



A modernized approach to model transformation

Introduction

Financial institutions are navigating a rapidly evolving landscape marked by technological advancements, shifting regulatory expectations, and intense competitive pressures. As a result, these institutions must modernize their modeling functions to enhance operational efficiency, drive business value creation, and maintain compliance. Achieving these goals requires a comprehensive approach that integrates industry-leading practices; aligns with organizational strategy; and considers the interplay of change management, technology, and organizational culture. This paper delves into the drivers of model transformation, explores the common challenges faced, and outlines the key components necessary for achieving successful and sustainable outcomes.

Model transformation drivers

In today's environment, institutions face an array of drivers that necessitate an integrated approach to model management. The proliferation of data combined with an increasingly sophisticated use of technologies like artificial intelligence (AI) and machine learning demands more advanced and reliable modeling techniques—all while maintaining alignment with existing regulatory guidance, such as SR 11-7, OCC 2011-12, and the Federal Housing

Finance Authority's AB 2013-07. Concurrently, competitive pressures require organizations to deploy models more rapidly, with greater flexibility and accuracy to reduce costs, enrich insights, and advance market positioning. Each of these drivers present trade-offs, which can be explored based on organizations' strategic objectives and immediate priorities.

Common challenges

While many organizations recognize the need to enhance their model management practices, the path to effective implementation is often fraught with challenges:

1. Understanding the current landscape and anticipating future industry trends are critical to developing a successful transformation strategy.
2. Establishing clear ownership, coordination, and accountability across the three lines of defense is fundamental to achieving a unified target state design, but many organizations struggle with this foundational principle.
3. Furthermore, integrating new technology into this design poses its own obstacles, especially when considering legacy infrastructure and data.

4. Even after a coherent target state design is achieved, securing the necessary resources, skill sets, and capacity to operationalize the enhanced framework remains challenging.

For these reasons, a crucial step toward effective transformation is architecting the appropriate governance structure to orchestrate end-to-end, sustainable change. A mature governance structure provides the ability to measure progress and maximize value retention, with supporting capabilities to provide adequate training and promote the desired organizational culture shifts—all of which are essential for scaling the target state framework.

Key components to achieve desired results

The common challenges to model transformation underscore its multifaceted nature and emphasize the need for a strategic, well-orchestrated approach to maximize return on investment. The following provides a highlight for each of the components of an effectively integrated approach.



1 Transformation management office

The establishment of a centralized transformation management office (TMO) is critical to orchestrating and implementing transformation initiatives effectively. This office acts as the strategic hub for driving alignment with organizational objectives, enabling a cohesive implementation approach, and deploying the target operating model. More specifically, a centralized TMO enables the development and maintenance of an integrated transformation roadmap that connects initiatives, maps dependencies, and supports cross-functional coordination. It also provides executive visibility into delivery health through clear storytelling and transparent reporting, empowering leadership with the insights needed for efficient decision-making and proactive risk mitigation.

2 Model management assessment framework

Prior to effectuating change, there must be a robust framework to evaluate existing modeling practices against market trends, industry leading practices, and regulatory standards. To minimize “time to impact,” AI tools and agents may be deployed to accelerate documentation reviews, perform regulatory mapping, and support identification of actionable insights. By identifying areas for improvement and aligning them against broader strategic objectives, organizations can develop an action plan to kick-start their transformation efforts, with ongoing tracking to maintain the desired target state.

3 Modeling subject matter expertise

As a critical step in achieving the desired target state, organizations must secure the appropriate modeling subject matter expertise, as these skill sets are foundational to building and/or enhancing strong model management frameworks, maintaining alignment with leading industry practices and organizational objectives, as well as providing the capacity to effectively navigate complexities on the transformation pathway. It’s critical these resources not only build and/or enhance existing modeling frameworks but also support broader adoption from the modeling community.

4 Organizational design

Critically assessing organizational design is crucial for establishing clear roles and responsibilities across the three lines of defense, driving accountability, and understanding capacity needs within the target state framework. A strategic approach to organizational design ensures that each role is well-defined and aligned with broader objectives, fostering collaboration and ownership. This not only facilitates effective risk management but also supports operational efficiency, enhancing the ability to adapt to changing conditions or capacity needs.

5 Change management and training

Adopting a people-centric approach to change management and training is vital for ensuring organizational readiness and enabling adherence. By developing persona-based journey maps, organizations can identify key inflection points where targeted change and training support is essential, with mechanisms such as feedback loops to facilitate continuous improvement. This approach not only helps in addressing specific employee needs and challenges but also fosters a culture of empowerment and adaptability, enhancing the overall engagement and resilience of the workforce. Additionally, incorporating real-time performance metrics can provide invaluable insights into the effectiveness of the change initiatives, allowing organizations to refine strategies dynamically and maximize the impact of their transformation efforts.

6 Culture

Cultivating an organizational culture that is receptive to change is paramount to realizing transformation goals. By promoting desired behaviors and setting the “Tone from the Top,” organizations can foster an environment where new practices are readily embraced and sustained for the long term. This involves engaging leadership at every level to embody and support change initiatives, helping to ensure the entire organization aligns with strategic objectives. Moreover, integrating recognition programs and incentives can motivate employees to actively participate in the cultural shift, reinforcing positive behaviors and enhancing team cohesion.

7 Technology and data

Technology enhancements are often siloed broader from transformation efforts due to organizational structures, communication gaps, and differing priorities. Yet, their integration is critical to maximizing return on investment and achieving strategic outcomes. When aligned with a unified transformation roadmap, advanced technology solutions can drive efficient model operations, enable robust data governance, and generate actionable insights for informed decision-making. By embedding technology within the broader transformation strategy, organizations can improve model accuracy, agility, and enterprise-wide impact.

Suggested next steps and contact information

In light of the key drivers for model transformation, organizations must critically assess their standing relative to the market and initiate strategic planning and visioning to embark on their transformation journey. Failing to do so increases the likelihood of falling behind in a rapidly evolving landscape and diminishes organizational change readiness.

The KPMG integrated approach to model transformation has empowered organizations to identify and implement significant enhancements within the modeling space. We work with prominent financial institutions, including global systemically important banks, government-sponsored entities, and investment firms to deliver thorough future-ready modeling solutions, enabling them to become more agile and responsive to market demands. For further information or to discuss our services in greater detail, please reach out to the individuals listed below.



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