

White paper summary

Does your rating system work? -
The challenge of Basel II validation
in retail portfolios



The issues of Basel II validation

Despite the widespread use of credit scoring throughout the banking industry, it has only come under limited scrutiny until recently. With the introduction of the New Capital Accord (Basel II), the industry now has to comply with requirements for more robust risk management techniques, and within this, mandatory validation.

Validation has always been good practice for financial organisations using scoring models to assess customers. Within the requirements of Basel II, validation is a vital process to ensure and demonstrate the objectivity, accuracy and stability of the ratings system.

The Basel Committee on Banking Supervision, recognising the importance of validation, has created a sub-group to specifically focus on this subject. The group has published a number of documents outlining the principles and the requirements for validation, which banks now need to adopt and comply with.

This white paper focuses on the issues of validation and discusses feasible validation approaches covering all aspects of data and process quality, as well as quantitative and qualitative approaches to validation, which address the issue of compliance whilst delivering maximum benefit.

Want to read more?

This executive summary is taken from the white paper **Does your rating system work? -The challenge of Basel II validation in retail portfolios.**

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