

<b>Client</b>	The client is a leading UK based financial services group whose business provides a comprehensive range of banking and financial services in the UK and overseas. Activities include retail banking, insurance and investments, wholesale and international banking.
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<b>Project Name</b>	Risk Model review – Income Producing Real Estate
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<b>Project Start Date</b>	September 2006	<b>Project End Date</b>	December 2006
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<b>Industry</b>	<input checked="" type="checkbox"/> Commercial banking	<input type="checkbox"/> Insurance
	<input type="checkbox"/> Investment banking	
	<input type="checkbox"/> Private banking	<input type="checkbox"/> Asset and wealth management
	<input type="checkbox"/> Retail banking	
		<input type="checkbox"/> Corporate

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

<b>The Challenge</b>	<p>The introduction of the Basel II Accord (the “Accord”) has resulted in significant growth in the use of credit risk models for managing and pricing risk assets. Accompanying the growth in model use has been a potential for an increase in "model risk," the risk of damage to profitability or reputation arising from the reliance upon erroneous model results or the overly broad application of a model to areas beyond its intended design.</p> <p>Model risk is considerably reduced through the design and implementation of a comprehensive model validation, governance and work plan. In this context, advantage was engaged to review, document and validate the Income Producing Real Estate (IPRE) risk estimate model for approval by the risk governance committee. This task formed part of the client’s Basel II compliance programme. The challenge included working to demanding time lines, to review work undertaken by another external consultant, and to work with a model built to manage incomplete data sets.</p>
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<b>Approach and Solution</b>	<p>The first step was to conduct a comprehensive review of the conceptual and theoretical soundness of the model. advantage revisited the work conducted to date with a view to re-baseline the sophistication of the model to reflect existing data quality and institutional constraints. This step delivered a review of existing documentation including:</p> <ul style="list-style-type: none"> <li>• model assumptions, inputs, outputs, overall methodology;</li> <li>• the IPRE rating model process map and an assessment of “usability”;</li> <li>• prior versions of the rating models; and</li> <li>• model calibration, including results of use test.</li> </ul> <p>With a view to reaching a consensus view of “fit-for-purpose”, and “sign-off” criteria,</p>
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	<p>the insights from the initial review (including an assessment of the risks and issues of the proposed approach) were presented to stakeholders.</p> <p>The remedial work undertaken to address the underperformance of the IPRE model included a data sourcing strategy and the preparation of end-user documentation. This involved hands-on involvement in refining the model methodology, drafting supporting documentation (including project/stakeholder management) and working with client personnel.</p> <p>Follow-on work provided an operational model assessment, specifically to identify Key Performance Indicators to be used in the ongoing monitoring of performance. A further period of back testing provided direct comparison of the model's historical and relative performance.</p> <p>avantage also provided input to the model governance framework, specifically with respect to model risk assessment criteria and validation guidelines.</p>
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<b>Results and Benefits</b>	<p>The model and end-user documentation were submitted and subsequently approved by the internal risk governance committee. Knowledge transfer to client personnel, professional consultants with credit risk measurement/quantification expertise, and an ability to work under pressure were cited as important success criteria by the client. Strategically, our work positioned the institution and individuals engaged in the project to undertake similar exercises across their other models.</p>
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<b>Software used</b>	Not applicable.
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