

# Bank of England PRA

## Review of Solvency II Effective Value Test parameters – applicable from 29 September 2023

The parameters to be used in the Solvency II Effective Value Test (EVT), as set out in supervisory statement 3/17,<sup>1</sup> have been reviewed and updated as set out below.

The parameters in this document apply from 29 September 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<sup>2</sup> 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% and 3.0% in September 2022 and March 2023 respectively. For the review in September 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 retain the minimum deferment rate used in the EVT at 3.0% per annum.

The PRA will keep the minimum deferment rate under review.

### Volatility Parameter

The PRA has analysed house price indices from Nationwide and the Office for National Statistics up to Q1 2023. A time series model was fitted to quarterly log-returns from each of these indices to derive values for long-term index volatility. These values were then adjusted to incorporate the effect of idiosyncratic behaviour of individual properties (using data from the Land Registry).

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<sup>1</sup> 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>.

<sup>2</sup> PRA policy statement 31/18 – Solvency II: Equity release mortgages, December 2018:

<https://www.bankofengland.co.uk/prudential-regulation/publication/2018/solvency-ii-equity-release-mortgages>.

As a result of this analysis, the PRA has decided to retain a value for the volatility parameter to be used in the EVT of 13%.

September 2023