

Bank Liquidity

TLC and OneStream deliver streamlined solutions to the banking industry

While there are many types of Financial Services organizations, this solution sheet will focus on commercial banks. TLC Technologies and OneStream Software assist banks in liquidity planning, as well as all other financial and non-financial planning needs that today's Banking Executives are facing.

Among some of their challenges are; adhering to a myriad of external regulatory reporting delivery requirements, managing and generating internal budgets and plans, and properly closing the books while taking time to analyze actual results.

Challenges in the commercial banking industry are a balancing act of providing products, services, and investments that will generate fee income and interest income while controlling expenses in both B2B and B2C environments. Many banks refer to them as commercial and retail or consumer banking respectively. During the banking crisis of 2008 and 2009, the issue was credit risk. The looming problem today is **liquidity risk**, which has prompted new regulations on the topic. Liquidity means immediate access to cash or cash on hand required to run your bank. If a bank runs out of cash, the bank fails; even if they have long-term assets.

Liquidity – the ease with which an asset, or security, can be converted into ready cash without affecting its market price.

Let's start with a brief liquidity discussion for banks. In business school, you learned that to maintain a healthy business in the short term, you need current and adequate assets to pay your present liabilities. To ensure that companies truly have access to cash, credit analysts subtract inventory from current assets, as the timing required to sell that inventory and turn it into cash is unknown. The same principle applies to banks. Instead of a quick ratio or acid test ratio, regulators require banks to use a **liquidity coverage ratio (LCR)** which must exceed 100% to be compliant. Regulators identify assets for banks that are not highly liquid, like inventory for a manufacturer, and remove them from the liquidity calculation creating a new category called "**high-quality liquid assets (HQLA)**". For example, mortgage-backed securities used to be considered liquid, but when the markets dried up for this asset due to credit risk, they became illiquid and could not be used for short-term cash needs.

LCR = HQLA / Net Cash Flow

That sounds simple enough, doesn't it? However, the accounting process required to obtain the Net Cash Flow across multiple product and service lines, currencies, and geographies, is very complex. This is where TLC and OneStream perform the heavy lifting. While the actual LCR is generated by a pre-developed reporting template, we ensure the accuracy of the data used to feed the LCR and other statutory reports and confirm that it ties out with the management reporting.

The job of managing liquidity for bank executives is complicated and this metric is only one piece of the puzzle. Executives must manage asset maturities, liquidity across multiple investments, maturities of short-term liabilities, equity strategy, contingent liabilities, FX, interest rates, and their hedging strategy, to be ready for changing market conditions.

Besides liquidity, there are a number of other metrics specific to banks that need to be accurate and timely; capital adequacy, capital planning, return on assets, risk adjusted return on capital, and return on equity to name a few. In addition, there are core competencies that must be delivered such as financial consolidation and close, account reconciliation, budget, planning and analytic reporting, that are all easily delivered off of the OneStream platform.

Many banks today leverage OneStream to deliver workforce planning, interest and non-interest operational planning, financial planning, credit risk assessment, and product and service line planning. TLC and OneStream deliver a comprehensive financial platform to banks and thrive on solving unique and complex issues.

If you would like to find out more, please contact Robert Fitzgerald, a partner with TLC Technologies, at rfitzgerald@tlctechnologies.com.