25. (1 point)

Briefly describe two characteristics of the models used by each of the following credit rating agencies:

    i.   Moody's
   ii.   Standard & Poor's

QUESTION 25	
TOTAL POINT VALUE: 1	**LEARNING OBJECTIVE(S): C2**
SAMPLE ANSWERS	

Sample 1

Moody's:
- Uses stochastic cash flows to model economic capital
- Cash flows are projected until all liabilities are settled

Standard & Poor's:
- S&P focuses on evaluating insurer's ERM systems and internal capital models
- Uses a weighted average of S&P's formula and the client's model

Sample 2

Moody's:
- Simulates repeatedly from the distribution of each risk
- The required capital is set by a VaR or a TVaR for the aggregate loss distribution

Standard & Poor's:
- Emphasis on principle-based systems and ERM practices
- S&P reasons that well-managed insurers evaluate their capital needs more accurately than a rating agency can

EXAMINER'S REPORT

Candidates were expected to demonstrate knowledge of the models used by the credit rating agencies.

A common error included:
- Describing the A.M. Best model instead of the required model