

ECB-Restricted



Supervision of Internal Models

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Organisational Setup of Internal Model (INM) Supervision in Austria



- INM supervision for Significant Institutions (SI) in Austria is done in **full alignment with SSM standards & processes**
- Separation of responsibilities between on-site activities and on-going supervision

Department for the Supervision of Significant Institutions (HEG)

On-Site Supervision Division*

- Performing on-site inspections (quantitative tasks depending on inspection mandate)
- Performing internal model investigations (initial approvals, roll-outs, material model changes)
- Involvement in horizontal tasks (e.g. working groups, task forces, model related projects...)

Off-Site Supervision Division*

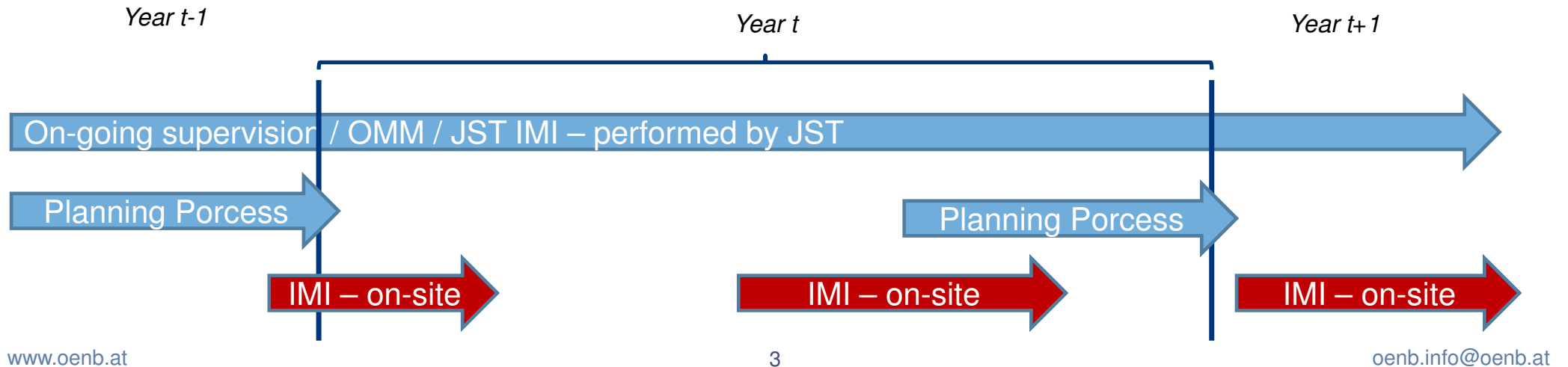
- Drafting of INM decisions
- Annual validation analyses
- Follow-up activities
- Conduction of small scale model investigations.
- Materiality assessment of notified model changes (ex-ante).
- Roll-out plans – planning process.
- Involvement in horizontal tasks (e.g. working groups, task forces etc.)
- Home-/Host-interaction
- EBA Benchmarking

Supervisory Policy, Regulation and Strategy Division

* Selected tasks with (possible) INM relation

Planning Process

- The supervisory activities for all Austrian Significant Institutions follow the **standard planning process of the SSM**.
- For each SI, an annual **Supervisory Examination Plan (SEP)** is compiled which comprises on-going activities by the Joint Supervisory Team (JST), on-site inspections and internal-model related tasks (on-going model monitoring – OMM and internal model investigations – IMI).
- In order to ensure a reliable planning of IMI and related on-site resources, banks are requested to **provide a detailed plan of their upcoming internal model applications** – at least once a year.
- **Different types of IMI** exist according to their scope and complexity. Most IMIs are conducted on-site by dedicated assessment teams. For smaller and less complex model changes, IMIs can also be conducted by JSTs. The drafting of (joint) decisions for internal models lies with the JSTs.
- Adequate coverage of model-activities / IMIs for smaller subsidiaries constitute a major planning challenge.



Supervision of Internal Models Home vs. Host View

Home / Consolidated Perspective

- Model Governance: homogeneity of modelling approaches across group entities, simplification of landscape, focus on centrally defined model structures.
- Use Test: application in risk management.
- Central oversight of methods and necessary maintenance (model changes).
- Foster consistent IT solutions, uniform data point definitions and use of uniform IT toolbox for implementation.
- Ensure central definition of validation standards and their usage throughout the group.
- Central Quality Assurance function in group HQ
- Adequate coverage of INM activities by group internal audit function.

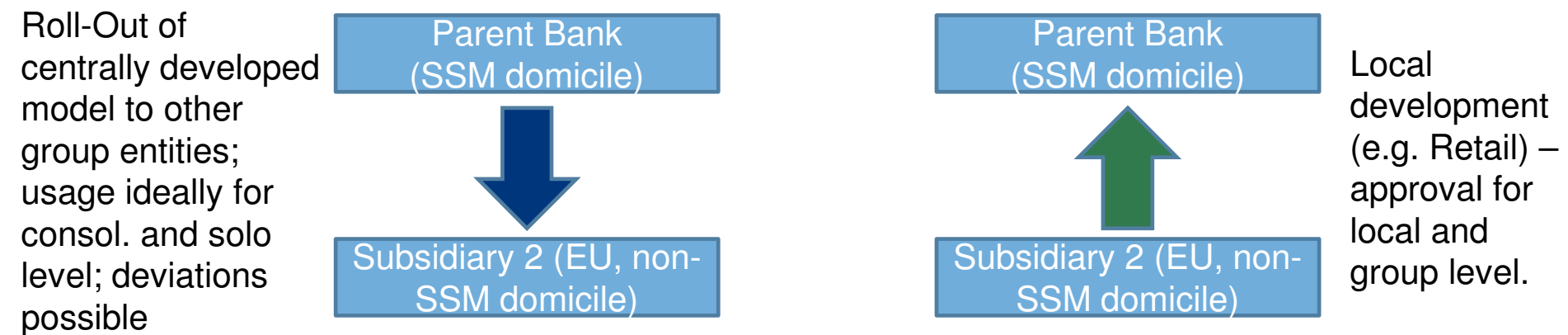
Host / Subconsolidated Perspective

- Adequacy of modelling approach to capture specificities of local market (e.g. product characteristics, legal framework etc.).
- Strong local expertise & resources in order to safeguard understanding of model and its implementation. Ensure local know-how in modelling process.
- Align local data and IT infrastructure with central data needs; ensure local independence of IT tools.
- Ensure that validation know-how and capabilities exist locally; capture all country-specific aspects.
- Ensure local involvement in audit processes.

Cooperation in a College Setting

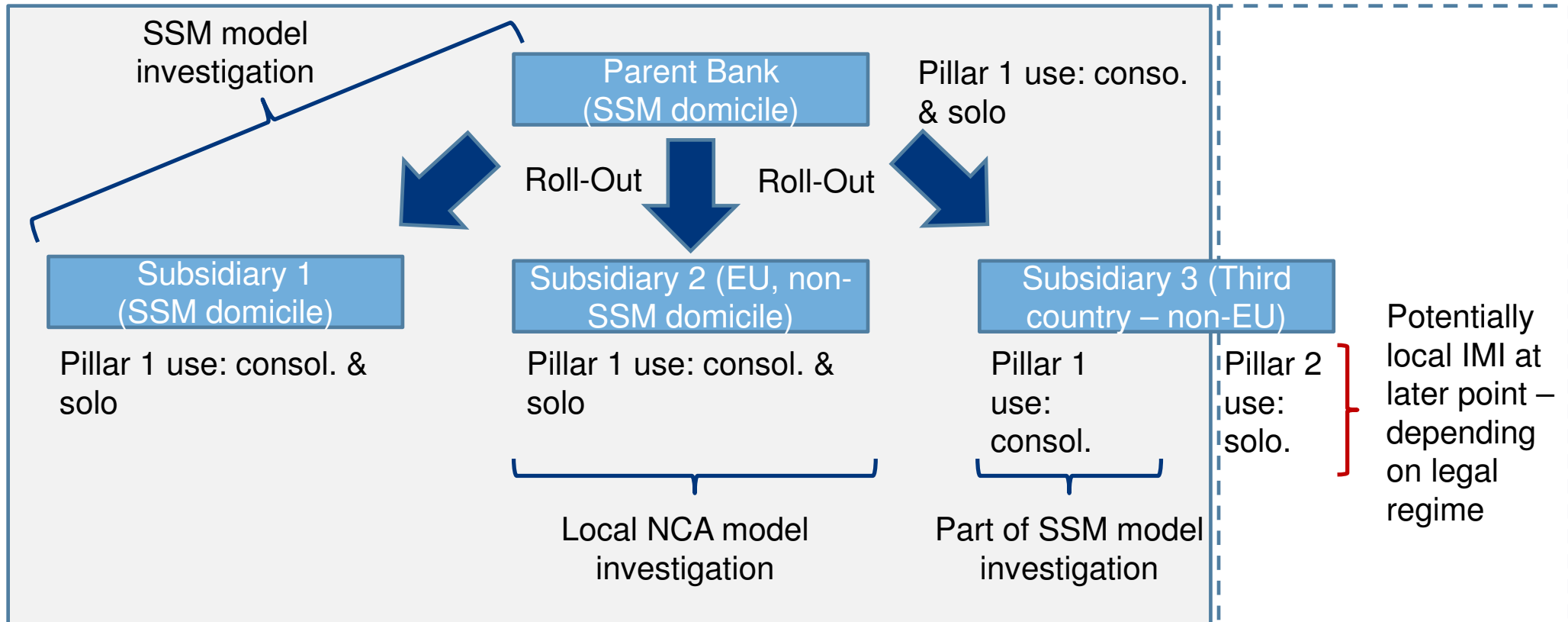
- In cross-border groups the complexity in INM supervision is materially increased.
- Close coordination among involved parties is necessary for:
 - Reliable IMI planning.
 - Joint decisions.
 - Coordination of activities throughout the group.
 - Consistent standards across all legal entities.
- The different levels of model usage within one group can pose substantial challenges.
- Consistency between consolidated and solo levels is important, however not always easy to ensure.

Top-Down vs. Bottom-Up Model Development



Cooperation in a College Setting

Example: Roll-Out of Group Model



Joint Decision on Internal Model Roll-Out

Crucial Elements of Internal Model Supervision

Main Topics	Crucial elements / takeaways
<p>Data governance & quality</p>	<ul style="list-style-type: none"> • Introduction and operation of INM require soundness & completeness of data bases. Simplification of model landscape necessary. • Improved data bases and governance processes can be one of the biggest benefits for bank and supervisor.
<p>Procedural setup and risk management – Use Test</p>	<ul style="list-style-type: none"> • INM output must inform and materially enhance risk management (e.g. understanding of portfolio evolution, rating migrations etc.). • Introduction and operation of INM require stringent internal reporting processes, committee structures and accountabilities.
<p>Capital planning and optimization</p>	<ul style="list-style-type: none"> • Efficient capital planning, steering and optimization under INM approaches require comprehensive understanding of applied methods, model dynamics (e.g. tail behavior). • Usage of INM approaches foster discipline in many standard processes (e.g. appraisal of collaterals, comprehensiveness of client data in credit systems, collection of realisation values of collateral etc.).

Danke für Ihre Aufmerksamkeit

Thank you for your attention

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