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Intraday liquidity: total control

Mika Mustakallio, CEO at MORS Software, explains how real-time systems can not only help banks demonstrate to regulators that they have a grip on risk, but improve the way they run their businesses.

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How are banks changing to meet the demands of regulators around liquidity management?

Five years ago Treasury and asset and liability management (ALM) were different things at banks. Today they are the same, and Treasury and ALM functions are merging. Liquidity rules under the regulation are driving banks to run their institutions on a total level instead of having separate teams managing liquidity and long-term ratios. That is because they all have an effect on each other and banks need to get rid of the silos within their organisations to run them effectively.

On top of regulatory demands, banks also have to cater for the demands of investor and ratings agencies, as well as satisfying internal earnings metrics. Steering and optimising a bank between these sometimes conflicting constraints is a challenge. There is a clear trend emerging, with an increasing number of banks meeting this challenge by organising themselves in a way that allows them to monitor and manage their liquidity exposure independently as well as part of a holistic big picture. Steering through these constraints in a multi-dimensional way means that regulatory compliance need not come at an unmanageable cost.

Is there a danger that all banks are going to look the same as they comply with liquidity regulation?

There is currently a debate about the treatment of the interest rate risk in the banking book (IRRBB), the risk to interest income arising from a mismatch between the duration of assets and liabilities of a bank. If it is a pillar 1 capital requirement under Basel III then all banks globally will have to comply in the same way.

But it does not make sense to squeeze all banks into the same format if their funding structures are so different from one another. Banks are lobbying that it should remain part of the Basel capital framework's pillar 2, a supervisory review process in which local regulators can enter into discussions with a bank and take a view on whether they are confident the institution understands what they are doing and how they operate risk in the banking book.

Which way will regulators go regarding IRRBB?

It is a healthy debate, I think it will most likely fall under pillar 2, but it is impossible to say at this stage.

Most interestingly, however, is that in conversations with regulators, they say that their main question is how do banks prove that they have a grip on things? That sounds much healthier than simply requiring them to provide a specific figure – to just tick a box and assume they are safe and well managed.

After all, it may be easy for some banks to produce the figures and comply with the regulation and it still won't save them in a crisis, while others may struggle to comply with the figures and still be properly managed. Forcing banks to comply to one figure is unfair, but the feeling we receive is that regulators' key approach is to ensure they believe that a bank has a grip on the risk in its banking book.

How can banks demonstrate they 'have a grip on things'?

Banks need systems that have capabilities in real-time to monitor their exposures, so they can make decisions intra-day based on the latest data. That way they can demonstrate to regulators that they are in control at any given time rather than pointing them in the direction of yesterday's end-of-day reports. Knowing that a bank survived yesterday evening does not help anyone.

Banks have to continuously manage their position, and having real-time data is the only way in which they will be able to demonstrate they are in the position to respond to the next crisis, whatever that may be. Not only that, they can manage their businesses more effectively day to day.

If you have clear and meaningful information at good speed, then you can use it to steer and manage a bank – not just for regulators, but for all stakeholders.

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