Overcome balance sheet risks for financial success

Unlock greater control over your balance sheet
to get money working harder

BE PREPARED

Contents

Introduction

As a bank, you need to efficiently manage your balance sheet to operate effectively, protect your financial resources to keep your capital working to sustain growth. You need to safeguard capital and liquidity and stabilize returns. But adding in current market volatility, economic uncertainty, changing interest rates and rising impairments, new risks such as climate risk and increasing regulatory lenses (think IRRBB, liquidity, capital planning and ICAAP), and the scope of balance sheet management is greater than ever.

To make sure your money is both safe from risk and hard at work, you need modernized, consistent, transparent, efficient and integrated processes that protect your organization, create business value and help drive growth.

"Banking supervision needs to up its game. It needs to identify weaknesses at an early stage and act forcefully to ensure that banks address the most important issues. To do this, supervisors will need to have operational independence, strengthen their forward-looking culture and adopt a more intrusive stance. They will also need to continuously seek to improve their capabilities; first, by accessing greater resources; second, by enhancing their productivity with the aid of technology."

Are siloed solutions hiding costly risks?

Effective balance sheet management calls for a 360-degree view of present and future risks across your entire organization. You can't put money safely to work without that visibility. But with each department viewing the world from their own perspective, achieving a constant and consistent view of risks has been challenging – until now.

The path forward

Financial institutions need to optimize or test response strategies on their future balance sheet. Institutions need an eagle-eye overview of key risk metrics across IRRBB, earnings and profitability, risks (including liquidity, climate), credit loss, funding, hedging and capital.

This level of optimization and insight can only be achieved by eliminating system silos and implementing a fully integrated risk management solution. With systems communicating with each other, you'll unlock a greater view of your entire risk portfolio to increase overall asset-liability committee (ALCO) effectiveness.

This approach helps minimize problems and costs so your business can respond to risks faster and get money working harder.

Are weak assumptions, behaviors and approximations clouding your forecasts?

Forecasting is based on a series of assumptions. Understanding how these assumptions affect future forecasts depends on the quality, accuracy and reliability of these assumptions, whether they're contractual, behavioral, related to pricing or of an economic nature. Unfortunately, many of these factors are out of your firm's control, so you have to manage ambiguity better to keep money safely and steadily at work.

Regulators will scrutinize all assumptions and approximations that drive the balance sheet and will be eager to focus on possible vulnerabilities.

The path forward

Increasing the quality of data is the first step to better assumptions. And frequent testing and monitoring can give you a better idea on the impact assumptions have on your balance sheet.

As interest rates and markets fluctuate, your assumptions need to be tested more often. A lot can change between tests, especially if you're on a quarterly or longer testing schedule. One or two rate changes can have a substantial impact on your capital or liquidity costs. Eliminating solution silos, integrating systems and updating your assumption testing can help your firm withstand market instability.

Are legacy, siloed systems hindering your view of the balance sheet?

Legacy, siloed solutions and poor risk operating models still exist, even when the disadvantages are so well known. Sticking with the old ways of working plus weak data keeps inconsistent and incomplete balance sheet management alive.

This weakens the potential effectiveness of ALCO, reduces the speed of response and often masks interconnected risks that need to be uncovered and monitored. And ultimately, it stops your money from working as hard as it could to drive growth.

The path forward

Your liquidity has a lot of work to do to keep your bank operating effectively. So, you need to be sure you can see any future risks to your cash flow. With ALM and liquidity risk modeling working together with ICAAP and ILAAP balance sheet management systems, you'll get a clear view into more accurate and reliable income and cash flow modeling.

The key is to bring all your assumption, forecasting and balance sheet data into a single, unified solution. The more siloed or segmented your data gets, the worse your forecasting accuracy becomes.

Scenario, stress and "what if" analysis becomes easier in one place and puts balance sheet management at the core of your forecasting process, not the end.

38% of financial services firms say that improving transparency has a higher level of impact on their risk profiles than securing transactions and customer data.[1]

1: Source: FIS, Global Innovation Research, 2024

How risks known and unknown can impact your liquidity

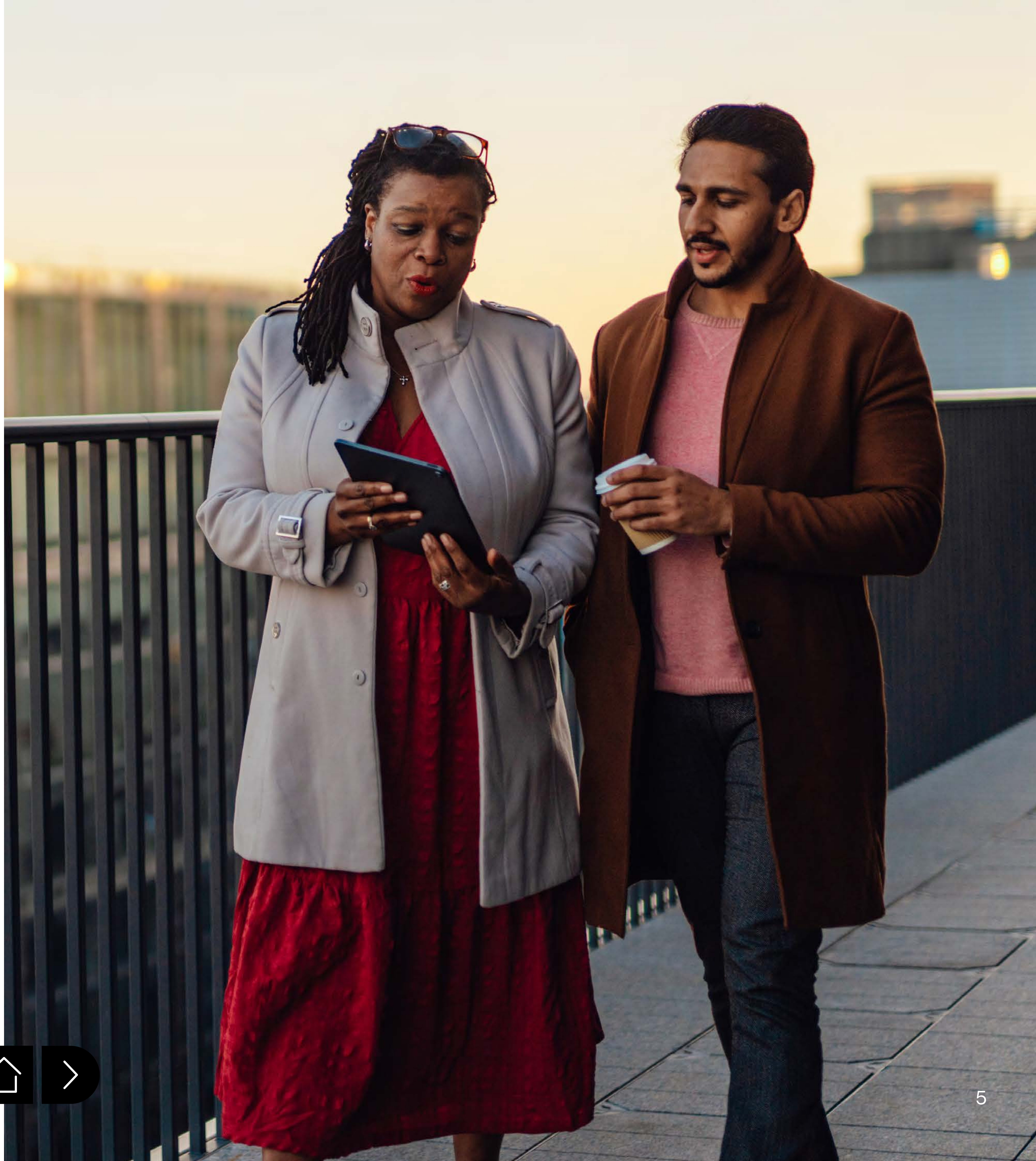
Technology and social media are changing consumer behavior. Risk managers must understand how consumers act as a group, not just as individuals. Traditional risk management focuses on what is known, while changes in market sentiment are creating new types of risk that can fly under the radar. Could these threats stop your money from doing its job?

The path forward

New technologies, like AI and machine learning, can find a home in your traditional risk management solutions. Emerging technology enables solutions to capture broader sets of risks and find vulnerabilitys human risk managers can't see.

59% of business leaders report using regulatory compliance solutions to harness AI or ML for mitigating operational risk.[2]

2: Source: FIS, Global Innovation Research, 2024



Fewer IRRBB reviews means more problems

Many firms conduct IRRBB reviews monthly or even quarterly, due to operational constraints.

At every bank, rate changes call for an immediate impact assessment on the firm based on the latest position and without resorting to a spreadsheet approximation, due to a lack of operational capability to do a complete view of IRRBB.

The path forward

IRRBB reviews should be conducted at least monthly, and more frequently when resources allow.

Interest rates and the stock market can shape your balance sheet within hours.

Daily reviews might not be possible, but a regular and consistent review schedule can help you spot and resolve issues before they become disasters.

As mentioned before, a lot can change between one IRRBB review and the next. The longer you wait, the more unmanageable your balance sheet becomes and opportunity gains can be lost. Why waste the good work you've done with your money?

When hedgers and accountants aren't connected, risk fills the gap

Hedge accounting is a proven way to put financial resources to work. But to do their job, hedger and accounting teams don't work as closely together as they could.

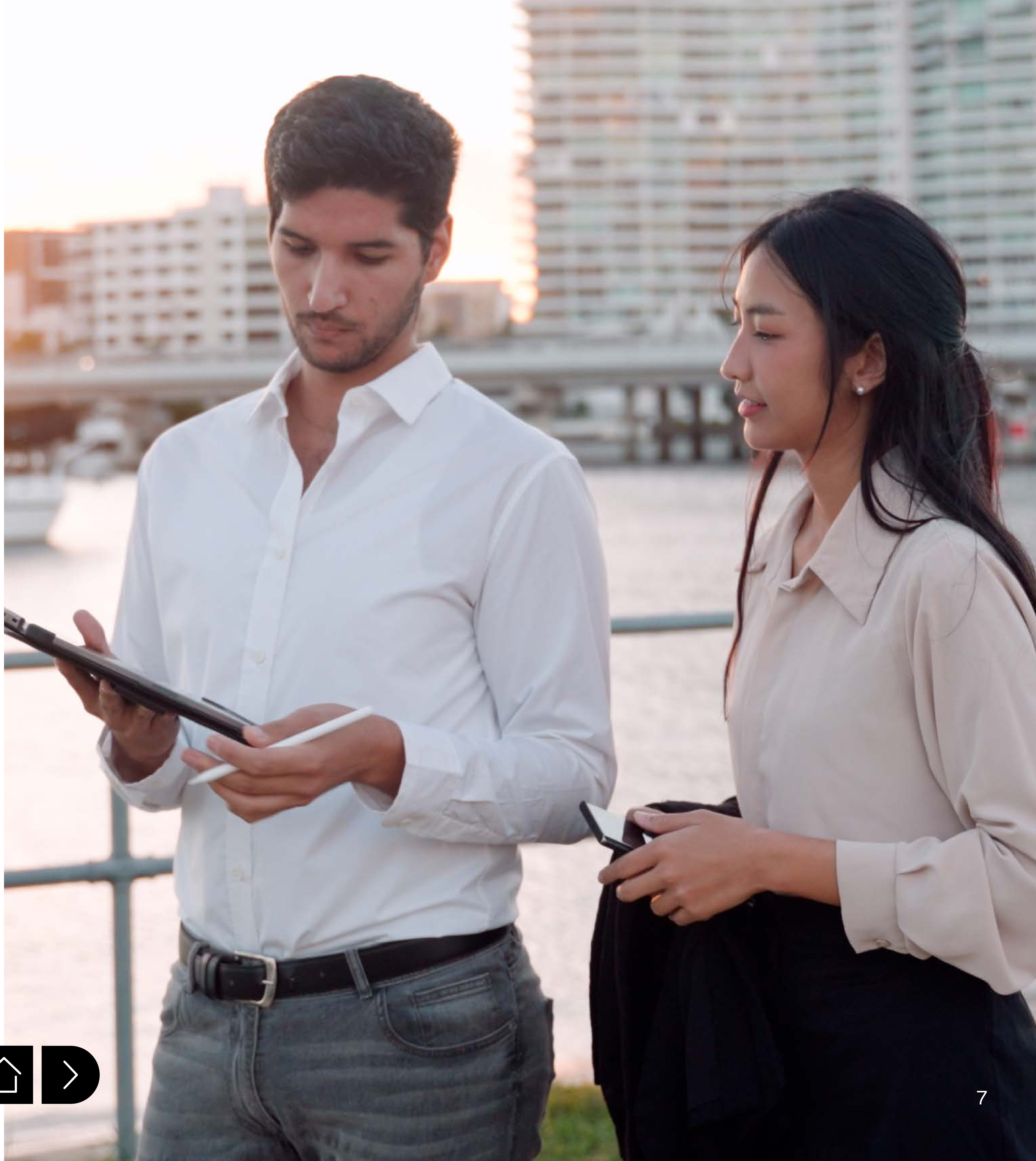
Hedging rules and practices evolve over time. Standalone, spreadsheet-based systems meet basic compliance needs at a very specific point in time, but don't improve as conditions change. As hedgers and accountants rely just on spreadsheets, they're only capturing part of the overall picture, leaving gaps in information that become a significant source of risk to your money.

The path forward

To be better informed and keep money working, financial institutions need a better understanding of the potential accounting implications of hedging by playing out scenarios as interest rates, customer behavior and credit risks change. Hedge effectiveness testing ensures that hedging activities are accurately reflected in financial reporting and do not have to be tied to a period end.

74% financial services firms are optimistic that advanced connectivity will deliver concrete value to their business.[3]

3: Source: FIS, Global Innovation Research, 2024



Infrequent ICAAP and ILAAP could leave you open to greater risks

The Supervisory Review and Evaluation Process (SREP) is a significant undertaking for a financial institution, particularly if it's on a standalone basis and with underlying matters that may be exposed through the process.

Historical wisdom is that ICAAP and ILAAP should be performed at least annually or when a material change to the business model occurs. Financial institutions are challenging that viewpoint as it restricts their business process into a regulatory timetable, not their internal risk cycle.

When it comes to running your bank, you must always be sure your capital and liquidity are up to the job.

The path forward

To improve your risk evidence, consider moving to a target operating model that facilitates SREP through your own informal ICSSP and ILAAP analytics.

Moving to a target operating model unlocks greater insights by using the latest data and better forecasting. As you move to more frequent testing, planning cycles shrink for faster decision-making and planning. And you have the confidence you're working your financial resources as hard as you possibly can.

Update the recovery plan and playbook as part of this process, have the informed ability to adjust your risk profile more frequently as the operating environment changes, and enable more dynamic governance for greater ALCO effectiveness.

Early identification of vulnerabilities is even more relevant in the light of recent events. The combination of social media and technology has amplified the speed at which bank runs can occur.
Social media can spread concerns about a specific bank among its depositors even more quickly.

And technology, such as a mobile banking app, lets customers open and close accounts and move their money in a matter of minutes.

How financial leaders can unlock greater balance sheet insights to put money to work

Financial leaders need to understand that effective balance sheet management is a company-wide commitment. The longer you use siloed systems and legacy solutions, the longer problems persist, leaving your business in a vulnerable position and your financial resources potentially slacking at their job.

Your teams need to work together, and information must flow from a centralized source for easier risk modeling and testing.

Balancing your bank's books is critical to making money work harder and maximizing returns. Your balance sheet management systems should take center stage to keep your organization safe, create business value and drive growth.

Managing financial risk starts with better balance sheet management

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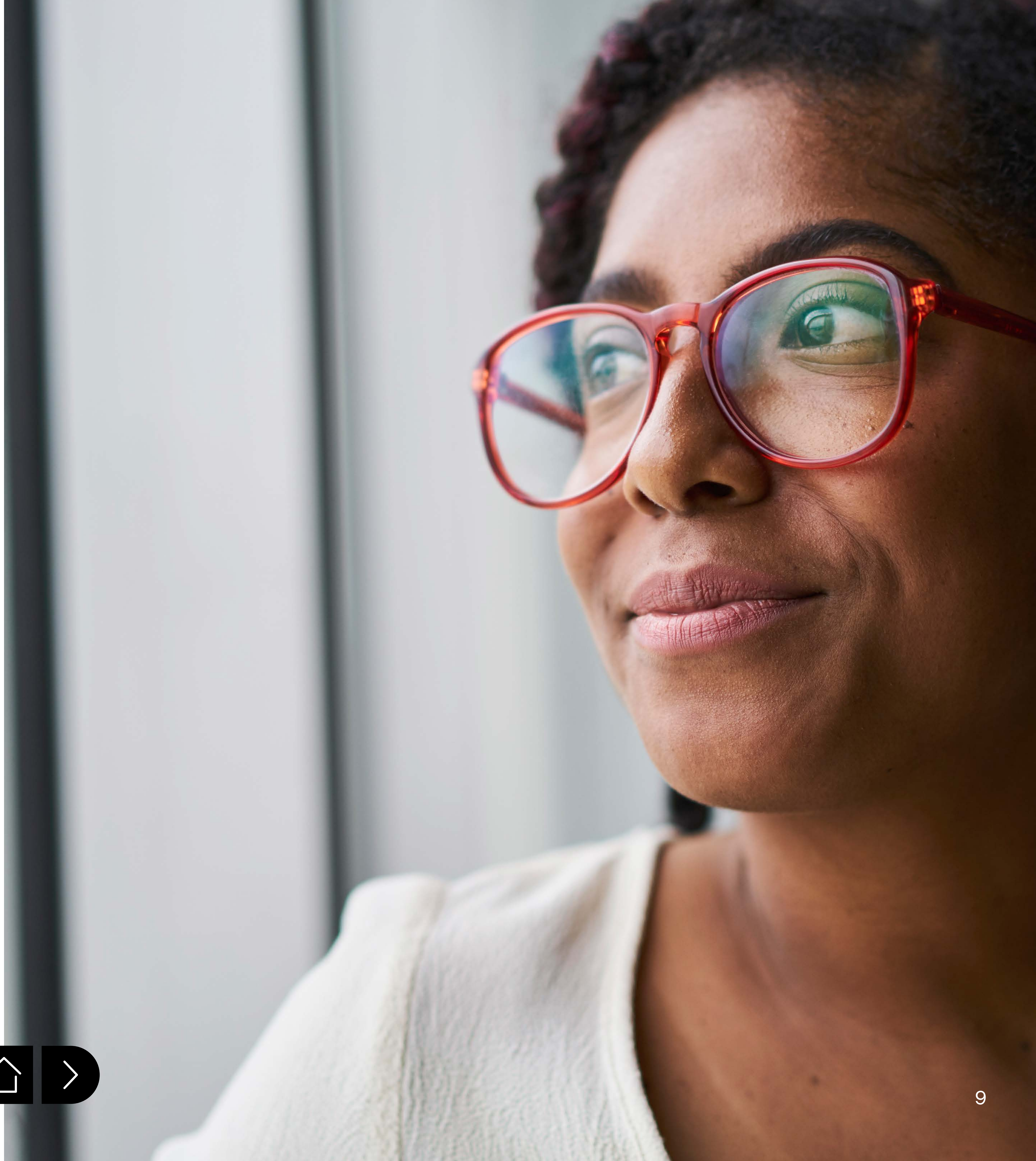

FIS financial risk management solutions help banks make their balance sheets work harder

Our technology powers the global economy across the money lifecycle.

Money at rest

Unlock seamless integration and human-centric digital experiences while ensuring efficiency, stability, and compliance as your business grows.

Money in motion

Unlock liquidity and flow of funds by synchronizing transactions, payment systems, and financial networks without compromising speed or security.

Money at work

Unlock a cohesive financial ecosystem and insights for strategic decisions to expand operations while optimizing performance.

About FIS

FIS is a financial technology company providing solutions to financial institutions, businesses and developers. We unlock financial technology that underpins the world's financial system. Our people are dedicated to advancing the way the world pays, banks and invests, by helping our clients confidently run, grow and protect their businesses. Our expertise comes from decades of experience helping financial institutions and businesses adapt to meet the needs of their customers by harnessing the power that comes when reliability meets innovation in financial technology. Headquartered in Jacksonville, Florida, FIS is a member of the Fortune 500® and the Standard & Poor's 500® Index. To learn more, visit FISglobal.com. Follow FIS on LinkedIn, Facebook and X (@FISglobal).

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