Sponsored, Industrial Insureds, Special Purpose Financial Insurer, for example), but we believe this is unnecessary for the UK market. For a UK captive regime, simplifying this on the basis below would be beneficial to provide clearly defined options to potential applicants.

It would be useful to differentiate between *insurance* captives and *reinsurance* captives.

Airmic recommends the creation of a UK Reinsurance and Insurance Captive definition as this represents a very low risk to the wider financial system.

They only hold first party corporate risks, there are no third party or consumer risks within this form of captive. The only stakeholders at risk from these captives are the shareholders of the captive parent (and they are protected through corporate governance requirements), there are no consumer risks.

The International Association of Insurance Supervisors (IAIS) sets out that this form of reinsurance and insurance captive present little systemic risk to the wider financial system, and should therefore be regulated in a different and more proportionate way.

- **Reinsurance** is when a company is formed to only reinsure the risk of a parent company and/or its affiliates. Insurance is provided by a fronting company (usually a major global insurer), which then reinsures the risks of the captive. The benefit of this approach is that the captive is responsible to one party only, the insurer who is responsible for paying the claims (and is already regulated) and therefore there is *no risk to the wider financial system*.

- **Direct writing**, allowing the captive to write their own risks, would ensure the wider risk to the financial system is minimal given that the company is managing its own risks within the captive and capitalise appropriately.

This would give the UK the benefit of being attractive both to smaller captives (premiums of up to £10 million) who would favour the direct writing approach, as well as larger captives (premiums of £10 million-£1 billion) who tend to use a fronting arrangement with an insurer.

Airmic strongly believes that a UK Reinsurance Captive should also be permitted to reinsure International Employee Benefits programmes within the same captive as Property & Casualty (P&C) risks. Not only is this an important growth area for captives, meaning excluding Employee Benefits (EB) from UK captives would reduce its appeal, but businesses are increasingly using a captive strategy to finance improvements to the benefits and wellness programmes offered to employees. This is an important tool that supports other government objectives that include getting more staff back to work and increasing productivity, improving the health and wellness of the country generally, and providing more equitable benefits and improved access to healthcare.

Allowing P&C and EB risks to be reinsured into the same captive also improves diversification and produces more resilient captive reinsurance companies.

Many captive domiciles outside of the EU also allow a single captive to operate on both a reinsurance and direct writing insurance basis. This should be the ambition for a UK captive regime since it allows a captive to pursue different strategies depending on the lines of business and geographies in which it is writing.

If a *graded classification system* is also adopted, then additional categories could be facilitated that allow captives to write *Related Third-Party Business*. Examples of captive success stories in this area include telecommunications companies reinsuring mobile handset warranties, motor manufacturers reinsuring the motor policies of customers, or airlines/hospitality businesses reinsuring travel insurance sold to its customers.

Captives writing such programmes may require more regulatory scrutiny than those purely writing the group's own risk, and would require their own captive class. Airmic does not believe, however, that such risks should disqualify an insurer from being a captive, if it is also being used for first party risks of the corporate group.

Imperative to all of the above is the need for a consistent regulatory approach, which provides a 'safe haven' for captive (re)insurers. The world's most successful captive domiciles are stable jurisdictions that give regulated entities certainty and consistency.

Captive insurers are long-term risk financing strategies, and their utilisation is not dependent on commercial market cycles. How captives are used by their parent groups may change over time and respond to wider market movements, but their value and purpose remains. It is common for captives be held within the group for more than 20 years and beyond 50 years in some cases. Such long-term captives will have evolved in purpose over time and it is important a regulatory regime can permit changes to business model when appropriate and within scope of the licensing system.

3. ***How important would it be to ensure that further types of captive could be added in the future?***

From the outset there needs to be straightforward, responsive, fast and cost-effective regulation and servicing to reduce the barriers to entry.

Importantly the UK regulator does not need to reinvent the wheel, as their approach should be modelled on the most effective domicile approval processes available. Several US domiciles, plus established offshore jurisdictions, have clearly outlined, tested and defined application processes that could serve as a good model. Once captive managers and consultants are familiar with the process and expectations of the FCA, they will also serve as credible 'gatekeepers' that only bring the most appropriate and suited applications.

The early stage should be marked by simple captives which test the regulatory regime and service infrastructure to deliver a satisfactory outcome for the parent in a timely manner.

We would be happy to work with the regulators to identify some 'best in class' initial applications to ensure that the approval process works effectively, that applicants have a positive lived experience of the process and that the UK's reputation as a jurisdiction starts on the right track.

We would also be happy to work with the regulator on a simulation exercise to test a theoretical application, before the UK regime went live. This would allow us to jointly test the regulatory processes and identify any pinch points or areas for refinement prior to a live application entering the system.

Once the UK's reputation is established and simpler cases are working well, the framework can expand to encompass more of the sophisticated uses that the UK has pioneered in the insurance world.

A discrete 'sandbox' licensing system is used in some jurisdictions, like Bermuda, for captive insurers who wish to experiment in new technologies and/or provide innovative products, services and delivery mechanisms to a limited number of policyholders. The FCA's digital sandbox, a platform supporting small fintech's in experimentation and scaling for proof of concepts, achieved permanent status in August 2023, reflective of regulatory recognition of the effectiveness of these models in supporting and maintaining economic growth. Given the UK's precedents of the FCA 'sandbox'[1] and digital sandbox, the UK should also consider a 'sandbox' to accommodate innovative captive proposals. The legislative definition should include provisions to allow for this possibility.

4. ***Do you agree that regulated firms dealing with financial services and pensions should be excluded from setting up and passing risks to their own captive insurance companies?***

No. We believe that the exclusion of these types of organisations from the regime would have a significant gap and would be an outlier even to the most conservative of captive jurisdictions.

Given that many of these organisations already have a captive and would find a UK regime attractive, we would risk losing a considerable amount of future market share for no beneficial reason.

5. ***Do you see any circumstances where it might be beneficial to allow regulated financial firms to set up and pass risk to their own captives? Please explain why this would be the case.***

Yes. We do not see any reason why these firms should be excluded from a UK regime because (like any other company) the risks they are placing in the captive are shareholder risks, not customer risks, so there is no possibility of regulatory arbitrage.

The focus of regulatory activity should be based on the nature of the risks within the captive, not the sectoral nature of the captive owner.

Further, we are aware of a number of cases of companies (in varying industries)[2] utilising a captive in the context of their group pension scheme arrangements. These applications may be expected to continue and, whilst they may also be considered through The Pensions Regulator route, offer another potential beneficial use in a UK captive regime as part of companies' long-term pension investment management.

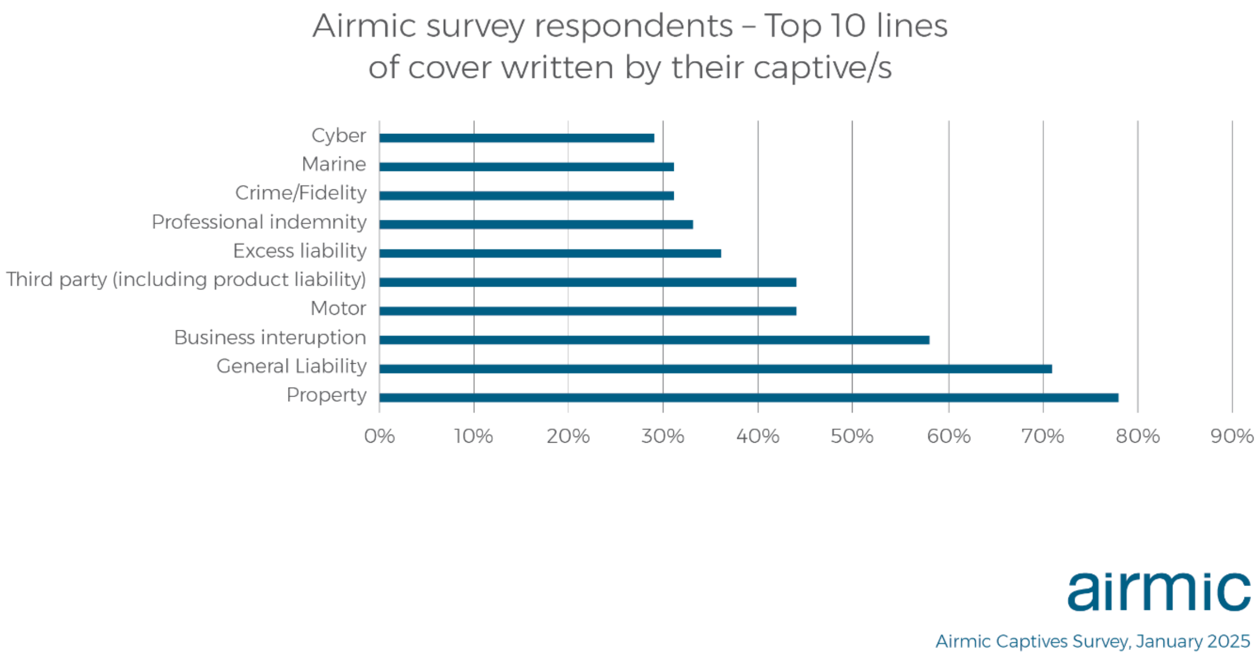
[1] FCA Regulatory Sandbox Homepage
[2] MMC UK pension gets £2bn longevity swap backed by Munich Re; Merchant Navy Ratings Pension Fund completed £450 million longevity swap; Guernsey Home To $16 Billion Longevity Risk Transfer Transaction.

6. Do you agree with the proposed limitations on what lines of business UK captives might be able to write?

No. For compulsory lines, it is common for captives to underwrite this business in multiple markets. In such cases, captives often partner with a fronting insurer (usually a large, rated multinational insurer, which is already a regulated entity) and then reinsure the risk. This provides additional comfort and security to policyholders and ensures a compliant solution.

Captives are utilised to write a wide range of insurance business, often designing bespoke policies for the unique needs of the parent group. A common unique selling proposition for captive solutions is providing insurance that the group is unable to attain in the commercial market. In this role, captives are key business enablers, drive economic activity and encourage growth.

According to Airmic's 2025 captive survey, our members write more than 30 lines of insurance plus bespoke policies.



For life insurance, the Government must be careful not to exclude captives from being able to reinsure the international employee benefits programmes of its employees. Employee benefits is a fast-growing area for captives, and there are numerous case studies of captives successfully reinsuring global employee benefits with a significant resulting uplift in coverage to employees. If the Government were to not allow employee benefits to be

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reinsured (via a fronting network) to a captive, it would become a significantly less appealing proposition.

We would caution HM Treasury to give fuller consideration to these proposed restrictions, to ensure that the competitiveness of a UK regime is not affected from the outset. There should be no restrictions on a UK captive holding first party Employer's Liability risk which has a fronting arrangement with an insurer or reinsurer.

There are well established regulatory controls, through capital requirements, which can be placed on the captive and additional reinsurance into the wider market through a fronting insurer, also provides additional protections.

It should also be recognised that many companies who do not have a captive are essentially self-insuring through their balance sheets. They are putting capital aside in case of a catastrophic event, with no regulatory requirements and often minimal internal controls. Having a captive in place brings with it proscribed governance procedures, a reserving process, proper actuarial controls and ring-fenced capital. It also offers the further protection of regulatory oversight by the PRA.

For example, most businesses seeking to create a captive will expect a jurisdiction to permit a captive to hold first party Employer's Liability policies. Even conservative regulatory regimes such as Singapore's allow for this, as do the vast majority of EU jurisdictions.

By permitting captives to write a variety of policies across lines of insurance, a captive's risks can be diversified, and the volatility of the captive's financial experience thereby reduced, through the statistical "risk portfolio effect". This is also achieved by including Employee Benefits risks in a captive.

If the Government is concerned about the potential failure of a captive, which could leave third parties with no insurance, then this is misplaced. There are numerous examples of companies failing, but their captive, when properly regulated, remaining solvent and in place to pay claims as they arise.

The highest profile and often discussed example of this in the captive market was when Enron filed for Chapter 11 in 2001. Its Vermont-domiciled captive[3], holding significant workers' compensation and other liabilities, continued to operate for many years after and paid all claims as they arose.

[3] **GCP #71: The Dave Provost exit interview**.

7. How should lines of insurance which may benefit third parties (directly or indirectly) be treated under any new approach to captive insurers?

Jurisdictions that allow first party Employer's Liability policies to be written by captive insurers are often more attractive to captive owners for several reasons. The ability to write Employer's Liability policies, typically associated with workers' compensation, adds a layer of flexibility and appeal to these jurisdictions, making them more favourable for businesses considering the formation of a captive insurance company.

This is particularly attractive to larger companies or those that are already self-insured for workers' compensation. These businesses are likely to have the scale and risk management expertise needed to operate a captive effectively, and writing Employer's Liability policies allows them to better align their insurance structure with their unique risk profile. Captives that write Employer's Liability policies can also access reinsurance markets to cover the excess risk associated with large or catastrophic claims. This gives captive owners a way to manage larger exposures while retaining the financial benefits of the captive structure and gives further reassurances to regulators that these risks are fully covered and being managed appropriately.

Jurisdictions such as Vermont**,** Bermuda and Guernsey provide the regulatory stability needed to allow captives to write Employer's Liability policies, including workers' compensation. These domiciles provide regulatory oversight to ensure solvency and as a result they are highly attractive to businesses that want to integrate Employer's Liability coverage into their broader risk management strategy.

In Vermont, Employer's Liability coverage, as a part of workers' compensation insurance, can be written by captives, but with additional regulatory protections in place that the insurer must comply with. This includes state-specific workers' compensation laws and regulations. The captive must demonstrate sufficient financial capacity to handle the potential liabilities associated with Employer's Liability policies. For captives offering Employer's Liability insurance, the state may impose additional scrutiny on their claims-paying ability, given the nature of workers' compensation claims, which can be significant.

Captives that offer Employer's Liability policies should also engage in reinsurance agreements to help manage risk, especially if the captive is assuming significant exposure. The Vermont regulator may assess the reinsurance arrangements to ensure they are adequate.

Similarly, a Composite Captive based in Singapore can hold Employer's Liability policies, including workers' compensation, as long as the captive meets the regulatory requirements established by the MAS. The MAS ensures that captives maintain adequate reserves and are able to cover potential claims, including those arising from Employer's Liability.

The Isle of Man Financial Services Authority also has clear definitions and guidance of what constitutes 'related parties' to be (re)insured by a Class 12 captive insurer in its regulatory regime. These definitions are particularly helpful in widening the scope of what employee benefits can be reinsured into a captive.

Related third party business, including the insurance of warranties for a group's customers, is another popular and successful utilisation of captives and any regulatory regime that can facilitate this would be more likely to attract formations. These policies are safe and secure because their success and viability is in the interests of the wider group and often deployed to increase customer engagement. A captive's involvement in customer insurance policies often leads to a better priced and better quality insurance produce, while enabling the objectives of the wider group.

8. ***How should captive managers be regulated for conduct and competence to ensure the robustness of the approach and encourage the growth of a UK captives market?***

We agree with HM Treasury's view that there is no need for additional regulatory requirements regarding "Captive Managers". Whatever information the regulators need can be accessed through the captive and its governance structures. The FCA's Senior Manager and Certification Regime (SMCR) already covers the activities of senior intermediaries and all the necessary activity that would be undertaken in relation to captives.

The shareholders of the captive owner are also protected by the governance structures, most notably the auditor of the captive, who will provide an objective assessment of the captive's financial statements, internal controls and financial reporting processes.

9. ***Should it be possible for businesses to establish a captive cell using the UK's protected cell company framework? What are the advantages, and risks of this approach?***

Yes. Cell captives are one of the fastest growing areas in captive insurance around the world, and allow middle market companies a lower barrier to entry to establish a captive. The UK is in an enviable position because it already has a Protected Cell Company (PCC) regime that could be opened up to captive business.

In the EU, currently only Malta has active PCC legislation, although both Luxembourg and now France have discussed its potential introduction.

If the UK was to permit captive business in PCCs, it would be the largest developed nation after the US to have such an offering.

Outside of the US, popular jurisdictions for captive cell business today are Guernsey, Bermuda, Cayman Islands, Malta and Gibraltar. Providing an onshore PCC option could be a game changer for the global captive market as well as the UK's own middle market.

PCCs offer a cost, capital and time efficient solution for companies. Operating costs can be 50% lower than single parent captives, and cells can be set up in days. The core manages the majority of the governance and regulatory requirements. For this reason, establishing a PCC cell reduces the regulatory burden, in comparison to a standalone captive.

Having this in the UK would build on the existing PCC legislation already in place in the UK since 2017. The advantages in terms of captives are:

- It is seen as an attractive prospect for smaller captives as the minimum capital requirements of the PCC is held centrally by the core, and each cell is only responsible for holding its own solvency capital.

- Since a PCC is a single legal entity, only one set of regulatory reports needs to be produced, which is done by the core on behalf of the cells, freeing up each cell from the time and expense required to prepare these reports.

- PCCs are often seen as a route to establishing a full captive insurance company in the future offering an evolutionary path for smaller captives to grow in the UK.

- It also offers the possibility of Group Captive structures, which are akin to mutuals. This allows different companies, often small and medium sized businesses, which can lack the scale and resources to form single-parent captives, to enjoy many of the same benefits by joining forces with other companies. This structure allows them to work together to form a captive but have their own cell within the PCC structure. Member-owned group captives are wholly owned and controlled by the participants and insure only the member companies that own the captive. A number of US captive jurisdictions are seeing significant growth in this market, and it would put the UK in a competitive position if it had the ability to offer this structure.

10. Would a new approach to captives, along the lines suggested in this consultation, make the UK a more attractive place to base a captive insurer? If not, what specific proposals would make the UK more attractive?

In regulatory terms, however, the Government should not start the process with an eye on exclusions, but on the opportunities. A UK captive regime should be appealing enough to attract UK and global business but not undermine the reputation of the UK as a trusted centre of excellence for financial services. A class-based captive regime, determined by the regulator, would set out a clear regulatory framework, without excluding appropriate business opportunities.

Core to the success of a UK captive regime will be an approach by the regulators that is designed and structured in a *balanced and proportionate* way, considering the reduced prudential risk assessment of the relevant captive vehicle. If the UK captive regime is to be internationally competitive it is imperative that the approval and supervisory regulatory processes are fit for purpose (rather than just the legal and regulatory framework).

If the UK regulatory approval process cannot match the timescales and user-friendly processes adopted by its competitor jurisdictions, it will fail.

Examples of what captive owners and managers expect are:

- **Reduced prudential risk assessments** – Which are based on the findings of the captive's feasibility report and the business plan which provide all the necessary detail on the arrangement between the captive and the fronting insurer. In our view, a key service provider that the UK regulators should rely on is the assessments of the captive's actuary, who is an integral part of the captive's business plan, because it is within the actuarial analysis that the critical stress-testing of initial liabilities to equity is best laid out.

- **A swifter approval process** – An approval process of three to four weeks from initial application would constitute a competitive timeline for captive authorisations, with the definition operating as an indication to both the regulator and applicants of the expected timescales for authorisation. This would mirror established practice in jurisdictions such as Vermont and Bermuda. A streamlined and proportionate approval process will build on the progress made by the FCA and PRA in reducing the "administrative burden for firms" and enable the UK to demonstrate its competitiveness as an attractive captive insurance market. We recommend that the PRA report to HM Treasury on compliance with this timeline.

- **Tailored capital requirements** – The approach taken to capital requirements will likely have a significant impact on whether the UK will be regarded as an attractive captive jurisdiction. The UK's approach to captive solvency should be appropriate to the nature, scale and complexity of the risks that captives face and feasible in practice for captives to comply with, taking into account the technical capacity required to manage their business effectively. The relatively simple captive structure (few insurance lines, limited investment portfolio, low number of transactions, etc.) should not work against a captive from a solvency perspective.

The UK captive regime should not seek to apply Solvency II capital requirements, but should adopt its own UK captive capital requirements under Solvency UK.

Many successful captive jurisdictions seek to retain flexibility on capital requirements. For the interests of simplicity, the UK could instead only set a minimum capital requirement for captives using a simple formula or an absolute monetary amount, as used in Vermont and Bermuda.

Vermont does not have a prescribed risk-based capital framework, but the minimum capital requirement for a pure captive is $250,000. The Commissioner of the Department of Financial Services Regulation in Vermont may prescribe additional capital and surplus based on the type, volume and nature of insurance business transacted.

The Bermuda Monetary Authority requires all captives to ensure that their business assets exceed their business liabilities by at least a “minimum margin of solvency.” For captive insurers carrying on general business, the minimum margin of solvency is calculated by reference to the greater of net written premiums and discounted loss reserves and other insurance reserves.

- **Reduced reporting requirements** – To ensure competitiveness, ongoing regulatory and reporting costs must be proportionate to the risk profile of that captive. The majority of successful captive jurisdictions require an annual return to the regulator. For example, the Monetary Authority of Singapore (MAS) undertakes extensive regulatory checks during the application process to satisfy itself of the robustness of the captive and activities. From then on, it maintains regulatory oversight by requesting an annual return which it can then scrutinise and, if required, act upon. This annual return includes financial statements, an actuarial report, a solvency margin report, details of reinsurance arrangements and updates on corporate governance, risk management and operational issues affecting the captive. There should also be an ability to rely on wider group functions such as auditing, etc. This would have wider economic benefits for the UK given that most of these services would be UK-based.

- **Minimal application and administration fees** – This would be another important element in ensuring that the UK regime was competitive with other jurisdictions.

There also needs to be investment in captive regulatory resources and promotion. The most successful domiciles have a dedicated captive regulatory unit and, while this may not be feasible from the start, the PRA should ensure sufficient capacity is available to respond to captive enquiries and applications in an expedited process.

A well-planned marketing campaign would be required to educate the risk and insurance community of the unique proposition offered by the UK. Most of the regulators/governments of other domiciles partner with captive trade associations and attend key conferences to promote the benefits of their domiciles to attract new captives, host captive conferences locally and advertise the benefits of their domiciles in relevant trade publications. These domiciles also issue press releases and follow-up interviews in the captive trade press announcing the establishment of new captives to publicise their domiciles.

There should be no additional premium taxes, outside of the insurance premium tax (IPT) already imposed on insurance procurement.

Exit routes

For captives to feel comfortable forming in a new jurisdiction, it is also important they have defined exit routes available in the event they wish to close down or restructure. This can be facilitated via mechanisms such as Loss Portfolio Transfers, Novations, and clear Re-Domiciliation processes.

While a UK regulatory regime should want captives to be long term residents, business objectives and strategy change and M&A at group level can leave a captive requiring restructuring or merging into a sister captive.

Applicants will want the comfort to know regulations exist that can permit such restructuring or moving the captive to a new domicile. Similarly, outlining a clear process to allow captives to redomicile *into* the UK should also be included.

Key to why Airmic believes the UK has a unique opportunity to offer a new and compelling captive environment – attractive to both domestic and international organisations – is the risk and insurance talent, infrastructure and experience already inherent in our financial services sector.

As previously noted, the UK is the largest commercial insurance market in the world. Captive insurance is a significant and growing part of that market, but the UK has no place at the table. Putting in place a regulatory regime that can harness and unleash existing talent, as well attract and nurture new talent, is an optimum outcome for the UK's financial services sector.

11. Are there further policy issues not covered in this consultation document that would need to be addressed in order to make a new approach to captives successful?

Successful domiciles are recognised as having skilled and experienced captive professionals within the regulator. The captive industry values experienced and consistent captive regulators as it fosters trusted engagement and speed of issue resolution. The UK regulators need to commit to both appropriate levels of staffing and expertise for the regime to be successful. Some newer captive domiciles have recruited experienced captive regulators from successful domiciles to support their entry in the captive market.

Examples of the creation of this expertise include:

- US State of Vermont – The Vermont Department of Financial Regulation includes a specialist Captive Insurance Division[4] led by a Deputy Commissioner, who reports directly to the Commissioner the most senior figure within the Department. Vermont has ranked as the number one captive domicile in the United States and as of 2022 became the top ranked captive insurance domicile in the world.

- US State of Texas – The Texas Department of Insurance (TDI) has appointed a captive insurance specialist[5] to support captive insurance oversight and related activities in the Texas captive insurance market. The TDI announced the appointment of captive specialist Robert Rudnai in 2022, who is undertaking a review of the captive process, seeking ways to streamline it. There are 76 captives in the state, with several more in the licensing process, with the total expected to be over 80 Texas-licensed captives by the end of the year. The amount of gross written premium flowing through Texas captives in 2022 was $11.7 billion.

[4] Vermont specialist Captive Insurance Division
[5] Texas captive insurance specialist

- France - The French regulator ACPR (*Autorité de Contrôle Prudentiel et de Résolution* – the Prudential Supervision and Resolution Authority) has published a guide to captive insurance in order to facilitate the preparation of applications. The guide sets out the main regulatory and prudential principles and information expected in the application in order to obtain approval as well as good practice case studies. Its objective is to give the companies concerned more visibility as to the points of attention of the ACPR, and to facilitate the processing of their applications for approval as soon as possible[6].

We would expect the PRA to issue guidance in the form of a supervisory statement on all the procedural application requirements, including placing all the relevant forms, processes, and document requirements on a maintained page on the PRA website.

The authorisation process under Part 4A of the Financial Services and Markets Act (FSMA) 2000 is a difficult route for applicants to navigate. To assist prospective new banks with this process, a 'New Bank Start-up Unit' was jointly launched by the PRA and FCA in 2016[7]. This was followed in 2020 by the 'New Insurer Start-up Unit' ("NISU")[8], which provides the process, information, and materials to be helpful for potential applicants so that all parties 'have an effective and efficient way of working together, and lead to an improved quality of application'.

New captives do not have recourse to the NISU. Given the merits of the NISU, we believe a similar but specific 'start-up' unit should be created to assist prospective UK captive applicants to navigate the PRA authorisation process.

Added to this we would strongly advise that there is a prominent individual who can act as a figurehead and advocate for the UK regime. They should have clear responsibility for the setting and policing of business and solvency standards consistent with recognised good practice, can drive responsiveness to the market and aid in the wider efforts to promote the UK's regulatory regime.

12. In your view, would introducing a specific UK captive insurance approach have positive or negative effects on the wider UK insurance market?

It will have positive effects. The UK is a global centre for risk transfer – a huge amount of captive expertise and experience is based here. A UK captive domicile will benefit the

[6] ACPR publishes guide for captives in France
[7] Joint FCA/PRA New Bank Start-up Unit
[8] Joint FCA/PRA New Insurer Start-up Unit

existing financial services ecosystem; London-based global brokers with extensive captive consulting experience, a range of local banking and asset management options and the reinsurance market. New business would be provided to these sectors and new jobs in captive management would be created, as decision making on the captive must be taken within the jurisdiction it is based.

Without the facility to domicile captive insurance companies, the UK's position as the global risk transfer centre is weakened. Global captive premium is projected to grow from $69bn in 2021 to $161bn by 2030. Generally, this is premium that leaves the commercial market of which the UK has the largest share. While introducing a captive regime should not be viewed as a protective measure, it does provide the UK with the opportunity to participate in this fast-growing and increasingly valued segment of the global corporate insurance market.

13. Do you agree with the figures set out above on the size of the potential market? Please provide any additional quantitative or qualitative information.

The December 2021 Insurance Sector Strategic Review commissioned by the States of Guernsey[9] provides some informative economic statistics. Whilst the value generated by captives is not specifically identified, as this segment represents the vast majority of the insurance sector, we believe the overall sector statistics remain relevant.

For 2019, Gross Value Added (which is equivalent to GDP) was £146mn, which represented £194,000 per worker. The social insurance and personal tax contributions (both set lower in Guernsey than in the UK) per worker were £6,700 and £13,400 respectively. We estimate the GVA per captive to be in the region of £195,000.

In October 2024, a policy paper by the University of Calgary[10] was published to consider the economic opportunities offered by a captive domicile in the Canadian province of Alberta.

It contained a summary of academic research and data which considered the value to an economy delivered by a captive regime, including from: Bermuda (Business Development Agency 2017), Vermont (Economic and Policy Resources 2019), Delaware (Delaware Department of Insurance 2016), North Carolina (Insurance Journal 2016), South Carolina (Holmes 2019) and Hawaii (Kurata, Towle and Shimamoto 2023), which measure the economic benefits of captives to their economies.

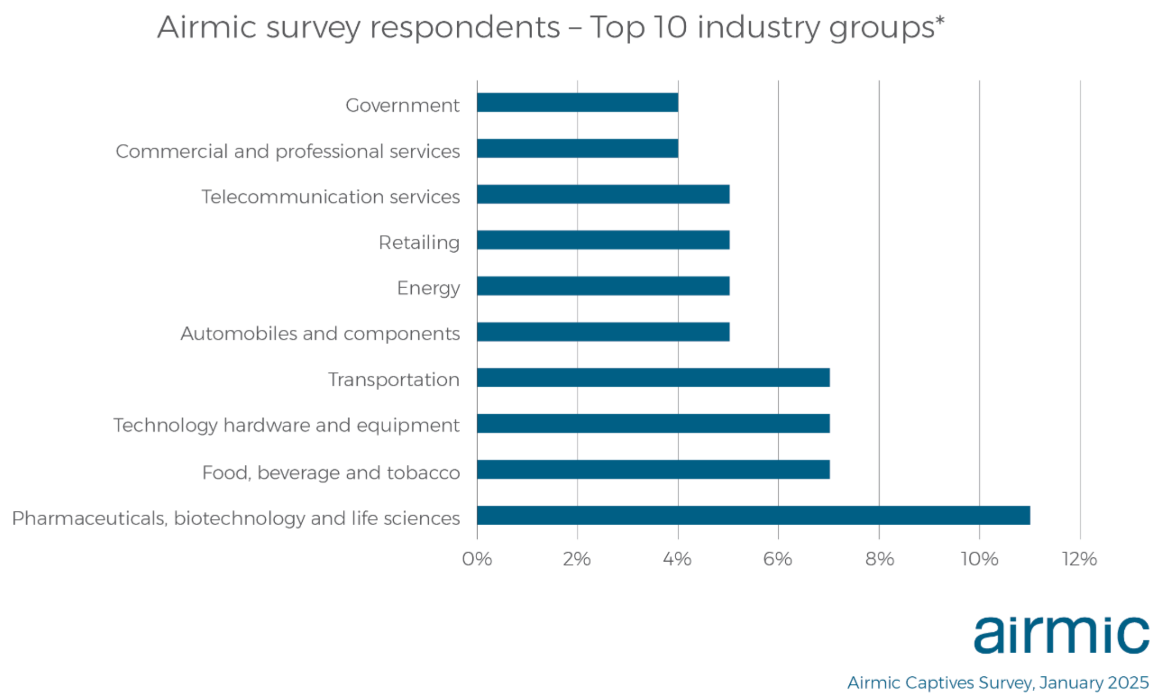
[9] Guernsey Insurance Sector Strategic Review 2021
[10] The Captive Insurance Opportunity in Alberta: Drivers of Success in Captive Domiciles

14. What sort of companies might be interested in establishing UK captives? Any further information on the potential pool of interested firms, or their specific needs, would be helpful.

In Airmic's 2025 Captive Survey, 75% of members who do not own a captive said their organisation is currently exploring or considering forming now or in the future.

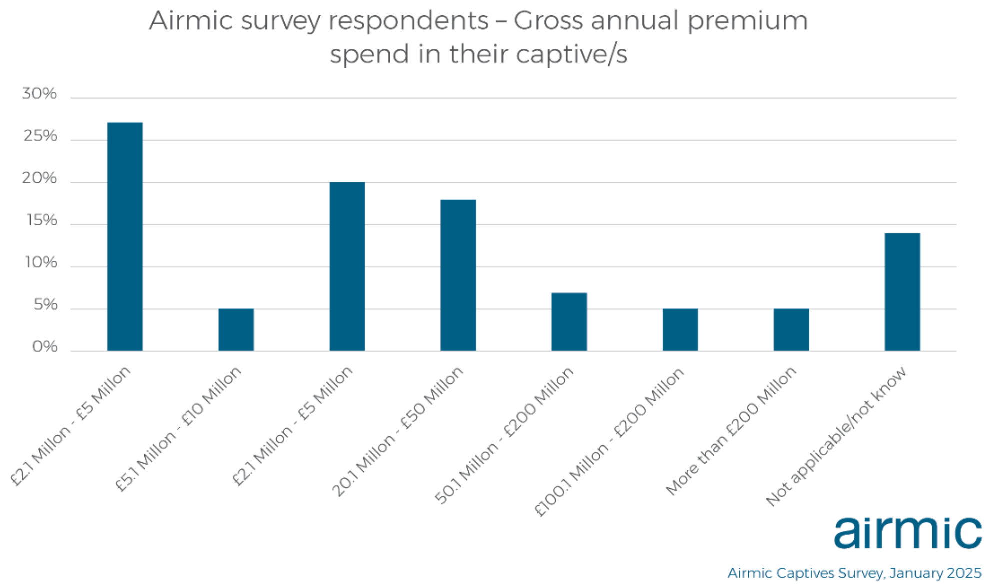
More than 75% of the FTSE 250 do not currently own a captive, while just over 50% of the FTSE 100 owns one. Captives are already well utilised by private UK companies and not-for-profit organisations, and there is room for further utilisation by this group too.

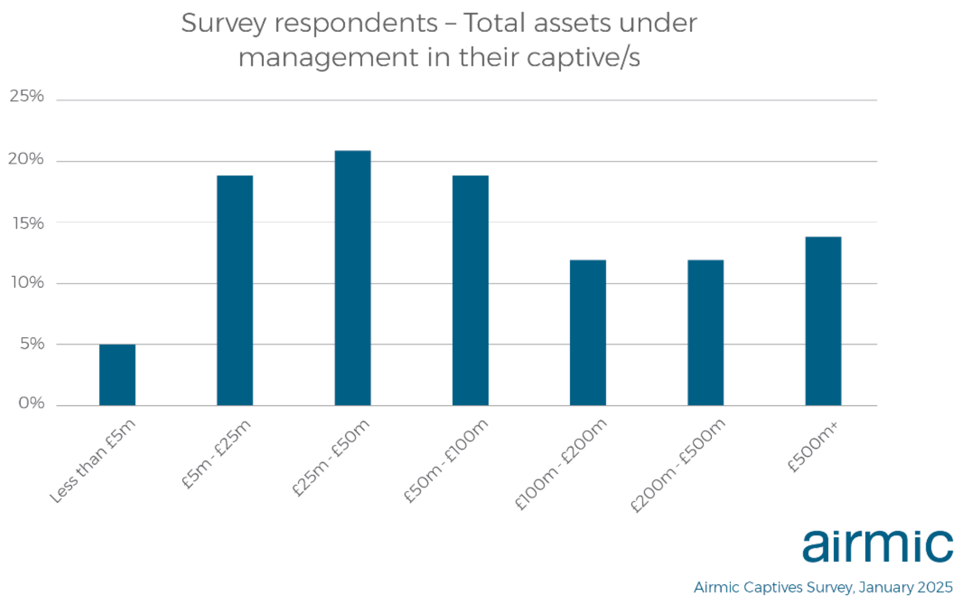
Captives are also utilised by a wide cross section of industries, as well as by not-for-profit organisations and public sector bodies.



When evaluating any list of potential UK captives, it is not just the absolute number of captives that is important, but also the size of the captives.

The results from Airmic's 2025 Captive Survey show that captives owned by our members range in size by annual premium and assets under management considerably.





There continues to be growth in the captives from UK-owned companies from which the UK currently gets no benefit:

- 305 captives worldwide owned by UK-headquartered businesses;
- 52% are domiciled in Guernsey, 12% in Isle of Man, 12% in Bermuda, 9% in Vermont, and 15% in other jurisdictions such as Singapore;

- UK-owned captives span 55 industry sectors and sub sectors;
- 48 new UK-owned captives have been formed since 2020[11].

Vermont, the global leader, licensed a total of 38 new captive insurance companies in 2023 and licensed 44 new captives in 2024. Vermont has licensed a total of 1,352 captive insurance companies to date.

After the introduction of captive regime, France licensed 10 captives in the first year. The last several years has shown that there is interest in captives from French companies of all types and sizes. There are new types of players: non-listed corporates, mid-sized companies, regional, family-owned businesses, that are interested in using this risk transfer tool onshore. In the UK, there are similar untapped markets.

Other European countries are also exploring introducing a captive regime – in the past 18 months, three Italian-owned reinsurance captives have re-domesticated back to Italy with the local risk management association, regulator and government currently discussing the introduction of a dedicated captive regime, while in Spain similar conversations are at an early stage.

There are nine captives already domiciled in Germany, despite no dedicated captive regulatory system being in place. The UK is at risk of being the only major European nation without a captive proposition, despite being the best suited 'destination domicile', due to it having the inherent insurance expertise, experience and infrastructure already in place.
In the Canadian province of Alberta, 20 new captives were licensed in the first two years.

UK-owned captives

Multinational or major domestic corporations often own captives writing material risks and holding significant capital and assets. For example, FTSE 100 companies possess sufficient scale to manage any additional regulatory and operations requirements a UK domiciled captive would demand. It is anticipated that some of these companies could be persuaded to establish a sister captive onshore as part of a multi captive strategy, or to remove reputational risk, demonstrate economic substance. Some large offshore captives may already have registered as a UK resident tax paying entity in response to OECD Base Erosion and Profit Shifting (BEPS) initiatives.

[11] Captive Intelligence Data Hub
*The list of industry groups used is based on the Global Industry Classification Standard (GICS), which Airmic adopts.

With the continuing changes to global tax rules and the introduction of the OECD's Pillar II requirements, the UK would be an attractive jurisdiction anyway.

The Pillar II changes are likely to result in captive owners potentially being taxed twice if they have a captive in an offshore location. This is due to the changes requiring them to pay tax on the profit of their captive before they can consolidate their businesses, after which they would then need to pay tax again. *If the captive was in the UK alongside the other elements of their business, they would be able to consolidate and pay tax once.*

The operating and governance requirements of these large captives are demanding, with many functions and services outsourced to service providers, often in the London Market. Reinsurance protection is often procured from the London Market using the expertise of UK brokers. The shareholder is closely involved in the setting of the captive strategy and regularly interacts with the management of the captive – all of which suggests to us there would be operating synergies if all management were to be carried out in UK.

Following Inland Revenue scrutiny as to compliance with OECD BEPS guidance, some of these mega captives have elected to be taxed as if a UK resident company. This can create governance challenges with the board having to meet in UK but underwriting and other insurance functions having to be performed in the captive domicile (to avoid being seen as conducting insurance business in the UK).

Again, there is a strong argument that a UK regime would allow for more efficient decision making by consolidating all activities in the UK.

This cohort could deliver considerable long-term potential. Current tough insurance market conditions are leading all organisations to increase their awareness of captive benefits and encourage new approaches to risk management in the UK, such as pooling of risk. There are approximately 350 UK organisations that display the suitable characteristics for captive expansion, based on risk profile, current constraints on risk management strategy and likely political and legal developments.

However, the UK would need to show that its captive regime is at least as good as the main competitor jurisdictions, and ideally must show additional benefits, such as regulator responsiveness and proportionate regulatory requirements. This is critical to providing the necessary incentive for a UK company to move an existing captive.

Encouraging new UK owned captives and captives from international organisations

We believe the potential for UK and international businesses to create new captives in the UK presents the best opportunity to grow the UK as a captive jurisdiction.

There has been a surge in interest and formation of captives over the past 12 months, with forecasts estimating 8,000 captives globally writing $50bn in premiums in 2024, according to research by Risk Management Advisors.[12] According to EY's 2024 Global Insurance Outlook Report, captives now represent nearly 25% of the overall commercial insurance market[13].

France's experience has been characterised not by French companies re-domiciling their existing captives, but the approval of new captives. Given the UK's strength as a leading global financial centre, we believe the biggest opportunity for market growth will also come from new captive creation.

Organisations seeking to create a captive will find the UK an attractive proposition given the increasing reputational risks of choosing an offshore jurisdiction, as well as broader environmental and sustainability considerations of travelling – often flying – to offshore locations for board meetings, etc. The UK can be a destination domicile providing a "one stop shop" service for new captive owners allowing them to undertake a wide range of business in one place.

For example, in our consultation with industry, it was suggested that many US and North American firms would give consideration to creating a UK-based captive given the strength of the UK's financial services eco-system.

We also see potential in encouraging Asian companies to locate their captive in the UK, given the latent potential of this market. Currently, only 5-6% of the 6,000 captives globally have parents headquartered in the Asia-Pacific region, compared with an 86% share from Europe and the US. With 40% of Fortune 500 companies headquartered in Asia, this region is certainly under served by existing jurisdictions and there is significant potential for growth[14]. This would also tie in well with the Government's wider trade ambitions to grow its links through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Association of Southeast Asian Nations (ASEAN) countries.

[12] 2024: A Milestone Year for Captive Insurance Growth
[13] EY Global Insurance Outlook 2024
[14] Appetite for captives increasing in Asian markets

15. The UK already is already a hub of insurance sector expertise and related ancillary services. What new job creation or relocation of existing roles could be expected should a new approach for UK captive insurers be introduced? Please provide any supporting evidence you may have.

With the creation of a UK captive regime, given the high levels of competition between providers, we would expect to see all the major providers of captive management services set up UK captive offices.

Also, currently there is no convenient way for US-based Fortune 1000 risks to spread risk effectively in multiple domiciles. Establishing the UK as a destination domicile would enable a second captive to be formed.

16. If captive insurers set up in the UK, would any additional investment flow into the UK? Please provide any evidence to support your answer.

There are a number of investment and growth benefits to a captive regime:

Premium flow

This represents the most immediate investment benefit. There continues to be a year-on year rise in global captive premium as existing captive owners invest increased premium into their existing vehicles and as new captives are formed. The UK is currently missing out on all of this premium investment. Choice of captive jurisdiction often drives other key insurance decisions by the captive owners and their captive managers. Without a UK regime, we are already seeing a further loss of premium in the direct insurance market.

With the growth of France's captive market, we are seeing more companies also place more premium in the French insurance market too. Singapore saw captive premium growth of 46 and more broadly Asia-based captives saw a 58% increase in premiums in 2022[15]. Luxembourg premiums increased by 36%, and North America premium increased by 15%[16]. Again, the only certainty is that the UK will continue to miss out on this increasing investment if no captive regime is created.

[15] Singapore sees captive growth from Asia parented companies
[16] Marsh's '2023 Captive Landscape' report

Capital

Many captives also hold significant amounts of capital. As discussed above, many UK captives currently based in overseas locations hold billions of capital. UK public sector captives also hold considerable capital that could be brought back on shore.

As an example, the Nuclear Decommissioning Authority's (NDA) captive (Rutherford Indemnity Ltd), which is currently based on Guernsey, holds £404mn in managed investments in order to allow it to provide insurance for assets and activities across the NDA estate. In the latest set of accounts, the net return on investments was £39mn[17].

Investment

Many of the most established captive specialists already have a significant presence within the UK, indeed the UK has some of the largest number of captive specialists, despite there being no captives.

Given that captive managers influence and drive other investment decisions in the jurisdiction we would expect to see renewed interest and use of the UK's insurance-linked securities (ILS) regime alongside its captive offer.

The specialist captive advisory and services community will play a significant role in the promotion of a UK captive regime. They regularly assess different jurisdictions on behalf of the captive owner and making recommendations about the most suitable location. Many of these advisory firms will also then take on day-to-day management responsibilities for the captive working closely with in-house risk managers to keep the jurisdiction under review. They will have a critical role to play in promoting the UK as a potential location for a captive with their clients. We would strongly advise that the Government works closely with this community to highlight the strengths and benefits of a UK captive regime. As the UK captive market matures, we would expect continued investment and growth from these advisory firms within their UK operations.

There would also be scope for the expansion of UK investment management services. For example, while many US businesses deal with the London Market for insurance and reinsurance support, very few deal with London/UK-based investment management firms. Increasingly successful investment management strategies will be based on those firms'

[17] Nuclear Decommissioning Authority Annual Report 2024, p177

understanding of the insurance risks insured in captives, particularly as respects asset allocation, timing, and duration. UK-based investment managers should be seen as strong potential investors in the captive domicile idea as a result.

Given the variety of skills required to manage captives – many of which on based on accounting, corporate governance and administrative skills – we do not envisage that all of these jobs would necessarily need to be based in London.

This offers the Government the opportunity – alongside its new policy of regional Investment Zones – to consider whether a regional centre for UK captive management could be encouraged. This market therefore has the potential to support an existing regional financial services centre such as Birmingham, Bristol or Leeds.

17. How else might a new approach to captives create costs or benefits in the UK economy? Please provide any specific examples, or quantitative or qualitative data to support this.

One of the softer, but very valuable benefits, of establishing a UK captive regime by the new Labour government is that it would sit squarely within the objectives of the Secondary International Competitiveness and Growth Objective (SICGO) introduced under FSMA 2023 and would serve to maintain and bolster the UK as an attractive destination for insurance business and investment.

There is also the question of other jurisdictions moving into this space. Since 2021 there has been a marked increase in international competition for captives in the EU, Middle East and other jurisdictions, with "proportionality" a key characteristic of a competitive captive regime.

Regulatory changes in the EU also offer scope for the UK to take a competitive edge. EIOPA's (the European Insurance and Occupational Pensions Authority) recent proportionality paper[18] proposes a revised framework that sets criteria for identifying small and non-complex insurers in relation to the nature, scale and complexity of their risks. Nonetheless, there is a growing perception in the market that EU captive jurisdictions are now having to change their approach in response to EIOPA's desire to have a consistent regulatory approach across all 27 members. This is resulting in EU regulators becoming less flexible and seeking more and disproportionate regulatory oversight of captive insurers. The UK's entry into the captive market will inevitably increase competition within the captive industry. If

[18] EIOPA Consultation Paper on technical advice on the implementation of a new proportionality framework under Solvency II

this trend in the EU continues, we expect firms that currently hold a captive in the EU to consider nearby jurisdictions such as the UK as an alternative location.

As discussed throughout this response, a proportionate supervisory regime is often a primary consideration for captive insurers when electing where to establish a captive entity (particularly with regards to day-to-day operations) and therefore also serves as a point of differentiation between competitor captive jurisdictions.

There is also a growing trend of captives being deployed and utilised to support its parent group's sustainability and Environmental, Social and Governance (ESG) initiatives. On 3 February, Minister for Development Anneliese Dodds told the London Stock Exchange the UK's financial services sector can put its expertise "at the heart of how we meet the opportunities and challenges of our time", including accelerating delivery of the UN's Sustainable Development Goals (SDGs).

In December 2022 Enel Insurance N.V. was the first captive to sign up to the UN's Principles for Sustainable Insurance (PSI), followed by Sonepar International Re and Odeon Insurance Re Pte Ltd in 2023.