



## **Review of Solvency II Effective Value Test parameters – applicable from 31 March 2022**

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

The deferment rate parameter in this document applies from 31 March 2022. 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. For the review in March 2022, 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 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 2022

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<sup>1</sup> '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>.

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