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David Castle's Treasury Notes

No.12, 25th April 2018

ALM Re-Booted: Treasury / ALM data best practices

8 minute read.

The first quarter of each year is often a time to re-boot plans, nail down budget and attend conferences. We have been doing all of these things and comparing notes with our clients and market practitioners about what we might all expect over this and next year.

In almost every conversation, and certainly at every conference, data and technology as a driver of an ALM Re-Boot has come up.

There are the beginnings of a significant shift in focus towards both innovation in Treasury and refreshing the technology available to Treasury to enable a “centre of excellence” with heightened engagement across businesses for data analytics and strategic business input.

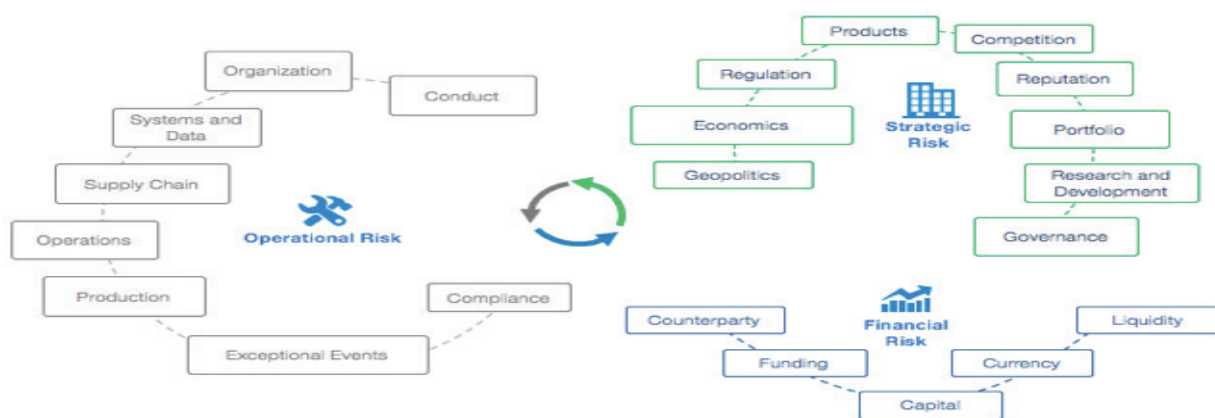


Exhibit 1: Treasury Data Analytics Themes Across the enterprise

In our March '17 Treasury Notes we highlighted the need to encourage experimentation, collaboration and innovation as it will be best practice soon. In this article we will highlight that a lot has progressed.

Treasury Innovation is now a full-time role.

Banks are increasing appointing **Treasury Innovation Officers** as either full-time roles inside of the business or as a significant part of the job description of a senior officer in Treasury.

The remit of these roles, of course, varies but we are seeing emerging best practices which we believe are important for the whole organization.

Starting with a focus on the **Group Data Plan** Treasury Innovation officers are able to influence the organization of data collection, storage and access across the enterprise. This is hugely important as establishing a **Data Community** approach will drive efficiency gains in both compliance matters and strategic business insight.

A mandate to **experiment** is a pre-requisite for Treasury Innovation. A narrow use case that would provide a quantifiable benefit for Treasury and business partners that can be used as a test case is often found in legacy areas of “tension” – for example how can we improve behavioural analytics to both reduce cost drag and highlight client opportunities.

This is an important shift in Treasury / Business engagement where a higher demand for data analytics and modelling resources is increasingly being recognized as a universal need across business lines and key part of the ALCO – Treasury – Business – Client process.

Best Practice 1 – Appoint a Treasury Innovation Officer with a strong mandate to participate in connecting the organization around a data community that provides value added output for all parties.

Best Practice 2 – Experiment, quickly identify a business case where multiple parties benefit. Set clear and quantifiable outcome measures for both Treasury and Business.

Innovation should no longer, just, be a separate department that tries to respond to the ideas and needs of all business lines. This approach has often (but not always) been less successful than hoped as the scale of the challenges each business faces can either consume finite innovation resources or appear too big to tackle. Direct business ownership of innovation elevates the focus and directly links it to outcomes which benefit the whole organization.

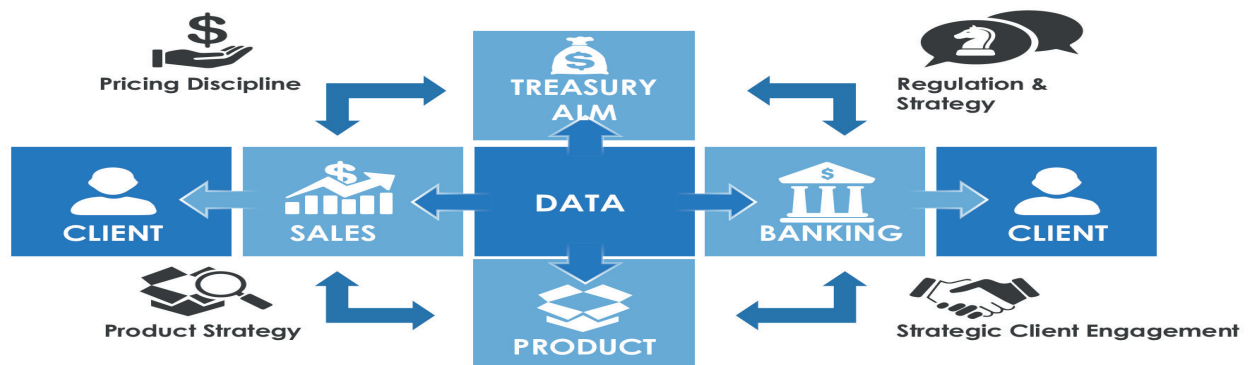


Exhibit 2: Disparate yet directly connected data analytics needs

IT departments cannot achieve agility in isolation. Organisational and communication structures between the business and technology groups need to change to support a continuous delivery cycle of best practice. This amplifies the benefits of analytical approaches across the whole enterprise.

Data Analytics as a Treasury \leftrightarrow Business engagement tool

Many large, complex, organizations have such a rich data set that the efforts required to meet regulatory reporting requirements and business insight needs are, well, expensive.

Our view is that as our industry changes and we modify our technology every part of our bank will be joined by a data community. This means that Innovation, data architecture, process digitisation and, by dint, how we model our world will **super-charge culture change** in the industry from “**protective**” to “**expansive**” behaviour. The choice between the two cultures is, really, a choice between being an infrastructure or customer focused company.

Data analytics are an important engagement tool in this culture change and how they are applied we believe is now a core best practice.

Treasury Innovation and Data Analytics approaches should both **reduce cost** and **improve risk management** for the entire organisation. A full book of mandatory (regulatory) driven technology spend may appear to mean the capacity to innovate is limited – but a significant trend in the industry now is to connect these mandatory and value-add themes to gain maximum return from adopting scalable automation and computational processes, thus preventing a boxed in outcome and maintaining agility.

A connected organization can tackle these issues by adopting practices that improve outcomes for all stakeholders and thereby changing the conversation that is had as a result. This benefits not only internal engagement but can, and should, link directly to improved **client service and value-add**.

At a recent workshop participants from various Treasury related departments shared high level thoughts on what they thought was next for them in their data journey. These narrow examples provide some insight to where this best practice might head

A: “we have all the data we need in a timely fashion for Intra-Day but we want to automate this process fully so that we can then spend time with our client businesses showing how this output can be insightful on specific client activities”

B: “what we really would like to achieve is to show how analytics can inform our FTP process with real, factual, outputs about balance sheet impacts. This helps us explain approaches to business lines clearly and visually making the whole process much more effective and value-added back to the business lines”

These examples highlight how Treasury practitioners are adapting from using data for compliance purposes (i.e. regulatory ratios, stress testing, internal risk measures) towards seeking ways to deliver additional business value

Best Practice 3 – Data Analytics as an engagement tool. Seek out approaches that both reduce cost and improve risk, or business, management decision making. Elevating the conversation to “whole” business outcomes in this way brings Treasury and Business closer and aligned on balance sheet outcomes.

Challenge	Approach / Benefit
Cost	Connect process cost save to business benefits increasing engagement
Automation	Organise data processes so that resources may focus on value add
Visuals	Ensure outputs engage user group thus increasing engagement
Complexity	Start small, experiment, proves value and drives buy in
Resources	Establish a centre of excellence to benefit the whole business
Regulation	Connect data compliance to business opportunity, shifts perspective

Exhibit 3: Challenges and Approaches to increase data led engagement

Across Treasury, Finance, Risk and Business lines there are aspects of data process and cost management that would benefit from automation. We have found that this is not specifically a cost led exercise at any organization – much more often the key driver is that with the right level of automation resources spent on data compliance could be freed up to perform value accretive activities. We believe that this desire is fully aligned to heightened engagement across the enterprise around data analytics as an informative, forward looking, expertise.

Automate to free up value creative input

In areas connected to Treasury and critical to business outcomes the ability to automate process, connect models, heighten behavioural analytic insights and run forward looking scenario analytics are increasingly those which will drive value across and organization. Beyond this regulatory expectations post IRRBB, IFRS9, Reverse Stress Testing (etc.) mean that – to some extent – complying also results in significant opportunity to apply new approaches.

Huge resources have been spent on regulatory implementation, sourcing, reconciling, compiling and reporting data to internal and external parties. While many efficiency gains may have been realised – through identifying data quality improvements, streamlining data reporting structures, and reducing the human resource required to perform such tasks – the industry is now at a point where really delivering value from this process is an absolute must.

Regulators are increasingly speaking to the benefits of alternative modelling approaches to generate additional insights. They now wish banks to establish scenario analytics going beyond the traditional prescribed stress testing approaches and apply deep data insights, to support improved judgement when seeking to identify specific emergent risks or opportunities across the balance sheet.

It is possible to employ systems and approaches which both reduce cost and improve risk management insights when tackling these expectations, such approaches will add value beyond compliance.

Best Practice 4 – Always ask how an improved process brings benefit beyond resource cost save, those who identify front line business value outputs will not only be more likely to gain investment spend but also add value directly to client engagement.

Buy vs Build, a changing approach to tool-kits

A bank's core "IP" is the transmission and conversion of capital across a suite of products which meet the needs of depositors and borrowers, plus the unique expertise of a particular firm in a product, geography or marketplace. There are processes that are uniform across the industry which can benefit from "turn-key" solutions to which the core IP of a particular bank may be applied.

Our clients are telling us that they no longer necessarily wish to build applications for certain business challenges in-house as they prefer to apply scarce resources to the value driver outputs. There is also a trend to want to "always be current" in using the most advanced technologies to perform certain tasks. This means that large multi-year platform procurements and internally built (sometimes also multi-year) projects are now less palatable than an agile provider of tool-kits to which internal IP may be applied.

There is an emerging best practice of buying "turn-key" solutions which deliver greater than 80% of a requirement. This 80% is likely a uniform need across the industry such as a scenario analytics or stress testing tool-kit. These solutions must be able to inject the 20% (internal IP / Data etc.) of the bank and be flexible enough to perform user defined analytics based upon the attributes of this particular firms IP.

To reach a stage where buying services in this way is both possible and effective it is important for Treasury, and the wider organisation, to adopt best practices which support the evolving structure of our industry, ensuring that at each step focus is on the expansive benefits of adopting new ways of working.

Best Practice 5 – seek out routes to adopt solutions which can be quickly value-added and reduce cost while improving risk insights. These may likely be services which solve process and analytics challenges which are uniform for the industry.

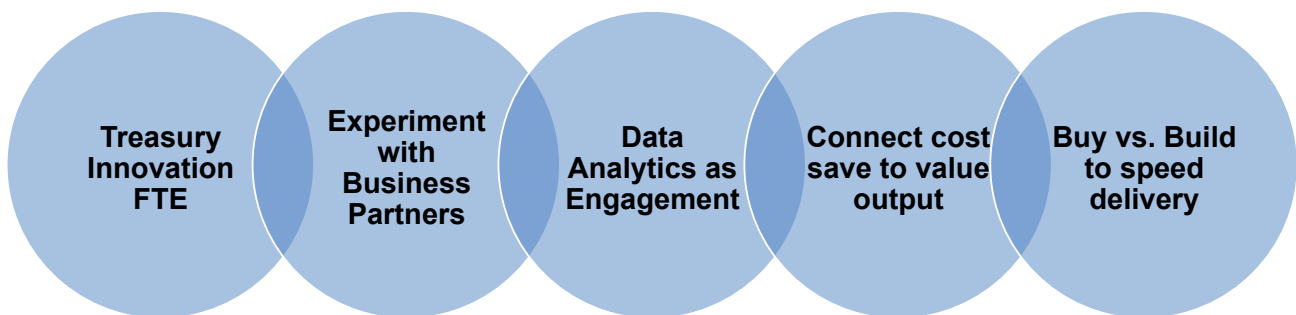


Exhibit 4: Treasury Data Analytics Best Practice, a significant insight opportunity

Summary Best Practices

The pace of change continues to pick up, but so does the opportunity set for those who are able to adopt practices which connect an organisation around new business models. While change is never easy the benefits of a few steps – with a future vision in mind – can be both powerful and rewarding;

- B.P.1 Add a full-time Treasury Innovation officer.
- B.P.2 Experiment with a business partner.
- B.P.3 Data Analytics as an engagement tool (internal and external).
- B.P.4 Directly connect reduced cost to value output.
- B.P.5 Adapt buying behaviour to speed value delivery.

ALM Re-boot is an opportunity for us to bring Treasury's expertise ever more readily to the entire organisation as a close partner to the business lines. This may take many paths as things develop, but building a centre of excellence in how to use and apply data for whole bank benefit is in our hands – let's grasp it.

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About the author

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