

# 2026 LCR instructions

Instructions for submission of the 2026 YOA Lloyd's Capital Return and supporting documentation

July 2025

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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
RML	Residual Model Limitation
SAO	Statement of actuarial opinion

<b>SBF</b>	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 2026 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 2026 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 2026 YOA LCR

For 2026 YoA LCR, there are changes for agents and syndicates to consider. These are covered in detail in these instructions and/or the [Lloyd's Capital Guidance](#), and have been signposted below:

- Considerations for transitioning from Solvency II to Solvency UK, including:
  - Senior Management Function (SMF) attestations, as described in Section 5.2 of the [Lloyd's Capital Guidance](#), with a template provided in Appendix G. Please see Section 3.1 of this document for details on how and when to submit this attestation.
  - Model Limitation Adjustments (MLAs), as described in Section 4.11 of the [Lloyd's Capital Guidance](#)
  - Revised LCR Form 600, as described in Section 5.9.2 of the [Lloyd's Capital Guidance](#).
- Changes to the deferred review process for aligned syndicates, described in Section 4.1.
- Enhanced focus on validation of modelled loss ratios given changing market conditions, described in Section 5.4.
- Macroeconomic and geopolitical environment considerations, described in Section 5.5.

## 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 for business plan and capital submissions will continue for 2026 YoA LCR. Similar to last year, there will be 3 submission phases. Each syndicate has been given a specified return 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 involves submissions from aligned syndicates with Letters of Credit (LOC), scheduled earlier to accommodate the need for Tier 2 assets. Phase 3 includes submissions from aligned syndicates without LOC. Further details can be found in [Market Bulletin Y5456](#).

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 via 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 Syndicate Capital Setting folder. 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 complete 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	Methodology2026_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	AoC2026_0000_free text (0000 representing the syndicate number)
<b>Focus areas</b>	Spreadsheet return on <a href="#">Lloyds.com</a>	Attachment in MDC	Phased submission LCR deadline	FocusAreas2026_0000_free text (0000 representing the syndicate number)
<b>Model change template</b>	Spreadsheet return on <a href="#">Lloyds.com</a>	Attachment in MDC	Phased submission LCR deadline	MCT2026_0000_free text (0000 representing the syndicate number)

Item	Description	Submission	Deadline	Naming convention
<b>Validation</b>	Documentation providing model validation	Upload to SecureShare	One week after LCR deadline	ValidationReport2026_0000_ free text (0000 representing the syndicate number)
<b>New SBF no LCR template</b>	Spreadsheet return on <a href="https://www.lloyds.com">Lloyds.com</a>	Attachment in MDC	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	SMFAttestation2026_0000_ free text (0000 representing the syndicate number)

\*The template for the Annual Attestation can be found in Appendix G of the [Lloyd's Capital Guidance](#).

In certain circumstances, syndicates should fill in the sum of squares template (available on [Lloyds.com](https://www.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 2026. 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.

Additionally, an annual attestation needs to be provided by a Senior Management Function (SMF) role as per the PRA's requirement under SUK. Lloyd's does not prescribe the SMF role holder who is required to provide the attestation, but generally we would expect that this is the accountable executive closest to or responsible for the model.

## 3.2 Lloyd's Capital Guidance

The [Lloyd's Capital Guidance](#) for 2026 YOA (issued in April 2025), alongside these instructions, are the requirements in force for the 2026 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 2026 LCR Focus Areas return requests responses across several areas, including:

Area	Tab	Which syndicates need to complete this	LCR instructions reference
<b>Macroeconomic and geopolitical environment</b>	Macroeconomic and Geopolitical	All syndicates	Section 5.5
<b>Modelled loss ratios</b>	Model LR	All syndicates	Section 5.4
<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>Market risk</b>	Market risk	Only syndicates that breach any of our requirements for the negative market risk template*	Section 5.6

\*Requirements for the Negative Market Risk Template include:

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 % 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; 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.

Syndicates that do not breach these requirements are not required to complete this tab.

### 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 are published in Market Bulletin [Y5459](#). 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 2026 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

For 2026 LCR, the requirements for LCR Form 600 submissions have been updated to align with Solvency UK requirements.

The PRA will now 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. The [2026 LCR Specification](#) includes an example of the new version of LCR Form 600, with the live version available in MDC.

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

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

#### ***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 2026, 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 2026 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 modelled loss ratios for the 2026 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 modelled loss ratio, syndicates are expected to explain and justify this, with reference to Lloyd's requirement that the modelled loss ratio must be at least as high as the plan loss ratio
  - If there is a decrease in self-uplift since the 2025 LCR submission of more than 1%pt, syndicates must provide rationale for this and explain why the modelled 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 2025. 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 2026 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.

From this 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 Q7 of the General Queries.

Further information on this, including types of conflicts of interests that should be considered, can be found in Appendix 2.

For details on the key process points to note for the setting and modelling of *member capital* for the 2026 YOA, please review Market Bulletin [Y5462](#) and the [ECA guidance manual](#). The bulletin also contains details on the changes to the Quarterly Corridor Test (QCT) exercise and sets out the timetable through 2025/26.

### **Tyche Model Update**

Syndicates should note that Lloyd's are aware of a new release of Tyche model platform, with updated methodology in relation to capping of discounting credit within market risk. Under the new release, Lloyd's understands that syndicates will have the option to adopt the new methodology, with varying impacts across syndicates based on risk profile. Within the supporting Analysis of Change documentation, syndicates using this platform are expected to confirm whether the new methodology has been adopted and its impact, with reference to the relevant change in the Model Change Template, or rationale as to why it is not considered appropriate to adopt the new methodology relative to the syndicate's risk profile.

## 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:

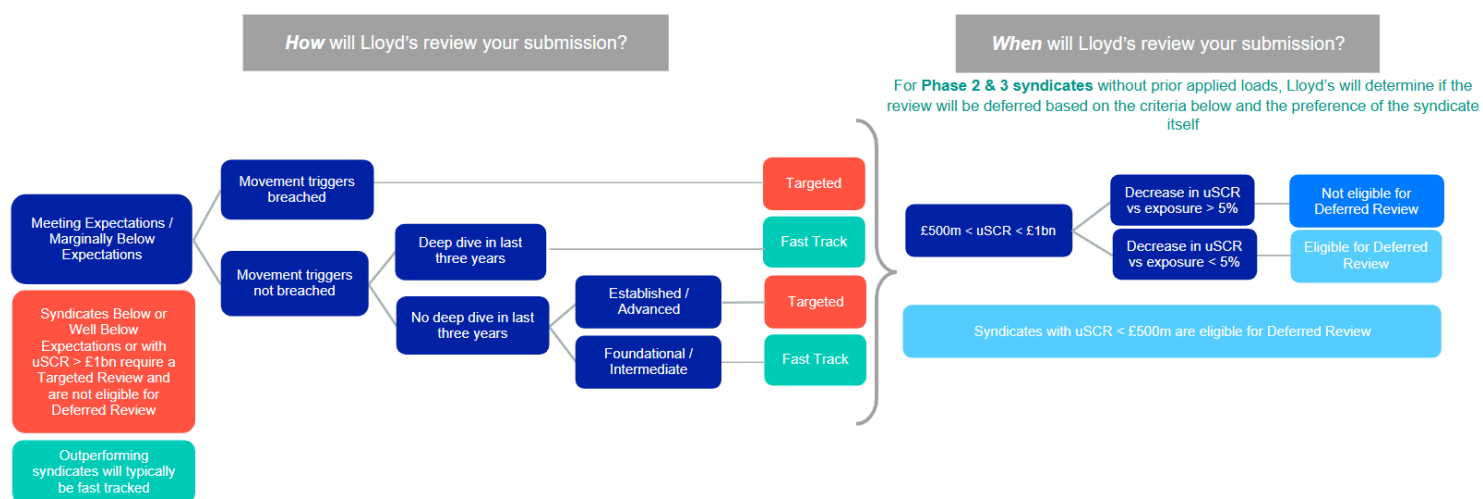
- Minimum tests results mentioned in Section 5.3,
- Responses to previous loadings and feedback – in particular for syndicates not 'meeting expectations' for the Capital Principle,
- Focus area template responses, where relevant.

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 risk categories driving changes in capital. The likelihood of requests for further information is higher for these reviews.

Last year, Lloyd's introduced a process whereby the capital reviews for some aligned syndicates were deferred. This will remain in place for 2026 LCR, with some improvements off the back of market feedback. Details are provided later in this section.

A diagram of the full triage process is included below.



### How will Lloyd's review your 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:

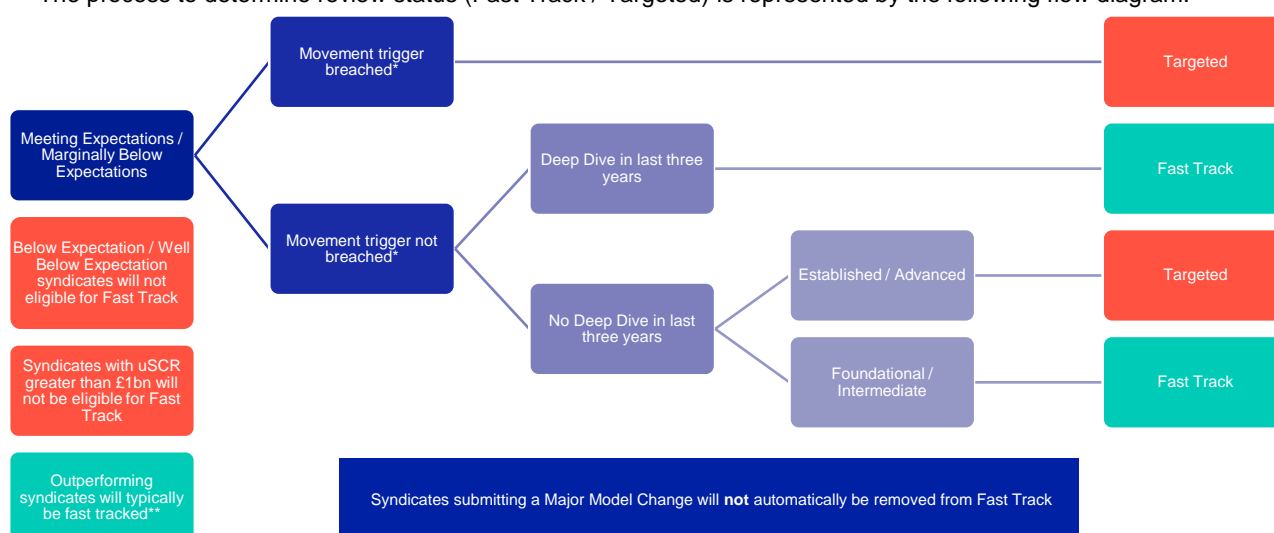
- **Principle dimension rating:** The Principle dimension rating is 'Meeting Expectations' or 'Marginally Below Expectations'.
- **Key risk-to-exposure metrics:** The risk-to-exposure metrics move within the tolerances set out by Lloyd's. The metrics to be used for the 2026 YOA remain unchanged from last year and are outlined later in this section.

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 to determine review status (Fast Track / Targeted) is represented by the following flow diagram:



\* Movement triggers for key risk-to-exposure ratios are noted in the table below.

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

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 2026 YOA uSCR. For further information about this refer to Section 4.4.

## Movement triggers for Fast Track / Targeted reviews

Market Reserving and Capital (MRC) will carry out an initial assessment of movements in key risk-to-exposure metrics since the most recent LCR submission (which could be a MMC, Deep Dive, IMAP submission or the last LCR review) to determine whether these exceed certain 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 on LCRs are contained in Appendix 1.

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

It is worth noting that whilst the triggers above focus on movements in the stress amount as a measure of risk, the appropriateness of modelled loss ratio and mean profit in internal models remains a Focus Area for this year. We reiterate that even if a review is Fast Tracked, Minimum Test results will be considered and Focus Area responses may be reviewed where relevant. As such the appropriateness of the modelled loss ratio may also be in scope of a Fast Track review. This will be confirmed to syndicates in the email following initial completeness checks.

### *When will Lloyd's review your submission?*

For syndicates submitting in Phase 1, there will be no change to the CPG timescales.

#### **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;
- For a syndicate to be aligned, the member does not necessarily have to have common ownership with the MA.

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 2026, 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.

For the 2025 LCR, eligible syndicates had the option to opt out of the deferred capital review and have their capital reviewed during the usual CPG timelines. For syndicates that did not opt out, Lloyd's exercised discretion in determining whether to defer the capital review.

For the 2026 LCR, the process has been refined to better reflect the syndicate's own preference on the timeframe of their review. Aligned syndicates may explicitly choose from the following three options:

- 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 2025 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 2026 LCR submission
- Syndicates fail to meet the Modelled Loss Ratio minimum floor test at the overall syndicate level (on either gross or net basis)
- Syndicates flagged for additional oversight by Syndicate Reserving on the prospective year of account modelled loss ratio selection based on historical modelled loss ratio selections and/or plan loss ratios relative to actual loss ratio performance. Lloyd's will assess this based on syndicates historical SBF and TPD/RRA reserving return data.
- Syndicates request a Franchise Guideline dispensation.

Otherwise, the syndicate's capital submission will be deferred if they have stated this as their preference by opting in, in line with the above.

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.

### **Initial Completeness Checks**

After the triaging process for review status and deferred reviews, 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

result of the initial completeness checks will be communicated within 10 working days of the LCR submission. It will cover:

- Any missing 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.
- Agents will be informed if their submission will be subject to a Fast Track or Targeted review and/or if it meets the criteria for the review to be deferred.
- Where relevant, any queries relating to YOA allocation split for members.
- For reviews completed within CPG, the scheduled timing for the Actuarial Oversight Review Group (AORG), which would be the point at which indicative loads, if there are any, would be communicated to the agent.

Due to complexity of the scheduling and compressed timeframe to complete reviews ahead of CPG sign-off, AORG timings may change following the initial completeness checks. We don't expect this to happen in many cases and if it does the relevant Lloyd's reviewers or capital points of contact will notify affected agents.

- For deferred reviews which will be undertaken after the usual CPG timescales, the approximate expected timescales of the review would be communicated to the agent.

## 4.2 Reserving Tests of Uncertainty review

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

- Prospective year modelled 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 guidance](#) published on Lloyd's.com.

### Prospective year modelled loss ratio

Prospective year modelled 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 modelled 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 2025 compared to the modelled loss ratio this will receive greater oversight from Lloyd's and may result in a retrospective adjustment to capital after CPG in September/October 2025. Further details of this process, in particular the specific timelines around the testing, for 2026 will be provided during Q4 2025 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.



As part of the 2026 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 2026 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 loads**

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.

#### **Solvency UK Loads**

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. 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.

## **Control loads**

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.

As the loading is not in place to address a specific modelling issue, it is 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.

## **Other loads**

Other capital loads can be raised where Lloyd's is unable to get comfortable with an uncertainty in a submission. A common reason for capital loads to be raised is a lack of justification or explanation for material model changes or capital movements since the previous submission. The size of the load will vary and depend on the specifics of the Lloyd's concern. The calculation methodology will be outlined to syndicates via the loads communication process.

## **Communication of loadings**

All loading proposals applied by Actuarial Oversight follow the process outlined below.

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. Results of the review will be presented to and discussed at an AORG, which is a technical review group in place to challenge review outcomes.

Any proposed loadings, if there are any following the AORG, will firstly be discussed via a call with the capital/reserving team at the syndicate. Account managers will communicate these indicative loadings to the executive of the syndicate. If issues cannot be resolved through the initial discussion, the proposed loading will be sent formally to the syndicate's capital/reserving team.

Loadings are indicative in nature and are designed to address uncertainty surrounding the capital numbers if certain areas of the submission are not well enough explained or cannot be satisfactorily understood. Lloyd's will communicate potential measures that could address the reasons for the loadings and the timescales required so that responses can be reviewed again by AORG ahead of final recommendations being presented to CPG.

When communicating loads to syndicates, Lloyd's will outline the following:

- The amount of the loading to the ultimate and one-year SCR
- The area of the model or model test to which the loadings are applied
- A description of the loading and how it has been derived, unless it is a formulaic loading from a model test
- A timeframe to respond to the load so that it can be reviewed by Lloyd's in time for CPG sign-off.

Lloyd's aims to give syndicates five working days to respond to indicative loads.

If capital loads continue to be applied after Lloyd's review of syndicates' responses, this will be communicated to syndicates after CPG and the loading information will be included in capital feedback letters. This will include the reasons for the load; what Lloyd's expects to be considered in order to address the load; and required timeframes.

Feedback letters will be sent to syndicates by the end of November 2025 at the latest, however Lloyd's aims to send feedback within 2 weeks of the issuance of the CPG letter. As well as this, Lloyd's will communicate the

reasons for any applied loads within 2 days of the issuance of the CPG letter, as well as confirming if there is any further Red feedback<sup>1</sup> along with description of this.

For aligned syndicates whose capital submission reviews have been deferred, feedback letters will be sent by end of January 2026.

The letters will include any changes to the status of the Principle ratings for Principles 6 or 7 as a result of Lloyd's review.

### **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 Actuarial Oversight team 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 tests are proposed by the Exposure Management team. Questions regarding these loadings should be directed to your Exposure Management point of contact. Account Managers can provide additional information on the process.

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. The Exposure Management team will also take into account the outcome of their review of syndicates' model completeness questionnaires.

## **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 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 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

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<sup>1</sup> Lloyd's use RAG ratings when providing feedback on Capital submissions. A "Red feedback" item suggests that failure to address the issue by the given deadline will lead to loadings. This could also lead to a downgrade of the Capital principle rating in the next submission which could impact a syndicate's overall syndicate categorisation.

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 2026 LCR, the Lloyd's Focus Area return will collect the information on:

- General queries, covered in Section 5.2 below
- Minimum Tests, as described in Section 5.3 below
- Modelled loss ratios, as described in Section 5.4 below
- Macroeconomic and geopolitical risks, as described in Section 5.5 below
- Market risk, covered in Section below 5.6 below

### 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 Actuarial Oversight team drop-ins which will be held over July and August 2025 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 seven queries:

- Two relate to previous loadings and feedback,
- Two are to assist with the modelling in the Lloyd's Internal Model (LIM). These are the back-test of the 2024 YOA; and providing the impact of non-proportional reinsurance on an ex-natural catastrophe basis,
- One section relates to Model Limitation Adjustments (MLA). In particular,
  - The classification, description, and methodology of each MLA, and the plan for addressing these
  - The impact of each MLA on one-year SCR and ultimate SCR, as well as their impact on standalone risk categories
  - More information on this can be found in Section 4.11 of the [Lloyd's Capital Guidance](#).
- One query relates to the Capital model platform used
- One section relates to any conflicts of interest syndicates may have when submitting YoA allocation data.

### 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 modelled 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 Test Template](#) 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**

For 2026 LCR submissions, 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 Actuarial 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.
- 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 in [Market Bulletin Y5434](#). This will be monitored by Actuarial Oversight.



- 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' tab of the 2026 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/Syndicate Capital 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 CPG.

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

### Prospective year modelled loss ratio assessment

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

The focus on modelled loss ratios and the associated underwriting profit is enhanced this year due to a combination of changing market conditions and evidence that assumed 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 current macroeconomic and geopolitical landscape and Lloyd's expects that these factors are appropriately considered in the setting of modelled loss ratios.

Lloyd's review of the prospective year modelled loss ratio will be based on five components outlined below. The first two components are unchanged from last year. There are changes related to the third point, which are outlined in the 'Validation Report' sub-section below and the fourth and fifth questions are new this year.

- 1) Modelled 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

Beyond information included in this section of the instructions, syndicates should consider the latest Internal Model Validation Guidance and Reserving Tests of Uncertainty guidance on Lloyds.com.

### Modelled Loss Ratio Minimum Floor Test

For the 2026 LCR reviews, Lloyd's requires the prospective year modelled 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, modelled 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 modelled loss ratio section(s) / page references(s) in the validation report(s)**

Last year, Lloyd's introduced a requirement for syndicates to have a specific section(s) related to prospective year modelled 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 modelled 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 modelled 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:

- Modelled loss ratios need to be grounded in **experience and expertise**, rather than being anchored to future aspirations or historical averages;
- The experience that the modelled loss ratios are based on needs to be truly **relevant and validated** for its applicability to future expectations; and
- Modelled loss ratios should be based on proven expertise, where credit is only given to factors once there is a **track record of the impact**, e.g. remediation / business mix changes.

As part of the enhancements made to the validation requirements this year, 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 modelled loss ratio validation can be found in section 4.10 of the [Internal Model Validation Guidance](#), with examples of what the output from some of these tests may look like being included in the "Reserving Tests of Uncertainty 2026" pack, which can be found on the [Lloyd's Reserving Guidance and Support Materials](#) page of Lloyds.com.

#### **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.

## **5.5 Focus Area return tab: *Macroeconomic & Geopolitical environment***

The current geopolitical landscape is such that there are simultaneously several 'hot-spots' of uncertainty and so, syndicates are required to ensure this heightened uncertainty, and the drivers of it, are appropriately captured in their internal models.

Additionally, as the environment remains fast-moving and fluid, it's important for syndicates to adapt to the changing landscape, with a key focus on the interconnected nature of macroeconomic and geopolitical factors.

Geopolitical and macroeconomic uncertainty has been a key focus area for Lloyd's over recent years. We believe the market is more mature now in the modelling for these risks, following the oversight and reviews carried out over the years. However, while substantial efforts have already been undertaken, it remains evident that syndicates should continue to assess the appropriateness of existing assumptions given the evolving landscape and potential new risks and uncertainties.

Given the work that has been done around this focus area over the past couple of years, and listening to market feedback, we have included only one standardised question in the focus area return with respect to the macroeconomic and geopolitical environment. This question covers scenario testing. Instead, Lloyd's will place greater reliance on syndicates' own documentation and validation to reduce the onerousness of any reporting.

### **Scenario testing**

#### *Focus Area Return Question*

Syndicates are required to carry out scenario testing in order to strengthen understanding of key uncertainties that could affect their portfolios, so that potential consequences of the changing macroeconomic and geopolitical landscape can be analysed, assessed and treated appropriately in their internal models. For the 2026 YoA submission, Lloyds is collecting information on the scenarios that syndicates have considered as part of their calibration. We are not prescribing any pre-set scenarios, rather the focus this year is how syndicates have considered the rising geopolitical tensions and macroeconomic uncertainty in relation to their own risk profile. Syndicates should consider a wide range of scenarios, reflective of their risk profile, and how the severity and return periods have changed in light of the current environment.

As was mentioned in the market messages, scenarios should be considered across the following dimensions:

- a. Economic outlook
- b. Cross-border trade/relationships
- c. Geopolitical conflict

Consideration should also be given as to the links between these areas, for example geopolitical conflicts could have knock-on impacts to the economic outlook e.g. due to supply chain impacts.

In previous years we have fed back to the market that scenarios shared with us are, at times, not severe enough to demonstrate how material and unlikely aggregations of losses are captured in the model. With this in mind we would expect sufficient consideration of scenarios based on plausible, extreme combinations of events that could give rise to major losses. Major in this case does not mean leading to insolvency but to a meaningful erosion of capital. For example, this could be a loss above a 1 in 50 confidence level on the insurance risk distribution.

Defining the scenario should be done in the context of the risk profile, so if there is negligible exposure to insurance risks due to the nature of the business written and it is difficult to derive an extreme loss, a less severe scenario may be reported. In such cases it is still important that syndicates consider the full extent of impacts on all risk categories even if there is not a significant risk to direct business. Syndicates can choose to provide the scenario testing either on a total distribution basis or on a deviation from mean basis. This basis of the testing

should be reported using the drop-down menu in the focus area template and should be consistent between the scenario definition and calculation inside the internal model.

To aid us in analysing the information provided by syndicates, each scenario should be assigned a high-level scenario category in the focus area template, as well as providing a description of the scenario. The high-level categories include scenarios like further escalation of the Middle East conflict, Russia/Ukraine conflict, recession, stagflation etc. If the scenarios being considered are not in the drop-down list, syndicates should select the "other scenario" option. If a scenario encompasses multiple high-level categories from the drop-down list, please select the most relevant or material category. Additional areas of high-level impact should be clearly detailed in the scenario's description section.

Although we are only collecting the impact of these scenarios on the SCR, syndicates should consider testing against a distribution of impacted risk types only as well. If some of these scenarios have been considered in the previous submission, we would like to understand how the loss amounts and return periods have changed in light of the uncertainty highlighted above and the rationale for the movement. If there has been no change, we would like to understand the rationale for the appropriateness of the loss amount and return period given the changing risk landscape. In the Focus Area return, we are only collecting high-level information, but we would expect syndicates to consider this more widely as part of their parameterisation and validation, with further detail on the derivation and appropriateness of the scenarios in their documentation such as AoC and/or validation documents.

Lloyd's Political Risk RDS return scenarios, and the China/Taiwan scenarios (which were previously collected from the market as part of a data collection in 2023) have also been included. Where syndicates return/returned losses against any these scenarios, there is a requirement to provide the updated scenario loss and return period. If the loss estimates have changed since submitting the Exposure Management returns, the most up-to-date version of losses should be used where possible. Where syndicates provided information on these scenarios in past through the Exposure Management returns in 2023, the previous loss and return period should also be provided alongside the relative movement in return period (higher/lower) and the rationale behind the movement, if any. If syndicates haven't provided losses for these returns in the past, then these rows do not need to be completed, but a comment should be made stating that the syndicate is not exposed.

#### *Considerations when scenario testing*

When performing scenario analysis and considering the impacts of the macroeconomic and geopolitical uncertainty, these are some of the things that syndicates should consider. Please note that this is not an exhaustive list.

- Realistic, adverse scenarios should be developed and centred around key areas of exposure specific to each syndicate. Best practices involve scenario construction that incorporates up-to-date information, considers plausible extreme escalations of current tensions, and evaluates second-order impacts. Scenarios considered should move beyond just historical experience.
- An assessment should be conducted to determine whether the current return periods remain appropriate, or if events previously classified as highly extreme have become more frequent.
- Modelled return periods should be compared with the expected return periods produced by SME and any differences should be understood.
- Syndicates and agents should ensure that their scenarios account for both direct and indirect impacts of geopolitical events.
- They should consider the potential for direct insurance losses, particularly across Political Violence and Terror exposures including strikes and riots, as well as Aviation and Marine losses.
- They should also consider the indirect impacts such as elevated inflation relative to expectation, increasing costs across both the current and prior years. They should take into account the risk of a period of recession, or of stagflation characterised by contracting economic output and high inflation. In these circumstances there is also uncertainty around the central bank rate decisions due to conflicting pressures.
- Capital models should account for the interdependencies between different business classes and risk types, recognising common exposures stemming from macroeconomic uncertainty linked to geopolitical events.

For example, financial market volatility could have impacts on both the asset and liability sides, as well as impacts FX movements. There is also a potential for heightened losses across classes where losses may be correlated with financial markets / economic performance e.g. Casualty FinPro, Contract Frustration, Credit etc. Consideration needs to be given to how sufficient dependency is captured between various classes of business and risk categories, for example using driver-based or peril-based methods. In addition, sufficient assessment of potential clash events should be carried out to determine whether their impacts align with expectations across all affected classes.

- Consideration should be given to the possibility of contract wordings not holding. Additionally, the potential for reinsurance contract disputes should be considered, especially for market wide events and their possible liquidity impacts.

### **Validation of ESGs and macroeconomic uncertainty**

Given the current economic uncertainty, syndicates should focus on the impact of fluctuating interest rates and inflation on capital models to ensure assumptions remain appropriate. Rigorous validation and continuous review of ESG inputs are vital to maintaining the accuracy and relevance of these models. For the 2026 LCR submission, these are some of the areas that syndicates should consider as part of their parameterisation and validation for macroeconomic uncertainty and inflation allowances – note that this is not an exhaustive list. We highlight however that there is no standardised question around ESGs or allowances for inflation volatility included in the Focus Area return for this year.

- ESGs should be robustly validated to ensure their continued appropriateness to confirm that inflation risk is accurately incorporated into capital models.
- Inflation-related adjustments should be tailored to specific exposures across various lines of business and geographical locations. Blanket uplifts should be avoided to ensure adjustments are proportionate and reflective of actual risk.
- Adequate allowances must be made for the potential impact of inflation on catastrophe models to improve the accuracy of risk projections.
- Consideration should be given:
  - How geopolitical uncertainties and recent trends could affect future interest rates,
  - The potential for future inflation spikes given current uncertainty,
  - The potential for low interest rate, high inflation scenarios (i.e. stagflation scenarios), and
  - Whether the ESG distribution captures extreme scenarios at a reasonable return periods.

### **Previous Considerations**

Syndicates should also refer to the 2023 YoA and 2024 YoA LCR instructions focus area sections where we have detailed considerations for both macroeconomic and geopolitical uncertainty. In the current LCR instructions we are highlighting the key considerations for the 2026 YoA LCR submission, however, syndicates may find it useful to review the details in the previous LCR instructions as some of the modelling considerations are still relevant for the current submission.

## **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.

Syndicates are no longer required to complete the negative market risk template – this has been removed from the Lloyd's website and has been superseded by information requested via the focus areas return.

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 now in an environment where the expected inflation and interest rate levels have increased 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 2025 LCR reviews, 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 must comply with Franchise Guidelines (for more information, see section 5.3).



## 7 Appendix 1: Definition of metrics for Fast Track

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

#	Metric	Definition
<b>S1</b>	uSCR stress-to-exposure measure	<p>uSCR stress = LCR form 310 Row 2 Col G - LCR form 310 Row 2 Col A</p> <p>Exposure measure = Mean premium risk net claims + <math>\frac{1}{2}</math> * mean reserve risk net claims</p> <p>Mean premium risk net claims = LCR form 502 Q1 Col B Total</p> <p>Mean reserve risk net Claims = LCR form 510 Q1 Col A Total</p>
<b>S2</b>	Ultimate premium risk stress-to-exposure figure	<p>Premium risk stress = LCR Form 314 Table 1 Row 2 Col B</p> <p>Exposure measure = Mean premium risk net claims = LCR Form 502 Q1 Col B Total</p>
<b>S3</b>	Ultimate reserve risk stress-to-exposure figure	<p>Reserve risk stress = LCR Form 314 Table 1 Row 3 Col B</p> <p>Exposure measure = Mean reserve risk net claims = LCR form 510 Q1 Col A Total</p>
<b>S4</b>	One-year SCR stress to uSCR stress	<p>One-year SCR stress = LCR form 310 Row 1 Col G - LCR form 310 Row 1 Col A</p> <p>uSCR stress = LCR form 310 Row 2 Col G - LCR form 310 Row 2 Col A</p>

## 8 Appendix 2: YOA allocation split for members

### Overview and purpose

Submitted syndicate SCR returns from the LCR 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.

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.
- New for this year, 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 Q7 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 unincurred 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 31/12/2023. RICB and ECU are ignored for simplicity.

YoA	Opening solvency II balance sheet			Capital (change over time horizon)		Member Funding Requirement
	Assets	Liabilities	Net Assets	Expected	1 in 200	
2024	0	0	0	20	-20	-20
2023	90	-70	20	0	-35	-15
2022	80	-60	20	0	-30	-10
Total	170	-130	40	20	-60	

The 2024 year has not yet started and there are no unincurred legal obligations. There are therefore no cashflows accounted for on the opening Solvency UK balance sheet for 2024. The technical provisions only cover 2023 and prior. Therefore, the expected change in the balance sheet position over the modelling time horizon for 2024 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 2024 is a loss of £20m. Ignoring RICB and ECU for simplicity, the member ECA is therefore £20m.

For the 2023 and 2022 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 2023 and 2022 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 unincurred 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.