

# 2027 YOA LCR instructions

Instructions for submission of the 2027 YOA Lloyd's Capital Return and supporting documentation

June 2026

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Abbreviation	Description
AEP	Aggregate exceedance probability
AORG	Actuarial Oversight Review Group
ASR	Annual solvency return
CPG	Capital Planning Group
CRA	Catastrophe risk appetite
ESG	Economic scenario generator
ECA	Economic capital assessment
FNL	Final net loss
FX	Foreign exchange
IMO	PRA internal model output return
KPI	Key performance indicators
LCM	Lloyd's catastrophe model
LSM	Lloyd's standard model
MCQ	Model completeness questionnaire
MDC	Market data collection
MIH	Making it happen
MLA	Model Limitation Adjustment
MRC	Market reserving and capital
Principle(s)	Principles for Doing Business at Lloyd's
QCT	Quarterly Corridor Test
QSR	Quarterly Solvency Return
RDS	Realistic disaster scenario
RI	Reinsurance
RICB	Reinsurance contract boundaries adjustment
RITC	Reinsurance to close
SAO	Statement of actuarial opinion
SBF	Syndicate Business Forecast

<b>SCR</b>	Solvency Capital Requirement
<b>SII</b>	Solvency II
<b>SIAB</b>	Syndicate in a box
<b>SMF</b>	Senior Management Function
<b>SST</b>	Sum of squares test
<b>SUK</b>	Solvency UK
<b>TPs</b>	Technical provisions
<b>ULR</b>	Ultimate loss ratio
<b>uSCR</b>	Ultimate Solvency Capital Requirement i.e. SCR on ultimate basis
<b>WWAP</b>	Worldwide all perils
<b>YOA</b>	Year of account

# 1 Purpose

This document provides instructions for the submission of the 2027 Lloyd's Capital Return (LCR) and any supporting documents required. It also provides information in respect of the structure and timing of Lloyd's review and any specific focus areas for Lloyd's for the 2027 YoA LCR.

These instructions should be considered in conjunction with the [Lloyd's Capital Guidance](#) and the Capital Principle ([Principle 7](#)) under Principles for Doing Business at Lloyd's (Principles), which sets out the fundamental expectations of syndicates related to internal modelling, with differentiated expectations for syndicates based on their expected maturity. This guidance should also be considered in conjunction with Lloyd's [Validation](#) and [Model Change](#) guidance.

## 2 Changes for 2027 YOA LCR

For 2027 YOA LCR, there are only a few changes for agents and syndicates to consider. These have been signposted below:

- Further clarity on our triage and review process, as described in Section 4.1;
- Changes to geopolitical environment considerations in the Focus Area return, as described in Section 5.5;
- Introduction of a few additional General Queries in the Focus Area return, as described in Section 5.2 with further detail within the return itself;
- Updated LCR specification which is available for review on [Lloyds.com](#), with specific changes noted in the annotated version; and
- Details on our oversight of Delegated Authorities, as noted in the [Lloyd's Market Oversight Plan 2026](#) and described further in Section 03.7.

## 3 Submission requirements and deadlines

### 3.1 Overview

The LCR captures quantitative information that, alongside the qualitative validation and documentation, allows managing agents to demonstrate that they have systems enabling them to identify, measure, manage and report risk and calculate Solvency Capital Requirements (SCRs).

A full submission is required for all syndicates with a business plan or any open year of account at the time of submission, including those in run-off or underwriting Reinsurance to Close (RITC) business only. The exception are syndicates who do not have an approved internal model. This group of syndicates, which mainly comprises of Syndicates in a Box (SIABs) and new entrants to the market going through the Making it happen (MIH) process, will set capital using the Lloyd's Standard Model (LSM) (see the [Requirements for New Entrants](#)). Syndicates planning to close all years of account at the balance sheet date and cease existence do not need to submit an LCR, as long as the receiving syndicate includes any ceded business in its LCR submission (see Section 5.8 of the [Lloyd's Capital Guidance](#)). This also holds for syndicates ceding certain years of account or classes – more details are contained in the [Legacy Reinsurance Instructions](#).

The phased approach to business plan and capital submissions will continue for the 2027 YoA LCR. As in previous years, there will be 3 submission phases, with each syndicate allocated a submission date based on its capital structure. Phase 1 includes non-aligned syndicates, with submission dates set to allow sufficient time for capital approval ahead of the auction process. Phase 2 includes aligned syndicates with Tier II assets (i.e. Letters of Credit (LOC)), scheduled earlier to accommodate the need for Tier II assets reporting deadlines, while Phase 3 includes aligned syndicates without Tier II assets. For 2027 YOA submissions, syndicates in Phase 2 will have been given the opportunity to express an interest in submitting in line with Phase 3 submission deadlines, subject to approval based on capital structure. Affected agents will have been contacted by Lloyd's Market Oversight Managers in May 2026. Further detail is provided in [Market Bulletin Y5481](#).

The table below provides the requirements for each element of capital reporting. **Deadlines are 1pm on the day each item is due.** Please note that resubmissions of documents may be required if syndicates do not adhere to the naming conventions. For data protection and security, Lloyd's uses SecureShare and Market Data Collection (MDC). Where possible, syndicate data submissions are downloaded automatically, and so manual intervention is required if our naming conventions are not followed. Uploads to MDC must be made (with large numbers of files as a zip file) in the 'Upload Supplementary Documents' section within the task window, and not within the 'All Attachments' section as documents in this area will not be automatically downloaded to Lloyd's. Uploads to SecureShare should go into the MRC Syndicate Capital Setting folder. Naming conventions are also given below, where the "free text" part of the name can be used as syndicates wish.

Item	Description	Submission	Deadline	Naming convention
<b>LCR</b>	Quantitative capital return	All forms completed in MDC	Phased submission LCR deadline	N/A
<b>Methodology document</b>	Qualitative document supporting the LCR submission	Attachment in MDC	Phased submission LCR deadline	Methodology2027_0000_free text (0000 representing the syndicate number)
<b>Analysis of change</b>	Document supporting the LCR submission	Attachment in MDC	Phased submission LCR deadline	AoC2027_0000_free text (0000 representing the syndicate number)
<b>Focus areas</b>	Spreadsheet return on <a href="http://Lloyds.com">Lloyds.com</a>	Attachment in MDC	Phased submission LCR deadline	FocusAreas2027_0000_free text (0000 representing the syndicate number)
<b>Model change template</b>	Spreadsheet return on <a href="http://Lloyds.com">Lloyds.com</a>	Attachment in MDC	Phased submission LCR deadline	MCT2027_0000_free text (0000 representing the syndicate number)
<b>Validation</b>	Documentation providing model validation	Upload to SecureShare	One week after LCR deadline	ValidationReport2027_0000_free text (0000 representing the syndicate number)
<b>New SBF no LCR template</b>	Spreadsheet return on <a href="http://Lloyds.com">Lloyds.com</a>	Upload to SecureShare	Same time as an SBF resubmission, if applicable (see Section 3.6)	NewSBFnoLCR_0000 (0000 representing the syndicate number)
<b>Annual Attestation*</b>	Document setting out SMF attestation	Upload to SecureShare	One week after LCR deadline	SMFAttestation2027_0000_free text (0000 representing the syndicate number)

\* A template for the Annual Attestation can be found in Appendix G of the [Lloyd's Capital Guidance](#). Agents should ensure this attestation includes the name, role and signature of the role holder.

In certain circumstances, syndicates should fill in the sum of squares template (available on [Lloyds.com](http://Lloyds.com)) and submit this with their LCR submission as an attachment in MDC. Further details can be found in Section 5.3.

Information on the documents/returns above can be found in Sections 5.2 and 5.9 of the [Lloyd's Capital Guidance](#). The September/October return should be submitted on the basis of the expected business outcome at 1<sup>st</sup> January 2027. More information about the basis of reporting of the LCR return can also be found in Section 4.2 of the [Lloyd's Capital Guidance](#).

The final SCR submitted to Lloyd's must be approved by the Board or an appropriately authorised committee depending on the syndicate's governance arrangements, and in line with the Governance, Risk Management and

Reporting Principle (Principle 11). Board members should ensure they are aware of all issues raised during the review process and recognise that following Lloyd’s review of the SCR loadings might be applied.

### 3.2 Lloyd’s Capital Guidance

The [Lloyd's Capital Guidance](#) for 2027 YOA (issued in April 2026), alongside these instructions, are the requirements in force for the 2027 YoA LCR submissions.

### 3.3 Focus Area Return

Lloyd’s will continue to use the focus areas return to provide advance notice to managing agents of specific areas of review focus. Lloyd’s has published the Focus Area return in the Templates and Scoring Sheets section of the [Internal Model SCR](#) page on Lloyds.com.

Syndicates will need to download an Excel version of their submitted LCR and link this to their Focus Areas return, as several of the questions in the focus areas return rely on latest figures in the LCR. Agents will be able to do this using the “data - edit links” functionality in excel to ensure that the correct reporting figures in the LCR are pulled through into the focus areas return.

The 2027 YoA LCR Focus Areas return requests responses across several areas, including:

Area	Tab	Which syndicates need to complete this	LCR Instructions Reference
<b>LCR back-test, feedback and loadings</b>	General queries, Q1 – Q3	All syndicates	Section 5.2
<b>LIM data request</b>	General queries, Q4	All syndicates	Section 5.2
<b>Model Limitation Adjustments (MLAs)</b>	General queries, Q5 – Q6	All syndicates	Section 5.2
<b>Capital Model Platform</b>	General queries, Q7	All syndicates	Section 5.2
<b>Reinsurance Concentration and Materiality</b>	General queries, Q8	All syndicates	Section 5.2
<b>Conflicts of interest for capital allocation by YoA</b>	General queries, Q9	Only syndicates that have submitted their own capital allocation by year of account in LCR form 310	Section 5.2
<b>Expressions of interest in Partial Internal Models</b>	General queries, Q10	All syndicates	Section 5.2
<b>Outputs of Internal Model stability testing</b>	General queries, Q11	All syndicates	Section 5.2
<b>Model loss ratios</b>	Model LR	All syndicates	Section 5.4
<b>Geopolitical environment</b>	Geopolitical	Only syndicates that breach any of our requirements for the materiality of geopolitical risk	Section 5.5
<b>Market risk</b>	Market risk	Only syndicates that breach any of our requirements for changes in negative market risk	Section 5.6

More information on Focus Area Returns can be found in section 5.

### 3.4 Foreign exchange

The LCR must be reported in converted sterling. Submissions made prior to year-end must use the published prior 30 June rates which will be published via a [Market Bulletin](#) in early July. Submissions made post year-end must use the 31 December rates. As part of the capital setting process the final agreed SCRs will be converted to the latest quarter rates for the quarterly corridor tests and June 2027 Coming into Line (CIL). This means that the SCR that agents submit in September and their approved SCR in the Capital Planning Group (CPG) letter might be different due to the foreign exchange (FX) conversion. The Quarterly Corridor Test (QCT) process is described in Section 5.5 of the [Lloyd's Capital Guidance](#).

The managing agent may prepare its underlying model in any currency and present figures in the methodology document in US dollars where that is the dominant currency of exposure. All figures in the LCR submission must be reported in converted sterling.

**The syndicate should make clear what currency and units are used in its reporting at any point. The analysis of change (AOC) must include at least an executive summary covering key movements from the previous submission in pound sterling.** This should include at least headline figures of high-level risk category figures that reconcile to figures reported in LCR form 309, plus any other key material metrics appropriate for that submission, such as the impact of FX conversion on model changes reported in the model change template (MCT).

### 3.5 Analysis of Change

In line with last year, for 2027 YoA LCR, the requirements for LCR Form 600 submissions align with Solvency UK requirements.

As a reminder, the PRA will accept LCR Form 600 returns submitted to Lloyd's, eliminating the need for syndicates to make separate AoC.01 returns. Syndicates must provide detailed comments in LCR Form 600 for *all* key metrics, explaining any changes or stability, due to the removal of the materiality trigger. These comments should be sufficient on their own to explain the changes observed, though in some cases, a summary comment with specific section references to the accompanying AoC document may be necessary. Tips for completing Form 600 can be found in Appendix 1. For this year, minor updates have been made to Form 600 to ensure it captures all key risk and stress versus exposure metrics, and alerts agents to any counterintuitive movements. The 2027 YoA LCR Specification, including an example of the updated Form 600, is available on [Internal Model SCR - Lloyd's](#). The live version in MDC will be released in early July.

More information on this can be found in Section 5.9.2 of the [Lloyd's Capital Guidance](#) and Section 7 of this document.

Syndicates are reminded that supporting Analysis of Change documentation should include an executive summary highlighting the movements by risk category in £GBP, consistent with LCR form 600. A high-level £GBP summary will allow Lloyd's to unpick FX impacts and reduces the scope for follow-up with syndicates.

Further, when Lloyd's reviews the supporting Analysis of Change documentation compared to movements in the MCT and between LCRs in £GBP, it can be difficult to bridge between the two due to the impact of changes in currency exchange rates over the year. For example, the impact of an MCT change could be different in terms of magnitude or direction compared to what is reported in \$USD in the AOC. Syndicates must check the consistency of information reported in the Analysis of Change compared to the £GBP information reported in Lloyd's returns.

### 3.6 LCR Resubmissions

#### ***Non-Natural Catastrophe (NNC) considerations as part of LCR resubmissions***

As part of 2026 business planning, the Lloyd's Exposure Management team required syndicates to submit a new Non-Natural Catastrophe (NNC) Materiality Return containing a gross view of syndicate NNC 1:200, consistent with the view reported on a net basis within Form 313 of the LCR. Collecting this data has allowed Lloyd's to develop a new risk-based approach to defining NNC materiality and Expected Maturity as part of Lloyd's Principles Based Oversight for NNC exposure management (Principle 2b). For 2027 YOA, this approach is being run in tandem with the existing GWP-based approach, with a view to fully moving to this new risk-based approach for 2028 YOA.

As a result, if a syndicate resubmits their LCR, a new copy of the NNC Materiality return must also be submitted to the Catastrophe Risk Returns CPG area of SecureShare. This is applicable for the foreseeable future. Syndicates should also make their Lloyd's Exposure Management Manager aware of the resubmission.

#### ***SBF resubmissions during the CPG period***

If a Syndicate Business Forecast (SBF) resubmission is required during the review process within the usual CPG timescales, the managing agent must assess the capital impact of this change. A resubmission of the LCR return may be required depending on impact, as set out in Section 5.3 of the [Lloyd's Capital Guidance](#):

**Downwards capital movement:**

- Less than 10%: not required, the managing agent has the option to resubmit an LCR return. Lloyd's will not adjust capital downwards without a full resubmission.
- Greater than 10%: liaise with your Capital Point of Contact to determine whether a full resubmission is required.

**Upwards capital movement:**

- Less than 5%: No update required.
- Between 5 and 10%: Managing agents can resubmit, or a high-level adjustment can be applied by Lloyd's instead.
- Greater than 10%: Resubmission required.

In exceptional circumstances, Lloyd's may restrict LCR resubmissions if the timing of it does not allow us to complete our review within the required timeframe for CPG. This may mean we ask agents to delay an LCR resubmission until after CPG and up until January 2027, in line with the Q1 QCT process.

In some cases, syndicates will be required to submit additional information following an SBF resubmission. Lloyd's review of the additional information may lead to an LCR resubmission. This is outlined in more detail in the next section.

Additional information request for SBF resubmissions with a plan loss ratio increase

There may be cases where syndicates resubmit an SBF with a material change in plan loss ratios that do not trigger an LCR resubmission. For the 2027 YoA LCR, Lloyd's requires these syndicates to provide additional quantitative information from the capital model. This is to manage the risk of plan resubmissions without a subsequent change to syndicate capital requirement, leading to market level capital becoming understated.

Lloyd's definition of material in this case is where the total net net loss ratio (net of acquisition costs and net of reinsurance) has increased by at least 1% (in absolute terms).

The additional information should be provided within two working days of the SBF resubmission in the "New SBF no LCR" template via SecureShare. The template can be found on the Lloyd's website in the [Internal Model SCR](#) section, under templates and scoring sheets. The following information will be collected:

- The impact of the change on uSCR and one-year SCR
- Updated plan and model loss ratios for the 2027 YOA, which take into account the increase in plan loss ratio in the resubmitted SBF:
  - These should be stated at an overall syndicate level and on a net of reinsurance, net of acquisition costs basis i.e. on the same basis as is reported in the total row in LCR form 561, table 1, columns F and G.
  - If the plan loss ratio has increased above the model loss ratio, syndicates are expected to explain and justify this, with reference to Lloyd's requirement that the model loss ratio must be at least as high as the plan loss ratio.
  - If there is a decrease in self-uplift since the 2026 YoA LCR submission of more than 1%pt, syndicates must provide rationale for this and explain why the model loss ratio remains appropriate.

Based on Lloyd's review of information in the template, there may be cases where Lloyd's will apply a load or a capital adjustment. This is where the impact of the SBF resubmission, along with the potential impact of any deficiency in the model loss ratio on capital, exceeds 5% of capital. Lloyd's will contact these syndicates to let them know if they are affected by this shortly after the template has been submitted to and reviewed by Lloyd's.

Where a capital adjustment is applied by Lloyd's during the short timeframes in the CPG window, we note that this would be a temporary adjustment only as the adjustment will be incorporated in a subsequent submission. The affected syndicates will also be required to complete a full LCR resubmission in MDC to match the new SBF by 1 November 2026. The purpose of this is to provide an up-to-date start point for analyses of change in future capital reviews.

The LCR resubmission should be such that the new uSCR and one-year SCR numbers are consistent with the SCR reported to Lloyd's in the "New SBF but no LCR" template. It should reflect data as at Q2 wherever relevant.

For example, the Q2 position should be reported for the RICB, this will later be updated in the standard QCT process.

### **SBF resubmissions outside the CPG period**

All managing agents are required to consider the impact of emerging information on the syndicate capital requirement on an ongoing basis and notify Lloyd's if this causes a capital movement of greater than 10%. This includes, but not limited to, plan reforecasts.

## **3.7 Additional Information**

### **Risk Margin**

Syndicates should continue to complete the LCR form using a 4% Cost of Capital when reporting the risk margin i.e. consistent with Solvency submissions. This will then be converted via a formulaic adjustment in LCR form 309 to an equivalent risk margin on 6% Cost of Capital to ensure capital setting basis remains consistent.

### **YOA allocation split for members**

For 2027 YoA LCR, Lloyd's continues to collect YOA allocation data via MDC as part of the LCR submission – this will better reflect each syndicate's risk profile. We highlight that this is *entirely optional*. Where a syndicate has not provided this information, Lloyd's own allocation will be used.

Given the potential materiality of the YOA allocation on member capital, agents and syndicates should ensure there is sufficiently robust governance in place, particularly around justification of the methodology and assumptions used. Agents and syndicates are encouraged to consider the potential impact of this and involve the CFO in any decisions, where for example, a change in methodology could result in a large shift of capital allocation between members.

In line with the previous year, agents and syndicates wishing to submit this data will be required to declare any conflicts of interest and attest to appropriately managing conflicts, if any. This will be collected in the Focus Area return, under Q9 of the General Queries.

Further information on this, including types of conflicts of interests that should be considered, can be found in Section 8.

Details on the key process points for the setting and modelling of member capital for the 2027 YoA will be set out in a Market Bulletin and an updated member capital user manual, which will be available on the [Member Modelling Software](#) page (available on [Lloyds.com](#)), by early July. The bulletin will also cover the Quarterly Corridor Test (QCT) exercise and confirm the timetable through 2026/27.

### **Delegated Authorities**

In the 2026 Market Oversight Plan, Lloyd's highlighted oversight of Delegated Authorities as one of our priorities. In particular, growth in this distribution channel has increasingly come from cross-class portfolio solutions, such as those via broker facilities or MGAs. Lloyd's oversight focus for these is primarily from an underwriting perspective and holistic view of firm's ability to write and manage delegated business, but there are implications to capital requirements as well. Syndicates should ensure that the particular risks associated with these distribution channels are factored into the calibration of their internal models. Validators should also consider whether these elements need to be included in scope of any validation testing, particularly where these form a material component of a syndicate's business plan. These risks include, but are not limited to:

- The quality and volume of data received may be of lower granularity compared to other data sources, and there may be timing lags for data received. All of these factors may limit the ability to use data to set credible parameters, and/or to monitor performance deterioration and for management to react.
- Heightened risk of aggregation of risks, both within the cross-class solution, and with other classes written by the syndicate
- Lower visibility and control on risk selection and exposure management, which heightens the risk of anti-selection of business placed into these arrangements.

For the 2027 LCR submissions, there are no additional reporting requirements for agents related to their modelling of delegated authority business (including with respect to portfolio solutions), for example in the Focus

Areas return or otherwise. However, Lloyd's may perform targeted oversight on the modelling of portfolio solutions business for syndicates with material exposure to such arrangements, and therefore agents with material exposures to this should ensure that their submitted documentation (e.g. Analysis of Change and/or Validation Report) describes how they have gotten comfort that their current modelling approach and calibration allows for the particular risks associated with these facilities, as would be the expectation for an LCR submission in any year.

Attention is also drawn to section 10.3.5.3 of Lloyd's Capital Guidance, regarding the modelling of multi-year policies. Syndicates should ensure they have considered whether there are any contractual clauses in any of their delegated authority arrangements that extend the effective exposure period, and model risk on the minimum contractual exposure - i.e. until at least the earliest point at which the contract can be cancelled.

## 4 Lloyd's review process

### 4.1 Capital review

The first step of the capital review process after LCR submission is to triage syndicates into review categories. Syndicates will either enter the Capital Fast Track route or be subject to a more detailed Targeted review. Syndicates and agents will be informed of their review status in line with the timescales set out later in this section, under *Initial completeness checks*.

All review levels will consider:

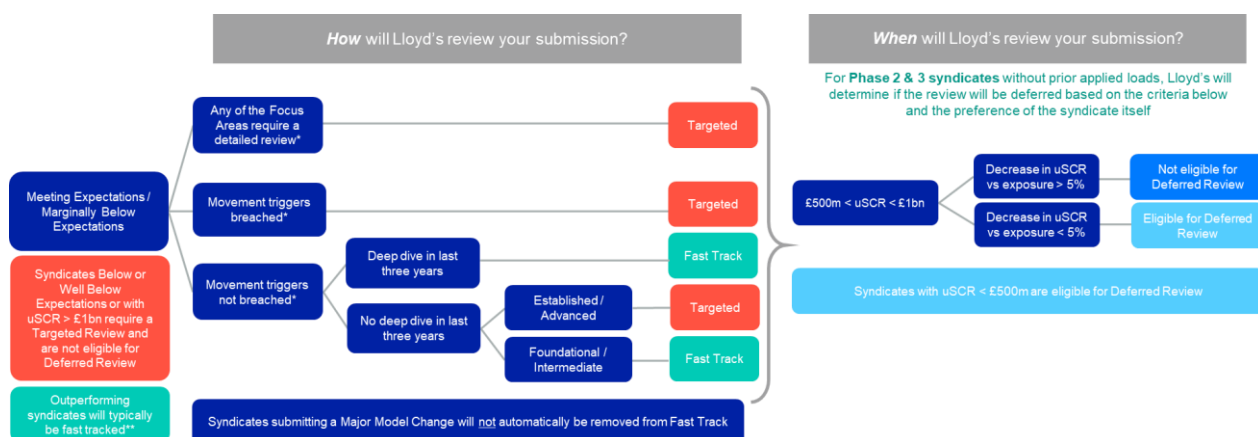
- Minimum tests results mentioned in Section 5.3,
- Responses to previous loadings and feedback – in particular for syndicates not 'meeting expectations' for the Capital Principle, and
- Focus Area template responses, where relevant.

Fast Track reviews focus on high-level movements in risk type and risk vs exposure metrics. In general, requests for further information from the Fast Track syndicates will be limited.

Targeted reviews will focus on specific areas of the capital submission which require further review. This could include specific risk type(s) as identified by movements in key risk vs exposure metrics, or a Focus Area i.e. model loss ratio, geopolitical risk, market risk, as required. The specific areas to be targeted will be communicated within the Initial Completeness Checks email. These reviews are more likely to involve follow-up questions and requests for further information in relation to the Targeted area(s).

The process whereby the capital reviews for some aligned syndicates can be deferred will remain in place for the 2027 YoA LCR.

A diagram of the full triage process is included below.



\* Movement triggers for key risk-to-exposure ratios are noted in a table later in this section.

\*\* Syndicates can confirm their overall rating with their Lloyd's Market Oversight Manager.

## How will Lloyd's review your LCR submission

### Fast Track / Targeted

Outperforming syndicates will typically be fast-tracked, even if they marginally breach the Fast Track risk-to-exposure metrics (see below). However, in exceptional circumstances, Lloyd's will remove any outperforming syndicate from Fast Track if we identify reasons to perform a more detailed, targeted review of its capital submission.

Syndicates with uSCR greater than £1bn will not be considered for a Fast Track review.

For all other syndicates, these will be considered for a Fast Track review if the following criteria are met:

- **Principle dimension rating:** The Principle dimension rating is 'Meeting Expectations' or 'Marginally Below Expectations'.
- **Key risk-to-exposure metrics:** The risk-to-exposure metrics move within the tolerances set out by Lloyd's. The metrics to be used for the 2027 YoA remain unchanged from last year and are outlined later in this section.
- **Focus Areas:** A detailed review of any of the Focus Areas is not required, as identified by the following:
  - *Model loss ratio:* syndicate does not meet the criteria for a detailed review of the model loss ratio, as described later in this section.
  - *Geopolitical risk:* syndicate does not meet the criteria for completing the Geopolitical Risk tab in the Focus Area return. The criteria is set out in Question 0 of the same tab and described in Section 5.5.
  - *Market risk:* syndicate does not meet the criteria for completing the Market Risk tab in the Focus Area return. The criteria is set out in Question 0 of the same tab and described in Section 5.6.

If the criteria above are satisfied, a syndicate will be eligible for a Fast Track review. To be accepted for a Fast Track review, Lloyd's considers two further factors which are the depth of recent reviews and the expected maturity for the Capital Principle:

- If the syndicate has been subject to a Deep Dive or an Internal Model Approval Process (IMAP) review (to transition from LSM to an internal model for setting capital) in the last three years, the syndicate enters Fast Track, regardless of materiality; or
- If the syndicate has not been subject to a Deep Dive or IMAP review in the last three years, the syndicate enters Fast Track if the expected maturity is Foundational or Intermediate. Syndicates with higher maturities (i.e. larger ultimate SCRs (uSCR)) in this bucket will not enter Fast Track.

The Fast Tracking of a MMC will depend on factors such as the syndicate's Expected Maturity and Capital Principle dimension rating; nature and complexity of the MMC; and when Lloyd's last did a detailed review of the syndicate's internal model. If a syndicate's LCR qualifies for Fast Track review but its MMC does not, Lloyd's may defer review of the MMC to after CPG. In this case the syndicate's LCR will be Fast Tracked in September and the MMC will be reviewed in detail later.

The process is intended to make it clear to syndicates how their review status is determined. However, Lloyd's will consider other relevant information (for example from other oversight teams) and apply judgement when determining the final status. This may result in qualitative overrides being applied to the status mechanically implied by the flow diagram. This could be to take a syndicate off Fast Track status due to a potential oversight issue but equally to put a syndicate on to Fast Track status when it doesn't meet all of the required criteria. In general, Lloyd's aims to minimise the use of overrides to the standard process. \*

For Fast Track status, the key risk-to-exposure metrics will be reviewed with the initial LCR submission and with any subsequent LCR submissions (for example triggered by a SBF resubmission). If a syndicate qualified for Fast Track with the initial LCR submission, but the subsequent LCR resubmission led to the key metrics changing materially, the syndicate may be removed from Fast Track review.

\*The capital dimension rating used by Lloyd's to calculate Fast Track status will be based on the expected maturity calculated from the 2027 YoA uSCR. For further information about this refer to Section 4.4.

## Triggers for Fast Track / Targeted reviews

Market Reserving and Capital (MRC) will carry out an initial assessment of Focus Area responses and movements in key risk-to-exposure metrics, to determine whether these trigger the requirement for a Targeted review.

### Focus Area responses

Review of a syndicate's submission may be subject to a Targeted review based on responses to any of the Focus Areas. For each of the Focus Areas this year, the criteria for being in scope for a Fast Track review are given, or signposted, below:

Focus Area	Criteria for Fast Track
<b>Model loss ratio</b>	<ul style="list-style-type: none"> <li>• Syndicate does not fail the model loss ratio minimum test requirements;</li> <li>• Syndicate does not have prior Red-rated feedback or a loading related to model loss ratio;</li> <li>• Syndicate was not flagged as part of the Technical Provisions Roll Forward Test as set out in Section 4.2 of this document;</li> <li>• Syndicate does not flag based on historical performance of actual loss ratio relative to planned loss ratio over the last 10 years;</li> <li>• Syndicate does not flag based on historical performance of actual RARC relative to planned RARC over the last 10 years; and</li> <li>• Assessment of the year-on-year movement in the prospective model loss ratio aligns with the movement implied by the prospective RARC.</li> </ul>
<b>Geopolitical risk</b>	<ul style="list-style-type: none"> <li>• Syndicate does not meet the criteria for completing the Geopolitical Risk tab in the Focus Area return. The criteria is set out in Question 0 of the same tab and described in Section 5.5.</li> <li>• In some instances, where the criteria for completing the Geopolitical Risk tab in the Focus Area return, is met, syndicates may still be eligible for Fast Track, based on other criteria including all available data at the time. This will be confirmed in the Initial Completeness Checks communications.</li> </ul>
<b>Market risk</b>	<ul style="list-style-type: none"> <li>• Syndicate does not meet the criteria for completing the Market Risk tab in the Focus Area return. The criteria is set out in Question 0 of the same tab and described in Section 5.6.</li> </ul>

### Movement triggers

Movements in the key risk-to-exposure metrics, relative to the most recent LCR submission (which could be a MMC, Deep Dive, IMAP submission or the last LCR review) are assessed to determine whether these exceed pre-defined thresholds. The principles used in determining the most appropriate metrics are:

- The stress amount (i.e. 99.5th percentile less mean) is the most appropriate risk measure to represent change in view of risk.
- Measures involving claims (rather than premium) are most appropriate to measure change in view of underlying risk.

Risk-to-exposure metrics are laid out below. Exact definitions from items from LCR forms are contained in Section 7.

#	Metric	Eligibility requirement for Fast Track
<b>S1</b>	uSCR stress to exposure measure	This ratio must not reduce by more than 10%

#	Metric	Eligibility requirement for Fast Track
S2	Ultimate premium risk stress to exposure measure	This ratio must not reduce by more than 20%
S3	Ultimate reserve risk stress to exposure measure	This ratio must not reduce by more than 20%
S4	One-year SCR stress to uSCR stress	This ratio must not reduce by more than 20%

## When will Lloyd's review your LCR submission

In line with prior years, a three-phase approach to LCR submissions applies as follows:

- Phase 1 applies to non-aligned syndicates, with submission dates set to allow sufficient time for capital approval ahead of the auction process.
- Phase 2 applies to aligned syndicates with Letters of Credit (LOC), with earlier submission dates to accommodate the requirement for Tier 2 asset level reporting.
- Phase 3 applies to aligned syndicates without LOC.

For aligned syndicates submitting in Phases 2 and 3, the deferred capital review approach continues to apply in the same manner as last year.

### Aligned syndicates: deferred capital review

For the purposes of phasing LCR submissions, aligned syndicates are defined as follows:

- Syndicates that have one member; or
- Syndicates that have multiple members, but members are dedicated to that syndicate; and
- For a syndicate to be aligned, the member does not necessarily need to have common ownership with the Managing Agent.

This corresponds directly to syndicates that are submitting in Phases 2 & 3. These syndicates will have the option for a deferred capital review, subject to the qualifying criteria set out below.

In the cases where capital reviews are deferred, Lloyd's will approve the LCR submission without review during CPG. Instead, reviews will be undertaken after usual CPG timescales and feedback will be provided by 31 January 2027, to allow sufficient time for syndicates to respond ahead of the March resubmission deadline.

Syndicates should note:

- Eligibility for deferral of capital review is independent of the syndicate's Fast Track / Targeted review status. This means, syndicates who are on Fast Track could also be eligible for deferred review.
- Loadings could still be applied at the time of the deferred review.

In line with recent years, aligned syndicates may explicitly choose from the following three options, with respect to deferred capital review, in the SBD KPIs template:

- Opt-in: The capital review would be deferred, subject to eligibility criteria, unless exceptional circumstances apply;
- Opt-out: The capital review would not be deferred, and an outcome would be provided within the usual CPG timescales;
- 'I don't mind': Lloyd's would have the discretion to either carry out the review during the usual CPG timescales or defer the capital review.

Syndicates submitting in Phases 2 and 3 *will not be eligible* for a deferred review if any of the following conditions apply:

- Capital is set using the Lloyd's Standard Model (LSM);
- The Capital Principle dimension rating is either 'Below Expectations' or 'Well Below Expectations';
- There is an applied loading from 2026 YoA LCR that has not been resolved;
- The uSCR is greater than £1 billion;

- The uSCR is greater than £500 million *and* there is a decrease in uSCR versus exposure of more than 5%;
- There are governance concerns, existing loadings, or material concerns from other Lloyd's teams (e.g., ORI, EM), either in relation to the submission or prior to the 2027 YoA LCR submission;
- The syndicate fails to meet the Model Loss Ratio minimum floor test at the overall syndicate level (on either gross or net basis);
- The syndicate is flagged for additional oversight on the prospective year of account model loss ratio selection based on historical model loss ratio selections and/or plan loss ratios relative to actual loss ratio performance. Lloyd's will assess this based on the syndicate's historical SBF, RARC and TPD/RRA reserving return data. The criteria is the same as for syndicates who will have a targeted model loss ratio review as highlighted in the Focus Area – Model Loss Ratio in section 4.1 of this document;
- The syndicate requests a Franchise Guideline dispensation.

When the capital review is deferred, related reviews by other Lloyd's teams, especially those impacting uSCR (like Outwards Reinsurance), will also be deferred. However, if there are significant material concerns from other Lloyd's teams, the capital review will not be deferred.

It is intended for it to be clear to syndicates whether they meet the qualifying criteria for review of their capital submission to be eligible for deferral. However, Lloyd's will apply judgement when determining the final status and communicate this accordingly. It is expected that any overrides to the outcome implied by the criteria will only be in exceptional circumstances, for example, a significant change in risk profile.

If a syndicate is required to make a LCR resubmission, the resubmission will be reassessed for the above criteria. If a syndicate qualified for deferred review with the initial LCR submission, but if for example, the subsequent LCR resubmission led to the uSCR versus exposure metric changing materially, the syndicate may be removed from the deferred review process. The exact circumstances of the LCR resubmission will be considered by Lloyd's when determining whether a syndicate remains eligible for a deferred review.

## Communications

### Initial Completeness Checks

After the triaging process for review status and deferred reviews where relevant, Lloyd's will carry out initial completeness checks to highlight to the managing agent early-on if the submission does not meet Lloyd's requirements. The outcome of these checks will be communicated to the managing agent within 10 working days of the LCR submission and will cover:

- Any missing documents, or lack of adequate information in those documents, from the submission against the list above in Section 3.1.
- Data inconsistencies between returns, for example the consistency of risk margin and Reinsurance Contract Boundaries (RICB) between LCR and Quarterly Solvency Return (QSR), as well as the consistency of premium, claims and profit between LCR and SBF.
- Where relevant, queries relating to YOA allocation split for members.
- Confirmation of the level of review i.e., Fast Track or Targeted review and whether the review will be deferred, where relevant.
- For deferred reviews undertaken outside the standard CPG timescales, an indication of the expected review timing.

### Communication of review outcomes

Submissions are reviewed by the relevant oversight teams, with review outcomes presented to and challenged by the Actuarial Oversight Review Group (AORG), which provides technical oversight of review conclusions. Final review outcomes are subject to approval by the Capital and Planning Group (CPG).

Following AORG, Capital points of contact will inform the managing agent of the recommendation being put forward to the CPG. Following the CPG's decision, managing agent's will be made aware of the outcome via the

CPG letter issued by the Market Oversight Managers. A Capital feedback letter will typically be issued within two weeks of the CPG letter.

The feedback letter covers feedback and loadings arising from the Capital and Reserving teams only and does not include any feedback or loadings from Risk Aggregation. Any potential loadings from Risk Aggregation will be communicated separately. The feedback letter will also reflect any changes to Principle ratings for Principles 6 or 7 resulting from Lloyd's review. Feedback will continue to be provided on a RAG-rated<sup>1</sup> basis.

For aligned syndicates whose capital submission reviews have been deferred, feedback letters will be issued by the end of January 2027.

Further information on the communication of loadings is provided in Section 4.3.

## 4.2 Reserving Tests of Uncertainty review

The following components are reviewed as part of the reserving tests of uncertainty:

- Prospective year model loss ratio
- Model opening reserves (balance sheet projection)
- Earned margin and unearned profit tests.

Beyond information included in the LCR instructions, syndicates should consider the [Reserving Tests of Uncertainty](#) published on Lloyds.com.

### Prospective year model loss ratio

Prospective year model loss ratio is a key assumption in the premium risk component of the SCR. Lloyd's will review this assumption for all syndicates via the Focus Area return. For a risk-based selection of syndicates Lloyd's will also review the Validation report in respect of the model loss ratio. Further details for both of these are included in Section 5.4. Additionally, the Retrospective capital loading test will continue to be conducted, as described below.

#### Retrospective capital loading

Considering market conditions, there will be a continued focus this year on the performance of the current underwriting year and the appropriateness of the capital as submitted. Where there is a material deviation of the actual experience as reported at year-end 2026 compared to the model loss ratio this will receive greater oversight from Lloyd's and may result in a retrospective adjustment to capital after CPG in September/October 2026. Further details of this process, in particular the specific timelines around the testing, for 2027 will be provided during Q4 2026 via the Actuarial Oversight quarterly update email communication, in line with previous years.

### Model opening reserves

Lloyd's expects that managing agents will have robust processes in place for performing the roll-forward of their latest audited technical provisions data when obtaining the T0 balance sheet. In particular, managing agents are expected to consider the actual versus expected balance sheet positions and to correct their methodology where systematic under-/over-statement is identified, particularly where this is found to be material.

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<sup>1</sup>Red: If not addressed within the required timeframes, this will lead to a loading and/or a downgrade of the capital principle, which could in turn have an impact on your overall syndicate categorisation. A response to this feedback should be submitted to Lloyd's by the specified deadline.

Amber: If not addressed within the required timeframes, this could lead to a loading and/or a downgrade of the capital principle. Unless otherwise specified, the syndicate is not required to provide a response to this feedback to Lloyd's. Instead, the syndicate should ensure appropriate actions have been taken. In addition, independent validation should confirm that the feedback has been addressed, or that there is an appropriate plan in place to address it.

Green: This is developmental feedback and no response is required by Lloyd's.

As part of the 2027 SCR, Lloyd's has asked a subset of the market to fill in the roll-forward template for their syndicate for the last three roll-forward exercises. This is based on a syndicate's historical ability to accurately project a Q4 balance sheet at Q2, over a 3-year period.

If methodology changes are being made to the roll-forward process, the managing agent is expected to clearly highlight the changes made within their modelling documentation submitted to Lloyd's. The managing agent is also expected to back-test (re-forecast) any changes in methodology against the last three years of historical ASR returns to evidence the process improvements being made. The "impact" column within the roll-forward template gives managing agents the opportunity to explain any gaps in historical actual versus expected analysis that they believe should be credited as part of the test. These will be reviewed on a case-by-case basis by the Syndicate Reserving team.

Any remaining under-statement that falls outside of the thresholds set for this test will be loaded to avoid understating the LCR. The percentage load is calculated using the average residual for the last three roll-forward exercises.

Syndicates are expected to provide the validation conducted on the opening balance sheet at an overall level as well as on the following component parts: reserves, future premiums and expenses. The objective in this case is to provide a summary of the analysis undertaken/testing performed to ensure appropriateness of opening balance sheet e.g. back-testing to ensure consideration is given to the actual versus expected opening balance sheet positions of historical years (or by component part). The validator should consider whether the approach used to roll-forward the balance sheet to the year-end is reasonable and where a change in approach has been taken consider the appropriateness of that change.

### **Earned margin and profit in unearned premium**

For the 2027 YoA process, Lloyd's will continue to only perform the earned margin and unearned profit tests for the March reassessed capital, based on the Q4 audited Annual Solvency Return (ASR). Details of these tests are provided below:

*Earned margin:* If the earned margin being claimed in the ASR submission is greater than that calculated by the signing actuary as part of the year-end Statement of Actuarial Opinion (SAO), the reserve risk within the LCR submission may be understated.

*Profit from unearned premium:* If the associated profit from unearned premium (as derived from the loss ratio on unearned premium) being claimed within the ASR submission is greater than that calculated by the signing actuary as part of the year-end SAO, the premium risk within the LCR submission may be understated.

If the above cannot be adequately explained for either the earned margin or profit from unearned premium, the ASR is expected to be re-submitted to correct for any shortfall. In such cases, consideration should also be given to any other adjustments required to the SCR, for example additional reserve risk related to a change in the earned margin.

Further guidance on this is available as part of the ASR submission and review process.

### **4.3 Capital loadings**

If Lloyd's review identifies a limitation in the modelling approach, analysis and/or documentation that introduces an uncertainty associated with the level of projected capital, Lloyd's will apply a loading to address this uncertainty until it can be fully resolved by the agent. Loadings may be applied in response to particular uncertainties, concerns around governance and processes and/or in response to Solvency UK compliance issues. These loadings are used to mitigate the risk of under-capitalisation.

#### **Controls & Solvency UK loadings**

Where Lloyd's has identified weaknesses in syndicate models that may have an impact on a syndicate's Solvency UK compliance, a Solvency UK load will be considered. A key consideration will be the extent to which the syndicate's modelling approach may result in potential under capitalisation that would need to be rectified by the application of a load.

The controls load process continues to apply in Lloyd's oversight framework. Controls loadings are applied as an intervention for concerns about the governance and controls that are in place at a syndicate. These are applied by CPG for issues identified in one or more of the Principles, by one or more of Lloyd's oversight teams where an

issue or aggregation of issues is considered to be material but falling short of a failure to comply with Solvency UK requirements.

Both Solvency UK and Controls loadings can materialise in several different ways. For example,

- Direct concerns around the process of building, parameterising and validating the internal model, meaning that the internal model itself has not received sufficient scrutiny or challenge;
- Indirect concerns that relate to the ability for Lloyd's to rely on key inputs into the capital model through identified governance, risk or process concerns, through different functions;
- Holistic issues around overall Board effectiveness, actuarial function effectiveness, robustness of the risk management framework, which have the potential to have systemic impacts on the capital setting process and therefore the ability for the Board to reliably approve capital appropriateness.

As these loadings are not in place to address a specific modelling issue, they are calculated as a percentage of uSCR, with the percentage to be determined by CPG based on the severity of the issue(s) identified. It is expected that the starting point for any controls loading will be 10% of uSCR, and a Solvency UK load will usually be set at 20% of uSCR, however a smaller load may be considered depending on the extent of the model weakness(es) identified.

Between May and August 2026, Lloyd's will identify any syndicates with ongoing concerns such that a controls loading may be issued in the 2027 YoA LCR submission. During this time, Lloyd's will formally inform the relevant agents that consideration is being given to applying a Controls loading, with the opportunity to remediate the highlighted issues. We note, cause for Controls loadings may still be identified during the CPG process, if for example, deficiencies in the capital submission give reason to believe the submitted capital is understated. These will be communicated with syndicate and agents in the usual way as noted above.

### **Other / technical loadings**

Other capital loads can be raised where Lloyd's is unable to get comfortable with an uncertainty in a submission.

Technical loadings related to deficiencies within a capital model are intended to mitigate the risk of inappropriate syndicate capital set due to technical issues identified with a capital submission (e.g. concerns with inputs, parameterisation, modelling and typically, lack of justification or explanation for material model changes or capital movements since the previous submissions). Technical loadings related to Lloyd's rules are intended to bring syndicates back into line with risk appetites or rules set by Lloyd's (cat risk appetite and Franchise Guidelines). These loadings are not due to syndicate capability concerns.

The size of such loadings will vary and depend on the specifics of the Lloyd's concern. The calculation methodology will be outlined to syndicates via the loadings communication process.

### **Communication of any concerns throughout review**

The reviewer might ask clarifying questions throughout the review process; however, these will be kept to a minimum due to the short turnaround time for CPG. Review outcomes are presented to and challenged by the Actuarial Oversight Review Group (AORG), which provides technical oversight of review conclusions.

Where AORG considers any concerns to be material such that a loading may be recommended to CPG, Lloyd's will subsequently advise the managing agent, via a call, that failure to resolve the underlying concerns will result in a recommendation of a loading to CPG. If the issues cannot be resolved through this initial discussion, this will be communicated in writing with the syndicate's capital / reserving team, together with the quantum of a potential capital loading which would be recommended to the CPG if the issues cannot be sufficiently addressed. Market Oversight Managers will communicate the potential concerns, and the possible outcome of a capital loading, to the executive of the syndicate.

When communicating these concerns and potential capital loadings to syndicates, Lloyd's will outline the following:

- A description of the potential concerns;
- Details of how the potential concerns could be addressed;
- The loading that would be recommended to CPG should the potential concerns not be addressed, as well as details as to how the quantum of this has been derived; and

- The timeframe to respond so that it can be reviewed by Lloyd's in time for CPG sign-off. Lloyd's aims to allow syndicates four working days to respond to these concerns.

Responses will be reviewed by AORG ahead of final recommendations being presented to CPG. If a capital loading is approved by CPG, Lloyd's will inform the managing agent via a call. The syndicate will also be made aware through the CPG outcome letter and any further detail, particularly on what is required to remove the loading, will be provided in the Capital feedback letter.

### **Co-ordination with other teams**

The capital review process involves a number of different teams in Lloyd's. The overall review is conducted by the Capital & Reserving Oversight teams with input from other teams such as Investment Management, Exposure Management, Syndicate Planning and Outwards Reinsurance.

Loadings regarding the CRA, model completeness and other catastrophe risk related concerns may be proposed by the Exposure Management team, who will engage with Capital Oversight to understand the potential impact of the proposed loading on capital. This follows a different process to that noted above, whereby any proposed loading will be reviewed and challenged at the Reinsurance Exposure Management Approvals Group (REMAG) before recommendation to CPG. Questions regarding these loadings should be directed to your Exposure Management point of contact.

The Exposure Management review process involves reviewing the LCR/Economic Capital Assessment (ECA) along with the SBF and Lloyd's Catastrophe Model (LCM) forecast returns. The LCM forecast returns include simulations for the following year's catastrophe losses, a sensitivity test to calculate the impact on SCR of an increase in catastrophe risk and a bridging analysis of the catastrophe losses provided to Exposure Management and those recorded in LCR form 313. Further details on these returns will be released in July.

## **4.4 Principles for Doing Business at Lloyd's**

The Syndicate Capital team will assess the maturity of each syndicate's Capital Principle under the principles for doing business at Lloyd's in each and every capital review. Syndicates that are on the Fast Track route are, by definition, syndicates that are rated as either Meeting Expectations or Marginally Below Expectations. As outlined in Section 4.1, the level of our review for syndicates on Fast Track is relatively limited, and thus it is unlikely that these ratings will be changed. Syndicates who are not on Fast Track will receive a more detailed review, and therefore as a result the assessed maturity may be changed (in either direction).

Our assessment will consider every aspect of the review, for example timeliness of the submission, quality of the submitted materials (e.g. focus area and analysis of change documentation), responses to prior feedback, quality of validation testing applied to material model areas and issues leading to capital loadings and new material feedback. This is not an exhaustive list of factors that Lloyd's considers when determining Principle ratings.

### **Treatment of Principle rating changes**

In some cases, the expected maturity rating for a syndicate will change following a submission, as it is a function of the size of uSCR. For example, for a syndicate with uSCR of £450m, growth in the reserves and business plan volumes could increase uSCR to £550m, which changes the expected maturity from Established to Advanced. Lloyd's will consider the expected maturity when this happens on a case-by-case basis. For example, in some exceptional cases if a syndicate only just crosses over a threshold for a new expected maturity, Lloyd's may override the standard process and keep the syndicate in its original expected maturity bucket. In these exceptional cases there would need to be a strong rationale for not following the standard procedure. In all other cases, the syndicate will henceforth have a new expected maturity.

Following CPG review, the most up-to-date Lloyd's expected and assessed maturities will be communicated to syndicates in the capital feedback letters. This may indicate that a syndicate's dimension rating changes to not meeting expectations, due to a change in one or both of the expected and assessed maturities. Syndicates not meeting expectations following CPG review should liaise with their Lloyd's point of contact after receiving their feedback letter to discuss a plan to address the change in dimension rating.

## 5 Focus Area Return

For 2027 YoA LCR, the Lloyd's Focus Area return will collect information on:

- General queries, covered in Section 5.2 below.
- Minimum Tests, as described in Section 5.3 below. These remain unchanged.
- Model loss ratios, as described in Section 5.4 below.
- Geopolitical risks, as described in Section 5.5 below.
- Market risk, covered in Section 5.6 below. This remains unchanged.

### 5.1 General comments on completing the return

Throughout the Focus Area return, Lloyd's collects 'syndicate comments' and 'references to relevant documentation/validation'. In the comments section, syndicates are encouraged to provide clear explanations of approaches and what has been considered, as well as justification for why this is reasonable for the syndicate risk profile. This includes articulating where no action has been taken or a result is not material due to specific model or risk profile features.

More detail to cover these points, as well as what has been performed for validation, should be signposted in the 'references to relevant documentation/validation'. Signposting should explicitly mention sections of the documents that are being referenced.

**If syndicates are unsure about how to best complete certain areas of the return, representatives should attend the Capital & Reserving Oversight team drop-in sessions which will be held over July and August 2026 and / or liaise with their Lloyd's Capital Point of Contact.**

### 5.2 Focus Area return tab: *General queries*

There are some other queries, included in the "General queries" tab in the return. Of eleven queries:

- Two support the Lloyd's Internal Model (LIM), covering back-testing of the 2025 YoA and the impact of non-proportional reinsurance on an ex-natural catastrophe basis;
- Two relate to previous loadings and feedback, including how outstanding issues have been addressed;
- One captures the capital model platform used;
- One assesses materiality of reliance on reinsurance, including whether capital is materially impacted by individual contracts or concentrated with specific reinsurers, and where relevant, whether a hypothetical LCR excluding impacts of the material reinsurance contract / counterpart has been submitted;
- One relates to MLAs within the Model Change Policy (MCP), including evidence that MLAs are appropriately governed, tracked, and managed, alongside formal attestation of MCP updates;
- One relates to Model Limitation Adjustments (MLAs), including their classification, methodology, capital impact, and plans for remediation;
- One relates to any conflicts of interest arising from the submission of YoA allocation data;
- One captures expressions of interest from agents regarding the use of a Partial Internal Model in the 2028 YoA LCR submission; and
- One collects outputs of stability testing to support the development of our Partial Internal Model framework.

### 5.3 Focus Area return tab: *Minimum tests and Franchise Guidelines*

Lloyd's will run a number of Minimum Tests which flag areas to question with the syndicate. If any of the tests are failed, Lloyd's expects to see robust justification to support the model output. Loadings will be applied if the

justification is deemed insufficient. Please note that passing the Minimum Tests does not necessarily mean that Lloyd's has no further questions on the area in question, as these only constitute a baseline for the model outputs. Some tests are relatively simple and automated while others like the model loss ratio tests have been agreed upon with the market in advance of the submissions.

### **Insurance risk – modelled class volatility**

The ratio of losses to mean premium should be greater than 100% for the standalone premium risk for each modelled class of business at the 99.5<sup>th</sup> percentile, i.e. each class should make a loss at a 1 in 200 return period relative to the expected premium.

This test checks that the 99.5<sup>th</sup> net claim percentile for premium risk including catastrophes is greater than the net premium, for each modelled class, and for all classes in aggregate. These correspond to LCR form 502 Q1 Col I and LCR form 502 Q1 Col A.

The ratio of losses to mean premium should also be greater than 100% for the standalone premium risk on an aggregate level, i.e., across all classes business, at the 99.5<sup>th</sup> percentile. This ratio is automatically calculated in LCR form 503 Q1 99.5<sup>th</sup> ultimate loss ratio (ULR) including catastrophes, and it must be greater than 100%.

### **Diversification – within premium risk**

The contribution to the 99.5<sup>th</sup> percentile of premium risk from each modelled class should be greater than the mean for the class. This test is designed to ensure that a minimum level of correlation is applied between all classes for premium risk.

This test checks that the 99.5<sup>th</sup> post diversified claims for premium risk including catastrophes is greater than the mean net claims for each modelled class. These correspond to LCR form 502 Q1 Col I(i) and LCR form 502 Q1 Col B. The ratio is also automatically calculated in LCR form 503 Q2 Post diversified claims, and it must be greater than 100%.

Managing agents should note that while the model test is applied to premium risk including catastrophes (LCR forms 502 and 503), the same minimum criteria apply for the Premium risk excluding catastrophes (LCR forms 500 and 501).

Of course, this test does not directly check the level of correlations applied. Lloyd's might use other information (e.g. the output correlations between classes supplied in the PRA Internal Model Output (IMO) returns) to check correlation levels. Syndicates should be prepared to provide the minimum modelled level of correlation between classes and years (output and input) to Lloyd's on request.

### **Diversification – within reserve risk**

Contributions from reserve risk by modelled class of business to the 99.5<sup>th</sup> percentile of reserve risk should be greater than the mean for the class. This test is designed to ensure that a minimum level of correlation is applied between all classes for reserve risk.

This test checks that the 99.5<sup>th</sup> post diversified claims for reserve risk is greater than the mean net claims for each modelled class. These correspond to LCR form 510 Q1 Col F(i) and LCR form 510 Q1 Col A. The ratio is also automatically calculated in LCR form 511 Q1 post diversified claims, and it must be greater than 100%.

Of course, this test does not directly check the level of correlations applied. Lloyd's might use other information (e.g. the output correlations between classes supplied in the IMO returns) to check correlation levels. Syndicates should be prepared to provide the minimum modelled level of correlation between classes and years (output and input) to Lloyd's on request.

### **Impact of reinsurance**

The level of reinsurance credit risk modelled should be considered in the context of the materiality of reinsurance to the SCR. The relatively binary nature of reinsurance default means that this risk can appear low (especially on a one-year basis) and/or well diversified. It is expected that any limitations associated with modelling this risk (e.g. including exhaustion) are clearly understood and quantified and stress/scenario tests are used to validate the level of risk.

The test checks that the movement in the benefit from reinsurance reported in LCR form 530 Q2 Row 3 is consistent with the movement in contribution to capital from credit risk (LCR form 541 Q2, reinsurance credit risk) as a percentage of capital (LCR form 309, Table 1, B1).

### **Reinsurance credit risk – loss given default**

Lloyd's expects managing agents to apply a loss given default of at least 50% at the 99.5<sup>th</sup> percentile. This is in line with the standard formula. However, when assigning the loss given default ratios, Lloyd's expects syndicates to also consider:

- Positive and negative risk features of the syndicate's reinsurers (e.g. financial strength rating, current aged debts or regulatory action)
- Positive and negative risk features of the syndicate's reinsurance contracts (e.g. contract clarity, current disagreements or disputes)
- The probability that loss given default ratios would increase under stressed scenarios, including with the scale of the unpaid recovery.

It should be noted that the loss given default probability should be applied to the unpaid recovery at the point of default. Collateral can be taken into account, but only if the collateral has not already been used as a positive risk offset when considering default/impairment probabilities. Syndicates must be able to justify the assumptions in this area, in particular when the 50% loss given default probability is lowered for some simulations, noting the lack of data in this area.

The model test applied by Lloyd's checks that the ratio of the 99.5<sup>th</sup> reinsurance (RI) credit risk loss on RI recovery (LCR form 530 Q1 F1) over the 99.5<sup>th</sup> RI recovery (gross) from defaulting counterparties (LCR form 530 Q1 F3) is equal to or greater than 50%. The ratio is also automatically calculated in LCR form 531 Q1 99.5<sup>th</sup> RI credit risk loss vs. RI recovery (gross) - defaulting counterparties.

### **Foreign exchange risk mean profit**

Lloyd's will only allow a maximum profit of £1m, or 0.5% of uSCR, whichever is greater, on mean FX risk regardless of the contribution from market risk. This rule will apply to all syndicates, including those with positive market risk contributions to ultimate and one-year SCR.

This test checks the FX risk ultimate mean (LCR form 314 Table 2 D5) against the above requirement. If the syndicate capital level is such that £1m is material to the result, agents should take appropriate action to minimise this profit.

### **Contributions to capital**

Contributions to capital from all risk types should be positive (except for market risk under certain circumstances).

This test simply checks that post-diversified capital contributions from all risk types (LCR form 541 Q2) are positive. Market risk contributions will also be reviewed in more detail based on separate data collection in the focus areas.

### **Diversification: The sum of squares test**

It is well understood that the level of dependencies included in syndicates' internal models is a material driver of capital, both on an ultimate and one-year basis.

There are many methods of introducing dependencies between classes of business and risk categories, e.g. copulas, common drivers, tail drivers. Lloyd's does not prescribe the use of any particular dependency structure. However, Lloyd's does require consideration to be made of the potential for dependency effects to be greater within the tail of distributions than in the body. When considering the appropriateness of tail drivers, syndicates should take into account the impact of these tail drivers on capital, rather than relying solely on their presence in the modelling.

The unique and complex nature of many dependency structures means that it is often difficult to consistently assess from a bottom-up analysis whether any particular approach is appropriate. As a result, Lloyd's also examines the output of internal models to ensure that sufficient dependency has been introduced.

A working group of Lloyd's and market representatives concluded in 2019 that the sum of squares test is a useful high-level test to use, but further information can be considered alongside it if it indicates an issue with diversification.

There are five areas where the Sum of Squares Test (SST) is applied by Lloyd's:

1. Overall ultimate SCR: The modelled SCR 99.5<sup>th</sup> percentile must be greater than the SST SCR 99.5<sup>th</sup> percentile (both in LCR form 521 Q6).
2. Insurance risk including catastrophes: The modelled Insurance risk adjusted 99.5<sup>th</sup> percentile must be greater than the SST insurance risk adjusted 99.5<sup>th</sup> percentile (both in LCR form 521 Q5).
3. Insurance risk excluding catastrophes: The modelled insurance risk excluding catastrophes adjusted 99.5<sup>th</sup> percentile must be greater than the SST insurance risk excluding catastrophes adjusted 99.5<sup>th</sup> percentile (both in LCR form 521 Q7).
4. Premium risk excluding catastrophes: The modelled total net claims 99.5<sup>th</sup> percentile (LCR form 500 Q1 Col I total) must be greater than the SST total net claims 99.5<sup>th</sup> percentile (LCR form 501 Q3 99.5<sup>th</sup> net claim percentile total claims SST).
5. Reserve risk: The modelled total net claims 99.5<sup>th</sup> percentile (LCR form 510 Q1 Col F total) must be greater than the SST total net claims 99.5<sup>th</sup> percentile (LCR form 511 Q2 99.5<sup>th</sup> net claim percentile total claims SST).

Where any test fails, agents are required to fill in the Sum of Squares Template found on the [Internal Model SCR](#) page and submit this with their LCR as an attachment in MDC. The template tests how risk categories are aggregated to insurance risk and overall capital. It collects information such as:

- The use of randomised simulations for premium, reserving and insurance risk in order to assess model output against "true" independence (also referred to as scrambled sims)
- Spearman's rank correlation of model output
- Using an alternative measure, the average percentile contribution, on both randomised and modelled sims to assess contributions to the tail.

Average percentile contribution examines premium/reserve risk contributions in the 99.5<sup>th</sup> percentile tail of insurance risk and expresses these as a percentile of the standalone premium/reserve risk distribution. Randomised simulations are required to provide a baseline to measure dependency.

This information will allow Lloyd's to assess dependency within internal models using different metrics against truly independent distributions. However, Lloyd's considers this level of dependency to be an absolute minimum rather than a test of adequacy.

The template includes instructions for completion in the "Information" tab.

### **Franchise Guidelines relevant to capital**

Franchise Guidelines continue to be in place to restrict excessive risk that syndicates may pose to the central fund (i.e. beyond their 1 in 200 uSCR requirements). These requirements apply to all syndicates, including SPAs. These guidelines are:

- A restriction on the amount of tail risk that a syndicate can be exposed to. This operates as follows (depending on whether a syndicate has an internal model and submits an LCR to Lloyd's or not):
  - For syndicates with an internal model that submit an LCR, the 99.8<sup>th</sup> percentile (1-in-500) of the insurance claims shall not exceed 135% of the 99.5<sup>th</sup> percentile (1-in-200) of insurance claims. Both measures refer to the total modelled insurance claims net of reinsurance on an ultimate basis as reported to Lloyd's in LCR form 311. This will be collected in Question 9 within the 'Minimum Tests' tab of the 2026 Focus Area Return. It will be monitored by Capital Oversight.
  - For syndicates which do not have an internal model for insurance claims and do not calculate the 99.8<sup>th</sup> percentile, this does not apply. Instead, the 99.8<sup>th</sup> percentile of Final Net LCM WWAP claims shall not exceed ECA plus profit. Final Net LCM WWAP metrics will be calculated by Lloyd's based on syndicates' latest approved LCM Forecast submissions. This will be monitored by Lloyd's Exposure Management.

- This Franchise Guideline appears as Question 9 within the 'Minimum Tests and Franchise Guidelines' tab of the 2027 Focus Area return.
- A stress of a 45% increase in the net of reinsurance reserves for all casualty classes of business should not exceed ECA for each syndicate. Note that details of this Franchise Guideline, introduced in 2025 LCR, can be found at [Market Bulletin Y5434](#). This will be monitored by Capital & Reserving Oversight teams.
  - Casualty classes of business are defined as the following three high level classes of business: Casualty FinPro, Casualty Other, Casualty Treaty. Risk code mapping can be found on Lloyds.com.
  - Net of reinsurance reserves for this purpose shall be defined as follows: Total modelled insurance claims (including ALAE) for all underlying pure years in aggregate net of reinsurance using the balance sheet date as per latest submitted capital model. The basis should correspond to 'Mean Net Claims' as per LCR form 510.
  - Syndicates that do not submit an LCR will not be required to run this test.
  - This Franchise Guideline appears as Question 8 within the 'Minimum Tests and Franchise Guidelines' tab of the 2027 Focus Area Return.
  - Note, if the Casualty Reserve Stress is passed when stressing the Total Net Reserves from LCR form 510 by +45%, managing agents do not need to provide the casualty split of reserves in the Focus Area Return.
- The maximum net line size that a syndicate may have on an individual risk cannot exceed 30% of ECA plus profit, where profit is defined as 'profit/loss for the period' on an ultimate basis in the approved year of account SBF (Item 16 of SBF Form 100s). This will be monitored by Exposure Management.
- A Syndicate's projected and in-force loss estimates for Realistic Disaster Scenarios, shall not exceed 80% of ECA plus Profit for Gross Losses and 30% of ECA plus Profit for Final Net Losses. This will be monitored by Lloyd's Exposure Management.

As with other Franchise Guidelines, syndicates that do not meet these requirements will either be required to apply for a dispensation or make appropriate changes to remove the need for a dispensation request. These changes could include, for example, adding a management adjustment into their LCR submission, or adjusting their business plan to purchase tail risk RI cover and resubmitting their SBF/LCR. Any dispensation requests should be discussed with the Exposure Management/Capital Oversight contacts before the submission.

A request to exceed Franchise Guidelines, i.e. a request for dispensation, may result in a capital loading if that request is not agreed by the CPG.

## 5.4 Focus Area return tab: *Model Loss Ratio*

### Prospective year model loss ratio assessment

Prospective year model loss ratio is a key assumption in the premium risk component of the SCR. Thus, Lloyd's expectation and guidance is that syndicates ensure model loss ratios used in the internal models are appropriate so that capital levels being set are appropriate for the risk profile of the syndicate.

Last year, Lloyds enhanced the testing and validation on model loss ratios and the associated underwriting profit, due to a combination of changing market conditions and evidence that underwriting profit has been increasing in recent years, leading to an increased risk of under-capitalisation. In addition to this there is increased uncertainty due to the softening market conditions along with current macroeconomic and geopolitical landscape. For clarity, the model loss ratio may be equal to the planned loss ratio where appropriate, including in cases of heightened uncertainty where the planned loss ratio already incorporates an explicit allowance for such uncertainty. In all instances, we expect the model loss ratio to appropriately reflect the level of uncertainty, with this allowance being explicitly evidenced.

Lloyd's review of the prospective year model loss ratio will be based on five components outlined below:

- 1) Model Loss Ratio Minimum Floor Test
- 2) 'Self-uplift' Change
- 3) Validation Report

- 4) SBF vs LCR Plan Loss Ratios
- 5) Comparison of One-year and Ultimate mean net claims and premiums

These are the same tests as last year, however, this year there will be a greater focus regarding RARC, in particular, the historical actual vs planned outcomes. In addition to this, there will be a more joined up approach with underwriting, supplemented with our reserve oversight to triage classes and/or syndicates which are deemed to have greater loss ratio uncertainty and/or at heightened risk of the softening conditions.

In order to give syndicates an early indication so they can plan accordingly, Lloyd's will undertake a preliminary triage exercise in advance of the 2027 YoA LCR submissions. This exercise will be conducted in July and will focus on back-testing historical performance against plan.

Specifically, the review will assess:

- the consistency of actual loss ratios relative to planned loss ratios; and
- the achievement of actual RARC relative to plan.

Where syndicates demonstrate a pattern of underperformance against plan across both metrics over the back-testing period, this will result in a formal flag. Managing agents will be notified accordingly.

In such cases, there will be an expectation that the 2027 YoA LCR submission, and in particular the validation, explicitly calls out these findings. Submissions should clearly articulate how planning assumptions have been adjusted to reflect current uncertainty and demonstrate that the factors contributing to historical underperformance have been appropriately considered and incorporated.

In addition to this, as was highlighted in the 2026 Q2 Market Messages, there is evidence of rapid weakening in RARC for the following Lloyd's high level classes of business:

- **Cyber**
- **Energy**
- **Property D&F**
- **Property Treaty**

For these Lloyd's high-level classes of business, where a managing agent identifies *material exposure* following mapping to its own internal classes of business, it is expected that:

- The validation report provides **explicit commentary and supporting rationale** for each of the **six validation tests** in respect of those classes.

This expectation does not imply that other classes of business are excluded from review. Rather:

- All classes should continue to be assessed as part of the overall validation process; however,
- The specified classes have demonstrated **indications of weakening rate adequacy** and, as such, warrant **heightened focus**.

Accordingly, these classes will be subject to **enhanced scrutiny** as part of the 2027 YoA LCR submission, and the depth of analysis and justification provided should be proportionate to this increased level of uncertainty.

Beyond information included in this section of the instructions, syndicates should consider the latest [Validation Guidance](#) and [Reserving Tests of Uncertainty](#) guidance on Lloyds.com.

#### **Model Loss Ratio Minimum Floor Test**

For the 2027 YoA LCR reviews, Lloyd's requires the prospective year model loss ratios for capital setting to be at least as high as the SBF loss ratios. On a gross net (gross of reinsurance, net of acquisition costs) basis, this should apply at class of business and at syndicate level. On a net net basis, this should apply at the overall syndicate level. This is tested in the focus area return.

It should be noted that the SBF loss ratios are expected to be on a *realistic and achievable 'best estimate' basis*, supported by both the historical experience and the technical pricing margins capable of being achieved in the class, having made suitable provision for attritional, large and catastrophe claims and taking into account areas of uncertainty. In contrast to the SBF basis, model loss ratios should be set using a *best estimate basis*

*consistent with Solvency UK*, such that they should not incorporate improvements in performance unless the impact is evident in syndicate data such that the measures can be validated as having been shown to be effective. Therefore, whilst both bases are a probability-weighted average of future outcomes and incorporate uncertainty, there is a greater requirement for evidencing improvements in data to support model loss ratios compared to plan loss ratios.

### **‘Self-uplift’ change**

Lloyd’s will query any syndicates where the total ‘self-uplift’ has decreased by more than 1%ppt since the prior year. ‘Self-uplift’ is defined as the difference between the modelled and plan loss ratios reported in LCR form 561. This will also be tested in the focus areas return.

### **Signpost to the model loss ratio section(s) / page references(s) in the validation report(s)**

Two years ago, Lloyd’s introduced a requirement for syndicates to have a specific section(s) related to prospective year model loss ratios included in the validation report this year. This requirement remains in place, and the validation requirements have been enhanced. Further details on information to be included within the section(s) is provided below. Syndicates need to provide a signpost to this section through the focus areas return for ease of reference.

### **Validation report**

Validation report reviews will be undertaken for a risk-based sample of syndicates. The focus of the review will be to ensure that the validation in respect of the prospective year of account model loss ratio has been performed and documented in line with Lloyd’s expectations, which have been enhanced this year.

The purpose of this has been to ensure that validators are comfortable that the model loss ratios, and the underwriting profit assumed within them, are appropriately considering the changing market conditions across many of the classes of business.

In particular, Lloyd’s expects that:

- Model loss ratios need to be grounded in **historic experience** with an **overlay of expert judgement**, rather than being anchored to future aspirations or historical averages.
- The experience that the model loss ratios are based on needs to be truly **relevant and validated** for its applicability to future expectations. Changing conditions, relative to historical outcomes, such as the underwriting cycle need to be considered, the average across the cycle may not be appropriate for the current market conditions.
- Model 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/New business adjustments.

There are six specific types of validations that Lloyd’s expects in respect of all syndicates. Further details on these and the overall expectations around the model loss ratio validation can be found in section 4.10 of the [Validation](#) guidance, with examples of what the output from some of these tests may look like being included in the [Reserving Tests of Uncertainty](#) pack, which can be found on the [Lloyd’s Reserving Guidance and Support Materials](#) page of Lloyds.com.

Based on the review of validation of reports last year, these were the key themes that emerged that syndicates should consider as part of the 2027 YoA LCR submission:

- **Validations** and **backtesting** did not always contain **enough** historical years to cover **soft** and **hard** market cycles. Historical analysis should consider **on-levelling** for comparative purposes.
- **Backtesting** for CAT loss ratios was too **limited** to averages, with not enough focus on where years/single events sit with regards to the full CAT distribution
- The **Pass/Fail criteria** for validation tests were not always clear, and validators did not always express their opinion on the **appropriateness of the model loss ratio**
- **Rate change validation** identified that syndicates tend to **understate** both **reductions** in **soft markets** and **increases** in **hard market**.

Syndicates should consider these points when validating the model loss ratio for the 2027 YoA LCR submission.

## **SBF vs LCR Plan Loss Ratios**

Lloyd's expects the plan loss ratios in the SBF submission to be reconciled to the plan loss ratios in the LCR 561 form, on a gross net and net net basis. The focus area return requires syndicates to provide the gross net and net net plan loss ratios from the SBF submission and the LCR 561 form, along with commentary where there are differences between the two.

## **Comparison of one-year and ultimate net premiums and claims**

This question aims to understand the drivers of differences between the prospective year of account one-year modelled mean net claims and premiums and ultimate modelled mean net claims and premiums. We highlight that LCR Form 550 Question 1 contains the comparison of modelled mean net claims and premiums on an ultimate and one year basis. We do require rationale/commentary to be provided in the LCR Form 550 question 1 where these numerical entries are not matching. The focus area return requires signposting 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.

The commentary and the rationale provided for this question varied across the market in the previous submission. There will be **greater scrutiny** on this question for the **2027 YoA LCR submission**, and syndicates are expected to provide rationale that explains the drivers of the differences.

## **5.5 Focus Area return tab: Geopolitical**

### **Background**

Geopolitical risk has been a sustained focus area for Lloyd's in recent years. While modelling approaches across the market have developed, the fast-moving and uncertain nature of the current environment means that assumptions, including second-order effects, should continue to be reviewed and challenged.

For the 2027 YoA, we focus on back-testing, model changes and scenario testing, with particular emphasis on how recent Middle East developments and plausible, severe escalation pathways are reflected in modelling and appropriately validated.

Outside of standard principle-level oversight, no additional targeted review on inflation is planned for the 2027 YoA, reflecting the maturity of frameworks established following earlier reviews. However, we expect syndicates to consider how geopolitical tensions may lead to inflation and broader macroeconomic considerations and how models reflect this.

Information on geopolitical event reserves from both Ukraine and Iran events will continue to be collected through QMA returns under relevant loss codes. As has been the case with Ukraine event reserves, Lloyd's may engage with syndicates around approaches for reserving both in terms of the best estimate and potential downside scenarios. Similarly to 2026 YoA capital setting, where material, we may perform Targeted reviews with respect to Reserve Risk allowances for geopolitical risk events.

### **Eligibility criteria**

We expect all syndicates to be considering the allowance in models for geopolitical risks including second order impacts such as those impacting supply chains and the macroeconomy. However, in the interest of proportionality, we want to make sure that those for which geopolitical risks are expected to be less material, are not required to respond to our specific Focus Area questions.

Syndicates that fall into either or both of the below groups are required to complete the geopolitical risk Focus Area questions:

- The syndicate's capital requirement is among the largest in the market, as indicated by a uSCR above £1bn.
- The syndicate writes a large amount of, or large proportion of, relevant Lloyd's 10 or Lloyd's 60 classes. The relevant classes are specified in the Focus Area return, and this is assessed based on planned 2026 and 2027 written premium, gross of brokerage and commissions, and outwards reinsurance premium.

## Back-testing

In this question, agents should back-test the syndicate's actual losses from recent Middle East events against both the prior model (as at the time of the 2026 YoA LCR submission) and the current model (used for the 2027 YoA LCR submission) to demonstrate that the capital model appropriately captures the risk of similar events.

Back-testing should be performed against the most relevant distribution. This may be:

- Specific peril distribution already represented in the model,
- Specific risk type already represented within the model (for example, non-natural catastrophe risk),
- Distribution constructed from classes of business materially impacted by the event.

Please note the list above is not exhaustive. As such, notwithstanding the above, this should be tested against a premium risk distribution only, capturing losses arising from events which have not yet occurred based on the in-force exposures base as reflected in the model.

Syndicates should back-test the latest net best estimate ultimate loss from the event, aggregated across all classes, based on the most up-to-date view as at the 2027 YoA LCR submission. For the Middle East, this should be taken as the total estimated ultimate claims, net of reinsurers' share, aligned to the basis used for the QMA Return 800 Column F under loss codes 26AA (direct losses from the US/Israel/Iran conflict from 28 February 2026) and 26AB (indirect losses from the same conflict from 28 February 2026). Given the ongoing uncertainty surrounding this event, if the syndicate is aware that the estimated loss has changed materially since Q2 2026 reporting to Lloyd's, the most up to date estimate should be used.

Syndicates should use a consistent exposure base when performing back-testing against both the prior and current models to ensure movements in return periods are driven by model changes rather than changes in exposure. This should be done by first back-testing the most recent actual event loss against the prior model, and then adjusting the current model test to ensure this reflects a comparable exposure basis so that any differences reflect changes in the model view of risk. For the current model, this can be achieved by either:

- Scaling the actual event loss to reflect exposure changes between the prior and current models.
- Adjusting the current model so that its exposure base aligns as closely as possible with that used in the prior model.

Testing should be undertaken on a best-efforts basis, with key assumptions and limitations clearly documented and explicitly considered by validators.

Validators should opine on the consistency of exposure base (on a best-efforts basis), appropriateness of the distribution tested against and the resulting return periods. Validators should also opine on the degree to which the 2027 YoA LCR model is able to capture a similar event occurring in the future at an appropriate return period. Where this is not considered to be case, clear rationale should be provided. Any actions or model changes arising from the back testing exercise should also be documented.

## Model changes

Lloyd's expects syndicates to consider the full range of potential impacts arising from uncertainty in the geopolitical risk environment, particularly in relation to recent Middle East events and any ongoing uncertainty due to Ukraine.

Geopolitical developments may require agents to reassess any of the following (not exhaustive) which may result in model changes:

- Underwriting volatility parameterisations
- Any scenario assessments feeding into the above, including whether additional scenarios are needed or return periods should be revised;
- Exposure updates;
- Impacts on the macroeconomy;
- Reserve risk allowances.

Syndicates should clearly set out any relevant model changes since the last LCR submission, including a description of the change made, and the impact on uSCR.

Syndicates should highlight any relevant changes made to their capital model since the last LCR submission, including:

- Selection of the change category from the drop-down menu;
- Description of the changes made;
- Percentage impact of these changes on uSCR; and
- Validator opinions on the appropriateness of the change and its impact relative to the syndicate's risk profile.

Validators should also opine on cases where no model changes have been made, or where impacts on capital are within simulation error. If applicable, syndicates should explain any inconsistencies between changes reported below and changes included in the Model Change Template.

### **Scenario testing**

Syndicates should conduct scenario testing to enhance their understanding of key uncertainties affecting their portfolios and how these may impact capital. In early 2026, events involving the US, Israel and Iran led to wider regional escalation, with impacts on the macroeconomy and global supply chains. We expect, where material to the syndicate, for scenario testing to be conducted focusing on plausible, severe escalation of current Middle East tensions and second order impacts of the same.

Lloyd's is not prescribing a set of standard scenarios. The focus is how each syndicate has reflected the current situation, and credible, severe escalations, as relevant to the syndicate's own risk profile.

Scenarios should be considered across a range of relevant dimensions, including, but not limited to:

- Escalation of regional tensions
- Macroeconomic impacts
- Supply chain and commodity disruption.

Similar to back-testing in Q1 of this tab, scenarios should be assessed against the most relevant distributions.

There should be consistency between the basis of the independent return period and that of the modelled return period provided. For example, in terms of where a total distribution basis is used rather than a deviation from mean basis.

Syndicates may provide one or more scenarios as part of this submission. For each scenario, syndicates should complete the following:

- Event narrative: detailed description of the scenario,
- Independent return period,
- Final net loss,
- Distributions used and corresponding modelled return periods\*, and
- Modelled return period of overall SCR.

\*Syndicates are free to provide 1 or 2 relevant distributions to the test the model against in addition to testing against the overall SCR.

For each scenario, validation teams should confirm that the scenario testing and choice of distributions are appropriate, opine on the resulting return periods, and describe any actions arising where relevant.

Syndicates should refer to the 2026 Capital Briefing for a presentation around best market practice scenario testing as relevant to geopolitical risk.

### **5.6 Focus Area return tab: *Market Risk***

Syndicates that fall into all or any of the below groups are required to complete the market risk focus area data collection. Other syndicates do not need to complete the market risk data collection.

1. Syndicates that did not have a negative contribution from market risk to the uSCR in the previous submission but now do; and / or

2. Syndicates for which the negative % contribution from market risk to the uSCR is more negative compared to the negative market risk contribution to the uSCR in the previous submission by 2.5 percentage points or more; and / or
3. Syndicates that have a negative contribution from market risk on a one-year basis where the contribution is larger (on an absolute basis) than the benefit from change in discounting in the technical provisions (TPs) over the first year, and this was not the case for the previous submission; and / or
4. Syndicates for which the excess negative contribution from market risk on a one-year basis above the contribution from the benefit from change in discounting in the technical provisions (TPs) over the first year is more negative compared to their previous submission by 2.5 percentage points or more expressed as percentage of One-Year SCR.

In the market risk section of the focus areas, syndicates are required to demonstrate that market risk behaves as expected and does cater appropriately for volatility in the current economic environment. In general terms, if expected returns have increased, we would expect standalone market risk volatility to increase as syndicates should be allowing for higher credit spreads and a higher probability that interest rates could drop compared to before.

In general, additional risk should add additional capital to the SCR. However, in the case of market risk the contribution to capital might be negative (i.e. market risk reduces capital) in some limited circumstances for some risk profiles. This requires investment returns to outweigh the risks from liquidity, FX and credit issues.

Syndicates must consider and validate how the model should respond given the current macroeconomic environment and how market risk should interact with other risks. In particular, syndicates must convey how they have considered insurance events leading to market volatility. There should not be an over-reliance on the past, where evidence of this may be limited. Stress and scenario testing should be deployed to ensure the models dependency structure is appropriate. Syndicates are also encouraged to interrogate simulations in the tail of the capital distribution and sense check that extreme insurance events do coincide with downside market risks (for example due to liquidating assets in unfavourable conditions or credit issues).

In line with prior years, Lloyd's' review will focus on movements in market risk – specifically where the contribution of market risk has decreased further.

### **Market risk breakdown and behaviour**

Lloyd's expects syndicates to validate that the impact of the dependency structure is acting appropriately and produces a suitable market risk contribution to the capital requirement.

This validation should consider:

- What could drive downside insurance risk around the SCR setting level and how components of market risk might be expected to behave at this level.
- Scenarios on how assets might behave due to systemic drivers (such as inflation and geopolitical uncertainty) and how these drivers would be expected to impact insurance risk and other risk categories; and
- Appropriateness of the market risk contribution and how well it captures the impact of the above drivers simultaneously impacting market risk and insurance risk at the capital setting level.

With respect to negative market risk contributions, we often see that it is driven by material investment returns being generated in the capital setting window. We expect syndicates to consider that earlier depletion of assets or the need to realise assets in unfavourable conditions following large insurance losses could and should result in investment returns that are lower than expected, on average.

In the focus area assessment syndicates should clearly articulate the sources and drivers of negative contributions and explain them with reference to the expected behaviour of market risk in scenarios that drive the capital requirement. Lloyd's will not accept results that are purely a function of how the ESG is being implemented without a robust justification that references the expected behaviour. Syndicates should comment on implicit and explicit sources of dependency between market risk and other risk categories that influence the level of contribution to SCR.

The market risk breakdown question is used as a quantitative basis for the market risk contribution data collection. The mean, pre-diversified and downside risk figures should be consistent with data provided in LCR

Form 314, table 2. The post-diversified figures should be diversified to total SCR (as opposed to total market risk).

### **Asset breakdown**

The following information is required by asset group, on a standalone risk basis:

- T=0 value: The opening balance sheet value of the asset holdings, which should be reconciled to the “available assets” in the Exposure and Risk Margin section of LCR form 600
- No. of years modelled: The number of years of investment return included in the capital requirement.
- Mean annual return: The average return across all modelled years on the syndicate investment portfolio expressed as a simple average of the mean absolute return over the mean asset values in each modelled year.
- Expected return: The absolute amount of investment return modelled on the syndicate investment portfolio, on a mean basis. The total ultimate return should reconcile to LCR form 314 cell A4. The equivalent one-year returns should also be provided.
- 1 in 200 downside return: The absolute amount of return modelled on the syndicate investment portfolio at the 99.5<sup>th</sup> percentile. The total ultimate return should reconcile to LCR form 314 cell C4. The equivalent one-year returns should also be provided.

This information will be used by Lloyd’s to inform a market-wide view of return levels and downside risk being modelled by syndicates, which will be compared to market risk contribution. Expected return has continued to rise, and models should reflect that this should be accompanied by an increase in risk to achieve it.

## 6 Exposure Management model tests

The Lloyd's Exposure Management team input into the business planning and capital review process. It is their responsibility to consider four areas where capital loadings might be appropriate, and to make these recommendations to the Capital & Planning Group:

- Catastrophe risk appetite (CRA)
- Model completeness
- Internal model sensitivity
- Franchise Guidelines.

### **Catastrophe Risk Appetite**

The CRA metric is defined as the ratio of the LCM5 1:200 aggregate exceedance probability (AEP) final net loss (FNL) to ECA plus profit. Any *increase* in the LCM5 1:200 AEP FNL may need to be capitalised at a ratio agreed by Lloyd's; syndicates have been informed of their individual requirements in this regard within their pre-planning letters in May. Where these requirements are not met, Lloyd's Exposure Management will recommend a loading in order to achieve the required capital to support the proposed growth.

### **Model Completeness**

Annual syndicate Model Completeness Questionnaire (MCQ) responses will be received and reviewed by Exposure Management prior to business planning. Any remaining material deficiencies in syndicates' LCM submissions may result in a capital loading in line with the MCQ guidance.

Please note that syndicates are required to ensure that the addition of previously non-modelled risks is additive to capital, in line with the general principle that additional risk should add to capital.

### **Internal Model Sensitivity**

Syndicates submit a sensitivity test to Lloyd's Exposure Management that assesses the impact of parameter error on the SCR. Any unusually high result will be reviewed in depth, and the syndicate may attract a capital loading in extreme or unexplained cases.

### **Franchise Guidelines**

Syndicates submit projections for future Realistic Disaster Scenarios (RDSs) in SBF Form 452. These projections are compared against ECA plus profit and will be subject to Franchise Guidelines (for more information, see section 5.3).

## 7 Appendix 1: Movement triggers and tips for LCR form 600

Exact definitions of risk-to-exposure metrics from items on LCRs are laid out below.

#	Metric	Definition
S1	uSCR stress-to-exposure measure	<p>LCR Form 600 Row 10 Col A for current submission and Col B for prior submission.</p> <p>Alternatively, the individual components can be found as follows:</p> <ul style="list-style-type: none"> <li>• uSCR stress = LCR form 310 Row 2 Col G - LCR form 310 Row 2 Col A</li> <li>• Exposure measure = Mean premium risk net claims + <math>\frac{1}{2}</math> × mean reserve risk net claims</li> <li>• Mean premium risk net claims = LCR form 502 Q1 Col B Total</li> <li>• Mean reserve risk net Claims = LCR form 510 Q1 Col A Total</li> </ul>
S2	Ultimate premium risk stress-to-exposure figure	<p>LCR Form 600 Row 24 Col A for current submission and Col B for prior submission.</p> <p>Alternatively, the individual components can be found as follows:</p> <ul style="list-style-type: none"> <li>• Premium risk stress = LCR Form 314 Table 1 Row 2 Col B</li> <li>• Exposure measure = Mean premium risk net claims = LCR Form 502 Q1 Col B Total</li> </ul>
S3	Ultimate reserve risk stress-to-exposure figure	<p>LCR Form 600 Row 33 Col A for current submission and Col B for prior submission.</p> <p>Alternatively, the individual components can be found as follows:</p> <ul style="list-style-type: none"> <li>• Reserve risk stress = LCR Form 314 Table 1 Row 3 Col B</li> <li>• Exposure measure = Mean reserve risk net claims = LCR form 510 Q1 Col A Total</li> </ul>
S4	One-year SCR stress to uSCR stress	<p>LCR Form 600 Row 14a Col A for current submission and Col B for prior submission.</p> <p>Alternatively, the components can be found as follows:</p> <ul style="list-style-type: none"> <li>• One-year SCR stress = LCR form 310 Row 1 Col G - LCR form 310 Row 1 Col A</li> <li>• uSCR stress = LCR form 310 Row 2 Col G - LCR form 310 Row 2 Col A</li> </ul>

Please note that all references quoted above relate to the LCR form fields, not excel cell references.

The following guidance is provided in relation to completing LCR form 600. Agents should note that these points are intended as useful information, but responses should ultimately be tailored to reflect the syndicate's specific risk profile. A proportionate approach should be implemented, with additional detail provided for more material areas and less detail where appropriate.

Item	Characteristics of a good LCR 600 Submission
General	<ul style="list-style-type: none"> <li>• Explanations are standalone and self-contained, rather than relying on signposting. High level standalone commentary can be supplemented with signposting to more detailed information, with references clearly directed to the relevant document and section.</li> <li>• Drivers of change between submissions are highlighted clearly i.e. changes in risk profile, parameterisation changes.</li> <li>• Formulaic explanations are avoided i.e. stress vs exposure increased because the increase in exposure is proportionately smaller than the increase in stress.</li> <li>• Explanations are consistent across form 600, the Model Change Template and other supporting documentation, with any discrepancies explained clearly.</li> </ul>
Exposure	<ul style="list-style-type: none"> <li>• Portfolio movements including growth, contraction, reinsurance use and mix change are clearly articulated.</li> <li>• FX impacts are distinguished from underlying business changes.</li> <li>• References to items like loss experience and parameterisation or volatility changes are avoided.</li> </ul>
Standalone risk vs exposure	<ul style="list-style-type: none"> <li>• The most material drivers of movement in this metric are understood.</li> <li>• Responses clearly articulate if movements are driven by changes primarily impacting the mean (profitability) or those primarily impacting volatility (for example, mix of business, view of risk, etc.).</li> </ul>
Mean vs exposure	<ul style="list-style-type: none"> <li>• Movements in expected losses and loss ratios are explained. Changes are linked to relevant drivers e.g., underwriting performance or reserving updates.</li> <li>• Impacts of changes in SBF are clearly identified, where profitability has changed, with explanations of underlying components included.</li> </ul>
Stress vs exposure	<ul style="list-style-type: none"> <li>• Movements in volatility and their drivers are described. Changes are linked to relevant drivers such as model updates, or parameter changes.</li> <li>• Any deterioration or improvement in tail risk, since the last submission is highlighted.</li> </ul>
Model Limitation Adjustment (formerly Management Adjustment)	<ul style="list-style-type: none"> <li>• Underlying reason for introduction is clearly explained.</li> <li>• The method of calculating the adjustment is explained.</li> <li>• Relevant validation is clearly signposted to.</li> <li>• Any plan to reduce or remove the adjustment is outlined, with reference to supporting documentation.</li> </ul>

## 8 Appendix 2: YOA Allocation Split for Members

### Overview and purpose

Submitted syndicate SCRs from the LCR returns are used directly to inform the member capital calculation.

If a member is aligned to a single syndicate with the same share of all years of account (YoA), the Member ECA is simply that member's share of the Syndicate ECA.

However, where member participation on a syndicate differs by YoA and/or where members participate across multiple syndicates, the Lloyd's member capital model is needed to calculate the member capital requirement. This is because the YoA level capital must first be calculated for each syndicate before this can be allocated to members and aggregated into member ECAs. This therefore allows members to benefit from diversification across syndicates and YoAs.

Lloyd's previously introduced an improvement to the member capital model where it is now possible to calibrate to a syndicate's own view of YoA level capital. Syndicates are given the option to submit standalone ultimate profit and loss distributions by YoA in order to inform the Lloyd's member capital calculation. This year, this will continue to be collected as part of form 310 of the LCR and will remain entirely optional. Syndicates who have a member participation structure that differs by YoA are encouraged to consider whether YoA calibration would be appropriate for them, and if so, submit YoA data for use in the member capital calculation. In the absence of submitted YoA data, Lloyd's own model and assumptions will be used to calculate capital by YoA.

In particular, syndicates who satisfy the above criteria AND write a material book of multi-year binders are strongly encouraged to submit this data. This is because expected underwriting profit by year of account can be materially different between the syndicate view and Lloyd's approximation for these syndicates. This therefore has the potential to materially influence the member capital calculations. If syndicates satisfying these criteria cannot provide modelled distributions by year of account, as a minimum, they are encouraged to provide the mean profit/loss on an ultimate basis by year of account in form 310. This will ensure that any profit/loss expected to emerge on prior underwriting years for unwritten contracts underlying binder agreements is reflected in member ECAs, as well as ensuring more accurate reflection of ultimate profit/loss on the proposed year. These figures should be derivable from contract/reserving data without the need for the internal capital model to be set up to model by underwriting year.

For those syndicates who choose to submit YoA calibration data, the following mandatory requirements apply:

- The commentary box in form 310 of the LCR must be used to detail the methodology chosen along with justification for its appropriateness. More details on what to include are given in the remainder of this appendix.
- Syndicates must consider any conflicts of interest they have in relation to utilising this optional calibration. This is necessary as the YoA calibration data can have a direct influence on the distribution of capital between members participating on a syndicate. The conflict concern is that managing agents may have an interest to arrange the allocation in a way that is favourable to their aligned member but where doing this may conflict with the interests of other members of the syndicate. Managing agents must therefore provide an attestation at a board level that these conflicts, if any, are being managed appropriately. The attestation can be found in General Queries Q9 of the Focus Area return. To aid with this consideration and completion of the attestation, some examples of conflicts of interest that would need to be declared are below. Syndicates should however consider whether any other possible conflicts of interest they have should be declared:
  - Members' shares differ by YoA and the relationship to the syndicate is significantly different by member.
  - Members' shares differ by YoA, and members are a mix of "in house" corporate capital and third-party capital provision.

In all cases, syndicates submitting YoA calibration data must consider the impact this could potentially have on their members. However, this should not influence the modelling methodology and assumptions chosen. Chosen methodology should be objective and appropriate for the risks being captured, with clear justification given.

The Member Capital Model is a stochastic model that models all syndicate YoAs separately for the purpose of calculating member capital. Each aggregation of YoAs that make up a whole syndicate is calibrated so that the 1 in 200 is equal to the syndicate's own uSCR from the LCR. RICB and ECU are added to arrive at the Syndicate ECA.

When calculating the member ECA, the model splits each Syndicate ECA into standalone ECAs for each YoA, effectively removing the assumed diversification between YoAs (calculated by the Lloyd's model). It then applies members' shares to each YoA before aggregating to a member level to arrive at the member ECA. Each member therefore benefits from diversification between all the syndicate YoAs it participates on, which is risk responsive to the business written by each syndicate YoA and the specific participation structure.

Where submitted, the standalone YoA level distributions submitted by syndicates will inform an extra calibration step, where the mean and 1 in 200 of each individual YoA are also targeted to the syndicate's view. This means that relativity of capital between YoAs should align much more closely to the syndicate's view. The member capital that follows should therefore be more aligned with the syndicate's own expectations. It is worth noting that an exact match to the 1 in 200 by YoA is not achievable due to the limitation that multiple points of a distribution cannot be calibrated at the same time (the 1 in 200 of a YoA distribution and the percentile contributing to the whole syndicate SCR cannot both be calibrated without changing the shape of the distribution, which would add undesirable complexity to the model). However, the mean by YoA will match exactly and the relativity of capital stress between YoAs will also match exactly, with the whole syndicate SCR matching exactly as usual.

Syndicates wishing to submit YoA level distributions must be aware that this has the potential to significantly impact the member capital calculation. It is therefore vitally important that appropriate methodology is used to produce this data, with robust justification for approach and assumptions.

The below guidance outlines the basic principles that we expect syndicates to follow when calculating capital by YoA. Modelling YoAs explicitly in the capital model is the preferred approach. However, where this is not possible, sensible methods of allocation of model results to YoA with justification are considered appropriate.

Lloyd's will perform a review of all YoA level data and supporting commentary for adherence to the basic principles below and will provide challenge where appropriate. This will include sense checks of the mean profit, capital stress and shape of distribution by YoA given the business written and a qualitative review of the methodology used to assess adherence to the below. Chosen methodology and assumptions must be outlined and robustly justified in the supporting commentary within form 310 of the LCR.

At a minimum, within the commentary box in form 310 of the LCR, an outline of the chosen methodology to produce the YoA level results along with justification should be provided for each of the four main risk categories below. It should be clearly stated whether YoAs are modelled explicitly within the capital model or whether the model results have been allocated to YoA out of model.

If there has been any deviation from any of the basic principles below, robust justification must be provided for the approach chosen. In particular, the methodology for insurance risk and importantly the mean profit should be clearly described and justified.

If it is Lloyd's opinion that calibration to a syndicate's YoA results could result in inappropriate member ECA, we will inform the syndicate of the challenge and underlying reasons. The options will then be either 1) The syndicate provides further justification so that Lloyd's can gain comfort over the results; 2) The syndicate resubmits the YoA data; or 3) The Lloyd's model is instead used to calculate capital by YoA.

All guidance below is intended to relate to an ultimate basis unless stated otherwise.

## **Insurance risk**

### **Premiums, claims and expenses**

Premiums, claims, and expenses must be allocated to the correct underwriting year in line with the underlying contracts they relate to. For unallocated expenses (e.g. ULAE) reasonable assumptions to allocate to underwriting years proportionally are considered appropriate.

Particular attention should be given to what is recognised at the mean of the distribution for each year of account. The mean outcome should demonstrate that modelled cashflows have been allocated correctly to underwriting years. Each underwriting year can contain both earned and unearned business (with the exception of the prospective year which should only contain unearned) and so some underwriting years may have contributions from both premium risk and reserve risk where appropriate.

In particular, the following guidance outlines what should be included at the mean for premiums, claims and expenses depending on the YoA being modelled:

### **Prospective year**

Expected cashflows for the prospective year are not yet accounted for on the opening SUK balance sheet. These can therefore be recognised in capital as a change in net assets over the modelling time horizon. The mean scenario should therefore be that all expected cashflows for the prospective year are added to the balance sheet resulting in a change in net assets equal to the expected net underwriting profit for the year.

- **Notable exceptions:**

Premium, claims and expenses relating to unaccepted legal obligations as at the valuation date will already be accounted for in the opening technical provisions. Expected cashflows and therefore underwriting profit from these contracts should therefore not also be allowed for in capital as this would lead to a double count.

### **Current and prior years**

All expected cashflows for these years are already recognised on the opening SUK balance sheet (either received/paid as cash assets or as expected future cashflows in the opening technical provisions). The mean scenario should therefore be that no further premium, claims and expenses (and therefore underwriting profit) should be recognised over the modelling time horizon. This is because there should be no change in net assets from receivables/payables crystallising as expected over time. This would be true for both earned exposure as part of reserve risk and unearned exposure as part of premium risk, as expected cashflows will already be accounted for as part of the claims and premium provision of the technical provisions respectively.

- **Notable exceptions:**

Cashflows relating to unwritten contracts as at the valuation date that are part of binder arrangements attaching to current or prior underwriting years will not already be recognised on the opening SUK balance sheet. These cashflows and therefore the expected underwriting profit from these contracts may therefore be recognised in capital at the mean.

All scenarios that deviate from the mean including 1 in 200 should ensure that additional premiums, claims and expenses are allocated to the correct underwriting year in line with the underlying contracts they relate to. Volatility of these scenarios by underwriting year should be appropriate and in line with the level of uncertainty associated with the cashflows in each year.

### **A note on mean profit**

As the capital model is on a Solvency UK basis, in most cases the majority of the total mean profit in the model will be concentrated in the prospective year, as the main driver will be underwriting profit from prospective year contracts not already recognised on the opening balance sheet. Crude methods of allocating mean profit to years of account (for example apportioning by net reserves) are therefore not considered appropriate, as these methods would allocate too much profit to prior years.

When looking at the standalone capital amount by year of account (and therefore ECA), it is therefore quite common for capital to increase for an underwriting year in the second year of its existence. This is because in the second year, the expected underwriting profit for an underwriting year will have moved from capital onto the SUK balance sheet and so will no longer offset the capital stress applied. However, this is not an issue for member funding, as surplus assets (profits) on the Solvency UK balance sheet allocated to a member are allowed to be used to offset the member ECA when calculating funding requirement. The member funding requirement is therefore agnostic to where allocated profits sit within the capital stack.

The significantly simplified example below (where only premium, claims and expenses exist with no allowance for discounting) illustrates what a typical split of capital by YoA may look like and why it is reasonable. All syndicates are different, and results may differ significantly for individual cases. The example is for illustrative purposes only. Consider a syndicate that has been writing for three years, having written exactly the same business each year. In each year, net premium is £100m and net claims and expenses are expected to be £80m. So far, experience has been exactly as expected. All premium is collected at the beginning of the year. Claims and expenses are expected to be paid at a flat rate of £10m per year for 8 years. In this example, it is assumed that each year is backed by a different member. This is an example of the type of situation where YoA allocation significantly influences member ECA. The valuation date is 31/12/2025. RICB and ECU are ignored for simplicity.

YoA	Opening SUK Balance Sheet			Capital (change over time horizon)		Member Funding Requirement
	Assets	Liabilities	Net Assets	Expected	1 in 200	
2026	0	0	0	20	-20	-20
2025	90	-70	20	0	-35	-15
2024	80	-60	20	0	-30	-10
Total	170	-130	40	20	-60	

The 2026 year has not yet started and there are no unaccepted legal obligations. There are therefore no cashflows accounted for on the opening Solvency UK balance sheet for 2026. The technical provisions only cover 2025 and prior. Therefore, the expected change in the balance sheet position over the modelling time horizon for 2026 is that all £100m premium and £80m claims and expenses will be accounted for, resulting in net change of £20m profit. A 1 in 200 deterioration from the mean of 50% more claims and expenses than expected (£40m) means that the 1 in 200 scenario for 2026 is a loss of £20m. Ignoring RICB and ECU for simplicity, the member ECA is therefore £20m.

For the 2025 and 2024 years, all cashflows to ultimate, both earned and unearned are already accounted for on the opening balance sheet, either as cash or as receivables/payables in the technical provisions. Since experience has been as expected, the opening position for each of these years is therefore £20m profit. This is not expected to change as cashflows materialise as expected. The expected change in the balance sheet position for these years is therefore zero. A 1 in 200 deterioration from the mean of 50% more outstanding claims and expenses than expected for these years results in a movement from the opening balance sheet position of a £35m loss and £30m loss respectively. The member ECAs for 2025 and 2024 are therefore £35m and £30m respectively.

Looking only at member ECAs, it appears that the ECA increases for the current year compared to the prospective year. This is simply because the expected profit has moved from ECA onto the opening balance sheet. However, when calculating the member funding requirement, surplus assets (profits) on the Solvency UK balance sheet allocated to the member ("Net Assets" column) are allowed to be used to offset the ECA. The profit allocated to the member therefore always gets taken into account when calculating the funding requirement, regardless of where in the capital stack it sits. The funding requirement therefore exhibits an intuitive runoff pattern as YoAs age, run off and become more certain, as would be expected ("Member Funding Requirement" column).

### **Risk Margin**

Risk margin should be allocated to years of account in line with the underlying liabilities supported. Only liabilities in scope of the opening technical provisions and therefore accounted for on the opening balance sheet should have related risk margin. This means that risk margin should usually only exist for current years and prior. However, where there are unaccepted legal obligations attaching to the prospective year, some risk margin may be allocated to the prospective year. This is true for an ultimate basis as any risk margin set up for the prospective year post valuation date would be run off completely by the end of the modelling time horizon, resulting in zero change. On a one-year basis however, the prospective year risk margin would exist on the balance sheet after one year and result in a change over the year. However, data for YoA calibration is only being collected on an ultimate basis at current as this is what matters for member ECA. Methods of apportioning risk margin to year of account in line with liabilities will be considered appropriate.

### **Inflation**

Inflation should be allocated to years of account in line with the underlying cashflows it is being applied to. For example, claims inflation allocated to a year of account should be the inflation associated with the claims cashflows expected from contracts written during that underwriting year.

### **Credit Risk**

#### **Reinsurance credit risk**

Reinsurance credit risk should be allocated to the correct underwriting year in line with the contracts underlying the gross claims exposure on which associated recoveries are due. For RI credit risk in general, sensible methods of apportionment to YoA by RI claims exposure is considered appropriate. For credit risk on recoveries

from blanket or whole account covers, sensible methods of apportionment to year of account by exposure to the contract are considered appropriate.

#### **Other credit risk**

Other credit risk should be allocated to underwriting year in line with similar principles to RI credit risk, that is either explicitly or via sensible apportionment via an appropriate exposure measure for the risk.

#### **Market Risk**

All elements of market risk should be allocated to the correct underwriting year in line with the contracts generating the cashflows on which the element of market risk is acting upon. For example:

##### **Unwind of discount**

Unwind of discount included within the opening balance sheet should be allocated to the correct underwriting year in line with the cashflows to which the discount is being applied. For example, unwind of discount on claims liabilities should be allocated in line with the claims being discounted. Sensible methods of apportionment by underlying cashflow item are considered appropriate.

##### **Asset return**

Assets themselves should be allocated to underwriting year in line with the liabilities they are backing. Asset return should therefore be allocated to underwriting year in line with the assets generating the returns. Sensible methods of apportionment via corresponding liabilities are considered appropriate.

#### **Operational Risk**

Operational risk should ideally be allocated to underwriting year in line with the underlying operational activities generating the risk. For example, a reserving scenario could be allocated in line with the reserves generating the exposure to the risk. However, pragmatic methods of apportioning total operational risk by a sensible exposure measure are considered appropriate.