

Abstract

Avantage Reply was engaged to lead the design of a comprehensive model risk management framework.

This comprised a new model governance, organisation, policy, and supporting documentation. It was fully aligned to industry best practice as well as model risk regulations, such as SR 11-7 (Fed) and TRIM (ECB).



Model Risk Management

THE CLIENT

The client is a European Investment Bank with global operations. Its expertise covers Corporate & Investment Banking, Private Banking & Asset Management, and Specialised Financial Services, such as leasing and factoring.

THE CHALLENGE

The client wanted to strengthen the robustness of its Model Risk Management framework. This need has grown from the client's activities both in the US, where model risk regulation has been established since 2011 with the Supervisory Guidance on Model Risk Management (SR Letter 11-7), and with the ECB's increasing focus on model governance as part of SREP and TRIM.

APPROACH AND SOLUTION

Avantage Reply facilitated a number of discussions with senior management to identify the decision points within the required Model Risk framework. The delivered framework has the following core components:

- The formalisation of the existing process, creating a more robust and harmonised risk management framework, with clearly defined roles and responsibilities at all stages of the Model Lifecycle.
- The scope of the policy has been extended, from exclusively risk and valuation models, to *all* models used within the client.
- The Risk Governance authority has seen the creation of a specific Committee for Model Risk Management, supported by more technically oriented Functional Model Risk Committees.
- The reorganisation of the Risk Department has seen the centralisation of the Model Risk Management Group, with a single point of authority, with different teams deployed for validation of risk & valuation models, and a Model Governance team for the oversight of the policy and portfolio.
- The level of model risk within the Bank is now monitored through a model scorecard and inventory. This enables comprehensive Model Risk Reporting to senior management.

RESULTS AND BENEFITS

A maximal control on all model-related issues has been set up and required actions are determined in accordance with the level of model risk. The policy enhances awareness of model risk within the Bank, and promote risk-based management actions.

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The firm's delivery capabilities cover advisory services (Risk/Finance/Treasury Subject Matter Expertise), Program and Project Management, Business, Functional, and Data Analysis.

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