Financial Crimes Model Risk Management

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Financial Crimes Risk Management

- Fraud
- Anti-Money Laundering/Terrorist Financing
- Global Sanctions
- OFAC
- High Risk Customer Due Diligence

New inclusions for 2013
- Global Anti Corruption
- FATCA
Model Definition

- The term *model* refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates.
- The definition of *model* also covers quantitative approaches whose inputs are partially or wholly qualitative or based on expert judgment, provided that the output is quantitative in nature.

  - OCC 2011-12, III. Overview of Model Risk Management

What does this apply to?

- Within Financial Crime Risk Management
  - AML/BSA Monitoring and Surveillance
  - Customer Risk Rating
  - Fraud Modeling
  - Investigations based Models
    - Ongoing case reviews
    - Criteria for selection of alerts
  - Global Sanctions Screening
Somewhat obvious but Critical Elements

- Clear statement of purpose- What are you trying to accomplish?
- Design, theory and logic- What approach are you using?
- Data quality- Garbage in garbage out
- Testing- How do you know it worked?
- Adjustments- It’s ok, just document it
- Outcome Reporting- Keep an eye on it

- This is new to you and your audit team too

Rising Standards

- Model Validation:
  - Sound development process- Assume nothing as given
  - Comparison to Alternate theories- What about doing it this way?
  - Sensitivity Analysis- fine tuning
- Model Tuning/Optimization:
  - Ongoing Monitoring and business feedback
  - State known model limitations
  - Process verification- Does it work like it should
  - Benchmarking (if applicable)
  - Review triggers- What generates a review
Elevated level of expectations

- Audit and Examiner Expectations:
  - Exam:
    - What is your exam team asking for
    - Consistent, repeatable approach
    - Centralize direction and communication
  - Audit
    - Set the expectations early
    - How can audit help
    - Alignment of Audit and Exam expectations
  - Internal Review
    - Independent oversight
    - Required skill set
    - Senior Management support

Technology to the rescue

- Ongoing Monitoring
  - Business Intelligence
  - Automated Tools
Questions or Comments?

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