

Fast Track Pilot for 2020 Capital Review Process

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1 Purpose

This document provides information on the Fast Track pilot for Lloyd's Capital team's review process during 2020.

2 Fast Track Approach

2.1 What does "Fast Track Approach" mean?

Syndicates that are fast tracked for the September SCR submission mean that their review category of capital will be pre-agreed as "light". This is predicated on achieving a level of confidence in the model prior to submission and aims to achieve fewer time-pressured queries and more predictable capital requirement for syndicates.

A light review will still include:

- A high-level assessment of the movement in risk categories on a pre- and post-diversified basis.
- A check that the minimum tests of models are passed – relating to market risk contribution to capital and diversification.
- An assessment of the responses in the focus area return, in particular how the model has responded to experience of the COVID-19 pandemic.

The approach is being piloted in 2020 before being considered as a formal change to the Lloyd's review process. If eligible, participation is optional.

Note: Fast Track refers to the approach taken by the MRC Capital team, and does not impact review or loadings from any other Lloyd's team MRC Reserving team or Risk Aggregation (including, but not limited to: prospective loss ratio loadings, loadings related to the TP roll-forward, or catastrophe risk). These will continue to be considered by the relevant teams, subject to whatever requirements are in place at the time.

2.2 Routes onto Fast Track

The two routes for being eligible for the Fast Track pilot in September are:

2.2.1 Route 1

The syndicate has either undergone a major model change (MMC) review or a capital deep dive in the year, as well as:

- a. Key SCR-to-exposure metrics (defined in Section 3.1) have not changed materially since the MMC application or deep dive (defined below); and
- b. Historical key SCR-to-exposure metrics ("model drift") over the previous 4 years and material losses for the previous 2 years have been within pre-defined tolerances (defined in Section 3.2); and
- c. No significant concerns have been identified during the MMC review or deep dive (defined in Section 2.3); and
- d. The model has been subject to limited further change after the MMC application, i.e. no further major model change application accompanies the SCR submission and any changes that lead to reductions in SCR-to-exposure metrics are clearly related to risk profile (and not model methodology or parameterisation changes).

2.2.2 Route 2

The syndicate qualifies for a light review in September as it meets ALL of the following criteria:

- a. uSCR is below £200m (as per LCR form 309, Table 2, Cell I9); and
- b. No significant concerns have been identified in respect of the internal model (defined in Section 2.3); and
- c. The model has been subject to limited change, i.e. no major model change application accompanies the SCR submission; and
- d. Key SCR-to-exposure metrics have not changed materially since the previous SCR review (September submission or any re-submission if applicable) (defined in Section 3.1); and

- e. Historical key SCR-to-exposure metrics (“model drift”) over the previous 4 years and material losses for the previous 2 years have been within pre-defined tolerances (defined in Section 3.2).

2.3 Eligibility for Fast Track

Under either route, there must be no significant concerns identified. This is defined as:

1. Minimum standards MS12, MS13 and MS14 must all be Green – which means that any material loadings have to be addressed and agreed with Lloyd’s prior to the LCR submission.
2. Any loadings that did not lead to an amber minimum standard need to be addressed in the LCR submission. The syndicate has to clearly outline how this has been addressed in the documentation submitted. Similarly, any conditions given with prior MMC approval need to be addressed in the LCR submission and have to be clearly explained in the documentation.
3. No other concerns have been identified either internally or externally that MRC judge to be relevant.
4. Any delays, omissions or mistakes in reporting are highly likely to lead to syndicates being removed from Fast Track.

The following syndicates are not eligible for Fast Track:

1. Syndicates with capital set using the benchmark model
2. Run-off syndicates

2.4 Entry onto Fast Track

If entry onto Fast Track has been via the review of an MMC, in order for syndicates to enter onto Fast Track, the following must be provided:

1. The complete suite of LCR forms must be completed and submitted in spreadsheet format
2. Updated Model Documentation

A model walk-through might be required for model changes (e.g. platform changes), but this will be decided on a case-by-case basis.

Where entry onto Fast Track is via a deep dive:

1. The complete suite of LCR forms must be completed and submitted in spreadsheet format
2. Updated Model Documentation
3. Conduct a model walk-through with Lloyd’s.
4. Assessment of syndicate’s Solvency II compliance with Lloyd’s Minimum Standards relating to the capital model. This will be a desk-based assessment; hence the syndicate will need to submit a list of documents we will rely on (see Appendix 1).

3 Metrics

3.1 SCR-to-exposure Metrics used

MRC will carry out an initial assessment of movements in key SCR-to-exposure metrics since the MMC/Deep Dive or the last SCR review to determine whether these exceed certain pre-defined thresholds. Generally, it is expected that no change of view of risk is made for Fast Track syndicates after the MMC application – in particular only limited reduction in SCR-to-exposure metrics could be expected (e.g. when growth in reserves or expected claims leads to increased diversification and hence lower volatility, or when the purchase of additional reinsurance leads to lower underwriting risk volatility and hence profit). Any downward movement in SCR-to-exposure metrics that is not clearly linked to a change in risk profile is likely to lead to removal from fast track.

MRC will inform Fast Track syndicates of their review category within 10 working days of their SCR submission.

MRC has considered and back-tested a number of risk-to-exposure metrics.

The principles used in determining the appropriate metrics to be used are:

- The stress amount 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 premium risk

Risk-to-exposure metrics are laid out below. Exact definitions from items on LCRs are contained in Appendix 2.

#	Metric	Eligibility requirement for Fast Track
S1	SCR(U) stress to exposure measure	Increase, No change Reduction of less than 5% (relative) that is not based on a change in view of risk (i.e. based on exposure/data updates only)
S2	Premium Risk (U) Stress to exposure figure	Increase, No change Reduction of less than 10% (relative) that is not based on a change in view of risk (i.e. based on exposure/data updates only)
S3	Reserve Risk (U) Stress to exposure figure	Increase, No change Reduction of less than 20% (relative) that is not based on a change in view of risk (i.e. based on exposure/data updates only)
S4	SCR(1) stress to SCR(U) stress	Increase, No change Reduction of less than 10% (relative) that is not based on a change in view of risk (i.e. based on exposure/data updates only)

3.2 Drift and Loss Experience Metrics used

3.2.1 Drift Metrics used

A score is calculated for each drift metric (if triggered) according to the table below. Scores for each metric are added together. The maximum total score allowable for Fast Track syndicates is **1.5**.

Drift metrics are laid out below. Exact definitions from items on LCRs and standard formula returns are contained in Appendix 2.

#	Metric	Trigger	Score
D1a	Change in SCR vs exposure figure over prior 4 years	Total reduction in metric of more than 10% (absolute)	1
D1b		Metric has declined in each of the last 4 years	1
D2a	Change in premium risk vs exposure figure over prior 4 years	Total reduction in metric of more than 10% (absolute)	0.5
D2b		Metric has declined in each of the last 4 years	0.5
D3a	Change in reserve risk vs exposure figure over prior 4 years	Total reduction in metric of more than 10% (absolute)	0.5
D3b		Metric has declined in each of the last 4 years	0.5
D4a	Change in SCR(1) to SCR(U) ratio over prior 4 years	Total reduction in metric of more than 10% (absolute)	1
D4b		Metric has declined in each of the last 4 years	1
D5	SCR(1) vs Standard Formula	Metric has declined in each of the last 4 years	1

3.2.2 Loss Experience Metrics used

Loss experience metrics are laid out below. Triggering either of the metrics below will result in a removal from the Fast-Track eligibility. Exact definitions from items on LCR and QMA are contained in Appendix 2.

#	Metric	Trigger
L1	Loss for the prior financial year as % of that year's SCR (1)	Loss higher than 50% of SCR
L2	Losses for the prior two financial years as % of each year's SCR(1)	Both losses higher than 20% of SCR

4 Appendix 1: List of Documents to provide for Assessment of SII Compliance in Deep Dives

Documents required are detailed below

#	Documentation	Comment
1	Model Change Policy	Either the current policy, or Lloyd's can wait for the updated one as per the new Lloyd's guidance
2	Expert Judgement Log	n/a
3	Internal Model Scope Policy	This might be part of an overarching Internal Model Policy
4	Other Methodology/ Parameterisation docs	Any SCR methodology or parameterisation documents not already sent previously with LCR submissions that provide relevant information on the appropriateness of methodology or assumptions
5	Documentation explaining how techniques, methods and assumptions used in the model are considered to be adequate, up-to-date, and generally accepted market practice (if not already covered in other documents requested)	
6	Management Actions	Documentation addressing how future management actions are considered to be reflected appropriately in the internal model
7	Internal Model Data Policy / Data Directory	n/a
8	Internal Model Validation Policy	n/a

5 Appendix 2: Definitions of Metrics

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

#	Metric	Definition
S1	SCR(U) stress to exposure measure	SCR(U) stress = LCR Form 310 Row 2 Col G - LCR Form 310 Row 2 Col A Exposure measure = Mean Premium risk net claims + $\frac{1}{2}$ * 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	Premium Risk (U) 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	Reserve Risk (U) 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	SCR(1) stress to SCR(U) stress	SCR(1) stress = LCR Form 310 Row 1 Col G - LCR Form 310 Row 1 Col A SCR(U) stress = LCR Form 310 Row 2 Col G - LCR Form 310 Row 2 Col A

Exact definitions of drift metrics from items on LCR and Standard Formula are laid out below.

#	Metric	Definition
D1	SCR(U)(adj) vs exposure (Premium + 1/2 * reserves) over prior 4 years	$SCR(U)(adj) = SCR(U) + RiM + RICB$ <ul style="list-style-type: none"> SCR(U) = Form 309 Table 1 Col B Row 1 RiM = Form 312 Col P Total RICB = Form 309 Table 1 Col B row 2 Premium = Premium 1 = Proposed YOA premium = Form 313 Table 1 Row 1 Col D Reserves = Reserves 1 = (Claims + ULAE – discount) for all years less proposed YOA = (LCR Form 312 Col H + Col I - Col J) total less proposed YOA
D2	Premium risk (adj) vs exposure (Premium) over prior 4 years	$Premium Risk (adj) = Premium Risk + RICB$ <ul style="list-style-type: none"> Premium Risk = Form 309 Table 2 Col G Row 2 RICB = Form 309 Table 1 Col B row 2 Premium = Premium 1 = Proposed YOA premium = Form 313 Table 1 Row 1 Col D
D3	Reserve risk (adj) vs exposure (reserves) over prior 4 years	$Reserve risk (adj) = Reserve risk + RiM$ <ul style="list-style-type: none"> Reserve risk = Form 309 Table 2 Col G Row 3 RiM = Form 312 Col P Total Reserves = Reserves 1 = (Claims + ULAE – discount) for all years less proposed YOA = (LCR Form 312 Col H + Col I - Col J) total less proposed YOA
D4	SCR(1) to SCR(U)(adj) ratio over prior 4 years	$SCR(1) = Form\ 309\ Table\ 1\ Col\ A\ Row\ 1$ $SCR(U)(adj) = SCR(U) + RiM + RICB$ <ul style="list-style-type: none"> SCR(U) = Form 309 Table 1 Col B Row 1 RiM = Form 312 Col P Total RICB = Form 309 Table 1 Col B row 2
D5	SCR(1) vs Standard Formula over prior 4 years	$SCR(1) = Form\ 309\ Table\ 1\ Col\ A\ Row\ 1$ Standard Formula = Final SF SCR = Basic SCR + Op Risk on Basis 2 (Excludes Risk on all members balances)

Exact definitions of loss experience metrics from items on LCRs & QMAs are laid out below.

#	Metric	Definition
L1	Loss for the prior financial year as % of that year's SCR(1)	Loss = Total comprehensive income less investment return on capital provided by members = QMA Form 001 Line 28 Col C – QMA Form 111 Line 8 Col B
L2	Losses for the prior two financial years as % of each year's SCR(1)	SCR(1) as per the June CIL letter