Argenta Private Capital Ltd

Market Review: Why Lloyd's of London remains attractive through the cycle

Introduction

August 2026

After several years of exceptional returns, market pricing has started to moderate, suggesting that the recent peak conditions have now passed. For prospective investors, this shift naturally raises questions.

The 2023 year of account represented a high point in the recent cycle, with Argenta Private Capital Limited (APCL) clients seeing an average return on capital at 35%[1], and softer pricing may appear less compelling by comparison. However, Lloyd's enters this phase from a position of considerable strength.

The market has delivered sustained improvements in underwriting performance, strengthened its balance sheet, maintained more conservative reserving and benefitted from materially higher investment income.[2] Together, these factors leave Lloyd's better positioned to manage a more competitive pricing environment than in previous cycles.

As conditions evolve, attention is increasingly shifting from growth and expansion towards underwriting discipline, profitability and capital management. Pricing remains an important driver of returns, but loss experience, reserve strength, investment income, and syndicate-level decision-making will all influence how returns develop as the cycle progresses.

For investors, the key focus is not simply the direction of pricing, but whether Lloyd's can continue to offer attractive long-term potential as part of a wider investment portfolio.

To assess the potential impact of a shifting market, APCL, supported by its in-house research team, has analysed the current market outlook and modelled the effect of historical rate changes on current conditions.

The findings suggest that, even as pricing becomes more competitive, Lloyd's can continue to present attractive returns for investors who take a selective, research-led approach.

Supported by stronger reserving and higher investment income on premiums and reserves, this analysis reinforces our view of the market as a positive, long-term investment opportunity, despite expected near-term rate moderation.[3]

[1]APCL 2023 return on capital, based on an average advised private client portfolio, assuming £3m of premiums underwritten, net of costs and assume standard fee terms. [2]Lloyd's Strategy (2026). [3]APCL in-house research team (August 2026).

Strong foundations for the next phase

Recent years have delivered exceptional returns for Lloyd's investors. While favourable market conditions have clearly supported those results, recent performance has also reflected stronger underwriting discipline, improved market oversight and a stronger capital position.

The 2023 year of account produced one of the strongest results of the recent cycle, with excellent profitability across much of the market, and APCL clients seeing an average return on capital of 35%. Returns have moderated since then, as loss activity has moved back towards more typical levels, but current forecasts for 2024 continue to indicate a return on capital in excess of 24%.[4]

Initial forecasts for the 2025 year of account are currently estimated to be 29% for APCL clients, and current projections suggest that the year may even improve over time, benefitting from a relatively benign year in terms of catastrophe activity. Early indicators from 2026 have also been encouraging, with APCL research estimating a potential return on capital in excess of 18%.[5]

Lloyd's longer-term profitability targets also remain encouraging. The market continues to target a combined ratio of 90%-95% across the cycle[6], which APCL estimates can generate returns on capital of approximately 13%-23%, depending on investment returns and capital requirements. Although that range is below the returns delivered during the recent hard market, it remains attractive for a market moving into a more competitive phase of the cycle.

The market enters the next stage of the cycle from a position of considerable strength, and while peak-cycle conditions are easing, recent and forecast profitability remains well above Lloyd's longer-term expectations.

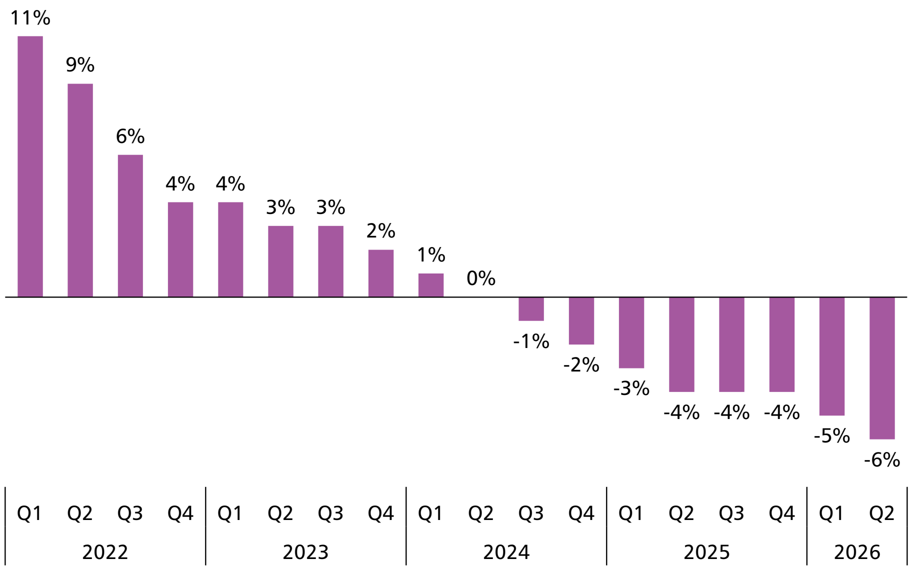
The market cycle shift

Recent performance has attracted significant levels of capital into the market. As capacity has increased, competition has intensified and pricing has come under greater pressure across several classes. Pricing peaked around the middle of 2024 and has since begun to moderate across several business lines. The greatest pressure has been seen in the property and reinsurance classes.

Market cycles are a normal feature of insurance. As seen in Figure 1, more competitive conditions typically follow periods of strong pricing, although the pace and severity of change vary significantly by class of business.

For investors, the important question is how well the market can manage that transition. Softer pricing inevitably places pressure on underwriting margins, but syndicates are not passive participants in the cycle.

Figure 1:
Global composite insurance rate change[7]



[4] [5] APCL Research (August 2026). 2024-26 figures are forecasts based on Syndicate Quarterly Returns (Q1 2026); see glossary for Lloyd's three-year accounting. [6] Lloyd's Annual Report (March 2026). [7] Marsh Global Insurance Market Index, Q2 2026.

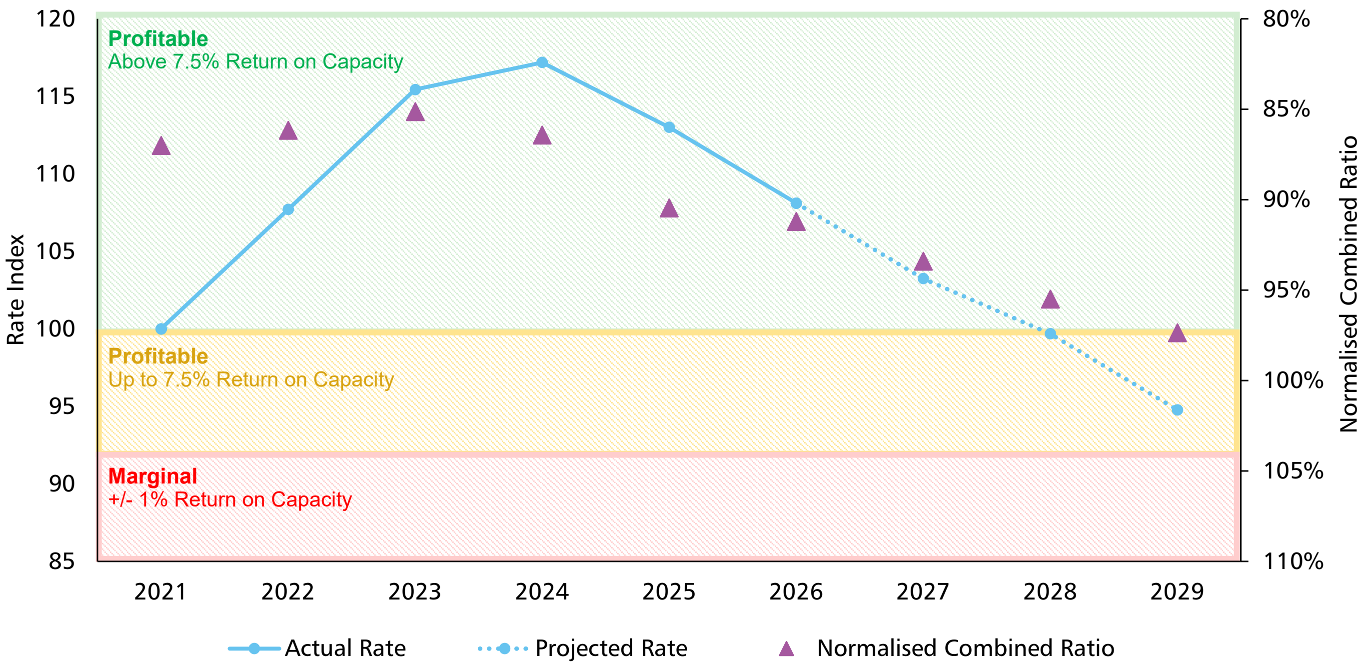
Syndicates can adjust portfolios, reduce participation where pricing and terms and conditions become inadequate, and continue to deploy capital in areas where returns remain attractive.

As the market shifts, attention turns towards the quality of underwriting decisions. Underwriting discipline risk selection and capital allocation are likely to become more important drivers of performance. In this environment, the ability to protect margin will be a key differentiator between syndicates.

Can Lloyd's remain profitable as rates fall?

Between 2014 and 2018, the previous soft cycle, average market rates fell by approximately 12% over a three-year period. While no two cycles are identical, this period offers a useful benchmark for assessing potential market performance if pricing weakens further. To assess the potential impact of a softer market, APCL modelled the effect of these historical rate changes on current market conditions.

Figure 2:
Historic market softening (2014) against current market conditions[8]



Our analysis indicates that, as expected, profitability would face pressure as rates decline, but not immediately or as dramatically as initially feared. Under these assumptions, returns remain attractive through 2027 and continue to remain profitable beyond this. Importantly, avoiding marginal territory even until 2029.

This is an important distinction. A softening market is not the same as an unprofitable one. Lower rates place pressure on underwriting margins, but the impact tends to emerge gradually, allowing syndicates to make necessary adjustments where possible. The modelling also highlights that, as rating momentum weakens, future returns are likely to depend more on risk selection, reserve development, investment returns, and the syndicates' ability to protect margin.

While the future path of pricing is uncertain, the analysis suggests that Lloyd's can continue to generate attractive returns through the next phase of the cycle before profitability trends towards longer-term averages.

[8]APCL Research (2026)

Why this cycle may be different

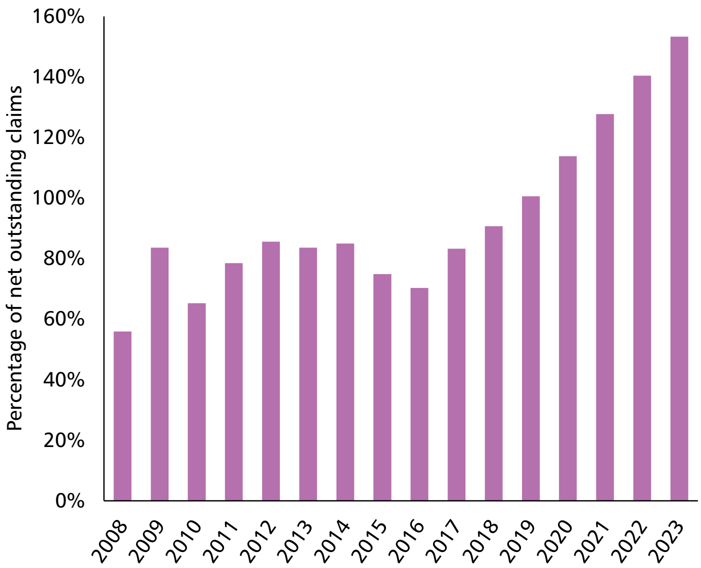
A Lloyd's investor's returns are driven not only by the underwriting results of a syndicate, but by reserve releases and income generated on invested premiums and reserves. Historical analysis shows that Lloyd's can remain profitable even as pricing comes under pressure, especially when supported by more conservative reserves and improved underwriting discipline, which is evident in the current market.

Stronger reserves

Reserve releases have become a smaller contributor to recent results, influenced by reserve movements linked to aviation war claims following the Russian invasion of Ukraine. Syndicates have been actively holding on to their reserves, and have continued to reserve conservatively as market conditions have evolved.

APCL analysis shows syndicates now hold over £1.50 of additional reserve for every £1 of reported but unpaid claims. Lloyd's has also reported a significant increase in reserve margin, with more than £6.6bn held above actuarial estimates. This reserve strength should help absorb adverse claims development and support profitability as underwriting conditions become more challenging.

Figure 3:
Incurred but not reported (IBNR) as a percentage of net outstanding claims[9]



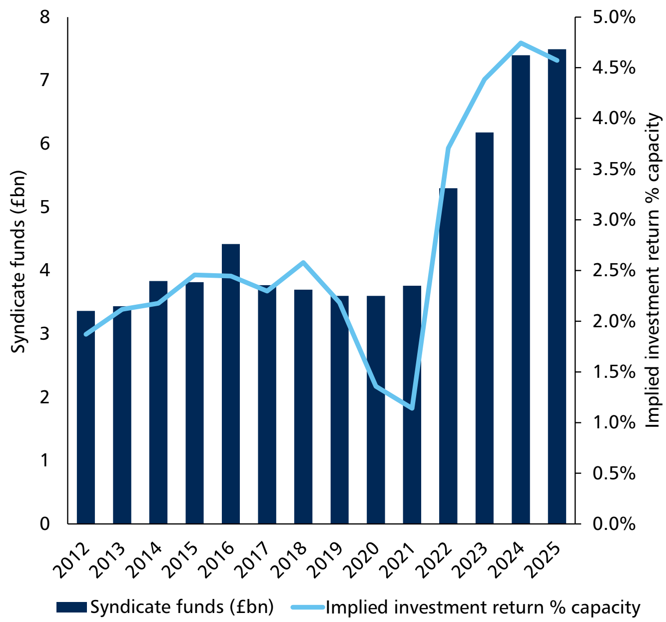
Investment income has returned

Investment income has become a more meaningful contributor to returns in recent years.

With higher premium volumes and reserves, syndicates have had a larger pool of assets to invest. Yields on the short-dated, high-quality government and corporate bonds in syndicate investment portfolios have also risen significantly.

Figure 4 illustrates this trend across the top five largest syndicates in APCL's portfolio. Investment balances were broadly stable between 2012 and 2021 before increasing in the years that followed. The impact on returns has been material. Prior to 2022, investment income made a modest contribution to returns. Today, that contribution is closer to 5% of capacity.

Figure 4:
Syndicate funds and investment return as a percentage of capacity[10]



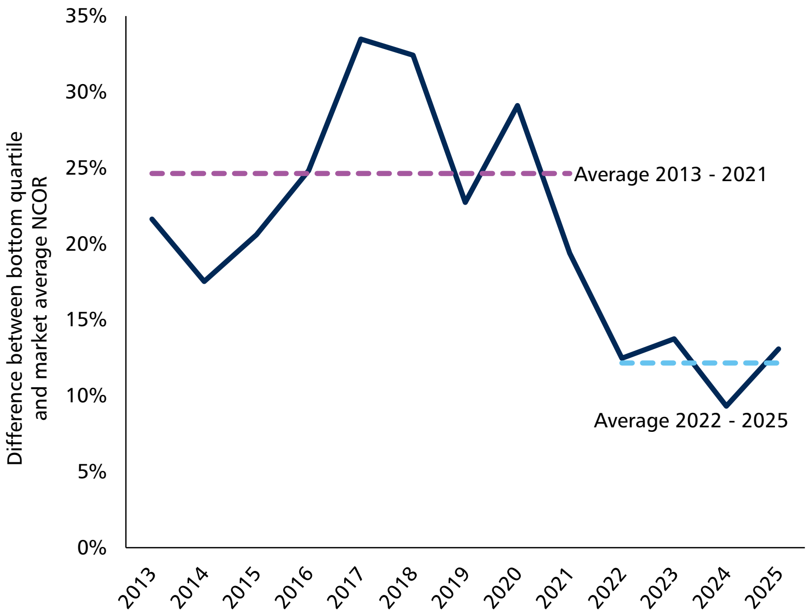
[9]APCL Research (2026), based on Quarterly Monitoring Return (Part A) (QMA) data for syndicates within APCL-advised portfolio as at 31 December 2025 [10]Reports and accounts for syndicates 33, 510, 609, 623 and 2791 (2012 - 2025).

Underwriting performance remains the primary driver of returns, but investment income now provides a meaningful earnings buffer that was largely absent during previous soft market periods.

Better market discipline

The Lloyd's market has also undergone a period of significant performance improvement. Lloyd's has increased its focus on underwriting performance, business planning, and market oversight, with weaker-performing businesses subject to closer scrutiny. The goal has been to improve consistency of underwriting standards across the market and reduce the drag from weaker performers.

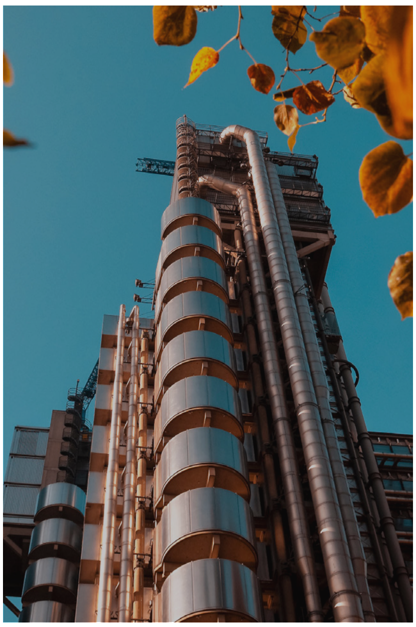
Figure 5:
Percentage point difference between bottom quartile and market average Net Combined Operating Ratio (NCOR)[11]



The improvement is clear in the data. From 2013 to 2021, bottom-quartile syndicates underperformed the market average combined ratio by almost 25 percentage points on average. Since 2022, that gap has narrowed to less than 15 percentage points.

Underwriting results will continue to vary among syndicates, especially as competition increases. However, the market now enters this phase with stronger oversight, higher performance standards and greater underwriting discipline than in previous softening periods.

Why syndicate selection matters more than ever



Periods of strong pricing can create a favourable environment for most syndicates to perform well. As pricing pressure increases, divergences will show across the market, with underwriting decisions, risk selection and management direction emerging as critical contributors to success.

Future returns are unlikely to be determined by pricing alone. Syndicates with differentiated sources of business, strong analytical capabilities, and disciplined underwriting will be best positioned to protect profitability. These characteristics become increasingly valuable as market conditions become less forgiving.

This is already evident in the way syndicates are responding to changing conditions. Some continue to identify attractive opportunities for growth, while others are reducing participation, reshaping portfolios or placing greater emphasis on protecting margins. Increasingly, future performance will depend on the quality of these decisions.

[11]APCL Research (2026), sourced from syndicate reports and accounts as at 31 December 2025

Investors should evaluate syndicate quality by reviewing independent ratings, analysing historical performance, and considering factors such as management strength, business strategy, and alignment of interests. Working with experienced advisers helps identify syndicates that are best positioned to deliver attractive returns across changing market conditions.

Identifying the differences between these syndicates is central to APCL's research process. The objective is not simply to identify syndicates that have performed well historically, but those best positioned to continue performing as conditions evolve.

APCL syndicate ratings are proprietary assessments developed through our independent research process. Each rating reflects our own forward-looking view of syndicate quality, derived from a rigorous evaluation of underwriting discipline, management capability, capital strength, strategic positioning and alignment of interests.

Figure 6:
10-year performance of APCL Syndicate ratings (2015 - 2025)[12]

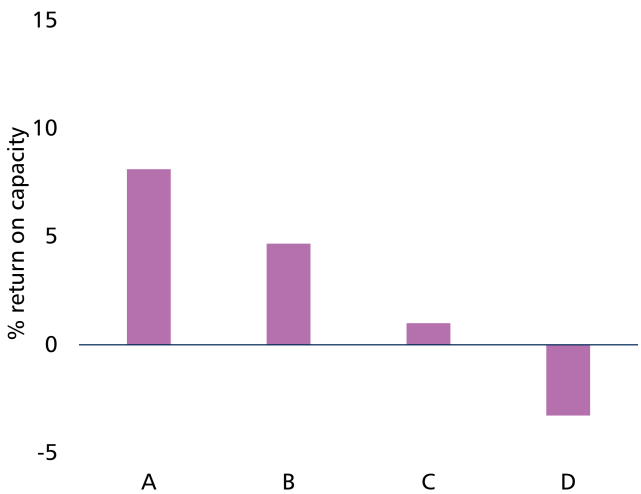
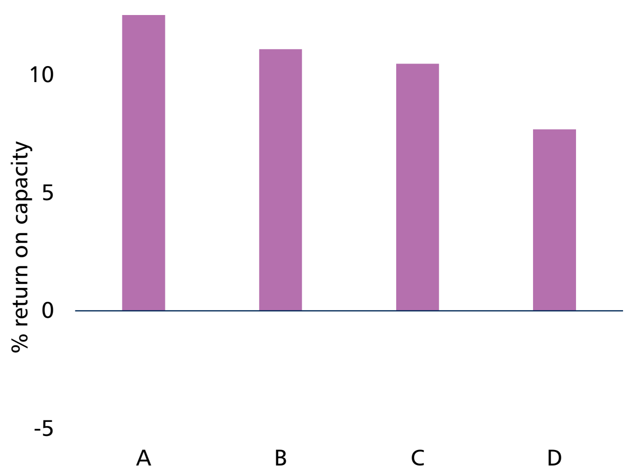


Figure 7:
5-year performance of APCL Syndicate ratings (2020 - 2025)[13]



By combining quantitative data with qualitative insight, our ratings are designed not only to identify historical outperformers, but to differentiate those syndicates we believe are best placed to deliver sustainable long-term performance. Figures 6 and 7 show that the higher-rated syndicates have generally delivered stronger outcomes than lower-rated peers, while lower-rated syndicates have historically been more likely to underperform market averages.

The consistency of these ratings across different time periods is also noteworthy; while recent years have been supportive for many syndicates given favourable market conditions, the relative rankings have remained broadly intact.

The next stage of the cycle is therefore likely to place greater emphasis on underwriting quality. As conditions become more competitive, future returns are likely to depend more on the quality of syndicate's underwriting than on the wider market environment.

[12] [13] APCL Research (2026), Syndicate reports and accounts 2015 - 2025

Investing through the cycle

The recent hard market delivered considerable returns to investors and attracted significant levels of capital into Lloyd's. With pricing now moving beyond its recent peak, the question for investors is what their Lloyd's strategy looks like in a shifting environment.

In many respects, the answer is not fundamentally different from before. APCL builds diversified, balanced, and risk-adjusted portfolios for its clients, designed with a long-term horizon in mind. A single year or phase of the cycle has never defined Lloyd's. The market has historically rewarded investors who take a longer-term view, recognising that opportunities evolve as conditions change.

Of course, there will be some adjustments to portfolios, but participation across different market environments is an important part of building knowledge within a Lloyd's investment strategy. Syndicates develop, new opportunities emerge and underwriting strategies adapt over time.

For many investors, learning how the market behaves through different phases of the cycle proves more successful than attempting to time it.

Opportunities rarely present themselves all at once. Many experienced investors build participation gradually, increasing exposure as conditions evolve and attractive opportunities emerge.

Investors who establish positions during softer phases of the cycle are often well placed to increase participation and take advantage of upwards repricing when market conditions become more attractive. In practice, access to desirable opportunities is often easier to establish before capacity becomes constrained and competition for participation increases.

The opportunity lies not in trying to time Lloyd's perfectly, but in building the right portfolio, with the right syndicates, for the long term.

In summary

Pricing pressure is now evident, particularly within property and reinsurance classes, and the exceptional conditions that characterised much of the recent hard market are beginning to ease.

However, Lloyd's enters this phase from a position of considerable strength, following several years of strong profitability, strengthened balance sheets, more conservative reserving and improved underwriting performance.

As rates moderate, returns are less likely to be driven by broad market momentum and more by the quality of individual syndicates.

Reserve strength, investment income, underwriting discipline and syndicate-level decision making will all play a greater role in determining performance. In this environment, the differences between syndicates are likely to become more visible, making careful selection, trust in APCL's rating model, and portfolio construction increasingly important.

Lloyd's will also remain exposed to the real-world risks it is designed to underwrite. Major catastrophe losses, shifts in regulatory requirements, and changes in the broader macroeconomic environment, including inflation or interest rate movements, could all influence results. These risks are part of the asset class, but they also underline why specialist insight and trusted adviser oversight matters.

For investors, the opportunity at Lloyd's has never been about trying to call the exact top or bottom of the cycle. It is about building exposure to high-quality underwriting businesses that can generate attractive returns through different market environments. While opportunities may become more differentiated by syndicate, class of business and underwriting approach, they remain available to investors with a research-led and long-term perspective.

With its depth of experience, specialist market knowledge and proprietary analysis, APCL is well placed to help investors navigate this Lloyd's market and identify where the most attractive opportunities lie. In a more competitive market, disciplined portfolio construction is central to accessing Lloyd's continuing return potential.

Learn more:

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

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Glossary of common Lloyd's market terms

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

Casualty insurance:
Insurance covering liability risks, where the insured may be responsible for injury, damage, or financial loss to another party. Examples include general liability and professional liability.

Catastrophe / cat loss:
A major loss event, usually natural or man-made, that causes significant insured losses. Examples include wildfires, hurricanes, floods, or earthquakes.

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.

Delegated authority:
An arrangement where an insurer or Lloyd's syndicate gives another party authority to underwrite business on its behalf, usually within agreed limits.

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.

Long-tail liability:
Insurance where claims may take many years to be reported, assessed, and settled. Casualty business is often long-tail, which makes reserving more complex.

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

Managing General Agent (MGA):
A specialist underwriting business that writes insurance on behalf of insurers or syndicates. MGAs often provide access to niche markets, specialist expertise, or specific distribution channels.

Marine insurance:
Insurance covering ships, cargo, ports, offshore energy assets, and related liabilities. It can be exposed to geopolitical risks, sanctions, piracy, and war-related disruptions.

Political violence:
Insurance covering losses from politically motivated violence, such as terrorism, civil unrest, insurrection, coup, or war-related events, depending on the policy wording.

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.

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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