

Bank of England PRA

Review of Solvency II Effective Value Test parameters – applicable from 27 March 2023

The minimum deferment rate parameter to be used in the Solvency II Effective Value Test (EVT), as set out in Supervisory Statement 3/17,¹ has been reviewed and updated as set out below.

The deferment rate parameter in this document applies from 27 March 2023. When conducting the EVT, all firms should use a deferment rate greater than or equal to the minimum rate published by the PRA, along with the volatility parameter set out below.

Deferment Rate Parameter

The minimum deferment rate in Policy Statement 31/18 as of December 2018 was 1% per annum, which was reduced to 0.5% per annum in September 2019 following a review of movements in long-term real interest rates, before being increased to 2.0% in September 2022. For the review in March 2023, the PRA has again examined long-term real interest rates, measured using a range of swaps-based data sources, at a range of long-term tenors from 10 to 30 years. The PRA's judgement, informed by this analysis, is to increase the minimum deferment rate used in the EVT to 3% per annum.

The PRA will keep the minimum deferment rate under review.

Volatility Parameter

For the avoidance of doubt, the volatility parameter to be used in the EVT has not been reviewed and therefore it remains unchanged at 13% per annum.

March 2023

¹ PRA Supervisory Statement 3/17 – 'Solvency II: illiquid unrated assets', April 2020: <https://www.bankofengland.co.uk/prudential-regulation/publication/2017/solvency-2-matching-adjustment-illiquid-unrated-assets-and-equity-release-mortgages-ss>.