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Reducing the Risk of Using Financial Models

March 18, 2015

Executive Summary:

The events surrounding 2008 helped the concept of model risk management gain widespread acceptance as a key area of investment and attention. With the Fed's SR 11-7 providing firms with few specifics for compliance, Greenwich Associates research found a surprising lack of business process management software, with approvals between model owners and approvers often being noted manually. Greenwich Associates believes a software solution that can streamline and simplify the model risk management process at the enterprise level could greatly improve model risk management practices, and as such, prove hugely successful as market participants move past the post-crisis scramble to improve operations and into the current deep focus on creating solutions for the long term.

Methodology:

The research is based on conversations with heads of model management at first and second-tier investment banks, asset managers and insurance companies conducted in the first quarter of 2015. Also included in this research is data based on the 172 conversations with institutional investors trading structured-derivatives products, and 1,008 investors trading investment-grade credit products globally as part of our 2014 Global Fixed-Income Investors Study.

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