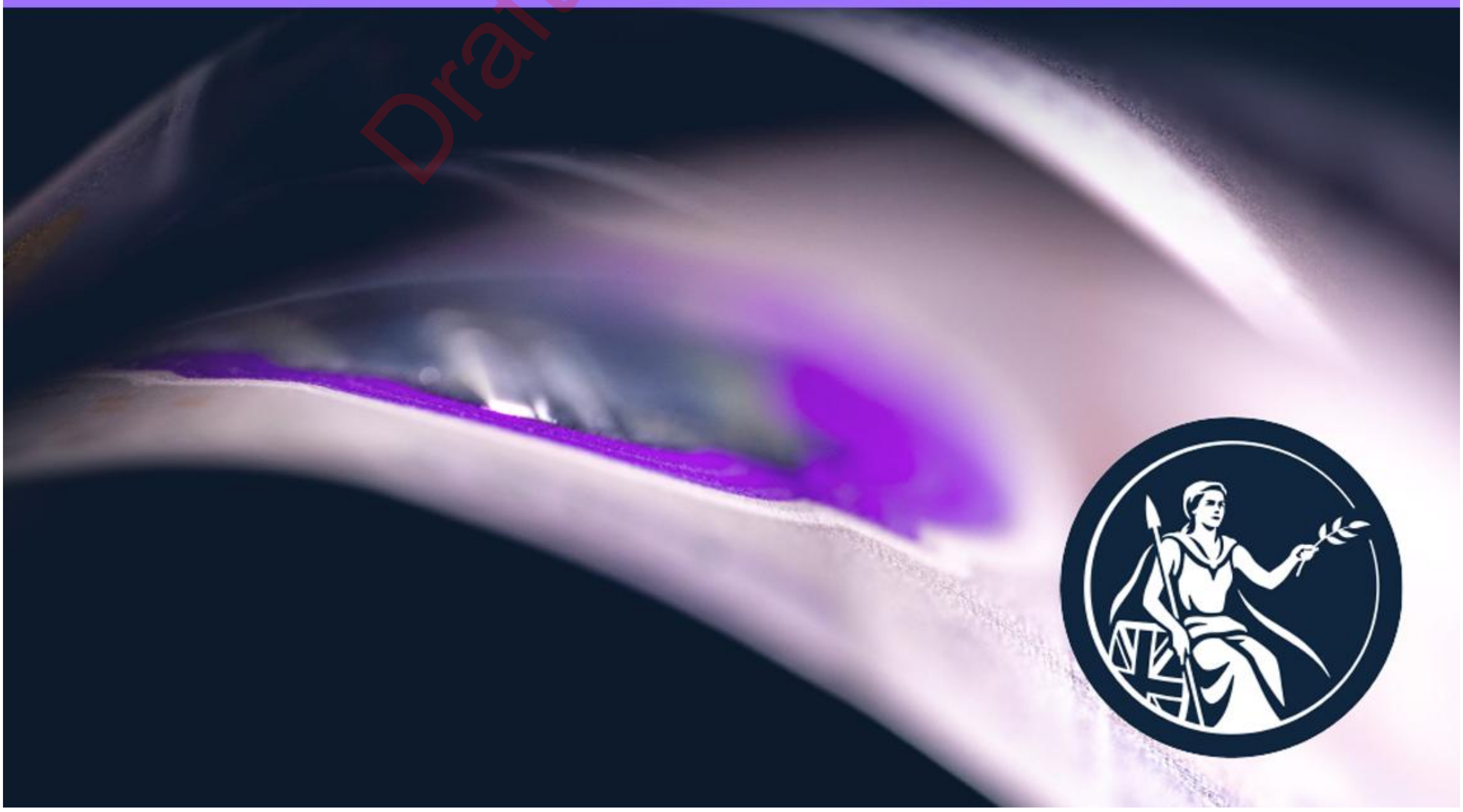
Bank of England PRA

Captive Insurance

Draft Supervisory statement | SSXX/XX

July 2026



Captive Insurance

Supervisory statement | SSXX/XX

July 2026

Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

Contents

1: Introduction

Scope

1.1 This supervisory statement (SS) is relevant to UK captive insurers (UK captives), as defined in the Prudential Regulation Authority (PRA) Rulebook (the definition can be found in the **Glossary**). For the avoidance of doubt, the SS does not cover captive insurers that are UK Solvency II (Solvency UK) firms, or UK branches of third-country branch undertakings that may be classified as a captive insurer in their home jurisdictions.

1.2 The **PRA's approach to policy** outlines the PRA's usual approach to the publication of policy information. Box A details the usual approach and paragraphs 1.3 to 1.4 outline the relevant information for UK captives:

Box A: The PRA's approach to policy

PRA policy is usually provided in one of three forms:

- PRA rules, which are legally enforceable and give effect to PRA policies by setting out the requirements firms must comply with.
- Statements of policy, which set out the PRA's approach to policy on a particular matter; and
- SSs, which contain PRA expectations and provide additional guidance on how firms can comply with the requirements imposed by rules and meet the intended outcomes.

1.3 This SS sets out expectations, guidance, and the PRA's approach to policy for UK captives. It does not impose new requirements. Any requirements referenced in this SS refer to existing PRA rules and/or UK legislation. Unless otherwise stated, references in this statement to what firms should do indicate supervisory expectations and guidance.

1.4 This SS should be read alongside the PRA Rulebook (the PRA rules), which sets out the requirements that must be complied with, and any other relevant policy material referenced in this SS.

1.5 In particular, this SS sets out:

- the PRA's approach of authorising and supervising UK captives; and
- the PRA's expectations and guidance for UK captives.

Other relevant documents

1.6 UK captives should refer primarily to this SS. Unless indicated otherwise (in particular, **SS35/15 - Strengthening individual accountability in insurance**, is referred to in Chapter 6 Governance), expectations set out in any other SS's do not apply to UK captives.

1.7 The PRA does not intend to amend existing SS and statements of policy (SoPs) to exclude UK captives from their scope.

Background

1.8 A captive insurance company is an insurance or reinsurance undertaking created and owned, directly or indirectly, by one or more industrial, commercial or financial organisations.[1] The purpose of this undertaking is to provide insurance or reinsurance cover for risks of the organisations to which it belongs, or for entities closely connected to those organisations. Captives are used by these organisations for insuring their own risks. A captive can offer the following benefits to its parent:

- help manage insurance costs and provide direct access to reinsurance markets;
- encourage stronger risk management practices; and
- provide coverage for excluded or expensive risks.

1.9 The PRA considers that single-parent captives generally pose low risks to its primary objectives of safety and soundness and policyholder protection. This is because the nature of captive insurance addresses many market failures, such as misalignment of interests, information asymmetry and systemic externalities, that necessitate prudential regulation of insurers. In particular:

- the captive's and the group's interests, with the group usually being a large corporation, are usually aligned;
- the captive typically has access to high-quality historical claims data and more insights to the risks of its owners; and
- risks of public externalities (eg wider financial stability impact in case of failure) are much lower due to the contained scope of the regime, with captives only permitted to insure their group/material non-group undertakings.

1.10 While the risks are generally low, the PRA has introduced mitigations around higher-risk types of business that are not compatible with the tailored regime. This includes compulsory lines and employee benefits, discussed in Chapter 2.

[1] This is a simplified version of the IAIS definition: **Application Paper**.

2: General Approach

Overview

2.1 The PRA's authorisation and supervisory approach is based on the risks to its statutory objectives of promoting safety and soundness of PRA authorised firms and contributing to insurance policyholder protection. The PRA must be satisfied that a firm is capable of meeting the **statutory threshold conditions** on an ongoing basis. As discussed in the introduction, the PRA considers that generally, UK captives present low risks to the PRA's objectives and so it applies a proportionately tailored approach to their requirements.

2.2 The Financial Conduct Authority (FCA) is the conduct regulator for insurance firms operating in the UK. Authorisation can be granted only when both the FCA and the PRA are satisfied that their respective requirements have been met. The FCA will independently assess applicants against its own requirements and objectives.

Scope of a captive's activities

Definition

2.3 The PRA Rulebook outlines the definition for a UK captive. The definition covers single-parent captives, otherwise known as pure captives.

2.4 Single-parent captives are fully owned subsidiaries and are only permitted to insure the risks of their group and a limited amount of non-group risks that are connected to the group (material non-group undertakings).

2.5 Subject to the restrictions of lines of business below, UK captives could be permitted to write a mix of insurance and reinsurance business, as well as a mix of life and non-life business. From here onwards, references to captives should be read as the UK captive definition discussed in this section.

Figure 1: UK captives regime - scope overview	
Who can the captive insure?	
Group	**Non-group**
Group companies	Significant suppliers
	Franchisees
	Minority stakes
	Owner-controlled insurance programmes (OCIPs)
What can the captive insure?	
Reinsurance basis only	**Direct or reinsurance basis**
Compulsory lines	All other corporate risks
Employee benefits	
Other minor exclusions	

Insurance lines of business

2.6 The PRA Rulebook sets out the restrictions of activities for UK captives, summarised below for ease of reference.

Table 1 – Lines of business that UK captives can write

	Compulsory lines	Corporate risks with named individuals	Employee benefits	Multi-occupancy building insurance	All other corporate risks (non-life)
Group companies	✓	✓	✓	✓	✓
Material non-group undertakings	✓	✓	×	✓	✓

Key
Direct or reinsurance
Reinsurance only
Not possible

2.7 Insurance for certain lines is required by law or regulation (ie is compulsory) – eg employer's liability or motor third-party liability – with the purpose of protecting third parties and public interest. The full list is available in the PRA Rulebook, under the definition of **liability subject to compulsory insurance**.

2.8 Restricting UK captives to writing these compulsory lines on a reinsurance basis ensures that a commercial insurer (typically a Solvency UK firm) remains responsible for the claims related to these third parties. This restriction is therefore necessary for advancing the PRA's primary objective of policyholder protection, which extends beyond policyholders, covering any third-party beneficiaries.

2.9 Generally, where a policy is held by a group company but provides cover to an individual/ employee (such as Directors and Officers insurance cover or employee benefits cover, discussed in the next paragraph), the UK captive can only insure it on a reinsurance basis, because of higher risks to the policyholder protection objective.

2.10 As stated, UK captives can insure risks in employee benefits programmes on a reinsurance basis, for its parent undertaking and group companies (but not any non-group entities). In these programmes, employers offer a package of benefits such as life and health insurance to their employees, usually provided as a group policy, whereby the employer is the policyholder and the employees are the beneficiaries. Limiting UK captives' participation to reinsurance basis ensures that beneficiaries are protected by a non-captive insurer, which is appropriate, given the potentially high impact of these policies for the beneficiaries (employees). This restriction is necessary for appropriately advancing the PRA's primary objective of policyholder protection.

2.11 In this context employee benefits comprise:

- health/medical expenses and accident cover, provided under employee benefits programmes;
- group life insurance (including annuities to dependants for death in service);
- group income protection (including claims in payment); and
- group critical illness insurance.

2.12 UK captives are restricted from writing insurance business where the purpose of that business is to protect against investment risks. This restriction is achieved by conditions in PRA rules on how a UK captive may write contracts under FSMA Regulated Activities Order (RAO) classes 14 to 16 (credit, suretyship and miscellaneous financial loss). This keeps the activity of a UK captive focused on the insurance of risks arising from the operations and commercial activities of the captive's policyholders, rather than providing cover for fluctuations in the value or performance of investments or portfolios. This restriction would not prevent a UK captive from writing contracts within FSMA RAO classes 14 to 16 where the insured risk arises from the policyholder's commercial or operational activities. An example of such permitted activities would be trade credit insurance covering payment default by customers in the ordinary course of business.

Material non-group undertakings

2.13 The PRA permits UK captives to insure the risks of organisations outside the captive's group where the risks relate to connected material non-group undertakings, subject to the permitted structures and several safeguards. Material non-group undertakings are defined by reference to existence of a contractual and material financial relationship with the group. For clarity, single-parent UK captives are typically not permitted to insure non-group risks outside of this scope.

2.14 The PRA permits the following structures under the material non-group undertakings framework, as set out in the PRA Rulebook:

a. owner-controlled insurance programmes (OCIPs) – insurance provided for large projects sponsored or controlled by the UK captive's group, covering all parties working on the project;
b. minority ownership interests - insurance of entities in which the UK captive's group holds an ownership interest of at least 5%;
c. suppliers – insurance of significant suppliers where the parent undertaking relies on continuity of supply or would bear significant financial consequences in the event of disruption; and
d. franchises – insurance of franchisees that operate on the basis of franchising agreements, usually under the branding of the parent undertaking.

2.15 Where an existing UK captive or an applicant considers that a proposed structure falls within the definition of a material non-group undertaking but is not captured by the permitted structures set out above, the PRA is open to discussions. Prospective captive applicants are encouraged to engage with the PRA at an early stage to discuss this, during the pre-application process.

2.16 In determining whether a counterparty meets the definition of a material non-group undertaking, the captive needs to:

- Be satisfied that its parent and/or affiliated companies have insurable interest in the given risks.
- Be satisfied that there is a well-established contractual relationship between the group and the counterparty, which outlines mutual obligations for both parties under the contract.
- Assess that disruption to supplier's ability to service the contractual relationship will result in material measurable financial losses to the group over the short to medium term. This could include:
    - Investment write-downs for minority ownerships;
    - Project cost overruns or delays;
    - Guarantee calls or cross-default provisions; and
    - Intangible asset write-downs due to reputational events.
- Ensure that it has the expertise and data needed for underwriting the risks.
- Consider the possible increase in concentration risk.

2.17 The PRA permits UK captives to insure material non-group undertakings subject to safeguards designed to mitigate risks to the PRA's primary objectives. The following safeguards apply:

a. A UK captive is only permitted to insure the risks of material non-group undertakings on a direct insurance basis where those parties are businesses with annual turnover of

£1 million and above. Where a material non-group undertaking has annual turnover of under £1 million, a captive may only participate in the risk on a reinsurance basis.

b. A UK captive is only permitted to insure the risks of material non-group undertakings on a direct insurance basis where those undertakings are not eligible for the Financial Ombudsman Services (FOS). **Criteria for eligibility** are defined by the FCA. Where a material non-group undertaking is FOS-eligible as set out under the criteria, a captive may only participate in the risk on a reinsurance basis.

c. The aggregate business written in respect of material non-group undertakings must not exceed 10% of the UK captive's total business in any given financial year, based on the lower of net written premiums or net technical provisions. This limit does not apply to OCIPs.

d. In respect of suppliers, UK captives may only insure risks that relate directly to the group and give rise to a measurable operational or financial exposure. In other words, the captive may not insure risks related to other customers of the supplier, or risks of other supply chain elements.

e. In respect of franchisees, coverage must be confined to activities within the same industry as the parent undertaking and be aligned with the captive's core underwriting expertise.

2.18 A summary of the four permitted structures and applicable safeguards is provided below for ease of reference.

Table 2: Material non-group undertakings (MNGU)				
Type of MNGU	Volume cap on MNGUs (10% of total business)	Scope safeguard	FSCS safeguard: parties with turnover under £1m on a reinsurance basis only	FOS safeguard
OCIP	N/A	N/A	Applies	Applies
Minority stake ownerships (≥5%)	Applies	N/A	Applies	Applies
Suppliers	Applies	Risks that directly relate to the group	Applies	Applies
Franchisees	Applies	Same industry Aligned with captive's underwriting expertise	Applies	Applies

Type of parent

2.19 The PRA considers that with appropriate safeguards, UK captives can be used by a variety of organisations – commercial, financial or public.

2.20 The PRA notes that financial services firms (eg banks, [re]insurers, pension funds, superfunds) may use a UK captive to retain and manage their operating risks and associated costs, enabling them to achieve similar benefits to other organisations using captives.

2.21 As outlined above in paragraph 2.12, UK captives are restricted from writing insurance cover to protect against investment risks. These risks form part of the core balance-sheet exposures of financial services firms and are not contingent or insurance-related risks. The UK captives framework has not been designed to accommodate such exposures.

2.22 The restriction noted above would not prevent the captive of a financial services firm from writing property insurance for buildings held in an investment portfolio, where the insured risk is physical loss of or damage to the property rather than fluctuations in its value or return.

2.23 In line with the approach of financial services firms being able to insure their operating risks only, PRA rules restrict captives of groups with other (re)insurers from reinsuring risks arising from the other (re)insurers' commercial insurance activity, such as risks underwritten for third-party policyholders.[2]

2.24 Solvency UK firms that establish UK captives are subject to the Group Supervision Part of the PRA Rulebook and accordingly must consolidate UK captives under PRA rules. UK captives within groups that do not contain Solvency UK firms are not subject to the Group Supervision Part.

Type of company

2.25 The PRA considers that the structure of companies limited by guarantee (CLG) is not well suited for single parent UK captives Therefore, the PRA does not permit single parent UK captives to be established as companies limited by shares.

[2] See Captive Insurers – General Provisions 4.5.

3: Approach to authorisation

Overall approach

3.1 The PRA's expedited approach to authorising UK captives is designed to be streamlined and focused on the point of entry. In particular, the PRA:

- Places emphasis on early engagement and well-developed high-quality applications before submission, via voluntary preliminary (initial) discussions and pre-application engagement with applicants.
- Applies targeted information requirements and evidential expectations proportionate to the nature, scale and complexity of the captive. This approach reflects the generally lower risk profile of captives to the PRA's objectives.
- Aims to determine complete applications within 4–6 weeks, subject to the application being complete and no material issues arising during assessment.
- Focuses regulatory scrutiny at the application stage including on scope, permissions, limitations, governance, financial resources and the applicant's ability to comply with the regime from the point of authorisation, with the aim of reducing emphasis on post-authorisation supervision.

3.2 The following sections cover:

- the authorisation process, including preliminary (initial enquiry) discussions and pre-application engagement;
- information requirements and application submission;
- regulated activities and limitations applicable to captives;
- the PRA's approach to assessment of applications;
- timelines;
- other authorisations related considerations, including governance, reporting and relevant PRA Rulebook provisions; and
- post authorisation regulatory transactions.

3.3 This section should be read alongside the FCA's approach to captive authorisation.

3.4 Applicants will be expected to engage constructively and provide prompt complete and accurate information as required. The PRA will only grant authorisation where it is satisfied that the applicant meets, and is likely to continue to meet, the Threshold Conditions as explained in paragraphs 2.1 and 3.28 of this SS.

Authorisation process

3.5 An applicant wishing to operate as a UK captive would require PRA authorisation, with the FCA's consent, and would therefore be dual-regulated. The PRA would lead the process and coordinate with the FCA throughout. Applicants are required to confirm the functions the proposed captive would perform, the permissions sought and any limitations that would apply, and to demonstrate that the proposal meets and will continue to meet the PRA and FCA Threshold Conditions.

3.6 To support an efficient authorisation process, applicants must demonstrate that they are ready, willing and organised. This means that they must present a well-developed proposition; have in place the necessary staff, governance, systems, infrastructure, and financial resources to commence operations from authorisation; demonstrate a clear understanding of the activities they intend to undertake and the applicable regulatory framework and be able to undertake regulated activities immediately upon authorisation, supported by fully established operational capabilities.

3.7 The high-level end-to-end pathway from preliminary (initial) discussions/pre-application engagement to authorisation is set out below.

Figure 2: High level UK Captive Authorisations Process – process flow

Early engagement between applicants, the PRA and FCA

3.8 Prior to submitting a formal application, applicants may choose to engage with the PRA and FCA to confirm the proposed scope of the application, identify key issues and support the submission of a complete application. These stages (explained below) are voluntary and do not form part of the formal regulatory requirements but are strongly encouraged. The purpose of these confidential discussions is to identify potential issues at an early stage, avoid unnecessary work, and help ensure that any subsequent application submitted is complete, thereby supporting a faster assessment.

3.9 Preliminary (initial enquiry) engagement will usually take place at an early stage and cover the key features of the proposal, including any issues on which the applicant is seeking early feedback from the regulators. This can include an initial scoping discussion to consider whether the proposal appears consistent with the PRA's regulatory expectations, including in relation to the proposed ownership, financial strength and location of the applicant. The PRA would usually provide a named contact person to support these discussions.

3.10 Pre-application engagement discussions are intended to:

- clarify expectations;
- identify required information; and
- support submission of a complete application.

3.11 The pre-application engagement comprises a process through which applicants can develop and refine their proposals. Applicants may submit draft materials, including a high-level business plan covering the proposed model, risk profile, ownership, governance, and indicative financial projections. The PRA uses these engagements to assess proposal maturity and identify areas requiring further development.

3.12 An overview of the PRA's pre-application engagement process for insurers is set out on the **New Insurer Start-up Unit** webpage. For captives, the pre-application process will be applied proportionately, tailoring the number of stages, level of engagement and pace of progression to the specific circumstances, complexity and risk profile of each applicant.

Information requirements and application submission

3.13 Applicants are required to submit the following, details of which are explained below:

- a UK captives authorisation application form; and
- supporting information proportionate to the nature, scale and complexity of the proposed UK captive.

3.14 Applicants intending to submit a formal application will be able to do so via email to the PRA's New Insurer Start-up Unit, the details of which are available under the **Captive Insurer section of the PRA webpage**.

3.15 The submission will be expected to include:

- The UK captive application form, containing core details such as:
  - the applicant's name;
  - the applicant's address;
  - professional representatives;
  - key contacts;
  - legal status;
  - incorporation details;
  - regulated activities; and
  - limitations applied for.
- Supporting evidential documentation.
- Confirmation of the application fee payment.

3.16 Applicants are expected to ensure that submissions are complete, internally consistent and supported by credible evidence.

3.17 Any application received that lacks the core material information required to enable an initial assessment will not be treated as a valid application by the PRA and FCA. In such cases, the application would be returned, and the 4–6 week assessment period would not commence. Examples of gaps in an application could include where it does not clearly specify the permissions sought, lacks a credible business plan or feasibility study, or omits key information on governance, ownership, or financial resources.

3.18 The above is distinct from an application that is considered incomplete but nevertheless contains sufficient information to be treated as duly made. In such cases, the regulators would proceed to assess the application, however, it would be subject to a longer assessment period falling outside the 4–6 week timeframe. Examples may include applications where supporting documentation is partially missing, assumptions in the business plan require clarification, or further detail is needed on risk management, capital adequacy, or operational arrangements.

3.19 Applicants should provide sufficient information to enable the PRA to assess whether they meet, and are likely to continue to meet, the Threshold Conditions. This would typically include information on the proposed business, business plan, governance, risk management and operating model, and includes information that the captive owners would reasonably be expected to hold, for example as part of a feasibility study. On submission of a formal application, applicants must submit final, parent company board-approved versions of all relevant documentation in their original form, where these contain the required information. Table 3 sets out the types of documentation the PRA is likely to require.[3]

Table 3 – Indicative list of documentation for captive insurer applications

Information Area	Examples of supporting material
Business model and risk profile	Business model and risk profile, including its capitalisation and approach to meeting applicable capital requirements, supported by evidence of capital (for example, business plan; capital structure overview; capital verification/evidence of capital).
Governance and ownership	Ownership structure chart; controller details; source of funds documentation; governance framework.
Risk information	Key risk information relating to proposed lines of business, reinsurance or fronting arrangements, and outsourcing (for example, underwriting strategy; reinsurance or fronting agreements; outsourcing arrangements; risk register); a statement from the applicant firm confirming its understanding of, and undertaking to comply with, the PRA's policy in respect of material non-group undertakings.[4]
Financial information	Key audited financial information of the parent undertaking. Three-year financial projections and associated assumptions in respect of the captive comprising projected balance sheet, profit and loss, and cash flow financial statements.

[3] These documentation requirements reflect the PRA's statutory powers under sections 55U(4) and 55U(7)–(8) FSMA, to specify the form and content of applications, including the evidence required to support them.
[4] This statement is required for the purposes of the authorisation process and does not of itself constitute approval by the PRA of the applicant's arrangements in respect of material non-group undertakings, nor does it discharge the firm from its ongoing obligations under the PRA Rulebook.

Regulated activities and limitations

3.20 UK captives will be authorised to carry on a limited and clearly defined set of regulated activities, reflecting their role as risk retention vehicles. It is the UK captive's responsibility to ensure that it is authorised for the regulated activities corresponding to the business it underwrites.

3.21 Regulated activities for UK captives will consist of the following core insurance permissions:[5]

- effecting and carrying out contracts of insurance as principal;
- accepting deposits; and
- agreeing to carry on a regulated activity.

3.22 There will also be ancillary activities (with a customer categorisation as 'Commercial' and investment categorisation as 'Non-Investment insurance contracts') necessary to support insurance operations which applicants can select from, as appropriate to their business model. These are:

- dealing in investments as agent;
- dealing in investments as principal;
- making arrangements with a view to transactions in investments;
- arranging (bringing about) deals in investments;
- advising on investments (except on pension transfers and pension opt-outs); and
- assisting in the administration and performance of a contract of insurance.

3.23 As part of the application, applicants will be asked to apply for limitations under section 55F(3) of FSMA such that its regulated activities are restricted in the manner set out in the Captive Insurers – General Provisions Part of the PRA Rulebook and in particular:

- Chapter 4 (General Restrictions of Activities and Business); and
- Chapter 5 (Specific Restrictions of Activities and Business).

3.24 Applicants must confirm this to ensure that the limitations are clearly understood and formally accepted as part of the application. This provides legal and supervisory clarity on the scope of permission being sought and ensures that the firm is authorised on a basis that is consistent with its intended business model. The limitations will reflect the business profile of a captive, for example, it could set out that the captive can only insure risks related to its

[5] The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

parent, other group members and material non-group undertakings. Permission to carry out regulated activities will be granted subject to limitations, including restrictions on:

- customer types;
- lines of business, the nature of insured risks; and
- other entities that the captive can do business with.

3.25 The PRA will specify available permissions through the application process.

Assessment of the application

3.26 In assessing an application, the PRA would consider whether the applicant has a credible business model appropriate for a UK captive, including:

- a clearly defined scope of business and counterparties;
- governance, risk management and control arrangements that are proportionate to its risk profile;
- adequate financial resources, including capital and, where relevant, reinsurance arrangements;
- an ownership, source of funds and control structure that does not impede effective supervision; and
- the capability to produce credible regulatory reporting from the point of authorisation.

3.27 Because UK captives would be subject to restrictions on their activities and business model, the PRA considers that, in most cases, they would pose lower risks to the PRA's objectives than many other insurers. The PRA therefore takes a correspondingly proportionate approach to assessing applications, including more focused evidence requirements and, where appropriate, reliance on attestations.

3.28 The PRA will assess applications against:

- The **Threshold Conditions,** as set out in the Financial Services and Markets Act 2000 (FSMA). These cover legal status, location of offices, prudent conduct of business, suitability, and effective supervision.
- Relevant prudential requirements, including **capitalisation at authorisation** and
- Specific **captive eligibility criteria**.

3.29 In doing so, the PRA will consider whether the applicant has:

- a credible and sustainable business model;
- appropriate governance and risk management arrangements; and
- adequate financial and operational resources.

3.30 The PRA may request additional information where necessary to complete its assessment.[6]

3.31 Authorisation will also require the consent of the FCA as dual regulator.[7] The FCA will undertake its own assessment of the application in parallel with the PRA, including an assessment of whether the FCA Threshold Conditions are met and are likely to continue to be met, before determining whether to provide its consent to authorisation.

Timelines

3.32 The PRA aims to determine complete applications within 4-6 weeks. This timeframe does not include the preliminary (initial) discussions and pre-application stages.

3.33 This timeframe depends on:

- the completeness and quality of the application; and
- whether material issues arise during assessment.

3.34 Where necessary, the determination period may be extended to reflect incomplete or complex applications.

Other authorisations related considerations

Governance and Senior Managers

3.35 UK captives should meet the same fundamental governance standards as other PRA-authorised insurers, applied on a proportionate basis. Applicants would need to demonstrate an appropriately skilled governing body, and clear allocation of responsibilities under the **Senior Managers and Certification Regime**.[8] UK captive boards would need to retain sufficient oversight over outsourced activities and demonstrate decision-making capability to manage those arrangements and meet applicable expectations. Governance requirements are explained further in Chapter 6 of this SS.

Ongoing supervision and reporting

3.36 Applicants will need to demonstrate that the UK captive would be able to produce the minimum regulatory reporting required from the point of authorisation. More generally, the PRA would expect UK captives to maintain systems, controls and oversight arrangements

[6] In accordance with s.55U(5) and (7)-(8) **Financial Services and Markets Act 2000**.
[7] s.55F(2) **Financial Services and Markets Act 2000**.
[8] Captives should apply the Senior Managers Regime without having regard to certification references as they are not in scope and will not have individuals performing certified functions.

that are appropriate to their size, complexity and risk profile, and that support ongoing supervisory engagement. Reporting requirements are explained further in Chapter 4 of this SS.

PRA Rulebook provisions

3.37 While captives will remain subject to their relevant PRA Rulebook provisions, the PRA has adopted a proportionate approach to the application of certain authorisation requirements and has introduced targeted changes and exemptions where appropriate. These include changes to notification requirements, an exemption from the annual controllers report under the Change in Control Part, and an exemption from the Close Links Part of the PRA Rulebook, the details of each are explained below:

3.38 The PRA has made amendments to Rule 11.1 of the Notifications Part of the PRA Rulebook so that it applies to a UK captive. Chapter 11 (Conduct Rules: Notifications) of the Notifications Part requires firms to make notifications to the PRA in certain circumstances and in certain ways, including if a firm takes disciplinary action against a person relating to any action, failure to act, or circumstance that amounts to a breach of any conduct rule. The application of these rules is important to ensure the PRA can meet its statutory objectives.

3.39 The Change in Control Part of the PRA Rulebook applies to captives, with the exception of Rule 5.1 (annual controllers report) from which a captive is exempt. The Change in Control notification requirements in FSMA and PRA Rulebook would continue to apply to captives.

3.40 Captives are exempt from the Close Links Part of the PRA Rulebook.

Post authorisation - Regulatory Transactions

3.41 Following authorisation, firms may, where appropriate, undertake a range of regulatory transactions to amend or restructure their Part 4A permissions. These transactions are subject to distinct statutory processes, application fees and timelines, which may extend beyond the 4–6 week initial timeframe applicable to UK captive authorisations. The PRA would, however, seek to assess such transactions on a proportionate basis and as expeditiously as possible. These include:

- Change in Control: Arises where there is a proposal to acquire, increase, reduce, or cease control over an authorised firm.
- Part VII transfers: Court-sanctioned transfers of insurance business between firms, subject to independent expert review and court approval.
- Variation of Permission: Where a firm seeks to change the scope of its regulated activities.

- Waivers: Where the PRA, under section 138A of FSMA, may disapply or modify rules in specific circumstances, subject to statutory tests.

3.42 Further information on the processes applicable to each of these transactions is available on the **PRA Authorisations webpage**.

4: Approach to supervision

Principles

4.1 The PRA's supervisory approach for UK captives is underpinned by three design features:

i. a strong authorisation gateway, with appropriate limitations and permissions set at entry (as outlined in paragraphs 3.5 to 3.31 above).
ii. an expectation that captives remain within these parameters over time.
iii. a largely reactive, portfolio-based supervisory approach following authorisation.

Overall approach

4.2 The PRA applies a supervisory approach to UK captives characterised by a clearly defined authorisation gateway and limited onward intervention through a reactive, portfolio-based approach.

Supervisory framework

4.3 UK captives are required to comply with the PRA's Threshold Conditions and the Fundamental Rules Part of the PRA Rulebook on an ongoing basis. UK captives are not subject to **Fundamental Rule 8** which requires a firm to prepare for orderly resolution. This reflects the low risk that captive insurers pose to policyholder protection and financial stability.

4.4 UK captives will be considered Category 4[9] firms, with further modifications made to the PRA's supervisory approach, to reflect their limited capacity to cause disruption to the PRA's objectives individually or collectively.

4.5 The PRA will not apply the entire risk element framework used for commercial insurers to captives. Instead, supervisory activity will be calibrated to reflect the distinct size, complexity and risk profile of captives.

4.6 The PRA will request information from firms where required, including where there is elevated risk or indications that the firm is no longer meeting Threshold Conditions or is operating outside of its permissions.

[9] The PRA divides all insurers that it supervises into the four 'categories' with Category 1 being the most significant insurers and Category 4 being the least significant in terms of the significance of an insurer to the stability of the UK financial system.

Supervisory engagement

4.7 The PRA's engagement with captive firms is predominantly on a reactive basis. The PRA notes that UK captive firms can contact the PRA on their own initiative at any time.

4.8 UK captive firms must notify the PRA of material developments and changes, including:

- Change in Control: Firms must notify the PRA regarding proposed changes in control as outlined in paragraph 3.39 and3.41 above.
- Senior Management Functions (SMFs): Firms must notify the PRA of any changes to the identity of SMFs.
- Fitness and Propriety: If a firm becomes aware of information material to the fitness and propriety of an SMF they must inform the PRA as soon as practicable.
- Risk Profile Changes: As per Rule 2.3 of Notifications, firms must notify their supervisor when their risk profile changes or when they are considering arrangements that could alter their risk profile.
- Material Changes in Reinsurance: Firms must notify the PRA if reinsurance cessions of a captive become materially larger or smaller.
- Operational Incidents: Firms must disclose anything relating to the firm of which the PRA would reasonably expect notice (**Fundamental Rule 7**).

4.9 The PRA will supervise UK captive firms on a portfolio basis, utilising a reactive, data-driven, trigger-based approach with reliance on UK captive reporting templates outlined in the reporting and data section below.

Approach to regulatory transactions

4.10 UK captive firms are subject to the PRA's and FCA's regulatory transaction regimes including changes in control, variation of permissions and other statutory processes. The PRA will assess applications in accordance with applicable statutory timelines.

4.11 The PRA will apply a proportionate, risk-based approach to the assessment of such transactions.

Reporting and data

4.12 The PRA uses simplified annual regulatory returns and statutory financial information to monitor captives on an ongoing basis. This supports the identification of potential risks, including through changes in capital, financial performance, or business activity. This approach is in line with the PRA's proportionate and reactive approach to supervision for UK captives, supporting effective monitoring while limiting the administrative and supervisory burden on firms and the PRA.

4.13 UK captives are required to submit an annual regulatory return, comprising of:

- basic company information on the captive;
- a streamlined balance sheet including solvency calculations;
- a simplified P&L account, showing underwriting results at Line of Business[10] level; and
- capital activity.

4.14 In addition, UK captives are required to submit their full annual statutory accounts with this submission.

4.15 The return is accounting standard neutral, with captives required to base these upon their statutory audited annual accounts, irrespective of whether these are prepared on an IFRS or UK GAAP basis, covering the same reporting period as the statutory return. UK Captives are required to submit the regulatory return alongside their annual audited accounts within 70 business days of their financial year-end, as set out in the PRA Rulebook.

4.16 UK captives are expected to submit the regulatory returns via the **BEEDS portal,** in line with other PRA regulated firms.

4.17 When completing the regulatory return, captives should follow the instructions, which provide clarity on terms used.

[10] Lines of business used are aligned with Solvency UK.

5: Financial resources

5.1 The PRA considers that financial resources requirements are necessary to support the safety and soundness of UK captives and to secure appropriate protection for policyholders. These requirements aim to ensure UK captives meet their obligations as they fall due and function effectively as group risk management vehicles.

Valuation of assets and liabilities

5.2 UK captives are required to prepare a regulatory balance sheet and report it to the PRA on an annual basis as part of the annual returns. The components of a UK captives' regulatory balance sheet are largely derived from its UK statutory financial reporting (whether UK GAAP or IFRS), with the following adjustments (as noted in the Captive Insurers – Valuation, Financial Resources and Capital Requirements Part of the PRA Rulebook):

- intangible assets are not recognised;
- deferred tax assets that rely on future profitability are not recognised;
- defined benefit pension fund assets are not recognised; and
- parental support arrangements and letters of credit may be recognised on the regulatory balance sheet at their face value, where they meet the criteria in PRA rules.

5.3 The PRA does not expect UK captives to routinely rely on letters of credit and parental/group support agreements for backing their liabilities and UK captives should maintain sufficient assets to avoid insolvency. However, where letters of credit or parental/group support agreements are used to underpin the UK captive's liabilities, only the portion not required to support the liabilities would be eligible to count towards meeting capital requirements.

5.4 While the PRA recognises that UK captives may use statutory values and methodologies that differ from market-consistent approaches, the PRA expects UK captives to have regard, where relevant, to market conditions and other current financial information. This is to support an appropriate understanding of the UK captive's financial position and risk profile and to inform prudent decision-making.

5.5 PRA rules require UK captives to have effective systems and controls to ensure that valuation estimates of their assets and liabilities are reliable and compliant with PRA rules. The PRA recognises that, for UK captives, the form and sophistication of those systems and controls may differ according to the business model. The PRA therefore expects those arrangements to be proportionate to the nature, scale and complexity of the risks inherent in the UK captive's business model, but sufficient to support reliable valuation estimates, appropriate oversight and compliance with PRA rules.

Insurance liabilities

5.6 The PRA expects UK captives to calculate insurance liabilities on a prudent and proportionate basis, using appropriate data and assumptions. This includes having regard, where relevant, to claims experience, expense cash-flows and inflation, and considering whether assumptions remain appropriate over time as experience emerges.

5.7 The PRA recognises that, given the nature of UK captive insurance business models and the statutory basis of valuation, insurance liabilities may be calculated on either a discounted or undiscounted basis. The PRA does not prescribe a particular approach for UK captives and expects firms to adopt a method that is appropriate to the nature, duration and uncertainty of their liabilities.

5.8 Consistent with 5.5 above, the PRA expects UK captives to maintain proportionate processes and controls to support the calculation of insurance liabilities. While these arrangements need not be complex, they should be sufficient to ensure that insurance liabilities are based on appropriate data and assumptions, are subject to reasonable oversight and review, and can support informed decision-making by the governing body.

5.9 The PRA expects UK captives to calculate insurance liabilities and reinsurance recoverables in a consistent manner. In particular, the assumptions, methodologies and data used to value reinsurance recoverables should be aligned, where relevant, with those used in the calculation of the underlying insurance liabilities. This supports an accurate assessment of the UK captive's net exposures, capital position and risk profile.

Capital requirements

5.10 UK captives are required to hold regulatory capital to help absorb losses on a going-concern basis. This supports the UK captive's ability to meet its obligations as they fall due and to operate in a manner that enables its policyholders to achieve the intended risk-financing benefits of the captive arrangement.

5.11 PRA rules require that a UK captive must calculate its capital requirement (captive capital requirement, 'CCR') by adding:

- a baseline requirement of £100,000 to be met with Tier 1 capital resources; and
- any applicable additional capital requirement which can be met with Tier 1 or Tier 2 capital resources.

5.12 The additional capital requirement must be calculated as the extent to which the higher of (i) 10% of the UK captive's net written premiums; and (ii) 10% of the UK captive's net insurance liabilities, exceeds the baseline requirement. For the purposes of this calculation, 'net' means after reinsurance.

5.13 The PRA considers that calibrating the additional capital requirement by reference to net written premiums and net insurance liabilities provides a proportionate link to a UK captive's risk profile. Net insurance liabilities capture the scale of existing insurance obligations, while net written premiums provide a forward-looking indicator of changes in business volume and uncertainty, including where a UK captive grows rapidly or adds new coverages.

5.14 The PRA considers that a £100,000 absolute floor is needed within the CCR to support the stable operation of smaller UK captives, where a factor-based calculation alone may be insufficient to protect against volatility experienced on a small portfolio. The PRA also requires the £100,000 floor to be met by Tier 1 capital at all times.

5.15 The CCR represents the regulatory minimum. The PRA notes that UK captives may provide a wide range of coverages for their policyholders. In particular, UK captives may write risks not offered in the commercial market, or risks with limited historical experience, where uncertainty around loss outcomes is higher. UK captives may also write a small number of lines of business and so be concentrated towards certain risks. In view of this, PRA rules require UK captive boards to consider if the UK captive should hold capital resources in excess of CCR.

5.16 In this assessment, boards should have regard to the nature, scale and complexity of the UK captive's operations, including its underwriting profile, reinsurance arrangements and reliance on group support. UK captives are required to provide this assessment to the PRA on request.

5.17 The PRA expects that in undertaking this assessment, UK captive boards would take into account:

- the time periods that are relevant for the risks the UK captive faces in the long term;
- valuation and recognition bases that are appropriate for the UK captive's business and risk profile; and
- the UK captive's internal control and risk-management systems and approved risk tolerance limits.

5.18 The PRA considers that it would be appropriate for a board to decide to hold capital resources in excess of CCR in the following non-exhaustive list of circumstances:

- where the UK captive has limited underwriting or claims experience, giving rise to greater uncertainty in loss outcomes;
- where the UK captive has a narrow business profile, limited scale or material concentrations to particular exposures, lines of business or reinsurance counterparties; or
- where a significant proportion of the UK captive's business comprises longer tailed liabilities, increasing uncertainty over the ultimate cost and timing of claims.

5.19 The PRA has not set out a 'capital add-on' policy framework for UK captives, as it has for Solvency UK insurers. However, the PRA's normal supervisory powers would remain available on a case-by-case basis.

Capital resources

Overview

5.20 UK captives are required to hold the appropriate capital resources to meet their capital requirements. As set out in the PRA Rulebook, capital resources for captives comprise two tiers:

- Tier 1 capital comprises high-quality paid-in capital only (eg ordinary share capital, retained earnings), that meets the conditions in PRA rules, and can be used to meet the baseline component of the CCR and the additional component of the CCR.
- Tier 2 capital comprise contingent capital support in the form of letters of credit and parental/group support agreements (sometimes known as parental guarantees), subject to conditions in PRA rules, and can be used to meet the additional part of the CCR.

Use of contingent capital support (letters of credit and parental/group support agreements)

5.21 UK captives may use contingent capital support as part of their capital resources, in the form of letters of credit and parental/group support agreements, which are issued for the benefit of the captive. In this context, a letter of credit is a binding promise from a bank (the issuer, based on instructions from the captive's group) to the captive (as beneficiary) to pay the captive up to a specified amount, when requested by the captive. Parental or group support agreement is an arrangement between the parent undertaking (or another group entity) and the captive, reflecting the commitment from the parent or the group entity to inject cash in the captive upon the captive's request.

5.22 When deciding to enter into, maintain, amend or call a parental guarantee or letter of credit, the PRA expects the captive's governing body to act in the interests of the captive as a regulated insurer and to manage any conflicts of interest arising from the parent's roles as owner and (typically) policyholder.

5.23 Where a UK captive relies on letters of credit and/or parental/group support arrangements for the additional CCR and backing insurance liabilities the PRA expects the captive to manage the associated risks appropriately. UK captives should:

a. regularly assess the financial strength and reliability of the issuing counterparty (the credit institution or the group entity);
b. understand the remaining duration, renewal arrangements and manage related risks; and
c. have clear processes and governance arrangements to support timely and effective drawdown.

Intragroup loan-back arrangements.

5.24 UK captives may make use of intragroup loan-back arrangements, provided the UK captive meets its CCR.[11]

5.25 Loan-backs can create risks for the captive, including liquidity, credit exposure to a group counterparty and the risk that funds are not available to the captives when needed because they are in a different part of the group. Where a UK captive uses loan-backs, the PRA expects the captive to manage these risks as set out below.

5.26 The PRA expects:

- Documentation and access to funds: loan-back arrangements are clearly documented, including repayment terms, maturity and any call or early repayment rights, and are designed to support timely access to funds where required.
- Decisions taken in the best interests of the captive: decisions to enter into, amend, renew or maintain a loan-back arrangement are taken in the interests of the captive as a regulated insurer, with appropriate board oversight. This includes ensuring that the arrangements are not circular, eg capital investments in the captive are not financed by the captive itself.
- Liquidity management: the captive monitors the timing and reliability of expected cash flows (interest and principal) and assesses whether those cash flows are sufficient to meet liabilities and expenses as they fall due, including under stress.
- Credit exposure and concentration: the captive assesses the credit exposure created by lending to the parent or another group entity, including the financial strength of the

[11] A loan-back is an intragroup arrangement whereby the captive lends previously invested funds back to its parent or other group entities.

borrower, and whether loan-backs increase concentration risk where a significant share of the captive's assets is exposed to a single group counterparty.

- Funds becoming trapped: the captive considers the risk that funds may become trapped elsewhere in the group and not be available when needed and puts in place proportionate mitigants where appropriate.
- Stress performance: the captive considers how loan-back arrangements would perform in stress scenarios, including where stress affects both the captive and the parent or other group entity, and assesses the implications for liquidity and capital if repayment were delayed or unavailable.
- Ongoing review: governing bodies review loan-back arrangements regularly and are satisfied that they remain consistent with the captive's liability profile and liquidity needs.

Capital reduction, redemptions, repurchase and distributions

5.27 Capital reduction and dividend payments are permitted in PRA rules, provided that the captive continues to meet its capital requirement. When making such decisions, the PRA expects captives to consider their capital needs, including their capacity to raise additional capital if required.

Capital activity information

5.28 In contrast to the approach taken for Solvency UK firms, the PRA does not require prior notifications or permissions for capital transactions. This includes issuances, changes to capital instruments, contingent capital arrangements or intragroup transactions, and reflects the lower risk profile of single-parent UK captives.

5.29 Notwithstanding this, the PRA expects UK captives to ensure that capital activity is properly documented and supported by appropriate governance, and to maintain adequate records of all capital instruments and arrangements. This includes ensuring that decisions relating to capital transactions, including the use of intragroup arrangements, are taken in the best interests of the captive as a regulated insurer.

5.30 UK captives must report relevant changes in capital resources and capital arrangements as set out in the PRA reporting templates (see the Reporting and data section in Chapter 4 of this SS), alongside a confirmation of compliance with the relevant rules in the Capital Resources Part of the PRA Rulebook. Firms must also be able to explain these changes to the PRA on request, including the rationale for the transaction, its impact on solvency and liquidity, and how any associated risks have been managed.

6: Governance

6.1 A UK captive must have an effective system of governance to support the prudent management of the firm, appropriate to the nature and complexity of the risks it assumes and the regulated activity for which it is authorised. This helps underpin the PRA's primary objective of safety and soundness and, for insurers, contributes to appropriate policyholder protection.

6.2 In furthering this outcome, the PRA's focus is on governance arrangements that deliver a ppropriate outcomes, rather than on adopting prescriptive frameworks. Alongside this, the PRA aims to promote a proportionate approach, particularly for simpler captive models, ensuring that governance, risk management and financial resources are commensurate with the arrangements and the need to manage potential conflicts of interest.

6.3 This chapter should be read in conjunction with:

- The relevant PRA rules for UK captives;
- **SS35/15 - Strengthening individual accountability in insurance**; and
- the FCA's Handbook where applicable to UK captives.

Role of the board, strategy and risk appetite

The role of the captive board

6.4 The board (or governing body) of a UK captive is collectively responsible for the prudent management of the captive, and is ultimately responsible for their compliance with the PRA rules, FSMA and other laws, rules, regulations and administrative provisions applicable to UK captives.

6.5 The PRA recognises that, even among single-parent captives, business models vary significantly. The PRA therefore expects the board (or governing body) of a UK captive to oversee and ensure an effective system of governance. The board should regularly assess the nature, scale and complexity of the risks that they run, in determining the appropriate approach. This assessment should include, but may not be limited to:

- lines of business: for example, speciality lines such as cyber insurance and long-tail liability lines including product liability, directors and& officers, professional indemnity and environmental risks, are generally more complex and carry higher risks;
- insurance of material non-group undertakings: captives that insure their own group business only would generally be considered lower risk; and

- geographic scope: captives that provide multi-jurisdictional risk coverage are generally exposed to a broader range of risks and operational complexities.

6.6 While elements of the UK captive's operations may be outsourced or delegated to third-parties, legal and regulatory accountability for compliance cannot be outsourced. The board should therefore have sufficient oversight, information and capacity to challenge and satisfy itself, on an ongoing basis, that the captive meets its regulatory obligations.

Board Composition and Senior Management

6.7 The PRA expects boards to be organised so that decision making is not concentrated in a single individual, allowing them to exercise effective collective judgement and challenge. To this end, a UK captive's board must comprise at least two natural persons who are able to set the strategic direction, risk appetite and high-level risk management framework for the firm. In addition, a captive board:

- will typically include the individual(s) acting as Chief Executive, or Senior Manager Function 1 (SMF1) under the Senior Managers Regime, see paragraph 6.15;
- may appoint, if necessary to support operational decision-making and board oversight and governance, individual(s) acting as Executive Director, or Senior Manager Function 3 (SMF3) under the Senior Managers Regime,
- must have at least one non-executive director (NED) to support effective oversight and challenge;
- where the nature, scale or complexity of risks warrants independent challenge, the PRA expects the appointment of an 'independent non-executive director (iNED);
- may choose to appoint an independent chair of the board to oversee effective oversight of the board; and
- should collectively have sufficient knowledge, skills and experience to understand the captive's insurance risks, reliance on reinsurance, capital position, investment approach and use of third-party service providers.

6.8 A distinction should be maintained between executive responsibilities for managing the business and the oversight and challenge role performed by non-executive directors, even where the board is small and membership of the board and executive management overlaps.

Strategy, risk appetite and resources

6.9 The board is responsible for:

- approving and overseeing a clear and sustainable business model consistent with the UK captive's purpose as an insurance undertaking;
- setting and regularly reviewing a clear and measurable risk appetite, ensuring that this informs decisions on underwriting, reserving, reinsurance, capital management and investments; and
- ensuring the firm meets its regulatory obligations, engages openly and constructively with the PRA, and promotes a culture that supports sound risk management.

6.10 Although captives may benefit from enhanced access to group risk information, including historical loss data and operational insight, this does not remove the need for robust underwriting judgement, reserving discipline and effective challenge. Decisions eg on pricing, coverage, capital and distributions should not be driven simply by parent group commercial considerations and must take account of the need for appropriate safety and soundness standards.

6.11 The board is also expected to oversee:

- capital adequacy - including whether it is appropriate to hold an excess over the minimal capital requirement (see Chapter 5 Financial Resources) - and solvency on a forward-looking basis;
- the appropriateness and effectiveness of reinsurance arrangements, recognising the captive's dependence on reinsurance as a primary risk mitigant; and
- dividend and capital extraction policies, particularly given inherent parent group conflicts.

6.12 Effective oversight of these factors underpins firm resilience and reduces the likelihood of disorderly outcomes.

Role and expectations in relation to an independent non-executive director (iNED)

6.13 The PRA considers there is the potential for risks to arise within a captive's business due to concentrated ownership, policyholder dominance and limited separation between group and insurer interests. An iNED can play an important role in mitigating these risks by exercising independent judgement. Where appointed, an iNED can be expected to:

- bring relevant skills and experience currently missing from the board;
- question the decisions of the captive and provide constructive challenge on underwriting, reserving, capital and risk appetite;

- provide independent knowledge and offer insight into the sector of the parent company's business; and
- ensure that all corporate governance and compliance requirements are being sufficiently met.[12]

6.14 At the same time, the role and duties of an iNED cannot be reduced to a simple formula, and it is important that the overall governance framework demonstrates effective challenge, clear accountability and disciplined decision making proportionate to the UK captive's scale and risk profile.

Application of the Senior Managers Regime to Captives

Purpose and scope

6.15 The Senior Managers Regime (SMR) applies to UK captives. The SMR requires firms to identify individuals, or Senior Managers[13], responsible for managing key business areas or functions, known as Senior Management Functions (SMFs). Senior Managers are accountable for addressing risks to the PRA's statutory objectives, across the SMF(s) for which they are responsible. Firms must avoid situations where key responsibilities are unallocated, fragmented or unclear. In the case of UK captives, the PRA recognises that this requirement will be met by the appointment of a Chief Executive, holding the SMF1 and any Executive Director(s) holding the SMF3 role (an FCA function).

Allocation of Senior Management responsibilities

6.16 UK captives must ensure that Senior Manager roles are performed only by individuals approved as fit and proper (see paragraph 6.45). Failure to do so would be a breach of FSMA and may result in formal supervisory or enforcement action.

6.17 Each Senior Manager should have an up-to-date Statement of Responsibilities (SoR) that clearly sets out the matters for which they are personally accountable. Collectively, these statements should provide a coherent picture of how responsibility for the captive's governance, risk management, capital, underwriting and regulatory compliance is allocated with no material gaps or inappropriate overlaps. The allocation should reflect the captive's operating model, including the use of outsourcing and group

[12] These expectations were developed in line with the **Airmic Guide (2023) Captive Governance: A Practical Guide for Independent Non-executive Directors on Captive Boards.**

[13] **Glossary | Prudential Regulation Authority Handbook & Rulebook**

services. Responsibilities should be capable of being evidenced in practice, including through decision making records and oversight arrangements.

6.18 The responsibilities assigned to Senior Managers should not undermine the collective fiduciary, legal and regulatory responsibilities of the board, but rather complement them.

6.19 Indicators that captives should consider when evaluating the quality and effectiveness of their SoRs include, but are not limited to:

- the extent to which a captives SoRs are embedded and utilised in internal governance processes and how valuable internal stakeholders find them in practice; and
- the outcome of any relevant internal audit review.

6.20 An individual holding SMF1 is accountable for the overall conduct of the captive's regulated activities, including where functions are outsourced, and is expected to take reasonable steps to prevent or remedy regulatory breaches within their area of responsibility.

6.21 In some cases, where warranted by the business model and risk profile, there may be a need for more than one person at a captive to hold the SMF1 role. At the same time, the PRA expects firms to appoint more than one SMF1 only where appropriate and justified. Where two or more individuals act as SMF1, each will be deemed fully accountable for all the responsibilities inherent in or allocated to that function.

6.22 UK captives may rely on a captive manager for expertise. Captive managers are third party firms that oversee the day-to-day management of the UK captive or perform certain outsourced functions on their behalf.

6.23 Given UK captives may rely on the captive manager for expertise, an SMF1 may come from the captive manager. Approving such an individual as a Senior Manager is also conditional on this individual meeting the Fitness and Propriety standard. In such cases, we would also expect an outline of how conflicts of interest would be managed during operation of the firm at the authorisation assessment stage.

6.24 Accountability requirements under the SMR continue to apply where roles are held by individuals from a captive manager or the wider group. Outsourcing or delegation of activities does not transfer accountability away from those identified as Senior Managers.

Allocation of responsibilities

6.25 In accordance with the Insurance Allocation of Responsibilities Part of the PRA Rulebook, UK captives must allocate the relevant PRA Prescribed Responsibilities (PRs) to an appropriate Senior Manager.

6.26 When a PRA PR is shared among more than one Senior Manager, the PRA expects the PR to be recorded identically in each of the Senior Manager's SoR. However, firms are expected to utilise the free text section in the SoRs to provide additional details on how a given shared PR applies to the different individuals sharing it in practice.

6.27 Larger and more complex captives should utilise section 3.2.2 of the SoR template[14] to provide additional clarifications, details, and expectations of the PRs they have allocated where it would be necessary, or helpful, in understanding what the Senior Managers responsibilities are.

6.28 UK captives are free to assign to a Senior Manager, and include in their SoR, additional PRs not covered in the PRA's rules. Additional PRs must not, however, modify or qualify any responsibilities prescribed by the PRA.

6.29 Given their simplified management structures, UK captives do not need to prepare Management Responsibilities Maps.

Duty of responsibility

6.30 Senior Managers in UK captives are expected to take reasonable steps to ensure that the areas for which they are responsible are controlled effectively and in compliance with regulatory requirements.

6.31 In a UK captive context, this includes ensuring that:

- the firm operates as an insurance undertaking in its own right, and not solely as an extension of the parent group's risk-management framework;
- decisions on underwriting, reserving, capital and distributions are taken with due regard to the captive's prudential resilience; and
- conflicts of interest are identified, managed and evidenced through governance processes.

6.32 The PRA will consider whether a Senior Manager has met this expectation having regard to the firm's size, complexity, business model and governance arrangements.

Applications and notifications

6.33 UK captives are expected to engage proactively with the PRA on applications for approval of Senior Managers and on regulatory notifications, and to ensure that these are accurate and produced on a timely basis. This includes notifying the PRA of material

[14] Senior Management Regime: Statement of Responsibilities

changes to Senior Manager PRs, significant governance changes, or other matters of which the PRA would reasonably expect notice.

6.34 UK captives should also have regard to the Management of Conflicts of Interest chapter whenever an SMF application is made.

Conduct Standards

6.35 The PRA requires Senior Managers to adhere to the PRA's Conduct Rules, which comprise both the Individual Conduct Rules and the Senior Manager Conduct Rules.[2]

6.36 The Individual Conduct Rules require that relevant individuals: (1) act with integrity; (2) act with due skill, care and diligence; (3) be open and cooperative with the FCA, PRA and other regulators.

6.37 Alongside these, the Senior Manager Conduct Rules require that Senior Managers:

- SMCS1: take reasonable steps to ensure that the business of the firm for which they are responsible is controlled effectively;
- SMCS2: take reasonable steps to ensure that the business complies with relevant requirements and standards of the regulatory system;
- SMCS3: take reasonable steps to ensure that any delegation of their responsibilities is to an appropriate person and that they oversee the discharge of the delegated responsibility effectively; and
- SMCS4: disclose appropriately any information of which the FCA or PRA would reasonably expect notice.

6.38 UK captives should have arrangements in place to identify, investigate and take appropriate action in relation to potential breaches of the conduct rules, and to notify the PRA of significant disciplinary action where required.

6.39 In accordance with the Insurance Fitness and Propriety Part of the PRA Rulebook, Conduct Standards should also be taken into account by firms and groups when assessing fit and proper status. This should be done on an ongoing basis for all those persons who are effectively running the firm or group, such as those holding an SMF.

6.40 In assessing whether an individual's conduct was either consistent with or complied with a Conduct Standard, the PRA expects the context in which a course of conduct was undertaken to be taken into account, including the:

- precise circumstances of the individual case;
- characteristics of the particular function performed by the individual in question; and

- behaviour to be expected in that function.

6.41 A person will only be in breach of any of the Conduct Standards where they are personally culpable. Personal culpability arises where:

- a person's conduct was deliberate; or
- the person's standard of conduct was below that which would be reasonable in all the circumstances.

6.42 Where a firm or group identifies any matter which might be relevant to an assessment of whether an individual who is performing such a function is fit and proper, it should promptly and fully investigate the position and take appropriate action. This includes complying with any obligation to notify the PRA (see 3.37).

6.43 The PRA expects that the Conduct Standards apply only to an individual's conduct in relation to the activities of the firm or group for which they are working. These standards do not relate to a person's actions in their private life if those actions are unrelated to the firm's activities and the PRA would not generally expect to assess such actions against these standards. However, the PRA notes that an individual's wider behaviour could affect their ability to follow these standards more generally. The way in which a person behaves in their private life may then be relevant to any assessment, by the PRA or by the firm itself, of whether that person is, or remains, fit and proper.

6.44 Firms must also require that all members of their board or governing body, including all Notified NEDs, observe Individual Conduct Standards 1-3 and Senior Manager Conduct Standards 4-5.

Fitness and Propriety

6.45 UK captives are subject to the Insurance Fitness and Propriety Part of the PRA Rulebook. In assessing whether individuals are fit and proper to perform a SMF or NED function, the PRA expects firms and groups to have regard in their assessments of fitness and propriety to the person's:

- honesty, integrity and reputation;
- competence and capability; and
- financial soundness.

6.46 In assessing the fitness of an individual in relation to undertake a Senior Manager or NED role, a firm must (among other things) undertake a criminal records check and seek regulatory references from previous employers.

6.47 In making a criminal record check, the PRA expects a firm to get an application form from the Disclosure and Barring Service (DBS) or an umbrella body (a registered body that gives access to DBS checks) in England and Wales. There is an equivalent procedure in Scotland (involving Disclosure Scotland) and Northern Ireland (involving Access NI). If the candidate is employed by a contractor, the PRA expects that the firm may ask the contractor to obtain the certificate. The PRA does not expect firms to send any DBS certificates or copies of such certificates to the PRA. For non-SMF holders, the PRA expects a firm to obtain a criminal records check (with the consent of the candidate). The firm should request all necessary information in relation to the candidate as it is lawfully able to under the legislation. It is expected that any relevant detail which could impact a candidate's fitness and propriety, be disclosed in the submission form(s).

6.48 To help determine whether a Senior Manager or a notified NED is fit and proper, firms must seek a regulatory reference. Such references must cover the previous six years of employment and be sought from all relevant former employers, or organisations at which the individual is or held:

- a Senior Management Function (SMF);
- another Controlled Function (CF); and
- a notified NED function.[15]

Internal Audit and Record-keeping

6.49 In line with PRA rules on internal audit, a UK captive must establish and maintain an internal audit function.

6.50 The effective system of governance should include an internal audit function that provides: (1) assurance over governance, risk management and controls, and (2) remains accountable, including where the function is outsourced.

6.51 UK captives who decide to outsource their internal audit function to a third party are required to allocate a PR to an employee who performs a SMF or FCA governing function for:

- providing for an effective internal audit function; and
- overseeing the performance of the internal audit function.

6.52 The PRA considers an effective internal audit function to:

[15] A notified NED is a NED on the board of a regulated firm that does not hold a Senior Management Function.

- Have checks that go beyond basic operational checks For example, the internal audit function carries out checks to assess the soundness of the captives' governance checks. Examples include but are not limited to, observations of board meetings to determine whether there is a comprehensive strategy-setting process, whether the board considers all matters of material relevance and documents the reasons for its decisions, and checks board minutes to ensure actions are carried out.
- Provide sufficient challenge to the board.
- Include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance.
- Be sufficiently independent from other operational functions.

Management of Conflicts of Interest

6.53 The PRA recognises that within the sector, parent entities seek to structure captives in ways that align the interests of both parties. Such structures may reflect: (1) alignment of purpose, (2) alignment in governance and decision-making, (3) alignment incentives or (4) alignment in risk and risk appetite. At the same time, the PRA expects the boards and Senior Managers responsible for UK captives and their parents to be alert to potential conflicts, and to identify and manage these in ways that support the safety and soundness of the UK captive.

6.54 The PRA recognises that certain conflicts of interest may arise from the parent's role as owner, policyholder, and key decision maker. These conflicts flow from the design of the captive model and are not expected to be eliminated.

6.55 To this end, the role of board and Senior Managers should:

- identify and manage conflicts transparently;
- ensure decisions are taken in the interests of policyholder protection, the insurer's safety and soundness; and
- provide a forum for effective and evidenced challenge where group incentives may diverge from prudential considerations.

Possible Board Mitigations for Certain Conflicts

6.56 To assist firms, an indicative (but non exhaustive) set of potential conflicts that can arise in the context of UK captive's is given below.

Owner vs insurer conflict

6.57 Mitigants may include:

- use of an independent non-executive director (where appointed); and
- proportionate allocation of accountability for capital and solvency decisions to a Senior Manager, typically the SMF1 and, where appointed, any SMF3.

Policyholder dominance conflict

6.58 Mitigants may include:

- board oversight of underwriting principles and risk acceptance criteria;
- proportionate risk or underwriting committee arrangements;
- effective challenge from non-executive directors, including an iNED where appointed; and
- periodic independent actuarial input.

Board dual-loyalty conflict

6.59 Mitigants may include:

- conflicts-of-interest policies tailored to the captive context;
- the presence of an independent director or equivalent mechanism for independent challenge; and
- focused board effectiveness or governance reviews.

Capital extraction vs resilience conflict

6.60 Mitigants may include:

- board-approved capital management and distribution policies;
- clear accountability for capital decisions within senior management; and
- enhanced supervisory scrutiny of material or irregular distributions.

Underwriting integrity conflict

6.61 Mitigants may include:

- board approval for new lines of business or material changes in coverage;
- explicit accountability for underwriting decisions; and
- use of external advisers or independent directors to provide challenge.

Whistleblowing

6.62 The PRA expects UK captives to maintain proportionate whistleblowing arrangements that enable concerns about wrongdoing, regulatory breaches or risks to the firm to be raised and escalated in the public interest, without fear of detriment.

6.63 While the PRA recognises that many UK captives have few or no direct employees and rely extensively on outsourcing or group service arrangements, this does not negate the need for accessible and effective whistleblowing channels.

6.64 The PRA therefore expects UK captives to ensure that appropriate mechanisms are in place for relevant individuals to raise concerns outside the normal management chain, with suitable protections for those doing so, taking into account the nature, scale and complexity of the captive's business and operating model. Where whistleblowing arrangements are delivered through group, outsourced or third-party structures, firms should ensure these arrangements remain effective in practice and aligned with the PRA's expectations.

Third-party arrangements for UK Captives

6.65 The PRA recognises that many captives outsource most, and often nearly all, of their day-to-day operations to third-party service providers, commonly captive managers. This may include administration, underwriting support, claims handling, accounting, regulatory reporting and compliance. As a result, third-party arrangements are not ancillary to the captive business model but can be central to how the firm operates. If not properly governed, this can undermine accountability, control, and the achievement of the PRA's statutory objectives.

Third-party arrangements

6.66 The PRA Rulebook defines 'third-party arrangement' as 'any agreement whereby a person provides to a firm a product or service, whether or not the product or service: (1) is one which would otherwise be provided by the firm itself; (2) is provided directly or by a sub-contractor; or (3) is provided by a person within the same group as the firm.

Material third-party arrangements for UK captives.

6.67 The PRA Rulebook defines 'material third-party arrangement' as a 'third-party arrangement which is of such importance that a disruption or failure in the performance of the product or service provided to the firm could:

- pose a risk to :
  - the firm's safety and soundness;
  - in the case of an insurer, an appropriate degree of protection for those who are or may become the firm's policyholders; or
  - where the firm is, or is controlled by, an O-SII[16], or is a relevant Solvency UK firm, the stability of the UK financial system; or
- cast serious doubt upon the firm's ability to satisfy the threshold conditions, and the Fundamental Rules.[17]

6.68 The PRA expects that the material third-party arrangements for UK captives apply only in relation to the third-party management and delivery of captive insurers core functions. The PRA considers a UK captive's core functions as follows:

- underwriting and pricing authority;
- claims management and settlement authority;
- reserving and technical provisions;
- reinsurance strategy and placement;
- investment and asset management;
- capital management and solvency oversight;
- internal audit function;
- risk management framework;
- compliance and regulatory reporting; and
- finance and solvency reporting.

6.69 An arrangement will not be considered material solely due to delegated authority, unless that authority relates to, or could influence, the above core insurance functions.

6.70 Below are examples of third-party arrangements that the PRA would not expect to be classified as material third-party arrangements for UK captives:[18]

[16] The Prudential Regulation Authority (PRA) identifies other systemically important institutions (O-SIIs), as is required under the Capital Requirements (Capital Buffers and Macroprudential Measures) Regulations 2025. The PRA has taken into consideration relevant Basel principles in developing its approach to the identification of O-SIIs.
[17] See the Glossary Part of the PRA Rulebook.
[18] The below examples are non-material only where they do not support core insurance functions or involve delegated authority.

- The use of services for the storage of sensitive information, such as data centres, cloud hosting services, or managed service providers.
- The user of services which are key to the delivery of one or more service, such as:
  - cloud services which are required to run software and access additional processing capacity (Software-as-a-Service or SaaS);
  - the use of third-party services such as payment and settlements; and
  - provision of real time market data and analytics (eg data feeds for benchmarking or pricing funds).
- Process support services without privileged access or functions that are legally required to be performed by a service provider (eg consultancy services, professional services, statutory audit, legal services and claims providers).
- Basic utilities (eg electricity, gas, water, telecommunication services which constitute the provision of a public electronic communications network or a public electronic communications service within the meaning of 151 if the Communications Act 2003);
- Instances where the service provider has limited authority over strategy, capital, investment policy and risk appetite.
- Non-vital support services (eg advice from an architect, provision of a legal opinion, maintenance of the firm's premises, medical services provided to the firm's staff, servicing of company cars, catering, vending machine services, clerical services, travel services, post-room services, receptionists, administrative support and switchboard operators).
- Functions that are legally required to be performed by a service provider (eg statutory audit).
- Goods procurement (eg plastic used for credit/ debit cards, card readers, office supplies, furniture).
- The purchase of data collated by third party providers (data brokers) (eg geospatial data or data from in-app device activity or social media).
- Analytical tools that are built by a third-party provider (eg website traffic monitoring, employee activity monitoring, project monitoring tools.

Governance

6.71 Boards and senior management, in particular individuals performing SMFs, cannot outsource their responsibilities. Firms that enter into a material third-party arrangement for UK captives remain fully accountable for complying with all their regulatory obligations.

6.72 A UK captive's board should:

- set the control environment throughout the firm, including the appetite and tolerance levels in respect of outsourcing and third-party risk management; and

- bear responsibility for the effective management of all risks to which the firm is exposed, including by:
  - appropriately identifying, and understanding the firm's reliance on critical service providers; and
  - ensuring that the firm has (from board level downwards) appropriate and effective risk management systems and strategies in place to deal with third party service providers.

Written agreements

6.73 Material third-party arrangements for UK captives must be set out in a written agreement. A UK captive should ensure that written agreements for material third-party arrangements include appropriate contractual safeguards to manage and monitor relevant risks. Moreover, regardless of materiality, firms should ensure that third-party agreements do not impede or limit the PRA's ability to effectively supervise the firm or outsourced activity, function, or service.

6.74 Written agreements for material third-party arrangements for UK captives should set out at least:

- the duties and responsibilities of both parties involved;
- the service provider's commitment to comply with all applicable laws, regulatory requirements and guidance, as well as policies approved by the UK captive insurer, and to co-operate with the PRA with regard to the outsourced function or activity;
- the service provider's obligation to disclose any development which may have a material impact on its ability to carry out the outsourced functions and activities effectively and in compliance with applicable laws and regulatory requirements;
- a notice period for the termination of the contract by the service provider which is long enough to enable the UK captive insurer to find an alternative solution;
- that the UK captive insurer is able to terminate the arrangement for outsourcing where necessary without detriment to the continuity and quality of its provision of services to policyholders;
- that the UK captive insurer reserves the right to be informed about the outsourced functions and activities and their performance by the services provider as well as a right to issue general guidelines and individual instructions at the address of the service provider, as to what has to be taken into account when performing the outsourced functions or activities;
- that the service provider must protect any confidential information relating to the UK captive insurer and its policyholders, employees, contracting parties and all other persons;

- that the UK captive insurer, its external auditor and the PRA have effective access to all information relating to the outsourced functions and activities including carrying out on-site inspections of the business premises of the service provider;
- that, where appropriate and necessary for the purposes of supervision, the PRA may address questions directly to the service provider to which the service provider must reply;
- that the UK captive insurer may obtain information about the outsourced activities and may issue instructions concerning the outsourced activities and functions;
- the terms and conditions, where applicable, under which the service provider may sub-outsource any of the outsourced functions and activities; and
- that the service provider's duties and responsibilities deriving from its written agreement with the UK captive insurer must remain unaffected by any sub-outsourcing taking place.

6.75 If a service provider in a material third-party arrangement for UK captive insurers is unable or unwilling to contractually facilitate a firm's compliance with its regulatory obligations and expectations, firms should make the PRA aware of this.

Material third-party arrangement policy

6.76 In line with the material third-party arrangement rules, the PRA expects UK captives to establish, maintain, and regularly review a material third-party arrangement policy. This is to ensure such arrangements are appropriately managed and controlled in a way that supports the firm's safety and soundness.

6.77 The policy may include, for example, the following content:

- the responsibilities of the board, including its involvement, as appropriate, in decisions about material outsourcing;
- the involvement of business lines, internal control functions, and other individuals (in particular, SMFs) in respect of outsourcing arrangements;
- procedures for the identification, assessment, management, and mitigation of potential relevant conflicts of interest;
- business continuity planning; and
- procedures for the ongoing assessment of service providers' performance.

6.78 When entering into a material third-party arrangement for UK captives, a firm should fulfil the following requirements:

- ensure that relevant aspects of the service provider's risk-management and internal control systems are adequate to ensure compliance;

- adequately take account of the outsourced activities in its risk-management and internal control systems to ensure compliance;
- verify that the service provider has the necessary financial resources to perform the additional tasks in a proper and reliable way, and that all personnel of the service provider who will be involved in providing the functions or activities provided by the service provider are sufficiently qualified and reliable; and
- ensure that the service provider has adequate contingency plans in place to deal with emergency situations or business disruptions and periodically tests backup facilities where necessary, taking into account the functions and activities provided by the service provider.

Use of persons with knowledge of actuarial and financial mathematics

6.79 PRA rules do not require an actuarial function for UK captives. But, commensurate with the nature, scale and complexity of the risks inherent in its business, a UK captive could elect to engage persons with knowledge of actuarial and financial mathematics.

6.80 The areas where such a person may be engaged could include:

- Co-ordinating/overseeing the calculation of insurance liabilities, for example:
    - for long tailed liabilities; or
    - innovative lines of business with minimal experience).
- Providing an opinion on the underwriting policy.
- Providing an opinion on reinsurance arrangements.
- Contributing to the risk management system, including calculation of capital requirements.

7: Risk Management

7.1 PRA rules require UK captives to have an effective risk-management system that supports the sound and prudent management of the firm. In general, captives typically operate with simpler business models and a narrower scope than commercial insurers. However, they nonetheless assume insurance risk and are exposed to a range of financial, operational and governance-related risks that can affect their ability to meet obligations as they fall due.

7.2 PRA rules make the governing body responsible for overseeing a risk-management framework that is proportionate but effective. This includes ensuring that key risks are clearly identified, monitored and overseen by the governing body.

7.3 The PRA expects UK captives to adopt a proportionate but coherent approach to risk management that reflects the nature, scale and complexity of the risks they assume. Risk management arrangements need not be overly sophisticated, but should be sufficiently robust to identify, monitor and manage material risks on an ongoing basis, and to support informed decision-making by the governing body.

7.4 UK captives may meet risk management expectations through different arrangements, including reliance on outsourced service providers, provided that the UK captive can demonstrate effective oversight, appropriate challenge and clear accountability for risk decisions.

7.5 The remainder of this chapter considers the principal categories of risk relevant to UK captives, including underwriting and reserving, asset-liability management, investment, liquidity, concentration, operational and reinsurance risks.

Underwriting and reserving

7.6 Underwriting and reserving are core prudential risks for captives in general. While captives typically insure a defined and limited pool of risks, often with close alignment between the insurer and policyholder, they nonetheless assume insurance risk and remain exposed to uncertainty in the timing, frequency and severity of claims. Effective management of underwriting and reserving risk is therefore central to a captive's ability to meet its obligations as they fall due and to operate as an insurer in its own right.

7.7 The PRA expects that a UK captive's risk-management system should cover:

- how it assesses and manages the risk of loss or of adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions;
- the sufficiency and quality of relevant data to be considered in the underwriting and reserving processes; and
- the adequacy of claims management procedures including the extent to which they cover the overall cycle of claims (eg from claims notification to final settlement).

Asset-liability management

7.8 While captives may generally operate with simpler balance sheets and rely on statutory valuation approaches, effective asset-liability management remains important. This is to ensure that assets are available, in timing and amount, to meet liabilities as they fall due, particularly where liabilities are longer-tailed or subject to significant uncertainty.

7.9 The PRA therefore expects that a UK captive's risk-management system should cover:

- the structural mismatch between assets and liabilities and in particular the duration mismatch of those assets and liabilities;
- any dependency between risks of different asset and liability classes;
- any dependency between the risks of different insurance or reinsurance obligations;
- any off-balance sheet exposures of the UK captive; and
- the effect of relevant risk-mitigation techniques on asset-liability management.

Investment risk management

7.10 While captives in general typically operate with focused investment strategies and simpler asset portfolios, effective investment risk management remains important. This is to ensure that assets are of appropriate quality, liquidity and availability to support the timely payment of claims and the captive's ongoing solvency, particularly where reliance is placed on a limited number of counterparties or asset classes.

7.11 The PRA therefore expects that:

- a UK captive would only invest in assets and instruments the risks of which it can properly identify, measure, monitor, manage, control and report;
- all the assets of the UK captive should be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio of assets of the UK captive as a whole; and localised such as to ensure their availability;

- assets held to cover the UK captive's insurance liabilities are invested in a manner appropriate to the nature and duration of the UK captive's insurance and reinsurance liabilities and in the best interests of all policyholders; and
- UK captives would not invest in shares or debt instruments issued by the parent or other group entities.

7.12 The PRA also expects that a UK captive's risk-management system should cover:

- actions to be taken by the UK captive to ensure that its investments take into account the nature of its business, its approved risk tolerance limits, its solvency position, its asset-liability management policy, and its long-term risk exposure; and
- where appropriate in order to ensure effective risk management, internal quantitative limits on assets and exposures.

Liquidity risk management

7.13 Notwithstanding their generally simple operating models, captives are exposed to liquidity risk. Effective liquidity risk management supports the timely payment of claims and expenses and underpins the captive's ongoing solvency.

7.14 The PRA therefore expects that a UK captive's risk management system should cover:

- actions to be taken by the UK captive to consider both short-term and long-term liquidity risk;
- the appropriateness of the composition of the assets in terms of their nature, duration and liquidity to meet the UK captive's obligations as they fall due; and
- a plan to deal with changes in expected cash in-flows and out-flows.

Concentration risk management

7.15 Captives in general are inherently exposed to concentration risk as a result of focused underwriting portfolios, limited diversification, reliance on a small number of counterparties and close integration with their parent groups. Effective concentration risk management supports a captive's ability to identify, monitor and manage these exposures within prudent limits.

7.16 The PRA therefore expects that a UK captive's risk-management system should consider actions to identify and monitor the principal sources of concentration risk arising from the captive business model. This includes concentrations to a single parent or group, a limited number of lines of business, key (re)insurance or banking counterparties, intragroup assets or loan-back arrangements, and exposures linked to specific projects, suppliers, franchisees or other material non-group undertakings. UK captives should ensure that such concentrations remain within limits set by the governing body and consider whether difficulties affecting one concentrated exposure could have implications for other exposures.

Operational risk management

7.17 Although captives in general typically operate with simple structures and limited resources, operational risks can still have prudential relevance, particularly where they rely heavily on outsourcing, group arrangements or a small number of key processes. Considering operational risks helps provide context for how UK captives support orderly operations, reliable information flows and effective oversight in practice, consistent with being run as insurers in their own right.

7.18 The PRA expects that a UK captive's risk-management system should consider actions to be taken by the UK captive to assign clear responsibilities to regularly identify, document and monitor relevant operational risk exposures.

Outwards reinsurance and other risk mitigation techniques

7.19 The PRA notes that outwards reinsurance is often a central feature of captive (re)insurance arrangements and can be an important risk management tool. In particular, outwards reinsurance may support a captive's risk appetite by limiting levels of retained insurance risk, reducing volatility in claims outcomes and enabling the captive to access underwriting capacity or specialist expertise beyond that available within the group.

7.20 The PRA does not regard outwards reinsurance as a substitute for prudent underwriting, reserving and governance. A UK captive should understand the gross risks it writes, the extent to which those risks are transferred, and the circumstances in which reinsurance recoveries may be reduced, delayed or not available as expected.

7.21 The PRA recognises that the extent to which UK captives rely on outwards reinsurance may vary significantly depending on their business model, lines of business and purpose within the wider group risk-financing strategy. Some UK captives may retain only a modest share of the assumed insurance risk, while others may retain a greater proportion in line with their financial resources, expertise and strategic purpose. The PRA's expectation is not directed at a particular level of reinsurance use, but at whether the UK captive understands and manages the specific risks arising from the arrangements it adopts.

7.22 The PRA expects that a UK captive's risk-management system should consider:

- actions to be taken by the UK captive to ensure the selection of suitable reinsurance and other risk-mitigation techniques;

- actions to be taken by the UK captive to assess which types of risk-mitigation techniques are appropriate according to the nature of the risks assumed and the capabilities of the UK captive to manage and control the risks associated with those techniques; and
- its own assessment of the credit risk of the risk-mitigation techniques.

7.23 In the captive context, reliance on reinsurance may itself give rise to material risk, including counterparty dispute or default risk and concentration to a limited number of reinsurers or collateral providers. The PRA therefore expects UK captives to consider whether their risk transfer arrangements include an appropriate panel of reinsurers, so that reinsurance remains effective and resilient when needed.

7.24 Where a UK captive relies on funds withheld or collateral to mitigate reinsurance counterparty risk, the PRA expects the captive to understand the extent to which these would be available and effective in practice. This includes the legal terms governing access to the collateral, the quality and liquidity of the assets held or posted, any valuation uncertainty or operational dependencies. The UK captive should also consider whether the arrangement could itself give rise to concentrations or an increased exposure to losses under adverse conditions. The existence of funds withheld or collateral does not remove the need for the UK captive to assess the underlying financial strength of the reinsurer. The UK captive should also consider whether the funds withheld or collateral would remain sufficient and realisable when recoveries are needed.

7.25 Where a UK captive purchases parametric cover as a risk-mitigation technique, the PRA expects it to understand the specific risks arising from that arrangement. This includes basis risk, being the risk that the contractual trigger does not align appropriately with the captive's underlying loss or economic exposure, and uncertainty as to whether the arrangement would achieve the intended risk transfer in practice.

7.26 The governing body should have sufficient oversight of the UK captive's reinsurance arrangements to understand their strategic purpose, key terms and limitations, and the principal risks to which the captive remains exposed. This is particularly important where the captive relies heavily on reinsurance or where decisions are influenced by wider group interests.

7.27 The PRA recognises that the use of insurance special purpose vehicles (ISPVs) is likely to be uncommon in the captive context, given the typically limited scale, focused risk profile and comparatively straightforward reinsurance arrangements of most captives. However, the PRA does not exclude the possibility that an ISPV could be used in specific cases, for example where a UK captive seeks to transfer a defined risk to capital markets or to support a specific and well-understood risk-financing structure. Where a UK captive makes use of an

ISPV, the PRA expects the firm to understand the structure, the extent and certainty of risk transfer, the operational and legal dependencies involved. The PRA also expects the UK captive to understand the circumstances in which the arrangement may be less effective than anticipated.

8: Other areas of policy

Use of skilled persons

8.1 The PRA notes that its power under section 166 of FSMA to commission a skilled persons report is available in relation to its supervision of UK captives.

8.2 The PRA has a range of supervisory tools available when engaging with UK captives. Consistent with the proportionate design of the regime, the PRA would expect to use supervisory dialogue, information requests and routine monitoring in the first instance to address concerns. The PRA considers that these tools will ordinarily be sufficient to clarify issues and support timely remedial action, given the nature, scale and complexity of UK captives.

8.3 The PRA would expect to use this power only where other supervisory tools have not been effective, or where independent assurance is necessary to support the PRA's statutory objectives.

Run-off

8.4 Where a UK captive decides to cease writing new business and enter run-off, PRA rules require that it must notify the PRA within 28 days of that decision.

8.5 The PRA recognises that a UK captive may enter run-off in a variety of circumstances. These may arise from financial difficulty, including where the captive or its parent undertaking experiences financial stress, insolvency, or a material weakening in its ability to provide ongoing support. They may also arise from non-distress situations, including strategic or structural changes within the group. For example, following a merger or acquisition, a parent undertaking may determine that it is appropriate to rationalise group insurance arrangements and retain only one captive rather than continue operating two. Similarly, a captive may be placed into run-off where the group's risk-financing needs change, or where the captive's purpose within the group has otherwise come to an end.

8.6 Notwithstanding the reason for entry into run-off, the PRA expects the UK captive to manage the run-off in a prudent, orderly and well-governed manner, with appropriate financial resources, oversight and engagement with the PRA.

8.7 PRA rules require a UK captive in run-off to, upon request by the PRA, be ready to explain its run-off strategy to the PRA and how or to what extent all liabilities to policyholders will be met as they fall due. This includes the necessary financial projections to demonstrate this. The PRA expects that this would include a description of the business written by the firm along with a forecast summary profit and loss account and a forecast summary balance sheet. The PRA also expects the captive to describe the assumptions underlying those forecasts, the reasons for adopting them, and any material reliance on intra-group loans, or other forms of group support. This includes the extent to which that support would be available and reliable in the circumstances of the run-off.

8.8 PRA rules require a UK captive in run-off to notify the PRA within 28 days of any material change in the circumstances of its run-off. In the PRA's view, a material change may include a material change to the firm's run-off strategy, the expected timing or orderly conduct of the run-off, its ability to meet liabilities to policyholders as they fall due, the financial projections supporting the run-off. In addition it may impact the availability or reliability of reinsurance, parental support or other arrangements relied on in run-off.

8.9 The PRA would expect such a notification to explain the nature of the change, the reasons for it, its effect on the firm's run-off strategy and ability to meet liabilities to policyholders as they fall due. This includes any actions taken or proposed in response.

Captives in difficulty

8.10 PRA rules require UK captives to have procedures in place to identify deteriorating financial conditions and immediately notify the PRA when such deterioration occurs. Captives must immediately inform the PRA when its financial requirements are not complied with or if there is a risk of non-compliance within the next three months. In addition, captives would not be permitted to make distributions (eg dividend payments) if they would breach the CCR as a result).

8.11 Where a UK captive breaches its financial requirements, the PRA expects the firm to take prompt and credible action to restore compliance and protect policyholders and third-party beneficiaries. In particular, the PRA will request the captive to estimate the extent of any FSCS-exposed business and notify the FSCS accordingly.

8.12 Where a UK captive is materially reliant on intragroup loans or other group support, a material deterioration in the financial condition of the relevant parent or group entity is a matter of which the PRA would reasonably expect prompt notice.

8.13 The PRA considers that there are three broad outcomes following a breach of the CCR:

- restoration of capital (recapitalisation);
- orderly run-off; or
- extinguishing the captive's liabilities.

8.14 The PRA does not expect to approve or consent to a UK captive's chosen course of action following a breach of its financial requirements. Instead, the PRA will record the firm's response, assess its credibility and monitor outcomes through ongoing supervision, having regard to the PRA's statutory objectives. This does not limit the PRA's ability to exercise its statutory powers where appropriate, including where a proposed course of action involves a statutory process requiring PRA approval or consent, such as an insurance business transfer under Part VII of FSMA.

8.15 Where a UK captive's actions following a breach of its financial requirements are delayed, ineffective, or give rise to concerns that the PRA's statutory objectives may not be advanced, the PRA may consider the use of its powers under FSMA. These include powers to restrict distributions or the disposal of assets, or to impose limitations on the captive's activities. The use of such powers would be proportionate and outcome-focused.

8.16 UK captives should have regard to **SoP1/23 – Dealing with insurers in financial difficulties**, which applies to PRA-authorised insurers, including captives, and sets out the PRA's approach to the use of relevant FSMA processes.

Recapitalisation

8.17 Where the UK captive remains viable on a forward-looking basis, and the causes of the breach of financial requirements are capable of being remedied, the PRA would ordinarily expect the captive to restore compliance through timely recapitalisation.

8.18 In such cases, the PRA expects the captive to be able to demonstrate that:

- capital support is available, credible and capable of being delivered in a timely manner;
- the form of capital is of appropriate quality and does not introduce new risks (for example, liquidity, encumbrance or repayment risk);
- governance arrangements support prompt decision-making and execution, notwithstanding any parent-group conflicts of interest; and
- the underlying drivers of the breach have been identified and addressed, rather than masked through short-term capital injections.

8.19 Where recapitalisation relies on parental support, the PRA expects the UK captive to be able to evidence the enforceability, effectiveness and reliability of that support. The PRA will monitor delivery against the firm's stated plans and may request information to assess progress and sustainability.

Orderly run-off

8.20 Where a UK captive determines that recapitalisation is not appropriate or proportionate, it may elect to enter an orderly run-off.

8.21 In an orderly run-off, the PRA expects the UK captive to cease writing new business and to manage its existing liabilities in a prudent and controlled manner. This includes ensuring that:

- sufficient financial resources are available to meet liabilities as they fall due;
- claims handling, reserving and reinsurance arrangements remain effective throughout the run-off period;
- governance and oversight arrangements remain appropriate for a firm in run-off, with clear accountability for run-off decisions; and
- communications with the PRA are timely, transparent and supported by credible information.

8.22 The PRA will monitor run-off arrangements, with supervisory intensity calibrated to the scale of the UK captive, the complexity of its liabilities and any exposure to third-party beneficiaries.

Extinguishing liabilities

8.23 As an alternative to recapitalisation or run-off, a UK captive may seek to address a breach of its financial requirements by extinguishing some or all of its liabilities. This may be achieved through legally effective arrangements such as novation, commutation, or a transfer of business under Part VII of FSMA.

8.24 Where a UK captive pursues the extinguishment of liabilities, the PRA expects the firm to be able to demonstrate that the approach results in the genuine removal of liabilities, protects policyholders and third-party beneficiaries, and is executed in a timely and orderly manner.

Credit securitisations

8.25 To maintain the simplicity and constrained risk profile of UK captives, PRA rules restrict UK captives from participating in credit securitisations or holding a credit securitisation position. The PRA recognises that some UK captives may wish to invest in securitisation notes and such firms may apply for a rule waiver or modification which the PRA would consider in the usual way.

Annex 1

Other PRA policy materials

For ease of reference, this annex provides some PRA policy documents that may be useful to UK captives in specific circumstances.

For example, the statement of policy on waivers sets out the PRA's approach to waivers of rules. Firms may refer to the statement of policy should they consider a need for a waiver and reach out to their supervisory contacts if they require assistance.

Reference	SoP/SS
SoP2/13	The power of direction over qualifying parent undertakings
SoP2/14	The use of PRA powers to address serious failings in the culture of firms
SoP2/15	Policyholder protection
SoP3/15	The Prudential Regulation Authority's approach to insurance business transfers
SoP1/23	Dealing with insurers in financial difficulties
SoP1/24	The Prudential Regulation Authority's allocation of decision making and approach to supervisory decisions
SoP5/24	The PRA's approach to insurance group supervision
SoP9/24	The Prudential Regulation Authority's approach to rule permissions and waivers
SS7/14	Reports by skilled persons
	The Bank's approach to enforcement: statutory statements of policy and procedure