Risk and Compliance Case Study

AMBIT LIQUIDITY RISK MANAGEMENT

A Leading Scandinavian Bank Implements Ambit Liquidity Risk

Introduction

A leading Scandinavian bank required a solution to help it manage liquidity risk and the balance sheet whilst complying with industry regulation.

The bank was concerned about its ability to manage liquidity risk and understand the effect of different scenarios on its portfolio. Facing greater scrutiny from both global and local regulators, the bank's existing approach to managing liquidity, which relied on manual workflows, was not sufficient for static reports such as the liquidity cost ratio (LCR) mandated by CRD IV nor any dynamic calculations. Furthermore, the bank could only capture a fraction of its balance sheet.

Moreover, every line of the bank's business and business activity has an impact on the LCR, making it a critical consideration in balance sheet management. To achieve both compliance and profitability, the bank's CFO and CRO needed to determine the exact nature of that impact and whether a product remained profitable as a result. They needed a comprehensive, integrated 360-degree view of the balance sheet, with a clear indication of how each product line affects the liquidity ratios and therefore profitability, before extending or reducing it accordingly.

However, the bank had limited internal resources. Therefore, it looked for an off-the-shelf solution from a vendor that understood its markets and local regulations and had a strong local presence and a proven track record.

A FIS customer since 1999, the firm already used FIS' Ambit ALM solution for net interest income calculations. It chose FIS' Ambit Liquidity Risk Management solution to help it comply with regulatory requirements for liquidity risk management, including LCR.

Ambit Liquidity Risk Management also helps the bank to dynamically model liquidity risk, understand the effects and optimize its liquidity portfolio accordingly. The bank can now pre-assess the impact on its LCR of multiple contemporaneous events and their complex interactions, such as a steepening of the yield curve, volatility at the short end of the curve, business model changes and margin calls on derivatives.

Business challenge

- The bank needed to satisfy global and local regulators' requirements around liquidity management.
- The firm required more transparency into its balance sheet.
- The bank needed an off-the-shelf solution from a vendor that understood its market.
- Project and organizational complexity.
- Accounting for the bank's unique balance sheet composition and footprint.

Our solution

- Ambit Liquidity Risk Management provides an integrated, 360-degree view of the bank's balance sheet.
- Our solution offers a strategic risk management framework that allows the bank to model all aspects relevant to liquidity risk management in a consistent manner.
- It covers a wide range of effects required for strategic liquidity risk management, including the liquidity effect, the risk and sensitivity effect and the income and pricing effect on the balance sheet.

- Our solution provides liquidity pricing and redistribution of direct and indirect liquidity costs across the bank by setting incentives for the proper usage of liquidity.
- The powerful cash flow engine calculates and analyzes the effects of inflows and outflows on a balance sheet, while the simulation engine offers strong scenario definition capabilities.

Results

- The bank can incorporate liquidity risk management into a holistic balance sheet management framework.
- It can factor the constraints and costs of liquidity regulation into every aspect of balance sheet management in both the short and long term.
- The bank can dynamically evaluate its balance sheet, helping it better manage liquidity, reduce risk and comply with CRD IV ahead of the 2015 deadline.
- The bank has a clear view of its liquidity situation under a variety of forward-looking scenarios and stress scenarios.
- It can determine the appropriate liquidity buffer based on both its contingent liquidity needs and regulatory requirements.
- The bank can now calculate and project LCR and NSFR at a regulatory and strategic level.
- The bank can view the balance sheet from both a risk and a performance management perspective.

About FIS' Ambit

The Ambit Risk and Performance helps retail and commercial banks to gain a centralized view of risk, liquidity, capital and profitability across the enterprise so banks can be prudent in their decision making, yet strategic for maximized returns. The solution suite offers modular solutions for asset liability management, liquidity risk, capital management, operational risk and credit risk management. For more information, please visit **www.fisglobal.com/ambit**

About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit **www.fisglobal.com**

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