

# SUPPORTING YOUR ORGANIZATION'S REGULATORY COMPLIANCE WITH FRAUD MODEL GOVERNANCE AND VALIDATION

Financial Institutions have regulatory and business drivers to verify the performance of their fraud and risk models and check for their degradation over time. In April of 2011 the Office of the Comptroller of the Currency (OCC) published the Supervisory Guidance on Model Risk Management (OCC 2011-12), endorsed by the Federal Reserve's Supervision and Regulation Letter SR 11-7. These documents provide guidance for financial institutions on effective model risk management, broadening and extending previous recommendations from both OCC (OCC 2000-16) and Federal Reserve (SR Letter 09-01). There is also increasing interest and pressure from other regulators, like the Consumer Financial Protection Bureau (CFPB) and the Federal Deposit Insurance Corporation (FDIC). Financial Institutions are required 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.

NICE Actimize Fraud Consulting Services provide strategic review and guidance on fraud model governance, and have the technical and data analysis expertise to help you implementing model validation programs.

## MODEL GOVERNANCE

As stated by the Federal Reserve, the development and maintenance of strong governance over the model risk management framework is fundamentally important to model effectiveness. Robust governance provides explicit support and structure to risk management functions. This is achieved through policies which define relevant risk management activities, such as the allocation of resources, assignment of roles and responsibilities, model inventory, data integrity and change controls. Strong governance also includes model development documentation that is sufficiently detailed to allow any parties who are unfamiliar with a model to understand how the model operates, as well as its limitations and key assumptions.

## WHAT IS MODEL VALIDATION?

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

All model components, including input, processing, and reporting, should be subject to regular 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 an institution's broader fraud model risk management framework.

Key elements of an effective model validation framework include:

- Evaluation of conceptual soundness, to ensure that judgment exercised in model design and construction is well informed and with sound industry practice
- Ongoing monitoring and process verification, to confirm that the model is appropriately implemented and is being used and performing as intended
- Outcomes analysis, comparing model expected outputs to corresponding actual outcomes through back-testing

## SUPPORTING YOUR MODEL GOVERNANCE AND VALIDATION NEEDS

The NICE Actimize Fraud Consulting Services team helps clients to meet their specific regulatory and organizational needs. Building on the experience of over 150 fraud prevention implementations worldwide, NICE Actimize provides strategic advice and guidance to financial institutions to support their efforts to fully address regulatory requirements for model governance.

These consulting services have a natural extension in supporting financial institutions in their model validation programs for the fraud detection models deployed within Actimize’s solutions. This is an area of expertise where Actimize’s technical insight in model implementation, tools, analytics knowledge, data management, and fraud trends and patterns, will provide unmatched services that your organization can benefit from when defining, implementing or supervising model validation efforts.

Actimize is fully committed to effectively supporting our clients as they work to maintain strong governance and controls to manage model risk.

**Fraud Consulting Services offerings include:**

- Review of model governance strategies and programs
- Feedback, guidance and recommendations
- Regulatory examination preparation
- Model and alert benchmarking
- Model validation and testing support
- Data integrity, developmental evidence, and model limitations reports

### NICE ACTIMIZE FRAUD CONSULTING SERVICES

As organizations face new risks from evolving market conditions, new products, technologies, and fast-spreading fraud threats, they often struggle to create effective, appropriate and measurable financial crime and fraud prevention strategies and operations while maximizing existing systems and team resources.

NICE Actimize Fraud Consulting Services provide expert guidance, insight and knowledge to advise financial organizations on their fraud strategy and operational fraud management processes. Through a rich variety of fraud prevention consulting services, NICE Actimize helps organizations meet their challenges, maximize technology investments and identify and mitigate existing vulnerabilities.

## DELIVERING ACTIONABLE INSIGHT



Model Governance is part of the rich catalog of NICE Actimize Fraud Consulting Services