

Factsheet

ALM IQ: A cloud asset and liability management (ALM) solution for deeper understanding of the balance sheet and exposure, for small and mid-size banks

Managing risk is a huge responsibility even when the economic waters are calm. But the Black Swan events we are currently witnessing have resulted in extreme economic volatility. Frequent economic changes such as rising inflation and interest rates are becoming the new normal. Consequently, for banks, the challenge to remain profitable and stable institutions is greater than ever in our unpredictable economy.

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The recent turmoil within the US banking sector has shown again the danger of interest rate and liquidity risks, already prompting calls for regulatory response from the US Congress, FDIC members, and the public. Strong risk management and regulatory compliance are becoming critical for survival. //

Poor ALM and Liquidity management combined with lax regulations is a recipe for disaster, as evidenced by the recent failures within the US banking sector, which have already caused a political and regulatory backlash. This is why the Basel rules, e.g. supervisory outlier tests (SOT) implemented in Europe, have been created.

Furthermore, technological progress amplifies the above risks: the ability to access and withdraw money in real time at low cost makes the 24x7 availability of the liquidity and interest rate risk metrics of the banking book absolutely necessary to guide any recovery or liquidity contingency plans.

The new dynamics is especially relevant for smaller (less than \$700B AuM) regional US financial institutions, which are currently not required to conduct and publish neither SOT results nor IRRBB metrics. Prudential risk supervision calls for a closer look at these tools and related solutions to support them.

Deeper understanding of the balance sheet and risk exposure

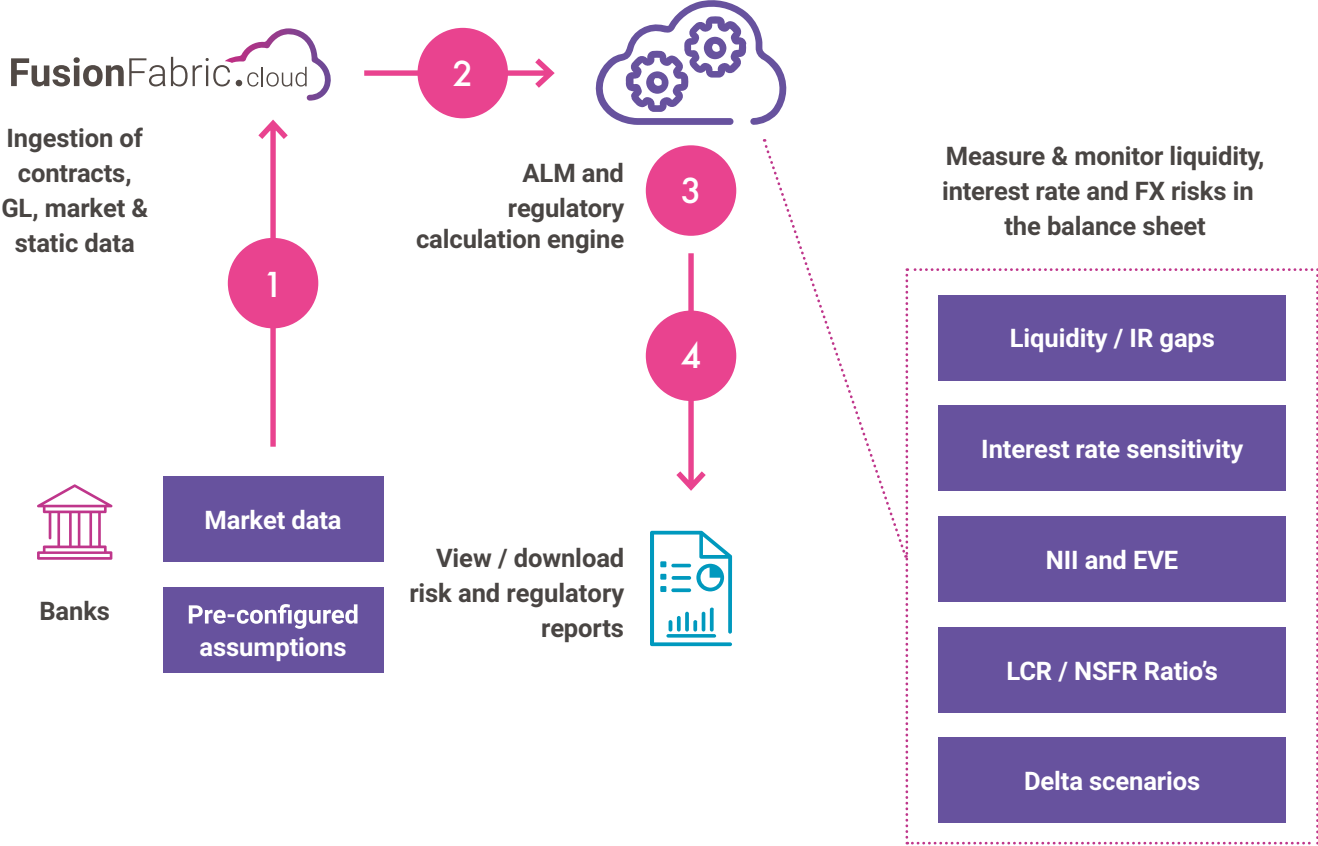
ALM IQ provides Asset and Liability Management (ALM) and IRRBB support as an out of the box cloud service. Users can benefit from our 20+ years of experience providing production ready ALM solutions to leading global financial institutions.

A faster, deeper understanding of the balance sheet and risk exposure enables banks to optimize their positions and implement prudent risk management compliant with current and future regulations. Shielded from risk and able to make confident decisions in shorter timeframes, banks are better equipped to serve the financial needs of their local communities including private individuals and small- medium enterprises (SMEs).

- Respond to regulatory pressure that increasingly focuses on interest rate risk and liquidity.
- Modernize and replace quarterly reporting cycles with dynamic data-based supervision.
- Insulate the business from increased volatility and inflation caused by geo-political 'black swan' events.
- Adapt to changes in customer behavior triggered by rising interest rates.
- Increase agility in response to competition from innovative and fully digitized platforms.
- Monitor interest rate risk in the banking book using IRRBB framework, preconfigured regulatory and individual stress scenarios.

The first SaaS banking book solution that is fast to deploy, lowers TCO and accelerates reporting

From data ingestion to deep analysis and intuitive reporting, Finastra ALM IQ is a low-cost, future-proof solution that integrates IRRBB principles with ALM policies, thus optimising the bank's risk management framework.



1. Data ingested by the bank's existing core solution, including Fusion Phoenix and Fusion Essence. This includes contracts, market and static data.
2. Consolidated data accessed by the ALM and regulatory calculation engine. Includes economic scenarios, behavioral analysis, credit risk scenarios and new business scenarios.
3. Flexible measurement and monitoring tools for holistic view of risk in the balance sheet.
4. At-a-glance data and metrics via an intuitive dashboard. Automated report generation for the wider business.

The Finastra advantage

- Sector focus: Market leading ALM solution tailored to small and mid-size banks.
- Standardization: No customization required; standard reports included.
- From cost to profit center: ALM IQ helps to drive the business thanks to a holistic view of the balance sheet.
- Platform based: Scalable, on demand.
- Fast to deploy: Open banking approach ensures rapid journey to value.
- Predictable costs: Low TCO, no maintenance, automatic updates (evergreening).
- Exponential value: Activate additional modules from Finastra and third-party vendors.
- Efficiency: Automated workflows, combined with powerful risk and regulatory reporting.
- Simplify compliance: ALM IQ uses stateless services and does not keep the history or any data of the customer.

Analyze the past, monitor the present, prepare for the future

IRRBB measures the impact of interest rate changes using two metrics – Net Interest Income – NII to measure forward earnings impact over the next 12 months, and value with Economic Value of Equity – EVE to measure the long-term impact on the run-off balance sheet. EVE has proven a useful metrics while analyzing the recent failures in the US banking sector. Metrics are also critical for IRRBB compliance, which under Basel rules, may cause supervisors to impose a capital-add on the bank in case of a significant stress test failure.

For banks, which currently do not monitor IRRBB metrics, the traditional implementation means an extension or an upgrade of the existing ALM and/or regulatory compliance infrastructure.

This is where ALM IQ comes into play. The cloud service offers a fast, account/ position level computation of ALM and IRRBB metrics under multiple (regulatory and proprietary) stress scenarios.

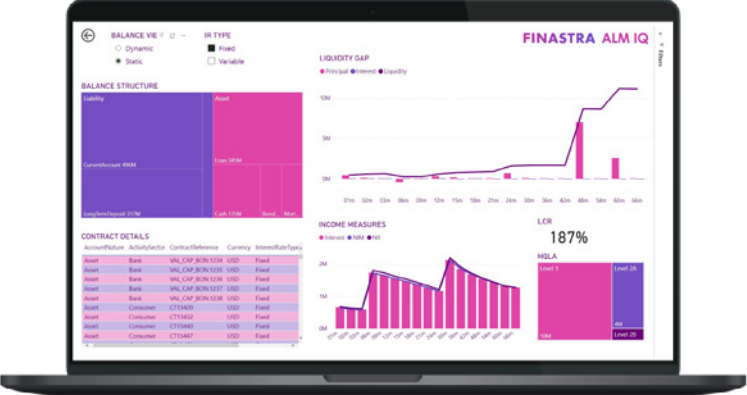
The reports provide detailed view of balance sheet structure forecast as well as a deeper understanding of asset and liabilities risk exposure.

ALM IQ enables banks to take a balance sheet optimization approach beyond fortnightly ALCO meetings, transforming dynamic risk data into a source of non-stop competitive advantage.

Boost confidence with supervisory institutions: Increase trust with shareholders and investors when modelling the potential impact of interest rate changes. Faster, accurate reporting also reinforces confidence with external organizations including the OCC, FHLB and the Federal Reserve.

Rapid deployment: Quickly integrate IRRBB principles with ALM policies and optimize the bank's risk management framework.

Future-proof, proven platform for growth: Adapt to rapidly evolving risk management expectations from regulators and customers. Finastra ALM IQ provides a standardized governance framework which supports compliance with regulations based on LCR and NSFR.



Example of overview with ALM IQ



Example of Scenario analysis with ALM IQ

ALM IQ in a nutshell

Banking book SaaS, ALM methodology

ALM IQ can be used as a cloud service, seamlessly working alongside other partner fintech cloud offerings mentioned earlier.

Finastra partners with leading managed services providers, combining deep expertise in delivering treasury and risk management solutions with cloud native experience, in order to offer evergreen cloud reliability, monitoring and support with minimal infrastructure requirements.

Benefits



A fully supported and evergreen cloud solution for balance sheet management



Increased operational efficiency (zero onsite deployment)



Quicker time to market for new features and business functionalities



Seamless software updates with minimal disruption to ongoing business operations



Scale on demand. Adjust platform's capacity with business growth



Reduced TCO of Treasury management by an average of about 20 to 40%



Preferential tax treatment of the spend as OpEx instead of CapEx



Strong security and reliability of the cloud

About Finastra

Finastra is a global provider of financial software applications and marketplaces, and launched the leading open platform for innovation, FusionFabric.cloud, in 2017. It serves institutions of all sizes, providing award-winning software solutions and services across Lending, Payments, Treasury & Capital Markets and Universal Banking (Retail, Digital and Commercial Banking) for banks to support direct banking relationships and grow through indirect channels, such as embedded finance and Banking as a Service. Its pioneering approach and commitment to open finance and collaboration is why it is trusted by over 8,000 institutions, including 45 of the world's top 50 banks. For more information, finastra.com

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