

Market wide liquidity stress testing exercise

May 2026

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1 Introduction

1.1 Background

The Principles for doing business at Lloyd's ("The Principles") are at the heart of Lloyd's oversight framework and set out the fundamental responsibilities that are expected of all managing agents. Principle 9, liquidity, requires managing agents to ensure that syndicates have contractual access to sufficient liquidity in order to withstand a severe liquidity event (defined by Lloyd's), underpinned by a robust liquidity risk management framework.

Consequently, a requirement has been introduced for all syndicates to be able to withstand the liquidity stress arising from a 1-in-200 year US windstorm or the syndicate's most severe 1-in-200 liquidity risk event (whichever presents the maximum risk, as appropriate to the nature of the syndicate and its risk profile) and a simultaneous diminution in the valuation of its asset portfolio.

The framework, through a combination of market-level and Society level risk appetites, aims to ensure that syndicates are self-reliant with respect to managing liquidity risks. This aims to reduce the size and likelihood of calls on the Central Fund to alleviate liquidity strain and ensure that the Central Fund is able to equitably support the entire market.

1.2 Market wide liquidity stress test

In order to evaluate whether this appetite is satisfied by all syndicates, a 3-yearly market wide liquidity stress testing exercise is conducted. The next market-wide stress test is due to take place in October 2026. Following the exercise this year, certain syndicates may, however, be required to complete the template for 2027 and 2028, if they: are new syndicates and have not previously provided a stress test; failed the previous stress test; are RITC syndicates; or have experienced a material change in their risk profile. The affected syndicates will be contacted by Lloyd's in advance of needing to produce any stress test.

All syndicates are required to complete the exercise in 2026 and will need to apply a stress event to a **projected cash flow forecast for Q3 2026 that aligns with the reporting requirements for the QMA Delta 350u**, with a **loss date of 1 October 2026** and report the results to Lloyd's. The stress to be applied is a **1-in-200 year US windstorm or the syndicate's most severe liquidity risk event** (as appropriate to the nature of the syndicate and its risk profile) and a **simultaneous diminution in the valuation of its asset portfolio**. The scenario should also assume some **delays in payment of recoveries** by reinsurers. Further details are provided in section 2.2.

Lloyd's expects that syndicates can withstand this stress using existing resources and committed or contractual sources of funding. Syndicates that cannot withstand the stress will be subject to greater oversight and will be expected to take remedial action to strengthen their liquidity risk resilience.

Lloyd's has made amendments to the template to update the timing of the event, showing the instructions on a separate page as well as removing certain qualitative questions and data inputs that were not needed. Further rationalisation of the stress test will happen after this submission and prior to the 2029, when it will be required for the whole market again.

1.3 Next steps

- All syndicates are required to complete the liquidity stress testing exercise and report results – by 13 November 2026.
- Evaluation of results by Lloyd's and follow up discussions with syndicates not able to withstand the stress from 14 November 2026 to 31 January 2027. **Any remediation actions needed will be communicated prior to 31 January 2027.**
- Remediation actions for syndicates not able to withstand the stress should be in place by 30 April 2027, in order to be considered in the Liquidity principle ratings for 2027. Timelines for the completion of those actions will be discussed with those Managing Agents if needed.

2 Completion of the liquidity stress test template

2.1 Introduction

The link to the stress test template is in the appendix. For the avoidance of doubt, one template is required per syndicate.

2.2 Assumptions

Forecast cash flows should take into account the syndicate's latest approved business plan for the 2026 year of account and an assumption of the future cash flows for the 2027 year of account.

In most cases, it should be assumed that there is a US funding requirement for your estimated ultimate loss (if a US event is selected), which must be funded 60 days following the end of the quarter in which the loss occurs.

For US reinsurance business, please apply the most appropriate funding requirement

For US surplus lines business (subject to the SLTF), there have been no changes to the funding requirements. The funding requirement should be assumed to be in a tiered scale as follows:-

- Liabilities up to \$200m = 30% reserves
- Liabilities \$200m - \$500m = 25% reserves
- Liabilities \$500m - \$1bn = 20% reserves
- Liabilities xs \$1bn = 15% reserves

Assume three reinsurers, with the largest financial shares of the total estimated reinsurance recoveries, dispute their liability for both funding and/or settlement. For two of the reinsurers, the dispute takes 60 days longer than usual contractual terms to resolve and for the other reinsurer, the dispute takes 90 days longer than usual contractual terms. Settlement should therefore be reflected 60 and 90 days respectively after the usual contractual settlement terms.

In addition, assume that a diminution in asset values occurs as a result of a forced sale of assets, applying the following haircuts in line with the Basel III High Quality Liquid Asset framework:

Liquid asset	Haircut
Cash: overnight cash deposits & mutual funds	0%
Cash: commercial paper & term deposits	15%
Bonds: UK & US government	0%
Bonds: other government, corporate and covered bonds rated AA- or better	15%
Bonds: RMBS	25%
Bonds: corporate bonds rated A+ to BBB	50%
Developed market equities	50%

Please record the impact of the asset shock as occurring in October 2026, in row 1b of the 1-in-200 stressed scenario tab.

In row 2, "premium income", in the stress scenario cashflow, assume that there is no increase in premium income compared to the "30 June CF Position" tab as a result of rate increases following the loss, or for any other reason.

In the event that the loss triggers a reinstatement premium payable on outwards reinsurance policies, please record this in row 7, "outwards reinsurance premiums". Reinstatement premium on inwards reinsurance policies may be recorded in row 2, "premium income".

Please additionally provide a justification in the NB3 comments field of the payment pattern assumptions used for the gross loss in row 6, gross claims paid. Please also indicate the source of this data. Lloyd's starting assumption for US Windstorm losses is that the payment pattern assumptions applied to the first 10 months after the gross loss should be at least equal to that experienced in the 2017 HIM losses.

Free funds should align with the definition in the QMA Delta, however syndicates are also expected to consider the extent to which the free funds can be used to meet the cashflows in the specific scenario. For example, balances held in Canadian Trust Funds would not be expected to be able to be available to settle a US Windstorm event. Ultimately, this means that syndicates might have to rely on external funding sources if all of the free funds cannot be used in the scenario chosen.

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Funding / management actions

The additional columns in this tab relating to funding and management actions are intended to give Lloyd's a view of the contingency arrangements that are available to the syndicate.

Please split the possible contingency funding sources as follows:

- Funding from reinsurers
- Funding from banks
- Funding from parent / group
- Cash call receipts
- Funding from other sources
- FAL / FIS draw
- Loan to Central Fund

Where credit facilities are disclosed in the stress scenario, these should be committed facilities only. The definition of a committed facility is as follows:

"A committed facility is a credit facility whereby terms and conditions are clearly defined by the lending institution and imposed upon the borrowing company. In committed facilities, the borrowing company must meet specific requirements set forth by the lending institution in order to receive the stated funds".

Any committed facilities disclosed should have been negotiated and signed prior to 30 June 2026. No uncommitted facilities should be recognised in the stress scenario (i.e. short-term credit facilities which are subject to the discretion of both the borrower and the lender).

Funding that is anticipated from group/parent companies should only be included where the syndicate is able to demonstrate beyond all doubt that the syndicate would be able to access the liquidity in any hypothetical scenario. For example, cash pooling arrangements that multiple subsidiaries within a group are able to access would not be expected to meet this definition. If group/parent company funding is disclosed, please provide details in the NB3 comments field justifying why management is certain that this would be available upon request at all times.

However, an assumed renewal of current facilities or guarantees for the 2027 year of account or calendar year, would be appropriate assuming that proof will be provided during the 2027 attestation process and that the funding would meet all of the relevant criteria mentioned above.

The tab "30 June CF position" of the template should be prepared consistently with the QMA Delta 350u that was reported in the Q2 2026 QMA Delta return.

2.3 30 Sep CF position

The tab "30 Sep CF position" of the template should be prepared consistently with the instructions for the QMA Delta 350u.

All lines in the template are to be reported at 30 September 2026 exchange rates.

Completion notes

All yellow cells in the template are to be completed.

Basic information

Please complete the syndicate number, name and managing agent. The date is fixed.

Asset and liquidity breakdown

Please split the total assets reported as at 30 September 2026 between restricted assets, illiquid assets and liquid assets / free funds.

Cashflow position from QMA Delta 350

The forecasting columns represent a 12 month cash flow from the 30 September 2026 balance sheet. Therefore, the closing free funds in the 30 September 2026 column will be the opening free funds for the forecast (i.e. for the cells under heading "Cashflow position from QMA Delta Form 350" B1=A16, C1=B16 etc). This line is populated using formulae.

Gross premium income is to be gross of acquisition costs, and net operating expenses are to include acquisition costs.

For the purpose of this form, free funds should only include those funds readily available to pay all claims and syndicate expenses. These are in line with the instructions to QMA Delta 350u that are issued for QMA Delta reporting. e.g. the sterling PTF, Canadian PTFs (excluding LCTF-reg), and LDTF. It should exclude Central Fund and ASL loans, assets held in the CRTF or SLTF as well as any funds restricted by covenants such as collateralisation for letters of credit.

Note the following:

- Any reinsurance deposit payments and/or collateral withdrawals included in reinsurance recoveries, row 3 of Form 350u of the QMA Delta / estimated in future cashflow, should be split out into row 3a of this form. The total of rows 3 and 3a in this form should be equal row 3 within an equivalent QMA Delta. Please provide a description of the reinsurance deposit payments and/or collateral withdrawals received/(repaid), and also a description of the reinsurance contract terms that were triggered to allow such to occur, in the NB1 comments field below the main table.

2.4 1-in-200 stressed scenario

Completion notes

All yellow cells in the template are to be completed.

Basic information

Please complete the syndicate number, name and managing agent. The date is fixed.

Loss summary

Identify the region / peril and 1-in-200 gross loss that is most appropriate to the syndicate. Select the reinsurance recoveries expected on the gross loss, and the net loss.

Top 10 reinsurers' summary

From the total reinsurance recovery, the top 10 reinsurers in terms of value should be identified and disclosed. Please complete: reinsurer's legal title, reinsurer's LORS code, total reinsurance recovery in GBP, collateral available for recovery and the percentage of the total recovery provided by the reinsurer in question.

Asset and liquidity breakdown and cashflow position

These should be prepared assuming that the liquidity stress event described in section 1.2 takes place on 1 October 2026 and requires the forecast cash flow and balance sheet positions to be updated as at the date of the loss and in respect of the first, second and third months following the event, as well as the second, third and fourth quarter-ends following the event.

Each line item should be prepared consistently with those on the 30 June CF Position tab but updated for the impact of the stress as appropriate, by applying the assumptions set out above.

2.5 Qualitative questionnaire

The "Qualitative questionnaire" tab requests further detail about the committed facilities that the syndicate has disclosed in the stress scenario tab. It also requests detail about any uncommitted facilities and / or parent / group support that management may anticipate would be available, as additional information.

Further questions relate to the extent that FAL is considered as source of liquidity in the syndicate's risk management framework, and any live liquidity concerns or issues.

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3 Reporting results and timetable

3.1 Reporting results

Completed templates should be submitted to: Lloyds-SolvencyReturns@lloyds.com

3.2 Timetable

All completed templates must be submitted to Lloyd's by **13 November 2026**. As with all Lloyd's reporting, late returns will be considered as part of the assessment of the Managing Agent's capability and performance under Principle 10 (Governance, Risk Management and Reporting) of the Principles for doing business at Lloyd's..

3.3 Questions

If managing agents have questions on the preparation of the liquidity stress template, please contact: Lloyds-SolvencyReturns@lloyds.com

4 Governance and sign-off

4.1 Governance and sign-off

All completed templates submitted to Lloyd's must be signed off by a director of the managing agent.

5 Template for completion

The template is available on the Lloyd's website at this link:

<https://www.lloyds.com/conducting-business/regulatory-information/solvency-ii/tools-and-resources/syndicate-workstreams/reporting-and-disclosure>

The name of the template is "Liquidity Stress Test Template_October 2026".