

Supplementary information for applications for undertaking specific parameter (USP) or group specific parameter (GSP) permission

Firm/group name

Firm reference number
(if applicable)

Date of application

Address

**Application number
(for PRA use only)**

Firms should submit the information below to enable the PRA to consider an application for USP or GSP permission. Firms should submit this information with the Solvency II permission application form to InsuranceRulePermissions@bankofengland.co.uk

The content of this form applies equally to permissions for a firm to use a USP and for a group to use a GSP. That is, any reference to USP should also be interpreted as also applying to GSP, unless otherwise specified. Any reference to 'firm' in the context of GSPs should be interpreted as 'group'. Where applying for both USPs and GSPs, the PRA expects firms to submit separate supplementary information forms.

Table 1: Details of entities in scope of the application.

1. Name and FRN of applicant.	Name	FRN
2. Name and FRN of Name / entities for which calculation of solo SCR(s) using USPs is being applied for.	<i>Name 1</i>	<i>FRN 1</i>
	**	**
3. Is application also for group SCR to be calculated using GSPs? If answer to (3) is yes, please answer questions (6) to (10) otherwise ignore (6) to (10).	Yes / No*	
	<i>Individual 1</i>	<i>Role 1</i>

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4. Name(s) of individual who authorised application and their roles in the application.	**	**
5. Start date from which use of USPs is requested.	dd/mm/yyyy	
6. Legal name of group for which calculation of a group SCR using GSPs is being applied for. <i>(Only enter FRN if the group is regulated by the PRA)</i>	Name	FRN
7. Names of legal entities included in the group SCR calculation referred to in (6). <i>(Only enter FRN if the group is regulated by the PRA)</i> <i>(If the names required in this question are also shown in the answer to question (2), please also state the names in answer to this question)</i>	Name 1	FRN 1
	**	**
8. Does the application include a GSP for standard deviation for group risk premium risk in the group SCR calculation?	Yes / No*	
9. Which method is being used to calculate the group SCR referred to (6) above. <i>(Method 1 is the (default) Accounting consolidation-based method in Group Supervision 11 or a combination of method 1 (above) and 2 where method 2 is the (alternative) Deduction and aggregation method in Group Supervision 12. Within the PRA Rulebook, Group Specific Parameters are set out under the Method 1 sub-section of the Group Supervision calculation methods. Accordingly, when the group Solvency Capital Requirement is calculated under Method 2, groups should not use group-specific parameters.)</i>	Method 1 / combination of 1 & 2*	
10. If the answer to (8) is combination of methods 1 and 2 please provide details. <i>(Enter details here, or enter name of documentation containing details, or embed documents containing details. The details should clearly state which of the entities listed under (6) are to be consolidated in the group SCR calculation)</i>		

Notes: *Please delete as appropriate, ** insert additional rows as required

Table 2: Summary of results.

Entity	Premium Risk		Reserve Risk		Life		Heath revision		Total SCR		Own Funds
	SF factors	USPs	SF factors	USPs	SF factors	USPs	SF factors	USPs	SF factors	USPs	
**											

Notes: The values for the risk sub modules reported here should be pre-diversification risk charges and the SCR should be post allowance for diversification.

Table 3: Non-life premium and reserve risk sub-module and the NLST health premium and reserve risk sub-module.

Solvency Capital Requirement - Undertaking Specific Parameters 2.3 sets out the subset of standard parameters that may be replaced by USPs.

Entity	Line of Business (LoB)	Solo / Group: (S/G)	Undertaking Specific Parameters (USPs)			
			Premium risk σ	Reserve risk σ		Non-proportional reinsurance adjustment factor
				Method 1	Method 2	
(1)	(2)	(3)	(4)	(5)	(6)	(8)
	Motor vehicle liability					
	Motor, other classes					
	Marine, aviation, transport (MAT)					
	Fire and other property damage					
	General liability					
	Credit and suretyship					
	Legal expenses					
	Assistance					

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Entity	Line of Business (LoB)	Solo / Group: (S/G)	Undertaking Specific Parameters (USPs)			
			Premium risk σ	Reserve risk σ		Non-proportional reinsurance adjustment factor
				Method 1	Method 2	
(1)	(2)	(3)	(4)	(5)	(6)	(8)
	Miscellaneous financial loss					
	Non-proportional reinsurance - casualty					
	Non-proportional reinsurance - MAT					
	Non-proportional reinsurance - property					

In Table 3, please enter a row for each entity / line of business for which you are applying to use a USP in the SCR calculation.

Notes:

- (1) Entity should be one of the entities listed in Table 1 at items (2) or (6).
- (2) The Line of Business (LoB) must be one of the lines in parts A to D of Annex I to Technical Provisions – Further Requirements. Please state the LoB name and number (LoBs 1 to 12 are insurance LoBs and LoBs 13-24 are proportional reinsurance LoBs).
- (3) Enter S/G to indicate whether USPs in question are for a Solo or Group SCR calculation.
- (4) to (8) Please enter the USP in the box for the USPs you are applying to use for the entity and LoB. If a box for an entity and LoB pertains to a USP you are not applying to use, leave that box blank.
- (4) to (8) The USP(s) entered in any of the columns (4) to (8) will be calculated from data as at the date(s) specified in Table 1 above.
- (4) to (8) Both (4) and (8) cannot be used at the same time nor can (5) and (6).

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Table 4: Life sub-module and health revision risk sub-module.

Entity (1)	Life / Health revision risk (2)	Solo / Group: S/G (3)	USP (4)
**			

*** Insert additional rows as required.*

In Table 4, please enter a row for each entity / line of business for which you are applying to use a USP for the instantaneous permanent increase to be applied to the amount of annuity benefits taken into account in the calculation referred to in Solvency Capital Requirement - Standard Formula 3B5 and/or 3C15, provided the annuities are not subject to material inflation risk.

Notes:

- (1) *Entity should be one of the entities listed in Table 1 at items (2) or (6).*
- (2) *Enter 'life' or 'health'.*
- (3) *Enter S/G to indicate whether USPs in question are for a Solo or Group SCR calculation.*
- (4) *Enter the USP obtained.*

Table 5: USP appropriateness.

Please provide answers to these questions and the remaining tables on a separate document keeping the numbering as per the template:

USP appropriateness
1. Please explain how your firm's risk profile for the segments of your USP applications deviates from the assumptions underlying the Standard Formula and the appropriateness of USPs for calculating your SCR.
2. Please provide rationale of why you have excluded certain segments (if any) from the USP application and discuss the appropriateness of the standard formula for those segments (refer to segments listed in Solvency Capital Requirement - Standard Formula 3A3 and 3C4).

Table 6: Governance

Area of governance
3. Please provide documentary evidence of sign-off for this application.
4. Please provide details of your proposed governance arrangements regarding USPs, including: <ul style="list-style-type: none"> a. explaining the role of your actuarial function in assessing the quality of the data; b. relevant minutes of meetings where submission of an application to use USPs was discussed and signed off; c. how you define material changes to your USP when recalculating for updated data; d. the triggers and the procedures that you have established to report to the PRA; and e. explain how you ensure continuous compliance of the requirements for USPs. Please provide a copy of your continuous compliance policy/procedure which you will use after the approval.
5. Please explain if you place any reliance on assurance from reviews (internal or external) of the data quality, calculation of USPs, total SCR (SF and/or SF using USPs) for Balance sheet and Technical Provisions. Please include the type of assurance provided and the scope of the review.

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6. Please provide details of expert judgement used in the calculation of USPs including evidence of appropriate challenge and governance of the expert judgements applied.
7. Please provide evidence that your data and its production are thoroughly documented as required by Solvency Capital Requirement - Undertaking Specific Parameters 3.

Table 7: Overall data criteria - Solvency Capital Requirement - Undertaking Specific Parameters 3.

The tables that follow request evidence that data used to calculate the USPs comply with the requirements set out in chapter 3 of the Solvency Capital Requirement – Undertaking Specific Parameters Part of the PRA Rulebook.

Data accuracy
8. Please provide your definition of material error and how you ensure your data is free from it.
9. Please explain significant process changes that could affect accurate recording of the data used to calculate USPs.
Data completeness
10. Please provide evidence that you have sufficient historical and granular information to allow for the measurement of volatility and uncertainty for each USP and LoB. Include a table which sets out the number of years of premium, exposure and claim data used for each USP and LoB and a rationale for excluding any data point(s) in the calculation(s) if you have done so.
11. Please explain of how the data for calculating USPs meet the conditions set out in Technical Provisions – Further Requirements 4(1), 4(2) and 4(3) and in relation to that data the firm complies with the requirements in Technical Provisions – Further Requirements 4(4) where any reference to the calculation of ‘technical provisions’ is to be interpreted for these purposes as a reference to the calculation of an USP.
12. Where there are any differences in the data used for the calculation of USP(s) and the calculation of technical provisions, please provide a summary of the comparison between the uses of the data for those purposes and an explanation of the differences. This should include differences in the accident years, reporting years or financial years used.

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Data appropriateness
13. Please explain how the data used for USPs is consistent with the assumptions underlying the actuarial and statistical techniques that are applied to them.
14. Please explain what data adjustments have been made for each LoB and USP. Include details on the validation carried out to ensure the data after adjustments meet the requirements of Solvency Capital Requirement - Undertaking Specific Parameters 3.
15. Please set out the number of years of data that you propose to use to calculate the USP. Please explain the rationale of the number of years of data you propose to use in your USP calculation.
16. Please set out how you have identified and made any adjustments to historic data to ensure it is relevant over the next 12 months.
17. Please set out how you have adjusted the data to account for changes in foreign exchange rates.
18. Please set out how foreign exchange rate risk is appropriately captured in the standard formula SCR given the allowances made for the translation of foreign exchange in the data.
19. Please set out the process and frequency of regular updates of the data used including the triggers for additional updates.
20. Please identify any factors that adversely affect the quality of the data and possible means of addressing those factors.
External Data (complete only if you have used external data)
21. Please explain why the external data is more suitable than internally sourced data for the calculation.
22. Please explain the source(s) of the external data and the methodology and assumptions used to process the data.
23. Please identify any trend(s) or variation of the assumptions and methodologies used to process the data over time.
24. Please explain process of the data collection and how the methodology and assumptions used to process the external data reflect your firm's risk profile.

Table 8: Premium risk data – Undertaking Specific Parameters 4

Data for premium risk method
25. Please explain how the data are representative of the premium risk that your firm is exposed to during the following 12 months.
26. Please confirm the accident years to which the data relate.
27. Which of the standard parameters do you intend to replace: non-life premium risk OR non-life gross premium risk.
28. Please set out details of any reinsurance or special purpose vehicle (SPV) arrangements in the following 12 months and explain whether your earned premiums and aggregated losses have been adjusted for recoveries from reinsurance or SPVs or reinsurance premiums. If the answer is yes, please include an explanation of how the adjustments for recoveries and premiums are consistent with the arrangements that are in place for the following 12 months.
29. Please explain how the aggregated losses are adjusted for catastrophe claims to the extent that the risk of those claims is reflected in the non-life or health catastrophe risk sub-modules.
30. Please confirm whether you have included expenses incurred in servicing the insurance and reinsurance obligations in the aggregated loss data and specify the expenses and their quanta. Please confirm how you have allocated fixed expenses to the segments relevant to this application for USPs.
31. Please provide evidence that your data for expected aggregated losses are linearly proportional to earned premiums in a particular accident year and the variance of aggregated losses is quadratic in earned premiums in a particular accident year for each segment.
32. Please provide evidence to show that aggregated losses follow a lognormal distribution. Include relevant charts and diagnostics comparing your observed data and the fitted lognormal distribution.
33. Please provide evidence that maximum likelihood estimation is appropriate for this data.

Table 9: Reserve risk

Data for reserve risk
34. Please explain how the data are representative of the reserve risk that your firm is exposed to during the following 12 months.
35. Please specify the financial years to which the data for Method 1 relates and the accident years to which the data for Method 2 relates.
36. Please explain how data used to calculate the USPs for reserve risk reflect the reinsurance coverage and the basis of operation of the firm's reinsurance programme.
37. Please explain how the data for method 1 and cumulative claims amounts for method 2 are adjusted for the amounts recoverable from reinsurance contracts and SPVs which are in place to provide cover for the following 12 months.
38. Please explain if you have made any significant changes to your reserving methodology/approach over the period of time to which the data relates.
39. Please explain how you have included in the data expenses incurred in servicing the insurance and reinsurance obligations, specifying the expenses and their quantum. Please include in the explanation how you have allocated fixed expenses for the segments relevant to this application for USPs.
40. Please compare and contrast the two methods specified in Solvency Capital Requirements – Undertaking Specific Parameters 5 and 6 for the reserving risk USP calculation and explain why your chosen reserving method produces the most accurate result to fulfil the calibration requirements included in Solvency Capital Requirement – General Provisions 3.3 and 3.4.

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Table 10: Reserve risk – method 1 data - Solvency Capital Requirements – Undertaking Specific Parameters 5

Data for reserve risk method 1
41. Please confirm that data are available for at least five consecutive financial years.
42. Please provide evidence that the data for claims incurred are linearly proportional to the best estimate of the provision for claims outstanding for each segment and financial year. ¹
43. Please provide evidence that the variance of claims incurred is quadratic in the provision for claims outstanding for each segment and financial year.
44. Please provide evidence that claims incurred follow a lognormal distribution. Include relevant charts and diagnostics comparing your observed data and the fitted lognormal distribution.
45. Please provide evidence that maximum likelihood estimation is appropriate for this data.

Table 11: Reserve risk – method 2 data- Solvency Capital Requirements – Undertaking Specific Parameters 6

Data for reserve risk method 2
46. Please confirm that data are available for at least five consecutive accident years and in the first accident year, data are available for at least five consecutive development years.
47. Please provide evidence to show that, in the first accident year the cumulative payment amounts of the last development year for which data are available includes all the payments of the accident year, except an immaterial amount (for the purposes of this requirement, materiality is defined in Solvency Capital Requirement – Undertaking Specific Parameters 6.3).
48. Please provide evidence to show that the number of consecutive accident years for which data are available is not less than the number of consecutive development years in the first accident year for which data are available.

¹ Sum of the best estimate provision for claims outstanding at the end of the financial year and the claims paid at the during the financial year.

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49. Please explain how the data are consistent with the assumptions about the stochastic nature of cumulative claims amounts as set out in Solvency Capital Requirements – Undertaking Specific Parameters 6.2(8).

Table 12: Non-proportional reinsurance method 1 data

Data for non-proportional reinsurance method 1
50. For each segment where an excess of loss reinsurance contract is in place, please explain how it meets the conditions set out in the definition of recognisable excess of loss reinsurance contract in rule 1.2 of the Solvency Capital Requirement – Undertaking Specific Parameters Part of the PRA Rulebook.
51. Please explain how the data are representative of the premium risk that your firm is exposed to during the following 12 months.
52. Please explain any planned changes envisaged in your firm's business mix and reinsurance arrangements in the following 12 months compared to that represented in the data used for calculations set out in this application.
53. Please compare and contrast the standard deviation for premium risk implied from the claim data used here with the standard deviation for premium risk used to calculate the SCR using the standard formula.
54. Please provide evidence to show that the ultimate claim amounts are estimated in the year when the insurance and reinsurance claims were reported.
55. Please list the reporting years to which the data is related to. Please confirm that data are available for at least five reporting years.
56. Please specify whether the recognisable excess of loss reinsurance contract applies to gross claims or net claims (i.e. after deduction of the recoverables from certain other reinsurance contracts and SPVs). If it applies to gross claims, please confirm that the ultimate claim amounts are gross. If it applies to net claims, please confirm that the amounts receivable from those reinsurance contracts and SPVs are deducted from the ultimate claim amounts.

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57. Please confirm whether your ultimate claim amounts exclude expenses incurred in servicing the insurance and reinsurance obligations.
58. Please provide evidence that the data are consistent with the assumption that ultimate claim amounts follow a lognormal distribution, including in the tail of the distribution. Provide charts comparing your observed data and the fitted lognormal distribution.
59. Please explain how the data, both gross and net of proportional reinsurance, for the next 12 months, complies with data criteria set out in Guidelines 1 to 7 in the EIOPA Guidelines on undertaking-specific parameters .

Table 13: Non-proportional reinsurance method 2 data

Data for non-proportional reinsurance method 2
60. For each segment where a stop loss reinsurance contract is in place, please explain how it meets the conditions set out in the definition of recognisable stop loss reinsurance contract in rule 1.2 of the Solvency Capital Requirement – Undertaking Specific Parameters Part of the PRA Rulebook.
61. Please explain how the data are representative of the premium risk that your firm is exposed to during the following 12 months.
62. Please explain any planned changes envisaged in your firm's business mix and reinsurance arrangements in the following 12 months compared to that represented in the data used for calculations set out in this application.
63. Please compare and contrast the standard deviation for premium risk implied from the claim data used here with the standard deviation for premium risk used to calculate the SCR using the standard formula.
64. Please provide evidence to show that the aggregated annual losses are estimated in the year when the insurance and reinsurance claims were reported.
65. Please list the reporting years to which the data is related to. Please confirm that data are available for at least five reporting years.

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<p>66. Please specify whether the recognisable stop loss reinsurance contract applies to gross claims or net claims (i.e. after deduction of the recoverables from certain other reinsurance contracts and SPVs). If it applies to gross claims, please confirm that the aggregated annual losses are gross. If it applies to net claims, please confirm that the amounts receivable from those reinsurance contracts and SPVs are deducted from the aggregated annual losses.</p>
<p>67. Please confirm whether your aggregated annual losses exclude expenses incurred in servicing the insurance and reinsurance obligations.</p>
<p>68. Please provide evidence that the data are consistent with the assumption that the aggregated annual losses follow a lognormal distribution, including in the tail of the distribution. Provide charts comparing your observed data and the fitted lognormal distribution.</p>
<p>69. Please explain how the data, both gross and net of proportional reinsurance, for the next 12 months, complies with data criteria set out in Guidelines 1 to 7 in the EIOPA Guidelines on undertaking-specific parameters.</p>

Table 14: Life and health revision risk data

Life and health revision risk data
<p>70. Please explain how the data are representative of the revision risk that your firm is exposed to during the following 12 months.</p>
<p>71. Please confirm that data are available for at least five consecutive financial years.</p>
<p>72. Please confirm that the annuity benefits are gross, without deduction of the amounts recoverable from reinsurance contracts and SPVs and that the annuity benefits include the expenses incurred in servicing the annuity obligations.</p>
<p>73. Please provide relevant charts and diagnostics which demonstrate that the annual number of annuity increases follows a negative binomial distribution, including in the tail of the distribution.</p>
<p>74. Please provide relevant charts and diagnostics which demonstrate that the amount of an annuity increase follows a lognormal distribution, including in the tail of the distribution.</p>

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75. Please explain how the annual number of annuity increases and the amounts of the annuity increases are mutually stochastically independent.
76. Please explain how sufficient data is available to allow measurement of the volatility and uncertainty of the behaviour of biometric factors and impact of the legal environment on potential revisions to annuities.

Table 15: Group Specific Parameters

Group Specific Parameters
77. Please provide a comparison of the reinsurance and SPV arrangements at group and solo level.
78. Please explain how the nature of the group business and its risk profile compare to those of the solo undertakings. Please provide statistical evidence that the data at solo and group level exhibit a high degree of similarity.