FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP26/29**

A tailored regime for captive insurance

July 2026

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Or in writing to:

Shimla Rizan
General Insurance and Pure Protections Risk and Policy
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Telephone:
020 7066 1000

Email:
captives@fca.org.uk

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Contents

Chapter 1

Summary

Why we are consulting

1.1 The FCA, alongside the Prudential Regulation Authority (PRA) (the regulators) are consulting on a new, bespoke, regulatory framework for captive insurance. A UK captive regime will provide businesses with a wider set of options for managing the risks they face.

1.2 Captive insurance is a method of self-insurance, for businesses to use a regulated insurance subsidiary to finance these risks from their own resources. Premiums are paid to the captive insurer (captive) instead of a third-party insurer, to handle claims and manage risk.

1.3 This consultation covers single-parent captives (otherwise known as "pure" captives). These captives generally pose lower risks to market integrity and consumer protection as they are only permitted to insure or reinsure risks of their group entities and parties connected to the group.

1.4 There is a fast-growing global market for captives, with premiums of $69 billion in 2021, projected to grow to $161 billion by 2030.To support the growth and international competitiveness of the insurance sector, which contributes over £37 billion to UK GDP each year, the Treasury consulted in November 2024 on options for regulating captive insurers in the UK. Responses to that consultation suggested potential interest from 650 to 850 organisations, both from firms establishing new captives and those relocating from other jurisdictions. 58% of respondents to a 2026 survey by industry body Airmic said they would consider forming a new UK captive or moving their existing captive to the UK.

1.5 Reflecting this, we are proposing a regulatory framework that removes or tailors several requirements that apply to conventional insurers that are not appropriate to the captive business model or its risk profile. These proposals deliver one of the priority actions we committed to take in supporting growth and innovation as set out in our Regulatory Priorities: Insurance report in February 2026. In particular, we focus on a streamlined set of requirements that ensure firms meet our threshold conditions while avoiding unnecessary regulatory burden and enabling a more efficient authorisations process.

1.6 Both regulators' proposals follow extensive engagement with industry stakeholders to gather technical input and explore policy options, including through subject expert groups (SEGs) made up of stakeholders including captive owners, brokers, captive managers (CMs) and relevant industry bodies.

1.7 This CP covers conduct matters for UK captive insurers and is published alongside the PRA's CP11/26, covering the prudential framework. Where our proposed approach reflects a common position with that of the PRA, we cross-refer to the relevant parts of the PRA's consultation paper rather than duplicating content. This provides a coherent overall framework rather than repeating those proposals in full.

1.8 Chapters 2 and 3 below set out a high-level description of our proposals. Respondents should also read the draft rules and guidance in Appendix 1 carefully before responding to the CP questions under each chapter.

Who this applies to

1.9 This CP may be of interest to a range of stakeholders, including:

- Those entities considering establishing a captive insurer in the UK
- Existing insurers and reinsurers, particularly those exploring captive insurance structures, ceding business to them or reinsuring them
- Insurance intermediaries providing, or planning to provide, insurance and risk management services to corporates
- Advisory firms, including CMs who support clients in feasibility studies and applications for establishing captives
- Professional services providers, including legal, actuarial, and advisory firms
- Trade bodies and industry groups
- Other regulators and public authorities with an interest in the UK insurance market

Outcomes and measuring success

1.10 We will assess whether the regime is achieving the following outcomes, which are aligned to ensuring that markets function well and that regulation is targeted and evidence-based:

- A well-functioning UK captive sector – the UK captive insurance framework delivers well-run firms that enable businesses to manage their risks effectively in the UK. Firms are able to establish or relocate a captive in the UK, growing the UK captive market. We will measure this by monitoring the number of captive authorisations and timelines for processing applications.
- A proportionate regulatory framework – captive insurers are subject to requirements that reflect their risk profile and encourage growth. Our fees reflect the level and costs of regulating the sector. We will assess this through experience of supervision and numbers of authorisations.
- Clarity and certainty for firms – captive insurers and other participants in the captive insurance market understand the regulatory expectations that apply to captives, including scope, governance, and conduct requirements. We will assess this through the number of authorisations and risk monitoring of compliance.
- Appropriate consumer protection – our regulatory framework minimises exposure to, and risk of harming, consumers and third-party insureds. We will assess this with available regulatory data including SUP15 notifications to us by captive insurers

and our ongoing supervision. We will ask for additional specific data from firms only where necessary.

1.11 We will monitor the regime on an ongoing basis and once we have enough data we may undertake a post-implementation review (or, for example, a spot check exercise) to assess whether it is delivering the intended outcomes.

Next steps and implementation

1.12 The regulators' parallel 3-month consultations will close on Wednesday 14 October 2026, with implementation expected in mid-2027, after both regulators publish their final rules and policies.

1.13 At a later stage, both regulators intend to further consult to extend the regime to protected cell companies (PCCs) once the necessary legislation is in place. While we expect PCC structures to play an important role in widening access to captive insurance over time, the legislative changes required to allow them to operate as insurers will not be in place in time for the initial launch of the regime. As such, PCC captives do not form part of this consultation.

Chapter 2

Definition, scope and authorisation process for captive insurers

2.1 This chapter sets out our proposed framework for the authorisation and operation of captive insurers, including:

- a definition of a captive insurer
- the scope of permitted activities and restrictions
- a streamlined authorisation process

Definition

2.2 The Treasury's consultation discussed two types of captives – reinsurance and direct.

- 'Reinsurance basis' means where a risk is first insured by a conventional insurer (fronting insurer) who then reinsures the risk to the captive. The fronting insurer receives a commission/fee for this service and normally retains a percentage of the risk.
- 'Direct basis' means where a captive provides insurance directly to the insured group entity or other permitted policyholder. The captive receives the premium and assumes responsibility for claims arising under the policy, without using a fronting insurer.

2.3 Feedback from SEGs indicated that prospective captive owners would not typically expect to maintain several types of captive – separate captives for direct and reinsurance captives for example. We therefore propose a single type of captive, which can write insurance business on both a direct basis, subject to the lines of business limitations in section 2.5 – 2.10, or a reinsurance basis.

2.4 Both regulators propose a common definition of captive insurer, informed by guidance from the International Association of Insurance Supervisors (IAIS). The proposed definition and PRA requirements on insuring material non-group undertakings (MNGUs) (which can be insured by a captive despite not being part of the parent company) are subject to the safeguards set out in the PRA's proposals. The PRA sets out these proposals in CP11/26 (Chapter 3).

The scope of permitted activities and restrictions

2.5 We propose that captive insurers will only benefit from the regime where they do not write certain categories of business that we consider would carry additional risks of harming third parties or that would require additional consumer protections. In particular, captives would not be permitted on a direct basis to enter contracts with or cover individuals or entities eligible to refer complaints to the Financial Ombudsman Service (FOS), including:

- consumers
- small and medium-sized enterprises (SMEs) that fall outside our Handbook definition of 'large commercial customers'
- policy stakeholders as defined in our handbook glossary term, including leaseholders under a multi-occupancy building insurance policy

2.6 The PRA explains in its CP11/26 (Chapter 3) that captives will only be permitted to insure, on a reinsurance basis, material non-group undertakings that have an annual turnover of under £1 million. This is to exclude direct exposure to undertakings that are protected by the Financial Services Compensation Scheme (FSCS).

2.7 In addition, the PRA's CP11/26 (Chapter 3 and Table 2) explains its proposed additional restrictions to prevent captives from writing certain lines of business.

2.8 Our proposals include aligning with the PRA's approach on the lines of business a captive insurer can write, together with our limits on direct insurance exposure to consumers, SME's and policy stakeholders.

2.9 The tailored requirements for captive insurers apply only to activities conducted within the scope of the firms' permissions. Captives must not undertake activities outside those permissions and may be subject to regulatory intervention for failing to comply.

2.10 Table 1 summarises the restrictions on the lines of business that captives can write under FCA and PRA rules.

Table 1: Summary of the lines of business captives can write

Line of business	Direct insurance	Reinsurance	How the restriction applies
Risks for or covering consumers, SMEs that are not group subsidiaries and that are eligible to refer complaints to the FOS and policy stakeholders	❌	✅	PRA see CP11/26, Chapter 3 (FCA anticipates the limitation will also include policy stakeholders restriction) see Appendix 1
Compulsory lines	❌	✅	PRA see CP11/26, Chapter 3
Employee benefits (as defined by PRA in CP11/26)	❌	✅ Not including material non-group undertakings	PRA see CP11/26, Chapter 3
Life insurance (other than defined employee benefits)	❌	❌	PRA see CP11/26, Chapter 3

Line of business	Direct insurance	Reinsurance	How the restriction applies
Corporate risks with named individuals	❌	✅	PRA see CP11/26, Chapter 3
Material non-group undertakings with an annual turnover of under £1m (FSCS limit)	❌	✅	PRA see CP11/26, Chapter 3
Other corporate risks (non-life)	✅	✅	PRA see CP11/26, Chapter 3

A streamlined authorisation process

2.11 The regulators are proposing a streamlined and proportionate approach to authorisation for captives, reflecting their more limited and lower-risk business model.

2.12 Captive insurers will be dual-regulated firms that hold permissions to effect and carry out contracts of insurance as principal (together with any other necessary permissions).

2.13 To encourage growth of the sector, the regulators are committing to determining complete applications within 4 to 6 weeks of receiving them. This applies to captive insurers that will carry on permissible business lines.

2.14 We want our approach for assessing captive insurer authorisation applications to support that timeframe and provide a focused, efficient entry route aligned to captives' lower risk. The regulators can only meet the proposed authorisation timeframe where the applications are complete and of requisite quality. The captive insurer itself must also be ready to establish in the UK, meaning that the applicant is ready, willing and organised to conduct regulated activities at the point they apply for authorisation. Any gaps or material issues will delay our assessment of the application.

2.15 Likewise, applicants for Senior Management Function (SMF) roles will need to gather regulatory references and background checks before they apply, as any issues with regard to these will also delay authorisation.

2.16 Applicants for authorisation of a captive insurer will need to submit an application form. We strongly encourage firms to engage with FCA Authorisations and the PRA at an early stage and before submitting applications. This can help applicants understand what constitutes a complete application and reduce the likelihood of delays.

2.17 As part of the authorisation process, the regulators will expect applicants to demonstrate that they meet the relevant threshold conditions, including those covering:

- effective supervision
- appropriate resources (financial and non-financial)
- suitability
- business model

2.18 The authorisation process will consider applications against these threshold conditions, regarding the nature, scale and activities of the applicant captive firm (compared to a more complex insurer). The information and evidence that we will expect applicants to provide will reflect this. Applicants will also need to show they will meet or comply with relevant FCA requirements, including governance, risk management and outsourcing arrangements.

Question 1: **Do you agree with the proposed scope of permitted activities and restrictions? Are there any categories we have not considered?**

Question 2: **We intend to follow the authorisation process as detailed in the PRA's CP11/26 (Chapter 4) and welcome any feedback you may have on this.**

Chapter 3

Application of FCA rules, governance, supervision and fees

3.1 This chapter sets out our proposals on:

- which of our handbook rules would apply to captive insurers
- how we propose to hold them accountable
- how we propose to supervise them
- our proposed fee structure

High-level standards and other applicable sourcebooks

3.2 Our overall aim is a regime that reflects the risks specific to captive insurers (as described in Chapter 2), while ensuring appropriate customer protection by excluding exposure to consumers, SMEs that are FOS eligible complainants and policy stakeholders. Captive insurers must satisfy threshold conditions and have appropriate systems and controls (including meeting the specific proposed requirements for captives). This includes where they may outsource activities to a third party. As captive insurers will be restricted to insuring group risks and those closely connected with it (as set out in Chapter 2), we can apply rules in a way that reflects that the entities being insured are not unconnected third parties or retail customers.

3.3 For these reasons, our regime will:

- Adopt an approach where, in general, the high-level standards that apply to conventional insurers also apply to captive insurers, unless we specifically disapply or modify them. For example, most of our Principles for Business will apply, except for those that are specifically aimed at protecting retail customers – the Consumer Duty for example.
- Apply some rules in certain situations only, for example if they are triggered by specific events or risks (e.g. SUP 12 – 15 and 18)
- Include appropriate amendments (including new rules or guidance as detailed in the draft rules in Appendix 1 below) to the rules that remain switched on reflecting, where necessary, the unique business model of captive insurers

3.4 The table below sets out those parts of our handbook rules we propose to apply or not apply to captive insurers:

Sourcebook	Will it apply to captives?	Modifications or parts of the rules that are unlikely to apply
PRIN	✅	PRIN 10 (protection of client assets) will not be relevant to captive insurers (unless they hold client assets). PRIN 12 (Consumer Duty) will not apply to captive insurers.

Sourcebook	Will it apply to captives?	Modifications or parts of the rules that are unlikely to apply
COND	✅	We propose to add guidance in the new SYSC section referred to below that explains captive insurers will need to satisfy threshold conditions. Where the management of the captive insurance business is outsourced to CMs, the captive will need to demonstrate this arrangement will enable the firm to meet the threshold conditions (for example where the captive relies on the premises, staff, systems, of the CMs).
FIT	✅	Would apply to the SMF function holder(s) of the captive insurer.
COCON	✅	Whilst COCON will apply, we consider that the following would not be relevant to captive insurers given the business limitation they have: • individual conduct rules 4 and 6 as they deal with customers/retail customers • those related to the Consumer Duty
APER	✅	APER will not be relevant unless captive insurers have Appointed Representatives.
SUP 2 -15 and 18	✅ (would apply where relevant)	We are proposing new rules/guidance to set specific notification obligations in SUP 15 for captive insurers requiring them to notify us of changes to their name, address, breaches of threshold conditions and other rules covered by SUP 15, changes to the SMF1 and CM.
SUP 16	❌	We do not consider the information that we collect through the ongoing FCA reporting requirements for conventional general insurance firms (e.g. value measures data or pricing data) to be what we need to monitor captive insurers.
SYSC	✅ (would apply where relevant)	SYSC application provisions will explain which of them we propose will apply to captive insurers, including: • the whole of SYSC 13 (operational risk systems and controls) and 14 (risk management and associated systems and controls for insurers) • relevant parts of SYSC 2, 3, 10 (conflicts of interest), 18 (whistleblowing) and 28 (knowledge, ability and good repute), with new rules/guidance setting out our requirements and expectations on how these rules are intended to be applied to captive insurance businesses • SYSC 22 – 24 will apply as they are relevant to the SMF function of the captive insurer and 25 – 26 are disapplied.
GEN	✅	GEN 7 will not be relevant to captive insurers as it is specific to consumers.
INSPRU MIPRU	❌	Will not apply as PRA prudential regulation applies. We do not consider the other non-prudential rules within MIPRU to be necessary or relevant for captive insurers.

Sourcebook	Will it apply to captives?	Modifications or parts of the rules that are unlikely to apply
PROD	✗	PROD 4 will not apply to a product that is used to effect a contract of insurance by a captive insurer.
ICOBS CASS	✗	These rules, including the 'customer's best interests' rule, will not apply as we believe that the Principles for Business provide sufficient protection as the 'customers' of captive insurers are part of, or closely related to, the owning group.
DISP COMP	✗	These requirements will not be relevant to captive insurers because they may not include consumers, SMEs that are FOS eligible complainants or policy stakeholders in policies they write on a direct basis.
TC	✗	As captives will be restricted to insuring group risks they are unlikely to be exposed to consumer-facing insurance distribution or advisory activities

Corporate governance and accountability of captive insurers

3.5 Captives, like other insurers, will be dual-regulated. So, we are not proposing any additional requirements to the PRA's proposed requirements for captive insurers. The PRA's CP11/26 (Chapter 7) contains full details, which we summarise as:

- creating a new category of insurer (so captives will not be treated as Solvency II firms) and applying limited prudential requirements reflecting the lower risk to prudential objectives.
- requiring the captive insurer's Board to have at least one (more if appropriate) non-executive director (NED) and an expectation for an independent NED depending on size/complexity. The captive insurer's Board may also have a chair who is independent and able to exercise effective oversight, and who is excluded from the Senior Management and Certification Regime (SM&CR).
- requiring only one Senior Management (an SMF1) function on the captive insurer's Board (PRA SMF1 definition amended to suit captive insurers) accountable for responsibilities inherent in or allocated to the function. An employee of the CM may hold this SMF1 role if they meet the fitness and propriety test and conflicts of interest are appropriately managed. The PRA SMF1 will also be accountable to us and we will be notified of any changes.
- disapplying all other PRA functions.
- expecting captives to propose contingency plans if the SMF1 can't continue in that role.

3.6 Given this and our proposed restrictions to the scope of captive insurers' business, we consider that it would not be proportionate to mandate any additional FCA SMF functions. However, in line with our approach to Insurance Special Purpose Vehicles (ISPVs), if a firm has executive directors apart from those that the PRA approves as PRA SMFs, they would need to be pre-approved as SMF3s.

Captive management

3.7 Captives often outsource their management to CMs. CMs handle the day-to-day administration, regulatory compliance, and financial operations of a captive insurer. Captive management is not a specific regulated activity under the Regulated Activities Order (RAO). So, CMs do not need to be authorised unless they carry on regulated activities requiring FSMA authorisation.

3.8 Many CMs in other domiciles are part of groups containing UK regulated firms. If they wish to manage captives in the UK, they can decide whether to provide these services through their existing FCA authorised firms. If they instead establish a separate, unregulated CM subsidiary in the UK, they must ensure it does not carry out any activities that would violate the General Prohibition (section 19 of FSMA).

3.9 We envisage these and other groups may wish to offer management services to captives. The regulators propose that, where activities are outsourced to CMs under a management agreement, the captive insurer would remain responsible for those activities. Where a CM employee is appointed as an SMF1 of the captive, they would also be responsible in their individual capacity as the SMF1. The captive insurer's Board will be expected to ensure effective oversight of the CM.

3.10 Where activities are outsourced, we propose to apply the existing guidance on outsourcing in SYSC 13.9 and the SUP rules on suppliers under material outsourcing arrangements to captive insurers (generally CMs). The latter requires firms to take reasonable steps to ensure that, under material outsourcing arrangements, each of its suppliers deals in an open and cooperative way with both regulators in discharging its functions in relation to the firm.

3.11 We believe most captive management services will fall within our definition of material outsourcing. We have also proposed additional rules/guidance that apply to captive insurers appointing a CM. These set out what must be included, as a minimum, in the management agreement the captive insurer has with its CM, including but not limited to whistleblowing, record-keeping, identifying and managing conflicts of interest and dealing with the regulators in an open and cooperative way.

Supervision and reporting

3.12 We propose taking a proportionate approach to supervision and reporting, as the proposed design of the captive insurance regime mitigates the risks of harm to retail customers. As explained above, captives will be excluded from our regular reporting requirements in SUP 16, which currently apply to general insurance (GI) and life insurance firms. This reporting is distinct from the PRA's prudential reporting requirements as set out in PRA CP11/26 (Chapter 5).

3.13 As is the case for other firms, we propose that captives must notify us of any material events and issues in line with SUP 15 rules. Alongside these, we are also proposing specific notification requirements including for changes to the firm's name, address, the SMF1, breaches of threshold conditions and other rules as well as appointing and replacing CMs and their contact details.

3.14 We will monitor the market post implementation, to assess how firms are applying the requirements of the new regime, including the SUP 15 notification requirements. Where issues arise, we will consider whether further action is appropriate, including whether additional notification and reporting requirements (via further consultation) should be considered for captives.

Fees

3.15 We are funded through fees that we collect from the firms authorised or registered with us. We charge both application and periodic (annual) fees. When introducing a new regulatory regime, we recover our processing costs and ongoing annual supervisory costs.

3.16 This section sets out our proposals for:

- the application fee for captive insurers who apply for FCA authorisation
- including captive insurers in the A.3 fee block
- periodic fees for captive insurers

Application fee

3.17 Captive insurers must apply for FCA authorisation to undertake captive insurance activity.

3.18 Our fee rules (FEES 3.2.5G) require firms to pay a fee to apply for authorisation. This fee is designed to recover a proportion of the cost of processing an application. To keep the structure of application fees simple, we have 10 standard pricing categories (see our webpage for further information).

3.19 We propose charging a Category 4 (currently £2,820) application fee for captive insurers as we believe this represents a reasonable contribution towards our processing costs without acting as a barrier for market entry.

Periodic fees

3.20 We recover supervisory costs through periodic fees. Once authorised, firms pay periodic fees within fee-blocks which group together firms with similar permissions. As captive insurers are expected to undertake activity comparable to general insurers, we propose including them in the A.3 fee block.

3.21 We propose a flat rate annual periodic fee of £600 to recover our supervisory costs for captive insurers.

3.22 A flat-rate fee model sets fixed fees for all firms with a specific permission, regardless of their size. Under this model, our revenue depends on the population of captive insurers registered at the start of the financial year rather than firms reporting data to us. We believe this model is the most proportionate way to recover costs, reflecting the low risk and light supervision expected for this regime. It also reflects the low level of reporting that will be required for captive insurers as well as aligning with the PRA's approach.

3.23 The PRA's proposed fees can be found in PRA CP11/26 (Chapter 4).

Question 3: **Do you agree with our proposals on which of our handbook rules should/should not apply to captive insurers, and the additional rules/guidance we have proposed? If not, please tell us which of our proposals you do not agree with and why.**

Question 4: **Do you agree with our proposals on governance and accountability of captive insurers? If not, please tell us which aspect of our proposals you do not agree with and why.**

Question 5: **Do you agree with our proposed approach to supervise captive insurers, including to apply SUP 15 notifications instead of annual reporting? If you do not, please explain which aspect of our proposal you do not agree with, and why.**

Question 6: **Do you have any comments on our proposal to charge a Category 4 fee (£2,820) for applications to undertake captive insurance activity?**

Question 7: **Do you agree with our proposal to add captive insurers to the A.3 fee block?**

Question 8: **Do you have any comments on our proposal to charge captive insurers a flat annual periodic fee of £600?**

Annex 1

Questions in this paper

Question 1: Do you agree with the proposed scope of permitted activities and restrictions? Are there any categories we haven't considered?

Question 2: We intend to follow the authorisation process as detailed in the PRA's CP11/26 (Chapter 4) and welcome any feedback you may have on this.

Question 3: Do you agree with our proposals on which of our handbook rules should and should not apply to captive insurers, and the additional rules and guidance we have proposed? If not, please tell us which of our proposals you do not agree with and why.

Question 4: Do you agree with our proposals on governance and accountability of captive insurers? If not, please tell us which aspect of our proposals you do not agree with and why.

Question 5: Do you agree with our proposed approach to supervise captive insurers, including applying SUP 15 notifications instead of annual reporting? If you do not, please explain which aspect of our proposal you do not agree with, and why.

Question 6: Do you have any comments on our proposal to charge a Category 4 fee (£2,820) for applications to undertake captive insurance activity?

Question 7: Do you agree with our proposal to add captive insurers to the A.3 fee block?

Question 8: Do you have any comments on our proposal to charge captive insurers a flat annual periodic fee of £600?

Annex 2

Cost benefit analysis

Executive summary

1. In July 2025, as part of the Chancellor's Mansion House speech on financial services reform, the government announced plans to introduce a new UK captive insurance framework to strengthen the UK's position as a leading international centre for insurance and risk management and to provide businesses with a wider set of risk management options. Alongside the Prudential Regulation Authority (PRA), we have subsequently designed a new UK captive regime. Our proposals align with our objective to promote effective competition by lowering barriers to entry and increasing the range of risk financing options available to firms and to facilitate the international competitiveness and growth of the UK economy. In doing so, we have also sought to ensure we meet our objectives of securing an appropriate degree of protection for consumers and making markets work well.

2. Firms wishing to set up and use captive insurance subsidiaries typically establish them in other jurisdictions or rely on commercial insurance arrangements (throughout this cost benefit analysis, by 'firm' we mean any business and not just FCA-regulated ones). There are currently no captive insurers established in the UK.

3. Our proposals introduce a proportionate level of regulation for firms that meet our definition of a captive insurer, reflecting their distinct business model and risk profile. They seek to encourage firms in the corporate sector to establish captive insurers in the UK for the financing of their group risks, either by setting up a new captive or relocating an existing one from another jurisdiction.

4. The PRA and the FCA would jointly authorise and supervise captive insurers in the proposed regime. As part of the PRA's concurrent Consultation Paper (CP11/26), which is focused on the proposed prudential framework for UK captive insurers, the PRA has also produced a Cost Benefit Analysis (CBA). Given the interdependencies between our proposals and the PRA's, it is challenging to disentangle their impacts, therefore some impacts are assessed in both our CBA and the PRA's. Not all of the impacts assessed in the two CBAs are additional to each other.

5. As well as supporting the international competitiveness of the UK as a location for captives, we expect these proposals to benefit firms. Where firms are newly establishing a captive, this will improve their ability to, and the price at which, they are able to insure against certain risks. Whether they are newly establishing a captive or relocating an existing one to the UK, this can contribute additional economic activity and jobs to the UK economy. Any growth of a UK captive insurance market would complement the extensive range of insurance and ancillary services available to businesses in the UK (particularly in the City of London) and could result in efficiencies from these services

being co-located (rather than transacting with captive insurers based in offshore jurisdictions).

6. The direct costs of the policy are one-off familiarisation costs that firms will incur to understand the new regime. We estimate these costs at £1.8m-£2.4m across all affected firms; the range reflects uncertainty on the number of firms affected. Indirect costs will depend on the take-up rate, and so are less certain. To reflect this uncertainty, we consider low/high take-up scenarios for the additional one-off and ongoing indirect costs firms incur when setting up or relocating a captive in the UK; over a 10-year appraisal period and discounted at 3.5%, these total £5.8m-£23.6m. We also estimate costs for the FCA that total £1.2m over a 10-year horizon when discounted at 3.5%.

7. We are confident that these proposals are proportionate. The permissive nature of the proposals mean that businesses will only choose to establish or relocate a captive in the UK where they consider it beneficial to do so. We therefore expect the benefits enjoyed by these businesses will outweigh the indirect costs they incur.

Introduction

8. The Financial Services and Markets Act 2000 (FSMA) requires us to publish a CBA of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

9. In this CBA we assess the impact of our proposed regulatory framework for UK captive insurers. This analysis presents estimates of the anticipated impacts of these proposals. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. Where monetisation has not been possible, we provide a qualitative explanation of the impacts. Our proposals are based on weighing up all the impacts we expect and reaching a judgement about the appropriate level of regulatory intervention.

10. The regulators intend to consult on whether to extend the UK captives regime to Protected Cell Companies (PCCs) once the necessary legislation is in place. While PCC structures are expected to play an important role in widening access to captive insurance over time, the legislative changes required to allow them to operate as insurers will not be in place in time for the initial launch of the regime. As such, we do not analyse the impact of future proposals to introduce regulation of PCCs, which we anticipate will have further impact.

The market

11. Captive insurance is a form of self-insurance whereby a parent company establishes a regulated insurance subsidiary to cover risks within its own group. There can be several commercial motivations for establishing a captive, including (but not limited to) reducing insurance premium costs, insuring against risks that are expensive or not possible to insure externally, and getting access to the reinsurance market.

12. We do not have data on the number and size of UK firms who use a captive insurer. However, typical users of captives are often multi-national companies and professional services firms, with most of the 100 largest UK companies using captives in some form. Smaller businesses and public sector entities could also set up and benefit from setting up a captive insurer. According to the Treasury's consultation responses, around 300 to 500 businesses that operate in the UK already operate captives in offshore domiciles, but there is not currently a domestic captive market in the UK despite one being permitted. The reasons for this are set out in the following section.

13. Captive insurers usually rely on external firms, known as captive managers (CMs), to handle their day-to-day operations (such as communicating with the regulator and preparing financial records and reports). Because of this, the changes we are proposing could also affect these managers and other insurance intermediaries. CMs are typically part of larger broking groups, that may already be authorised by the FCA, although this is not a requirement under our proposed rules. We do not have information on the number of CMs likely to be affected by our proposals.

Problem and rationale for intervention

Driver of harm

Lack of a bespoke regulatory framework for captive insurance

14. There is currently no domestic captive market in the UK. The Treasury's 2024 consultation acknowledged that the UK is not currently perceived to be an attractive destination for the establishment of captive insurance companies. Any prospective UK-resident captive insurers would be subject to many of the same application, authorisation, governance and capital requirements as other insurers and reinsurers. Once established, they would also be subject to many of the same ongoing compliance and reporting requirements as insurers and reinsurers. This is despite them having a different business model and risk profile from conventional insurance firms (since they primarily insure the risks of their own parent group).

15. The UK's lack of a bespoke regime increases the cost and burden associated with establishing and operating a captive in the UK. Many other jurisdictions, however, provide bespoke regimes for captive insurers. This is one, but not the only, factor contributing to the UK not currently having a domestic captive insurance market. Where UK companies establish a captive insurer, they are domiciled in other jurisdictions such as Guernsey and the Isle of Man. Moreover, international competition for captives is increasing, with France and several US states having established bespoke regimes recently.

16. The Treasury's consultation responses on captive insurers demonstrated a strong consensus on the need for regulatory processes aligned to the unique risk profiles of captives, as exists in other jurisdictions.

Alternative option considered

Do nothing

17. Under a do-nothing option, we expect that the regulation applied to UK captive insurers would continue to be more burdensome compared with other jurisdictions that take a more proportionate approach to regulating captives. Therefore, the lack of a UK captive market would likely persist, and the benefits associated with a UK captive market would not be realised. This option would therefore not achieve the objective of addressing the problem identified above. For this reason, we do not consider a do-nothing option to be the preferred option.

Our proposed intervention

Definition, scope and authorisation of a captive insurer

18. We propose a definition of a captive insurer able to write business on a direct and reinsurance basis, limited to insuring group risks (and certain connected entities). By restricting captive insurers primarily to group risks and placing limitations on consumer-facing business, we can reduce the regulatory burden without compromising on consumer protection.

19. The authorisation process will be streamlined, with the aim of an end-to-end decision timeline of 4-6 weeks for complete applications. This will reduce time and administrative costs for firms seeking to establish a captive insurer in the UK.

Application of rules, governance and accountability

20. We intend to apply core high-level standards, including PRIN, SYSC and the threshold conditions, with targeted modifications. We would disapply requirements that are not relevant to captive business, including conduct rules such as ICOBS and PROD, and retail-focused regimes.

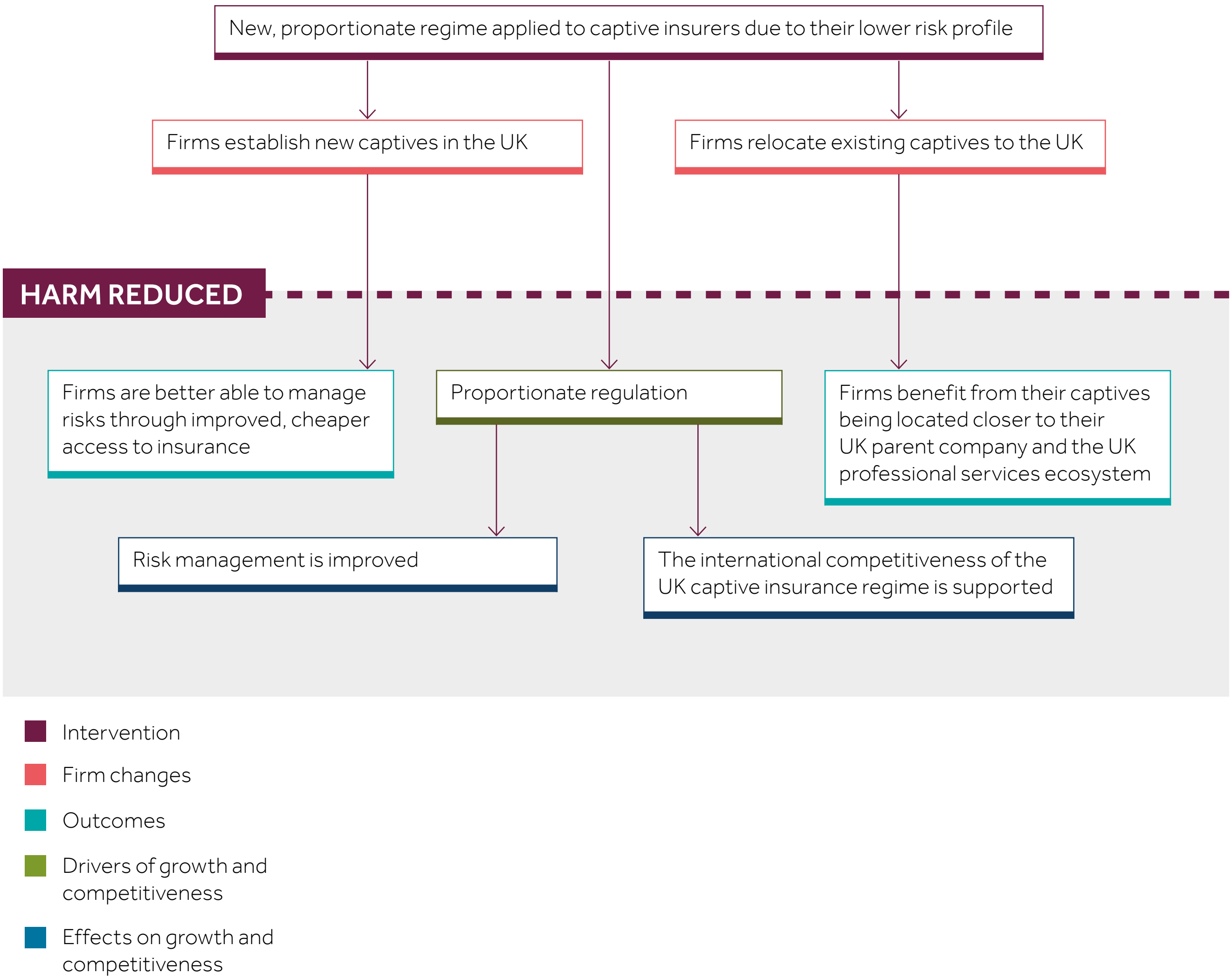
21. We propose a simplified governance model aligned with PRA requirements, centred on a single SMF1 role accountable to both us and the PRA. Captives would remain fully accountable for outsourced activities, including those carried out by CMs.

Reporting and supervision

22. We propose a primarily reactive supervisory model for captive insurers, reflecting their lower risk profile. Instead of annual reporting, we propose to rely on SUP 15 notifications for material events and key changes, supported by targeted guidance and post-implementation monitoring.

23. The figure below summarises how we expect our intervention to lead to the outcomes it aims to achieve.

Figure 1: Causal chain



Baseline and key assumptions

Baseline

24. The baseline scenario for the CBA in this CP is a continuation of the current world in which we and the PRA apply the same (or very similar) conduct rules to captives as to other insurers. Under the baseline scenario the authorisation processes and supervisory arrangements would be the same as other insurers insuring large commercial business (where the Consumer Duty and rules applying to retail business would also not apply).

25. Under the baseline scenario – the absence of the FCA and PRA not introducing a differentiated regime – we would expect UK corporates to continue to locate captives offshore, given the disparity of regulatory and other overheads. Firms that wish to use captive structures would therefore continue using other jurisdictions or make other arrangements with commercial insurers.

Key assumptions

26. We consider the effects of the intervention over a 10-year appraisal period and with a 3.5% discount rate. The analysis is based on several key assumptions regarding market capacity and captive uptake. These assumptions are set out below.

27. As noted above, there are currently no operating UK-based captive insurers (while there are arrangements at Lloyd's of London for captive syndicates, they are not considered here because they operate within a distinct market structure and regulatory regime). We have therefore used feedback gathered in industry expert groups, responses to the Treasury's consultation, and the results of industry surveys to calculate estimates of expected market capacity and captive uptake.

28. All firms in the UK, FCA-regulated or otherwise, will be eligible to set up a captive (as they currently are). Theoretically, a vast range of businesses could set up a captive insurer; potential interest in the UK is likely to be split between firms relocating their captives to the UK and firms establishing a captive for the first time. It is not possible to predict with certainty the size and type of firms who will decide to take advantage of the regime. Businesses considering the UK as a captive location are likely to compare with other domiciles, the regulatory environment being one of several factors likely to influence their decision.

29. We envisage most organisations that will establish a UK captive will be large organisations with complex risks, while the captives themselves will be relatively small subsidiaries, in terms of balance sheet size and with most or all of their employees and operations outsourced to a CM. Given the uncertainty, in our projections we predict a broadly even split between businesses relocating their captive business to the UK and newly established captives.

Market capacity

30. Responses to the Treasury's consultation suggested that around 300 to 500 organisations with UK operations already use a captive insurer based in another jurisdiction. They also suggested that a further 350 organisations could be potential candidates to establish a UK captive. This suggests that there may be up to 650 – 850 firms who might consider establishing a UK captive under the proposed framework.

31. To account for the uncertainty around these estimates we base our assumptions on two different scenarios:

- Low market capacity scenario: 650 firms
- High market capacity scenario: 850 firms

Captive uptake

32. However, we and the PRA conservatively expect actual uptake under our proposals could be significantly lower than the total capacity identified above. Many organisations may decide not to establish a UK captive for their own commercial or group-structural reasons or may prefer to retain their existing offshore captive arrangements. For example, 58% of respondents to a 2026 survey by industry body Airmic, said they would consider forming a new UK captive or moving their existing captive to the UK, though only some of this stated interest would likely materialise.

33. Table 1 sets out a low growth and high growth scenario for the take-up of captives over a 10-year appraisal period. For the first 5 years, this is in line with the PRA's assumptions on uptake. Estimates were based on responses to the Treasury's consultation, industry survey responses and comparison with international jurisdictions. We have extended these assumptions from year 6 onwards, since the PRA's appraisal period was shorter than our 10 years. Overall, we expect moderate growth which plateaus as those firms who wish to redomicile are likely to consider doing so in the earlier stages of the regime. Given the uncertainty, in our projections we predict a broadly even split between businesses relocating their captive business to the UK and newly established captives.

Table 1: Model of captive take-up over 10 years

	Low Growth		High Growth	
Year	Relocating Captives	New Captives	Relocating Captives	New Captives
1	2	3	10	10
2	3	2	10	10
3	2	3	10	10
4	3	2	10	10
5	2	3	10	10
6	2	1	5	5
7	1	2	5	5
8	2	1	5	5
9	1	2	5	5
10	2	1	5	5
Total	40		150	

Summary of impacts

34. We expect the proposals to be overall beneficial to the UK economy and businesses. This is because of the permissive nature of the proposals, which means that firms will choose to establish or relocate a captive in the UK only where they consider it beneficial to do so. We have not monetised the benefits because, given the uncertainty and complexity, it would not be proportionate to do so.

35. In terms of benefits, by increasing the viability of UK captive solutions, we expect our proposals could support organisations to benefit from new risk-financing options in UK-regulated markets. Captive insurers may help organisations to manage their risks more effectively than they could without insurance or through the commercial insurance market. We also expect wider economic benefits through the economic contribution of a UK captive market and agglomeration effects.

36. The only direct costs from our proposals are one-off familiarisation costs for firms. We expect these to total between £1.8m - £2.4m, depending on market capacity. All other costs to firms are indirect, for firms that decide to set up or relocate captives in the UK. Other costs include those incurred by the FCA to authorise and supervise new captives, and process information related to their businesses.

37. Table 2 sets out the summary of the benefits and costs of our proposal. For all quantified impacts, it presents the total discounted value (using a 3.5% discount rate) of the costs and benefits of our proposals over the 10-year appraisal period. The total present value of direct costs to firms are estimated to be between £1.8m - £2.4m, which corresponds to an equivalent annual net direct cost to business (EANDCB) of between £210,000 and £274,000.

Table 2: Summary table of benefits and costs

Group affected	Item description	Benefits (£)		Costs (£)	
		One off	Ongoing	One off	Ongoing
Direct costs and benefits					
Firms	Familiarisation costs			Low capacity scenario: £1.8m High capacity scenario: £2.4m	
FCA	System changes			Unquantified	
	Authorisation and Supervision				£1.2m
Indirect costs and benefits					
Firms	Setting up or relocating a captive			Low growth: £0.9m High growth: £3.4m	Low growth: £5.0m High growth: £20.2m
	Potential risk of captive failure				Unquantified
	Access to insurance		Unquantified		
	Price of insurance		Unquantified		
	Economic contribution and agglomeration effects		Unquantified		

Group affected	Item description	Benefits (£)		Costs (£)	
		One off	Ongoing	One off	Ongoing
Total		Unquantified		£2.7m to £5.7m	£6.2m to £21.4m

Note: numbers may not sum due to rounding.

Benefits

38. Benefits from these proposals will be indirect since they depend on firms responding to our intervention by choosing to set up a captive in the UK or to relocate an existing captive from another jurisdiction. Due to the uncertainty and complexity, it is not proportionate to quantify these indirect benefits.

Benefits from new captives

Access to insurance

39. Research from the Insurance Information Institute suggests that captive structures may increase a firm's ability to insure risks that are difficult, costly or unavailable in the commercial market. This could enable more tailored risk coverage, including pricing based on a firm's own loss experience, which may strengthen incentives for effective risk management and mitigation.

40. Captives may also facilitate improved access to reinsurance markets by enabling firms to engage more directly with reinsurers. This could reduce reliance on conventional insurers as intermediaries and support greater flexibility in risk transfer arrangements.

Price of insurance

41. Captive arrangements may affect the overall cost of risk transfer for some firms. HMRC's General Insurance Manual notes that good group risk management will enable a firm 'either to reduce its premiums to reflect its own claims record, or to retain, through the subsidiary, the underwriting profits on its own insurance business' rather than paying these to third-party insurers.

42. This could allow premiums to be retained and redeployed within the business, potentially supporting more efficient capital allocation and longer-term financial planning. The extent of these effects is likely to vary across firms depending on their scale, risk profile and use of captives.

Benefits from relocating captives to the UK

43. Firms who choose to relocate their captives to the UK under the new, proportionate regulatory framework will benefit from proximity to their UK-based parent operations and the UK's professional services ecosystem.

Costs

Direct costs to firms

Familiarisation costs

44. As the proposals will be implemented as part of an overall framework to respond to a previously unmet need in the UK, we expect direct costs to firms specifically relating to the FCA elements of the regime to be limited. We assume all firms who might consider establishing a UK captive (as defined above) under the proposed framework will incur these familiarisation costs.

45. Using our low capacity (650 firms) and high capacity (850 firms) scenarios we anticipate the following familiarisation costs:

- Low capacity scenario: £1.8m
- High capacity scenario: £2.4m

46. To calculate the familiarisation costs, we utilised our Standardised Cost Model (SCM), assuming only large firms will consider establishing a captive. We assume that all of the firms familiarising themselves with the contents of the CP, will be large firms. We further assume familiarisation costs to firms based on assumptions on the time required to read 37 pages of text in the CP. We assume there are 300 words per page and reading speed is 100 words per minute. We estimate that familiarisation for large firms will require 20 staff members with an average salary equating to £75 per hour, including overheads.

Indirect costs to firms

47. Table 3 presents our assumptions concerning the one-off cost of setting up a captive and the ongoing (annual) cost of running a captive.[1]

Table 3: One-off and ongoing costs per captive

Cost associated with captives	One-off	Ongoing (annual; new captives only)
Feasibility study (new captives only)	£15,000	
Legal, accounting and actuarial services	£10,000	£10,000
Application fee (FCA and PRA)	£7,820	
Management fees		£40,000
Annual fees (FCA and PRA)		£1,630
Total additional costs (new captives)	**£32,820**	**£51,630**
Total additional costs (relocating captives)	**£17,820**	**£0**

1 These assumptions are based on publicly available information (see Captive Insurance Cost Considerations | Risk Management Advisors)

One-off costs

48. Relocating an existing captive or establishing a captive in the UK for the first time, will involve legal, accounting costs and application fees associated with setting up a captive, as an authorised company, in the UK. We estimate these costs to be £17,820 per captive.

49. In addition, firms establishing a captive for the first time are likely to undertake a feasibility study to determine the appropriate structure for their captive. We expect this would usually be provided by CMs as part of their advisory work. We estimate this additional feasibility study will cost a further £15,000 per new captive.

Ongoing costs

50. We have also identified additional ongoing costs for firms that establish a new captive in the UK. First, we anticipate that firms will pay ongoing management costs to a CM. We anticipate management fees will be £40,000 per year. As we will not be requiring regular regulatory reporting and our proposed regime is designed to be internationally competitive, we do not anticipate that this fee will be higher than management fees in other jurisdictions. Second, we estimate actuarial, legal and accounting costs to be £10,000 per year for newly established captives. Lastly, we anticipate that new captives will pay FCA/PRA fees of £1,630 per year.

51. Note that we do not anticipate that ongoing costs for a captive relocating to the UK under our proposed regime will be appreciably higher than in their current jurisdictions.

Total quantified indirect costs incurred by firms

52. Table 4 contains the present value of total indirect costs (both one-off and ongoing) over the 10 year appraisal period, using a 3.5% discount rate:

Table 4: Total one-off and ongoing indirect costs to firms

	Low growth scenario	High growth scenario
One-off cost of setting up a new captive	£0.5m	£2.2m
One-off cost of relocating a captive	£0.3m	£1.2m
Ongoing cost of a new captive	£5.0m	£20.2m
Ongoing cost of relocating a captive	£0.0m	£0.0m
Total one-off costs	**£0.9m**	**£3.4m**
Total ongoing costs	**£5.0m**	**£20.2m**

Note: numbers may not sum due to rounding.

Broader unquantified indirect costs

53. There may be broader indirect costs for those firms that decide to utilise the UK's captive regime. Namely, harms from inappropriate risk pricing and claims settlement would be expected mainly to fall on the captive owner and connected commercial counterparties rather than on third parties including consumers. This is because under the proposed regime, there will be limitations on what risks and whom captives can provide insurance for, to avoid direct exposure to consumers and third parties. International experience, however, suggests that captive failures are rare.

Costs to the FCA

54. The FCA will incur one-off and ongoing costs to implement the regime.

55. We will incur one-off implementation costs (systems, operating model design and wider change-related activity to support authorisation, supervision and reporting under this new regime). We do not expect these one-off costs to be material in the context of the FCA standard expenditure on new policy-related projects.

56. We will also incur ongoing costs for the authorisation and supervision of captives. We expect this may require resources equivalent to approximately £140,000 per year, though resourcing would depend on the level of take-up by firms.

Wider economic impacts, including on secondary objective

57. We expect our proposals to support the FCA's secondary international competitiveness and growth objective.

58. We expect that our proposals can lead to change in financial services markets, by making the UK a more attractive place to establish or locate a captive insurer.

59. This, in turn, can contribute to change in the UK economy, with the presence of captive insurers supporting more effective risk allocation and mitigation. This can support growth by enabling businesses to take growth-enhancing decisions (with associated risks) and by protecting them against negative shocks.

60. New captive insurers being established in the UK, or the relocation of existing captives to the UK, could directly contribute to additional economic activity and create new jobs in the UK, though the direct effect is unlikely to be large. We note that the PRA expects each UK captive insurer could, on average, contribute between £50,000 and £150,000 to UK GDP per year, although it notes that this is subject to uncertainty and will vary substantially across different captives.

61. Increased captive activity may also generate additional demand for related professional services in the UK (e.g. CMs, legal advisors, actuaries, auditors, reinsurers and fronting insurers), with potential positive spillovers for the wider ecosystem.

62. Moreover, the development of a UK captive sector may generate wider benefits through agglomeration effects. Colocation of captive activity with the broader UK insurance market could support knowledge sharing, closer collaboration, and incremental innovation in risk-financing practices.

63. It should be noted, however, that regulatory design is not the only factor driving decisions around whether to establish a captive and where to domicile it. Other considerations sit outside the FCA's remit. We therefore do not assume that the proposals alone will lead to a large or immediate increase in UK captive activity. Instead, we consider that they may contribute to improved competitiveness in the medium to long-term and support the conditions for market development.

Monitoring and evaluation

64. We intend to monitor the effects of the regime on an ongoing basis using a proportionate, data-led approach. Most of the monitoring data we envisage using would come from existing regulatory processes rather than from introducing new routine reporting requirements. This reflects the policy intention that the regime should remain proportionate and not impose unnecessary ongoing burdens on firms.

65. A key measure of success will be the extent to which firms establish or relocate captive insurers in the UK. We expect authorisations data to be an important source of evidence on market uptake and on whether the proposals are supporting the development of a UK captive market.

66. We also intend to use supervisory intelligence to monitor whether the regime is operating as intended and whether any risks or harms are emerging. Supervisory data, including notifications made under SUP 15 and data from the PRA, will be a relevant source of evidence on possible breaches, operational issues or emerging harms.

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of HM Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.

8. We expect our proportionate regime will lower barriers to entry and enable firms to make greater use of captive insurance arrangements as part of their risk management strategies. This will increase the range of risk-financing options available to firms and support more efficient allocation of risk. This will likely increase competitive pressure on conventional insurers to innovate their products to compete with captive insurers.

9. We consider these proposals comply with the FCA's secondary objective in advancing competitiveness and growth, through an internationally competitive, proportionate and tailored regulatory regime. We expect our proposals will facilitate the development of a UK captive insurance market by lowering barriers to entry and regulatory requirements. This has the potential to bolster the UK's insurance market and, in doing so, create new demand for related professional services in the UK (e.g. CMs, legal advisors, actuaries, auditors, reinsurers and fronting insurers), and innovative ways to manage risk. We are confident that the proposed regulatory regime can positively contribute to the growth and competitiveness of the market, as set out in Figure 1 of the CBA.

10. We have also considered our consumer protection and market integrity objectives. To ensure an appropriate level of consumer protection, we propose to restrict captive insurers primarily to insuring risks that are inherent in, or closely connected to, their parent group and to place boundaries around business that could involve consumers, small and medium-sized enterprises (SMEs) or policy stakeholders. At the same time, the regime maintains regulatory safeguards, for governance, systems and controls, and regulatory oversight, helping to ensure captive insurers operate in a transparent and accountable manner. These measures enable a more proportionate approach to regulation while adequately minimising the risk of consumer harm and supporting confidence in the UK insurance market. For the purposes of our strategic objective, "relevant markets" are defined in section 1F of FSMA.

11. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s 3B FSMA.

The need to use our resources in the most efficient and economic way

12. Our proposals set out a proportionate supervisory strategy for captives, having regard for the relatively low risk of harm they present. This will enable us to focus our supervisory resources on significant breaches reported to us across the market.

The principle that a burden or restriction should be proportionate to the benefits

13. We expect our proposals to result in a more proportionate burden of regulation for captives, which reflects the risk of harm that we expect captive insurers to pose. Our

proposals on reporting, will mean that we will be able to act appropriately, without putting disproportionate reporting burden on firms.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

14. In developing this consultation, we have considered the environmental, social and governance implications of our proposals and our duty under s.1B(5) and 3B(c) of FSMA 2000 to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under section 5 of the Environment Act 2021.

15. Our proposals do not have an impact on these targets. We will keep this issue under review during the course of the consultation period and when making the final rules. In the meantime, we welcome input to this consultation on this.

The general principle that consumers should take responsibility for their decisions

16. Our proposals do not impact the principle that consumers should take responsibility for their decisions.

The responsibilities of senior management

17. As per paragraph 3.5, captive insurers will be required to have one SMF1 function, to ensure appropriate governance of captive insurers.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

18. Our proposals introduce a new regulatory framework for firms to manage their individual risks. The FCA expects the proposals in this paper are unlikely to directly impact mutuals, since group and association captives (which are similar to mutual insurers), are not included in the scope of our proposal. Mutuals will not be in scope of the new regime at this stage, but we recognise different business models of captive owners and are exploring future policy development for group and associate captives and protected cell company captives (see PRA CP11/26 (Chapter 9)).

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

19. Our proposals do not affect the publication of information.

The principle that we should exercise our functions as transparently as possible

20. In developing these proposals, we have presented them to our Practitioner Panel for their input. We have engaged with the PRA closely and have worked closely with a subject expert group to ensure transparency with potential industry participants.

21. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by section 1B(5)(b) FSMA).

22. We do not expect our proposals to have any impact on the extent to which businesses can be used for a purpose connected with financial crime.

Treasury remit letter and recommendations

The Treasury's consultation response earlier this year sets out how it expects both regulators to develop and introduce a comprehensive framework tailored specifically for captive insurers, including giving due consideration to our secondary growth and competitiveness objectives.

23. The remit letter from the Chancellor of the Exchequer to the FCA on 14 November 2024 urged the FCA to continue its work to support the government's growth mission. The Chancellor also recommended that the FCA creates a regulatory environment which facilitates growth by supporting competition and innovation and enhances the UK's position as a world-leading global finance hub for international business.

24. We have had regard to these recommendations and consider that our proposals set out a framework tailored specifically for captive insurers that is proportionate to their risk of harm. Our proportionate approach supports the opportunities for growth and competitiveness, and we expect our proposals to contribute to growing the captive insurance market and enabling firms to better manage complex risks.

Equality and diversity

25. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not.

26. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. We do not consider our proposals to have any material equality and diversity implications or impact on any of the groups with protected

characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other anti-discrimination legislation applies). We will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules to ensure our approach remains appropriate.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
AIRMIC	Association of Insurance and Risk Managers in Industry and Commerce
APER	Statements of Principle and Code of Practice for Approved Persons
CASS	Client Assets sourcebook
CBA	Cost Benefit Analysis
CM	Captive Manager
COCON	Code of Conduct for Staff
COMP	Compensation sourcebook
COND	Threshold Conditions
CP	Consultation Paper
DISP	Dispute Resolution: Complaints sourcebook
EANDCB	Equivalent annual net direct cost to business
FEES	Fees Manual
FIT	Fit and Proper test for Employees and Senior Personnel
FOS	Financial Ombudsman Service
FSMA	Financial Services and Markets Act 2000
GDP	Gross domestic product
GEN	General Provisions
HMRC	HM Revenue and Customs
HMT	HM Treasury
IAIS	International Association of Insurance Supervisors

Abbreviation	Description
ICOBS	Insurance: Conduct of Business sourcebook
INSPRU	(FCA) Prudential sourcebook for Insurers
ISPV	Insurance Special Purpose Vehicle
LRRA	Legislative and Regulatory Reform Act 2006
MIPRU	Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries
MNGU	Material non-group undertaking
NED	Non-executive director
PCC	Protected Cell Company
PRA	Prudential Regulation Authority
PRIN	Principles for Business
PROD	Product Intervention and Product Governance sourcebook
RAO	Regulated Activities Order 2001
SEG	Subject Expert Group
SM&CR	Senior Management and Certification Regime
SME	Small and Medium-sized Enterprise
SMF	Senior Management Function
SUP	Supervision sourcebook
SYSC	Senior Management Arrangements, Systems and Controls sourcebook
TC	Training and Competence sourcebook

Appendix 1

Draft Handbook text

CAPTIVE INSURERS INSTRUMENT 202X

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 59 (Approval for particular arrangements);
(b) section 60 (Applications for approval);
(c) section 60A (Vetting of candidates by authorised persons);
(d) section 61 (Determination of applications);
(e) section 62A (Changes in responsibilities of senior managers);
(f) section 63ZA (Variation of senior manager's approval at request of authorised person);
(g) section 63ZD (Statement of policy relating to conditional approval and variation);
(h) section 63C (Statement of policy);
(i) section 63E (Certification of employees by authorised persons);
(j) section 63F (Issuing of certificates);
(k) section 64A (Rules of conduct);
(l) section 64C (Requirement for authorised persons to notify regulator of disciplinary action);
(m) section 69 (Statement of policy);
(n) section 137A (The FCA's general rules);
(o) section 137R (Financial promotion rules);
(p) section 137T (General supplementary powers);
(q) section 138D (Actions for damages);
(r) section 139A (Power of the FCA to give guidance);
(s) section 137SA (Rules to recover expenses relating to the Money and Pensions Service);
(t) section 213 (The compensation scheme);
(u) section 234 (Industry funding); and
(v) paragraph 23 (Fees) in Part 3 (Penalties and fees) of Schedule 1ZA (The Financial Conduct Authority).

(2) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

C. As required by section 137SA(5) of the Act, the Secretary of State has consented to rules made under that section.

Commencement

D. This instrument comes into force on [*date*].

Amendments to the Handbook

E. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Training and Competence sourcebook (TC)	Annex C
Fees manual (FEES)	Annex D
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex E
Insurance: Conduct of Business sourcebook (ICOBS)	Annex F
Client Assets sourcebook (CASS)	Annex G
Product Intervention and Product Governance sourcebook (PROD)	Annex H
Supervision manual (SUP)	Annex I

Notes

F. In the Annex to this instrument, the notes (indicated by "*Editor's note*:" or "**Note**:") are included for the convenience of the reader but do not form part of the legislative text

Citation

G. This instrument may be cited as the Captive Insurers Instrument 202X.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise indicated.

Insert the following new definition in the appropriate alphabetical position. The text is all new and is not underlined.

captive insurer	a 'UK captive insurer' as defined in [*Editor's note*: insert chapter reference number] of the PRA Rulebook: Captive insurers: Insurance General Application (as at [*Editor's note*: insert date on which this instrument comes into force]) whose *permission* is further limited so it cannot assume direct insurance obligations where, in either of the following circumstances, the *contract of insuranc*e: (a) has one or more *policy stakeholders*; or (b) covers a liability that is required under a provision in *UK* legislation to be covered by insurance. [**Note**: the *captive insurer* may assume reinsurance obligations in relation to *contracts of insurance* in (a) and (b) effected by another *insurance undertaking* where this is a reinsurance obligation permitted by [*Editor's note*: insert chapter reference number] of the PRA Rulebook: Captive insurers: Insurance General Application (as at [*Editor's note*: insert date on which this instrument comes into force]).]

Amend the following definitions as shown.

retail market business	the *regulated activities* and *ancillary activities* to those activities, *payment services*, issuing *electronic money*, and activities connected to the provision of *payment services* or issuing of *electronic money*, of a *firm* in a distribution chain (including a *manufacturer* and a *distributor*) which involves a *retail customer*, but not including the following activities: … (6) … (7) *insurance business* carried on by a *captive insurer* (where that *insurance business* is in scope of the *firm's permission*).
Solvency II firm	a *firm* which is any of: …

(d) the *Society* and, separately, a *managing agent*; ~~and~~

…

(f) in *SUP* TP 7 and *SUP* TP 8, *SYSC*, *COCON*, *SUP* 10C and *DEPP* only, a *large non-directive insurer*; and

(g) (in *SYSC* and *INSPRU*) a *captive insurer*,

but excluding any *firm* to the extent that rule 2 of PRA Rulebook: Solvency II Firms: Transitional Measures disapplies relevant rules which implemented the *Solvency II Directive*.

Annex B

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless stated otherwise.

2 Senior management arrangements

…

2.2 Recording the appointment

…

2.2.1A R *SYSC* 2.2.1R does not apply to:

(1) a *firm* to whom *PRA* Rulebook: Solvency II firms: Insurance – Allocation of Responsibilities, 5.1 and 5.2 or *PRA* Rulebook: Large Non-Solvency II firms – Allocation of Responsibilities, 5.1 and 5.2, applies nor to a *large non-directive insurer*~~.~~; or

(2) a *captive insurer* where the *PRA rules* require the allocation of responsibilities.

…

3 Systems and controls

…

3.4 SRD requirements

Application

3.4.1 R This section applies to:

(a) a *UK insurer* (other than a *captive insurer*); and

…

…

Insert the following new section, SYSC 3.5, after SYSC 3.4 (SRD requirements). The text is all new and is not underlined.

3.5 Additional requirements for captive insurers

Application

3.5.1 R This section applies to a *captive insurer*.

Purpose

3.5.2 G (1) This section sets out additional requirements and expectations for *captive insurers*.

(2) This section sets out specific considerations for *captive insurers* in addition to:

(a) the general provisions in the rest of *SYSC* 3 that deal with the establishment and maintenance of systems and controls; and

(b) the *guidance* in *SYSC* 13 (in particular, *SYSC* 13.9 (Outsourcing)).

Using a captive manager

3.5.3 R For the purposes of *SYSC* 3.5, a 'captive manager' refers to a *person*, other than an employee of the *captive insurer*, who exercises managerial or other significant functions of a *captive insurer* including, but not limited to, any of the following:

(1) underwriting, accounting, claims management and/or actuarial functions;

(2) day-to-day operations, including acting as the principal point of contact;

(3) regulatory and compliance management; and

(4) corporate governance, including board and secretarial duties such as arranging board meetings.

3.5.4 G A *captive insurer* remains responsible for complying with its regulatory obligations where it appoints a captive manager. This includes the *captive insurer's* continuing satisfaction of the *threshold conditions* and compliance with *FCA rules*, including the *Principles*. The selection, terms of appointment and ongoing oversight of a captive manager will be relevant to how the *captive insurer* is able to satisfy itself that it continues to comply with the *threshold conditions* and *FCA rules*.

Appointment of captive manager

3.5.5 R (1) A *captive insurer* must exercise due skill, care and diligence when appointing, and entering into any arrangement with, a captive manager. This is to ensure that the captive manager is able to exercise the *captive insurer's* functions in a manner that enables the *captive insurer* to continue to comply with all of its regulatory obligations on an ongoing basis.

(2) For the purposes of (1), a *captive insurer* must in particular take the necessary steps to ensure it is satisfied that:

(a) the captive manager has:

(i) the necessary expertise, experience, capacity and knowledge;

(ii) where the functions of the *captive insurer* that the captive manager will exercise include the carrying on of a *regulated activity* by the captive manager, the necessary *permissions* in relation to the exercise of those functions; and

(iii) the necessary systems, controls and governance, including organisational structures;

(b) it is able to identify and prevent or, where appropriate, manage any actual or potential conflicts of interest that arise or may arise from the arrangement with the captive manager; and

(c) it is able to take all necessary corrective action if it appears the captive manager may not be or is not carrying out the functions effectively and/or in compliance with applicable law and/or relevant regulatory requirements.

Terms on which a captive manager exercises functions: content of agreement between the captive insurer and captive manager

3.5.6 R Where a *captive insurer* appoints a captive manager, it must ensure that it has a contract with the captive manager that, as a minimum:

(1) clearly sets out the allocation of responsibilities and obligations of the *captive insurer* and the captive manager, including a detailed list of the functions the captive manager will exercise;

(2) identifies whether the carrying out of any of the functions will involve the captive manager carrying out a *regulated activity* and, if so, requires that the captive manager has the necessary *permission(s)* on an ongoing basis;

(3) requires the captive manager to engage directly, and in an open and cooperative way, with the *FCA*, consistent with *SUP* 2.3, including that the captive manager will provide the *FCA* with access to its premises and any information and documents relating to the functions it exercises for the *captive insurer* that the *FCA* may reasonably require;

(4) ensures that:

(a) any functions that the captive manager may sub-delegate to another *person* are:

(i) exercised in a way that is consistent with the captive manager's obligations under the agreement; and

(ii) subject to the same minimum terms (including that any additional outsource provider will cooperate with, and provide access and information to, the *FCA* as set out in (3)); and

(b) the captive manager appoints those *persons* and has oversight of them in a manner that would comply with the requirements in *SYSC* 3.5.5R and *SYSC* 3.5.7R as if those *rules* applied to the captive manager;

(5) provides arrangements for whistleblowing;

(6) includes terms to enable the *captive insurer* to comply with *SYSC* 3.5.5R and *SYSC* 3.5.7R (relating to appointment and oversight);

(7) contains an express requirement for the captive manager to give the *captive insurer* all information, and access to premises and staff, necessary to enable it to effectively monitor and oversee the captive manager for the purposes of *SYSC* 3.5.7R;

(8) provides for the identification and prevention and, where appropriate, management of any conflicts of interests;

(9) ensures appropriate record keeping that enables the *captive insurer* and the *FCA* to have access to all relevant information about the functions exercised for the *captive insurer*; and

(10) expressly provides that:

(a) the *FCA* has a right to enforce the provisions included in the contract under *SYSC* 3.5.6R;

(b) if the contract includes an arbitration agreement, the *FCA* is not, in exercising the right in (a), to be treated as a party to, or bound by, the arbitration agreement;

(c) in proceedings brought by the *FCA* for the enforcement of those provisions, the captive manager is not to have available by way of defence, set-off or counterclaim any matter that is not relevant to those provisions;

(d) the provisions included in the contract under this paragraph and *SYSC* 3.5.6R(3) are irrevocable and may not be varied or rescinded without the *FCA's* consent.

Oversight of the captive manager

3.5.7 R A *captive insurer* must put in place adequate arrangements to allow it to monitor and oversee the work of the captive manager and to enable the *captive insurer* to satisfy itself that it can continue to comply with its legal and regulatory obligations on an ongoing basis, including:

(1) designating to a *senior manager* or the *firm's governing body* the overall responsibility for monitoring the captive manager;

(2) ensuring the continuity and quality of the exercise of the functions are maintained, including in the event of termination of the arrangement – for example, ensuring that there are adequate processes to manage the termination of the relationship with a captive manager;

(3) ensuring that the *captive insurer* is able to meet its obligations under *FCA rules* including under *SUP* 15 and *Principle* 11 (to deal with the *FCA* in an open and cooperative way).

3.5.8 G (1) For the purposes of *SYSC* 3.5.7R(1), the *FCA* expects that the *captive insurer's* chief executive/*SMF* 1 function holder, or (where the *SMF* 1 is a *person* employed by the captive manager) the *captive insurer's governing body*, will have ultimate responsibility for the oversight of the captive manager.

(2) For the purposes of *SYSC* 3.5.7R(2), the arrangements the *captive insurer* puts in place on termination of the arrangement can include transferring the exercise of the functions to another captive manager or performing the functions itself. In either situation, the *captive insurer* will need to have arrangements to obtain all information held by the captive manager to allow it to transfer the functions to another captive manager or to continue to carry on those functions itself.

Notifying changes in relation to the captive manager

3.5.9 G (1) Under *Principle* 11 and *SUP* 15.3.1R, a *captive insurer* is required to notify the *FCA* immediately of any operational risk matter of which the *FCA* would reasonably expect notice. *SUP* 15.3.8G provides *guidance* on the occurrences that this requirement covers, which include a significant failure in systems and controls and a significant operational loss.

(2) Under *SUP* 15.8, a *captive insurer* is required to notify the *FCA* in relation to any changes to the arrangements it has with a captive manager.

Internal systems and controls for a captive insurer

3.5.10 G (1) A *captive insurer* will need to establish and maintain systems and controls that are appropriate to its business in light of its particular business model.

(2) For the purposes of *SYSC* 14.1.29AG, the internal controls that a *captive insurer* may need will depend on its particular arrangements. Given the particular business model, the *FCA* expects, for the purposes of its *rules*, that a *captive insurer* would generally not have the nature, scale and complexity in its business to need:

(a) a separate compliance function (*SYSC* 3.2.7G);

(b) an internal audit function (see *SYSC* 3.2.16G) or audit committee (see *SYSC* 3.2.15G);

(c) a risk assessment function or risk management committee (see *SYSC* 3.2.10G and *SYSC* 14.1.29AG); or

(d) risk control arrangements that would involve appointing a chief risk officer and/or establishing a *governing body* risk committee (see *SYSC* 21.1).

Amend the following as shown.

12 Group risk systems and controls requirements

12.1 Application

12.1.1 R Subject to *SYSC* 12.1.2 R to *SYSC* 12.1.4 R, this section applies to each of the following which is a member of a *group*:

(1) a *firm* that falls into any one or more of the following categories:

…

(c) an *insurer* <u>(other than a *captive insurer*)</u>;

…

…

…

15A Operational resilience

15A.1 Application

15A.1.1 R This chapter applies to:

(1) a *firm* that is:

…

(e) a *Solvency II firm* <u>(other than a *captive insurer*)</u>;

…

…

18 Whistleblowing

…

18.4 The whistleblowers' champion

…

18.4.2 R An *insurer* <u>(other than a *captive insurer*)</u> must appoint a *director* or *senior manager* as its *whistleblowers' champion*.

…

24 Senior manager and certification regime: Allocation of prescribed responsibilities

…

24 Annex 1 Which FCA-prescribed senior management responsibilities apply to which kind of firm

…				
Insurance sector firms				
3.1	R	(1)	The table in *SYSC* 24 Annex 1 ~~3.2R~~ <u>3.3R</u> sets out which *FCA-prescribed senior management responsibilities* apply to which type of *SMCR insurance firm*.	
		(2)	*SMCR firms* in (1) are divided into the following categories for the purposes in (1):	
			…	
			(d)	a *firm* in *SYSC* 23 Annex 1 5.2R (*firms* in run-off); ~~and~~
			(e)	an *insurance special purpose vehicle*~~.~~<u>; and</u>
			<u>(f)</u>	<u>a *captive insurer*.</u>

		(3)	An *insurance special purpose vehicle* only falls into paragraph (2)(e) and a *captive insurer* only falls into paragraph (2)(f). Subject to that, a *firm* in (2)(d) does not fall into any other paragraph.
3.2	G	References to a *Solvency II firm* include a *large non-directive insurer*.	
3.3	R	Table: FCA-prescribed senior management responsibility applying to insurance sector firms	

Brief description of responsibility	**Reference letter of responsibility**	**Solvency II firm**	**Overseas branches**	**Other insurance sector**	**ISPV**	**Captive insurer**
Responsibility for the *firm's* performance of its obligations under the senior managers regime	(a)	√	√	√	√	√
Responsibility for the *firm's* performance of its obligations under the employee certification regime	(b)	√	√	√	√	√
Financial crime	(d)	√	√	√	√	√
COCON	(b-1)	√	√	√	√	√
Training *governing body*	(f)	√	×	×	×	×
Training of staff performing *designated senior management responsibilities*	(g)	√	×	×	×	×

Management responsibilities maps	(c)	√	√	×	×	×
Whistleblowers' champion	(n)	√	×	×	×	×
CASS	(z)	√	√	√	×	×
Internal audit for non-significant insurers	(j-2)	√	×	×	×	×
Compliance with *UK regulatory system*	(ff)	×	√	×	×	×
Escalation of correspondence	(ee)	×	√	×	×	×

Note: The categories of *firm* in the column headings of this table are to be interpreted in accordance with the classification of *firms* in *SYSC* 24 Annex 1 3.1R. Therefore:

…

(3) Other insurance sector (column five) refers to *SYSC* 24 Annex 1 3.1R(2)(c) and (d); ~~and~~

(4) ISPV (column six) refers to *SYSC* 24 Annex 1 3.1R(2)(e)~~.~~; and

(5) Captive insurer (column seven) refers to *SYSC* 24 Annex 1 3.1R(2)(f).

…

25 Senior manager and certification regime: Management responsibilities maps and handover procedures and material

25.1 Application and purpose

Main application rules

25.1.1 R This chapter applies to

…

(2) an *SMCR insurance firm* that is a *Solvency II firm* (including a *large non-directive insurer*) but excluding:

(a) an *insurance special purpose vehicle*; ~~and~~

(b) …

(c) a *captive insurer*; and

…

…

…

26 Senior manager and certification regime:

26.1 Application

Main application rules

26.1.1 R This chapter applies to

…

(2) an *SMCR insurance firm* that is a *Solvency II firm* (including a *large non-directive insurer*) but excluding:

(a) an *insurance special purpose vehicle*; ~~and~~

(b) …

(c) a *captive insurer*; and

…

…

Annex C

Amendments to the Training and Competence sourcebook (TC)

In this Annex, underlining indicates new text.

4	**Specified modified requirements**		
…			
4.2	**Specified requirement for firms carrying on insurance distribution activities**		
4.2.1	R	…	
		(2)	…
		(3)	*TC* does not apply to a *captive insurer*.
…			

Annex D

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Application, Notification and Vetting Fees

…

3 Annex 1 Authorisation fees payable

3 Annex 1 R …

Part 2 – Pricing categories applicable to applications made in the following activity groupings in the A, B, C, CC and CMC fee blocks

Activity grouping	**Description**	**Applicable pricing category in FEES 3 Annex 1AR**
…		
A.3	*Friendly societies* only	4
	<u>*Captive insurers*</u>	<u>4</u>
	UK ISPVs	6
	Insurers – general (excluding *friendly societies*<u>,</u> <u>*captive insurers*</u> and *UK ISPVs*)	7
…		

…

4 Periodic fees

…

4 Annex 1A FCA activity groups, tariff bases and valuation dates

4 Annex 1A R

Part 1
…

Activity group	Fee payer falls in the activity group if:
…	…
A.3 Insurers – general ~~and~~<u>,</u> UK ISPVs <u>and captive insurers</u>	its *permission* includes one or more of the following: - *effecting contracts of insurance*; - *carrying out contracts of insurance*; in respect of *specified investments* that are: - *general insurance contracts*; or - *long-term insurance contracts* other than *life policies* **OR** it has *permission* to carry on *insurance risk transformation*.
…	

…

4 Annex 2A FCA Fee rates for the period from 1 April 2026 to 31 March 2027

4 Annex 2A R

Part 1
…

…

Activity group	Fee payable	
…		

A.3	Gross written premium for fees purposes (GWP)	Periodic fee
	Band Width (£million of GWP)	Fee (£/m or part £m of GWP)
	>0.5	321.042
	PLUS	
	Best estimate liabilities for fees purposes (BEL)	Periodic fee
	Band Width (£million of BEL)	Fee (£/£m or part £m of BEL)
	>1	20.607
	~~For *UKISPVs* the tariff rates are not relevant and a flat fee of £617 is payable in respect of each *FCA* financial year (the 12 *months* ending 31 March).~~ <u>The A.3 tariff rates are not relevant for *UK ISPVs* or *captive insurers*. Instead, a flat fee of £617 is payable by *UK ISPVs* and a flat fee of £600 is payable by *captive insurers*.</u>	
…		

5 Financial Ombudsman Service Funding

…

5 Annex 1 Annual General Levy Payable in Relation to the Compulsory Jurisdiction for 2026/27

5 Annex 1 R …

Compulsory jurisdiction – general levy

Industry block	**Tariff base**	**General levy payable by firm**
…		
2. Insurers – general (excluding *firms* in blocks 13 & 15<u> and *captive insurers*</u>)	Gross written premium for fees purposes as defined in *FEES* 4 Annex 1AR (GWP); or	£0.228 per £1,000 of GWP or RGWP, subject to a minimum levy of £100

	Gross written premium notified to the *FCA* under *FEES* 5.4.1R(1A) that relates to the *firm's relevant business* (RGWP)	
…		

6 Financial Services Compensation Scheme Funding

…

6 Annex 3A Financial Services Compensation Scheme – classes and categories

6 Annex 3A R …

Class 1	**General Insurance Distribution Claims**
…	
Category 1.1	General insurance distribution
Firms (other than *captive insurers*) with permission for:	any of the following in respect of *general insurance contracts* or *pure protection contracts*:
	dealing in investments as agent;
	arranging (bringing about) deals in investments;
	making arrangements with a view to transactions in investments;
	assisting in the administration and performance of a contract of insurance;
	advising on investments;
	agreeing to carry on a regulated activity which is within any of the above.
Category 1.2	General insurance provision
	effecting contracts of insurance; and/or

Firms <u>(other than *captive insurers*)</u> with permission for:	*carrying out contracts of insurance*;	
	that are *general insurance contracts*.	
…		

7A SFGB levies

…

7A Annex 1 SFGB money advice levy for the period from 1 April 2026 to 31 March 2027

7A Annex 1 R …

Part 2	
…	
(3)	A *firm* is referred to in this paragraph if it falls within the following activity groups: A.1; A.2; A.3 (excluding *UK ISPVs* <u>and *captive insurers*</u>); A.4; A.5; A.7; A.9; A.10; A.13; A.14; A.18; A.19; G.3 and G.10.

Annex E

Amendments to the Prudential sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries (MIPRU)

In this Annex, underlining indicates new text.

2 Responsibility for insurance distribution and MCD credit intermediation activity

2.1 Application and purpose

Application

2.1.1	R	…
<u>2.1.1A</u>	<u>R</u>	<u>This chapter does not apply to a *captive insurer*.</u>

…

5 Insurance distributors and home finance providers using insurance distribution or home finance mediation services

5.1 Application and purpose

5.1.1	R	This chapter applies to a *firm* <u>(other than a *captive insurer*)</u> with a *Part 4A permission* to carry on: …

…

Annex F

Amendments to the Insurance: Conduct of Business sourcebook (ICOBS)

In this Annex, underlining indicates new text.

1 Application

…

1 Annex 1 Application (see ICOBS 1.1.2R)

Part 1: Who?		
Modifications to the general application rule according to type of firm		
…		
7	Gibraltar-based firms and TP firms	
7.1	R	…
8	Captive insurers	
8.1	R	This sourcebook does not apply to a *captive insurer*.

…

Annex G

Amendments to the Client Assets sourcebook (CASS)

In this Annex, underlining indicates new text and striking through indicates deleted text.

5 Client money: insurance distribution activity

…

5.8 Safe keeping of client's documents and other assets

Application

5.8.1 R …

(2) *CASS* 5.8 does not apply to a *firm* when:

(a) carrying on an *insurance distribution activity* which is in respect of a *reinsurance contract*; ~~or~~

(b) acting in accordance with *CASS* 6 (Custody rules)~~.~~; or

(c) it is a *captive insurer*.

…

Annex H

Amendments to the Product Intervention and Product Governance sourcebook (PROD)

In this Annex, underlining indicates new text.

1	**Product Intervention and Product Governance Sourcebook (PROD)**	
…		
1.4	**Application of PROD 4**	
…		
1.4.3	R	*PROD* 4 does not apply in relation to an insurance product that is: (1) … <u>(1A) used to effect a *contract of insurance* by a *captive insurer*;</u> …
…		

Annex I

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

10C FCA senior managers regime for approved persons in SMCR firms

…

10C.7 Other overall responsibility function (SMF 18)

Application

…

10C.7.-1 G The effect of *SUP* 10C.7.-2R is that this section only applies to one of the following types of *UK SMCR firm*:

…

(2) a *Solvency II firm* (including a *large non-directive insurer*) but excluding an *insurance special purpose vehicle*, a *captive insurer* and certain firms in run-off; and

…

…

10C Annex 1 What functions apply to what type of firm

10C Annex 1 1.1 R This annex sets out which *FCA controlled function* applies to which type of *SMCR firm*.

…

Part Four: Functions applying to insurance sector firms

10C Annex 1 4.1 R (1) The table in *SUP* 10C Annex 1 ~~4.2R~~ 4.3R sets out which *FCA controlled function* applies to which type of *SMCR insurance firm*.

(2) *SMCR firms* in (1) are divided into the following categories for the purposes in (1):

…

(e) a *firm* in *SYSC* 23 Annex 1 5.2R (*firms* in run-off); ~~and~~

(f) an *insurance special purpose vehicle*~~.~~; and

(g) a *captive insurer*.

(3) An *insurance special purpose vehicle* only falls into paragraph (2)(f). A *captive insurer* only falls into paragraph (2)(g). Subject to that, a *firm* in (2)(e) does not fall into any other paragraph.

…

10C Annex 1 4.3 R Table: Controlled functions applying to insurance sector firms

(1) Brief description of function	(2) Function number	(3) Solvency II and large NDF	(4) EEA branches	(5) Overseas branches	(6) Small NDF and other	(7) ISPV	(8) Captive insurer
Governing functions							
Executive director function	SMF 3	√	×	√	√	√	√
Chair of the nomination committee function	SMF 13	√	×	×	×	×	×
Chair of the with-profits committee function	SMF 15	√	×	√	×	×	×
Partner function	SMF 27	√	×	×	√	×	×
Required functions							
Compliance oversight function	SMF 16	√	×	√	√	×	×
Money laundering reporting function	SMF 17	√	√	√	√	×	×

Other overall responsibility function	SMF 18	√	×	×	×	×	×
Other local responsibility function	SMF 22	×	×	√	×	×	×
Conduct risk oversight (Lloyd's) function See Note 2	SMF 23b	√	×	×	×	×	×
Other high-level management functions							
EEA branch senior manager function	SMF 21	×	√	×	×	×	×
Note 1: The categories of *firm* in the column headings of this table are to be interpreted in accordance with the classification of *firms* at *SUP* 10C Annex 1 4.1R. Therefore: … (d) column six (Small NDF and other) refers to *SUP* 10C Annex 1 4.1R(2)(d) and (e); ~~and~~ (e) column seven (ISPV) refers to *SUP* 10C Annex 1 4.1R(2)(f)~~.~~; and (f) column eight (Captive insurer) refers to SUP 10C Annex 1.4.1R(2)(g).							
…							

…

15 Notifications to the FCA

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15.8 Notification in respect of particular products and services

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15.8.16 R …

Notifications by captive insurers

15.8.17 R The provisions in *SUP* 15.8.18G to *SUP* 15.8.25G apply to a *captive insurer*.

15.8.18 G (1) *SUP* 15.8.20R to *SUP* 15.8.25G set out additional notification requirements and expectations in relation to *SUP* 15.3 for *captive insurers* that use a captive manager.

(2) A *captive insurer* is obliged to notify the *FCA* under *SUP* 15.3.1R where it becomes aware or has information which reasonably suggests that the *captive insurer* may have failed or may fail in the foreseeable future to satisfy one or more of the *threshold conditions*. This will include where its arrangements with a captive manager have had this result. Under *Principle* 11 a notification of this sort under *SUP* 15.3.1R should be accompanied by sufficient information about:

(1) the circumstances which are relevant to the *captive insurer* failing or potentially failing to satisfy *threshold conditions*; and

(2) any steps which the *captive insurer* has taken or intends to take to rectify or prevent that failure.

(3) The purpose of *SUP* 15.8.20R to *SUP* 15.8.25G is to ensure that the *FCA* receives timely and up-to-date information on the arrangements a *captive insurer* has in place with its captive manager.

15.8.19 R For the purposes of the provisions below, 'captive manager' has the meaning given in *SYSC* 3.5.3R.

15.8.20 R A *captive insurer* must notify the *FCA* as soon as reasonably practicable if it intends to:

(1) significantly change its arrangements with an existing captive manager, including (but not limited to):

(a) changes to the captive manager's name, address or contact details;

(b) a significant change to the captive management agreement;

(2) enter into a new agreement with a captive manager;

(3) terminate, or has terminated, the captive management agreement; or

(4) appoint a new captive manager.

15.8.21 R Where a *captive insurer* makes a notification under *SUP* 15.8.20R it must provide the following:

(1) (where there is a change to the captive manager's details, including where there is a new captive manager), the captive manager's:

(a) name;

(b) address of the principal place of business, registered office or head office;

(c) contact details;

(2) Where the *captive insurer* enters into a new captive manager agreement or is making significant changes to an existing captive management agreement:

(a) a copy of that captive management agreement; and

(b) a description of the relevant changes to an existing captive management agreement; and

(3) the date, or dates, on which the changes in (1) and/or (2) have taken effect or are expected to take effect.

15.8.22 R (1) A *captive insurer* must notify the *FCA* as soon as reasonably practicable where its captive manager has communicated to the *captive insurer* its intention to terminate, or that it has terminated, the captive management agreement.

(2) The notification in (1) must include the date, or dates, on which termination has taken, or is expected to take, effect.

15.8.23 R The notifications required under *SUP* 15.8.20R, *SUP* 15.8.21R and *SUP* 15.8.22R must be made in accordance with the requirements in *SUP* 15.7 (Form and method of notification).

15.8.24 R Where a *captive insurer* has appointed an employee of a captive manager as an *SMF manager* of the *captive insurer*, the *captive insurer* must include in the notification under *SUP* 15.8.20R details of any proposed change to the individual holding that role(s).

15.8.25 G (1) *SYSC* 3.5 sets out requirements for a *captive insurer* in relation to its arrangements with a captive manager. This includes *SYSC* 3.5.5R and *SYSC* 3.5.7R, which require a *captive insurer* to consider, throughout the selection, appointment and ongoing oversight of a captive manager, whether the arrangements will enable the *captive insurer* to comply with its legal and regulatory obligations, including the *threshold conditions* and *FCA rules*.

(2) The effect of this is that, where a *captive insurer* intends to change captive manager or alter its existing agreement with a captive manager, it should consider whether the changes could affect the manner in which the *captive insurer* complies with its legal and regulatory obligations, including the *threshold conditions* and *FCA rules*, on an ongoing basis. A *captive insurer* should not proceed with any intended change, including appointing a new captive manager, where this would threaten the *captive insurer's* ability to

comply with its legal and regulatory obligations, including the *threshold conditions* and *FCA rules*.

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16 Reporting requirements

16.1 Application

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Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.14A, SUP 16.15, SUP 16.22 and SUP 16.26)

16.1.7 G …

16.1.8 R *SUP* 16 does not apply to a *captive insurer*.

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk

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