

Treasury Analytics and Risk Management Solutions

Financial Services

With interest rates reaching peak levels not seen since before the Great Financial Crisis of 2008-2009,¹ the design and calibration of Treasury operating platforms has become a key focal point for financial institutions and their regulators. The high-profile failures in 2023 have shown that now is a good time for a risk and performance assessment of Treasury and Asset/Liability Committee (ALCO) functions. FTI Consulting offers an expert-led strategic approach to Treasury analytics and Treasury risk management that will protect and support the institution as the market adjusts to the current volatile interest rate environment.

Recent bank failures will almost certainly lead to greater focus by regulators on regional and smaller financial institutions that may not have all the structures that regulators will now expect.

Our professionals offer practical solutions based on years of hands-on experience to help Treasury functions navigate the unpredictable shifts in supervisory posture related to interest rate risk and other concerns facing financial institution Treasury functions. We make Treasury functions and management committees stronger by identifying gaps in operations, refining governance structures, building out Target Operating Models, and establishing strong policies, procedures, and controls carefully tailored to the institution while aligning to our market intelligence on the current state at other institutions in a similar size and scale cohort.

Treasury Assessment and Gap Analysis Framework


Our current state assessment and gap analysis framework is tailored to each institution we evaluate, but generally starts with:

- The proportional size of the lending portfolio vs. the investment portfolio.
- The credit risk profile and duration risk profile of the investment portfolio.
- The sizing of the “available-for-sale” (AFS) vs. the “held-to-maturity” (HTM) portions of the investment portfolio.
- The proportion of liquid cash on hand to total deposits.
- The types of depositors: (1) retail depositors that tend to stay with their bank and are unaware of many risk management episodes the bank navigates, and (2) institutional depositors who hold amounts above the current \$250,000 FDIC insured limit, are highly sophisticated finance experts, and are generally much more mobile in their choice of depository institutions.
- Risk analytics and metrics produced by models designed and/or operated by Treasury and risk management professionals that quantify how a range of severe but plausible changes in interest rates will impact each of the bank’s portfolios and its capital position.
- Depth and sophistication of the Funds Transfer Pricing (FTP) system and its effectiveness in aligning incentives to achieve optimal risk-adjusted performance.

— HOW FTI CONSULTING CAN HELP


Our three-pronged assessment process is structured around capabilities in measurement, management, and governance/oversight. We refine target operating models for treasuries around four core activities: (1) funding, liquidity, and deposit-taking activities, (2) asset/liability mismatch management activities, (3) investment portfolio activities, and (4) capital management.

Funding and Liquidity Risk




- Liquidity policy
- Issuance risk
- Rollover risk
- Contingency Funding Planning (CFP)
- Non-Maturing Deposit (NMD) modeling
- Deposit pricing
- Concentration risk
- Standardized metrics (e.g., LCR, NSFR)
- Subsidiary funding and trapped liquidity considerations
- Intraday risk
- Off-balance sheet risk
- Collateral management and reporting
- Systemic liquidity risk
- Liquidity data framework / requirements
- Operational capabilities
- Internal Liquidity Stress testing (ILST)

Asset/Liability Management (ALM) & Interest Rate Risk in the Banking Book (IRRBB)



- IRRBB Policy
- IRRBB limits
- Balance sheet forecasting
- Net Interest Income (NII) forecasting
- Economic Value of Equity (EVE) calculations
- Interest rate scenarios / stress testing
- Prepayment forecasting
- Hedging strategies (rates, credit, FX)
- Backtesting process feedback
- Funds Transfer Pricing (FTP)

Investment Portfolio Risk



- Investment portfolio policy
- Portfolio optimization across Available-For-Sale (AFS) and Held-To-Maturity (HTM) books
- High Quality Liquid Assets (HQLA) versus Non-HQLA
- Volatility and correlation analysis
- Market data provisioning to create a spot MTM valuation of the balance sheet (spot market rates, prepayment speeds, derivative pricing, etc.)
- Risk limits
- Pre-trade analysis / procedures

Capital Management



- Capital management policy
- Capital stress testing
- Foreign exchange hedging
- Internal ratio limits
- Accumulated Other Comprehensive Income (AOCI) at risk
- Regulatory ratio requirements and compliance
- Repatriation framework

Metrics, reporting and stakeholder management materials can include a wide range of tailored reporting providing insight into existing and emerging risks. Areas where we often design or refine metrics and reporting solutions include:

- Early Warning Indicators (EWIs) and key limits
- Internal reporting and dashboards
- Board reporting and education
- External disclosures and regulatory reporting (e.g., 2052a reporting)

We advise rapidly growing early-stage banks and specialty financial institutions on standing up new Treasury analytics capabilities that are right-sized for the organization. Institutions with more substantial assets operating near regulatory breakpoints require prospective analysis of requirements that will be invoked should they cross over to the higher size classification. Our financial institution clients also turn to us for advice on meeting future regulatory expectations and steps to take early to avoid later supervisory challenges.

Our experts have deep experience refining Treasury functions and have also served as expert witnesses on cases involving interest rate risk and other Treasury risk topics. Our experience in bankruptcies and reorganizations provides us with unparalleled risk management insight when helping healthy banks refine their policies, processes and controls.

FTI Consulting's Quantum™ Platform

Our team of quantitative finance experts can value and independently price a wide range of complex instruments in both your investment portfolio and your IR/Credit/FX hedging strategy with Quantum™, our proprietary analytics and risk management platform. Specific services we have performed for Treasury analytics teams and portfolio managers include:

- Verifying pricing of structured products, complex derivatives, and bespoke products and hedging portfolios
- Customized reporting of analytics and metrics produced by the Quantum™ pricing and risk engine, useful for investment portfolios and hedging books
- Complex scenario analysis, including non-linear stress testing
- Independent benchmarking in model validation exercises

Strategic communications

Our team of over 900 strategic communications professionals, including former journalists, bankers, lawyers, analysts, and policymakers, advise our clients across a range of complex, multi-stakeholder issues and events. We provide an integrated and global approach to managing risk, engaging stakeholders and influencing key third parties to drive successful outcomes in crises, transactions, litigation and other critical moments of change.

1 St. Louis Federal Reserve Bank, FRED Economic Data (last accessed 5/17/2023), <https://fred.stlouisfed.org/series/DGS10#>

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