

8 October 2026

Shoib Khan
Director of Insurance Supervision
Prudential Regulation Authority (PRA)
20 Moorgate
London EC2R 6DA

Sent via email to CP11_26@bankofengland.co.uk

Airmic response to PRA consultation CP11/26 – A tailored regime for captive insurance

Dear Shoib:

I am pleased to submit the enclosed response to the PRA's consultation paper on behalf of Airmic, the UK association for people who manage risk and insurance for their organisations. Many of our members own, manage or are considering a captive, and it is the captives of their organisations which this regime intends to bring onshore. We have engaged closely with the PRA throughout its development, including through the Subject Expert Groups, and we are grateful for the openness the PRA has shown to the industry.

The reaction has been strongly positive, and our members are optimistic that the PRA is on track to produce a compelling and competitive captive domicile for the UK. In almost all cases, we are seeking clarifications on the proposed rules, rather than a change of policy direction. Three themes recur throughout our response:

- (i) the need for clear guidance on how the regime applies to the (typically multinational) business of UK captive owners;
- (ii) whether specific restrictions represent permanent policy or a deliberately cautious "not right now" starting position that may evolve as the regime matures; and
- (iii) the importance of matters that sit outside the PRA's remit – principally tax and reserving treatment, and the pathway for re-domiciliation of existing overseas captives – to the ultimate success of the UK regime.

We recognise the PRA may understandably wish to leave some room in the interpretation of the rules, so that the regime is a flexible one. However, we believe it is this clarity that our members seek which will help them make the business case for their organisations to start a new captive in the UK, or redomicile their current ones.

I would like to thank your team for their responsiveness in engaging with us, which our members regard as a real point of competitive differentiation from other jurisdictions. As the regime moves towards

implementation, the real test will be how the rules and guidance are applied in practice. Airmic and its members stand ready to help and support the PRA, and we would be glad to discuss any aspect of our response or share further anonymised examples.

In relation to point 2.29 of the consultation paper, I consent to the PRA publishing my name and/or the name of Airmic, as a respondent to the consultation paper.

Kind regards,

A handwritten signature in black ink, appearing to read 'D Maxwell'.

Diane Maxwell
CEO
Airmic
Diane.Maxwell@airmic.com

Enc: Airmic response to PRA consultation CP11/26

Submission from Airmic

**Response to the Prudential Regulation Authority's Consultation Paper
CP11/26 – A tailored regime for captive insurance**

About this response

Airmic is the UK association for people who manage risk and insurance for their organisations. Our members include risk, insurance and governance professionals from across UK industry, commerce and the public sector, many of whom own, manage or are actively considering captive insurance vehicles.

Airmic welcomes the opportunity to respond to the Prudential Regulation Authority's (PRA) Consultation Paper CP11/26, 'A tailored regime for captive insurance', published on 14 July 2026. We have engaged closely with the PRA throughout the development of this regime, including through the PRA's subject expert groups, and we welcome the level of engagement the PRA have shown with industry to date.

How this submission was developed

Airmic's position in this submission has been formed from feedback gathered from its members through a series of the Airmic Captives Special Interest Group's (SIG) meetings in August and September 2026, convened specifically for the PRA's consultation paper and held under the Chatham House Rule.

The meetings included members who currently own and operate one or more captives – across domiciles including Guernsey, Cayman, Bermuda, Ireland and others – as well as members who do not and are currently "captive-curious".

They spanned sectors such as pharmaceuticals, automotive manufacturing, government-outsourced services, technology and professional services, together with captive management and advisory representatives.

Feedback was also gathered from written submissions from members to Airmic.

Overview

Airmic and its members are strongly positive about the proposals for the upcoming regime for captive insurance in the UK in the PRA's consultation paper.

The headline capital and authorisation proposals compare favourably with established captive domiciles, including Guernsey and Bermuda, and sit below the capital intensity of Solvency UK. Feedback from several members who had previously been sceptical about the UK as a captive domicile, or who had not previously engaged with this project, indicated that the consultation paper had changed their view – in Airmic's assessment, a meaningful indicator of the credibility of the proposals.

That said, we set out below questions and requests for clarification, which we consider would strengthen the regime further and reduce uncertainty for prospective applicants to the captive regime.

Three cross-cutting themes recur throughout:

- (iv) the need for clear guidance on how the regime applies to the (typically multinational) business of UK captive owners;
- (v) whether specific restrictions represent permanent policy or a deliberately cautious “not right now” starting position that may evolve as the regime matures; and
- (vi) the importance of matters that sit outside the PRA’s remit – principally tax and reserving treatment, and the pathway for re-domiciliation of existing overseas captives – to the ultimate success of the UK regime.

The current drafting of the material non-group undertaking rules is a determining factor in whether some major, existing offshore UK-parented captive relocates to the UK at all. This could determine whether the regime succeeds in attracting the kind of established, high-profile UK corporate captive owner it is intended to bring onshore. We set out the detail under Proposal 5 in Chapter 3 below.

Chapter 3: Scope and tailoring of the regime

Proposal 3: A single captive type (direct and reinsurance)

Airmic welcomes the PRA’s proposal to permit a single type of UK captive able to write both direct and reinsurance business (subject to the line-of-business restrictions discussed below), rather than requiring separate direct and reinsurance captive types. This reflects how our members use captives in other domiciles.

Proposal 4: Lines of business

Compulsory lines (paragraphs 3.15–3.16)

“The PRA considers that UK captives should be able to write compulsory lines of insurance on a reinsurance basis only.” (CP11/26, para 3.15)

On balance, existing captive owners were not opposed to this restriction, although views were mixed. Some of our members are ambivalent about whether compulsory UK lines – employers’ liability and motor third-party liability – had to be fronted, on the basis that fronting insurers already bring valuable claims-handling expertise and market access that some captives would struggle to replicate in-house.

Nevertheless, Airmic recommends that the PRA address the following points:

- **Deductible reimbursement / aggregate stop-loss policies:** Airmic understands that some members already use captives in other domiciles, including the US, to write deductible reimbursement or aggregate stop-loss policies that sit behind a fronted compulsory line, reimbursing the parent for retained losses. It is not clear whether this type of policy would be caught by the “reinsurance basis only” restriction on compulsory lines, given it does not respond to the underlying third-party claim directly. We would welcome confirmation that such arrangements remain permissible.
- **Geographical scope:** Airmic understands that the PRA’s reach only extends to UK compulsory lines, but the draft text is not explicit on this point. We are aware that some members already write non-UK compulsory lines (for example, strict-liability workers’ compensation-style covers in Belgium, or other jurisdictions’ compulsory motor or employer covers) direct from an overseas captive today. We would welcome confirmation, in the rules and/or the supervisory statement, that the “reinsurance basis only” restriction applies solely to lines that are compulsory under UK law, and does not extend to overseas compulsory lines written by a UK captive for group entities outside the UK.
- **Period of restriction:** Airmic would welcome clarity on whether this restriction is intended as a permanent feature of the UK captive regime, or is a deliberately cautious starting position that the PRA may revisit once it, and the wider market, have more experience of the UK regime – for example, after an initial 18–24 month period. Even if the restriction remains in place for the foreseeable future, we consider it would be valuable for that to be stated clearly, together with an indication of what would need to change for the PRA’s position to evolve.
- **Rationale for the restriction:** some Airmic members with direct market experience suggested the reinsurance-only requirement for compulsory lines may be intended to keep UK captives outside the scope of FCA conduct regulation and the Financial Services Compensation Scheme, which would otherwise apply to a UK-regulated direct writer of compulsory business, and to avoid the additional capital that direct writing of these lines might otherwise require. If so, Airmic would welcome confirmation that this would be a deliberate boundary between prudential and conduct regulation, rather than a comment on the suitability of captives to write these lines direct. We also note that other captive domiciles take a similarly cautious approach: France requires reinsurance-only for essentially all lines (not only compulsory ones), and Luxembourg’s captive market is largely reinsurance-based in practice, notwithstanding that direct writing is technically permitted there.

Employee benefits (paragraphs 3.17–3.22)

“...the PRA considers that the risks to its policyholder protection objective are higher for employee benefits, and proposes that captives can provide employee benefits insurance coverage on a reinsurance basis only.” (CP11/26, para 3.20)

As one of the most actively discussed areas in Airmic’s engagement with its members, we believe this warrants particular attention from the PRA:

- **Direct writing already occurs offshore:** Airmic understands that some members currently write certain employee benefits – group life assurance, in particular – direct from an existing offshore captive (for example, in Guernsey) into their UK and international group. This presents a disconnect – the same activity, currently written direct from an overseas domicile into the UK, would not be permitted direct from a UK-regulated, PRA-supervised captive. The PRA may wish to consider whether some employee benefits classes already accepted as being written direct from other domiciles could also be written direct by a UK captive, subject to appropriate safeguards
- **Existing UK precedent:** Airmic notes that permanent health-style benefits are already provided directly in the UK today through healthcare trusts, governed by trust law, which offers its own layer of protection. We consider this existing UK precedent for direct provision of comparable benefits to be relevant context for the PRA’s risk assessment of direct employee benefits writing.
- **Definition of “employees”:** The proposed definition (health/medical expenses and accident cover, group life insurance including annuities to dependants, group income protection and group critical illness) appears to be limited to employees rather than also explicitly covering their dependants. Since employee benefit programmes internationally routinely extend to spouses, partners and dependent children, we would welcome confirmation on whether dependants of group employees are within scope. By defining and distinguishing employee benefits from adjacent commercial covers, captive boards can then apply the reinsurance-only restriction consistently.
- **Cross-border scope:** Most Airmic members with global employee benefit programmes would seek to reinsure benefits for employees based outside the UK, fronted by a range of international primary insurers, rather than solely UK-regulated primary insurers. The reference in paragraph 3.20 to employees “benefiting from the protection of a primary insurer subject to the standard insurance regime in the UK” could create uncertainty as to whether the reinsurance of benefits, fronted by an equivalent, appropriately regulated non-UK primary insurer, would qualify. We would welcome confirmation that the reinsurance of employee benefits, fronted through equivalent regulated primary insurers outside the UK, is intended to be within scope, given that most demand for this line from a UK captive is likely to relate to non-UK employee populations.

- **The realistic alternative is sometimes no insurance at all:** Airmic’s recommendation on this point is reinforced by evidence from one member from a major UK manufacturer: certain employee benefits it provides – death-in-service cover being the clearest example – are contractual employer promises that are not necessarily insurance-backed at all today. Measured against that realistic alternative, Airmic considers a direct captive to be a stronger protection for the employee-beneficiary, not a weaker one: it introduces a capitalised, PRA-regulated insurer with reserves and supervisory oversight where an unfunded corporate covenant would otherwise sit. We also note that other leading captive domiciles, including Bermuda, impose no equivalent reinsurance-only restriction on employee benefits, and recommend the PRA, at minimum, permit direct writing for those benefits where the realistic alternative is an uninsured contractual promise rather than a fronted, insured one. We ask the PRA to consider this alongside the cross-border and definitional points above.
- Beyond the current PRA consultation, a number of UK defined-benefit pension schemes already transfer risk into offshore captives, behind a fronting insurer, with no objection from the Pensions Regulator. In time, there may be a case for extending an equivalent fronted pension risk-transfer capability to UK captives.
- **Diversification benefit:** members also noted that permitting UK captives greater flexibility to write employee benefits directly could allow a captive to diversify its overall risk pool – using the relative predictability of certain employee benefits lines (death-in-service cover was cited as a good example which can be accurately modelled) to offset more volatile, catastrophe-exposed lines held elsewhere in the same captive. A reinsurance-only restriction may remove a diversification benefit that some multinational groups would otherwise value in their captive’s overall risk profile.

Restriction on insurance business protecting against investment risk (paragraph 3.25)

“The PRA proposes that UK captives would be restricted from writing insurance business where the purpose of that business is to protect against investment risks.” (CP11/26, para 3.25)

Airmic supports the underlying policy objective, which we understand is to prevent captives – particularly those owned by financial services groups – from being used to reinsure balance-sheet or investment exposures into a lighter-touch prudential regime. However, Airmic is concerned that the restriction is undefined and could inadvertently encompass legitimate risk-transfer and innovative captive uses identified by our members which are increasingly common, including:

- parametric covers with non-indemnity, index-based triggers (for example, renewable energy generation shortfall linked to solar irradiance or wind speed);
- alternative forms of residual value or asset-value protection insurance;
- trade credit, loss-of-earnings and business-interruption covers with financial-loss triggers;

- delayed start-up / delay-in-start-up construction covers, where increased costs from delay could be characterised as a financial or investment-type loss;
- battery-performance and other new-technology performance-guarantee covers (relevant, for example, to electric and autonomous vehicles);
- gap covers between NHS-funded treatment and private medical/pharmaceutical provision, and product/drug warranty-style covers;
- the use of a captive to buy down policy excesses for a regulated part of the group’s business, where it is unclear whether this would be characterised as protecting against investment risk; and
- outcome-based covers responding to product withdrawal or reputational loss, where the trigger is a commercial or operational event rather than the value or performance of an investment.

Airmic would welcome a clearer definition of “investment risk” for these purposes, ideally supported by worked examples in the supervisory statement, and to confirm whether the examples above would, or would not, be considered to fall within the restriction. Without this, we are concerned the restriction could unintentionally constrain the innovative use of captives that the PRA has indicated, elsewhere, that it wishes to encourage.

Relatedly, Airmic would welcome confirmation that trade credit insurance written on a direct basis for the group’s own trade receivables falls within “all other corporate risks (non-life)” and is not caught by the investment-risk exclusion, on the basis that it responds to trade-debtor default arising from ordinary commercial operations rather than to the value or performance of an investment portfolio. We expect this to be relevant to a number of Airmic members, given how widely trade credit exposure is managed through captives internationally.

Side A D&O reinsurance (paragraph 3.23)

Several Airmic members have raised caution about the proposal permitting UK captives to reinsure Side A directors’ and officers’ cover (protecting individual directors’ personal liability, as opposed to Side B/C corporate reimbursement and entity cover). Few captive domiciles internationally permit Side A reinsurance, even where Side B/C is common.

We are concerned that this could create tension with UK company law restrictions on a company indemnifying its own directors, and with corporate governance norms more generally. We would welcome confirmation that this interaction with UK company law has been considered, and, if helpful, would be happy to put the PRA in touch with members who have direct experience of similar structures used in other domiciles.

Proposal 5: Material non-group undertakings (paragraphs 3.27–3.48)

Airmic welcomes the inclusion of material non-group undertakings, and in particular the recognition of owner-controlled insurance programmes (OCIPs), as a positive and practical feature of the regime. We raise the following points for the PRA's consideration:

- **Additional use cases:** Airmic has identified further categories of non-group counter-party risk that our members currently insure, or would wish to insure, through a captive, which do not obviously fall within the four permitted structures (OCIPs, significant suppliers, franchisees and minority stakes of at least 5%). These included extended warranty programmes; risk associated with key distributor or dealer networks (which are commercially critical counterparties but not “suppliers” in the conventional sense); logistics and freight providers; and contingent business interruption exposure arising further down a multi-tier supply chain than a direct (tier 1) supplier. We would ask the PRA to consider whether these could be accommodated within the permitted structures, or added as further categories, and to confirm its openness to considering additional structures during authorisation and supervision, as indicated at paragraph 3.34.
- Further categories raised directly by members include contract manufacturers, research and development partners, and joint venture interests below the 5% minority-stake threshold set out in the consultation, as well as risk relating to shareholder-level entities such as family offices sitting above the top company in a group's ownership structure, and collaborations or alliance structures where a group wishes to provide insurance on behalf of several jointly-interested parties. We would welcome confirmation whether these could fall within the material non-group undertaking framework, either as extensions of the existing categories or under a broader test focused on material financial or contractual dependency rather than a fixed list.
- **Contractual, rather than ownership-based, insurable interest:** Airmic understands that members' insurable interest in a non-group counterparty's risk often arises purely from contractual risk allocation – for example, a contract that requires the group to insure an asset it does not own, or a hold-harmless/indemnity clause – rather than from a supply, franchise, OCIP or ownership relationship. We would seek confirmation on whether such contractual arrangements would need to be shoehorned into the “significant suppliers” category, or whether the PRA would consider recognising material contractual liability exposure as a distinct basis for insuring a non-group undertaking.
- **Meaning of “significant”, and sub-tier suppliers:** Airmic would welcome further guidance on what would be regarded as a “significant” supplier for these purposes, and on how “direct supplier” in paragraph 3.42 would apply in modern, multi-tiered supply chains. We recognise the PRA has deliberately left this to the judgement of the captive and its board, consistent with international practice, and support that overall approach; targeted illustrative guidance would nonetheless

reduce uncertainty for applicants. This is reinforced by evidence from one member, a manufacturer with a deep multi-tier supply chain: a failure at a sub-tier component supplier can halt a production line as effectively as the failure of a direct supplier, with financial exposure to the group that is no less real, yet paragraph 3.42 as drafted would exclude such exposures from the significant-supplier structure altogether. We recommend the PRA extend the structure to sub-tier suppliers where a group can demonstrate a direct, material and measurable financial exposure to their disruption, subject to the same safeguards proposed for direct suppliers.

- **Cross-border application:** As with lines of business more generally, Airmic would welcome confirmation on how the material non-group undertaking framework, and its associated safeguards (the 10% volume cap, FSCS and FOS-eligibility tests), would apply where the non-group counterparty is based outside the UK.
- **Prescriptive rules versus board judgement:** some Airmic members cautioned against the PRA moving towards a more prescriptive, exhaustively-listed definition of material non-group undertakings, noting that the current, more flexible approach of leaving assessment to the captive board, supported by a contractual/material-financial-relationship test, is closer to how comparable domiciles operate, and better suited to the wide variety of structures multinational groups actually use. An alternative some members suggested is for the PRA to be clear about what would not be regarded as an acceptable material non-group undertaking, rather than attempting to enumerate an exhaustive list of what is permitted. Members also asked for reassurance on the durability of board judgements made in good faith at authorisation – for example, whether a captive’s own reasonable and documented assessment of a borderline case could later be second-guessed in supervision without notice, and what recourse a captive would have in that situation.

Proposal 6: Type of parent

Airmic’s engagement with members raised no significant concerns with the proposal to permit financial services firms to use UK captives for their own operating risks, subject to the restriction on writing cover for third-party policyholder risk and the investment risk restriction discussed above.

Chapter 4: Approach to authorisation of UK captives

The feedback we received on the PRA's proposed authorisation approach was positive, reflecting our members' direct experience of the PRA's engagement to date:

- Airmic welcomes the 4–6 week decision target, once a complete application is received, as competitive, and understands and accepts that this is conditional on application quality and complexity.
- We would also welcome clarity on when the 4–6 week time frame is intended to start for more complex applications – for example, whether it runs from first formal submission regardless of complexity, or whether the PRA expects a longer or more variable timeline for applicants with more complex group structures, multiple lines of business, or material non-group undertakings.
- Several members already had, or were arranging, informal pre-application conversations with the PRA, and described the PRA as responsive and genuinely open to exploratory discussions at an early stage. Airmic regards the PRA's responsiveness as a real point of competitive differentiation for the UK regime. We would encourage the PRA to maintain and, where possible, expand this capacity as application volumes increase.
- Airmic expects that the first authorisations are likely to come largely from organisations new to captive ownership, which may present a different risk profile and require more supervisory engagement than experienced multinational captive owners applying to establish an additional captive. We suggest the PRA may wish to be conscious of this dynamic when calibrating its approach to early cohorts of applications: a track record of successful authorisations involving experienced captive owners could, over time, support the case for the PRA to consider further liberalising specific restrictions raised elsewhere in this response.
- Airmic's assessment is that the near-term attractiveness of the regime to a number of members who already own captives elsewhere is constrained less by the authorisation process itself and more by the absence of a clear legal pathway to re-domicile an existing overseas captive into the UK (as opposed to establishing a new UK captive from scratch and running off or transferring the existing entity separately). We understand this depends on separate primary legislation being progressed via HM Treasury / the Department for Business and Trade, and, while recognising this sits outside the scope of this Consultation, would welcome the PRA's continued support in progressing that work, since it is likely to be a significant factor in determining how many existing UK-parented captives ultimately relocate to the UK.
- Airmic recommends the PRA provide guidance on the mechanics of relocation itself – including continuity of cover for existing policyholders and the transfer of an existing book of business – so that redomiciling an established captive can, in practice, be as efficient as authorising a new one.

This is reinforced by evidence from one existing captive owner, for whom a partial relocation – bringing only part of an existing captive’s book onshore while other business remained offshore – would not be commercially worthwhile, underscoring why a clear redomiciliation pathway and the scope questions raised under Proposal 5 in Chapter 3 matter jointly, rather than in isolation, to whether an established captive owner ultimately relocates.

- Airmic understands that absent a dedicated redomiciliation pathway, the realistic alternative route today for relocating an existing captive is a Part VII insurance business transfer, which is widely regarded as expensive and time-intensive. We understand that a separate consultation earlier in 2026 from the Department for Business and Trade on redomiciliation law made passing reference to captives, and that this work is expected to establish the primary legislation needed. We recommend the PRA continue to support this work being progressed promptly, and consider referencing the Part VII cost and timing point when making the case, within government, for prioritising it.
- To illustrate the scale of this cost, one existing captive owner offered a rough estimate of approximately £500,000 in management and legal fees to redomicile its existing captive under current arrangements – a cost that would need to be weighed against any savings from moving onshore, and which underlines why a dedicated, more proportionate redomiciliation pathway matters for the commercial case for relocation.

Chapter 6: Financial resources

Proposal 2: Capital requirements (the captive capital requirement (CCR))

Airmic members are positive about the headline CCR calibration – the higher of 10% of net written premiums or 10% of net insurance liabilities, subject to a £100,000 floor. This compares favourably to Guernsey’s 12% benchmark and is substantially lighter than Solvency UK, and Airmic particularly welcomes that the minimum capital requirement is not tied to specific lines of business, in contrast to class-based regimes such as Bermuda’s.

Airmic raises the following points on the detail of the capital resources framework:

- **Own risk assessment / “hidden add-on”:** Airmic welcomes the flexibility of the board-led assessment of whether capital resources in excess of the CCR are appropriate (paragraph 6.12), but is concerned that, without further guidance, this could operate in practice as an unpredictable additional capital requirement that offsets the competitiveness of the 10% headline rate. We ask the PRA to provide proportionate, indicative guidance in the supervisory statement on how this

exercise should be evidenced, particularly for smaller and less complex captives, so that the benefit of a genuinely light-touch headline requirement is not undermined by uncertainty over supervisory expectations.

- **Recognition of reinsurance in the capital framework:** Airmic understands, based on international practice, that a captive's own reinsurance protection (whether purchased from the commercial market or from another captive within the group) should reduce its effective capital need, but has not identified an explicit statement to this effect in the draft rules or supervisory statement. We ask the PRA to confirm explicitly how reinsurance is reflected in the CCR and/or the regulatory balance sheet. Airmic considers this an important point: clear recognition of reinsurance as a capital-efficient tool would encourage new and start-up captives in particular to take a prudent approach to building reserves through risk transfer, rather than being incentivised to distribute profits annually and rely more heavily on parental support in a loss year.
- **Availability of Tier 2 support in practice:** Airmic asks for further practical clarity on how the "readily available" standard for loan-back and Tier 2 arrangements (paragraph 6.21) would apply where captive funds are managed centrally through group treasury, for example where committed facilities allow access to funds within 24 hours. Guidance or worked examples on what evidences compliance with this standard in a typical treasury structure would be helpful.
- **Identity of the supporting parent:** Airmic asks the PRA to confirm that a parental or group support arrangement (Tier 2 capital) can be provided by an overseas ultimate or intermediate parent undertaking, rather than only by a UK-incorporated immediate parent, reflecting that most UK-incorporated captives will in practice sit within multinational groups headquartered outside the UK.

Capital resources and long-term resilience: equalisation reserves

A recurring and strongly held theme across Airmic's engagement with members is the absence of any equivalent in the UK to the tax-recognised equalisation or catastrophe reserve regimes available in several competitor captive domiciles, notably Luxembourg, France and Switzerland. Such reserves allow a captive to build up reserves prudently across an underwriting cycle – rather than distributing profit in good years and relying more heavily on parental support or the CCR minimum in a loss year – and this case has previously been advanced successfully to European regulators (including in France) on grounds of financial resilience.

Airmic recognises that fiscal treatment of reserves is a matter for HM Treasury and HMRC rather than the PRA, and intends to raise this separately, including with the London Market Group. We nevertheless flag it in this response because we consider it closely linked to the prudential resilience objectives underpinning Chapter 6, and because its absence may, in Airmic's assessment, be as significant to the ultimate success

and take-up of the regime as the capital rules themselves. We would welcome the PRA's support, where appropriate, in raising this with HM Treasury as a related workstream.

Chapter 7: Governance

Proposal 2: Non-executive directors and independent non-executive directors

"The PRA proposes a requirement that the board of a UK captive should include at a minimum one NED... [and] to introduce an expectation that UK captives appoint an iNED on the board, where this is proportionate to the nature, scale, and risk profile of the firm." (CP11/26, paras 7.11–7.12)

This proposal generated the most extensive and mixed discussion of any topic in Airmic's engagement with members on the consultation paper. We aim to reflect the range of views below:

- Where members have direct NED experience in other domiciles (for example, Guernsey), they describe genuine value from a good NED: independent challenge to captive managers, willingness to raise "obvious" questions that internal staff may hesitate to ask, and access to cross-market perspective that captive managers do not always volunteer. These members were broadly comfortable with a mandatory NED requirement.
- By contrast, members representing large, mature multinational groups with established internal governance (comprising risk committees, codes of ethics, internal audit) questioned what incremental value a mandatory NED adds where that internal governance and challenge culture is already strong. Airmic shares the concern that a blanket requirement does not distinguish between organisations with deep internal captive expertise and those without.
- Airmic would suggest a more proportionate approach that would allow the PRA to satisfy itself, as part of authorisation and ongoing supervision, whether a captive's existing governance and in-house expertise already provides the intended independent challenge, rather than requiring a NED in all cases regardless of the group's existing governance maturity.
- Airmic considers that value is highly dependent on the quality of the individual appointed ("good NEDs and bad NEDs"). We are concerned about the risk of box-ticking appointments that do not deliver genuine challenge, and suggest the PRA and/or industry consider some form of quality assurance for NEDs and iNEDs appointed to UK captives – for example, minimum experience criteria or guidance on what "good" looks like – rather than treating the requirement as satisfied purely by the presence of an appointee.
- Cost and proportionality for smaller, start-up captives is a concern Airmic heard repeatedly, particularly from members newer to captives considering the UK for a captive for the first time. A

disproportionate governance cost base could reduce the attractiveness of the UK regime specifically for smaller or first-time captive owners – the segment the regime may most need to attract to demonstrate broad market appeal.

- We would also seek further clarity on the criteria the PRA will apply in assessing when an iNED is “warranted” by a captive’s structure or complexity (paragraph 7.12), including whether the indicative factors in paragraph 7.13 (lines of business, insurance of material non-group undertakings, geographic scope) will be applied as a checklist or holistically, and whether the PRA would confirm its expectation at the point of authorisation to give applicants certainty.

On balance, Airmic is not opposed in principle to a NED requirement, but would propose that this requirement, or its practical application, could be made more explicitly proportionate to a captive’s complexity and its group’s existing governance maturity, consistent with the proportionate approach taken elsewhere in the Consultation. We also note that NED accountability under UK company and regulatory law is generally considered stronger than in some current offshore domiciles, which Airmic considers a positive differentiator worth the PRA highlighting as part of the case for a UK NED requirement adding genuine value.

Other matters

Change in ownership

Airmic has heard from members backed by private equity who asked how a future change in ultimate ownership of the parent group would be treated under the regime, given this is a realistic scenario for such businesses. Our understanding, following discussion, is that this would need to be self-reported to the PRA as a material change under the regime’s general notification expectations, without automatically triggering a fresh authorisation, provided the PRA can be satisfied that the fundamentals relevant to the original authorisation (governance, capital, business plan) remain in place. We ask the PRA to set this out explicitly in the rules and/or supervisory statement – including what evidence or reassurance a captive would need to provide following a change of control – rather than leaving this to be inferred from the general “material change” notification expectations, given how relevant this is to private-equity and other frequently-transacted ownership structures.

Distributions and dividends

Airmic welcomes the PRA’s narrow and proportionate approach to restricting distributions only where a payment would cause a breach of the CCR, and has no further comments on this aspect of the proposals.

Protected cell companies (PCCs) and future structures

Airmic welcomes the PRA's stated intention (Chapter 13) to extend the regime to PCCs once the necessary primary legislation is in place. We consider PCCs a natural, lower-cost entry point into UK captive ownership, particularly for smaller or first-time prospective captive owners. We would ask the PRA to keep the market updated on the expected legislative timeline for PCCs, and to confirm that the single-parent regime proposed in this Consultation is being designed with future compatibility with a PCC extension in mind, so that early adopters of the single-parent regime are not disadvantaged relative to the subsequent PCC framework.

Airmic also notes interest, particularly among members from the public sector and mid-market, in group or association captive structures over time. We understand this is outside the scope of Phase 1 and note it for the PRA's Chapter 13 look-ahead questions. One existing captive owner recorded strong future interest in PCC structures specifically for wider group and affiliate use, while confirming this is not a precondition for its own Stage 1 plans to redomicile, provided the points raised above under Proposal 5 are addressed.

Airmic would also ask the PRA to consider giving a UK captive (i) the ability to convert into a PCC structure; and, (ii) conversely, for an individual cell to convert into a fully-fledged single-parent captive. We recognise that the latter may need to wait for the PCC consultation. However, the former is worth considering now, as prospective applicants may find the possibility of later converting into a PCC appealing when deciding how to establish their captive in the first instance.

Public sector and taxpayer-funded organisations

Airmic has heard from members in local and regional government and other publicly-funded bodies who anticipate that government procurement or public financial management policy could, over time, place increasing weight on the use of UK-domiciled (rather than overseas) captives by organisations receiving public funds. While this is a matter for government rather than the PRA, we consider it relevant context: if this expectation does develop, the lead times involved in establishing and authorising a captive mean early clarity would be valuable for affected organisations.

Cross-border and multinational application of the regime

This is the single most recurring theme across Airmic's engagement with members, cutting across lines of business, employee benefits, material non-group undertakings and capital resources: the great majority of Airmic members with a realistic prospect of establishing a UK captive are large multinational organisations, whose captives are expected to write business relating to group entities, employees, suppliers and counterparties located outside the UK, as well as within it. Airmic members would value the PRA setting out, in a single place in the supervisory statement, overarching guidance on which restrictions in the Consultation are intended to apply only to UK-specific business (for example, UK compulsory lines) and

which are intended to apply to the captive's business more broadly, irrespective of where the underlying risk, counterparty or beneficiary is located.

We also encourage the PRA to continue to have regard, in its ongoing policy development, to how competing international financial and offshore centres approach jurisdictional scope, given this is a less familiar consideration for a regulator whose other regimes are primarily UK-focused.

Awareness among brokers and advisers

Airmic has heard from members who are newer to the captive space that, to date, proactive engagement on the UK regime from their brokers and advisers has been limited to a small number of firms, and that in several cases their first substantive awareness of the regime came through Airmic rather than their usual advisers. We would encourage continued efforts by the PRA and the wider market to raise awareness ahead of go-live, to ensure organisations across the market – not only the largest and most captive-experienced – are aware of the opportunity.

Taxation

While tax lies outside the PRA's remit, Airmic's engagement with members raised the UK's tax treatment of captives – including, but not limited to, the absence of an equalisation reserve regime, discussed above – as a significant factor that will influence take-up of the regime alongside the prudential framework. Airmic would be willing to pursue this separately with HM Treasury and would welcome the PRA's support, where appropriate, in facilitating that conversation, given how closely it is linked to the resilience objectives of the capital framework in Chapter 6.

Conclusion and next steps

Airmic is highly supportive of the PRA's ambition to establish an internationally competitive, proportionate UK captive insurance regime, and we consider the proposals in the consultation paper to be a strong and well-developed foundation. In almost all cases, our members are seeking clarification, worked examples or confirmation of interpretation, rather than opposing the underlying policy design.

Airmic would encourage the PRA to prioritise the treatment of material non-group undertakings addressed under Proposal 5 in Chapter 3, and in particular the paragraph 3.35 question on product-linked customer reinsurance via fronting arrangements. We have direct evidence from one major prospective UK captive owner that the current drafting is a determining factor in its decision not to redomicile, and we consider the underlying reasoning – particularly on the treatment of the 10% volume cap for structurally-

safeguarded, fronted business – is likely to be relevant to other members with product- or customer-linked risks beyond this individual case.

We would welcome the opportunity to discuss any aspect of this response further with the PRA, including sharing additional anonymised examples from our members where that would assist policy development ahead of the final rules.
