Model Risk Management

Driving the value in modelling

Risk Advisory – France
December 2016

Model Risk Management Conference
The 12th of December, Paris

MAIN TOPICS COVERED

- **Portfolios of models** (interconnected or linked models) should be considered for assessing model risk.
- **Proxy models** or expert judgement models should be integrated in the **scope** and people should anticipate their formalisation (documentation).
- **Non regulatory models** should be integrated in the MRM framework. Bank should identify incentives in order to classify and prioritise them.
- There should be a difference between the intrinsic **model risk** that is linked to uncertainty (can be already taken into account in pillar 1 capital via the prudent valuation for pricing models) and the **operational risk** which comes from **model errors** (misuse, error in implementation, model governance breach for example.)
- Consider **leveraging on the existing framework** for regulatory models and have a wide view of the models through creating a transverse layer.
- Create a **Model Risk Committee** (like for any other type of risk in a bank) → MRM through a proportional approach.
- The **implementation** of a **MRM framework** should start with the **governance** and the **organisation**:
  - Start **sharing practices** and develop the MRM culture (US to Europe)
  - Create a **vocabulary** that is known by people in the organisation
  - Start **prioritise** models: those that are more relevant, more material and more complex
  - Create a **map** of the models and a **dashboard** (or leverage on what it is already available) → Banks consider this being a work for the 5 years to come…
- **Proportionality** approach: start by having some minimum set-up, a step by step approach.
- The Model Risk **scorecard** (or rating) should be a tri-dimensional approach:
  - 1st dimension: classify models
  - 2nd dimension: assess the materiality (the impact % in the RWA, for example the contribution in the Expected Loss) and compare the models
  - 3rd dimension: target the relevant models (and decide to spend more time on models that are more important, more material & complex)

The **prevention** and the **mitigation** are also important (banks should consider developing more simpler models with a low maintenance cost, better transparency)

Deloitte.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. In France, Deloitte SAS is the member firm of Deloitte Touche Tohmatsu Limited, and professional services are provided by its subsidiaries and affiliates.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 244 000 professionals are committed to becoming the standard of excellence.

In France, Deloitte calls on diversified expertise to meet the challenges of its clients of all sizes from all industries - major multinationals, local micro-companies and medium-sized enterprises. With the expertise of its 10 300 professionals and partners, Deloitte is a leading player in audit, risk advisory, consulting, financial advisory, tax & legal and accounting, based on a multidisciplinary offering and a set of action principles attuned to the requirements of our environment.

OFFICIAL PARTNER
FRANCE2025