

# Liquidity Risk Management After the Crisis: More Important Than Ever



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## Introduction

This report looks at the market for Liquidity Risk Management technology against a backdrop of increasing demand for this capability in the wake of the global financial crisis.

## Features and benefits

- Identifies the key vendors and outlines the approaches to achieving appropriate LRM.

## Highlights

Banks are obliged to take a critical look at their risk management systems to see what they already have in place and what else they will need to implement to meet these regulatory requirements, and beyond that to use an LRM infrastructure to run their businesses better.

## Your key questions answered

- What are the key trends in the industry?
- What are banks looking to achieve with LRM technology and what are the options open to them?

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### SUMMARY

Catalyst

Ovum view

Key messages

Banks' liquidity management platforms failed in the crisis

Liquidity risk derives from credit, market, or operational events

Liquidity risk has broader requirements than ALM

Funds transfer pricing is becoming a requirement for liquidity risk

LRM is unlikely to be a rip-and-replace exercise so integration is key

Vendors should adopt a consultative approach to LRM

### MARKET CONTEXT: LIQUIDITY RISK IS TOP OF MIND

The liquidity crisis

Banks' liquidity management platforms failed in the crisis

### BUSINESS FOCUS: LIQUIDITY IS ON THE REGULATORY AGENDA

The Liquidity Coverage Ratio addresses short-term funding

High-quality liquid assets

#### Run-off rates

The NSFR addresses medium and long-term funding  
Liquidity risk derives from credit, market, or operational events  
Internal sources  
External sources

### **TECHNOLOGY FOCUS: LIQUIDITY MANAGEMENT GOES BEYOND ALM**

Liquidity risk has broader requirements than ALM

- Stress testing
- Contingency planning
- Collateral management
- Diversification/limits management
- Funds transfer pricing

FTP is becoming a requirement for liquidity risk  
[Missing title]

### **RECOMMENDATIONS**

Recommendations for enterprises

- Watch what the UK is doing and liaise with your own regulators
- Prioritize the formulation of an LRM philosophy over technology choices
- Once the philosophy has been established, audit what you have in place
- Consider ways of turbo-charging existing infrastructure

Recommendations for vendors

- LRM is unlikely to be a rip-and-replace exercise, so integration is key
- Adopt a consultative approach to LRM
- Follow Basel III and partner for localization

Alternative views

### **APPENDIX**

Further reading

Methodology

Author

Ovum Consulting

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