Argenta Private Capital Ltd

The Lloyd's market: FY2025 earnings review and risk outlook

Executive Summary

The first quarter of 2026 has been notably active for the Lloyd's of London market. Lloyd's delivered a strong result for the 2025 year, with pre-tax profit up 10.1% to £10.6bn, a combined ratio of 87.6%, and a third consecutive year of return on capital above 20%[1].

Results were announced on 19 March 2026, alongside a new five-year strategic framework, providing the market with a clear set of financial and operational targets heading into the year.

The first quarter has nonetheless tested this foundation. Middle East escalation since late February has driven repricing across marine cargo, aviation war, and political violence lines, while the pricing cycle continues to moderate in the face of increased competition.

This report is intended to support investors and other interested parties in the Lloyd's market in understanding the key developments, risks, and opportunities shaping the 2026 year of account.

Financial Highlights

The market delivered strong results for 2025, demonstrating both resilience and disciplined execution across underwriting, investment, and capital management.

A 10.1% year-over-year increase in pre-tax profit to £10.6bn for 2025, achieves a third consecutive year of return on capital in excess of 20%, recording 22.0% for the period. The combined ratio[2] of 87.6% reflects robust underwriting performance, supported by a relatively benign catastrophe environment.

The underlying combined ratio, excluding major losses, was 81.8%, representing a 2.7 percentage point deterioration year-over-year. An underlying combined ratio is useful in assessing movements in pricing, as it excludes large and catastrophic claims.

Figure 1 (see next page) shows the market's profitability in recent years, with a sharp improvement from 2020 onwards.

£57.9bn
Gross written premium

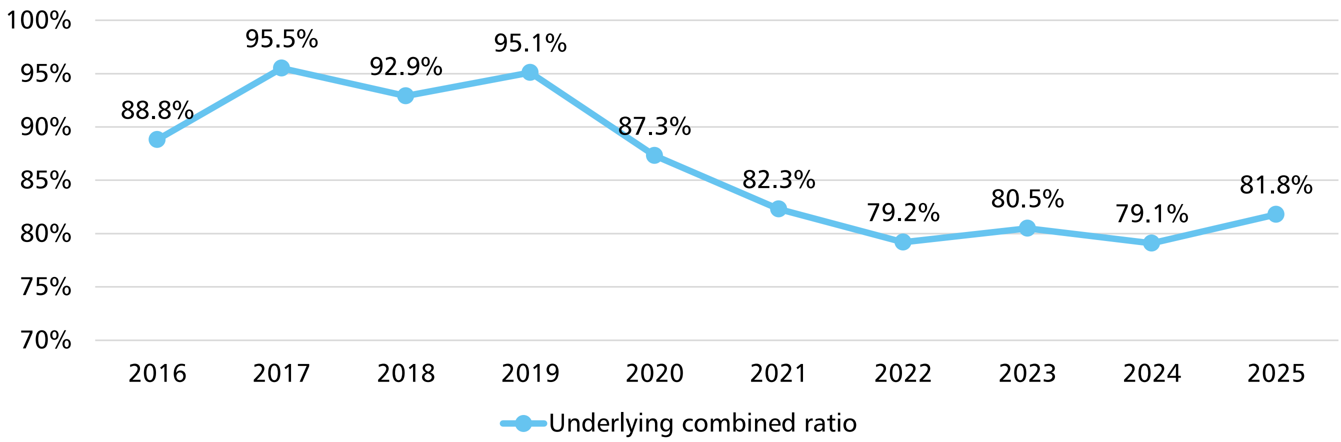
£10.6bn
Profit before tax

87.6%
Combined ratio

22.0%
Return on capital

[1] Lloyd's Annual Report 2025.
[2] A measure of claims and expenses as a proportion of premium; less than 100% is an underwriting profit.

Figure 1:
Lloyd's of London underlying combined ratio



Source: Lloyd's of London, FY2025 results

Recent detoriation in margin is noted, but not unexpected. We flag expense creep and attritional losses[3] as a key metric to monitor in the near term.

These results reflect disciplined underwriting and the compounding benefit of Lloyd's structural reforms. Investment income contributed £2.5bn in 2025. Capital strength remains robust, with the Central Solvency Ratio[4] at 496% (up 61 percentage points versus 2024), well in excess of the market-wide solvency ratio of 200%.

Lloyd's of London strategic priorities

Alongside its 2025 results, Lloyd's announced a new five-year strategic framework. This follows the recent halt of Blueprint Two, the market's digital transformation initiative that Lloyd's has acknowledged did not meet its original objectives.

The new strategy adopts a whole-of-market view. In his accompanying letter, Lloyd's CEO Patrick Tiernan frames the market's structural capital advantage as the foundation of the entire strategic agenda.

Lloyd's unique legal structure, comprising ring-fenced policyholder trusts, segregated investor funds, and a mutual Central Fund backstop, allows the market to *"shoulder more insurance risk per unit of capital than any other financial institution in the world."*

Tiernan is also candid about the pressures ahead: pricing discipline has weakened at the margin, less experienced Managing General Agents (MGAs) are moving into complex casualty lines, and broker consolidation has concentrated distribution power.

The strategy is organised around four pillars, outlined in Figure 2.

This strategy takes a refreshingly straightforward approach and reflects a leadership team deeply rooted in the realities of the market. It is a clear return to fundamentals that strengthens the core of the Lloyd's platform while highlighting the essential role of third-party capital in its future.

Robert Flach
Managing Director

[3]A routine insurance claim that is not a major catastrophe or large, volatile event. [4]Measures the financial strength of the Society of Lloyd's as a backstop, ensuring the market can pay claims even if individual member capital is exhausted.

Figure 2:
New Lloyd's strategy: Four strategic drivers

Leading underwriting performance *Sustained discipline and expertise to deliver long term profitability* • In doing so, the market seeks to attract the world's best risk takers and support innovation across risk structuring, capital, and product. • The target is a combined operating ratio below 95% throughout the cycle.	**An efficient and flexible marketplace** *Reduce frictional costs and enable capital and talent to move efficiently* • The target is to reduce the incremental cost of operating at Lloyd's by 1%.
Maximising Lloyd's capital advantage *Enhance the market's ability to take risk efficiently and deliver superior returns* • Lloyd's is the most capital efficient market for insurance risk; an attractive investor proposition. • The strategy aims to improve, simplify, and offer a reliable investor experience, addressing what has historically been a cumbersome area.	**Creating a Lloyd's to be proud of** *Focus on people, innovation, and culture to support future competitiveness* • New targets include a sub-80% cost-to-income ratio and a top-tier net promoter score. • With only 7% of the London market projected to be under 30, the strategy commits to doubling early-careers intake.

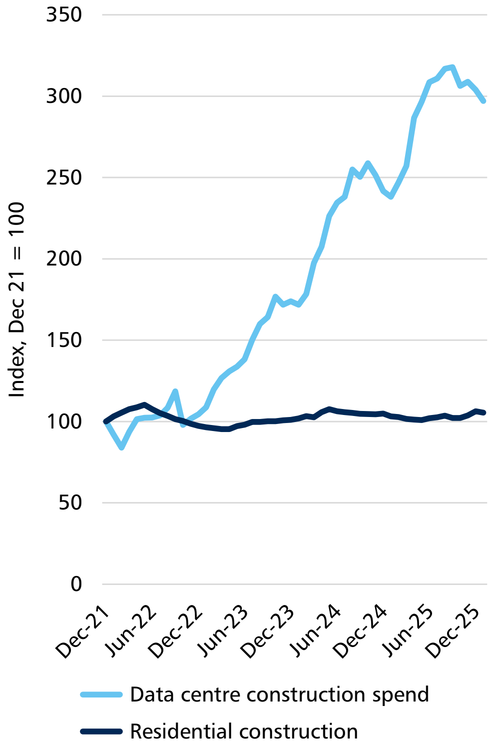
The global risk environment

The global risk environment is becoming more volatile and interconnected. Political divisions, technological disruption, climate volatility, and escalating cyber exposures are reshaping the risk landscape. We view these risks as long-term trends, rather than short-term cycles, which supports a constructive long-term outlook for specialty insurance[5] demand.

A key theme is the widening of protection gaps, which refers to assureds[6] not buying sufficient, or the correct form, of insurance cover, particularly across natural catastrophe, cyber, and supply chain exposures. We believe reliance on government intervention as a backstop is becoming less sustainable, presenting a material growth opportunity for private sector insurers and, in particular, specialty markets such as Lloyd's.

For example, data centres represent a fast-growing but technically complex risk class, combining high-value physical assets, extreme power dependency, cyber exposure, and systemic business interruption potential. Demand for coverage is rising rapidly and is expected to outpace supply in the near term, a dynamic which should support price increases and one in which Lloyd's specialist underwriting capabilities are well-positioned to benefit.

Figure 3:
US construction spending, monthly



Source: Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis, *Total Construction Spending: Residential in the United States (monthly, seasonally adjusted annual rate)*; U.S. Census Bureau, *Construction Spending Data for Data Centres in the United States (monthly)*, December 2021–January 2026.

[5]Specialty offers tailored protection for unique or high-risk exposures that fall outside standard commercial coverage, requiring specialist underwriting and bespoke terms. [6]The individual or organisation covered by an insurance policy.

Recent escalation in the Middle East and associated US policy developments represent a near-term headwind. Lloyd's strong balance sheet, syndication model, and portfolio diversification can help protect against losses. Exposure Management frameworks and Realistic Disaster Scenario (RDS)[7] analysis are employed to stress-test resilience to these events. The section below examines the conflict's implications across its most relevant business lines.

The Middle East conflict

Most insurance and reinsurance policies do not cover war, whether it is officially declared or not. However, Lloyd's and other specialty markets do offer coverage for important assets in aviation, marine, property, political violence, and other impacted sectors. If any two of the five major powers (USA, UK, France, Russia, and China) are involved in hostilities, war exclusions apply without exception. This situation is evolving rapidly. The analysis below reflects information available as of 1 April 2026 and is subject to change.

Marine war insurance

The marine market is the most established provider of war risk coverage, responding to perils such as piracy, terrorism, blocking and trapping, and active conflict. This market is highly reactive to geopolitical developments and operates with 48 to 72-hour cancellation provisions and often, a 7-day period for revised pricing, to allow underwriters to adjust quickly. These provisions were invoked following the US and Israeli strikes on Iran on 28 February and Iran's retaliatory strikes on a number of middle eastern territories.

Since the start of the conflict, there have been attacks on at least seventeen tankers in the Persian Gulf.[8] Marine war cover is generally short-term, to permit transit through the more dangerous waters. These areas, called breach zones, are defined by the Joint War Committee, made up of representatives of the Lloyd's market and the International Underwriting Association, supported by intelligence from independent security advisers.

Particular attention has focused on the Straits of Hormuz, a pinch point in the Gulf, just 21 nautical miles (39km) at its narrowest point, but breach zones include waters around Bahrain, Djibouti, Kuwait, Oman and Qatar. Around 25% of global seaborne oil shipments are through these waters annually, yet the recent risk to life and to maritime property means that this flow has slowed to a trickle.

While some are pointing to the reluctance of the insurance industry to step up, this does not seem to be the case, with many insurers including several Lloyd's syndicates offering this specialist short term cover. It is reported that more than 1,000 commercial vessels are currently in the Gulf beyond the Straits. Many are oil tankers, but this number includes cruise ships with up to 6,000 passengers at the time of writing.

There have been several reported attacks on vessels in the Gulf since the end of February, though we have not received any information on values or the insurers of these vessels at this stage.

President Trump has asked the US government's Development Finance Corporation to expand war-risk insurance support for vessels operating in the Gulf. The total reinsurance facility has now increased to $40 billion, though with zero approved applications, this remains unused. The programme is being delivered in partnership with major private insurers, led by Chubb. The cover applies to both vessels and cargo and includes hull, P&I and cargo risks linked to conflict in the region.

While the enhanced coverage aims to restore confidence among shipowners and stabilise global trade and energy markets, many operators remain hesitant due to ongoing security threats such as drones, missiles and sea mines. The plan does not include naval escorts, which remains a key concern.[9]

[7]A detailed, plausible, and high-loss event modelled to stress-test financial resilience, assess exposure and ensure sufficient capital is held to withstand major losses. [8]Lloyd's List, 31 March 2026 [9]Marine Insight, 6 April 2026

Aviation war coverage

The aviation market continues to provide protection for aircraft and passenger liabilities linked to conflict related perils. While the market was seriously impacted by the fleet of western-owned aircraft leased to Russian operators at the time of the 2021 Ukraine invasion, current Middle East tensions have not yet resulted in major aviation losses, and airspace is slowly being reopened.

Political violence coverage

There is also a market for war on land, more commonly styled as political violence (PV), which gives similar coverage to land based assets. This is a more recent innovation, with formal permissions to expand coverage at Lloyd's dating back to 2002.

Coverages include political violence, terrorism, sabotage, civil war, insurrection and rebellion, strikes, riots and civil commotion and often cover the full property schedule of multinational companies. So far, no syndicates have reported any exposures to the attacks on properties in Bahrain, Oman, UAE, Lebanon or Israel, but the situation could change quickly.

Lloyd's has asked that syndicates report on expected exposures as part of the first quarter reporting process, and in the recent results announcement, CEO Patrick Tiernan said that Lloyd's will continue to support clients and brokers in the region.[9]

What this means for Lloyd's

These developments raise questions about how escalating geopolitical risk will affect a pricing cycle that had been trending toward softening in the face of increased competition. Since the conflict escalated on 28 February, the Lloyd's market has faced heightened media scrutiny, notably around reports of cancelled policies and briefly, concerns that US trade policy could extend to the global insurance market.

In their latest report, Howden Re, global reinsurance broker and adviser, touches on the potential shift from a softening market with increased competition, stating that "*the market is not expecting a broad-based hardening but rather a more targeted adjustment … capacity is not expected to withdraw, but rather to be deployed with greater discipline*."[10]

Certain cargo lines are expected to be repriced to reflect heightened geopolitical uncertainty, even where war risk remains contractually excluded. Notably, marine and energy treaty lines may not be as impacted as anticipated, with hardening concentrated in Middle East-exposed regions rather than across the broader market.

The key takeaway is that the impact on Lloyd's extends across multiple business lines. Prolonged closure of the Strait of Hormuz would sustain elevated marine war risk pricing; business interruption remains a prominent exposure for the energy sector; and demand for political violence coverage is increasing as corporates seek to protect against operational disruption. Secondary macro effects, including oil price inflation and broader GDP impacts, warrant monitoring.

Several syndicates have been in contact with the APCL research team to discuss their approaches to the ongoing conflict. None have reported any loss of materiality to date although this remains a possibility as the conflict continues or escalates. It remains the case that Lloyd's trades in uncertainty and risk.

This continues to be an evolving and unpredictable situation, and one that is likely to dominate our market for some time to come. Against this backdrop, a question for investors is how are capital markets responding to the elevated uncertainty?

[9]APCL Research, March 2026. [10]HowdenRe, Strait of Hormuz report, March 26 2026.

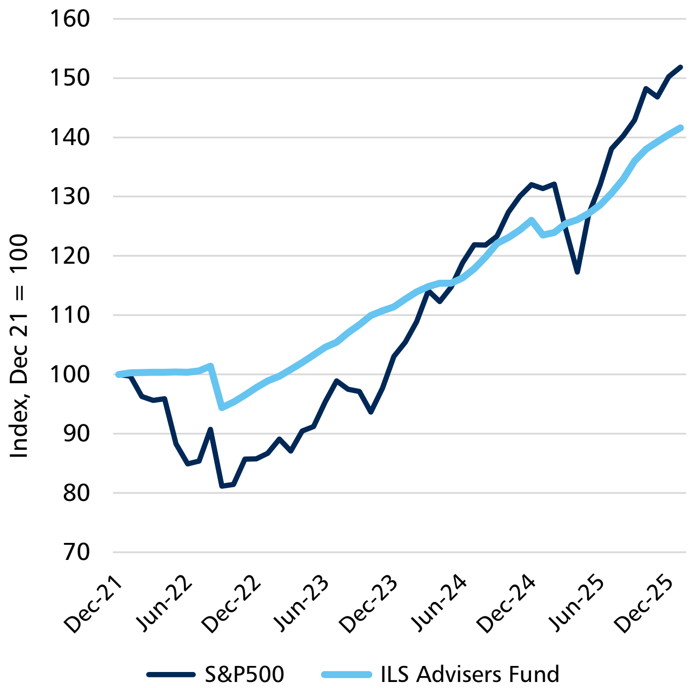
How markets are reacting

With geopolitical tensions driving volatility across equities and credit, catastrophe bonds have emerged as a relative safe haven,[11] given their structural independence from macroeconomic and political risk drivers.

The insurance market (encompassing Insurance-Linked Securities (ILS), catastrophe bonds, and the Lloyd's market) has long been seen as a low correlation asset within portfolios and used within the "alternatives" allocation for investors seeking portfolio diversification.

As ILS Advisers (Asia based investment firm focused exclusively on insurance-linked investments) noted, "ultimately, cat bond returns hinge on natural catastrophes, not geopolitics, economic cycles, or policy shifts. This decoupling makes them a powerful diversifier when macro risks rise."

Figure 4:
Insurance-linked investments surprisingly strong in weathering market sell-offs



Source: Artemis.bm, *ILS Advisers Insurance Linked Securities Fund Index (monthly)*, MarketStack, *S&P500 (monthly)*, December 2021–January 2026.

Performance data supports this view. The ILS Advisers Insurance Linked Securities Fund Index has demonstrated resilience through the current period of geopolitical stress, continuing to deliver positive returns broadly uncorrelated with equity and fixed income markets.

New issuance in the cat bond market has remained active, suggesting that investor appetite for insurance-linked risk has not been materially dampened by the conflict.

Within the Lloyd's market specifically, syndicates' willingness to underwrite has not materially reduced.

Consistent with the Howden Re assessment cited above, underwriters appear to be redeploying capital with greater selectivity rather than pulling back entirely.

This disciplined approach to capacity deployment, combined with the structural appeal of insurance as a diversifier, supports a constructive near-term outlook for Lloyd's ability to attract and retain capital even as pricing adjusts.

It is also worth remembering that any loss event will have an impact on renewals after the event. As Howden mentions, the recent events will potentially slow (or even stop) rate reductions in the impacted risk classes. It is this capital resilience that underpins the strategic agenda Lloyd's set out alongside its 2025 result.

Conclusion

The market's strong profitability, resilient balance sheet, and continued ability to attract global capital provide a solid foundation as it navigates an increasingly volatile geopolitical and macroeconomic environment.

[11] Bloomberg, *Catastrophe Bonds Emerge as Wartime Haven Trade,* 17 March 2026

While the escalation of tensions in the Middle East has introduced meaningful near term uncertainty across marine, aviation, and political violence lines, the structure of the Lloyd's market (that being its syndication model, diversified portfolios, and rigorous exposure management) positions it to absorb shocks and adapt quickly as conditions evolve.

The conflict has reinforced the importance of specialist risk expertise, with pricing and capacity expected to adjust selectively rather than through broad market hardening.

At the same time, long term structural trends continue to support demand for specialty insurance. Growing protection gaps, rapid expansion of complex risk classes such as data centres, and rising corporate concern about business interruption all align with Lloyd's underwriting capabilities.

Capital markets activity, particularly the resilience of catastrophe bonds, further underscores the enduring appeal of insurance linked risk as a diversifier, even during periods of geopolitical stress.

Overall, the outlook for investors remains positive. Although the environment is uncertain, the disciplined deployment of capacity, strong capital position, and long-term strategic direction provide confidence in Lloyd's ability to continue delivering attractive risk-adjusted returns.

Learn more:

Email: Contact.Us@argentagroup.com
Website: www.argentagroup.com/investing-at-lloyds

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Glossary

Auction:
A process at Lloyd's where members can buy or sell capacity on syndicates. It allows for the redistribution of underwriting capacity among members.

Capacity:
The maximum amount of premium a syndicate is permitted to underwrite in a given year.

Combined Ratio:
A measure of underwriting profitability, calculated as the sum of claims and expenses (net of reinsurance) divided by earned premiums (net of reinsurance). A ratio below 100% indicates underwriting profit.

De-emption:
The reduction in a syndicate's capacity available, typically initiated by the managing agent and approved by Lloyd's.

Freehold Capacity:
A permanent right to underwrite on a syndicate, which can be bought, sold, or traded in Lloyd's auctions.

Hard Market:
A phase in the insurance cycle characterised by high premiums, reduced capacity, and stricter underwriting standards. This typically delivers strong returns for investors/capital providers.

Leasehold Capacity:
A temporary right to underwrite on a syndicate, granted by the managing agent, typically for a committed time period, and not tradable in auctions.

Managing Agent:
A company authorised by Lloyd's to manage one or more syndicates, responsible for underwriting, operations, and compliance.

MAPA (Members' Agent Pooling Arrangement):
A structure that pools the capacity of multiple syndicates into a single investment vehicle for Lloyd's members, managed by a members' agent.

Member:
An individual or corporate entity that provides capital to underwrite insurance at Lloyd's, participating in syndicates and sharing in profits and losses.

Members' Agent:
A firm, like Argenta Private Capital, that advises and manages the affairs of Lloyd's members (capital providers), including research analysis, syndicate selection, and regulatory compliance.

Premium:
The amount paid by a policyholder to an insurer for coverage under an insurance contract.

Soft Market:
A phase in the insurance cycle marked by lower premiums, increased competition, and broader coverage terms. This typically delivers lower returns to investors/capital providers.

Syndicate:
A group of underwriting members who come together to write insurance business under the management of a managing agent.

Pre-emption:
An increase in a syndicate's capacity, typically offered to existing members before being made available to others.

Rates:
The pricing applied to insurance policies, often expressed as a percentage of the insured value or as a flat premium.

Reinsurance:
Insurance purchased by insurers to protect themselves against large losses. It allows risk to be spread across multiple parties.

Reserves:
Funds set aside by insurers to pay for future claims, including those incurred but not yet reported.

Underwriting:
The process of evaluating risk and determining the terms and pricing of insurance coverage.

Three Year Accounting System:
A method used at Lloyd's where each year of account remains open for three years to allow for the development of claims and accurate profit/loss assessment.

Source: Lloyd's glossary and acronyms

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