



## Review of Solvency II Effective Value Test parameters – applicable from 30 September 2021

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

The parameters in this document apply from Thursday 30 September 2021. Firms that have elected to use a minimum deferment rate of 0% to conduct the EVT prior to Friday 31 December 2021 may continue to do so, notwithstanding the minimum deferment rate published below. From Friday 31 December 2021, the PRA will expect firms to conduct the EVT using the published minimum deferment rate. When conducting the EVT, all firms should use the published volatility parameter below regardless of the deferment rate they are using.

### 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.<sup>2</sup> For the review in September 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

The PRA has analysed house price indices from Nationwide and the Office for National Statistics up to Q1 2021. 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 EVT of 13%.

September 2021

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<sup>1</sup> September 2019: [Solvency II: illiquid unrated assets](#).

<sup>2</sup> December 2018: [Solvency II: Equity release mortgages](#).