

Client Case Study: Model Risk Management

MODEL LIFE CYCLE
MANAGEMENT |
OPERATIONAL RISK
MANAGEMENT | MODEL RISK
RATINGS & TIERING |
VALIDATION & CHALLENGE
CONTROLS | CHANGE
CONTROLS | MANAGEMENT
REPORTING & OVERSIGHT

The ask?



A global investment manager needed to establish a **fit-for-purpose model risk management model** to ensure the risk exposure from model development and use across their organisation was effectively assessed and managed in line with client expectations and industry better practice.

The client needed to formalise requirements into a policy document and ensure the approach could be adopted by all business units and users including coverage across user developed applications (UDAs).

The px Difference



The PX Partner's team leveraged our deep operational risk management experience within Line 2 roles at insurers, banks and asset managers to hit the ground running with level-setting workshops and defining 'what good looks like' for the organisation whilst taking into account the broad scope of models used by each business unit – included portfolio managers, trading, operations & client reporting, finance, risk & compliance, legal & company secretariat and distribution & marketing.

Below are some examples of our outputs:

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Model Risk Mgmt. Policy

| Year | Risk Level (Exposure) | Description & Examples |
|------|-----------------------|---|
| 1 | High | Models with all or some dependent upon delivering critical business functions or meeting regulatory requirements, e.g. core portfolio valuation model, regulatory capital calculation, hedge ratios or spreads are likely to cause significant regulatory, financial or reputational impacts. |
| 2 | Medium | Models used to support the day-to-day delivery for critical business functions, e.g. portfolio management, risk management, trade execution, etc. Models are not likely to cause significant regulatory, financial or reputational impacts. |
| 3 | Low | Models that are not used to support critical business functions, e.g. research tools, management information dashboards, back testing tools, etc. |

Risk TIERING

The so what?



Our team designed and supported initial implementation of the model risk management model, including:

- **Model risk management policy** – development of a fit-for-purpose policy covering how risk is managed throughout the model lifecycle from creation to use and archiving.
- **Model inventory & tiering** - business workshops to identify and risk assess all models used in the organisation to enable effective tiering and application of commensurate controls.
- **Control design & rollout** – defining key controls aligned to risk tiering across validation & challenge and change management for models.

Appendix 1 – 1.0 Model Risk Management Framework & Governance

Model risk management controls & guidance

