

## RBI releases draft circular on 'Regulatory Principles for Management of Model Risks in Credit'

Regulated Entities (REs) generally use various models as part of their credit management, including for credit appraisal, borrower scoring, pricing, risk management, among others. Inherently, model outputs are exposed to uncertainties as they are based on assumptions which may not manifest in the envisaged ways and may take different forms in a real-world scenario. This potentially exposes the REs to model risk, which has implications on prudential aspects of credit risk management, compliance and reputational risk.

While the application of technology in models has facilitated faster decision-making under complex scenarios, it also adds complexity to the model risk management framework implying the need for a comprehensive understanding, a robust validation mechanism as well as appropriate governance and oversight. With a view to addressing potential risks from use of such models and ensuring robustness in the process of model deployment by REs for credit decisions, **the Reserve Bank of India released the draft circular on 'Regulatory Principles for Management of Model Risks in Credit'.**

The RBI has invited comments / feedback on the draft framework, which may be shared on or before September 4, 2024.

Comments / feedback on the draft framework may be shared at [stcrqdor@rbi.org.in](mailto:stcrqdor@rbi.org.in) or by post to the Chief General Manager Credit Risk Group Department of Regulation, Central Office Reserve Bank of India, 12/13th Floor, Shahid Bhagat Singh Marg, Fort Mumbai – 400 001.

Please contact, for any query related to this mail, Dr. Mansi Vinaik, Deputy Secretary, at [mansi.vinaik@phdcci.in](mailto:mansi.vinaik@phdcci.in), and Ms. Mansi Nautiyal, Research Associate at [mansi.nautiyal@phdcci.in](mailto:mansi.nautiyal@phdcci.in), with a cc to Dr. S P Sharma, Chief Economist | DSG at [spsharma@phdcci.in](mailto:spsharma@phdcci.in), PHD Chamber of Commerce & Industry.



Warm Regards,

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