



Abstract

The client initiated a project to define and implement a governance framework for model development and validation, to be applied to credit risk models of its wholesale business. Avantage Reply was engaged by the client to assist with developing the governance framework in the form of a reference handbook of standards to be utilised by stakeholders of the four main stages of the standard model lifecycle; i.e. origination, development, deployment and review. The new framework provided benefits consisting of improved objectivity, consistency, control and transparency throughout the model lifecycle.

Model Development and Validation Governance and Standards

THE CLIENT

The client, headquartered in the UK, is one of the world's top 10 financial services Groups. In the UK, the client is the leading provider of corporate banking services and is a market leader in the provision of retail banking, wealth management, consumer finance and insurance.

THE CHALLENGE

The client initiated a project to define and implement a governance framework for model development and validation. The framework would be applied to credit risk models of the wholesale business worldwide. Avantage Reply was engaged to assist with the development based upon a standard Model Lifecycle comprising four main stages (Origination, Development, Deployment and Review), each of them giving rise to a specific Validation.

APPROACH AND SOLUTION

Avantage Reply worked closely with various stakeholders in Group and Divisions to define a framework that could be used by development, deployment, review and validation teams as a guide for their key activities. The key deliverable was as a reference handbook of standards applicable to all wholesale credit risk models.

The framework and standards contained in the handbook delivered the means needed for these teams to perform their activities in compliance with Basel II and UK regulator-specific minimum requirements and best practices. Examples include:

- Well-defined processes and methodologies for development, deployment, review and validation based upon the concept of an end-to-end Model Lifecycle;
- A set of Guidelines and Reference Documents delivered by Group Risk Management supporting the different stakeholders when developing, deploying, reviewing or validating models, including a set of standard documentation templates to be filled and delivered for each stage of the model lifecycle;
- A Model Document Template Repository to trace the model evolution across its entire lifecycle and provide comprehensive information on the model; and

A Governance Framework that stipulates the roles and responsibilities of the various parties across the model lifecycle in line with the functions segregation principles.

RESULTS AND BENEFITS

The benefits of having a defined, formal Model Management and Governance Framework are realised through improved objectivity, consistency, control and transparency throughout the model lifecycle. The framework provides the following benefits across the lifecycle:

- Models are officially initiated with a business case and their development are officially accepted and prioritised prior to any investments being initiated, leaving no room for unnecessary and costly developments;
- Methodological and modelling guidelines are harmonised and consistent across the group, providing strong inputs to modellers at definitions, data gathering and modelling levels;
- Model documentation is standardised and exhaustive for transparency and business continuity purposes; and
- Models are deployed in line with business and IT (e.g. security) requirements with the proper monitoring features for reliability and business continuity purposes.

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