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Head of Credit Solutions, Portfolio Management and Solutions, Swiss Re
Solvency II: Are you prepared for the Credit Risk Challenge?

The European Commission has launched a new set of regulations under Solvency II. This will have a significant impact on how insurance and reinsurance firms align themselves. This new initiative will examine the way firms are required to address internal governance, risk and capital management processes. Solvency II will establish a uniform and consistent framework for insurance firms in Europe—creating greater transparency and a level playing field—and transforming the way Insurance firms conduct their operations.

Credit risk is one of the five risks the regulation focuses on. Moody’s can contribute its wealth of data, superior modeling, software and expert consulting capabilities to develop cutting-edge solutions adapted to each insurer’s credit risk needs. Building on our unique pool of credit risk specialists and industry practitioners, Moody’s can facilitate a richer understanding of the new regulations, advise insurers on how to best approach the credit challenges ahead and support them along the process.

The Three Pillar Framework

Insurance firms should move quickly to prepare for Solvency II. The proposed plan for implementation is 2012 and experience with other changes of this magnitude indicate that the lead time can be significant. This new mandate will dramatically change how firms allocate, calculate and then manage capital by setting minimum requirements at an aggregate and individual obligor level. This holistic framework utilizes a risk-based approach to establishing capital requirements.

Insurers have two options for meeting the new regulatory requirements: the standardised approach, which captures the risk profile of an average insurance company, or an internal models-based approach, which is tailored to the specific risk profile of the company. It is important for insurers to understand the implications and advantages of each approach. For example, the internal approach provides incremental benefits in terms of capital allocation savings, competitiveness and robustness of the risk management process.

Whether your firm elects to comply using standard, partial or full internal models, Moody’s offers solutions tailored to your credit risk needs.
Moody’s Analytics Can Help

CREDIT ASSESSMENT AND MANAGEMENT SOLUTIONS DEVELOPED BY PRACTITIONERS, FOR PRACTITIONERS. Moody’s offers insurers a unique blend of credit expertise, data, market standard analytics and extensive industry practice. We provide an unparalleled suite of capabilities to help insurers navigate through the complexity of Solvency II and derive the highest level of benefits from the compliance process.

DATA INFRASTRUCTURE: Devise and set up the proper data infrastructure to support credit risk calculation models

› Help to define data input requirements
› Provide data collection, analysis, and internal mapping solutions
› Feed timely Moody’s credit rating, EDFs and other relevant market-implied assessments as well as adjusted financials directly into internal databases
› Facilitate the benchmarking of your own credit assessments by contributing opinions on public and private firms, rated and unrated companies

Market standard databases: access 100,000 Moody’s credit ratings, private and public firm historical data, 30 years of probability of default data, and ultimate recovery rates on more than 3,500 defaulted instruments.

MODELS & ANALYTICS: Calculate default probabilities and set up early warning systems

› Determine probabilities of default (PDs) that rely on quantitative factors and/or expert judgement, and implement PD models that meet exposure requirements
› Provide market standard loss given default models
› Help to build or strengthen internal rating systems
› Develop early warning and action triggers using Moody’s market-based analytics or your own

Moody’s has developed a unique suite of award-winning private and public firm models that institutions around the world rely on to assess counterparty default risk.

PORTFOLIO STRATEGY & MANAGEMENT: Accurately plan and measure portfolio-level risk; calculate credit risk-related capital requirements within a flexible framework

› Implement correlation and diversification frameworks
› Perform granular valuation of portfolio assets
› Calculate economic capital requirements
› Benchmark credit portfolio risk and return across the organisation
› Stress-test and perform scenarios analysis
› Establish portfolio strategies

Moody’s is the market leader in portfolio credit risk solutions. Our tools enable clients to gain a clear understanding of the impact of rating, industry, size and other drivers of portfolio risk. This clarity is critical to insurers as they move to allocate capital to customers and business units to enable better decision-making.

As the recognized leader in credit risk management solutions, with more than 100 years of hands-on experience with insurance and reinsurance firms, Moody’s is uniquely positioned to address the specific credit challenge of insurers as they move to allocate capital within the Solvency II framework.
Whether your firm elects to comply using standard, partial or full internal models, Moody's offers solutions tailored to your credit risk needs. Insurers have two options for meeting the new regulatory requirements: the standardised approach, which captures the risk profile of an average insurance company, or an internal models-based approach, which is tailored to the specific risk profile of the company. It is important for insurance firms to conduct their operations in compliance with new regulations, as the European Commission has launched a new set of regulations under Solvency II. This will have a significant impact on how insurance and reinsurance firms align themselves. This new initiative will examine the way firms are required to address the credit challenges ahead.

Moody’s offers insurers a wealth of expert services to help them address regulatory requirements and improve business efficiency at every stage of the risk management process. As the recognized leader in credit risk management solutions, with more than 100 years hands on experience with insurance firms, investors, and regulators, Moody's is uniquely positioned to address the specific credit risk evaluation and monitoring needs of insurance companies.

Moody’s KMV and Moody’s Economy.com, and the research and analytic products pioneered by Moody’s Investors Service. We serve clients in more than 80 countries, including most of the world’s 100 largest financial institutions. Our integrity and deep market expertise have earned us the trust of capital market participants worldwide. To learn more about our credit solutions for insurers, please visit: moodys.com/solvency2

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