Moody’s Analytics Credit Loss & Impairment Analysis Suite

Changes in the accounting standards for financial instruments (IFRS 9 and CECL) require firms to create an allowance for financial assets based on forward-looking estimates of expected credit losses (ECL). This requirement applies whether an instrument is already impaired or not. Our suite of solutions help firms address many of the challenges presented by these new standards.

THE CHALLENGE: MOVING FROM INCURRED LOSSES TO FORWARD-LOOKING LOSSES

The new standard creates many operational and business challenges: from the estimation of loss on an individual asset, to the manner in which allowances are created throughout a business cycle, and the impact on capital metrics. Firms need more historical, granular data and trend information to build forward-looking impairment models. Institutions must enhance or develop new model processes and infrastructure to accommodate new provision calculations. Large volumes of data and calculations can challenge existing IT infrastructure to support the repeatability, auditability, and consistency of the process.

The Solution: Moody’s Analytics Credit Loss & Impairment Analysis Suite

Moody’s Analytics suite of credit risk models and data, economic forecasts, advisory services, and infrastructure solutions can assist with the implementation of expected credit loss and impairment analysis. Our modular, flexible, and comprehensive credit loss and impairment analysis solution can address the many challenges of implementing impairment calculations.
Building a Forward-looking Impairment Model

Industry-leading Models across Various Asset Classes

Calculating expected credit losses requires adjustments to existing models or the deployment of new models. Our credit risk models forecast probability of default (PD), loss given default (LGD), and exposure at default (EAD). The models derive 12-month and lifetime EL, for commercial & industrial, commercial real estate, and all major consumer lending portfolios, as well as structured securities such as ABS and RMBS under normal and stressed scenarios. We also forecast instrument- and portfolio-level expected losses.

Our modeling solutions allow firms the opportunity to implement internally developed or off-the-shelf models and incorporate forward-looking information into existing frameworks. Clients can leverage existing through-the-cycle (TTC) models and convert them into a forward looking measure for the extrapolation of a risk term structure to calculate lifetime ECL. For structured products, Moody’s Analytics maintains deal waterfall models on more than 20,000 securities globally across all asset classes.

Sourcing Default & Recovery Data

Granular Credit Risk, Economic and Financial Datasets

Banks must collect and analyze more granular, historical default data to be able to implement the new accounting standards.

We offer the world’s most comprehensive and granular credit risk, economic, and financial datasets to help capture and collect historical data required for building a forward-looking impairment model, developing quantitative credit risk models, and benchmarking. Our data includes historical probability of defaults, loss amounts, product features, economic scenario variables and performance data for up-to-date deal modeling and bucketing purposes across all structured finance securities.

Our comprehensive data set includes:

» Over 500,000 individual debt securities
» Historical and multi-asset class coverage of ABS, CDO and structured finance data
» 50,000 distinct issuers
» Historical defaults back to 1920
» Scenarios for 50+ countries, covering more than 1,800 variables

In addition, our benchmarking tools provides PD, LGD, and EL estimates for user-defined cohorts, providing institutions with a benchmark to their own internal data or as a supplement for areas where data is limited.

Linking Scenarios to Expected Credit Risk Parameters

Trusted Economic Scenarios

Firms are encouraged to use multiple scenarios to produce probability-weighted lifetime expected credit losses for their impairment calculations. Moody’s Analytics produces standard upside and downside economic scenarios for 50+ countries including the U.S. and all its states and metropolitan areas. These forecasts are probability-driven and cover up to 1,800 detailed variables per country, including many client-specific indices.

Moody’s Analytics can produce multiple fully fledged upside and downside economic scenarios that align with the scenarios probability distribution and our deep understanding of the global economy and potential threats. These scenarios also extend through long future horizons to satisfy the IFRS 9 lifetime requirements.
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SEEKING ADVICE ON CREDIT RISK CHALLENGES

Expert Advisory Services
Globally, organizations work with Moody’s Analytics advisors to strengthen and validate their risk and finance programs, models and governance, implement software solutions, advise on implementation strategies and train on best practices. We assist financial institutions with retail, small, and mid-sized enterprise, commercial and corporate loss provisioning model development, and calibration services. We can also help reconcile supplementary data where required and advise on issues around data governance.

MANAGING, CALCULATING, AND REPORTING DISCLOSURES

Credit Impairment Analysis Software
To manage the end-to-end process of ECL calculations, banks must centralize data from numerous sources, coordinate, and manage a wide variety of models, evaluate changes in credit risk, and calculate expected losses and provisions accordingly. Banks also need to prepare and export data required by external accounting systems.

Our credit impairment analysis software can integrate with other systems or stand alone to support the implementation of credit loss impairment calculations. It empowers the organization with transparency, control, auditability, traceability, and repeatability:

» Comprehensive data management capabilities to reduce reconciliatory burden.
» Visual end-to-end process management allowing for automated analysis.
» Industry leading models for expected credit loss calculation and cash flow generation.
» Model governance including a centralized EAD, PD, LGD.
» Enterprise-wide software that integrates data, models, and reports—enabling institutions to scale while maintaining performance.
» Seamless integration with accounting systems.
» Reporting for business intelligence and financial disclosures with automated analysis of allowance volatility over multiple reporting dates.

Our solution enables high performance for granular analysis and more accurate calculations as it is designed for multiple scenarios and what-if capabilities. The software can facilitate interaction and collaboration with flexible and visual workflow management that supports impairment analysis.

THE MOODY’S ANALYTICS DIFFERENCE: AN INTEGRATED SOLUTION COMBINING DATA, SCENARIOS, MODELING, ADVISORY SERVICES, AND INFRASTRUCTURE

Moody’s Analytics has more than 20 years of experience helping financial institutions successfully address their credit loss estimation and forecasting challenges. This experience, combined with deep domain expertise, in-house economists, extensive data sets and modeling capabilities, and award-winning regulatory and enterprise risk management software, are the foundation for successful credit loss and impairment analysis.
About Moody's Analytics

Moody's Analytics helps capital markets and credit risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services, and research, including the proprietary analysis of Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges.