Reserving Tests of Uncertainty:
2026 Business Planning and Capital Approval

July 2025

Contents

Reliance and Limitations

Content contained within is wholly for discussion purposes only

References

References to “YE Capital Approval” and “Mid Year Capital Approval” throughout the presentation refer to the year end and mid year business planning and capital approval process at Lloyd’s respectively.
References to “CPG” refer to the Capital Planning Group at Lloyd’s.

Purpose & Scope

The purpose of the information contained within is for discussion on changes/updates to the Reserving Tests of Uncertainty performed as part of YE Capital Approval. The scope of this is limited to changes/updates to testing from the 2024 YE Capital Approval process to the 2025 YE Capital Approval process.

Reliance and Limitations

The information contained within is an overall summary of changes. Lloyd’s will send Syndicate specific communication where indicated in the pack in respect of the Reserving Tests of Uncertainty for the 2025 YE Capital Approval process.

As such, this pack should not be used for business decision making purposes.

This publication supersedes any previous packs supplied by Lloyd’s (including drafts and for discussion only documents) in respect of the Reserving Tests of Uncertainty for the 2025 YE Capital Approval process.

Introduction and purpose

The Reserving tests of Uncertainty assess key areas, from a reserving perspective, that are inputs to the capital model and could lead to under capitalisation. The Lloyd’s testing framework primarily uses data from returns readily available to Lloyd’s to flag Syndicates for oversight and (where required) capital loadings are applied to address deficiencies identified by the testing.

The purpose of this pack is to provide market participants with details on the Reserving Tests of Uncertainty framework for the 2025 YE Capital Approval process, including key changes since last year and the key dates that syndicates should be aware of.

The key change since last year relates to enhanced requirements in terms of validation of the prospective year of account modelled loss ratios. Further details on this change are included in the ‘Validation of modelled loss ratios’ slide of this pack.

Reserving Tests of Uncertainty: 2025 YE Capital Approval Process

High level framework for each Reserving Test of Uncertainty

Test	2025 YE Testing Framework	Key Milestones

Prospective year Modelled Loss Ratio	• Lloyd’s assessment of appropriateness of modelled loss ratios will be based on review of the **Focus Area Returns, validation reports and the Retrospective Loss Ratio test**
	• **All syndicates** will be subject to Focus Area Return review
	  • The first three questions are in line with last year’s return, i.e. related to the Modelled Loss Ratio Floor Test, Change in Self-Uplift and signposting to validation related to modelled loss ratios.
	  • There are two new questions included this year related to (i) comparison of plan loss ratios within SBF and LCR returns; and (ii) comparison of modelled mean net claims and premiums on a one-year basis and on an ultimate basis.
	  • It should be noted that two questions that were included in last year’s Focus Area Return have been removed this year.
	    • Firstly, the question around how Reserving Cycle is considered as part of modelled loss ratio setting process has been removed as details of this process have already been collected last year.
	    • Secondly, the question around Analysis of Change related to modelled loss ratio has been removed, as this is now expected to be included within the syndicates’ validation reports.
	• **Risk-based sample of syndicates** will be subject to validation report review
	• Retrospective Loss Ratio test will be performed as per last year, with no changes to the process
		• Review of Focus Area Returns and Validation report during September - October 2025
		• Retrospective Loss Ratio test in November 2025 (based on Q3 QMB return) and March 2026 (based on Q4 QMB return)

TP Roll Forward	• **No changes vs 2024 YE Capital Approval testing framework** • Individual syndicates monitored using simple metrics from data already available • Back testing template required for flagged syndicates only	• Syndicates selected for completion of back testing template notified via email during May 2025 • Reviews expected to be concluded during 2026 YoA CPG
Solvency Tests	• **No changes vs 2024 YE Capital Approval testing framework** • Testing for Mid-Year Capital Approval only, based on YE SAO and Q4 ASR	• Review conducted in March 2026

Prospective year modelled loss ratio

Minimum tests, validation review and Retrospective Loss Ratio test

Details of Testing Framework for 2025 YE Capital and Business Planning Approval process

Focus Area Return based review – impacting all syndicates

Two questions related to Minimum Tests are unchanged from last year

Review of the LCR Form 561 and Focus Area return during CPG season, specifically to assess:

- Adherence to Modelled Loss Ratio Floor guidance
- Investigation of material decreases in the Plan to Modelled loss ratios self-uplift.

Modelled Loss Ratio Floor guidance

- It is required that the prospective year loss ratio for capital setting should not be below the SBF loss ratio.
- On a gross net (gross of reinsurance, net of acquisition cost) basis, this guidance applies at class of business and at syndicate level.
- On a net net basis, this guidance applies at the overall syndicate level.

Plan to Modelled Self-Uplift

- ‘Self-uplift’ is defined as difference between modelled and plan loss ratios from LCR form 561.
- For any syndicates where the total ‘self-uplift’ has decreased by more than 1% since the prior year, Lloyd’s will require rationale as to why the syndicate considers this to be appropriate.

The review of these two questions will be consistent to last year.

Inadequate responses to these questions may lead to a capital load being applied.

Focus Area Return based review – impacting all syndicates

Two questions are new this year: reconciliation of SBF and LCR plan loss ratios and comparison of one-year vs ultimate mean net claims and premiums

Reconciliation of plan loss ratios in the SBF submission and LCR form 561

- Syndicates are required to populate the focus area return with their **plan** loss ratios on a gross of reinsurance and net of acquisition costs and net of reinsurance and net of acquisition costs basis as per the SBF submission and the LCR form 561, i.e. Both the SBF and LCR plan loss ratios in the focus area return should be populated on a net of acquisition costs basis.
- Where there are differences between the two, syndicates are required to provide the rationale for this.

Comparison of mean net claims and premiums assumed under the one-year LCR and ultimate LCR

- This question has been introduced to help Lloyd’s better understand the drivers of differences between the one-year LCR and ultimate LCR figures in LCR form 550, question 1.
- The question asks syndicates to provide any relevant commentary in addition to that provided in LCR form 550.
- Syndicates are also required to provide signposting (page reference and document title) to relevant documents submitted alongside the LCR return which contain a description of the methodology used to derive, and any validation performed in respect of, the one-year mean net claims and premiums.

Focus Area Return based review – impacting all syndicates

The question on modelled loss ratio validation has been enhanced since last year

Signpost to the modelled loss ratio section(s) of the validation report

- As per last year, there is an explicit requirement for syndicates to include a separate section for the modelled loss ratio related validation within the validation reports.
- For the 2025 YE Capital Approval process, the guidance on the validation of the modelled loss ratio that Lloyd’s requires syndicates to perform has been updated. This guidance can be found in full in section 4.10 of the Internal Model Validation Guidance document uploaded to the Lloyd’s website.
- The updated guidance sets out six specific types of validation related to modelled loss ratios that Lloyd’s requires for all syndicates.
- References to the modelled loss ratio section(s) of the validation report should be appropriately signposted in the Focus Area Return to enable Lloyd’s to efficiently review the relevant section(s) of the validation reports for a risk-based sample of syndicates. Where possible, syndicates should signpost to the location of each of the six tests defined in the guidance (further details on these is included in the subsequent slides).

Validation of modelled loss ratios

The requirements for validation of modelled loss ratios have been updated

As part of this year's CPG process, a key area of focus for Lloyd's will be to ensure the underwriting profit assumed within modelled loss ratios are commensurate to the changing market conditions across many classes of business.

As such, Lloyd's has enhanced its validation guidance related to modelled loss ratios this year. Lloyd's will review a risk-based sample of validation reports to ensure validation performed is in line with the updated expectations and guidance. Enhancement to the validation guidance includes a requirement for six specific types of validation for all syndicates.

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**

Bottom-up validation

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

To clarify, the six specific types of validation outlined is not an exhaustive list of validation, rather these are base-level of validation expected for all syndicates. Validators should consider all material assumptions or areas of expert judgement when considering the validation required to gain appropriate comfort around the modelled loss ratios.

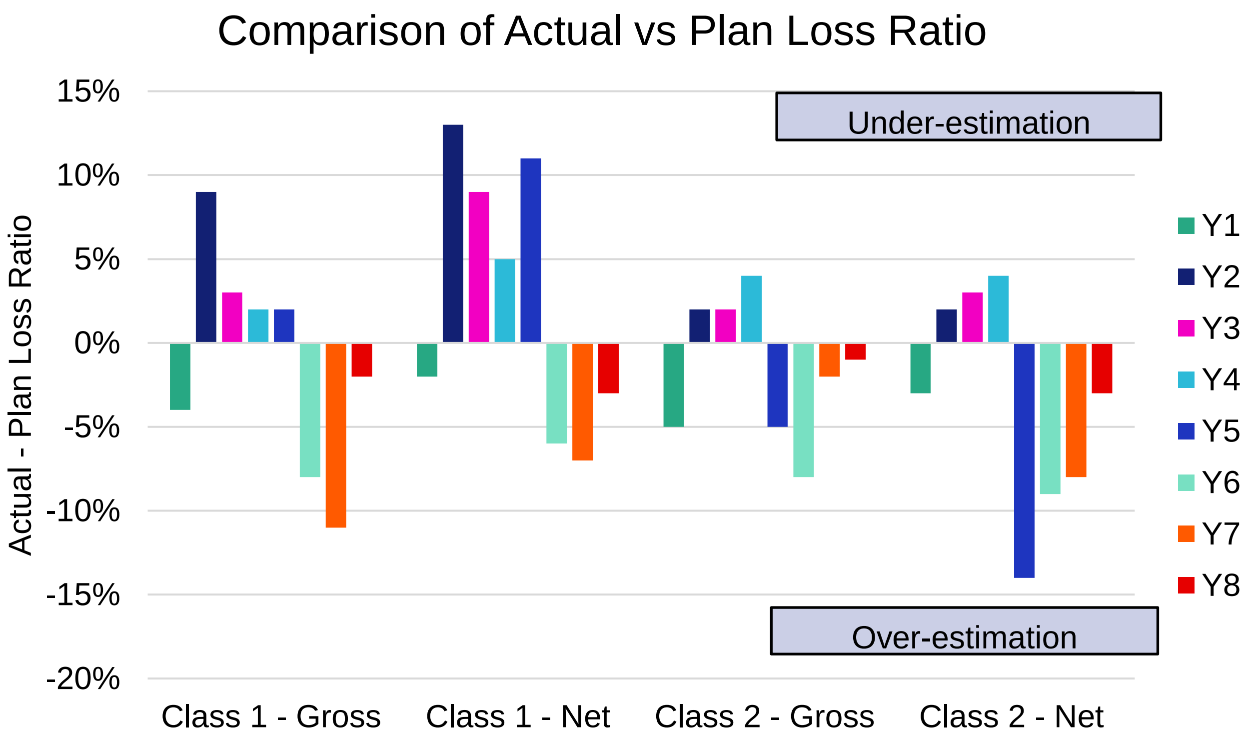
Further details on the six types of validation and more broadly expectations in terms of modelled loss ratio validation are included in Section 4.10 of the Internal Model Validation Guidance.

In the subsequent six slides, examples of output related to each of the six types of validations are included. It should be noted that any numbers in these slides are fictional and therefore should not be relied upon for benchmarking.

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

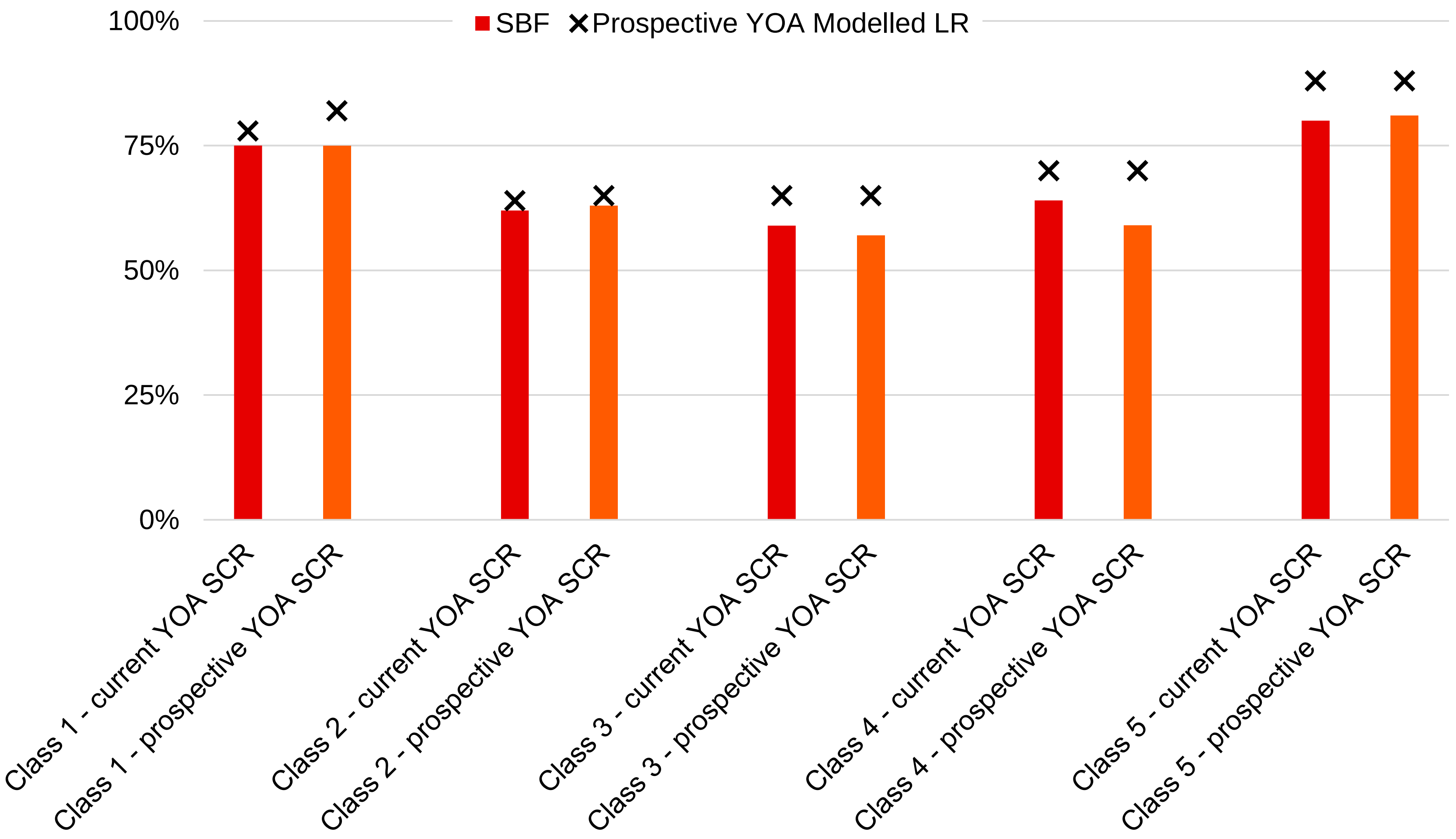


The example here compares plan loss ratios to actual loss ratios by business area. As per the Internal Model Validation Guidance, careful consideration should be given to years of account included in this analysis.

This example includes 8 years of account, but this is for illustrative purposes only. **A key consideration should be to ensure, as far as possible, a range of years of account is included that spans across different stages of the underwriting cycle**.

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



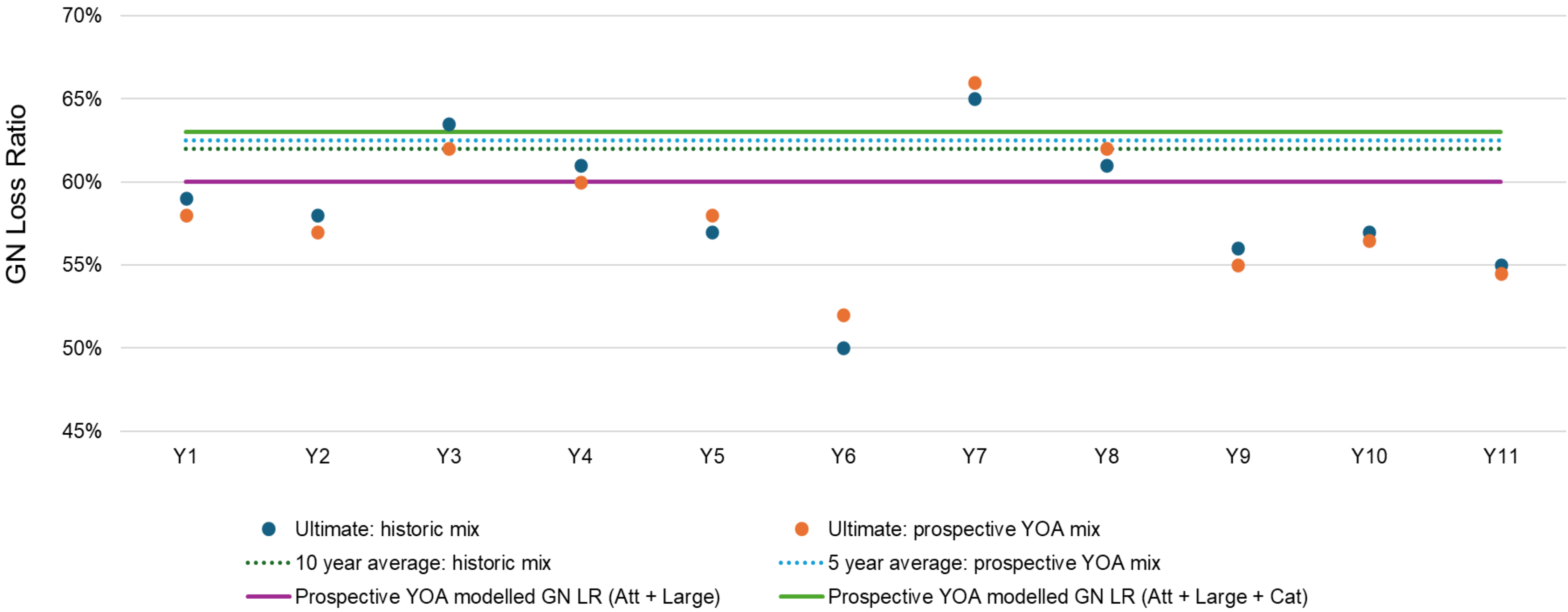
This exhibit is an example of point 2)b) under the 'Top-down validation' section of the Internal Model Validation Guidance, i.e. validation of material movements in the self-uplift.

This shows the modelled loss ratios relative to the plan loss ratios, by class of business, for this year's submission versus the previous year's submission.

The commentary should highlight rationale for material movements in the level of self-uplift, and why the validator is comfortable with this.

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



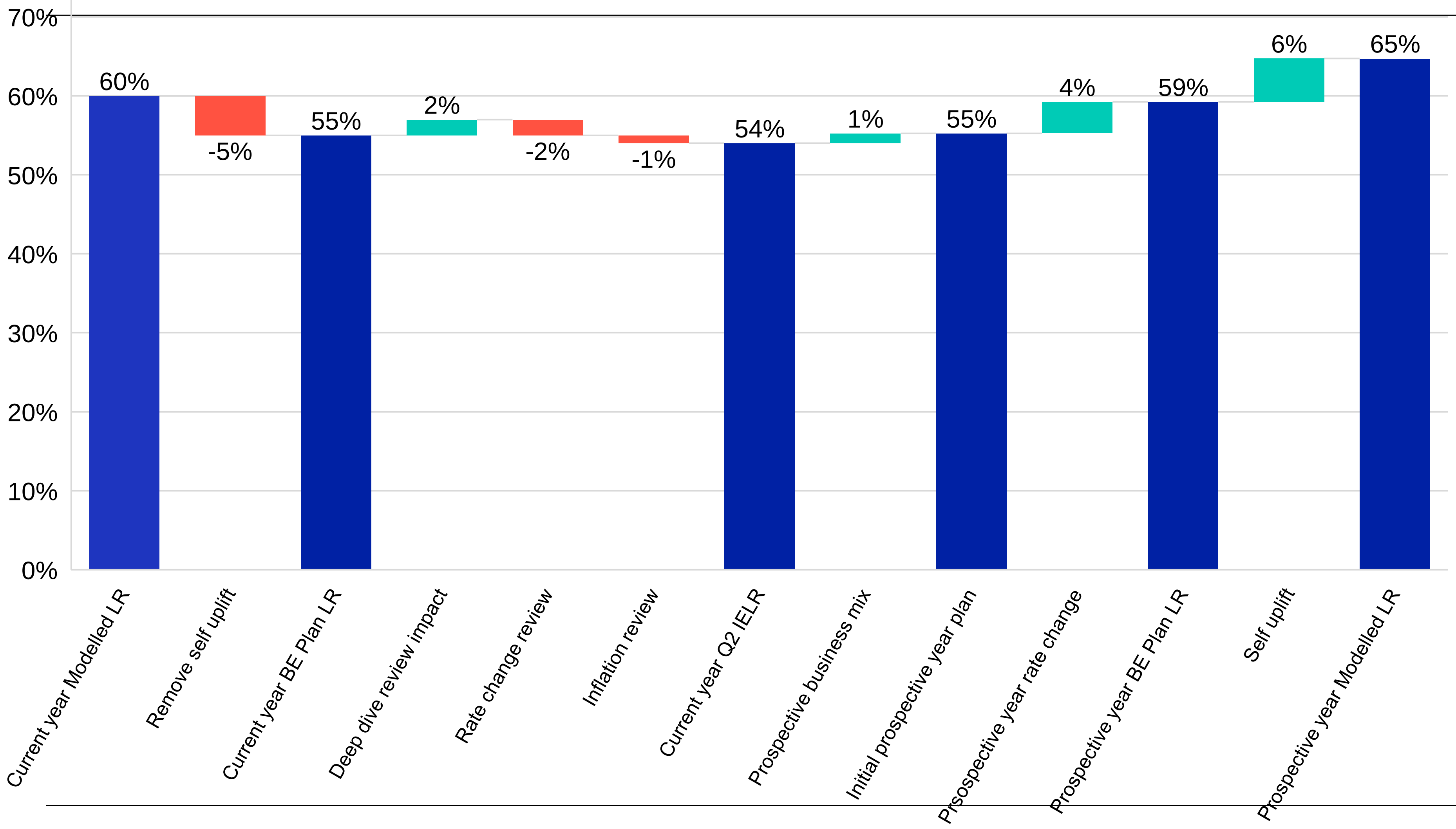
This example compares the historical loss ratios (on-levelled to the prospective year rate and inflation basis) by year of account to the prospective modelled loss ratio, including a comparison based on like-for-like business mix.

An alternative approach to conduct this validation could be a bridge from, say, a 10-year average reserving ULR to the prospective modelled loss ratio.

Commentary should include reference to appropriateness of modelled loss ratio in the context of material changes in the business mix, rating and inflationary environments and any other relevant factors.

4. Analysis of change related to modelled loss ratio since the previous year

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



This example illustrates a walk from the previous year modelled loss ratio to the current year modelled loss ratio.

The example bridge includes impacts of:

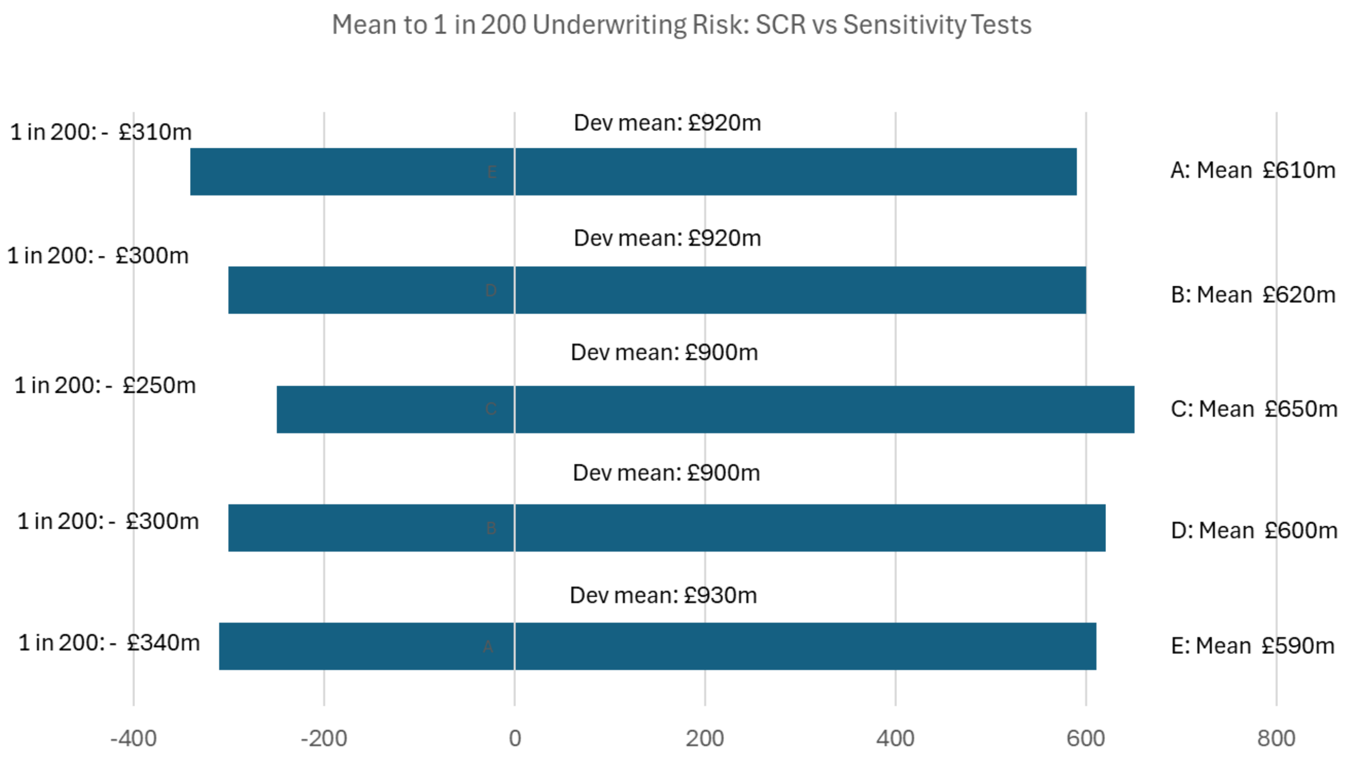
- movement in the level of self-uplift;
- the material deep-dive analysis conducted by the Actuarial Function;
- Changes in business mix
- Rating and inflationary environment change.

The list above is not exhaustive, and the appropriate components of the bridge should be determined by the validator.

The supplementary commentary would be expected to include details on each component of the bridge and why the validator is comfortable that the impacts of these are appropriate.

5. Underwriting profit related sensitivity testing

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



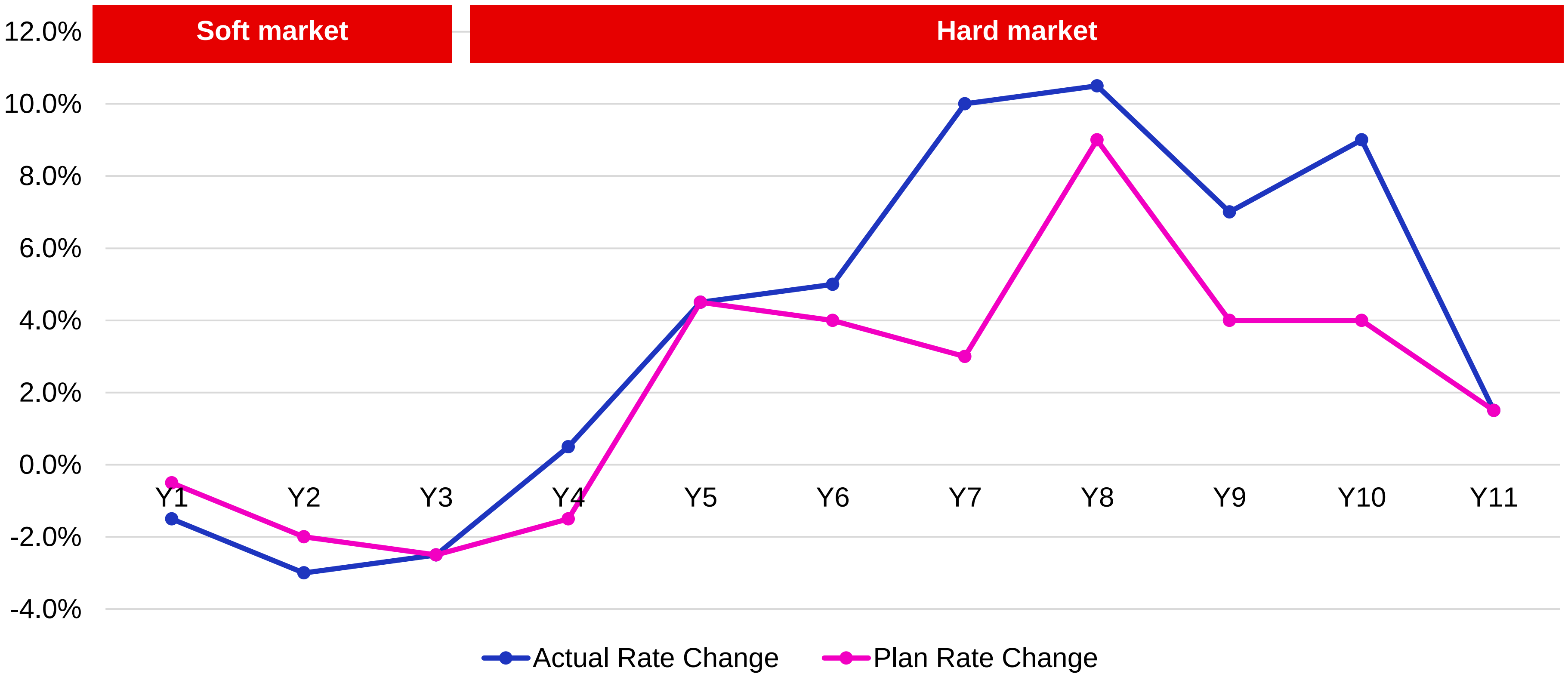
Scenario	Test	Description	Result	Commentary
A		Base case - Modelled LRs as per submitted Capital		
B	Excluding self-uplifts to modelled LR	Excludes uplifts added to SBF LR when deriving modelled LR	Immaterial decrease	Commentary on the test result, the reason and whether this is in line with expectations.
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	

This example shows how sensitive the underwriting profit (both at the mean and at the 1 in 200) is to changes to certain assumptions. This analysis should help check the impacts are in line with expectations. Furthermore, it may help identify assumptions that require further validation due to the materiality of its impact.

Key consideration as part of this analysis should be to select appropriate sensitivities, such that meaningful conclusions can be drawn. In the example above, the scenarios focus on areas where there is greatest uncertainty.

6. Validation of rate change assumptions

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



This example compares the rate change assumptions made in historical plans to those that were achieved, by year of account.

The chart includes reference to changes in the rating environment, and such that conclusions can be drawn around any systemic trends in the robustness of plan loss ratios driven by changes in the underwriting cycle.

Supplementary commentary should refer to the above.

Retrospective Modelled Loss Ratio Appropriateness test

Lloyd's will continue to retrospectively apply capital loads to syndicates that have a trend of missing their capitalised loss ratio on a normalised basis as part of the Mid-Year Capital Approval process

Identification of syndicates who fail the test

The framework flags syndicates if at least any 3 of the recent 5 YOAs (including the current YOA) show adverse loss ratio performance relative to capitalised loss ratio.

2026 YoA Capital process

- Lloyd's will perform this test based upon the data submitted to us as part of your QMB, SBF and LCR returns for the 2020 - 2025 YOAs.
- Lloyd's will run this test indicatively using 2025 Q3 data and will notify syndicates that are triggering a loading under this assessment at the time.
- The full assessment will be undertaken using 2025 Q4 data and all syndicates triggering a loading will be informed in late February/early March 2026
- Syndicates will be informed on whether further capital is required via the CPG process.

Further details of the testing framework will be provided during 2025 Q4 via the Actuarial Oversight email communication.

Technical Provisions Roll Forward

Details of Testing Framework for 2025 YE Capital and Business Planning Approval process

Technical Provisions Roll Forward test updates

There are no changes to this test since last year

Syndicates are selected for review based on how inaccurately they have projected their Q4 Balance Sheet at Q2 historically.

- Projected Q4 TPs (LCR 312) compared to Actual Q4 TPs (ASR 002 / 210) over the past 3 year-end submissions
- Consideration of both:
  average understatement over 3-year period (2022-2024)
  and
  number of year-ends where projection of Q4 TPs was understated
- Technical provisions considered including catastrophes
- Legal obligations excluded, risk margin included, undiscounted basis

Selected syndicates have been informed by Lloyd's via email during May 2025

Only the selected syndicates will go through a review process which is the same review process as last year

- ***Back-testing templates have been received from the relevant syndicates***
- ***Reviews are expected to be concluded by the 2026 YoA CPG***
- Back-testing template and loading calculation will remain the same as prior year
- Back-testing template will concentrate on non-cat
- "Self-loading" is not permitted; either a Lloyd's loading will be applied, or the expectation is that a syndicate would update the roll forward process to eliminate historical deficiencies

The loading calculation will remain unchanged from the prior year process:

(Percentage Mis-statement x Post Diversified Reserve Risk x 2) rounded to nearest £1m

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