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Prepared by Mary Brookhart

ERM: A Death Knell for A/L Modeling?

Rate shocking is out; stressing is in. Ramps, twists, curves & much more is in. What happened to my good old A/L model? Where did it go? Look again, it's disappearing rapidly.

Today's A/L model bears little resemblance to the old one. Ten years from now new risk managers coming into the banking industry may have never heard of an A/L model as a standalone risk management tool. No longer can a single platform provide the ability to manage the comprehensive bank-wide risk measurement that is now required. Today, risk management must be integrated.

Today's disparate systems were not designed to facilitate a comprehensive consolidated approach. Today's systems were each designed solely for one specific purpose. To try to cobble together the output is folly. Even if it can be done in a fashion that makes sense, it may require many repetitive iterations of each of the models involved to produce the truly non-linear answers required.

Models of the future will of necessity be large multi-functional platforms with all moving parts & pieces blended together from the inception. No more standalone models. They will likely combine many areas of risk management together with a common & integrated db repository. Computations, methodologies & capabilities will be standardized across platforms. Output will be integrated & easily defined & customized by the model's users. The integrated ERM platform of the future will likely contain many modules of risk assessment. A/L & risk managers will not need to run all modules at once. However, as each module has its source data embedded in the platform along with its modeled results, other modules in the platform will draw from that data.

Don't confuse these ERM platforms of tomorrow with what is available today, as such ERM systems generally are not currently available. A truly integrated ERM system will require a shared db of knowledge across modeling processes, not just an expensive attempt to tie data from one model to another.

Too many providers offer models that were not even developed by them but rather purchased from a supporting vendor. These purchased systems often do not fit their other offerings & may not even operate on the same operating systems.

Also in This Issue:

These new developing ERM platforms will be massive systems & will ultimately be the only risk management platform an institution may need.

Cloud Computing. What will drive the huge amount of storage & computing power that will be required to run these new ERM systems? The answer is *Cloud Computing*. These viral networks can harness massive amounts of computing & storage power. Such powerful scalability will make large-scale ERM systems both possible & affordable.

Final Thoughts. It should be apparent that these new ERM platforms will make the current process of buying standalone licensed ALM models obsolete. The development of these truly integrated ERM systems is already underway in some quarters. The days of standalone, risk-by-risk measurement models are numbered. R.I.P. standalone A/L models. We loved you well. The old format is dying, long live the new integrated ERM format.

Greg W. Doner
FIMAC Solutions, LLC

To read this article in its entirety, see the February 2012 issue of Bank Asset/Liability Management