

What is Model Risk

Model risk arises due to several factors: **Assumptions:** Models rely on certain assumptions, and if these assumptions are inaccurate or unrealistic, the model's output may not reflect the actual situation. **Data Quality:** The accuracy and completeness of input data significantly impact the reliability of model outputs. Poor data quality can lead to flawed results. **Model Complexity:** As models become more complex to capture real-world scenarios, their inherent uncertainty and vulnerability to errors increase. **Model Development and Implementation:** Errors or omissions during the model development and implementation phases can introduce biases or inaccuracies. **Model Validation:** If the model validation process is inadequate or not independent, it may fail to identify potential weaknesses or limitations. **Behavioral Assumptions:** Many models assume that human behavior follows specific patterns, but real-world behavior may deviate from these assumptions.

what is model risk

Model	Non-Model
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Model risk refers to the potential for adverse consequences arising from the use of financial models or statistical techniques to make business decisions or support various processes. This risk arises due to uncertainties and limitations associated with the models used to estimate future outcomes, valuations, or other financial and operational parameters.



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