Supercharge your ALM system

How treasury and finance departments can empower banks to brace for the unexpected

articles

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Are you keeping pace with market trends?

Celent and SAS surveyed risk, finance, treasury and IT professionals from top financial institutions across 22 countries to discuss asset liability management (ALM) technology and data science modernization. More than half said they planned to enhance four of their core ALM processes over the next two years.

Are you prepared for any changes you need to make to your ALM processes?

Risk has changed

As the world shifts and the pace of change accelerates, human behavior is changing along with it. And risk management, at its heart, is about predicting or modeling human behavior – on the consumer side or the market participant side. The challenge for many institutions is that models that rely on specific behavior patterns are starting to break down, and their shelf life is being shortened.

Read more: Chartis RiskTech100 2024, Winner's Spotlight: SAS

4 core ALM processes to enrich

01 Forward-looking risk management and decision making

02 ALM alignment and collaboration with risk, treasury and finance

03 Automation of compliance/regulatory-related reporting requirements

04 Process cycle times and delivery of results

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New challenges in a volatile business environment

In an ideal world, banks maintain adequate liquidity and reduce interest rate risks by matching the cash flows and duration of their assets and liabilities. This was a straightforward exercise in recent decades, with interest rates historically low and stable. But because of the long period of economic stability, many institutions didn't modernize their ALM programs to the same extent as others, like credit risk and fraud prevention.

Financial institutions can no longer afford the risk of relying on legacy ALM processes with inherent weaknesses and limitations. An integrated and modernized balance sheet management system, on the other hand, can provide immediate and lasting value for ALM functions.

The challenges you face:

- Adapting to a volatile business environment.
- Responding to tightened regulatory requirements and increased scrutiny.
- Lack of automation and consistency.
- Major technology shifts.

The needs of your business:

- Trusted ALM best practices.
- Automated functions and processes with effective management.
- Consistent calculations and analyses.
- Integration among funds transfer pricing (FTP) and interest rate risk (IRR) management, along with the full cycles of capital planning and stress testing.

The results you expect:

- Faster, more effective decisions.
- Improved operational efficiency.
- A way to address regulatory scrutiny with confidence.
- Sustainable business growth.

Learn to overcome obstacles

Market volatility

Managing portfolios through market uncertainty, with volatile and higher interest rates, has led to uncertainty in margins and asset values.

Cost and complexity

Meeting heightened regulatory expectations around liquidity risk and resolution planning has become increasingly costly and complex.

Fragmentation and inefficiencies

To achieve coherence amid the recent evolution in credit and behavioral modeling, banks must recognize and manage the extensive system fragmentation that created operational inefficiencies and prevented tight integration with balance sheet management and capital planning.

The high-profile failures of several banks highlighted the importance of having a robust ALM program.

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The technology evolution: Rapidly transforming risk functions

The ALM systems at most financial institutions were developed when low and stable interest rates dominated. Despite industry and regulatory pressure for improvement in recent years, persistent bank inefficiencies were manifested throughout the pandemic years and the recent banking crisis.

Key concerns:

- Limitations of ALM and liquidity analysis capabilities.
- Lack of consistency and granularity.
- Limited forward-looking scenario-based perspectives.
- Insufficient reporting richness and lack of timeliness.
- Weak governance and controls for decision making.

Celent's 2023 global survey showed that the technology evolution is transforming risk functions. In fact, most firms that participated in the survey expect to have an integrated balance sheet risk management intraday analysis in place within three years.

THE FUTURE OF THE ALM FUNCTION

Most firms expect integrated balance sheet risk management, technology modernization, and intraday analysis within three years

75% of firms see integrated balance sheet risk management as the most reliable trend in ALM. Confidence in integrated balance sheet management is strong across all regions.

In particular, 82% of firms in the Middle East and Africa strongly agree with this forecast.

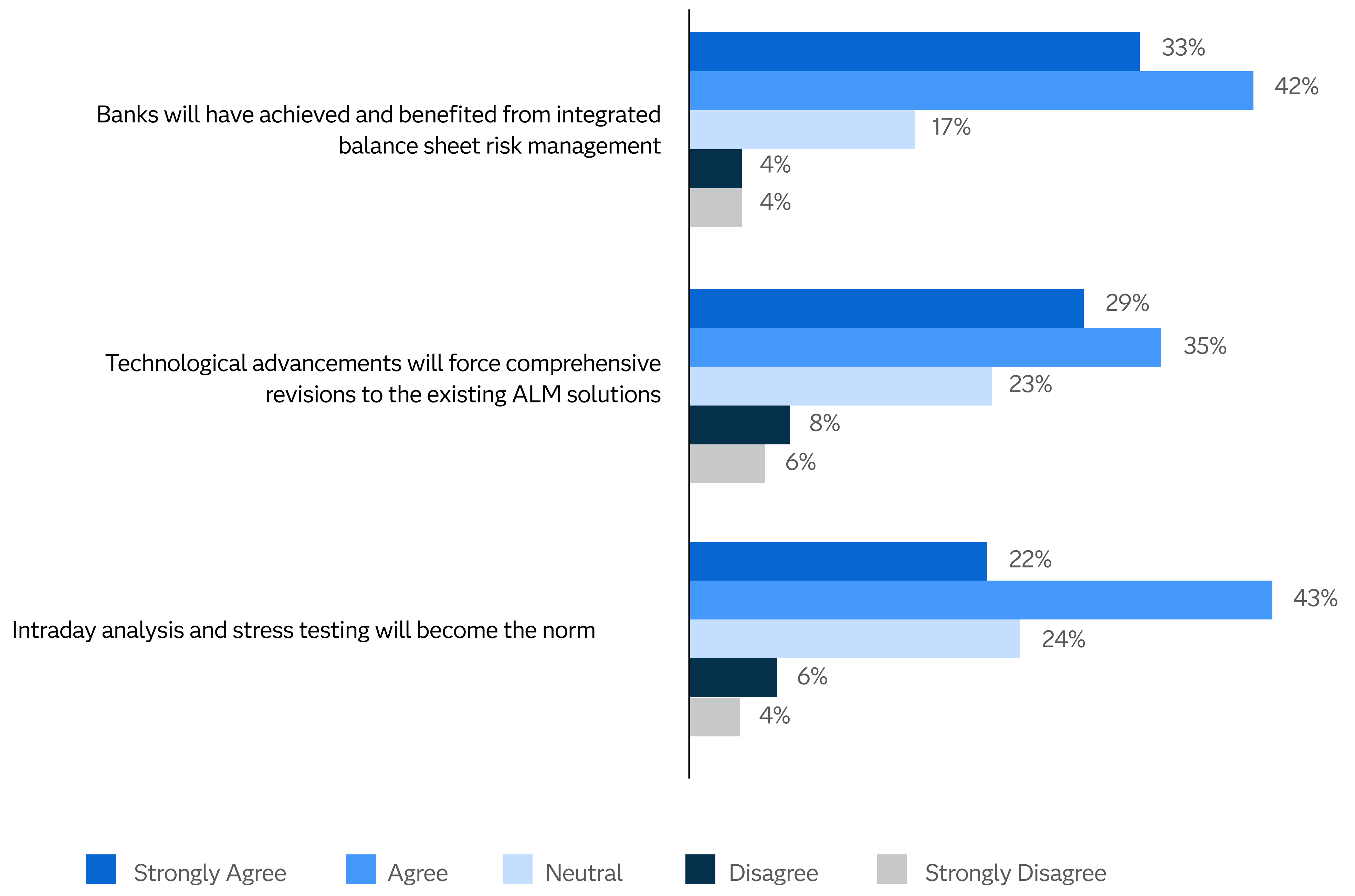
About two-thirds see technology as driving ALM transformation.

MEA and Europe are the strongest proponents of digitizing the Risk back office.

About two-thirds also think intraday analysis – even intraday stress testing – will be standard in three years.

MEA and North America are the most confident about the widespread implementation of intraday analytic capabilities

What do you feel the next 3 years will bring to ALM processes?



04

The benefits of a connected ecosystem: Beyond stress testing

As business conditions and regulatory requirements evolve, banks are searching for a multipurpose platform that provides expertise and flexibility, including prebuilt business and technical capabilities. An efficient, analytics-rich solution incorporates business processes and decision making designed with regulatory scrutiny in mind.

Your firm should seek a solution for ALM and liquidity risk management that:

- Is cloud-native (with options to scale over time).
- Has an open architecture that allows for modernization and lets you add new functionality and analytics when needed.
- Supports your in-house models as well as third-party models.
- Helps your model development teams support ongoing and evolving business needs.

Complete and integrated ALM, liquidity, IRR & FTP engines

Complete data management & business-friendly configuration

Business process orchestration, workflow & governance

Supports consolidated group & individual legal entity specifics

A modern ALM system should serve multiple purposes and be equipped to handle the multidimensional complexities of ALM and liquidity risk. It should also integrate with capital planning and "what-ifs," both on and off the balance sheet.

A leading EMEA corporate and investment bank uses SAS® to produce liquidity reports for the entire banking group, as well as for interest rate risk analytics and IFRS 9 calculations. The solution helps the bank perform regulatory exercises like EBA stress testing.

A large financial services provider in central and eastern Europe uses SAS as its enterprise-wide solution across Europe. The bank uses advanced computing to dynamically simulate its balance sheet and to calculate economic value and earnings-based measures for different entities and scenarios. Advanced users at the bank also rely on the model editor function to implement custom liquidity and interest rate risk models.

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The vision of modern ALM

Increasingly, banks are looking for ways to enhance their ALM analytics to provide greater strategic business value. This demands a broader and more dynamic perspective of ALM, with a comprehensive balance sheet management process that integrates multiple risk dimensions (e.g., market risk, credit risk, liquidity risk, capital standing, etc.).

To succeed, your approach must link tightly with other risk management functions while remaining agile enough to accommodate changing business conditions.

Components of a modern, integrated approach to ALM

1

Integration with capital planning

- Data integration and automation
- Integration with capital planning
- What-ifs
- ALM system modernization

2

Business process orchestration

- Workflows
- Auditability, traceability and dependency management
- Review and approval

3

Model risk integration

- Approved use of validated models
- Automated performance monitoring

Integration with budgeting

- Non-model-driven budgeting, expense forecast

4

Modeling techniques

- Champion/challenger
- AI and machine learning

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Why SAS® for ALM and liquidity risk management?

Forward-thinking institutions have been on a journey toward integrated balance sheet analysis for the past decade – driven by the need to address risk data aggregation and reporting, stress testing, and other scenario-based risk and finance requirements. The recent high-profile failures of several banks highlighted for everyone the importance of having a robust ALM.

As you look to achieve your ALM objectives, consider how SAS' experience and credibility can help.

SAS can help you integrate and automate multiple intersecting functions and processes, such as liquidity risk, FTP and IRR management. Use SAS to manage the full cycles of capital planning and stress testing – and achieve consistent calculations and analysis. And rely on us to implement your ALM solution in a phased approach to meet evolving business and regulatory needs.

Acquiring Kamakura strengthened SAS' expertise in ALM. Adding Kamakura Risk Manager® to our cloud-native SAS® Viya® platform improves integration with cloud-centric data and modeling ecosystems. And combining SAS' industry-leading analytical platform with financial risk analytics from Kamakura delivers even more open, comprehensive risk modeling capabilities for ALM, liquidity and credit risk.

Enable heightened regulatory compliance while lowering costs and reducing effort

Improve insight into performance with comprehensive risk management and balance sheet analytics

Boost efficiency, scalability and flexibility to drive improved financial results

07
Discover a market-leading solution

SAS is the world's most trusted analytics platform. As a partner to banks across the globe, we provide deep industry knowledge, proven methodologies and best practices, and innovative software and services. We've helped numerous banks establish a risk-aware culture, optimize capital and liquidity and efficiently meet regulatory demands.

- More than 90% of the top 100 global banks rely on SAS to transform into modern, digital-first analytical organizations.
- SAS continually improves the core data management and analytical functions that have been part of our platform from the beginning.
- SAS is a scalable, easy-to-use and powerful model development and execution engine, as well as a flexible business process orchestration solution – offering full transparency for regulatory and audit scrutiny.

With SAS, you can:
Discover insights from your data and make sense of it all. Identify what's working and fix what isn't. Make more intelligent decisions. And drive relevant change.

For more information, please visit **SAS.com/ALM**

To contact your local SAS office, please visit: **sas.com/offices**