

Bank of England PRA

Review of Solvency II Effective Value Test parameters – applicable from 30 September 2025

The parameters to be used in the Solvency II Effective Value Test (EVT), as set out in supervisory statement (SS) 3/17 – Solvency II: illiquid unrated assets,¹ have been reviewed and updated as set out below.

The parameters in this document apply from 30 September 2025. 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 31/18,² 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%, 3.0%, 3.5%, and 4.0% in September 2022, March 2023, September 2024 and March 2025 respectively. For the review in September 2025, 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 4.5% 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 2025. 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).

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

September 2025

¹ Available at: www.bankofengland.co.uk/prudential-regulation/publication/2017/solvency-2-matching-adjustment-illiquid-unrated-assets-and-equity-release-mortgages-ss.

² Available at: www.bankofengland.co.uk/prudential-regulation/publication/2018/solvency-ii-equity-release-mortgages.