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Capital Briefing

07 May 2024

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Agenda

	Agenda Item	Presenter(s)
1	Opening Comments	Rebecca Soraghan
2	2024 YoA SCR Reviews	Uma Divekar
3	Key changes to our processes	Uma Divekar
4	Areas for consideration • *Geopolitical* • *Mean profit* • *Macroeconomic (inc. Negative Market Risk)* • *Climate Change* • *Other areas to consider*	Qasim Chishti
5	Other updates • *Solvency UK reforms* • *Tips for a great submission*	Uma Divekar
6	Wrap Up	Rebecca Soraghan

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Opening Comments

Rebecca Soraghan

Head of Actuarial Oversight

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2023 actions and plan for 2024

2023 focus

Addressed feedback

- Embedded more risk-based oversight through triage
- Better communications around loadings

Investigated particular areas of focus given the market environment

- For example,
  - Cyber, geopolitical, macroeconomic
  - Drivers of uSCR v Exposure decrease
  - Increase in profit

2024 focus

Continued oversight on existing focus areas throughout the year

- For example, geopolitical, underwriting and investment profit, cyber
- Outside of CPG season to shift away from busy times

Continued focus on how we **improve** our **processes**

- Fundamental changes to timetable & processes

Continue to work with the market to **address feedback and improve**

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2024 YoA SCR Reviews

Uma Divekar

Senior Manager – Syndicate Capital

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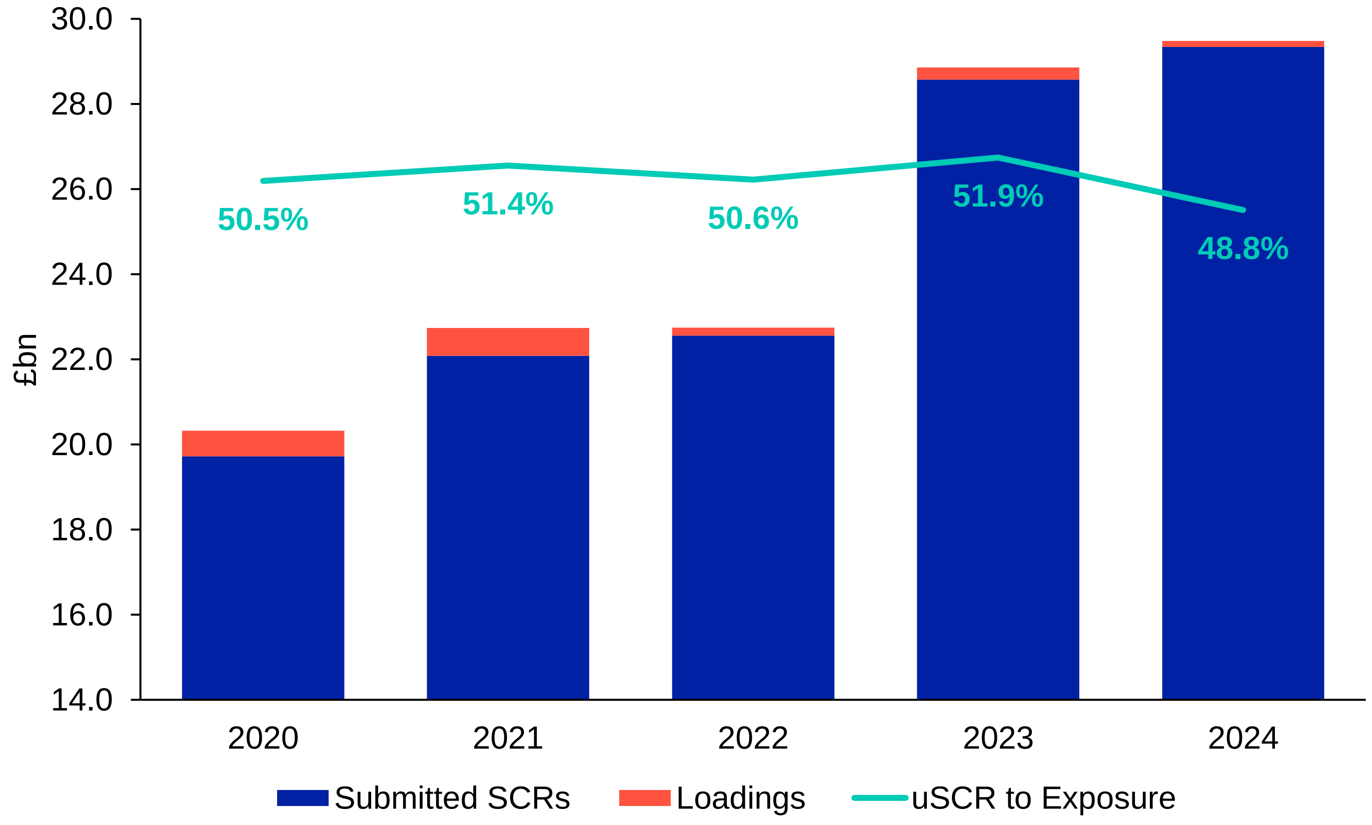
Required capital has increased from 2023 and prior

Change in capital from 2020 to 2024



- Total capital has marginally increased
- Risk versus exposure* at market level has decreased
- Loadings continue to be below the high levels seen in 2020/21

**Exposure is defined as premium risk mean net claims +1/2 earned reserves (as per LCR form 600)*
Note, the submitted SCRs shown on this chart do not include RICB or Other Adjustments.

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Approved capital has increased slightly for 2024

Capital has marginally increased, and as a measure of exposure* the approved capital has reduced by 3.1ppt from 51.9% to 48.8%.

Increases in capital:

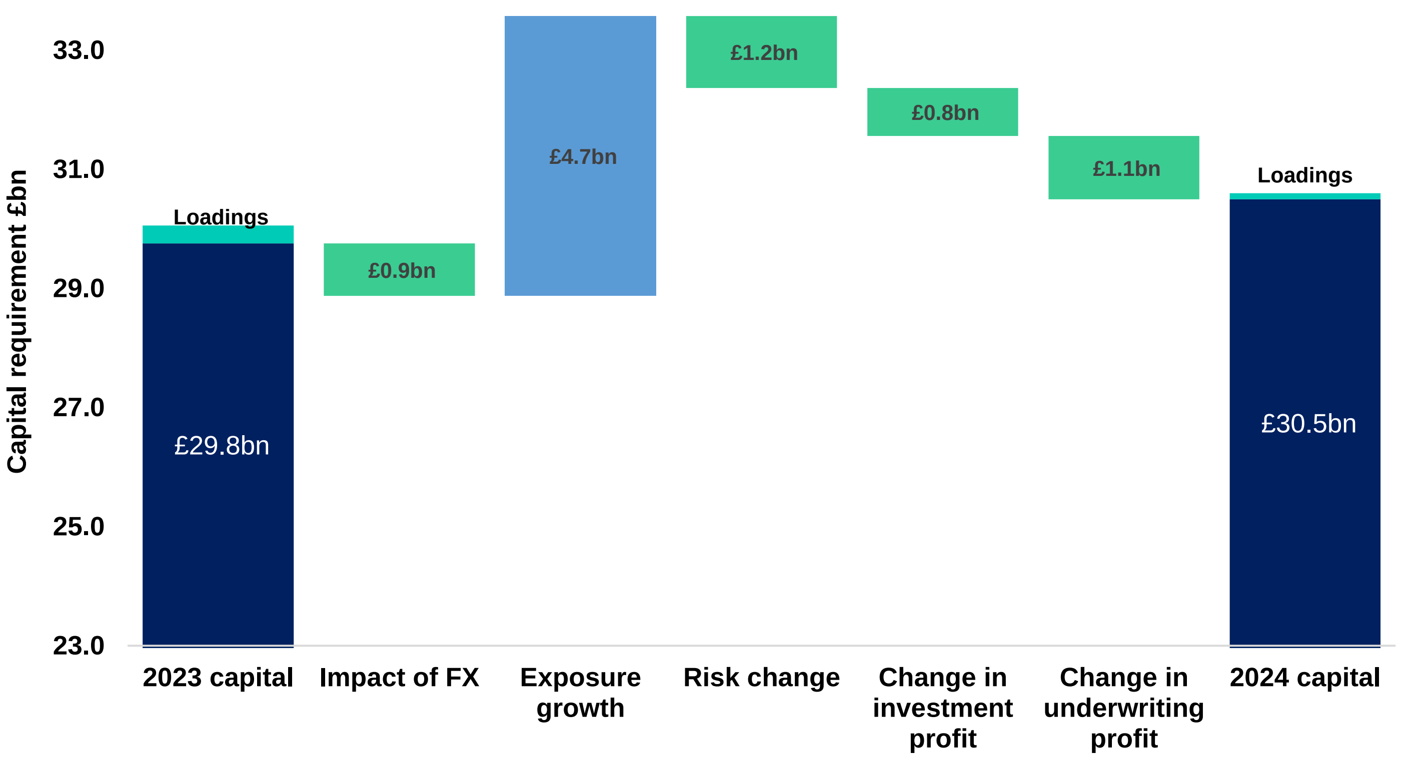
- Exposure growth

Partially offset by decreases in capital:

- Improved profitability
- Reduction in risk - largest drivers including:
  - Changes in class mix
  - Reinsurance changes
  - Reduced volatility associated with higher exposure
  - Reparameterisation
- FX rates (GBP:USD from 1.21 to 1.27)

**Exposure is defined as premium risk mean net claims + 1/2 earned reserves (as per LCR form 600).*

Change in capital from 2023 to 2024



Note, the capital shown in the chart above includes RICB and all Other Adjustments.

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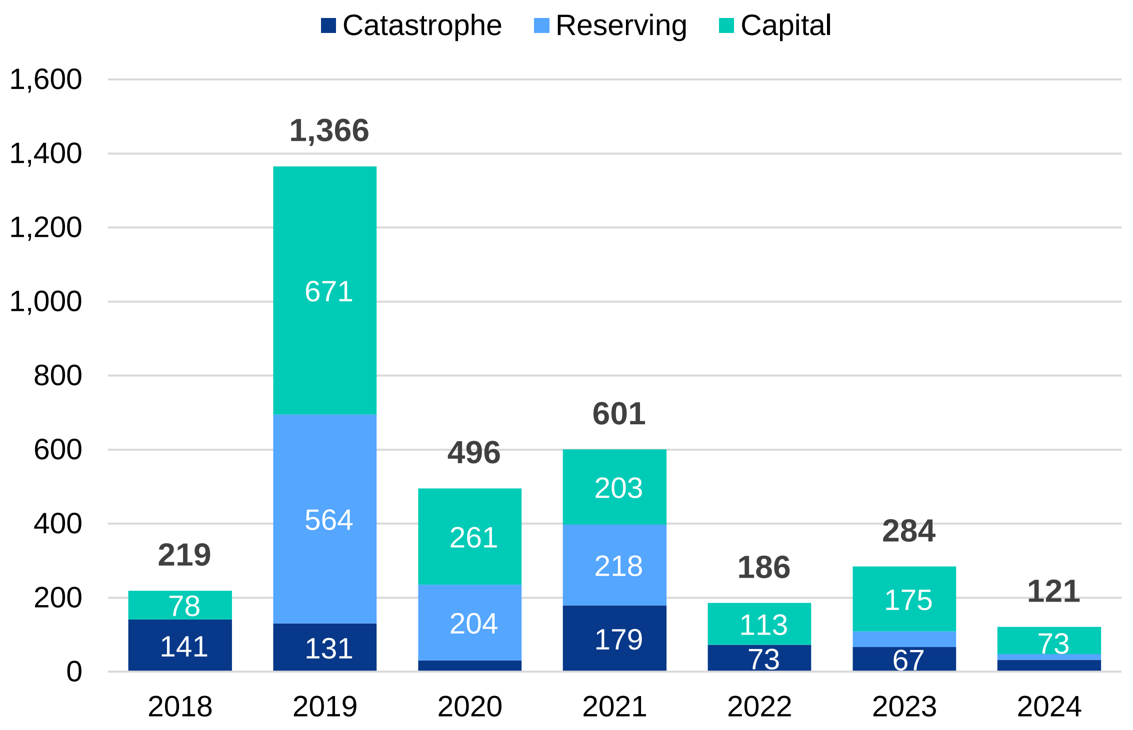
Loadings decreased in 2024

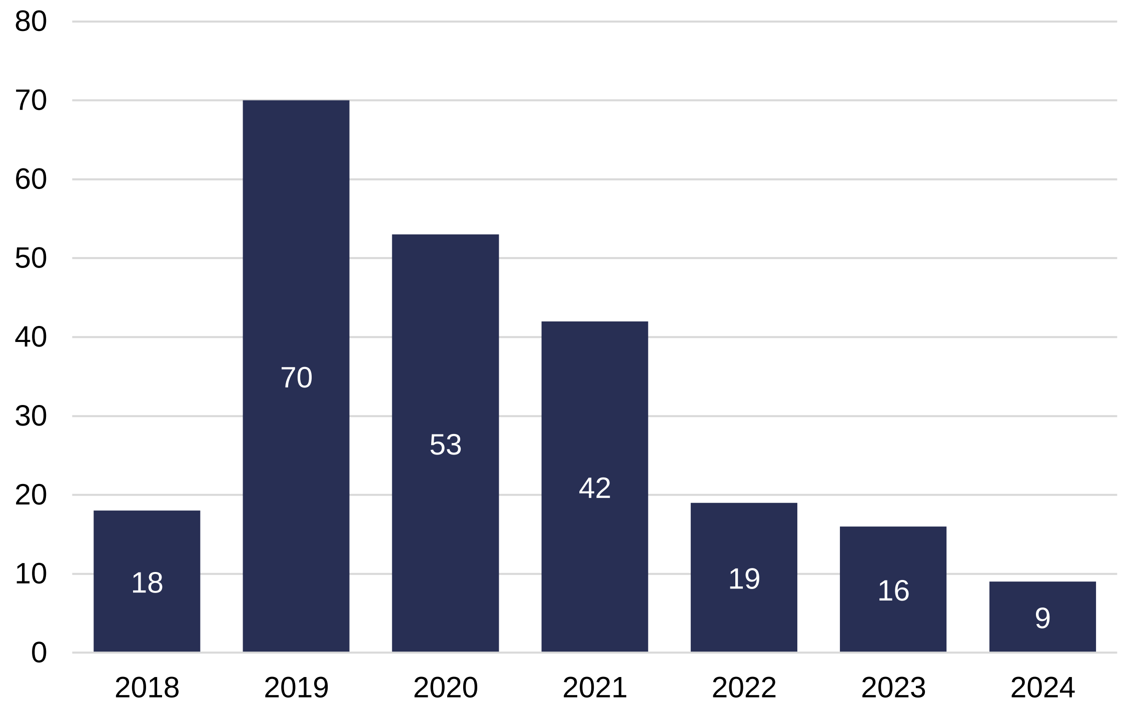
Decrease seen in number of syndicates loaded and total ultimate loading amounts

This is largely driven by a reduction in syndicates being loaded for issues relating to inflation and the Ukraine war.

£m ultimate loading



Number of syndicates



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

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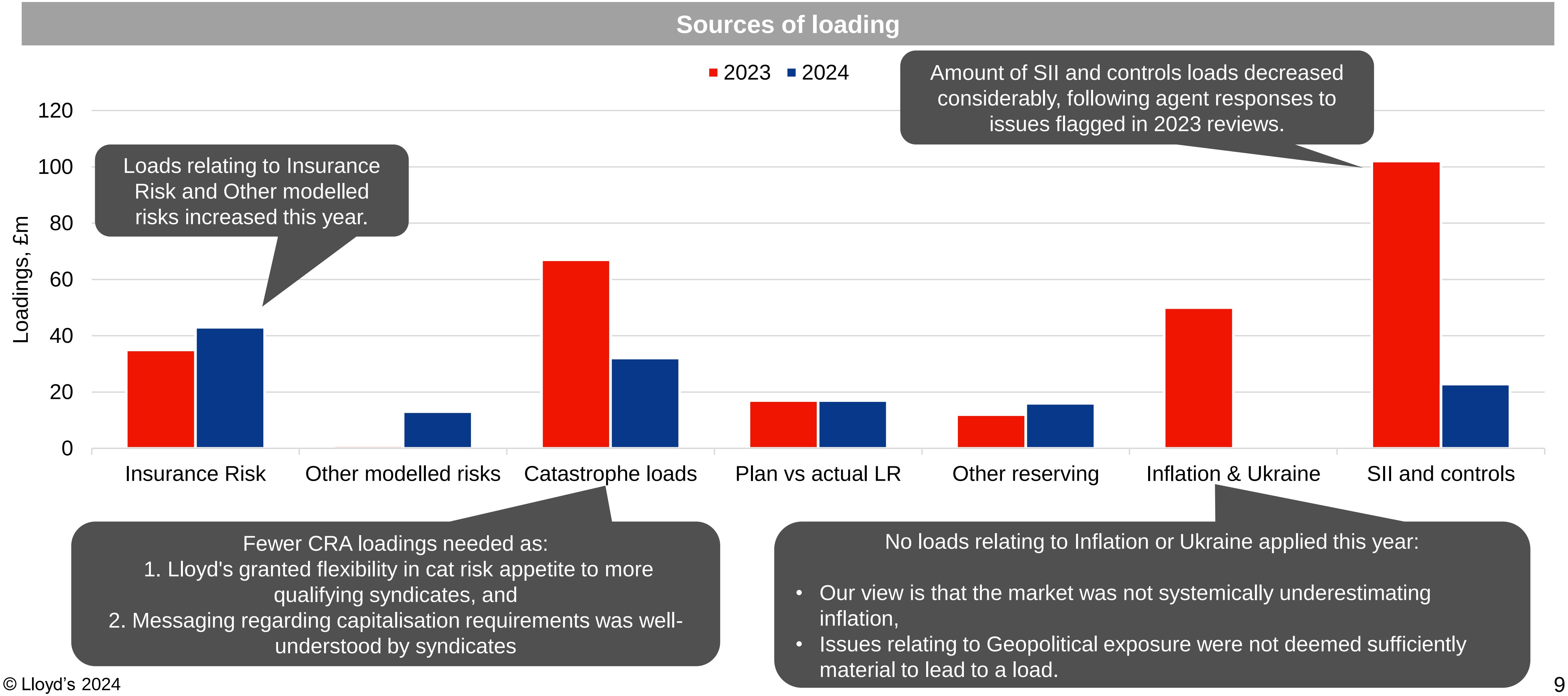
Loadings decreased in 2024



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Key changes to our processes

Uma Divekar

Senior Manager – Syndicate Capital

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Changes to CPG processes

We have made fundamental changes to our processes this year

New

CPG process now includes 3 submission phases, instead of 4.

New

Lengthen capital review and approval process for aligned syndicates

Aligned syndicates would submit in line with current timetable, however, in many cases, Lloyd's would approve the capital submission without review at this stage. No changes to the timetable for non-aligned syndicates.

- Clear guidance will be published on the qualifying criteria
- Feedback on material issues will be provided by end of Jan, to allow responses by the March re-submission
- Syndicates can choose to opt out, and have capital reviewed during the CPG window, with indicative loadings given 4 working days for a response, per the usual process

+

- Spread workloads internally and help with prioritisation of reviews
- Improve our timeliness of providing feedback to the market
- Spread the capital approval process, allowing more time for us to engage with syndicates around potential issues
- More time for syndicates to resolve these issues that would otherwise lead to loadings

Syndicate group	SBF submission date	LCR submission date	Validation report submission date
Phase 1 – non-aligned	2 Sep	5 Sep	12 Sept
Phase 2 – aligned and LOC	16 Sep	19 Sep	TBC*
Phase 3 – aligned and no LOCs	30 Sep	3 Oct	TBC*

Validation report submission dates for aligned syndicates

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Changes to waived loadings

We have made fundamental changes to our processes this year

Waived loadings are currently given where issues are identified but not considered to be material in aggregate i.e. <5% of uSCR.

No longer applying waived loads

New

From this year, we are **no longer applying waived loads** as part of CPG reviews. Instead, a Red Capital feedback would be issued instead with resolution deadlines aligned to those of March Reassessment.

	Waived load	Red feedback
Who sees it?	Senior management	Actuarial teams
Specific amount calculated?	✓	✗
Contributes to 10% resubmission threshold?	✓	✗

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Working with the market to achieve better outcomes

Your feedback

We look forward to **continuing our <u>positive</u> dialogue** *around the legacy rules and requirements.*

Receiving feedback over the summer was really useful *and allowed us to resolve feedback points ahead of the SCR submission.*

The process was <u>clear</u> *and the timetable reasonable.*
Responsiveness was **great**.

The **telephone calls** *we had with the capital contacts were* **really useful…**

We enjoyed **good engagement** *from Lloyd's across all areas.*

Your concerns and our actions

Concern	Actions
Feedback not helpful / of poor quality	• **Limit feedback** to areas where there is material understatement of capital • **Feedback not expected for Fast Track syndicates** • More Q&A to **close off issues immediately** • **Lengthen capital review and approval process for aligned syndicates**
Delays in receiving feedback	• **Clear timelines** for communications – 2 days / 2 week commitment • Clear updates to the market if timescales breached • Collecting capital KPIs to engage as early as possible if we foresee issues
Communication of indicative loadings	• Continue having a **"heads up" conversations with Capital teams** • Extend these conversations to Senior Executive Level to **manage expectations and develop understanding**
Focus areas – time consuming and late circulation	• **Significantly less standardised information on Focus Areas collected through Focus Area Return for** 2025 YoA CPG – should also improve benefits of Fast Track!
Not enough clarity on expectations	• Remind the market around what should be included in the AoC • Reassessing model loss ratio oversight framework, coming up later in this session!

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Allocation of capital by Year of Account

We will now collect the YoA allocation data via MDC as part of the LCR submission

What is the purpose of collecting the YoA allocation data?

- The allocation of capital by YoA can be a **material part of the member capital calculation,** specifically in cases where:
    - Syndicates are backed by different members for different YoAs,
    - A member's share of the syndicate differs by YoA
- Where syndicates have their own view of capital by YoA, providing this data will enable Lloyd's to calibrate to this view, and therefore better reflect the syndicate's own risk profile in the member capital calculation.
- Lloyd's own YoA allocation will continue to be used where this is not provided.

What is changing?

New

- Last year, Lloyd's collected standalone profit and loss distributions by YoA as part of the focus area return (General Queries Q5). This will now be collected as part of the LCR ***but will remain entirely optional***.

Advantages of providing the data

- Greater predictability of member capital.
- Ability to reflect syndicate specific features such large proportions of binders or different business mix/ risk factors by YoA.

Who should provide the data?

- Syndicates whose member structure differs by YoA either by member or by share, who also have the ability to appropriately model by YoA.

Key points

- The YoA allocation has the potential to have a **material impact on member capital**. Before providing this data, syndicates should consider this impact and involve the CFO in any decisions.
- Care should be taken to ensure the capital by YoA is being modelled appropriately with robust governance and justification for modelling methodology and assumptions. Rough or high-level allocation methods e.g. by net reserves are generally not appropriate for this purpose. More detailed guidance on best practice modelling by YoA will follow in the 2025 capital guidance.

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New early view option

We have made fundamental changes to our processes this year

What is the early view?

New

- We will release the member modeller in **July** for members to see an **early indication of their capital**. This is approximately two months earlier than the earliest release under the usual timeline (September).
- Syndicates wishing to provide this service to their members must provide early indicative SBF, LCR/LSM and LCM returns by **22nd July. This is entirely optional**.

Why is it needed?

- Feedback from the market suggests the member capital comes too late in the year for some members. This leads to rushed capital raising conversations, with no certainty over the capital number until too late in the process, particularly for new investors.

Key points to note

- Early submissions will focus only on a subset of the full returns. For 2025 capital, full returns will be needed with dummy data for unneeded forms. Beyond this, Lloyd's will investigate facilitating part submissions in MDC.
- Early returns need only be indicative, but syndicates must manage expectations with their members. They will not be reviewed by Lloyd's.
- Full returns will still later be required under the usual timeline, subject to full review under the CPG process. Final capital for each member will be based on final CPG approved full returns. The early view is only an indication.
- For the early view only, Lloyd's will perform a roll forward of last year's data for all non-submitting syndicates to ensure the member capital calculation can be completed for each member. However, members should not place reliance on any capital calculation based either wholly or partly on rolled forward data without appropriate discussions with the syndicates involved. All syndicates must still submit for CPG.

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Areas for consideration

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Senior Actuarial Associate – Syndicate Capital

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Focus Area: Geopolitical

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Focus Areas Review: Geopolitical

Targeted reviews demonstrated that most syndicates are adequately capturing geopolitical risks

Oversight has been **risk-based**. We concentrated our oversight on syndicates with the most material exposure to Political Violence and Terrorism and/or a material expected loss associated with Lloyd's Geopolitical Scenario 3.

The review covered 3 areas	
Review Area	**How was this reviewed?**
Lloyd's Defined Stress & Scenario Test	Consider (a) whether the net **modelled return period** is materially out of line with the market and Lloyd's expectation, and (b) where there is an unusually **high reliance on outwards reinsurance recoveries**.
Syndicate-Defined Stress & Scenario Test	Consider appropriateness of the scenario and whether the **modelled return period** is materially higher than the expert estimate.
Review of Relevant Model Changes	**Qualitative review** considering materiality of geopolitical risk and scenario testing results

Geopolitical Risk Model Changes

Since their most recent submissions, syndicates implemented changes to the parameterisation and methodologies of their Internal Models across all risk areas to better reflect geopolitical risks.

Number of model changes by risk types

The best approaches considered the **wider implications** around both the escalation of **current conflicts** and the emergence of **future conflicts**.

Less mature approaches concentrated on Insurance Risk losses related to current conflicts.

We note that some syndicate models already made some allowances prior to the 2024 LCR return which is not reflected in this data.

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Focus Areas Review: Geopolitical

Most syndicates are capturing Lloyd's geopolitical scenarios at reasonable return periods

Lloyd's Geopolitical Exposure Scenarios

Exposure Scenarios
Scenario 1 - Quarantine • Naval quarantine halts electronic goods export and import (incl. semiconductors) • Cyber attacks target major Taiwanese shipping companies, TSMC and 3 international banks
Scenario 2 - Seizure of Outlying Islands • Combined arms operation by the People's Liberation Army (Chinese Military) to capture the Matsu Islands (including Beigan Township) • Creation of an exclusion zone between China and Taiwan • Cyber attacks are prolonged and more widespread; for example, impacting some Taiwanese infrastructure and 20% of Australian banks
Scenario 3 - Conflict over Taiwan • The PLA moves to take control of Taiwan attempting to take the island by force after attempts at unification through pressure and dialogue fail • Internet connectivity in Taiwan is reduced by 40%; cyber attacks on critical Taiwanese infrastructure and industries last ~6 months; China targets other states, who also conduct counter-attacks e.g. 40% of mobile phone coverage in Japan & South Korea are disrupted

Market-Wide Observations

Most syndicates captured Lloyd's Geopolitical Risk Scenarios 1 and 2 below a **1-in-10** and Scenario 3 below a **1-in-100**.

For cases where losses have been captured at especially high return periods, we have investigated further the causes for this and the materiality to the syndicate and the market.

- The best submissions showed a **joined-up process** between Exposure Management and Capital staff; with Exposure Management providing event losses on a consistent basis to the capital model.
- The best submissions were then able to test the loss against **relevant non-natural catastrophe distributions** and demonstrate a modelled return period consistent with the views of relevant business stakeholders.
- Weaker submissions provided scenario losses **inconsistent** with the capital setting basis.
- Of those submissions with higher return periods, weaker submissions did not appear to have **feedback loops** in place to inform model development and/or parameterisation.

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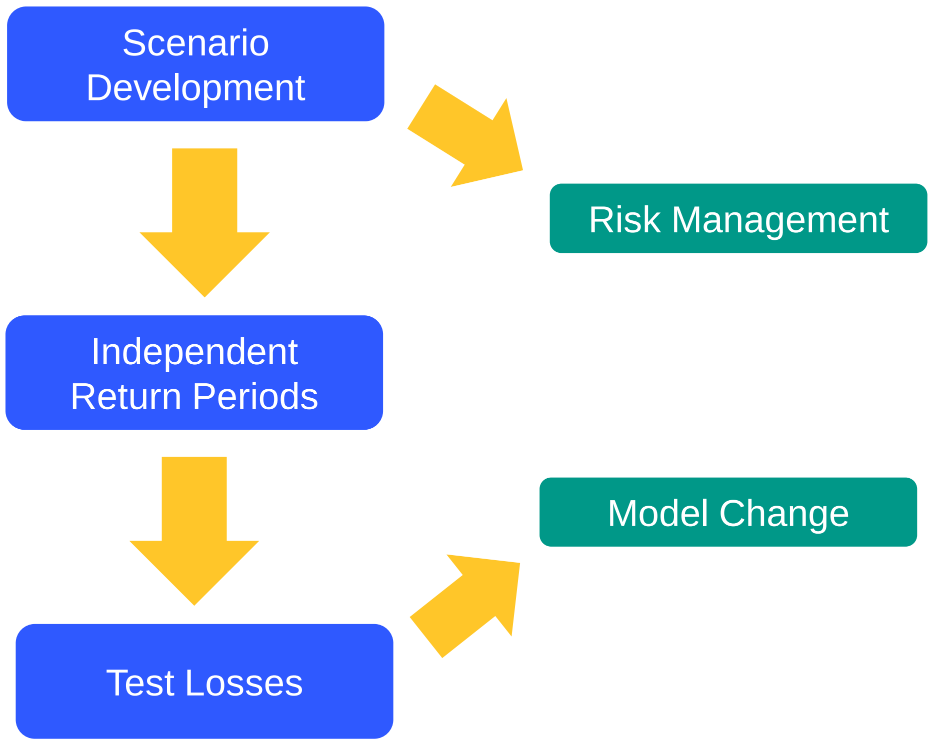
Focus Areas Review: Geopolitical

From the syndicate-defined scenarios, key themes emerged in relation to best practice

Syndicate-Defined Scenarios - Best Practice Case Study



Best practice examples of scenario testing across the market are consistent with the following:

- Scenarios are developed targeting **key vulnerabilities** specific to the syndicate risk profile.
- Scenarios are **well-defined**, with losses **consistent** across risk areas and consider **second order impacts** including reinsurer dispute and economic volatility. This ensures that the appropriateness of dependencies applied between risk types can be tested.
- Appropriate SMEs are guided through the process of determining event return periods which are consistent with the basis against which they will be tested.
- For Premium and Reserve Risks in particular, losses are tested against **specific class distributions** and/or relevant **non-natural catastrophe peril distributions** to test the appropriateness of dependencies applied within insurance risk.
- The exercise feeds into the **risk management processes** of the business. This may be a consideration in syndicate ORSAs.
- **Feedback loops** ensure that where modelled losses fall outside of independent expectation, the reasons for this are understood and, where relevant, **model changes** are made.

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Forward Looking: Geopolitical

Geopolitical risk should be the biggest focus area for any capital model this year

Validation Checklist

- ***Exposures to key hot spots are well-managed by Exposure Management teams.***
- ***Realistic, adverse scenarios are developed, centred around key areas of exposure for the syndicate.***
- ***Such scenarios use up-to-date information, recognise plausible, extreme escalation of current tensions and consider second order impacts.***
- ***Models reflect the interconnectedness between classes of business and between risk types including the common exposure to macroeconomic uncertainty arising from geopolitical events.***

Looking Forward

The current geopolitical landscape is such that there are simultaneously **several 'hot spots'** of uncertainty. Lloyd's will not request standardised geopolitical risk information with the 2025 YOA LCR submissions. However, geopolitical risk will remain a **key area of oversight for 2024**. It is important that syndicates consider how **various events may develop.**

Syndicates should think broadly about the sources and implications of geopolitical events and how this reasonably could **cause losses across a portfolio and across different risk areas** and not be isolated to underwriting losses incurred on Political Risk lines.

Brainstorm

Year of Democracy

Multiple elections across key economies in 2024 increases the risk of social unrest.

Shipping Routes

Escalation of tensions between countries may impact key shipping routes.

AI Sophistication

How different regions regulate and manage the implications of AI (such as cyber warfare and automation of jobs) may influence geopolitical relations.

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Focus Area: Mean profit in capital models

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Senior Actuarial Associate – Syndicate Capital

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Continued focus on model loss ratio appropriateness

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

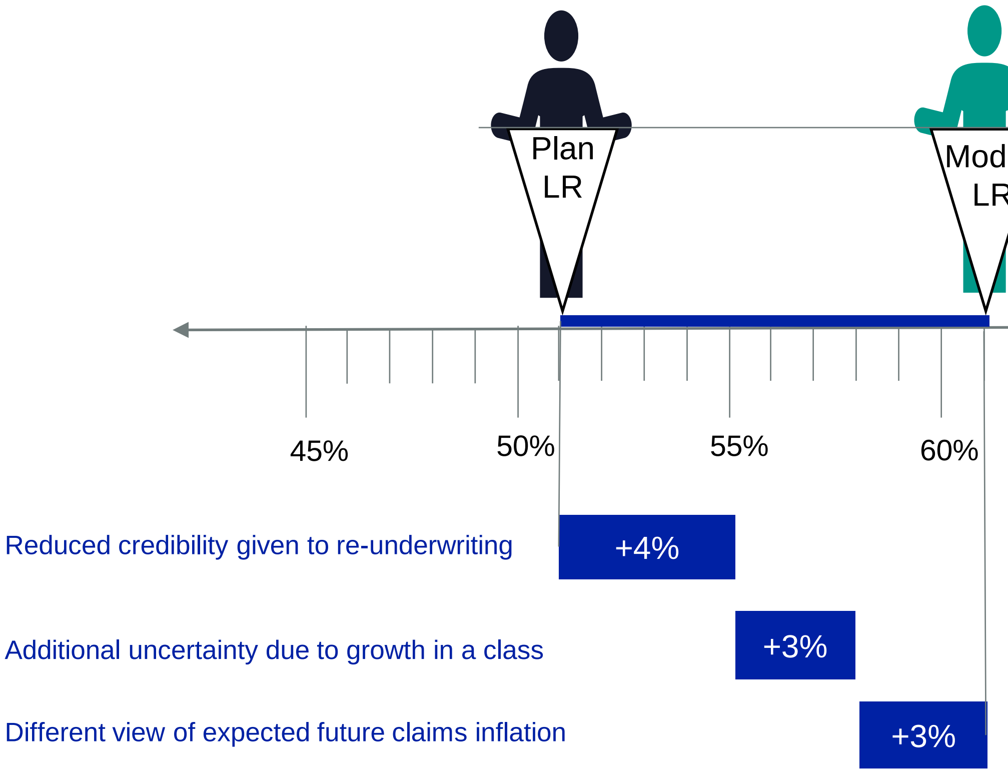
2023 PRA Thematic review across a sample of general insurance firms:

Assumed UW profits in IM have been increasing, potentially reducing the SCR. *How well has this assumption been validated?*

Findings

- Generally, insufficient scenario and sensitivity testing observed to assess impact of optimistic UW profit assumptions on SCR.
- Limited evidence to suggest optimism in business plans had been addressed.
- Potential weakness in business planning processes: lack of appropriate justifications, and effective challenge.

Our testing framework is evolving for the 2025 LCR submission process.



Areas of uncertainty should be explicitly highlighted, validated and incorporated into the model loss ratio parametrisation and capital calculation

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2025 LCR Lloyd's review approach on model loss ratios

Three key areas of the Lloyd's assessment framework:

1. **Request information on the validation performed by syndicates on their selected model prospective year loss ratios (gross and net of reinsurance). We expect to request market wide information as part of the LCR submission process and we will review a risk based sample of the Validation Reports for evidence of testing performed to ensure appropriate selection of model loss ratios.** New
2. Continue to perform the "minimum floor" test on model loss ratios gross and net of reinsurance during the LCR submission process, i.e. model loss ratios should not be lower than the SBF loss ratios Maintain
3. Continue to perform the change in "self uplift" (difference between SBF and model loss ratios) review during the LCR submission process Maintain

We will apply capital loadings where we have concerns based on our assessments

The 2025 LCR instructions will be updated to reflect the above and details on the 2025 Reserving Tests will be uploaded to the Lloyd's website in the following pack: "Reserving Tests of Uncertainty – 2025 process.pdf"

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Macroeconomic environment

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Negative Market Risk – Part 1

Syndicate Market Risk modelling approaches and outputs have been reviewed

Market risk contribution can become negative when expected income outweighs the risk. This was driven by the high interest rate environment. Negative contribution is contributing a profit, therefore *reducing capital*. Negative contributions were not generally accepted by Lloyd's but approach changed for 2023 YoA for Market Risk.

INTENTION: *to identify areas driving negative market risk distribution, and ensure syndicates are appropriately capitalised despite negative market risk.*

Syndicates with negative market risk contributions to capital on either ultimate or 1-year basis were categorised into **Light** & **Medium** groups.

FOCUS: *approaches for modelling and market risk contribution to capital.*

For the selected syndicates, we considered:

- Asset returns by asset class
- Market risk mean vs volatility
- Market risk stress
- Breakdown of market risk and contribution by component
- Areas driving negative market risk contribution
- Dependencies between insurance risk and market risk

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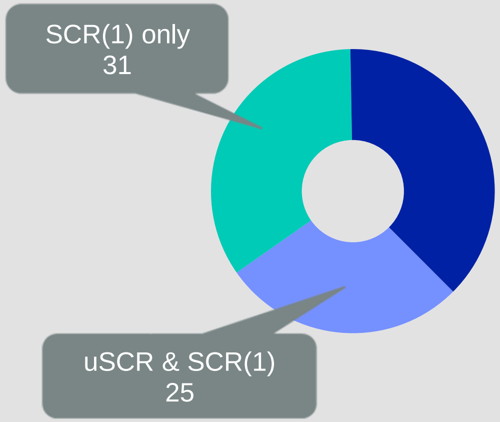
Negative Market Risk – Part 2

Syndicate Market Risk modelling approaches and outputs have been reviewed

FINDINGS:

25 out of 90 non-LSM syndicates had a negative market risk on both a 1-year and an ultimate basis.



On the ultimate basis, negative market risk totalled £479m, less than 2% of capital.

OUTCOMES:

- We were broadly comfortable with the level of market risk – generally, fairly standard models are being used, which have been validated for several years, so considered to be reasonable.
- It is helpful to include cashflow scenarios demonstrating how the model is working for mean market risk, downside market risk, and market risk contribution to SCR.
- In some cases, we applied loadings, where we were not comfortable because:
  - FX contributing profit
  - Poor market risk reporting and explanation
- Some areas required further validation:
  - Treatment of unwind of discount beyond final proxy balance sheet
  - Interest Rate risk showing low downside contribution stress

Looking Forward

- Actual Investment Return will be monitored & compared to expected as significant expected investment return has decreased capital requirement

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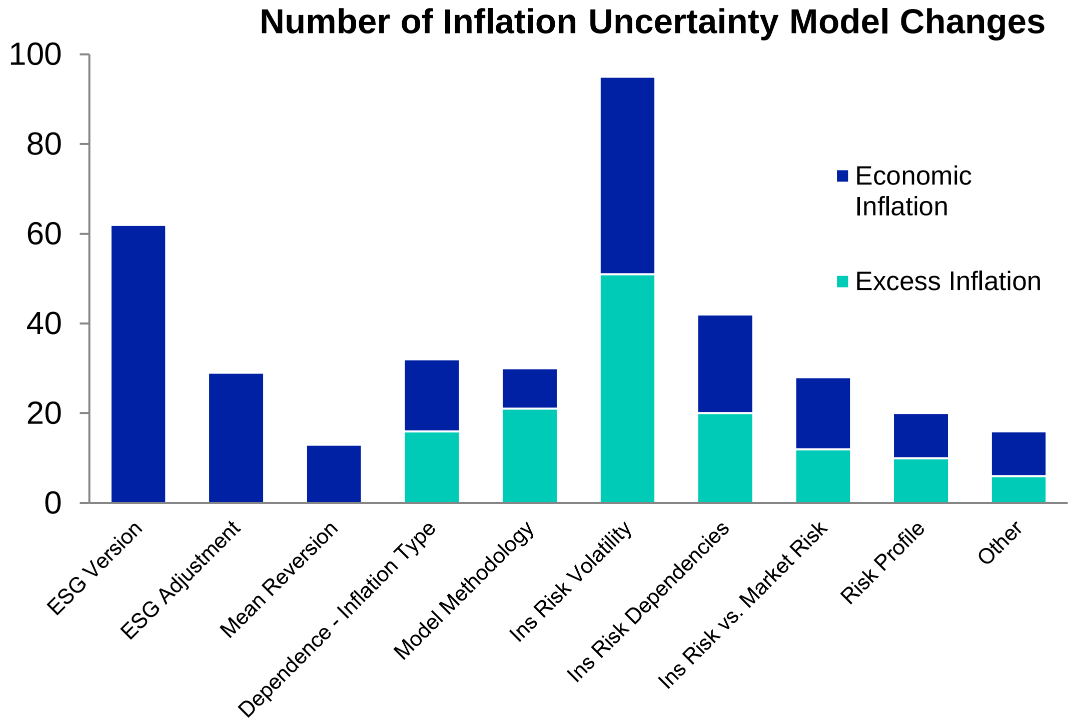
Inflation

In 2023, Oversight conducted a review of allowance for macroeconomic uncertainty, including inflation.



Syndicates continue to make updates to better recognise inflation uncertainty across their models in relation to both economic and excess sources of inflation.

Looking Forward

In 2024, as inflation reduces towards central bank targets, oversight will be more BAU in nature.

However, it is important that syndicates consider what impact this has (or hasn't!) had on the volatility of inflation.

Don't 'plug and play' your ESGs!

- **Robust validation** of the appropriateness of ESG inputs should form a key part of demonstrating that syndicate models are appropriately reflective of inflation volatility.
- Whilst the mean rate of inflation has decreased, syndicates should consider how **recent activity and the uncertain geopolitical horizon** might impact future rates of inflation.
- We would expect validation of ESG inputs to specifically consider the appropriateness of the return period of the most **recent spike in inflation**.
- Syndicates should consider **adjustment or overwriting of ESG output** to ensure the forward-looking, house view of risk is reflected.

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Economic outlook for 2024

Expectations for macroeconomic uncertainty in 2024

Interest rates cuts may occur in second half of 2024, but it is considered unlikely that long-term rates will fall to levels seen following 2008 crisis or COVID pandemic

- Some sources predict a maximum cut of 50bps in UK and US in second half of 2024
- This could lead to an increase in market risk
- Movements could be affected by any unknown geopolitical events which could require Central Bank intervention to stimulate the economy

Credit spreads are currently low and movements could be limited

- Spreads could widen over the year if rate cuts from central banks are lower than what the market has priced
- Syndicates should consider potential impacts of this going forward

Global equities have performed well over Q4 2023

- US equities would be affected by elections in US

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Climate Change & Other areas of consideration

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Senior Actuarial Associate – Syndicate Capital

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Climate change

Climate change remains an ongoing hot topic for Lloyd's

Looking Forward

Over 2024, Lloyd's will carry out a thematic review to understand syndicates' modelling approaches and allowances in capital for climate change. This will cover physical, litigation and transition risks. The aim is to produce a report on practices in the market in respect of climate change modelling by 2025 Q2.

March-May 2024

Design of market questionnaire - this questionnaire will cover physical, litigation and transition risks.

This stage will involve engagement with a market working group ahead of release.

June 2024

Release of questionnaire to the market

All syndicates setting capital using an Internal Model will be required to complete the questionnaire.

End October 2024

Receipt of submissions from the market

Nov 2024 – Q1 2025

Analysis of syndicate responses with the aim of forming an understanding of the current state of the market, as well as good practice.

If required, there may be further interaction with syndicates appearing to be best practice, to help inform the thematic report.

By end March 2025

Feedback provided to individual syndicates

This is likely to be in the form of recommendations rather than a loadings or interventions, given that climate change modelling is a developing area in capital.

2025 Capital Briefing / LMAG

Presentation of key findings to the market via Capital Briefing or LMAG

By end June 2025

Release of thematic report on allowances in capital for climate change

This will cover the current state of the market, as well as setting out good practice observed.

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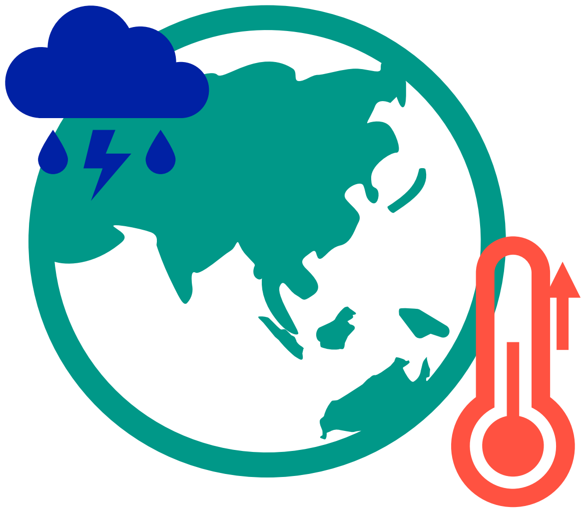
Climate change

Areas to be covered by the survey

Looking Forward

The survey will cover physical, litigation and transition risks. For these risks, the survey will cover:

- Measurement of exposure to and/or allowance for climate change risk
- Details of the stress and scenario testing considered, including any challenges and limitations.
- Vendor models – what adjustments are made, any limitations and how comfort is gained over them
- Correlation between perils – how are these modelled, and any adjustments made to these.
- How capital model output is used within climate risk appetite setting.



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Other areas to consider

Cyber

Lloyd's cross-functional assessment pilot will be conducted in 2024 to establish a **Cyber capability score** to reflect a syndicate's holistic capability to sustainably and profitably underwrite Cyber.

More information on this is available in the Appendices.

Casualty

There is continued uncertainty around pricing and the allowance for social inflation. Syndicates are encouraged to review and validate volatilities and the associated loss ratios.

More information on this will be available in market messages.

New Franchise Guideline guardrail

A stress of 45% increase in the net of reinsurance Casualty reserves should not exceed 100% of ECA.

This is to ensure that the capital of any syndicate could withstand a reasonably extreme casualty reserve deterioration, limiting exposure of central fund to such an event.

Exposure Management

Look out for communications over the next couple of months on changes to LCM in-force reporting requirements.

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Other updates

Uma Divekar

Senior Manager – Syndicate Capital

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Solvency UK reforms

All syndicates will need to be Solvency UK compliant

Most Solvency UK reforms align to what Lloyd's are currently doing:

- To not just reject or approve submissions but approve with conditions
- To submit an analysis of change with submissions

Changes for 2025 LCR submission:

- The Cost Of Capital change from 6% to 4% for the risk margin
  - Syndicates will report the risk margin using a 4% Cost of Capital in the LCR
  - The equivalent risk margin at 6% Cost of Capital will be derived using a formulaic adjustment in LCR forms.

Upcoming changes for 2026 LCR submission:

- Solvency UK will take effect on 31 December 2024.
- P&L attribution will be removed from PRA Rulebook (e.g. from 2026 LCR submissions and going forward). Until then, P&L attribution is still required for the 2025 LCR submission.
- There are a few additional requirements in the reforms, and we will be working with the PRA to understand what this means for our processes and for syndicates.

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Tips for a great submission

Key metrics in executive summary of documentation!

Set up ***targeted, efficient analysis of change***!
- Explain drivers of risk & stress v exposure
- Explain changes in diversified capital
- Explain changes in risk profile
- Also justify why end position is appropriate for the risk profile (especially if movements are material!)

Justify parameter selections! For example, maintain parameter justification document, separate to AoC, and give a clear rationale for parameter selections.

Provide evidence when movements are driven by simulation variability

Communicate! Reach out for further clarification on feedback points before the deadline

Signposting! Direct our attention to the most significant movements & justifications

Validation, validation, validation – it is not a box-ticking exercise.

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Example Submission: *Executive Summary*

The key metrics we look to understand changes in

	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	%	%	%	

Key Drivers Table

The key drivers of change we look to understand are shown on the left. A similar table might be presented as part of the **Executive Summary** section of syndicate Analysis of Change documents.

Bringing together **clear explanations** across these metrics, consistent with the risk profile of the syndicate, would likely lead to a **smoother review process** for both syndicate and Lloyd's!

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Wrap-up

Rebecca Soraghan

Head of Actuarial Oversight

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Wrap-up

We are responding to market feedback	• We have made key changes to our CPG process this year to ensure the process is smoother ✓ Carrying out reviews over a longer period to enable more engagement with agents ✓ No longer applying waived loads • We welcome feedback year-round on how we can work better together
We are continuing to make our reviews more risk-based	• Not intending to have any focus areas this year • Instead, continue to look at areas of focus outside of CPG season • Continued oversight through the year to reduce burden during CPG season

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Questions?

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Appendices

Slides additional to Capital Briefing, for further information

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Lloyd's Standard Model

Planned timetable for continuing to embed LSM into BAU

April - May

- Two working groups to be held: 1 May & 5 June
- Addressing known limitations in the model
- Scope of application – *new syndicates, typically uSCR <£100m, remains unchanged*
- Guidance updates – particularly, clarifications on expectations with submissions:
    - Consideration of appropriateness
    - Supporting documentation
    - Basis of Nat Cat

End July

- Release updated LSM template for 2025 YoA capital
- Possibly release updated guidance

Sep - Oct

2025 YoA submissions

2025

Expected updates known at this stage:

- Updating for changes in TPD

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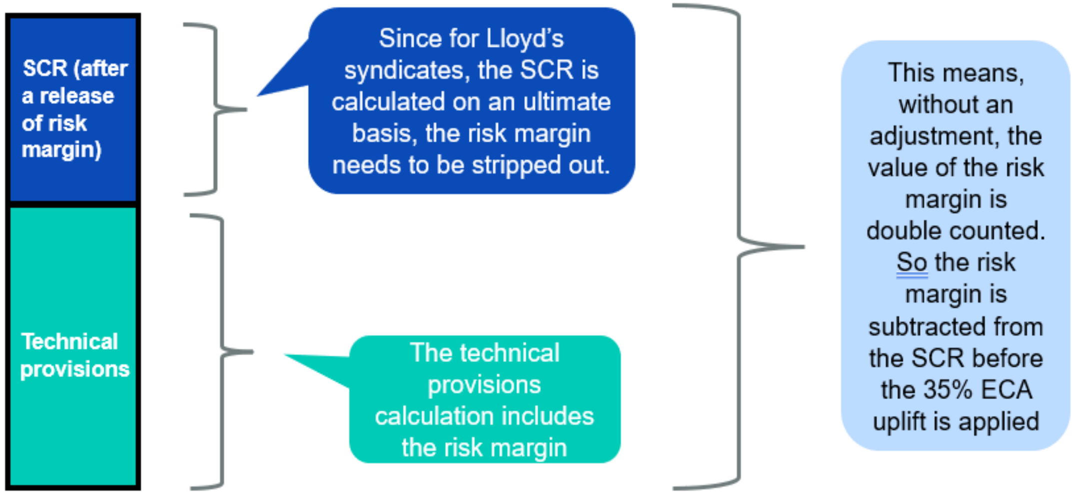
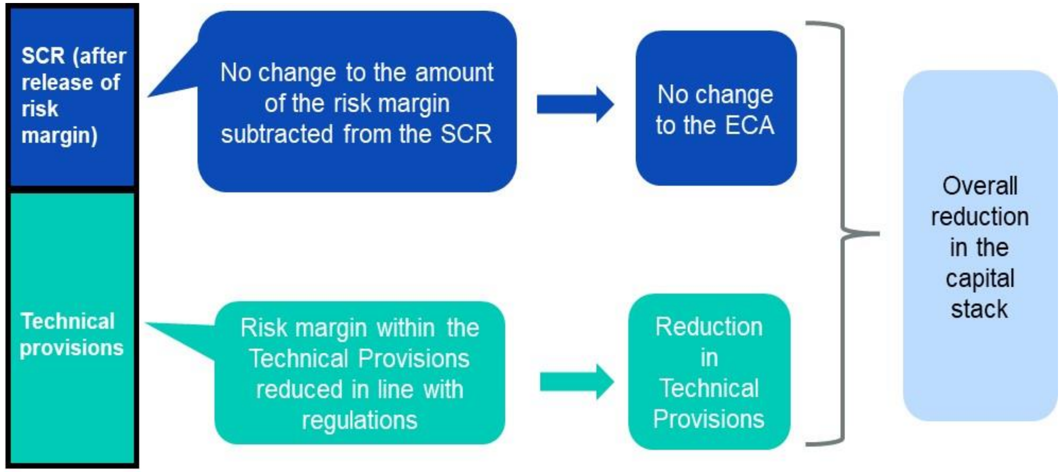
Change in risk margin calculation – Part 1

HMT regulations	(1) reduction of the cost of capital rate from 6% to 4% for life and non-life insurance and reinsurance obligations; (2) Introduction of a risk tapering factor of 0.9 for life insurance and reinsurance obligations, subject to a floor of 0.25
Impact of HMT regulations	Reduce Lloyd's Central capital requirement, increasing the solvency ratio Increasing capital for Lloyd's syndicates



Lloyd's temporary solution	Syndicates are now required to submit capital using a risk margin which is calculated on a 6% CoC. However QSR and ASR TPs should be calculated using the updated 4% CoC



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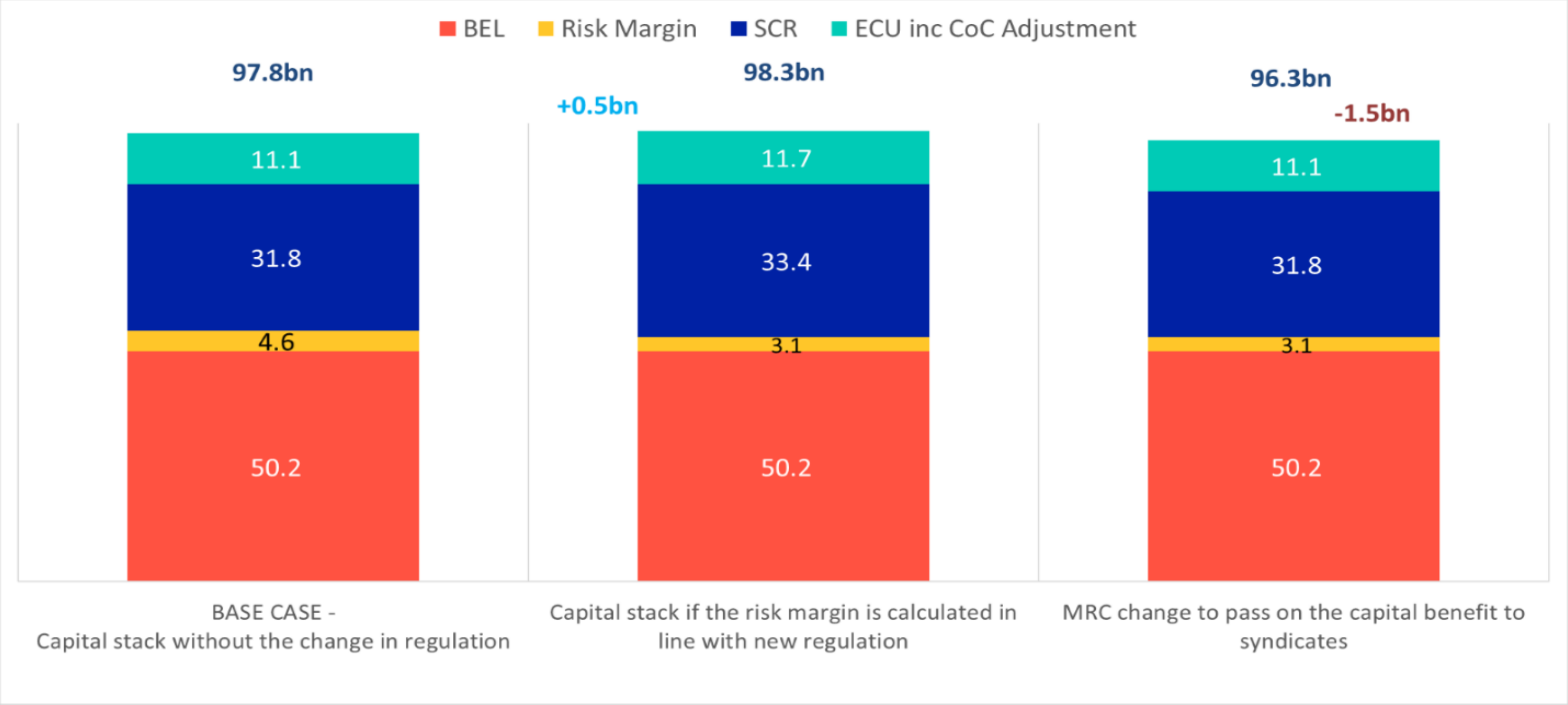
Change in risk margin calculation – Part 2

BEL – Best Estimate Liabilities
ECU – Economic Capital Uplift

SCR – Solvency Capital Requirement
CoC – Cost of Capital



This chart shows the impact the risk margin change would have had on the 2023 funding position.

Without a change to the QCT process by Lloyd's, the capital stack would increase by £0.5bn.

Taking into account the change that we have made, the capital stack would reduce by £1.5bn.

Lloyd's *central* capital requirements are set on a 1-year basis and so there will be a reduction in the capital requirements, consistently with non-Lloyd's entities.

Given that we are passing on the benefit of the reduction in risk margin to syndicates, there will still be a reduction to the Lloyd's Central SCRs, albeit to a lesser extent.

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Cyber Risk

A pilot Cyber capability assessment will be conducted in 2024

Cyber risk has **remained a key area of Capital oversight** over the last few years.

Cyber Capital Oversight Timeline

2021

Review focused on appropriateness of the modelled return period of **Lloyd's Cyber RDS** scenarios.

2022

Review of syndicate modelling **methods, data parameterisation, validation, exposure management** and **dependencies**.

2023

Review of class volatility benchmarking and **analysis of change** in relation to Cyber classes.

2024

Assessment of syndicate capital modelling capability in relation to exposures arising from **Type 4 policies.**

In 2024, Lloyd's will pilot a **Cyber Capability Assessment.**

2024 Cyber Capability Assessment

In 2024, a **Lloyd's cross-functional assessment pilot** will be conducted to establish, for a small number of syndicates, a **Cyber capability score** to reflect a syndicate's holistic capability to sustainably and profitably underwrite Cyber.

This will **leverage the existing Principles of Doing Business**. It is expected that, following an initial pilot in 2024, the cyber capability assessment will be rolled out more widely.

The exercise will require input from multiple business areas including **Capital.**

Assessment Timelines

- **May** - market consultation facilitated through LMA workshop
- **June/July -** holistic cyber capability assessments for pilot syndicates. A questionnaire will be provided to aid assessment against a subset of existing Lloyd's Principles of Doing Business as it pertains to Cyber risk capture.
- **Sept to Nov** – review syndicate submissions and implement any interventions as part of 2025 CPG process
- **Q1 2025** – review pilot outcomes and consider wider roll-out of Cyber capability assessment

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Roadmap
(Leading into LCR submissions)

Completed
In progress

Q1

- Publication of Capital Guidance
- Deep Dives commenced
- Retrospective loadings assessment
- March reassessment templates, LSM, and where necessary, MY CIL LCR resubmissions
- IMO returns
- Principles Attestation to Lloyd's

Q2

- Capital briefing
- IMAP reviews
- Deep dives reviews
- Capital Market messages
- LCR instructions published
- Updates on Reserving Test on Uncertainty
- Syndicate Categorisation confirmed ahead of CPG (June)
- BAU: Major Model Change reviews
- Climate change thematic questionnaire released

Q3 & Q4

- NED Forum
- LCR submissions
- Standard formula returns submission

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