Press Release

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EIOPA SETS OUT THE METHODOLOGY TO DERIVE THE ULTIMATE FORWARD RATE

- *A clearly specified methodology for deriving the Ultimate Forward Rate (UFR) is a legal requirement*
- *The principles of the methodology are defined in the Solvency II legislation*
- *The methodology will be applied for the first time at the beginning of 2018*
- *In line with the methodology, the calculated value of the UFR for the euro is 3.65%*
- *Annual changes to the Ultimate Forward Rate will not be higher than 15 basis points*
- *The Ultimate Forward Rate applied to the euro will therefore decrease in 2018 from 4.2% to 4.05%*

Frankfurt, 5 April 2017 – Today, the European Insurance and Occupational Pensions Authority (EIOPA) published the methodology to derive the Ultimate Forward Rate (UFR) and its implementation process.

The methodology follows the principles laid down in the Solvency II legislative framework, in particular to be stable over time and to be only changed as a result of changes in long-term expectations. EIOPA's methodology derives the UFR in a transparent, prudent, reliable and objective manner that is consistent over time. Furthermore, the UFR takes into account expectations of the long-term real interest rate and of expected inflation.

The UFR methodology will be applied for the first time in the calculation of the risk-free interest rates of January 2018 to be published in February 2018.

In line with the methodology, and reflecting the significant changes in the long-term expectations of interest rates in recent years, the calculated value of the UFR for the euro is 3.65%. Annual changes will not be higher than 15 basis points. In a first step of the phasing-in the current UFR of 4.2% will therefore be lowered in January 2018 to 4.05%.

Gabriel Bernardino, Chairman of EIOPA, said: *"This methodology strikes the right balance between a stable UFR and the need to adjust it in case of changes in long-term expectations about interest rates and inflation. The methodology ensures that the UFR moves gradually and in a predictable manner, allowing insurers to adjust to changes in the interest rate environment and ensuring policyholder protection."*

The methodology is a result of extensive work including a workshop with stakeholders, a public consultation and a detailed impact analysis. The specification of the methodology to derive the UFR, the calculation of the UFR for 2018 based on this methodology and the analysis of the impact of UFR changes can be obtained via EIOPA's Website. The consultation report including EIOPA's responses to the stakeholders' comments will be published by the beginning of May 2017.

Notes for Editors:

(Re)insurers need to set up provisions for their (re)insurance liabilities. These provisions are discounted with **risk-free interest rates (RFR)**. The RFR are derived from prices of interest rate swaps and government bonds that are traded in deep, liquid and transparent markets. For long maturities where such instruments are not available the RFR are derived by means of extrapolation towards the UFR.

According to the **methodology changes of the UFR are phased-in**. The calculated value of the UFR for the euro is 3.65%. Annual changes will not be higher than 15 basis points. In a first step of the phasing-in the current UFR of 4.2% for the euro will therefore be lowered to 4.05%.

The concept of the **ultimate forward rate (UFR)** is specified in **Article 77a of the Solvency II Directive**. EIOPA's work on the UFR methodology started in May 2015. This work included a workshop with stakeholders in July 2015 based on an issue paper on the UFR methodology and continued with a public consultation from 20 April 2016 to 18 July 2016 as well as a detailed impact analysis.

By specifying the methodology **EIOPA is fulfilling its mandate according to Article 47 of the Delegated Regulation on Solvency II**. That provision requires that the methodology to derive the UFR shall be clearly specified in order to ensure the performance of scenario calculations by insurance and reinsurance undertakings and that the UFR shall be determined in a transparent, prudent, reliable and objective manner that is consistent over time.