

Infographic

Key MRM challenges and recommended focus areas



Coverage not commensurate to regulatory expectation

The top 3 MRM challenges faced by banks



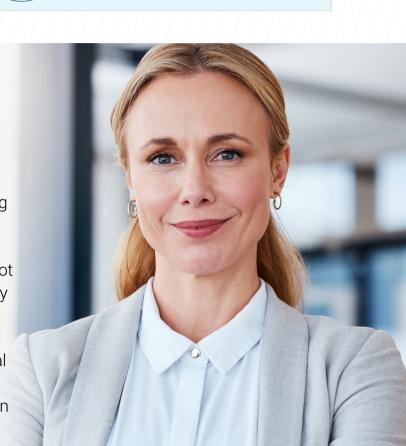
Inadequate operating model and board oversight



Improved MRM robustness yet poor execution speed

How comfortable are you with your current model risk management programme?

With expanded use of data driven decisions, segregating models from non-models is becoming ambiguous. Moreover, prominent regulations like SR11-7, TRIM and PS6/23 emphasize on also applying MRM to quantitative methods that are not defined as models. Another aspect emphasized by regulators is the institutionalization of a standard operating model for overall model governance. Banks not only need automated tools and external expertise, but they also need relevant oversight committees to monitor and challenge outcomes in a healthy and timely manner. Therefore, a sound governance framework is in order.



Six areas to invest with pointed recommendations



Right-sizing MRM coverage and identifying model risks Prioritize MRM for models and risk-strategies by using

- complexity-materiality-impact based risk tiers
- Develop KPIs across model's lifecycle (checks on data use, process traceability, third-party dependence etc.) to better appreciate specific model risks



Checks and controls for model performance Define and implement risk triggers including significant deviation in not just

- model performance but also data references
- For an effective cleanup, monitor the applicability of post model adjustments and overlays that were created during the pandemic but now pose risks



Creating and managing target operating models Define MRM governance (mandates, roles and processes) with focus on

- assessment of framework and its adherence by audit Formalize standards across the model lifecycle, including tollgates for audits
- and approvals in a centralized system to ensure minimum surprises



Address overfitting and stability risks by using cross-validation techniques

Addressing risk associated with AI/ML modelling

- and hyper-parameter tuning methods
- To 'de-bias' AI/ML models, use systematic interventions to filter model drivers that are 'protected class characteristics'



Supporting board-level communications and reporting Set-up expert panels and technical committees on model risk to inform the

- board on relevant risks
- Curate necessary trainings and define simplified summary reports reflecting on variety of model risks, performance against thresholds and problem areas



Balancing organizational agility with acceptable MRM robustness Revisit standards that cause delays in implementation or are sources

- of friction Promote an environment of 'robust actionable challenge' based on expert
- opinion from risk assessment committees

How EXL can help provide global guidance EXL has been helping banks address unique needs at every step of the MRM cycle and on various stringent MRM guidelines like SR-11/7 and

TRIM. With a systematic assessment of gaps and a strong sense of the perspective we help enhance MRM processes in three ways: Risk advisory



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