EIOPA 2024 Stress Test Exercise
Questions and Answers
29 April 2024

Question ID	Publication date	Topic	Paragraph / Template	Question	Answer
1	22-Apr-24	Technical Specifications	128	Within the context of the paragraph 128 of the Technical Specifications, can you please specify which shocks should be taken into account?	The provided RFR rates, within the techncial information file, shall be used for the purposes of evaluating the liabilities. For all other purposes that interest rate swaps shocks are required, e.g., asset revaluations, the shocks that shall be utilised are the ones of the tab "Market_Shocks" of the technical information file titled "Shocks to swaps absolute changes (basis points)", specifcially in the range B2:P25. This will be clarified in the corresponding paragraph of the Technical Specifications.
2	22-Apr-24	Technical Specifications	130	Could you specify the shocks to market-implied expectations on inflation (inflation-linked swaps) in terms of absolute changes (basis points) that we should take into account for maturities that are not explicitly provided and for maturities greater than 10 years?	IRS refers both to nominal swap rates and inflation-linked swap rates (see paragraph 124 of the TS), therefore the methodology described in paragraph 130 of the TS applies to the shocks for inflation linked swaps (in the "Market_Shocks" tab) for maturities not provided, namely : "Shocks to sovereign bonds spreads and IRS for maturities not provided in the technical information file should be derived: • by interpolation (e.g., spline) for maturities that are not explicitly provided and that are not exceeding the last maturity provided with an explicit shock; • by keeping the shock constant for all maturities exceeding the last maturity provided with an explicit shock."
3	22-Apr-24	Technical Specifications	160	Could you confirm that the Mass Lapse shock should be applied to all homogeneous risk groups, including those where the shock would lead to a reduction in technical provisions?	The mass lapse shock shall be applied to all policies independently of whether the discontinuance would result in an increase of technical provisions (with/without the risk margin) or not, Paragraph 160 will be amended accordingly.
4	22-Apr-24	Technical Specifications	160	Should the Mass Lapse shock be applied to credit insurance?	Lapse shock applies only to non-mandatory life contracts. Credit insurance contracts include both non-life guarantees and life guarantees such as term insurance which shall be excluded from the lapse shock as set out in Figure 8 of the technical specifications.
5	22-Apr-24	Technical Information		Could you please provide all the market shock values that are applied within the insurance stress test 2024, i.e. shocks to swaps in absolute changes (basis points) for all maturities that are applied before Smith-Wilson extrapolation?	The liabilities shall be recomputed according to the RFR curves provided in the technical information. The parameters to derive the curves are available in the "Shock_Scenario_RFR_spot_with_VA" and "Shock_Scenario_RFR_spot_no_VA" in lines 4 to 10. The shocks to swaps in absolute changes (basis points) that are applied before the Smith-Wilson extrapolation are in the "Market_Shocks" tab (Table "Shocks to swaps absolute changes (basis points)", range B2:P25) in the technical information file. These shocks are utilized to derive the EIOPA risk-fee rate (RFR) curves via the Smith-Wilson model according to the EIOPA methodology (see Paragraph 125 of the TS), which are also provided in the technical information file. Shocks to swaps for maturities not provided are derived by interpolation before the last maturity and kept unchanged for all maturities exceeding the last maturity provided (see Paragraph 130 of the TS). See also question 1.
6	29-Apr-24	Technical Specifications	124	Is our assumption correct that the shocks to market-implied expectations on inflations will affect fixed income inflation linked instruments, i.e. Inflation Indexed Bonds (IIB) and Capital Indexed Bonds (CIB)? If yes, can you confirm that for Bond Inflation Linked, the RFR, Credit and Inflation shocks provided have to be combined all together? For example an Italian BTP Inflation Linked with 1yr maturity should be stressed considering the following stresses: Swap (+168 bps), Credit spread (+96 bps) and Inflation implied market expectation (+196 bps)	The shocks to swap rates are provided in nominal terms. Hence, calculation of the post stress value of inflation linked bonds shall include the shocks to inflation explicitly. The shock to yields of inflation linked bonds shall be consistent with the approach described in par. 129 of the Technical Specifications and incorporate the shock to inflation as follows: Shock to yield = shock to swap + shock to spread - shock to inflation. Following the example provided in the question the shock to the 1y maturity yield of the inflation linked BTP shall be 168+96-196=68bps. As a simplification, participants are allowed to neglect the shock to inflation in calculating the post stress value of inflation-linked fixed income assets. Specificities shall be discussed in the pre-validation phase.

7	29-Apr-24	Technical Specifications	124	As far as the definition of Equity Infrastructure investments subject to asset market shocks is concerned, we are unsure on whether the classification should be based on the CIC codes or whether it would be preferable to rely on the classification of 'Qualifying infrastructure investments' as provided by articles 164a-164b SII Delegated Acts. In case a CIC-based classification shall be used, we would also appreciate to have confirmation on the list of codes to be used (CIC 48 and/or other CICs?)	For identifying infrastructure investments, column [C0300] "Infrastructure investment" of the list-of-assets template (S.06) shall be used. Shocks to infrastructures shall be applied to all assets with a numerical code other than "1-Not an infrastructure investment". All infrastructure investments have to be shocked by applying the shocks provided in the Technical Information, tab "Market_Shocks" (cells AU2:AZ5), according to the type of asset (bond, equity, other) and the geographical area (EU, global). Assets identified with numerical code "1-Not an infrastructure investment" in column [C0300] shall be subject to standard shocks. With reference to the Stress Test templates, please note that, as specified in paragraph 213, "in case participants make use of the provided shocks for infrastructure assets, then those shall only be reported to the dedicated table included under the subsection "Other assets" in the 0.Assets, FBS.Assets and CBS.Assets".
8	29-Apr-24	Technical Specifications	Par. 160, figure 8	The mass lapse shock shall be applied to unit-linked products but not to annuities; how about unit-linked annuities? What about dynamic hybrid products (annuities)?	The annuity type of products that shall be considered outside the mass lapse shock perimeter are those in pay-out phase and also those contracts that are either linked to automatic annuitisation or they do not provide lapse option relevant to the instantaneous discontinuance. Products that provide an option to annuitize the accumulated capital, but during the capital accumulation phase offer continuous lapse option / surrender value (ignoring surrender and other penalties that might apply) shall be shocked, assuming instantaneous discontinuance of 20%. Specificities on lapse options (e.g., partial withdrawals options) shall be discussed during the pre-validation phase.
9	29-Apr-24	Technical Specifications	Par. 180 ff.	Expense inflation: Shall expenses for asset management be shocked?	Yes, this is correct. All life and non life expenses should be increased. However, expenses covered by existing contracts on costs (e.g., outsourcing expenses) based on fixed fees (i.e., not linked to inflation), shall be excluded from the application of the shock (see paragraph 183 of the Technical Specifications) for the time horizon covered by the contract.
10	29-Apr-24	Technical Specifications	Par. 115	To what extent can reinsurance measures/adjustments be allowed as reactive management actions? New reinsurance or the renewal of reinsurance that requires the consent of the other party are not allowed, correct?	Opening a new reinsurance agreement or the extension of existing one can be allowed. However, it should be priced in line with the adverse market conditions of the stress test scenario. Additional considerations are whether such a management action is included in the recovery plan shared and approved by NCA and whether it was tested under plausible adverse scenarios. The proper pricing of the contract shall be explicitly elaborated, along with a reasonable amount of relevant details to assess its plausibility under adverse market and economic conditions. The details of the final approach, including, where known, the name and LEI code of the entity acting as reinsurer, shall be described in the qualitative part of the capital/liquidity templates wherever applicable. Where no indication on the potential reinsurance counterparty is provided, still participants shall include detailed information on the approach taken to estimate the pricing under adverse market and economic conditions. For example, in case it is a reactive management action for the capital component, the reactive management worksheet includes standardised questions for the action taken. To provide additional information, the dedicated qualitative information cells in the other worksheets of the templates can be used e.g., the ones corresponding to the affected quantities due to the reactive management action. The information mentioned above should also be part of the discussion during the pre-validation phase.
11	29-Apr-24	Technical Specifications	5.2.1 (160 and figure 8)	According to 5.2.1. paragraph 160, the lapse shock should be applied to non-mandatory life insurances, excluding pension schemes as specified in figure 8. In figure 8 it is mentioned that it applies to traditional products (e.g. endowments) as well as products in which the return is linked to a capital market product such as an index (e.g. unit-linked). We would like a clarification as to whether all pension products, occupational and contractual pensions as well as private pensions products should be excluded from the stress. Regardless of the text in figure 8 that mentions that the stress applies to traditional as well as unit-linked products, our understanding is that the statement that pension schemes are excluded takes priority here.	Defined Benefits and Defined Contributions schemes based products shall be exluded as specified in the paragraph 160. For annuity type of products outside these two categories, please refer to Question 8.