LLOYD'S

2025 LCR instructions

Instructions for submission of the 2025 YOA Lloyd's Capital Return and supporting documentation

July 2024

Classification: Confidential

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Abbreviation	Description
AEP	Aggregate exceedance probability
AORG	Actuarial Oversight Review Group
ASR	Annual solvency return
CPG	Capital Planning Group
CRA	Catastrophe risk appetite
ESG	Economic scenario generator
ECA	Economic capital assessment
FNL	Final net loss
FX	Foreign exchange
IMO	PRA internal model output return
KPI	Key performance indicators
LCM	Lloyd's catastrophe model
LSM	Lloyd's standard model
MCQ	Model completeness questionnaire
MDC	Market data collection
MIH	Making it happen
MRC	Market reserving and capital
Principle(s)	Principles for Doing Business at Lloyd's
QCT	Quarterly Corridor Test
QSR	Quarterly Solvency Return
RDS	Realistic disaster scenario
RI	Reinsurance
RICB	Reinsurance contract boundaries adjustment
RITC	Reinsurance to close
SAO	Statement of actuarial opinion
SBF	Syndicate Business Forecast
SCR	Solvency Capital Requirement

SIAB	Syndicate in a box
SST	Sum of squares test
TPs	Technical provisions
ULR	Ultimate loss ratio
uSCR	Ultimate Solvency Capital Requirement i.e. SCR on ultimate basis
WWAP	Worldwide all perils
YOA	Year of account

1 Purpose

This document provides instructions for the submission of the 2025 Lloyd's Capital Return (LCR) and any supporting documents required. It also provides information in respect of the structure and timing of Lloyd's review and any specific focus areas for Lloyd's for the 2025 YOA.

These instructions should be considered in conjunction with the Lloyd's Capital Guidance and the Capital Principle (Principle 7) under Principles for Doing Business at Lloyd's (Principles), which sets out the fundamental expectations of syndicates related to internal modelling, with differentiated expectations for syndicates based on their expected maturity. This guidance should also be considered in conjunction with Lloyd's Validation and Model Change guidance.

2 Changes for 2025 YOA LCR

For 2025 LCR, there are a few key changes for agents and syndicates to consider. These are covered in detail throughout these instructions and have been signposted below:

- Risk margin reporting in LCR forms, described in Section 4.7
- Option for providing YOA allocation data, described in Section 4.7
- Option for early view of member capital, described in Section 4.8
- Review timelines for aligned syndicates, described in Section 5.1
- Removal of waived loadings, described in Section 5.3
- New casualty reserve stress Franchise Guideline, described in Section 6.3
- Model loss ratio tests, described in Section 6.4

These instructions also include additional guidance for syndicates and agents to consider when preparing the supporting Analysis of Change documentation. In particular, Lloyd's have shared a table of key metrics and drivers that syndicates are strongly encouraged to adopt to lead to a smoother review process. Further details can be found in Section 4.5.

3 Wider considerations for 2025 YOA LCR submissions

For 2025 YOA, Lloyd's will not request standardised information on focus areas such as Geopolitical or Macroeconomic risks. Instead, the Focus Area return will primarily contain the "business as usual" areas, for example Minimum Tests & Model loss ratios; more information is given in Sections 6.3 and 6.4. Some syndicates will be required to provide information on Negative Market Risk - more information is given in Sections 4.3 and 6.5.

Although standardised information will not be requested in other areas, these risks will remain key areas of oversight for Lloyd's throughout 2024. For example, the current geopolitical landscape is such that there are simultaneously several 'hot-spots' of uncertainty and so, syndicates are required to ensure this heightened uncertainty and the drivers of it are appropriately captured in their internal models. Last year, Lloyd's oversight on geopolitical risk focused on the specific Taiwan Straits scenarios. This year, syndicates and agents should evolve their thinking and develop more complex scenarios. Consideration should be given to the sources and implications of geopolitical events and how this could reasonably cause losses across a portfolio and across different risk areas, not limited to underwriting losses incurred on Political Risk lines. Syndicates should think beyond experience when parameterising and validating their model approaches. They must ensure that there is robust validation of allowances for geopolitical risk.

Lloyd's oversight in 2024 will also focus on Casualty reserving, introducing a simple scenario to manage concentration risk caused by excessive casualty reserves in any syndicate. This states that syndicate's capital needs to be sufficient to withstand a 45% deterioration of casualty reserves. The stress of 45% has been set based on an analysis of the observed historical deteriorations seen within the Lloyd's market, where it is considered to capture all but the most extreme previous deteriorations. This will come into effect from 2025 YOA

LCR submissions. This is described in additional detail in Section 6.3. Reserving and Underwriting teams at Lloyd's are also carrying out a thematic review into Casualty classes, particularly focusing on US general liability classes, to ensure social inflation is sufficiently captured in reserves. For 2025 YOA LCR submissions, syndicates and agents should ensure various scenarios for the future development of social inflation and the uncertainty around it are capture in reserve risk.

Syndicates and agents should note that additional reliance will be placed on the validation carried out by syndicates and agents in these areas, supported by additional oversight undertaken by Lloyd's throughout the rest of the year.

4 Submission requirements and deadlines

4.1 Overview

The LCR captures quantitative information that, alongside the qualitative validation and documentation, allows managing agents to demonstrate that they have systems enabling them to identify, measure, manage and report risk and calculate Solvency Capital Requirements (SCRs).

A full submission is required for all syndicates with a business plan or any open year of account at the time of submission, including those in run-off or underwriting Reinsurance to Close (RITC) business only. The exception are syndicates who do not have an approved internal model. This group of syndicates, which mainly comprises of Syndicates in a Box (SIABs) and new entrants to the market going through the Making it happen (MIH) process, will set capital using the Lloyd's Standard Model (LSM) (see the Requirements for New Entrants). Syndicates planning to close all years of account at the balance sheet date and cease existence do not need to submit an LCR, as long as the receiving syndicate includes any ceded business in its LCR submission (see Section 5.8 of the Lloyd's Capital Guidance). This also holds for syndicates ceding certain years of account or classes – more details are contained in the Legacy Reinsurance Instructions.

The phased approach for business plan and capital submissions will continue for 2025 YOA LCR, however this year, Lloyd's will have three submission phases, instead of four. Each syndicate has been given a specified return submission date based on its capital structure and Lloyd's' risk-based approach. Syndicates will follow one of three submission phases, which has been confirmed by the Account Managers. Non-aligned syndicates will submit their plan and capital information in the first phase. Further details can be found in Market Bulletin Y5430.

The table below provides the requirements for each element of capital reporting. **Deadlines are 1pm on the day each item is due**. Please note that resubmissions of documents may be required if syndicates do not adhere to the naming conventions. For data protection and security, Lloyd's uses SecureShare and Market Data Collection (MDC). Where possible, syndicate data submissions are downloaded automatically and so manual intervention is required if our naming conventions are not followed. Uploads to MDC must be made via a zip file in the 'Upload Supplementary Documents' section within the task window and not within the 'All Attachments' section as documents in this area will not be automatically downloaded to Lloyd's. Uploads to SecureShare should go into the Syndicate Capital Setting folder. The "free text" part of the name can be used as syndicates wish.

Item	Description	Submission	Deadline	Naming convention
LCR	Quantitative capital return	All forms complete on MDC	Phased submission LCR deadline	N/A
Methodology document	Qualitative document supporting the LCR submission	Attachment in MDC	Phased submission LCR deadline	Methodology2025_0000_free text (0000 representing the syndicate number)
Analysis of change	Document supporting the LCR submission	Attachment in MDC	Phased submission LCR deadline	AoC2025_0000_free text (0000 representing the syndicate number)

Item	Description	Submission	Deadline	Naming convention
Focus areas	Spreadsheet return on Lloyds.com	Attachment in MDC	Phased submission LCR deadline	FocusAreas2025_0000_free text (0000 representing the syndicate number)
Model change template	Spreadsheet return on Lloyds.com	Attachment in MDC	Phased submission LCR deadline	MCT2025_0000_free text (0000 representing the syndicate number)
Validation	Documentation providing model validation	Upload to SecureShare	One week after LCR deadline, except for phases 2 and 3 which is the same as the LCR deadline	ValidationReport2025_0000_ free text (0000 representing the syndicate number)
New SBF no LCR template	Spreadsheet return on Lloyds.com	Upload to SecureShare	Two working days after an SBF resubmission, if applicable (see Section 4.6)	NewSBFnoLCR_0000 (0000 representing the syndicate number)

In certain circumstances, syndicates should fill in the sum of squares template (available on Lloyds.com), and submit this with their LCR submission as an attachment in MDC. Further details can be found in Section 6.3.

As per our requirements last year, syndicates only need to provide a validation signposting template if they are specifically requested to provide one. Syndicates will be contacted at least four weeks prior to the requested submission deadline (and in all cases we will aim to give more notice).

Information on the documents/returns above can be found in Sections 5.2 and 5.9 of the Lloyd's Capital Guidance. The September/October return should be submitted on the basis of the expected business outcome at 1st January 2025. More information about the basis of reporting of the LCR return can also be found in Section 4.2 of the Lloyd's Capital Guidance.

The final SCR submitted to Lloyd's must be approved by the Board or an appropriately authorised committee depending on the syndicate's governance arrangements, and in line with the Governance, Risk Management and Reporting Principle (Principle 11). Board members should ensure they are aware of all issues raised during the review process and recognise that following Lloyd's review of the SCR loadings might be applied.

4.2 Lloyd's capital guidance

The Lloyd's Capital Guidance for 2025 year of account (YOA) (issued in February 2024), alongside these instructions, are the requirements in force for the 2025 LCR submissions.

4.3 Focus Area Return

For 2025 YOA, Lloyd's will not request standardised information on focus areas such as Geopolitical or Macroeconomic risks. Instead, the Focus Area return will primarily be used for core data collection, for example Minimum Tests. Lloyd's has published the Focus Area return in the Templates and Scoring Sheets section of the Internal Model SCR page on Lloyds.com.

Syndicates will need to download an Excel version of their submitted LCR and link this to their Focus Areas return, as several of the questions in the focus areas return rely on latest figures in the LCR. Agents will be able to do this using the "data – edit links" functionality in excel to ensure that the correct reporting figures in the LCR are pulled through into the focus areas return.

The 2025 YOA Focus Areas return requests responses across several areas, including:

Area	Tab	Which syndicates need to complete this	LCR instructions reference
Modelled loss ratios	Model LR	All syndicates	Section 6.46.36.4
LCR back-test, feedback and loadings	General queries, Q1 – Q3	All syndicates	Section 6.2
LIM data request	General queries, Q4	All syndicates are required to complete Q4	Section 6.2
Market risk	Market risk	Only syndicates that breach our requirements for the negative market risk template: 1. Syndicates that did not have a negative contribution from market risk to the uSCR in the previous submission, but now do; and / or 2. Syndicates for which the % contribution from market risk to the uSCR is more negative compared to the negative market risk contribution to the uSCR in the previous submission by 2.5 percentage points; and / or 3. Syndicates that have a negative contribution on a one-year basis where the contribution is larger (on an absolute basis) than the benefit from discounting in the TPs. Syndicates that do not breach these requirements are not required to complete this tab.	Section 6.5

4.4 Foreign exchange

The LCR must be reported in converted sterling. Submissions made prior to year-end must use the published prior 30 June rates which are published in Market Bulletin Y5440. Submissions made post year-end must use the 31 December rates. As part of the capital setting process the final agreed SCRs will be converted to the latest quarter rates for the quarterly corridor tests and June 2025 Coming into Line (CIL). This means that the SCR that agents submit in September and their approved SCR in the Capital Planning Group (CPG) letter might be different due to the foreign exchange (FX) conversion. The Quarterly Corridor Test (QCT) process is described in Section 5.5 of the Lloyd's Capital Guidance.

The managing agent may prepare its underlying model in any currency and present figures in the methodology document in US dollars where that is the dominant currency of exposure. All figures in the LCR submission must be reported in converted sterling.

The syndicate should make clear what currency and units are used in its reporting at any point. **The analysis of change (AOC) must include at least an executive summary covering key movements from the previous submission in pound sterling**. This should include at least headline figures of high-level risk category figures that reconcile to figures reported in LCR form 309, plus any other key material metrics appropriate for that

submission, such as the impact of FX conversion on model changes reported in the model change template (MCT).

4.5 Analysis of change

LCR form 600, relating to analysis of change, remains unchanged this year from the version in the 2024 YOA LCR. Syndicates should ensure that their supporting Analysis of Change documentation explains the movement in these figures. Lloyd's expects syndicates to provide commentary on how the model represents the risk profile, with reference to recent experience and any emerging features of the risk profile. Movements will not be accepted by virtue of being the consequence of input updates or simulation error and must be explained in full to ensure they are clearly understood for both one-year and ultimate capital. Further detail can be found in Section 16 of the Lloyd's Capital Guidance.

To support preparation of an efficient Analysis of Change document, an example of a table of key metrics and drivers is given below, splitting the movements into mean and stress relative to exposure. Lloyd's strongly encourages agents to present a table in this way in the Executive Summary of the supporting Analysis of Change documentation. These key metrics together with concise explanations is likely to lead to a smoother review process.

	Previous	Current	Change	Comment
uSCR				
uSCR	£	£	%	
Exposure (ultimate premium risk mean net claims + ½*earned reserves)	£	£	%	
uSCR / exposure	%	%	%	
Premium risk				
Exposure (ultimate premium risk mean net claims)	£	£	%	
Mean	£	£	%	
Premium risk: mean / exposure	%	%	%	
Stress (1:200 – Mean)	£	£	%	
Premium risk: stress / exposure	%	%	%	
Reserve risk				
Exposure (earned reserves)	£	£	%	
Mean	£	£	%	
Reserve risk: mean / exposure	%	%	%	
Stress (1:200 – Mean)	£	£	%	
Reserve risk: stress / exposure	%	%	%	

As previously mentioned, a requirement for the Analysis of Change documentation is to include a description of movements by risk category in £GBP, at an executive summary level as a minimum. Some syndicates model and complete this document on a $USD basis. A high-level £GBP summary will allow Lloyd's to unpick FX impacts and reduces the scope for follow-up with syndicates.

Further, when Lloyd's reviews the supporting Analysis of Change documentation compared to movements in the MCT and between LCRs in £GBP, it can be difficult to bridge between the two due to the impact of changes in currency exchange rates over the year. For example, the impact of an MCT change could be different in terms of magnitude or direction compared to what is reported in $USD in the AOC. Syndicates must check the consistency of information reported in the Analysis of Change compared to the £GBP information reported in Lloyd's returns.

4.6 LCR resubmissions

If a Syndicate Business Forecast (SBF) resubmission is required during the review process, the managing agent must assess the capital impact of this change. A resubmission of the LCR return may be required depending on impact, as set out in Section 5.3 of the Lloyd's Capital Guidance:

Downwards capital movement:

- Less than 10%: not required, the managing agent has the option to resubmit an LCR return. Lloyd's will not adjust capital downwards without a full resubmission.
- Greater than 10%: liaise with your Capital Point Of Contact to determine whether a full resubmission is required.

Upwards capital movement:

- Less than 5%: No update required.
- Between 5 and 10%: Managing agents can resubmit, or a high-level adjustment can be applied by Lloyd's instead.
- Greater than 10%: Resubmission required.

In exceptional circumstances, Lloyd's may restrict LCR resubmissions if the timing of it does not allow us to complete our review within the required timeframe for CPG. This may mean we ask agents to delay an LCR resubmission until after CPG and up until January 2025, in line with the Q1 QCT process.

In some special cases syndicates will be required to submit additional information following an SBF resubmission. Lloyd's review of the additional information may lead to an LCR resubmission. This is outlined in more detail in the next section.

Additional information request for SBF resubmissions with a plan loss ratio increase

There may be cases where syndicates resubmit an SBF with a material change in plan loss ratios that do not trigger an LCR resubmission. For the 2025 YOA Lloyd's requires these syndicates to provide additional quantitative information from the capital model. This is to manage the risk of plan resubmissions, leading to market level capital becoming understated.

Lloyd's definition of material in this case is where the total net net loss ratio (net of acquisition costs and net of reinsurance) has increased by at least 1% (in absolute terms).

The additional information should be provided within two working days of the SBF resubmission in the "New SBF no LCR" template via SecureShare. The template can be found on the Lloyd's website in the internal model SCR section, under templates and scoring sheets. The following information will be collected:

- The impact of the change on uSCR and one-year SCR
- Updated plan and modelled loss ratios for the 2025 YOA, which take into account the increase in plan loss ratio in the resubmitted SBF:
    - These should be stated at an overall syndicate level and on a net of reinsurance, net of acquisition costs basis i.e. on the same basis as is reported in the total row in LCR form 561, table 1, columns F and G.
    - If the plan loss ratio has increased above the modelled loss ratio, syndicates are expected to explain and justify this, with reference to Lloyd's requirement that the model loss ratio must be at least as high as the plan loss ratio
    - If there is a decrease in self-uplift since the 2024 YOA submission of more than 1%pt, syndicates must provide rationale for this and explain why the modelled loss ratio remains appropriate.

Based on Lloyd's review of information in the template, there may be cases where Lloyd's will apply a load or a capital adjustment. This is where the impact of the SBF resubmission, along with the potential impact of any deficiency in the model loss ratio on capital, exceeds 5% of capital. Lloyd's will contact these syndicates to let them know if they are affected by this shortly after the template has been submitted to and reviewed by Lloyd's.

Where a capital adjustment is applied by Lloyd's, we note that this would be a temporary adjustment only, given the short timeframes in the CPG window. However the affected syndicates will also be required to complete a full

LCR resubmission on MDC to match the new SBF by 1 November 2024. The purpose of this is to provide an up-to-date start point for analyses of change in future capital reviews.

The LCR resubmission should be such that the new uSCR and one-year SCR numbers are consistent with the SCR reported to Lloyd's in the "New SBF but no LCR" template. It should reflect data as at Q2 wherever relevant. For example, the Q2 position should be reported for the RICB, this will later be updated in the standard QCT process.

4.7 LCR form changes

There have been two significant changes to the LCR form this year, namely, changes in respect of the risk margin and the YOA allocation for members. Minor changes which have been made are documented in the 2025 YOA LCR specification, which can be found on Lloyd's.com, in the internal model SCR section, under guidance.

Risk Margin

For 2025 LCR, syndicates should complete the LCR form using a 4% Cost of Capital when reporting the risk margin i.e. consistent with Solvency submissions. This will then be converted via a formulaic adjustment in LCR form 309 to an equivalent risk margin on 6% Cost of Capital. Further details around this change have been provided in the MDC LCR 2025 summary of changes.

YOA allocation split for members

Capital allocation data can be a material component of member capital calculation, specifically in instances where syndicates are backed by different members for different years of account, or a member's share of the syndicate differs by YOA. For 2025 LCR, Lloyd's is collecting YOA allocation data via MDC as part of the LCR submission – this will better reflect each syndicate's risk profile. We highlight that this is *entirely optional*. Previously, this information was collected as part of the Focus Areas return. Where a syndicate has not provided this information, Lloyd's own allocation will be used.

Given the potential materiality of the YOA allocation on member capital, agents and syndicates should ensure there is sufficiently robust governance in place, particularly around justification of the methodology and assumptions used. Agents and syndicates are encouraged to consider the potential impact of this and involve the CFO in any decisions, where for example, a change in methodology could result in a large shift of capital allocation between members.

Further information on this can be found in Appendix 2.

4.8 Early view of member capital

This year Lloyd's are enhancing the service provided to member modeller users by re-introducing an early release of the software which includes an enhanced roll forward of the 2024 data process and incorporates any early indicative data submissions from syndicates. The initial software release has been scheduled for the 31 July. To enhance the quality of the data included in the initial software release, syndicates are being given the opportunity to submit early indicative data returns. For syndicates interested in offering this benefit to their members, these returns should be submitted via MDC by 1pm on Monday 22 July. Early returns will not be reviewed by Lloyd's.

For the improved early view option, LCR, SBF, LCM and LSM (where applicable) returns need to be submitted in full, but only a subset of the forms actually need to contain real data. Forms that are not needed may contain dummy data, however, currently, cross-form validations will still need to be satisfied to enable submission in MDC. This means that some forms that are not needed will also contain real data purely to satisfy validations, but will not be used for any other purpose.

We set out below the forms that need to be completed with real data for early view. Dummy data can be entered in any other areas that are needed to meet validation requirements.

- LCR:
  - Control forms
  - 309 – Table 1
  - 310 – Columns A and G (mean and 99.5th). We will also be extending this form to include the YoA split for the YoA calibration.
  - 311 – Table 1 columns A and G (mean and 99.5th) and all of Table 2.

    - 312
    - 313 – Table 2 and column H of table 3
    - 570
- SBF:
    - Control forms
    - 105
    - 420
    - 118
    - 164
    - 167 (auto populated)

Where early indicative returns are not submitted, Lloyd's will base syndicate ECAs on a roll forward of previous year's data returns to ensure the member capital calculation can be completed for each member. In particular, alongside other roll forward assumptions, we will be using projected premium and claims from the Strategic Business Discussion (SBD) data collected to inform the prospective year exposures for continuing syndicates. Syndicates entering run-off of Reinsurance to Close contracts (RITCs) that Lloyd's have been informed about in advance will also be reflected. However, limited reliance should be placed by members on any ECA figures that are either partly or wholly based on rolled forward data, as these are unlikely to be an accurate projection of the final ECA, and all figures should be treated as purely indicative until reviewed data is included in model releases per the business timetable.

For transparency, a summary of the assumptions applied to generate the roll forward syndicate results for those that don't submit early data is given below:

- Growth in claims and premium for a syndicate's prospective year exposures are derived from the projections collected as part of the SBDs.
- Relativity of growth across individual classes is derived from Lloyd's own market level assumptions.
- Prior year outstanding claims are rolled forward assuming they run off in line with Lloyd's market average assumptions.
- Other technical provision items such as risk margin and expenses are assumed to remain constant as a proportion of underlying projected exposure.
- RITCs and run-offs that Lloyd's are informed about in advance will be incorporated into the roll forward.
- Movements in syndicates' view of risk are assumed to respond to changes in underlying exposure in a consistent way to Lloyd's own model.
- Lloyd's assumes all syndicates make similar updates to reflect changes in the external environment in line with Lloyd's model, and that the view of risk moves in a consistent way to Lloyd's model in response to these updates.
- RICB is assumed to stay constant.
- Cat exposure is assumed to remain constant.

5 Lloyd's review process

5.1 Capital review

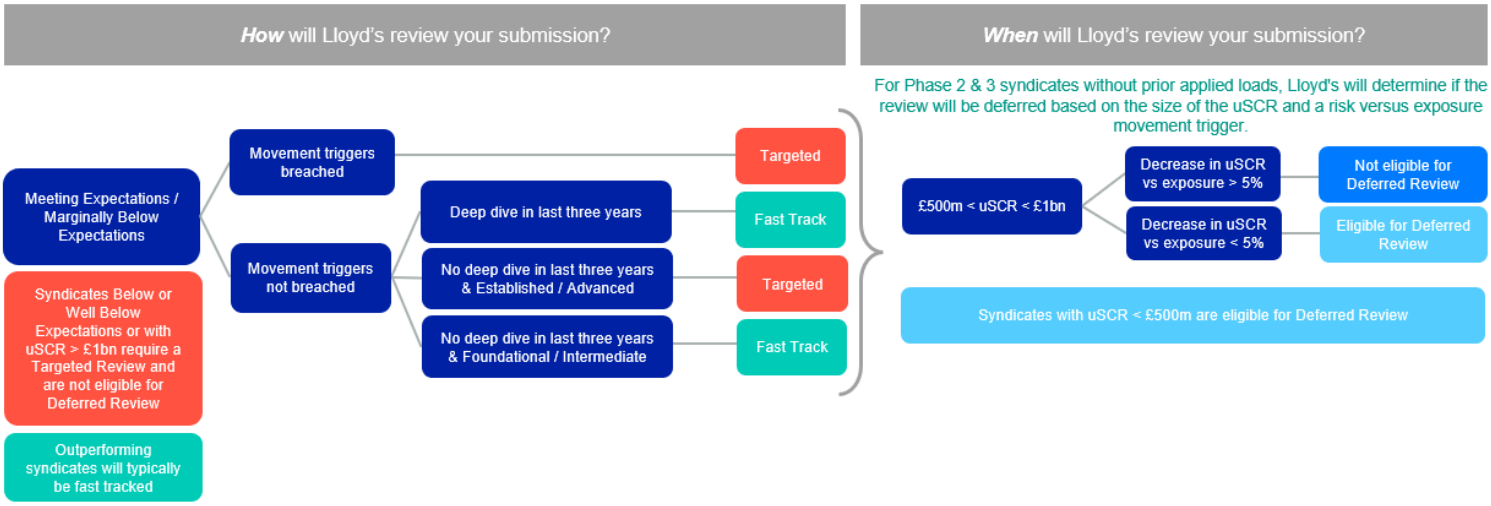
The first step of the capital review process after LCR submission is to triage syndicates into review categories. Syndicates will either enter the Capital Fast Track route or be subject to a more detailed Targeted review. All review levels will consider:

- Minimum tests results mentioned in Section 6.3; and
- Responses to previous loadings and feedback – in particular for syndicates not 'meeting expectations' for the Capital Principle
- Focus area template responses, where relevant

Fast Tracked reviews focus on high-level movements in risk type and risk vs exposure metrics. In general, requests for further information from the Fast Tracked syndicates will be limited.

The more detailed reviews for non-Fast Tracked syndicates will focus on understanding the full scale of movements in capital, with a targeted focus on the risk categories driving the change in capital. The likelihood of requests for further information is higher for these reviews.

For 2025 YOA, Lloyd's have introduced a change to the process which is to spread the capital review process for aligned syndicates, allowing more time for engagement with syndicates to resolve issues. More details are set out later in this section. For all other syndicates, the triage process and timings of review remain unchanged, details of which are below. A diagrammatical representation of the full triage process is given below.



How will Lloyd's review your submission?

Fast Track / Targeted

Outperforming syndicates will typically be fast-tracked, even if they marginally breach the Fast Track risk-to-exposure metrics (see below). However, in exceptional circumstances, Lloyd's will remove any outperforming syndicate from Fast Track if we identify reasons to perform a more detailed, targeted review of its capital submission. Syndicates and agents will be informed of their review status in line with the timescales set out later in this section, under *Initial completeness checks*.

Syndicates with uSCR greater than £1bn will not be considered for a Fast Track review.

For all other syndicates, these will be considered for a Fast Track review if the following criteria are met:

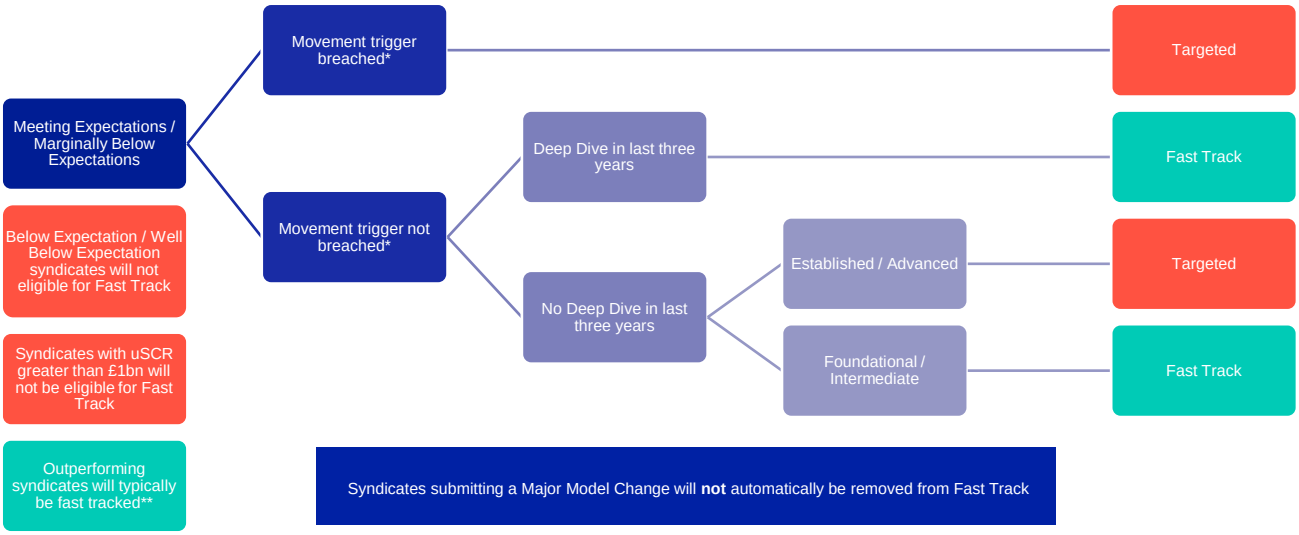
- **Principle dimension rating**: The Principle dimension rating is 'Meeting Expectations' or 'Marginally Below Expectations'.
- **Key risk-to-exposure metrics**: The risk-to-exposure metrics move within the tolerances set out by Lloyd's. The metrics to be used for the 2025 YOA remain unchanged from last year and are outlined later in this section.

If the criteria above are satisfied, a syndicate will be eligible for a Fast Track review. To be accepted for a Fast Track review, Lloyd's considers two further factors which are the depth of recent reviews and the expected maturity for the Capital Principle:

- If the syndicate has been subject to a Deep Dive or an Internal Model Approval Process (IMAP) review (to transition from LSM to an internal model for setting capital) in the last two years, the syndicate enters Fast Track, regardless of materiality; or
- If the syndicate has not been subject to a Deep Dive or IMAP review in the last three years, the syndicate enters Fast Track if the expected maturity is Foundational or Intermediate. Syndicates with higher maturities (i.e. larger ultimate SCRs (uSCR)) in this bucket will not enter Fast Track.

The Fast Tracking of an MMC will depend on factors such as the syndicate's Expected Maturity and Capital Principle dimension rating; nature and complexity of the MMC; and when Lloyd's last did a detailed review of the syndicate's internal model. If a syndicate's LCR qualifies for Fast Track review but its MMC does not, Lloyd's may defer review of the MMC to after CPG. In this case the syndicate's LCR will be Fast Tracked in September and the MMC will be reviewed in detail later.

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



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

** In order for a syndicate to have an overall rating of 'outperforming' the dimensions for all Principles for Doing Business at Lloyd's need to be rated as Meeting Expectations – syndicates can confirm their overall rating with their Lloyd's Account Manager.

The process is intended to make it clear to syndicates how their review status is determined. However, Lloyd's will consider other relevant information (for example from other oversight teams) and apply judgement when determining the final status. This may result in qualitative overrides being applied to the status mechanically implied by the flow diagram. This could be to take a syndicate off Fast Track status due to a potential oversight issue but equally to put a syndicate on to Fast Track status when it doesn't meet all of the required criteria. In general, Lloyd's aims to minimise the use of overrides to the standard process. The dimension rating used by Lloyd's to calculate Fast Track status will be based on the expected maturity calculated from the 2025 YOA uSCR. For further information about this refer to Section 5.4.

For Fast Track status, the key risk-to-exposure metrics will be reviewed with the initial LCR submission and with any subsequent LCR submissions (for example triggered by a SBF resubmission). If a syndicate qualified for Fast Track with the initial LCR submission, but the subsequent LCR resubmission led to the key metrics changing materially, the syndicate may be removed from Fast Track review.

Movement triggers for Fast Track / Targeted reviews

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

The principles used in determining the most appropriate metrics are:

- The stress amount (i.e. 99.5th percentile less mean) is the most appropriate risk measure to represent change in view of risk.
- Measures involving claims (rather than premium) are most appropriate to measure change in view of underlying risk.

Risk-to-exposure metrics are laid out below. Exact definitions from items on LCRs are contained in Appendix 1.

#	Metric	Eligibility requirement for Fast Track
S1	uSCR stress to exposure measure	This ratio must not reduce by more than 10%
S2	Ultimate premium risk stress to exposure measure	This ratio must not reduce by more than 20%
S3	Ultimate reserve risk stress to exposure measure	This ratio must not reduce by more than 20%
S4	One-year SCR stress to uSCR stress	This ratio must not reduce by more than 20%

When will Lloyd's review your submission?

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

Aligned syndicates: deferred capital review

For the purposes of phasing LCR submissions, aligned syndicates are defined as follows:

- Syndicates that have one member; or
- Syndicates that have multiple members, but members are dedicated to that syndicate;
- Not necessarily common ownership with the managing agent.

This corresponds directly to syndicates that are submitting in Phases 2 & 3. These syndicates will be eligible for a deferred capital review, subject to the qualifying criteria set out below. In these cases, Lloyd's will approve the LCR submission without review during CPG. Instead, reviews will be undertaken after CPG and feedback will be provided by 31 January 2025, to allow sufficient time for syndicates to respond ahead of the March resubmission deadline. Syndicates should note:

- Eligibility for deferral of capital review is independent of the syndicate's Fast Track / Targeted review status. This means, syndicates who are on Fast Track could also be eligible for deferred review.
- Loadings could still be applied at the time of the deferred review.
- As part of SBD discussions, syndicates have been given the option to opt-out and have their capital reviewed in the usual CPG timelines instead.

Syndicates submitting in Phases 2 & 3 will *not be eligible* for deferred review if any of the following conditions apply:

- Capital is set using the Lloyd's Standard Model (LSM); or
- Capital Principle dimension rating of either Below Expectations or Well Below Expectations; or
- Applied loading from 2024 YOA which has not been resolved; or
- uSCR greater than £1bn; or
- uSCR greater than £500m ***and*** a decrease in uSCR versus exposure of more than 5%.

Otherwise, the syndicate's capital submission will be *eligible* for deferred review.

It is intended for it to be clear to syndicates whether they meet the qualifying criteria for review of their capital submission to be eligible for deferral. However, Lloyd's will apply judgement when determining the final status and communicate this accordingly. It is expected that any qualitative overrides to the outcome implied by the criteria will only be in exceptional circumstances, for example, a significant change in risk profile.

If a syndicate is required to make a LCR resubmission, the resubmission will be reassessed for the above criteria. If a syndicate qualified for deferred review with the initial LCR submission, but if for example, the subsequent LCR resubmission led to the uSCR versus exposure metric changing materially, the syndicate may be removed from the deferred review process. The exact circumstances of the LCR resubmission will be considered by Lloyd's when determining whether a syndicate remains eligible for a deferred review.

Initial completeness checks

After the triaging process for review status and deferred reviews, Lloyd's will carry out initial completeness checks to highlight to the managing agent early on if the submission does not meet Lloyd's requirements. The result of the initial completeness checks will be communicated within 10 working days of the LCR submission. It will cover:

- Any missing documents from the submission against the list above in Section 4.1.
- Data inconsistencies between returns, for example the consistency of risk margin and Reinsurance Contract Boundaries (RICB) between LCR and Quarterly Solvency Return (QSR), as well as the consistency of premium, claims and profit between LCR and SBF.
- Agents will be informed if their submission will be subject to a Fast Track or Targeted review and/or if it meets the criteria for the review to be deferred.
- For reviews completed within CPG, the scheduled timing for the Actuarial Oversight Review Group (AORG), which would be the point at which indicative loads, if there are any, would be communicated to the agent

  Due to complexity of the scheduling and compressed timeframe to complete reviews ahead of CPG sign-off, AORG timings may change following the initial completeness checks. We don't expect this to happen in many cases and if it does the relevant Lloyd's reviewers or capital points of contact will notify affected agents.
- For deferred reviews which will be undertaken after the usual CPG timescales, the approximate expected timescales of the review would be communicated to the agent.

5.2 Reserving Tests of Uncertainty review

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

- Prospective year model loss ratio
- Model opening reserves (balance sheet projection)
- Best estimate reserves
- Earned margin and unearned profit tests.

Beyond information included in the LCR instructions, syndicates should consider the reserving tests of uncertainty guidance published on Lloyds.com.

Prospective year model loss ratio

Prospective year modelled loss ratio is a key assumption in the premium risk component of the SCR. Lloyd's will review this assumption for all syndicates via the Focus Area return. For a selection of syndicates Lloyd's will also review the Validation report in respect of the model loss ratio. Further details for both of these is included in Section 6.4. Additionally, the Retrospective capital loading test will continue to be conducted, as described below.

Retrospective capital loading

There will be a continued focus this year on the performance of the current underwriting year and the appropriateness of the capital as submitted. Where there is a material deviation of the actual experience as reported at year-end 2024 compared to the modelled loss ratio this will receive greater oversight from Lloyd's and may result in a retrospective adjustment to capital after CPG in September/October 2024. Further details of this process, in particular the specific timelines around the testing, for 2025 will be provided during Q4 2024 via the Actuarial Oversight quarterly update email communication, in line with previous years.

Model opening reserves

Lloyd's expects that managing agents will have robust processes in place for performing the roll-forward of their latest audited technical provisions data when obtaining the T0 balance sheet. In particular, managing agents are expected to consider the actual versus expected balance sheet positions and to correct their methodology where systematic under-/over-statement is identified, particularly where this is found to be material.

As part of the 2025 SCR, Lloyd's will be asking a subset of the market to fill in the roll-forward template for their syndicate for the last three roll-forward exercises. This will be based on a syndicate's historical ability to accurately project a Q4 balance sheet at Q2, over a 3-year period.

If methodology changes are being made to the roll-forward process, the managing agent is expected to clearly highlight the changes made within their modelling documentation submitted to Lloyd's. The managing agent is also expected to back-test (re-forecast) any changes in methodology against the last three years of historical QSR returns to evidence the process improvements being made. The "impact" column within the roll-forward template gives managing agents the opportunity to explain any gaps in historical actual versus expected analysis that they believe should be credited as part of the test. These will be reviewed on a case-by-case basis by the Syndicate Reserving team.

Any remaining under-statement that falls outside of the thresholds set for this test will be loaded to avoid understating the LCR. The percentage load is calculated using the average residual for the last three roll-forward exercises.

Syndicates are expected to provide the validation conducted on the opening balance sheet at an overall level as well as on the following component parts: reserves, future premiums and expenses. The objective in this case is to provide a summary of the analysis undertaken/testing performed to ensure appropriateness of opening balance sheet e.g. back-testing to ensure consideration is given to the actual versus expected opening balance sheet positions of historical years (or by component part). The validator should consider whether the approach used to roll-forward the balance sheet to the year-end is reasonable and where a change in approach has been taken consider the appropriateness of that change.

Best estimate reserve reviews

The best estimate reserving process of syndicates is reviewed by the Actuarial Oversight team throughout the year based on various metrics used by Lloyd's to monitor the market, including Lloyd's assessment of syndicates for the Reserving Principle. The best estimate reserving reviews are specific in nature, dependent on the specific deficiency that has been highlighted and needs resolution. Lloyd's will engage with the actuarial function at the syndicate for queries/meetings and provide timely feedback and raise any additional queries.

Syndicates in scope of a best estimate review ahead of year-end capital approval will be informed in July 2024. Any potential loads will be determined on a case-by-case basis. Where judged to be necessary, loadings will be recommended to CPG.

Earned margin and profit in unearned premium

For the 2025 process, Lloyd's will continue to only perform the earned margin and unearned profit tests for the March reassessed capital, based on the Q4 audited Annual Solvency Return (ASR). Details of these tests are provided below:

Earned margin: If the earned margin being claimed in the ASR submission is greater than that calculated by the signing actuary as part of the year-end Statement of Actuarial Opinion (SAO), the reserve risk within the LCR submission may be understated.

Profit from unearned premium: If the associated profit from unearned premium (as derived from the loss ratio on unearned premium) being claimed within the ASR submission is greater than that calculated by the signing actuary as part of the year-end SAO, the premium risk within the LCR submission may be understated.

If the above cannot be adequately explained for either the earned margin or profit from unearned premium, the ASR is expected to be re-submitted to correct for any shortfall. In such cases, consideration should also be given to any other adjustments required to the SCR, for example additional reserve risk related to a change in the earned margin.

Further guidance on this is available as part of the ASR submission and review process.

5.3 Capital loads

If Lloyd's review identifies a limitation in the modelling approach, analysis and/or documentation that introduces an uncertainty associated with the level of projected capital, Lloyd's will apply a loading to address this uncertainty until it can be fully resolved by the agent. Loadings may be applied in response to particular uncertainties, concerns around governance and processes and/or in response to Solvency II compliance issues.

Solvency II loads

Where Lloyd's has identified weaknesses in syndicate models that may have an impact on a syndicate's Solvency II compliance, a Solvency II load will be considered. A key consideration will be the extent to which the syndicate's modelling approach may result in potential under capitalisation that would need to be rectified by the application of a load. A Solvency II load will usually be set at 20% of uSCR, however a smaller load may be considered depending on the extent of the model weakness(es) identified.

Control loads

The controls load process continues to apply in Lloyd's oversight framework. Controls loadings are applied as an intervention for concerns about the governance and controls that are in place at a syndicate. These are applied by CPG for issues identified in one or more of the Principles, by one or more of Lloyd's oversight teams where an issue or aggregation of issues is considered to be material, but falling short of a failure to comply with Solvency II requirements.

As the loading is not in place to address a specific modelling issue, it is calculated as a percentage of uSCR, with the percentage to be determined by CPG based on the severity of the issue(s) identified. It is expected that the starting point for any controls loading will be 10% of uSCR.

Other loads

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

Communication of loadings

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

The reviewer might ask clarifying questions throughout the review process, however these will be kept to a minimum due to the short turnaround time for CPG. Results of the review will be presented to and discussed at

an AORG, which is a technical review group in place to challenge review outcomes. Any proposed loadings, if there are any following the AORG, will firstly be discussed over the phone with the capital/reserving team at the syndicate. Account managers will communicate these to the executive of the syndicate. If issues cannot be resolved over the phone, the proposed loading will be sent formally to the syndicate's capital/reserving team.

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

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

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

If capital loads continue to be applied after Lloyd's review of syndicates' responses, this will be communicated to syndicates after CPG and the loading information will be included in capital feedback letters. This will include the reasons for the load; what Lloyd's expects to be considered in order to address the load; and required timeframes. Feedback letters will be sent to syndicates by the end of November 2024 at the latest, however Lloyd's aims to send feedback within 2 weeks of the issuance of the CPG letter. As well as this, Lloyd's will communicate the reasons for any applied loads within 2 days of the issuance of the CPG letter, as well as confirming if there is any further Red feedback along with description of this.

For aligned syndicates whose capital submission reviews have been deferred, feedback letters will be sent by end of January 2025.

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

Removal of waived loads

For 2025 YOA, Lloyd's has removed waived loadings. These were previously applied where underlying issues were not identified as material in aggregate, and were below the minimum threshold of 5%. Going forward, Lloyd's will no longer be applying waived loadings in these instances, and will issue Red feedback[1] instead, through the capital feedback letter shared with the Capital Actuary. If a syndicate's capital submission exhibits material issues which in aggregate are above 5% of capital, Lloyd's will apply a loading i.e. an applied loading.

The feedback deadline will be set so that syndicates and agents have sufficient time to resolve the issues ahead of the March resubmission deadline. For phase 2 & 3 syndicates with a deferred review, if Red feedback is issued, Lloyd's will consider the complexity of the actions required to address the issue, when setting the deadline for a response.

Under the previous approach of waived loadings, some loadings were exempt from this minimum threshold, i.e. they would always be applied. This continues to be the case i.e. these loads will apply regardless of whether they breach the 5% threshold:

- Catastrophe Risk Appetite (CRA) loadings applied by Exposure Management. These are covered in Section 7.

[1] Lloyd's use RAG status when providing feedback on Capital submissions. A Red feedback suggests failure to address the issue by the given deadline will lead to loadings in the syndicate's next submission.

- Thematic loads. Presently, this includes non-modelled catastrophe / model completeness loadings. These are covered in Section 7.

Co-ordination with other teams

The capital review process involves a number of different teams in Lloyd's. The overall review is conducted by the Actuarial Oversight team with input from other teams such as Treasury, Exposure Management, Syndicate Planning and Outwards Reinsurance.

Loadings regarding the CRA, model completeness and other catastrophe risk related tests are proposed by the Exposure Management team. Questions regarding these loadings should be directed to your Exposure Management point of contact. Account Managers can provide additional information on the process.

The Exposure Management review process involves reviewing the LCR/Economic Capital Assessment (ECA) along with the SBF and Lloyd's Catastrophe Model (LCM) forecast returns. The LCM forecast returns include simulations for the following year's catastrophe losses, a sensitivity test to calculate the impact on SCR of an increase in catastrophe risk and a bridging analysis of the catastrophe losses provided to Exposure Management and those recorded in LCR form 313. Further details on these returns will be released in July. The Exposure Management team will also take into account the outcome of their review of syndicates' model completeness questionnaires.

5.4 Principles for Doing Business at Lloyd's

The Syndicate Capital team will assess the maturity of each syndicate's Capital Principle under the principles for doing business at Lloyd's in each and every capital review. Syndicates that are on the Fast Track are, by definition, syndicates that are rated as either meeting expectations or marginally below expectations. As outlined in Section 5.1, the level of our review for syndicates on Fast Track is limited, and thus it is unlikely that these ratings will be changed. Syndicates who are not on Fast Track will receive a more detailed review, and therefore as a result the assessed maturity may be changed (in either direction).

Our assessment will consider every aspect of the review, for example timeliness of the submission, quality of the submitted materials (e.g. focus area and analysis of change documentation), responses to prior feedback, quality of validation testing applied to material model areas and issues leading to capital loadings and new material feedback. This is not an exhaustive list of factors that Lloyd's considers when determining Principle ratings.

Treatment of Principle rating changes

In some cases the expected maturity rating for a syndicate will change following a submission, as it is a function of the size of uSCR. For example, for a syndicate with uSCR of £450m, growth in the reserves and business plan volumes could increase uSCR to £550m, which changes the expected maturity from Established to Advanced. Lloyd's will consider the expected maturity when this happens on a case by case basis. For example, in some exceptional cases if a syndicate only just crosses over a threshold for a new expected maturity, Lloyd's may override the standard process and keep the syndicate in its original expected maturity bucket. In these exceptional cases there would need to be a strong rationale for not following the standard procedure. In all other cases the syndicate will henceforth have a new expected maturity.

Following CPG review, the most up-to-date Lloyd's expected and assessed maturities will be communicated to syndicates in the capital feedback letters. This may indicate that a syndicate's dimension rating changes to not meeting expectations, due to a change in one or both of the expected and assessed maturities. Syndicates not meeting expectations following CPG review should liaise with their Lloyd's point of contact after receiving their feedback letter to discuss a plan to address the change in dimension rating.

6 Focus Area return

For 2025 YOA, the Lloyd's Focus Area return will collect the information on:

- General queries, covered in Section 6.2 below
- Minimum Tests, as described in Section 6.3 below
- Model loss ratios, as described in Section 6.4 below
- Market risk, covered in Section below 6.5 below

6.1 General comments on completing the return

Throughout the Focus Area return, Lloyd's collects 'syndicate comments' and 'references to relevant documentation/validation'. In the comments section, syndicates are encouraged to provide clear explanations of approaches and what has been considered, as well as justification for why this is reasonable for the syndicate risk profile. This includes articulating where no action has been taken or a result is not material due to specific model or risk profile features.

More detail to cover these points, as well as what has been performed for validation, should be signposted in the 'references to relevant documentation/validation'. Signposting should explicitly mention sections of the documents that are being referenced.

If syndicates are unsure about how to best complete certain areas of the return, representatives should attend Actuarial Oversight team drop-ins which will be held over July and August 2024 and / or liaise with their Lloyd's Capital Point of Contact.

6.2 Focus Area return tab: *General queries*

There are some other queries, included in the "General queries" tab in the return. Of four queries, two relate to previous loadings and feedback, and two queries are to assist with the modelling in the Lloyd's Internal Model (LIM). These are the back-test of the 2023 YOA; and providing the impact of non-proportional reinsurance on an ex-natural catastrophe basis.

6.3 Focus Area return tab: *Minimum tests*

Lloyd's will run a number of Minimum Tests which flag areas to question with the syndicate. If any of the tests are failed, Lloyd's expects to see robust justification to support the model output. Loadings will be applied if the justification is deemed insufficient. Please note that passing the Minimum Tests does not necessarily mean that Lloyd's has no further questions on the area in question, as these only constitute a baseline for the model outputs. Some tests are relatively simple and automated while others like the model loss ratio tests have been agreed upon with the market in advance of the submissions.

Insurance risk – modelled class volatility

The ratio of losses to mean premium should be greater than 100% for the standalone premium risk for each modelled class of business at the 99.5th percentile, i.e. each class should make a loss at a 1 in 200 return period relative to the expected premium.

This test checks that the 99.5th net claim percentile for premium risk including catastrophes is greater than the net premium, for each modelled class. These correspond to LCR form 502 Q1 Col I and LCR form 502 Q1 Col A. The ratio is also automatically calculated in LCR form 503 Q1 99.5th ultimate loss ratio (ULR) including catastrophes, and it must be greater than 100%.

Diversification – within premium risk

The contribution to the 99.5th percentile of premium risk from each modelled class should be greater than the mean for the class. This test is designed to ensure that a minimum level of correlation is applied between all classes for premium risk.

This test checks that the 99.5th post diversified claims for premium risk including catastrophes is greater than the mean net claims for each modelled class. These correspond to LCR form 502 Q1 Col I(i) and LCR form 502 Q1

Col B. The ratio is also automatically calculated in LCR form 503 Q2 Post diversified claims, and it must be greater than 100%.

Managing agents should note that while the model test is applied to premium risk including catastrophes (LCR forms 502 and 503), the same minimum criteria apply for the Premium risk excluding catastrophes (LCR forms 500 and 501).

Of course, this test does not directly check the level of correlations applied. Lloyd's might use other information (e.g. the output correlations between classes supplied in the PRA Internal Model Output (IMO) returns) to check correlation levels. Syndicates should be prepared to provide the minimum modelled level of correlation between classes and years (output and input) to Lloyd's on request.

Diversification – within reserve risk

Contributions from reserve risk by modelled class of business to the 99.5th percentile of reserve risk should be greater than the mean for the class. This test is designed to ensure that a minimum level of correlation is applied between all classes for reserve risk.

This test checks that the 99.5th post diversified claims for reserve risk is greater than the mean net claims for each modelled class. These correspond to LCR form 510 Q1 Col F(i) and LCR form 510 Q1 Col A. The ratio is also automatically calculated in LCR form 511 Q1 post diversified claims, and it must be greater than 100%.

Of course, this test does not directly check the level of correlations applied. Lloyd's might use other information (e.g. the output correlations between classes supplied in the IMO returns) to check correlation levels. Syndicates should be prepared to provide the minimum modelled level of correlation between classes and years (output and input) to Lloyd's on request.

Impact of reinsurance

The level of reinsurance credit risk modelled should be considered in the context of the materiality of reinsurance to the SCR. The relatively binary nature of reinsurance default means that this risk can appear low (especially on a one-year basis) and/or well diversified. It is expected that any limitations associated with modelling this risk (e.g. including exhaustion) are clearly understood and quantified and stress/scenario tests are used to validate the level of risk.

The test checks that the movement in the benefit from reinsurance reported in LCR form 530 Q2 Row 3 is consistent with the movement in contribution to capital from credit risk (LCR form 541 Q2, reinsurance credit risk) as a percentage of capital (LCR form 309, Table 1, B1).

Reinsurance credit risk – loss given default

Lloyd's expects managing agents to apply a loss given default of at least 50% at the 99.5th percentile. This is in line with the standard formula. However, when assigning the loss given default ratios, Lloyd's expects syndicates to also consider:

- Positive and negative risk features of the syndicate's reinsurers (e.g. financial strength rating, current aged debts or regulatory action)
- Positive and negative risk features of the syndicate's reinsurance contracts (e.g. contract clarity, current disagreements or disputes)
- The probability that loss given default ratios would increase under stressed scenarios, including with the scale of the unpaid recovery.

It should be noted that the loss given default probability should be applied to the unpaid recovery at the point of default. Collateral can be taken into account, but only if the collateral has not already been used as a positive risk offset when considering default/impairment probabilities. Syndicates must be able to justify the assumptions in this area, in particular when the 50% loss given default probability is lowered for some simulations, noting the lack of data in this area.

The model test applied by Lloyd's checks that the ratio of the 99.5th reinsurance (RI) credit risk loss on RI recovery (LCR form 530 Q1 F1) over the 99.5th RI recovery (gross) from defaulting counterparties (LCR form 530 Q1 F3) is equal to or greater than 50%. The ratio is also automatically calculated in LCR form 531 Q1 99.5th RI credit risk loss vs. RI recovery (gross) - defaulting counterparties.

Foreign exchange risk mean profit

Lloyd's will only allow a maximum profit of £1m, or 0.5% of uSCR, whichever is greater, on mean FX risk regardless of the contribution from market risk. This rule will apply to all syndicates, including those with positive market risk contributions to ultimate and one-year SCR.

This test checks the FX risk ultimate mean (LCR form 314 Table 2 D5) against the above requirement. If the syndicate capital level is such that £1m is material to the result, agents should take appropriate action to minimise this profit.

Contributions to capital

Contributions to capital from all risk types should be positive (except for market risk under certain circumstances).

This test simply checks that post-diversified capital contributions from all risk types (LCR form 541 Q2) are positive. Market risk contributions will also be reviewed in more detail based on separate data collection in the focus areas.

Diversification: The sum of squares test

It is well understood that the level of dependencies included in syndicates' internal models is a material driver of capital, both on an ultimate and one-year basis.

There are many methods of introducing dependencies between classes of business and risk categories, e.g. copulas, common drivers, tail drivers. Lloyd's does not prescribe the use of any particular dependency structure. However, Lloyd's does require consideration to be made of the potential for dependency effects to be greater within the tail of distributions than in the body. When considering the appropriateness of tail drivers, syndicates should take into account the impact of these tail drivers on capital, rather than relying solely on their presence in the modelling.

The unique and complex nature of many dependency structures means that it is often difficult to consistently assess from a bottom-up analysis whether any particular approach is appropriate. As a result, Lloyd's also examines the output of internal models to ensure that sufficient dependency has been introduced.

A working group of Lloyd's and market representatives concluded in 2019 that the sum of squares test is a useful high-level test to use, but further information can be considered alongside it if it indicates an issue with diversification.

There are five areas where the Sum of Squares Test (SST) is applied by Lloyd's:

1. Overall ultimate SCR: The modelled SCR 99.5th percentile must be greater than the SST SCR 99.5th percentile (both in LCR form 521 Q6).
2. Insurance risk including catastrophes: The modelled Insurance risk adjusted 99.5th percentile must be greater than the SST insurance risk adjusted 99.5th percentile (both in LCR form 521 Q5).
3. Insurance risk excluding catastrophes: The modelled insurance risk excluding catastrophes adjusted 99.5th percentile must be greater than the SST insurance risk excluding catastrophes adjusted 99.5th percentile (both in LCR form 521 Q7).
4. Premium risk excluding catastrophes: The modelled total net claims 99.5th percentile (LCR form 500 Q1 Col I total) must be greater than the SST total net claims 99.5th percentile (LCR form 501 Q3 99.5th net claim percentile total claims SST).
5. Reserve risk: The modelled total net claims 99.5th percentile (LCR form 510 Q1 Col F total) must be greater than the SST total net claims 99.5th percentile (LCR form 511 Q2 99.5th net claim percentile total claims SST).

Where any test fails, agents are required to fill in the Sum of Squares Test Template and submit this with their LCR as an attachment in MDC. The template tests how risk categories are aggregated to insurance risk and overall capital. It collects information such as:

- The use of randomised simulations for premium, reserving and insurance risk in order to assess model output against "true" independence (also referred to as scrambled sims)
- Spearman's rank correlation of model output

- Using an alternative measure, the average percentile contribution, on both randomised and modelled sims to assess contributions to the tail.

Average percentile contribution examines premium/reserve risk contributions in the 99.5th percentile tail of insurance risk and expresses these as a percentile of the standalone premium/reserve risk distribution. Randomised simulations are required to provide a baseline to measure dependency.

This information will allow Lloyd's to assess dependency within internal models using different metrics against truly independent distributions. However, Lloyd's considers this level of dependency to be an absolute minimum rather than a test of adequacy.

The template includes instructions for completion in the "Information" tab.

Franchise Guidelines relevant to capital

For 2025 LCR submissions, Franchise Guidelines continue to be in place to restrict excessive risk that syndicates may pose to the central fund (i.e. beyond their 1 in 200 uSCR requirements). This was noted in Market Bulletin Y5375 in June 2022.These requirements apply to all syndicates, including SPAs. These guidelines are:

- The maximum net line size that a syndicate may have on an individual risk cannot exceed 30% of ECA plus profit, where profit is defined as 'profit/loss for the period' on an ultimate basis in the approved year of account SBF (Item 16 of SBF Form 100s). This will be monitored by Exposure Management.
- A restriction on the amount of tail risk that a syndicate can be exposed to. This operates as follows (depending on whether a syndicate has an internal model and submits an LCR to Lloyd's or not):
- For syndicates with an internal model that submit an LCR, the 99.8th percentile (1-in-500) of the insurance claims shall not exceed 135% of the 99.5th percentile (1-in-200) of insurance claims. Both measures refer to the total modelled insurance claims net of reinsurance on an ultimate basis as reported to Lloyd's in LCR form 311.
- For syndicates that do not have an internal model or submit an LCR, the 99.8th percentile of final net LCM WWAP losses shall not exceed 135% of the 99.5th percentile of final net LCM Worldwide All Perils (WWAP) losses and the 99.8th percentile of final net LCM WWAP claims shall not exceed ECA plus Profit.
- The tail risk guideline for syndicates that do not use an internal model or submit an LCR will be monitored by Lloyd's Exposure Management.

- A stress of a 45% increase in the net of reinsurance reserves for all casualty classes of business should not exceed ECA for each syndicate. Note, details of this new Franchise Guideline can be found it Market Bulletin Y5434. This will be monitored by Actuarial Oversight.
    - Casualty classes of business are defined as the following three high level classes of business: Casualty FinPro, Casualty Other, Casualty Treaty. Risk code mapping can be found on Lloyds.com.
    - Net of reinsurance reserves for this purpose shall be defined as follows: Total modelled insurance claims (including ALAE) for all underlying pure years in aggregate net of reinsurance using the balance sheet date as per latest submitted capital model. The basis should correspond to 'Mean Net Claims' as per LCR form 510.
    - Syndicates that do not submit an LCR will not be required to run this test.

The above Franchise Guideline (Casualty Reserve Stress) is new in 2025 YOA and appears as Question 8 within the Model Tests tab of the 2025 Focus Area Return.

Note, if the Casualty Reserve Stress is passed when stressing the Total Net Reserves from LCR form 510 by +45%, managing agents do not need to provide the casualty split of reserves in the Focus Area Return.

As with other Franchise Guidelines, syndicates that do not meet these requirements will either be required to apply for a dispensation or make appropriate changes to remove the need for a dispensation request. These changes could include, for example, adding a management adjustment into their LCR submission, or adjusting their business plan to purchase tail risk RI cover and resubmitting their SBF/LCR. Any dispensation requests should be discussed with the Exposure Management/Syndicate Capital contacts before the submission.

A request to exceed Franchise Guidelines, i.e. a request for dispensation, may result in a capital loading if that request is not agreed by CPG.

6.4 Focus Area return tab: *Model Loss Ratio*

Prospective year modelled loss ratio assessment

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

Lloyd's review of the prospective year modelled loss ratio will be based on four components outlined below.

1) Modelled Loss Ratio Minimum Floor Test
2) 'Self-uplift' change
3) New Focus Area Return questions
4) Validation report

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

Modelled Loss Ratio Minimum Floor Test

For the 2025 YOA LCR reviews, Lloyd's requires the prospective year modelled loss ratios for capital setting to be at least as high as the SBF loss ratios, which by definition are expected to be logical realistic and achievable. On a gross net (gross of reinsurance, net of acquisition cost) basis, this should apply at class of business and at syndicate level. On a net net basis, this should apply at the overall syndicate level. This is tested in the focus areas return.

'Self-uplift' change

Lloyd's will query any syndicates where the total 'self-uplift' has decreased by more than 1%ppt since the prior year. 'Self-uplift' is defined as the difference between the modelled and plan loss ratios reported in LCR form 561. This will also be tested in the focus areas return.

New Focus Area Return questions

There are a total of five questions in the Focus Area Return for modelled loss ratios. Three are new, with further details provided below. Two are questions in line with the previous year's Focus Area Return, and relate to the Modelled Loss Ratio Minimum Floor Test and 'Self-Uplift' change tests as described above.

The three new questions relate to:

1) Movement in the modelled loss ratios between current submission and the previous year's approved submission
2) Consideration of reserving cycle whilst setting prospective year modelled loss ratios
3) Signpost to the modelled loss ratio section(s) / page reference(s) in the Validation report(s)

Movement in the modelled loss ratios between current submission and the previous year's approved submission

Responses to this question are required where the modelled loss ratio has moved by more than 1%ppt at a syndicate level on a Gross Net or Net Net basis. These responses will allow Lloyd's to understand material drivers of the movement in the gross net and net net modelled ratios since the previous year submission (September).

Reasons for movements in modelled loss ratios may include (but aren't limited to) changes in risk mix at syndicate level (for example due to classes being exited or entered), rate change assumptions, RI structure, inflation assumptions and other remediation actions.

Lloyd's expectation is that details underpinning the drivers of change are provided with respect to the change in modelled loss ratios.

Please refer Appendix 3 of this document for an example of a response that is expected by Lloyd's.Consideration of reserving cycle whilst setting prospective year modelled loss ratios

Based on market-level data available to Lloyd's, certain classes exhibit the existence of a strong reserving cycle, i.e. there appears to be a tendency for managing agents to over-reserve for business underwritten in a hard market environment, and conversely to under-reserve for business underwritten in a soft market environment.

Lloyd's would expect that the prospective year modelled loss ratios being selected by syndicates are robust regardless of the stage of market cycle they are set in. Syndicates would be expected to consider whether reserving cycle is exhibited within their modelling classes. For classes that do exhibit existence of a reserving cycle, Lloyd's would expect the prospective year modelled loss ratios to be appropriately adjusted.

As part of this year's Focus areas return, Lloyd's is requesting qualitative information on how the reserving cycle is currently considered by the market. It should be noted that this year, the responses to this particular question in the Focus areas return will only be used for Lloyd's to gain an understanding of the current practices, and for Lloyd's to provide feedback where necessary.

Signpost to the modelled loss ratio section in the Validation report

This year, Lloyd's has introduced a requirement for syndicates to have a specific section related to prospective year modelled loss ratios included in the validation report this year (further details on information expected to be included within this section is provided below). Syndicates need to provide a signpost to this section through the focus areas return for ease of reference.

Validation report

As per reference above, the validation report is required to contain a section(s) related to prospective year modelled loss ratios this year.

Lloyd's requires the validation report to document in an appropriate level of detail the validation analysis performed on the model loss ratio selection. Lloyd's expectation is that this may be documented with reference to the following two broad areas of validation:

1) Top-down validation of the selected modelled loss ratios
2) Bottom-up validation of the assumptions / areas of expert judgement that have a material impact on the selected modelled loss ratios

Further guidance is provided in the following two sub-sections with examples.

Top-down validation

Top-down validation in this context refers to validation of resultant modelled loss ratio(s) at an aggregate level. Validation should be performed at an appropriate level of granularity (for instance at level of syndicate or class or claim type i.e. attritional / large / CAT claims).

Examples of areas that Lloyd's would expect syndicates to consider as part of their model loss ratio are:

1. Actual versus expected analysis against the selected historical model loss ratios to feedback into the capital model loss ratio selection exercise. Lloyd's would expect this to be performed on the claims element and premiums element separately such that each element is appropriate given historical experience. This would ensure that for example, where actual rate change achieved is different to that assumed in historical years, this does not mask worse than planned claims experience due greater than planned premium volumes. As such, this effect could be neutralised by performing an actual relative to plan comparison on a claims basis only. A corresponding validation exercise should be considered for the premium component which may include actual vs planned analysis for rate changes.

2. Analysis of change between previous year and current year modelled loss ratios and whether the movement appears reasonable given changes over the year (due to risk mix, performance, remediation actions etc.)

3. Where there has been a material movement in the level of self-uplift to the modelled loss ratios or the level of self-uplift is small, validators should be comfortable that this is appropriate.

4. Where the selected model loss ratio for the syndicate sits within the reserve risk distribution (or other suitable actuarial range).

Bottom-up validation

Bottom-up validation in this context refers to validation of key assumptions / areas of expert judgement that drive the derivation of modelled loss ratios. Validation should be performed at an appropriate level of granularity.

At the beginning of the Modelled Loss Ratio section of the validation report, there should be a clear articulation of which assumptions / areas of expert judgement have a material impact on the prospective year modelled loss ratio, including signposts to the relevant sections of the validation report. This may be presented in the form of a bridging analysis / table.

For each identified assumption / area of expert judgement, the report should include details on how these have been validated and outcomes of the validation.

Examples of areas that Lloyd's would expect syndicates to consider as part of their model loss ratio validation are:

1. Consideration of any differentiation between aspirational business planning and the underwriting profit assumed for the Internal Model
2. Sensitivity or scenario testing to assess the impact, particularly on the SCR, resulting from different assumptions on underwriting profit
3. Validation of model loss ratios where historical data has been adjusted (for instance by removal of "atypical" claims from historical data) to ensure there isn't a systemic understatement of the mean loss ratio.

We highlight that, in instances where the modelling team has materially relied on loss ratios provided by other functions within the business when selecting prospective year modelled loss ratios (e.g. Initial Expected Loss Ratios provided by the Reserving function), validation reports should include details on how the modelling team has gained comfort around the level of validation performed by the relevant function, as well as the control and governance in place. Lloyd's expectation is that the modelling team has a good understanding of the validation performed by the relevant function and this should be demonstrated in the validation reports.

Examples of bridging analysis and validation of assumptions (top-down and bottom-up) can be found in the "Reserving Tests of Uncertainty – 2025 Process" pack, which can be found on the Lloyd's Reserving Guidance and Support Materials page.

6.5 Focus Area return tab: *Market risk*

Syndicates that fall into all or any of the below groups are required to complete the market risk focus area data collection. Other syndicates do not need to complete the market risk data collection.

1. Syndicates that did not have a negative contribution from market risk to the uSCR in the previous submission but now do; and / or
2. Syndicates for which the negative % contribution from market risk to the uSCR is more negative compared to the negative market risk contribution to the uSCR in the previous submission by 2.5 percentage points or more; and / or
3. Syndicates that have a negative contribution on a one-year basis where the contribution is larger (on an absolute basis) than the benefit from discounting in the technical provisions (TPs).

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

In the market risk section of the focus areas, syndicates are required to demonstrate that market risk behaves as expected and does cater appropriately for volatility in the current economic environment. In general terms, if expected returns have increased we would expect standalone market risk volatility to increase as syndicates should be allowing for higher credit spreads and a higher probability that interest rates could drop compared to before.

In general additional risk should add additional capital to the SCR. However, in the case of market risk the contribution to capital might be negative (i.e. market risk reduces capital) in some limited circumstances for some risk profiles. This requires investment returns to outweigh the risks from liquidity, FX and credit issues.

Syndicates must consider and validate how the model should respond now in an environment where the expected inflation and interest rate levels have increased and how market risk should interact with other risks. In particular, syndicates must convey how they have considered insurance events leading to market volatility. There should not be an over-reliance on the past, where evidence of this may be limited. Stress and scenario testing should be deployed to ensure the models dependency structure is appropriate. Syndicates are also encouraged to interrogate simulations in the tail of the capital distribution and sense check that extreme insurance events do coincide with downside market risks (for example due to liquidating assets in unfavourable conditions or credit issues).

For the 2024 YOA SCR reviews, Lloyd's conducted a detailed review of market risk for syndicates where market risk contributed a negative amount to overall capital. As such, this year, Lloyd's review will focus on movements in market risk – specifically where the contribution of market risk has decreased further.

Market risk breakdown and behaviour

Lloyd's expects syndicates to validate that the impact of the dependency structure is acting appropriately and produces a suitable market risk contribution to the capital requirement.

This validation should consider:

- What could drive downside insurance risk around the SCR setting level and how components of market risk might be expected to behave at this level;
- Scenarios on how assets might behave due to systemic drivers (such as inflation and geopolitical uncertainty) and how these drivers would be expected to impact insurance risk and other risk categories; and
- Appropriateness of the market risk contribution and how well it captures the impact of the above drivers simultaneously impacting market risk and insurance risk at the capital setting level.

With respect to negative market risk contributions, we often see that it is driven by material investment returns being generated in the capital setting window. We expect syndicates to consider that earlier depletion of assets or the need to realise assets in unfavourable conditions following large insurance losses could and should result in investment returns that are lower than expected, on average.

In the focus area assessment syndicates should clearly articulate the sources and drivers of negative contributions and explain them with reference to the expected behaviour of market risk in scenarios that drive the capital requirement. Lloyd's will not accept results that are purely a function of how the ESG is being implemented without a robust justification that references the expected behaviour. Syndicates should comment on implicit and explicit sources of dependency between market risk and other risk categories that influence the level of contribution to SCR.

The market risk breakdown question is used as a quantitative basis for the market risk contribution data collection. The mean, pre-diversified and downside risk figures should be consistent with data provided in LCR Form 314, table 2. The post-diversified figures should be diversified to total SCR (as opposed to total market risk).

Asset breakdown

The following information is required by asset group, on a standalone risk basis:

- T=0 value: The opening balance sheet value of the asset holdings, which should be reconciled to the "available assets" in the Exposure and Risk Margin section of LCR form 600
- No. of years modelled: The number of years of investment return included in the capital requirement
- Mean annual return: The average return across all modelled years on the syndicate investment portfolio expressed as a simple average of the mean absolute return over the mean asset values in each modelled year.

- Expected return: The absolute amount of investment return modelled on the syndicate investment portfolio, on a mean basis. The total ultimate return should reconcile to LCR form 314 cell A4. The equivalent one-year returns should also be provided.
- 1 in 200 downside return: The absolute amount of return modelled on the syndicate investment portfolio at the 99.5th percentile. The total ultimate return should reconcile to LCR form 314 cell C4. The equivalent one-year returns should also be provided.

This information will be used by Lloyd's to inform a market-wide view of return levels and downside risk being modelled by syndicates, which will be compared to market risk contribution. Expected return has continued to rise, and models should reflect that this should be accompanied by an increase in risk to achieve it.

7 Exposure Management model tests

There are four principle types of Exposure Management-related capital loadings:

- Catastrophe risk appetite (CRA)
- Model completeness
- Internal model sensitivity
- Franchise Guidelines.

Catastrophe risk appetite

The CRA metric is defined as the ratio of the LCM5 1:200 aggregate exceedance probability (AEP) final net loss (FNL) to ECA plus profit. Any *increase* in the LCM5 1:200 AEP FNL may need to be capitalised at a ratio agreed by Lloyd's; syndicates have been informed of their individual requirements in this regard within their pre-planning letters in May. Where these requirements are not met, Lloyd's Exposure Management will recommend a loading in order to achieve the required capital to support the proposed growth.

Model completeness

Annual syndicate Model Completeness Questionnaire (MCQ) responses will be received and reviewed by Exposure Management prior to business planning. Any remaining material deficiencies in syndicates' LCM submissions may result in a capital loading in line with the MCQ guidance.

Please note that syndicates are required to ensure that the addition of previously non-modelled risks is additive to capital, in line with the general principle that additional risk should add to capital.

Internal model sensitivity

Syndicates submit a sensitivity test to Lloyd's Exposure Management that assesses the impact of parameter error on the SCR. Any unusually high result will be reviewed in depth and the syndicate may attract a capital loading in extreme or unexplained cases.

Franchise Guidelines

Within SBF Form 452, syndicates provide projections for future Realistic Disaster Scenarios (RDSs). These are compared against ECA plus profit, and the result must fall within Franchise Guidelines (these are outlined in the guidance found here). As described in section 6.3, a request to exceed Franchise Guidelines, i.e. a request for dispensation, may result in a capital loading if that request is not agreed by CPG.

8 Appendix 1: Definition of metrics for Fast Track

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

#	Metric	Definition
S1	uSCR stress-to-exposure measure	uSCR stress = LCR form 310 Row 2 Col G - LCR form 310 Row 2 Col A Exposure measure = Mean premium risk net claims + ½ * mean reserve risk net claims Mean premium risk net claims = LCR form 502 Q1 Col B Total Mean reserve risk net Claims = LCR form 510 Q1 Col A Total
S2	Ultimate premium risk stress-to-exposure figure	Premium risk stress = LCR Form 314 Table 1 Row 2 Col B Exposure measure = Mean premium risk net claims = LCR Form 502 Q1 Col B Total
S3	Ultimate reserve risk stress-to-exposure figure	Reserve risk stress = LCR Form 314 Table 1 Row 3 Col B Exposure measure = Mean reserve risk net claims = LCR form 510 Q1 Col A Total
S4	One-year SCR stress to uSCR stress	One-year SCR stress = LCR form 310 Row 1 Col G - LCR form 310 Row 1 Col A uSCR stress = LCR form 310 Row 2 Col G - LCR form 310 Row 2 Col A

9 Appendix 2: YOA allocation split for members

Overview and purpose

Submitted syndicate SCRs from the LCR returns are used directly to inform the member capital calculation.

If a member is aligned to a single syndicate with the same share of all years of account (YoA), the Member ECA is simply that member's share of the Syndicate ECA.

However, where member participation on a syndicate differs by YoA and/or where members participate across multiple syndicates, the Lloyd's member capital model is needed to calculate the member capital. This is because the YoA level capital must first be calculated for each syndicate before this can be allocated to members and aggregated into member ECAs. This therefore allows members to benefit from diversification across syndicates and YoAs.

Last year, Lloyd's introduced an improvement to the member capital model where it is now possible to calibrate to a syndicate's own view of YoA level capital. Syndicates were given the option to submit standalone ultimate profit and loss distributions by YoA in order to inform the Lloyd's member capital calculation. This year, this will continue to be collected as a new part of form 310 of the LCR and will remain entirely optional. However, the commentary box in this section of form 310 is now mandatory if a syndicate has chosen to submit YoA data. Details on what to include are below. Syndicates who have a member participation structure that differs by YoA are encouraged to consider whether YoA calibration would be appropriate for them, and if so, submit YoA data for use in the member capital calculation. In the absence of submitted YoA data, Lloyd's own model and assumptions will be used to calculate capital by YoA.

The Member Capital Model is a stochastic model that models all syndicate YoAs separately for the purpose of calculating member capital. Each aggregation of YoAs that make up a whole syndicate is calibrated so that the 1 in 200 is equal to the syndicate's own uSCR from the LCR. RICB and ECU are added to arrive at the Syndicate ECA.

When calculating the member ECA, the model splits each Syndicate ECA into standalone ECAs for each YoA, effectively removing the assumed diversification between YoAs (calculated by the Lloyd's model). It then applies members' shares to each YoA before aggregating to a member level to arrive at the member ECA. Each member therefore benefits from diversification between all the syndicate YoAs it participates on, which is risk responsive to the business written by each syndicate YoA and the specific participation structure.

Where submitted, the standalone YoA level distributions submitted by syndicates will inform an extra calibration step, where the mean and 1 in 200 of each individual YoA are also targeted to the syndicate's view. This means that relativity of capital between YoAs should align much more closely to the syndicate's view. The member capital that follows should therefore be more aligned with the syndicate's own expectations. It is worth noting that an exact match to the 1 in 200 by YoA is not achievable due to the limitation that multiple points of a distribution cannot be calibrated at the same time (the 1 in 200 of a YoA distribution and the percentile contributing to the whole syndicate SCR cannot both be calibrated without changing the shape of the distribution, which would add undesirable complexity to the model). However, the mean by YoA will match exactly and the relativity of capital stress between YoAs will also match exactly, with the whole syndicate SCR matching exactly as usual.

Syndicates wishing to submit YoA level distributions this year and going forward must be aware that this has the potential to significantly impact the member capital calculation. It is therefore vitally important that appropriate methodology is used to produce this data, with robust justification for approach and assumptions.

The below guidance outlines the basic principles that we expect syndicates to follow when calculating capital by YoA. Modelling YoAs explicitly in the capital model is the preferred approach. However, where this is not possible, sensible methods of allocation of model results to YoA with justification are considered appropriate.

Lloyd's will perform a review of all YoA level data and supporting commentary for adherence to the basic principles below and will provide challenge where appropriate. This will include sense checks of the mean profit, capital stress and shape of distribution by YoA given the business written and a qualitative review of the methodology used to assess adherence to the below. Chosen methodology and assumptions must be outlined and robustly justified in the supporting commentary within form 310 of the LCR.

At a minimum, within the commentary box in form 310 of the LCR, an outline of the chosen methodology to produce the YoA level results along with justification should be provided for each of the four main risk categories below. It should be clearly stated whether YoAs are modelled explicitly within the capital model or whether the model results have been allocated to YoA outside the model. If there has been any deviation from any of the basic principles below, robust justification must be provided for the approach chosen. In particular, the methodology for insurance risk and importantly the mean profit should be clearly described and justified.

If it is Lloyd's opinion that calibration to a syndicate's YoA results could result in inappropriate member ECA, we will inform the syndicate of the challenge and underlying reasons. The options will then be either 1) The syndicate provides further justification so that Lloyd's can gain comfort over the results; 2) The syndicate resubmits the YoA data; or 3) The Lloyd's model is instead used to calculate capital by YoA.

All guidance below is intended to relate to an ultimate basis unless stated otherwise.

Insurance risk

Premiums, claims and expenses

Premiums, claims, and expenses must be allocated to the correct underwriting year in line with the underlying contracts they relate to. For unallocated expenses (e.g. ULAE) reasonable assumptions to allocate to underwriting years proportionally are considered appropriate.

Particular attention should be given to what is recognised at the mean of the distribution for each year of account. The mean outcome should demonstrate that modelled cashflows have been allocated correctly to underwriting years. Each underwriting year can contain both earned and unearned business (with the exception of the prospective year which should only contain unearned) and so some underwriting years may have contributions from both premium risk and reserve risk where appropriate.

In particular, the following guidance outlines what should be included at the mean for premiums, claims and expenses depending on the YoA being modelled:

Prospective year

Expected cashflows for the prospective year are not yet accounted for on the opening SII balance sheet. These can therefore be recognised in capital as a change in net assets over the modelling time horizon. The mean scenario should therefore be that all expected cashflows for the prospective year are added to the balance sheet resulting in a change in net assets equal to the expected net underwriting profit for the year.

- **Notable exceptions:**

Premium, claims and expenses relating to unincepted legal obligations as at the valuation date will already be accounted for in the opening technical provisions. Expected cashflows and therefore underwriting profit from these contracts should therefore not also be allowed for in capital as this would lead to a double count.

Current and prior years

All expected cashflows for these years are already recognised on the opening SII balance sheet (either received/paid as cash assets or as expected future cashflows in the opening technical provisions). The mean scenario should therefore be that no further premium, claims and expenses (and therefore underwriting profit) should be recognised over the modelling time horizon. This is because there should be no change in net assets from receivables/payables crystalising as expected over time. This would be true for both earned exposure as part of reserve risk and unearned exposure as part of premium risk, as expected cashflows will already be accounted for as part of the claims and premium provision of the technical provisions respectively.

- **Notable exceptions:**

Cashflows relating to unwritten contracts as at the valuation date that are part of binder arrangements attaching to current or prior underwriting years will not already be recognised on the opening SII balance sheet. These cashflows and therefore the expected underwriting profit from these contracts may therefore be recognised in capital at the mean.

All scenarios that deviate from the mean including 1 in 200 should ensure that additional premiums, claims and expenses are allocated to the correct underwriting year in line with the underlying contracts they relate to. Volatility of these scenarios by underwriting year should be appropriate and in line with the level of uncertainty associated with the cashflows in each year.

A note on mean profit

As the capital model is on a Solvency II basis, in most cases the majority of the total mean profit in the model will be concentrated in the prospective year, as the main driver will be underwriting profit from prospective year contracts not already recognised on the opening balance sheet. Crude methods of allocating mean profit to years of account (for example apportioning by net reserves) are therefore not considered appropriate, as these methods would allocate too much profit to prior years.

When looking at the standalone capital amount by year of account (and therefore ECA), it is therefore quite common for capital to increase for an underwriting year in the second year of its existence. This is because in the second year, the expected underwriting profit for an underwriting year will have moved from capital onto the SII balance sheet, and so will no longer offset the capital stress applied. However, this is not an issue for member funding, as surplus assets (profits) on the Solvency II balance sheet allocated to a member are allowed to be used to offset the member ECA when calculating funding requirement. The member funding requirement is therefore agnostic to where allocated profits sit within the capital stack.

The significantly simplified example below (where only premium, claims and expenses exist with no allowance for discounting) illustrates what a typical split of capital by YoA may look like and why it is reasonable. All syndicates are different, and results may differ significantly for individual cases. The example is for illustrative purposes only. Consider a syndicate that has been writing for three years, having written exactly the same business each year. In each year, net premium is £100m and net claims and expenses are expected to be £80m. So far, experience has been exactly as expected. All premium is collected at the beginning of the year. Claims and expenses are expected to be paid at a flat rate of £10m per year for 8 years. In this example, it is assumed that each year is backed by a different member. This is an example of the type of situation where YoA allocation significantly influences member ECA. The valuation date is 31/12/2023. RICB and ECU are ignored for simplicity.

The 2024 year has not yet started and there are no unincepted legal obligations. There are therefore no cashflows accounted for on the opening Solvency II balance sheet for 2024. The technical provisions only cover 2023 and prior. Therefore, the expected change in the balance sheet position over the modelling time horizon for 2024 is that all £100m premium and £80m claims and expenses will be accounted for, resulting in net change of £20m profit. A 1 in 200 deterioration from the mean of 50% more claims and expenses than expected (£40m) means that the 1 in 200 scenario for 2024 is a loss of £20m. Ignoring RICB and ECU for simplicity, the member ECA is therefore £20m.

For the 2023 and 2022 years, all cashflows to ultimate, both earned and unearned are already accounted for on the opening balance sheet, either as cash or as receivables/payables in the technical provisions. Since experience has been as expected, the opening position for each of these years is therefore £20m profit. This is not expected to change as cashflows materialise as expected. The expected change in the balance sheet position for these years is therefore zero. A 1 in 200 deterioration from the mean of 50% more outstanding claims and expenses than expected for these years results in a movement from the opening balance sheet position of a £35m loss and £30m loss respectively. The member ECAs for 2023 and 2022 are therefore £35m and £30m respectively.

Looking only at member ECAs, it appears that the ECA increases for the current year compared to the prospective year. This is simply because the expected profit has moved from ECA onto the opening balance sheet. However, when calculating the member funding requirement, surplus assets (profits) on the Solvency II balance sheet allocated to the member ("Net Assets" column) are allowed to be used to offset the ECA. The profit allocated to the member therefore always gets taken into account when calculating the funding requirement, regardless of where in the capital stack it sits. The funding requirement therefore exhibits an intuitive runoff pattern as YoAs age, run off and become more certain, as would be expected ("Member Funding Requirement" column).

Risk Margin

Risk margin should be allocated to years of account in line with the underlying liabilities supported. Only liabilities in scope of the opening technical provisions and therefore accounted for on the opening balance sheet should have related risk margin. This means that risk margin should usually only exist for current years and prior. However, where there are unincepted legal obligations attaching to the prospective year, some risk margin may be allocated to the prospective year. This is true for an ultimate basis as any risk margin set up for the prospective year post valuation date would be run off completely by the end of the modelling time horizon, resulting in zero change. On a one-year basis however, the prospective year risk margin would exist on the balance sheet after one year and result in a change over the year. However, data for YoA calibration is only being collected on an ultimate basis at current as this is what matters for member ECA. Methods of apportioning risk margin to year of account in line with liabilities will be considered appropriate.

Inflation

Inflation should be allocated to years of account in line with the underlying cashflows it is being applied to. For example, claims inflation allocated to a year of account should be the inflation associated with the claims cashflows expected from contracts written during that underwriting year.

Credit Risk

Reinsurance credit risk

Reinsurance credit risk should be allocated to the correct underwriting year in line with the contracts underlying the gross claims exposure on which associated recoveries are due. For RI credit risk in general, sensible methods of apportionment to YoA by RI claims exposure is considered appropriate. For credit risk on recoveries from blanket or whole account covers, sensible methods of apportionment to year of account by exposure to the contract are considered appropriate.

Other credit risk

Other credit risk should be allocated to underwriting year in line with similar principles to RI credit risk, that is either explicitly or via sensible apportionment via an appropriate exposure measure for the risk. cMarket Risk

All elements of market risk should be allocated to the correct underwriting year in line with the contracts generating the cashflows on which the element of market risk is acting upon. For example:

Unwind of discount

Unwind of discount included within the opening balance sheet should be allocated to the correct underwriting year in line with the cashflows to which the discount is being applied. For example, unwind of discount on claims liabilities should be allocated in line with the claims being discounted. Sensible methods of apportionment by underlying cashflow item are considered appropriate.

Asset return

Assets themselves should be allocated to underwriting year in line with the liabilities they are backing. Asset return should therefore be allocated to underwriting year in line with the assets generating the returns. Sensible methods of apportionment via corresponding liabilities are considered appropriate.

Operational Risk

Operational risk should ideally be allocated to underwriting year in line with the underlying operational activities generating the risk. For example, a reserving scenario could be allocated in line with the reserves generating the exposure to the risk. However, pragmatic methods of apportioning total operational risk by a sensible exposure measure are considered appropriate.

10 Appendix 3: Example of Analysis of Change for Model Loss Ratios

The level of granularity expected for the responses is demonstrated by the below example.

Example:

Prospective year modelled loss ratio	Current submission	Previous submission	Movement
Gross Net	70%	75%	-5%
Net Net	73%	77%	-4%

There are two key drivers for this movement on a gross net basis:

1) Changes in business mix; and
2) Changes to underlying modelled class of business loss ratios.

These are explained in further detail below.

1) Changes in business mix

The following classes have increased their business volumes:

- D&O US (increase of 20% due to expectation of underwriting two new binders)
- Property D&F (increase of 10% due to rate increases).

These classes have a lower modelled loss ratio relative to the other classes. This contributes c.3%ppt of the total 5%ppt reduction at syndicate level.

2) Changes to underlying modelled classes of business loss ratios:

The following classes have driven this:

- Cyber (decrease of 5%ppt driven by favourable experience on prior years being allowed for in the prospective year modelled loss ratio);
- Marine Liability (decrease of 4%ppt driven by partial allowance for remediation action).

These are partially offset by:

- General Liability (increase by 3%ppt due to increase in allowance for social inflation).

Overall the above movements contribute c.1.5%ppt of the total 5%ppt reduction at syndicate level.

On a net net basis, the drivers are in line with the gross net drivers mentioned above. There are no material changes to RI programmes/structure.