SOCIETY OF ACTUARIES

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Credit Risk Survey Results

by Juan Kelly

During a three-week period last summer, the Credit Risk Listserv surveyed over 5,000 actuaries who are members of the Risk Management Section, the Investment Section and the Casualty Actuarial Society (CAS). Over 500 valid responses were received and tabulated by our long-standing vendor partner *www.perfectsurveys.com* (*now www.SurveyZ.com*). To put it mildly, the response was overwhelming (typical responses to a survey of professionals such as ourselves number no more than 250). I will share some of the highlights from the tabulations:

- Over 700 actuaries work with credit risk in their daily practices and will continue to do so.
- The relationship of credit risk to actuarial practice runs the gamut of the world economy, including swaps, default obligations, asset allocation, issuer concentration, reinsurance, surety bonds, moral hazard, ALM work, economic capital and VaR.
- Tools used to evaluate credit risk include both homegrown stochastic simulation models and proprietary models, rating agency reports, correlation studies of default and recovery rates, SOA private placement studies and RBC analysis.
- Resources at the disposal of actuaries measuring and evaluating credit risk include rating agency studies and models, the CFA syllabus, AIMR publications, *www.defaultrisk.com*, and syllabi offered by SOA, CAS, PRMIA and GARP.
- Credit risk is considered by actuaries in product pricing, dividend formulas, interest crediting rates, default swaps, VaR-like risk management calculations for asset losses and reinsurance recoverables.
- Areas where actuaries expect to add the most value in the future include portfolio simulation techniques, measuring credit worthiness of insurers and reinsurers, assessing suitability of credit instruments for investment portfolios, establishing issuer/industry/country/below investment-grade credit limits and analysis of derivative-like products.

Some responding actuaries felt that other professionals do a far better job of measuring and evaluating credit risk than our profession. It's not enough to be able to do the analysis. Credit risk management is crucial, especially when it comes to the valuation of insurance contracts in the era of fair value accounting.

Interestingly, only 400 of the respondents answered questions related to their employment status (e.g., working versus retired) and practice specialty. In balance, the responses are most gratifying. Rest assured that the SOA, CAS and the sections with interest in credit risk will take them to heart in the course of providing our profession with the tools and education to be successful. ✦

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