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Quantitative Finance: Model Governance is decisive

- *High-profile executive Round table hosted by MathFinance AG*
- *Quantitative Finance has matured*
- *The approach to model usage has undergone a shift*

Frankfurt, March 24, 2016: Quantitative models are today widely established in the Asset Management and Banking industry. Nevertheless the view on model usage has undergone a change. In Asset Management, users are expecting less predictive power but more capabilities and robustness in terms of risk minimization and evaluation of the prevailing market regime. To cater to these requirements, Model Governance will need to be improved in many financial institutions, as the model universe needs to undergo a consolidated focusing on quality. This is the outline of the annual Quantitative Finance Round table hosted by the consultant and technology firm MathFinance AG. Participants of the discussion panel included Prof. Dr. Uwe Wystup, founder of MathFinance, Dr. Attilio Meucci, Global Chief Risk Officer at KKR, Dr. Thomas Stephan, Managing Director and CIO Overlay of Allianz Global Investors, and Kris Wulteputte, Head of Risk Control, State Street Bank and Trust.

“We have become significantly more experienced in quantitative model usage”, Uwe Wystup of MathFinance concluded. “We know what models can provide, but we also know what they cannot provide.” Models can clearly help to analyse current exposures and strategies but the expectation of any predictive power has been largely rendered.

For Kris Wulteputte, representing the banking side on the panel, it is of utmost importance to consolidate the model universe and to get full control over model complexity. “We are not expecting new models, but want the existing models to become more reliable and robust. It is also important to make model results and their natural limitations usable for executives. We

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have to re-focus on the essentials."

Dr. Thomas Stephan of Allianz Global Investors sees similarities in the Asset Management realm: "Despite high pressure on our cost base we are hiring additional staff to validate our used models even more. Strict model governance is helping a lot to streamline our instruments and methods. Importance will further grow as more and more regulatory scrutiny is to be expected – aiming at adequate, robust and transparent methods for risk control and reporting. Quantitative work will need to be harmonized and streamlined towards the needs of the stakeholders.

"Quantitative models in asset management focus less and less on long-term predictions but aim to identify and categorize the state of the market", Dr. Thomas Stephan said. The key requirement is to identify if a market regime is stable or if a consolidation or even reversal is due. Attilio Meucci added: "Quantitative models is not about predicting the future but rather helping to discipline own investments and gear them towards the investors' objectives."

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