

Client	A large retail and commercial banking group.		
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Project Name	Review of IRB models for retail unsecured products		
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Project Start Date	July 2010	Project End Date	September 2010
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Industry	<input type="checkbox"/> Commercial banking	<input type="checkbox"/> Insurance
	<input type="checkbox"/> Fund Custody & Investment Services	<input type="checkbox"/> Investment banking
	<input type="checkbox"/> Private banking	<input type="checkbox"/> Asset and wealth management
	<input checked="" type="checkbox"/> Retail banking	<input type="checkbox"/> Corporate
	<input type="checkbox"/> Broker / Dealer	

Category of Service	<input type="checkbox"/> Performance measurement and monitoring	<input checked="" type="checkbox"/> Regulatory compliance and reporting
	<input type="checkbox"/> Portfolio risk management	<input type="checkbox"/> Business process improvement
	<input type="checkbox"/> Specialised risks	<input type="checkbox"/> Training and people change
	<input type="checkbox"/> Data Quality	<input type="checkbox"/> System selection and implementation

The Challenge	<p>The Client required a detailed review of a new suite of credit risk models within a very short timescale to enable any recommended changes to be made to meet reporting deadlines. This timetable required significant expertise and experience to perform a deep drill on the methodology, structure and outputs of the models, covering multiple brands and products over a six to eight week period.</p> <p>The focus of the review was much broader than Basel II compliance as the client was also seeking an independent view on accuracy and appropriateness of the model outputs, internal consistency across products and brands and comparison of methods and results with industry best practice.</p>
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Approach and Solution	<p>Given the timescale for the review, the main source of information was model documentation supported by discussions with Client subject matter experts and business representatives. As there was some commonality across products, the approach was to take sufficient time to fully review and understand the detail of the most material portfolio first. This approach was highly beneficial as it resulted in the required depth of understanding across a very broad range of material.</p> <p>Observations on consistency, appropriateness and comparison against expectations and industry practice were made for each set of model inputs, outputs and methodology. This was followed by identification of more specific risks and opportunities where the model was felt to be either overly conservative or was found to contain gaps. Initial findings were shared with developers and subject matter experts along the way and factual detail and understanding was confirmed at each stage in the process.</p> <p>Once this had been completed for the first portfolio, it was then repeated for other products. New observations were identified where models or appropriateness of models differed across products. Where findings were common across products, the report referred back to earlier conclusions to avoid repetition.</p>
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	<p>The final stage of the review was to provide a summary of the recommendations, risks and opportunities, extracted from the body of the report. Each of these contained a broad estimate of costs or benefits, an assessment of the ease of implementation and recommended actions and next steps. To support this, the report also contained a number of technical discussions to provide background theory, proposed methodology or further explanation of many of the observations raised in the report.</p>
<p>Results and Benefits</p>	<p>Due to the interactive nature of the work with the development teams, there were no surprises in the final report, conclusions were well received and consideration of some recommendations had already started in parallel to the delivery of the final report.</p> <p>The review identified some immediate opportunities to remove duplication, improve consistency and resolve pockets of inaccuracy which had led to over-prediction. Additional longer term opportunities for alignment across models and with industry were also recognised from the review.</p>
<p>Software used</p>	<p>Not applicable.</p>