MANAGE TODAY'S BALANCE SHEET RISKS IN 7 PRE-EMPTIVE STEPS

From bank runs to unrealized losses, are you on top of growing risks to your deposit books, investment portfolios and the full balance sheet? Whether you're a global universal bank, a regional bank or a building society, it's time to get a handle on your ALM exposure in seven pre-emptive steps.

1 DEEP DIVE INTO YOUR DEPOSITS

Deposit runs can shut down banks, as recent events have shown. But beyond these headline-hitting closures is another immediate problem that many banks currently face: the slow but steady leakage of deposits. As interest rates rise, who can blame savers for chasing yield elsewhere?

To stop the leak, you need to start with a segmented view of your customers and their deposits. What concentrations do you have? Which segments and vintages are stickier and which are most likely to decay? Only with this knowledge can you start building an alternative funding and deposit retention strategy that ensures a more stable source of funding.

2 RETHINK AND PREVIEW DEPOSIT STRATEGIES

Today's customers want security, liquidity and yield from their deposits, in that order. So, as well as reinforcing their trust in your services, it's critical to provide a mix of products that keeps on meeting their individual needs.

You don't have to chase huge deposits; a well-diversified, sticky base of small deposits in high volumes can be healthier in the long run. But with deposit betas still relatively low, you'll likely have to raise your rates, offer teaser deals or link savings products with other products like loans or credit cards. Preview strategy alternatives in a sandbox to see potential impacts and collectively assess the interdependent impacts on NII, NIM, liquidity and capital.

3 ASSESS ALTERNATIVE FUNDING AND TEST YOUR LIMITS

Whatever strategies you devise, are you sure they'll survive a significant risk event? Carrying out a broad range of stress tests across multiple scenarios will show you what losses you could incur or whether you should redefine your risk appetite. Plus, with reverse stress tests, you can pinpoint vulnerabilities in your business models.

By digitally processing and analyzing all your risk data, a liquidity dashboard will help you quickly understand your liquidity profile and survival horizon at portfolio and bank level – in normal times and in a crisis. At preset trigger points, you'll also see when contingent funding plans should kick in or whether your ALCO needs to rethink its strategies.

4 ASSESS YOUR AMORTIZED COST (OR HTM) AND FVOCI (AFS) EXPOSURE

In rising and uncertain interest rate environments, it's more important than ever to measure exposure to unrealized losses. Like many global banks, you may be aiming to balance owning liquid securities with yield improvement by investing in liquid securities, exposing you to duration extension risks.

These are uncertain times. Regulators and auditors alike are bound to start asking more questions about your interest rate exposure and your risk management systems for controlling risk. Be ready to meet their demands for more disclosures, especially on securities accounted for at amortized cost accounted (or HTM), which are highly likely to attract new regulatory attention.

5 EXPAND YOUR HORIZONS

Interest income measures may have received the bulk of the attention from your executives and ALCO historically, but full balance sheet net present value or EVE (economic value of equity) gives an early warning of risks that lurk beyond the net interest income horizon. EVE can readily surface over-time impacts to earnings such as mortgage extension and prepayments, as well as caps, floors and lag effects on floating instruments.

By using your imagination, coupled with embedded behavioral assumption modelling, you can flex and twist your balance sheet forecasting. Whether assessing the impact of rate changes, spreads or other shocks on the entire balance sheet, you can determine which of your products are the most sensitive and why.

6 IN TIMES OF STRESS, ASSESS MORE OFTEN

ALCO analysis has its regular rhythm, but in periods of high uncertainty and stress, it makes sense to step up the monitoring cycle. Running ad hoc stress tests on liquidity and contingency funding plans keep you on top of downside risks, but also the upside potential to your business.

The latest, most state-of-the-art balance sheet management systems give you a single place to gather data, analyze your risks and drive all sorts of insights beyond ALM. With highly automated workflow and powerful analytics, you can spend less time crunching the numbers and more time on strategic analysis and ALCO homework.

7 REVIEW HEDGING STRATEGIES AND OPTIMIZE HEDGE ACCOUNTING PROGRAMS

Recent historical rate hikes have exposed vulnerabilities driven by unhedged exposures, interest rate inter-tenor mismatches as well as insufficient (proxy) hedges which became ineffective. This led to a significant depletion of regulatory Capital Ratios for banks.

To manage risks, banks should review their interest rate risks and their economic hedges as well as understand the difference between economic (EVE) and accounting (net after hedge accounting) views on a standalone legal entity and group level. Hence it is key to run stress tests and "what-if" scenarios to calibrate risk appetite and risk limits.

Take all seven steps with FIS® Balance Sheet Manager – our complete balance sheet management solution.

FIND OUT MORE. CONTACT US.

www.fisglobal.com

getinfo@fisglobal.com

twitter.com/fisglobal

linkedin.com/company/fis

ADVANCING THE WAY THE WORLD PAYS, BANKS AND INVESTS™