Model Materiality Risk Tiering

Materiality defined on basis of weighted average of 4 key levers to define Low, Medium or High Materiality Risk Tiering for Model

1. Exposure factor (Defined 1 to 4) – Estimated $ exposure	50%
2. Model Usage – Credit vs Marketing models, Intended usage etc	30%
3. Regulatory factor (Defined 0 to 1) – Used for financial reporting etc	10%
4. Operational factor (Defined 1 to 3) – Eligible population, campaign volumes etc	10%

Exposure Factor
Based on bank's risk weighted assets proportion

Regulatory Factor
1 if model is used for regulatory reporting (AML etc)

Operational Factor
Volumes and operational costs based 1 to 3 score

Model Usage Based Scores

1. Financial Accounting & Regulatory Reporting – AML, CCAR Capital Requirements etc (1)
2. Risk Models - Credit Scoring Models, Fraud, Income, Line Assignment Models (0.5)
3. Collections & Recovery Models, Pre-approved credit product response models (0.5)
4. Pricing Models for credit products (0.5)
5. Email marketing models – cross sell, upsell etc (product eligibility approved by risk) (0.1)
6. Deposit product models (0.1)

How does it stack up for Personas risk scorecard

Materiality defined on basis of weighted average of 4 key levers to define Low, Medium or High Materiality Risk Tiering for Model

Model Materiality – High

1. Exposure factor (4 levels) – Estimated $ exposure	50%	4/4 X 50% = 0.5
2. Model Usage – Credit vs Marketing models, Intended usage etc	30%	0.5 X 50% = 0.25
3. Regulatory factor (Defined 0 to 1) – Used for financial reporting etc	10%	0 X 10% = 0
4. Operational factor (Defined 1 to 3) – Eligible population, campaign volumes etc	10%	1 X 10% = 0.1

0.85 or 85%

Model Risk