EXECUTIVE BRIEF

Develop a staged approach to leverage new technologies

Banking & Financial Services

Financial services organizations continually face increasing complexity of regulations, operations, and processes. This puts greater pressure and risk on your organization's ability to achieve efficient and low-cost cash and liquidity management. Keeping risk at a minimum should be an integral part of your global treasury functions. In our best practice guide, ***Cash and treasury—best practices for navigating uncertain times***, we explain that it's imperative for financial services organizations to invest in monitoring tools that are specifically designed to help reduce cash and collateral buffers that aren't just provisioned for business-as-usual operations, but also for stressed scenarios and unexpected disruptions. The recent global pandemic stands as a prime example of both a stressed scenario and an unexpected disruption.

So, what's the best way to leverage technology to help keep risks low in both good times and bad?

You get there by achieving effective real-time information and forecasting capabilities. Like most transformations, this can take time, money, and resources—three things that can be scarce, especially in challenging times. That's not, however, an excuse for why not to do it. In fact, the business case for developing these capabilities can be made even stronger by combining the need for real-time liquidity risk management with the opportunity to tap into new technologies. We suggest that the best approach to take on such a digital transformation journey is to apply a staged methodology. Read on to discover what a staged approach like this looks like.

Step 1: **Conduct assessments**

To begin, you should conduct an assessment of the fitness of your organization's intraday liquidity model (ILM) roles, responsibilities, and business processes. This assessment should capture the current uses, timings, and sources of intraday liquidity. All of the stresses on this liquidity should be documented. The assessment should also incorporate how your organization's resolution plan will be impacted. This internal assessment should then be compared against a robust ILM, as shown in *Figure 1*. After making this comparison, you can then develop a forward-looking roadmap of what groups and processes need to be built out over time to match the forecasted growth in the need for better intraday liquidity control and insight.

A key component of this assessment should document the sources of data your organization currently uses to assess intraday liquidity. This should include the data's availability, as well as the update frequency of that data from booking systems, ledger systems, SWIFT, Fedwire, and other sources. This initial view of the full ILM environment will provide great insight in how to form the roadmap.

The assessment's goals should include:

- A comprehensive map of liquidity usage patterns
- A complete map of the data sources and patterns for the current environment
- Forward-looking strategies for pricing, policy, and process updates that may be needed
- A blueprint for the approach to the ILM roadmap

Step 2: **Define the operating model**

Intraday liquidity management should be an important component of your organization's broader liquidity management strategy, as well as being critical to implementing other longer-term aspects of that strategy. Failure to effectively manage intraday liquidity could result in your organization being unable to meet its payment obligations at the time expected, thereby affecting your own liquidity position and that of other parties.

According to the Basel Committee on Banking Supervision's ***Principles for sound liquidity risk and supervision*** guidelines, defining a treasury and ILM operating model should incorporate operational elements into the existing treasury and ILM framework that provides these key capabilities:

- Measure expected daily gross liquidity inflows and outflows, anticipate the intraday timing of these flows, and forecast the range of potential net funding shortfalls during the day
- Monitor and perform analytics on real-time intraday liquidity positions against expected activities and available resources
- Acquire sufficient intraday funding to meet intraday objectives
- Manage and mobilize collateral as necessary to obtain intraday funds
- Manage the timing of liquidity outflows in line with intraday objectives
- Effectively handle unexpected disruptions to intraday liquidity flows

Define the ILM team

Banks, financial services, and global corporates are unlikely to have sufficiently skilled subject matter experts on staff who can design the complete model, select the best monitoring tool, and provide the ongoing necessary enhancements for intraday liquidity. So, you should plan to train existing staff, bring in new expertise as needed, or work with an advisory organization (such as Gartner, Oliver Wyman, Accenture, etc.) to help define the ILM strategy and roadmap.

Figure 1: Intraday liquidity management roadmap

Business units	Payments	Cash management	Treasury trading		Treasury		Treasury control	Risk and compliance
1.1 Deterministic cash flow projections	**2.1** Identify release time critical payments	**3.1** Actual vs. expected analysis	**4.1** Plan Intraday funding between entities	**4.2** Execution of funding transactions	**5.1** Operational buffer requirements	**5.2** Monitor, approve intraday liquidity requirements	**6.1** Cash ladder verification	**7.1** Internal credit lines monitoring
1.2 Non-deterministic cash flow projections	**2.2** Payments scheduling	**3.2** Identify start of day positions	**4.3** Manage cash buffers	**4.4** Manage collateral pools	**5.3** Regulatory buffer requirements	**5.4** ILM framework	**6.2** Model governance	**7.2** Counterparty risk monitoring
1.3 EOD cash projections	**2.3** Payments netting & un-netting	**3.3** Monitor credit line usage at nostros	**4.5** Monitor limits & targets	**4.6** Monitor credit lines and financial market utility (FMU)	**5.5** ILM pricing	**5.6** ILM limits & targets	**6.3** Approvals, limits, framework governance	**7.3** Compliance oversight
	2.4 Payments matching	**3.4** Monitor self-clearing positions	**4.7** EOD funding & squaring	**4.8** Cash ladder monitoring	**5.7** ILM stress testing	**5.8** ILM behavior assumptions		
	2.5 Payments throttling	**3.5** Monitor nostro clearing positions			**5.9** ILM code of federal regulations, recovery & resolution planning			
	2.6 Process self-clearing throughput	**3.6** Actual vs. expected variance						
	2.7 Process external clearing throughput							

Data

Internal and external reporting

External nostro management

Source: Accenture, Fluid expectations solid results, January 2019, p. 9.

"EOD" component

"Intraday" component

Define the success factors

You need to determine if your organization will build an in-house tool or consider a solution from an outside vendor. It's important to note that pursuing an in-house development project doesn't guarantee success. Numerous organizations have tried and failed to build an intraday liquidity tool. Sometimes it was because the tool lacked critical functionality; but more often, the tool failed because it was unable to perform at full production volumes.

It's also possible that an in-house tool won't pass approval by regulators, or it doesn't perform because of errant technology choices and decisions. The need for rework could easily double the cost of the project. You need to gauge what the cost of failure is. If your in-house tool doesn't meet regulators' expectations, the regulators could increase the value of the buffers you're required to hold. As the buffers increase, the lost income from taking this money out of its earning power could easily dwarf the cost of the project. That lost income could easily be millions of dollars per year.

Choosing a vendor solution that's market proven, approved by regulatory agencies, and performance tested should add up to a successful implementation that meets regulators' expectations and can perform at the required volumes. The right solution can help your organization save time and cut costs, such as helping to optimize the planning of borrowing and lending operations, and gaining a clearer view of available cash to pay down external borrowing. To learn about even more potential benefits, see *The benefits of cash visibility and intraday monitoring* section of our ***Cash and treasury—best practices for navigating uncertain times*** best practice guide.

Step 3: Implement systems, processes, and oversight

With the operational model defined, the final step is to implement the appropriate systems and processes across functions and entities. Even more importantly, the right staffing expertise must either be identified or brought in. Then, new roles and responsibilities across functions may take time to deploy due to the need to train and hire new resources. In the long term, introducing new tools to manage intraday liquidity risk, such as the ability to throttle payments and acknowledge early warning indicators for potential liquidity usage, can help to limit breaches and should result in these benefits:

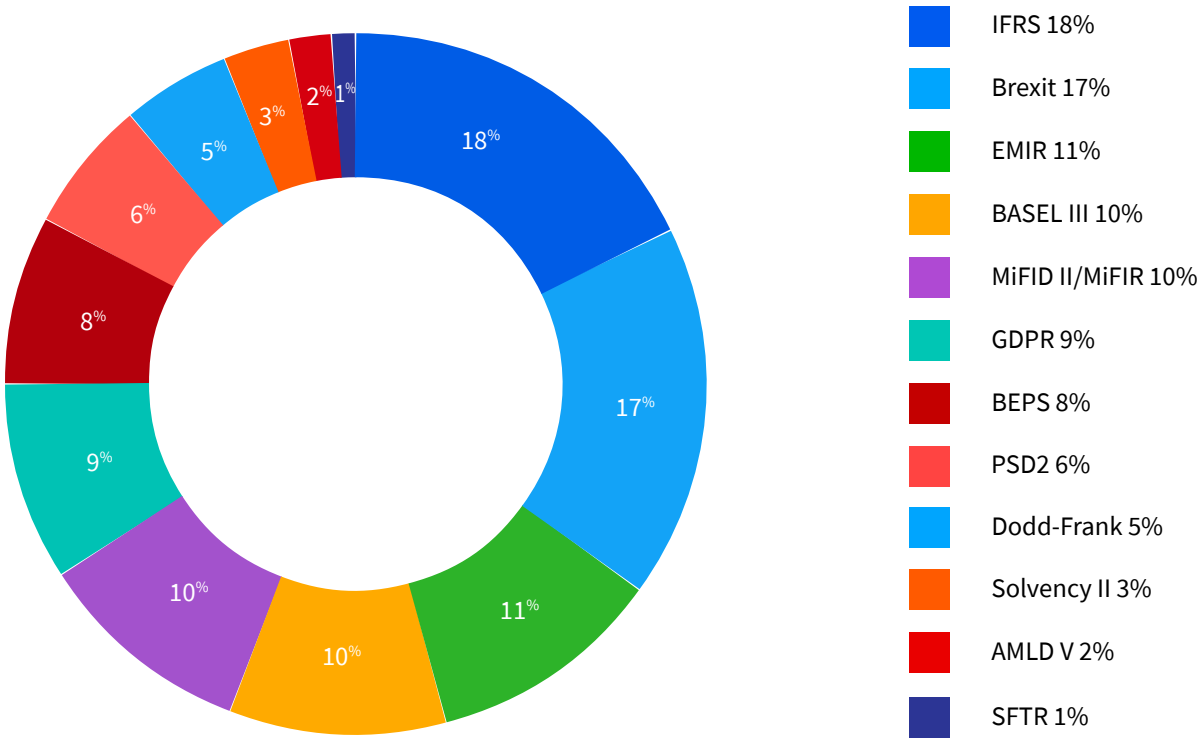
- Decreased turnover
- Regulatory compliance
- Improved risk management
- Real-time control for banks

Leveraging the right technology can facilitate the analysis of historical, real-time, and future liquidity usage—where the aggregation of data (from risk management, settlement, payment, and other applicable systems) onto a centralized platform allows traceability of transactions from execution through settlement. To achieve real-time, liquidity monitoring performance, a highly specialized solution with a hybrid transactional/analytic processing (HTAP) database is required. An HTAP database is capable of consuming vast quantities of data, while performing complex analytic processing in real time. Traditional database technologies can't meet the performance needs of most financial organizations, especially major global banks.

Commit to ongoing required regulatory updates

To maintain this level of internal financial visibility and performance, you must also account for ongoing regulatory changes. Regular updates are necessary so that regulatory changes stay current for every geographical location where your organization does business. Trying to interpret those regulations, write the requirements, and effectively keep up with agency updates on a global basis—such as those from Canada's Office of the Superintendent of Financial Institutions (OSFI), the US Federal Reserve Board, or the UK's Prudential Regulation Authority (PRA)—and then develop those updates into an in-house tool could wind up costing your organization significantly more annually than implementing a vendor-supported tool.

Figure 2: Regulations that impact treasury professional



Source: Deloitte, 2019 Global treasury survey, November 2019, p. 17.

Relying on a recognized vendor that has its own treasury professionals who proactively monitor regulations that can have direct or indirect impact on operations and regulatory compliance, allows your team to better focus on managing the business. For example, changes to the International Financial Reporting Standards, Basel, MiFID II, and other regulatory requirements, extend to finance markets and impact the processing of personal information of individuals, especially in context to General Data Protection Regulation laws (see *Figure 2*). By relying on a vendor-maintained tool, the complexity of the treasurer's role within your organization is significantly reduced—specifically in relation to segmenting data and performing risk compliance.

Stage the implementation of modern technology

The cost of ownership and the perceived complexity of implementation and maintenance of treasury systems can remain a barrier to adoption of newer technology. Many treasury solutions are still supported or augmented with the use of heavily modified or even home-grown solutions, which typically result in greater operational and security risks. A staged approach to new technologies that are agile, iterative, and scalable is essential to achieving effective cash and liquidity management.

Harness the power of intraday liquidity to build a competitive edge

Innovative approaches to liquidity management and related activities, like intraday liquidity, help position banks, financial services institutions, and global corporate organizations for greater financial success. These approaches also help to alleviate the pain associated with managing the details and changes related to increased regulatory scrutiny that require immediate action.

As regulatory scrutiny increases, financial services institutions are turning to technology as an enabler of organizational benefits and opportunities. The key is finding agile tools that work for your unique organizational situation.

Is your business able to easily produce intraday liquidity reporting and monitoring right now? Can you prove to regulators that you understand your intraday positions across all your accounts in real time, and hence are in control during the day? If not, now is the time to address these pain points. Banks, financial services, and global corporations that take a proactive approach now will stay ahead competitively, while experiencing greater efficiencies and higher profitability.

LEARN MORE

Follow us:

641 Avenue of the Americas, New York, NY 10011

INF-2494373-en-US-0521-1