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# Italian bank – a framework for AIRB credit risk model validation

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A large, stylized blue chevron graphic pointing to the right, located in the bottom right corner of the page. It is composed of two thick, parallel lines forming a wide arrow shape.

# Accenture has helped this Italian bank design and implement an improved framework for validating its internal AIRB models for calculating credit risk capital requirements.

## Client profile

This Italian bank has over 600 branches and more than two million customers.

## Opportunity

This client undertook the revision of its credit risk models, processes and IT architecture to meet new regulatory requirements and efficiently manage its credit risk. Success in this endeavor will give the bank the opportunity to be part of the first group of Italian banks subject to the new European Central Bank (ECB) supervision. Based on its experience and good track record in this area, the bank asked Accenture to support it in conducting an assessment to identify potential gaps and actions required to validate its internal credit risk models which are based on the Advanced Internal Rating-Based (AIRB) approach for the capital requirements calculation related to credit risk.

## Solution

The bank's goal was to establish an improved framework of internal models for calculating credit risk capital requirements. Accenture did a preliminary assessment to identify the main actions as well as the areas of credit risk (models, processes, and IT architecture) that needed to be refined.

Accenture helped the bank's Internal Model Validation function evaluate the design and the methodological choices underlying Probability of Default (PD) models on corporate and retail portfolios, and to design a new framework of internal controls for its PD models.

Accenture also provided project management and coordination support. This includes the definition of project streams and master plan, roles and responsibilities, and main interventions and goals; coordination of the business divisions and resources involved, and management of deadlines.

The project was completed by an Accenture team of Italian Management Consulting and Finance & Risk resources.

With Accenture's support, the client has developed a new framework of internal controls that can easily be managed and monitored by its Internal Validation Office.

## Results

With Accenture's support, the client has developed a new framework of internal controls that can easily be managed and monitored by its Internal Validation Office. Accenture has also helped the bank create a reporting tool to monitor results.

### **The bank can now:**

- Manage the ongoing validation of PD models in a more structured way.
- Clearly understand the challenging choices to be made to improve its rating models.
- Gain insight into day-by-day issues arising across its different offices involved in the overall project

Based on the strong relationship built with the client and the Accenture team's execution of the project, the bank has asked Accenture to support it in the implementation of the identified interventions.

Success in this endeavor will give the bank the opportunity to be part of the first group of Italian banks subject to the new European Central Bank (ECB) supervision.

## About Accenture

Accenture (NYSE: ACN) is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world's largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With more than 375,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at [www.accenture.com](http://www.accenture.com).