Capital Briefing

12 May 2025

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2024 focus and plan for 2025

We will continue to improve processes and continue oversight on existing focus areas

2024 focus

Improving processes and addressing feedback

- Changes to timetable
- More timely feedback
- Improvements for members – early view and YOA allocation

Oversight on focus areas throughout the year

- For example geopolitical risk and underwriting profit
- Shift of work to outside CPG season

2025 focus

Continued focus on improving processes

- Improvements to deferred review process
- Solvency UK changes

Continued oversight on existing focus areas

- Underwriting profit
- Macroeconomic and geopolitical risk, given the current political climate

2025 YoA SCR Reviews

Uma Divekar

Senior Manager – Syndicate Capital

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Approved capital has increased for 2025

This is primarily driven by exposure growth

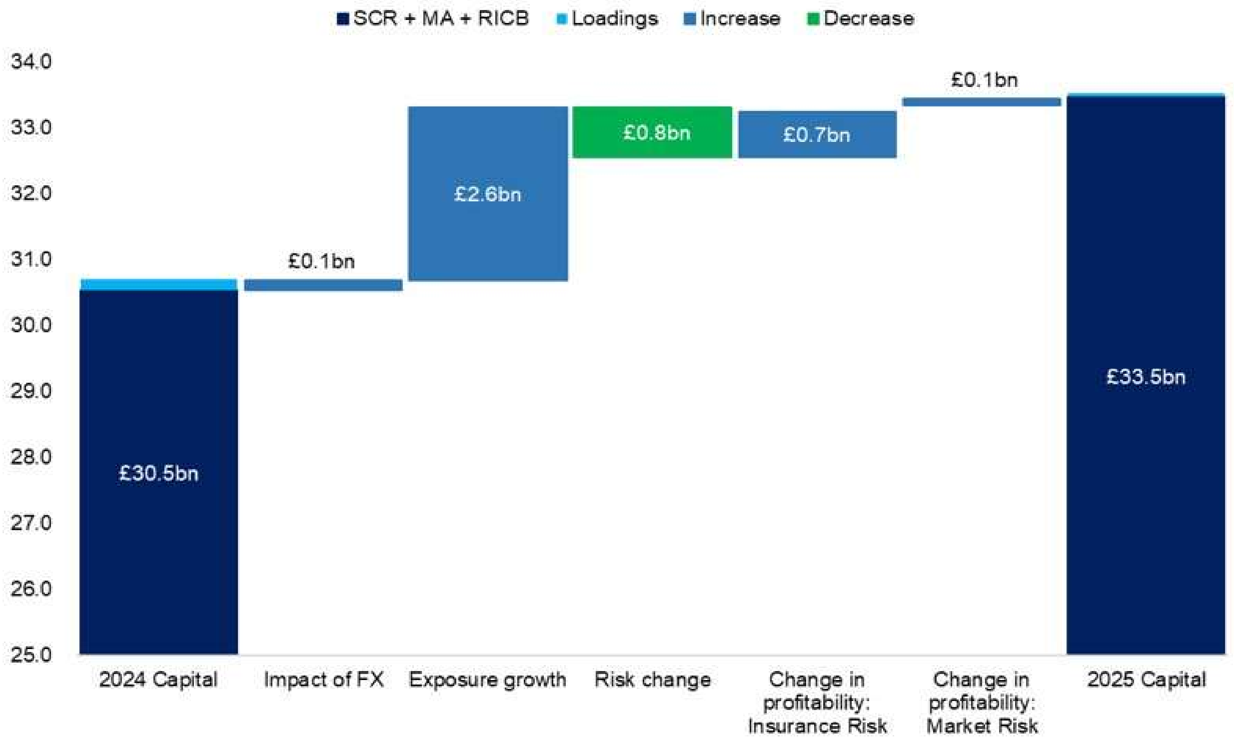
Increases in capital:

- Exposure growth
- Reduced profitability

Partially offset by decreases in capital:

- Reduction in risk - largest drivers including:
  - Reinsurance changes
  - Reduced volatility associated with higher exposure
- Marginal impact from FX rates

Change in capital from 2024 to 2025

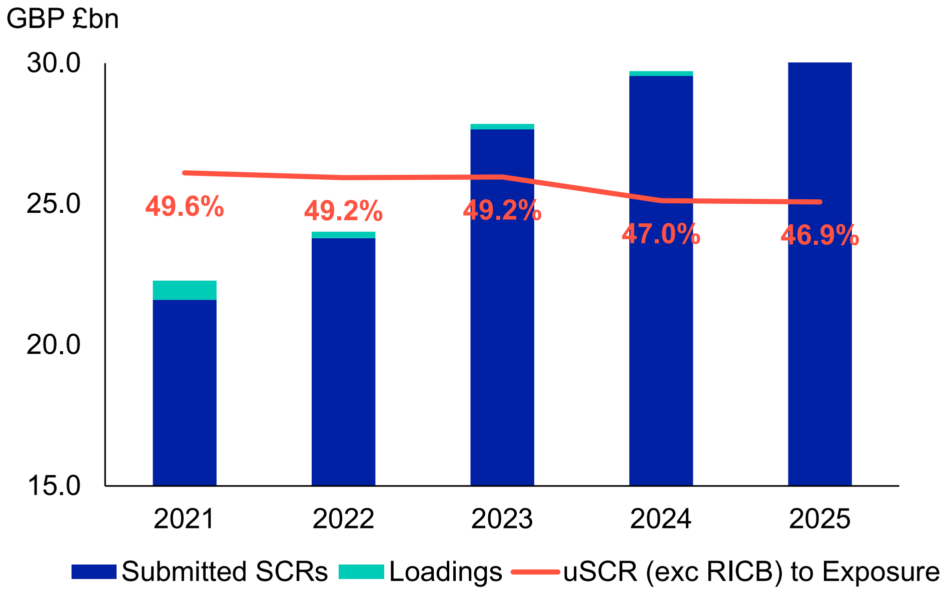


Capital in this slide includes the RICB

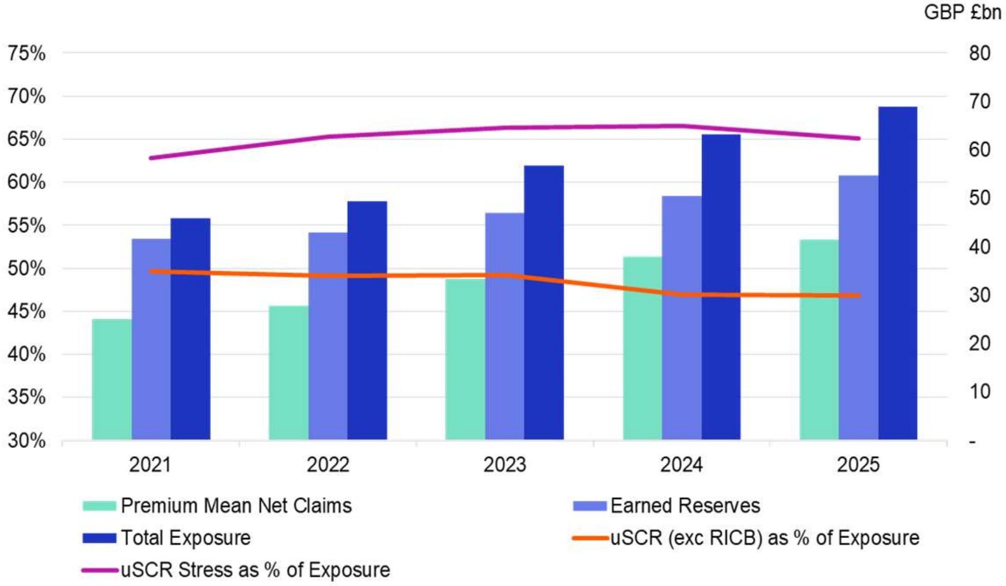
Market capital has consistently increased since 2021

Risk versus exposure has reduced over time, driven by increased underwriting profitability

- Increased capital resulting from growth in exposure and changes to inflation allowances
- SCR vs exposure has decreased over time, from 49.6% to 46.9%



- Volatility has generally increased despite material increases in market exposure. This reflects the heightened external risk environment in recent years
- However greater underwriting profit in recent hard market conditions has decreased capital



**Capital in both these charts exclude RICB*

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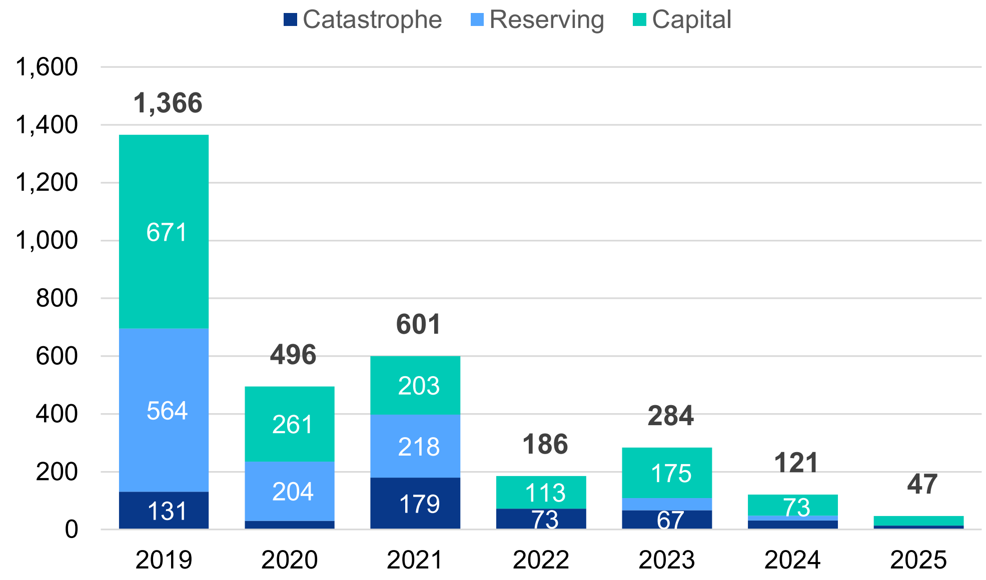
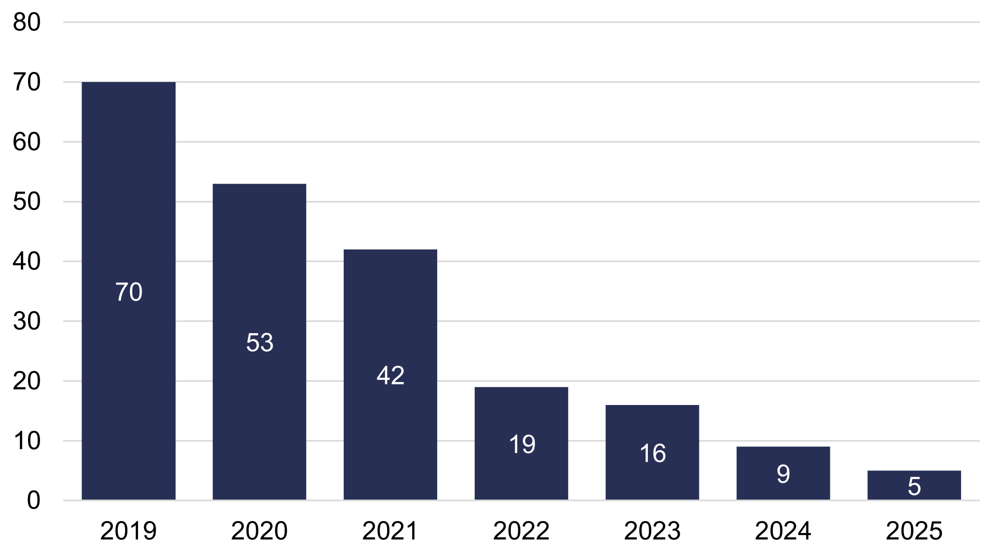
Loadings decreased in 2025

Decreases seen in number of syndicates loaded and total ultimate loading amounts

£m ultimate loading



Number of syndicates with loadings applied

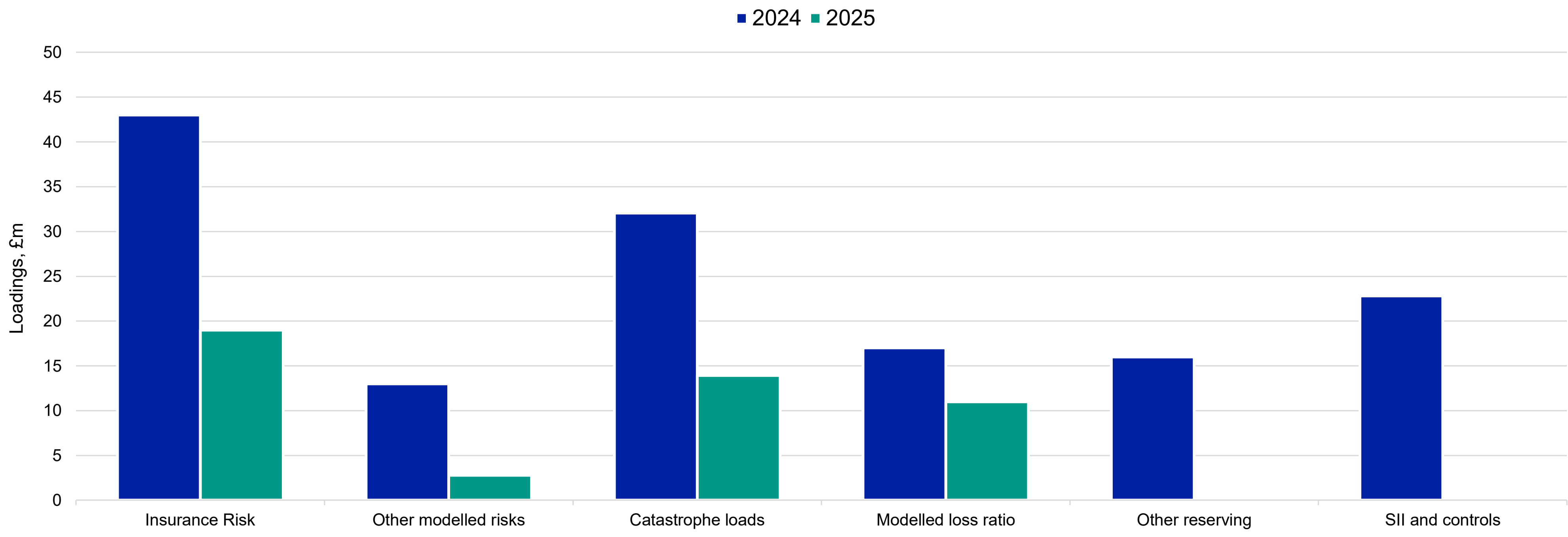


Note, this does not include controls loadings. More information on reasons for these loadings are shown on the next slide.

Loadings decreased in 2025

Decreases have been seen across all areas

Sources of loading



Changes for 2026 LCR

Uma Divekar

Senior Manager – Syndicate Capital

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Recent improvements to the CPG process

Existing improvements will continue to be in place for the 2026 LCR submissions

- **Deferred review** option for aligned syndicates
- Removal of waived loads, replaced by **Red feedback**
- **Heads up** conversations with syndicates
- Capital feedback provided within **2 weeks** of the CPG letter being issued
- Option for syndicates to provide their **own view of capital by YoA**
- Early release of the member modeller to give **early indication of capital**

These changes were well received by the market last year

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Further improvements to the CPG process for 2026 YOA

The deferred review process for aligned syndicates will be further enhanced

Aligned syndicates will continue to have the option to have a deferred capital review, where eligible.

Key improvements for 2026 LCR submissions:

- Syndicates able to explicitly opt-in, rather than just opt-out. Where eligible, these reviews **will** be deferred
- Greater alignment with other Lloyd's teams

To facilitate this there will be some changes in the **eligibility criteria**.

Capital reviews for syndicates where there are potential **material concerns from wider Lloyd's teams** will not be deferred.

e.g. Franchise Guideline breaches, model loss ratio floor test fails, governance concerns.

Further details will be provided in the LCR instructions

Other improvements:

- Greater alignment of communication between Syndicate Capital and Syndicate Reserving teams
- Clearer indication of when questions might be expected from Lloyd's

Better reflection of syndicate's preferences on timeframes

More certainty on timeframes from the start

Syndicate group	SBF	LCR / LSM	Validation report
Phase 1 Non-aligned	1 Sep	4 Sep	11 Sept
Phase 2 Aligned and Tier 2 assets	15 Sep	18 Sep	25 Sept
Phase 3 Aligned and no Tier 2 assets	29 Sep	2 Oct	9 Oct

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Changes resulting from Solvency UK

Lloyd's has worked with the PRA to reduce duplication of work and burden of changes

Reporting requirements will not be changing materially

Analysis of Change reporting will not be necessary for syndicates – Lloyd's will instead provide the PRA with LCR form 600

Quarterly Model Change reporting will continue to **NOT** be required for syndicates

Standard Formula will continue to be a requirement for syndicates (except SIABs)

IMO (Internal Model Outputs) will continue to be a requirement for syndicates with an internal model (not new syndicates) – but material reductions in the forms/data required are being proposed to the PRA.

However there will be some changes to process

New annual written attestation for syndicates by SMF role (this won't be prescribed) that the internal model satisfies the provisions for the Solvency Capital Requirement – expansion of Lloyd's validation confirmation statements

Removal of requirement for P&L attribution validation test

Changes to Major Model Change process (e.g. introduction of model limitation adjustments MLAs) – Lloyd's has adjusted terminology but there is limited change to process in practice. Syndicates to adjust major model change policies over the next year.

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Considerations for analysis of change reporting

Enhancements have been made to the LCR form 600

The LCR 600 return will be enhanced to collect information on movements in a standardised format.

Key changes:

- Reduction in the number of metrics in the form
- Comments required on all remaining metrics, regardless of materiality
- These will then be submitted to the PRA

Key benefits:

- Limited increase to reporting burden, as syndicates will not need to provide a AoC to the PRA.
- Greater clarity to syndicates around the really key metrics to Lloyd's, resulting in less queries upon submission

More tips for the Analysis of Change

- Ensure high-level comments on the appropriateness of the overall movements in capital and individual risk categories are justified
- Explain the impacts of changes in the Model Change Template for each risk category, including minor risk categories
- Include a waterfall chart for overall capital and individual risk categories to show the impacts of Model Changes
- Include sufficient justification for movements in class-level volatilities
- Include sufficient justification for movements in level of diversification overall, and between individual risk categories
- Explain movements from a 'top-down' as well as a 'bottom-up' view

Indicative 2025 timeline for reporting and process changes

The implementation of some changes will span into 2026

PRA Engagement

December 2024	February 2025	March 2025	April 2025	May 2025	September 2025	November 2025 – September 2026
		IMO submissions				SF submissions
IMO - Market Consultation	Model Change / Analysis of Change reporting - Market Consultation	Wider capital guidance updates - Market Consultation		Release latest Capital, Validation and Model change Guidance	Receive new LCR submissions with Analysis of Change and Annual Attestations	Submission of model change policy updates to be in line with new Model Change Guidance

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Areas for consideration

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Focus Area: Mean profit in capital models

Priye Kanabar

Senior Actuary – Syndicate Reserving

KEY FOCUS AREA FOR 2026 YoA

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Lloyd's will continue to focus on modelled loss ratios

WHY

- Assumed underwriting profit at the mean has generally been increasing recently, leading to a heightened risk of undercapitalisation
- Market conditions and risk environment are rapidly changing

HOW

- Adherence to modelled loss ratio minimum floor test
- Investigating material movements in the self-uplifts to the modelled loss ratios

Unchanged from last year

- **Review of validation performed related to modelled loss ratios**

More explicit guidance this year

A reminder that Lloyd's has the following expectations in respect of modelled loss ratios:

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

Given Lloyd's focus on the modelled loss ratios, there is a need for Actuarial Functions to assess the appropriateness of modelled loss ratios independent of the plan. This may result in some duplication of queries managing agents receive from Lloyd's.

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Changes to the modelled loss ratio validation guidance

Modelled loss ratio appropriateness is still a key area of focus for Lloyd's

A key enhancement to the modelled loss ratio oversight this year is the **requirement for syndicates to perform specific validation tests**. High level details of these tests are as follows:

Top-down validation

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

Bottom-up validation

5. **Underwriting profit related sensitivity testing**
6. **Validation of rate change assumptions**

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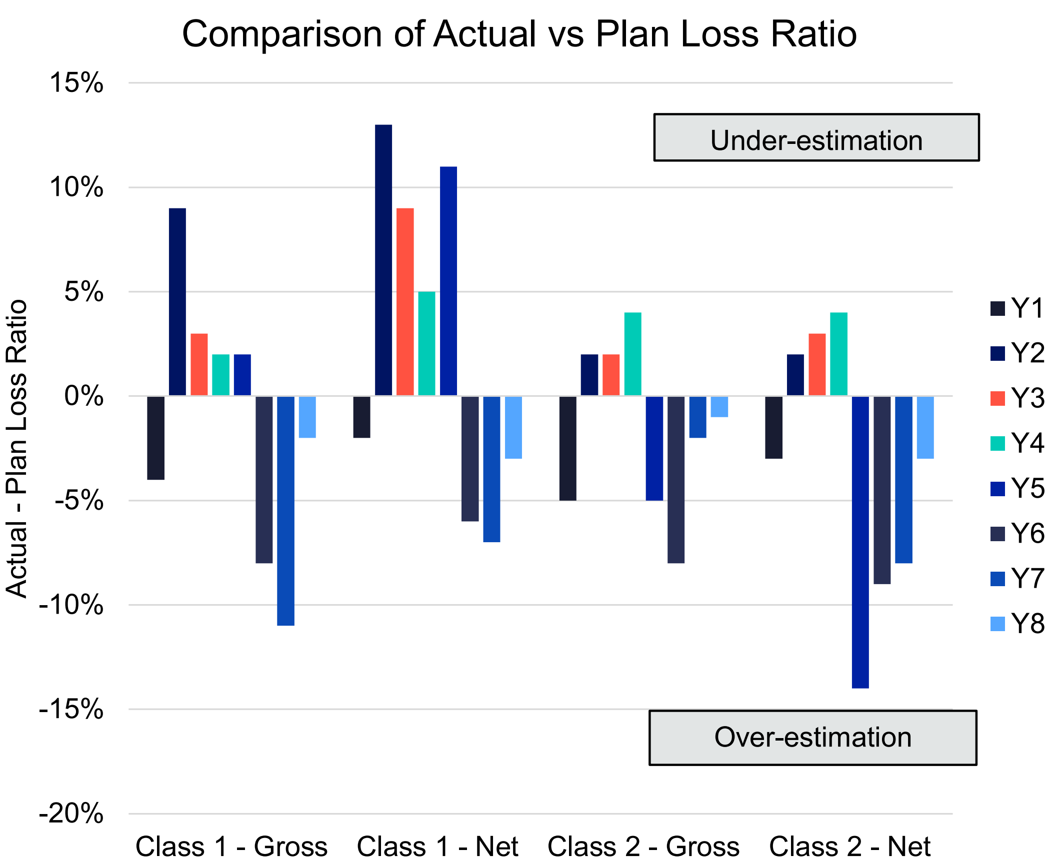
1. Back-testing of plan or modelled LR by YOA

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

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



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

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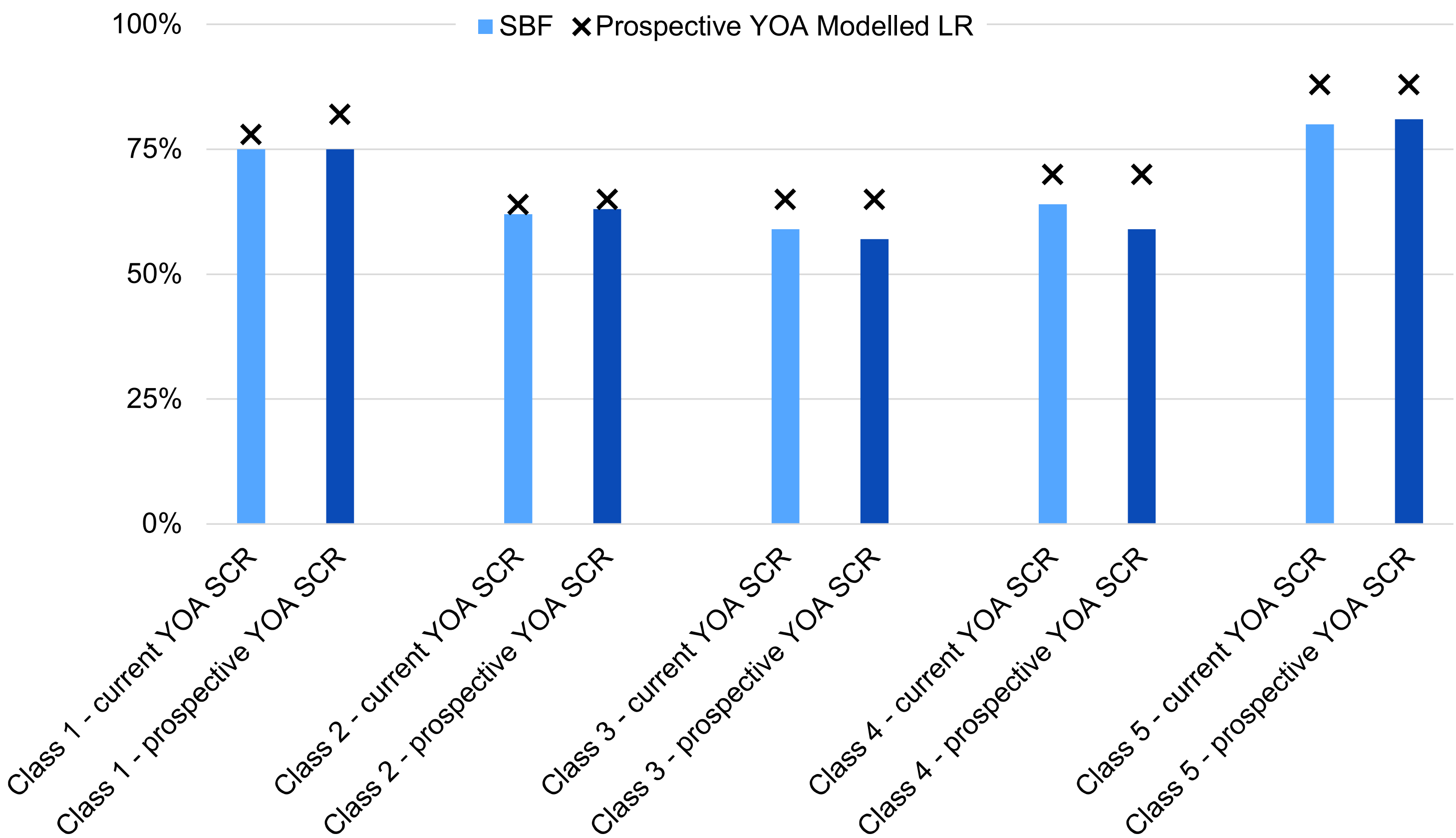
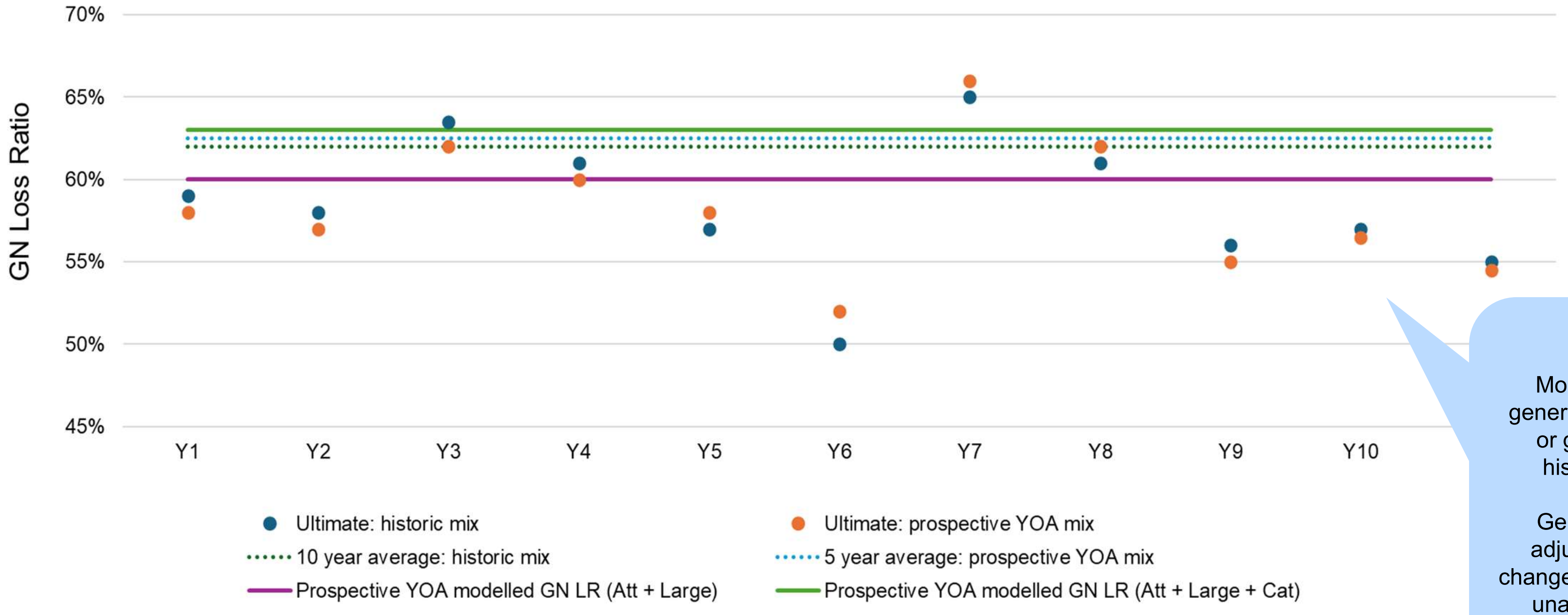


3. Comparison of average historical LR to prospective modelled LR

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



Modelled LR is generally in line with or greater than historical LRs

Generally, LRs adjusted for mix change are lower than unadjusted LRs

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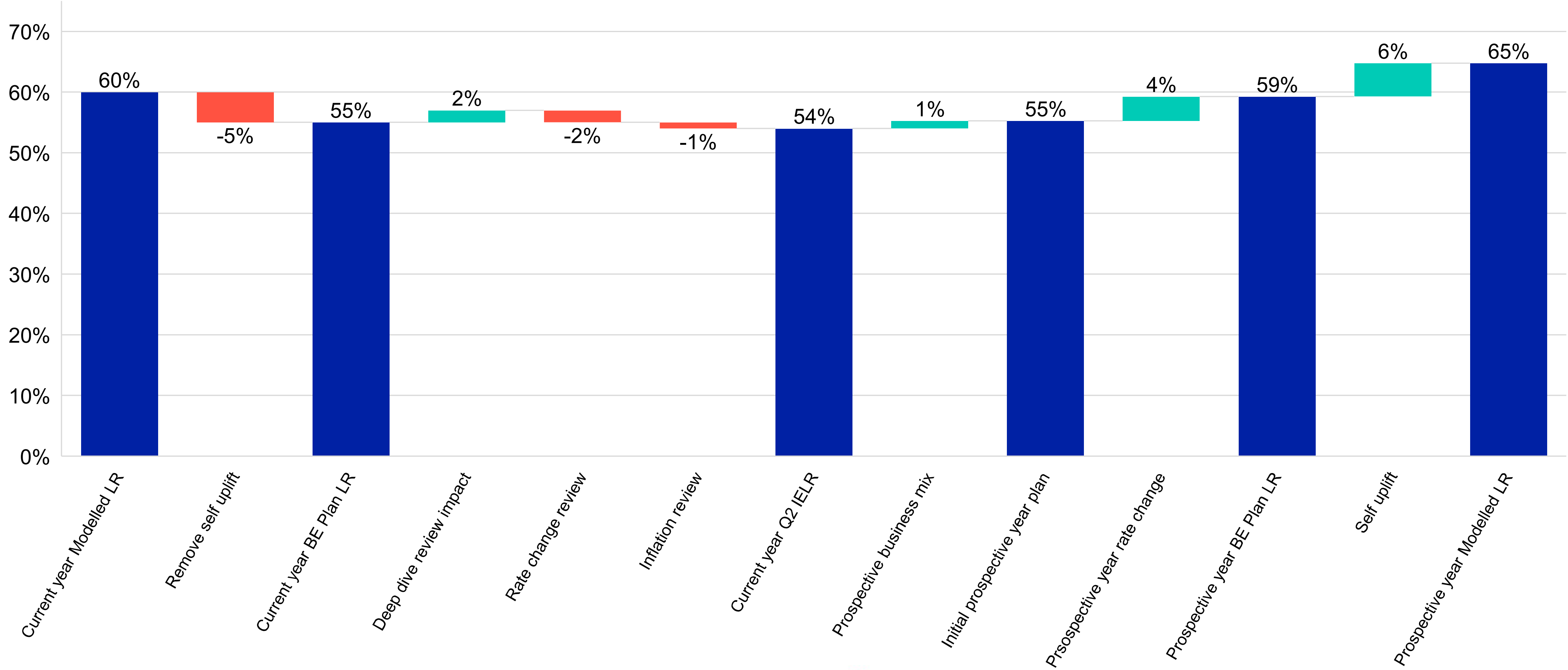
4. Analysis of change related to modelled loss ratio since the previous year

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



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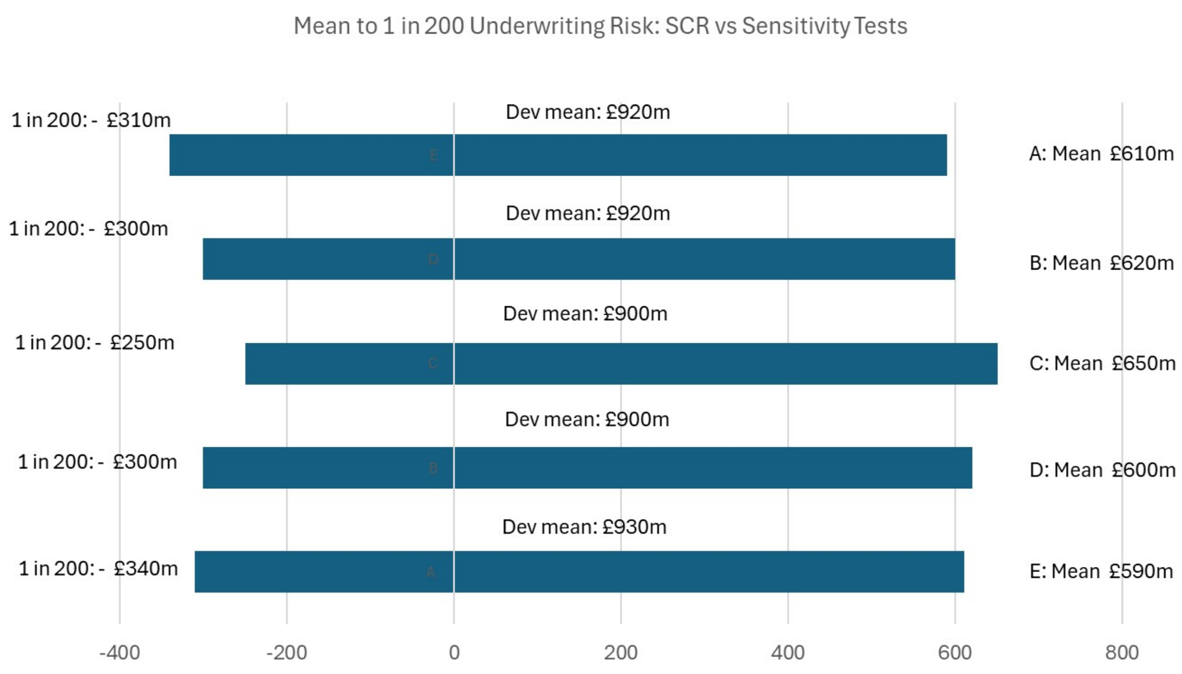
5. Underwriting profit related sensitivity testing

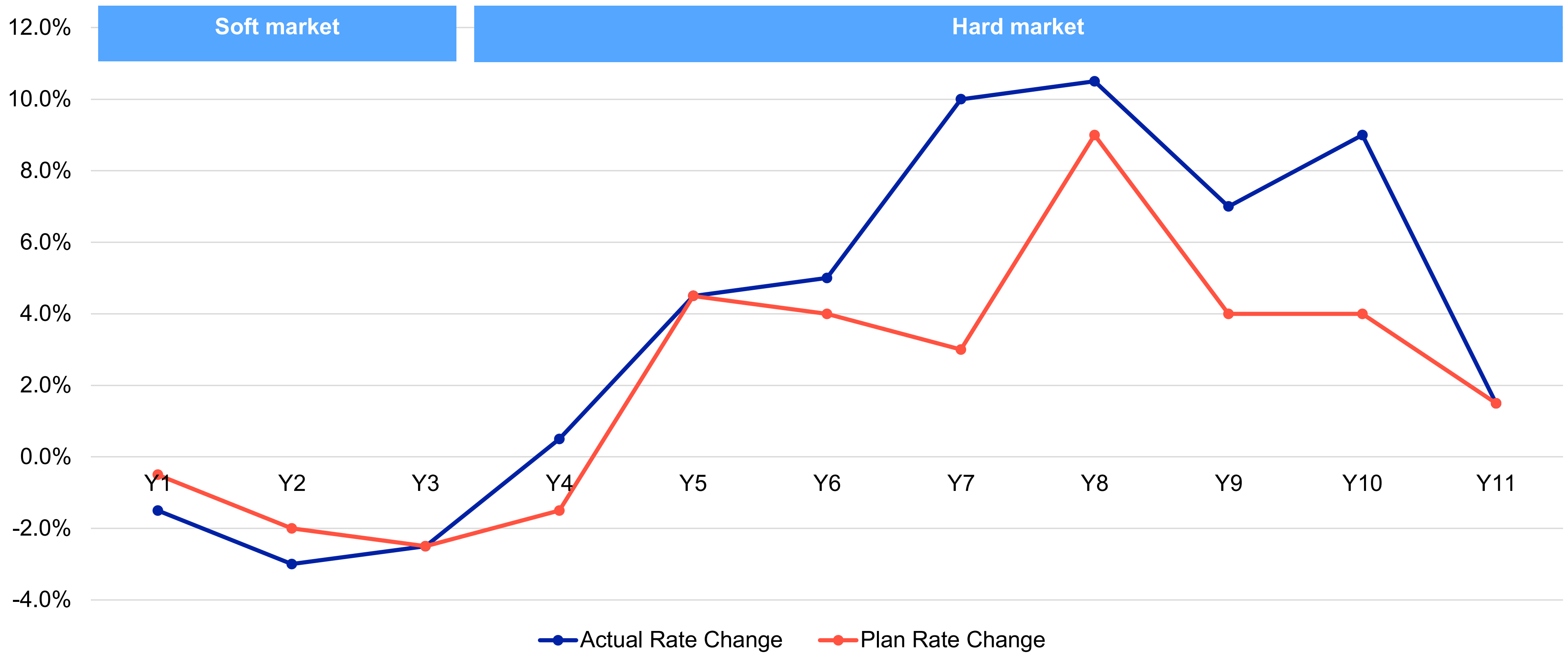
Note: Figures in the following slides are fictional and not intended to be taken as benchmarks



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

6. Validation of rate change assumptions

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



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Macroeconomic and geopolitical uncertainty

Qasim Chishti

Senior Actuarial Associate – Syndicate Capital

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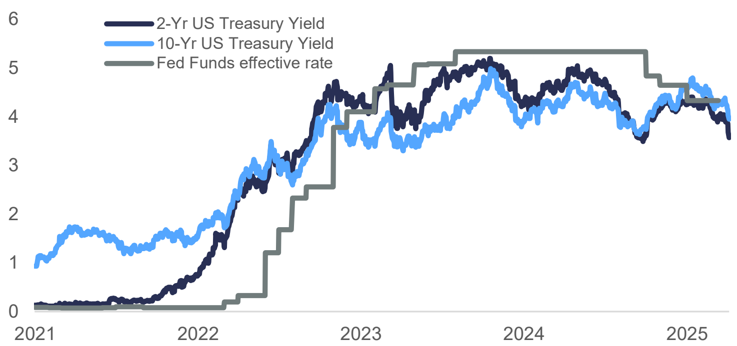
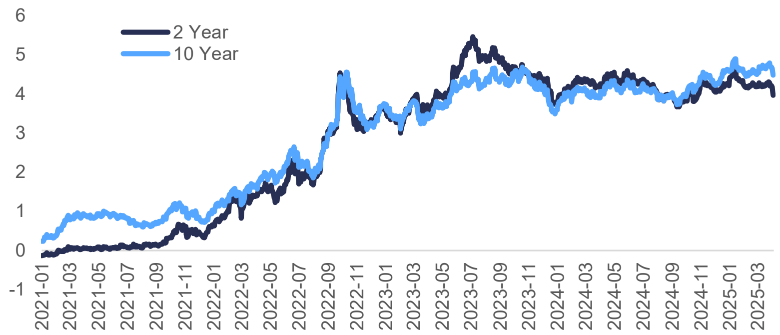
Macroeconomic uncertainty

Economic uncertainty has increased in the current climate

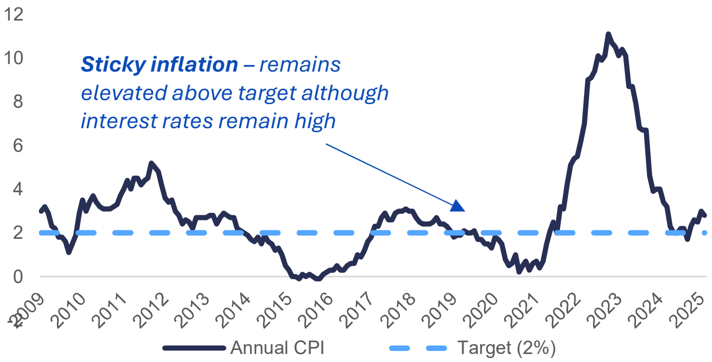
US Treasury yields & interest rates



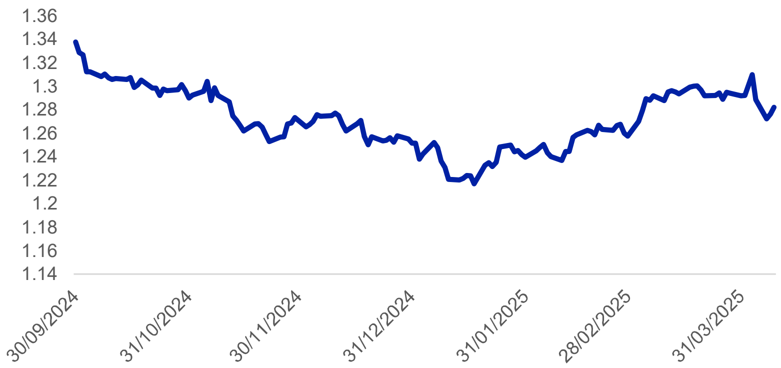
UK Government bond Yields



UK CPI



GBP to USD



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Geopolitical uncertainty

There is currently heightened geopolitical uncertainty

- New tariffs - US
- US/Iran escalation
- China - Taiwan
- Russia/Ukraine conflict
- Middle East conflict
- Changes in government
- Pakistan/India escalation
- Slowing global trade

Geopolitical and Macroeconomic impacts

There is heightened geopolitical and macroeconomic uncertainty, globally

Geopolitical and macroeconomic uncertainty has been a focus for Lloyd's, with the following oversight carried over the past several years.

- Focus area return on inflation and geopolitical risks
- Inflation review through QMA and SAO reporting
- Focus area and review for the war in Ukraine
- Addressing feedback following these reviews

While substantial efforts have already been undertaken, it remains evident, based on the volatility showcased in previous slides, that the ***evolving landscape*** continues to introduce ***new risks*** and ***uncertainties***.

In light of ***heightened geopolitical*** and ***macroeconomic uncertainty***, it is imperative that risk assessments remain ***dynamic*** and ***adaptive*** to ongoing developments.

Geopolitical and Macroeconomic impacts

Considerations for 2026 LCR submissions

Syndicates should consider both Direct and Secondary impacts.

Direct Impacts

- Direct insurance losses
- Market volatility impacts on both asset / liability
- FX movements
- Heightened losses correlated with financial markets

Secondary Impacts

- Elevated inflation
- Stagflation
- Best estimate reserve deteriorations
- Central bank rate uncertainty
- Increasing fraud and propensity to claim
- Falling demand

Note, this is not an exhaustive list.

Class of business impacts

These are some of the classes that have potential to be impacted

Political Violence / Terror
Strikes, riots and civil commotion

Cyber
Increased potential for cyber attacks

Marine
Restricted access to key shipping routes

Political Risk / Credit
Increased supply chain disruption.

Energy
Losses to property, onshore and offshore energy sites

Casualty
Directors and officers sued for mismanagement

Aviation
Losses arising from war damage or stranded aircraft

Event Cancellation / Contingency
Cancellation of events in impacted countries

Property
Direct property damage and business interruption

All classes
High inflation and economic downturn

Note, this is not an exhaustive list.

Forward looking: Geopolitical and Macroeconomic uncertainty

Key considerations for scenario testing in 2026 LCR submission

Are the current ***return periods appropriate***?

Do your scenarios contain enough ***clash events***?

Is there a possibility of ***contract wordings not holding***?

Have ***reinsurance contract disputes*** been considered?

How much allowance is there already in syndicate models?

Would any potential disputes cause ***liquidity issues***?

Have you considered ***recessionary scenarios***?

Uncertainty paralysing ***strategic business decisions***

Reducing demand for insurance

Forward looking: Geopolitical and Macroeconomic uncertainty

Findings from previous Geopolitical reviews

Methodology and Parameterisation

Peril-based approach, with specific loss distribution is used to assessed the impact on capital, across different CoB

Realistic, adverse scenarios are developed, centred around key areas of exposure

Dependencies within Premium Risk

Using a driver-based approach to adequately capture dependencies between classes and risks within the model.

RI Dispute Risk

The best approaches considered to what extent dispute risk arising specifically from geopolitical risk events have been captured in the model.

Validation

The best approaches considered changes to the geopolitical environment and carried out several scenarios including RSTs in line with their risk profile.

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Forward looking: Geopolitical and Macroeconomic uncertainty

Key considerations for ESG in 2026 LCR submission

*Review the ESG for **continued appropriateness***

Syndicates must assess ***geopolitical uncertainties*** and recent trends affecting ***future rates.*** Is the mean reversion still appropriate and should there be an additional lag built in to allow for additional uncertainty?

ESG validation should evaluate the ***return period*** of any recent ***inflation spikes***.

Syndicates may need to ***adjust*** ESG calibration or output to ***align*** with a ***forward-looking*** risk perspective.

Consider whether ESG distributions captures the ***extreme scenarios*** at a ***reasonable return period***.

Are there appropriate considerations of ***low interest rate*** and ***high inflation*** scenarios?

Climate change

Findings from the thematic review will be covered in the July LMAG and published to the market

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Wrap-up

Uma Divekar

Senior Manager – Syndicate Capital

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Wrap-up

We continue to enhance processes	• Improvements to the deferred capital review process for aligned syndicates • Limited additional reporting resulting from move to Solvency UK
Current landscape is fast-moving	• Macroeconomic and geopolitical risks, as well as the level of underwriting profit, continue to be of importance • There is a need to continuously ensure the model is appropriate given the changing environment

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Questions?

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Appendices

Slides additional to Capital Briefing, for further information

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Wildfire Modelling (and Non Peak Natural Catastrophe)

The view of risk should be regularly assessed against the latest science, changes in underlying hazard, and exposure

- Lloyd's estimated a final net loss of $2.3bn for the Los Angeles wildfires - a manageable loss to Lloyd's.
- This represents 3-5% of the market share.

- Losses were generally well captured within the Rest of World catastrophe curve, however syndicate standalone wildfire return periods were meaningfully different in some cases.
- As the likelihood of a loss event of this magnitude was poorly captured in some syndicates modelling the resulting losses were outsized, and there is evidence, in some instances, of inadequate reinsurance consideration.
- The late releases in 2024 of the updated versions of Wildfire Models (Verisk v12 - June 2024, and Moody's RMS HD v2 October 2024) meant that there was limited adoption at the time of the LA wildfires.
- There is evidence that the underlying wildfire hazard in California has changed over the last 3-5 years, this change has not been adequately reflected in some syndicate Views of Risk.
- Following the event, syndicates are now prioritising wildfire model evaluation to improve wildfire risk and profitability management.

- Exposure Management has followed up with affected syndicates and will include specific questions in the Model Completeness Questionnaire to enable Lloyd's to focus on the LCM5+ region-perils and drill into the appropriateness of standalone non-peak peril modelling approaches.
- To reiterate, Lloyd's expects syndicates to include in their View of Risk annual update an assessment of any changes in the underlying hazard and exposure, the latest scientific view of the future risk being written over the subsequent underwriting year (in line with tail of exposure) as well as changes in the catastrophe model.
- The annual View of Risk update is a critical process to ensure appropriateness of exposure management, pricing strategies, and reinsurance purchasing.
- If detailed adjustments to the view of risk are not possible for any reason, syndicates should consider model limitation adjustments under Solvency UK in their capital submission.

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Cyber modelling

Cyber Risk modelling continues to develop at pace in line with market vendor models

Method

We see different approaches to modelling cyber catastrophe losses in Internal Models. These range from use of AEP curves, proprietary cyber models and market vendor cyber models. **We take no clear view of best approach.**

Regardless of approach, the most sophisticated syndicates are **routinely considering the pros and cons of alternative vendor models and methodologies** and review outputs from key vendors to **understand different views of risk**.

Data

Given the constantly evolving risk landscape, there is **limited relevant past data** with which to parameterise and validate models. As a result, **scenarios are relied upon both in parameterisation and validation.**

It is important to ensure that there is a **clear separation of data items and use of expertise in parameterisation vs. that used to validate the model.**

Dependencies

The most sophisticated approaches take a **wide consideration** of potential dependencies.

Examples we have seen include:
Cyber Cat vs. Professional Lines - How the largest cyber events may require significant management resource and distract from BAU.
Cyber Cat vs. Cyber Non-Cat - How developments in AI and LLM might reasonably increase the frequency and/or severity of all forms of cyber events.
Cyber Cat vs. Investment Loss- How the largest cyber events may lead to investment market uncertainty.

Consistent View of Risk

Typically, vendor catastrophe models or proprietary catastrophe models/approaches are used to form a **view of risk used consistently across Exposure Management, Planning and Capital (and other downstream uses).** This is intended to better ensure that the model should continually reflect the house view of risk over time.

Additionally, we see that this allows agents to use the model to monitor and **set risk appetite, place reinsurance and set catastrophe loss ratios for planning.**

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