LLOYD'S

# MARKET BULLETIN

REF: Y4507

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| **Title** | RMS Risklink v11 – Lloyd's Management of Model Change |
| **Purpose** | To provide managing agents with information about how Lloyd's will manage the implications of catastrophe model change, specifically with reference to the 2011 release of RMS Risklink v11. The information in this memo applies to syndicates with natural catastrophe exposure. |
| **Type** | |
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| **Date** | 26 July 2011 |
| **Deadline** | For 2012 Business Plans and ICA submissions please note the requirements under sections b) and d) |
| **Related links** | |

A recent catastrophe model release from RMS (Risklink v11) has provided the insurance industry with materially revised assessments of risk for US hurricane and EU windstorm. The financial impact of this new information depends on an insurer's existing modelling processes and on their portfolio in terms of location and business mix.

This bulletin outlines Lloyd's approach to the incorporation of RMS Risklink v11 into

a) Realistic Disaster Scenarios (RDS)
b) Syndicate Business Forecasts (SBF)
c) Lloyd's Catastrophe Model (LCM)
d) Individual Capital Assessments (ICA) and ICA Benchmarking

As a general comment we wish to stress that managing agents are not compelled to use any particular catastrophe model or version. Agents should consider what form of modelling best reflects the risks within the syndicates they manage; and be prepared to defend their choices when compared to general information available from catastrophe models and other sources.

**a) RDS**

For the 01 January 2012 RDS, the industry loss levels prescribed in the RDS framework **will not change.**

The implications of the significant changes of the RMS view of risk are still being investigated by Lloyd's and **loss levels, within the RDS scenarios, will be reviewed in respect of the 2013 RDS process**. Further information will be provided later in 2011 to enable managing agents to plan appropriately.

For those users of RMS, the vendor model "event ids" which can be used to calculate RDS loss estimates are detailed in the RDS scenario specification document. A list of event ids for use with Risklink v11 has been provided by the Exposure Management team and is contained in the Lloyd's Guidance and Instructions document for the 2011 RDL. A revised version of this was sent to relevant contacts on 21 July. These events ids have been chosen for consistency with the industry loss levels prescribed in the RDS framework. Where RMS is the modelling vendor used to estimate a syndicate's RDS loss, managing agents are required to complete the RDL Supplementary Template with information on which version(s) of Risklink has been used.

**b) SBF**

**2012 Year of Account**
Where RDS are calculated using RMS Risklink, projections within the 2012 SBF (presented in 2011) should be based upon the model version likely to be used during 2012.

Regardless of which catastrophe model is used, managing agents should ensure that catastrophe loss ratios within business forecasts remain adequate in light of the new information from RMS v11.

**2013 Year of Account**
Following the RDS loss level review referred to above, any change in the scenarios must be incorporated into the 2013 SBF RDS estimates presented in 2012. We also expect to pilot the new scenarios in the RDL process in 2012 but these will not be subject to Franchise Guidelines.

**c) Lloyd's Catastrophe Model (LCM)**
Managing agents are not compelled to use any particular vendor or version, but the existing "syndicate metadata" spreadsheet requires that modelling vendor and version forms part of the LCM return. The LCM has been built to allow multiple models and versions, including within the same syndicate. LCM returns should be reflective of a syndicate's own view of risk. However, we would expect managing agents to consider whether new information from RMS has a bearing on assessment of catastrophe risk for their syndicates whichever catastrophe model is used.

**Trevor Maynard**
**Head of Exposure Management and Reinsurance**

**d) ICA**

Managing agents are not compelled to calculate the catastrophe risk component of a syndicate's ICA using any particular model. Where Risklink is used for this purpose, the 2012 YOA ICA must have regard to the changes in v11. Managing agents using other catastrophe models must ensure that they remain adequate for their portfolio.

Those managing agents electing to use the benchmarking approach are asked to note that this model has been recalibrated to take account of the new information from Risklink v11.

The recalibrated benchmarking model will also be used for comparison purposes, where a syndicate ICA has been submitted.

Lloyd's view of a best practice approach remains that "medium term" event frequencies should be assumed, but again there is no formal requirement to use the view of a particular catastrophe model.

**Henry Johnson**
**Head of MRC and Lloyd's Actuary**