

Capital Briefing

20 April 2026

2025 focus and plan for 2026

We will continue to improve processes and continue oversight on existing focus areas

2025 Focus

Improving processes

- Improvements to deferred review process
- Solvency UK changes

Focus areas

- Underwriting profit
- Geopolitical risk

2026 Focus

Improving processes

- Engaging more frequently during reviews of MMCs, IMAPs, etc
- Clearer guidance on member modeller and training

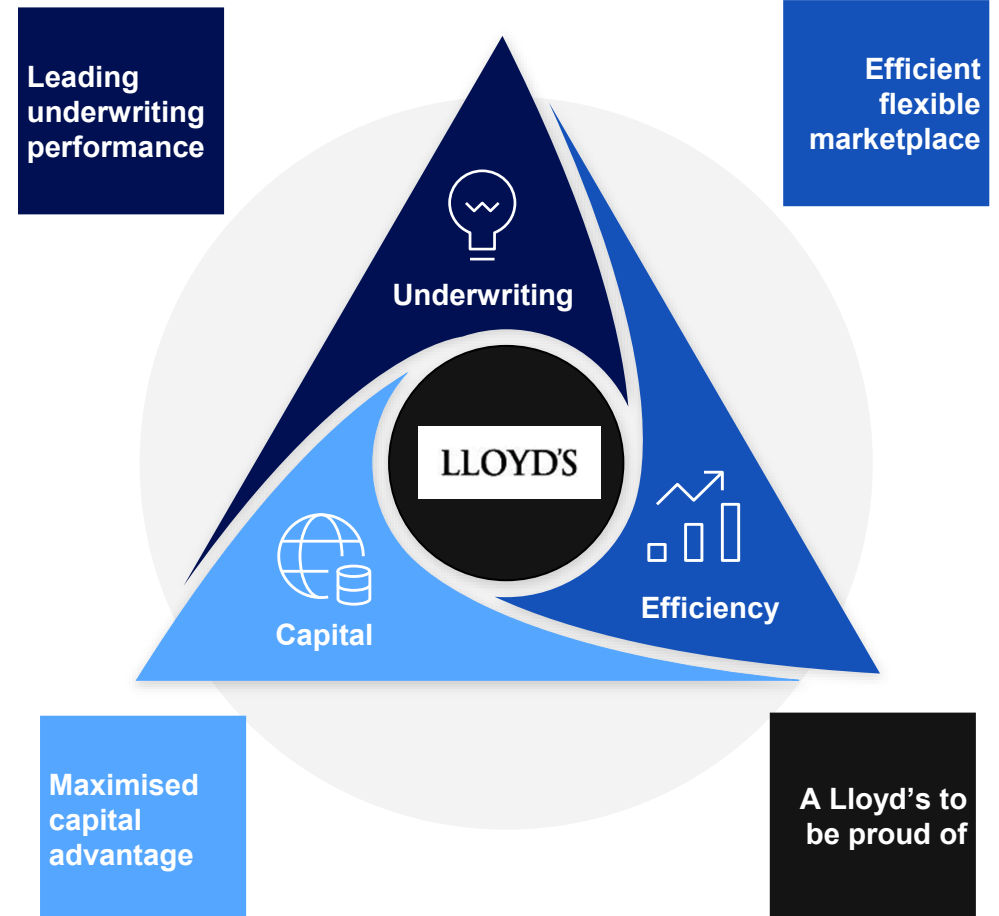
Capital setting options

- Partial Internal Model pilot

Maintaining focus areas

- Underwriting profit
- Geopolitical risk, given the current political climate

We bring together the world's leading risk takers to advance global progress



2026 YoA SCR Reviews

Fatima Bawa

Senior Actuarial Associate

Capital Oversight

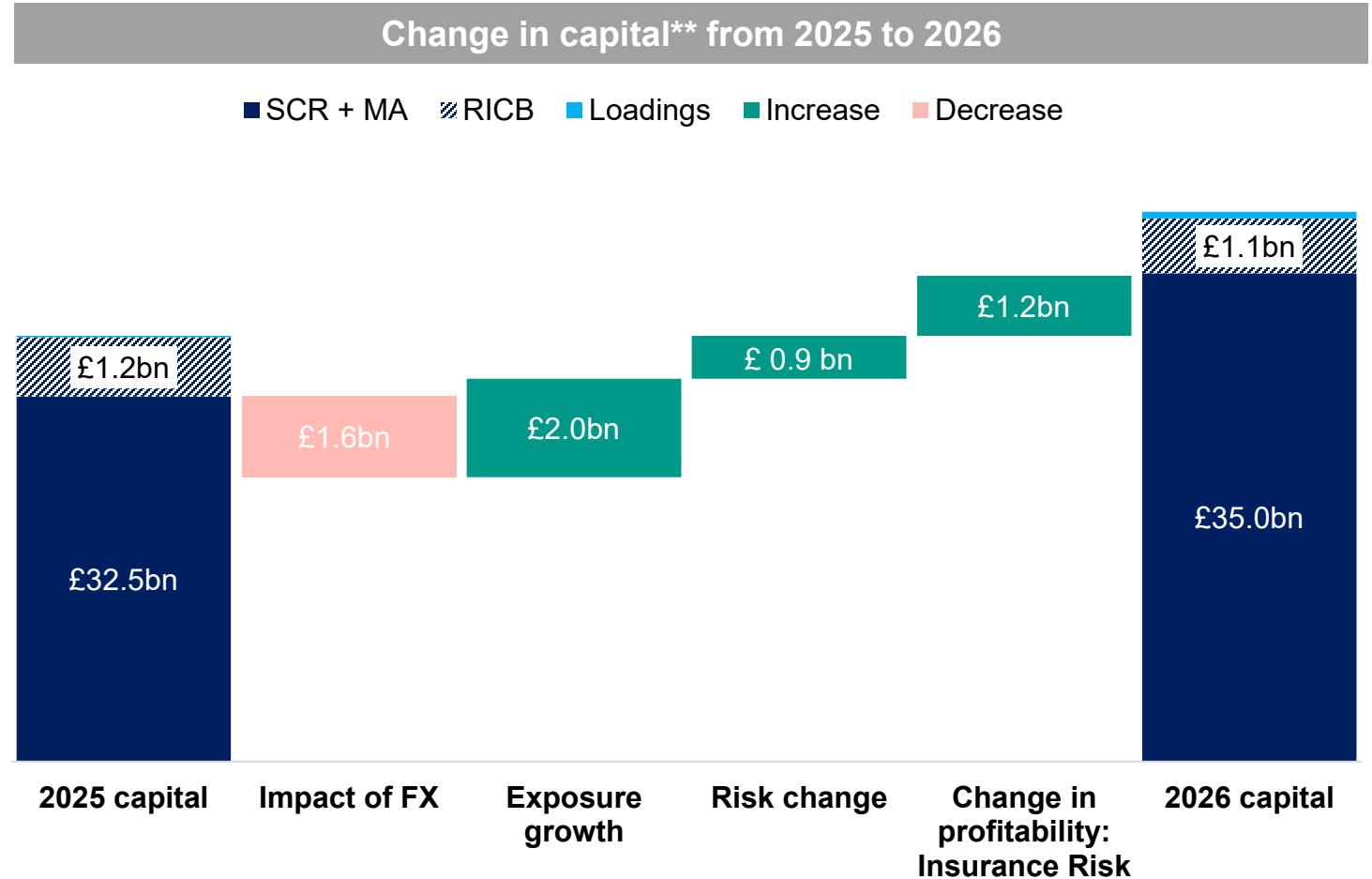
Approved capital has increased for 2026

Between 2025 and 2026, capital has increased by 7.4% from £33.7bn to £36.2bn.

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- Around **20%** of the increase in capital from **exposure* growth** is driven by business written by **new syndicates** starting in 2026.
- The impact of the increase in exposure is largely **offset by the weakening of USD** against GBP.
- Business **plans are less profitable** than last year as the market softens.
- Syndicate's **views of risk have increased** slightly with reasons differing on a case-by-case basis.

*Exposure = 'net claims + ½ earned reserves

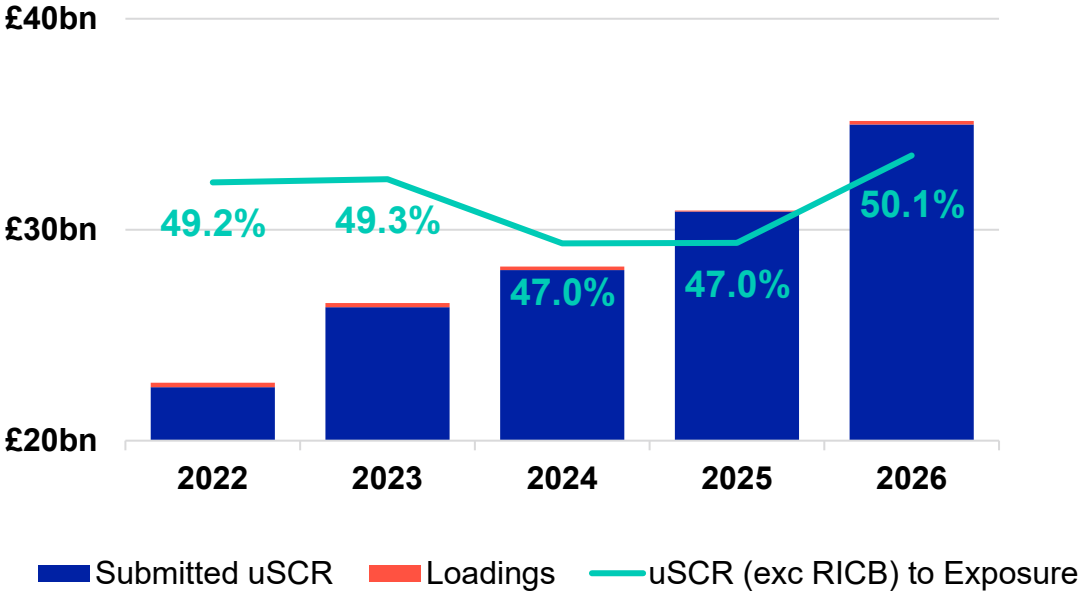


**Capital in this slide includes the RICB and does not allow for changes from March re-assessment

Market capital has consistently increased since 2022

Capital versus exposure* has increased since 2025

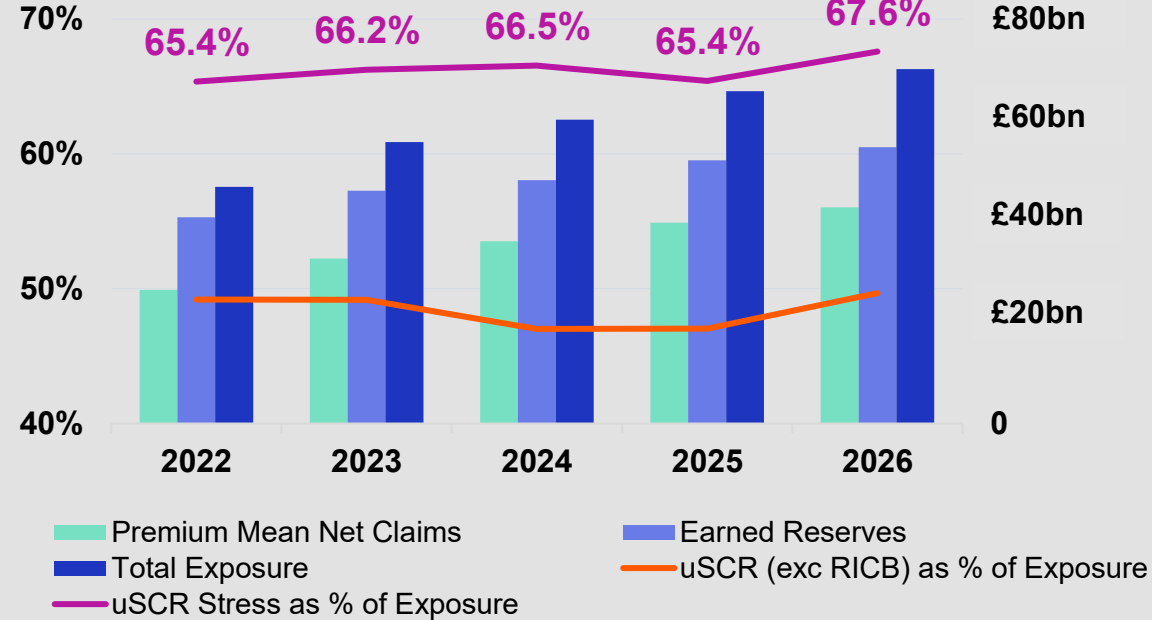
Change in capital over time



*Exposure = net claims + 1/2 earned reserves

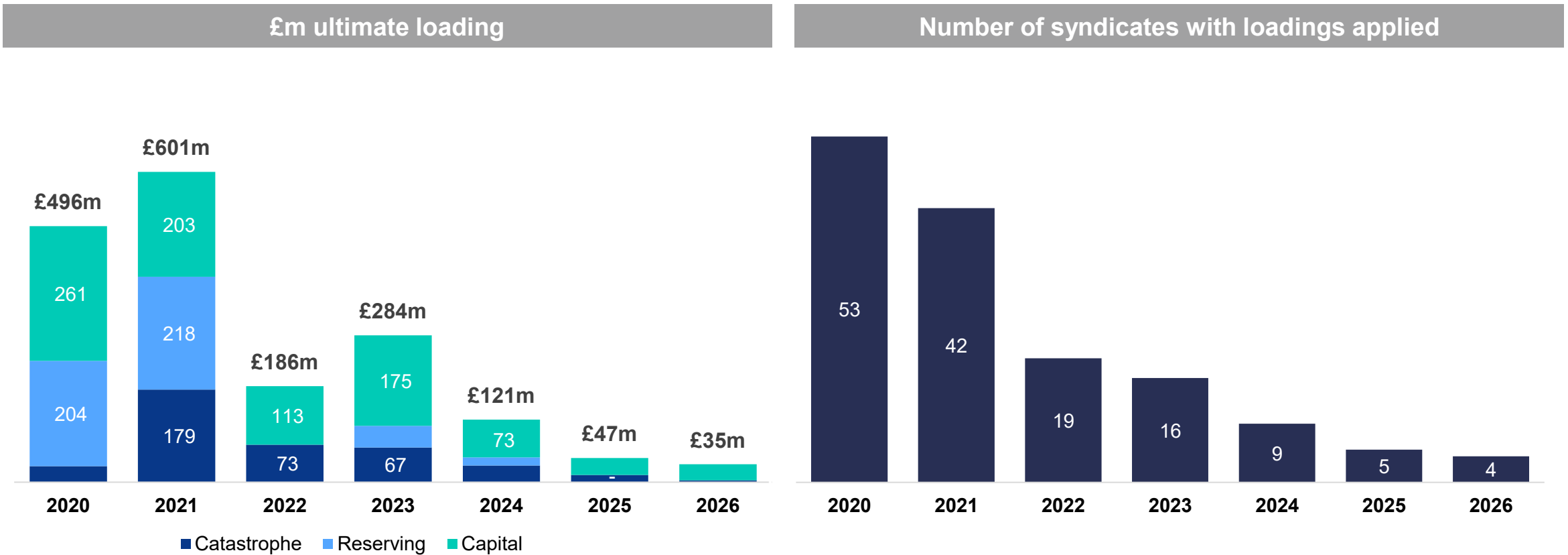
**Stress here represents the 1-in-200 deviation around the central, expected position. Changes in this metric would not recognise changes in any of expected profitability, loadings or management adjustments

Change in stress** vs exposure over time



Loadings decreased in 2026

Decreases seen in number of syndicates loaded and total ultimate loading amounts



Note, this does not include controls loadings. More information on reasons for these loadings are shown on the next slide.

Feedback on analysis of change

LCR form 600 was enhanced in 2025 to collect information on movements in key metrics



Last year, LCR form 600 was enhanced to act as a standalone analysis of change, to replace PRA submission AoC.01 requirement.

Minor improvements expected this year to ensure we are capturing all Fast Track eligibility metrics.



Using the **same rationale to explain several movements**

Explaining movements in risk versus exposure metrics as **strictly formulaic**

Relying entirely on **separate documentation**



LCR form 600 can act as a **standalone Analysis of Change**

Movements in **stress versus exposure metrics** are explained with **respect to changes in volatility**

Changes for 2027 LCR

Fatima Bawa

Senior Actuarial Associate

Capital Oversight

Recent improvements to the CPG process

Existing improvements will continue to be in place for the 2027 LCR submissions





- ✓ Improved LCR form 600 to align with Solvency UK, and greater clarity for us on key metrics
- ✓ Deferred review option for aligned syndicates, with the option to explicitly opt-in or opt-out
- ✓ Heads up conversations with agents around Red-rated feedback
- ✓ Capital feedback provided within 2 weeks of the CPG outcome letter
- ✓ Option for syndicates to provide their own view of capital by YoA

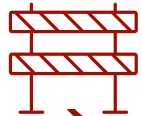
“ ”

90% of respondents to our annual CPG survey stated they were either **Satisfied** or **Very Satisfied** with the **clarity provided by Lloyd's** (+15% from last year), and with the **engagement from Lloyd's capital team** throughout the CPG process (+21% from last year).

Further improvements in response to feedback

We are taking the following actions in response to external feedback

 Timeliness of communications and feedback	 Quality of Capital feedback & queries	 Capital guidance & LCR instructions	 Member modeller
<ul style="list-style-type: none"> <input type="checkbox"/> Capital Points of Contact to acknowledge queries within 1-2 days <input checked="" type="checkbox"/> More checkpoints throughout review of MMCs, IMAPs <input checked="" type="checkbox"/> Engaged with syndicates to confirm the timeframes for feedback 	<ul style="list-style-type: none"> <input type="checkbox"/> Clearer triage process in LCR instructions, integrating model loss ratio review criteria <input type="checkbox"/> Any queries will be RAG-rated <input type="checkbox"/> All feedback issued outside of CPG season will be discussed prior to issuing the letter <input type="checkbox"/> Alignment between Reserving Oversight and Underwriting Performance teams 	<ul style="list-style-type: none"> <input type="checkbox"/> Earlier publication of instructions & Focus Area return <input checked="" type="checkbox"/> Regular discussions with platform providers and ESG providers <input checked="" type="checkbox"/> Our annual Capital Briefing is earlier this year 	<ul style="list-style-type: none"> <input type="checkbox"/> Revising current guidance <input type="checkbox"/> New literature to explain the calculations in the model and explain model capabilities <input type="checkbox"/> We will be facilitating training for new users. <input type="checkbox"/> Developing an email notification process



Phasing schedule and submission deadlines will be confirmed in the coming weeks

Focus Area:

Mean profit in capital models

David Bracewell

Senior Actuary

Reserving Oversight



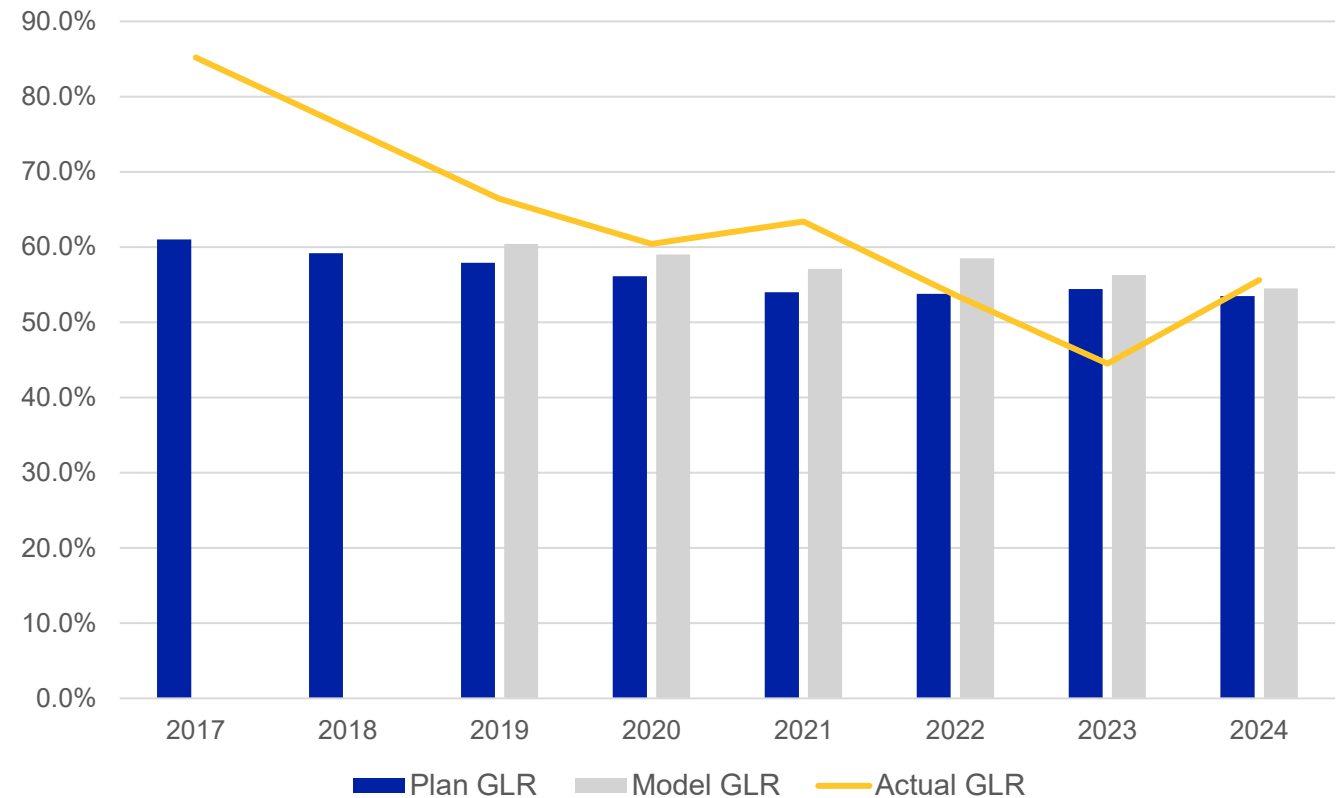
Why Lloyd's focuses on profit in Capital Models

The market systemically understated model loss ratios in the last soft market...

...and consequently overstated expected future underwriting profit.

Market conditions and the risk environment continue to change, increasing uncertainty and the risk that model loss ratios are understated.

Recent trend of actual vs model / plan loss ratios



Findings from 2026 YoA LCR



RARC reductions continue in business plan submissions



Modelled loss ratios have increased by less than pure RARC would indicate.



Marginal increase to market level self-uplift at 0.4ppts on a net basis.

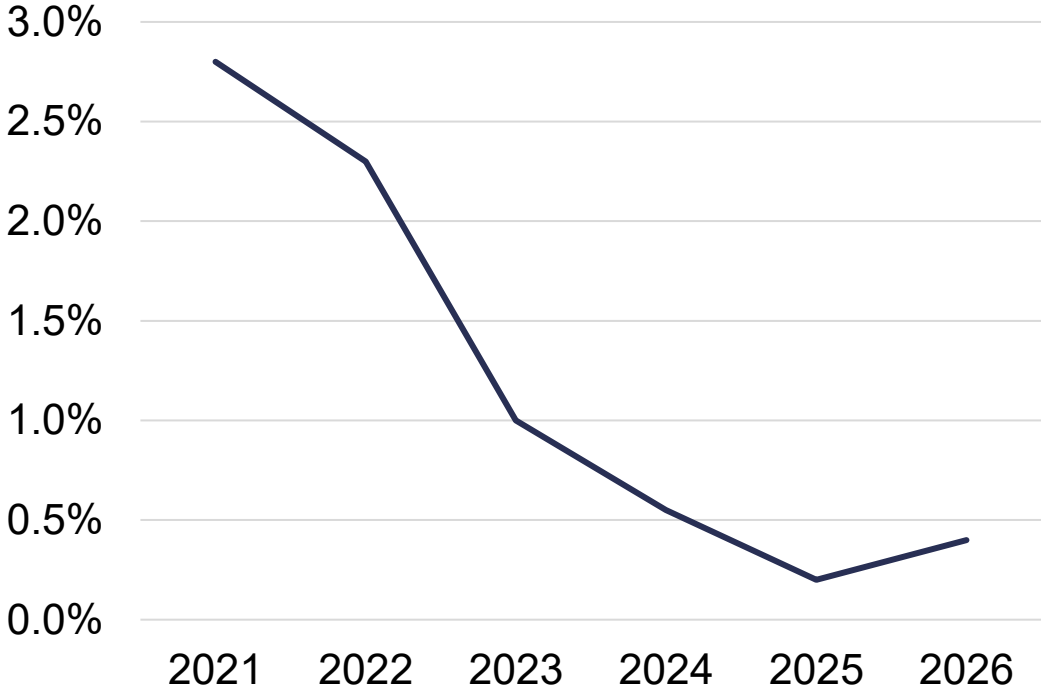


Syndicates have reduced modelled loss ratios to reflect favourable performance on prior years



Validation of modelled loss ratios has improved, with most of syndicates following enhanced guidance

Market Level Self Uplift: NCLR



Feedback from 2026 YoA LCR



Validations and backtesting did not always contain enough historical years to cover soft and hard market cycles



Backtesting for cat loss ratios was too limited to averages – not enough focus where years/single events sit with regards to the full cat distribution



Pass/fail criteria for validation tests were not always clear, and validators did not always express their opinion on the appropriateness of the modelled loss ratio



Rate change validation identified that syndicates tend to understate both reductions in soft markets and increases in hard market

Lloyd's will continue to focus on modelled loss ratios

Some enhancements will be made to the review and validation

Lloyd's has the following expectations in respect of modelled loss ratios:

- Modelled loss ratios need to be grounded in **historic experience** with an **overlay of expert judgement**
- The experience that the modelled loss ratios are based on needs to be truly **relevant and validated** for its applicability to future expectations – not just historic averages, esp. if the market conditions were very different in recent history
- Modelled loss ratios should be based on proven expertise, where credit is only given to factors once there is a **track record of the impact**, e.g. remediation / business mix changes – not “future aspirations”.
- **Uncertainty must be allowed for** – e.g. softening market via RARC

HOW

- Adherence to modelled loss ratio minimum floor test
 - Investigating material movements in the self-uplifts to the modelled loss ratios
 - **Investigate classes / syndicates with greater uncertainty, e.g. ULR deteriorations**
 - **Review of validation performed relating to modelled loss ratios**
- Unchanged from last year
- New this year
- Some enhancements this year

Clarification of expectations on allowance for uncertainty – inconsistency in approach across syndicates

Adapting our approach for the softening market conditions

Adapting our approach

- **Increased collaboration with our underwriting** colleagues.
 - Joined up approach to identify higher risk classes of business and associated syndicates.
 - Increased **reserve oversight** on the recent UWY loss ratios. Higher risk areas identified will be considered during CPG with respect to loss ratios
 - Enhanced focus during CPG concerning how the above uncertainty is considered within the model loss ratio.

Clarification on Expectation of Allowance for Uncertainty

- Syndicates are taking inconsistent approaches to allowing for uncertainty – impacting the comparability across the market
 - What is allowed for in plan vs. model loss ratios?
 - What should be allowed for at the mean vs. the volatility parameterisation?

Example RARC

If there is a history of not achieving RARC in the soft cycle then an allowance should be made for this in the model loss ratio – even if RARC is achieved on average across the cycle. Cycle adjustments should also be considered for new business. This could lead to deviations from the plan.

Example Terms and Conditions

Widening terms and conditions can lead to an increased volatility of losses – where widening is observed allowances should be made (in model loss ratios AND/OR volatility parameterisation)

Validation Requirements

Requirements for syndicates on Validation Test unchanged, apart from the AoC

Validation Tests

Top-down validation

1. Back-testing of plan or modelled loss ratios by year of account
2. Assessment of the appropriateness of self-uplifts to modelled loss ratios
3. Comparison of average historical actual loss ratios to the prospective year of account modelled loss ratio
4. Analysis of change related to modelled loss ratio since the previous year – **ENHANCEMENTS**

Bottom-up validation

5. Underwriting profit related sensitivity testing
6. Validation of rate change assumptions

Enhancements: Components of Analysis of Change

1. Prior year MLR
2. Remove self uplift
3. Deviations to plan
4. Adjustments to prior year plan LR
 - ULR experience
 - Forecast RARC
 - New Business
 - Inflation (economic and excess)
 - Changes in business mix
5. Prospective Year Plan LR
6. Self uplift
 - Self-uplift should articulate what uncertainties it is capturing
7. Prospective Year MLR

In line with plan

Enhancing our guidance on the Analysis of Change validation test.

- We are **strongly recommending components** to demonstrate how the Model Loss Ratio (MLR) is evolving in the context of current market conditions.
- The AoC should **align with the business plan bridge** and incorporate explicit allowances for additional sources of uncertainty, i.e. self-uplift.

2027 YoA LCR expectations

Profit in capital setting will continue to be a key focus as market softens

Validation should be less formulaic and more insightful

Syndicates should be able to explain and justify their approach to allowing for uncertainty in plan and model loss ratios

Soft market conditions need to be considered when setting and validating model loss ratios

Actuaries will likely diverge model loss ratio picks versus plan as softening market uncertainty increases

Focus Area: *Geopolitical Risk*

James Pinion

Senior Actuary

Capital Oversight



Geopolitical Risk

The continually uncertain geopolitical landscape

Wednesday 31st December 2025

World News

2025: A Year of Persistent Flashpoints

During 2025, several international issues remained unresolved. The Russia–Ukraine conflict continued, while relations involving Venezuela and the United States grew more tense. Greenland also emerged as a focus of diplomatic discussions among the United States, Denmark, the European Union, and NATO.

Sunday 1st March 2026

World News

2026: Middle East - Escalation and Uncertainty

Beginning in late February 2026, military developments involving the United States, Israel, and Iran prompted a series of regional responses. These events heightened tensions in the Middle East, have put strains on supply chains and introduced volatility into energy markets. The future course of the situation remains uncertain.

Monday 20th April 2026

World News

Looking Ahead: A Highly Unpredictable Landscape

We expect agents to consider possible further escalations in current events in the Middle East whilst also recognising broad, general geopolitical uncertainty in the context of the agent's own risk profile.

2026 LCR and March Re-assessment

We remain comfortable with syndicate approaches and allowances

2026 LCR

We performed a **risk-based review of Geopolitical Risk** allowances in syndicate models as part of the 2026 CPG process. Reviews covered scenario testing, methodology and parameterisation, validation and prior Lloyd's feedback.

In most instances, syndicate models captured **relevant, severe scenarios** within an **appropriate return period** (typically less than 1 in 100).

Largely, we found:



Model changes are made to appropriately capture the wide-reaching potential impacts of **Geopolitical Risk events**.

Scenarios are developed consistent with the **syndicate view of risk** and consider losses **across risk areas**.

No loadings were applied following this work.

Where we raised feedback, this mostly related to:

Validation – to evidence a wider consideration of possible future scenarios

Reinsurance Dispute Risk – to evidence sufficient allowance for the potential for associated reinsurance recoveries to be disputed

March Re-assessment

We asked syndicates for a summary of Geopolitical Risk **changes implemented post CPG or planned** in the upcoming months. Where syndicates made changes:



The responses show that **all material model changes** (>2% uSCR) have been **reflected in March Re-assessment** SCR submissions in all cases.

Aside from the oversight interventions mentioned below, we remain comfortable with respect to the **largest syndicates** and **biggest writers of PVT** business in the market.



Responses for these syndicates indicate **agile approaches**. Most of these syndicates reported reviewing allowances as different events occurred post LCR submissions.

*Given the timing of the March Reassessment, **syndicates would not have reasonably reflected the ongoing, actual nature of the events in the Middle East** in their responses.*

Oversight

For the largest syndicates and biggest writers of PVT business, we have engaged directly to outline our expectations around Middle East Scenario Testing. This included a handful of cases where the syndicate had not yet developed their own Middle East Escalation scenario. These observations will feed into a cross-team exercise later in the year where we will triage syndicates for a discussion around the steps being taken to manage relevant risks.

2027 LCR Focus Area

Our oversight will focus on back-testing, model changes and Middle East scenarios

To assess the appropriateness of Geopolitical Risk allowances in 2027 LCR submissions, we will collect information in the **Focus Area Return**.

- **Back-testing** - how the current Middle East event back-tests against prior and current models
- **Model changes** – what changes are being made to allow for the external risk environment
- **Scenario testing** - Syndicate's own scenarios in relation to escalation of current tensions in the Middle East

TO NOTE



- Only those materially exposed** will be required to complete this part of the return
- We will explicitly require agents to test losses against **specific peril or class distributions** only
- Validator opinion** will be required on the model changes made and on the results of testing

26AA / 26AB Event Back-testing			
	Ult Loss £m	2026 LCR	2027 LCR
Event	<i>Ultimate loss estimate from specific event risk codes</i>	<i>1-in-x</i>	<i>1-in-x</i>

Geopolitical Risk Model Changes				
	Category	Description	SCR Impact (%)	Validator Opinion
Change 1	<i>Exposure/ Parameterisation/ Methodology</i>	<i>Nature of change made</i>	<i>+/- x%</i>	<i>Appropriateness of change and impact vs. risk profile</i>

Syndicate's Own Middle East Escalation Scenarios					
	Event Narrative / Ind. Return Period	Final Net Loss	Premium Risk	Reserve Risk	SCR
Scenario 1	<i>Detailed event narrative – 1-in-x</i>	<i>£m</i>	<i>1-in-x</i>	<i>1-in-x</i>	<i>1-in-x</i>


The information in this slide is to be considered as indicative only at this stage. For example, if the impact on the macroeconomy begins to become more material, we may look to collect more information around relevant aspects of your modelling.


Scenario Testing


Models must be challenged with severe scenarios reflecting broad interconnectedness


Scenario testing is a key risk management tool to provide comfort in the appropriateness of capital. Where material, Lloyd's expects the scenario testing process to consider both **escalations in current conflicts** and **potential future events**.


Scenario Testing Checklist

- 

Realistic, severe scenarios, test key vulnerabilities **consistent with the syndicate View of Risk**.
- 

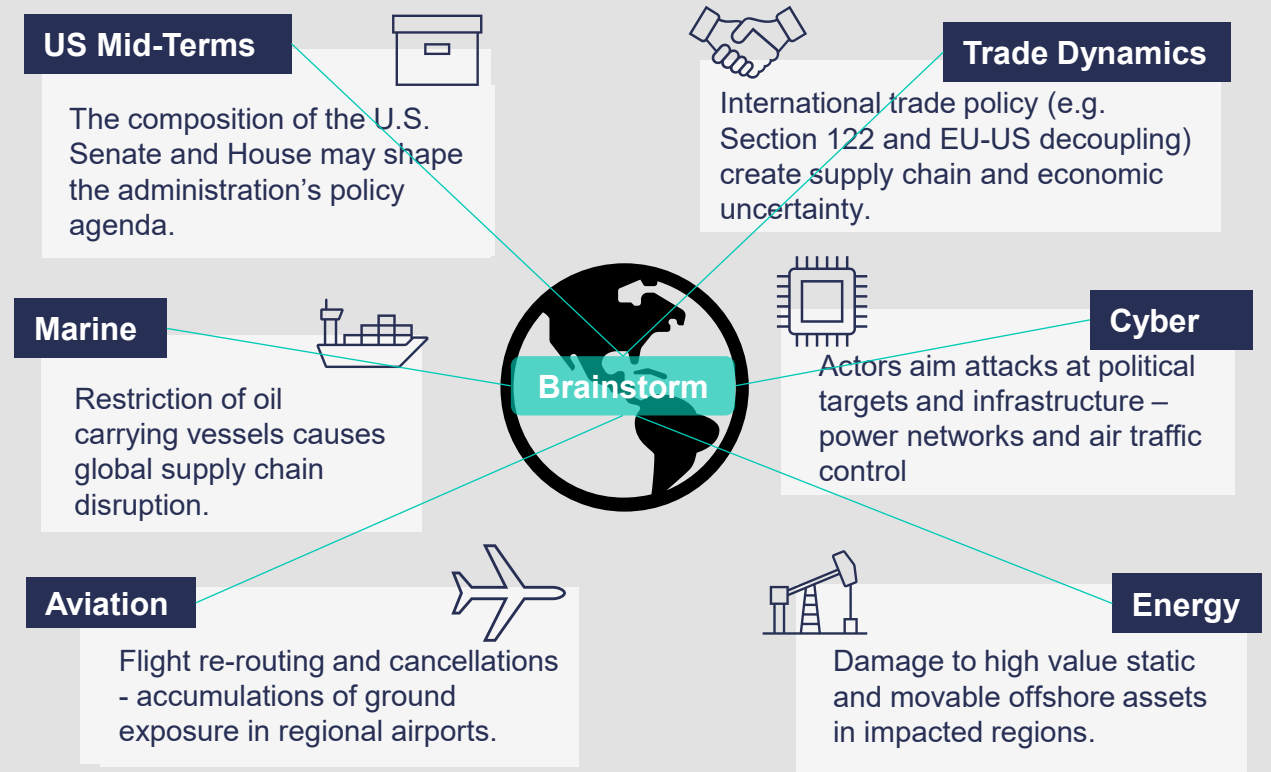
Up-to-date information, recognising plausible, **extreme escalation of current tensions** and consider **second order impacts**.
- 

Scenarios are designed to test dependencies between classes of business and between risk types including **macroeconomic uncertainty**.
- 

Second order thinking – untested **exclusions**, effectiveness of **cancellation notices**, **misaligned outwards protection**, risk of reinsurance **dispute**.
- 

Losses are **tested against specific class distributions** and/or relevant **non-natural catastrophe peril distributions**.

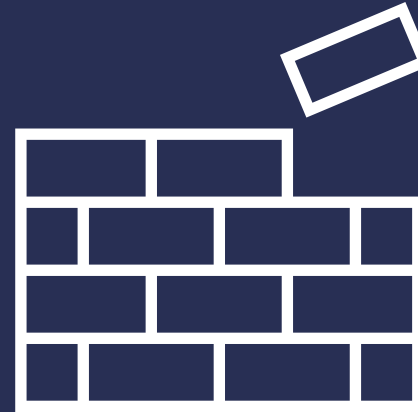
Agents should think broadly about the sources and implications of geopolitical events and how this could cause **losses across a portfolio and across different risk areas** and not be isolated to underwriting losses incurred on Political Risk and Political Violence lines. Some theoretical examples are provided below:



Partial Internal Model

James Tomlin

Head of Capital Transformation



Lloyd's approach to Partial Internal Models

We are running a pilot scheme this year

What?

- Lloyd's intends to **offer the ability to use a Partial Internal Model** (PIM) for business use
- A PIM is an **Internal Model** that replaces one or more components with a **simplified methodology**, subject to defined guardrails

Why?

- More **proportionality** of approach
- More **flexibility** around modelling approach
- **Align** Lloyd's rules with **Solvency UK** framework
- No desire to reduce standards or use of models within risk frameworks
- No appetite to weaken capital strength

How?

- Pilot exercise being run during 2026 (for 2027 SCR)
- Learnings, refinement and governance approval ahead of **wider roll out in 2027** (for 2028 SCR) with associated guidance issued

Who?

- PIM to be open to all Managing Agents
- **Pilot exercise involving handful of syndicates**
- Engagement with Market through CALM - contact your capital PoC if interested

When?

- **Pilot:** Lloyd's aim to start accepting PIMAPs to be submitted **any time before 18 June**. Any approvals would be effective for 2027 SCR capital submission
- **Full launch:** Guidance to be issued by year end with PIMAPs accepted for 31 March 2027 (for 2028 SCR)

Features of the Partial Internal Models framework

Key elements of our proposed framework have been developed ahead of the pilot



Principles (condensed)

Principle 1: Maintain Solvency UK standards

Principle 2: Managing Agents to demonstrate the initial and ongoing suitability of PIMs to their business and risk profile

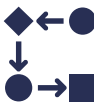
Principle 3: A move from a full Internal Model to a PIM should at least, maintain the capital held.



Scope

Risk Categories: Credit risk, Market risk, Operational risk (known as Simplified-Approach Risk Categories “SARCs”)

Syndicates: No restriction on which Managing Agents or syndicates can utilise PIMs



Methodology and Adjustments

SARC & aggregation methodology: Standard Formula

Ultimate uplift: Uplift to ensure calibration sufficiently captures the dynamics of ultimate risk

Adjustments: Limited, upwards adjustments are possible



Guardrails

SARC capital: Overall capital at least maintained. Small reduction in post-diversified risk allowed at individual SARC level

SARC materiality: Individually < 15% of total risk on latest approved model; Collectively < 30%



Assessments

Appropriateness for risk profile: Standard Formula sufficient and reliable representation of business risks (in line with Solvency UK requirements)

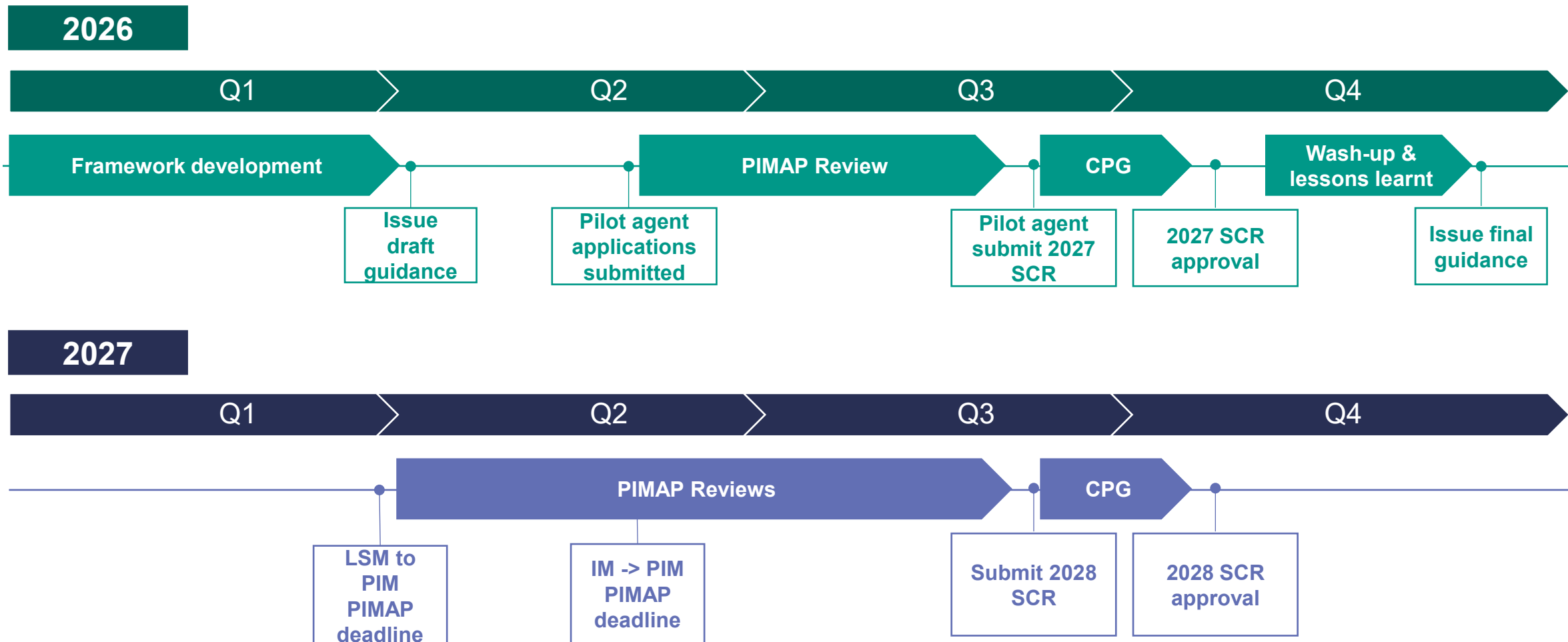
Ongoing appropriateness: Clear falsifiability criteria

Implications on Use: No adverse implications on risk insights or decision-making

Attestations: Meeting of standards, validation and Principles of Doing Business at Lloyd's

Next steps and timelines

High-level timeline for Partial Internal Models this year and next



Other Activities

James Pinion

Senior Actuary

Capital Oversight



Climate Risk Oversight

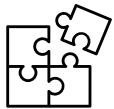
Internal playback of key thematic findings, updates to guidance & future syndicate engagement

2025 Activities

In 2025, we published our thematic report: 'Climate Risk in Capital Modelling



Overall, we were comfortable that the largest syndicates, & those with potentially the most material exposures, implement mature approaches across each climate risk.



In a handful of cases, agent survey responses highlighted potential gaps:

1. Quantification of exposure to climate risks
2. Reliance in implicit allowances in volatility and dependency uplifts
3. Limited validation beyond Physical Climate Risk in vendor models
4. Not performing relevant SSTs



Our full report with detailed findings, insights & views on Market best practice can [be found on Lloyds.com](https://www.lloyds.com)



2026 Oversight



We have updated Climate sections of our Capital and Validation Guidance documents.








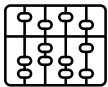
Lloyd's guidance	Key 2026 updates
Capital 	<ul style="list-style-type: none"> • Alignment to SS5/25 • Examples relevant to Lloyd's Market participants
Validation 	<ul style="list-style-type: none"> • Our validation expectations have not changed • However, we have looked to increase clarity around our expectations

Climate Oversight

- Working with the relevant Lloyd's teams, we will engage with specific agents to discuss any outstanding queries from our 2025 survey responses.
- As part of 2027 LCR submissions, we will be requesting that syndicate's explicitly reference any newly identified actions arising from their SS5/25 self assessment gap analysis.

Other Activities

We've refreshed our guidance more widely

Lloyd's Guidance & Templates		Key 2026 updates	
Capital Guidance		Climate; Macroeconomic and geopolitical; Run-off expectations; Discount Capping	
Validation Guidance		Climate	
Model Change Guidance		Catastrophe vendor models	
New Entrant Guidance		SMF attestation requirements	Mid-May
Lloyd's Standard Model (LSM)		Template released quarterly for FX; Template will include YoA split; Y1 syndicates – resubmissions may be required alongside all SBF resubmissions	Next release in July



In **September**, we'll review your changes made to **Model Change Policies** to align to **Solvency UK**.



In **May**, **Dynamic General Insurance Stress Test (DyGIST) exercise** will be live. Separate communications covering our expectations and submission requirements have been shared with participating agents.

Wrap-up

James Pinion

Senior Actuary

Capital Oversight

Wrap-up

We hope today's briefing has been helpful in setting out our expectations

We continue to enhance our processes

Continued improvements to reflect market feedback

Partial Internal Model Pilot

Current landscape is fast-moving

Geopolitical risks, as well as the level of underwriting profit, continue to be of importance

A need to continuously ensure models are appropriate

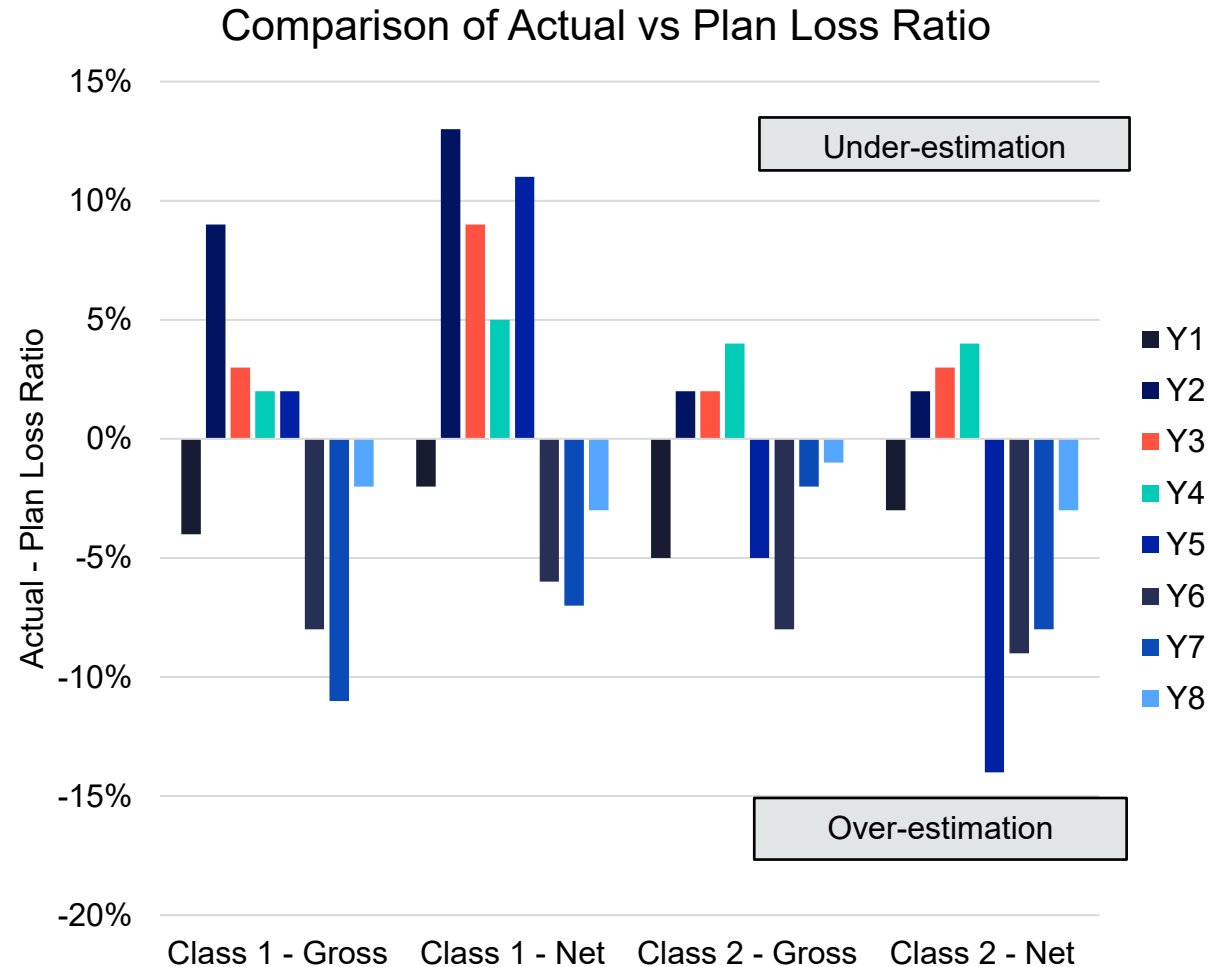
Appendices

Slides additional to Capital Briefing, for further information

1. Back-testing of plan or modelled LR by YOA

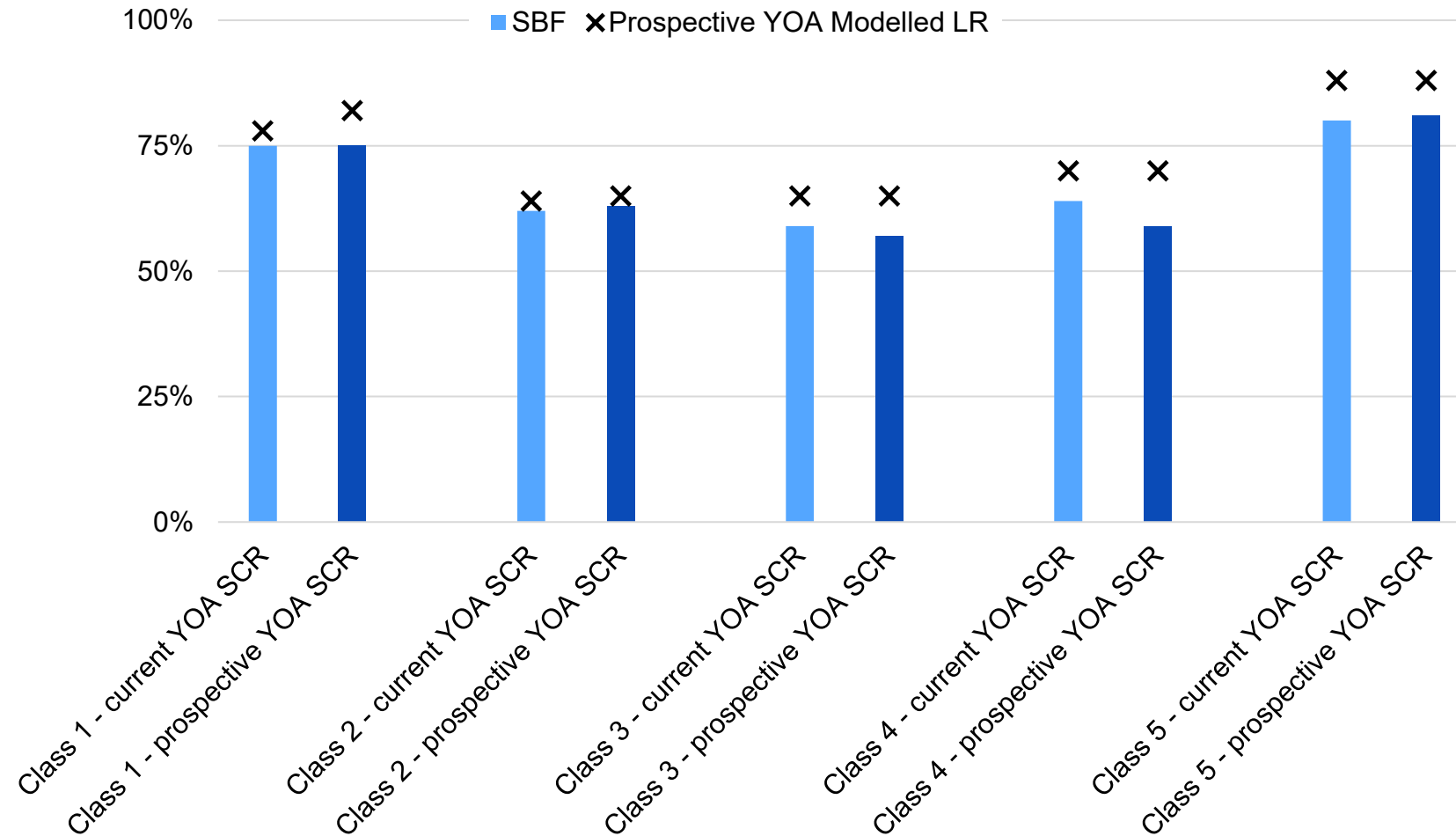
Note: Figures in the following slides are fictional and not intended to be taken as benchmarks

Class of business	YOA	Plan LR	Actual LR	Difference	Over / Under
Class 1 - Gross	Y1	52%	48%	-4%	Under
Class 1 - Gross	Y2	52%	61%	9%	Over
Class 1 - Gross	Y3	55%	58%	3%	Over
Class 1 - Gross	Y4	55%	57%	2%	Over
Class 1 - Gross	Y5	54%	56%	2%	Over
Class 1 - Gross	Y6	54%	46%	-8%	Under
Class 1 - Gross	Y7	52%	41%	-11%	Under
Class 1 - Gross	Y8	49%	47%	-2%	Under
Class 1 - Net	Y1	47%	45%	-2%	Under
Class 1 - Net	Y2	47%	60%	13%	Over
Class 1 - Net	Y3	50%	59%	9%	Over
Class 1 - Net	Y4	50%	55%	5%	Over
Class 1 - Net	Y5	49%	60%	11%	Over
Class 1 - Net	Y6	49%	43%	-6%	Under
Class 1 - Net	Y7	47%	40%	-7%	Under
Class 1 - Net	Y8	44%	41%	-3%	Under
Class 2 - Gross	Y1	60%	55%	-5%	Under
Class 2 - Gross	Y2	60%	62%	2%	Over
Class 2 - Gross	Y3	64%	66%	2%	Over
Class 2 - Gross	Y4	66%	70%	4%	Over
Class 2 - Gross	Y5	65%	60%	-5%	Under
Class 2 - Gross	Y6	62%	54%	-8%	Under
Class 2 - Gross	Y7	59%	57%	-2%	Under
Class 2 - Gross	Y8	61%	60%	-1%	Under
Class 2 - Net	Y1	57%	54%	-3%	Under
Class 2 - Net	Y2	56%	58%	2%	Over
Class 2 - Net	Y3	59%	62%	3%	Over
Class 2 - Net	Y4	61%	65%	4%	Over
Class 2 - Net	Y5	66%	52%	-14%	Under
Class 2 - Net	Y6	63%	54%	-9%	Under
Class 2 - Net	Y7	58%	50%	-8%	Under
Class 2 - Net	Y8	61%	58%	-3%	Under



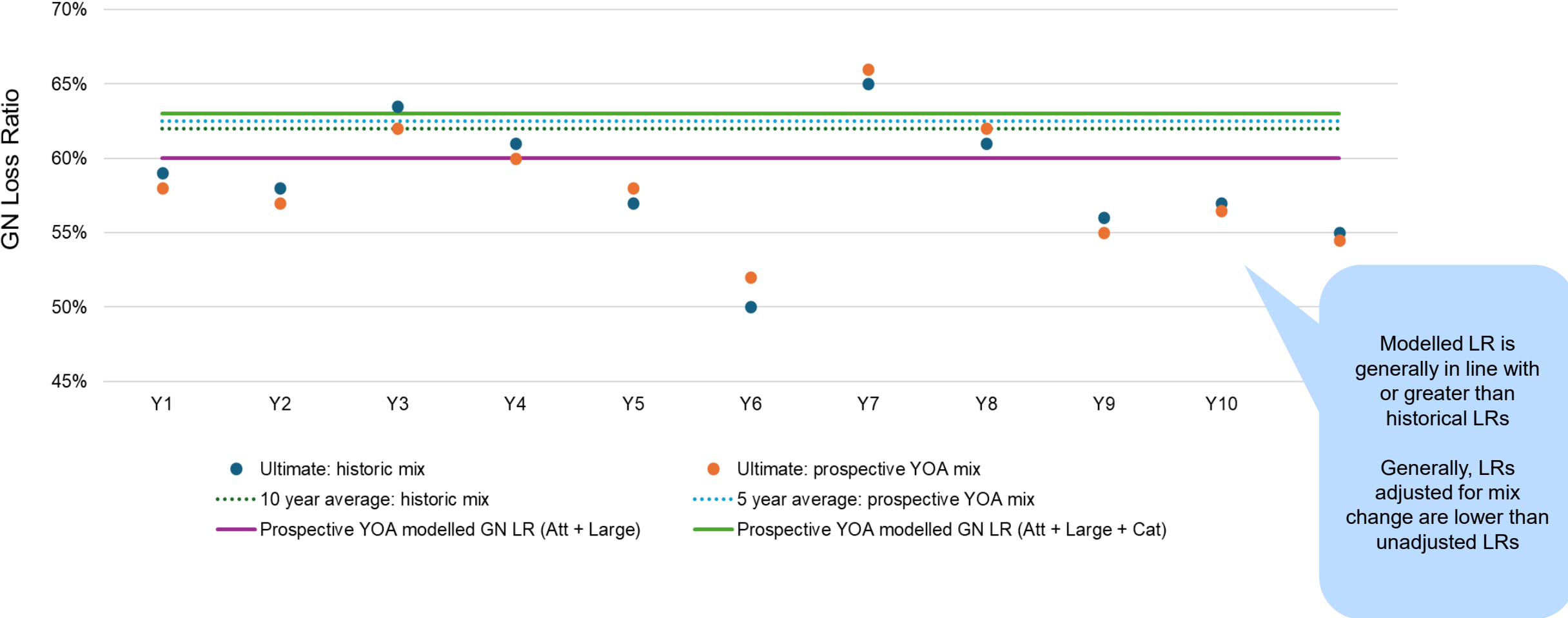
2. Assessment of the appropriateness of self-uplifts to modelled loss ratios

Note: Figures in the following slides are fictional and not intended to be taken as benchmarks



3. Comparison of average historical LR to prospective modelled LR

Note: Figures in the following slides are fictional and not intended to be taken as benchmarks



5. Underwriting profit related sensitivity testing

Note: Figures in the following slides are fictional and not intended to be taken as benchmarks

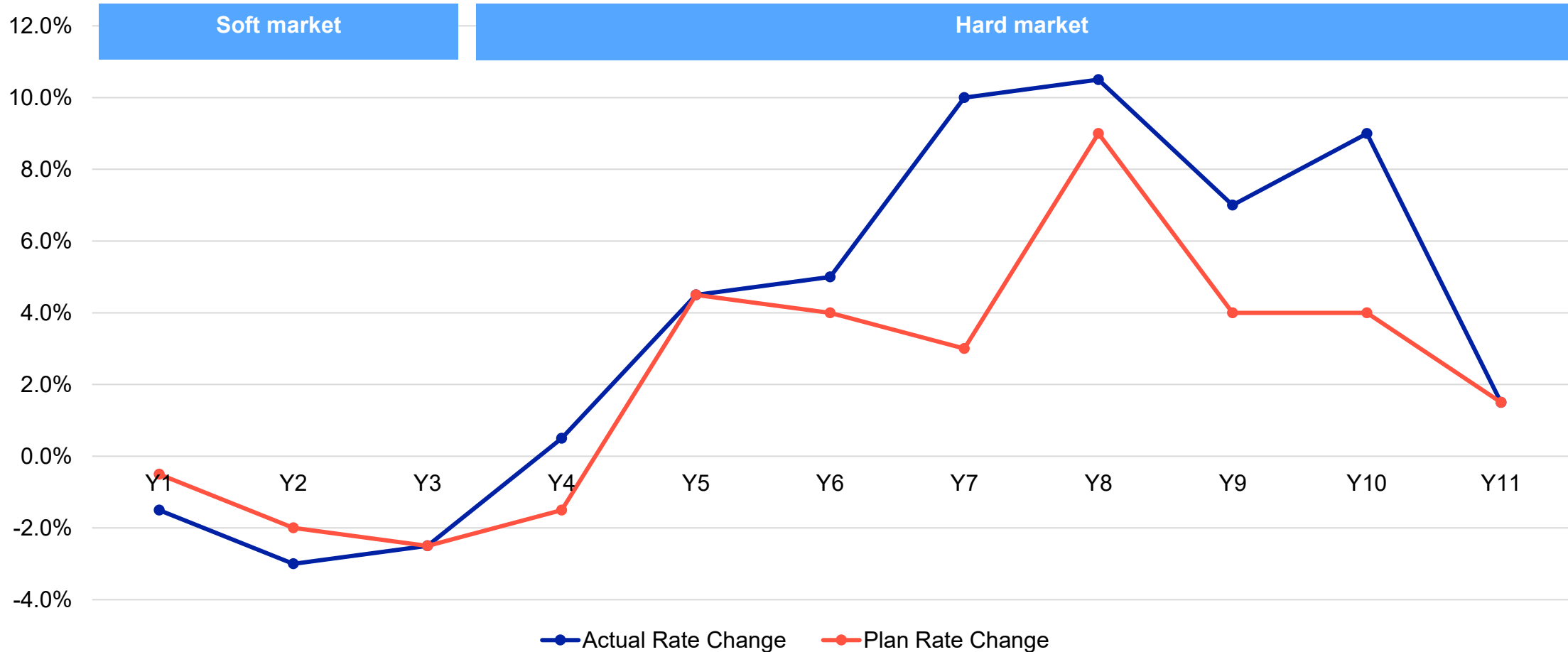
Mean to 1 in 200 Underwriting Risk: SCR vs Sensitivity Tests



Scenario	Test	Description	Result	Commentary
A		Base case - Modelled LR as per submitted Capital		
B	Excluding self-uplifts to modelled LR	Excludes uplifts added to SBF LR when deriving modelled LR	Immaterial decrease	Commentary on the test result, the reason and whether this is in line with expectations.
C	Excluding Cat LR uplifts	Cat risk loads are applied to cat exposed classes to ensure the sufficiency of the cat LR within the SBF	Material decrease	
D	LR uplifts for uncertain classes (5%)	5% LR loads are added to classes flagged as having uncertainty around the planned rate change for prospective YOA	Immaterial increase	
E	LR uplifts for uncertain classes (10%)	As above but adding 10% to LR for affected classes	Material increase	

6. Validation of rate change assumptions

Note: Figures in the following slides are fictional and not intended to be taken as benchmarks



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