

# Fast Track for 2021 Capital Review Process

April 2021

## Contents

<b>1</b>	<b>Purpose</b>	<b>3</b>
<b>2</b>	<b>Fast Track Approach</b>	<b>3</b>
2.1	What does “Fast Track Approach” mean?	3
2.2	Routes onto Fast Track	3
2.3	Eligibility for Fast Track	4
2.4	Entry onto Fast Track	4
<b>3</b>	<b>Metrics</b>	<b>4</b>
3.1	SCR-to-exposure Metrics used	4
<b>4</b>	<b>Appendix 1: List of Documents to provide for Assessment of SII Compliance in Deep Dive</b>	<b>6</b>
<b>5</b>	<b>Appendix 2: Definitions of Metrics</b>	<b>6</b>

# 1 Purpose

This document provides information on the Fast Track for Lloyd's Capital team's review process during 2021.

## 2 Fast Track Approach

### 2.1 What does "Fast Track Approach" mean?

Syndicates that are fast tracked for the September/October 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 of the September/October SCR 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.

The approach was piloted in 2020 before being considered as a formal change to the Lloyd's review process. Participation is not optional for Fast Track 2021, which is a change from the pilot last year. For syndicates that are planning a major model change application being fast-tracked does not result in any additional requirements – however, if Lloyd's is also conducting a deep dive into the model then additional documentation needs to be submitted, which is detailed in section 2.4. Lloyd's will communicate requirements to syndicates affected individually.

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 such as the 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 Fast Track in September are:

#### 2.2.1 Route 1: Review undertaken prior to September/October LCR submission

The syndicate has either undergone a major model change (MMC), a capital deep dive or an Internal Model Approval Process (IMAP) review (from coming off the syndicate benchmark model) in 2021 as well as:

- a. Key SCR-to-exposure metrics (defined in Section 3.1) have not changed materially in the September/October 2021 LCR submission since the MMC application or deep dive (defined below); and
- b. No significant concerns have been identified during the MMC, deep dive or IMAP review (defined in Section 2.3); and
- c. The model has been subject to limited further change after the prior MMC, deep dive or IMAP review, 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: Metrics for no material change met in September/October submission

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

- a. uSCR is below £250m (as per LCR form 309, Table 2, Cell I9); and
- b. No significant concerns have been identified by Lloyd's 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).

## 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 in Lloyd's assessment – which means that any material loadings from prior reviews 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 unless it has been agreed with Lloyd's that this is not required. 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

Run off syndicates are now eligible to be Fast Track candidates. As mentioned above, participation is not optional.

## 2.4 Entry onto Fast Track

As per model change guidance, syndicates need to notify Lloyd's of any plans for a major model change application as soon as feasible. Lloyd's will communicate with syndicates individually if we are planning to undertake a deep dive into the model. 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 on MDC
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.

In many cases Lloyd's will conduct a deep dive in conjunction with the major model change reviews. Syndicates will be informed if this is the case.

Where entry onto Fast Track is via a deep dive:

1. The complete suite of LCR forms must be completed and submitted on MDC
2. Updated Model Documentation
3. Conduct a model walk-through with Lloyd's.
4. [Standardised Specific Information \(SSI\) template](#): This outlines the internal model methodology in a standardised format and is similar to a return syndicates provided in 2017.
5. 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).

All syndicates receive a notification from Lloyd's within 10 working days from the September/October LCR submission to inform them about their review level. MRC will inform Fast Track syndicates as part of this too.

# 3 Metrics

## 3.1 SCR-to-exposure Metrics used

For either route, upon September/October submission of the LCR, MRC will carry out an initial assessment of movements in key SCR-to-exposure metrics since the MMC/Deep Dive/IMAP submission 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 excepted (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.

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

- The stress amount (i.e. 99.5<sup>th</sup> percentile – mean) 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 measure	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 measure	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)

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

Documents required are detailed below.

#	Documentation	Comments
1	Model Change Policy	
2	Expert Judgement Log	
3	Internal Model Scope Policy	This might be part of an overarching Internal Model Policy
4	Model Use Policy	
5	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
6	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)	
7	Documentation Policy	
8	Management Actions	Documentation addressing how future management actions are considered to be reflected appropriately in the internal model
9	Internal Model Data Policy / Data Directory	
10	Risk Management Policy	Documentation around how the model integrates with the risk management if this is not included in policy
11	Internal Model Validation Policy	

## 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	$\text{SCR(U) stress} = \text{LCR Form 310 Row 2 Col G} - \text{LCR Form 310 Row 2 Col A}$ $\text{Exposure measure} = \text{Mean Premium risk net claims} + \frac{1}{2} * \text{Mean Reserve risk net claims}$ $\text{Mean Premium Risk Net Claims} = \text{LCR Form 502 Q1 Col B Total}$ $\text{Mean Reserve Risk Net Claims} = \text{LCR Form 510 Q1 Col A Total}$
S2	Premium Risk (U) Stress to exposure figure	$\text{Premium Risk Stress} = \text{LCR Form 314 Table 1 Row 2 Col B}$ $\text{Exposure Measure} = \text{Mean Premium Risk Net Claims} = \text{LCR Form 502 Q1 Col B Total}$
S3	Reserve Risk (U) Stress to exposure figure	$\text{Reserve Risk Stress} = \text{LCR Form 314 Table 1 Row 3 Col B}$ $\text{Exposure Measure} = \text{Mean Reserve Risk Net Claims} = \text{LCR Form 510 Q1 Col A Total}$
S4	SCR(1) stress to SCR(U) stress	$\text{SCR(1) stress} = \text{LCR Form 310 Row 1 Col G} - \text{LCR Form 310 Row 1 Col A}$ $\text{SCR(U) stress} = \text{LCR Form 310 Row 2 Col G} - \text{LCR Form 310 Row 2 Col A}$