



Portfolio Credit Monitoring & Analysis for the Washington Department of Labor & Industries

WSIA – “How to Self-Insure in Washington” Workshop
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Marsh Specialty – Alternative Credit Solutions

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Portfolio Credit Monitoring & Analysis

Overview

What is it?

- › Credit risk review and advisory services
- › Portfolio and individual self-insurer credit analysis utilizing a multitude of sources such as credit ratings and probability of default models
- › Ongoing and real time credit risk monitoring

What does it do?

- › Early detection of warning signs
- › Tailored credit risk reports and live presentations
- › Helps determine appropriate course of action
- › Develop “ultimate rating levels” for all self-insurers

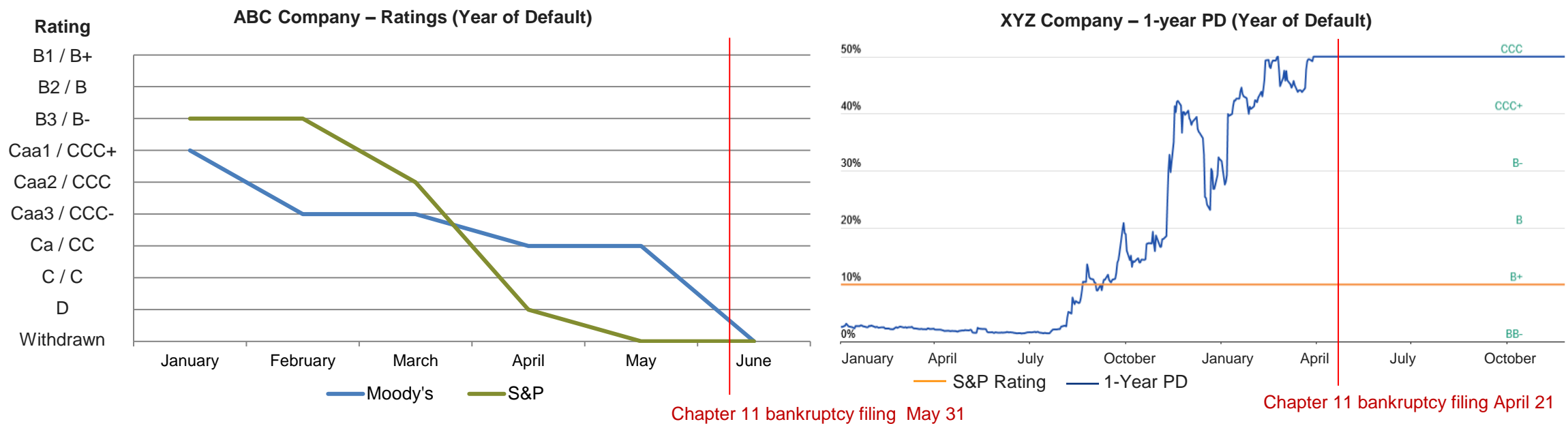
How does it help L&I and the self-insurers?

- › Helps manage counterparty credit risks
- › Protects Insolvency Trust Fund from losses due to default
- › Protects self-insurers from additional shortfall assessments
- › Assists L&I with development of financial watch list; better focus on real risks and actionable items

Portfolio Credit Monitoring & Analysis

Annual vs. Ongoing Review

- › Real-life example 1 shows a former counterparty that was **downgraded 6 notches in four months** before filing for Chapter 11 bankruptcy protection and having its credit ratings withdrawn
- › Example 2 shows **probability of default (PD) that increased drastically** ahead of bankruptcy filing despite no change in rating from S&P



Reviewing the portfolio of counterparties on an ongoing basis with a variety of tools (not just credit ratings alone) can help in identifying potential issues early in the process and facilitate additional action

Portfolio Credit Monitoring & Analysis

Resources

We use information and models from the major rating agencies in our analysis

Platform	Application	Description
Credit Rating Agencies		
Moody's Investor Service	Public/private firms with public debt	Ranks the creditworthiness of debt issuers using standardized ratings scale
Standard & Poor's	Public/private firms with public debt	Ranks the creditworthiness of debt issuers using standardized ratings scale
Credit Analytics models		
Moody's CreditEdge	Public firms	Probabilities of default and ratings for firms with publicly traded equity and published financial statements
Moody's RiskCalc	Private firms	Probabilities of default and ratings for private firms
S&P RiskGauge	Public and private firms	Probabilities of default and ratings for firms calibrated on ratings or stock price and financial statements
S&P PD Model Fundamentals	Private firms	Probabilities of default and ratings for private firms
Market Research/Data		
Moody's CreditView, S&P Capital IQ, S&P Global Ratings Research, Bloomberg, JPMorgan, Citi Velocity, Advisen, Oliver Wyman, Guy Carpenter, Allianz, and more	Credit market research, credit insurer ratings/scores and research, macro-economic research, industry specific research, individual company analyst reports, market pricing (equity, CDS)	

Portfolio Credit Monitoring & Analysis

Components of Presentations/Reports

A typical report for L&I might include the below sections:



Executive Summary

High-level summary of portfolio credit metrics and shifts from prior period, highlighting the most important details contained in the report



Economics & Credit Market Update

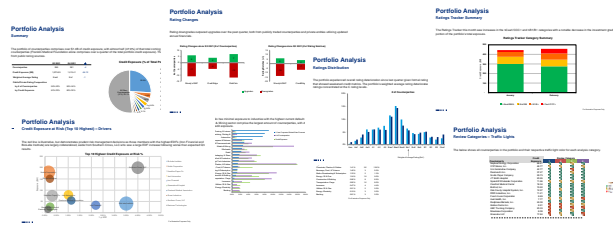
Default forecasts, industry outlooks, general rating agency sentiment and activity, major market changes relevant to the client portfolio



Portfolio Analysis

Expansive credit analysis of the portfolio, including but not limited to credit rating distributions/changes/outlooks, industry group comparisons, expected default frequencies (EDF), credit exposure analysis, and development of “watch lists”

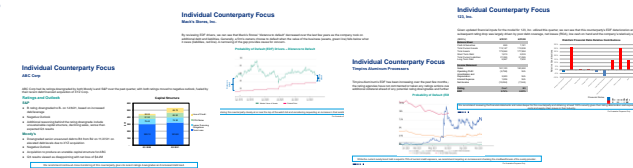
Examples



Individual Counterparty Focus

Deeper dive into specific self-insurers in the portfolio, likely those considered “high-risk”, or with material deterioration in credit metrics

Examples



Takeaways

Final summary of report, highlighting the main themes of the analysis and recommendations around potential action or focus



Appendix

Glossary of terms, rating definitions, “traffic light” categories, ratings methodologies, additional portfolio information, etc.

