



USPs increase the risk sensitivity of the non-life standard formula

Undertaking-Specific Parameters (“USPs”) allow non-life undertakings to replace a subset of the volatility parameters¹ used in the Standard Formula (“SF”) non-life underwriting risk (excluding catastrophe risk) solvency capital requirement (“SCR”) calculation with those derived from their own data, most commonly the Solvency II line of business (“LoB”) specific volatility parameters for premium risk and reserve risk.

BACKGROUND

Under Solvency II in the EU and the UK, (re)insurance undertakings are required to hold capital at least equal to the SCR. Most non-life undertakings across the EU and UK use the SF to calculate the SCR. A small number of undertakings have invested in a supervisor-approved (partial) internal model (“IM”), which allows full freedom to design and parameterise a complete solution to calculate the SCR.

For undertakings using the SF for which elements of the SCR have been internally assessed as being poorly aligned with the risk profile, and for which an IM would be too onerous, applying for USPs is a viable solution².

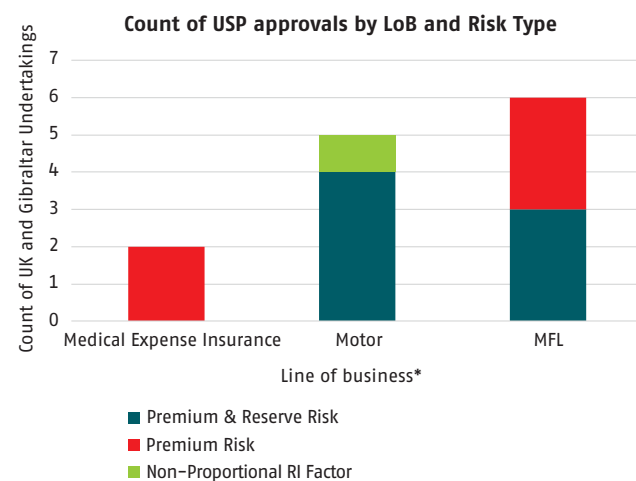
SCOPE OF A USP APPLICATION

An undertaking can seek USP approval for premium and/or reserve risk volatility parameters relevant for any number of LoBs. USP methods for premium and reserve risk are prescriptive, and expert judgement is limited to the preparation of the input data (e.g. number of years of input data), so the focus of the approval is on data and process.

Insurance supervisors are required to process an application within six months of all required information being received. They have different approaches to the approval process and engagement is encouraged to understand their priorities.

OBSERVATIONS FROM THE UK AND GIBRALTAR

Based on disclosures from Solvency and Financial Condition Reports at year-end 2025, the following summarises the USP approvals in the UK and Gibraltar.



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- Health insurers writing business classified as Medical Expense Insurance. Private medical insurance across Europe is diverse due to the bespoke interaction between state and private providers, meaning the level of volatility differs by country. The UK private medical insurance market is concentrated into a small number of larger undertakings, some of which benefit from an IM while others have applied for a USP.

- Motor insurers, particularly large local players who do not benefit from an IM. The UK motor market is extremely competitive. Larger local players use USPs as a cost-effective way to better align the SCR with the risk profile.

- Niche undertakings writing business classified under the Miscellaneous Financial Loss (“MFL”) line of business, for whom the SF volatility parameters were originally calibrated by a heterogeneous mix of sub-lines across Europe are likely to experience misalignment. USPs have been an attractive solution for writers of warranty, pet, and motor adjacent insurance coverages.

The reasons for seeking USP approval are bespoke for each undertaking. The key driver is typically an internal ORSA-driven assessment that a subset of the SF volatility parameters are misaligned with the risk profile. However, secondary drivers (such as competitive pressure, size of undertaking, and data quality level) generally determine the speed of engagement.

CHALLENGES IN A USP APPLICATION

There are a detailed set of methodologies, data definitions, data criteria and governance requirements outlined in articles 218 through 220 and Annex XVII of the Delegated Act of the Commission Delegated Regulation (EU) 2026/269 of 29 October 2025 (the “Delegated Acts”)³. Common challenges experienced when applying for a USP include the following.

- The narrative and justification for each LoB as to why an undertaking’s risk profile does or does not align well with the SF volatility parameters need to avoid giving the impression of ‘cherry picking’. The justification as to why a USP would be more appropriate than the SF volatility parameter for application-relevant LoBs is important. Equally important is the justification as to why a USP would not be more appropriate than the SF volatility parameter for non-application-relevant LoBs.

- Demonstrating and evidencing that an undertaking’s data is compliant with data quality standards (i.e. complete, accurate and appropriate) can be onerous. Despite being well embedded for most undertakings, applying for USP unlocks an undertaking’s internal processes to the insurance supervisor, which often motivates a review and refresh initiative.

- Expense treatment is highly influenced by a heterogeneous set of local market insurance accounting rules. Inconsistent handling of expenses over time can motivate a review and refresh initiative.

- The inconsistent setting of historical reserves, due to the introduction of the “best estimate” concept at Solvency II inception, can motivate an “as-if” reserving exercise.

- USPs are calculated at the LoB level, but input data for homogenous risk groups (“HRG”) (e.g. both pet and mechanical breakdown, being included in MFL) must be treated separately. To reflect the risk inherent in the expected mix of HRGs over the prospective 12-month period, HRG-specific input data is commonly scaled during aggregation.

- The Delegated Acts outline two possible methods for the calculation of the reserve risk USP. Demonstration that results from one method is more accurate than the other is onerous, so undertakings commonly take the result reflecting the larger⁴ volatility parameter.

CONCLUSION

USPs have been relatively well used for specific pockets of the UK and Gibraltar market. The key characteristics of undertakings who have made use of USPs include:

1. SF volatility parameters are not considered appropriate, either due to the LoB diversity (e.g. MFL) or cross-border diversity (e.g. private medical insurance)
2. Competitive pressures motivate an efficient capital solution, less onerous than an IM.
3. High-quality data and effective process governance are demonstrable. At least five years of data are required for a USP application, and ten years is preferred.

4. The application-relevant LoBs contribute materially to the diversified non-life underwriting risk (excluding catastrophe risk) SCR.

In our experience, a successful USP application can lead to a better matching of capital to risk profile, in some cases resulting in material reductions in SCR. Submission of a USP application is a material piece of work, involving a range of business functions including actuarial, finance, data/IT and legal teams. The potential costs of a USP application and ongoing USP management should be balanced against the capital impacts before pursuing a USP application.

Many of the USP applications discussed in this article were approved early in the life of Solvency II, with initial go/no-go decisions made pre-2016. After ten years, many companies have now embedded efficient processes and built sufficient datasets to make a USP application feasible. Actuarial functions may benefit from considering whether the risk profile of their companies resemble the characteristics above, or whether there are analogous niche areas which may be well served by a USP. ■

1 – Note the volatility parameters used in the Standard Formula for non-life underwriting risk (excluding catastrophe risk) SCR calculations were originally calibrated based on aggregated data from undertakings across the EU participating in the quantitative impact studies.

2 – Note that groups can likewise apply for permission to use Group-specific Parameters (“GSP”). As the methods, data inputs, and challenges for USPs and GSPs are identical, we focus on USPs in this paper.

3 – This regulation amends the prior Delegated Regulation (EU) 2015/35 to align with the Solvency II Review Directive ((EU) 2025/2).

4 – Article 220 (2) from the Delegated Acts