OFFICE OF THE COMPTROLLER OF THE CURRENCY (OCC) SUPERVISORY GUIDANCE ON MODEL RISK MANAGEMENT (OCC 2011-12)

In April of 2011 the OCC published guidance for banks on effective model risk management. This guidance requires banks to confirm and satisfy regulators that their practices conform to the principles in the guidance for model development, implementation, and use, as well as model validation. Previous guidance and other publications issued by the OCC and the Federal Reserve on the use of models pay particular attention to model validation.

WHAT IS MODEL VALIDATION?

Model validation is the set of processes and activities intended to verify that models are performing as expected, in line with their design objectives and business uses. Effective validation helps ensure that models are sound. It also identifies potential limitations and assumptions, and assesses their possible impact.

All model components, including input, processing, and reporting, should be subject to validation; this applies equally to models developed in-house and to those purchased from or developed by vendors or consultants.

The OCC Guidance directs that vendor products should be incorporated into a bank's broader model risk management framework, and goes on to say that "Banks should require the vendor to provide developmental evidence explaining the product components, design, and intended use, to determine whether the model is appropriate for the bank's products, exposures, and risks."

THREE CORE ELEMENTS OF AN EFFECTIVE VALIDATION FRAMEWORK

MODEL SOUNDNESS	ONGOING MONITORING	OUTCOMES ANALYSIS
Best Practices Sound development, implementation and use.	**Process Verification** Checks that all model components are functioning as designed.	**Back-testing** Comparison of actual outcomes with model forecasts during a sample time period not used in model development.
Developmental Evidence Explains the product components, design, and intended use.	**Benchmarking** Comparison of a given model's inputs and outputs to estimates from alternative internal or external data or models.	**Model Adjustment** Warranted when significant problems are discovered.
Vendor Models Included in model risk management framework.	**Sensitivity Analysis** Checks the impact of small changes in inputs and parameter values on model outputs.	**Material Changes** Changes in model structure or technique should be subject to validation activities.

ACTIMIZE MODEL RISK MANAGEMENT SUPPORTING DOCUMENTATION

In support of clients working to maintain strong governance and controls to help manage model risk, NICE Actimize Developmental Evidence Whitepapers offer validation of the conceptual soundness of the models used throughout Actimize's Anti-Money Laundering and Fraud Prevention solutions.

These Developmental Evidence Whitepapers provide insight into the creation process and due diligence of the solution models and include the business purpose, design, methodology, and results associated with the development process. Together with other reference documentation, these whitepapers fully satisfy regulatory requirements, customer needs for evaluation of conceptual soundness, and complement ongoing monitoring and outcome analysis as part of any Model Risk Management efforts.

A COMMITMENT TO MODEL RISK MANAGEMENT & CLIENT SUPPORT

ACTIMIZE PROFESSIONAL SERVICES

The NICE Actimize professional services team enables clients to meet unique regulatory and organizational needs. As part of every software solution implementation, clients are guided through the lifecycle of designing, implementing, and enhancing Actimize AML solutions that are fit-for-purpose and aligned to meet institutional AML Compliance and Model Governance policies and standards.

Professional Services offerings include:

- Solution Implementation
- Upgrade & Migration Support
- Model Tuning Performance Optimization
- Advanced Enterprise Integration
- Expert-to-expert Services
- Custom Solution Extensibility

ACTIMIZE GLOBAL AML CONSULTING SERVICES

Building on the experience of over 250 implementations worldwide, Actimize supports customer efforts to fully address regulatory requirements for model governance of AML detection models deployed within Actimize's AML solutions. Actimize Global AML consultants work in direct support of client teams and any independent 3rd party consultants while respecting the need for appropriate levels of independence within the model validation and testing process.

NICE Actimize's onsite consultants address the Actimize AML software solution models deployed as part of any AML compliance program. Onsite engagement enables client institutions to review program models, use, configuration, and function in support of Model Risk Management compliance. NICE Actimize is fully committed to supporting clients as they work to ensure that they maintain strong governance and controls to help manage model risk.

Global AML Consulting Services offerings include:

- Model Validation and Testing Support
- Model and Alert Benchmarking
- Regulatory Examination Preparation
- Feedback, Guidance and Recommendations

Clients that are in the process of an ongoing Regulatory Examination, or are preparing for a future examination, should contact their Relationship Manager to request additional information about Model Risk Management documentation, professional services support and Global AML Consulting Services, to ensure that NICE Actimize can prioritize and execute the appropriate customer support.

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