

---

# Reserving Tests of Uncertainty: 2027 Business Planning and Capital Approval

June 2026

---

---

# Contents

1. Introduction and purpose
2. Summary of Reserving Tests of Uncertainty
3. Prospective Year Modelled Loss Ratio Oversight
4. Technical Provisions Roll Forward Test

---

# Reliance and Limitations

Content contained within is wholly for discussion purposes only

---

## References

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

References to “CPG” refer to the Capital Planning Group at Lloyd’s.

## Purpose & Scope

The purpose of the information contained within is for discussion on changes/updates to the Reserving Tests of Uncertainty performed as part of YE Capital Approval. The scope of this is limited to changes/updates to testing from the 2025 YE Capital Approval process to the 2026 YE Capital Approval process.

## Reliance and Limitations

The information contained within is an overall summary of changes. Lloyd’s will send Syndicate specific communication where indicated in the pack in respect of the Reserving Tests of Uncertainty for the 2026 YE Capital Approval process.

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

This publication supersedes any previous packs supplied by Lloyd’s (including drafts and for discussion only documents) in respect of the Reserving Tests of Uncertainty for the 2026 YE Capital Approval process.

---

# Introduction and purpose

## Key changes this year (1/2)

---

The Reserving tests of Uncertainty assess key areas, from a reserving perspective, that are inputs to the capital model and could lead to under capitalisation. The Lloyd's testing framework primarily uses data from returns readily available to Lloyd's to flag Syndicates for oversight and (where required) capital loadings are applied to address deficiencies identified by the testing. The purpose of this pack is to provide market participants with details on the Reserving Tests of Uncertainty framework for the 2026 YE Capital Approval process, including key changes since last year and the key dates that syndicates should be aware of. 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.

### Key changes this year:

The validation tests are the same 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**.

### Pre-2027 LCR submission triage

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 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 **planned RARC**.

Where syndicates demonstrate a pattern of **underperformance** against plan across **either metric** over the back-testing period, this will result in a **formal flag**. Managing agents will be notified accordingly in **July**. In such cases, there will be an expectation that the 2027 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**

---

# Introduction and purpose

## Key changes this year (2/2)

---

### Key changes this year:

In addition to the changes mentioned in the previous slide, 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** and **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.

# Reserving Tests of Uncertainty: 2026 YE Capital Approval Process

## High level framework for each Reserving Test of Uncertainty

Test	2026 YE Testing Framework	Key Milestones
Prospective year Modelled Loss Ratio	<ul style="list-style-type: none"> <li>Lloyd's assessment of appropriateness of modelled loss ratios will be based on review of the <b>Focus Area Returns, validation reports and the Retrospective Loss Ratio test</b></li> <li><b>All syndicates</b> will be subject to Focus Area Return review                             <ul style="list-style-type: none"> <li>All the questions are in line with last years return, i.e.                                     <ul style="list-style-type: none"> <li>Modelled Loss Ratio Floor Test</li> <li>Change in Self-Uplift</li> <li>Validation related to modelled loss ratios and signposting.</li> <li>Comparison of plan loss ratios within SBF and LCR returns</li> <li>Comparison of modelled mean net claims and premiums on a one-year basis and on an ultimate basis.</li> </ul> </li> </ul> </li> <li>Lloyd's will undertake a preliminary triage exercise in advance of the 2027 LCR submissions. This exercise will be conducted in June and will focus on back-testing historical performance against plan. Specifically, the review will assess:                             <ul style="list-style-type: none"> <li><b>the consistency of actual loss ratios relative to planned loss ratios; and</b></li> <li><b>the achievement of actual RARC relative to plan.</b></li> </ul> <p>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. Details mentioned in the key changes (2/2) slide before.</p> <ul style="list-style-type: none"> <li><b>Risk-based sample of syndicates</b> will be subject to validation report review</li> <li>The <b>4 Lloyd's high-level classes</b> of business experiencing <b>rapid weakening in RARC, Cyber, Energy, Property D&amp;F and Property treaty</b> will be subject to greater scrutiny during the review process.</li> <li>Retrospective Loss Ratio test will be performed as per last year, with no changes to the process</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Syndicates that flag on the actual vs planned backtesting on historical performance on model vs plan loss ratio and RARC will be notified in July 2026</li> <li>Review of Focus Area Returns and Validation report during September - October 2026</li> <li>Retrospective Loss Ratio test in November 2026 (based on Q3 QMB return) and March 2027 (based on Q4 QMB return)</li> </ul>
TP Roll Forward	<ul style="list-style-type: none"> <li><b>No changes vs 2025 YE Capital Approval testing framework</b></li> <li>Individual syndicates monitored using simple metrics from data already available</li> <li>Back testing template required for flagged syndicates only</li> </ul>	<ul style="list-style-type: none"> <li>Syndicates selected for completion of back testing template notified via email during May 2026</li> <li>Reviews expected to be concluded prior 2027 YoA CPG</li> </ul>
Solvency Tests	<ul style="list-style-type: none"> <li><b>No changes vs 2025 YE Capital Approval testing framework</b></li> <li>Testing for Mid-Year Capital Approval only, based on YE SAO and Q4 ASR</li> </ul>	<ul style="list-style-type: none"> <li>Review conducted in March 2027</li> </ul>

---

# Prospective year modelled loss ratio

Minimum tests, validation review and Retrospective Loss Ratio test

*Details of Testing Framework for 2026 YE Capital and Business Planning Approval process*

---

---

# Focus Area Return based review – impacting all syndicates

Questions related to Minimum Tests are unchanged from last year

---

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

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

## **Modelled Loss Ratio Floor guidance**

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

## **Plan to Modelled Self-Uplift**

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

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

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

---

# Focus Area Return based review – impacting all syndicates

Questions on the reconciliation of SBF and LCR plan loss ratios and comparison of one-year vs ultimate mean net claims and premiums are unchanged from last year

---

These two questions are consistent with last year.

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

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

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

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

---

# Focus Area Return based review – impacting all syndicates

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

---

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

- As per last year, there is an explicit requirement for syndicates to include a separate section for the modelled loss ratio related validation within the validation reports. This guidance can be found in full in section 4.10 of the Internal Model Validation Guidance document uploaded to the Lloyd's website.
- The guidance sets out **six specific types** of validation related to modelled loss ratios that Lloyd's requires for all syndicates.
- This year, we have **enhanced** our expectations on test 4, the **Analysis of Change** test, and test 6, **validation of rate change assumptions**, to help understand how the model loss ratio is changing with the current **soft market conditions**. (further details on each of the test is included in the subsequent slides)
- In the subsequent slides, examples are given around the **expectation** of the six validation tests. The **commentary** has been updated this year based on **common themes** and **feedback** from last years review, when these tests were introduced for the first time.
- References to the modelled loss ratio section(s) of the validation report should be appropriately signposted in the Focus Area Return to enable Lloyd's to efficiently review the relevant section(s) of the validation reports for a risk-based sample of syndicates. Where possible, syndicates should signpost to the location of each of the six tests defined in the guidance (further details on these is included in the subsequent slides).
- **A key feedback/theme from the 2026 YoA LCR submission, was the lack of clarity on the Pass/Fail criteria for these validation tests and how they were derived. Validators did not always express their opinion on the appropriateness of the modelled loss ratio. A key part of this test is the validator's opinion on the appropriateness of the modelled loss ratio and syndicates should bring this out explicitly for the 2027 YoA LCR submission.**

# Validation of modelled loss ratios

## The requirements for validation of modelled loss ratios

As with last year, Lloyd's will continue to review a risk-based sample of validation reports to ensure validation performed is in line with the updated expectations and guidance. The validation guidance includes a requirement for six specific types of validation for all syndicates.

Top-down  
validation

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

Bottom-up  
validation

5. Underwriting profit related sensitivity testing
6. Validation of rate change assumptions (**further enhancements this year**)

To clarify, the **six specific** types of validation outlined is **not** an **exhaustive** list of validation, rather these are **base-level of validation** expected for all syndicates. Validators should consider **all material assumptions** or areas of **expert judgement** when considering the validation required to gain appropriate comfort around the modelled loss ratios. Further details on the six types of validation and more broadly expectations in terms of modelled loss ratio validation are included in Section 4.10 of the Internal Model Validation Guidance.

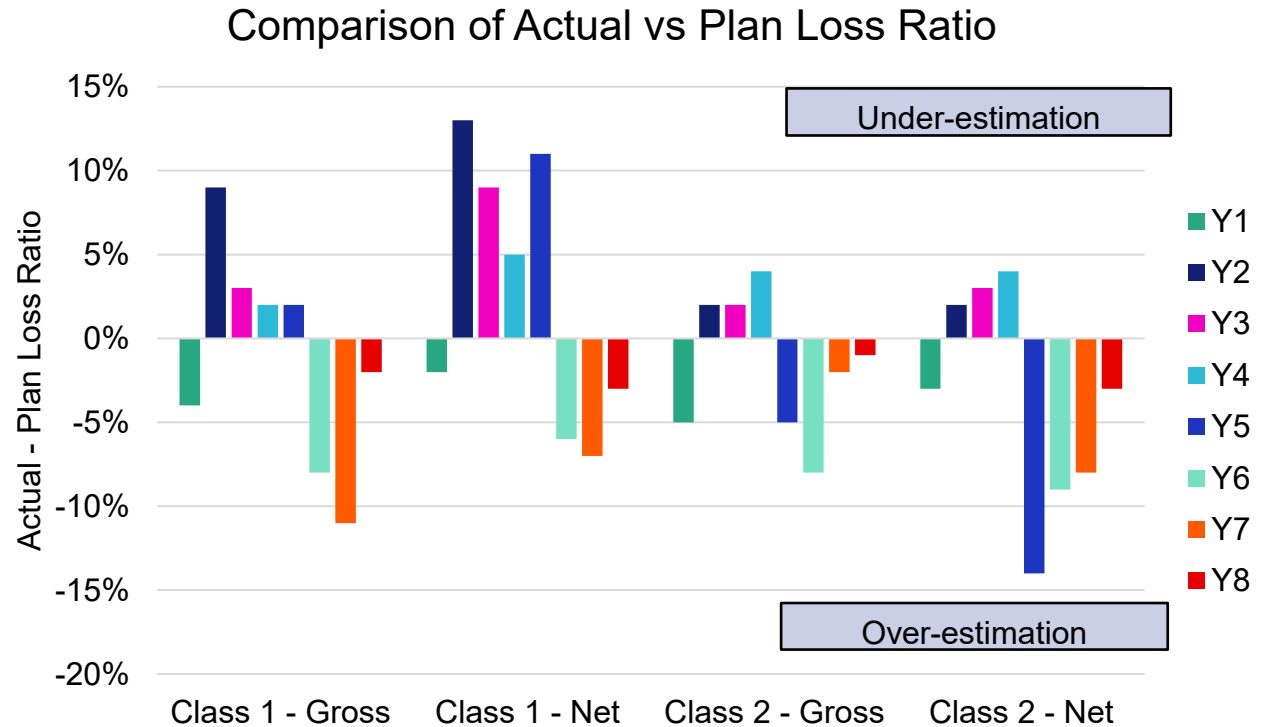
As mentioned in the "Key changes this year (2/2)" slide, the **2026 Q2 Market Messages** identify evidence of rapid weakening in **RARC** across **four** Lloyd's high-level classes of business, specifically **Cyber, Energy, Property (D&F), and Property Treaty**. For these classes, where managing agents determine that there is material exposure following mapping to their internal classes of business, it is expected that the validation report includes **explicit commentary** and **supporting rationale** for each of the **six validation tests**, clearly demonstrating how these have been applied and assessed in the context of the relevant exposures. 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 the subsequent **six slides**, **examples** of output related to each of the **six types of validations** are included. It should be noted that any **numbers** in these slides are **fictional** and therefore should not be relied upon for benchmarking.

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

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

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

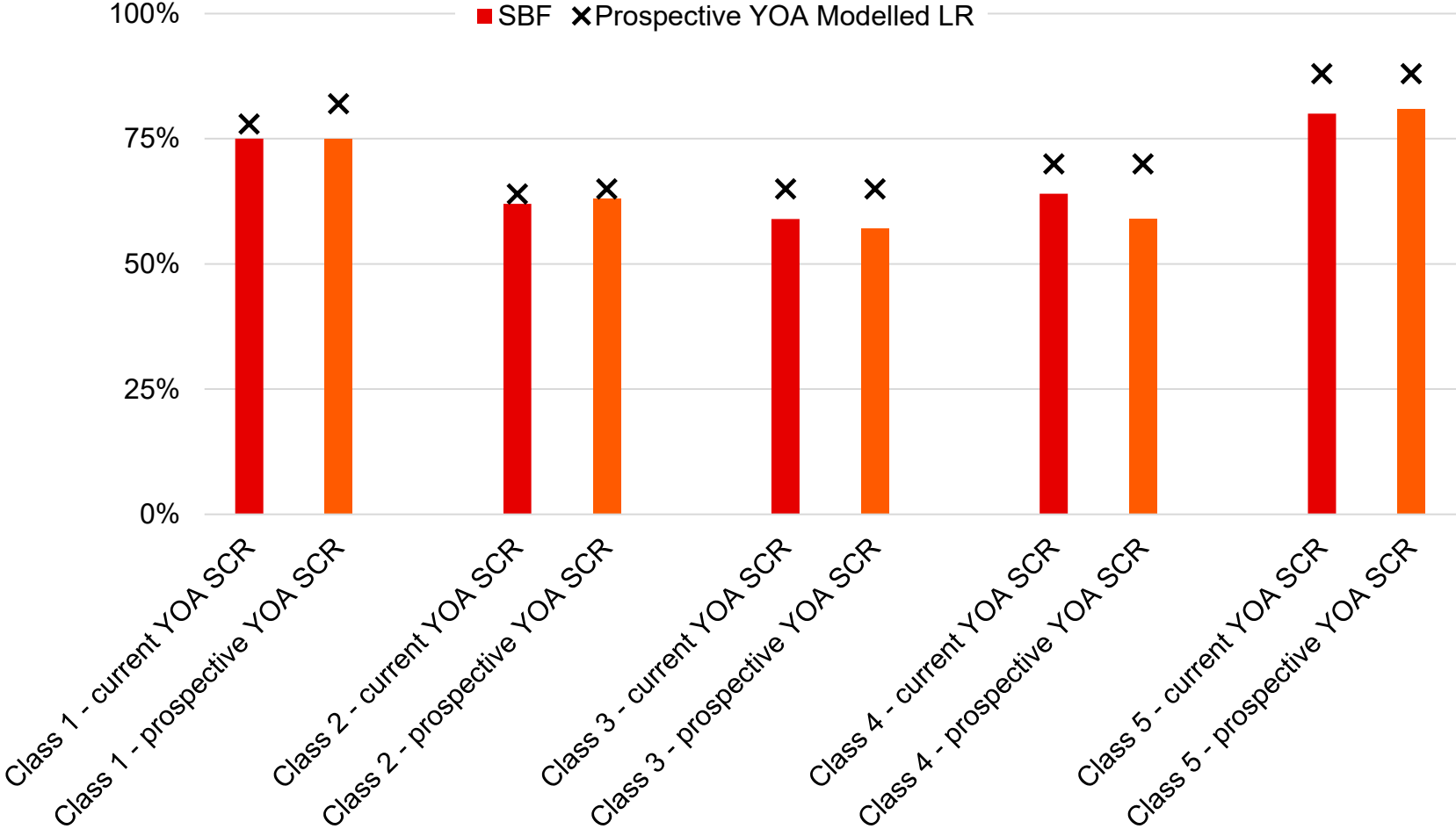


The example here compares plan loss ratios to actual loss ratios by business area. As per the Internal Model Validation Guidance, careful consideration should be given to years of account included in this analysis. This example includes 8 years of account, but this is for illustrative purposes only. **A key consideration should be to ensure, as far as possible, a range of years of account is included that spans across different stages of the underwriting cycle.**

**Areas for improvement based of 2026 LCR review:** Syndicates should consider more historical years when validating loss ratios, so the back-testing covers soft and hard market cycles. Back testing for CAT loss ratios was too limited to averages. This could be enhanced with consideration of the historical years/single events sit with respect to the full CAT distribution.

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

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



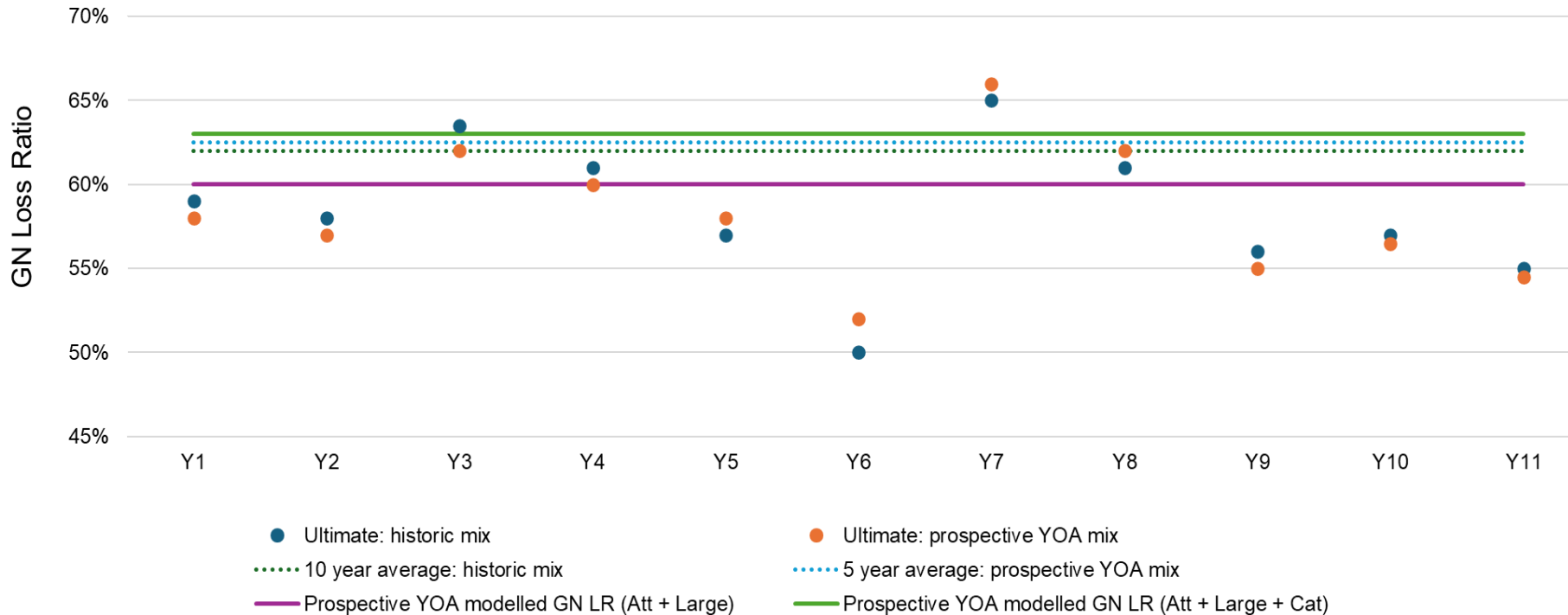
This exhibit is an example of point 2)b) under the 'Top-down validation' section of the Internal Model Validation Guidance, i.e. validation of material movements in the self-uplift.

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

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

# 3. Comparison of average historical LR to prospective modelled LR

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



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

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

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

Based on the feedback from last years submission, for the 2027 LCR submission, the comparison **should be based on the on-levelled to the prospective year rate and inflation basis loss ratio.**

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

The Analysis of Change guidance has been updated for the 2027 LCR submission.

### Enhancements: Components of Analysis of Change

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

In line  
with  
plan

For this year, we have modified the Analysis of Change test to help better understand how the model loss ratio is changing with the current soft market conditions.

We are asking syndicates that the Analysis of Change includes the following components and is more aligned to plan. This will reduce any duplication of our oversight

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

The example bridge includes impacts of:

- ULR experience; e.g. allowing for favourable claims experience since prior review
- Forecast RARC – remediation/T&C changes
- New business – Does the new business achieve the same ULR as the renewal book
- Rating and inflationary environment changes
- Change in mix, e.g. non-renewals
- Self uplift relative to plan – The self-uplift should explicitly quantify the allowance for the uncertainties it is capturing.
- the material deep-dive analysis conducted by the Actuarial Function;

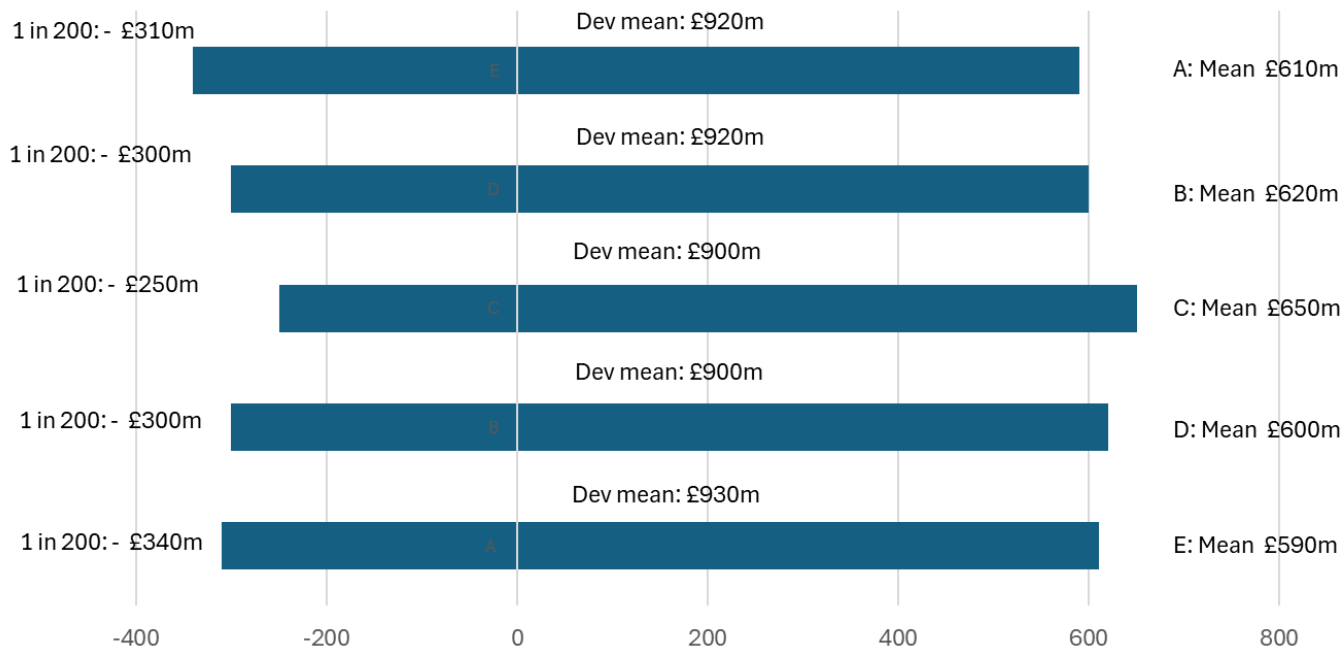
The list above is not exhaustive, and the appropriate components of the bridge should be determined by the validator.

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

# 5. Underwriting profit related sensitivity testing

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

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



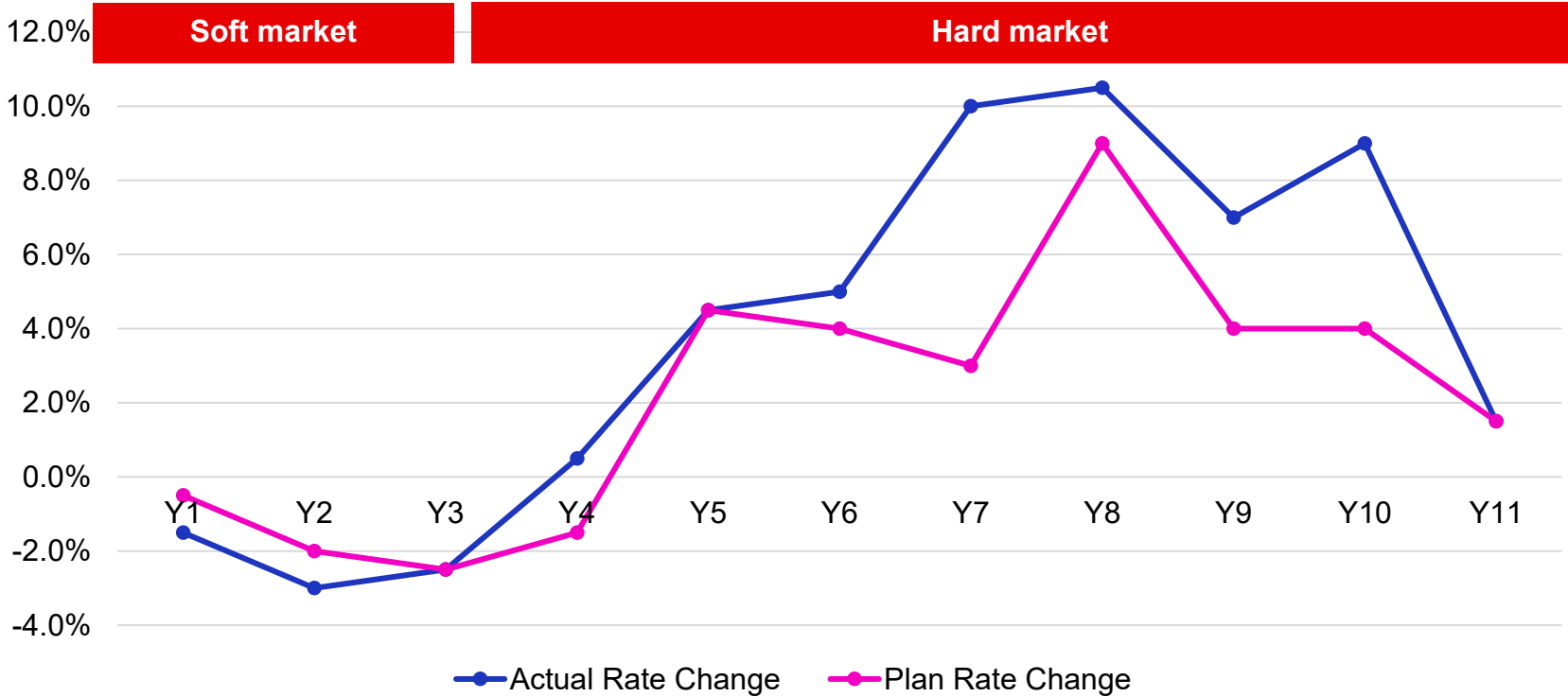
Scenario	Test	Description	Result	Commentary
A		Base case - Modelled LRs as per submitted Capital		
B	Excluding self-uplifts to modelled LR	Excludes uplifts added to SBF LR when deriving modelled LR	Immaterial decrease	Commentary on the test result, the reason and whether this is in line with expectations.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

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

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

# 6. Validation of rate change assumptions

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



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

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

Supplementary commentary should refer to the above.

**This analysis should include as many YoA's as possible to demonstrate performance during both a soft and hard market. If there is a history of underperformance on average or during certain periods (e.g. softening markets), then the validation 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**

**For the four Lloyd's high-level CoB that were highlighted for weakening in RARC, explicit commentary is expected around the validation and appropriateness of the RARC given the current trends.**

---

# Retrospective Modelled Loss Ratio Appropriateness test

---

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

## **Identification of syndicates who fail the test**

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

## **2027 YoA Capital process**

- Lloyd's will perform this test based upon the data submitted to us as part of your QMB, SBF and LCR returns for the 2021 - 2026 YOAs.
- Lloyd's will run this test indicatively using 2026 Q3 data and will notify syndicates that are triggering a loading under this assessment at the time.
- The full assessment will be undertaken using 2026 Q4 data and all syndicates triggering a loading will be informed in late February/early March 2027
- Syndicates will be informed on whether further capital is required via the CPG process.

**Further details of the testing framework will be provided during 2026 Q4 via the Actuarial Oversight email communication.**

---

# Technical Provisions Roll Forward

*Details of Testing Framework for 2026 YE Capital and Business Planning Approval process*

---

---

# Technical Provisions Roll Forward test updates

There are no changes to this test since last year

---

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

- Projected Q4 TPs (LCR 312) compared to Actual Q4 TPs (ASR 002 / 210) over the past 3 year-end submissions
- Consideration of both:
  - average understatement over 3-year period (2023-2025)
  - and*
  - number of year-ends where projection of Q4 TPs was understated
- Technical provisions considered including catastrophes
- Legal obligations excluded, risk margin included, undiscounted basis

***Selected syndicates have been informed by Lloyd's via email during May 2026***

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

- ***Back-testing templates have been received from the relevant syndicates***
- ***Reviews are expected to be concluded by the 2027 YoA CPG***
- Back-testing template and loading calculation will remain the same as prior year
- Back-testing template will concentrate on non-cat
- “Self-loading” is not permitted; either a Lloyd’s loading will be applied, or the expectation is that a syndicate would update the roll forward process to eliminate historical deficiencies

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

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

---

This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. It is the responsibility of any person publishing or communicating the contents of this document or communication, or any part thereof, to ensure compliance with all applicable legal and regulatory requirements.

The content of this presentation does not represent a prospectus or invitation in connection with any solicitation of capital. Nor does it constitute an offer to sell securities or insurance, a solicitation or an offer to buy securities or insurance, or a distribution of securities in the United States or to a U.S. person, or in any other jurisdiction where it is contrary to local law. Such persons should inform themselves about and observe any applicable legal requirement.

LLOYD'S