



WHITE PAPER

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# A CHANGE FOR THE BETTER

How to effectively implement a new ALM  
system in a small- to medium-sized bank

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# THE CHANGE MANAGEMENT CHALLENGE FOR ASSET LIABILITY MANAGEMENT

**Today's small- and medium-sized banks increasingly recognize asset liability management (ALM) systems as an important investment for their whole organization, not just the ALM team. With a single platform for ALM and balance sheet management come opportunities to improve integration between finance, risk and treasury teams, eliminate siloed activity and share data for entity-level modeling, monitoring, simulation and stress testing.**

**But whether your firm is implementing a formal ALM system for the first time or replacing an existing solution, adopting new technology can present a complex operational challenge. With the potential to overrun or break budgets, ALM projects need careful, expert handling to fully realize the benefits.**

## Why change now?

Typically, banks introduce or replace an ALM system for one or more of these reasons:

- Increasing regulatory expectations of robust risk systems and models that are flexible, maintainable, reconcilable and accurate
- Growing recognition that disconnected systems, processes and data are both challenging and uneconomic to manage, update and change in response to new regulations and guidance
- Automation drivers and increased emphasis on operational risk. Automating existing manual tasks and data manipulation to increase efficiency, lower operating costs and decrease risk
- The need to more closely integrate risk data and risk reporting to effectively monitor the risk management framework across finance, risk and treasury
- Internal demands to focus more on assessing future risk and make forward-looking decisions about assets and liabilities – particularly given a more inflationary environment and volatile macro-economic situation. Being able to stress test core scenarios and quickly replan is increasingly a key requirement
- Regulatory feedback such as through a supervisory review or evaluation process (SREP) or following a skilled person review
- Vendor or internally developed systems that no longer meet requirements for functionality or scalability, or are too costly to change

Whatever your motivation for change, it makes sense to get your project right from the start, by meeting three key objectives.

## 1. Get people on board

Before you even think about selecting a new ALM system, it's important that key internal stakeholders make an honest assessment of your current framework for ALM and financial risk management, its overall maturity and the skills base that supports it.

As part of this process, you'll need to:

- Understand your organizational priorities for financial risk management across each key discipline
- Take on board any recent regulatory feedback – either direct to your bank or the industry in general – and anticipate the direction of future requirements
- Evaluate your present capabilities and constraints in terms of data, process, modeling, reporting and metrics, both internal and regulatory
- Assess how efficient and effective your risk management framework is at managing your data, processes, models, assumptions, documentation and metrics
- Review the wider team to be involved in your change project, including business support and IT executives

Discussions should draw widely on the knowledge of not only the assets and liabilities committee (ALCO) and the executive committee (EXCO), but also internal finance, risk and treasury teams. Additionally, it makes sense to involve teams that manage technology and data, models, internal audits and regulatory interpretation. The aim is to both understand present limitations or concerns and compare present standards with current and potential new regulatory requirements.

Internal studies will be a useful way to support your negotiations with ALCO and EXCO, help you build a business case for change and encourage company-wide commitment to improving ALM and balance sheet management. Later, the findings can help manage expectations of the overall change timeline too.

In our experience, there is often an epiphany moment when the purchase of a single, scalable ALM system with a centralized data set and a forward-looking simulation engine becomes an enterprise-level strategic investment. Potentially, your powerful new solution could help you improve your overall risk management framework – such as for interest rate risk in the banking book (IRRBB), liquidity, funds transfer pricing (FTP) and hedge accounting – plus reduce overall complexity and increase efficiency. At the same time, you will be simplifying the work of your IT team by reducing the number of solutions they have to build or procure and maintain.

## Key roles in an ALM change project

Together, the following people will drive the success of your project, so make sure the right individuals or teams are in place from the start.

### The sponsor

Ultimately accountable for the success or failure of the project, the sponsor should champion its objectives at the highest level of the organization and provide overall executive leadership for delivery. It is also important that sponsors are seen to have their own stake in the project's outcome – “skin in the game,” if you like – and be fully supportive throughout, alongside the project team.

Visibility and interaction are vital. The sponsor needs to build a strong and productive relationship with the project manager and other project team members and key stakeholders.

### The project manager

With input from the sponsor and stakeholders, the project manager is responsible for defining the scope and objectives of the project and agreeing on the delivery approach. He or she will then plan out the steps involved in realizing the project, schedule tasks in each phase and oversee the day-to-day execution of the project plan and deliverables. This includes managing any external suppliers such as the vendor, monitoring the progress of the project and bringing it to completion.

It's down to the project manager to set the overall daily pace and direction of the project for the rest of the team. A sponsor's interaction with the project manager will be crucial to keeping up the cadence and managing internal project resources.

As the primary channel for both upward and downward communication, the project manager is also the eyes and ears on the ground and can help define and deliver project communications to wider stakeholders – and ensure compliance with any internal project management framework.

As well as owning the project plan's to-do lists, the project manager will work alongside the ALM system's vendor to manage and resolve risks, issues and dependencies, while driving interaction between the vendor team and the internal project team.

For an ALM change project, it will be helpful if the project manager has a comprehensive understanding of the subject matter at hand; if not, some extra training or support in this area will be necessary.

### The power user

Whether there is one or more within your organization, power (or senior) users are the people who will accept the new ALM system into day-to-day business use, as well as using, maintaining and developing the system in the long term. So, like the sponsor, they will also have skin in the game.

Typically, power users will be an ALM subject matter expert (SME) – or report to someone with the right technical ALM skills – as they need to understand and be able to translate system configurations and key deliverables into work parcels and know what “good” looks like.

It is important that power users make enough of their time available to fully participate in the change project, from scoping to closure, and be an active part of the project team. Often there is a conflict of time and availability between “run the bank” and “change the bank” activities, which the sponsor will need to consider and help mitigate, potentially by back-filling “run the bank” roles.

The overall quality of projects will suffer when power users and key SMEs are not available and do not participate fully and effectively when needed. By training up another person to take on the power user's “run the bank” responsibilities, you will also reduce future key person dependency when the new ALM system is up and running.

### The data analyst

Data is a pivotal part of the delivery of an ALM change project, so you'll ideally need at least one internal team member with knowledge of your data at a detailed level. He or she will coordinate the data supply both throughout the project and when you hand over the system for day-to-day live use, and help manage the operational aspects of providing, loading and remediating data in a production environment.

As part of this work, the bank's data governance framework should also be considered, alongside data controls such as data lineage, data quality and data reconciliations. These are central to reducing risk in ALM reporting and will need to be monitored as well as demonstrated in model documentation.

### The vendor team

As you put together your project leadership team and set it on the road to success, your ALM system vendor will be the final piece of the jigsaw.

It is absolutely critical that the vendor has technical knowledge and experience of previous implementations and actual delivery, as well as of using and maintaining key aspects of the system. Be very wary of vendors who are unable or unwilling to demonstrate these capabilities.

At the scoping and definition phase of your change project, as you shape the delivery approach, it is wise to carry out a detailed and honest review of your own organizational capabilities and make sure your vendor solution can fill any key gaps.

To help you identify the internal resources that you will need to complete the project, the vendor should be able to provide and quote for a detailed statement of work. For smaller firms or start-ups, it is likely that the vendor can take care of large portions of configuration, design and build work, albeit working closely with your internal project team.

## 2. Choose the right system

There are some key considerations you should make when looking for and selecting an ALM system. Remember: you are committing to a long-term investment and at least 10 years of using the system and developing your ALM practices around it. So, you need to appraise your potential purchase with care.

Obviously, your immediate functional and non-functional requirements will drive your decision. But even more critically, you should allow for your future needs and when you plan to address those needs, especially if your roadmap includes the migration of other systems and processes in the medium term.

Your request for proposal (RFP) to vendors deserves your fullest attention in the early stages of a change project and is a great way to assess the competency of solution providers and their commitment to the ALM system. When you're making a strategic investment, you need to consider whether your technology partner is in it for the long haul, too.

So, make sure your RFP covers the following themes and asks the right questions about prospective vendors:

### Investment strategy

- How much does the vendor re-invest in the development of the system and supporting its clients?
- Does the vendor offer custom development?
- What is the vendor's strategy for ALM system technologies, including cloud – and does that strategy align with your own enterprise architecture and strategy?

### Scalability

- Can the system scale easily to future growth, whether your bank grows organically or by acquisition? For example, is there the opportunity to purchase new modules, such as for IRRBB, liquidity, FTP and hedge accounting?

### Experience and knowledge

- How long has the vendor been supporting the system?
- How many client sites are actively using the system?
- Can the vendor demonstrate successful implementations of the product or migrations from other vendors' systems?

### Regulatory expertise and support

As a key driver of ALM change projects, what experience does the vendor have of supporting regulatory change?

### Training

- Does the vendor offer training to system users during the implementation phase?
- Can the vendor provide post-implementation training to new users?

### Using case studies

- Throughout the selection and procurement process, it helps to complement formal requests for information and proposals with workshops and “deep dives” into areas of specific interest, as well as general demonstrations.
- Finally, don't miss opportunities to visit any of your vendor's clients' sites, where you could discuss the live performance of the ALM system and talk to other users. Visits could be arranged formally or informally.

## 3. Mitigate project risk

ALM change projects can face challenges for numerous reasons. Being aware of these project risks from the outset allows them to be effectively designed out in the planning stages.

Working closely with your vendor as an implementation partner, together with your project manager, discuss how to mitigate the following top nine risks in the design and management of your project:

### Poor communication and stakeholder management

Usually starting at the definition stage, communication issues then tend to pervade different levels and stages of the project.

### Unachievable plans

A bad translation of the high-level vision can lead to unrealistic expectations of a change project, especially when you lack the resources you need to deliver it. Unclear scope will lead to constantly changing and often fragmented delivery; and underestimating the effort required, typically from SMEs or for managing data and technology, on both the client and vendor side, can trip up projects too.

### Inadequate requirements mapping

Confusion, delay and misunderstood deliverables are among the inevitable consequences of sketchy or poorly written requirement mapping documents.

### Lack of engagement and project leadership

Change projects demand active engagement from senior executives and everyone involved in choosing, planning for and implementing a solution. An experienced project manager with relevant experience is also key.

### Skill shortfalls

Nobody expects you to have all the skills you might need for a change project, but failing to recognize where you're falling short is a major stumbling block. All too often, plans will be accepted without either ensuring the right expertise is available or knowing how you'd fill any gaps in expertise.

### Changing priorities

When another project within your organization suddenly takes precedence over yours, plans may need to be adjusted, reorganized or even curtailed, and deliverables pushed back.

### Insufficient resources

As with skills shortfalls, if you do not allocate enough of the right resources to your change project at the right time, you risk delay. A lack of available technical SMEs is a potential issue, as is wavering commitment to the project by other key players.

### Inadequate management of risks, issues and dependencies

Actively managing project dependencies and project risks helps to keep you on the critical path, so do take action to mitigate where possible. If you don't, your project could overrun, or quality could suffer.

### Too little time allowed for later stages

Many of the activities that need to happen as the project nears completion are also among the most important. Testing, training, documentation (including model documentation) and post-implementation support are all essential to success but are not always given enough time in the schedule.

## Understanding project frameworks

No change project would be complete – or possible – without a project plan or project management framework. You'll recognize the names of the various frameworks – waterfall, agile, scrum and so on – but unless you're the project manager, you don't need to understand their underlying methodologies in detail.

Suffice to say that, irrespective of methodology, project plans are basically a culmination of many structured to-do lists, packaged up into discrete parcels of work. Their objective is to structure activities, gather momentum and maintain it throughout the project, with repeatable processes that achieve high-quality results.

In reality, most projects use a hybrid mix of methodologies with no one-size-fits-all approach to their management. That said, a packaged modular ALM system does lend itself to an agile form of delivery, right the way through to the final round of user acceptance testing (UAT). UAT is an opportunity to test everything about the system in one go, before the dress rehearsal, often used as a great way to build user confidence – and, ultimately, going live.

Even if your project follows a waterfall framework overall, you can still take an agile approach to some aspects of delivery. That could mean, for example, limiting the time spent on the definition phase; or running a series of agile sprints to define products, with single record testing taking place early in the project and recording data flow from source through to basic output reporting. Then you could move back to a waterfall approach in the later formal testing phase.

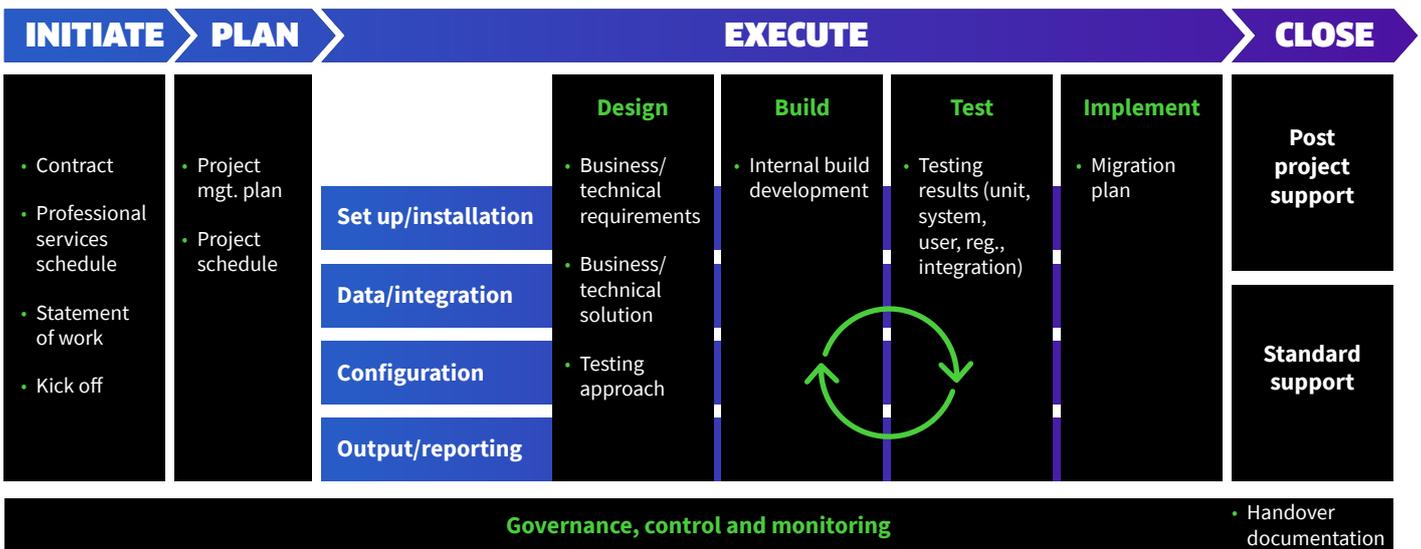
To maintain project momentum and build confidence along the way, you'll need to stay focused on outcomes and see the project plan's to-do lists as components of an end state. As the most important and work-intensive part of the project, the configure and build phase will help set the pace that you need to keep up until completion. But this can also be the point where momentum drops and projects lose their way.

Finance and risk change projects typically boil down to the five key themes of people, process, technology, data and customers which in turn are components of the overall target operating model for a new ALM system. You should consider them in the definition phase, develop them during the build, finesse them during testing and check business readiness before you go live.

Above all, these themes are a reminder that an enduringly successful and compliant ALM implementation is about more than just technically configuring an application. It also means realigning elements of the existing operating framework and the standards that underpin it.

# ALM IMPLEMENTATIONS IN PRACTICE

Below is a high-level view of a typical ALM change project plan.



In larger banks with more complex balance sheets, infrastructures and data flows – and often multiple entities, too – a larger internal project team will probably need to be assembled to assist the vendor team. There may, for example, be more issues to manage around existing risk systems and data, or more complex interface work to complete that's out of scope of the vendor delivery but still needs vendor input.

For every organization, the bank's own implementation plan will go beyond the implementation of the ALM system alone and may include:

- The decommissioning of existing systems and reconfiguration of EUCs
- Changes to, and additional integrations with, technology platforms
- Revised workflow designs
- Parallel runs
- Operating model changes, across departments and sites
- Business continuity testing
- Specific actions to address regulatory change
- Model governance and model validation
- Revised reporting and metrics for the ALCO, the executive risk committee, Pillar 3, etc.
- The integration of system outputs for ICAAP, ILAAP, capital management, recovery planning, etc.

## Learning from experience

Based on our extensive experience of implementing or upgrading ALM systems, here are some specific issues to look out for and how to handle them and minimize their impact.

AREA	ISSUE	IMPACT	MITIGATION STRATEGY
Client-side data resources	Clients underestimate how much time and how many internal resources they need to procure data and create the files for consumption by the ETL process.	The project loses momentum, or the project team becomes fragmented.	Address data issues in the planning phase and allocate data analyst and developer resources to the future project. You can then establish and maintain momentum more easily through the data mapping stage.
Client data quality	Scope creep – clients seek to resolve longstanding underlying data issues within the ALM project.	If the data work starts late, the need for rework often disrupts progress.	Establish an internal workstream or take advantage of existing projects that are also focused on data remediation. This activity generally needs to be in flight and “in delivery” if you wish to avoid rework. Increases in scope are likely to increase duration.
Client data availability	Integrated data isn’t available during mapping.	Resources and time run out.	Prioritize in advance with it any development or re-engineering work and the creation of data lineage maps.
Product configuration	Incorrect set up and mapping leads to inaccurate results.	Uncertainty in mapping causes incorrect product configuration.	Secure in advance anonymized customer statements or examples from customer quotation systems of live products to use in workshops.
Client SME availability	Client staff are caught between “run the bank” and “change the bank” duties.	Lack of progress loses time and reduces quality.	Ringfence time for power users or back-fill their full-time roles, as SME resources need to be dedicated.
IT environment (on-premises installations)	There are delays to the configuration of environments and of access rights to those environments.	Timeframes increase and there are delays to the start of the project.	Make configuration and access rights a high priority internally. When your firm’s policy is to issue laptops to vendor consultants for remote access, try to expedite this process to ensure a fast start.
Testing	Client teams don’t fully understand the importance of testing.	Insufficient time is devoted to testing, reducing the quality of overall delivery.	As this issue manifests itself more when multiple business teams are involved, appoint a key SME as “business test lead.”
Model documentation	Insufficient resources or time allocated to building your ALM model documentation.	Quality is compromised.	Request a model library to give you the visibility you need of model-related documentation. Evidence should include single record testing for each product, data lineage and reconciliations.
Stakeholder conflicts	As is often the case in larger firms, different teams have different priorities.	Quality is compromised.	Clearly establish priorities when drawing up your project plan. Use your steering committee to manage priorities, conflicts and escalations.

## Are you ready to make the move?

There is a lot to take in when you're considering how to implement or migrate to a new ALM system. With many years of experience onboarding new clients, FIS® can be the trusted technology partner you need for a successful implementation. We're here to help, so talk to us now to see how we can support you through your own ALM change project.

## About FIS

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