
Lloyd's Non-Executive Director Actuarial Briefing

2025

2 December 2025


Introduction

Mirjam Spies, Interim Chief Actuary

Agenda



Introduction



Current position – Reserving and Capital - Mirjam Spies



SAO Insights - David Bracewell



2025 Year End Uncertainties – Fraser Walsh



Setting Loss Ratios in Changing Market Conditions – Kirsty McFall



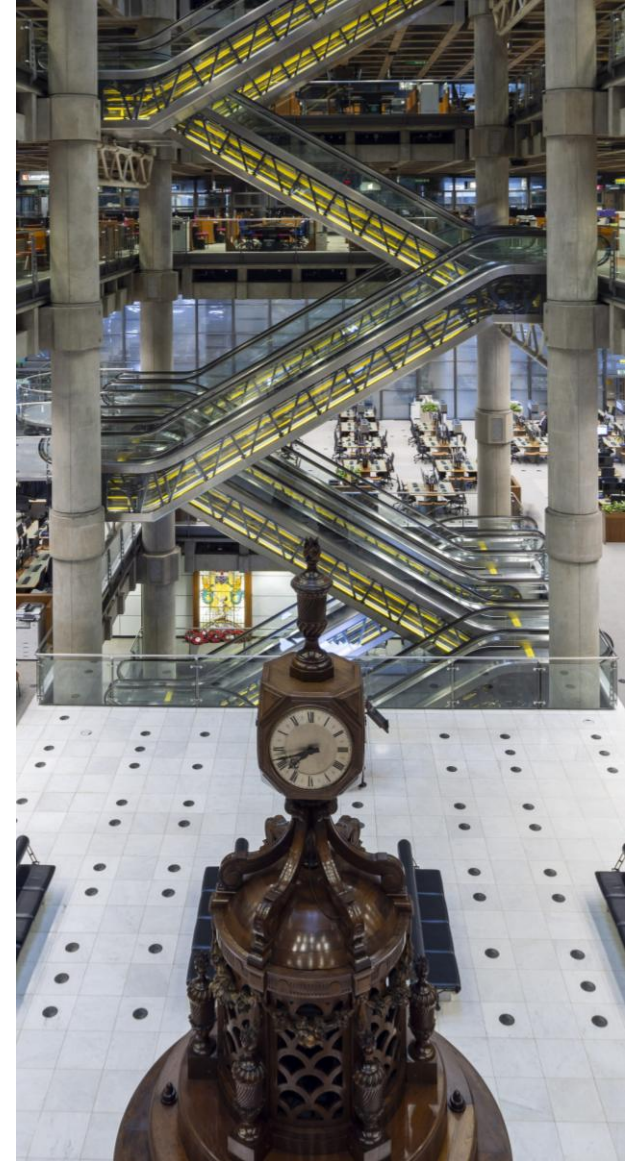
Capital Setting Options at Lloyd's – Mirjam Spies



Final Remarks



Q & A



Current position – Reserving and Capital

Mirjam Spies, Interim Chief Actuary

Significant surplus in market-level reserves continues

Margins are high in comparison to history.

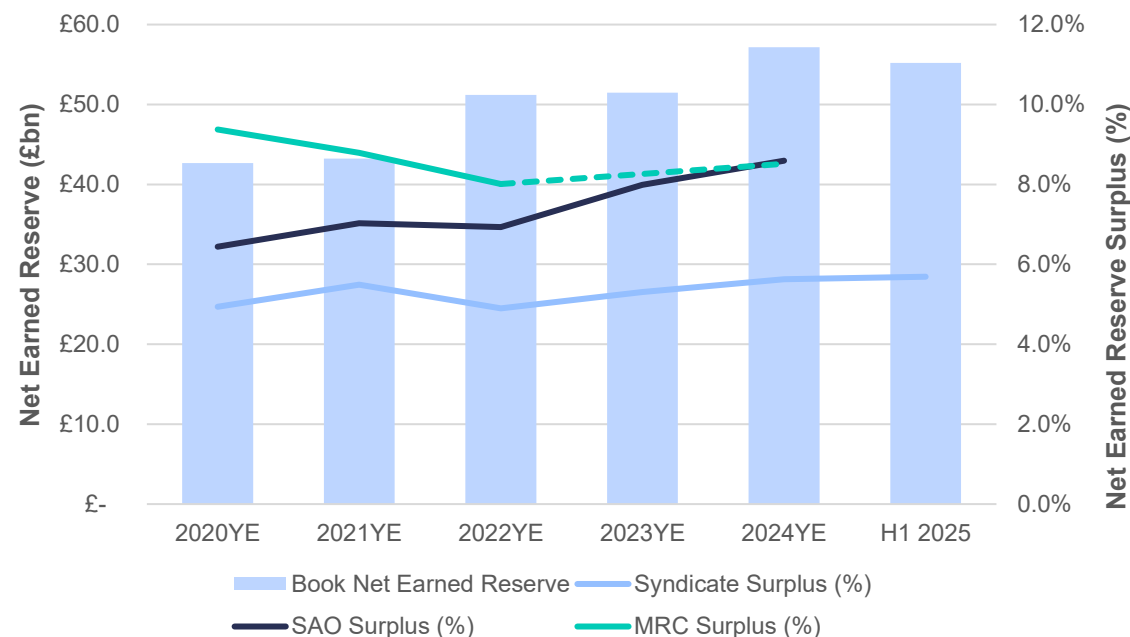
- Comparison here are to booked/held reserves – not best estimates
- There is a spread of margins held by syndicates according to their own margin policy

Net earned held surplus as at 2025 Half Year:

→	Syndicate view: £3.1bn / 5.7% 2025H1 (2024YE £3.2bn/5.6%)
↑	Statements of Actuarial Opinion: £4.9bn / 8.6% (2023YE £4.1bn/8.0%)
↑	Central Lloyd's "MRC" view: £4.7bn / 8.5% (2022YE* £4.1bn/7.9%)

* Lloyd's Central Reserving team did not perform a full annual reserve review as at 2023 year-end due to the focus on the reserving data transformation project.

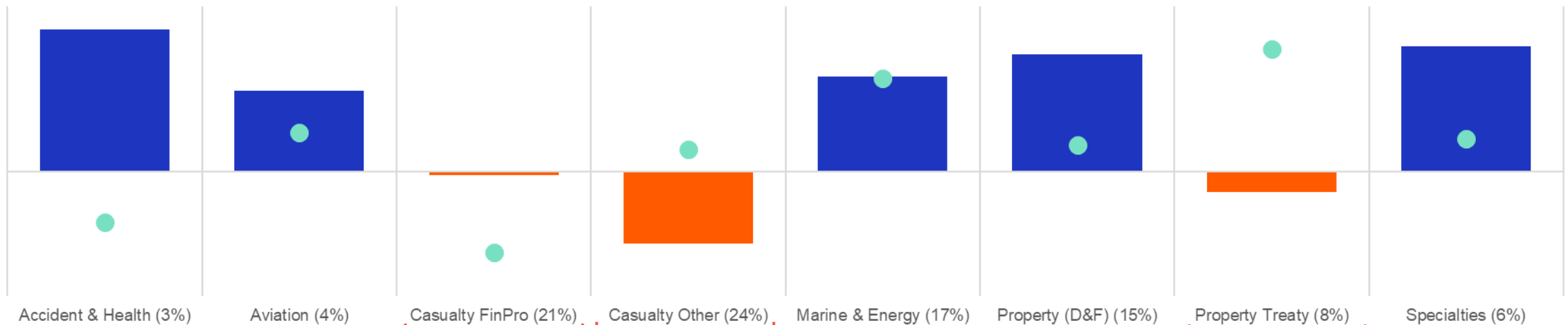
Net Earned Reserve and Surplus Over Time



We remain confident that aggregate market reserves are appropriate

The market's best estimate reserves in aggregate continue to be in excess of our independent view

■ Market > Lloyd's view ■ Market < Lloyd's view ● Market vs Lloyd's - 22YE



Casualty FinPro

- Much more aligned between the Lloyd's and Market views
- Lloyd's thematic reviews impact?
- Remediation impacts?
- Impact of rate change?

Casualty Other

- NM General Liability drives the difference to the market
- Medical Malpractice, Casualty Treaty and Motor XL too
- Casualty thematic review in 2024 showed remediation in terms of line sizes

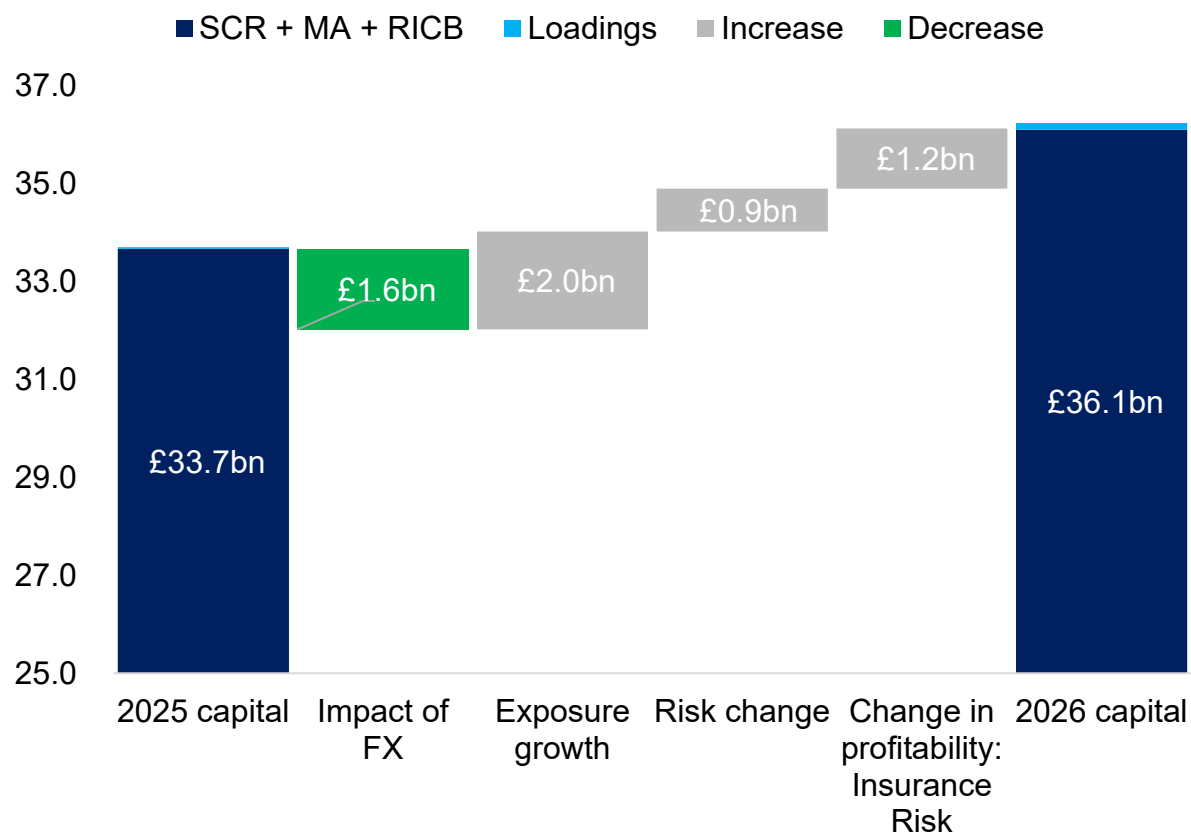
Classification: Unclassified

Property Treaty

- Differences largely driven by Property Cat XL
- Lloyd's to investigate difference in catastrophe allowance on this line of business

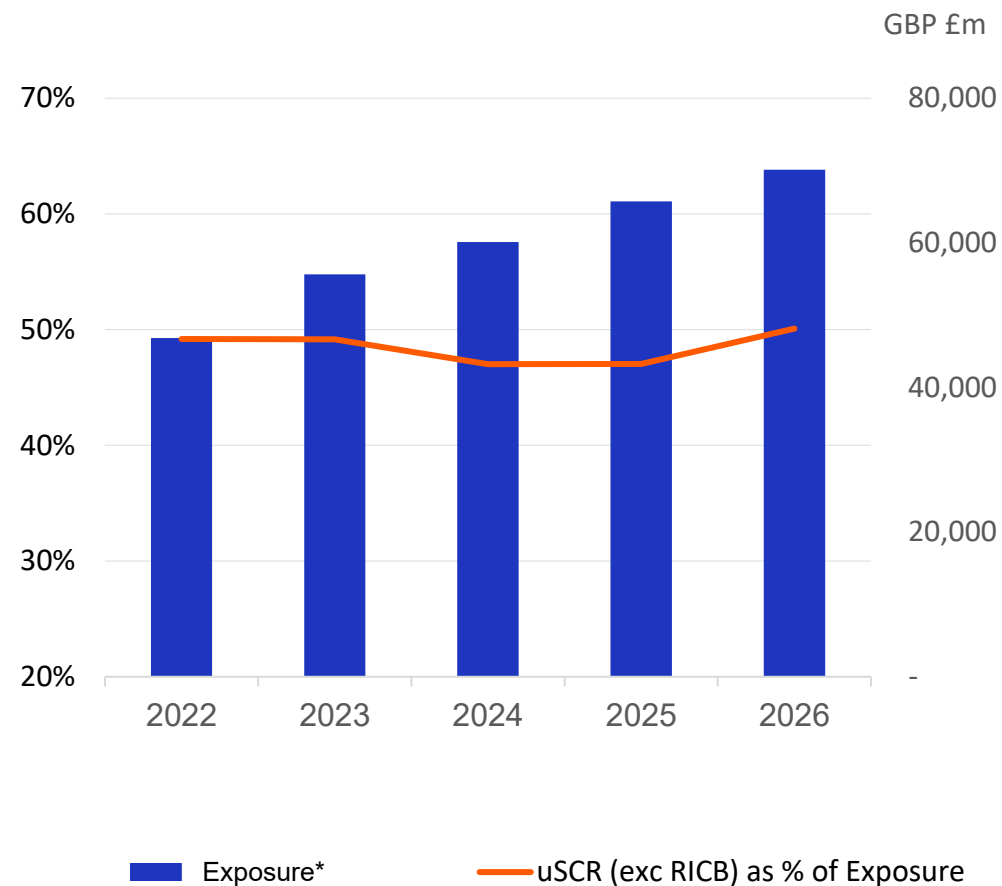
Capital Strength: Capital increases more than exposure

Breakdown of capital(*) increase 2025 to 2026



Capital versus exposure over time

(rebased to latest USD FX rate)



(*) Capital is SCR (on an ultimate basis) plus syndicates' Management Adjustments (MA) and includes Reinsurance Contract Boundary (RICB) adjustments

*Exposure is calculated as: Premium risk mean net claims + 0.5 * Earned Reserves

SAO Insights

David Bracewell, Senior Actuary, Syndicate Reserving

SAO insights



2024 YE SAO stocktake

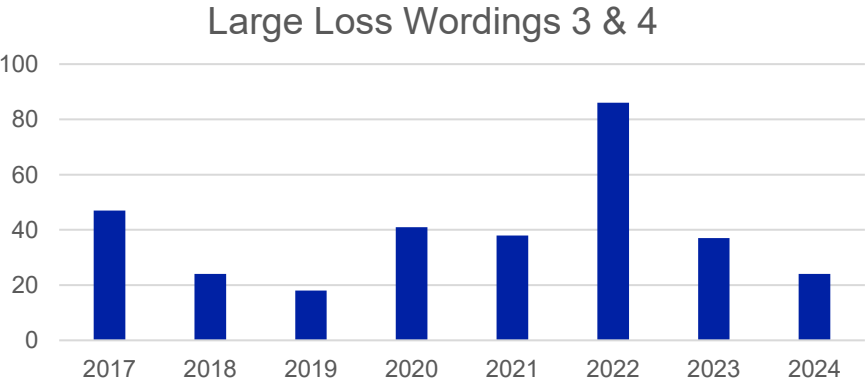


SAO margin insights - Predictiveness

2024 YE SAO stocktake

Margin highest since 2015

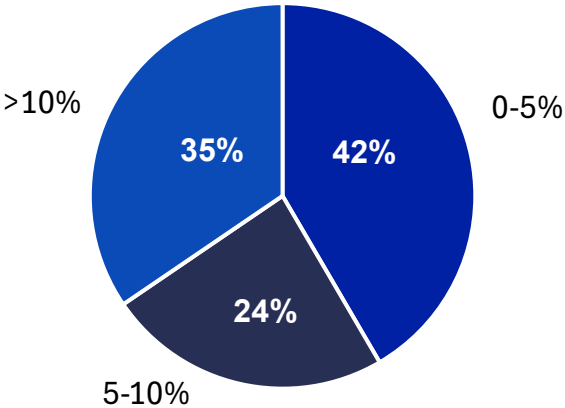
- Overall margin has improved as at 2024YE
- Wide range of SAO margin at syndicate level
- 23 Category 3 and 4 wordings, down from 37 in 2023
- Main areas of uncertainty relate to the conflict between Russia and Ukraine



Classification: Unclassified

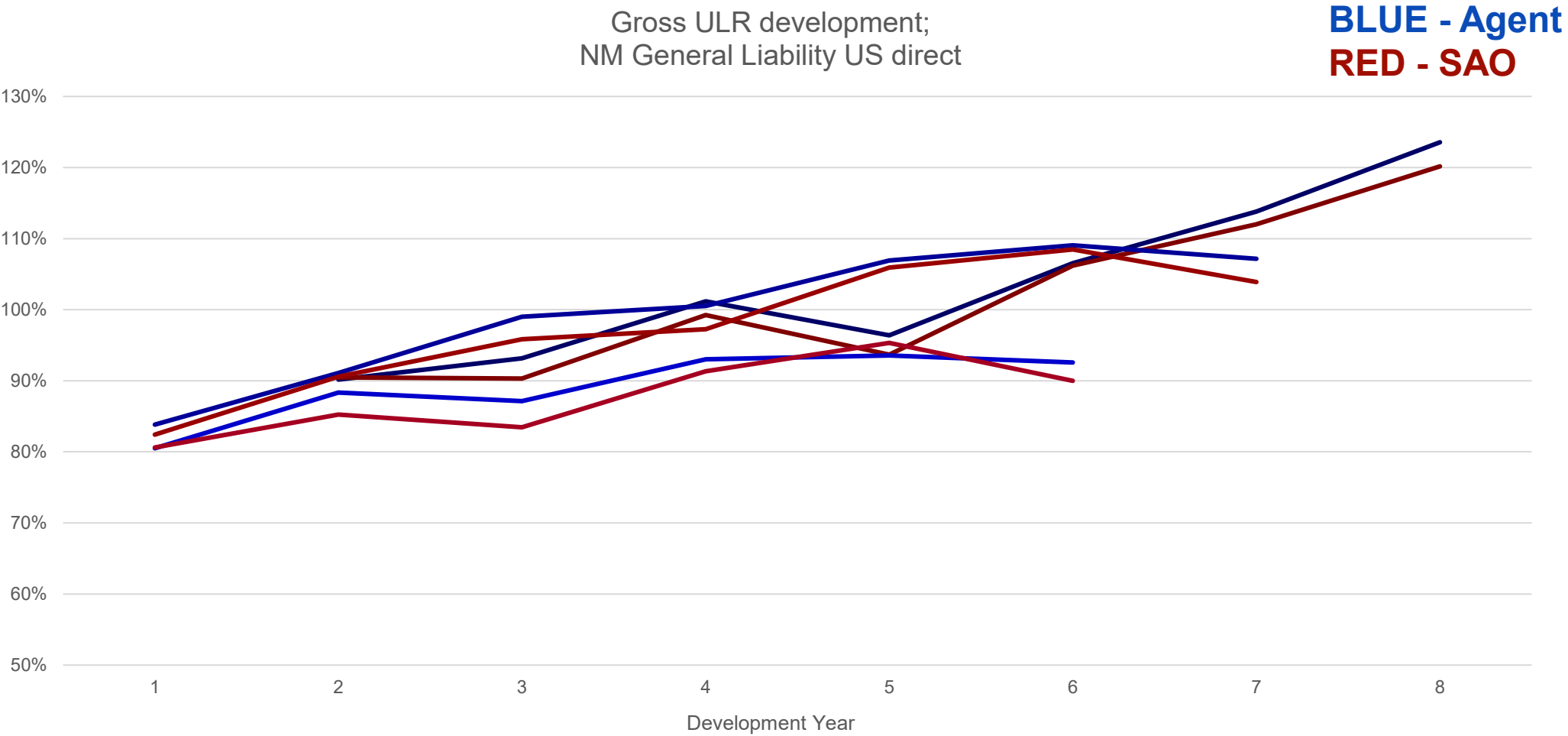


Proportion of Syndicates by Net Earned SAO Margin



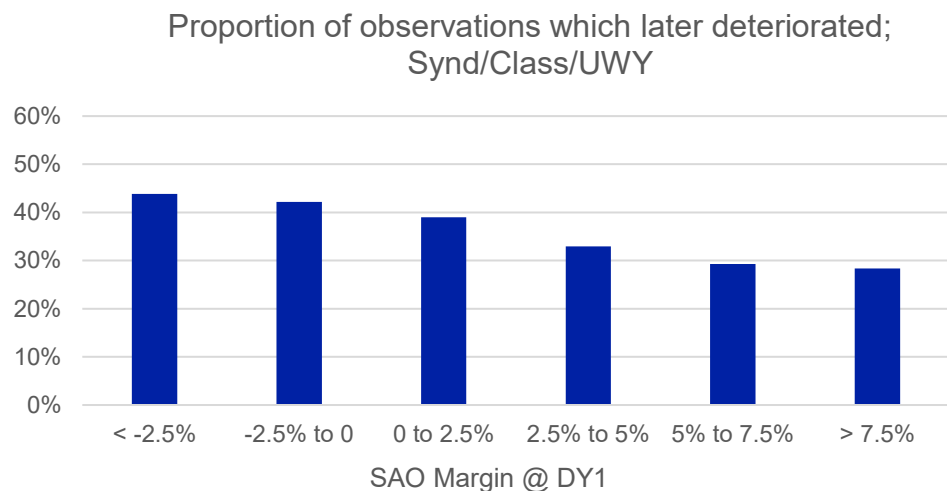
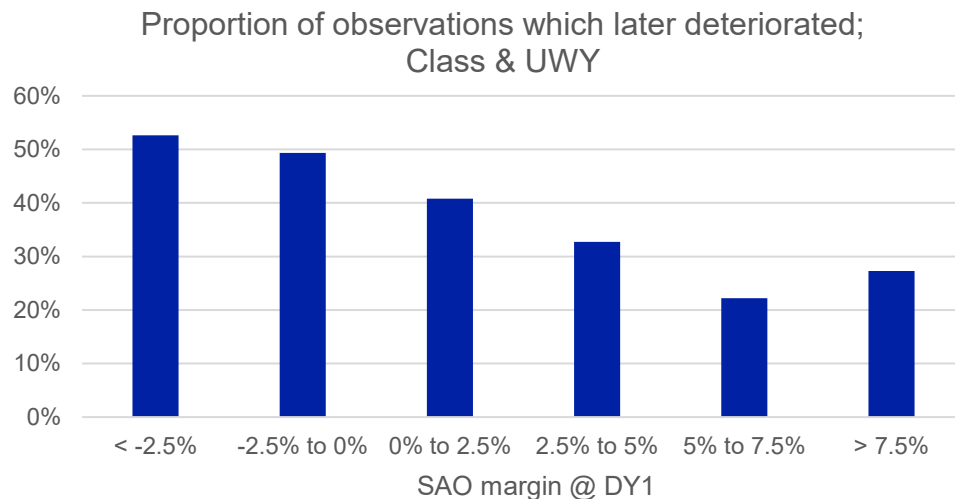
SAO Predictiveness

Comparison of ULR progression appears unhelpful



SAO Predictiveness

Analysis of SAO margin at DY1 yields some predictiveness



Aggregating observations demonstrates **some insight can be gained** from SAO margin analysis

Lower SAO margins tends to results in a higher proportion of reserve deteriorations

More indicative when aggregating all syndicates

We expect managing agents to consider the SAO comparisons and ensure relevant stakeholders are informed where material differences exist

SAO summary

2024 SAO margins the highest since 2015

SAO margin analysis is a useful indicator of reserve risk

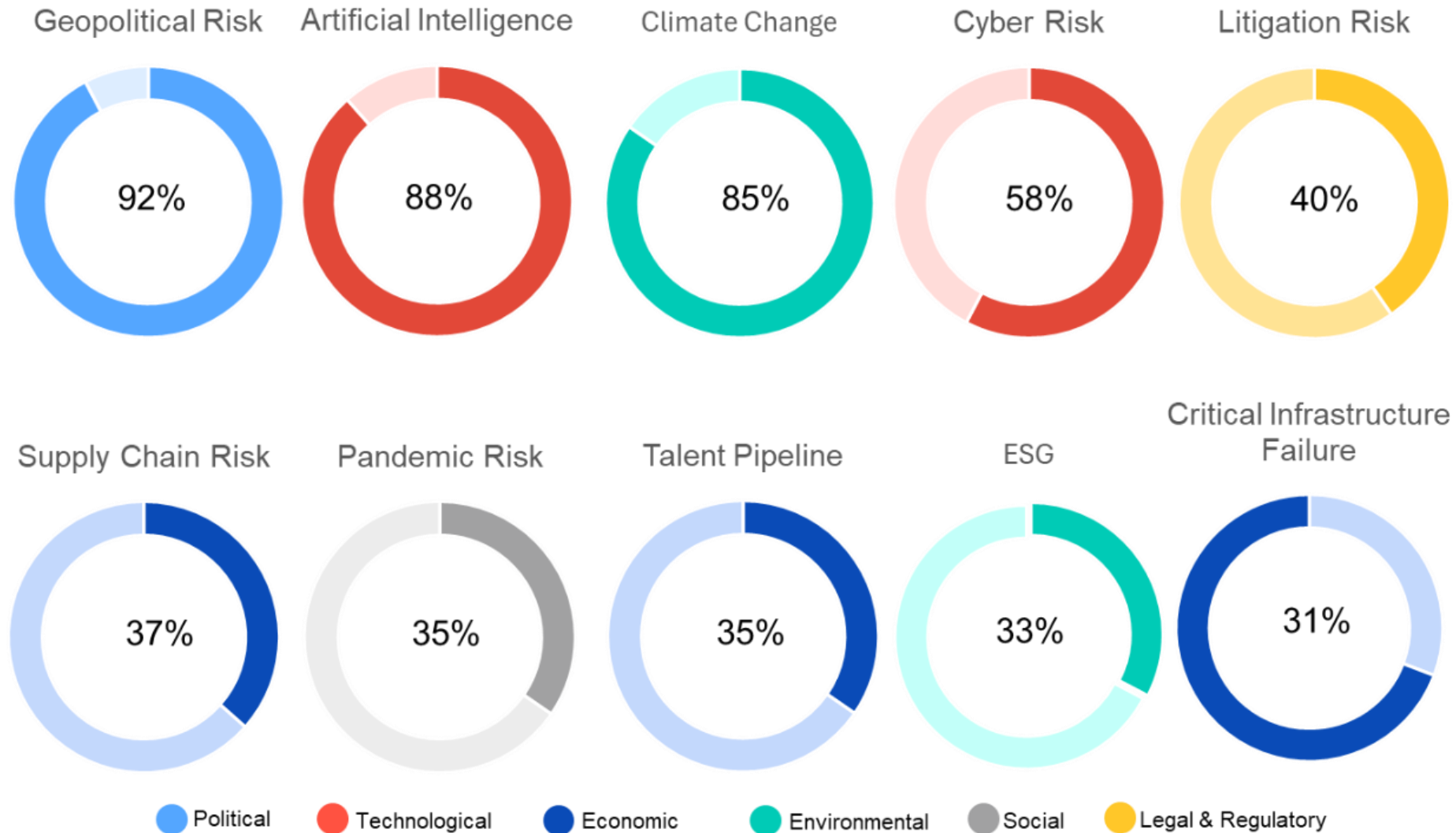
Agents should explicitly rationalise reserves SAO margins are weak or weakening

Boards need to be provided with SAO insights

2025 Year End Uncertainties

Fraser Walsh, Senior Actuarial Associate, Reserving

Uncertainty on the horizon

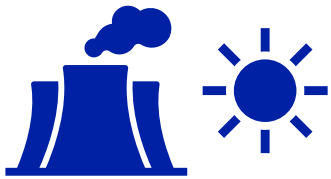


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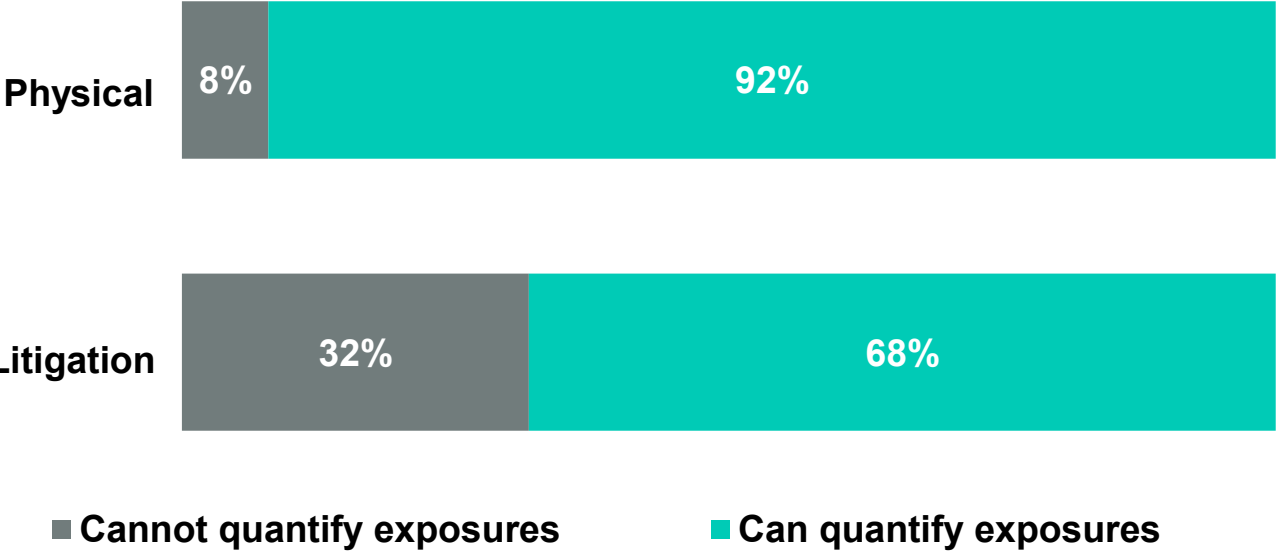
Uncertainty on the horizon – Latent Claims



Forever Chemicals

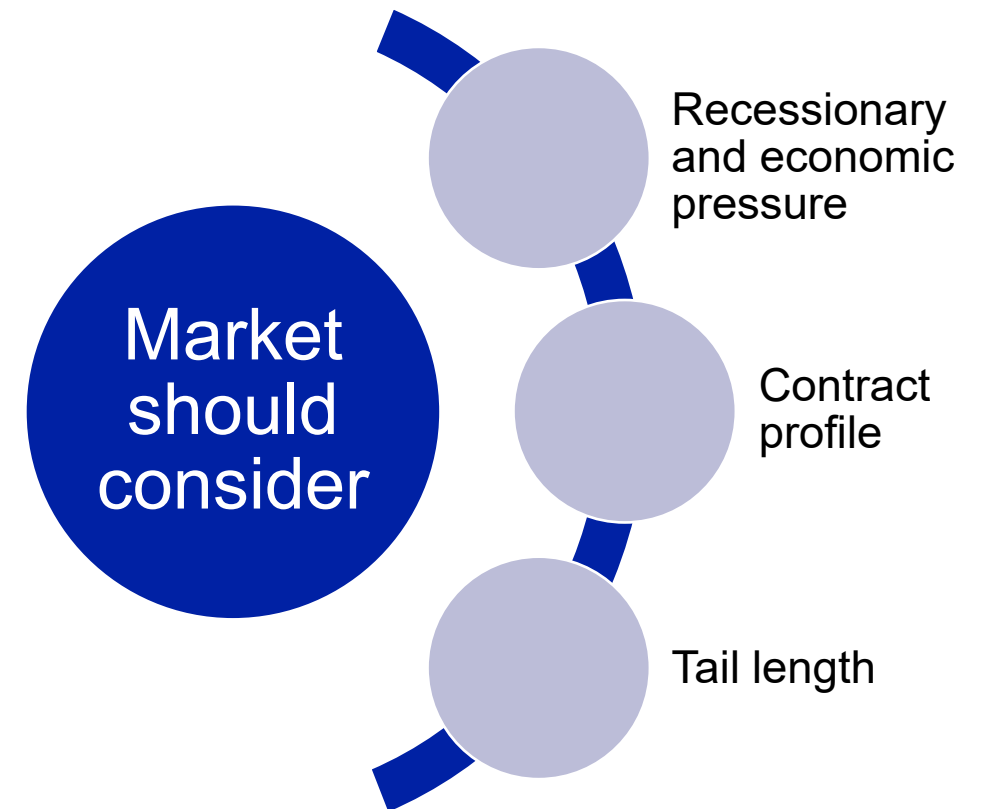
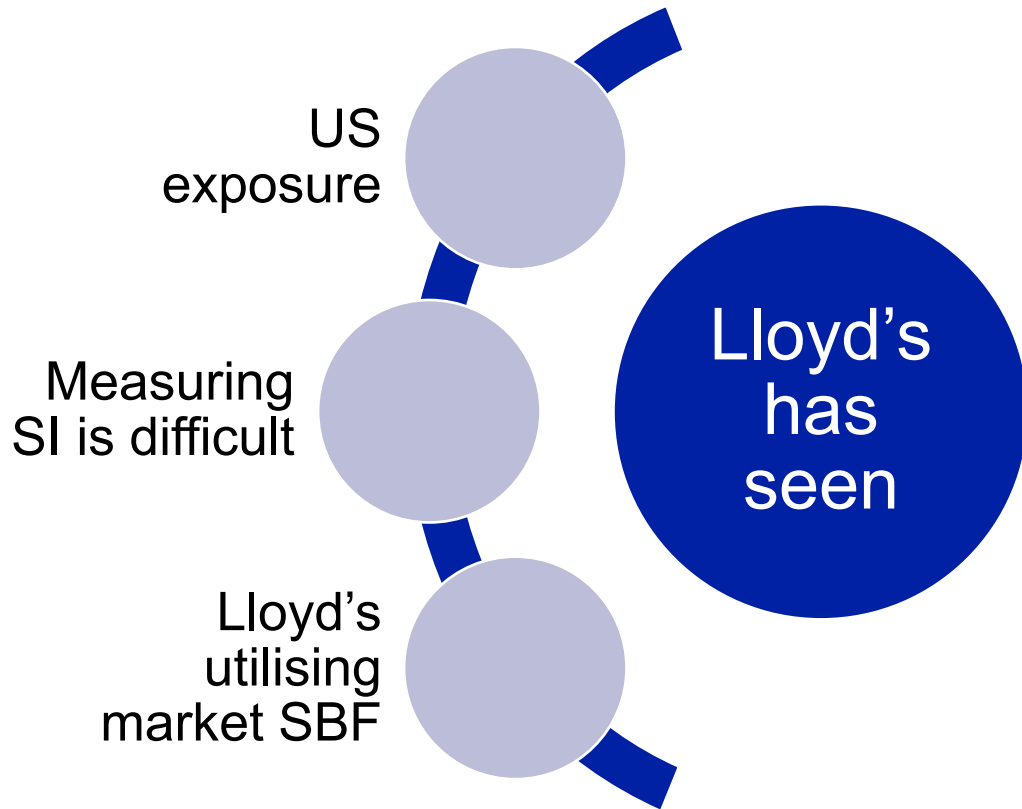


Climate change

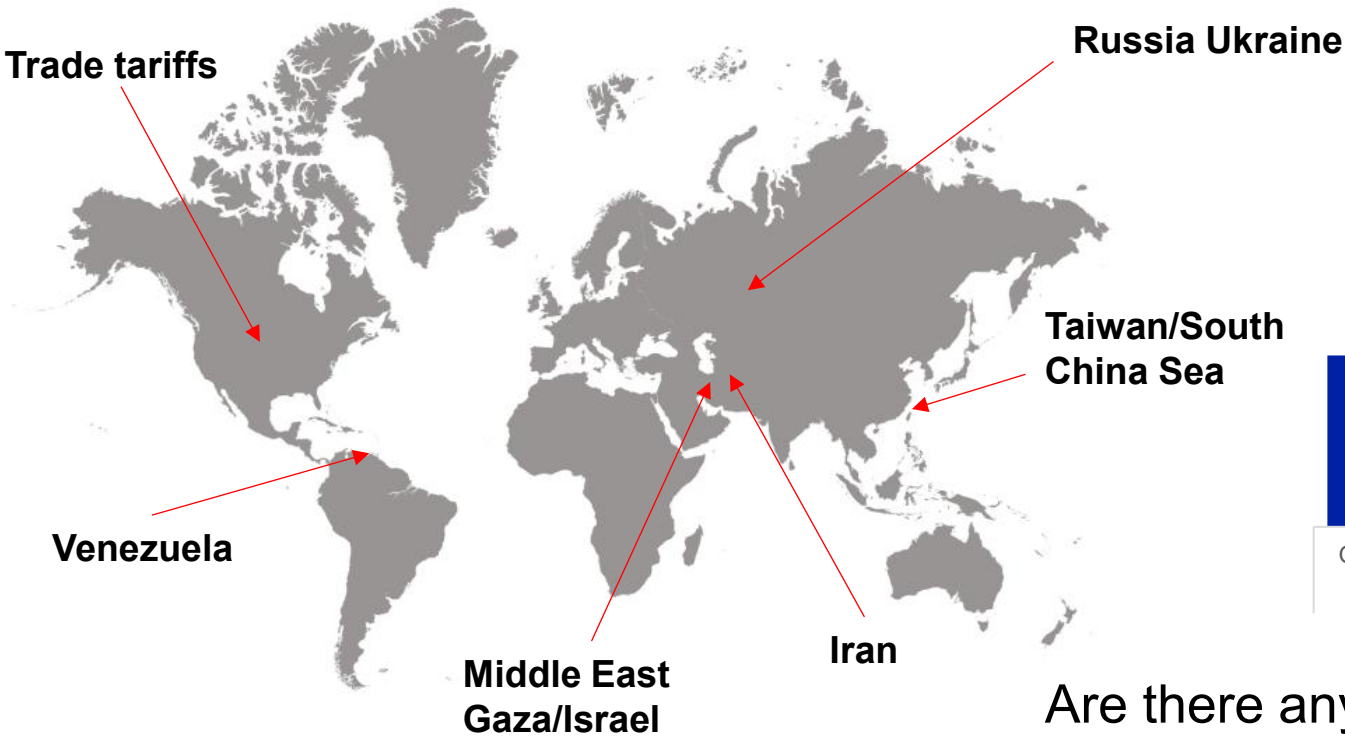


Source: [State and Federal PFAS Litigation – 2019 to Q2 2025](#) | Fox Rothschild LLP - JDSupra

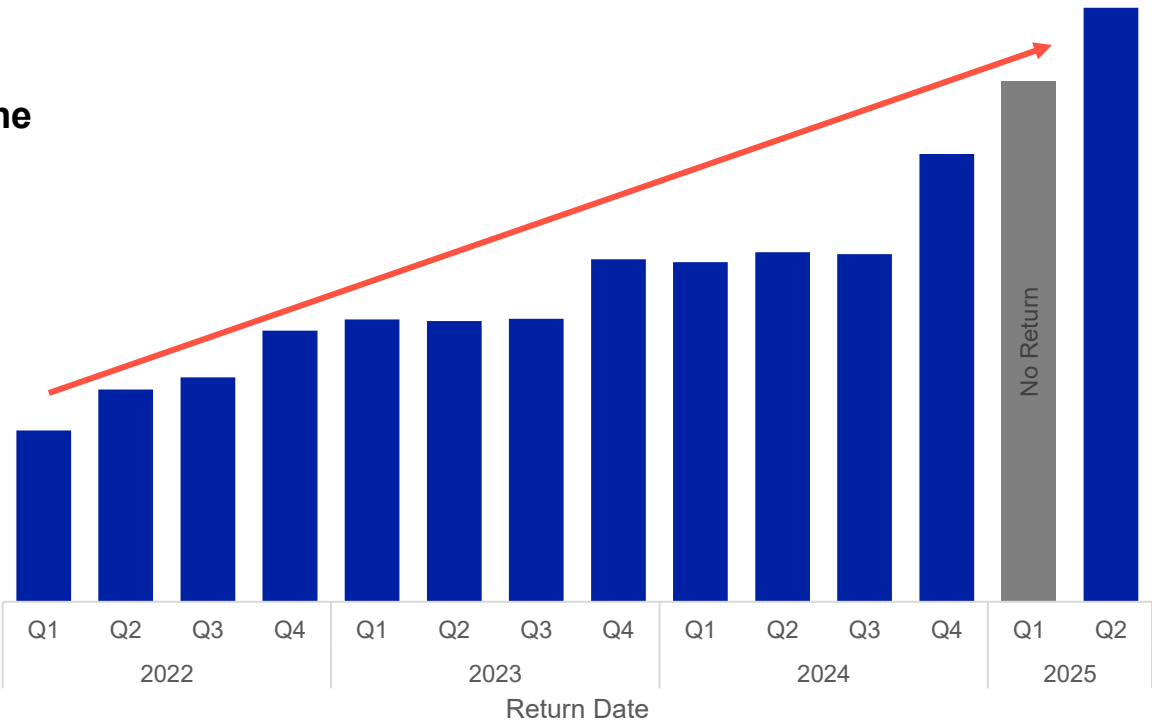
Inflation: The Social kind



Geopolitical Uncertainty

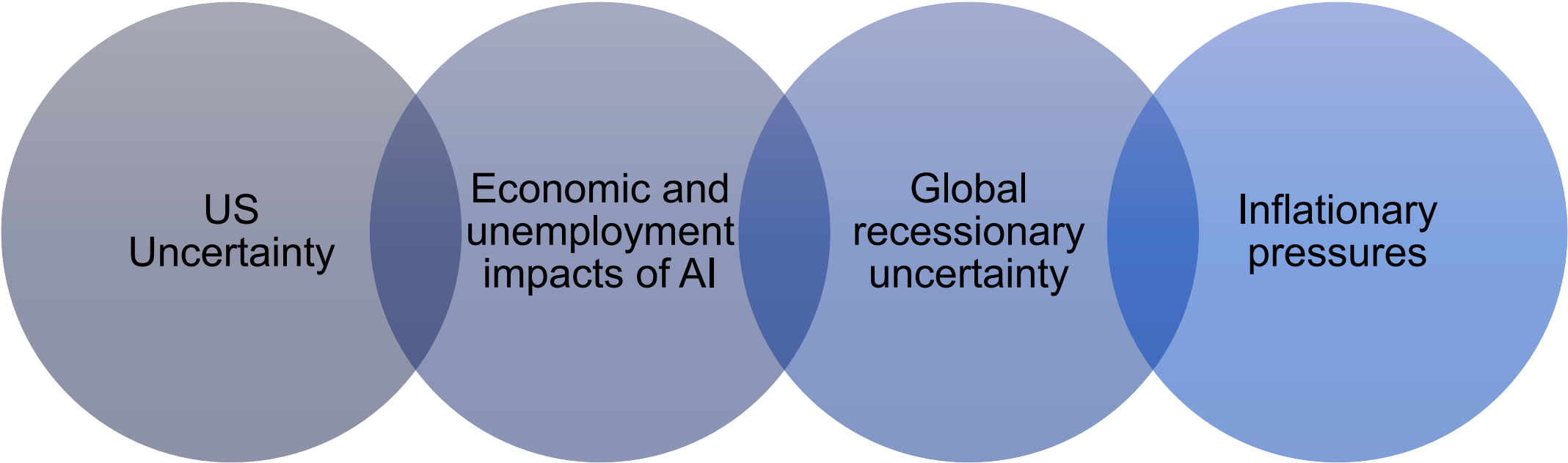


Ukraine - Market Net Ultimate Claim Estimates

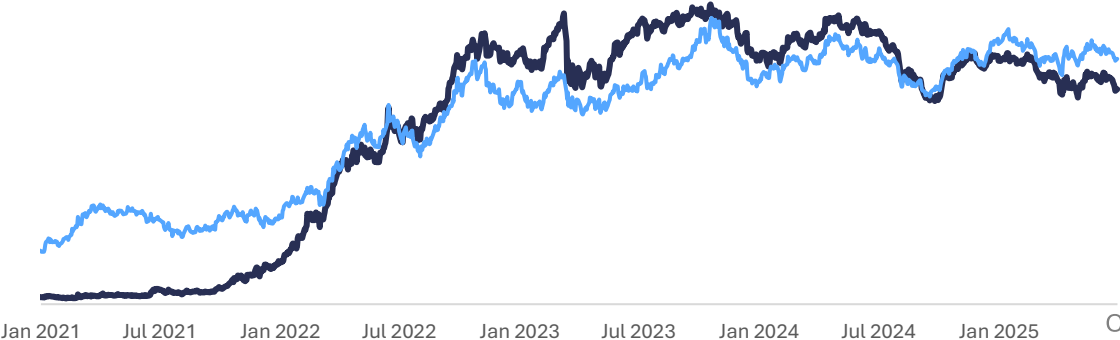


Are there any lessons to be learnt on how you reserve for “grey swans”?

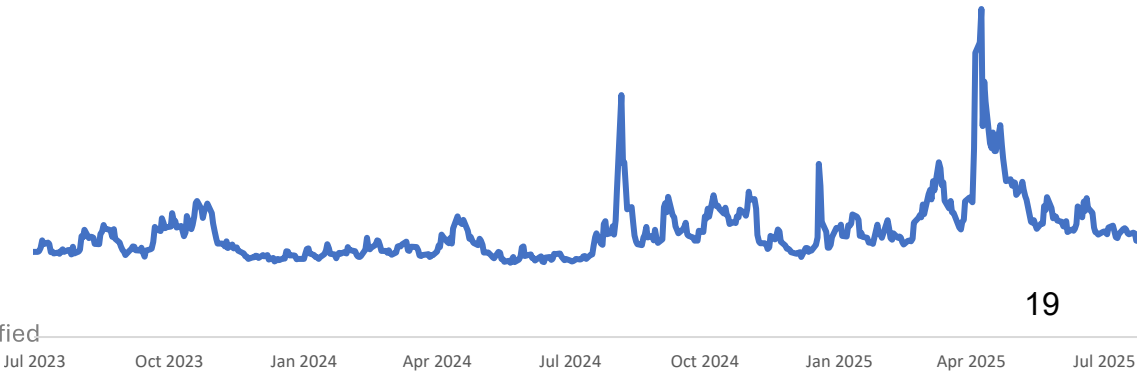
Macroeconomic Uncertainty



UK Government bond Yields — 2 Year — 10 Year



US Equity Volatility (VIX)



Classification: Unclassified

Allowing for Uncertainty

Examples of questions the Board could consider asking



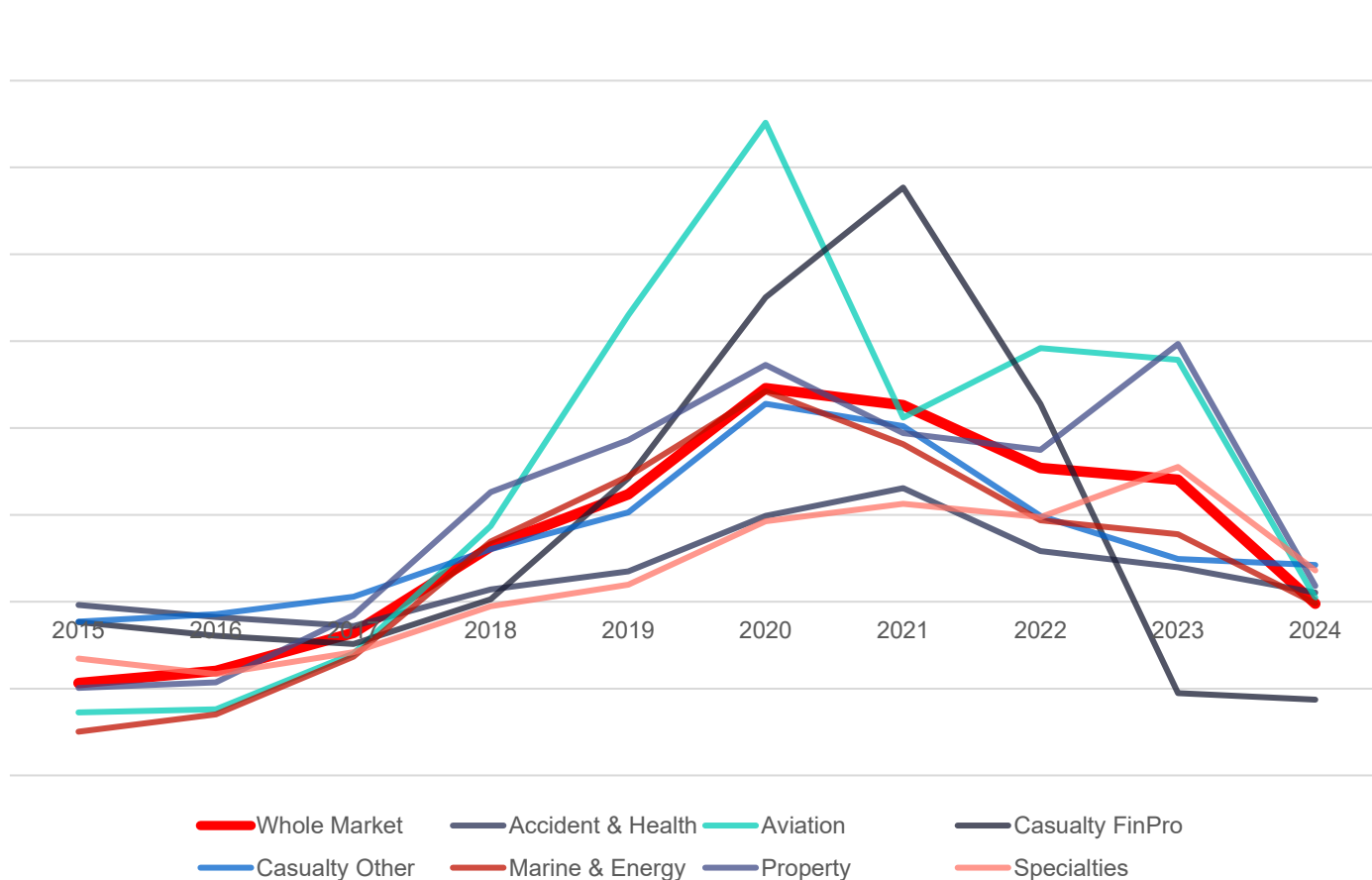
- Has your syndicate established exposure to different types of latent claims and can quantify this exposure?
- What is the reserving philosophy to major events – are you comfortable with what your actuaries are doing?
- Has your syndicate sufficient mitigation in place in terms of the exposure to some of these uncertainties? What about other potential grey swan events?
- What is the balance between allowances in reserves and capital – what do we hold in best estimate reserves, what is allowed for in capital? What about in reserve margin?
- What scenarios have been considered to determine the reserve and capital allowances for the events in question and at what return periods?
- Have cross-functional perspectives been considered to ensure scenarios are realistic and comprehensive? Has this been updated to be appropriate for your risk profile – and for the latest events in the world?

Setting Loss Ratios in Changing Market Conditions

Kirsty McFall, Interim Head of Reserving

A Softening Market

Lloyd's has seen rate falling across almost all areas



Syndicates should consider



Underwriting impacts



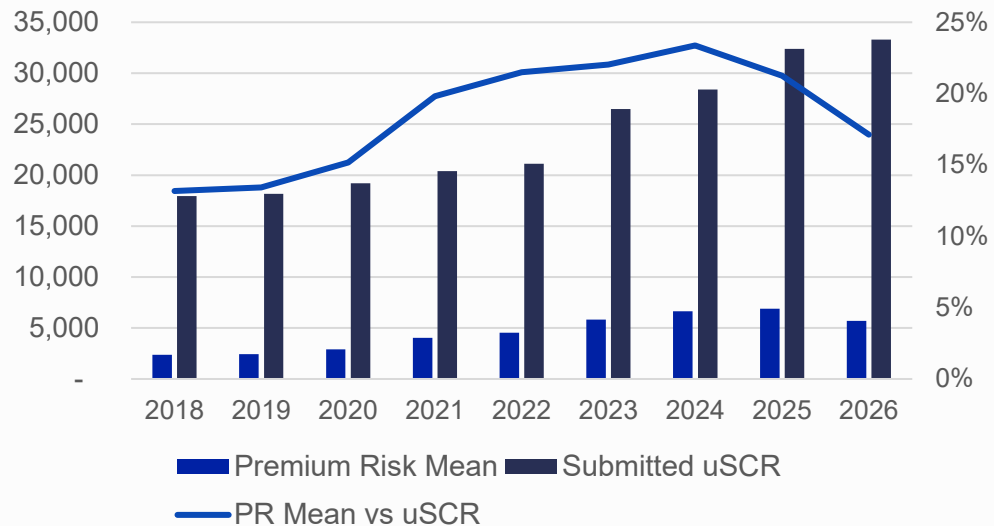
Methodology consistency



IELR

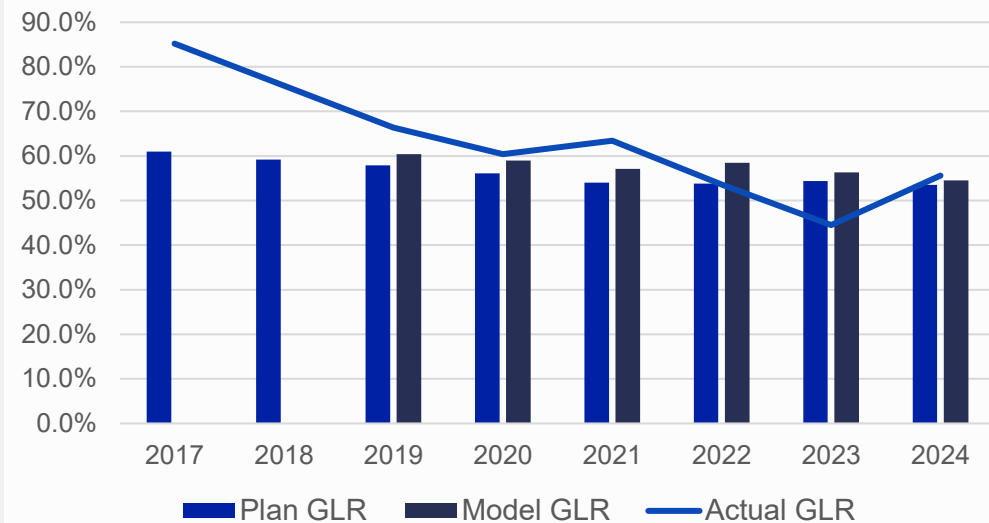
Why does Lloyd's focus on profit in Capital Models

**Prospective year mean claims vs
Syndicate uSCRs**



- Prospective year mean claims falling relative to ultimate SCR for 2024 - 2026

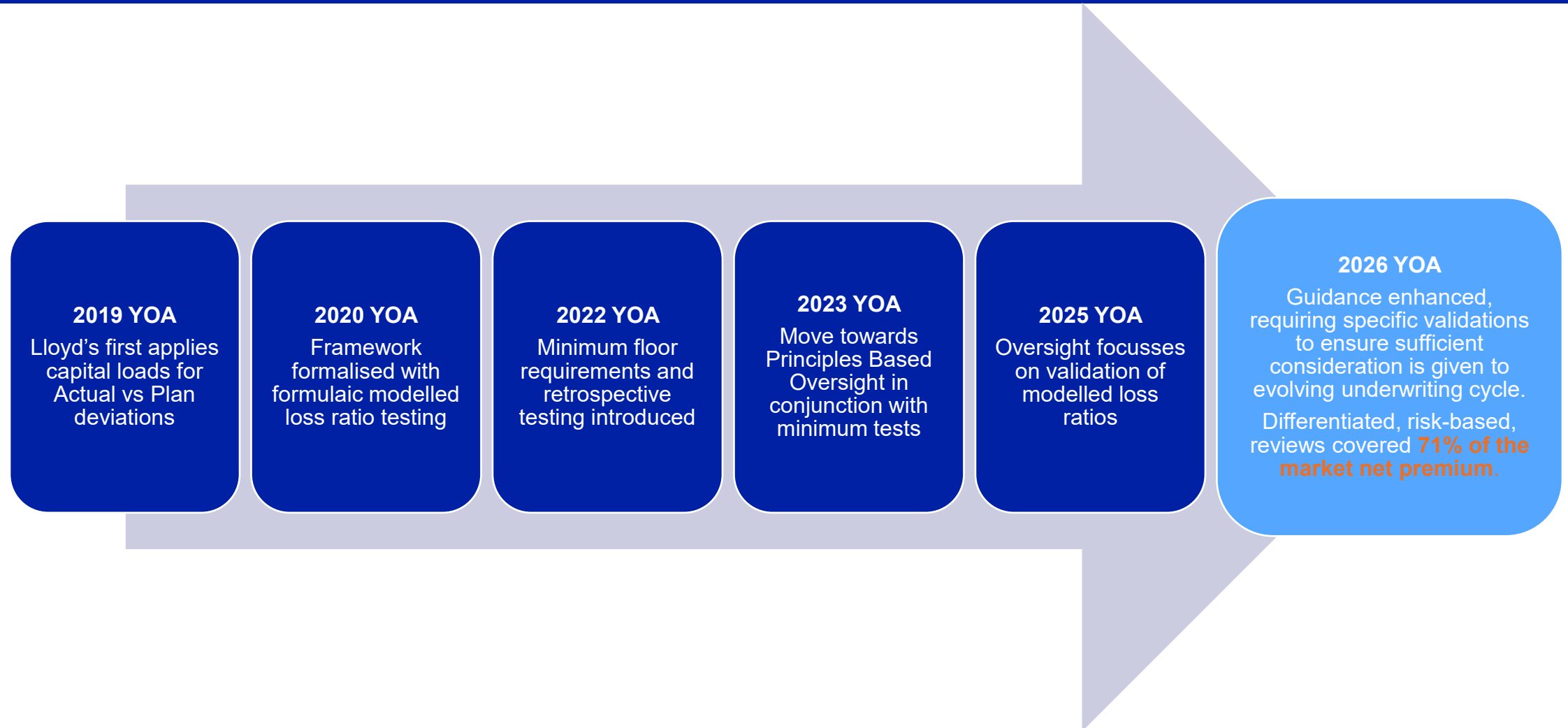
**Recent trend of actual vs model / plan
loss ratios**



**Note – Prior to 2019, modelled loss ratio = plan loss ratio*

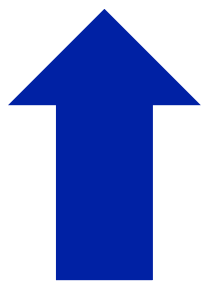
- Profit assumed has increased (i.e. loss ratio decreased) over the period 2017-23
- Percentage of profit now decreasing

Lloyd's modelled loss ratio oversight continues to evolve

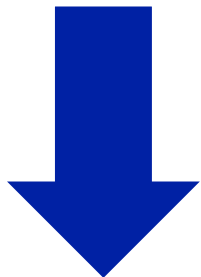


Capital Planning Group findings for 2026 YOA

- RARC reductions continue in business plan submissions
- Modelled loss ratios have increased by less than pure RARC would indicate.



Rate reductions key reason for
loss ratio increases
Market continues to soften

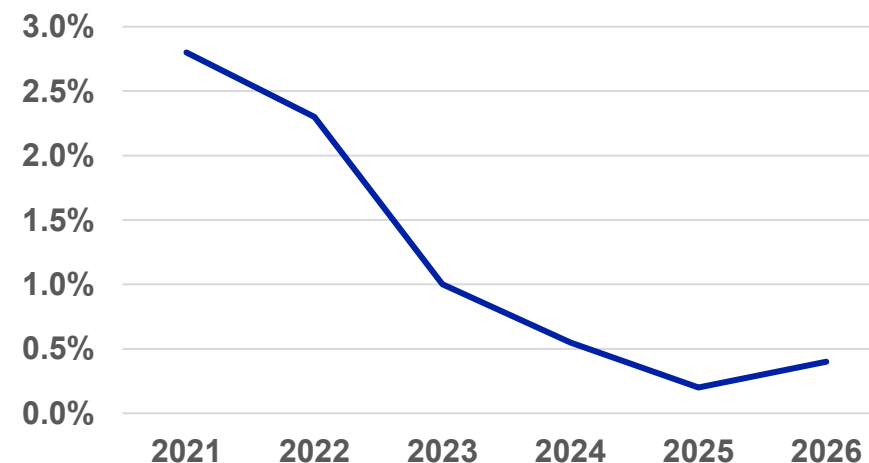


Offset by a reduction in loads

- Credit for Improved Performance / Reserve Releases on prior years
- Release of RARC haircuts
- Removal of event-specific allowances
- Change in business mix
- Credit for remediation
- Reduction in model self-uplift

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

Market Level Self Uplift: NNLR



Loss ratio assumptions for future business will remain a focus

Examples of questions the Board could consider asking



- Are you comfortable with the approach your syndicate is taking and how this differs for different bases? How does the capital model loss ratio differ from that?
- How have the softening market conditions been considered? Has uncertainty around RARC been included?
- How do the “pure” actuarial and business views of loss ratios differ? Do you feel that pressure is rising and optimism creeping in?
- How useful do you find your independent validation reports and SAOs? What do you think should be added to help you gain clarity and comfort?

Capital Setting Options at Lloyd's

Mirjam Spies, Interim Chief Actuary

Capital setting options at Lloyd's

Current State

- All syndicates (except new entrants) must use a **full internal model** for capital setting
- New entrants can use the "Lloyd's Standard Model" (akin to Standard Formula) for up to 3 years
- Lloyd's is the only regulatory regime mandating this approach

Future State

- Offer capital options between the Lloyd's Standard Model, Partial Internal Models and Full Internal Models to syndicates
- Establish guard rails (not every option will be appropriate for every syndicate)

Benefits

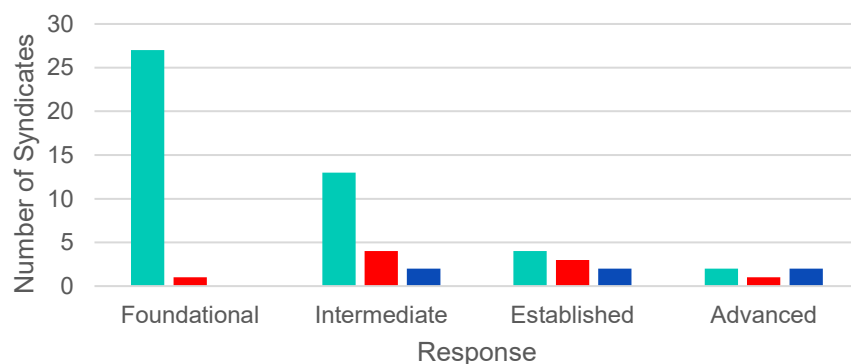
1. **Proportionality:** Complexity of capital models will align with complexity of risks, consistent with Solvency UK requirements
2. **Competitive Alignment:** Bring Lloyd's in line with other regulatory regimes
3. **Focus on Material Risks:** Frees up management and actuarial resource to concentrate on key risk areas, rather than spending time on less material components, reducing validation and other governance processes
4. **Cost efficiency:** Especially for smaller syndicates and new entrants, reduces cost of maintaining and esp. developing a full internal model, lowering barriers to entry
5. **Simplification of reporting and modelling requirements:** Supports Lloyd's strategic objective of simplifying requirements

Partial Internal Model

Market Feedback

CALM survey at end of 2024 showed interest from many agents in making changes to the current capital setting approach (about 60% of syndicates represented):

Interest in Changing Internal Modelling Approach, if available?

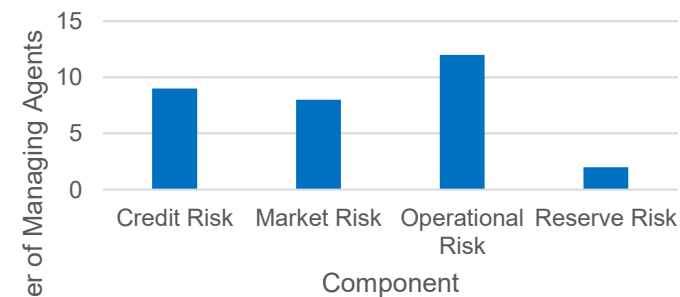


Agent #1: "[There are] elevated costs to complete an IMAP in the year prior to internal model operation.
Benefits: "Reduced strain at peak times, supporting more focus on key risk areas and model uses."
Cost savings: "This would depend heavily on things like the scope of external validation, additional validation needed for the new approach, any simplifications allowable by Lloyd's"

Managing agents indicated most interest in reducing scope on modelling operational risk, followed closely by credit and market risk.

Some agents also commented that they would consider elements of insurance risk, but that this would be less likely to be appropriate.

Possible Components to Replace in Internal Models

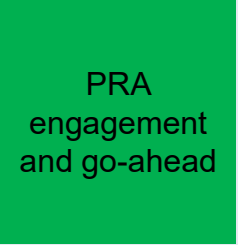














Agent #2 : "While the savings would not be material, the ability to focus more on key risks and less on immaterial areas of the model would be useful."

Agent #3: "At least half of the current workload removed. This would simplify returns and reduce the workload of Chief Actuary and CRO. Documentation could also be simplified over time by removing the details of overly complex minor risk categories, allowing more focus on the key risks "

Partial Internal Model

Proposed Timeline

2025		2026				2027	
Q3	Q4	Q1	Q2	Q3	Q4	Q1	H2
	 	 				 	 
			 			 	



*PRA engagement to continue throughout process

Final Remarks

Mirjam Spies, Interim Chief Actuary

Final Remarks

Market's Reserves and Capital are exceptionally strong

Market is softening, but loss ratio impact of rate change dampened by credit for experience

Reflect on reserving philosophy and approach including any explicit and implicit margins

Ensure latent claims exposure is understood, major event and ongoing risks like inflation are reflected in reserves and capital

Q & A

Key Contacts

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LLOYD'S

Current capital setting options at Lloyd's

All syndicates (apart from new ones) need to set capital using a full internal model



Currently, Lloyd's is the **only** regulatory regime that requires all participants to develop a full internal model for capital setting



This is not in line with the principles of **proportionality** under Solvency UK

Complexity of capital models should be proportionate to the nature, scale and complexity of the risks



Disproportionate focus on parameterising, validating and spending management time on **less material risks**

*And **significant cost** associated with maintaining a full internal model*



Barrier to entry

Development of an IM is a significant investment of time and cost.



Not aligned to strategic objectives

Lloyd's: Attracting new entrants and simplification of cumbersome requirements

PRA: secondary objective to support competitiveness and growth

Current Capital Setting Options

Lloyd's vs London Market

Entity	Capital setting options (from least to most complex)			
London Market	Standard Formula	SF with USPs	Partial Internal Model	Full Internal Model
Lloyd's syndicate – current	Lloyd's Standard Model ("LSM") for temporary period	LSM with USPs for temporary period	New entrants can leverage some components from an IM and combine with the LSM, for first year only	Full Internal Model
Lloyd's syndicate – Proposed future state	Allow syndicates to remain on Lloyd's Standard Model as appropriate, not just for exceptions	Allow syndicates to remain on Lloyd's Standard Model with USPs as appropriate, not just for exceptions	Allow syndicates to use a PIM if appropriate. A pilot study to be conducted in 2026 before introducing this to the wider market	Full Internal Model (No change)

Focus of this section

- **Introduction of PIM:**

aligns to offerings available to other PRA regulated insurers

is expected to address many of the issues with the current regime e.g.

- Proportionality
- Focus attention (including management attention) on material risks
- Reduced expenses
- Reduced competitive disadvantage

CAVEAT – Not every method will be appropriate to every syndicate and this will be subject to certain guardrails, and approval from Lloyd's will be required for any syndicate request to not use a full Internal Model

Capital setting options at Lloyd's

CURRENT STATE

- All syndicates (except new entrants) must use a **full internal model** for capital setting.
- New entrants can use the “Lloyd’s Standard Model” (akin to Standard Formula) for up to 3 years
- Lloyd’s is the only regulatory regime mandating this approach.

FUTURE STATE

- Offer capital options between the Lloyd’s Standard Model, Partial Internal Models and Full Internal Models to syndicates
- Establish appropriate guardrails (not every option will be appropriate for every syndicate)

Benefits

1. Proportionality

Complexity of capital models will align with complexity of risks, consistent with Solvency UK principles.

2. Competitive Alignment

Brings Lloyd’s in line with other regulatory regimes

3. Focus on Material Risks

Frees up management and actuarial resources to concentrate on key risk areas rather than spending time on less material components, reducing validation and governance processes

4. Cost efficiency

- Especially for smaller syndicates and new entrants reduces costs of maintaining and esp. developing a full internal model, lowering the barriers to entry

Classification: Unclassified

6 Simplification of reporting and modelling requirements