LLOYD'S

New Syndicate Capital Guidance

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Contents

1 Introduction

1.1 Purpose

The purpose of this document is to set out the capital setting process for new entrants and for syndicates moving from one managing agent to another. In particular, it outlines the process for:

- the initial approval of the new entrant by Lloyd's from a capital perspective as part of the "Making it Happen" process;
- the process to obtain approval to set capital using the syndicate's own internal model; and
- demonstrating compliance with Lloyd's 'Principles for Doing Business' Principle 7.

1.2 Related Guidance

This document is intended to be read in conjunction with the following documents:

- Lloyd's Capital Guidance. The latest version of this can be found on the Internal Model SCR page on Lloyds.com,
- The 'Principles for Doing Business' at Lloyd's ("The Principles"), and
- LCR ("Lloyd's Capital Return") Instructions that are in force at the time of capital submission (LSM or otherwise). The latest version of this can be found alongside the Capital Guidance on the Internal Model SCR page on Lloyds.com.
- Starting a new business at Lloyd's section on Lloyds.com
- Information on Franchise Guidelines as outlined in Performance Management – Supplemental Requirements & Guidance; also as per Market Bulletin Y5375 and Market Bulletin Y5464
- LCR Specifications. The latest version of this can be found alongside the Capital Guidance on the Internal Model SCR page on Lloyds.com

Please note that through this document, where we have referenced one of the above documents we have made best efforts to reference the relevant section of the document to reduce the risk of mis-interpretation as to the relevant section being referenced herein. However, this is based on the relevant documents in force at time of release of this guidance; in future some of the related documents may be updated and relevant section numbers changed.

1.3 SMF Attestations

This guidance does not currently include any requirements for new syndicates or syndicates using the Lloyd's Standard Model to submit an SMF attestation with their capital submissions. However, in line with the PRA's expectations, Lloyd's does plan to introduce the requirement to submit an attestation before March 2026. The current wording outlined in Appendix G of the Lloyd's Capital Guidance is not suitable for new entrants or syndicates using the Lloyd's Standard Model. Lloyd's will be consulting with the market and PRA to agree on the wording that agents will be required to submit, based on the capital setting method used. Syndicates who have had capital agreed for the 2026 YoA may be required to retrospectively submit an attestation.

2 Overview of the Process

There are several stages of review of the capital setting process for new entrants. These stages are set out in the Starting a new business at Lloyd's section on Lloyds.com.

The first consideration that a new entrant should make with respect to capital setting is the method used to calculate the initial capital requirements. The options available are set out in detail later in this guidance, but broadly there are two options: 1) the Lloyd's Standard Model ("LSM"), with or without adjustment, or 2) using an existing model calibrated to the new business plan. As part of the submission documentation at the Triage stage, the new entrant should outline the option that they have selected, with rationale explaining why they consider this to be the most suitable method.

Following approval at Triage, a more detailed submission of the business plan and expected capital requirements is made to the Business Opportunities Committee ("BOC"). A capital submission is required as part of the BOC materials, with materials required to be submitted 3 full working days before the scheduled meeting. However, it is preferable if agents could provide the draft capital submission at least 2 weeks before the BOC meeting, where possible. The capital submission to BOC can still be draft at this stage and only a high-level review of the capital submission is made, to:

- Identify whether there are any key features of the submission that are likely to require particular scrutiny from Lloyd's (and therefore may require further justification from the proposed syndicate before final approval),
- Check if there are any inconsistencies within the submission and other BOC materials
- Check if any elements of the LSM appear to be incorrectly completed, if the submission is based on the LSM

Following approval at BOC, feedback pertinent to the draft capital submission may be provided back to the proposed syndicate. It is at this point that a formal capital submission by the managing agent is required, although some detailed technical discussions with Lloyd's may have already taken place prior to BOC. If there are no changes from the draft capital submission, the managing agent must confirm this with their capital point of contact. The formal capital submission should also include any accompanying relevant technical information, if it has not already been provided. Lloyd's will complete a review of the formal capital submission. Results of the capital review will be presented to and discussed at the Actuarial Oversight Review Group (AORG) and a recommendation regarding the syndicate's capital will be presented to the relevant governance committee at Lloyd's, currently the Capital and Planning Group (CPG). The formal capital submission should be made at least 3 weeks ahead of the CPG meeting.

New entrants go through the "Making it Happen" process once Lloyd's Council has given an agreement "in principle" to the application to set up a new syndicate or managing agent, and CPG have approved the capital and plan submissions.

After a capital submission has been made (draft or formal), indicative capital requirements may be made available for syndicates in the member modelling software to assist with capital raising. This requires the accompanying LCM and SBF submissions to be submitted on MDC and for these to be consistent with each other and the capital submission. However, these must only be treated as indicative figures, as capital requirements can only be confirmed once CPG and Council have given their respective decisions on the syndicate's capital requirement and overall application.

In general, the Making It Happen process requires new entrants to show that they are fulfilling The Principles. However, the capital principle requires a Solvency UK compliant internal model, which needs longer timeframes and significant resource to build. Therefore, new syndicates will set capital using one of the prescribed methods outlined in section 5 until they have had their internal model approved and are compliant with the capital Principle.

Syndicates are usually required to have applied for and been granted permission to use an internal model within 3 years of account of underwriting. Syndicates cannot normally apply for this permission within the first year of account since the time and cost required to put in place appropriate resource, and to develop, parameterise, and validate an internal model is significant, particularly when a syndicate is new, and thus Lloyd's allows syndicates time to ensure a robust internal model and all appropriate systems/resources/validation are in place. There are exceptions to the requirement for a syndicate to make this application within 3 years of underwriting:

- This can be extended in some circumstances, e.g. if the first year of account was a partial year.

- For Syndicates in a Box (SIAB), an internal model application is only required after approval has been given for the SIAB to transfer to full syndicate status.
- Syndicates can submit a business case to extend their use of the LSM. Further details on this are set out in section 6.3
- New syndicates who are using an existing internal model from the outset to set capital (as set out in section 7) are expected to accelerate their IMAP application to be within 12 months of the planned date to commence writing at Lloyd's.

The timeframes set out above mean that syndicates setting capital using their own internal model in their second year of account effectively have to apply for model approval relatively shortly after starting to write business and syndicates should discuss timings as early as possible with Lloyd's.

More information about capital setting options for new entrants is set out in sections 5 to sections 8.

Section 9 outlines the process for new syndicates to obtain permission to move to using an internal model.

For syndicates transferring from one managing agent to another, a review similar to the 'Making it Happen' review for new entrants will be conducted to consider whether the syndicate continues to meet expectations with regard to The Principles. Section 10 sets out the internal model considerations specific to such syndicates.

Section 11 outlines the processes for capital setting for new legacy RI providers.

3 Lloyd's 'Principles for Doing Business' for New Syndicates

The main capital-related principle in The Principles is Principle 7 'Capital', which outlines the following sub-principles:

1 Maintain an internal model which captures all material risks that the syndicate is exposed to.
2 Use modelling assumptions which are realistic and justifiable, methodology which is adequate, and all material limitations are understood.
3 Have strong feedback loops joining the business and the model.
4 Demonstrate robust governance and understanding of the model. This includes adequate understanding and challenge at senior management level.
5 Implement changes to the model which are reasonable and justified and their impact on the SCR adequately explained.
6 Conduct objective challenge of the internal model through independent validation.

When a syndicate begins operating, it will typically be given an Overall Rating of "New" for The Principles, with no rating assigned for Principle 7 while capital is set using either the LSM, or an existing model that has not been through Lloyd's review. This is a temporary status and is equivalent to a neutral rating.

4 Plan for Compliance with Solvency UK and Principle 7

As part of the Making it Happen process, managing agents will be required to submit a plan to Lloyd's setting out how they will achieve compliance with Solvency UK and Principle 7 of The Principles (see section 9 of this document for how that is assessed at the time of the IMAP submission). Lloyd's will review that plan and will work with the syndicate to ensure it is reasonable.

The plan should cover areas such as:

- When the syndicate plans to set capital using its own internal model for the first time and when it plans to submit the internal model application to Lloyd's.

- The planned resource for the capital and validation teams, covering areas such as the expected number of people in the team, the level of experience and a hiring plan. The syndicate should also set out contingency plans if hiring takes longer than expected and resource is not available according to the initial plan. Any agreements or discussions with consultancies should also be outlined.

- The capital modelling platform, cat risk vendor model and economic scenario generator (ESG) vendor model the syndicate intends to use and why. It should outline how market risk/catastrophe risk are going to be modelled if no external vendor models are planned to be licenced. This should also include if any software has been licenced already or when licences are expected to be in place.

- The data systems that will be in place.

- Outline the planned governance of the capital model, in particular which committees will be responsible for signing off capital and major model changes, and the make-up of those committees. This should also include a high-level timeline of when policies affecting the internal model are expected to be adopted and approved.

- The plans for internal model validation (e.g. using external or internal validators and resourcing around this), in particular setting out how the syndicate will ensure that the validation is independent, any challenges and contingency plans.

- The feedback loops planned to be in place between the capital model team and validators, governance, and the business.

5 Capital setting options for new syndicates: Overview

The next 4 sections outline the two main options available for new syndicates to set capital. This section introduces the two main options, further details on each of these options are found in subsequent sections (sections 6 and 7), and general requirements for all new entrants are described in section 8.

The approach that any new syndicate uses is at the discretion of the syndicate; however, they must demonstrate that the approach is appropriate for the risk profile of the syndicate and that they meet the requirements outlined within this guidance. Failure to demonstrate any of these requirements is likely to mean that Lloyd's will need capital to be set via an alternative method; this could mean, for example, that the LSM is used to set capital or that capital loadings will be applied.

The second main option requires some information that would be usually be submitted via LCR forms to be submitted. If any new entrants are aiming to set capital using this option, they will need to be prepared to provide the outputs required to complete these forms. Lloyd's can advise on the method of return submission when initial discussions on the capital setting approach take place. Details on the information required, where available, are set out in section 7.

Syndicates wishing to set any of their own parameters for the LSM, or use an existing model calibrated to the new syndicate's business plan, must engage with Lloyd's as soon as they are aware that this is an option that they wish to pursue.

In all cases where a syndicate has not opted for the unadjusted LSM, syndicates should still have prepared a version of the unadjusted LSM and provide this file for comparison with their submission. .

5.1 Option 1: Lloyd's Standard Model (LSM)

This is the standard approach available for new syndicates and should generally require the least amount of supporting validation and documentation compared to the other approaches available. New syndicates would be typically expected to use the LSM for initial capital setting unless they have sufficient evidence that using one of the alternative capital setting options is more appropriate. Full details on the requirements for LSM submission, including consideration of the appropriateness of the LSM, are outlined in section 6.

When assessing the LSM as an avenue to setting capital, a new entrant may consider that one or more of the parameters is materially inappropriate for their risk profile, for instance class volatilities. In this case, Lloyd's will permit the new syndicate to overwrite the parameter(s) in question, provided that the syndicate can provide sufficient supporting evidence to justify the new parameter(s), including an independent validation view. Syndicates should consider parameters in both directions – i.e. whether they might be cautious or optimistic for their risk profile.

Further details on the LSM, whether being submitted on an unadjusted basis or an adjusted basis, are contained in section 6.

5.2 Option 2: Using an existing approved model calibrated for the new entrants business plan

New entrants that have a Solvency II, Solvency UK, or equivalent internal model approved by an appropriate regulator may be able to use this model for setting capital for the first year of the syndicate, calibrated to the business plan of the new entrant. There are 3 options:

- An approved model for another Lloyd's syndicate under that same managing agent calculating an ultimate SCR;
- An approved model by another regulator under Solvency II, Solvency UK, or equivalent. This model would calculate a 1-year SCR and would then be adjusted using bespoke adjustments to calibrate this to an ultimate view.
- An approved model by another regulator under Solvency II, Solvency UK, or equivalent. This model would calculate a 1-year SCR and would then be adjusted using a straight uplift factor of 15% to calibrate this to an ultimate view.

Syndicates wishing to use option 2 will be expected to accelerate their IMAP application to within 12 months of the planned commencement of underwriting at Lloyd's.

Under these options, a model deemed to be approved under an 'equivalent' regulator would be a model where similar model statistical quality standards, calibration standards, external model and data standards, and validation standards to those required under Solvency UK are in force. New entrants looking to use this option should discuss the suitability of the model with Lloyd's.

Further details on syndicates using an existing model are contained in section 7.

6 Lloyd's Standard Model (LSM)

The Lloyd's Standard Model is a spreadsheet model which calculates a capital requirement for the syndicate. The model calculates the ultimate and one-year Solvency Capital Requirement (SCR) – explanations for these terms can be found in section 4.4 in the Lloyd's Capital Guidance. The spreadsheet model and instructions on how to complete the data inputs can be found on Lloyds.com in the Requirements for New Entrants section. Managing agents should not, however, simply rely on completing the inputs correctly and assume that the resulting capital is automatically appropriate. Syndicate Boards are ultimately responsible for confirming that their capital requirements are appropriate. Lloyd's expectations on this requirement are outlined in more detail in section 6.2.

The LSM uses an insurance risk calculation based on using Lloyd's 60 class level granularity. Syndicates are required to input gross and net premiums and claims (earned and unearned with regards to prior, current and prospective years of account) and Lloyd's has parameterised class volatilities, between year and between class correlations to arrive at an insurance risk number excluding natural catastrophes. Additionally, syndicates need to input their aggregate natural catastrophe risk to be aggregated into the total insurance risk calculation. Market and credit risk calculations are based on the Solvency UK Standard Formula and operational risk is added as a charge which depends on the age of the syndicates, with extra risk charges for new managing agents, captives and existing governance and risk management concerns for the Managing Agent. Please note that the operational risk calculation replaces the "New Syndicate Load" applied in the past.

After the calculations above, there are some adjustments in the LSM to arrive at the final capital requirement – these are the same in the LSM as for standard internal model syndicates: A reinsurance contract boundary (RICB) adjustment is applied to the ultimate solvency capital requirement (uSCR) as per the calculations in the LCR and an uplift of 1.35 is applied to arrive at the Economic Capital Assessment (ECA) – the economic capital requirement used in setting member capital requirement.

Lloyd's does not expect to update parameters of the LSM every year, however, the appropriateness of the structure and parameters will be regularly assessed and syndicates will be notified about any changes. However, the LSM template will be published twice a year (once at the beginning and once before the September/October capital submissions) in order to take into account of current economic conditions including exchange rates, yield curves etc. As at the release of this guidance, the latest LSM template is version 5.0 (2026 YoA LSM), with the next version due to be released in early 2026.

6.1 Submission Requirements for the LSM

In general, for capital setting purposes syndicates only need to submit the LSM template plus any additional documentation as noted below. Other reporting requirements for syndicates that have a full model are not required e.g. the focus area return, an analysis of change, validation report or model change template. For the focus area return Lloyd's may request information from individual syndicates where the area of focus is relevant – so for example the syndicate might have to provide some additional information for major losses it has.

Syndicates are required to submit documentation outlining the following:

- Approval: 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 Principles (Principle 10). Approval here relates to the accuracy of the data inputs to the model and their consistency with other returns as well as the appropriateness of any bespoke calculations (e.g. the reinsurance benefit or any parameter overrides).

- Confirmation of appropriateness: The Board should also confirm that there are no features in the risk profile which make this model inappropriate for use for the syndicate (see 6.2). Furthermore, the managing agent should, for any key inputs that materially impact the LSM capital requirement, outline why these are considered appropriate. For example, this could include:

    - The risk codes/Lloyd's classes that the exposures have been allocated to.
    - Counterparty default inputs e.g., split of exposures across the assumed RI panel and their credit ratings.

- Details on any areas where the LSM has bespoke inputs, in particular if overrides to the risk margin have been used, any risk mitigation and how that has been derived, or the calculation of any management adjustments.

- Confirmation that the Unincepted Legal Obligation ("ULO") profit from the opening balance sheet (actual or projected) has been reviewed and any potential double-count has been eliminated from the prospective year insurance risk profit item (see section 8.2.2).

- Details behind the workings of any profit claimed in the "Current and prior year's profit not already reflected in TPs" item.

- If the classes reported in the LSM differ from the classes in the accompanying SBF, detailed workings of the mapping between the two. However, agents are requested to keep the classes consistent between the two submission as much as possible.

Syndicates are permitted to propose adjustments to parameters (or "Undertaking Specific Parameters" , or USPs) in the LSM. USPs will only be considered by Lloyd's when they are considered necessary to more appropriately reflect the specific risk profile of the syndicate, there is an impact in aggregate in excess of 5% (in either direction) on capital, and sufficient quantitative evidence is provided to support the USP(s). Furthermore, for syndicates wishing to set any of their own parameters must engage with Lloyd's as soon as they are aware that this is an option that they wish to pursue. Lloyd's can then discuss the request with the syndicate to understand the parameters that they wish to overwrite and can provide confirmation on the evidence that we would accept when assessing whether to approve any change. Additionally, once a request has been discussed Lloyd's can provide a version of the LSM that has the relevant sheets unlocked for overwriting the relevant parameters. Evidence that Lloyd's would typically require to overwrite parameters includes:

- Supporting models or calculations showing how the new parameters have been derived;
- Independent validation showing how the new parameters are appropriate for the risk profile of the business, and that in aggregate the implementation of the new parameters in the LSM results in an appropriate capital requirement for the syndicate. This should include both high level top-down validation tests (for example scenario testing, reverse stress tests and risk ranking), as well as bottom-up validation tests (for example backtesting, sensitivity tests and benchmarking). Ideally, this independent validation will be available ahead of the CPG meeting but Lloyd's recognises that this may not be practical in all circumstances and can discuss the timeline for accompanying validation. In general, the validation should be submitted to Lloyd's with sufficient time to allow Lloyd's to approve the capital requirement ahead of commencement of underwriting.

Adjustments to LSM parameters may not be considered by Lloyd's if syndicates have not given Lloyd's prior notice of their intention, with full supporting documentation to be provided at least 3 weeks before the Capital and Planning Group meeting to discuss the new syndicate's business plan and supporting capital, to allow the relevant technical teams time to assess the submission and ask any follow up questions. Managing agents should contact Lloyd's if they do not think it is possible to meet this timeline.

The data input to the LSM needs to be in sterling. Submissions made between September and February in a given year must use the published prior 30th June rates, which are set out in the QMR Bulletins that are published every quarter. Submissions made from March must use the 31 December rates.

6.2 Appropriateness of the LSM for the risk profile of the syndicate

Managing agents are required to bring any features of the risk profile to Lloyd's attention, where the limitations of the LSM could render it inappropriate and lead to a material misstatement in capital. The limitations are set out below. If the LSM is inappropriate for use then other mechanisms for setting capital will have to be discussed, including options outlined elsewhere within this guidance. Furthermore, in the case where Lloyd's believe that a syndicate has certain aspects of its book that make the LSM inappropriate, Lloyd's will contact the syndicates on a case by case basis.

As with any model, the LSM has limitations and might not be appropriate for the specific risk profile of the syndicate. There are limitations due to this being a spreadsheet model, as opposed to a monte-carlo simulation model that calculates the 99.5th percentile using stochastic simulations. The model is parameterised based on net market averages from the Lloyd's Internal Model (LIM) – however, this might not be appropriate for every syndicate. The managing agent is required to discuss with Lloyd's if the following clearly is not valid:

- The model is calibrated for "small" syndicates – as a guideline typically this means syndicates with a uSCR below £100m.

- The net volatilities are calibrated based on the average market portfolio – i.e. the line size risk profile and outwards reinsurance are averages. If syndicates are writing much larger (or smaller) line sizes than other writers in the market, the model might not be appropriate to use.

- There is no separate non-natural catastrophe modelling component– these are included in the parameterisation of the volatilities. Therefore, syndicates should flag to Lloyd's if they have material exposure to non-natural catastrophes and this is an important driver of risk as this might make the model inappropriate to use.

- The LSM is parameterised based on historical experience in the Lloyd's market with expert judgement overlay, for example to allow for potential downside deteriorations beyond any prior experience. However, if the risk profile of the syndicate includes business that has not previously been written at Lloyd's, the model may not be appropriate to use without adjustment.

- Given that volatilities and correlations are calibrated based on market averages, these might not be appropriate for monoline syndicates or syndicates writing very few lines of business.

Generally, the above not being valid does not automatically mean that the LSM cannot be used, as the model does have guardrails to ensure capital is not understated, and syndicates can propose adjustments to relevant parameters with appropriate supporting evidence. The overall level of capital set might also still be appropriate, despite the limitations – this will be decided on a case-by-case basis. There might be other options to set capital:

- Firstly, managing agents should actively consider whether there are any limitations (which at a minimum should include consideration of limitations identified within this guidance) that mean they consider the LSM may materially misstate capital, and, where possible, calculate a management adjustment that would adequately cover the limitation(s) identified, or overwrite the relevant parameters in the LSM that address the limitations.

- If a syndicate is growing and becoming too large in its second or third year (i.e. uSCR well in excess of £100m), then an early internal model application might be considered. Capital could also be set on a model that has not been approved yet, but then a controls loading might be applied due to risk management and governance concerns.

- A high-level adjustment to the SCR to exposure ratio could be considered.

- Loss ratios could be adjusted for capital setting purposes.

In addition to the above, Lloyd's have also introduced a minimum insurance risk vs. exposure requirement in the model to ensure that the capital requirement is not inappropriately low due to limitations in the model.

6.3 Syndicates wishing to remain on the LSM beyond 3 years

Non-SIAB Syndicates (as SIABs are automatically granted extended use of the LSM as noted in section 2) who wish to remain on the LSM beyond 3 years should submit a business case to their syndicate capital point of contact outlining why they consider this to be appropriate. This will typically only be considered for syndicates with uSCR <£100m, and extensions will be granted for 1 year at a time. Syndicates are not restricted to only 1 year's extension but can make requests in subsequent years to continue to remain on the LSM. SIAB syndicates that transfer to become a full syndicate can also request to remain on the LSM, or contact their capital point of contact to discuss plans to submit an IMAP.

Business case requirements

The business case should include the following:

- Outline of the syndicate's current risk profile and expected near-term risk profile
- Current size of syndicate and expected near-term size (in particular, GWP, NWP, net reserves and capital)
- Rationale, in the context of the above points, why it is considered reasonable for the syndicate to continue to remain on the LSM beyond 3 years. In particular,
    - That there is nothing to indicate that the LSM would be inappropriate for the near-term (in line with section 6.2 above); and,
    - The LSM is not understating capital
- Any downsides identified by the agent for not developing an internal model and why they do not consider these a reason to commence development of an internal model
- An outline of the benefits of remaining on the LSM including any estimated costs savings from postponement of developing an internal model
- The plans in place or the steps that would be required to develop an internal model in future

"Near-term" in the above bullet points to mean at least one additional year, but longer if projections are available.

If the request to remain on the LSM beyond 3 years is approved by Lloyd's, syndicates will be required to submit some supporting validation to support any subsequent LSM submission. For each year that the syndicate remains on the LSM past the standard 3 year requirement, this should include:

- Validation of volatility of material classes to capital
    - For example, backtesting with own or external data, or scenario testing
- Sensitivity tests on loss ratios of material classes
- A Reverse Stress Test or scenario tests covering a wider spectrum of classes and/or risk categories.

Furthermore, at the point when reserves have built up to become material to the syndicate, at least one of the RST/scenario tests should also incorporate reserve deteriorations.

The exact supporting information that would be available and required is likely to vary by syndicate depending on risk profile and Lloyd's could discuss specific requirements with the managing agent well ahead of any capital setting exercise.

Syndicates will be expected to monitor the appropriateness of the LSM to set capital and notify Lloyd's if there is any reason why they suspect it might become inappropriate, for example new information coming to light on business already written or a significant change in risk profile of the syndicate.

Lloyd's will review the business case submission and respond within 8 weeks of the submission to confirm whether the request has been approved or declined.

7 Using an existing model calibrated to a new entrants business plan

This section provides further detail on the requirements for new entrants using an existing internal model to set capital for their first year of account at Lloyd's. The initial section covers the general requirements common to the various options, and specific requirements for each of the various options is set out in the following sections.

Any syndicates wishing to use this approach must also engage with Lloyd's as soon as possible to discuss any particular expectations from Lloyd's on information to submit with any capital submission. Lloyd's would also confirm the timing of any material required to be submitted; the full supporting documentation must be provided at least 3 weeks before the Capital and Planning Group meeting to discuss the new syndicate's business plan and supporting capital.

7.1 Requirements common to all submissions using an existing model

Operational Risk will be set in line with what is applied in the LSM, to reflect the fact that operational risk for new syndicates is considered to be heightened. Syndicates will be able to choose how they adjust their model to allow for removal of Operational Risk to calculate an "ultimate basic SCR" (i.e. the aggregation of the 1 in 200 stresses of insurance risk, market risk and counterparty default risk), but will be expected to explain why they consider that this results in a sensible “ultimate basic SCR”. 1 year Operational Risk will be set to equal the ultimate Operational Risk, in line with the methodology applied in the LSM.

For a new entrant submitting capital using this option for year 1 capital, it would be expected that the risk margin is set to 0, as there is no opening balance sheet. This is in line with the approach taken with syndicates using the LSM to set year 1 capital.

The key areas that new entrants would be expected to model under this option are premium risk, credit risk, and the dependencies between them. For syndicates using the LSM to set year 1 capital, a simplification is taken whereby market risk is set to 0. Syndicates will be allowed to apply the same simplification under this option, or model market risk using the existing internal model approach. If the syndicate opts to model market risk and this contributes a profit to ultimate SCR, the syndicate will need to justify why this is appropriate.

Any submission under this option should include:

- An independent validation report which has been approved by the managing agent’s Board which justifies the appropriateness of capital based on the risk profile of the syndicate. Further details on specific requirements of the validation are outlined in each section below.
- Sufficient details from the capital modelling team on the parameters, methodology, and expert judgements used in the submission, with justification on their appropriateness for the risk profile of the new entrant. This could include, for example (the following list is non-exhaustive):
    - Details of the gross/net CoVs applied at class of business and how they were derived,
    - Expected RI programme in place,
    - Rationale for the class level of granularity used for modelling,
    - Details of any intra- or inter-class correlation parameters,
    - Details of any risk drivers or tail events modelled and the steps taken to identify them,
    - Details of any dependencies between risk categories and rationale for why they are considered appropriate for the syndicate’s risk profile,
    - (If market risk is explicitly modelled:) Details of the assumed asset allocation by currency/type and mean/volatility of returns on each asset class and any dependencies between asset classes, etc.

Full details on methodology for all model components is not necessarily needed with all submissions. The overriding principle is that the new entrant should supply enough information to explain why the existing methodology is appropriate for the risk profile of the syndicate.

Syndicates submitting under this option should also be mindful of the tests in place at the time of submission as included in the latest Focus Areas return: at time of release of this guidance these are the Minimum tests, Model Loss Ratio, and Market Risk tabs. Suitable explanation should be provided with the submission for any tests that would be failed or flagged if a Focus Areas return was to be submitted.

Capital submissions under this option will be required to submit some information that would usually be provided via LCR forms from syndicates with approved internal models. Details of the data that we would typically expect new entrants to be able to submit to Lloyd’s is outlined in Appendix 2. Prior to any submission, Lloyd’s can discuss and confirm with new entrants the specific data to be provided.

7.2 Using an existing Lloyd’s approved model for another syndicate

Under this option, a new entrant will use the calculation kernel from an internal model that Lloyd’s has previously given a managing agent permission to use, and update the parameters to calibrate them to the new entrant’s business plan.

Syndicates will only be able to use this option where sufficient quantitative analysis is provided alongside the submission to support the parameters used as well as an independent validation report.

Any submission under this option should include:

- Validation: The validation performed on any capital submission should include at least one Reverse Stress Test and a range of tests on the submission identifying and challenging the material parameters, expert judgements and assumptions. This could include, for example, scenario testing, sensitivity testing, stability testing, risk ranking, benchmarking, backtesting, and qualitative review of the methodology.

    - The validator should consider the limitations of the internal model and whether they materially affect the capital derived for this submission, and whether any new limitations have been identified in the context of using the model for the new entrant. The validation report should outline how the limitations have been addressed and why capital is considered to be appropriate. Limitations should include any limitations already identified and monitored by the agent (for example in a Limitations Log), material outstanding validation findings, and material concerns raised on the model by Lloyd's (for example, any open Red feedback).
    - The validation report should also include the 4 confirmation statements as outlined in section 2.2 of the Lloyd's Internal Model Validation Guidance.
    - The validation information provided with the submission can be limited to the data, assumptions, methodologies and expert judgements used in the calculation of the SCR, but should give assurance that the systems/IT, and governance are in line with the existing managing agent's processes. Validation of documentation is not required.
    - Detailed justification for the methodology used is not required, as this will be in line with an existing model that has already been approved by Lloyd's. The validation should opine on the appropriateness of the methodology for the risk profile of the new syndicate. For example, limitations of the methodology with respect to the new entrant specifically should be highlighted in relation to differences in risk profile between the new entrant and the existing syndicate.
- An adjusted set of LCR forms. Lloyd's can provide this upon request to the new entrant.

7.3 Using a SUK, SII or equivalent approved model, calibrated to an ultimate basis

This option applies to any new entrant who has an approved Solvency II, Solvency UK, or equivalent internal model approved by an appropriate regulator (see section 5.2), and is proposing to write some of their existing business into a new Lloyd's syndicate.

Under this option, the new entrant must:

- Demonstrate that the model has been approved for use by a relevant authority
- Make appropriate adjustments to uplift the 1 year SCR to an ultimate SCR, and validate these adjustments

Any submission under this option should include:

- Confirmation of permission to use / approval of internal model use by a relevant authority
    - The syndicate should also highlight any residual model limitations / model limitation adjustments, as well as advising if there is any feedback from the regulator on the internal model
- Approval: For this approval, we would not expect the managing agent to fully validate the model again themselves, but they would be permitted to rely to some extent on the previous validation performed on the model. However, the managing agent is expected to take a view on whether the previous validation was sufficient. Furthermore, they should affirm that the uplifts applied to adjust a 1yr SCR to an ultimate basis are appropriate.
- Validation: There are two elements expected from the validation information provided:
    - The most recent independent validation report (or relevant extracts from the report relating to the business plan and syndicate risk profile) on the new entrant's internal model.
    - Information on the adjustments made to uplift a 1yr SCR to ultimate and the independent validation of them. In general, the validation should justify the appropriateness of the resulting ultimate SCR for the risk profile of the syndicate. This should include consideration of at least the following:
        - class volatilities from 1yr to ultimate, including consideration of recognition of losses, and writing and earning patterns;
        - intra-and inter-class dependencies;
        - whether adjustments are needed for risk drivers or tail events modelled to reflect the potential for further deterioration for aggregation of losses across multiple classes (and potentially risk categories) beyond 1 year;
        - adjustments to remove BBNI (bound but not incepted) business from the time 1 balance sheet;
        - adjustments to add unbound business attached to the prospective YOA not included on the time 1 balance sheet;
        - removal of other items on the time 1 balance sheet that would not be on an ultimate balance sheet, such as the risk margin and discount credit
        - adjustments to credit default rates to reflect the difference between 1 year and defaults over a longer time horizon;

        - if relevant, adjustments to market risk such as capping of investment income and any volatility on FIS/FAL, as well as the difference in volatility between a 1 year and ultimate time horizon.
    - The validation information provided with the submission can be limited to the data, assumptions, methodologies and expert judgements used in the calculation of the SCR and should give assurance that the systems/IT, and governance are in line with the existing managing agent's processes and/or meeting SII/ SUK standards. This is applicable to both the most recent independent validation report (or extracts), and the uplifts applied to adjust the 1 year SCR to an ultimate SCR.
    - With respect to validation of the methodology, the validator should opine on the appropriateness of the methodology for the risk profile of the new syndicate. For example, limitations of the methodology with respect to the new entrant specifically should be highlighted in relation to differences in risk profile between the new entrant and the existing syndicate
- An adjusted set of LCR forms. Lloyd's can provide this upon request to the new entrant.

7.4 Using a SUK, SII, or equivalent approved model, Lloyd's uplift to ultimate

This option is similar to the option outlined above, with the exception that the uplift from a basic 1 year SCR to a basic ultimate SCR is set at 15%.

This is based on market averages and comes with the risk that the uplift is materially inappropriate for the syndicate. The agent should consider the risk profile of the syndicate and confirm that there is no reason for them to consider that the 15% uplift is materially inappropriate. Lloyd's will still review the submission and retain the right to adjust the uplift.

Any submission under this option should include:

- Confirmation of permission to use / approval of internal model use by a relevant authority.
    - The syndicate should also highlight any residual model limitations / model limitation adjustments, as well as advising if there is any feedback from the regulator on the internal model
- Approval: For this approval, we would not expect the managing agent to fully validate the model again themselves, but they would be permitted to rely to some extent on the previous validation performed on the model. However, the managing agent is expected to take a view on whether the previous validation was sufficient. Furthermore, they should affirm to the best of their knowledge that the 15% uplift applied to adjust a 1yr SCR to an ultimate basis is not inappropriate, for example, if writing predominantly longer-tailed business or if a significant volume of business is earned after time 1.
- The most recent independent validation report (or relevant extracts from the report relating to the business plan and syndicate risk profile) on the new entrant's internal model.
- An adjusted set of LCR forms, although the information that is expected to be available is less than the other options noted above. After discussion with the new entrant, Lloyd's can confirm the method of data collection and provide the appropriate template upon request. This will collect exposure data and high level risk category information on a 1 year basis and also the 15% uplift applied to adjust the 1yr SCR to an ultimate basis.

8 Requirements for all new entrant submissions

8.1 Submission requirements

For all new entrant submissions, syndicates are required to submit documentation outlining the following:

- Approval: 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 Principles. Specific requirements to support this approval for each option are specified in the relevant section.

- Validation of the loss ratios used as performed by the actuarial function.

All capital submissions should take into account the RI concentration risk requirements as set out in the Capital Guidance, section 13.4.3. For syndicates using the LSM, if a concentration risk charge is required, this would require running two versions of the LSM to calculate the charge, and submitting an appropriate management adjustment in the formal LSM submission.

For syndicates submitting for the very first time, there is no fixed submission timetable – however, capital submissions and review will be aligned with the quarterly corridor test (QCT) timetable as far as possible (the dates are outlined in section 5.5 of the Lloyd's Capital Guidance). Draft capital submissions should be made at least 2 weeks prior to BOC, with formal capital submissions being made at least 3 weeks before CPG.

For syndicates which have gone live and are submitting plans and capital requirements for the next year of account, business plan and capital submissions follow a phased approach. Each syndicate is given a specified return submission date based on its capital structure and Lloyd's risk-based approach. Syndicates will follow one of submission phases, which will confirmed by the Account Managers. Non-aligned syndicates will submit their plan and capital information in the first phase. Further details will be published annually in a market bulletin – LSM templates or adjusted LCR forms (depending on capital setting option used) should be submitted in line with the LCR deadline for a given phase. Deadlines are at 1pm on the submission day. The LSM template or adjusted LCR forms, and any relevant documentation should be uploaded to the "MRC Syndicate Capital Setting" folder on SecureShare.

If you require access to SecureShare please speak to your devolved administrator in the first instance, or visit the SecureShare link on Lloyds.com for further information and an example on setting up SecureShare as a new agent. Agents are requested to also directly notify their capital point of contact to confirm whenever documentation (including LSM templates or adjusted LCR forms) is submitted on SecureShare.

Please note that syndicates are required to also submit the standard formula calculation to Lloyd's (except for SIABs). Guidance can be found on Lloyds.com.

8.2 Consistency with other returns

The methodology and assumptions used for completing the LSM / adjusted LCR (as applicable), SBF, LCM, the assets and liabilities on the Solvency II balance sheet and the technical provisions including the contract boundary definitions must be consistent. Any inconsistencies should be identified and justified with the potential impact understood.

The premium volume for the prospective year within the LSM / adjusted LCR (as applicable) submission should be consistent with the accompanying SBF. However, loss ratio assumptions for the prospective year need not be the same as those in the business plan, and may not be appropriate to be, albeit the gross loss ratio assumptions should not be lower than those in the business plan – see section 8.2.1 below. Additionally, consistency here means that syndicates should be able to articulate the differences between model and plan loss ratios clearly and bridge between the assumptions if there is a difference.

Any reinsurance mitigation claimed in the LSM and included in the LCM should be consistent with the reinsurance assumptions in the SBF.

The assets in the opening balance sheet in the model should be consistent with the projected balance sheet as at the year-end. If agents expect to make changes to their investment profile, they should allow for this in projected balance sheet and therefore the opening balance sheet at t0 in the model as well.

Managing agents must have in place a process by which the consistency of data used, methodologies and assumptions can be verified.

8.2.1 Prospective Loss Ratios

Section 4.10.1 in the Lloyd's Capital Guidance outlines requirements for prospective loss ratios in capital models – these do also hold for new entrant's capital submissions, i.e. that the capital setting loss ratio should not incorporate improvements in performance without track record of improvements being achieved. However, for new syndicates there may not be a track record of performing to plan (or not). Lloyd's expect the actuarial function to validate and challenge the loss ratios in the SBF for new syndicates as for other syndicates, and use the higher of SBF or actuarial loss ratio in the capital submission.

Consideration of assumptions underlying the SBF loss ratios should be made at the level they are input into the model, for example it would not be adequate to demonstrate performance to plan in total by year if certain classes consistently do not perform to plan. Lloyd’s would expect the managing agent to support the view taken by performing their own analysis showing the classes where they believe the SBF loss ratios to be too low given the track record and the increase required to achieve a best-estimate value.

The Actuarial Function opinion on underwriting policy should challenge the assumptions underlying the SBF loss ratios. Loss ratios should be increased to achieve a best-estimate value for any classes where they believe that the SBF loss ratio is too low given history (at market level or other data that might be available), benchmarking and expert judgement. The loss ratios in the LSM / adjusted LCR (as applicable) cannot be below the SBF by class of business. Details on the tests that Lloyd’s conducts for the prospective year loss ratios used as part of capital setting are outlined in the reserving tests of uncertainty instructions provided annually.

New entrants should also refer to the latest LCR Instructions in force at the time of any submission as any requirements on model loss ratio within these LCR Instructions will also apply to any new entrant capital submission (LSM or otherwise).

8.2.2 Opening Balance Sheet

The assets in the opening balance sheet in the model must be consistent with the projected balance sheet at the prior year end. The opening model balance sheet projection (T0) should be prepared on the basis of net nil basic own funds on a Solvency II basis. Section 4.10.2 in the Lloyd’s Capital Guidance contains more detail on this. If the capital submission is for a brand new entrant with only a prospective year business plan (or a submission is made part-way through a year where writing will commence during that year), it is reasonable to assume that there is no opening balance sheet, unless it is expected that there will be significant legally obliged business at the year end – in which case the agent should contact the syndicate capital team to discuss what adjustments, if any, are required for capital setting.

September LSM submissions made in line with the CPG process for setting capital for the following year are based on a balance sheet projected to year-end, to determine the starting claims for volatility assumptions as well as the opening assets for market risk calculations (for March reassessments, the actual year-end balance sheet is used. Further detail on March reassessments is described in section 8.5).

Syndicates are also permitted to allow for profit to offset ultimate capital from three sources: risk margin, prospective year insurance risk profit, and ‘current and prior year’s profit not already reflected in TPs’. In the case of the prospective year profit there is a potential for profit to be double-counted via both ULOs in the technical provisions as well as this component of the LSM. Therefore, it is a requirement that syndicates must review their ULO profit and ensure that they eliminate any such potential profit double-count.

Any profit (with a floor of 0) the syndicate is projecting to claim on the opening balance sheet ULOs should be subtracted from the profit claimed in the LSM. If the ULO profit is negative, syndicates cannot add this to the prospective insurance risk profit claimed in the LSM.

8.2.3 Natural Catastrophe inputs

LSM submissions

As noted at the start of section 6, the LSM calculates an ultimate and one year SCR. One of the key inputs into the LSM is natural catastrophe losses - both for LCM5 perils and ROW perils (LCM5 being the 5 core peak natural region-perils where data is explicitly collected by Lloyd’s Exposure Management for the Lloyd’s Catastrophe Model – “LCM”, being: US Earthquake, US Windstorm, European Windstorm, Japan Earthquake and Japan Typhoon, and ROW being Rest of World natural catastrophe losses, also collected by Lloyd’s Exposure Management for the LCM). The current structure of the LSM directly generates an ultimate insurance risk and then derives a one-year insurance risk via an emergence factor. In this current structure, the natural catastrophe inputs should therefore be on an ultimate basis. As the accompanying LCM forecast returns represent a calendar year view of risk, agents should not use these figures directly (unless they have also been submitted on an ultimate basis). They should instead use figures which represent the ultimate view of risk on all unexpired and prospective year natural catastrophe exposures *consistent* with the figures reported within any LCM submissions.

The net stress (1:200 minus mean) on any ultimate natural catastrophe losses should not be lower than the net stress included within any accompanying LCM submissions. If this does not hold true the agent should include an explanation within the LSM to justify this. Lloyd’s may make an adjustment to capital to uplift the net natural catastrophe stress within the LSM to be at least as high as the LCM basis if this is the case.

Adjusted LCR submissions

LCM5 and ROW reporting should be made in line with LCR requirements (see the LCR Notes within the latest LCR Specifications), and consistent with LCM information submitted to Lloyd's Exposure Management.

8.2.4 Franchise Guidelines

Lloyd's has several Franchise Guidelines in place that may result in a higher capital requirement than the one that may be submitted to Lloyd's, unless a dispensation is agreed by CPG. Further information on Franchise Guidelines can be found in Performance Management – Supplemental Requirements & Guidance. Market Bulletin Y5375 and Market Bulletin Y5464 also provide a brief summary on these Franchise Guidelines.

The Franchise Guidelines that are relevant for capital setting purposes are:

- The maximum net line size that a syndicate should have on an individual risk cannot exceed 30% of ECA plus profit
- Any syndicates with a provisional / forecast Cat Risk Appetite (CRA) ratio> 37.5% is required to discuss this with the Lloyd's Exposure Management team and be able to demonstrate a highly-sophisticated approach to natural catastrophe risk and exposure management prior to approval. The CRA ratio is defined as: LCM5 1:200 AEP FNL / (ECA + SBF profit)
- A Syndicate's projected and in-force loss estimates for Realistic Disaster Scenarios, shall not exceed 80% of ECA plus Profit for defined Gross RDS losses, or 30% of ECA plus Profit for defined Net RDS losses
- The 99.8th percentile of Final Net LCM WWAP claims shall not exceed ECA plus Profit

It should be noted that one of the previous Franchise Guidelines, namely, the 99.8th percentile of Final Net LCM WWAP losses shall not exceed 135% of the 99.5th percentile of Final Net LCM WWAP losses, is no longer in force for syndicates using the LSM.

For syndicates whose capital is set using the LSM (adjusted or unadjusted), additional requirements are imposed with respect to the RDS Franchise Guidelines, as set out below.

Syndicates are required to assess exposure to Realistic Disaster Scenarios (RDS) as well as developing their own aggregation scenarios and reporting them to Lloyd's. Franchise Guidelines are in place for RDS: "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". For syndicates with their own internal models, the Franchise Guidelines are only in place for the scenarios defined by Lloyd's – and syndicates are expected to parameterise their model using scenarios, and stress and scenario testing is an important part of the internal model validation. However, syndicates are also required to submit two scenarios that they have developed themselves (Alternatives A and B) as part of the new entrants process, to demonstrate the syndicate's understanding of where the main accumulations lie. Given the limitations of the LSM with regards to non-natural catastrophes, the Franchise Guidelines above are also applied to the syndicate's own scenarios submitted to Lloyd's. If the Guidelines are breached by any scenario, then the syndicate can limit its exposure (e.g. by purchasing additional outwards reinsurance) or a capital loading can be applied. This should be discussed with the Exposure Management team at Lloyd's. There is a worksheet within the LSM where agents can check whether Franchise Guidelines may be breached.

8.3 Review process for the LSM / adjusted LCRs for new entrants

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 LSM / LCR submission. It will cover:

- Any missing information from the submission against the relevant lists above, depending on the option used for capital setting (Section 6.1, Sections 7.1-7.4, Section 8.1).

- Data inconsistencies between the LSM / adjusted LCR (as applicable) and other returns, for example the consistency of risk margin and RICB between LSM / adjusted LCR and QSR, as well as the consistency of premium, claims and profit between LSM / adjusted LCR and SBF and the catastrophe risk inputs in the LSM against the LCM.

The review process for all new entrant submissions, including the loadings process will mirror the process for syndicates with permission to use Internal Models submitting a Lloyd’s Capital Return and is outlined in the LCR Instructions. This includes consideration of capital appropriateness to the risk profile of the syndicate. The reserving tests of uncertainty do not apply to new syndicates given the lack of history, however, syndicates could receive capital loadings due to issues with their LSM / adjusted LCR submission, loadings by Exposure Management (as outlined in the LCR Instructions) and controls loadings if there are wider issues with governance and controls processes unrelated to a capital model. In particular, a loading for tail risk could be applied if the syndicate takes on undue natural catastrophe tail risk as outlined in the LCR instructions.

Results of the capital review will be presented to and discussed at the Actuarial Oversight Review Group (AORG) and a recommendation regarding the syndicate’s capital will be presented to the relevant governance committee at Lloyd’s, currently the Capital and Planning Group (CPG). The decision will be communicated by Account Managers verbally and followed up with a letter shortly after the CPG meeting. CPG decisions can be appealed; syndicates should contact their Account Managers regarding procedures. There may be separate feedback issued to syndicates by the syndicate capital team on the LSM / LCR submission – if there is no feedback the syndicate capital team will advise the managing agent that this is the case.

8.4 SBF Resubmissions

SBF resubmissions in September/October

If an SBF resubmission is required during the September/October review process, the managing agent must assess the capital impact of this change. A resubmission of the LSM may be required depending on the circumstances – the resubmission will generally only consist of the LSM template with no accompanying documents:

Downwards capital movement:

- If the managing agent would like to take credit of the downward capital movement, a resubmission of the LSM is required. For any movements of greater than 10% a resubmission of the LSM is mandatory.

Upwards capital movement:

- Less than 5%: No update required.
- Greater than 5%: Resubmission required.

SBF resubmissions at any time

The impact on capital from any SBF resubmissions should be notified to your capital point of contact in all cases.

8.5 Resubmissions throughout the year

All managing agents are required to consider the impact of emerging information on the syndicate capital requirement and notify Lloyd’s if this causes a capital movement of greater than 10% (measured before the impact of foreign exchange and Reinsurance Contract Boundary). This requirement is in place for all syndicates, regardless of whether capital is set via an internal model, via the LSM, or an alternate approach. The 10% is measured from the point of the last submission.

Following year-end, all syndicates are required to re-assess their capital based on actual positions at year-end. Managing agents should update the LSM to include the actual technical provisions within the unaudited QSRs and make allowance for any changes in business plans, risk profile and rates of exchange. Syndicates with their own internal model are required to rerun the model and then submit a template with the impact to Lloyd’s. However, for syndicates on the LSM;

- The March reassessment template (as referenced in section 5.6 of the Capital Guidance) is not required.
- If the uSCR (including management adjustment) moves by less than 10%, syndicates should provide positive confirmation of this to Lloyd's via email to their Capital Point of Contact.

If at any point there is a capital movement greater than 10%, a LSM / LCR submission (with all appropriate supporting documents) is required.

Due to the requirement to keep the risk margin value constant in their QSR and ASR submissions for a year of account (as per section 8.66 below), when reassessing capital in the LSM agents may choose to overwrite the default risk margin calculation in their reassessment calculation with the previously calculated risk margin used in the most recently approved LSM submission.

See the Capital Guidance for more detail on resubmissions.

8.5.1 Early submissions

New entrants who intend to commence underwriting in the following calendar year may make, and Lloyd's may approve, their formal capital submission ahead of the September/October process using the prior year Q4 FX rates (for example, submitting an LSM in June 2025 with a planned commencement date of 1 January 2026, using the Q4 2024 FX rates). In this case, the new entrant should resubmit a new formal capital submission using the most recent Q2 FX rates (following the same example, using the Q2 2025 FX rates) for Lloyd's approval, either ahead of or in line with the submission deadlines of the September/October reviews. Provided that the resubmission is only to update the FX rates, Lloyd's would expect a proportionate review of the submission through the managing agent's governance arrangements, and Lloyd's would furthermore expect to perform only minimal review on the submission itself.

8.6 Quarterly Corridor Test (QCT)

All members are subject to Coming-into-Line (CIL) annually in June, which is when members are required to ensure their capital meets the required level in full. Member level assets and liabilities are compared each quarter to their latest ECA requirement as part of the QCT process. Where a member's assets, as defined in the Membership and Underwriting Rules (M&URs), are below the required level of 90% of ECA, further FAL will be required in adherence to the M&URs. Members will also be permitted to release surplus FAL above 110% of ECA.

Underwriting restrictions or other measures may be imposed to mitigate the risks until capital is lodged at Lloyd's.

The final agreed SCRs (per the latest CPG letter) will be adjusted for FX and balance sheet movements in quarterly corridor tests and the mid-year CIL exercise. The introduction of the QCT process means that Lloyd's will, in general, consider changes in capital four times a year – and in particular any changes in SBFs and resubmissions will be considered within this timetable. See the Capital Guidance for more detail on the wider QCT process and the timetable.

As stated above, Lloyd's centrally adjust the agreed SCR capital requirements to ensure consistency with the solvency valuations – in particular using consistent exchange rates and adjusting the reinsurance contract boundary (RICB) reported in the LCR to be consistent with the latest Solvency II balance sheet, i.e. the QSR and ASR submissions.

For syndicates on the LSM some adjustments are made in the same way as for syndicates with their own internal model – in particular adjustments for foreign exchange rate movements and the RICB. The treatment of any loadings and adjustments is also the same. These are outlined in more detail in the capital guidance.

8.6.1 Risk Margin

LSM submissions

In the first year of account for a syndicate on the LSM, the LSM sets the opening risk margin to zero as the risk margin is expected to be immaterial (as it is based on the run-off SCR). Syndicates should set the risk margin to zero in the corresponding QSR and ASR submissions as well (e.g. for a syndicate submitting a 2026 LSM, the corresponding QSR/ASR are the Q4 2025 QSR and 2025 YE ASR respectively), to ensure consistency in the capital stack. For the purposes of Q1, Q2, and Q3 QSR reporting in the first calendar year, syndicates are permitted to keep the risk margin at zero as an accepted simplification, or alternatively, syndicates have the option to calculate and report a risk margin associated with business earned at those points in time.

In the second year of account and beyond, the risk margin is calculated in the LSM as 10% of the total current and prior years of account exposure. The risk margin reported in the corresponding Q4 QSR/ASR should be consistent with the risk margin calculated in the most recent submitted LSM (noting the HMT change to the cost of capital paragraph below), and similarly to the first calendar year, syndicates have the option to keep the risk margin unchanged in the subsequent Q1, Q2, Q3 QSR submissions or increase the risk margin to reflect business earned at the relevant points in time.

Syndicates have the option to overwrite the risk margin in the LSM if these simplifications are deemed material.

Following the HMT change at the end of 2023 to reduce the cost of capital ("CoC") from 6% to 4%, Lloyd's has changed how agents should calculate the risk margin for capital submissions compared to the risk margin that they report in their technical provisions. The default risk margin calculation in the LSM is set to be equivalent to a 6% CoC approach and this should not be changed for capital submissions. This is because one of the intentions behind HMT's change to the risk margin CoC was to reduce total capital requirements (technical provisions plus capital) in the UK insurance market, but for Lloyd's syndicates (who set capital on an ultimate basis) this had the opposite effect due to the reduction of the profit offset to uSCR and loss of the 35% uplift of this offset. Therefore, to pass the intended benefit onto syndicates the risk margin for capital setting purposes is calculated using a CoC of 6%, whilst in technical provisions it should be calculated using a CoC of 4%. Therefore, syndicates should overwrite the default from 10% (of total current and prior years of account exposure) to 6⅔% for their technical provision calculations, i.e. ASR/QSR submission. Note that we have updated this since previously publishing the ASR guidance (where section 3.4 references a requirement to use 7% only). Please note, Lloyd's Central Finance are simplifying their reporting instructions and ASR guidance will not be in place from Q4 2025 onwards; a streamlined SUK reporting guidance document will be issued instead which will not have any reference to the previous 6⅔% figure.

Syndicates have the option to overwrite the risk margin in the LSM if these simplifications are deemed to materially misstate the syndicate's own view of the risk margin.

New entrants using a previously approved model to set capital

Similarly, new entrants using an approved model to set capital in their first year are permitted to set the initial Risk Margin to zero as it is expected to be immaterial, and should also report zero risk margin in the corresponding Q4 QSR/ASR (e.g. for 2026 capital, the corresponding QSR/ASR are the Q4 2025 QSR and 2025 YE ASR respectively) to ensure consistency in the capital stack. For the purposes of Q1, Q2, and Q3 QSR reporting in the first calendar year, syndicates are permitted to keep the risk margin at zero as an accepted simplification, or alternatively, syndicates have the option to calculate and report a risk margin associated with business earned at those points in time.

For a new entrant in their second year of account who used an approved model to set capital in their first year, an IMAP should have been completed by this point and thus syndicates should follow the relevant Capital Guidance and Technical Provisions guidance for calculating and reporting risk margin in capital and technical provisions respectively.

9 Internal Model Application for Permission to use (IMAP)

Syndicates will need to go through an 'internal model application for permission to use process' (IMAP) before they are permitted to begin setting capital using their internal model, or, if the syndicate used an existing internal model to set capital for their first year, to continue to allow the syndicate to use their internal model at Lloyd's. The IMAP will involve a draft LCR submission review, a model walkthrough, a validation review, a Solvency UK compliance review and an assessment of the syndicate against the expected maturity for Principle 7 of The Principles.

9.1 Timings

Syndicates should start the IMAP in the year before they plan to use their model for capital setting. Syndicates can only set capital using the internal model for the first time during a September/October capital submission, not a March resubmission.

The IMAP should start with a draft LCR submission **no later than 31 March** prior to the first anticipated use of the internal model for capital setting purposes. So, if a syndicate aims to set capital on their internal model for the first time in September 2026 (for the 2027 year of account), a draft submission of the LCR should be made by 31 March 2026. Syndicates should contact their capital point of contact to discuss the exact timings.

Syndicates should be mindful that the further in advance of their first full submission an IMAP is submitted, the more time they will have to address any resulting Lloyd's feedback – however, the submission should be of a quality that is suitable for Lloyd's to review.

9.2 Initial Completeness Checks

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, either through missing documentation or clearly insufficient material within the submission documents. The result of the initial completeness checks will be communicated within 10 working days of the draft LCR submission.

9.3 Draft Submission

The draft submission should be of sufficient quality to allow a full and detailed review by Lloyd's. Syndicates will be required to provide all documents listed in the Submission Requirements section of the LCR Instructions, except the Analysis of Change and Model Change Template.

Lloyd's will undertake a detailed review of these documents in order to confirm that the model is in line with Lloyd's guidance and calculates an appropriate capital requirement for the syndicate. Lloyd's targets to provide feedback to syndicates 10 weeks after a complete IMAP submission is made to Lloyd's, to allow time for any material feedback that could result in loadings to be addressed prior to the September submission. Please note that this is an indicative timeframe only and any additional queries might lead to delays.

In addition to the key metrics set out within Form 600, Lloyd's review will focus on a number of areas, including but not limited to the following:

- All risk types are expected to make a meaningful contribution to capital. If this is not the case, the syndicate should carefully explain the justification for this.
- Syndicates should pay particular attention to the contribution of operational risk as Lloyd's considers this to be a key risk for new syndicates.
- Lloyd's will require detailed information on the parametrisation process and outputs for key classes, including the data relied on, where the syndicate does not have a history of writing such business.
- The dependency structure and level of dependency – both within risk types and between different risk categories. Syndicates should pay particular attention to the tail dependencies.
- The steps that the managing agent has undertaken to ensure that the internal model appropriately represents the risk profile of the syndicate, including appropriate governance, challenge and validation on key aspects of the internal model, including for example parameterisation, model limitations, expert judgements etc. The agent should also outline whether there are any material modelling changes expected to arise in future – for example with the build-up of reserves in a new, growing syndicate requiring a more sophisticated approach for reserve risk – and how they anticipate acting in these scenarios.
- The managing agent should draw Lloyd's attention to any areas of the internal model where they do not consider it to be compliant with SUK and/or Lloyd's Capital Guidance requirements. Documentation should be explain how this is treated and the rationale for the action taken by the agent – for example, whether a model limitation adjustment (MLA) is applied including details of how it is calculated, or that non-compliance is considered immaterial and why, and the plans to monitor and/or address these areas of non-compliance. Further details on expectations are outlined in the Capital Guidance, sections 4.11 and 8.3

Syndicates should ensure that the documentation supplied with the IMAP submission covers the above points. Syndicates should also refer to the Capital Guidance (section 9.3.11) for guidance related to modelling new classes of business, as 'The Principles' there are likely to be relevant here.

Other requirements for IMAP include:

- Model walkthrough – In the model walkthrough Lloyd's will step through examples of how model processes are applied in practice (e.g. parameterisation for a class of business and / or areas of the dependency structure). Lloyd's will assess the example areas against the sub-principles that underpin the capital dimension of the 'The Principles'. This would include, for example, a look at use of data and methods, selection of assumptions, limitations, expert judgments, capital team resourcing, application of governance policies and the validation process.
- Solvency UK compliance assessment and Principle 7 of 'The Principles' review (see section 9.6).

The opening balance sheet used in the model can be either the actual balance sheet as at the prior year end, or the projected balance sheet used in the previous capital submission using an interim capital setting method (such as the LSM). In either case, the syndicate should clearly state which balance sheet is used in the submission.

9.4 Model Walkthrough Process

The examples chosen for the walkthrough will be based on material model/risk profile areas such as the dependency structure and/or parameterisation of key classes of business.

To this end, an agenda will be sent to managing agents in sufficient time ahead of the walkthrough to give the managing agent time to prepare. The agenda will highlight the specific example areas to be covered and any features of these areas that Lloyd's may wish to discuss in detail (e.g. for a model area example Lloyd's may choose to focus on treatment of data while for another there may be a focus on assumption setting and the governance process).

Lloyd's may also share queries with the agent that should also be covered in the model walkthrough. These queries will be based on review that has happened to that point and would be appropriate to cover in person with the agent.

The walkthrough should happen around week six in the form of a two to three hour in-person (or virtual) meeting between Lloyd's and managing agent staff. After the walkthrough Lloyd's will summarise the meeting and draw conclusions to be presented and discussed at the Actuarial Oversight Review Group ("AORG"), which is the committee that will conclude on IMAPs, unless escalation to CPG is required. This may indicate areas to investigate further in the IMAP, or for feedback and review in the future.

9.5 Validation

At the time of the draft submission, syndicates are required to submit full model validation. Please see the Validation Guidance for information on what should be considered in the validation process and report, including development of a targeted plan for performing tests in line with a 3-year validation cycle. Whilst the IMAP is a draft capital submission and not used for capital setting, the validation confirmation statements (outlined in section 2.2 of the Validation Guidance) would be expected to be provided. A full validation in this context means carrying out the full scope of the validation of the internal model and not just the calculation kernel. The Validation Guidance (section 2.8) has more detail on what is included in the scope of full validation.

A validation report should be submitted illustrating that validation has been carried out in line with 'The Principles' and Validation Guidance. The 3-year validation cycle does not need apply to the first validation report submission because, as previously mentioned, all areas of the model should be validated for the draft submission. For areas where the syndicate has applied a simplification and is planning further refinement, the validation process should assess that capital reflects the uncertainty around the simplification adequately and include a summary of this work in the report.

It is appreciated that syndicates may not be able to apply certain tests or validation tools by the time of the draft submission, due to lack of underwriting experience or otherwise.

- Validators will not be able to complete an analysis of change or review how the model strength has changed over time for the draft submission. However, this testing should be provided with the first official LCR submission to compare against the draft LCR submission.

- Where a syndicate is in its first or second underwriting year, there may be limitations in the extent of testing against experience that can be performed. In this case syndicates should consider any relevant internal and external data that could be used for backtesting and extend the usual range of testing that is applied to the affected model areas.

Given a full validation report is expected to be provided for the IMAP, it is not expected that this is repeated for the first full submission. As it states in the validation guidance, the onus is on the validator to ensure that any appropriate updates are made and tests are re-run if necessary. The validation report for the first full submission should include appropriate information to demonstrate that validation applied to earlier versions of the model remains sufficient to validate the current model and provide bridges between versions where appropriate.

9.6 Compliance with Solvency UK and Lloyd's 'Principles for Doing Business'

Based on the detailed information reviewed as part of the IMAP review, Lloyd's will assess the syndicate against their expected maturity for Principle 7 of The Principles.

Compliance with Solvency UK will also be reviewed and Syndicates are required to submit additional documents for this part of the review - the list of required documents is included in Appendix 1 of this Guidance.

The assessment against the principles for capital might not be available for the pre-planning letters issued by CPG that include the syndicate's overall Principle Based Oversight category – however, the capital principle rating will be included in the feedback Lloyd's send and if this has an impact on the overall syndicate categorisation then this will be communicated to the syndicate.

9.7 Conclusion of the IMAP

Following completion of the IMAP a conclusion will be reached by the AORG. The conclusion is to either give permission to use the internal model with or without conditions, or reject the internal model. Here a rejection means that the syndicate cannot use its own internal model in the next capital setting process. Permission to use with conditions means that the syndicate has to fulfil certain conditions before a full internal model capital submission is accepted (without capital loadings). This conclusion along with more detailed feedback will be sent to capital contacts by the Lloyd's capital point of contact. The feedback will be split into a RAG rating in order to help prioritise the feedback for agents, as well as confirmation on Lloyd's assessment of the syndicate's capital Principle maturity level.

10 Syndicates transferring Managing Agents

When syndicates transfer from one managing agent to another, Lloyd's will need to confirm that the new managing agent continues to set capital in a Lloyd's approved and Solvency UK compliant internal model, or via the LSM. The process will vary depending on whether the new managing agent will continue to use the internal model used by the previous managing agent, if the syndicate will be using a new internal model, or if they would continue to use the LSM. It is possible for the syndicate's capital to be set temporarily by the LSM during the transition, i.e. while a new model is built if required. Timeframes and transitions will be assessed on a case by case basis with the managing agents.

10.1 Syndicates Switching to Using a New Internal Model

When a syndicate changes to using a new internal model, they will be required to provide a plan for compliance with the Solvency UK and Principle 7 of The Principles (as outlined in section 4) and go through the full IMAP (as outlined in section 9). This requirement applies whether the syndicate will be using a newly built model or a model that already exists (and has been approved by Lloyd's) at the new managing agent.

While the syndicate is seeking internal model approval, their capital may be set on the LSM. Timings for getting internal model approval are usually in line with requirements set out in this guidance, as outlined in section 2 and section 9. Lloyd's will discuss the capital setting requirements and timings on a case by case basis with the syndicate and new managing agent.

10.2 Syndicates Continuing to Use the Existing Internal Model

When syndicates continue to use the previously approved internal model after they have transferred to the new managing agent, they will be able to follow a partial-IMAP process, rather than the full IMAP process (outlined in section 9). It is noted that the syndicate and new managing agent are required to arrange agreement with the previous managing agent to continue using the same internal model – which means they will need visibility of the inputs and the modelling code.

Since the syndicate is continuing to use the same internal model, any feedback (capital, validation or other) given to the syndicate under the previous managing agent will continue to apply and will be required to be addressed. If a change in process means that the prior feedback points are no longer relevant the syndicate should make that clear and justify why that is the case.

As this situation involves the use of an internal model that has already been approved by Lloyd's for the syndicate, the partial-IMAP will focus on ensuring the capital team at the new managing agent has the required skills to use the internal model appropriately and that suitable governance processes are in place.

The steps of the full IMAP process that are also required for the partial-IMAP process are as follows:

- Model walkthrough – in line with the model walkthrough outlined in section 9.4, the model walkthrough will be used to consider examples against each of the sub-principles that underpin Principle 7 of The Principles. This would include, for example, a look at use of data and methods; selection of assumptions; limitations; expert judgments; capital team resourcing; application of governance policies; and the validation process.

- Confirm compliance with Solvency UK and Principle 7 of The Principles, as outlined in section 9.6

- Detailed validation review – this will be carried out after the first LCR submission that the syndicate submits. Syndicates may be required to submit a full signposting template to aid this review; the signposting template can be found on the model validation page on Lloyds.com. Lloyd's will advise syndicates with sufficient notice if a signposting template is required.

10.3 Syndicates Continuing to Use the Lloyd's Standard Model

When a syndicate plans to continue to set capital using the LSM, they will be required to provide a plan for compliance with the Solvency UK and Principle 7 of The Principles (as outlined in section 4).

11 New Legacy RI Providers

A new legacy RI provider is any syndicate which does not have a Lloyd's approved capital model and is seeking to write one or more legacy RI transaction(s). This section outlines how capital will be set for these syndicates until permission to use an internal model has been granted by Lloyd's.

Further details on the requirements for legacy transactions are outlined in the guidance documents on the Legacy guidance section on Lloyds.com.

11.1 Capital Setting First Transaction

The capital requirement for a first transaction of a new legacy RI provider will be set using the partial LCR from a ceding syndicate (if appropriate). The ceding syndicate SCR is calculated from their approved internal model and is therefore the most appropriate reflection of the risk available. Any operational risk included in the partial LCR will be removed and replaced by the operational risk calculation from the Lloyd's Standard Model (LSM). The resulting operational risk percentage will be applied to the remaining SCR from the partial LCR.

11.2 Capital Setting for Additional Transaction(s)

In the event of multiple transactions being signed in the first modelling year, the new legacy RI provider is required to submit an LSM, and this will be used to set the capital requirement. Again, the operational risk will be included in the calculation based on the LSM methodology. The legacy RI provider should consider whether the resulting capital is appropriate for the business taken on, and may propose adjustments to LSM parameters; the requirements noted within this guidance on LSM submissions would continue to apply. Lloyd's will review the submitted capital requirements against the partial LCRs for all transactions and may make uplifts to capital if the partial LCRs suggest a higher capital requirement is appropriate.

11.3 Syndicates in 2nd & 3rd Years without an Approved Model

Capital requirements for new legacy RI syndicates entering their 2nd or 3rd years of account will also be set via the LSM until permission to use an internal model has been granted by Lloyd's.

11.4 Treatment of Outwards Reinsurance ("ORI")

Any ORI arrangements being considered for a legacy RI transaction must be agreed in advance with the Lloyd's ORI team. It should be noted that, to give Lloyd's additional comfort in the capital levels, prudence has been built into the credit for reinsurance allowable by reducing the capital credit for the ORI as set out in this section. Section 8.5 of the Legacy RI guidance outlines details on the treatment of ORI for legacy transactions. In particular, this notes that there is a minimum 10% reduction in the capital benefit that will be applied to account for concentration risk. For new legacy RI providers, an additional 10% reduction in the capital benefit is applied in addition to the minimum 10% reduction, providing prudence to allow for credit risk of the financial instruments, dispute risk and uncertainty in the modelling.

By way of a simple example, an 80% whole account quota share arrangement that reduces capital by 80% would yield a 64% reduction in the capital requirement set under this approach.

Syndicates should submit the additional capital charge arising as a result of the above identified risks as a management adjustment in the LSM. If capital is not being set via the LSM but instead via the partial LCR provided by the ceding reinsurer, the capital will be adjusted accordingly by Lloyd's.

11.5 Treatment of Risk Margin

As currently calibrated, the LSM will generate a risk margin of 0 for the first year of a new syndicate. For a new legacy RI provider using the LSM to set capital (i.e. if multiple transactions are made), this is not appropriate. The risk margin override feature in the LSM should be used in this instance. The risk margin may be calculated using the standard approach used in the LSM (i.e. using a flat factor of 10% of all net prior and current YoA exposures), or via another appropriate method if the simplified approach in the LSM is deemed to materially misstate the risk margin.

For most cases – i.e. capital being set either via a partial LCR in the first year, or via the LSM in a subsequent year, a risk margin will be produced and therefore an override is not required. Other requirements related to risk margin for new legacy RI syndicates are in line with the requirements included within section 8.6.1 of this guidance, including for example the points related to the HMT change in the cost of capital for the risk margin from 6% to 4%.

12 Requirements for First Full Submission

Once a syndicate has been given permission to use their internal model, they should use this for subsequent capital setting submissions. The requirements for this are set out in the Capital Guidance and LCR instructions in force at that time. This includes the requirement to submit a Model Change Template (MCT) and Analysis of Change, covering changes and movements between the draft and full submission.

It is not expected that a full validation report is repeated for the first full submission. As it states in the validation guidance, the onus is on the validator to ensure that any appropriate updates are made and tests are re-run if necessary. The validation report for the first full submission should include appropriate information to demonstrate that validation applied to earlier versions of the model remains sufficient to validate the current model and provide bridges between versions where appropriate.

13 Appendix 1: Documents Required for the review of compliance with Solvency UK and Principle 7 of The Principles

In order to demonstrate compliance with Solvency UK and to aid the assessment of performance against the expected maturity for Principle 7 of The Principles, syndicates are required to provide a number of documents as outlined below. These should be submitted via SecureShare, and the capital point of contact should be notified once submitted.

As noted in the document list below, the syndicate is required to complete a self-assessment for Principle 7 of The Principles. More information about the self-assessment can be found on Lloyds.com.

The documents required to be provided at the same time as the draft LCR are listed below. They are roughly grouped by relevance to each capital sub-principle (these are described in section 3), although it is possible that some documents will be relevant to several sub-principles:

General:

- Self-assessment for Principle 7 of The Principles
- Any evidence of prior reviews that the syndicate conducted to assess SUK compliance (if applicable)
- Board pack and minutes for the sign-off of the draft LCR submission*

Documents relevant for sub-principle 1:

- Risk Register
- Internal Model Scope Policy (or this might be part of an overarching Internal Model Policy)

Documents relevant for sub-principle 2:

- External Model Policy (if separate to the IM Scope Policy)
- Any SCR Methodology or parameterisation documents not already sent previously with LCR submissions that provide relevant information on the appropriateness of methodology or assumptions.
- Standardised syndicate information template. This can be found on the Internal Model SCR page on Lloyds.com
- Documentation explaining how techniques, methods and assumptions used in the model are considered to be adequate, up-to-date, and generally accepted market practice (if not already covered in other documents requested)
- Documentation addressing how future management actions are considered to be reflected appropriately in the internal model
- If the submission includes management adjustments any details/justification of those*
- Internal Model Data Policy and Data Directory
- Internal audit report (or the findings from the report) on data quality*
- Limitations Log

Documents relevant for sub-principle 3:

- ORSA report *
- Model Use Policy
- Expert Judgement Log and examples of expert judgment / documentation

Documents relevant for sub-principle 4:

- Responsibilities Map, Team Structure charts, and Model governance structure
- Risk Management Policy
- Any evidence that demonstrates how the Board and Senior Management understand the model uses or just confirmation by the Chair that the Board and Senior Management are comfortable with the model uses
- Documentation policy
- Any documentation around how the internal model is integrated in the risk management system (if not already within the Model Change Policy)
- Internal Audit reports (or the findings from the report) on Model Governance/Board effectiveness*
- Records of internal model training for Board members and other key personnel involved in model governance

<u>Documents relevant for sub-principle 5:</u>

- Model Change Policy
- Model development plan

<u>Documents relevant for sub-principle 6:</u>

- Internal Model Validation Policy

Documents with a * against them are not required for partial IMAP reviews where a new managing agency is being set up and taking over an existing internal model. Whilst an internal audit report on data quality commissioned by the new managing agency would not be available, any relevant information about the assurances the new managing agency has with respect to the data quality for ongoing use in the internal model would be useful to support Lloyd's review.

14 Appendix 2: LCR Data to submit for new entrants using an existing model

New entrants providing a capital submission from an existing model will be required to submit some information that would usually be provided via LCR forms from syndicates with approved internal models. Details of the data that we would typically expect new entrants to be able to submit to Lloyd's is outlined in the table below, and in particular as noted in the final column. The middle columns include additional comments that discuss the likely availability of data from the particular model. Prior to any submission, Lloyd's can discuss and confirm with new entrants the specific data to be provided.

		Based on the capital setting option being used, is it likely that the information would be able to be provided from the model?			
LCR Form	**Contains**	**Existing model - Lloyd's**	**Existing model - bespoke uplift**	**Existing model - 15% uplift**	**Does the information need to be submitted to Lloyd's (if available)?**
309	Headline uSCR and 1yr SCR	Yes	Yes	Yes - with all 1yr figures uplifted by 15% (except Op Risk, which is constant)	Yes
310	Balance Sheet distributions	Yes - except for Op Risk	Yes (assuming model has an ultimate horizon) - except for Op Risk	1yr: Yes uSCR: Not directly. Approximation required	Yes Minimum: - 1yr/ult mean; - 1yr/ult 99.5th; and, - ultimate 99.8th
311	Claims distribution	Yes	Yes (assuming claims are actually modelled to ultimate)	1yr but not ultimate (as otherwise the option with bespoke uplift would be used)	Yes Minimum: 1yr/ult mean, 1yr/ult 99.5th and ultimate 99.8th
312	Projected Solvency II(UK) TPs at t0	Yes (but expected to be 0 in most cases)	Yes (but expected to be 0 in most cases)	Yes (but expected to be 0 in most cases)	Yes
313	Financial Information	Yes	Yes (assuming claims are actually modelled to ultimate)	1yr but not ultimate (as otherwise the option with bespoke uplift would likely be used)	Yes
314	Additional Quantitative Analysis	Yes	Yes	No	Table 1: Yes Table 2: Only if modelling market risk explicitly Table 3: No

500	Premium Risk Excluding Catastrophe - Quantitative Inputs	Yes	Yes	Unlikely (as otherwise the option with bespoke uplift would likely be used)	Yes
501	As for 500 - outputs	Auto	Auto	Auto	
502	Premium Risk including catastrophe - Quantitative Inputs	Yes	Yes	Unlikely (as otherwise the option with bespoke uplift would likely be used)	Yes
503	As for 502 - outputs	Auto	Auto	Auto	
510	Reserve Risk - Quantitative Inputs	No	No	No	N/A
511	As for 510 - outputs	No	No	No	
520	Dependencies - Inputs	Yes	Yes	No	Only Q3, insurance: RI credit risk, and Q2, insurance: market risk (Q2 only if explicitly modelling market risk)
521	As for 520 - outputs	Auto	Auto	Auto	
530	Reinsurance - Quantitative Inputs	Yes	Yes	No	Yes
531	As for 531 - outputs	Auto	Auto	Auto	
540	Post Diversified	Yes (modelling to set Op Risk to 0, and then manually added into here as post-diversified output)	Yes - assuming risk is modelled to ultimate (modelling to set Op Risk to 0, and then manually added into here as post-diversified output)	1yr: Yes uSCR: Not directly. Approximation required	Yes
541	Post Diversified	Auto	Auto	Auto	
550	LCR vs SBF	Yes	Yes	Yes	Yes
560	YOA SCR	N/A	N/A	N/A	No

561	Plan Loss Ratio	Yes	Yes	Yes	Yes Minimum: Table 1, columns A:H
562	SBF Class mapping	Yes	Yes	Yes	Yes
570	RICB - Quantitative Inputs	Yes	Yes	Yes	Yes
571	RICB - Quantitative Outputs	Auto	Auto	Auto	
600	AOC	No	No	No	No

15 Appendix 3: Changes made to Guidance from previous edition

The list below summarises the substantive changes in this guidance from the previous version, which was published in August 2024:

- Section 1 and 2: Enhanced description of the new entrants process and links to other information available on Lloyds.com
- Section 2: Updates the requirements about the length of time syndicates can remain on the LSM (the standard expectation is still 3 years, but the exceptions to this are expanded and more clearly set out).
- Section 4 and throughout: Updated references from Solvency II to Solvency UK
- Section 5: New section. Introduction of new capital setting options for new entrants
- Section 6: Clearer expectations outlined for syndicates wishing to propose parameter adjustments to LSM parameters
- Section 7: New section. Outlining the options available for new entrants to set capital using an existing model and the specific requirements for doing so.
- Section 8: Various clarifications throughout
- Section 8.2.4: Explicit reference to all Franchise Guidelines in force for new syndicates.
- Section 8.5.1: New section
- Section 9.3: Inclusion of additional requirements regarding information on model limitation adjustments, and clarification on opening balance sheets used in IMAP submissions
- Section 10.3: New section
- Section 11: New section
- Appendix 1: Restated and clarified some elements of documentation requirements for SUK/Principle 7 reviews.
- Appendix 2: New appendix added