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GUIDE 2025

CAPTIVE INSURANCE

Perfecting Governance
A Guide for Board Directors of
Parent Companies and Partnerships

IN ASSOCIATION WITH:

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Acknowledgements

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About Airmic
Airmic celebrated its Diamond Anniversary in 2023 and today is the UK and Ireland's largest and most vibrant risk management and insurance association. Airmic has over 450 corporate members, more than 2,000 individual members, and is supported by a network of leading risk and insurance partners and affiliated institutes, associations, and universities.

We are growing through welcoming both those in the risk and insurance professions and in roles connected to risk and insurance, including those with a primary focus on governance, sustainability, finance, compliance, law, human resources, information security, health, safety and security, resilience and business continuity, and academia. As such, we are in a strong position to represent the views of our members, and to advocate for their needs within business, standards and regulatory bodies, and government in the UK, Ireland and internationally. We are active members of FERMA the Federation of European Risk Management Associations and IFRIMA the International Federation of Risk and Insurance Management Associations.

Our members enjoy access to a wide variety of face to face and online events and learning opportunities, networking, special interest groups and regional meetings, supported by a competency framework and mentoring scheme. Our online library of research materials, guides, papers, newsletters and curated readings, feature work by some of the brightest, most innovative, and experienced talent.

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GUIDES

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Introduction

There has been a recent surge in interest both in the UK and beyond around the formation and use of captive insurance companies. According to research by Risk Management Advisors, in 2024, there were some 8,000 captive insurance companies operating globally and writing well in excess of US$50 million in premiums, with around 20% of captives and associated premiums managed out of the UK and Ireland. These numbers are growing and the classes of cover written are expanding as captives are increasingly seen as effective tools for risk management and self-insurance. The choppy geopolitical and macro-economic waters which organisations are having to navigate only add to their appeal.

Recognising this trend, in 2024, the UK Government began a consultation process around the use of onshore captives, the aim of which was to explore the possibility that: "… a new approach for the regulation of captive insurance companies in the UK… might make the UK insurance market a more attractive hub for businesses seeking efficient risk solutions". As the third-largest market for insurance and long-term savings worldwide and the largest in Europe, it is clear to see why the UK Government is interested in such an opportunity.

Research conducted by Airmic in 2025 revealed that, of the organisations surveyed, nearly 30% have more than one captive and of those that currently do not have a captive, over 70% said that their organisation is currently exploring the possibility of forming a captive now or in the future.

The UK Treasury Consultation into Captive Insurance Companies closed in February 2025 and we now await the outcome of its analysis.

But whatever happens in the UK, how should organisations go about the task of weighing the potential economic benefits against the associated risks and costs before deciding whether to operate a captive insurance company? And, if they choose to operate a captive:

- Where should it be located and who might manage it?
- Which classes of insurance should be targeted?
- What value-added services could it offer?

The aim of this paper is to provide a guide for directors to the advantages and potential pitfalls associated with the creation and running of captive insurance companies. We examine this issue principally from the perspective of the parent company or partnership board rather than that of the captive board. (Airmic has published other guidance aimed at captive board members. See the Airmic EXPLAINED Guide on *Captive insurance* and *Captive Governance: A Practical Guide for Independent Non-Executive Directors on Captive Boards.)*

The Guide is divided into 12 questions which are asked and answered from the perspective of board members, focusing on some practical issues which commonly arise. Although the requirements and circumstances of organisations will vary according to their size, maturity, business model, geographic spread and industry sector, the answers offered below should provide helpful starting and reference points for directors.

“Captives are increasingly central to an organisation’s risk management goals, but a lack of defined strategy can lead to missed opportunities and unrealised potential. By developing bespoke, tailored and innovative captive approaches, organisations can unleash the full value of their captive, including the possible significant financial benefits of accessing capital throughout the entire (re)insurance value chain.”

Noona Barlow, Partner and Head of Financial Lines Claims, McGill and Partners

1 What strategic goals would be met by setting up a captive and how well aligned are they with the organisation's purpose, strategic objectives and business model?

Setting up a captive insurance company is a significant decision for any organisation and involves a careful evaluation of various factors to ensure alignment with the overall purpose, strategic objectives and business model. Questions which a board may wish to explore include:

Purpose alignment
If, for example, part of the organisation's mission is to pursue innovation and improve self-sufficiency, it may be that enhancing control over risk management through a captive would helps promote that purpose.

Strategic fit
What are the organisation's plans with respect to strategic objectives such as growth, market expansion or entering new business lines? Could the captive play a role in providing coverage for challenging or unusual risks associated with new ventures?

Business model considerations
How well would the captive be integrated within the organisation's business operations? Does provision for its operations need to be made within the organisation's overall framework or is a separate model required?

2 What are the financial implications of creating and maintaining a captive?

It would be expected that the organisation's finance department led by the CFO would assume the burden of examining this question, but there are nevertheless questions on which the board as a whole would wish to be reassured. What, for example, are the projected initial set-up costs? What are the ongoing relevant capital requirements likely to be for ensuring that the captive can meet its obligations? And what are the operational expenses associated with running the captive, including the administration, salaries, staff, technology, investments and accounting fees, likely to be?

Measured against these costs, what are the likely premium savings and cash flow benefits? Would these include the ability to treat premiums paid to the captive as retained earnings generating returns rather than being paid out as insurance premiums in the market? Other considerations which might affect the financial cost/benefit analysis include:

- Risk management and financial stability both for the captive and the group as a whole (see question 4 below)
- Tax considerations (see question 3 below)
- Impact on financial reporting including additional reporting, audit and filing requirements at the captive level.

"Captives are, for many companies, increasingly becoming 'front and centre' of their risk financing strategy. The infrastructure to support the optimisation of captives, across the industry, has never been greater, with a wide range of exciting available opportunities to explore."

Noona Barlow, Partner and Head of Financial Lines Claims, McGill and Partners

3 Which jurisdictions offer the most favourable regulatory and financial environments?

There are a number of jurisdictions with long-established reputations as the domicile of choice for captives, including Bermuda, the Cayman Islands, the US state of Vermont, Guernsey, the Isle of Man and Luxembourg, as well as other jurisdictions with growing recognition such as Malta, Puerto Rico and Singapore. How should the board of an organisation go about evaluating the pros and cons of these and other jurisdictions and territories both onshore and offshore? These are some of the factors to consider:

- **Legal and regulatory environment**
    - How straightforward is the process of obtaining a licence to operate. How long is it likely to take? What degree of regulatory oversight will the captive be subject to? What is the reputation of the relevant regulatory authority? What are the relevant reporting requirements? What are the mechanisms for regulatory dispute resolution?
    - Separately, a board may wish to seek assurance as to the nature, sophistication and flexibility of the relevant legal framework, both with regard to the formation, operation and dissolution of different types of captives, and with respect to insurance contract law and policyholder rights.
- **Tax considerations:**
  These include:
    - tax incentives, i.e. jurisdictions which offer favourable tax treatment for captive insurance companies such as lower tax rates on underwriting profits
    - transfer pricing rules can have an impact on transactions between the parent company and the captive
    - tax treaties which may have the effect of minimising withholding taxes on international transactions involving the captive
- **Geopolitical stability**
  Given the ongoing absence of geopolitical stability, this factor assumes additional significance now. Perhaps it might be or become a factor in making onshore captives (such as the UK itself) appear more attractive. In any event, a board will wish to assess the political stability of the jurisdiction in question, including the risk of changes in regulation or government policy, as well as the jurisdiction's overall economic stability, in terms of its economic environment, inflation rates and currency stability, for example.

- **Local market environment**
  Relevant questions here include the availability of strong local insurance professional services, including accountants, actuaries, lawyers and captive managers. There is also the question as to the size and sophistication of the local reinsurance market, and the availability of reinsurance capacity. Also of relevance is the local competitive landscape for captives and the potential for collaboration with other insurers and captives. Related to this is the presence of local insurance associations and opportunities for networking and knowledge sharing.

The Board should consider which factors to include within scope and weigh each factor by importance before starting their evaluation. Weighted factors can then be used to create a template against which jurisdictions can be objectively compared. As with any assessment, the internal and external context can change, and this process should be dynamic as part of the ongoing captive governance system.

4 What factors should be considered as part of a risk analysis?

There is a wide range of factors to consider, ranging from financial (see question 2 above) to operational and from regulatory (see question 3 above) to strategic aspects (see question 1 above).

Another important set of metrics for the board to consider in this context relates to the types of risk (e.g. operational, liability, property, regulatory, cyber) which the organisation as a whole faces. (Several of these, including cyber, supply chain, political risk and D&O, are covered in other Airmic boardroom guides published in 2023/2024.)

There is also the related question as to risk appetite. What level of risk is the organisation comfortable retaining within the captive rather than transferring to traditional insurers? How well does that appetite fit within the organisation's overall risk appetite? This combined with an understanding of frequency and severity, i.e. the likelihood of these risks occurring and their potential financial impact on the organisation, will help inform the cost/benefit analysis associated with the overall decision-making process.

Other more general risk factors to consider include:

- The organisation's ability to effectively manage claims within the captive, including allocating or funding resources and processes for claims handling
- Market conditions including pricing trends, availability of coverage and competition, as well as access to the reinsurance market
- Long-term sustainability in terms of the captive's ability to adapt to changing business conditions, regulatory environments and market trends.

> "There has been a huge surge of interest in and the formation of captives. Reports estimate that captives now represent nearly 25% of the overall commercial insurance market. Captives are a mainstream part of an agile, intelligent and resilient risk financing strategy regardless of market conditions. Historically, captives have been used for high frequency, risks; however, they are increasingly involved in a greater range of covers, with property particularly common and the range of liability covers and more difficult to insure risks in the Protection Gap increasing."
>
> *Julia Graham, CEO, Airmic*

5 What investment policy should a captive adopt and how well aligned is this with the organisation's overall investment strategy?

From the perspective of the organisation as a whole, integration and alignment of the captive's investment strategy with its broader investment strategy, with all relevant regulatory requirements and with its overall risk management framework and objectives are important. Factors relevant to alignment and integration include:

- Consistency and risk tolerance. If the organisation has a conservative investment strategy, the captive's policy may also lean towards lower-risk investments to maintain consistency.

- Cash flow considerations. Aligning the captive's investment strategy with the organisation's cash flow needs is also important. A captive must ensure that it can meet its short-term liabilities while also contributing to the organisation's long-term financial health.

- Overall investment goals. The investment policy for the captive should complement the organisation's broader financial objectives whether focused on capital appreciation, income generation or ensuring adequate liquidity.

- Integration with financial strategy. The investment policy should be integrated within the overall risk management framework, including considerations for funding, pricing and capital adequacy.

Factors relevant to setting the captive's own investment policy include asset allocation strategy, liquidity requirements, performance measurement, investment restrictions, oversight and governance, and investment manager selection.

Finally, a system for regularly reviewing and re-balancing the investment portfolio to ensure alignment with the overall investment policy and changing market conditions is also necessary.

> Credit ratings are essential for traditional insurance companies, but they can provide benefits for captive insurance companies too. A credit rating can enhance governance. A rating agency's independent oversight provides a parent company's board with additional confidence in the captive's operations, reinforcing that the captive is functioning as a legitimate company. Independent assessment can also help to provide confidence that sound financial and operational principles are being adopted and maintained.

6 How should the governance and oversight framework for a captive be established?

Establishing a robust governance and oversight framework for a captive insurance company, and defining roles, responsibilities and processes which promote accountability, transparency and sound decision-making is essential.

Starting at the top with the captive's board of directors, its members should have diverse expertise including in insurance, finance, risk management and the law. The parent organisation should also be represented. It is the board's responsibility to set the overall strategic direction of the captive as well as overseeing risk management and compliance, approving investment policies and ensuring alignment with the organisation's overall objectives.

Depending on the size of the board, it may be appropriate to establish investment, audit and risk management committees of the board, each with its own particular responsibilities. Clearly defined roles and responsibilities for the board, any board committees and the management team need to be established to avoid overlaps and gaps, and to ensure accountability.

Decision-making authority for various operational aspects, including underwriting policies, claims management, investments and capital allocations, needs to be specified. Separately, a formal risk appetite statement should be developed along with risk assessment processes and procedures to ensure regulatory compliance.

Internal controls and policies will also be needed to safeguard assets, ensure accurate financial reporting and promote operational efficiency. Finally, there should be a reporting framework outlining the frequency and format of reports to the board and its committees regarding financial performance, risk exposure and compliance status, together with systems to monitor key performance indicators related to the captive's activities.

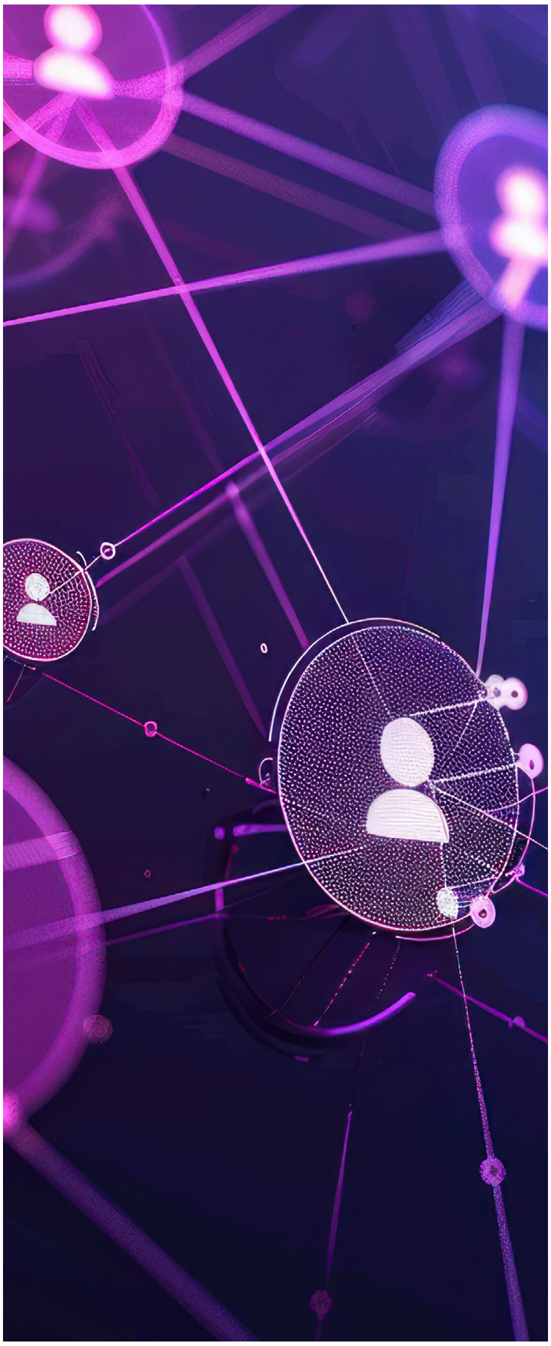
It should also be recognised that many organisations that do not have a captive are essentially self-insuring through their balance sheets. They are putting capital aside in case of a catastrophic event, with no regulatory requirements and often minimal internal controls. Having a captive brings with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

A strong corporate and risk culture fosters good governance, ensuring that captive insurers operate transparently and efficiently. Without a well-defined culture, governance structures may struggle to take root, especially in group captives where owners also serve on the board.

7 How and by whom should the captive operations be managed?

Before deciding these questions, it is important to identify the key functions necessary to manage the captive effectively, including underwriting, claims administration, investment management, compliance, risk management and finance. The next step might be to decide how these functions should best be divided up between internal and external management. Pros and cons such as greater management control versus access to specialised expertise and industry knowledge, and resource efficiency versus the risk of potential misalignment with the parent company's strategic objectives need to be weighed up.

In connection with the appointment of third-party managers (as is commonly the case at least with respect to certain core management activities), to what extent do firms have experience with captives in the relevant industry or sector? Evaluation criteria may include whether the service providers have a proven track record, whether they operate a cost-effective and transparent business model, and how good their client delivery service and communication models are.



8 How and by whom should the identification of horizon scanning for emerging risks be performed?

The systematic exploration and identification of potential future risks, trends and developments which could have an impact on an organisation is a task which goes well beyond the world of captive insurance. Nevertheless, the methods by which this is accomplished are similar and include the definition of objectives and scope, the establishment of cross-functional teams as appropriate, the collection of information and data, and the analysis of trends and patterns which may result in significant change in the risk landscape.

When focusing on the captive specifically, scenario analysis based on stress testing the quality and adequacy of the insurance policies issued by the captive (and any corresponding reinsurance arrangements in place) can be especially valuable. Developing a fact pattern (internally or with external input) based on the output of the emerging risks analysis can help management understand the strengths (and any weaknesses) in the captive insurance and reinsurance programmes. Involving other stakeholders within the organisation in workshops and discussions around such scenario analysis can only serve to gather more diverse insights and feedback on proposed action plans, and can also help promote an improved understanding of the value to the organisation of the captive.

9 Who are the strategic stakeholders in a captive and how will the organisation communicate the rationale for strategic decisions relating to the captive with them?

Strategic stakeholders are those individuals or groups who have a vested interest in the captive's operations, performance and strategic direction. Effective communication among these stakeholders is highly desirable to ensure alignment, transparency and support for the captive's goals.

One option might be to have an internal advisory captive committee responsible either directly to the main board of the organisation or to a committee of the board such as audit and risk. The advisory committee might bring together various internal stakeholders drawn from different business units or divisions to monitor and measure the value to the organisation of the existing uses to which the captive is being put and to review and assess the potential for other uses.

Self-evidently, the captive board itself is also a strategic stakeholder whose responsibility (as explained in answer to question 6) is to ensure continued alignment with the parent organisation's objectives. Good communication between the captive board and the wider group in the form of regular updates and discussions which allow for feedback and insight is key.

Indeed, good communication is essential between all relevant stakeholder groups, which might include risk management and compliance teams, finance and accounting teams, underwriting and claims management teams, legal advisers, regulatory authorities, employees and external service providers.

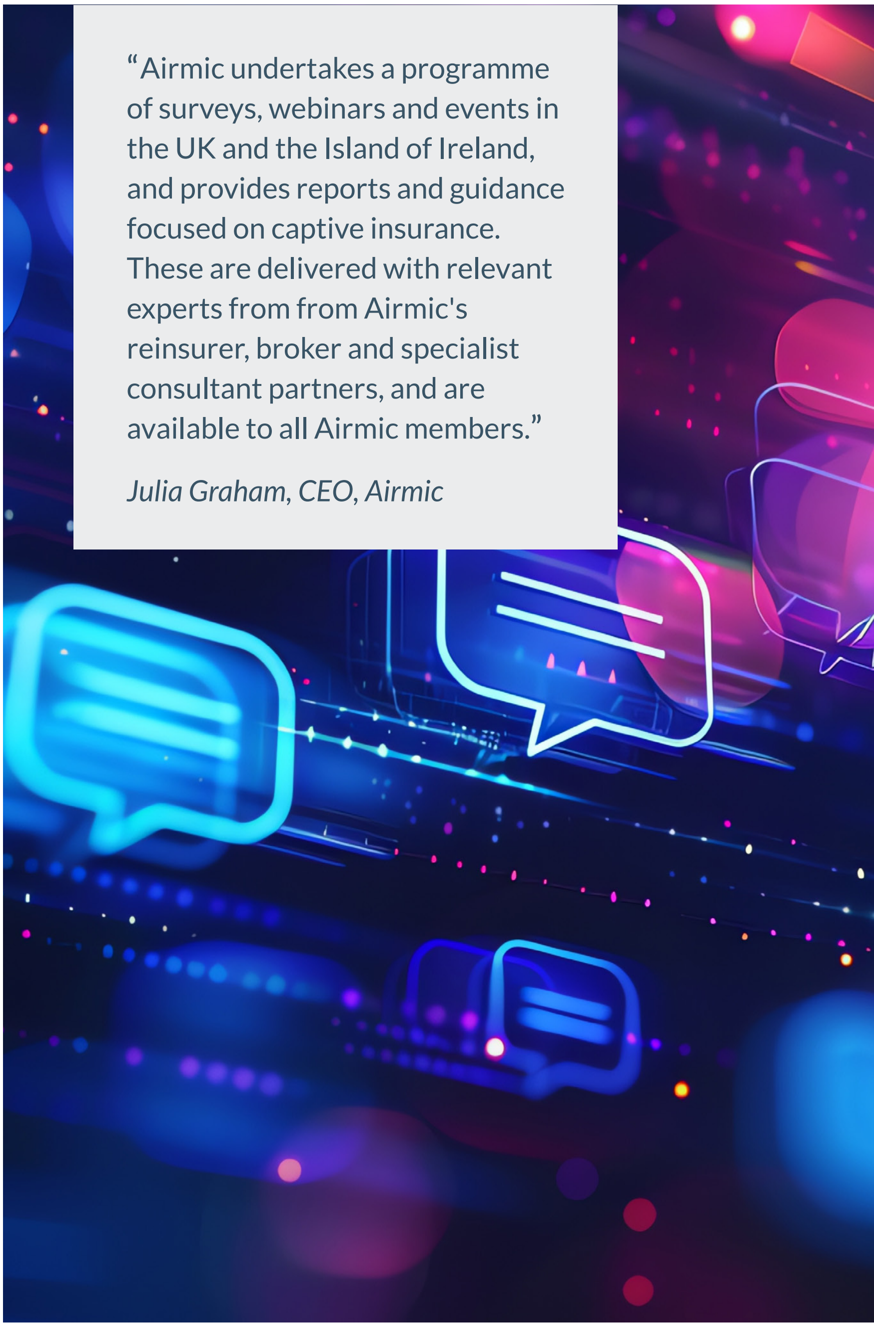
Whilst there is no one-size-fits-all plan, elements are likely to include traditional and regular reporting and updates, tailored two-way communication, the use of technology in the form of dashboards, intranets and communication platforms, as well as educational initiatives offering training sessions, workshops and seminars.

Finally, developing a crisis communication plan to ensure stakeholders are informed in the event of significant challenges or emergencies and which contains clear protocols for transparent and timely communication is essential.

> Captives should be part of a long-term risk financing strategy with their use not dependent on fluctuating commercial market cycles. How captives are used by their parent 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 parent organisation for many years.

10 How will the organisation stay informed of relevant captive, insurance industry and risk management trends?

Even though the world of captive insurance can seem esoteric, there is a wealth of industry associations and organisations, including the International Association of Insurance Supervisors and the Captive Insurance Companies Association, all of which can provide access to valuable resources, networking opportunities and industry events. Depending on the domicile of choice for the captive, various local conferences and events are often organised on a regular basis, offering opportunities to share experience, gain different perspectives and discuss common challenges in the captive insurance industry. In addition, publications such as *Captive Intelligence*, *The Captive Review*, *The Insurance Journal* and *Business Insurance* often provide in-depth analysis of industry trends and forecasts. Other resources include online platforms, podcasts and webinars, as well as collaboration with experts and consultants, regulatory updates and news alerts, and involvement in research initiatives.



"Airmic undertakes a programme of surveys, webinars and events in the UK and the Island of Ireland, and provides reports and guidance focused on captive insurance. These are delivered with relevant experts from from Airmic's reinsurer, broker and specialist consultant partners, and are available to all Airmic members."

Julia Graham, CEO, Airmic

11 By what means will the organisation ensure that captive utilisation continues to align with the organisation's overall strategic objectives?

In a sense, the answer to this question lies in an accumulation and combination of the answers to many of the other questions in this guide. These include the establishment of a clear set of objectives (see question 1), the development of a governance framework (see question 6), the need for continuous communication and engagement (see question 9), and the need to integrate risk management (see questions 4 and 5).

In addition, specific strategic alignment assessments conducted on a regular basis, involving analysis of changes in the business environment, regulatory landscape and organisational priorities, can be helpful. The use of technology to help facilitate data analysis and reporting related to captive performance and risk management can also play a role in enabling proactive identification of trends, opportunities and areas for improvement.

12 How should an organisation develop an exit strategy covering the possible dissolution of the captive and associated implications?

Developing an exit strategy for a captive insurance company is a critical component of overall risk management and strategic planning. The exit strategy should outline the steps and processes involved in the captive's possible dissolution and address the associated implications. The strategy should also set out clearly the triggers for its implementation, which might include the changing corporate strategy of the organisation, financial performance issues, regulatory challenges or shifts in the risk landscape, or organisational changes such as mergers, acquisitions and divestitures.

The scope of any such strategy should also be addressed. Will it cover full dissolution, sale or conversion to another type of entity? The plan itself should contain a step-by-step process covering legal and regulatory considerations, together with a financial assessment and a communication plan. Consideration should be given to the extent that the planned dissolution process itself should be addressed and documented. This might cover, for example, requirements such as the need to notify and seek necessary regulatory approvals, the likely treatment of the captive's assets in the event of liquidation and the process for claims management in relation to any pending claims to ensure that resources are available to settle claims in an orderly manner during the wind-down period.

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