



HM Treasury

Changes to the Risk Transformation Regulations

Consultation response

April 2026

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Chapter 1

Introduction

Background

1.1 The UK must be poised to seize potential opportunities as the global market for larger, emerging and specialised risk develops. Recognising this, the government has stated its ambition for the UK to be the location of choice for complex and specialty risk. The *Financial Services Growth and Competitiveness Strategy* outlined how, through targeted legislative and regulatory changes, the UK can leverage our long history and deep expertise in insurance and reinsurance to achieve this aim. These changes focus on revitalising the UK's risk transformation regime and the introduction of a new UK captive insurance framework, two crucial pillars of our alternative risk transfer market.

1.2 Risk transformation is a core part of the specialised global risk transfer market, introducing capital market funding for risk management. Specifically, risk transformation enables parties to cede risk to a specialist type of company known as a transformer vehicle which raises money from investors to meet potential claims.

1.3 The Risk Transformation Regulations 2017 were introduced as a competitive regulatory framework for the domiciling of transformer vehicles in the UK. They included provisions to establish transformer vehicles as protected cell companies (PCCs). PCCs are a corporate structure comprised of a core and multiple cells, which is used to segregate assets and liabilities held in each cell. PCCs were intended to support innovation within a trusted and robust regulatory framework, while reducing the administrative and financial cost of facilitating multiple risk transformation deals.

1.4 In an evolving global context, the types of risk which can be ceded through risk transformation have become increasingly complex and varied. Consequentially, the structures and complexity of deals for managing these risks have evolved beyond the UK's current legislative framework. This is why the government launched its consultation on *Changes to the Risk Transformation Regulations* on 15 July 2025.

1.5 This consultation set out an ambition to make risk transformation vehicles more attractive and flexible. It proposed simplifying overly burdensome funding requirements, enabling a more flexible authorisation process, increasing access to the market, and making PCCs more flexible.

1.6 That consultation also sought to deliver on a part of the UK's new and ambitious captive insurance framework. Captive insurance involves a business establishing an insurance undertaking that provides insurance services to its parent or other members of the group. The government recognised the market appetite for PCC-like structures to facilitate multiple captive insurance deals within the new framework. As such the consultation on *Changes to the Risk Transformation Regulations* also proposed to widen the use of PCCs to carry out contracts of insurance.

1.7 These proposals were consulted on last year and the government has now considered its response. This response document mirrors the original consultation document and is split between Chapter 2 on reforms to the risk transformation regime and Chapter 3 on widening the use of PCCs. Each chapter includes a summary of the responses to the consultation questions and sets out the government's next steps.

Next steps

1.8 The government intends to take forward these reforms through a combination of primary and secondary legislation. Primary legislation will be introduced as soon as Parliamentary time allows to clarify funding expectations for transformer vehicles and to provide a power to make secondary legislation enabling protected cell companies to effect and carry out contracts of insurance. Secondary legislation implementing these changes would follow once that power is in place. In parallel, the government will continue to progress the secondary legislation required to deliver the remaining reforms to the risk transformation regime.

1.9 The government has worked closely with the PRA and FCA in developing these proposals. The regulators are therefore already working through the rule changes that they might make following HMT's removal of these legislative barriers to further reform.

Chapter 2

Responses to the proposed changes to the risk transformation regime

Reforms to the risk transformation regime

2.1 Chapter 2 of the consultation proposed a number of changes to the UK's risk transformation regime, targeting an increase in the use of risk transformation vehicles within the UK insurance market. Risk transformation spreads insurers' risks and can finance writing new business, both factors that help to grow the size of the insurance sector.

2.2 The government received seven responses on this section. Responses were received from a range of industry bodies, insurance companies and specialist insurance service providers.

Question 2.1: What would be the impact of these reforms on the use of the UK's risk transformation regime?

Question 2.2: What impact will these reforms have on:

- (i) the UK's insurance sector; and**
- (ii) the wider economy?**

Question 2.3: What additional risks could these reforms pose to policyholders (both of the UK insurers and reinsurers, and the transformer vehicle)?

Question 2.4: What additional impact could these reforms have on the safety and soundness of UK insurers and of transformer vehicles?

Summary of responses

2.3 Respondents were consistently positive about the legislative changes proposed in the consultation. They considered the changes addressed aspects of the framework that have been holding the UK's offering back and that, without reforms, the UK would fall further behind international competitors. Respondents encouraged continued refinement of the regime to support proportionate and efficient treatment of risk transformation, noting that flexibility in supervisory processes, wider measures on tax and government support all influence the attractiveness of the regime.

2.4 No respondents said that there would be adverse impacts on insurance policyholders or the safety and soundness of UK insurers from the proposed changes, recognising that these were consistent with commonly used practices in other jurisdictions with which UK insurers may already transact.

Government response

2.5 If successful, the changes could lead to a substantial increase of new capital in the sector. They have the potential to help the wider UK economy through: (i) strengthening the UK's position as a global financial centre; (ii) job creation in financial, legal and advisory services; (iii) enabling more insurance coverage for critical activity such as infrastructure projects; and (iv) boosting inward investment. However, the government recognises that the extent of this benefit is, at this stage, uncertain.

2.6 The following sections summarise the feedback on the specific consultation proposals and set out the government's responses.

Clarifying funding requirements

Question 2.5: Do you agree that it should be for the PRA to determine how transformer vehicle assets should be valued and the extent to which all funding should be fully paid-in?

Summary of responses

2.7 Respondents strongly supported expanding the range of funding mechanisms available to transformer vehicles, noting that broader options would align the UK regime with established international practice. Respondents agreed that it should be for the PRA to determine how vehicles can demonstrate they are sufficiently funded, emphasising the importance of proportionate, principles-based supervision to avoid constraining market innovation. Some respondents, particularly in specialty markets, highlighted opportunities for UK leadership in emerging areas such as casualty insurance-linked securities and asked for clear guidance on permissible funding structures to support deal execution.

Government response

2.8 Respondents' strong support for the government's proposal is encouraging. In particular, the government is pleased with the indication that giving the PRA greater space to diverge from existing funding requirements could result in a range of dealmaking opportunities in the UK which have not been possible to date. It therefore intends to progress legislative change in this area.

2.9 Specifically, the government intends to use primary legislation to clarify existing funding requirements. The intention is that the PRA should be able to diverge from the requirement for the proceeds of any financing mechanism to be fully paid-in. Clarifying this point would give the PRA greater discretion over funding requirements for transformer vehicles and align the UK more closely with more flexible regimes, like Bermuda.

2.10 The core features that differentiate risk transformation from insurance would remain. Transformer vehicles would still need to hold assets whose value is at least equal to their maximum liabilities.

2.11 However, the changes would allow the PRA, through regulatory rules, to specify which assets or alternative financing mechanisms are permitted and when, as well as how assets and liabilities should be valued. The PRA may vary its requirements depending on the type of business being transferred. The government notes the importance of clarity for applicants, particularly when they consider the UK alongside alternative jurisdictions, and intends to work closely with the PRA to ensure such considerations are fully taken into account as they develop their rules.

Opening up the market to non-insurers

Question 2.6: Do you agree that the scope of the regulated activity of insurance risk transformation should be broadened to include the assumption of risk from non-insurers?

Summary of responses

2.12 Most respondents supported broadening the regulated activity of risk transformation so that vehicles may assume risk directly from non-insurers. These respondents noted the global precedent of large corporates and government entities being able to cede their risk directly, avoiding the administrative and financial costs of going through an insurer. One respondent highlighted that the current restrictions had resulted in potential transactions being relocated to other jurisdictions. Some requested clarity on whether transactions structured using derivatives would be permissible, while one respondent cautioned against use by entities such as pension schemes, arguing it could increase risk in the system and reduce security for UK pensioners.

Government response

2.13 The government recognises that risk transformation is a specialist activity requiring specialist capabilities. Amending the regulated activity of risk transformation to facilitate non-insurers ceding risk directly to transformer vehicles therefore requires adequate safeguards, as well as detailed consideration of overlap with other regulated activities.

2.14 The government has concluded that there is more work to do on this policy proposal, to ensure any legislative changes retain the safeguards and legislative restrictions needed to prevent misuse and unintended consequences. For this reason the government has decided, at this stage, not to proceed with legislation but instead to continue work with the PRA and the FCA to explore this proposal further.

Increasing flexibility at authorisation

Question 2.7: Do you agree that the requirement for the PRA to incorporate limitations on the scope of the regulated activities a transformer vehicle may carry out should be removed?

Summary of responses

2.15 Respondents supported removing the requirement for the PRA to impose limitations on the scope of permissions at authorisation. They noted that the current approach often introduced unnecessary cost, complexity, and execution risk. Several respondents preferred a more flexible, business-plan-based authorisation process,

and some highlighted that timely processing of future variation of approval requests would remain important.

Government response

2.16 The government remains committed to increasing the flexibility available to transformer vehicles, particularly those using PCC structures which are most likely to need to vary their approach over time to support changes in cedent and investor preferences.

2.17 The government will proceed with reforms to deliver such change. As proposed, the government will amend regulation 7 of the Risk Transformation Regulations 2017 so that the PRA is no longer *required* to limit a transformer vehicle's permissions at authorisation. Instead, the PRA will be able to determine, in line with its statutory objectives, whether it is appropriate to incorporate limitations.

2.18 The government will also amend regulation 7 to facilitate greater flexibility for the PRA in defining transformer vehicle permissions, with a view to reducing the operational burden on both applicants and the PRA.

2.19 The government will work in parallel with the PRA in the coming months on the details of the legislation. The government understands that the PRA intends to consult on further reforms to the authorisation process for transformer vehicles to take account of this greater flexibility.

Extending the uses of cells in protected cell companies

Question 2.8: Do you agree that cells of a protected cell company should not be limited to a single contractual arrangement from a single counterparty?

Summary of responses

2.20 Respondents supported allowing the cells of a PCC to undertake more than one contractual arrangement and transact with multiple counterparties. They considered a change to allow this would facilitate more sophisticated structures, reduce costs, and create opportunities for transactions involving multiple cedents. Some emphasised the importance of clear rules governing counterparty default scenarios.

Government response

2.21 The government is satisfied that this proposal will improve the functioning of PCCs. Therefore, the government will use secondary legislation to allow cells to enter into multiple contracts with multiple cedents.

2.22 The PRA already has rules in place to manage risks and sets clear expectations relating to multiple contracts and multiple cedents in a transformer vehicle. The government views these as appropriate for the cells of a PCC undertaking risk transformation. As a result, the government does not intend to introduce any additional legislative requirements in this space. The PRA has agreed to keep its rules under review to ensure that they align with this policy intent, to allow multiple contractual arrangements and counterparties, and ensure that their rules are sufficiently open to innovation in the market.

Chapter 3

Protected cell companies as insurance undertakings

3.1 At Mansion House 2025, the government announced that it would introduce a new framework for captive insurance in the UK. The PRA is designing this new regulatory framework, which they have committed to deliver by summer 2027. The government's announcement also identified that PCCs could have a key role to play within that new framework, allowing captive managers to provide cells to different businesses within a single legal entity.

3.2 Given captive insurers will undertake the same regulated activity as other types of insurers (article 10 of the Regulated Activities Order 2001), the consultation on *Changes to the Risk Transformation Regulations* proposed expanding the scope of activities that PCCs can undertake beyond risk transformation, allowing PCCs to effect and carry out contracts of insurance. Under the proposal, the PRA and FCA would be responsible for determining which insurance activity a PCC may be used for, recognising there would be some circumstances - like captives - where this would be positive and others where there may be excessive risks from their use.

3.3 Eight responses were received on this chapter. Respondents included companies representing a range of different roles within the insurance sector, including insurers, brokers and industry bodies.

3.4 All respondents expressed their support for the government's proposal. Most expressed specific support for the positive impact that introducing PCCs would have on the proposed captive regime, stating that this would add significant value to the UK's offering. These views were consistent with the feedback received by the government in response to its original captive insurance consultation from 2024¹.

3.5 In considering its response, the government has also taken account of feedback shared by industry in the PRA's Subject Expert Group on captive insurance. Further information on the Group is available on the PRA's website².

Expanding the use of PCCs to captive insurance

Question 3.1: Do you consider that PCCs are an appropriate vehicle to carry out and effect contracts of insurance?

¹ [Captive insurance - GOV.UK](#)

² [Joint statement by the PRA and FCA on HM Treasury's captive insurance consultation response | Bank of England](#)

Question 3.2: What other legislative changes would sufficiently facilitate PCCs being established for captive insurance?

Question 3.3: Are there additional risks in extending the use of PCCs to insurance undertakings in general, without specific restrictions in legislation limiting its use to captive insurance?

Question 3.4: Are there additional opportunities beyond captives in extending the use of PCCs to insurance undertakings in general?

Summary of responses

3.6 Respondents agreed with removing the restriction limiting PCCs to risk transformation as PCCs are cost-effective structures, well-suited for captive insurance. A few respondents acknowledged that PCCs are complex structures and emphasised the need for appropriately cautious implementation to maintain the robust standards of cell segregation.

3.7 Respondents agreed that the existing requirement for PCC applications to include risk transformation would be unnecessary if applications to establish captive insurance PCCs were possible. Some respondents expressed concern about preventing a single PCC from undertaking both risk transformation and insurance activities, arguing that other jurisdictions allow these activities to be separated at cell level without introducing additional risk.

3.8 Respondents also identified potential uses of PCCs beyond captive insurance such as fronting arrangements and collateralised reinsurance, which can offer flexibility beyond traditional captive and risk transformation uses. However, respondents considered these should not be prioritised ahead of captives and some respondents noted the importance of maintaining policyholder protection and regulatory oversight.

Government response

3.9 The government intends to progress legislation that will allow PCCs to effect and carry out insurance contracts, in order to facilitate the use of PCCs within the new UK captive insurance framework.

3.10 To enable this, the government will take a new power in primary legislation as soon as Parliamentary time allows. The government intends to use this power to amend make provisions creating a framework that provides for two types of PCC: the existing risk-transformation PCC and an insurance PCC that can effect and carry out insurance contracts.

3.11 The captives insurance regime will launch in summer 2027. As the legislative changes required to enable the use of PCCs as insurers involve both primary and secondary legislation, this feature will not form part of the regime at launch. However, the government will work closely with the PRA as they develop the regime to ensure that PCCs can be incorporated at pace once the necessary legislation is in place.

3.12 The government acknowledges the concerns over a single PCC being able to perform both risk transformation and insurance regulated activities. As a PCC is a single legal entity, it raises both regulatory and tax questions of how it can carry out different regulated activities which have separate regulatory and tax treatments,

even when separated into individual cells. As such, the government does not intend to legislate for dual use PCCs at this stage.

3.13 The government welcomes the wider range of potential uses of PCCs identified by respondents beyond captive insurance. Given they remain complex arrangements with potential risks, these wider uses will not be prioritised immediately. Instead, the government will ensure that these options are not precluded in legislation and allow the regulators to consider the scope of options beyond captives in due course.

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