



## ASSET & LIABILITY MANAGEMENT FOR CENTRALIZED & DECENTRALIZED FINANCIAL INSTITUTIONS

Increasingly complex products, intensified competition and more stringent regulatory demands mean that financial institutions are looking for more sophisticated and effective ways to manage their balance sheets in order to improve profitability. This challenge is met by institutions large and small across both developed and emerging markets, but is never more prominent than in institutions faced with the task of managing different balance sheets across multiple subsidiaries and jurisdictions.

Two banking groups of different sizes - Raiffeisen Group and Cassa Centrale - have addressed the challenge of asset & liability management in different but equally effective ways. This document will expand upon the challenges, solutions, and results they were able to achieve.

### Raiffeisen Switzerland

With 390 member banks and 114 bn CHF in assets, Raiffeisen, a completely independent organization based in St. Gallen, Switzerland, is the third largest banking group in Switzerland. Three million Swiss citizens are Raiffeisen clients, of which 1.4 million are cooperative members and therefore co-owners of their Raiffeisen bank.

### Cassa Centrale

In the Italian cooperative banking system, Cassa Centrale Bank is a commercial bank that supplies advanced financial and credit products, as well as innovative banking services aimed to assist mutual banks in facing the challenges dictated by the ever-changing market. The whole system of Italian mutual banks is comprised of 440 single banks, including small-sized local loans banks, which consists of 3,600 separate branches in 2,400 cities throughout Italy, with a total of 776,000 bank members. The centralized political and institutional representation hub of the system is Federazione Italiana delle Banche di Credito Cooperativo, which is based in Rome together with 15 local regional federations. Cassa Centrale's mission is to supply local mutual banks with high quality decentralized financial services.

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Raiffeisen stands out from conventional banks in Switzerland because of its cooperative structure. The Raiffeisen Group consists of 390 cooperatively structured Raiffeisen banks with around 1,150 branches. Raiffeisen Switzerland is the central bank and service centre for internal auditing of all of the member banks and is the representative face of the group in terms of regulatory bodies, etc.

The legally autonomous Raiffeisen banks are amalgamated into Raiffeisen Switzerland, which has its head office in St. Gallen. Raiffeisen Switzerland is responsible for strategic management and risk controlling for the entire Raiffeisen Group.

### Asset Liability Management

The Board of Directors set the level of risk tolerance and approve overall limits. Each Raiffeisen bank is individually responsible for managing the interest rate risk in its balance sheet which means there are 390 independent asset liability management (ALM) units in the Group. The Group Treasury of Raiffeisen Switzerland is the group-wide binding counterparty for refinancing and hedging transactions. It provides advice on ALM within the Group. Group Risk Controlling monitors compliance with interest rate risk limits and reports group level risk.

### Challenges

The effective measurement, limit control and allocation of its interest rate risk is a significant challenge for an organization as decentralized as Raiffeisen. To function efficiently, Raiffeisen needs to enable its 390 member banks to leverage a central operating organization, while also maintaining local autonomy.

In 2000, Raiffeisen initially deployed a Microsoft Excel-based solution offered by SunGard which provided very basic functionality to meet Swiss regulatory requirements for asset liability management (ALM). This solution was installed locally at each of the member banks, who each ran individual ALM reports on a monthly basis.

## Raiffeisen Switzerland

### CHALLENGES:

- Decentralized
- Ineffective measurement, limit control & allocation of interest rate risk
- Manage 390 member bank relationships

### SOLUTION:

Ambit BancWare Focus ALM

### RESULTS:

- Provided 390 member banks with visibility into balance sheet risk management tool
- Improved balance sheet analysis & regulatory compliance
- Increased accuracy & consistency

However, over time it became clear that this solution was no longer meeting Raiffeisen's requirements. The central organization had no visibility to its aggregate risk profile, and sought a more comprehensive solution that would enable more robust regulatory compliance, and best practice market risk control. In addition, the Group Risk Controlling Department wanted the ability to calculate risk exposures, and provide the member banks with the ability to do dynamic income simulation. This would enable the banks to have a more precise understanding of the risk on its balance sheet, and therefore make more informed decentralized business decisions.

### **The Software Solution: Ambit BancWare Focus ALM**

To address these complex issues, Raiffeisen turned to SunGard after a systematic evaluation process. In reviewing Raiffeisen's requirements, SunGard recommended Ambit BancWare Focus ALM. In this truly innovative implementation, the ALM production process has been customized to be fully automated on a central IT platform, with decentralized system access, provided for each bank within the group. Using the latest technological components, Ambit BancWare Focus ALM provides the infrastructure necessary to manage risk at the level of a single bank, as well as at a group level.

Standard frameworks for interest rate risk management and value at risk have been applied across the board to ensure that each member bank is maintaining a consistent approach. A fixed equation is given for the total portfolio loss with additional components for allocation of interest rate sensitivities. This controlled approach allows Raiffeisen to exercise greater power over the transaction processing environment at its numerous banks and significantly reduces risk that can transpire as a result of decentralized operations. The Ambit tool has provided the financial institution with a standard and effective means of managing its risk-related activities.

### **Business Benefits**

Ambit BancWare Focus ALM has provided Raiffeisen with an entirely scalable solution that has offered it the ability to efficiently manage more than 10 million transactions at a time from its 390 independent banks. Focus ALM's distributed compute feature is able to support a growing number of transactions for true distributed processing. This feature has been invaluable to the organization because it has facilitated significant business growth, while maintaining operating costs, as a result of eliminating the need to hire additional staff to perform laborious manual tasks, as well as decreasing transaction discrepancies that can lead to costly transaction errors.





Raiffeisen needed a centralized means by which it could effectively assess risk, but at the same time it was essential for the bank to maintain the access level of a decentralized tool, so that each of its respective banks would be afforded complete access to the system. The Focus ALM solution proved to be an ideal fit because it offered Raiffeisen an integrated means of managing interest rate risk, including complete drill-down functionality and at the same time allowed for entry from all Raiffeisen user points. The risk management solution has provided the financial institution with accurate and detailed analysis, which in turn, allows it to make the most informed decisions possible for time-sensitive activities, including hedging.

When Raiffeisen set out to locate a solution, it was attracted to the out-of-box convenience that SunGard offered, because it eliminated the need for a great deal of its own time and resources to be devoted to the implementation process. The duration of implementation was quick, taking up only one year, and did not interfere with “business as usual” processes. The financial institution had been mulling over an initial list of 20 potential providers that it quickly narrowed to three serious possibilities.

Raiffeisen chose to go with SunGard’s Ambit BancWare Focus ALM because it provided them with the best possible solution for its risk management needs, including its ease of use and maintenance, as well as its ability to support Basel II compliance, which was of high importance to the financial institution. It has been impressed by the level of expertise that SunGard has brought to the table.

### **Flexibility is Key**

A core foundation of Raiffeisen’s success as a financial institution is the ability to enable member banks to operate autonomously. With 390 member banks, there are many differences among the members including: varying market sectors, overall institution size, risk tolerance and level of institutional sophistication. With this diversity of users, it was important to deploy a solution that would meet the needs of these varied users.

Naturally, Raiffeisen required a solution that was intuitive, and easy to use, given the number of users. And finally, the solution had to be able to handle high volumes of data for the 390 banks on as frequently as a daily basis with quick calculation throughput.

The implementation of Ambit BancWare Focus ALM provided three key ways in which risk managers could perform asset/liability management.

Each night, a fully automated process uploads the day's data for each bank's balance sheet to the central repository at Raiffeisen's headquarters in St. Gallen, Switzerland. Calculations are run for all of the positions on each bank's balance sheet, and then available for download via a secure web interface ('MY ALM').

For standard users, this data can then be further manipulated in Microsoft Excel. Risk managers at each of the member banks can download data on any frequency desired (daily, weekly, monthly, etc.) and modify volume forecasts, product mix and other variables to see the impact of different business decisions on the bank's overall balanced sheet risk profile. These new assumptions can then be fed back into the next round of downloaded reports.

'Power' users can choose to access the ALM application directly via a Citrix connection. This access enables more sophisticated analysis, including the ability to manipulate many more risk assumptions, such as time horizons and market scenarios, and to drill down into the data for more flexible and detailed analysis. Risk managers can compare strategies against standard simulations and see the impact on earnings of planned new business. Results can be run as often as desired, and the speed and scalability of the system ensures timely turn around of analysis.

Finally, this new configuration provides Raiffeisen's Group Risk Controlling Department with powerful capability to gain a far more comprehensive and current picture of the risk across the entire Raiffeisen organization. The department is now able to do enterprise-wide interest rate risk simulations, and perform independent, group-wide limits checking.

The Group Risk Controlling Department is also able to provide the management of the autonomous Raiffeisen banks with important comparative data to determine how each of the individual banks is performing on a relative basis against peer member banks.



### **Return on Investment**

How has Raiffeisen measured the value of deploying Ambit BancWare Focus ALM? First this new implementation has provided each of the 390 banks with sophisticated but easy to use balance sheet risk management tools normally considered the domain of large, complex institutions. With these enhanced tools, risk managers at member banks have the ability to precisely analyze the effect on the balance sheet of a wide variety of business decisions. Should a local bank offer lower rates on consumer loans? Should terms be extended? Using Focus ALM, the risk managers are now able to see the impact on the bottom line immediately, and thus make more informed decisions. Also, Raiffeisen now has a truly effective means to monitor and measure the effectiveness of risk management strategies across all of its member banks with great accuracy.



Compliance with regulatory requirements has been further enhanced with increased accuracy and consistency of data and assumptions. A large concern of Raiffeisen was the ability to remain in Basel II compliance. Ambit BancWare Focus ALM has provided the financial institution with the ability to effectively remain compliant through its standard approach to reporting. Through comparing benchmark historical data for individual institutions member banks are provided with important information about their relative performance, and also have a far better understanding of the overall risk profile for the enterprise as a whole.

In the future, Raiffeisen anticipates that Ambit BancWare Focus ALM will continue to support its growth through scaling to meet the demands of its steadily increasing business, as well as continuing to provide it with the tools necessary to remain competitive through accurately forecasting future earnings based on rate scenarios and customer behavior analysis.

## Cassa Centrale

In the Italian cooperative banking system, Cassa Centrale Bank is a commercial bank that supplies advanced financial and credit products, as well as innovative banking services aimed to assist mutual banks in facing the challenges dictated by the ever-changing market. The whole system of Italian mutual banks is comprised of 440 single banks, including small-sized local loans banks, which consists of 3,600 separate branches in 2,400 cities throughout Italy, with a total of 776,000 bank members. The centralized political and institutional representation hub of the system is Federazione Italiana delle Banche di Credito Cooperativo, which is based in Rome together with 15 local regional federations. Cassa Centrale's mission is to supply local mutual banks with high quality decentralized financial services.

In 2006, the Italian cooperative credit system extended lendings summing 93,208 million €, providing it with a total growth of 11% in this area by year's end. Additionally, the whole system received funding totaling 107,504 million € in the same year, which afforded it 7.6% in profits. In this banking environment, Cassa Centrale employs 170 people and has a total equity summing up to 172 million €.

### Challenges

A few years ago, the banks joining the Italian cooperative credit system began to experience quick and unbalanced credit growth throughout the organization, which presented it with a number of new risk-related issues, such as lack of visibility into asset and liquidity positions and an ineffective process of determining market risk and asset allocation. Following this spike in business, a main priority of the cooperative banks was to acquire a solution that would put into place a standard process for ensuring long-term financial equilibrium by measuring the main risks arising from this phenomenon, i.e liquidity risk and interest rate risk.

Cassa Centrale intended to give an answer to this emerging need, by structuring a reporting and consultancy service to support mutual banks in this risk management process. However, given Cassa Centrale's position as a central financial service provider, the acquisition and elaboration of different sets of data from different banks was the main challenge, as the service needed to be built following multi-bank logics. These factors sparked the cooperative bank to seek out an ALM solution that could effectively mitigate risk with the added benefit of being able to scale to support its growing business needs.

## Cassa Centrale

### CHALLENGES:

- Unbalanced credit growth
- Lack of visibility into assets & liquidity

### SOLUTION:

Ambit BancWare Focus ALM

### RESULTS:

- Gained balance sheet management processes
- Improved risk management & helped to increase bottom line profits
- Improved planning & budgeting

### A Complete Risk Management Approach

The overall aim of Cassa Centrale was locating an ALM solution that would provide it with the benefits of duration and convexity, which would give the mutual banks joining the ALM service a better picture of their positions and therefore support Cassa Centrale's advisory activity in financial planning and interest risk assessment and management.



The ability to gain a unified view of risk and overall performance was key for Cassa Central Banca, as its clients are scattered throughout Italy, each of which needed access to the data. Finding a tool that could facilitate the streamlining of risk processes was also important, as the bank wanted to put into place financially sound and consistent techniques for properly assessing the impact of risk on income and economic value. Additionally, it wanted these techniques to be based on interest rate changes and different strategic scenarios, which would help it to better project factors, such as market yields and balances.

Another major goal of the Cassa Centrale advisory activity was to help local banks to improve their profitability. It hoped to achieve this through the implementation of an automated solution that worked efficiently and accurately to quantify potential impacts of interest rate fluctuations on future earnings, as well as cash flow streams. The bank needed a solution that could offer fast and effective simulation of "what-if" situations. This meant that flexible modeling abilities were also important because Cassa Centrale wanted to be able to simulate processes, such as the effects of alternative financial strategies or different yield curve dynamics on its balance sheet and profit and loss statements.

A standard approach to structuring the course of workflow was also a necessity. This included the need for a design that would support the delegation of roles and responsibilities amongst various members involved in the execution and management of the ALM project. It also included the setting up of controls based on effective analysis and reporting.

A high degree of technological support was also a key factor in the bank's decision-making process, as its ALM operations are centralized in Trento, but client banks are located all throughout Italy. This need called for the selection of a vendor that could provide this critical support.

*"Ambit BancWare Focus ALM continues to be a great asset to our risk management department and to our organization as a whole, as it is helping us to achieve our long-term ALM goals of improved forecasting and budgeting."*

*- Sandro Bolognesi, director of the ALM project at Cassa Centrale*

### **The Software Solution: Ambit BancWare Focus ALM**

Cassa Centrale turned to SunGard with its risk management concerns. After analyzing the key areas of importance described in the Italian cooperative bank's system, SunGard recommended the Ambit BancWare Focus ALM solution, which would provide it with comprehensive interest rate risk management, as well as offer the significant level of technology support that it was looking for.

The fully automated Ambit BancWare Focus ALM solution was installed on a central IT platform at the bank's center in Trento, Italy and is intended to provide decentralized access to each client bank within the cooperative system. As a result of the flexible nature of Ambit BancWare Focus ALM, it is able to provide the technology needed for the infrastructure to manage risk at the level of a single bank, as well as at the group level. Every decentralized client bank is able to directly access ALM data through a terminal server approach, providing users with quick and easy access to this valuable information.

To ensure that all Cassa Centrale banks and bank branches are maintaining a consistent approach to interest rate risk management, the Ambit solution has put into place standard frameworks throughout the organization. Sound and effective techniques for properly assessing the impact of interest rate changes and strategic scenarios on the bank's flow of income have been introduced. In addition, Cassa Centrale Banca's advisory activity has supported the creation of an ALM Committee by client banks aimed to systematically and formally assess interest rate risk exposure. This unified approach has facilitated the bank in gaining greater control over its transaction processing environment and a means of better managing its workflows. Reporting has also been made efficient with a mechanism for storing monthly reports on the Cassa Centrale Website, which has offered the benefit of archiving and a quick and easy means of looking back over past performance.

### **Return on Investment**

Since Cassa Centrale's implementation of Ambit BancWare Focus ALM in 2005, the client banks have experienced measurable improvement in the effectiveness of risk management processes and as a result, bottom line profits. Additionally, increased visibility into business consequences in terms of risk exposures has provided a more accurate means of planning and projecting future strategic actions.

Focus ALM has brought about the execution of an organized flow of responsibilities and roles amongst the bank's ALM committee and Board of Directors, which has been effective in streamlining ALM processes in the credit risk department. Controls have been instituted to manage risk processes in an organized manner, such as the liquidity risk tool that works to identify and manage key issues, such as cash flow gaps, expected cash flows resulting from new business and total expected net cash flows. This, in effect, is helping Cassa Centrale to support local banks in making more strategic and better informed business decisions.





Cassa Centrale has benefited from the dynamic ALM modeling capabilities of the Ambit risk solution, which provide data on two areas of concern, including value changes of assets and liabilities. The dynamic scenario of the cooperative bank's balance sheet is designed to evaluate both a constant volume hypothesis and a bank-specific volume hypothesis. With the solution, users are able to gain a better understanding of shifts in the market, as well as yield curve dynamics.

The bank particularly values the high level results that are provided by the dynamic reporting capabilities of Ambit BancWare Focus ALM, which offer users quick and clear access to key data. As a whole, the dynamic scenario tool helps the bank to accurately predict market scenarios, such as customer behavior, and therefore utilize this information for planning purposes. Additionally, Static ALM reporting has offered liquidity risk assessment, re-pricing profile analysis and sensitivity risk assessment giving the bank the control to quantify market value changes of assets and liabilities.

Cassa Centrale has relied on the standard nature of Ambit BancWare Focus ALM to accurately project positions using items, such as fixed and floating interest rate instruments, at sight floating instruments and at sight Floating instruments, IRS instruments and non—rate sensitive instruments. This has helped significantly with account planning management through offering all of the data necessary for successful decision-making.

Sandro Bolognesi, director of the ALM project at Cassa Centrale Banca commented, "Ambit BancWare Focus ALM continues to be a great asset to our risk management consultancy activity and to our organization as a whole, as it is helping us to support our client banks in achieving the long-term ALM goals of improved forecasting and budgeting. We were very pleased with the implementation process, including the professionalism of the SunGard staff, as well as their availability to provide training and support when we needed it."

#### **Future ALM Initiatives:**

Over time, Cassa Centrale hopes to continue to benefit from the Ambit BancWare Focus ALM solution. Looking forward, the bank prepares to further develop its ALM processes through working to build a highly flexible way of assessing and managing its interest rate risk. The bank plans to attain its ALM goals through service development initiatives, including further improving a complete ALM tools set for optimal consultancy activity, expanding the bank-based interest rate scenario definition in dynamic ALM as well as the depth of dynamic ALM parameters available to single client banks.. Cassa Centrale intends to achieve these goals with the support of the Ambit BancWare Focus ALM solution.

### **About Ambit BancWare Focus ALM**

Ambit BancWare Focus ALM allows financial institutions to measure and manage interest rate, foreign exchange and liquidity risk precisely and efficiently. With accurate and detailed data and analysis, managers are able to more clearly understand the impact of market changes on the balance sheet, and make more informed business decisions. Financial institutions are able to model customer behavior and market movements to more effectively stabilize and increase earnings, precisely forecast future earnings, manage profitability, and comply with regulatory requirements.

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