



Review of Solvency II Effective Value Test parameters – applicable from 31 March 2021

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 31 March 2021. Firms that have elected to use a minimum deferment rate of 0% to conduct the EVT prior to 31 December 2021 may continue to do so, notwithstanding the minimum deferment rate published below. When conducting the EVT, all firms should use the published volatility parameter below regardless of the minimum deferment rate they are using.

Deferment Rate Parameter

The minimum deferment rate in Policy Statement 31/18² 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. For the review in March 2021, 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. Having taken into account current market conditions, the PRA's judgement, informed by this analysis, is to retain the minimum deferment rate used in the EVT at 0.5% 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 2021

¹ 'Solvency II: Matching adjustment – illiquid unrated assets and equity release mortgages', September 2019: <https://www.bankofengland.co.uk/prudential-regulation/publication/2017/solvency-2-matching-adjustment-illiquid-unrated-assets-and-equity-release-mortgages-ss>.

² December 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/solvency-ii-equity-release-mortgages>.