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Captives: Catalyst, Not Conclusion

The Proposed UK Captive Insurance Regime: A Board Framework For Strategy, Economics and Domicile Selection

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The Proposed UK Captive Regime Creates a Strategic Review Point for Boards, Not an Automatic Redomiciliation Case

The UK is proposing a proportionate regime for UK-incorporated single-parent captives. This creates a new onshore option and a trigger for boards to test whether their existing captive and wider risk-financing structure remain optimal.

Central Conclusion

The proposed UK regime will create a strategic review point, not an automatic redomiciliation case. Boards will need to assess once the legislation is finalised whether their captive and wider risk-financing structure remain optimal across capital, collateral, liquidity, reinsurance, tax, governance, transaction flexibility and exit.

What Problem Is the Regime Seeking to Solve?

Setting up a conventional captive in the UK has been hard to justify given that conventional UK insurance prudential requirements have not been calibrated to the narrower business model and generally lower externalities of a captive. UK groups have therefore used established international and US domiciles.

How It Compares

A new onshore option for UK groups that value proximity, alignment with UK governance arrangements and access to the London market. Established captive domiciles will continue to offer distinct advantages, including broader structural options and mature specialist ecosystems.

Growth Initiative or Resilience Tool?

Both: it's a financial-services competitiveness measure and a corporate-resilience tool: better risk data, greater risk retention, access to reinsurance and cover for risks that are difficult to place in the commercial market.

In Scope

UK-incorporated, fully owned single-parent captives, covering group risks and certain permitted non-group risks.

What Regulators Are Proposing

- A separate UK captive rulebook
- Lower and simpler capital requirements
- A flexible capital resources framework, including letters of credit and parental support arrangements
- Streamlined authorisation process
- Streamlined reporting
- Proportionate FCA conduct framework

What Should Boards and Finance Leaders Do When the Regime Is Finalised?

- Existing captive owners: review the whole structure, rather than assume redomiciliation. The existing domicile may remain the right answer.
- Boards without a captive: test the strategic and financial case before selecting a domicile.
- Decision set: Optimise | Restructure | Consolidate | Relocate | Exit.

Sources: HM Treasury, Captive insurance: Consultation response, 15 July 2025; PRA, CP11/26: A tailored regime for captive insurance, 14 July 2026; FCA, CP26/29: A tailored regime for captive insurance, 14 July 2026.

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The Proposed UK Captive Regime at a Glance

A bespoke regime designed around a narrower first-stage market: UK-incorporated single-parent captives.

LAUNCH PERIMETER

UK-Incorporated | Fully Owned Subsidiary | Single-parent Captive

Business

Direct insurance and reinsurance, subject to permitted-business restrictions.

Capital

Higher of 10% of net written premium or liabilities, with a £100k floor.

Resources

Qualifying parental support and letters of credit may be eligible as Tier 2 capital resources.

Governance

SMF1 Chief Executive, at least one non-executive director, oversight of outsourcing and internal audit.

Financial & Regulatory Reporting

Audited financial statements plus a limited annual regulatory return.

Authorisation

4-6 week target following receipt of a complete application.

Not included at launch

Protected Cell Companies (PCCs) | Group and Association Captives | Broad Third-party Business

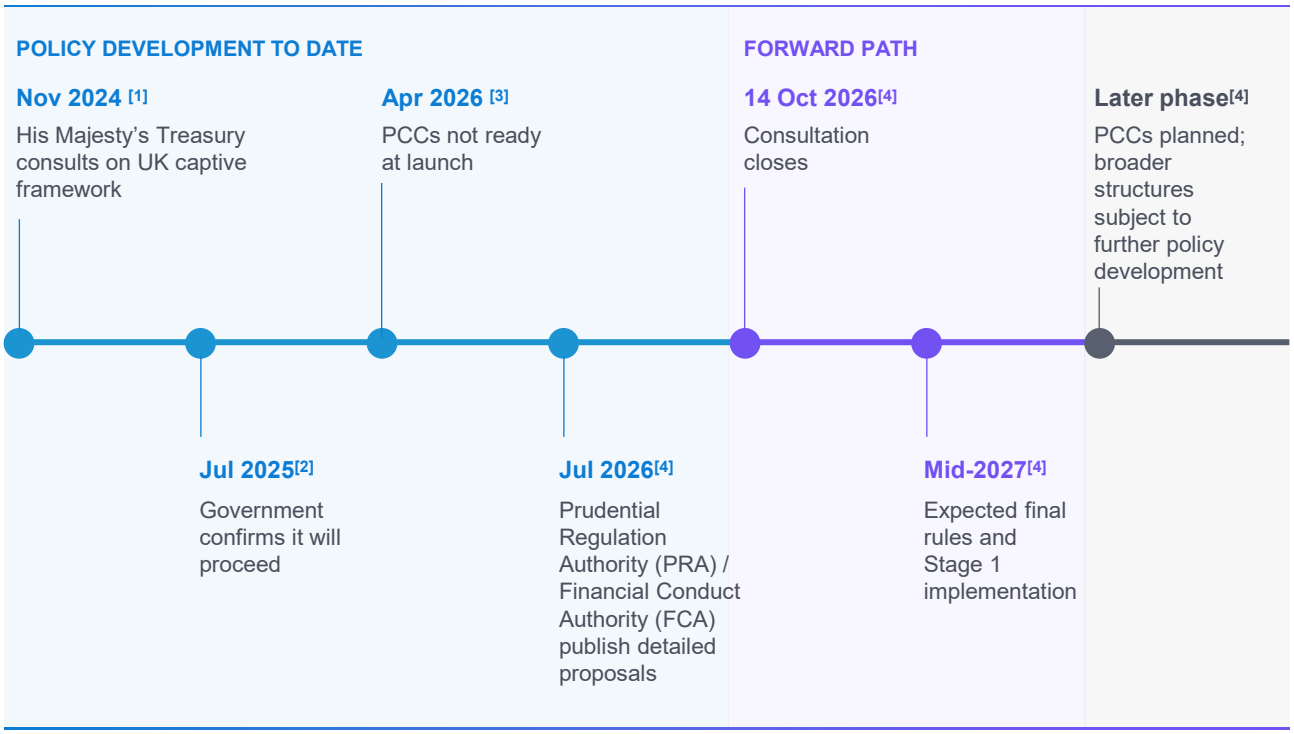


Sources: PRA CP11/26; FCA CP26/29.

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Stage 1 Is Expected Mid-2027; Broader Structures May Follow Later

The proposed launch path is becoming clearer, but protected cell companies (PCCs) will not be included at Stage 1, while broader structures may follow later.



Stage 1: Proposed Initial Launch

Single-parent captives, with a separate rulebook, simpler capital requirements, a streamlined authorisation process, proportionate reporting and a proportionate FCA conduct framework.

Later Phase: Potential Expansion

Protected cell companies require further legislative and policy work. Group and association captives may be considered as part of future policy development.

Why The Timing Matters

Boards planning 2027/28 captive formations, restructurings or renewals should model the UK option now, without assuming availability before final rules and implementation are complete.

[1] HMT, Captive insurance consultation, 14 Nov 2024
[2] HMT, Consultation response, 15 Jul 2025
[3] PRA, Risk Transformation Regulations statement, 29 Apr 2026
[4] PRA CP11/26 & FCA CP26/29, 14 Jul 2026

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The UK Will Enter an Established and Structurally Diverse Captive Market

Established domiciles differ materially in scale, legal structures and reporting conventions. Entity counts provide an indication of market depth, and should not be treated as a like-for-like ranking.

Domicile	Licensed Captive Companies / Relevant Entities	Cells / Series / Segregated Portfolios
Bermuda	631[1]	>2,000[1]
Cayman Islands	693 Class B insurers[8]	629 segregated portfolios[8]
Delaware	285[2]	Material series / cell population; latest comparable split not verified
Guernsey	196 non-cellular captives[9]	126 captive cells[9]
Hawaii	272[2]	35 individual cells[2]
Luxembourg	144 captive reinsurers[3]	N/A / no equivalent cell population identified
North Carolina	263 captive insurers	746 cells and series[4]
South Carolina	235 active captive insurance companies[5]	49 cells[5]
Utah	383 standalone captives[10]	222 protected cells[10]
Vermont	707 currently licensed captives[6]	Sponsored captive cells not included in company count[7]

Board implication

The UK will enter a mature international market. Established domiciles offer regulatory track records, specialist service-provider ecosystems and, in many cases, cell structures that will not be available at UK Stage 1. Domicile selection should therefore compare capability and whole-programme economics, not market size alone.

[1] Bermuda: Bermuda Monetary Authority insurance statistics and captive reporting
[2] Delaware and Hawaii: year-end 2024 regulator/public domicile statistics
[3] Luxembourg: Commissariat aux Assurances, National Risk Assessment 2025, reporting at year-end 2023.
[4] North Carolina: North Carolina Department of Insurance, year-end 2025
[5] South Carolina: South Carolina Department of Insurance, February 2026
[6] Vermont: Vermont Department of Financial Regulation / Department of Economic Development, year-end 2025.
[7] Vermont: sponsored-captive cells are additional risk-bearing structures.
[8] Cayman Islands: Cayman Islands Monetary Authority, Q2 2026 Insurance Statistics.
[9] Guernsey: Guernsey Financial Services Commission year-end 2025 statistics.
[10] Utah: Utah Insurance Department data reported at year-end 2025
Note: Figures should not be aggregated across columns or interpreted as directly comparable market-share measures.

Sources and notes: Latest available data identified as at 14 September 2026; reporting dates and definitions vary by jurisdiction.

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Capital Is Only One Part of the Funding Requirement

Illustrative general-insurance captive: £10m net written premium and £12m net insurance liabilities. Headline regulatory measures are shown on each domicile's own basis and converted to GBP using 31 December 2025 spot FX. They are not directly comparable cash-funding requirements.

What the Mechanics Show

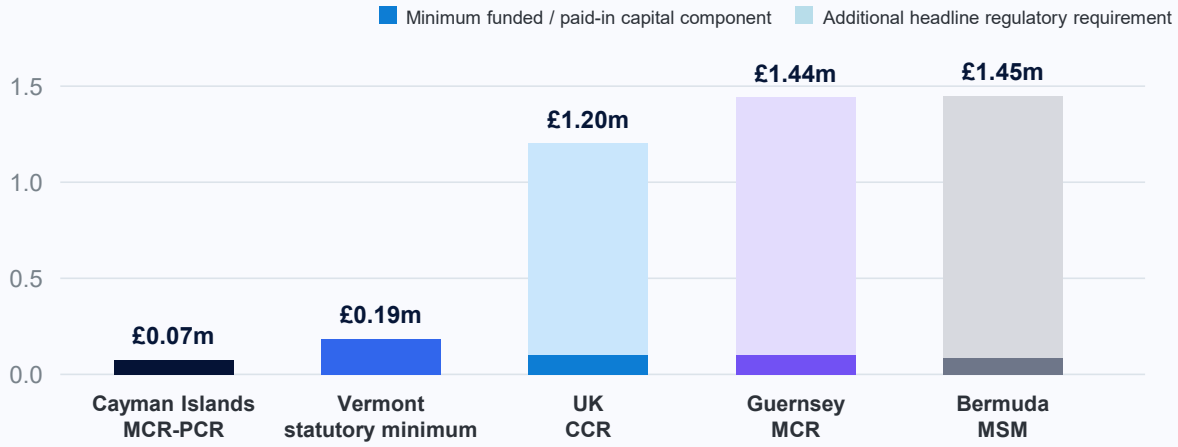
For the illustrative UK captive, the proposed Captive Capital Requirement (CCR) is £1.20m, driven by 10% of net insurance liabilities. The first £0.10m must be met with Tier 1 paid-in capital; the remaining £1.10m may be met with eligible Tier 1 or qualifying Tier 2 resources, including qualifying letters of credit or parental/group support arrangements.

Headline regulatory requirements are not directly equivalent to cash funding requirements. Each domicile applies different rules on paid-up capital, eligible capital resources, admissible assets, letters of credit, parental support and other contingent resources. These should be assessed separately before reaching a domicile view.

Board Implication

Compare the full funding requirement, not the headline capital number. Assess paid-in capital, eligible contingent resources, fronting collateral, liquidity and the cost of each before reaching a domicile conclusion.

Illustrative Headline Regulatory Capital / Solvency Measure (£m)



Cayman Islands: Prescribed Capital Requirement is equal to statutory Minimum Capital Requirement (MCR) for a Class B(i) general captive writing at least 95% related business (US$0.1m, £0.07m). Cayman defines capital as amounts shown in the shareholder equity or equivalent section of the insurer's balance sheet. Cayman Islands Monetary Authority-approved incoming irrevocable letters of credit (LOC) are recognised separately as Class 1 admissible assets. Accordingly, the US$0.1m MCR should not be assumed to be replaceable by an LOC without specific CIMA confirmation.

Vermont: Statutory minimum for a pure captive insurance company is US$0.25m (£0.19m) of unimpaired paid-in capital and surplus. Capital and surplus may be in the form of cash, marketable securities, an approved trust, or an irrevocable letter of credit issued by a bank approved by the Commissioner.

Guernsey: MCR for a standalone Category 5 captive is the greatest of 12% of premiums (£1.20m), 12% of reserves (£1.44m) and the £0.1m Capital Floor; therefore £1.44m. PCR is separately assessed and may exceed MCR. Type 1 LOCs may support MCR/PCR; Type 2 LOCs may support PCR only, subject to Guernsey Financial Services Commission (GFSC) eligibility. Separate statutory minimum paid-up share capital requirement of £0.1m and shareholders' funds requirements apply.

Bermuda: Class 1 captive underwriting owner/affiliate risks. The Minimum Solvency Margin (MSM) is the greatest of: (i) BMD0.12m; (ii) 20% of the first BMD6m of net premiums written plus 10% of net premiums above BMD6m; and (iii) 10% of relevant insurance reserves. Using 31 December 2025 spot FX of £1 = BMD1.3451, £10m net premiums equal BMD13.451m and £12m reserves equal BMD16.141m. The premium test is BMD1.20m + 10% × BMD7.451m = BMD1.945m (£1.446m). The reserve test is 10% × BMD16.141m = BMD1.614m (£1.200m). The illustrative MSM is therefore £1.45m, driven by the premium test. Minimum paid-up share capital is separately BMD120k (£0.089m). The Bermuda Monetary Authority (BMA) may require additional capital; treatment of contingent resources requires separate eligibility and approval assessment.

Sources: PRA CP11/26; GFSC Solvency Rules 2021; CIMA Class B licensing policy; Bermuda Insurance Act 1978; Vermont 8 V.S.A. §6004.

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Using Captives to Gain Strategic Advantage

The case goes beyond premium savings: a captive may lower lifetime cost, fund retained risk and strengthen programme control.

A Captive Turns Annual Insurance Buying Into Long-term Risk Financing

The objectives span economics, coverage and enterprise control.

Economics

Improve Long-term Economics
Reduce exposure to insurance-market cycles and retain underwriting results where experience is favourable.

Retain Predictable Losses
Finance predictable, high-frequency losses where retention is economically efficient.

Support Higher Retentions
Centralise and finance larger group retentions.

Coverage

Address Coverage Gaps
Design cover for exclusions, capacity gaps and emerging exposures.

Support Multinational Programmes
Coordinate local policies, fronting and group risk.

Control & Access

Access Reinsurance Markets
Create a controlled risk-retention layer and access reinsurance capacity.

Improve Risk Data & Management
Improve loss data, claims oversight, risk pricing and prevention incentives.

Why now?

Captive growth, changing market conditions and an evolving risk mix create a useful point to reassess long-term risk-financing strategy.

Global Market Expansion

6,549[1]

captives across 80 domiciles in 2025 (+3.8% year-on-year growth)

Changing Market Economics

-14.7%[2]

Softer pricing can improve external risk-transfer economics, reinforcing the need to test captive retention against market alternatives.

Sustained Underwriting Performance

88.0[3]

five-year combined ratio vs 97.0 for commercial casualty peers

More Diverse Risk Universe

92%[4]

of 2025 nat-cat insured losses came from secondary perils

Important: A captive is not automatically lower-cost

Outcomes depend on loss experience, capital, collateral, operating costs, fronting, reinsurance, tax and commercial-market alternatives.

[1] Business Insurance, 24 Apr 2026 • [2] Howden, Re-balancing, 2 Jan 2026
[3] AM Best, Captive Insurance, Exhibit 5, 4 Aug 2025 • [4] Swiss Re Institute, sigma 1/2026, Fig. 26, 19 Mar 2026

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Domicile Selection Should Balance Strategic Fit, Economics and Execution, Not Capital Alone

A board-level decision should test the complete risk-financing model across four dimensions.

1. Financial Economics

Capital • Collateral • Tax • Reinsurance
Board question: What is the all-in economic cost after capital, collateral, liquidity, tax, reinsurance and operating costs?

2. Programme & Structural Fit

Fronting • Reinsurance • Cells • Migration / Exit
Board question: Can the domicile support the intended programme today—and adapt as needs change?

3. Operating Feasibility

Governance • Authorisation • Provider Ecosystem
Board question: Can the group establish, govern and operate the captive efficiently and credibly?

4. Regulatory & Strategic Confidence

Regulatory Credibility • Long-term Stability
Board question: Will boards, counterparties and supervisors have confidence in the regime over time?

Potential UK Advantages

- Proximity to group decision-makers
- Alignment with UK governance
- London insurance and reinsurance market access
- Potential capital-resource flexibility

Evidence Still Required Before Domicile Decisions

- Final rules and implementation timetable
- PCC availability and timing
- Authorisation experience in practice
- Depth of captive-management and professional-services capacity
- Tax treatment and transfer-pricing implications
- Supervisory proportionality in practice

Board Implication

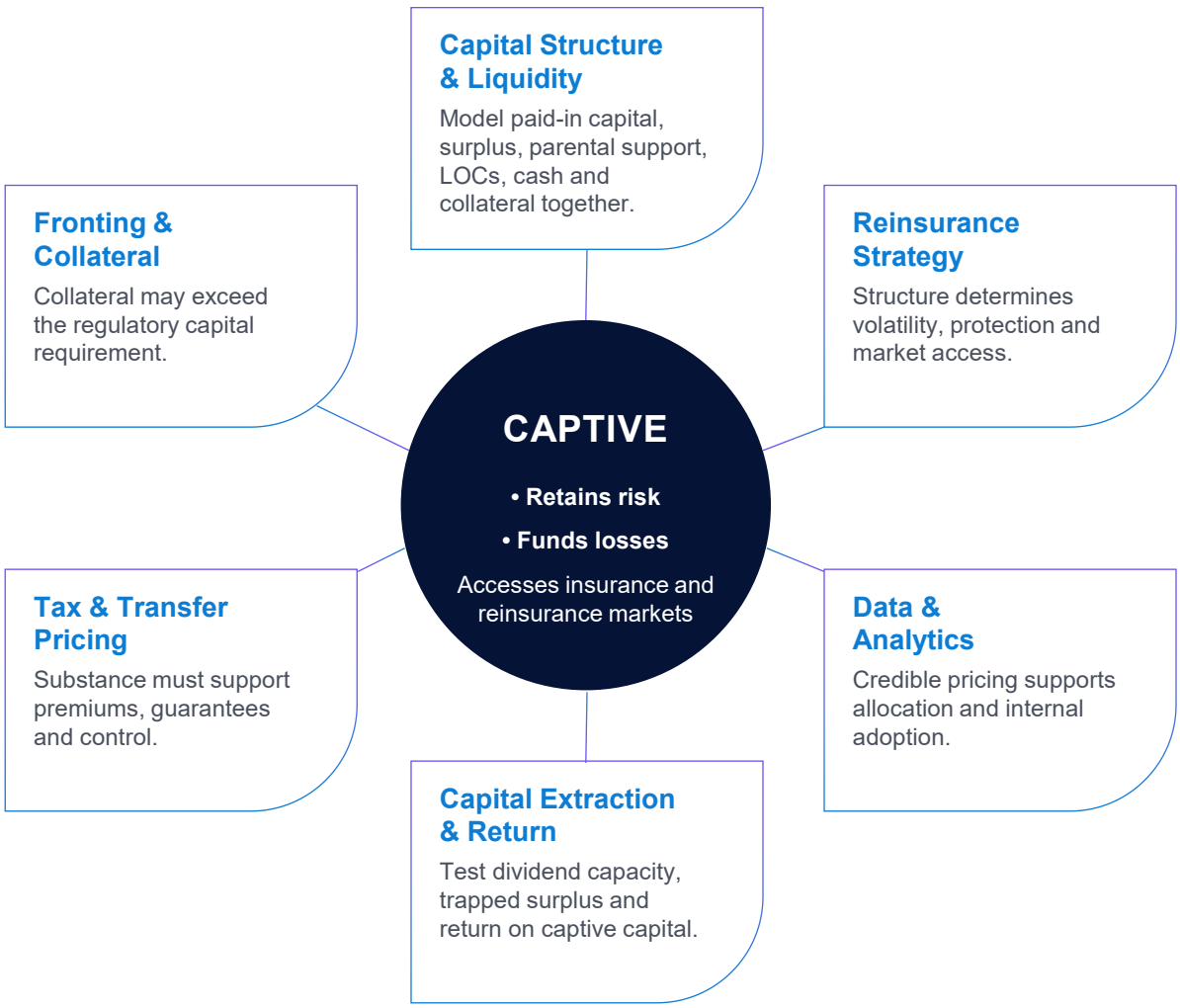
Domicile selection should optimise the whole risk-financing model across economics, structure, operating feasibility and long-term strategic fit, not simply minimise regulatory capital.

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Captive Economics Depend on the Programme Around It, Not Capital in Isolation

The captive sits within a connected capital, liquidity, collateral, reinsurance, tax, governance and operating structure.



Board Question

Is this the most efficient way for the group to deploy capital against retained insurance risk?

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Ten Practical Tips

Start with strategy, commercial benefits/rationale, capital discipline and market resilience.

1. **Start with risk strategy, not domicile**
2. **Model capital, collateral and liquidity together**
3. **Define what the captive will not write**
4. **Use claims data to price risk and shape business-unit behaviour**
5. **Stress-test fronting and reinsurance dependencies**
6. **Document transfer pricing and tax substance early**
7. **Design governance for conflicts arising from the relationship with the parent**
8. **Build a practical outsourcing and manager model**
9. **Plan for the captive lifecycle, including run-off, wind-down and redomiciliation options**
10. **Use the consultation window to shape final rules**



Michael Tagg

"Let the corporate's overall risk retention strategy lead domicile selection. Define the risks to retain, the cash outcomes required and the role the captive must play."



Mark Allitt

"Model capital, collateral and liquidity together. Regulatory capital flexibility/efficiency can still create trapped cash or liquidity pressures."



Jacqui Rayner

"Stress fronting and reinsurance for collateral calls, counterparty (fronting & reinsurance) withdrawal and reduced market capacity before committing the structure."



Adam Horridge

"Separate the captive's duties from the parent's commercial priorities, with clear authority and independent challenge."



Matt Francis

"Keep outsourcing practical: set clear ownership and service standards, while retaining enough in-house capability to challenge providers."



Cally Rush

"During the feasibility phase, consider the entirety of the captive lifecycle, design exit options at formation. Run-off, portfolio transfer and redomiciliation options to preserve flexibility as strategy and commercial environments change."

Design Principle

Build the captive around the group's risk appetite and cash constraints—not around a preferred structure.

Board Lens

Test substance, independence and exit readiness before launch.

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Selected Anonymised Captive Advisory Experience

Board problems, options analysis and implementation planning across strategy, capital, programme design and operating-model change.

1. International Construction Group

Board issue: Risk financing had evolved across multiple group priorities, creating a need to reassess the role and structure of the captive.

Our work: Reviewed strategic objectives, risk-retention priorities and structural options, including implementation implications.

Outcome: Developed a board-level roadmap to align the captive structure with the group's wider risk-financing strategy.

2. Global Petrochemical Group

Board issue: Capital and collateral pressures needed to be assessed alongside rating considerations.

Our work: Evaluated the financial implications of alternative capital, collateral and programme structures.

Outcome: Supported the board in comparing options across funding efficiency, programme resilience and rating considerations.

3. International Oil and Gas Group

Board issue: A change in risk exposure required the group to consider an alternative risk-financing structure.
Our work: Assessed structural options, economics and execution requirements.
Outcome: Provided the board with a comparative basis for selecting and implementing the preferred structure.

4. Global Captive Operating Model Review

Board issue: Operating-model complexity and overlapping captive arrangements were creating inefficiency and governance challenges.

Our work: Developed rationalisation options, assessed financial impacts and designed an implementation roadmap.

Outcome: Established a practical basis for simplifying the operating model and strengthening governance and oversight.

Independent Strategic and Financial Advisory Support Across the Captive Lifecycle

Teneo advises boards on formation, capital structure, optimisation, restructuring, M&A, redomiciliation, legacy solutions and exit.

- Independent board advice: no captive-management or insurance-product conflicts.
- Teneo leads the strategic, financial and execution analysis, coordinating managers, brokers, actuaries and other specialists. The board retains responsibility for the ultimate decision.

Formation | Capital | M&A | Restructuring | Legacy | Redomiciliation | Exit



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